

# Party GAMING

Annual report 2005



**Online gaming...**

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**...we're number one.**

**We are already the world's number one in online poker and online casino. Being the leader in all of our games is a core objective.**

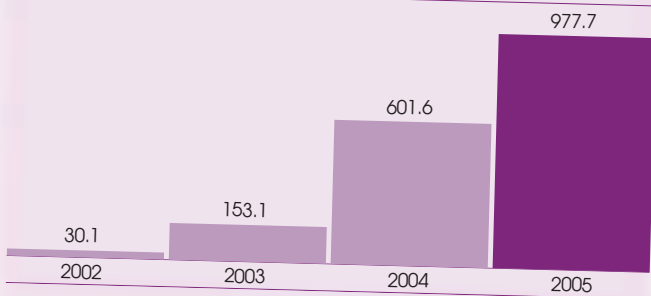
**In 2005, our real money customers wagered over \$47.6 billion with us. They deposited over \$2.7 billion and withdrew over \$1.6 billion.**

**Yes, the figures are huge. They're dwarfed, however, by another key element of our business:**

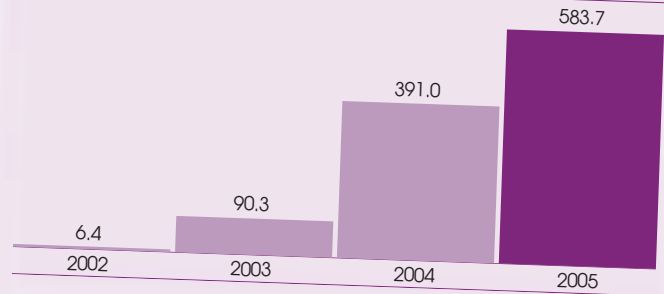
**Our potential.**

# Group at a glance

## Revenue (\$million)



## Clean EBITDA\* (\$million)



### Revenue

# +63%

Revenue increased strongly, driven by continued growth in Poker as well as a strong performance in Casino following the introduction of blackjack in the fourth quarter of 2005.



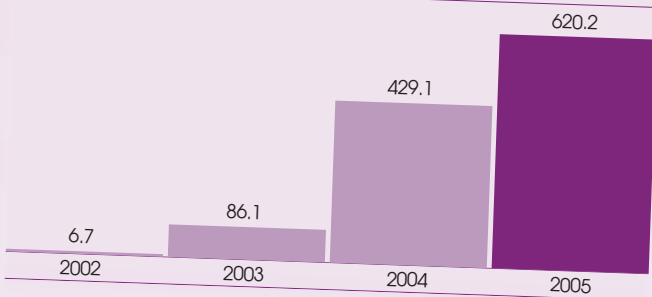
### Clean EBITDA\*

# +49%

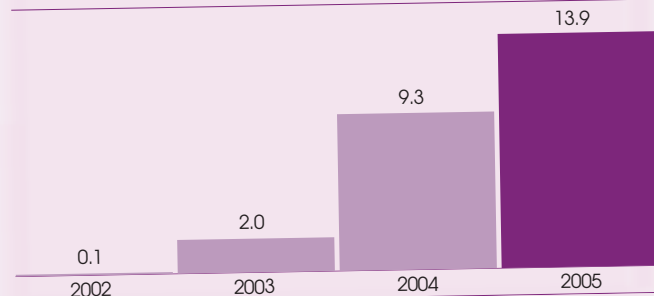
Clean EBITDA benefited from strong revenue growth, offset to a degree by rising marketing costs and additional costs associated with the transformation to a listed public company.



## Operating cash flow (\$million)



## Clean EPS\* (cents)



### Operating cash flow

# +45%

Strong profit growth and continued careful management of working capital boosted operating cash flow to record levels in 2005.



### Clean EPS\*

# +49%

Strong profit growth and a steady tax charge lifted Clean EPS to 13.9 cents.

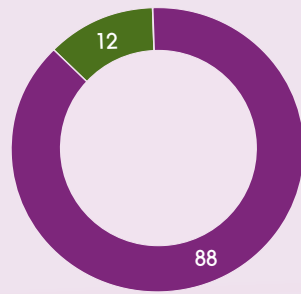


\*EBITDA/EPS before IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins as well as non-cash charges relating to share options that are to be satisfied by existing Shares that were effectively gifted to the Employee Trust by the Principal Shareholders.

# Our business

## 2005 - revenue by business segment (%)

- Poker
- Casino



Established in 1997, the Group has grown to become the world's largest online gaming company. Having listed on the London Stock Exchange in June 2005 PartyGaming Plc is a member of the FTSE 100 Index. The Group's main areas of business are currently online poker and casino. In 2006 the Group will launch two new games, both of which will be added to its Party-branded integrated systems platform.

### Poker

On average, PartyPoker handles around 32 hands of real money poker per second, every hour, every day, every month. Over \$45 billion was wagered on the site in 2005, or \$1,454 per second. The Group's secondary poker brands include EmpirePoker, IntertopsPoker, MultiPoker and PokerNOW.

### Market leader

Launched in 2001, PartyPoker grew rapidly to become the clear leader in online poker, a position it has held since 2003. In 2005, our poker business generated average daily revenue of \$2.4 million.



### Casino

The Group's online casino business is the largest of its kind in terms of revenue and includes PartyCasino, Starluck Casino, PartyBingo and PlanetLuck Casino.

Our sites offer a broad variety of casino games including blackjack, video poker, slots and roulette.

### Market leader

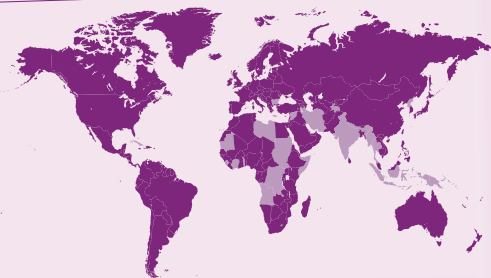
Started in 1997, our online casino operations have grown to become the largest in the world. Following the launch of blackjack in the fourth quarter of 2005, our casino business generated average daily revenue of over \$0.8 million.



# Our customers

## Where our customers are based (based on registered players)

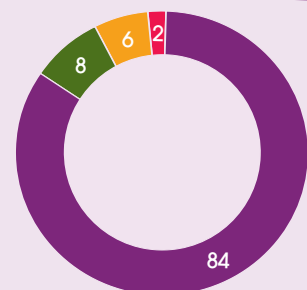
- Countries where we have players



We have over 12 million registered players throughout the world to whom we offer a wide variety of online games.

## 2005 - revenue by geography (%)

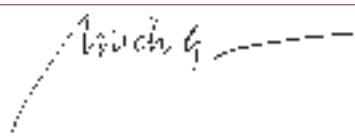
- USA
- Europe
- Canada
- RoW



## Chairman's statement

**A company with big  
ideas, substantial  
cash flow and huge  
potential.**

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**Michael Jackson**  
**Chairman**

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This annual report and accounts for the year ended 31 December 2005 is PartyGaming Plc's first. It has been a year of great progress and one in which several notable milestones were reached. During the year for example, the Group took wagers of more than \$47 billion, dealt over 1 billion hands of real money poker and generated revenues of close to \$1 billion. But, as I have learned during my short tenure as Chairman since joining the Company in May 2005, this is nothing new for PartyGaming. This business moves at a rapid pace, constantly adapting to changes and opportunities within the marketplace.

The listing of PartyGaming's shares on the London Stock Exchange in June 2005 was one of the largest IPOs to take place in London for five years. Little more than two months after flotation, the Group was included in the FTSE 100 Index of leading companies by market value and is the only pure internet company in the index.

Last year, revenues increased by 63%, Clean EBITDA climbed by 49% and Clean Earnings Per Share rose by 49%. This performance was delivered by a highly talented and motivated workforce, based in Gibraltar, Hyderabad and London.

### Our people

The Group's 1,300 employees are focused on making 2006 another year of major progress. They have already raised the bar considerably by launching our fully integrated, Party-branded platform, including PartyPoker and PartyCasino, in the first six weeks of 2006.

PartyGaming has undergone a major transformation from being a small, entrepreneurial enterprise in 1997 to becoming today's world leader in online gaming. Customers in more than 190 countries and daily stakes wagered of more than \$130 million are just two statistics that show how big this business has become. The Group has risen to the challenges created by such rapid development and has retained the core attributes that were critical to its early success.

At the heart of this has been a determination to recruit and retain the very best personnel which has been a consistent feature from the beginning. Finding the right people with the best skills and attitude has been central to PartyGaming's continued success. This philosophy has been extended to the formation of the Board of Directors and I am delighted to have fellow directors, all of whom bring a wealth of experience from a variety of different fields.

We are saddened to be saying goodbye to Richard Segal, Chief Executive Officer, on or before 1 June 2006. Richard was instrumental in leading PartyGaming through its successful IPO and guiding it on its current course, one that has already delivered strong financial results. Whilst Richard will be sorely missed, the Board and the rest of his colleagues respect his decision not to relocate his family to Gibraltar and we wish him well for the future.

We are currently in the process of recruiting a new Chief Executive Officer and in addition, a further independent Non-Executive Director.

### Regulation

PartyGaming's operations are licensed and regulated by the Government of Gibraltar. The regulatory environment for online gaming around the world is constantly changing with new rules and regulations being considered in a number of territories where we attract players. This is not surprising given that most laws and regulations were not written with the internet in mind. The Group continues to monitor closely developments regarding any proposed regulatory changes around the globe and remains committed to promoting a uniform international regulatory framework for all online gaming.

### Responsible gaming

Responsible gaming is another area that the Group takes very seriously, with PartyGaming being one of only a handful of online gaming operators to have been certificated by GamCare. In this regard, the Group continues to strive to improve the processes and systems in place to protect underage and other vulnerable players.

### Dividend

Reflecting the Group's strong financial performance in 2005, the Board has recommended the payment of a final dividend of 5.25 cents per share that, if approved by shareholders at the AGM on 4 May 2006, will be paid on 19 May 2006.

### Outlook

The financial results for 2005 were very encouraging and provide the Group with a solid platform on which to build in 2006. While the online gaming sector remains competitive, the Group's scale, market position and brand strength combine to provide a solid foundation from which we can consolidate and extend our position in each of our core products and geographic territories. 2006 has started strongly and your Board remains excited about the Group's prospects.



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**Final dividend** The Group has recommended its first dividend as a public company, which will be the final dividend for the year ended 2005, of 5.25 cents per share.

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# Chief Executive's review

## Introduction

I am delighted to welcome you to the Group's first annual report since becoming a listed company in June 2005. In the following pages we have given you an overview of our business and the markets in which we operate, the key challenges we face and the resources and strategies that we have in place to not only meet those challenges, but to overcome them and deliver attractive financial returns for our shareholders.

PartyGaming is a dynamic, vibrant and exciting business, one which is probably unique in its scope, breadth and financial performance. We hope this annual report brings home to you the scale of our achievements to date, with a focus on the events of 2005. But this is just the beginning of our journey. Yes, we are a gaming company but more than that we are a highly professional and commercially driven enterprise. Business is our lifeblood, it is what drives every single one of our employees, all of whom have a stake in the Group's future performance. We have the skills, we have the resources and most importantly we have the capability to fulfil our objective of becoming the world's number one gaming company.

My decision to leave PartyGaming has been a difficult one given the success already achieved and the exciting prospects ahead. My gratitude and best wishes go to the first class team at PartyGaming for the successes and achievements to date, as well as for their preparations for the even greater things to come.



**Richard Segal**  
**Chief Executive Officer**





**Our players enjoy a flutter. Some trust to luck, others employ their well-honed skills. Either way, they play for entertainment.**

**Over the next few pages we have sought to communicate the sheer scale of our business, but at the same time have some fun. We hope you enjoy it.**

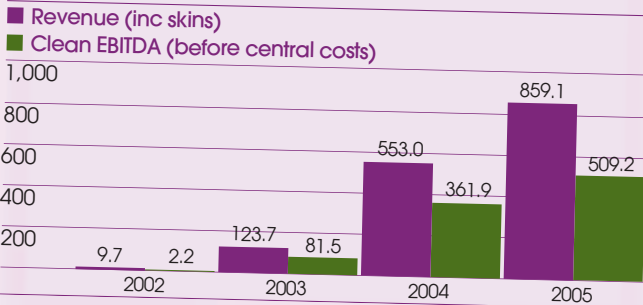
**Game on!**

# Our business

## Products and brands

By any measure PartyGaming has been an extraordinary success story. From small beginnings back in 1997, the Group has become the world's largest online gaming company. Currently we have two main business segments: poker and casino. Our poker operations are dominated by PartyPoker.com which is the world's number one poker room. Following the launch of blackjack on PartyPoker in October 2005, our casino business is now the world's number one online casino. We plan to add more games to our portfolio and are on track to launch two new games in 2006. We have a simple philosophy: we aim to be number one in everything that we do and have made a fantastic start by being number one in poker and now number one in casino.

### Poker revenue and Clean EBITDA (\$million)



### Poker

Poker is our largest business segment representing 88% of Group revenues in 2005 and 87% of Clean EBITDA. Our poker business was launched in August 2001 and its growth has been spectacular – having generated some \$9.7 million of revenue in 2002, its first full year, by 2004 this had reached \$553.0 million. In 2005 this grew again by 55% to \$859.1 million. Our poker business is the clear leader – a position it has held for a number of years. In addition to the real money site, players can also play for free via a poker school on PartyPoker.com or on a separate site, PartyPoker.net.

So how does it all work?

The Group essentially acts as the host for customers wanting to play poker against each other and as such takes no principal risk but simply charges players a fee, or 'rake', for every hand of real money poker played (where the pot is greater than \$1 and where the hand reaches the flop). Players can choose to compete against each other in online tournaments or on individual tables, known as 'ring games'.

### Ring games

Historically, ring games have generated between 70% and 80% of the Group's poker revenues. In 2005 ring games represented 71% of gross poker revenues and players have a wide variety of different types of poker games they can play including Texas Hold 'Em (the most popular game representing 89% of total poker revenues in 2005) as well as Omaha High and 7-card stud. All are slight variations on the core game of poker and players play against each other for the total amount wagered for any particular hand (the 'pot'), less the rake charged by PartyPoker for hosting the game. The amount of rake charged varies depending on the pot size, but is capped at a maximum of \$3 (or \$5 for the very high limit tables).

### Tournaments

Tournaments work slightly differently. Rather than playing with money as in ring games, players buy chips in a tournament which they then use to play against other players. The player with the most chips at the end of the tournament is the winner and receives a prize, normally in cash. We earn revenue by charging a commission for organising the tournament and this varies depending on the size of the 'buy-in' and the number of players participating in the tournament. On PartyPoker, players can choose from a wide variety of different tournaments offering different prize levels for single-table tournaments as well as multi-table tournaments.



**In 2005 over 1 billion hands of real money poker were played on PartyPoker, with a total amount wagered of over \$45 billion or \$125 million per day. The average pot size in 2005 was \$40.0 (2004: \$38.6).**

# Full house?



**Yes - You've got it! You've also revealed that we're more than three times bigger than our nearest competitor.**

**Market share**

The Group had approximately 41% market share of the global online poker segment\*, as measured by ring game revenue in December 2005.



# Our business continued

## Casino

Although not as large as our poker business, the Group's online casino operations are a substantial business in their own right and represented 12% of Group revenues and 13% of Clean EBITDA in 2005. Since being launched in 1997, the casino business has also grown strongly and following the launch of blackjack in October 2005, is now the world's largest online casino†.

Now trading under two main brands, PartyCasino and Starluck Casino, the Group offers a variety of traditional casino games such as blackjack, roulette, keno and video poker as well as a variety of different slot machines. As with poker, players can also choose to play for free rather than real money. The key difference between the casino and poker business is that in casino, players are betting against the house and the outcome is determined by randomly generated results. In poker, customers are playing against each other and paying a fee to the house for hosting the game.

In addition to casino, the Group also operates PartyBingo.com which offers a variety of online bingo games as well as five and three-reel slots, Keno, and video poker.

Until the fourth quarter of 2005, the casino business had been driven by slots which in 2004 represented 62% of total casino revenues. Following the launch of blackjack on PartyPoker in October 2005, the mix of revenues is now dominated by blackjack which has proved particularly popular with the Group's poker players.

## Customer bonuses

Under International Financial Reporting Standards, certain customer bonuses and reward points are required to be netted from revenue rather than treated as an expense. In poker, customer bonuses and PartyPoints (earned through a loyalty programme), as a proportion of gross poker revenue, have increased over time and in 2005 represented 8.1% of gross poker revenue (2004: 5.2%). Bonus rates in casino tend to be much higher than in poker reflecting higher player yields and speed of play.

## Skins

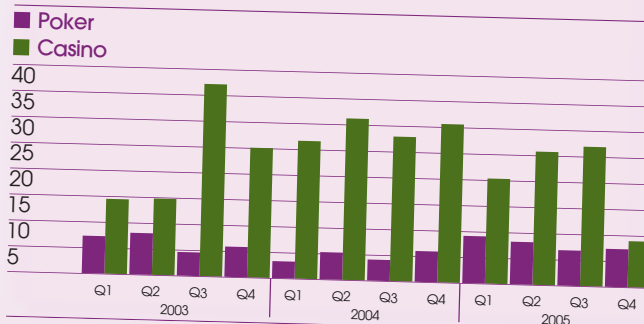
Historically, in addition to the Group's owned poker and casino sites, PartyGaming has generated additional revenue by providing so-called 'white-label' services or 'skins' to a limited number of third parties. Typically, the Group provided operators of skins with access to the relevant gaming system, certain customer services, payment processing, IT support and management reports, with the third party providing its own 'front end' and marketing arrangements. Skin revenue represented the commission retained by PartyGaming for providing these services and reached a total of \$28.7 million in 2005, or 3% of Group revenues.

During the final quarter of 2005, the Group saw the number of third party skins in poker reduce from four to just one following the acquisition by the Group of one skin (MultiPoker), obtaining effective control of a second skin (IntertopsPoker) and the departure of a third (CoralEurobet) to a new platform. Since the year end, the Group has also acquired the business and assets of EmpirePoker, its last remaining poker skin. As a result, skin revenue going forward will be substantially lower than that seen in 2005 as revenue from these sites is now included within the Group's poker revenue.

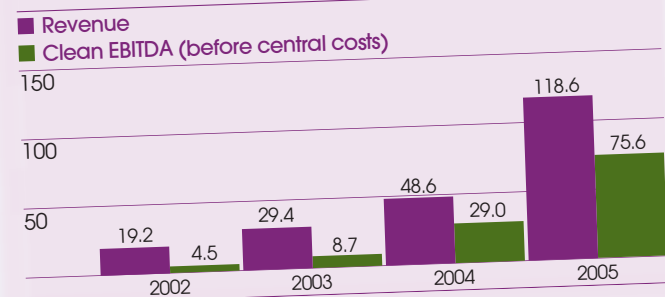
## Integrated platform

In February 2006 the Group launched its fully integrated, Party-branded systems platform comprising PartyPoker and PartyCasino. Using a single account, customers can switch easily between poker and casino games, all using a single log-in and only having to deposit money once into their PartyAccount. As new games are added, so players will be able to enjoy an even greater variety of games online, all supported by PartyGaming's 24/7 technical support and customer service.

**Customer bonus and PartyPoints as a % of gross poker/casino revenue**



**Casino revenue and Clean EBITDA (\$million)**



# Our business continued

## Customers

The Group has one of the largest online gaming customer databases with over 12.2 million registered players of which 1.8 million were active in 2005, i.e. generated revenue for the Group in 2005. Poker represents the majority of players with 1.6 million registered real money players, of which 1.3 million were active in 2005.

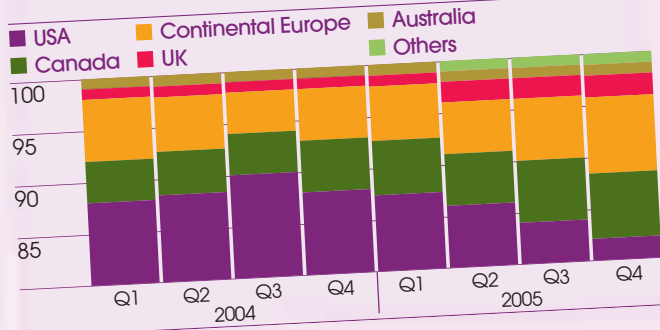
### Geographic split

The majority of the Group's customers reside in the United States although as a percentage of both active customers and new player sign-ups, this has been declining steadily over the past year.

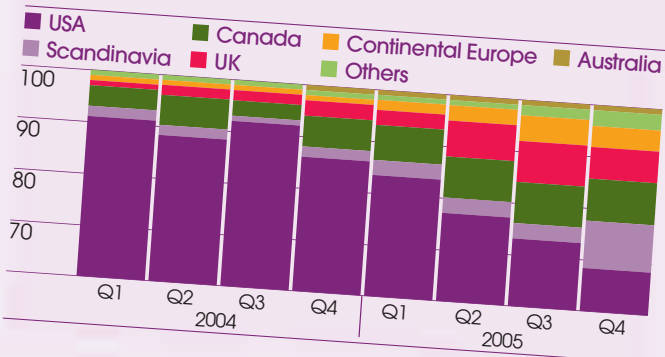
Customer dynamics vary depending upon the game being played. In poker, on average, customers tend to play between eight and ten times each month, playing approximately 21 hands of poker and playing for around 18 minutes each time they play. By comparison in casino, players on average play between three and five times each month.

Two of the most important metrics for both poker and casino are (i) the level of player activity, measured by the number of active player days (calculated as the daily average number of active players in a given period, multiplied by the number of days in the period) and (ii) the spend per customer, measured as the yield per active player day (calculated as the revenue in the period divided by the number of active player days in the period). It should be noted that all of the key performance indicators provided by the Group exclude skins.

**Geographic split of total revenues**  
(%)



**Poker - new player sign-ups by geography**  
(%)



### A hand of poker typically lasts for approximately 52 seconds –

at peak times on PartyPoker, more than 7,000 real money hands are being played in any given minute.



# Winning streak?



**Absolutely!**  
**Our blackjack players**  
**win over \$46 million a day.**

**Blackjack**

Since its launch in October 2005, blackjack has proved hugely popular with average daily wagers of over \$47 million and player winnings of over \$46 million, the difference being the Group's gross daily blackjack revenue.





# Our business continued

**In 2005, the Group's 1.3 million active poker customers were mostly male (90%) with the largest age group being the 25 - 34 age group which represented approximately 38% of the total.**

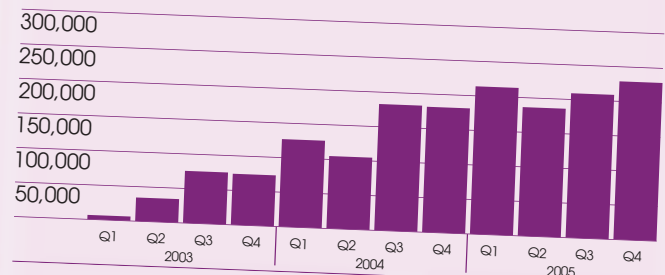
## Poker - player activity

As online poker is played against other players rather than against the house, player liquidity (i.e. having plenty of other players to play against) is critical for long-term success. Historically, whilst the Group has continued to grow the number of active real money players each quarter, the rate of growth in registered players tends to fluctuate throughout the calendar year reflecting the impact of marketing campaigns as well as the inherent seasonality of the business. Both factors in turn influence the overall level of player activity.

