

23 March 2010

888 Holdings Public Limited Company

('888' or the 'Company')

Annual financial report for the year ended 31 December 2009

888, one of the world's most popular online gaming entertainment and solutions providers, presents its annual financial report for the year ended 31 December 2009.

Financial Summary

<i>\$million</i>	Year ended 31 December 2009 ¹	Year ended 31 December 2008 ¹
Revenue		
Casino	118.7	133.1
Poker	51.6	71.6
Emerging offerings	25.1	13.8
Other operating income	-	5.5
Total B2C	195.4	224.0
B2B	51.3	38.6
Total operating income	246.7	262.6
Operating expenses ²	89.9	77.3
Research and development expenses	24.1	27.4
Selling and marketing expenses	67.3	80.2
Administrative expenses ^{3,4}	19.8	22.0
EBITDA^{1,3,4}	45.6	55.7
Finance income and exchange gains/(losses)	(2.5)	0.3
Depreciation and amortisation	(8.5)	(7.3)
Profit before tax⁴	34.6	48.6

¹ Rounded

² Excluding depreciation of US\$7.0 million (2008: US\$5.5 million) and amortisation of US\$1.5 million (2008: US\$1.8 million)

³ Excluding exchange rate loss of US\$2.7 million (2008: US\$2.6 million)

⁴ Excluding share benefit charges of US\$7.0 million (2008: US\$8.4 million)

Financial Highlights

- EBITDA US\$45.6m (2008: US\$55.7m), slightly ahead of market expectations
- Total operating income US\$246.7m (2008: US\$262.6m), decline driven by economic downturn and foreign currency effect
- Profit before tax* US\$34.6m (2008: \$48.6m)
- B2B revenue US\$51.3m (2008: US\$38.6), an increase of 33%
- Emerging offering revenue US\$25.1m (2008: US\$13.8m), an increase of 82%
- Final dividend of 3.0 cents, total dividend for the year 6.6 cents

Operational Highlights

- B2B division launched in its own right as 'Dragonfish'
- Acquisition of Wink Bingo completed on 31 December 2009 and already contributing to revenue and profit
- Real money registered customer accounts 7.1m (2008: 5.8m), an increase of 22%
- B2C brand architecture updated to reflect the four core gaming products – 888casino, 888poker, 888bingo, 888sport
- Live casino product launched
- Dragonfish signed a first-ever e-Payments processing agreement with Linden Lab, extending its offering beyond online gaming
- Dragonfish signed a major deal with bwin Italia
- Dragonfish deals signed to open up new territories, including: South Africa (Phumelela), Balkans (Loper Gate), China, South and Central America (Probability)

* Before share benefit charges of US\$7 million (2008: US\$8 million)

Gigi Levy, CEO of 888 commented:

"2009 was the year that validated the strength of the Group's combined business model: a world class B2C operator and an innovative and comprehensive B2B service provider. Whilst the market for our B2C business remained challenging we retained our focus on innovation to ensure our offering remains at the forefront of the gaming experience with exciting visuals, increased interactivity, more community focus and a new customer loyalty programme. In January this year we also launched a new streamlined, distinctive and digital look to our four key sub-brands - 888Casino, 888Poker, 888Bingo and 888Sport.

Our B2B offering became a separate business unit and was officially launched under its own brand as Dragonfish. Dragonfish has grown significantly in 2009 signing a number of new agreements including a partnership with Linden Lab for payment service provision which extends our reach outside the online gaming market for the first time. Yesterday we announced an agreement with bwin Italia to provide a comprehensive casino offering, our first move into the newly regulated Italian casino market.

2010 started well with strong January trading followed by a slightly slower February. During the first 79 days of Q1 average daily revenue was 3% higher than the strong Q4 (a decline of 3% on a like-for-like basis excluding Wink). Given our strong operational and financial platform we remain confident of our prospects for the year ahead."

- ends-

Gigi Levy, Chief Executive Officer and Aviad Kobrine, Chief Financial Officer, will be hosting a presentation to analysts at 10:30 (GMT) at M:Communications, 34th Floor, 1 Ropemaker Street, London, EC2Y 9AW.

The presentation to analysts will be available from the investor relations section of 888's website (<http://www.888holdingsplc.com>) from late afternoon today.

Contacts and enquiries

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

Chairman's Statement

On behalf of the Board of 888 Holdings plc, I am pleased to present the financial results for the year ended 31 December 2009. These results again demonstrate the resilience of our brand, the breadth and depth of our product offering and our increasing geographic reach, in what was a challenging year for all consumer facing businesses.

Financial Results and Dividend

Total Operating Income ('TOI') decreased 6% to US\$247 million (2008: US\$263 million) impacted by difficult trading conditions and unfavourable exchange rates. EBITDA* was US\$46 million (2008: US\$56 million). Our financial position remains strong as ever due to the continued cash generative nature of the Business. Our cash position as at 31 December 2009 was US\$87.5 million (31 December 2008: US\$98.4 million). The Board is therefore recommending a final dividend of 3.0 cents per share in addition to our interim dividend of 1.0 cent per share and special dividend of 2.6 cents per share, both paid in October 2009.

We are in a strong position to take advantage of the ongoing industry consolidation and will participate in M&A opportunities as and when they become available.

* Before share benefit charges of US\$7 million (2008: US\$8 million).

B2C

888 is more than just a place that offers a first class online gaming experience to its players. It is fast becoming an entertainment destination, a place where people can enjoy a truly interactive experience and be part of an online community that shares common interests.

We continue to innovate across the range of our offering providing players with a dynamic gaming experience. Cutting edge products such as Live Dealer targeted at European customers are growing in importance, and a constantly updated suite of instant games integrated across the portfolio helps to keep customers coming back to the site with increasing spend. Localisation remains a core focus for 888 as we deliver regionally targeted and appealing content in an increasing number of languages.

During the year we also made a significant change to the 888 brand architecture as well as our continuous drive to provide the best offering and customer service possible. The look and feel of our umbrella brand has been updated and we have refocused our sub-brands to reflect the four core gaming products — 888casino, 888poker, 888sport and 888bingo. The new sites were launched in early 2010 and have proved popular with both existing and new players.

The acquisition of the Wink Online Bingo business added to our tremendously successful emerging offering, and the relaunch of Reef Club Casino introduced a product ideal for the recession, helping 888's casino segment to retain a market leading position.

Dragonfish

Early in the year we rebranded and relaunched the B2B business as Dragonfish, crystallizing its position as a stand-alone, but complementary, part of the Group. The Dragonfish brand is highly visible and has achieved significant cut-through in the competitive B2B market. A number of new agreements were signed during the year. Significantly, in September we signed a landmark deal with Harrah's International entertainment, marketing the first over B2B deal with a major US Casino operator, the signing of a partnership with Linden Lab® for payment service provision extends our reach outside the online gaming market for the first time.

Responsible Gaming and CSR

Responsibility has always been a cornerstone of our business. The importance of responsible gaming and corporate responsibility was illustrated through the publication of our first stand-alone Corporate Responsibility report, which is available on our dedicated website www.888responsible.com.

The Group was saddened by the untimely passing of one of its founders, Dr Aharon Shaked late last year. Aharon continued to contribute his wisdom and advice to 888 throughout his illness and our thoughts and prayers are with his family.

In December, Shay Ben-Yitzhak, one of the founders of the business, decided to step down from the Board to devote more time to his family. On behalf of the Board and all staff I would like to express our appreciation of Shay's contribution in growing the Company from its infancy and his continuing contribution to date. We wish him all the best for the future.

I would also like to add my thanks to all our employees who have worked hard to drive the performance of the business in a challenging operating environment.

Outlook

2009 was a testing year but we have continued to drive growth in both our B2C and B2B businesses, organically and through acquisition.

As the economy moves on from the global financial crisis the wider online gaming industry can look to the future with confidence. The strength and diversity of our offering leaves us well positioned to continue to create sustainable value for our shareholders.

The Board remains confident about the prospects for the business.

Richard Kilsby
Chairman

Chief Executive Officer's Review

Introduction

While the economic backdrop remained hostile and continued to impact performance both in terms of trading and fluctuating exchange rates, 2009 was the year that validated the strength of the Group's combined business model: a world class B2C operator and an innovative and comprehensive B2B service provider.

During the first nine months of the year, our B2C business remained under pressure from the challenging economic environment. The fourth quarter of 2009 saw a welcome return to more normalised trading, with much stronger performance. Our stand-alone B2B business which was branded Dragonfish in March 2009, continued to show good growth with a number of new strategic deals signed, including an agreement with Linden Lab, operator of Second Life, for payment processing and an agreement with bwin Italia for casino tailored for the newly regulated Italian market.

Throughout the period we maintained investment and innovation in both divisions, using our working capital wisely and, as you will see from the look and feel of this annual report, creating a new corporate identity and refreshed sub-brands for our B2C offering, now launched to our customers.

From a financial perspective, in spite of the difficult environment, we have delivered a solid performance. Total Operating Income was US\$247 million (2008: US\$263 million) with 33% increase in TOI in B2B. EBITDA* was US\$46 million (2008: US\$56 million). The business remains highly cash generative and as at 31 December 2009 our cash position was US\$87.5 million (31 December 2008: US\$98.4 million).

** Before share benefit charges of US\$7 million (2008: US\$8 million).*

Business Overview

Our strategy is underpinned by a number of core objectives:

- Maintain and improve our position as a leading B2C operator
- Become a leading B2B provider with a focus on new entrants and major opportunities
- Make strategic B2C and B2B acquisitions to enhance our market position
- Position ourselves to benefit from market trends and regulatory changes.
- Remain the most responsible company in the sector

These are the building blocks of our business and we are committed to delivering a strong performance in each of these areas.

B2C

Whilst the market for our B2C business remained challenging we retained our focus on innovation to ensure our offering remains at the forefront of the gaming experience. This included: exciting visuals, increased interactivity, more community focus and a new customer loyalty programme. We also introduced a number of 'recession busting' promotions and products, giving our customers the opportunity to be entertained whilst being sensitive to their spending capacity, thereby increasing their 'entertainment value for money'.

Following the success of 888ladies, our UK-focused Bingo offering, we introduced new social networking features which make the playing environment more social, such as enhanced chat experiences and daily blogs.

Under the leadership of the B2C Managing Director the business has taken on a new focus, leveraging new products and marketing campaigns to deliver further growth.

A new Bingo TV campaign was launched in the UK to stimulate Bingo growth. The innovative 'Poker Ashes' tournament was launched and televised, featuring celebrities such as Shane Warne and Darren Gough. In support of this, a large-scale poker league was launched in hundreds of pubs.

A live casino product targeted at European customers was launched during the first half of 2009 which includes Roulette, Blackjack and Baccarat. Following extensive customer consultation, a new Poker version was rolled out incorporating 25 features and design changes and we also introduced a new 'best of breed' poker loyalty programme.

888sport, while still a nascent business unit for us, continued to gather momentum during the year. We introduced a new in-play betting application as well as an innovative video stream feature promoting our most popular events, all assisting in driving additional growth to the domain.

In December we acquired the Wink Online Bingo business. The transaction marked a further expansion of our emerging offering segment and is invaluable in helping to support our domination of the online bingo industry. Wink Bingo runs several online bingo networks including WinkBingo, PoshBingo and BingoFabulous. The network is operated on the Dragonfish bingo infrastructure and had over 60,000 active players at the time of acquisition, making it one of the most popular sites for online bingo in the UK.

In the third quarter of 2009 we began a restructuring and rebranding of our consumer offering. Following a comprehensive branding study, it became clear that we needed differentiated sub-brands for each product. We carefully researched how we could launch a new streamlined, distinctive and digital modern look without alienating our players and with the potential to attract thousands of new ones. The decision was taken to build on the strength of the 888 brand and enhance its visual display, while also promoting four key B2C sub-brands with a reinvigorated look and feel — 888casino, 888poker, 888bingo, and 888sport.

Dragonfish

In March we reached an important landmark in the transformation of our B2B business, launching it under its own brand — 'Dragonfish'. This stand-alone brand is indicative of 888's intention to become a major player in the B2B market, highlighting Dragonfish's status as an independent business unit within the 888 Group and emphasising its difference from our traditional B2C offering.

'Total Gaming Services' is the strap line that underpins Dragonfish's unique positioning. Our clients are given the opportunity to benefit from advantage of our comprehensive end-to-end service, global reach, resources and contacts, and specific experience across local markets. This comprehensive offering, unique to Dragonfish, is built on our extensive experience as an operator and, as such, is a major differentiator from other B2B providers.

Dragonfish has its own Managing Director who is responsible for all B2B activities: These include Sales & business development, Programme management & integrations, Client executives unit, Client marketing & operations, B2B marketing and PR and B2B Finance. This structure as a stand-alone unit ensures that the confidential separation between the two activities is retained.

A number of deals were signed during 2009, some of which have opened up new territories for us as referred to below. Phumelela in South Africa, where we will be providing a comprehensive sports-book offering; poker and casino in the Balkans with Loper Gate; and with Probability to develop and execute opportunities for mobile gaming and mobile lottery services in a number of territories including China, and South and Central America. In September we signed a landmark deal with Harrah's International Entertainment, to provide services to its non US facing customers marking the first ever B2B deal with a major US Casino operator.

During the year we also announced three new bingo partners, MoonBingo, BingoHollywood and Costa Bingo, cementing our position as a global leader in the provision of bingo services.

In November, Dragonfish signed an e-payments deal with Linden Lab, an agreement which extends our offering of Total Gaming Services into Total Payment Services and highlights the increasingly diverse nature and strength of Dragonfish's operations. We have various existing and potential gaming partners interested in our e-payment solutions demonstrating this giant step beyond our core operations into the retail environment.

People

Key to the sustainable success of our business and, in turn, the delivery of shareholder value, is the continued development of our team who have once again delivered these excellent results.

Looking around the Group today, I am most encouraged by our significant and growing pool of talented employees. Our leadership and development programmes are designed to support employees at all levels, from senior managers to those who are at an early stage of their career. We remain committed to enable our employees to fulfil their potential and share in the Group's success.

We believe we have engendered the right culture within our business and we are committed to our corporate values: leadership, innovation, excellence, customer centricity, collaboration and caring, all of which helped us withstand the tough trading conditions throughout the year.