PartyPoker began to experience a substantial uplift in real money sign-ups in 2003. Management believe that this was due in part to the Group's decision to begin advertising on television in the US, as well as an increase in the popularity of poker generally. A number of TV campaigns were conducted by the Group at the same time as the airing of a number of major poker tournaments on television in the US and this increased the awareness of poker as an exciting form of entertainment for adults. The impact on the number of real money sign-ups added each month was dramatic.

Since then, the number of new real money sign-ups has continued to increase over time (although there are seasonal fluctuations affecting quarterly growth rates). The Group hit an all time high of 82,005 new real money sign-ups for poker in one calendar month in December 2005. The level of real money sign-ups continues to fluctuate with the level of advertising conducted by the Group and also by coverage of major poker tournaments on television.

### Poker - real money sign-ups



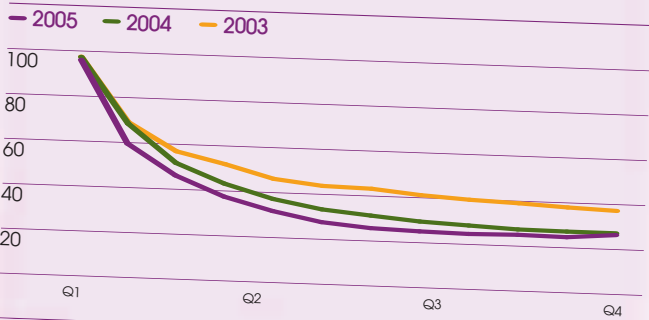
# Our business continued

As at 31 December 2005, on average across all players, approximately 33% of new players who sign-up are expected to still be active after six months and around 29% after 12 months. Thereafter, the attrition rates are relatively low and after 48 months 23% remain active. The trend since 2003 has been that the rates of attrition have continued to increase slightly over time. Management believe that this is due to the increasing proportion of new players that are more recreational in nature and for whom online poker is not their main leisure activity.

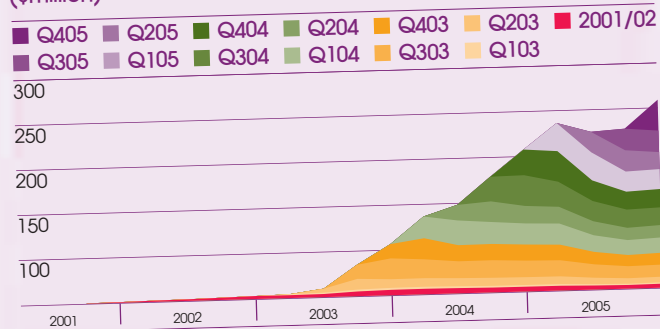
Despite this trend, the number of unique active players and the overall level of player activity has continued to increase every quarter since the launch of PartyPoker.com in August 2001. In addition, while the number of players who originally signed-up in a particular period and who continue to play declines over time, the total revenue generated by that group of players remains relatively stable. In other words, players that continue to play over time increase their spend, thereby mitigating the impact of those players that leave the site or become inactive. The result is that each group of poker players that sign-up adds an incremental layer of revenue. On top of this will be any additional revenue generated by the cross-selling of other games.

In 2005, the Group invested in a data mining tool that allows the Group to provide individual players with targeted promotions and incentives, thereby increasing the effectiveness of overall retention spend.

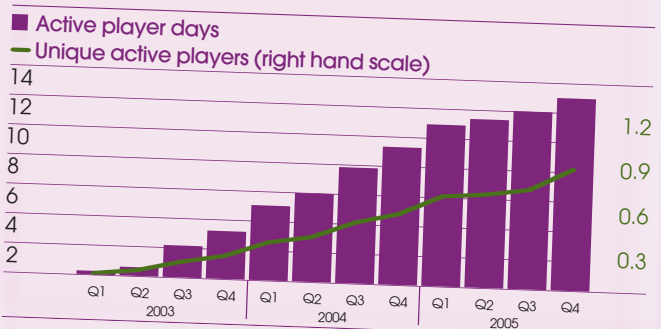
## Poker - player retention (%)



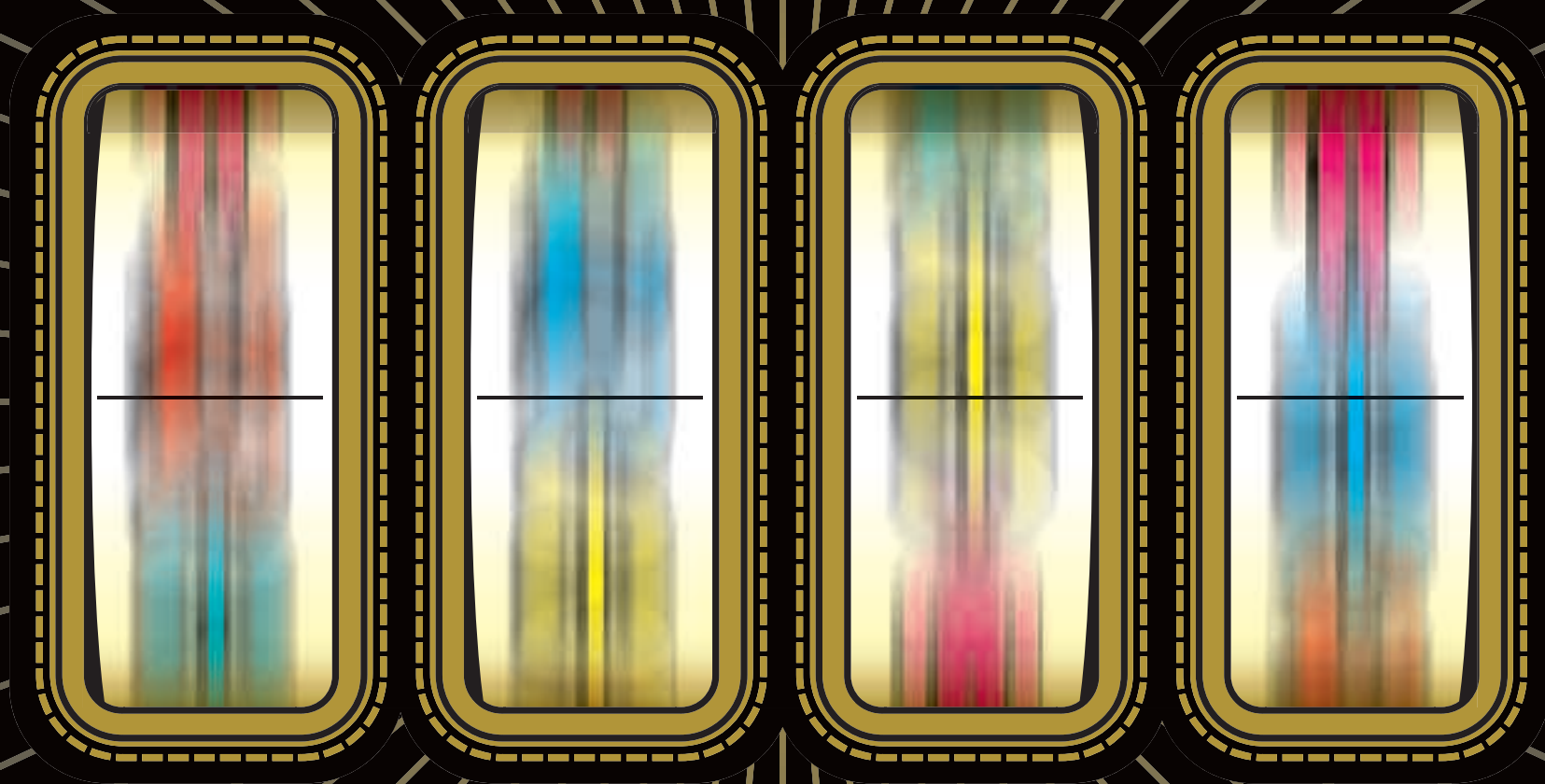
## Gross poker revenue by quarter of sign-up (\$million)



## Poker - active player days (million)



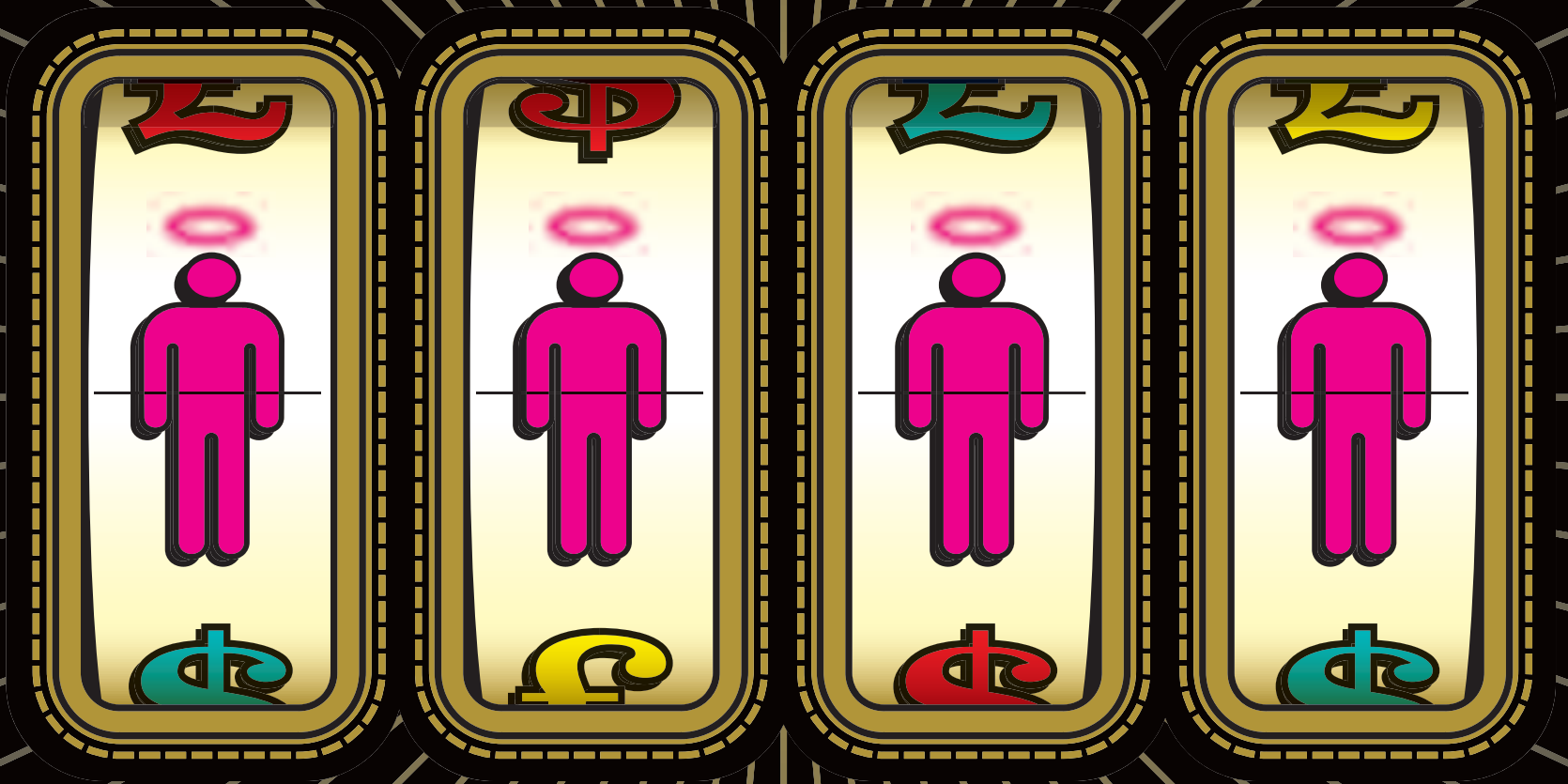
Wait for it...



**...wow!  
Each one of our staff  
generated \$429,000 profit\*  
in 2005.**

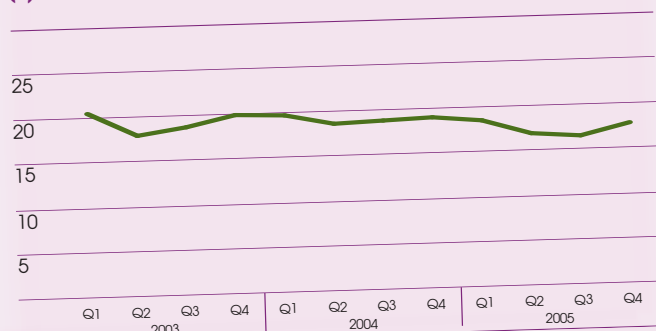
**Employees**

Every single one of our 1,359 employees contributes to the Group's success. As at 31 December 2005 we had 190 people in Gibraltar, 1,079 in India and 90 in the UK.



# Our business continued

**Poker - yield per active player day**  
(\$)



## Poker - yield

While the level of player activity is important in driving revenues, so is the yield generated per player every time they are active.

As with many other online businesses, the first and fourth quarters are typically strong with the second quarter being the weakest. As daylight hours increase and the weather in the Group's main markets improves, people typically spend less time online. The third quarter is usually better than the second but not as strong as the first or fourth quarters. As well as affecting new player sign-ups and player activity, seasonality also affects yield per active player day.

## Casino - player activity

As with poker, levels of new player sign-ups are an important driver for the casino business, particularly as attrition levels tend to be higher in casino than in poker. In 2005 the Group had a total of over 444,000 unique active players playing its casino games.

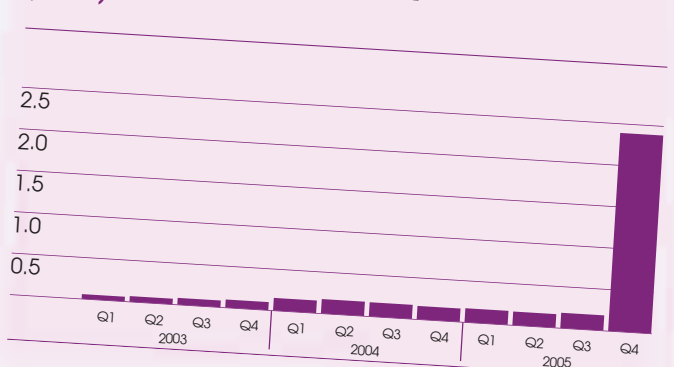
The level of player activity, as measured by active player days, was totally transformed following the introduction of blackjack on PartyPoker in October 2005 as illustrated by the substantial increase in player activity in the final quarter of 2005.

## Casino - yield

Given the smaller number of active players in casino, player yields can be more volatile than in poker - the playing patterns of high-rolling players, or 'whales' as they are known in the industry, can influence the overall player yield. In addition, it is worth noting that the yield per active player day in casino is higher than in poker. This is partly due to the fact that casino games tend to take less time to play than a game of poker and also because one player can generate revenue whereas in poker there may be as many as ten players involved in generating rake from one hand of poker.

The fall in yield per active player day in the final quarter of 2005 was due largely to the impact of blackjack, which tends to attract smaller bet sizes per game and has a lower margin than other casino games. Overall, the introduction of blackjack had a substantial and positive impact on the Group's performance and at the same time created the world's largest online casino.

**Casino - active player days**  
(million)



**Casino - yield per active player day**  
(\$)



# Our business continued

**The Group's gaming software is independently checked by iTech Laboratories** ("iTech"), a specialist in independent software testing for e-commerce industries. iTech checks the random number generators used by the Group's games for statistical independence, uniform distribution and unpredictability.



## Operations

Operations can be divided into three core areas: systems and technology, marketing and customer service. The Group operates from three locations. The first is the Group headquarters in Gibraltar where all senior management are based and all key operational decisions are made. However, the majority of the Group's employees are based in Hyderabad, India where the Group has established a business process outsourcing operation ("BPO") which supports a number of the Group's systems, software development and customer service activities. Finally, in London there is a team of online marketing professionals as well as creative staff who provide online and offline marketing support.

## Systems and technology

The Group's systems and technology are a core part of the continued success of the business. Having scaleable and flexible systems is a prerequisite for success in the online gaming business. They also need to be robust, safe and secure so that customers' deposits and transactions remain confidential and protected while the software needs to be independently certified as being fair, so maintaining the highest standards of integrity.

The Group's track record in growing its business over a relatively short period is a testament to the scalability of the Group's systems, which historically have seen month on month growth rates of up to 90%. The Group seeks to ensure that there is always headroom for additional customer traffic and so is continuously adding capacity as the business expands.

### Software development

From the very beginning, the Group has recognised the value in owning and developing its own gaming software and now has a dedicated team of over 200 software engineers based at its BPO operation in Hyderabad, India. This team is charged with delivering systems upgrades and developing new games as well as maintaining the existing systems architecture. India is renowned for being a centre of excellence as far as software development is concerned and the Group has been fortunate in being able to attract staff of the highest quality to this important area of its business.



### Software development

We have over 200 software engineers with an average of five years' experience. As we roll out more games, our technical expertise is expanding even further and remains a core element of our intellectual property.

**Place your bets,  
the wheel is spinning...**



**23...**  
**the number of ways our  
players can deposit money  
to play.**

**Payment processing**

The Group continues to expand the number of ways that customers can deposit and withdraw funds. There are now 23 different payment methods including online wallets, credit cards, debit cards and money transfers.



# Our business continued

## Payment processing

In order for real money customers to play they must first pay-in funds to their player account with the Group. When customers log onto the online cashier, they are presented with a broad variety of different payment mechanisms to choose from. The order in which they appear will depend on the player's geographic location and the cost of the mechanism to the Group.

By far the most popular route is via online wallets such as the Group's own proprietary online wallet, as well as a variety of others including NETeller and FirePay. Online wallets are an increasingly popular and cost-effective way to conduct payment transactions securely over the internet and represented 63% of the total amount paid in to the Group's poker player accounts in 2005. The value of funds paid in by customers is closely correlated with the number of active players and the level of player activity.

The Group continues to expand the number of ways that customers can pay-in and withdraw funds and now offers 23 different mechanisms, more than any of its competitors. Providing a secure, confidential and easy to use system is vital, as is making sure that customers have access to a dedicated customer service function that can provide assistance 24/7.

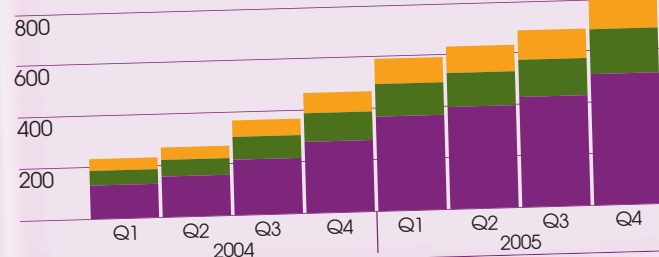
Customer withdrawals can also be made by a variety of different methods including repayment to the customer's online wallet, bank transfer and paper cheques. Over 75% of withdrawals are made using online wallets, a process which takes between one and seven days, depending upon the payment processor concerned. Bank transfers take between two and three days and between seven and twenty days for cheques despatched by regular mail (or two to three days if premium mail is used and for which the customer is charged a fee).

At present, all of the Group's online games are played in US dollars. Monies paid in using other currencies are automatically converted into US dollars at the prevailing rate. The Group plans to launch a multi-currency offering during 2006.

## Customer deposits - Poker

(\$million)

■ Online wallets ■ Other ■ Credit cards



## Payment processing

Over \$2.7 billion was deposited during 2005 while more than \$1.6 billion was withdrawn by the Group's poker and casino customers during the year.



# Our business continued

## Marketing

Having robust, reliable and scalable systems means nothing without customers. PartyGaming's marketing prowess has been a major factor behind the Group's success to date and has been built around three main marketing channels: direct (both online and offline marketing); affiliates (third parties that drive traffic to the Group's sites in return for a fee) and through the use of bonuses that are offered to attract players to the Group's sites. As well as seeking to recruit new players, the Group also has a broad variety of player retention initiatives, such as a VIP club and a reward scheme called PartyPoints. These initiatives seek to encourage existing players to continue to play and ensure that they remain loyal and are not lured to other sites.

The **direct** channel is dominated by the use of television advertising and promotion. Historically this has proved to be one of the most effective methods to drive new player sign-ups and has become the Group's preferred marketing tool. In 2005, the Group invested in a number of television promotions, predominantly in the US, but also in several international territories. Other forms of direct marketing include radio and billboard advertising, sponsorship, direct mail (software on CDs), print media as well as online campaigns such as banner advertising and search engine promotions.

**Affiliates** are typically internet entrepreneurs who have established websites that direct player traffic to the Group's gaming sites. To become an affiliate of PartyGaming, you must first sign-up to the terms and conditions at PartyPartners.com, before starting to drive traffic to the Group's sites and generating income. PartyGaming is an attractive proposition for affiliates because of its historic success, established brands and quality offering. The Group has one of the largest affiliate programmes in the world with its affiliate network generating approximately 34% of total poker revenue in 2005.

**Bonuses** are the third main marketing tool for the Group and one that is commonplace in the online gaming industry. PartyGaming has over 50 different bonus types although most fall into one of the following categories: initial sign-up bonus, reload bonus (such as 'deposit \$100 and we will offer you a bonus of \$20'), refer-a-friend bonus (refer someone who makes a deposit and you will earn a bonus), as well as various one-off promotions.



### Affiliates

Customer traffic generated by our affiliate network accounted for 34% of poker revenues in 2005, a small increase on 2004.

One partner...



**...or many partners?  
PartyPartners has over 5,000  
active affiliate partners.**

**Using our network**

The Group has one of the largest affiliate networks with over 5,000 active affiliates in 2005. Through PartyPartners, the Group's dedicated affiliate programme, our affiliates can promote more than one of the Group's sites using a common account.



## Our business continued

### Customer service

From the outset, the Group recognised the need to provide customers with excellent customer service care. As part of its operations in Gibraltar and Hyderabad, India, it has established a dedicated customer service function with over 900 representatives that provide a 24/7 service, addressing technical as well as personal account enquiries. In 2005, the Group handled more than 4 million customer contacts, most of which were by phone, with the balance by email.

This function is separated into two teams: transaction services which deals with payment processing queries plus fraud and collusion control; and customer services which deals with all technical and software related enquiries as well as customer account, promotion and bonus enquiries.

The Group has established a series of performance targets that it seeks to meet on a daily basis as follows:

- 80% of all cash out verifications are completed and processed within six hours
- 90% of all phone calls are answered within 10 seconds
- 75% of all emails are answered within 30 minutes and 90% are answered within 90 minutes.