Late last year, 888 mourned the passing of one of its founders, Dr Aharon Shaked. Aharon was a committed and passionate supporter of 888 and we shall miss his unique contribution in the future development of the Company.

Regulation

888, as a regulated and responsible company, is constantly reviewing actual and potential changes in the online gaming regulatory regime all over the world. This serves both to allow the Company to pursue any possible opportunities to seek, obtain and operate under local licences, as well as to guide decision making in relation to its existing operations. Especially in Europe, the Company is pursuing licensing possibilities in Italy (where the 888 Group already holds a licence), France and other jurisdictions. In addition, 888 is also reviewing potential licensing opportunities outside Europe. We believe that the online gaming industry is making big strides towards being fully regulated in an increasing number of jurisdictions, this is happening in an unparalleled manner which will change the industry landscape forever. The unique positioning of 888 makes it well placed to take advantage of these changes.

Responsible Gaming

We believe at 888, playing is not just a matter of entertainment — we take our play very seriously.

Entertainment is our core business and it has an impact both on the people who enjoy it and the environment in which it operates. Conducting our business responsibly is fundamental to the sustainability of our business and its future success. With responsibility comes transparency and we believe that transparency is created through communication. So as part of that, we took the decision to share the way we conduct our business with all our stakeholders. During the year we published our first stand-alone Corporate Responsibility report: 'People-Planet-Play.' While we recognise that we still have much to achieve, we are committed to a proactive policy of corporate and social responsibility that reflects the high professional and ethical standards we have set for ourselves.

888 is committed to provide responsible gaming products that comply with the highest standards of gaming safety, security and fair practice that exist globally. We regularly collaborate with external and regulatory bodies who guide us on all aspects of responsible gaming. For more details see our website: <http://safe.888.com>.

Our own dedicated responsible gambling website (888responsible.com) provides a full guide to responsible practices and is a source of practical support for all those involved in gaming or those who seek to understand the gaming environment. We are most proud of our work in this area and will continue to see it as a key element in creating a sustainable, growing business.

Our 2010 Focus

We aim to grow our B2C business through various strategic initiatives, including the rebranding and refocusing around products. We expect further expansion of our geographical footprint, largely led by the anticipated regulatory changes that the industry is facing, leading to a much more favourable environment for years to come.

For our casino business, our strategic goal is to maintain our market leading position by continuing to offer the right variety of products and to capture as many customer segments as possible. In pursuit of this goal, we will integrate more products and continue to enhance customer experience introducing innovative products such as a 3-D virtual casino.

As regards our poker business, we will continue to focus on product innovation and customer needs, and will be launching a major upgrade to our gaming environment and player experience later this year. We will also be introducing features designed to enhance the online poker-playing experience beyond what is available today, aiming to attract a bigger audience to our offering.

We will aim for greater focus on acquiring new players to our sports offering, promoting additional events and investing more in brand recognition in specific countries. We will present unique features as well as exclusive promotions around the main sports events of the year — led by the football World Cup. 2009 was the year in which sport betting became a real revenue-driver for us, we plan to build on these achievements and grow our market share in 2010.

Bingo will remain a key growth area for us, especially following the acquisition of Wink Bingo, and we will focus on penetrating new geographies throughout the year, bringing the message of bingo to many new customers worldwide.

As for Dragonfish, 2010 will see a continuation of the successful growth strategy, focusing on regulated markets and integrating a number of new products and services to deliver strong organic growth for partners, whilst targeting new partners with the Total Gaming Services proposition. We feel that we have a unique offering, unparalleled in the market, and will continue to seek major new deals throughout the year. The year will also see ongoing activity with our current partners, who will enjoy a variety of new games and capabilities that will assist them in growing their own businesses. Dragonfish's first independent global payments agreement with Linden Lab will also be launched in 2010, followed by additional payment processing management agreements.

Outlook

In conclusion, in 2009 we made significant progress in a challenging environment. Our strong business fundamentals and successful growth strategy are the basis of our long-term sustainability.

We will continue to drive further organic growth, leveraging our enhanced geographic footprint and our dual business model. In parallel, we also remain committed to further acquisitions as part of the ongoing industry consolidation and also achieving our strategic goals.

While 2009 was challenging, the overall market is on a growth trajectory. Casino continues to grow and Bingo has significant growth potential especially outside of the UK while Poker remains challenging. We remain excited that sportsbetting is still a major opportunity for us. Last but not least, Dragonfish presents significant additional growth opportunities which we plan to exploit, both in the Total Gaming and Total Payments environments.

Financially and operationally we have a strong platform to grow our businesses further and look forward to continuing to provide all our stakeholders with value both now and in the future.

Gigi Levy
Chief Executive Officer

Enhanced Business Review

Financial Summary

<i>\$million</i>	Year ended 31 December 2009 ¹	Year ended 31 December 2008 ¹
Revenue		
Casino	118.7	133.1
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EBITDA^{1,3,4}	45.6	55.7
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Depreciation and amortisation	(8.5)	(7.3)
Profit before tax⁴	34.6	48.6

¹ Rounded.

² Excluding depreciation of US\$7.0 million (2008: US\$5.5 million) and amortisation of US\$1.5 million (2008: US\$1.8 million).

³ Excluding exchange rate loss of US\$2.7 million (2008: US\$2.6 million).

⁴ Excluding share benefit charges of US\$7.0 million (2008: US\$8.4 million).

Financial Results

Our financial results in 2009, especially during the first three quarters were adversely impacted by both the economic downturn and adverse currency movements. Total Operating Income declined 6% to US\$247 million (2008: US\$263 million), EBITDA* was US\$46 million (2008: US\$56 million), Profit before tax* was US\$35 million (2008: US\$49 million) and Basic Earnings per share* was 9.2¢ (2008: 13.4¢). The Group continued to be highly cash generative with Net cash generated from operating activities of US\$41 million (2008: US\$56 million) and its financial position remains as strong as ever with cash and equivalents at year end at \$88 million and no debt.

* Before share benefit charges of US\$7 million (2008: US\$8 million)

Geographical segmentation

The Group's revenue stream is well diversified across geographies with the UK remaining the largest single jurisdiction. The table below shows the Group's geographic revenue distribution:

Total operating income by geographical market:

	Year ended 31 December 2009 ¹		Year ended 31 December 2008 ¹	
	\$ million	% share	\$ million	% share
Total operating income				
UK	90.4	37	97.1	37
Europe (excluding UK)	113.7	46	122.0	46
Americas (excluding USA)	19.1	8	26.2	10
Rest of World	23.5	9	17.3	7
Total	246.7	100	262.6	100

¹ Rounded.

In 2009 888's turnover grew 36% in Rest of World while all other reported geographic markets showed

decline: 7% in UK and Europe (excluding UK) and 27% in the Americas (excluding USA). The relative size of the UK and Europe (excluding UK) remained stable at 37% and 46%, respectively.

Expenses

During 2009, the Group continued its investment in infrastructure as required to propel its B2B capabilities while continuing the development of its B2C offerings.

Operating expenses, which are mainly salaries, chargebacks and payment service providers' commissions, totalled US\$98.4 million (2008: US\$84.6 million) representing 40% of Total Operating Income (2008: 32%). Salaries and benefits, representing the largest component of operating expenses were US\$45.5 million (2008: US\$40.3 million) reflecting an increase of 13% as a result of our continued investment in building up the B2B business. Chargebacks increased significantly during the year to US\$9.0 million (2008: US\$4.8 million) as a result of industry-wide concerted fraud attacks since Q2 2009. 888 responded to these by adopting new processes and procedures which resulted in a significant reduction in chargebacks starting in November and continuing to date.

During the year, the Group established a new outsourced low-cost development centre in Ukraine. While the number of development staff (employed and outsourced) increased during the year, development expenses were reduced to US\$24.1 million (2008: US\$27.4 million). The reduction was driven by more cost effective work – force benefited from the new outsource local development centre which was established in late 2008 in Ukraine and partially a result of a favourable exchange rate movement.

Marketing expenses, driven almost exclusively by B2C activities, were US\$67.3 million (2008: US\$80.2 million), representing 27% of B2C Total Operating Income (2008: 31%).

Administrative expenses* at US\$22.5 million reduced by 8% reflecting strict cost control (2008: US\$24.6 million).

In 2009, the Group continued optimising cost per acquisition across various customer recruitment channels. During the year, 888's marketing team recruited more than 206,000 new Casino and Poker first time depositors from more than 1.1 million (2008: 0.93 million) new real money registrations with an average cost per acquisition in 2009 of \$177 (2008: \$232).

** Before share benefit charges of US\$7 million (2008: US\$8 million).*

Share benefit charges

As part of 888's commitment to invest in human capital, eligible management and employees receive equity awards under the 888 All Employee Share Plan ('Share Plan'). In 2009, the Group continued to award shares and options to employees under the Share Plan. The non-cash charge for 2009 was US\$7.0 million (2008: US\$8.4 million), comprising a US\$1.1 million charge relating to grants in the current year (2008: US\$2.2 million) and US\$5.9 million (2008: US\$6.2 million) relating to grants made in the past.

Finance Income

While the Group continued to generate and retain cash surpluses throughout the year, given the unprecedented low interest rates, net interest income was only US\$0.2 million (2008: US\$3.0 million).

Profit and Earnings per share

EBITDA* was US\$46 million (2008: US\$56 million). EBITDA* margin was 18.5% (2008: 21.2%).

Taxation

The tax charge for 2009 was US\$2.7 million (2008: US\$3.1 million) reflecting the Group's efficient tax position.

Earnings per share

Basic Earnings per share* were 9.2¢ in 2009 (2008: 13.4¢).

Dividend

The Group's stated policy is that it intends to make an annual dividend payment representing 50% of net profit, but the policy would reflect long-term earnings and cash flow potential of the Group. Given the performance in 2009, the Board is recommending a final dividend of 3.0 cents per share in addition to the interim and special dividend paid in October 2009.

Cash flow

The Group's strong profitability during the year was matched by strong cash generation with net cash generated from operating activities reaching US\$41.5 million (2008: US\$56.4 million).

During 2009, the Group made cash payments of \$30.0 million (2008: \$36.7 million) in respect of business investment activities including US\$18 in respect of the acquisition of the Wink Online Bingo Business. The Group paid \$22.4 million (2008: \$25.6 million) in dividends to its shareholders consistent with its dividend policy.

Balance Sheet

The Group's balance sheet remains strong, it has no debt, and retains ample liquid resources. The Group's cash position as at 31 December 2009 was US\$87.5 million (31 December 2008: US\$98.4 million). This strong position allows the Group to take advantage of suitable acquisition opportunities in the consolidating market.

Balances owed to customers were \$37.6 million (2008: \$33.3 million). The Group maintains cash reserves equal to this liability which would permit immediate withdrawal of all customer deposits at any time in the extremely unlikely event this was necessary.

** Before share benefit charges of US\$7 million (2008: US\$8 million).*

B2C

It has always been 888's goal to be the market leader in the global online gaming industry. In order to achieve this, it is vital to offer an exceptional gaming experience that appeals to a wide range of consumers — from the experienced poker player to casual sports fans and people who enjoy a game of bingo.

888 is more than just a place where people go to play online. 2009 saw an increase in the focus on creating online entertainment destinations where players can combine an unparalleled gaming offering with a more complete internet experience, including social networking and personalised activities.

The goal is for people to see 888 as a brand beyond gaming and an integral part of their online entertainment experience by fulfilling this wider role in the online lives of players. Building emotional ties with players and increasing their engagement with the brand builds loyalty, thereby helping to improve customer retention and spend.

Branding

As the online gaming industry has evolved, it has become increasingly important to offer all four core gaming products — casino, poker, bingo and sport. Historically the four segments have been marketed as distinct brands to targeted audiences, with cross-selling opportunities being utilised where possible.

In 2009 the decision was taken to streamline the 888 brand focus and rebrand core products as being distinct, but complementary, parts of the wider 888 brand. With a reinvigorated look and feel and unified logos, the brands all speak with one language and link into one offer. The new sites were launched at the beginning of 2010 as 888casino, 888poker, 888bingo and 888sport, all under the 888.com umbrella brand.

Creating brand continuity allows the new sites to leverage the strength of the 888 brand and greatly increase the 888 'share of voice'. The multi-product offering and sub-brand strategy also increases the effectiveness and efficiency of marketing and search engine optimisation strategies, while cross-selling potential improves due to a powerful familiarity between the sites.

888ladies will continue to be the leading bingo site in the UK market targeting the female population, while Casino-on-Net and Pacific Poker will remain as additional stand-alone brands and important aspects of the B2C portfolio. The December acquisition of the Wink Online Bingo business added other leading brands to the B2C offering — Wink Bingo, Posh Bingo and Bingo Fabulous, all of which had previously performed well on the Dragonfish network.

Developing the Offering

Online gaming continues to evolve, and 888's offering continues to innovate and change with it in order to remain at the forefront of the online gaming experience.

888 is a truly global gaming destination, with localised offerings providing players in different geographies

with games that appeal to them in the language that they speak. The 888 gaming experience is now available in a total of 22 languages. Four new languages were added in 2009 as 888 supported growing demand in Eastern Europe.

As part of tailoring the offering to satisfy the demand of today's discerning players we launched the innovative Live 888casino in June, allowing players to have a 'Las Vegas style' live gaming experience in the comfort of their own home. A live video stream with a personally chosen dealer provides a choice of Roulette, Black Jack, and Baccarat. Results in this area have been very encouraging.

Live dealer was an important part of the new no-download Casino, which launched in May 2009. The no-download Casino uses flash games that can be accessed through web browsers such as Internet Explorer or Firefox, Rather than downloading any form of software. The offering of instant online games removes the barrier to entry brought about by the hardship of extra time and effort to download software.

As well as innovative new features, constant improvements continue to provide a fresh and exciting gaming experience. 888 continues to offer a wide range of instant games across the B2C network, as games were added in 2009. These included games with iconic brands, such as Cluedo and Spiderman. Instant games have proven a popular addition. In Bingo, a new integration platform was completed allowing rapid game deployment. The speed to market of these games provides the opportunity to capitalise on trends and target offerings to interest and excite customers. 11 new side games have already been integrated. The successful X-Factor game, launched at the beginning of the popular show's run in November supported through exclusive promotions, is a good example of the timely introduction of a tailored product.

The increasing popularity in quick-play games led to the launch of 888games. Initially launched on 888sport in July, 888games provides the opportunity to play instant win games whilst browsing the site, improving the gaming experience and time spent on the site as well as increasing customer spend.

888games has been launched as a stand-alone site with 60 varied games, with more released continuously. Games range from scratch cards to video slots and virtual sports. As the rebranding of the core offering is completed, 888games will benefit from cross-selling traffic arising through players looking to enjoy a more instant gaming proposition.

In addition, a further Casino brand was introduced, as Reef Club Casino was re-launched in August in both English and German. Reef Club Casino, with a low minimum deposit limit and high bonus offering, provides an inviting gaming environment which was well positioned at the height of the recession when many players were looking for a lower spend option and continues to offer an alternative experience.

The Poker offering also benefited from the addition of new features. A quick seat for beginners allows novices to pick up the basics in a free play environment, while private tournaments, the ability to export hand histories, and re-match tournaments give more experienced players a more satisfying poker experience.

Beyond Gaming

888ladies has been a pioneering website not just in its combination of a leading gaming product with a wealth of interactive features, but in the creation of a real online community. 888ladies goes beyond the core bingo product to provide players with a welcoming environment in which to interact with like-minded friends. Regular promotions, both online and offline, increase ties with players and provide incentives to visit the site frequently.

Promotions ran throughout the year, including opportunities to win tickets to the Soap Awards at Easter and calendar themed promotions for Valentine's Day, Mother's Day and Halloween.

However it is the social features that set 888ladies apart. The 888ladies blog receives hundreds of visitors every day, with community features leading to genuine interactivity and goodwill towards the brand. Utilising social media through providing daily communication and real-time promotions further increases brand engagement. A fan page on Facebook, and a regularly updated Twitter page have both been developed and are great successes.

We will further develop the utilisation of social media and brand interactivity across additional areas of the B2C offering will be in 2010.

Promotions

The economic environment in 2009 was the worst it has been since the advent of online gaming and indeed well before that. Customer acquisition conditions were, therefore, unusually tough.

It was important to offer new players compelling reasons to open accounts with 888. Introductory offers in Casino included an immediate welcome bonus of 100% on a first deposit of up to \$200, and a welcome package with a value of up to \$1400. Other offers were specifically targeted for the recession. Promotions

included the chance to win a year's salary or a dream holiday, while lowering the deposit limit to £25 fulfilled the requirements for players need to continue playing with smaller stakes.

The largest promotion in 2009 was the £8,888,888 campaign, which offered the chance to use three free spins to win the biggest online jackpot of all time. The campaign appealed to players across the spectrum — including new, registered, and high value players, VIPs and inactive players. The promotion was supported by a 360 degree marketing drive across all media outlets, including direct mail, television, online, and prominent public advertising, and also by search engine optimisation and cross-selling from 888 sites.

Offline Marketing

888 continued to seek out ground-breaking and timely offline marketing opportunities to build brand awareness amongst key demographics and to drive online traffic.

Leo Margets, the international female poker icon, and the last woman standing at the WSOP 2009, signed a two year contract with 888 and will spearhead the 888 ambassador programme. Leo has generated enormous media coverage, appearing in over 150 publications, most notably on the front cover of "El Pais Semanal" — the most important magazine for the Spanish audience.

2009 was the second year of 888's partnership with Shane Warne, and he continues to represent 888 at high-profile poker events such as the 888 Poker Open, the Aussie Millions and the World Series of Poker. The 888 Poker Ashes TV show was also launched in 2009 to coincide with the cricket ashes series in the UK, and was broadcast after the cricket each day on Sky Sports. Moving the traditional rivalry of England and Australia from the cricket pitch onto the poker table led to one of the most successful poker television shows ever. The 2010/11 cricket Ashes series (this time in Australia) will see the second season of the 888 Poker Ashes.

As the opposing countries squared up in the Poker Ashes, players could join and represent their country online. 100% welcome bonuses up to \$400 offered an extra incentive to become an 888 player and was amongst the most innovative promotions in the poker industry in 2009.

Shane Warne extended his partnership with 888 in January 2010, and he will continue to represent 888poker and other 888 brands internationally.

888poker has partnered with an offline poker league and clubs throughout 2009 taking the 888 brand directly to players. The 888 Poker League was first formed in May, and rolled out in over 200 venues offering the opportunity to play with Shane Wame in the finals.

Customer Relationship Management

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

888's ongoing commitment to localisation strengthens relationships worldwide through speaking to people in their language and culture, while the market-leading usage of social features and interactivity with players strengthens brand loyalty. This loyalty is also gained through 888's loyalty plans, which form an important aspect of the customer relationship. In 2009 888 launched a new Poker loyalty plan, considered one of the best in the sector.

The VIP offering remains the best in the industry. VIP members get unparalleled customer service, with personal loyalty managers on call 24 hours a day to deal with any enquiries quickly and easily. Exclusive promotions and more cashback and bonuses also mean that 888 VIPs receive a best in class product with best in class service.

In 2009, 86 separate VIP promotions offered attractive gifts, bonuses and tickets to one of the 46 offline events held in nine different countries.

Search Engine Optimisation ('SEO')

The specialist Search and Web Optimisation Technologies ('SWOT') team continue to give 888's websites prominence on worldwide search engines, maximising the impact of the product offering. Successful use of SWOT has helped to drive players to 888 brands, helping customer acquisition and the ongoing growth of 888sport and 888ladies. In the UK, 888 sites come out on top of Google searches for 'casino', 'online casino', 'online blackjack' and 'poker.' This positioning is replicated across core markets. 888's continuing focus on SEO will be a key driver in the success of the rebranded core 888 offerings.

2010 Focus

2010 has started well. With a number of strategic initiatives in the pipeline, including the completion of the rebranding and refocusing around core products, and further expansion of the geographic footprint, 2010 is set to be a year of growth.

In Bingo, the aim for the year is to become a truly global operator, with penetration in a number of new countries. In the UK, we will build on the success of 888ladies with the 888bingo offering, which appeals to a wider gaming demographic. The acquired Wink Bingo business also provides an opportunity to further increase market share in the growing UK bingo market.

The focus in Casino will continue to be on offering the right variety of products appealing to the widest range of consumers so as to maintain the Casino offering's market leading position. In Poker the strategic goal is to differentiate the offering by identifying, and fulfilling, a significant customer need that has not yet been answered. This will be achieved through the creation of a brand positioning that is based on such unique product that customer need.

Targeted marketing campaigns in 2009 saw 888sport grow from being mainly a tactical business relying on cross-sell into an important contributor to the Group. 888sport's growth in 2010 will continue through promoting additional events and investing in brand recognition in specific countries.

Dragonfish

2009 has marked a period of significant growth for the B2B division, with 33% growth over 2008. Growth has been achieved both organically, through the provision of new product and service initiatives that have helped Dragonfish's existing partners expand their market share, and also through the signing of a number of key new partners.

In March 2009, 888 took the decision to brand the rapidly expanding independent B2B division as Dragonfish, crystallizing the division's separate function in 888 and signifying its evolution into a major player in the B2B market. A strong leadership team was established to drive the expansion of the business with departments covering Sales & business development, Program management & integrations, Client executives unit, Client marketing & operations, B2B marketing & PR and B2B Finance. The combination of these teams ensures Dragonfish can provide an outstanding B2B service.

The creation of the Dragonfish identity was supported with an international advertising campaign in key publications, visibility at major trade shows, and through targeted PR achieving exposure across all trade publications and in overseas gaming markets.

The brand has already achieved significant cut-through in a competitive market, and Dragonfish is now one of the largest providers in the B2B sector, with a broad cross section of partners across all core gaming segments and numerous geographic regions. New partners were retained in 2009 as strategic agreements were signed with, amongst others, Linden Lab and bwin Italia.

Dragonfish's goal is to become the major provider of Games & Technology, Marketing services, Operations and e-payments to companies that both lead the e-gaming market or require an experienced partner for entry into the sector.

The Offering

Total Gaming Services

New entrants to the online gaming market require diverse gaming content, a technology platform to work with, expertise in setting up operations and, above all, knowledge of how to leverage their assets and target the gaming consumer.

Dragonfish's services help partners optimise the player experience and maximise customer lifetime value. Utilising over a decade's experience in the online gaming industry, Dragonfish is able to offer clients a unique end-to-end proposition — Total Gaming Services.

This strapline reflects the opportunity for clients not only to benefit from 888's gaming portfolio and experience in technology, operations and e-payments, but also utilise advanced marketing services, from the provision of offline/online marketing, management of affiliates and search engine optimisation to customer relationship management (CRM) and business analytics. Industry leading back-office systems, including operational risk management, 24/7 customer support and chat hosting services, complete the offering.

Dragonfish is able to provide clients with broad and customisable solutions for all of their gaming needs. They can utilise the complete white label solution or select from individual components to complement and enhance their own existing gaming offering. All solutions can be tailored for local markets, with Dragonfish

currently providing services in more than 20 languages. The provision of a dedicated team and market leading technological infrastructure allow solutions to be both comprehensive and timely.

Utilising Dragonfish provides a gateway to a huge suite of successful games in a variety of languages, allowing rapid entry into emerging markets. Dragonfish provides hundreds of games with turnkey integration capabilities, plus the experience and expertise to customise game suites. Games can be seamlessly integrated through the Advanced Integration Platform allowing constant upgrades, increasing player retention and maximization of lifetime customer value.

Total Payment Services

Dragonfish offers payment services outside gaming activities also "Total Payment Services". The unique Total Payment Services offering combines payment optimisation technology and fraud management, including anti-money laundering services, with 24/7 multi-lingual customer operations that assist customers' deposits both reactively and proactively.

Dragonfish has over a decade of experience in global payment processing and works with a variety of trusted payment partners. A rich portfolio of local and global payment methods enables Dragonfish to maximise transaction approval rates and provide the platform for partners to rapidly penetrate new markets. With the support of a highly experienced fraud and risk management department, Dragonfish's e-payment solutions are both customer friendly and extremely secure.

In November an agreement was signed with the world's leading virtual world technology company Linden Lab, the creator of Second Life, to provide e-payments, fraud and customer support management services. This collaboration represented an extension of Dragonfish's offering beyond the gaming industry into the wider retail environment, and signified its emergence as a strong player in the regulated payment services market.

Partners

Dragonfish now works with e-gaming companies, media portals, offline casinos and pools operators, helping them all to maximise their online revenues and fulfil the potential of their brands.

A number of significant partnerships were signed in 2009. Dragonfish's prime position to provide the ideal platform for international land-based marquee brands to enter the online arena was illustrated through the signing of an agreement with Harrah's to launch the internationally renowned World Series of Poker and Caesars casino brands online. This capability was further emphasised through the agreement with Tsogo Sun Gaming Group, one of the largest hotel and entertainment groups in South Africa, also choosing Dragonfish for their first move into online gaming.

The agreement with Tsogo Sun Gaming Group followed the announcement of a partnership with Phumelela, one of the world's largest pari-mutuel horseracing and tote betting organisations, to provide a comprehensive sportsbook offering in South Africa. This deal was an example of Dragonfish's ability to co-operate with companies who utilise government licensing, and also indicates Dragonfish's strategy of obtaining first-mover advantage in newly regulated territories.

Further international agreements were signed in 2009 harnessing Dragonfish's multi-lingual offering and e-payments expertise in emerging territories. A partnership with Loper Gate launched poker and casino in the Balkans, enabling Dragonfish to achieve significant penetration in this emerging market.

Dragonfish remains one of the leading providers of bingo software worldwide, providing software to some of the biggest names in bingo including Foxy Bingo and Mirror Bingo. Dragonfish also runs one of the world's leading bingo network with over 60 skins offering instant liquidity, dynamic content and access to top tier brands.

This position was further consolidated during the year with the announcement that Kamay Holdings Ltd, owner of leading poker and casino sites LuckyAcePoker, LuckyAce Casino and SuproCasino, selected Dragonfish as its bingo partner to launch Silk Bingo on the Dragonfish bingo network. The agreement marked the tenth new brand launched on the network in 2009 and complements the new stand-alone networks, all powered by Dragonfish.

2009 also saw the fruition of Dragonfish's hybrid strategy for its bingo model. This allows partners to join the Dragonfish bingo network swiftly, and benefit from instant liquidity whilst gaining a full understanding of back-office functionality, CRM and chat facilities. Following success on the network, appropriate levels of liquidity subsequently enable partners to launch stand-alone networks, whilst maintaining other brands on the Dragonfish bingo network. This model was followed by Moon Bingo in June, amongst others.

Dragonfish has been highly pro-active in delivering strong organic growth for the existing client base through the introduction of new product initiatives. The poker network has achieved greater liquidity across a number of diverse territories with particular growth for Lucky Ace and Tower Torneos. Growth has been achieved

through new poker software upgrades to provide an enhanced and intuitive player experience, the introduction of a new loyalty club and the extension of the language portfolio. Successful new language integration projects have been implemented, one example being Lucky Ace poker now being offered in languages aimed to target the Eastern European market. The recent agreement with WSOP (World Series of Poker), arguably the world's most powerful poker brand, will act as a further catalyst for liquidity growth on the network.

In Bingo, Dragonfish launched 17 new Quickplay 'instant' games on the bingo network, including the global brand X-Factor, to increase player retention across networks. A number of these games have been successfully integrated into Tower Torneos 'casino in poker' offering resulting in increased player performance.

2010 Focus

2010 will see a continuation of the successful growth strategy. This includes being the first to regulated markets and integrating a number of new products and services. The aim is to deliver strong organic growth for partners, whilst targeting new partners with the Total Gaming Services proposition so as to maintain the impressive growth rate.

The introduction of licensing in newly regulated markets such as Italy offers a significant opportunity to assist operators looking for a speedy entry to such markets. Dragonfish has signed an agreement with bwin Italia, a subsidiary of bwin, to provide a comprehensive casino games suite. The agreement supports the Total Gaming Services proposition, which allows partners to either take advantage of the full white label solution or to select constituent elements to be integrated into their existing online gaming business. In this case Dragonfish has developed a flexible gaming platform that can be integrated into bwin Italia's existing infrastructure.

Dragonfish has a number of new product integrations in the pipeline that will provide growth opportunities for partners. Live dealer has proven to be an excellent product for delivering strong growth and the live gaming application will soon be integrated into a number of partners' offerings. Dragonfish will also be expanding the live chat multi-lingual customer operations team in Romania to enable partners to accelerate their penetration into new markets.