# Our markets

## The global gaming market

It is estimated that the global gaming market generated approximately \$258.3 billion of gross gaming yield in 2005<sup>1,2</sup>, of which online gaming is estimated to have been approximately \$13 billion, or 5.0% of the total. Gaming, in all its different guises of lotteries, poker, sports betting, casino gaming and so on, has continued to increase in popularity with consumers all over the world. In a recent study<sup>3</sup>, GBGC reviewed 195 different countries and a total of 274 different jurisdictions and found there to be some form of licensed gaming activity in 254 of them.

Online gaming has proved to be one of the fastest growing segments of the overall gaming market, having grown at a compound annual growth rate since 1998 of over 50%. Over the next few years it is estimated that the online gaming sector as a whole will grow at a compound annual growth rate of over 14%, reaching \$25.2 billion by 2010, when it is forecast to represent some 7.7% of the global gaming market.

North America is the largest gaming market and its residents are estimated to have accounted for approximately 47% of global gross gaming yield in 2005, followed by Europe (28%) and then Asia and the Middle East (16%).

### The online gaming sector

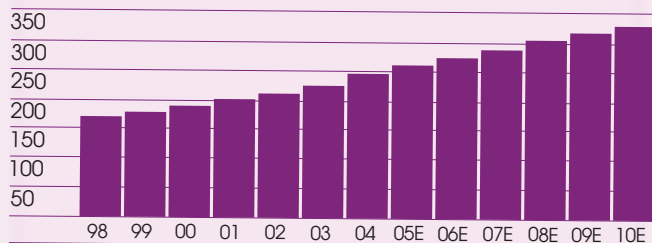
Online gaming is a subset of the global gaming market. As there are no geographical or physical boundaries, customers can log on from anywhere in the world with an internet connection. As such, given the potential, online gaming has attracted a large number of operators and despite being a young industry, is already a market that is highly competitive. In 2005, it is estimated that there were over 2,400 online gaming websites around the world<sup>1</sup> (as at February 2006, CasinoCity.com, an independent casino and gaming directory, listed over 2,300 online gaming sites).

Whilst the barriers to entry for new entrants may appear to be low, the reality is that there remain significant challenges to delivering long-term success in this highly competitive market – challenges to which PartyGaming has risen. As a result, GBGC is predicting that the number of online gaming sites will decline in 2006 and also in 2007 and 2008. This is partly due to anticipated consolidation in the sector, but also through the withdrawal of a number of smaller operators who are unable to make satisfactory returns.

The online gaming sector can be subdivided into different segments, with the largest individual segment being online sports betting, which in 2005 was estimated to have represented around 36% of total online gross gaming yield, followed by online casinos (25%) and poker (20%)<sup>1</sup>. The two most important segments for PartyGaming are online poker and online casino.

### The global gaming market - gross gaming yield<sup>2</sup>

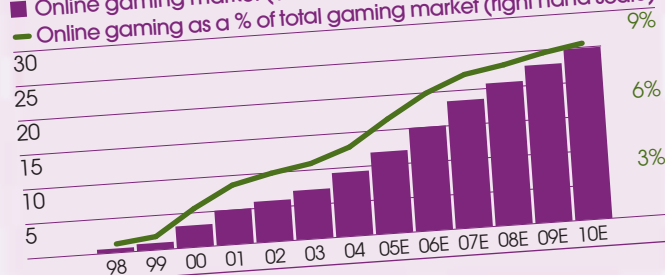
(\$billion)



Source: GBGC

### The online gaming sector - gross gaming yield<sup>2</sup>

■ Online gaming market (\$billion)  
 — Online gaming as a % of total gaming market (right hand scale)



Source: GBGC

1 GBGC.

2 Gross gaming yield is defined as gross turnover less the amount paid out to players as winnings.

3 Double or Quits - GBGC Global Gaming Review 2005.

# Looking for something?



**Bingo!**  
**Our online games**  
**are available 24/**



**Games around the clock**

At whatever time of day or night our customers want to play, they can find the game they want, at the stakes they want, with 24/7 customer support.



# Our markets continued

## Online poker

Poker is not a new game, it has been around for decades if not centuries. While the origins of poker are unclear, what is clear is that it is one of the world's most popular card games. North America probably has the most poker players in the world and according to the American Gaming Association<sup>4</sup>, nearly one in five American adults played poker during the previous 12 months – a more than 50% increase over the number who indicated they had played during the previous year.

Online poker has a much shorter history and really began to appear in a meaningful way in 1998<sup>5</sup>, following increased broadband penetration around the world, but especially in the US, where a number of 'play for free' sites were launched. Since then, the popularity of poker and the suitability of the internet as a medium for allowing people to play games against each other have combined to deliver strong growth in both the number of people playing online poker and the total amount of revenue captured by the operators. It is estimated that in 2005 there were approximately three million online poker players worldwide<sup>6</sup> and GBGC estimate that global online poker players generated gross revenue in 2005 of \$2.6 billion, representing approximately 20% of online gaming revenues (this was almost double the \$1.4 billion achieved in 2004<sup>7</sup>). Although smaller than online sports betting and online casino, online poker has been the fastest growing segment within the online gaming sector in recent years. However, it is clear that the rates of growth seen in online poker will continue to moderate from the very high levels seen in recent years. GBGC estimate that the segment will grow at over 18% per annum between 2005 and 2010 compared with 158% per annum between 2000 and 2005.

## Success in online poker

The high rates of growth in poker over recent years has attracted a number of online poker operators and CasinoCity.com provide listings for over 390 online poker sites in operation around the world. However, in order to succeed in online poker over the long term there are a number of key features which the Group believes are important:

**Player liquidity** – players want to be able to find a table playing the game they want at the stakes they want to play for, with plenty of other players to make it interesting and all at the time they want to play. Player liquidity is therefore very important for attracting and retaining customers. It also means that the larger sites have a greater variety of tournaments, starting on a regular basis and can offer larger cash prizes.

**Control of software** – being able to upgrade, augment and add new features to software means that an operator can keep pace with changing consumer tastes, stay ahead of the competition and, should they arise, fix problems quickly.

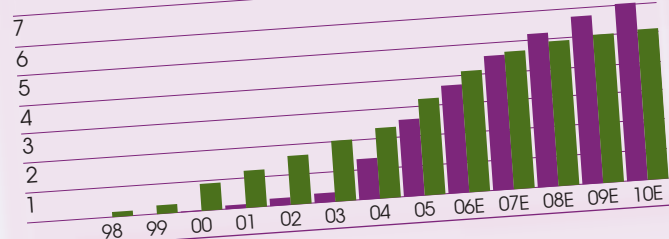
**Payment processing expertise** – offering a broad variety of mechanisms which are both easy to use as well as safe and secure is also key. Gaining the trust of the consumer can only be achieved by executing payments quickly and safely.

**Excellent customer service** – looking after the customer is a high priority and simply providing a product online is not enough. Today's consumers expect to be able to speak to someone at a personal level to address issues that they may have with the service offered, as well as to help them complete their transactions online.

## Poker and casino segments - gross gaming yield

(\$billion)

■ Poker ■ Casino



Source: GBGC

## Geographic growth

In the short to medium-term, Europe is expected to be the fastest growing territory for online gaming with gross gaming yield expected to grow by 19% compound between 2005 and 2010<sup>7</sup>.



4 State of the States – 2005 survey of Casino Entertainment – American Gaming Association.

5 Dresdner Kleinwort Wasserstein – Leisure & Travel – November 2005.

6 PartyGaming estimates.

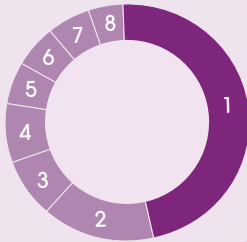
7 GBGC.

# Our markets continued

## Estimated share of online poker segment# at December 2005

(%)

- 1 PartyPoker\* 41%
- 2 PokerStars 13%
- 3 ParadisePoker 7%
- 4 Ladbrokes 7%
- 5 Cryptologic 5%
- 6 Pacific Poker 5%
- 7 Ultimatebet 5%
- 8 Microgaming 4%



Source: PartyGaming estimates  
#Based on gross ring game revenue  
\*Including EmpirePoker, MultiPoker and IntertopsPoker

### Gross gaming yield for online casino segment, at \$3.3 billion

was estimated to represent approximately 25% of the total online gaming sector in 2005.



**Marketing expertise** – online poker is a global business and is highly competitive. Historically, television advertising has proved to be one of the most effective routes for attracting new players, but is not cheap. Restrictions on television advertising for online gaming in certain territories requires creativity in developing other channels, as well as financial strength to seek out alternative and previously untested marketing strategies.

### Online casino

Online casinos have been around for many years with the first site being launched back in 1996. By 2000, the global gross gaming yield from online casinos was estimated to have been \$0.9 billion. Since then online casino revenues have grown strongly, reaching an estimated gross gaming yield in 2005 of \$3.3 billion, implying a compound annual growth rate of 29%. It is estimated by GBGC that online casino gross gaming yield will continue to grow at approximately 9% per annum until 2010 by which stage it would be worth \$5.1 billion.

As casino players play against 'the house', player liquidity is not an issue and as a result there are many more online casino sites than any other form of online gaming site. CasinoCity.com lists over 1,050 online casino sites, representing almost 50% of the total number of online gaming sites that they monitor (this concurs with other market research on the number of casino sites<sup>8</sup>). That said, there still remain the issues of control of software, payment processing, customer service and marketing. As customers are playing against the house, scale can be an advantage in giving customers confidence in the site's integrity and also, for high value players, that the house has the financial resources to pay out large winnings. The sorts of games available at online casinos include slots, roulette, blackjack, craps and video poker. Outcomes are determined by a random number generator and the house earns a statistical gross margin depending on the mix of games played.

Given the nature of the product, data of the relative share of gross gaming yield for the online casino segment is very difficult to obtain. However, GBGC has confirmed that, based on current run rates, PartyGaming's casino business is the largest online casino in the world.

### Licensing

PartyGaming is a Gibraltar incorporated public company and is managed and controlled from its head office in Gibraltar. PartyGaming is licensed and regulated by the Government of Gibraltar under the Gaming Ordinance. New legislation, the Gambling Ordinance 2005, has been enacted that updates Gibraltar's gaming legislation and provides a modern framework for the licensing and regulation of online gambling. It is likely that the new legislation will be brought into effect during 2006. PartyGaming's licence will be grandfathered under the provisions of the new legislation.

The Group also has a secondary gaming licence issued by the Kahnawake Gaming Commission.

**Do you know the rules  
of blackjack?**



**Ask any Questions.  
We know all the Answers.  
(By the way – you've won!)**

**Customer care**

Our dedicated customer services and transaction services teams in Gibraltar and Hyderabad, India go through extensive training programmes before interacting with our customers.



# Our risks

PartyGaming faces a number of challenges in the day-to-day running of its business. The key risks to the Group's current and future business performance can be categorised into industry-specific as well as company-specific issues. Industry-specific risks include changes to the regulation of online gaming around the world, especially in the US, as well as technology-related risks and increased competition.

## Online gaming regulation

Although the regulatory regime for land-based gaming operations is well established in many countries, the gaming laws in some of them will not necessarily have been updated to take account of the internet. This can cause uncertainty and affect the Group's ability to operate effectively, as can the application or enforcement of gaming laws or regulations, a change in sentiment by regulatory authorities or the taking of any action by relevant authorities which restricts the processing of payments relating to online gaming transactions or the advertising of online gaming. The Group actively monitors legislative developments in all of the key territories in which it operates and aims to ensure that its business is able to adapt to changes in the regulatory environment.

## Technology

PartyGaming is reliant on the continued growth and maintenance of the internet infrastructure and the integrity and operation of the Group's computer and communication systems. The Group employs a series of intrusion detection and prevention measures to ensure that its operating systems are safeguarded against hackers, email viruses, distributed denial of service ("DDoS") attacks and other forms of cyber crime. Any failure in these measures could result in a decline in user traffic and impact the Group's operations, reputation and financial performance.

PartyGaming regularly upgrades its technology and network infrastructure to handle increased traffic on its websites and also to roll out new products and services. Any failure to implement such upgrades successfully might affect both the quality of its gaming products and services and the experience of its customers.

PartyGaming has to rely on third-party bandwidth providers, communications carriers, and data centres for key aspects of the process of providing gaming products and services to its customers.

While the Group is in the process of formalising its disaster recovery and business continuity plans, there can be no assurance that, if invoked, the implementation of such plans would not significantly disrupt its technology systems and have a consequent impact on its business performance.

## Competition

Online gaming is a highly competitive market with over 2,400 sites in operation in 2005<sup>9</sup>. In online poker, as the number of players increases, the Group's competitive advantage due to its superior player liquidity may be diluted as an increasing number of competitors build up a comparable number of customers. There is also expected to be a trend toward industry consolidation among the Group's competitors, so smaller competitors today may become much larger in the future.

If the legal status of online gaming in the US, where the Group continues to derive the majority of its revenue, were to be clarified such that US-based operators decided to enter the sector, then PartyGaming is likely to face increased competition from such operators that do not currently offer online gaming services.

## Taxation

The Group aims to ensure that each Group company is resident for tax purposes only in the jurisdiction in which it is incorporated or domiciled and that it has no taxable permanent establishments or other taxable presence in any other jurisdiction. The Group's customers are located worldwide. Revenues earned from customers located in a particular jurisdiction may give rise to further taxes in that jurisdiction. If such taxes are levied, either on the basis of existing law or the current practice of any tax authority, or by reason of a change in law or practice, then this may have a material adverse effect on the amount of tax payable by the Group.

In calculating the tax provision, in addition to any amounts due in respect of jurisdictions in which Group companies are currently incorporated or domiciled, a provision has been made to cover the Directors' best estimate of additional taxation exposures which may arise.

The Company and its Gibraltar subsidiaries are registered as exempt companies for Gibraltar tax purposes. As a result, the Group pays relatively little tax in Gibraltar. The exempt company tax regime is due to be phased out by the end of 2010. The Government of Gibraltar has reiterated its commitment to the continuation of Gibraltar's fiscal competitiveness stating that it intends to seek to introduce alternative arrangements to the exempt companies legislation by the end of 2010 which will meet EU requirements and which will be designed to retain Gibraltar's fiscal competitiveness.

The loss by the Company of its tax exempt status (and that of all the Company's subsidiaries which currently have tax exempt status) could have a material adverse effect on the overall tax rate of the Group.

A more detailed description of the risks faced by the Group was included in the Listing Particulars, a copy of which is available on the Group's website:  
[www.partygaming.com/images/docs/prospectus.pdf](http://www.partygaming.com/images/docs/prospectus.pdf)

# Our strategy



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## To be the world's number one gaming company, with the most trusted brands, innovative technology and outstanding customer service

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To achieve this objective, the Group has established a number of key business strategies:

### Grow the Group's poker business

PartyPoker is the world's largest online poker room, with a highly recognised brand in its core territory, the US, and an increasing presence in other markets. PartyGaming intends to continue to develop these brand credentials and player liquidity advantages as well as the Group's other key strengths to maintain its leadership in online poker.

### Expand internationally

The Group aims to improve PartyGaming's global market position by increasing awareness of its 'Party' brand, focusing initially on Europe and, in the longer term, Asia. The Directors intend to target selected territories for expansion, particularly in the EU and other countries which have experienced recent high growth in broadband internet penetration and retail e-commerce acceptance. During 2006 the Group will be launching multi-lingual and multi-currency versions of its games in order to broaden its international appeal.

### Deliver excellent customer service

In competitive sectors, such as online gaming, delivering a high level of customer service is critical to attracting new customers and retaining existing customers. The Group seeks innovative ways to improve further its customer service as it considers its infrastructure to be a key competitive advantage. The Group is committed to broadening the range of convenient local payment options and accepted currencies available to customers and to providing fast processing of the pay-in and withdrawal of funds.

### Provide a robust and scalable gaming platform using leading technologies

Maintaining a robust and scalable gaming platform has been, and will continue to be, one of the Group's main priorities. The Group's strategy has been to use robust protocols and operating systems, purchase proven third party technologies, recruit and retain experienced and capable technical employees, comply with security standards and have its systems tested by independent specialists to ensure gaming integrity and fairness. The Group promotes responsible online gaming by the use of systems addressing age verification, fraud detection, customer-led controls for limiting their spend and, for casino games, playing duration, social responsibility content and sources of help. The Group aims to continue this focus by having a dedicated research and development team to keep the Group's systems at the forefront of the available technology.

### Create an integrated Party-branded systems platform

In October 2005 the Group launched blackjack on PartyPoker and in February 2006, launched PartyCasino as part of an integrated platform using a shared purse called PartyAccount. The new platform enables players to use funds and transfer winnings across PartyPoker and PartyCasino. Additional games will be added to the platform including PartyBingo as well as two new games during 2006.

The Board believes that offering a diverse and comprehensive portfolio of games will help to attract and retain online gaming customers, as well as increase our share of our customers' overall gaming spend.

### Acquire complementary businesses and new games

The fragmented nature of the online gaming industry may present growth opportunities through market consolidation and expansion through investment and acquisition. If appropriate opportunities arise, the Directors would consider acquiring or investing in complementary businesses and new products based on commercial and strategic merits.

### Explore the use of new technology channels

The development of new delivery and access channels also presents opportunities for the Group to leverage its existing products and brands. The Group is currently considering opportunities to offer its products using wireless technology and is performing a product trial of Starluck Casino on mobile telephones within the UK.

**Eyes down...**  
**is this your lucky day?**

**22**

**45**

**17**

**12**

**28**

**66**

**25**

**9**

**24**

**Not if your age matches any of these numbers. We believe in responsible gaming.**

**Responsible gaming**

The Group promotes responsible online gaming by the use of systems that address age verification, fraud detection and customer-led controls for limiting their spend.

22

45

~~17~~

~~12~~

28

66

25

~~9~~

24



# Corporate and social responsibility

In delivering these business strategies, the Group recognises that it is a multi-faceted and international business. As such, it has a broad range of stakeholders, in a variety of countries, each of whom has an interest in the activities of the Group. Examples of some of these 'stakeholder groups' include customers, shareholders, employees, affiliates, suppliers, local communities, regulators/licensing bodies, trade associations, consumer protection organisations and governments.

The Company's behaviour and that of its officers and employees can affect, directly or indirectly, any or all of these stakeholders, as well as influence the general perceptions of PartyGaming and everything that becomes associated with it. Our 'corporate behaviour' in its broadest sense can be expected to influence the way in which third-parties may do business with us and this in turn is likely to influence the long-term success of the Group. Since the business was formed back in 1997, its philosophy has been focused on acting properly and responsibly in its dealings with stakeholders. Senior management recognised the risks and potential damage to our reputation and business if we fail to meet a high standard of professional and ethical conduct when dealing with our key stakeholders. In order to help manage these relationships, the Company has adopted a range of policies that establish a framework defining the way in which the Group interacts with each of its stakeholders, thereby mitigating the potential risk attached to each of the relationships that PartyGaming has to address.

A sign of the Board's commitment to this important task is the fact that it has established an Ethics Committee of the Board to be responsible for overseeing the Company's framework of corporate and social responsibility ('CSR') practices in the same way that the Audit Committee oversees the Company's internal control environment. Rod Perry chairs the Ethics Committee and Lars Berg, Michael Jackson and Janos Libor are the other members. Whilst the Committee has a broad remit, some of the particular issues upon which it is focused, given their importance to the Group, are as follows:

- Responsible gaming;
- Fairness of the gaming platforms and rules; and
- Charitable donation/investment in the local community.

In addition, the Committee is responsible for overseeing and for establishing a regular process for reporting on and developing such practices.

During 2005 the Company engaged the services of GoodCorporation, a specialist consultancy in this field, to assist in a preliminary verification and audit of many of the Group's existing business practices and policies and in particular those that affect a number of the Group's key stakeholders. On completion of this review, the Group received a written report and presentation covering such key areas as employees, customers, suppliers, shareholders, community and the environment.

This preliminary review is being used to identify areas where opportunities may exist to make meaningful improvements. It is intended that the 2006 Annual Report will provide further details on progress made, including a summary of the improvements that have been achieved during the current financial year.

## Customers and responsible gaming

Customers are the Group's lifeblood. Providing appropriate safeguards and protections is essential to ensure that PartyGaming remains the players' choice when it comes to online gaming.

The Group's terms and conditions outline the responsibilities of both the customer and the relevant PartyGaming subsidiary. In particular, the customer agrees that he/she is complying with the local law, in terms of the legality of playing, by accepting such terms and conditions.

Protecting vulnerable customers is a crucial element of PartyGaming's strategy and in particular the prevention of underage gaming on its sites. On all of the Group's real money sites, a player is first asked for information so as to establish his/her identity, including date of birth and address. Then, using third party databases, to the extent available, the Group seeks to verify the identity of the player and confirm that they are old enough to play. Where a player cannot be verified by these means, they are asked to provide additional information.

# Corporate and social responsibility

## continued

PartyGaming has established a series of procedures and controls in order to promote responsible gaming. These include: only being able to have one player account (so that if later they are excluded, or choose to exclude themselves, they cannot re-enter the site), allowing customers to set limits on the amount they deposit within a given period and providing an option to exclude themselves from the site for a pre-determined period. The Group was certificated by GamCare in February 2005 in recognition of the Group's high standards of responsible gaming and player protection. The Group was assessed in each of the following key areas:

- Age verification system;
- Customer led controls for spend and session play;
- Self-exclusion options;
- Reality checks within games screen;
- Social responsibility content and sources of help; and
- Customer service training.

### Employees

The Group is not 'asset-rich' in the conventional sense, its main assets being its customers, its brands, its technology and its reputation, each of which are driven and sustained by its workforce.

Over the past 12 months PartyGaming has undergone an enormous expansion in terms of employees and the total number has increased to 1,359 at the end of 2005 compared with just 856 a year earlier. The Group has a centralised Human Resources ('HR') function with overall responsibility for all employees, although each of the Group's locations also has an HR function to help manage day-to-day issues. The Group has processes and systems addressing a variety of issues including equal opportunities, health and safety, grievances and discipline and whistle-blowing.

PartyGaming is truly international both in terms of customers as well as its employees and has a highly cosmopolitan workforce with 23 different nationalities represented across the Group. Approximately 36% of the employees are female. All employees in Gibraltar, Hyderabad and London are issued with a contract of employment. There is also an employee handbook that outlines the behaviour expected by employees, the policies that are relevant to them and the obligations of the Company.

In a fast growing and rapidly changing market, the Group aims to ensure that its employees have all of the technical skills and knowledge required to fulfil their roles effectively. Training is an ongoing part of life at PartyGaming and is provided both internally and externally. For example, our customer service operators in India undergo a rigorous training programme, including classroom sessions as well as on-the-job training before speaking to customers.

### Suppliers

The Group's key suppliers include providers of systems hardware, bandwidth and telecommunications services, payment processing, television advertising and other media space. The Group seeks to ensure that it enters into valid contracts with all of its suppliers and acts in accordance with the terms of those agreements for the duration of the contract including fair treatment and prompt payment.

In addition, the Group also contracts with over 5,000 affiliates who drive player traffic to the Group's websites. The Group recently introduced a new affiliate programme called PartyPartners that aims to provide an integrated service to each of its affiliates and since its introduction in 2005 has been well received.

### Community and environment

As an online business, the Group believes that it is a relatively low impact company from a community and environmental point of view. However, the Group is keen to contribute to the local economies where it has a presence and has introduced a charity policy under which *inter alia*, there is now a framework to facilitate the donation of funds to charities and the local community under the guidance of the Ethics Committee. In addition, as part of the policy, employees have been granted the opportunity to participate in a *pro bono* scheme whereby each employee is encouraged to spend a day every year working in their local community. The Group contributed to a number of disaster relief, health and problem gambling charities in 2005.

### Shareholders and other providers of capital

At the heart of the Group's investor relations policy is a desire to maintain regular and open dialogue with the Group's investors and investment analysts who follow PartyGaming's progress. In addition to the half yearly publication of financial results, the Group also publishes its key performance indicators every quarter and the Chief Executive Officer, Group Finance Director and Director of Investor Relations are engaged in a continuous programme of conference calls, presentations and meetings with investors and analysts around the world, providing an opportunity to ask questions and improve their understanding of the Group's strategy and key business dynamics. Similarly, the Group also maintains a regular dialogue with each of its lending banks.

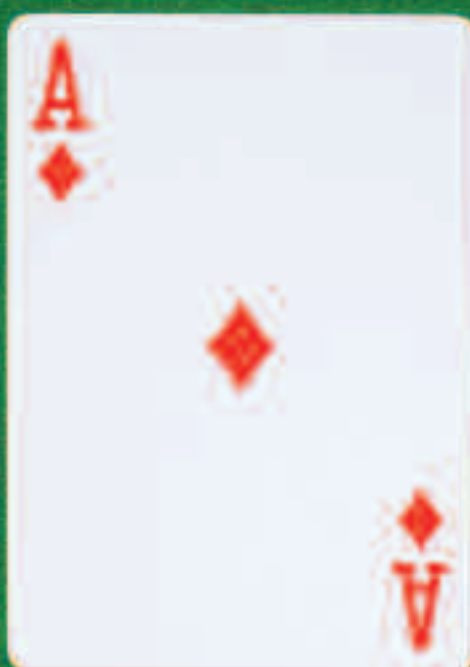
# A good opening hand...



# Flush! Which is how our tournament winners feel.

## Tournaments

PartyPoker is one of the largest providers of online poker tournaments and paid out over \$2.3 billion in tournament prizes in 2005.



# Operating and financial review



The 2005 financial year was a period of transformation for the Group. In addition to the Group's flotation on the London Stock Exchange in June 2005, the Group also launched a brand new affiliate programme, PartyPartners, moved PartyPoker to a new operating platform, introduced blackjack to PartyPoker customers and rationalised its white label arrangements in poker by acquiring two of its 'skins' and terminating its relationship with a third. Since the year end the Group has also acquired its last remaining skin, EmpirePoker.com, subject to the approval of Empire Online's shareholders. Against this background of rapid corporate development, the Group's strong financial performance has continued, delivering record revenue, Clean EBITDA and cash flow.

## Results

During the year the Company incurred significant non-recurring costs in respect of IPO-related expenses and skin-related settlement costs. Additionally, share option charges contributed significantly to non-cash expenses. Details of these items are set out in note 2 to the financial statements.

## Reconciliation of operating profit to Clean EBITDA

Year ended 31 December	2005 \$million	2004 \$million
Operating profit	332.4	383.2
Depreciation and amortisation	17.3	4.6
EBITDA	349.7	387.8
Share option charges	65.6	3.2
IPO-related expenses	22.6	-
Skin-related settlement costs	145.8	-
Clean EBITDA	583.7	391.0
Basic earnings per share before share option charges, IPO expenses and skin-related settlement costs (cents)	13.9	9.3
Diluted earnings per share before share option charges, IPO expenses and skin-related settlement costs (cents)	13.6	9.3
Basic earnings per Share (cents)	7.7	9.2
Diluted earnings per Share (cents)	7.5	9.2

Poker remains the largest individual business segment, representing 88% of 2005 revenues and 87% of Clean EBITDA. However, the launch of blackjack during the fourth quarter of 2005 has improved the balance of the Group's business and we expect this to be further reflected in the 2006 financial results.

PartyPoker was the driving force behind the Group's poker business in 2005 and total poker revenue grew 55% to \$859.1 million (2004: \$553.0 million). Clean EBITDA increased by 41% to \$509.2 million (2004: \$361.9 million), driven by the substantial growth in poker revenue.

The casino business saw revenues increase strongly by 144% to \$118.6 million (2004: \$48.6 million), due to the launch of blackjack on PartyPoker during the fourth quarter. Clean EBITDA for this business segment also rose strongly to \$75.6 million (2004: \$29.0 million).

Overall Clean EBITDA margins declined from 65.0% to 59.7% as competitive pressures in the online gaming market led to an increase in marketing expenses, but also reflected increased administration expenses arising from the additional infrastructure costs associated with becoming a public listed company.

## Business development

The online gaming market is highly dynamic and is continuing to develop apace. As the world's leading online gaming business, the Group has a well-established infrastructure with appropriate procedures and processes which allow our highly skilled employees to react quickly to changing market dynamics. During 2005, there were a number of important developments within each of the Group's key areas of operation, namely marketing, systems and customer service.

## Marketing

The Group's marketing strategy remains focused on growing the number of active players on its sites as well as broadening the appeal of its products internationally. By increasing the range of product offered to our customers, we aim to broaden the appeal of our gaming sites and capture a greater share of total gaming spend. While the main focus will be on promoting the Group's fully-integrated, Party-branded sites: PartyPoker, PartyCasino, and PartyBingo and the other soon to be launched Party-branded games, the Group will also continue to support StarluckCasino, PlanetluckCasino and EmpirePoker, each of which will act as secondary gaming brands. Players on MultiPoker and IntertopsPoker will be migrated to the fully-integrated platform in due course.

During 2005 the Group launched successful multi-channel marketing campaigns in a number of countries including the US, UK and several other European countries. The Group had 1.3 million active real money poker players in 2005 (2004: 0.7 million) of which 19% were outside the US compared with 10% in 2004. In casino, the number of real money players increased to 0.4 million (2004: 0.1 million). The proportion of real money sign-ups for poker coming from countries outside the US increased from 10% to 24% while in casino it increased from 25% to 32%.

# Operating and financial review

## continued

Customer promotions in a variety of different forms remain one of the primary tools used by the industry to attract players as well as retain them. The Group's brand strength means that it can continue to drive new player sign-ups, without having to match the levels of player incentives offered by a number of smaller competitors, many of whom are offering incentives to a level that may not deliver long-term returns. However, the market remains competitive and total bonuses (and other fair value adjustments to revenue) as a percentage of gross poker revenue have increased during the year to 9.3% (2004: 6.9%). Bonus levels in casino tend to be much higher than in poker due to the faster rate of play and the higher revenue generated per active player day. However, the impact of blackjack on casino revenue has meant that bonuses (and other fair value adjustments to revenue) fell as a percentage of gross revenue from 29.5% in 2004 to 14.4% in 2005.

While player acquisition remains a key driver for the business, retaining players is also critical. At the beginning of 2005, the Group commenced an extensive data mining project, the first phase of which was completed during the fourth quarter of 2005, allowing a number of marketing initiatives to be introduced that are expected to drive improved trends in player retention.

The Group's affiliate programme for the integrated platform, PartyPartners, is now operational. PartyPartners combines a number of the Group's affiliate programmes enabling affiliates to leverage the Group's existing poker affiliate network to drive new players to the Group's non-poker products using one account, with common reporting systems and payment mechanisms. During 2005 affiliates generated 34.3% of poker revenue (2004: 28.3%) and it is expected that, through PartyPartners, a number of existing PartyPoker affiliates will now also promote PartyCasino.com and other Party-branded games, as and when they are launched.

### Systems and product development

The most significant event during the year from a systems and product development perspective was the separation of PartyPoker from the Group's skins in October 2005.

Whilst the Group regularly updates and adds new features to its poker and casino games through periodic 'releases' of revised versions of its software, the release of a new version of PartyPoker in October 2005 in conjunction with the decision to move PartyPoker to a new and independent operating platform was a major step for the Group. This involved moving all of the Group's PartyPoker players and was a necessary first step before launching the fully-integrated Party-branded platform. The move also allowed us to further differentiate PartyPoker from the skins by offering new and additional features, including blackjack. Since the move, the performance of PartyPoker has strengthened and the additional revenue from blackjack has been substantial.

Other new features that were rolled out on PartyPoker during the year included the introduction of high-limit tables, 'deal-making' that allows tournament finalists to agree to split the winnings rather than risk losing out altogether and the creation of a number of micro-limit and beginners' tables for the benefit of less experienced players.

During the year the Group successfully introduced a new server centre in Gibraltar. The Group has undertaken to the Government of Gibraltar that it will use all reasonable endeavours to ensure that all telecommunications capacity is sourced from Gibraltar within six months of the required bandwidth and resilience becoming available and subject to the maintenance of back-up and resilience facilities.

PartyGaming continually strives to ensure that its customers have only the very highest levels of trust and confidence in the Group's gaming products. In addition to internal review processes, all of the Group's sites are checked each day by an independent third party to confirm that the highest standards are maintained.

### Customer service

Looking after the Group's 1.3 million active poker customers and 0.4 million active casino customers during the year is a core part of the Group's activities. Customers need to feel that they are playing in a safe and secure environment and that any issues will be resolved quickly. Our state-of-the-art business process outsourcing ('BPO') operation in Hyderabad now has over 900 operators in Customer Services and Transaction Services who are available to talk to or respond to emails from customers 24 hours a day. Over the 12 months to 31 December 2005, the customer service teams dealt with over 4 million customer contacts, of which 2.4 million were by phone, the balance by email. This represents a 25% increase in the total over 2004.

In an online survey of customers conducted by GoodCorporation in January 2006, of those who expressed a view, 87% found that the customer contact by PartyGaming was either better than expected or said it was much better than competitors. That said, the Group is not complacent and is determined to continue to improve the quality of its customer service offering through increased resources and training.

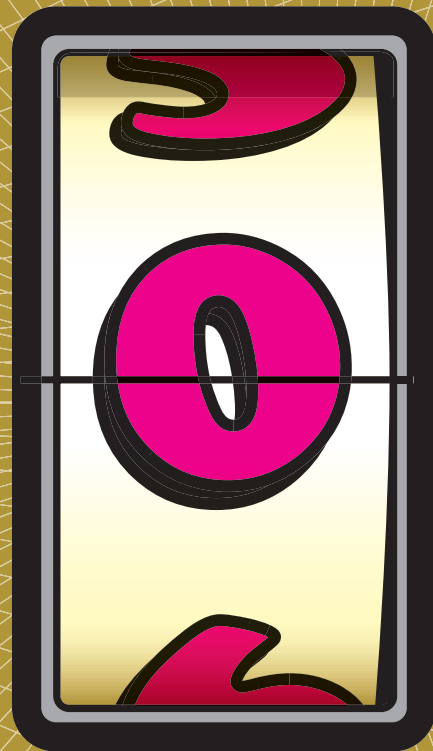
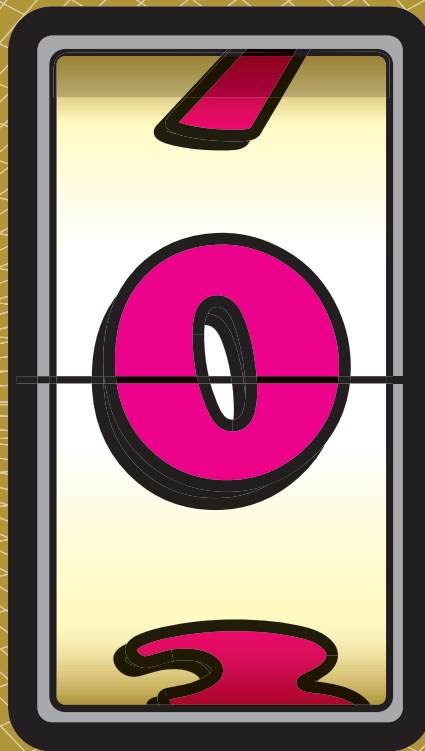
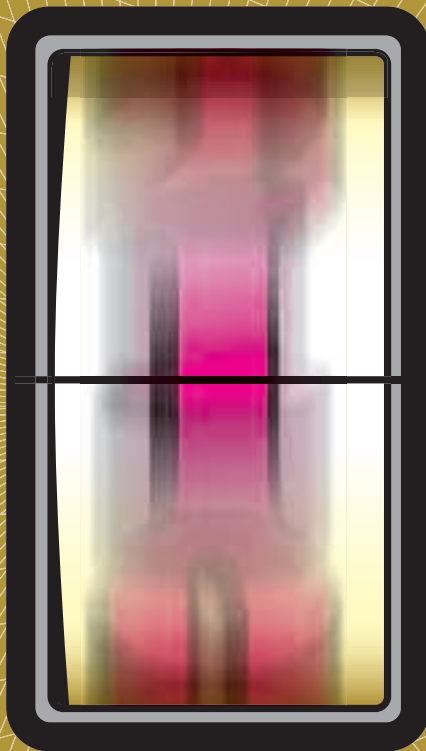
Transaction Services in India helps to resolve customer queries relating to the online cashier. Both the Customer Service and Transaction Services teams work closely together and a customer enquiry received by one team may be resolved by the other, if more appropriate to do so. Improving the speed of transactions for customers and also increasing the range of methods available to pay-in and withdraw funds remain key objectives for the Group. There are now 23 ways in which customers can pay-in funds to their accounts including online wallets, credit cards and other mechanisms.

### Skins

At the time of the IPO, the Group made it clear that it would seek to change the basis of its relationships with its skins partners, the rationale for them having diminished following the Group's rapid expansion since 2003.

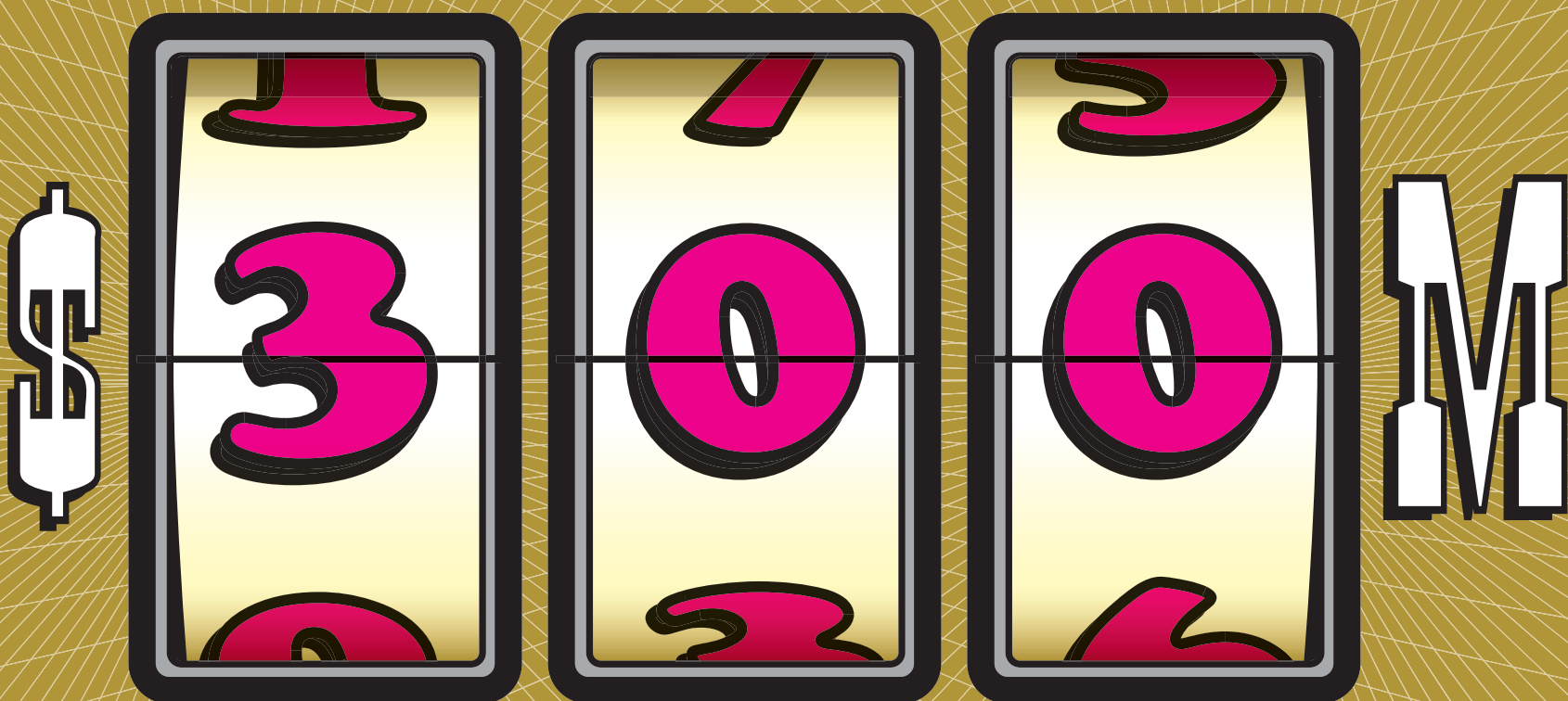
In November 2005, the Group announced the acquisition of the player database and intellectual property of MultiPoker for US\$14.5 million in cash. MultiPoker is a leader in online poker in Scandinavia with more than 255,000 registered players. The Group also announced the termination of its skin arrangement with IntertopsPoker.com and the acquisition of its player database. IntertopsPoker has since become an affiliate of PartyPoker, allowing PartyPoker to market its games to IntertopsPoker.com players. At the same time the Group announced that it had agreed to terminate its skin arrangement with Coral Eurobet.

Hold on...  
it's looking good.



**Not three in a row...  
but... \$300 million was our  
annual marketing spend.**

**Marketing expenses**  
The Group's marketing spend falls under a variety of different headings including customer acquisition and retention costs, affiliate costs and customer bonuses.





# Operating and financial review

## continued

Also in November 2005, the Group announced that it was in discussions regarding a possible offer to acquire the business and assets of Empire Online Limited ('EOL'). Those discussions were terminated on 21 November 2005 and EOL announced that it was proposing to commence legal proceedings against the Group for, *inter alia*, breach of contract following the separation of PartyPoker from the rest of the Group's skins. On 14 February 2006, the Group announced that it had agreed to acquire the business and assets of EmpirePoker.com, its last remaining skin, from EOL as well as some other associated assets, for a total cash consideration of \$250 million. As part of the transaction, that is subject to the approval by EOL shareholders on 6 March 2006, EOL has agreed to withdraw all legal claims against the Group. The agreement with EOL is conditional upon the approval of EOL shareholders and the Group has received irrevocable powers of attorney from EOL shareholders representing approximately 56% of the issued share capital of EOL to the effect that their votes will be cast in favour of any necessary resolution.

As required under International Financial Reporting Standards, a non-recurring charge of \$145.8 million has been included in the 2005 financial year within Administration Expenses to reflect the settlement of disputes arising from the separation of PartyPoker players from EmpirePoker and all of the other third party skins.

### Management

In order to add strength and depth to the management team, the Group has continued to appoint high quality personnel into a number of senior management positions. These include Steve Heller, previously CEO of IVY Comptech, the Group's BPO operation in India, who now has executive responsibility for all customer service and transaction service operations across the Group. Bhagwan Dass Goel has recently joined as head of Group technology having previously held senior positions in a number of leading e-commerce companies such as Travelocity, Internet Shopping Network and Infoseek. Nigel Birrell has been appointed as Director of Mergers and Acquisitions – he was formerly at HIT Entertainment PLC where he was a main Board director in charge of corporate development and acquisitions.

### Future business developments

From an operational point of view, the Group is continuing to develop new products and additional services to broaden its customer base, improve the quality of its product offering and drive the business forward. The Group has already announced the launch of PartyCasino and the integrated platform which took place in February 2006. The introduction of the first of two new games is on-track for the first half with the second planned for the third quarter of 2006. Multi-lingual and multi-currency versions of PartyPoker are also scheduled for the second half of 2006.

### Regulation

The regulatory environment for online gaming around the world is constantly changing with new rules and regulations being considered in a number of territories where we attract players. These currently include three proposed legislative initiatives in the US. The first is the reintroduction of an Internet Gambling Prohibition Act by Congressman Goodlatte that seeks to update the US Wire Act in order to prohibit all forms of online gaming in the US, subject to certain carve-outs. The other two are sponsored by Congressman Leach and Senator Kyl respectively and essentially seek to restrict the processing of 'illegal online gaming' transactions in the US. These initiatives are similar to a number of previous initiatives, all of which have failed either in the Senate or the House of Representatives. Elsewhere, in Italy the authorities have ordered a number of internet service providers to block online gaming sites being accessed in Italy. The online gaming industry intends to challenge this move which it sees as being in contravention of EU law. The Board continues to monitor closely developments regarding these and other proposed regulatory changes around the globe and remains committed to promoting a uniform international regulatory framework for all online gaming.

### Current trading and outlook

In the seven weeks to 18 February 2006 the Group's trading performance has been in line with the Board's expectations, with average gross daily poker revenue up 9% versus the fourth quarter of 2005 to \$3.0 million per day. As expected, casino saw a modest decline in the average daily gross win from blackjack and average daily gross win for casino as a whole was \$0.92 million compared with \$0.98 million in the fourth quarter of 2005.

The Group has continued to grow new real money sign-ups and in January added a record 92,838 new players to the system.

Whilst it is too early to comment specifically on its longer term impact, the launch in February 2006 of the new integrated platform incorporating the latest release of PartyPoker as well as the new PartyCasino has been well received by players and industry commentators alike. Our marketing strategies aim to encourage an increasing proportion of our players to play more than one game on our platform, using their common account and shared purse.

Whilst an increasing proportion of more recreational players can be expected to increase the impact of seasonality on the Group's quarter-on-quarter performance, the introduction of two new games as well as multi-currency and multilingual versions of PartyPoker later in the year are expected to be positive for the Group and the Board remains confident of making good progress in the current year.



# Operating and financial review

## continued

### Summary of results

Year ended 31 December	Revenue		Clean EBITDA	
	2005 \$million	2004 \$million	2005 \$million	2004 \$million
Poker	859.1	553.0	509.2	361.9
Casino	118.6	48.6	75.6	29.0
Unallocated			(1.1)	0.1
	977.7	601.6	583.7	391.0
Clean EBITDA margin			59.7%	65.0%

Revenue was up 63% over the same period in 2004, driven by continued growth in the Group's poker business but also by the strong growth in casino following the launch of blackjack during the fourth quarter of 2005. Clean EBITDA increased by 49%, the impact of increased distribution and administration expenses resulting in a reduction in margin from 65.0% to 59.7%.