Plans are in place for the development of bingo in the Nordics, enabling partners to achieve further international expansion, together with a range of new features that will cement Dragonfish's market-leading bingo position. This will be supported by the launch of a number of new standalone networks and new brands on the Dragonfish bingo network.

2010 will also mark the launch of new multi-channel marketing campaigns as partners increase spend in UK and pan-European territories.

Dragonfish's first independent global payments agreement with Linden Lab will be launched in 2010. The agreement provides a platform for marketing its Total Payment Services beyond the gaming industry. Dragonfish is pursuing a number of existing opportunities in the Forex industry and other non-gaming opportunities.

Technological Infrastructure

888's success is built on the strength of its technological infrastructure. 2009 saw the continued development of the platform from a pure B2C to a hybrid B2C and B2B platform which is able to utilise and offer partners leading infrastructure and a comprehensive suite of applications and services.

In addition to the customer facing applications and services, B2B licensees are able to view comprehensive customer data, providing them with the ability to drill down into data at any level in order to manage their business better.

888 continues to invest in technology. In 2009 a significant investment was made in upgrading 888's physical infrastructure computing, storage and networking equipment was upgraded, maintaining the best of breed approach to our physical infrastructure. A state-of-the-art data centre replaced one of the existing data centres, and security, networking devices and protocols were replaced in order to provide better performance, maintainability, and scalability, as well as to reduce energy consumption and bandwidth costs.

The number of servers was also increased. There are now more than 1,000 servers in the development and testing environments, and 900 in production, most of which are now based on virtual machine technology.

In addition to data centre improvements, further platform enhancements and a significant upgrade in 888's

payment processing capabilities led to 888 receiving the Payment Card Industry level 1 certification, allowing the Group to provide third party payment services. The creation of a leading payment processing infrastructure allows 888, through Dragonfish, to offer partners a Total Payment Services proposition, moving the Company beyond the online gaming sector.

The Integration Platform allows seamless integration of new third party games from multiple vendors into the 888 gaming environment. Building on this flexibility, in 2009, a new Content Management System was implemented for all managed websites. The new system enables a greater quantity of content changes to be implemented with greater speed and frequency across all supported websites. The bingo platform also benefited from technological enhancement. Improvements to the Integration Platform which saw an abstraction layer created allowing for easy integration of games and third party services, while the chat system was upgraded with enhanced capabilities and performance, further embellishing the community aspect of the bingo offering.

Steps were taken to benefit the player experience directly as well as improvements in the back-office infrastructure. The most eye-catching of these was the introduction of the Live Dealer offering, which has proved to be very popular. A new loyalty system was also launched in 2009, with the integration of casual games across the offering further enhancing player satisfaction.

CRM capabilities were also enhanced significantly through the implementation of a content management system with multiple offers and communication channels. This allows 888 to better segment and tailor offers better and promotions, making the right offer to the right customer at the right time.

To further enhance development efforts and reduce costs, 888 opened and integrated a large new outsourced software development facility in Eastern Europe. This development centre, in Ukraine, allows access to excellent, well-trained, highly professional and cost-efficient talent. By the end of 2009, around 50% of our development activities were successfully carried out at this centre.

888 has also focused attention and investment on developing solutions to take advantage of the changing regulatory scene in Europe. Tailor-made solutions for both the French and Italian markets were developed, seamlessly providing Casino services to B2B partners and leading to a number of significant deals being signed in newly regulated regions, such as bwin Italia.

Significant work was done during the latter part of the year on rebranding the 888 B2C offering. Alongside the eye-catching new look and feel, the sites' infrastructure were rebuilt with content management systems better optimised for faster performance, improving the customer experience by more than halving response times.

In January 2010, a new enterprise resource planning system was successfully implemented and integrated into 888's business backbone — the result of a large undertaking carried out during 2009. This new system streamlines 888's capability to carry out daily business processes in an optimal manner.

Improvements were also made to 888's operational command and control capability, dramatically enhancing the service levels provided to B2B partners through growth and process improvement in the Network Operating Center, the 24/7 nerve centre of operations. This greatly improved second level support capabilities.

In order to better support the growing demands from an ever increasing set of B2B partners, and to adapt to the growing richness and size of our offering, 888 continues to evolve and upgrade existing offerings through routine maintenance, functionality upgrades, and changes to back-office services.

888 will continue to invest in technology across the business, ensuring that leading back-office systems provide the basis for an unparalleled experience for both players and partners.

Customer Support and Service

888 remains committed to its goal of being the market leader in the global online gaming industry. First class customer support is offered for each of the Group's brands and White Labels via telephone e-mail and chat 24 hours a day, 7 days a week, to customers around the world in 11 different languages.

In 2009, we aligned our mission to increase customer conversion and retention by focusing training efforts on 'sales through service.' On average, our support teams converted 28% of all relevant incoming phone calls to deposits, providing a service convenient to players and beneficial to the business.

The Telemarketing and Proactive Chat department has continued to expand. Three additional languages have been added to raise the total number of languages to eight. We are pleased to see that the department has increased its performance compared to 2008 on all main metrics measured internally — efficiency,

productivity and revenue generated. New initiatives and optimisation of talented staff has also seen all main individual metrics increase.

Five additional languages were added to the Online Web Self- service, and a deal with RightNow was signed for the full deployment of its CRM solution across all operational sites in 2010. This investment will help 888 to reduce its operational expenditure, manage its resources effectively and improve efficiency and increase customer satisfaction.

A third operational contact centre site was opened in Romania, via an outsourcing arrangement at the end of the third quarter of 2009 in order to increase cost-effectiveness, capacity and continue providing each individual customer with an outstanding end-to-end customer experience around the clock. Operating multiple contact centres is a cost- effective way of managing customer contact overspill and allows for efficient balancing of operational demands.

The main Gibraltar contact centre focuses on providing support for our principal markets in Europe, Asia Pacific and Latin America while the Antiguan contact centre focuses on supporting the English-speaking markets in Europe, Australia, Asia Pacific and Canada.

In 2010, the newly established contact centre in Romania is set to expand inbound customer services for more brands and languages, and ultimately become the main support centre for Dragonfish and 888's main markets in Europe, Asia Pacific and Latin America. Support teams in all locations aim to close the majority of issues during the first contact, as exemplified in the Service Level Achievement reached in 2009:

Casino in English

- 98.0% of all phone calls were answered within, on average,30 seconds
- 99.0% of all e-mails were replied to within 24 hours
- 95.3% of all chats were answered within, on average,40 seconds

Poker in English

- 98.0 % of all phone calls were answered within, on average, 30 seconds
- 89.0% of all e-mails were replied to within 24 hours
- 89.9% of all chats were answered within, on average 40 seconds
-

Bingo in English

- 96.0% of all phone calls were answered within, on average, 30 seconds
- 91.0% of all e-mails were replied to within 24 hours

Customer Satisfaction

888 continues to monitor customer satisfaction at key points throughout their lifetime cycle by requesting and analysing real- time feedback. As in previous years a comprehensive survey was conducted to benchmark 888's service level within primary markets, with the results being used to form the basis of quality improvement efforts.

888 is proud to note that respondents in 2009 once again gave their highest rating to the level of professionalism of our support representatives. Respondents from Germany remain the most satisfied, closely followed by respondents from France where results show a considerable increase in satisfaction compared to previous studies:

- Casino players rated the level of professionalism of our Representatives at 4.1 (out of 5)
- Poker players rated the level of professionalism of our Representatives at 4.0 (out of 5)
- 89% of all customers who contacted 888 in regards to the deposit process, were offered assistance in depositing and/or were presented with alternative depositing method to use

In addition to understanding the different components of customer satisfaction, recent surveys demonstrated increased awareness and usage of the state-of-the-art Web Self-Service facility available to English and German speaking customers. Additional regions will be surveyed in 2010.

A vital component in maintaining and exceeding customer expectations is 888's ability to access each client's full and complete history in real time, thus optimising customer interactions on all levels.

888's unparalleled customer service and leadership in the e-Gaming industry has been also recognised by the judges of the 2009 e-Gaming Review Awards when awarding 888 the coveted title 'Casino Operator of the Year'.

Fraud and Risk Management

Utilising over a decade of experience, 888's Fraud and Risk Management Department continues to provide 888 and B2B partners with a leading fraud prevention service. 888 has built a comprehensive database of fraudulent accounts and fraud patterns, helping introduce new measures to prevent fraudulent activity.

In 2009, the following steps were taken to further develop risk management and fraud control procedures:

- Fraud Alerts — 888 planned and created an in-house alerts mechanism that identifies changing trends and patterns, identifying suspicious activity
- Cashier — a more robust new cashier is being built
- Back-Office — back-office systems were updated, allowing 888 to react to changes in the types of fraudulent activity
- Data Analytics — data continues to be collected and analysed through the data warehouse systems in order to monitor current fraudulent activity
- PCI Level 1 Compliance — 888 became the first online gaming company to be PCI Level 1 Compliant, showing 888's commitment in handling sensitive and personal data with the highest degree of care

888 continues to optimise all procedures to ensure that fraud aspects are covered across the business. New releases of White Label brands are thoroughly checked to ascertain whether these bring any inherent risk, and new offerings investigated for possible domain specific risks.

We will continue to innovate in this area, ensuring that actions are taken in order that services and processes remain one step ahead of potential fraudulent activity.

Corporate Social Responsibility

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

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

This year marked a significant milestone for the Company in this field. During October 2009 we published our first ever Corporate Responsibility report for the year 2008. The report is available at www.888responsible.com. We aim to publish such a report every two years.

Employees

At 888 we work hard to nurture and maintain the pool of talent of our employees. We acknowledge and value all our employees and strive to be an employer of choice. 888 values everyone's contribution, regardless of their background or gender, and believes that diversity helps meet the need of our global customers.

Since our employees are one of our key stakeholders we value their opinion. Therefore, during the last quarter of 2009 we conducted a global employee opinion survey to understand our employees' feedback towards different aspects of their life at 888. The survey's findings form the base for defining our 2010 goals.

Professional development and training

We strive to enable our employees to grow with the business, helping us to retain talent. During 2009 two major programmes were developed for our employees.

Panoramic Training

A global project designed to connect and enhance employees' knowledge about the Company's products. This project aimed to provide a panoramic outlook on both the internal and external parts of the business. The objectives of the programme are to improve employees' connection to the customer experience and enhance the employees' understanding of the end user experience, broaden employees' understanding of 888 activities and what the Company offers its customers; and increase employees' awareness to important Company processes.

The programme includes four categories: customer Voice — live calls from the support team; tools — understanding operational tools such as reporting systems; products — internal product lectures; and tailor-made plans — training needs analysis and designed programmes for each division.

High Potential Programme

A high profile programme designed to identify and develop key talent within the Company, this programme is a global project with participants from all of 888's divisions, sites and locations. The programme includes two groups: team leaders, who are the future potential managers, and employees, who are the future potential team leaders. The programme is either 12 or 18 months long, with the time set according to location and includes both individual and group training sessions. The project aims to identify future leadership and maximise internal human capital, reducing reliance on sourcing new talent externally, creating an internal tool for career progression, forming a tool for retention of key personnel and driving business success by relying on internal business knowledge.

Life at 888

At 888 we like to treat our employees as individuals and ensure that they work in a relaxed and stimulating environment.

During 2009, every division had a dedicated division day and during the year over ten special days were marked. Celebrations were held at different times according to locations, their holidays and relevant events.

As happens once a year, during the first quarter staff from a wide variety of levels, from team leaders to senior management, met for a global summit.

To combine creativity and fun at 888, 2009 saw the initiation of a Global Art & Craft Exhibition. The exhibition included works of 888 employees, giving them an opportunity to present their work and express their creative side.

26 representatives from all 888 locations took part in the exhibition, which included different forms of art such as painting, photography, sculpture, knitting and many more.

The exhibition was presented at 888 premises in various locations for 14 days, with the art works then printed onto a calendar and distributed to all employees.

Community

888 is committed to supporting the various local communities in which it operates and the broader global community through its ability to reach millions of consumers worldwide.

Our community investment programme includes cash donations and long-standing community involvement in our key areas across the world.

Local community involvement

The Gibraltar, Antigua and UK offices focused their community work this year on raising funds for a wide range of issues, including Cancer Research UK, 'Tarik School of Dance', 'Teen Tales', the Gibraltar Philharmonic Society and various other global charities.

Our employees in Israel have continued their year long relationship with the local Derech Haetgar charity, which focuses on enhancing the education of disadvantaged teenagers.

As has been the case for each of the past three years, employees in Israel joined the Ruach Hatova national volunteering organisation for a day of goodwill. A group of 25 employees helped at a special school for refugees, with volunteers working with the children to create baskets and ornaments.

Online Charity Day

888 held its third annual charity day. The 2009 charity day offered 888's customers across all brands the opportunity to take part in the day and play on the sites for a good cause. Together, 888 and its costumers donated a total of US\$70,000 to help with the East Africa Crisis.

Environment

As an online business 888's activities have a relatively small impact on the environment. However, we continue to develop our commitment to environmental issues in order to ensure that this impact is kept to a minimum, and 2009 saw a number of initiatives in this area.

Green IT was targeted as one of our major challenges which we approached on various levels — (a) Recycling IT: all old and nonfunctional IT equipment from all of our locations is now sent for recycling and (b) Virtualisation (VDI project): more than 120 stations were transformed from a PC to the VDI system, enabling us to use less hardware.

Alongside these projects we continuously measure our energy consumption to make sure steps are taken to minimise it at all times. We try to recycle as many materials as possible. Paper, bottles and cans are collected regularly from all of our sites on a monthly basis. We use only ecological detergents in our offices and continue using water saving devices in all our locations. To minimise the impact of travel on the environment we encourage employees to either cycle to work and, in certain locations, provide buses for commuters.

To reduce international travel we continue to invest in state-of-the-art technology and this year we offered the new option of '888Live Meeting' to all our staff. '888LM' is a web sharing information tool which allows all 888 employees to communicate globally while viewing the same documents on their personal computer.

Responsible gaming

Our values place the community and the customer at the centre of all our endeavours. We are constantly creating new and innovative ways to create a caring, responsible gaming environment and to ensure our children are safe.