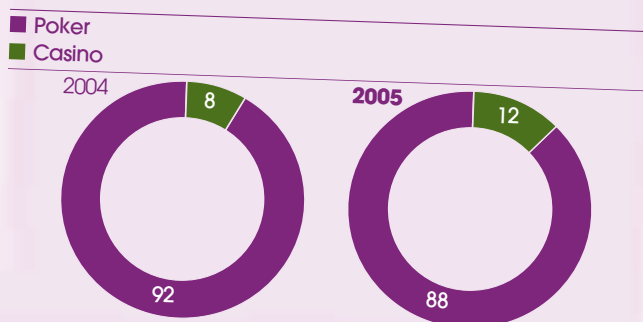
Operating profit before share option charges, IPO expenses and skin-related settlement costs was 47% ahead of 2004. The reduction in operating profit margin (before share option charges, IPO expenses and skin-related settlement costs) to 57.9% (2004: 64.2%) primarily reflected increased marketing expenses within the poker business as well as increased administration costs associated with becoming a listed company. Share option charges, IPO expenses and skin-related settlement costs totalled \$234.0 million in the period (2004: \$3.2 million). The share option charge of \$65.6 million reflects the granting of nil-cost share options to the Group's employees during the year, the majority of which were granted ahead of the Group's flotation which took place on 30 June 2005. The skin-related settlement costs totalling \$145.8 million are amounts attributed to the settlement of disputes arising from the separation of PartyPoker players from EmpirePoker and all of the other third party skins in October 2005.

Basic clean earnings per Share were 13.9 cents (2004: 9.3 cents), an increase of 49%. Basic earnings per Share were 7.7 cents, a reduction of 16% over the prior year (see note 7 of the financial statements). Diluted clean earnings per Share were 13.6 cents (2004: 9.3 cents), an increase of 46%. Diluted earnings per Share were 7.5 cents (2004: 9.2 cents).

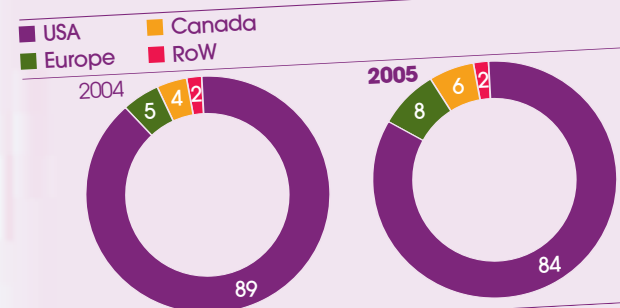
### Revenue

Revenue was up 63%, driven by a further strong performance by the Group's poker business and also by a substantial improvement in performance by the casino business which grew revenue by 144%. In terms of geographic spread, the Group continued to reduce its dependence on the US where total revenue growth was 55% over 2004 whilst outside the US it was even higher at 125%. As a result, the percentage of total revenue generated outside the US in 2005 was 16% compared with 11% in the previous year. A breakdown of the two business segments, poker and casino is summarised below.

#### Revenue by business segment (%)



#### Revenue by geography (%)



**Let 'em roll...**



# One spot... flagging potential in the Far East.

## Asia

The opportunities to grow in the Far East are substantial. However, issues such as regulation, language, relatively low levels of broadband and credit card/debit card penetration mean that the Asian markets are unlikely to present significant financial benefits in the short-term. The Group continues to monitor developments closely and looks forward to exploiting opportunities as and when they arise.



# Operating and financial review

## continued

### Poker

Year ended 31 December	2005 \$million	2004 \$million	% change
Gross revenue	903.5	568.4	59%
Bonuses and other fair value adjustments to revenue	(73.1)	(29.5)	148%
Net revenue from own sites	830.4	538.9	54%
Income from skins	28.7	14.1	104%
Net poker revenue	859.1	553.0	55%
Clean EBITDA	509.2	361.9	41%

PartyGaming operates a number of online poker rooms including PartyPoker, the world's largest online poker room, MultiPoker, IntertopsPoker, PokerNOW and subsequent to the year end, EmpirePoker. During 2005 the Group had 1.3 million active real money poker customers and revenue from customers playing on its poker sites was up by 54% compared with the same period in 2004.

During December 2005, it is estimated that PartyPoker had an average market share, as measured by ring game gross revenue, of 38%. Including owned skins, the Group's share was over 40% which was more than three times larger than its nearest rival. PartyPoker's operating margins in the period were lower than the previous year as a result of increased distribution costs reflecting continued competitive pressures as well as wider brand promotion in a number of new territories such as the UK and Scandinavia. Higher administration expenses, particularly in the second half, reflected the Group's transition to becoming a listed public company as well as one-off expenses associated with the conclusion of the Group's skin strategy.

Poker continues to appeal to an expanding group of online players as demonstrated by the strong growth in both real money sign-ups and the number of active players. A summary of the key performance indicators of the business during the period is shown in the table below:

#### Key performance indicators

Year ended 31 December	2005	2004
Active player days	47,403,613	28,216,430
Daily average players	129,815	77,094
Yield per active player day	\$17.5	\$19.1
New real money sign-ups	839,317	596,565
Unique active players during the period	1,340,661	742,398
Unique active players in December	559,189	323,943
Average daily revenue	\$2,274,943	\$1,472,398

The Group increased the total number of real money sign-ups during the year to 839,317 (2004: 596,565), 24% of which were outside the US (2004: 10%). This contributed to an 81% increase in unique active players and a 68% year-on-year increase in active player days to a record 47.4 million (2004: 28.2 million).

Yield per active player day fell to \$17.5 (2004: \$19.1), reflecting an increasing number of recreational players, the introduction of blackjack in the fourth quarter and an increase in the level of bonuses arising from competitive pressures in the marketplace.

As anticipated, rates of attrition of real money sign-ups in 2005 continued to increase with 29.2% of the sign-ups in January 2005 remaining active after six months and 26.7% after 12 months. While the rates of attrition have increased over the previous year, the trend has improved in recent months reflecting the fact that a number of previously lapsed players have returned to PartyPoker. As at 31 December 2005 and across all real money poker sign-ups to date, the average rate of attrition after six months was 32.9% and after 12 months it was 29.5%.

### Casino

Year ended 31 December	2005 \$million	2004 \$million	% change
Gross revenue	138.6	68.9	101%
Bonuses and other fair value adjustments to revenue	(20.0)	(20.3)	(1%)
Net casino revenue	118.6	48.6	144%
Clean EBITDA	75.6	29.0	161%

The Group's casino business was transformed by the introduction of blackjack on to PartyPoker during the fourth quarter of 2005 with revenues up 144% on the previous year. Excluding the first two weeks post-launch, which benefited from a degree of novelty factor, blackjack generated average daily gross win in the fourth quarter of \$0.9 million with a steady gross win margin of 2%. While bonus levels in casino tend to be much higher than in poker, the large increase in revenue from blackjack meant that bonuses (and other fair value adjustments to revenue) fell to 14.4% of gross revenue (2004: 29.5%). Management expect that over time bonus activity will gradually increase and return to levels previously seen in casino. A summary of the key performance indicators of the business during the year is shown in the table below:

#### Key performance indicators

Year ended 31 December	2005	2004
Active player days	2,914,940	657,893
Daily average players	7,986	1,798
Yield per active player day	\$40.7	\$73.9
New real money sign-ups	66,741	54,000
Unique active players during the period	444,005	70,177
Unique active players in December	207,391	12,745
Average daily revenue	\$325,046	\$132,754

Blackjack dominated all of the player metrics with total active player days increasing substantially from 0.7 million to 2.9 million, while the number of unique active players increased more than five-fold to 444,005. Yield per active player day fell to \$40.7 (2004: \$73.9) again driven by the impact of blackjack and this reduced the average yield over all casino games for the full year.

Whilst additional distribution costs linked to the increase in volume were incurred following the launch of blackjack, the fact that the majority of blackjack players were already existing players on PartyPoker meant that there were few customer acquisition costs associated with the blackjack revenue generated. As a result, Clean EBITDA margins for casino in 2005 increased to 63.7% (2004: 59.7%).

# Operating and financial review

## continued

### Distribution costs

Year ended 31 December	2005 \$million	2004 \$million	% change
Customer acquisition and retention	(100.1)	(37.6)	166%
Affiliates	(99.4)	(53.7)	85%
Other customer bonuses (not netted from revenue)	(11.3)	(10.0)	13%
Customer bad debts	(48.9)	(36.7)	33%
Web-hosting and technical services	(11.4)	(4.2)	171%
<b>Total distribution costs</b>	<b>(271.1)</b>	<b>(142.2)</b>	<b>91%</b>
Total distribution costs as % of revenue	<b>27.7%</b>	<b>23.6%</b>	

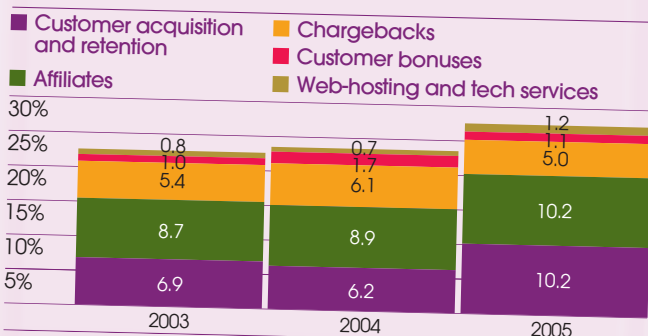
As reflected in the results for the first half of 2005, increased competitive pressures increased distribution expenses as a percentage of revenue compared with the previous year. Driven by a major increase in customer acquisition and retention costs, distribution expenses were 27.7% of revenue versus 23.6% in 2004. Affiliate costs have also increased faster than revenue growth, reflecting their increasing importance as a central part of the Group's marketing strategy – affiliates were responsible for 34.3% of poker revenue in 2005 (2004: 28.3%). However, customer bad debts fell as a proportion of revenue reflecting improvements in systems and processes to prevent fraudulent behaviour. Web-hosting and technical costs increased sharply reflecting the substantial increase in customer traffic, investment in new equipment and further system improvements that were introduced during the year.

### Administration costs

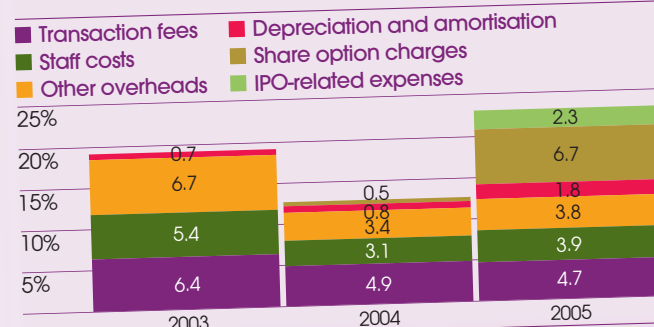
Year ended 31 December	2005 \$million	2004 \$million	% change
Transaction fees	(46.2)	(29.3)	58%
Depreciation and amortisation	(17.3)	(4.6)	276%
Staff costs	(38.4)	(18.6)	106%
Other overheads	(37.2)	(20.6)	81%
Administration costs before share option charges, IPO expenses and skin-related settlement costs	(139.1)	(73.1)	90%
Share option charges (see below)	(65.6)	(3.2)	
IPO-related expenses	(22.6)	-	
Skin-related settlement costs	(145.8)	-	
<b>Total administration costs</b>	<b>(373.1)</b>	<b>(76.3)</b>	<b>389%</b>
Total administration costs as % of revenue	<b>38.2%</b>	<b>12.7%</b>	
Total administration costs as % revenue (excluding share option charges, IPO expenses and skin-related settlement costs)	<b>14.2%</b>	<b>12.2%</b>	

Administration costs before share option charges, IPO expenses and skin-related settlement costs increased by 90% to \$139.1 million, driven by increased activity levels and the transformation to becoming a listed public company. Transaction costs increased substantially reflecting increased volumes of customer deposits and withdrawals but reduced as a proportion of revenue reflecting an increase in the proportion of transactions using e-wallets rather than more expensive payment mechanisms. Depreciation and amortisation increased substantially to \$17.3 million reflecting further investment in bandwidth in Gibraltar, the fit-out of a number of new offices in Gibraltar, Hyderabad and London to accommodate the increase in staff levels and the amortisation of intangibles associated with the acquisition of PokerNOW, MultiPoker and IntertopsPoker during the year. Staff costs more than doubled in the year reflecting the addition of new employees as the business has expanded as well as the addition of a number of listed company-related appointments, including the Board of Directors. The growth in other overheads included various advisory fees associated with acquisitions and legal claims.

### Distribution costs as a % of revenue



### Administration costs\* as a % of revenue



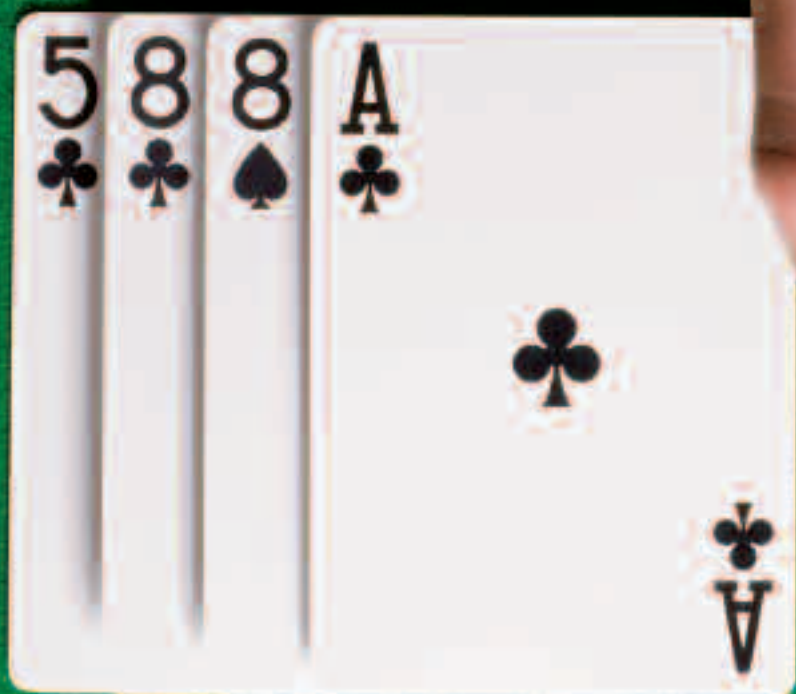
\*Excluding skin-related settlement costs

What sort of hand is this?



**It's no joke, since we started we have dealt 5,881 million hands of poker.**

**The world's largest poker room**  
By 31 December 2005 we had dealt 5.9 billion hands of poker, of which 3.4 billion were real money and 2.5 billion were play money.





# Operating and financial review

continued

## Share option charges

Prior to flotation, the founding shareholders established a share option plan for the benefit of the current and future workforce. Under the terms of the plan, the existing workforce were granted a number of nil-cost options to be satisfied by existing shares which had been issued to a dedicated employee trust. As such, the exercise of these options had no dilutive effect on shareholders who subscribed at the IPO and will have no cash impact on the Company. International Financial Reporting Standards requires that the fair value of the options be amortised through the income statement over the life of the options. As a result there is a non-cash charge of \$65.6 million (2004: \$3.2 million) which has been included within the income statement in the period. This can be analysed as follows:

Year ended 31 December	2005 \$million	2004 \$million
Charge relating to		
- nil-cost options issued pre-IPO	(63.4)	(3.2)
- nil-cost options issued post-IPO	(2.2)	-
Total	(65.6)	(3.2)

## IPO-related expenses

Given that no new money was raised for the Company, the IPO-related expenses were apportioned between the selling shareholders and the Company based on contractual arrangements. The total IPO-related expenses were \$88.0 million of which the Company incurred \$22.6 million (2004: nil).

## Skin-related settlement costs

The separation of PartyPoker from the skins platform in October 2005, the subsequent departure of Coral Eurobet and the settlement of legal claims by Empire Online Limited resulted in a non-recurring expense relating to settlement costs totalling \$145.8 million.

## Associates

Year ended 31 December	2005 \$million	2004 \$million
35% interest in a company incorporated in England and Wales	1.0	-

The Group acquired a 35% interest in the ordinary share capital of a company incorporated in England and Wales during the period. The Group's share of losses during the year totalled \$0.8 million (2004: nil).

## Finance income and costs

Year ended 31 December	2005 \$million	2004 \$million
Interest payable and other charges	(10.2)	(12.9)
Interest receivable	3.5	1.4
	(6.7)	(11.5)

Interest payable fell to \$10.2 million due to the repayment of all outstanding shareholder loans during the year. Interest receivable increased to \$3.5 million due to an increase in cash balances.

## Net cash<sup>10</sup>

As at 31 December 2005, the Group had net cash of \$199.9 million<sup>10</sup> (2004: net debt of \$350.7 million), having repaid all outstanding shareholder loans as well as the balance of a \$200 million revolving credit facility which was provided by Royal Bank of Scotland Plc and Barclays Capital at the time of the IPO. The margin on the revolving credit facility, which is currently undrawn, is 1% over LIBOR (or EURIBOR where relevant).

## Taxation

The effective tax rate, before share option charges, IPO expenses and skin-related settlement costs is 5.7% (2004: 5.8%).

## Dividend

The final dividend for the year to 31 December 2005 will be the Group's first dividend since becoming a public company in June 2005. At the time of the IPO the Board indicated that the final dividend was expected to be an aggregate amount of approximately \$200 million, representing two-thirds of the total dividend that would have been paid had the Company been listed since 1 January 2005. Accordingly, the Board is pleased to recommend a final dividend totalling \$200 million in aggregate, equivalent to 5.25 cents per Share. The final dividend of 5.25 cents per Share will be payable on 19 May 2006, subject to approval at the Annual General Meeting to be held on 4 May 2006, to Shareholders and Depositary Interest Holders on the register of members or Depositary Interest register respectively at the close of business on 7 April 2006. The ex-dividend date will be on 5 April 2006. Shareholders will receive their dividends in United States Dollars, unless they elect for Sterling. These Shareholders or Depositary Interest Holders may make Sterling elections by notifying Capita IRG by 20 April 2006. The Sterling equivalent of dividends declared in United States Dollars will be calculated by reference to a rate prevailing on 28 April 2006.

# Operating and financial review

continued

## Cash flow

Year ended 31 December	2005 \$million	2004 \$million
<b>Cash flow from operations before movements in working capital</b>	<b>415.3</b>	391.0
Working capital movements associated with non-recurring skin-related settlement costs	142.2	-
Other working capital movements	62.7	38.1
<b>Net cash flow from operating activities</b>	<b>620.2</b>	429.1
Capital expenditure	(36.8)	(11.9)
Acquisitions of intangible assets	(22.6)	(5.8)
Investment in associated undertaking	(1.8)	-
Short-term investments	(6.8)	-
Purchase and cancellation of own shares	-	(1.1)
Net finance costs	(8.4)	(9.6)
Repayment of shareholder loans	(482.8)	(343.2)
<b>Increase in cash and cash equivalents</b>	<b>61.0</b>	57.5

Operating cash flow before movements in working capital included the charge relating to non-recurring skin-related settlement costs of \$142.2 million and was 6% higher than 2004. Movements in working capital were again positive, generating an additional \$62.7 million (2004: \$38.1 million) reflecting the continued management of receivables and lower payment processing reserves, resulting in net cash flow from operations of \$620.2 million, an increase of 45% over the previous year.

During the period, \$482.8 million of outstanding shareholder loans were repaid.

## Capital expenditure

Capital expenditure during the period was \$36.8 million (2004: \$11.9 million) and is analysed in the table below:

Year ended 31 December	2005 \$million	2004 \$million
Poker	12.4	3.0
Casino	0.3	1.4
Corporate assets	24.1	7.5
<b>Total</b>	<b>36.8</b>	11.9

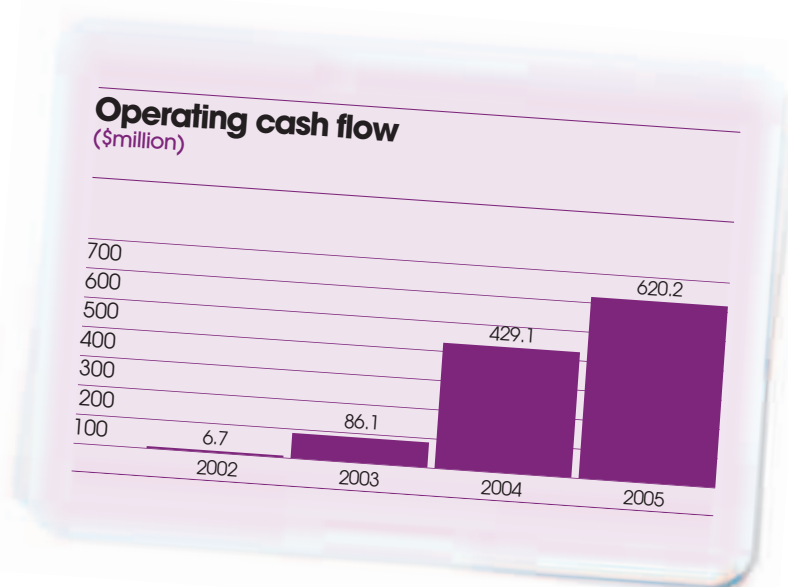
The substantial increase in capital expenditure year on year reflected a number of capital projects, including the implementation of a data warehousing solution, the fit-out of offices in Gibraltar, Hyderabad and London and investment in a server centre in Gibraltar.

## Acquisitions of intangible assets

During the year the Group completed a number of acquisitions, further details of which are provided below.

Year ended 31 December	2005 Consideration \$million
MultiPoker	14.5
IntertopsPoker	4.2
PokerNOW	2.8
Other	5.4
<b>Total</b>	<b>26.9</b>

On 11 November 2005 the Group announced the acquisition of the player database and intellectual property of MultiPoker for \$14.5 million in cash. Other acquisitions included PokerNOW and control of the IntertopsPoker website as well as a number of small affiliates for an aggregate sum of \$12.4 million.



# What happens next?

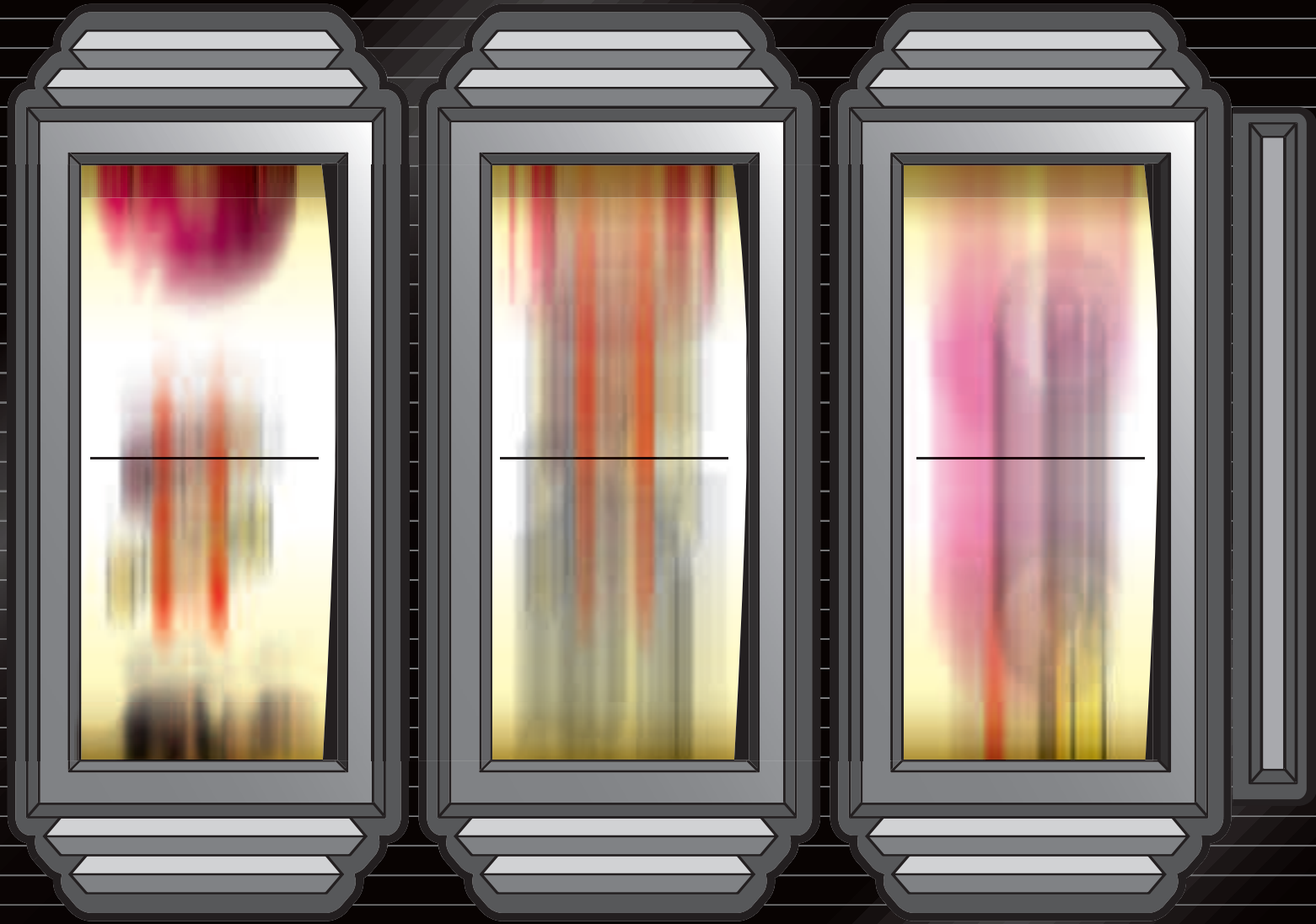


**Are we off to the races,  
the dogs or the big game?  
Wait and see.**



**Games development**

We plan to launch two new games in 2006. Both games will be added to the Party-branded, integrated platform. Going forward, we will be adding even more games.



# Board of Directors

## **Michael Jackson (56)** **Chairman**

Michael Jackson became Chairman of PartyGaming in May 2005. He is Non-Executive Chairman of the FTSE 100 software group, The Sage Group plc, which, during his time as a director, has grown from a capitalisation of £1 million in 1983 to its current level of over £3 billion. It was announced in February 2006 that Michael would be stepping down as Chairman of The Sage Group plc from 1 August 2006. Michael is

also Chairman of the venture capital and investment company, Elderstreet Investments Limited, which he founded prior to its acquisition by Dresdner Kleinwort Capital in 2000 and subsequent sale back to management in 2003. Michael is also a director and investor in a number of other quoted and unquoted companies. Mr Jackson holds an MA in law from Cambridge University and qualified as a Chartered Accountant with Coopers & Lybrand.



## **Richard Segal (42)** **Chief Executive Officer**

Richard Segal joined PartyGaming on 25 August 2004. Before joining the Group, Richard was for the period 1997 to 2003, chief executive officer of Odeon Limited ("Odeon") and its successor company. During this time, Odeon was owned by The Rank Group Plc ("Rank") until February 2000, when Richard led a management buyout of Odeon from Rank. In March 2003, Richard led the successful sale of Odeon

to a consortium led by WestLB Bank. During his employment with Rank, which spanned from 1988 to 2000, Richard held a number of senior management positions, including managing director of Rank's Entertainment Sector. Prior to working for Rank, Richard worked for Arthur Andersen. He holds a BA in economics from Manchester University and is a member of the Institute of Chartered Accountants of England and Wales.



## **Martin Weigold (40)** **Group Finance Director**

Martin Weigold joined the Group on 4 January 2005. Prior to joining, Martin was the chief financial officer of Jetix Europe NV, formerly Fox Kids Europe NV, for five years from its flotation on Euronext in 1999. Before holding this position, he was the vice president of finance of Walt Disney Television International for four years and was actively involved in the launch of Disney Channels in France, Spain, Italy and Germany.

Prior to this he was an assistant director of Guinness Mahon Development Capital for six years following a three year period as a management consultant with Arthur Andersen. Martin holds a BSc in economics and accounting from Bristol University and is a member of the Institute of Chartered Accountants of England and Wales.



## **Anurag Dikshit (34)** **Group Operations Director**

Anurag Dikshit joined the Group in 1998 and is one of the original founders. Prior to joining the Group, Anurag worked as a development engineer at CMC, systems analyst at Websci and consultant for AT&T. He holds a Bachelor of Technology in computer science and engineering from the Indian Institute of Technology in New Delhi.



## **Vikrant Bhargava (33)** **Group Marketing Director**

Vikrant Bhargava's experience prior to joining the Group in 2000 included positions as a credit officer at the Bank of America, where he was responsible for managing credit exposure and revenue for a portfolio of corporate clients, and a business analyst at British Gas in the business development division. Vikrant has a Postgraduate Diploma in Management from the

Indian Institute of Management, Kolkata and graduated with a Bachelor of Technology in electrical engineering from the Indian Institute of Technology in New Delhi.



**Brian Larcombe (52)**  
**Deputy Chairman and Senior Independent Non-Executive Director**

Brian Larcombe became Deputy Chairman and the Senior Independent Non-Executive Director of PartyGaming in May 2005. Previously Brian had been with 3i Group plc, having served as finance director of 3i from 1992 to 1997 and as chief executive officer from 1997 until 2004.

He is currently a non-executive director of Smith & Nephew plc and of F&C Asset Management plc and a former chairman of the British Venture Capital Association.



**Lars Berg (58)**  
**Independent Non-Executive Director**

Lars Berg became a Non-Executive Director of PartyGaming in May 2005. Since August 2000, Lars has been a non-executive board member of several European technology and telecommunications companies including Telefonica Moviles, Eniro, Net Insight and Ratos. In March 1999, he joined the executive board of Mannesmann AG, Dusseldorf, Germany, as head of its Telecommunications Business,

and from 1994 until 1999 he was president and chief executive officer of Telia AB. Between 1970 and 1994 he held various management positions in the Ericsson Group.



**Nigel Kenny (57)**  
**Independent Non-Executive Director**

Nigel Kenny became a Non-Executive Director of PartyGaming in May 2005. From 1999 until 2002, Nigel was Group Executive Director of Finance at Standard Chartered plc. Nigel joined Standard Chartered in 1992 as Group Head of Audit and held a number of senior positions during his tenure, including Regional General Manager for UK & Europe, Group Head of Strategy and Group Head of Corporate and

Institutional Banking, Operations. Nigel is a chartered accountant, having qualified with Price Waterhouse in London, and was with Chase Manhattan Bank for 13 years prior to joining Standard Chartered. Since leaving Standard Chartered he has worked in the private equity sector.



**Janos Libor (40)**  
**Non-Executive Director**

Janos Libor became a Non-Executive Director of PartyGaming in October 2005. Janos is a graduate of the Sorbonne, University of California and Harvard Business School. Janos is Managing Director of Timber Cove, a private investment management company.

Previously he was a strategy consultant and held senior positions within Abeam Consulting, Deloitte Consulting and McKinsey working in North America and the Far East.



**Rod Perry (60)**  
**Independent Non-Executive Director**

Rod Perry became a Non-Executive Director of PartyGaming in May 2005. Rod had been an executive director at 3i Group plc, latterly responsible for venture capital investment activities worldwide. He joined 3i in 1985 as an industrial adviser and became Head of Information Systems in 1989. Rod was appointed to the

3i executive committee in 1996 with responsibility for group services and later Asia Pacific investment. He retired from the 3i Board in July 2005.



# Directors' report

The Directors have pleasure in presenting their first Directors' Report to Shareholders.

## Principal activities and business review

Since its foundation in 1997, PartyGaming has become the world's largest online gaming company with 1.3 million real money poker customers and 0.4 million casino customers playing on the Group's platforms in 2005. PartyGaming owns and operates PartyPoker, the world's largest online poker business (based on revenue and number of players). The Group also operates other online gaming sites, including PartyCasino, Starluck Casino, Planetluck Casino and PartyBingo and is engaged in introducing new online games to satisfy consumer demand.

The Company was incorporated in Gibraltar on 28 April 2004 as Olema Ventures Limited before re-registering as a public limited company under the name of PartyGaming Plc on 9 February 2005 and becoming the Group's ultimate holding company for the purposes of gaining a listing on the London Stock Exchange. On 30 June 2005 the Company's Shares were admitted to the Official List and to trading on the London Stock Exchange. As part of this exercise, 896,889,050 Shares (22.4% of the issued share capital) were sold in the market.

The Company and all other members of the Group, with the exception of the Indian and UK incorporated subsidiaries, are registered under The Companies (Taxation and Concessions) Ordinance as exempt companies for Gibraltar tax purposes.

A detailed review of the Group's business and prospects are set out elsewhere in this document.

## Results and dividends

During the year the Company made a profit of \$293.2 million. In accordance with the statements made in the Listing Particulars, the Company has not paid an interim dividend in 2005 and the Directors recommend a final dividend of 5.25 cents per Share. This proposal is in line with the Board's dividend policy, which will reflect the long-term earnings and cash flow potential of the Group, whilst maintaining an appropriate level of dividend cover. If approved by the Shareholders at the Annual General Meeting on 4 May 2006, the final dividend will be paid on 19 May 2006 to those Shareholders and Depositary Interest Holders entered in the register of members or Depositary Interest register respectively, on 7 April 2006. More details regarding the dividend payment process are set out in the Shareholder Information section.

Of the 4 billion Shares in issue, as at 28 February 2006 192,631,794 Shares were held in the PartyGaming Employee Share Option Trust. The trustee of the Employee Trust has waived all dividend and voting rights in respect of these Shares which are held by the Employee Trust to satisfy the future exercise of share options. This waiver only subsists while the Shares are held in the Employee Trust. The Shares are transferred out of the Employee Trust upon the exercise of share options under the Share Option Plans.

## The Directors

Details of the current Directors are set out under the Board of Directors section.

Prior to the Company obtaining its listing, Cheam Directors Limited and Stawell Services Limited (appointed 8 February 2005) served as Directors until 10 March 2005 and Alfred Ballester and Vikrant Udeshi, both employees of the Group, served as Directors from 10 March 2005 to 26 May 2005.

With the exception of Janos Libor, who was appointed to the Board on 19 October 2005, all the Directors stood for re-appointment at the AGM held on 24 June 2005. Therefore, in accordance with the Articles of Association, at the 2006 AGM Janos Libor will retire and seek re-appointment to the Board and one-third of the remaining nine Directors are required to retire and seek re-appointment. Consequently, Martin Weigold, Nigel Kenny and Lars Berg will also be retiring at the AGM and standing for re-appointment. In accordance with its duties, the Nominations Committee has considered the re-appointments, with regard to the performance of these Directors and their ability to continue to contribute to the Board in light of the knowledge, skills and experience required. As part of this process, the results of the Board performance evaluation have been taken into account. The Nominations Committee recommends and the Board agrees that, given the valuable contributions made by those Directors standing for re-appointment, it is in the best interests of the Company that they are re-appointed at the 2006 AGM.



## Directors' Share interests

The beneficial interests of the Directors in office at 31 December 2005 in the issued share capital of the Company are set out in the table below:

	Ordinary Shares 28 February 2006	Ordinary Shares 31 December 2005	Ordinary Shares 30 June 2005	Ordinary Shares 1 January 2005
<b>Chairman</b>				
Michael Jackson	862,069	862,069	862,069	0
<b>Executive Directors</b>				
Vikrant Bhargava	344,960,000	344,960,000	344,960,000	112,000,000
Anurag Dikshit	1,214,752,000	1,214,752,000	1,214,752,000	394,400,000
Richard Segal	0*	0*	0*	0
Martin Weigold	1,368,896	1,368,896	0	0
<b>Non-Executive Directors</b>				
Lars Berg	184,293	184,293	188,793	0
Nigel Kenny	50,862	50,862	50,862	0
Brian Larcombe	508,621	508,621	508,621	0
Janos Libor	0	0	0	0
Rod Perry	50,862	50,862	50,862	0

\*Richard Segal had the following options under the PartyGaming Plc Share Option Plan which had vested but remained unexercised; on 30 June 2005 over 800,000 Shares; on 31 December 2005 over 4,550,000 Shares; and on 28 February 2006 over 5,800,000 Shares.

On 5 May 2005 the Company's issued share capital was subdivided by a factor of four which meant Anurag Dikshit and Vikrant Bhargava's holding increased to 1,577,600,000 and 448,000,000 Shares respectively. On Admission, Anurag Dikshit and Vikrant Bhargava, two founding Shareholders of the Group, disposed of 362,848,000 and 103,040,000 Shares respectively at the Offer Price of 116 pence per Share. On Admission, Richard Segal and Martin Weigold exercised options under the PartyGaming Plc Share Option Plan in respect of 9,200,000 and 3,680,000 Shares respectively and also sold these Shares at the Offer Price of 116 pence per Share. Richard Segal and Martin Weigold also have further interests in the Company's share capital through the options they have been granted under the PartyGaming Plc Share Option Plan, details of which are set out in the Remuneration Report.

### Share capital

The Company has an authorised share capital of £75,000 divided into 5,000,000,000 ordinary shares of 0.0015 pence. The Company has in issue and admitted to the Official List and to trading on the London Stock Exchange 4,000,000,000 Shares. As securities issued by non-UK companies cannot be held or transferred through the CREST paperless settlement system, the Company has put in place arrangements for a depositary to hold the Shares and issue dematerialised depositary interests (Depositary Interests) representing the underlying Shares which are held on trust for the holders of the Depositary Interests.

As disclosed in the Listing Particulars, on 10 June 2005 the Directors were authorised to allot further Shares up to an aggregate nominal amount of £15,000 (1,000,000,000 Shares). This authority expires on 10 June 2010. The Directors are also empowered pursuant to Articles 22 to 25 until 10 June 2010 to allot Shares for cash, pursuant to the above authority as if pre-emption rights did not apply to the allotment, provided that such authority be limited to (i) the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders but subject to such exclusions as may be necessary to deal with fractional entitlements or legal or practical problems under any laws or requirements of any regulatory body in any jurisdiction; and (ii) the allotment (otherwise pursuant to (i) above) of equity securities for cash up to an aggregate nominal amount of £3,000 (200,000,000 Shares).

Further information regarding the Company's Shares and Depositary Interests are set out in the Shareholder Information section.

# Directors' report

## continued

### Significant shareholdings

Set out below is a list of shareholdings disclosed to the Company in accordance with the Gibraltar Disclosure of Interests in Shares Ordinance 1998, the Articles and Deed Poll.

Shareholder	Ordinary Shares currently held as at 28 February 2006	Percentage of issued share capital
Crystal Ventures Limited <sup>(1)</sup>	1,214,752,000	30.37
Cheam Directors Limited <sup>(2)</sup>	628,320,000	15.71
Cheam Directors Limited <sup>(3)</sup>	628,320,000	15.71
Coral Ventures Limited <sup>(4)</sup>	344,960,000	8.62
Employee Trust	192,631,794	4.82

<sup>(1)</sup>A Company owned indirectly by Anurag Dikshit, one of the Directors and Principal Shareholders.

<sup>(2)</sup>Cheam Directors Limited holds Shares on bare trust for Stinson Ridge Limited, a company wholly owned by Russell DeLeon.

<sup>(3)</sup>Cheam Directors Limited holds Shares on bare trust for Emerald Bay Limited, a company wholly owned by Ruth Parasol.

<sup>(4)</sup>A company owned indirectly by Vikrant Bhargava, one of the Directors and Principal Shareholders.

The Principal Shareholders are subject to the Underwriting Agreement and have agreed to a lock-up undertaking, which provides that prior to 30 June 2006, none of the Principal Shareholders will dispose of their Shares without the prior consent of Dresdner Kleinwort Wasserstein, other than in connection with a takeover bid or to connected persons who are themselves locked-up.

In addition, the Principal Shareholders entered into a Relationship Agreement with the Company dated 14 June 2005. This agreement contains further provisions concerning the disposal by the Principal Shareholders of their Shares. If any Principal Shareholder proposes to effect any sale, transfer or other disposal of any Shares (a 'Disposal'):

- (i) such Principal Shareholder undertakes to provide the Company with as much notice as is reasonably practicable but in any event not less than 10 business days' prior notice of the proposed Disposal;
- (ii) conduct such Disposal having such regard as is reasonable to the Company's desire to ensure an orderly market for its Shares;

(iii) where, prior to 31 December 2010, any such Disposal would be reasonably likely to cause the Company to lose its status as a Gibraltar Tax Exempt Company, provide the Company with not less than 12 months' prior notice of the proposed Disposal, provided that (A) no such Disposal shall take place within two years of Admission (30 June 2007) and (B) these obligations shall not apply if the result of the Disposal would be to expose the Group to an effective rate of Gibraltar taxation of less than 10%; and

(iv) give notice to the other Principal Shareholders of his or her intention to make a Disposal.

Details of the contracts of employment that Anurag Dikshit and Vikrant Bhargava have with the Company are set out in the Remuneration Report. Russell DeLeon and Ruth Parasol have each entered into separate consultancy agreements with the Company. Under the terms of the consultancy agreements, the consultants are appointed as independent and separate consultants to PartyGaming, which is entitled to call upon their services in respect of strategic advice, business development, product development and regulatory affairs. Both consultancy agreements can be terminated by either party on 12 months' written notice, provided no notice can be served before 30 June 2006, the first anniversary of Admission. Each consultant is paid a fee of £1,000 per day for services performed, and is reimbursed by the Company in respect of reasonable and necessary expenses incurred in the performance of those services. The consultancy agreements came into effect on 30 June 2005 and from this date to 31 December 2005 Russell DeLeon and Ruth Parasol received \$105,600 each in consultancy fees.

### Employees

Our employees are the most valuable asset of the Group. Without their dedication, professionalism and drive the Group would be unable to serve its customers' needs and achieve its goal of becoming the world's leading gaming company. The founders of the Group recognised this and wanted to ensure that employees shared in the success of the business. To this end the PartyGaming Plc Share Option Plan was established and, on Admission, the Company allotted 224 million Shares to the Employee Trust to be used to satisfy the future exercise of share options under the Share Option Plans and otherwise for the general purposes of the Employee Trust. More information regarding the Group's employee policies is set out in the Corporate Social Responsibility section. In recognition of the value of our employees, the Chief Executive Officer is the Director who reports on and takes responsibility on the Board for the Group's employees and the associated policies.

### Customer and creditor payment policy

The Group is committed to prompt payment of customer cashout requests and the Group maintains at all times adequate cash reserves to cover customer cashouts and balances. Normally payments will be made to customers within 7 days of a customer instruction. In the case of other creditors, it is the Group's policy to agree terms at the outset of a transaction and stick to them. In the event that an invoice is contested then the Group tells the supplier without delay and seeks to settle the dispute quickly.

### **Corporate and social responsibility**

The Board believes the way in which the Group behaves and interacts with its stakeholders is key to the business' success and development. The Board has appointed an Ethics Committee to review the corporate and social responsibility ('CSR') framework and ensure sufficient focus and resource is given to implementing, monitoring and managing CSR policies. Information about the Group's CSR policies is set out in the Corporate and Social Responsibility section and information on the Ethics Committee is given in the Corporate Governance Report.

### **Charitable and political donations**

For the year ended 31 December 2005 the Group made donations of \$248,064 to charitable organisations. The Group has not made any contributions to any political parties. More information on the Group's charitable policy is set out in the Corporate and Social Responsibility section.

### **Auditors**

During the year ended 31 December 2005 BDO Stoy Hayward LLP was appointed under an engagement letter to act as auditors for the purposes of the Company meeting its obligations to prepare financial statements under the Listing Rules. For the purposes of filing the Company financial statements in Gibraltar, BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited have been appointed to act as auditors, allowing an audit report to be issued under Section 10 of the Gibraltar Companies (Accounts) Ordinance 1999. The Audit Committee has reviewed the re-appointment of BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited as auditors. The Audit Committee recommends and the Board agrees with the re-appointment of BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited as auditors and therefore an ordinary resolution to this effect is being proposed at the AGM (resolution 4) together with an ordinary resolution authorising the Directors to set the auditors' remuneration (Resolution 5).

### **AGM**

The Company's AGM will be held on Thursday 4 May 2006 at Tercentenary Sports Hall, Bayside Sports Centre, Bayside Road, Gibraltar at 11 a.m. The AGM notice is printed later in this document. The Company is incorporated, managed and controlled in Gibraltar and therefore the AGM is required to be held in Gibraltar. Information on attending and voting at the AGM is set out in the Shareholder Information section of the Annual Report.

The business of the meeting is set out in the AGM notice, but set out below is a summary of and rationale for each resolution.

#### **Resolution 1 - To receive the annual accounts (ordinary resolution)**

The Directors are required by the Companies Ordinance to present the annual accounts for the year to 31 December 2005 to Shareholders to formally receive them. This gives Shareholders the opportunity to raise any questions about the 2005 accounts and accompanying reports and statements.

#### **Resolution 2 - To approve the Remuneration Report (ordinary resolution)**

The Remuneration Report sets out the remuneration policy of the Company and is prepared and laid before Shareholders for approval in accordance with best practice. The vote is advisory and does not affect the remuneration of the Directors in the year to 31 December 2005.

#### **Resolution 3 - To approve the final dividend (ordinary resolution)**

As detailed above, the Directors are recommending the payment of a final dividend of 5.25 cents per Share to Shareholders and Depositary Interest Holders on the register of members or Depositary Interest register respectively on 7 April 2006. If Shareholders approve the dividend it will be paid on 19 May 2006.

#### **Resolution 4 - To re-appoint the auditors (ordinary resolution)**

The Company is required to appoint an auditor at each general meeting at which accounts are laid before the Company, to hold office until the conclusion of the next such meeting. The Directors are recommending the re-appointment of BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited as auditors of the Company.

#### **Resolution 5 - To authorise the Directors to set the auditors' remuneration (ordinary resolution)**

The resolution authorises the Directors to set the remuneration payable to the auditors, in accordance with best practice. As explained in the Corporate Governance section, the Audit Committee is tasked with reviewing the auditors' remuneration and making a recommendation to the Board.