888 aims to provide responsible adults with the best online gaming entertainment experience. However, we acknowledge that within our business there is the possibility of danger that the games may pose for a small minority of people.

We continuously train all our staff and provide them with the tools necessary to provide a safe gaming experience. Our training programme incorporates methods and techniques that assist our employees in recognising and taking appropriate actions when they identify compulsive or under-age gambling.

Protecting Customers

As a responsible, regulated gaming Company we comply with both the GamCare and the eCOGRA guidelines, and during 2009 had our certification renewed. GamCare is the leading authority on the provision of counselling, advice and practical help in addressing the social impact of gambling in the UK. eCOGRA ensures that approved online casinos are properly and transparently monitored to provide player protection. Our site has links to helping agencies and we have placed many safeguards for those who need help with controlling their gaming:

- Self-assessment test: For gamblers who are worried about their gambling habits and want to know more about the signs of compulsive gambling,
- Controlling deposit limits: Should clients feel the need to, they can control their gambling by self limiting the amounts they deposit per day, per week or per month.
- Self exclusion: A member can request to be self excluded for a chosen period, due to different concerns. Clients can choose from three options of exclusion period — 7 days, 30 days and 180 days. During this period, 888 blocks the account and no promotional e-mails are sent to the client.

Protecting minors

Under-age gambling on our sites is prohibited and the Group takes the matter of under-age gaming extremely seriously. Our offerings are not designed to attract minors. We use sophisticated verification systems to identify and prevent minors from logging into our software.

We make every effort to prevent minors from playing on our site.

This year, we have added the age verification services of 192.com to complement the existing services provided by URU.

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

888responsible

Since 2007, a dedicated website, www.888responsible.com, has been available, providing information regarding all aspects of responsible gaming. The site was translated in June 2009 into three additional languages, and is now available in English, French, Spanish and German.

888safe

888 is committed to providing responsible gaming products which comply with the highest standards of gaming safety, security and fair practice.

In March 2009, we were awarded the prestigious TRUSTe Privacy seal of approval for all our websites. As a result of a rigorous audit we are the first online gaming company to be awarded the Web Privacy Seal, a clear indication of the importance we place on being a highly trustworthy operator.

TRUSTe runs the world's largest privacy seal programme, with more than 2,000 organisations certified. It helps millions of consumers identify trustworthy online organisations through its Web Privacy Seal, E-mail Privacy Seal and Trusted Download Programmes. TRUSTe ensures online privacy and protects confidential user information on more than 2,400 Websites and many of the most highly trafficked, including Yahoo, AOL, Microsoft, Disney, eBay, Intuit, and Facebook.

We continue to collaborate with external and regulatory bodies who guide us on all aspects of responsible gaming, and our dedication to this area is shown through our specialist website, <http://safe.888.com>.

United National Global Compact (UNGC)

During 2009, 888 joined United Nations Global Compact. The UNGC is the largest global initiative to promote the social responsibility of businesses. It is a voluntary initiative, which brings together thousands of businesses across more than 100 sectors worldwide. Representatives confirm their commitment to the UNGC in order to promote ten universally accepted principles in the field of human rights, workplace standards and anti-corruption.

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

Regulation and General Regulatory Developments

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

EU

The European Commission is challenging the online gambling and betting regulatory regimes of various European States. The Commission holds that, as regards EU licensed companies, these regimes might infringe the enshrined freedom to provide services, the freedom of establishment and the concept of mutual recognition. This effort is reflected in, inter alia, the infringement proceedings initiated against several EU States (including Spain, Germany, Portugal, Finland, Austria, Hungary, Italy, Sweden, the Netherlands, Denmark and France); should these Member States fail to supply adequate reasoning behind their gambling legislation and fail to rectify what is required from them by the EU Commission, the Commission may refer the issue with each Member State to the European Court of Justice.

While these proceedings may, in the end, cause the European States to liberalise their gambling markets, it should be noted that it could be a very long time before resolutions or judgments are reached (if at all); and, as the European Court of Justice opined in its judgment in the case of *Bwin v. Santa Casa* the scope of discretion available to Member States in this sphere is relatively wide; in other cases referred to the European Court of Justice by several German courts, the EU Advocate General reiterated (in March 2010) this position and opined (although his opinion is not binding upon the Court) that EU law does not oblige Member States to recognise online gambling licenses issued by other Member States. However, in 2010 the new Internal Market Commissioner opined that the ECJ's ruling in the *bwin v. Santa Casa* case will have little impact on the EU Commission's activities in the sphere of cross border gambling services, as that judgment was based on considerations specific to Portugal and its gaming monopoly; the Commission will continue to review Member States' legislation in the gambling sphere on a case by case basis.

However, the pressure exerted by the EU Commission has resulted in several EU Member States contemplating, and in some cases advancing, a liberalised (or partially liberalised) gaming sector; these Member States include Spain, France, Sweden, Greece, Estonia, Belgium and Denmark. Other EU Member States such as Ireland, Cyprus and the Czech Republic are also considering (or are already in the process

of) revising their gaming laws possibly so as to regulate online gaming.

Thus, in France, a draft law is in the final stages of the legislative process, which will authorize the issue of French online gambling licences, limited to the spheres of poker, sports betting and horserace wagering. While the draft legislation is still being structured, and several aspects of it are still being discussed with the EU Commission, the Group is watching closely these developments so as to be in a position which will allow it to apply for an online gambling licence in France; this is expected to happen during 2010.

In 2009, Belgium passed a law which will allow issuance of online gambling licences as an extension of existing terrestrial gambling licences; therefore, pure online gambling operators may face difficulties in obtaining online gambling licences in that jurisdiction. The Group is pursuing potential opportunities to allow it to utilise this change in legislation. In Denmark, the government announced that it will introduce legislation which will regulate and license online gambling activities in the spheres of casino, poker and sports betting. Spain too partially revealed its intention to license and regulate online gaming activities; a draft law is expected to be introduced in 2010, and is intended to present a federal online gaming licensing regime.

Finally in Italy, where the Company holds an online gambling licence, current and future legislation will expand the scope of the games allowed to be offered under the licence (e.g. casino games), and will also relax some of the requirements posed to licensees (including, inter alia, the spheres of taxation and establishment in Italy).

In Germany, the State of Schleswig Holstein announced that it will not agree to an extension of the prohibitive interstate lottery treaty, when its term ends at the end of 2011. While this in itself does not impact the formal validity of the treaty, it could represent a potential future shift in the regulatory regime in Germany.

In addition to these infringement proceedings, the EU Commission is involved in other instances in which the online gambling and betting regulatory regimes appear to contravene rights and freedoms of online gambling and betting operators (e.g. issuing detailed opinions against the enactment of prohibitive legislation, and intervening in the WTO process described below).

UK

The DCMS has announced in 2010 that it will review the current online gaming licensing regime, and is considering whether to require all gaming operators targeting British consumers to be licensed (and most probably taxed) in the UK.

USA

In the USA, several bills have been introduced into the 111th Congress, which focus on online gambling issues. One of these bills creates an online gambling licensing regime that will allow for a Federal online gambling licence to be issued (subject to various conditions, limitations and possible exclusions); the bill has yet to be advanced in Congress. Another bill aims to delay the implementation date of the UIGEA regulations to 1 December 2010 (following the decision of the Treasury and Federal Reserve to delay the implementation date of the regulations until 1 June 2010). In parallel, several US States (including California, Iowa, New Jersey and Florida) are reviewing the possibility of licensing some form of intra-state online gambling activities.

WTO

Following a complaint filed in 2007 by the Remote Gaming Association, the European Commission decided to open an investigation into whether the United States is in breach of its WTO obligations in the sphere of gambling (in relation to the period prior to the planned withdrawal of its commitment). In March 2009, the investigation was concluded with a report issued by the EU Commission, which stated that the US measures taken against EU-based online gambling operators breach the WTO commitments of the US. The EU commission stated that it will seek to reach a settlement with the US in this respect; trade discussions between the US and the EU have dealt with, inter alia, this issue but no decision has been made as yet.

Risk Report

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

Regulatory Risk

The regulatory framework of online gaming is dynamic and complex. Change in the regulatory regime in a specific jurisdiction could have a material adverse effect on business volume and financial performance in that jurisdiction. A detailed regulatory review is set out in previous pages.

Reputational Risk

Under-age and problem gaming are inherent risks associated with the online gaming industry and the Group is no exception. The Group devotes considerable resources to putting in place prevention measures coupled with strict internal procedures designed to prevent under-aged players from accessing its real money sites. In addition, the Group promotes a safe and responsible gaming environment to its customers supplemented by its corporate culture. The Group has a dedicated Director of CSR & Responsible Gaming tasked with the responsibility of implementing such policies. Further details about the Group's responsible gaming initiatives are set out in previous pages.

Information Technology Risk

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

Cutting-edge technologies and procedures are implemented throughout the Group's technology operations and are designed to protect its networks from malicious attacks and other such risks. These measures include traffic filtering, anti-DDoS (Distributed Denial of Service) devices, Anti-Virus protection from leading vendors and other such means. Physical and logical network segmentation is used to isolate and protect the Group's networks and restrict malicious activities. In order to ensure systems are protected properly and effectively, external security scans and assessments are carried out in a timely manner. The Group has a high-end storage solution

to ensure storage availability and performance. All critical data is replicated to another storage device for disaster recovery purposes and all data is stored off-site on a daily basis.

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

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

Taxation Risk

The Group aims to ensure that each legal entity within the Group is a tax resident of the jurisdiction in which it is incorporated and has no taxable presence in any other jurisdiction. While the Group's customers are located worldwide, certain jurisdictions may seek to tax such activity which could have a material adverse effect on the amount of tax payable by the Group or on customers' behaviour.

The Group benefits from favourable fiscal arrangements in some of the jurisdictions in which it has taxable presence without which its results would be adversely affected. All gaming activities are based in Gibraltar, where the Group currently benefits from a tax exempt status. A change of control or activity of a tax exempt subsidiary would result in the loss of its tax status. However, this is not expected to have a material adverse effect on the overall tax rate of the Group. The tax exempt status is due to expire by the end of 2010 when the Government of Gibraltar intends to introduce a new fiscal regime that complies with EU requirements.

Domestic corporate tax in Gibraltar is 22% (2009/2010). Gibraltar's Chief Minister has announced further reductions in anticipation of the introduction of a flat tax rate of 10% in 2011. A consultation is in place with respect to the new tax regime in Gibraltar and it is widely anticipated, following Government indications, that the new rules will subject the Group to an effective rate of tax well below the new flat tax rate. The Group is currently required to pay a gaming duty, currently set at 1% of gaming yield, with an annual maximum cap of £425,000 in aggregate, in respect of its Casino, Poker and Bingo activities and, separately, at the same rate in respect of the Group's Sports offering. The applicability of the gaming taxes following the implementation of the new tax regime is, as yet, unclear.

The Group's subsidiary in Israel, Random Logic Limited, and the Israeli branch of Intersafe Global Limited, have each entered into separate transfer pricing agreements on an arm's length basis with the Israeli Income Tax Commissioner. The arrangements for Random Logic Limited are effective until 31 December 2010, while the arrangement for the Intersafe Global Limited branch terminated on 31 December 2007. The Group has discontinued the use of this branch.

The operation in Antigua also benefits from a low tax regime.

Responsibility Statement of the Directors

The Directors confirm, in relation to the 2009 Annual Report and Accounts, that to the best of their knowledge:

- The financial statements, prepared in accordance with the International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- The "Enhanced Business Review" includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole and that the "Risk Report" includes a description of the principal risks and uncertainties that the Group faces.

Consolidated Income Statement

For the year ended 31 December 2009

	Note	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Total revenue	2	246,703	256,862
Other operating income	2	—	5,692
Total operating income		246,703	262,554
Operating expenses		98,360	84,637
Research and development expenses		24,164	27,379
Selling and marketing expenses		67,329	80,155
Administrative expenses	4	29,510	33,069
Operating profit before share benefit charges		34,352	45,705
Share benefit charges		7,012	8,391
Operating profit	5	27,340	37,314
Finance income		226	2,928
Profit before tax before share benefit charges		34,578	48,633
Share benefit charges	20	7,012	8,391
Profit before tax		27,566	40,242
Taxation	7	2,733	3,057
Profit after tax for the year attributable to equity holders of the parent		24,833	37,185

Earnings per share	Note	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Basic	8	7.2¢	10.9¢
Diluted		7.1¢	10.7¢

Consolidated Balance Sheet

At 31 December 2009

	Note	31 December 2009 US\$'000	31 December 2008 US\$'000
Assets			
Non-current assets			
Intangible assets	11	70,832	44,812
Property, plant and equipment	12	20,984	19,740
Financial assets	13	—	223
Deferred taxes	14	797	606
		92,613	65,381
Current assets			
Cash and cash equivalents	15	87,511	98,444
Trade and other receivables	16	21,208	18,673
		108,719	117,117
Total assets		201,332	182,498
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	17	3,152	3,115
Share premium		65	65
Available-for-sale reserve		—	(53)
Retained earnings		117,883	6)
Total equity attributable to equity holders of the parent		121,100	111,360
Liabilities			
Current liabilities			
Trade and other payables	18	38,851	37,854
Liabilities to customers		37,570	33,284
		76,421	71,138
Non-current liabilities			
Contingent consideration	10	3,811	—
Total liabilities		80,232	71,138
Total equity and liabilities		201,332	182,498

The financial statements herein were approved and authorised for issue by the Board of Directors on 22 March 2010.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital US\$'000	Share premium US\$'000	Available- for- sale reserve US\$'000	Retained earnings US\$'000	Total US\$'000
Balance at 1 January 2008	3,097	—	(105)	89,735	92,727
Dividend paid	—	—	—	(25,628)	(25,628)
Issue of shares	18	—	—	(18)	—
Exercise of market value options	—	65	—	—	65
Share benefit charges	—	—	—	8,391	8,391
Total comprehensive income for the year	—	—	(431)	36,236	35,805
Balance at 1 January 2009	3,115	65	(536)	108,716	111,360
Dividend paid	—	—	—	(22,445)	(22,445)
Issue of shares	37	—	—	(37)	—
Share benefit charges	—	—	—	7,012	7,012
Total comprehensive income for the year	—	—	536	24,637	25,173
Balance at 31 December 2009	3,152	65	—	117,883	121,100

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

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

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

Available-for-sale reserve — represents the gain or loss arising from a change in the fair value of an available-for-sale financial asset.

Retained earnings — represents the cumulative net gains and losses recognised in the consolidated income statement.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	31 December 2009 US\$'000	31 December 2008 US\$'000
Profit for the year	24,833	37,185
Valuation gain/(losses) of available-for-sale investments	513	(431)
Actuarial losses on defined benefit pension plan	(196)	(949)
Disposal of available for sale asset	23	—
Total comprehensive income for the year attributable to equity holders of the parent	25,173	35,805

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000	Year ended 31 December 2008 US\$'000
Cash flows from operating activities				
Profit before income tax	27,566		40,242	
Adjustments for				
Depreciation	7,044		5,504	
Loss on sale of property, plant and equipment	—		75	
Amortisation	1,458		1,826	
Interest received	(633)		(3,255)	
Share benefit charges	7,012		8,391	
	42,447		52,783	
(Increase)/decrease in trade receivables	(4,356)		4,404	
Decrease/(increase) in other accounts receivables	1,715		(3,441)	
(Decrease)/increase in trade payables	(868)		810	
Increase in liabilities to customers	3,681		6,870	
Increase/(decrease) in other accounts payables	2,964		(669)	
Cash generated from operations	45,583		60,757	
Income tax paid	(4,086)		(4,363)	
Net cash generated from operating activities		41,497		56,394
Cash flows from investing activities				
Acquisition of assets comprising the online bingo business of Globalcom Limited	—		(25,311)	
Acquisition of assets comprising the online Wink bingo business (see note 10)	(18,052)		—	
Purchase of property, plant and equipment	(8,288)		(8,852)	
Proceeds from sale of property, plant and equipment	—		29	
Interest received	633		3,255	
Proceeds from disposal of available-for-sale assets	732		—	
Acquisition of intangible assets	(100)		(513)	
Internally generated intangible assets	(4,910)		(5,303)	
Net cash used in investing activities		(29,985)		(36,695)
Cash flows from financing activities				
Exercise of Market Value options	—		65	
Dividends paid	(22,445)		(25,628)	
Net cash used in financing activities		(22,445)		(25,563)
Net decrease in cash and cash equivalents		(10,933)		(5,864)
Cash and cash equivalents at the beginning of the year		98,444		104,308
Cash and cash equivalents at the end of the year		87,511		98,444

The notes below form part of these financial statements.

Notes to the Consolidated Financial Statements

1 General information

Company description and activities

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

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

Cassava Enterprises (Gibraltar) Limited and Brigend Limited (both subsidiaries) carried out the operations of the Group during the year, principally under the name www.888.com under the terms of the gaming licences issued in Gibraltar.

Definitions

In these financial statements:

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

2 Significant accounting policies

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

Basis of preparation

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

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

The financial statements are presented in thousands of US dollars (US\$'000) because that is the currency the Group primarily operates in. The consolidated financial statements comply with the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies (Consolidated Accounts) Act 1999 and the Gibraltar Companies Act.

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

IFRIC 13 — Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 has been endorsed for use in the EU.

IAS 23 (Amendment) — Borrowing costs (effective for annual periods beginning on or after 1 January 2009). IAS 23 has been endorsed for use in the EU.

IFRS 2 (amendment) — 'Share-based payment: vesting conditions and cancellations' (effective for accounting periods beginning on or after 1 January 2009). This amendment has been endorsed for use in the EU.

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements — Puttable Financial Instruments and Obligations arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009). These amendments have been endorsed for use in the EU.

IFRIC 15 — Agreements for the Construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009). IFRIC 15 has been endorsed for use in the EU.

IFRIC 16 — Hedges of a net investment in a foreign operation (effective for accounting periods beginning on or after 1 January 2009). IFRIC 16 has been endorsed for use in the EU.

IFRS 1 First Time Adoption of IFRS and IAS 27 Consolidated and Separate Financial Statements (amended) (effective for accounting periods beginning on or after 1 January 2009). This amendment has been endorsed for use in the EU.

IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (amended) (effective for periods beginning on or after 1 July 2008). This amendment has been endorsed for use in the EU.

IFRS 7 (amended) 'Improving Disclosures about Financial Instruments' (effective for accounting periods beginning on or after 1 January 2009). This amendment has been endorsed for use in the EU.

In addition, the IASB 2008 annual improvements project includes minor amendments to various accounting standards which are effective for accounting periods beginning on or after 1 January 2009.

During the year the Group has adopted IAS 1 (revised) 'Presentation of Financial Statements' and IFRS 8 'Operating

Segments'. The effect of adopting these standards is presentational and has no impact on the reported profit or net assets of any year.

The adoption of IAS 1 (revised) means that a statement of comprehensive income has been included for the first time in this Annual report. The adoption of IFRS 8 means the Group provide segmental information using the same categories of information the Group's chief operating decision maker utilises.

The Group organizes the business segments by the following two distinct lines of business:

- B2C (Business to Consumer) which focuses its activities on the individual end customer through a wide range of product offering;
- B2B (Business to Business) which offers Total Gaming Services under the Dragonfish trading brand. Dragonfish offers to its business use of technology, software, operations, e-payments and advanced marketing services, through the provision of offline/ online marketing, management of affiliates, SEO, CRM and business analytics.

Statutory accounts for the year ended 31 December 2009 will be made available following the Company's Annual General Meeting. The auditors have reported on those accounts and their report was unqualified and did not contain statements under section 10(2) of the Gibraltar Companies (Accounts) Act 1999 or section 182(1) (a) of the Gibraltar Companies Act. Statutory accounts for the year ended 31 December 2008 have been delivered to the Registrar of Companies in Gibraltar together with a report under section 10 of the Gibraltar Companies (Accounts) Act 1999. The audit report for both 2008 and 2009, without qualifying the opinion therein, draws attention to the issue set out in note 24 on Contingent Liabilities in the financial information.

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these were not effective for the year 2009. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods.

IFRS 3 (revised) — Business combinations (effective for accounting periods beginning on or after 1 July 2009). IFRS 3 (revised) has been endorsed for use in the EU.

IFRIC 17 'Distributions of Non-cash Assets to Owners' (effective for accounting periods beginning on or after 1 July 2009). This IFRIC has been endorsed for use in the EU.

Amendment to IAS 39 'Reclassification of Financial Assets: Effective Date and Transition' (effective for accounting periods starting on or after 1 July 2009). This amendment has been endorsed for use in the EU.

Amendment to IAS 39 'Financial Instruments: Recognition and Measurement: Eligible Hedged Items' (effective for accounting periods starting on or after 1 July 2009). This amendment has been endorsed for use in the EU.

Amendments to IFRIC 9 and IAS 39 'Embedded Derivatives' (effective for accounting periods starting on or after 1 July 2009). This amendment has been endorsed for use in the EU.

IFRIC 18 'Transfers of Assets from Customers' (effective for accounting periods beginning on or after 1 July 2009). This interpretation has been endorsed for use in the EU.

Revised IAS 24 'Related Party Disclosures' (effective for accounting periods beginning on or after 1 January 2011). This revision has not yet been endorsed for use in the EU. This revision will only impact disclosure and have no effect on the net assets or result of the Group.

Amendment to IAS 32 'Classification of Rights Issues' (effective for accounting periods beginning on or after 1 February 2010). This amendment has been endorsed for use in the EU.

Amendment to IFRS 1 'Additional Exemptions for First-time Adopters' (effective for accounting periods beginning on or after 1 January 2010). This amendment has not yet been endorsed for use in the EU.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for accounting periods beginning on or after 1 July 2010). This interpretation has not yet been endorsed for use in the EU.

Amendment to IFRIC 14 'Prepayments of a Minimum Funding Requirement' (effective for accounting periods beginning on or after 1 January 2011). This amendment has not yet been endorsed for use in the EU.

IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2013). This standard has not yet been endorsed for use in the EU.

IFRS 2 (Amended) 'Group Cash-settled Share-based Payment Transactions' (effective for accounting periods beginning on or after 1 January 2010). This amendment has not yet been endorsed for use in the EU.

IFRS 1 (amended) 'Limited exemption from Comparative IFRS 7 Disclosures for first time adopters' (effective for accounting periods beginning on or after 1 July 2010). This amendment has not yet been endorsed for use in the EU.

The IASB 2009 annual improvement project includes further minor amendments to various accounting standards and is effective from various dates from 1 January 2010 onwards, but has not yet been endorsed for use in the EU.

Critical accounting policies, estimates and judgements

The preparation of consolidated financial statements under IFRS 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 within the next financial year. These policies together with references to the related notes to the financial statements can be found below:

Taxation	Note 7
Contingent consideration	Note 10
Intangible assets	Note 11
Impairment of Goodwill and intangible assets	Note 11
Share-based payments	Note 20
Regulatory compliance and contingent liabilities	Note 24

Basis of consolidation

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

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

Inter-company transactions and balances are eliminated on consolidation.

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

Total Revenue

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

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

Casino

Casino winnings that are the differences between the amounts of bets placed by customers less amounts won by customers.

Poker

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

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

Emerging Offerings

Revenue from Emerging Offerings is defined as the winnings from Sportsbook activity and fees charged for participation in Bingo games.

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

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

Other operating income

Other operating income consists mainly of revenue generated from processing customers' cross currency deposits and withdrawals.

Foreign currency

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

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

- (i) monetary assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (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); and
- (iii) exchange rate differences on translation of Group entities that have functional currencies different from US dollars are included in administrative expenses.

Taxation

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

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base. It is accounted for using the balance sheet liability method. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. Such assets and liabilities are not recognised

if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/assets are settled/recovered.

Intangible assets**Acquisitions**

Identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date. The identified intangibles are amortised over the useful economic life of the assets. For the acquisition completed during the year 2007, the useful economic life of the intangible assets acquired is estimated to be between three months and four years. For the 2009 acquisition, the useful economic life of the intangible assets acquired is estimated to be eighteen months with the exception of trade names, which have an indefinite useful economic life. Intangible assets are reviewed annually for evidence of impairment. Any impairment in carrying value is charged to the consolidated income statement.

Internally generated intangible assets

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

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair value of any assets transferred, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

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

Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation. Carrying amounts are reviewed at each balance sheet date for impairment.

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

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

Impairment of non-financial assets

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

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

Financial Instruments

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

Trade receivables

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

Cash and cash equivalents

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

Equity

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

Trade and other payables

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

Liabilities to customers

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

Available-for-sale financial assets

Available-for-sale financial assets comprise non-derivative financial assets not included in any of the above financial asset

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

Chargebacks

The cost of chargebacks is included in operating expenses.

Leases

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

Provisions

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

Segment information

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

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

Dividends

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

Share-based payments

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

3 Segment information

Business segments

	Year ended 31 December 2009					
	B2C			B2B		Consolidated US\$'000
	Casino US\$'000	Poker US\$'000	Emerging Offering US\$'000	Total B2C US\$'000	US\$'000	
Revenues	118,693	51,592	25,116	195,401	51,302	246,703
Total operating income	118,693	51,592	25,116	195,401	51,302	246,703
Result						
Segment result				117,815	31,089	148,904
Unallocated corporate expenses ¹						121,564
Operating profit						27,340
Finance income						226
Tax expense						(2,733)
Profit for the year						24,833
Assets						
Unallocated corporate assets						201,332
Total assets						201,332
Liabilities						
Segment liabilities — B2B						8,408
Segment liabilities — B2C						29,162
Unallocated corporate liabilities						42,662
Total liabilities						80,232

¹ Including share benefit charges of US\$7,012,000.

	Year ended 31 December 2009					
	B2C			B2B		Consolidated US\$'000
	Casino US\$'000	Poker US\$'000	Emerging Offering US\$'000	Total B2C US\$'000	US\$'000	
Revenues	133,083	71,565	13,790	218,438	38,424	256,862
Other operating income	3,571	1,955	—	5,526	166	5,692
Total operating income	136,654	73,520	13,790	223,964	38,590	262,554
Result						
Segment result				137,480	21,844	159,324
Unallocated corporate expenses ¹						122,010
Operating profit						37,314
Finance income						2,928
Tax expense						(3,057)
Profit for the year						37,185
Assets						
Unallocated corporate assets						182,498
Total assets						182,498
Liabilities						
Segment liabilities — B2B						5,710
Segment liabilities — B2C						27,574
Unallocated corporate liabilities						37,854
Total liabilities						71,138

¹ Including share benefit charges of US\$8,391,000.

Other than where amounts are allocated specifically to the Casino, Poker and Emerging Offerings segments above, the expenses, assets and liabilities relate jointly to all segments. Any allocation of these items would be arbitrary.

Geographical segments

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:

Total operating income by geographical market¹

	Total operating income Year ended 31 December 2009 US\$'000	Total operating income Year ended 31 December 2008 US\$'000
UK	90,442	97,127
Europe (excluding UK)	113,672	121,943
Americas (excluding USA)	19,145	26,220
Rest of World	23,444	17,264
	246,703	262,554

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

Assets by geographical location

	Carrying amount of segment assets by location		Additions to property, plant and equipment	
	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000

Europe (including UK)	144,663	151,468	6,017	6,105
Rest of World	56,669	31,030	2,271	2,747
	201,332	182,498	8,288	8,852

4 Administrative expenses

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Share benefit charges — all equity-settled	7,012	8,391
Other administrative expenses	22,498	24,678
Administrative expenses	29,510	33,069

5 Operating profit

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Staff costs (see note 6)	71,313	72,597
Directors remuneration (see note 6)	1,900	2,098
Audit fees	343	381
Other fees paid to auditors in respect of taxation services	11	29
Depreciation (within operating expenses)	7,044	5,504
Amortisation (within operating expenses)	1,458	1,826
Chargebacks	9,044	4,816
Exchange losses	2,718	2,630
Payment service providers' commissions	13,750	15,256
Share benefit charges — all equity-settled	7,012	8,391

6 Employee benefits

Staff cost including Directors' remuneration comprises the following elements:

	2009 US\$'000	2008 US\$'000
Wages and salaries	68,518	69,636
Social security	4,850	4,966
Pension costs	4,091	4,050
	77,459	78,652
Staff costs capitalised in respect of internally generated assets	(4,246)	(3,957)
	73,213	74,695

In the income statement total staff costs, excluding share benefit charge of US\$7,012,000 (2008: US\$8,391,000), are included within the following expenditure categories:

	2009 US\$'000	2008 US\$'000
Operating expenses	45,483	40,287
Research and development expenses	15,512	20,588
Administrative expenses	12,218	13,820
	73,213	74,695

Average headcount number of employees by category:

	2009 US\$'000	2008 US\$'000
Operation	669	574
Research and development	136	167
Administration	142	143
	947	884

At 31 December 2009 the Company employed 975 (2008: 931) staff.