#### **Resolutions 6 to 9 - To re-appoint certain Directors (ordinary resolutions)**

Resolutions 6 to 9 deal with the re-appointment of Janos Libor, Martin Weigold, Nigel Kenny, and Lars Berg. In accordance with the Articles, these Directors must retire at the AGM and stand for re-appointment. Details of each Director's background and experience are set out in the Board of Directors section. For the reasons set out in the Directors section of this report above, the Board believes that it is in the best interests of the Company to re-appoint these individuals as Directors.

#### **Going concern statement**

The Directors have reviewed the Group's budget and strategy and consider that the Company has adequate resources to continue operating for the foreseeable future and therefore it is appropriate to continue to adopt the going concern basis in preparing these financial statements.

For and on behalf of the Directors

**David Abdo**  
**General Counsel and Company Secretary**  
28 February 2006

# Corporate governance

With the exception of the relevant provisions in the Companies Ordinance, Gibraltar does not have a system of corporate governance. The Company, however, applies the principles set out in the Combined Code on Corporate Governance annexed to the Listing Rules (the Code).

Throughout the period from Admission to 31 December 2005, the Company has complied fully with the Code's principles except in the three instances detailed below, being the Chairman's second FTSE 100 chairmanship, the Chairman's initial fixed term of service and the independence of the Board.

Prior to Admission, the Company was not required to comply with the Listing Rules and the Code and therefore from 1 January 2005 until 31 May 2005 the Company was not compliant with

all provisions of the Code. During the period to 31 May 2005, ahead of the proposed listing of the Company's Shares, measures were taken to implement a corporate governance regime within the Company which was compliant with the Code. These measures included the appointment, on 31 May 2005, of the Non-Executive Directors and Chief Executive Officer to the Board, the adoption of a schedule of matters reserved to the Board and the appointment of the Audit, Remuneration and Nominations Committees. As a result, from 31 May 2005 until Admission, the Company was compliant with the Code, except in respect of the Chairman's initial fixed term of service and with the caveat that, on the Company being admitted to the FTSE 100, the Chairman would be the chairman of two FTSE 100 companies.

## The Board

In accordance with the Code, the Company is headed by an effective Board, which is collectively responsible for the success of the Company. The Board provides entrepreneurial leadership of the Company whilst ensuring that a framework of prudent and effective controls exists in order effectively to assess and manage risk.

Director	Age	Position	Committees	Date of Appointment	Date of last Re-appointment
Michael Jackson	56	Chairman	Chairman of the Nominations Committee and member of the Ethics Committee	31 May 2005 (to the Board and the Committees)	24 June 2005
Richard Segal	42	Chief Executive Officer	Member of the Nominations Committee	31 May 2005 (to the Board and the Nominations Committee)	24 June 2005
Martin Weigold	40	Group Finance Director	-	4 April 2005	24 June 2005
Anurag Dikshit	34	Group Operations Director	-	4 April 2005	24 June 2005
Vikrant Bhargava	33	Group Marketing Director	-	4 April 2005	24 June 2005
Brian Larcombe	52	Deputy Chairman and Senior Independent Director	Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees	31 May 2005 (to the Board and the Committees)	24 June 2005
Lars Berg	58	Independent Non-Executive Director	Member of the Audit, Nominations and Ethics Committees	31 May 2005 (to the Board and the Committees)	24 June 2005
Nigel Kenny	57	Independent Non-Executive Director	Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees	31 May 2005 (to the Board and the Committees)	24 June 2005
Janos Libor	40	Non-Executive Director	Member of the Nominations and Ethics Committees	19 October 2005 (to the Committees on 5 December 2005)	-
Rod Perry	60	Independent Non-Executive Director	Chairman of the Ethics Committee and member of the Remuneration and Nominations Committees	31 May 2005 (to the Board and the Committees)	24 June 2005

Set out in the Board of Directors section are biographies for each of the Directors.

The Board meets regularly in Gibraltar, at least eight times a year and minutes of these meetings are recorded. Set out below are details of the Directors' attendance record.

	Number of meetings held/attended in the period 30 June 2005 to 31 December 2005				
	Board	Audit Committee	Ethics Committee	Nominations Committee	Remuneration Committee
Lars Berg	4/4	2/2	2/2	1/1	N/A
Vikrant Bhargava	4/4	N/A	N/A	N/A	N/A
Anurag Dikshit	4/4	N/A	N/A	N/A	N/A
Michael Jackson	4/4	N/A	2/2	1/1	N/A
Nigel Kenny	4/4	2/2	N/A	1/1	2/3
Brian Larcombe	4/4	2/2	N/A	1/1	3/3
Janos Libor	2/2	N/A	*	*	N/A
Rod Perry	4/4	N/A	2/2	1/1	3/3
Richard Segal	4/4	N/A	N/A	1/1	N/A
Martin Weigold	4/4	N/A	N/A	N/A	N/A

\*Janos Libor was appointed to the Board on 19 October 2005 and to the Ethics and Nominations Committees after the last meeting of these Committees had been held in 2005.

The Directors have adopted a formal schedule of matters reserved to the Board, setting out which issues must be referred to the Board for decision. Examples of topics covered by the schedule are long-term strategy, budgets and forecasts, the convening of Shareholder meetings, capital expenditure over certain limits, restructuring of the Group, changes of share capital, approval of new loan facilities, dividend policy, acquisitions and disposals.

The Chairman has also met with the Non-Executive Directors without the Executive Directors present during the year ended 31 December 2005. Subsequent to the year end, led by the Senior Independent Director, the Non-Executive Directors met without the Chairman present to review the latter's performance during the year ended 31 December 2005.

The Company has directors' and officers' liability insurance and prospectus indemnity cover in place.

#### The Chairman and the Chief Executive Officer

In accordance with the Code, the roles of Chairman and Chief Executive Officer are not exercised by the same individual. The different responsibilities of both roles have been clearly set out by the Board in a schedule of responsibilities of the Chairman and the Chief Executive Officer.

The Code requires that no individual should be appointed to a second chairmanship of a FTSE 100 company. As disclosed in the Listing Particulars, Mr Jackson is currently the chairman of The Sage Group plc, a FTSE 100 company. As anticipated in the Listing Particulars, following Admission, the Company joined the FTSE 100 on 19 September 2005 and therefore the requirements of the Code in this respect have not been met. The Board, however, is satisfied that Mr Jackson has been able to devote sufficient time to his duties as Chairman of PartyGaming Plc. Subsequent to the Company's year end, on 6 February 2006, The Sage Group plc announced that Michael Jackson had decided to retire as chairman of that company with effect from 1 August 2006.

#### Board independence

The Code recommends that at least half the members of a board (excluding the chairman) should be non-executive directors who are independent in character and judgement and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. Until 19 October 2005 the Company had four independent Non-Executive Directors (excluding the Chairman) (Brian Larcombe, Lars Berg, Nigel Kenny and Rod Perry) and four Executive Directors (Richard Segal, Martin Weigold, Vikrant Bhargava and Anurag Dikshit) and therefore complied with the Code.

On 19 October 2005 Janos Libor was appointed to the Board as a Non-Executive Director. As disclosed in the Company's Listing Particulars, under the terms of the Relationship Agreement between the Company and, amongst others, Ruth Parasol and Russell DeLeon dated 14 June 2005, these Principal Shareholders have the right to nominate for appointment to the Board a suitable person whilst they together have an interest of 15% or more of the Company's issued share capital. Ruth Parasol and Russell DeLeon nominated Janos Libor and after considering the nomination, the Nominations Committee recommended and the Board approved the appointment. Owing to the background behind his appointment, Janos Libor cannot be considered to be an independent director and therefore, between 19 October 2005 and 31 December 2005, slightly less than half of the Board (excluding the Chairman) comprised Non-Executive Directors considered by the Board to be independent. Nevertheless, the Board is satisfied that it has maintained a sufficient degree of independence and continues to do so. The Board is currently going through a search and selection process in order to appoint a new independent Non-Executive Director and restore the balance of independent and non-independent Directors serving on the Board and an announcement regarding the appointment of an independent Non-Executive Director is expected to be made in due course.

Brian Larcombe has been appointed the Senior Independent Director and is available to Shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive Officer or Group Finance Director has not resolved or for which contact is inappropriate.

# Corporate governance

## continued

### Appointments to the Board

The Board has adopted a formal, rigorous and transparent procedure for the appointment of new Directors to the Board. The Board has appointed a Nominations Committee to lead the process of appointment and make recommendations to the Board. Michael Jackson chairs the Nominations Committee and Brian Larcombe, Lars Berg, Nigel Kenny, Janos Libor (appointed 6 December 2005), Rod Perry and Richard Segal are members. The Nominations Committee has adopted terms of reference approved by the Board and these are available on the Company's website ([www.partygaming.com/investor/nomination\\_terms.html](http://www.partygaming.com/investor/nomination_terms.html)).

As Janos Libor is a nominee of two of the Principal Shareholders, the Nominations Committee did not use an external search consultancy for this appointment. An external search consultancy has been engaged by the Nominations Committee and given a description of the role and capabilities required for suitable candidates to fulfil the role of independent Non-Executive Director. The Nominations Committee will review the candidates put forward by the search consultancy before making a shortlist of candidates for members of the Nominations Committee to interview. Following the interview stage the Nominations Committee will make recommendations to the Board as to which candidates are best suited to the selection criteria. An announcement regarding an appointment of an independent Non-Executive Director will be made in due course.

The Code recommends that notice or contract periods for Directors should be set at one year or less. Michael Jackson has an appointment letter governing the terms of his appointment as Chairman from Admission under which he is appointed for an initial term until 21 March 2008. The appointment may be terminated by PartyGaming giving 12 months' notice to Michael Jackson to expire at any time on or after 21 March 2008. The Board is satisfied that the length of Michael Jackson's initial fixed term was necessary to secure his services as Chairman. Notice periods for the other Directors comply with the Code.

On 28 February 2006 the Company announced that Richard Segal, the current Chief Executive Officer, would be leaving the Company no later than 1 June 2006 following a decision not to relocate his family to Gibraltar. The Board is responsible for the recruitment of a new Chief Executive Officer and has identified the selection criteria for candidates to merit consideration for the role. The Board is currently working with an external search consultancy to identify suitable candidates. Once a suitable candidate has been selected and has accepted the role, then an announcement will be made by the Company.

The letters of appointment for the Non-Executive Directors and the contracts of employment for the Executive Directors will be available for inspection 15 minutes prior to and during the 2006 AGM.

### Board information and professional development

The Chairman oversees, with the assistance of the Company Secretary, the process of ensuring that all Directors receive timely and accurate information in order to enable them to perform their duties. Management provides detailed information ahead of each Board or Committee meeting and additional information or updates between meetings, when deemed necessary. Each Executive Director is readily available to the Non-Executive Directors if the latter should need clarification or amplification on any information provided. All the Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring Board procedures are complied with and advising the Board through the Chairman on all governance matters. The Board has also adopted a procedure for a Director to seek independent professional

advice at the expense of the Company where they judge it necessary to discharge their responsibilities as Directors. Each Committee of the Board also has authority under its terms of reference to obtain outside legal or other independent professional advice if the Committee considers it necessary in order to perform its duties.

Each new Director receives a full induction on joining the Board and major Shareholders are offered the opportunity to meet new Non-Executive Directors. The Chairman ensures that all Directors continually update their skills, knowledge and familiarity with the Company required to fulfil their roles on the Board and Board Committees.

### Performance evaluation

Despite the Company only becoming a listed company on 30 June 2005, the Directors have undertaken a formal evaluation of their performance in the six months to 31 December 2005. At this early stage of the Board's life the evaluation focused on the effectiveness of the Chairman, the Board and its Committees. The evaluation was conducted using a detailed questionnaire utilising the suggestions made on good practice in The Higgs Report. The results of the evaluation have been reviewed by the Board. The performance of the Chairman has been reviewed by the Non-Executive Directors, led by the Senior Independent Director, without the Chairman being present.

### Re-appointments

In accordance with the Code, the Company's Articles state that each Director must retire and stand for re-appointment at the first AGM following their original appointment. Consequently, all the Directors with the exception of Janos Libor who had yet to be appointed, retired and were re-appointed at the Company's AGM on 24 June 2005, being the first AGM following their original appointments. Janos Libor will retire at the 2006 AGM, being the first AGM subsequent to his appointment and is seeking re-appointment.

The Articles also dictate that at every AGM one-third of the Directors (or, if their number is not three or a multiple of three, the number nearest to one-third) shall retire from office; but if any Director has at the start of the AGM been in office for three years or more since his last re-appointment, he shall retire at that AGM. Consequently Martin Weigold, Nigel Kenny and Lars Berg will be retiring at the 2006 AGM and are seeking re-appointment.

The Nominations Committee has reviewed these re-appointments and on the basis of experience, performance and commitment demonstrated, has recommended to the Board that they be re-appointed. The Board has considered and agrees with this recommendation and is therefore recommending to Shareholders that they re-appoint Janos Libor, Martin Weigold, Nigel Kenny and Lars Berg as Directors at the 2006 AGM.

The letters of appointment for each of the Non-Executive Directors do not specify a fixed term of appointment and at this time none of the Directors has served on the Board for more than 12 months. The Board has resolved, however, that if any Non-Executive Director remains in office for a period of six years, having satisfied annual performance evaluations and been re-appointed by Shareholders at an AGM at least twice, then that Non-Executive Director's re-appointment will be subject to a rigorous review by the Nominations Committee and the Board, both bodies taking into account the need for progressive refreshing of the Board. The Board does not expect that any Non-Executive Director will serve for a period greater than nine years.

### **Remuneration and the Remuneration Committee**

The Board has appointed a Remuneration Committee to deal with matters regarding the remuneration of the Executive Directors and certain senior management. The remuneration of the Non-Executive Directors is a matter for the Executive Directors. The terms of reference for the Remuneration Committee are available on the Company's website ([www.partygaming.com/investor/remuneration\\_terms.html](http://www.partygaming.com/investor/remuneration_terms.html)). Brian Larcombe chairs the Remuneration Committee and the other members are Nigel Kenny and Rod Perry. All three members are independent Non-Executive Directors. The Remuneration Report prepared by the Remuneration Committee is set out in this Annual Report and discloses the remuneration policy of the Company and the remuneration of the Directors.

### **Risk management, internal controls and the Audit Committee**

The Company maintains a sound system of internal control for the purpose of safeguarding Shareholders' investment and the Company's assets. At least annually the Board conducts a review of the effectiveness of the Group's system of internal controls, covering all material controls, including financial, operational and compliance controls and risk management systems. The Company's system of internal control reduces the probability of risks attaching to the business impeding the Company from achieving its objectives, but it cannot eliminate these risks and can therefore provide only reasonable, not absolute, assurance against material misstatement or loss.

The Company has appointed a Director of Internal Audit who also heads up the Company's risk management monitoring. During the year management have identified the risks attaching to the business and, on an on-going basis, efforts are being taken to mitigate these risks. Throughout the year the Company has engaged the services of PriceWaterhouseCoopers LLP (PWC) to perform internal audits of offices and departments within the business to assess that adequate internal controls are in place to protect the Company, its employees and Shareholders. PWC's internal audit reports are presented to the Audit Committee and the Director of Internal Audit meets regularly with the Audit Committee Chairman, with whom he has direct access, and the Audit Committee.

The Board, with the assistance of the Audit Committee, has completed its annual review of the effectiveness of the internal system of control in accordance with the guidance contained in the Turnbull Report for the reporting period and is satisfied that it is in accordance with that guidance.

The Board is required by the Code to establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's joint auditors, BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited. The Board has done this by appointing an Audit Committee, whose terms of reference, agreed by the Board are available on the Company's website ([www.partygaming.com/investor/audit\\_terms.html](http://www.partygaming.com/investor/audit_terms.html)).

In accordance with its duties the Audit Committee made recommendations to the Board on the appointment, for approval by Shareholders, of the external auditors and approved their remuneration and terms of engagement. The Audit Committee also established a policy on the appointment of the auditors to perform non-audit services for the Group over and above the external audit and keeps this matter under ongoing review. It remains confident that the objectivity and independence of the external auditors are not impaired as a result of this further work.

The Audit Committee is chaired by Nigel Kenny and the other members are Lars Berg and Brian Larcombe. All three members are independent Non-Executive Directors and Nigel Kenny has recent financial experience. The Audit Committee is authorised to investigate any matter pertaining to the Company's management of risk and internal controls, the integrity of the financial reporting and engagement of the external auditor and in doing so may seek any information it requires from any employee of the Company and all employees are expected to co-operate. The Audit Committee has authority from the Board, at the Company's expense, to obtain outside legal or other independent professional advice and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

During the period from Admission on 30 June 2005 to 31 December 2005, the Audit Committee met twice (the Audit Committee having been appointed on 31 May 2005). In doing so it monitored the integrity of the Company's half year financial statement and the pre-close trading statement. The Board reviewed the KPI statement made in respect of the third quarter of 2005. In 2006 the Audit Committee has met twice to review the preliminary full year results announcement and the annual report for the year ended 31 December 2005. At the Audit Committee's meetings the members met with management and with the internal and external auditors to review the effectiveness of internal controls and business risk management. Through these meetings and review process the Audit Committee has satisfied itself that proper and satisfactory internal control systems remain in place to identify and contain business risks and the integrity of the Company's financial reporting is sound.

The Company has adopted a formal 'whistle-blowing' procedure by which employees can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. These are set out in the PartyGaming Employee Handbook and have been reviewed by both the Audit and Ethics Committees. Both Committees are satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

### **Financial reporting and going concern**

The Board is responsible for presenting a balanced and understandable assessment of the Company and in performing this duty has sought to set out clearly in the Annual Report the Company's performance in 2005 and its future prospects. In addition, the Board is obliged to report on whether the business is a going concern, a statement concerning which is set out in the Directors' Report.

# Corporate governance

## continued

### **Ethics Committee and corporate and social responsibility**

Reflecting the importance the Company places on corporate and social responsibility, the Board has appointed an Ethics Committee, despite there being no requirement to do so under the Code. Rod Perry is Chairman of the Committee and Lars Berg, Michael Jackson and Janos Libor are the other members. The purpose of the Ethics Committee is to oversee the CSR framework adopted by the Group, monitoring that adequate policies are in place to deal with stakeholder risks, just as the Audit Committee reviews whether the Company has satisfactory internal controls in place to address the financial risks faced by the business. In particular, the Ethics Committee focuses on the Company's approach to responsible gaming, the fairness of the gaming platforms and rules, charitable donations and investment in the local community. In addition, the Committee is responsible for overseeing the Company's CSR practices and for establishing a regular process for reporting on and developing such practices.

### **Relations with Shareholders**

The Board recognises the need for a productive dialogue with the Company's Shareholders based on a mutual understanding of objectives. With over 70% of the Shares in issue still owned by the Principal Shareholders, all of whom are or have representation on the Board, this facilitates the process of the Directors engaging with and being aware of the views of these Shareholders. In addition, the Chairman, Chief Executive Officer and Group Finance Director assisted by the Investor Relations Director, meet with institutional Shareholders on a regular basis. The Senior Independent Director can be contacted via the Company's registered office in the event that any Shareholder wishes to raise an issue which it would be inappropriate to raise with the Chairman, Chief Executive Officer or Group Finance Director.

### **The AGM**

The AGM provides a valuable opportunity for Shareholders, particularly private individuals, to meet the Board. Shareholders are reminded that PartyGaming Plc is a company incorporated, managed and controlled in Gibraltar and therefore general meetings will be held in Gibraltar. The Board is looking forward to welcoming as many Shareholders as possible to the 2006 AGM on Thursday 4 May 2006. Saving any unforeseen circumstances, all the Directors will be present at the 2006 AGM and the Chairmen of the Audit, Remuneration, Nominations and Ethics Committees will be available to answer questions relating to their Committees. A live broadcast of the AGM proceedings will also be available at Deutsche Bank, 75 London Wall, London EC2 starting at 10.00 am BST which Shareholders are welcome to attend.

The Notice of AGM is included later in this document and has been dispatched more than 20 working days before the AGM. Each item of business is proposed in a separate resolution at the AGM and the vote will be undertaken by poll rather than simply by a show of hands in accordance with best practice. Following the AGM the voting results will be announced via a regulatory news service to the London Stock Exchange and posted on the Company's website. More information on how to vote at and attend the AGM is contained in the Shareholder Information section.



# Remuneration report

## Introduction

In accordance with the Listing Rules the Company presents a report on the remuneration of the Directors for the year ended 31 December 2005. The Company is incorporated in Gibraltar so it is not subject to the Directors' Remuneration Report Regulations 2002 which apply to UK incorporated companies and which set out specific disclosure requirements for a company's remuneration report. In pursuit of best practice and full and transparent disclosure, this Remuneration Report for the year ended 31 December 2005 has been prepared by the Remuneration Committee in accordance with the aforementioned regulations. An ordinary resolution to approve the Remuneration Report will be proposed at the AGM on 4 May 2006. The vote will have an advisory status only and will be in respect of the remuneration policy and overall remuneration packages generally and will not be specific to individual levels of remuneration. BDO Stoy Hayward LLP has audited the report to the extent required by the regulations, being the sections headed 'Share Option Plans' and 'Emoluments table'.

## Remuneration Committee

The Board has appointed a Remuneration Committee. It is the duty of this Committee to determine and agree with the Board the framework or broad policy for the remuneration of the Chief Executive Officer (Richard Segal), Executive Directors (Anurag Dikshit, Vikrant Bhargava and Martin Weigold), Company Secretary (David Abdo) and any other senior management reporting directly to the Chief Executive Officer. The Committee is also tasked with determining and reviewing on an annual basis, the total individual remuneration packages of each of these individuals, including bonuses, incentive payments and share options or share awards. In a wider context the Remuneration Committee also oversees major changes in employee benefit structures throughout the Group.

The terms of reference for the Remuneration Committee are available on the PartyGaming.com website ([www.partygaming.com/investor/remuneration\\_terms.htm](http://www.partygaming.com/investor/remuneration_terms.htm)) or on request from the Company Secretary. The Remuneration Committee comprises three independent Non-Executive Directors, Brian Larcombe (Chairman), Nigel Kenny and Rod Perry. Details of the experience of these Directors is contained in the Board of Directors section. The Secretary to the Remuneration Committee is David Abdo.

In the period from Admission to 31 December 2005, the Committee met three times. During the reporting period and in pursuance of performing its duties effectively, the Committee consulted internally with the Group Human Resources Director and Company Secretary. In addition, the Chief Executive Officer was invited to attend Committee meetings. No person was involved in any decisions as to his own remuneration. The Committee also appointed Kepler Associates to advise the Committee and the Company's management on market trends, short and long-term incentives and general executive remuneration matters. No other services were provided to the Company by Kepler Associates.