Severance pay liability — Israel

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

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

The following table summarises the employee benefits figures as included in the Group's financial statements for 2009 and 2008, respectively:

	2009 US\$'000	2008 US\$'000
Severance pay liability (within trade and other payables)	229	276
Income statement	2,365	1,732
Actuarial movements on severance pay liability (deducted from retained earnings)	196	949

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

	2009 %	2008 %
Discount rate (nominal) ¹	5.06%	3.22%
Estimated increase in employee benefits costs	3%	3%
Voluntary termination rate	70%	70%

¹ The discount rates are based on Israeli government bonds and reflect inflation rates of 2.81% and 0.6% in 2009 and 2008, respectively.

7 Taxation

Corporate taxes

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Current tax	2,924	2,988
Deferred tax	(191)	69
Taxation expense	2,733	3,057

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Profit before taxation	27,566	40,242
Tax at effective tax rate in Gibraltar	—	—
Effect of overseas taxation	2,924	2,988
Effect of deferred tax originating in overseas jurisdictions	(191)	69
Total tax charge for the year	2,733	3,057

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

Gibraltar — The Company and its Gibraltar registered subsidiaries are subject to the provisions of the Gibraltar Companies (Taxation and Concessions) Act (the 'CTCA') as tax-exempt companies. Subject to a change of ownership or activity of a tax-exempt company, the grandfathering of tax-exempt benefits in respect of existing tax-exempt companies will extend up to 31 December 2010. Domestic corporate tax in Gibraltar is 22% (2009/2010) 27% (2008/2009). Gibraltar's Chief Minister has announced further reductions in anticipation of the introduction of a flat tax rate of 10% in 2010. A consultation is in place with respect to the new tax regime in Gibraltar but it is widely anticipated, following Government indications that it is expected the new rules will be in place by July 2010 but not come into effect until January 2011.

Israel — 888 have entered into certain transfer pricing agreements with the Israeli Income Tax Commissioner. The agreement in respect of Random Logic Limited is effective until the end of 2010. The agreement in respect of the Israeli branch of Intersafe Global Limited was effective until the end of 2007. Accordingly, the Group has discontinued the use of this branch. Domestic corporate tax in Israel in 2009 is 26% (2008: 27%) and is scheduled to go down to 25% from 2010 and onwards.

UK — 888's subsidiary in the UK pays corporate tax in the UK at the applicable rate of 28% (2008: 28%).

8 Earnings per share**Basic earnings per share from continuing operations**

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

Diluted earnings per share

In accordance with IAS 33, 'Earnings per share', the weighted average number of shares for diluted earnings per share takes into account all potentially dilutive shares and share options granted, which are not included in the number of shares for basic earnings per share. In addition, certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year and it would not be advantageous for the holders to exercise the option. The number of options excluded from the diluted EPS calculation is 2,124,274 (2008: 3,117,110).

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Profit from continuing operations attributable to ordinary shareholders	24,833	37,185
Weighted average number of Ordinary Shares in issue	345,182,718	341,515,007
Effect of dilutive Ordinary Shares and Share options Weighted average number of dilutive Ordinary Shares	3,960,938	5,807,035
	349,143,656	347,322,042
Basic	7.2¢	10.9¢
Diluted	7.1¢	10.7¢

Earnings per share excluding share benefit charges

The Directors believe that EPS excluding share benefit charges better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the Group. It is also a performance measure used internally to manage the operations of the business.

Reconciliation of profit to profit excluding share benefit charges:

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Profit from continuing operations attributable to ordinary shareholders	24,833	37,185
Share benefit charges	7,012	8,391
Profit excluding share benefit charges	31,845	45,576
Weighted average number of Ordinary Shares in issue	345,182,718	341,515,007
Weighted average number of dilutive Ordinary Shares	349,143,656	347,322,042
Basic earnings per share excluding share benefit charges	9.2¢	13.4¢
Diluted earnings per share excluding share benefit charges	9.1¢	13.1¢

9 Dividends

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Dividends paid	22,445	25,628

The Board of Directors will recommend to the shareholders a final dividend in respect of the year ended 31 December 2009, of 3.0¢.

10 Acquisitions made during the year — Wink Bingo business

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

In calculating the goodwill arising on acquisition, the fair value of the net assets of the Wink Bingo business was valued by a professional valuation firm and recognised in accordance with IFRS 3 and adjustments from book value have been made where necessary. These adjustments are summarized as follows:

	Book value on acquisition US\$'000	Fair value adjustments US\$'000	Fair value US\$'000
Liabilities to customers	(605)	-	(605)
Intangible assets ¹	-	2,415	2,415
Net assets	(605)	2,415	1,810

¹ See note 11.

The fair value relates to the recognition of customer relationship (US\$1,626,000) and trade names intangible assets

(US\$789,000) acquired as part of the acquisition. The customer relationship intangible asset is being amortised over its estimated useful economic life of 18 months. Trade names intangible assets are subject to an annual impairment review. All intangible assets on acquisition have been identified and fair valued. The remaining goodwill represents the access to future trade associated with the operation of the Wink Bingo Business.

	US\$'000
Fair value of net assets acquired	1,810
Goodwill	20,053
Fair value of consideration including transaction costs	21,863
Which is represented by:	
Cash consideration to Daub Limited	17,588
Contingent consideration (included with non-current liabilities) ¹	3,811
Transaction costs	464
Total fair value of consideration	21,863

¹ The Directors estimate that an earn-out payment of US\$3.8 million is likely to become payable in the future based on projected performance during the period from April 2010 to March 2011. The earn-out payment is payable in cash by 31 May 2011.

Had the business been owned for the entire year, the revenue and operating profit for 2009 would have been \$21.0 million and \$3.5 million respectively. Given that the business was acquired on 31 December 2009 there has been no actual contribution to revenue or operating profit during the year.

11 Intangible assets

	Internally generated intangible assets US\$'000	Acquired intangible assets US\$'000	Goodwill US\$'000	Total US\$'000
Cost or valuation				
At 1 January 2008	—	4,314	37,892	42,206
Additions	5,303	—	166	5,469
Acquisitions	—	13	500	513
At 31 December 2008	5,303	4,327	38,558	48,188
Cost or valuation				
Additions	4,910	100	—	5,010
Acquisitions	—	2,415	20,053	22,468
At 31 December 2009	10,213	6,842	58,611	75,666
Amortisation				
At 1 January 2008	—	1,550	—	1,550
Charge for the year	363	1,463	—	1,826
At 31 December 2008	363	3,013	—	3,376
Charge for the year	908	550	—	1,458
At 31 December 2009	1,271	3,563	—	4,834
Carrying amounts				
At 31 December 2009	8,942	3,279	58,611	70,832
At 31 December 2008	4,940	1,314	38,558	44,812
At 31 December 2007	—	2,764	37,892	40,656

Acquired intangible assets and goodwill Online Bingo Business

Intangible assets and goodwill are associated with the cash generating online Bingo business unit acquired during May 2007 of the online Bingo business of Globalcom Limited and the acquisition of the Wink Bingo business in 2009 (see note 10). The intangible assets include customer lists, royalty agreements, trade names and software. These intangibles, except for trade names, are being amortised over their estimated useful economic lives of up to four years. On acquisition, the intangible assets have been identified and valued using third party professional valuers. During the year the Group also acquired an internet domain name which is used in its online Bingo business for a total cash consideration of US\$100,000. With the exception of the US\$500,000 acquisition in the prior year, all of the goodwill relates to the bingo cash generating unit. All of the income streams generated from the bingo business acquisitions have been treated as a single cash generating unit as the risks and rewards associated with those income streams are deemed to be sufficiently similar.

At the year end, the carrying value-in-use was determined by discounting the expected future cash flows of the online Bingo cash generating unit to their present value. The key assumptions for the value-in-use calculations were those regarding discount rate and growth rates of the business. The Directors estimate discount rates that reflect the current market assessment of the time value of money and risks appropriate to the online Bingo business. The discount rate that is considered by the Directors to be appropriate is 12% (2008: 12%) being the Group's specific weighted average cost of capital which also applies to the online Bingo cash generating unit.

In estimating the future cash flows the Group has used conservative estimates in respect of revenues generated and costs incurred. Growth rates of the online Bingo business are based on past experience and projections of future changes in the online gaming market, taking into account external sources of information such as analysts' research reports. These suggest that Bingo is expected to demonstrate year on year growth. The Group has used lower and declining growth rates in estimating the future cash flows conservatively reflecting the current uncertainties about the medium-term global economic outlook. The Directors have used forecasts for the next five years of the expected cash flows, of which the first year is based on the Group's current approved budget.

An annual growth rate of 2% (2008: 4%) was used for 2010, 2% for 2011 (2008: 2%), and nil for 2012–2014 (2008: nil). Following year five, the Group extrapolates cash flows in perpetuity, using an estimated conservative growth rate of 1% (2008: 1%), which is lower than the forecasted long-term growth rate of the UK economy. Marketing costs associated with the Bingo cash generating unit were projected as a fixed percentage of revenues. All other operational costs are forecasted as percentage of revenue, such percentage increased conservatively by 10% (2008: 10%) in each of the five year periods to 2014, over and above the level of growth in revenues.

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

Internet domain name

During the prior year the Group acquired an internet domain name based business which is used to generate traffic into the Group's various web sites. Consideration of \$US513,000 was paid in the prior year.

The Directors have performed a valuation of the intangible asset acquired. The Directors took into account the following factors, amongst other, in determining the fair value of this intangible asset:

- Domain's ranking with search engines
- Traffic ranking as a measure of popularity
- Number of unique visitors to the site
- Number of links pointing to the domain

The Directors concluded that the fair value that should be assigned to the intangible asset is of US\$13,000 whilst the remainder of US\$500,000 is to be recognised as goodwill (given that trade balances acquired were incidental). No further IFRS 3 disclosures have been given on the grounds of materiality.

Yearly impairment review

The Group regularly monitors the carrying value of its acquired intangible assets and goodwill, or when such events or changes in circumstances indicate that these may be impaired. The result of the review, undertaken as at 31 December 2009, was that no impairment needs to be recognised and the carrying value of the acquired intangible assets and goodwill is considered appropriate.

Internally generated intangible assets

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

The Group estimates the useful life of these assets as between 3 and 5 years. These assets are subject to impairment test wherever events or changes in circumstances indicate their carrying amount may not be recoverable on the same basis as described above for acquired intangible assets. At 31 December 2009 no impairment needs to be recognised and the carrying value of internally generated assets is considered appropriate.

12 Property, plant and equipment

	IT equipment	Office furniture and equipment	Motor vehicles	Leasehold improvements	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cost					
At 1 January 2008	18,013	2,436	406	13,609	34,464
Additions	7,502	137	205	1,008	8,852
Disposals	-	(72)	(83)	-	(155)
At 31 December 2008	25,515	2,501	528	14,617	43,161
Additions	7,917	140	-	231	8,288
Disposals	(307)	-	(25)	-	(332)
At 31 December 2009	33,125	2,641	503	14,848	51,117
Accumulated depreciation					
At 1 January 2008	12,505	1,056	203	4,204	17,968
Charge for the year	3,986	232	69	1,217	5,504
Disposals	-	(17)	(34)	-	(51)
At 31 December 2008	16,491	1,271	238	5,421	23,421
Charge for the year	5,485	219	74	1,266	7,044
Disposals	(307)	-	(25)	-	(332)
At 31 December 2009	21,669	1,490	287	6,687	30,133
Depreciated cost					
At 31 December 2009	11,456	1,151	216	8,161	20,984
At 31 December 2008	9,024	1,230	290	9,196	19,740
At 31 December 2007	5,508	1,380	203	9,405	16,496

13 Financial Assets

	31 December 2009 US\$'000	31 December 2008 US\$'000
Opening balance at the beginning of the year	223	654
Adjustment to market price	513	(431)
Disposal of available for sale assets during the year	(736)	-
	—	223

Available-for-sale assets are quoted equity securities, the fair value of which is based on their published market price. All the financial assets were available-for-sale investments.

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 resulting from temporary differences are as follows:

	31 December 2009 US\$'000	31 December 2008 US\$'000
Accrued severance pay	25	37
Provision for share benefit charges	238	174
Provision for vacation	508	370
Provision for convalescence	26	25
	797	606

15 Cash and cash equivalents

	31 December 2009 US\$'000	31 December 2008 US\$'000
Cash and cash equivalents	86,836	97,522
Restricted cash	675	922
	87,511	98,444

Restricted cash primarily relates to deposits held by banks for guarantees.

16 Trade and other receivables

	31 December 2009 US\$'000	31 December 2008 US\$'000
Trade receivables	13,382	9,026
Corporate tax	—	106
Other receivables and prepayments	7,826	9,541
	21,208	18,673

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

17 Share capital

Share capital comprises the following:

	31 December 2009 Number	Authorised 31 December 2008 Number	31 December 2009 US\$'000	31 December 2008 US\$'000
Ordinary Shares of £0.005 each	426,387,500	426,387,500	3,880	3,880
	426,387,500	426,387,500	3,880	3,880

	31 December 2009 Number	Allotted, called up and fully paid 31 December 2008 Number	31 December 2009 US\$'000	31 December 2008 US\$'000
Ordinary Shares of £0.005 each	342,848,261	340,108,035	3,115	3,097
Issue of ordinary shares of £0.005 each	3,685,836	2,740,226	37	18
	346,534,097	342,848,261	3,152	3,115

The following tables include details on issue of ordinary shares of £0.005 each as part of the Group's employee share option plan (see note 20) during 2009 and 2008:

Issued during 2009	Ordinary shares of £0.005 each
1 January 2009	800,741
15 January 2009	50,000
8 March 2009	427,161
17 March 2009	81,899
31 March 2009	100,000
14 April 2009	160,000
30 April 2009	198,925
21 May 2009	51,659
1 June 2009	122,318
10 June 2009	84,809
18 June 2009	475,941
14 July 2009	141,972
3 September 2009	115,893
7 September 2009	124,910
10 September 2009	80,023
14 September 2009	143,957
25 September 2009	3,449
4 October 2009	466,428
19 October 2009	55,751
Issued during 2008	Ordinary shares of £0.005 each
16 March 2008	105,503
14 April 2008	635,621
30 April 2008	320,590
30 May 2008	230,671
18 June 2008	475,941
10 September 2008	184,672
15 September 2008	152,004

29 September 2008	5,000
6 October 2008	527,535
20 October 2008	73,855

During 2009, the Company did not issue shares (2008: 28,834) in respect of employees' exercising of market value options.

Shares issued are converted into US\$ at the exchange rate prevailing on the date of issue. The issued and fully paid share capital of the Group amounts to US\$3,217,000 (2008: US\$3,180,000) and is split into 346,534,097 (2008: 342,848,261) ordinary shares. The share capital in UK sterling (GBP) is £1,732,670 (2008: £1,714,241) and translates at an average exchange rate of US\$1.57(2008: \$1.85) to GBP.

18 Trade and other payables

	31 December 2009 US\$'000	31 December 2008 US\$'000
Trade payables	5,239	6,107
Corporate taxes	210	—
Other payables and accrued expenses	33,402	31,747
	38,851	37,854

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

19 Investments in significant subsidiaries

Name	Country of Incorporation	Percentage of equity interest 2009 %	Percentage of equity interest 2008 %	Nature of business
Intersafe Global Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises Limited	Antigua	100	100	Customer call centre operator
Virtual Services Limited	BVI	100	100	Advertising
Virtual Holdings Management Services (Gibraltar) Limited	Gibraltar	100	100	Operates Group headquarters
Intersafe Global (Europe) Limited	Gibraltar	100	100	Payment processor
Cassava Enterprises (Gibraltar) Limited	Gibraltar	100	100	Gaming website operator
Virtual Marketing Services (UK) Limited	UK	100	100	Advertising
Cassava Sports Limited	Gibraltar	100	100	Domain site owner through which a third party operates a betting exchange
Active Media Limited	BVI	100	100	Customer call centre employer
Virtual Marketing Services (Gibraltar) Limited	Gibraltar	100	100	Marketing acquisition
Dixie Operation Limited	Antigua	100	100	Customer call centre operator
Random Logic Limited	Israel	100	100	Research, development and marketing
Brigend Limited	Gibraltar	100	100	Bingo business operator
ACTeCASH Limited ¹	Gibraltar	—	—	e-Wallet service
Fordart Limited	Gibraltar	100	100	General commercial business activities

¹ ACTeCASH is managed as a unit of the Group and utilises staff employed by the Group. In accordance with IAS 27 'Consolidated and Separate Financial Statements', the Group is deemed to have control of ACTeCASH by virtue of the fact it has the power to govern the financial and operating policies of this company and derives economic benefit from doing so. ACTeCASH is owned by the ACTeCASH and SPO ventures Trust and shares are held for the benefit of the Group. As such, ACTeCASH has been consolidated as part of the Group.

20 Share-based payment

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

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

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

immediately on IPO and thereafter:

Share options granted

	31 December 2009 Number	31 December 2008 Number
Outstanding at the beginning of the year	5,422,027	5,088,447
Market value options granted during the year	2,095,864	1,871,423
Market value options lapsed during the year	(1,490,102)	(1,509,009)
Exercised during the year	—	(28,834)
Outstanding at the end of the year ^{1,2}	6,027,789	5,422,027
Weighted average exercise price for options outstanding at the end of the year	£1.38	£1.50
Weighted average exercise price for options lapsed during the year	£1.36	£1.45

1 Of the total number of options outstanding at the end of the year, 2,450,188 had vested and were exercisable at the end of the year (2008: 1,843,545).

2 Range of exercise price for options outstanding at the end of the year is £1.02–£1.80 (2008: £1.14–£1.80).

Shares granted

	31 December 2009 Number	31 December 2008 Number
Outstanding at the beginning of the year	9,786,426	9,802,660
Shares granted – future vesting	2,429,049	4,258,381
Lapsed future vesting shares	(1,346,710)	(1,563,223)
Shares issued during the year	(3,685,836)	(2,711,392)
Outstanding at the end of the year	7,182,929	9,786,426

The following information is relevant in the determination of the fair value of options granted during the year under the equity-settled 888 All-Employee Share Plan:

Valuation information

	2009	2008
Option pricing model used	Monte Carlo	Monte Carlo
Weighted average share price at grant date	£1.11	£1.47
Weighted exercise price	£1.11	£1.47
Risk-free interest rate range	3.99–5.48%	4.52–4.66%
Expected volatility of the price of the underlying share	55–63%	47–52%

Exercise period of the market value options is from vesting until expiry of 10 years after grant date.

The Monte Carlo model takes into account all the minimum requirements set by IFRS 2 such as: the exercise price of the option, the current price of the underlying share, the expected volatility of the price of the underlying share, the expected dividend on the underlying share, the expected term of the option both contractual term and based on employees' expected behaviour and the risk-free interest rate for the expected term of the option.

In accordance with International Financial Reporting Standards a charge to the income statement in respect of any shares or options granted under the above schemes will be recognised and spread over the vesting period of the shares or options based on the fair value of the shares or options at the date at grant, adjusted for changes in vesting conditions at each balance sheet date. This charge has no cash impact.

Share benefit charges

	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
Charges in respect of share and option awards granted this year	1,146	2,176
Charges in respect of share and option awards granted in previous years	5,866	6,215
Charge for the year	7,012	8,391

21 Related party transactions

During the year the Group paid US\$258,506 (2008: US\$296,176) in respect of rent and office expenses to companies of which Mr John Anderson is a Director. At 31 December 2009 the amount owed to those companies was US\$nil (2008: US\$nil).

Remuneration paid to the Directors in the year totalled US\$2,306,000 (2008: US\$3,079,000).

Share benefit charge in respect of awards granted to the Directors totalled US\$1,919,127 (2008: US\$1,699,587).

22 Commitments

Lease commitments

Future minimum lease commitments under property operating leases for the year ended 31 December 2009 are as follows:

Leases expiring within	Year ended 31 December 2009 US\$'000	Year ended 31 December 2008 US\$'000
One year	2,463	1,986
Two to five years	8,104	7,010
	10,567	8,996

The amount paid in the year was US\$2,646,000 (2008: US\$2,801,000).

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

23 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
- Available-for-sale financial assets
- Trade and other payables
- Liabilities to customers
- Contingent consideration on acquisition

Detailed analysis of these financial instruments is as follows:

Financial assets	31 December 2009 US\$'000	31 December 2008 US\$'000
Trade receivables	13,382	9,026
Other receivables	7,412	5,897
Cash and cash equivalents	86,836	97,522
Restricted cash	675	922
Available-for-sale financial asset	—	223
	108,305	113,590

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

Financial liabilities

	31 December 2009	31 December 2008
	US\$'000	US\$'000
Trade payables	5,239	6,107
Other payables and accrued expenses	33,612	31,747
Contingent Consideration	3,811	—
Liabilities to customers	37,570	33,284
	80,232	71,138

In accordance with IAS 39, all of the above financial liabilities are held at amortised cost.

At 31 December 2009 and 2008, the fair value and the book value of the Group's financial assets and liabilities were materially the same.

Capital

The capital employed by the Group is composed of equity attributable to shareholders. The primary objective of the Group is maximizing shareholders' value, which, from the capital perspective, is achieved by maintaining the capital structure most suited to the Group's size, strategy, and underlying business risk. Other than disclosed elsewhere in note 24, there are no demands or restrictions on the Group's capital.

The main financial risk areas are as follows:

Credit risk

Trade receivables

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

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

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

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

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 a provision based on analysis of past transactions. This provision is netted off from the trade receivables balance and at 31 December 2009 was \$1,586,000 (2008 :\$1,070,000).

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

Cash and cash equivalents

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

Cash settlement proceeds from PSPs, as described above, are paid into bank accounts controlled by the Treasury function in Gibraltar. The Group segregates funds due to customers and holds these funds in separate bank accounts. These funds are not used to fund activity other than that directly related to customers.

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

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

Restricted cash

Restricted cash is mainly attributed to a deposit in respect of the Group's obligation with the developer of the offices of its subsidiary in Israel.

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

	31 December 2009		31 December 2008	
	Carrying value US\$'000	Maximum exposure US\$'000	Carrying value US\$'000	Maximum exposure US\$'000
Trade receivables	13,382	13,382	9,026	9,026
Other receivables	7,412	7,412	5,897	5,897
Cash and cash equivalents	86,836	86,836	97,522	97,522
Restricted cash	675	675	922	922
Available-for-sale financial asset	—	—	223	223
	108,305	108,305	113,590	113,590

Liquidity risk

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

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

In the case of the Group's liability to its customers, the Group maintains these deposits in separate bank accounts which are not used for its day to day operations.

The Group has ensured that cash earmarked to fund its final dividend payment for 2009, is in place.

The Group expects to have sufficient liquidity to meet all of its financial obligations under all reasonably expected circumstances and will not need to resort to any borrowing.

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

	31 December 2009				Total US\$'000
	Trade payables US\$'000	Other payables ¹ US\$'000	Deferred acquisition liability US\$'000	Liabilities to Customers US\$'000	
On demand	2,002	4,592	—	37,570	44,164
In 3 months	3,237	25,774	—	—	29,011
Between 3 months and 1 year	—	3,017	—	—	3,017
More than 1 year	—	229	3,811	—	4,040
	5,239	33,612	3,811	37,570	80,232

¹ Includes other payables, accrued expenses and provisions.

	31 December 2008				Total US\$'000
	Trade payables US\$'000	Other payables ¹ US\$'000	Deferred acquisition liability US\$'000	Liabilities to Customers US\$'000	
On demand	2,614	7,255	—	33,284	43,153
In 3 months	3,493	21,955	—	—	25,448
Between 3 months and 1 year	—	2,261	—	—	2,261
More than 1 year	—	276	—	—	276
	6,107	31,747	—	33,284	71,138

¹ Includes other payables, accrued expenses and provisions.

Market risk**Interest rate risk**

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

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

Downside interest rate risk is minimal as the Group has no borrowings. Given current low US\$ interest rate a 0.5% downward movement in bank interest rates would not have a significant impact on finance income for the year. However, a 0.5% increase in interest rates would, based on the year end deposits, increase annual profits by US\$400,000.

Currency risk

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

- Mismatch between Balance sheet Liabilities to customers which is predominately denominated in US\$ and the net receipts from customers which are settled in the currency of the customer's choice, of which sterling (GBP) and euros (EUR) are significant.
- Mismatch between reported revenue which is mainly generated in USD (the Group's functional and reporting currency) and significant portion of deposits which are settled in local currencies.
- Expenses, the majority of which are denominated in foreign currencies including sterling (GBP), the euro (EUR) and the New Israeli Shekel (ILS).

The Group continually monitors the foreign currency risk and takes steps, where practical, to ensure that the net exposure is kept to an acceptable level, inter alia by using foreign exchange forward contracts designed to fix the economic impact of known liabilities. At 31 December 2009 and 31 December 2008, there were no outstanding forward contracts. There were no significant fair value movements on these contracts during the year.

The tables below detail the net financial position by currency at 31 December 2009 and 2008:

	31 December 2009					
	GBP	EUR	ILS	USD	Other	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and cash equivalent	11,753	4,803	7,636	62,195	1,124	87,511
Receivables	7,577	1,541	665	9,395	2,030	21,208
Net monetary assets	19,330	6,344	8,301	71,590	3,154	108,719
Payables	(23,969)	(2,977)	(9,868)	(42,924)	(494)	(80,232)
Net monetary liabilities	(23,969)	(2,977)	(9,868)	(42,924)	(494)	(80,232)
Net financial position	(4,639)	3,367	(1,567)	28,666	2,660	28,487

	31 December 2008					
	GBP	EUR	ILS	USD	Other	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and cash equivalent	8,755	1,891	8,254	78,837	707	98,444
Receivables	4,432	2,703	717	10,145	793	18,790
Net monetary assets	13,187	4,594	8,971	88,982	1,500	117,234
Payables	(15,726)	(3,777)	(11,308)	(40,270)	(57)	(71,138)
Net monetary liabilities	(15,726)	(3,777)	(11,308)	(40,270)	(57)	(71,138)
Net financial position	(2,539)	817	(2,337)	48,712	1,443	46,096

During 2008 the Board authorised the creation of a dedicated treasury function within the Finance division which was set up. Its responsibility is to manage the cash resources of the Group and minimise the various exposures associated with holding and investing these funds.

Sensitivity analysis

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

	Year ended 31 December 2009		
	GBP	EUR	ILS
10% Strengthening	464	(336)	156
10% Weakening	(464)	336	(156)

	Year ended 31 December 2008		
	GBP	EUR	ILS
10% Strengthening	237	(82)	191
10% Weakening	(237)	82	(191)

24 Contingent liabilities and regulatory issues

(a) As part of the Board's ongoing regulatory compliance and operational risk assessment process, the Board continues to monitor legal and regulatory developments, and their potential impact on the business, and continues to take appropriate advice in respect of these developments.

(b) Given the nature of the legal and regulatory landscape of the industry, from time to time the Group has received notices, communications and legal actions from a small number of regulatory authorities and other parties in respect of its activities. The Group has taken legal advice as to the manner in which it should respond and the likelihood of success of

such actions. Based on this advice and the nature of the actions, the Board is unable to quantify reliably any material outflow of funds that may result, if any. Accordingly, no provisions have been made.

(c) Following the enactment of the UIGEA on 13 October 2006, the Group stopped taking any deposits from customers in the US and barred such customers from wagering real money on all of the Group's sites. Notwithstanding this, there remains a residual risk of an adverse impact arising from the Group having had customers in the US prior to the enactment of the UIGEA. The Board is not able to identify reliably at this stage what, if any, liability may arise and accordingly, no provision has been made. On 5 June 2007 the Group announced that it has initiated preliminary discussions with the United States Attorney's Office for the Southern District of New York. It is too early to assess any particular outcome of these discussions.