## Executive remuneration policy

The Company's executive remuneration policy is to provide market-competitive total remuneration packages enabling the Company to recruit and retain high-calibre individuals required to drive the future growth and performance of its business. Being an online gaming business, operating in a fast-moving competitive environment, a particular emphasis is placed on providing a share-based remuneration package appealing to entrepreneurial and innovative executives.

When establishing remuneration policy, the Remuneration Committee takes into account a range of special circumstances relevant to the Company. These include the rapid growth of the Company, the characteristics of the sectors in which the Company operates and the requirement for Executive Directors and certain other senior management positions to discharge all their responsibilities from Gibraltar and to relocate to Gibraltar. The Company's policy is that fixed compensation (salary and benefits) should take account of the appropriate rate for each role, taking into account market practice in the gaming and internet sectors and geographic location. Variable rewards provided through share options and bonuses currently form the majority (c.90%) of the remuneration package for Executive Directors. The senior management bonus scheme rewards the achievement of short-term corporate and personal objectives; the Share Option Plans reward share price performance.

Consistent with this policy, prior to the Company obtaining a listing on the London Stock Exchange, the Board established a nil-cost option plan (described below). Options were granted to all employees as reward for their efforts in establishing a market-leading online gaming business and to align their interests with those of Shareholders. Grants were also made to certain Executive Directors and senior managers reflecting the risks and challenges in bringing the Company to the public market. Phased vesting over four to five years as appropriate, following Admission, helps to ensure that a significant proportion of Executive Director and senior manager remuneration remains geared to the Company's share price performance over the long term.

In 2006 the Company will be undertaking a thorough compensation and benefits review for all employees, the findings of which will be considered by the Remuneration Committee. It is expected that the review will impact the Company's future remuneration policy for Executive Directors and senior managers. Any changes in policy will be described in future reports, which will continue to be subject to Shareholder approval.

# Remuneration report

## continued

### Salary

Executive Directors' salaries are reviewed annually with changes implemented from 1 January. Salaries are benchmarked by the Remuneration Committee's advisors against four comparator reference groups: (i) other FTSE 100 companies with a similar market capitalisation as the Company; (ii) listed companies in the gaming sector; (iii) listed software companies and (iv) major internet companies.

The recent benchmarking exercise conducted for the Remuneration Committee by Kepler Associates indicated that 2005 levels of salary and benefits paid to the Executive Directors were generally below median of the selected comparator groups. The Committee has therefore resolved to increase Executive Director basic salary and benefits levels to market median over the three financial years 2006, 2007 and 2008. Executive Directors' 2005 and 2006 salaries are as follows:

Name	Position	2005 salary \$	2006 salary \$
Richard Segal	Chief Executive Officer	705,920	1,023,750
Martin Weigold	Group Finance Director	563,811	673,750
Vikrant Bhargava	Group Marketing Director	385,082	612,500
Anurag Dikshit	Group Operations Director	354,309	612,500

### Benefits

Executive Directors receive private medical insurance, permanent health insurance and life assurance. There are no pension benefits or company car allowances. Under the terms of his service agreement, Richard Segal commutes to Gibraltar Monday to Friday for the purpose of carrying out his duties as Chief Executive Officer. The Company has agreed to bear the costs of his accommodation in Gibraltar up to \$40,000 each year plus service and utility costs and to bear the costs of his flights to and from the United Kingdom for the purpose of carrying out his duties. Martin Weigold has relocated to Gibraltar and the Company has paid him a one-off relocation bonus of 16% of his 2005 salary (\$91,484).

### Senior management bonus scheme

For the six months to 30 June 2005, Martin Weigold received a bonus payment of \$73,174 in respect of his performance in the period leading up to Admission. None of the other Directors were eligible to receive a bonus payment in respect of this period. Since Admission, for the six months to 31 December 2005, the Executive Directors participated in a senior management bonus scheme approved by the Remuneration Committee.

For Executive Directors, 60% of this bonus was dependent on corporate financial performance targets being met and 40% on the satisfaction of agreed personal performance objectives. The maximum bonus that could be earned was 50% annualised of an Executive Director's basic salary for the six month period to 31 December 2005. Bonus payments made to the Executive Directors for the six month period to 31 December 2005 were as follows:

Executive Director	Bonus paid \$
Richard Segal	218,750
Martin Weigold	142,188
Vikrant Bhargava	118,125
Anurag Dikshit	123,375

The Remuneration Committee has reviewed the structure of the senior management bonus scheme in respect of the year ending 31 December 2006. The existing Executive Directors will be eligible for an incentive with a maximum award of 50% of basic salary. Awards will be earned for achieving stretching targets linked to revenue, Clean EBITDA and personal performance against agreed objectives. No bonus will be payable if revenue thresholds are not met. The performance measures were chosen for their relevance in driving short-term performance of the business.

### Share Option Plans

Executive Directors, senior managers and other staff are eligible to participate in the Company's long-term incentive arrangements which are structured around two option plans.

#### (i) PartyGaming Plc Share Option Plan

To attract, retain and reward employees and self-employed consultants, the Board established the PartyGaming Plc Share Option Plan (the 'Plan'). Each option granted to date under the Plan takes the form of a right to acquire Shares or Depositary Interests at nil-cost on particular vesting dates. The exercise of these options will be satisfied by the transfer to participants of Shares held in the Employee Trust established prior to Admission. Option exercises will therefore have no dilutive effect on other Shareholders or Depositary Interest Holders entering the register after 30 June 2005 and will have no cash impact on the Company. International Financial Reporting Standards, however, require that the fair value of the options be amortised through the income statement over the vesting period of the options, based on the Group's estimate of the Shares that will eventually vest. As at 28 February 2006 192,631,794 Shares were held in the Employee Trust to cover outstanding options; 57,240,430 Shares are available in the Employee Trust for future awards under the Plan.

Under the Plan, Richard Segal and Martin Weigold were granted options over 40,000,000 and 16,000,000 Shares respectively. The options were granted subject to the Shares being admitted to the London Stock Exchange by 31 December 2005. Richard Segal and Martin Weigold were granted options over this quantum of shares to attract them to the Company prior to the Offer, to incentivise and reward them for successfully floating the Company and to reflect industry-specific and Company-specific factors. There are no further performance conditions applying to these options and the rules of the Plan do not require performance conditions to apply.

As Principal Shareholders in the Company, Anurag Dikshit and Vikrant Bhargava have not been granted options under the Plan. In accordance with the Code none of the Non-Executive Directors have been granted options under the Plan.

Richard Segal's option vested in respect of 10,000,000 Shares on Admission. Richard Segal exercised his option in respect of 9,200,000 Shares which were sold in the Offer at a price of 116 pence per Share. Martin Weigold's option vested in respect of 3,680,000 Shares on Admission and he exercised his option in respect of 3,680,000 Shares which were sold in the Offer at a price of 116 pence per Share.

Richard Segal's option vests each calendar quarter in 16 equal instalments commencing on 30 September 2005. As at 31 December 2005, Richard Segal's option had vested in respect of an aggregate of 3,750,000 Shares (excluding those vesting on Admission). As at 31 December 2005 Richard Segal had not exercised his option in respect of these Shares. Subject to the terms of the grant, Martin Weigold's option vests in equal instalments each calendar quarter commencing with the first calendar quarter following Admission and ending on 31 December 2009. As of 31 December 2005, Martin Weigold's option had vested in respect of an aggregate of 1,368,896 Shares (excluding those vesting on Admission) and Martin Weigold had exercised his option in respect of all these Shares and retained the resulting Shares which he continues to hold.

Richard Segal and Martin Weigold are subject to lock-up arrangements with Dresdner Kleinwort Wasserstein pursuant to which they cannot, without the prior consent of Dresdner Kleinwort Wasserstein, dispose of any Shares acquired on the exercise of options prior to 30 June 2006, other than in connection with a takeover bid or to connected persons who are themselves locked-up.

Future vesting is conditional on their continued employment by the Company on the relevant vesting date, save as described below.

Richard Segal's option grant letter provides that in the event that he resigns as Chief Executive Officer or his employment is terminated by the Company in circumstances where (i) it is entitled to terminate his employment immediately without compensation; or (ii) his performance has fallen substantially below the level reasonably expected for a Chief Executive Officer having regard to the level of performance set by the Remuneration Committee as part of the annual bonus arrangements, then he shall be entitled to exercise his option within the period of 90 days in respect of Shares vested at the date on which notice of termination is given or received (the 'notice date') plus a pro rata number of Shares for the calendar quarter in which the notice date falls. The option will lapse in respect of any remaining Shares. In all other circumstances in which his employment is terminated, he will also be entitled to exercise the option within the period of 90 days following the notice date in respect of such Shares that have vested at the notice date plus such additional number of Shares as would otherwise have vested during the 12 months following the notice date.

In connection with the arrangements agreed on 27 February 2006 under which he will leave the Company no later than 1 June 2006, it has been agreed that Richard Segal's options will continue to accrue until his leaving date, rather than his entitlement being restricted to those Shares which have vested under the quarterly vesting arrangements described above. In addition, Richard Segal will be entitled to exercise his option in respect of those Shares which would have vested within 12 months of the leaving date (being 7.5 million Shares) in accordance with his contractual entitlement described above.

Martin Weigold's option grant letter (as amended) provides that in the event that he resigns as Group Finance Director or his employment is terminated by the Company in circumstances where (i) it is entitled to terminate his employment immediately without compensation; or (ii) his performance has fallen substantially below the level reasonably expected for a Group Finance Director having regard to the level of performance agreed by the Remuneration Committee as part of the annual bonus arrangements, then he shall be entitled to exercise his option within the period of 90 days in respect of Shares vested at the date on which notice of termination is given or received (the 'notice date'). The option will lapse in respect of any remaining Shares. In all other circumstances in which his employment is terminated, he will also be entitled to exercise the option within the period of 90 days following the notice date in respect of such Shares that have vested at the notice date plus such additional number of Shares as would otherwise have vested during the 12 months following the notice date. In the case of both Richard Segal and Martin Weigold, these exercise periods are subject to extension to provide for a minimum open period for dealing.

Plan participants are not entitled to receive dividends in respect of Shares relating to options which are unvested or vested but unexercised.

The Remuneration Committee has no current intention to grant any further nil-cost options under the Plan to the existing Executive Directors.

#### **(ii) PartyGaming Plc Executive Share Option Plan**

On Admission, the Company also adopted the PartyGaming Plc Executive Share Option Plan. The PartyGaming Plc Executive Share Option Plan provides for grants of fair market value options over existing or newly issued Shares or Depositary Interests to eligible employees (including the Executive Directors) and self-employed consultants of the Group. The exercise of any options granted under the PartyGaming Plc Executive Share Option Plan is subject to the satisfaction of corporate performance targets set over three years. To date no options have been granted under the PartyGaming Plc Executive Share Option Plan.

# Remuneration report

## continued

### (iii) Status summary of options granted

Only options under the PartyGaming Plc Share Option Plan have been granted during the year to 31 December 2005 to certain Executive Directors. These options are nil-cost options and there has been no consideration paid for the grant of these options. No options have been granted to Non-Executive Directors.

Executive Director	Number of Shares over which nil-cost options granted on 1 January 2005	Number of Shares over which nil-cost options granted during the year to 31 December 2005	Vested	Exercised	Lapsed	Number of Shares over which nil-cost options remain unvested or unexercised at 31 December 2005	Expiry date
Vikrant Bhargava	Nil	Nil	N/A	N/A	N/A	N/A	N/A
Anurag Dikshit	Nil	Nil	N/A	N/A	N/A	N/A	N/A
Richard Segal	Nil	40,000,000	30.06.05 – 10,000,000 Shares	30.06.05 – option exercised in respect of 9,200,000 Shares and all these Shares sold immediately at 116 pence per Share.	Nil	30,800,000	07.06.15
Martin Weigold	Nil	16,000,000	30.06.05 – 3,680,000 Shares	30.06.05 – option exercised in respect of 3,680,000 Shares and all these Shares sold immediately at 116 pence per Share.	Nil	10,951,104	06.04.15
			30.09.05 – 684,448 Shares	08.12.05 – option exercised in respect of 684,448 Shares			
			30.12.05 – 684,448 Shares	30.12.05 – option exercised in respect of 684,448 Shares			

Note: In the period from 30 June 2005 to 31 December 2005 the Share price was 176 pence at its highest (28 July 2005) and 71 pence at its lowest (10 October 2005).

### Executive Director service contracts

Richard Segal, Martin Weigold, Vikrant Bhargava and Anurag Dikshit were appointed Executive Directors under terms of service agreements with the Company (the 'Service Agreements' and each a 'Service Agreement') dated 7 June 2005, 4 April 2005, 13 June 2005 and 13 June 2005 respectively. The Service Agreements are governed by English law.

The Service Agreements grant entitlements to a salary, discretionary bonus, participation in the Company's long-term incentive plans, private medical insurance, permanent health insurance and life assurance.

In accordance with the Code, each Executive Director's employment is terminable by either party on 12 months' written notice. The Company may elect to pay an Executive Director compensation *in lieu* of notice. Such a payment would comprise twelve months' salary at the Director's then current basic rate plus a cash payment to compensate for the value of any lost benefits under the Service Agreement. A compensation payment is payable where the requisite twelve months' notice is not given to the Executive Director or where the Executive Director terminates by giving twelve months' notice and the Company does not wish the Executive Director to serve his notice. If a period of notice is served then the compensation

payment is reduced *pro rata*. In the event that an Executive Director's contract is terminated for cause (e.g. gross misconduct), the Company may terminate the contract with immediate effect and no compensation would be payable.

An Executive Director's options are dealt with in accordance with the terms of his option grant letter.

On 27 February 2006, the Company entered into an agreement with Richard Segal under which he will cease employment no later than 1 June 2006. On leaving, he will be entitled to £585,000 by way of termination payment (equal to one year's salary), plus £5,531 to compensate for the value of any lost benefits under his Service Agreement. Richard Segal will also be eligible for an annual bonus in respect of the period from 1 January 2006 to the date his employment ceases. This will be considered by the Remuneration Committee shortly after his departure, but the amount paid will not be less than 50% of the maximum bonus attributable to his period of service during the 2006 financial year (pro-rated as necessary). Richard Segal's options will be treated as described in this Remuneration Report.

### Chairman's terms of appointment and remuneration

The Chairman of the Board, Michael Jackson, joined the Group in March 2005 and has an appointment letter dated 31 May 2005 governed by English law the terms of which, with effect from 30 June 2005, provide for an initial fixed term until 21 March 2008. The Company may terminate the appointment by giving 12 months' notice to expire on or at any time after 21 March 2008. The Chairman may terminate the appointment at any time by giving six months' notice. The appointment is otherwise subject to the provisions of the Articles.

The Chairman is entitled to an annual fee of £500,000 for his services, reimbursement of reasonable expenses and to the provision of office facilities and secretarial support at the Company's offices in Gibraltar. The Chairman does not participate in the Company's bonus or share plans.

The Chairman is subject to certain restrictive covenants during the appointment and for a period of 12 months following the termination of the appointment.

The Chairman received a one-off fee of £1,500,000 (less statutory deductions) from the Company on Admission. The Chairman invested £1,000,000 (of which approximately £115,000 was from his own funds) to acquire Shares in the Offer at 116 pence per Share and has agreed not to dispose of the Shares acquired for a period of 12 months following Admission.

### Non-Executive Directors' terms of appointment and remuneration

The Non-Executive Directors have each entered into a letter of appointment, the terms of which are governed by English law.

Brian Larcombe joined the Group in April 2005 and was appointed a Non-Executive Director under an appointment letter dated 31 May 2005. On Admission, he received a one-off fee of £1,000,000 (less statutory deductions) from the Company. He invested £590,000 to acquire Shares in the Offer at 116 pence per Share and has agreed not to dispose of the Shares acquired for a period of 12 months from Admission. Brian Larcombe is entitled to an annual fee of £175,000.

Rod Perry, Lars Berg and Nigel Kenny were all appointed under appointment letters dated 17 April 2005, 21 April 2005 and 10 May 2005 respectively. On Admission, each one of them received a one-off fee of £100,000 (less statutory deductions) from the Company. Each invested £59,000 to acquire Shares in the Offer at 116 pence per Share to be held for the duration of their appointments.

Rod Perry, Lars Berg, Nigel Kenny are each entitled to an annual fee of £75,000 plus an additional £10,000 per annum is payable for chairmanship of any Board Committee. Rod Perry is Chairman of the Ethics Committee and Nigel Kenny is Chairman of the Audit Committee.

Janos Libor was appointed under an appointment letter dated 19 October 2005. He is entitled to an annual fee of £75,000.

Each of the Non-Executive Directors is entitled to reimbursement of reasonable expenses incurred in the course of their duties, the use of office facilities in Gibraltar and directors' and officers' liability insurance cover.

The appointments may be terminated by either party giving one month's notice and are subject to the provisions of the Articles.

The remuneration of the Non-Executive Directors is a matter for the Executive Directors and the levels of remuneration reflect the time commitment and responsibilities of the particular Non-Executive role as well as the market rates paid to Non-Executive Directors generally. Non-Executive Directors are not entitled to participate in any of the Company's incentive or share plans.

### External appointments

All Executive Directors are required to seek the consent of the Board before accepting external appointments as non-executive directors of companies outside the Group. With the consent of the Board, Martin Weigold remains a director of Ion Group Limited and Anurag Dikshit remains a director of Integrated Developers Limited. During the year to 31 December 2005, Martin Weigold received fees of £2,500 for his services to Ion Group Limited. Anurag Dikshit did not receive any fee for his services to Integrated Developers Limited.

### Emoluments table

Name	Basic salary/fees \$	IPO-related fees \$	Bonus \$	Allowances/benefits \$	Total emoluments \$	Proceeds from sale of nil-cost options \$	2005 Total \$	2004 Total \$
<b>Executive Directors</b>								
Richard Segal	705,920	-	218,750	47,347	972,017	19,260,826	20,232,843	238,230
Martin Weigold	563,811	-	215,362	102,802	881,975	7,704,330	8,586,305	-
Vikrant Bhargava	385,082	-	118,125	9,447	512,654	-	512,654	269,260
Anurag Dikshit	354,309	-	123,375	8,038	485,722	-	485,722	211,600
<b>Non-Executive Directors</b>								
Michael Jackson	592,346	2,688,150	-	-	3,280,496	-	3,280,496	-
Brian Larcombe	230,015	1,792,100	-	-	2,022,115	-	2,022,115	-
Lars Berg	109,049	179,210	-	-	288,259	-	288,259	-
Nigel Kenny	95,219	179,210	-	-	274,429	-	274,429	-
Janos Libor	26,160	-	-	-	26,160	-	26,160	-
Rod Perry	103,350	179,210	-	-	282,560	-	282,560	-
<b>Aggregate emoluments</b>	<b>3,165,261</b>	<b>5,017,880</b>	<b>675,612</b>	<b>167,634</b>	<b>9,026,387</b>	<b>26,965,156</b>	<b>35,991,543</b>	<b>719,090</b>

# Remuneration report

## continued

### Total shareholder return

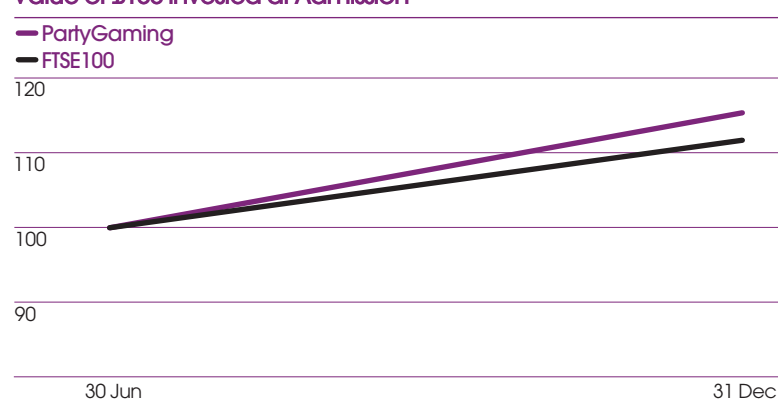
The Directors' Remuneration Report Regulations 2002 require the Remuneration Committee to set out a graph showing the total shareholder return of the Company's Shares against the total shareholder return performance of a suitable index. The Directors have chosen the FTSE 100 Index as the most appropriate comparator index as it is a widely-used and understood index of leading UK companies, and the Company is a constituent member. The graph plots the value of an investment of £100 in the Company's Shares and in the FTSE 100 Index from Admission to 31 December 2005. The change in the value of the FTSE 100 Index holding reflects any changes in the constituent companies over the period. The value of dividend income is treated as reinvested in the period.

**Brian Larcombe**

**Chairman of the Remuneration Committee**

28 February 2006

### Value of £100 invested at Admission



## Directors' responsibility statement

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the Gibraltar Companies (Consolidated Accounts) Ordinance 1999, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies Ordinance 1930, as amended, and a Directors' Remuneration Report which complies with the requirements of the Companies Act 1985.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The Directors are responsible for preparing the annual report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS), and have also chosen to prepare financial statements for the Company in accordance with IFRS.

### Group and parent company financial statements

Company law requires the Directors to prepare such financial statements in accordance with IFRS, the Gibraltar Companies (Consolidated Accounts) Ordinance 1999, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies Ordinance 1930, as amended.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

**In the red?  
Or the black?**

**RED**

**BLACK**

**As if you didn't know!**

**Record results**  
2005 was a cracking year for PartyGaming with revenue up 63%, Clean EBITDA up 49% and operating cash flow up 45%.





# Independent Auditors' Report To The Shareholders Of PartyGaming Plc

We have audited the Group and Parent Company (the "Company") financial statements (the "financial statements") of PartyGaming Plc for the year ended 31 December 2005 which comprises the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). PartyGaming Plc has complied with the requirements of rules 9.8.6 and 9.8.8 of the Listing Rules and Schedule 7A of the UK Companies Act 1985 in preparing its annual report, as if it was incorporated in the United Kingdom. As auditors, we have agreed that our responsibilities in relation to the annual report will be those as set out below.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Gibraltar Companies (Consolidated Accounts) Ordinance 1999, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies Ordinance 1930, as amended and the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with Schedule 7A of the UK Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by the listing rules and Gibraltar legislation is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and the other information contained in the Annual Report for the above period described in the contents section, including the unaudited part of the Directors' Remuneration Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the terms of our engagement letter and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of the terms of our engagement letter or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's and the Company's affairs as at 31 December 2005 and of the Group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Gibraltar Companies (Consolidated Accounts) Ordinance 1999, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies Ordinance 1930, as amended; and
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with Schedule 7A of the Companies Act 1985.

## BDO Stoy Hayward LLP Chartered Accountants

8 Baker Street  
London W1U 3LL

28 February 2006

## BDO Fidecs Chartered Accountants Limited Chartered Accountants

PO Box 575  
Montegu Pavilion  
8-10 Queensway  
Gibraltar

28 February 2006

# Consolidated income statement

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Revenue - net gaming revenue	1	977.7	601.6
Other operating (expense)/income		(1.1)	0.1
Administrative expenses			
• Other administrative expenses		(139.1)	(73.1)
• Share option charges	2(a)	(65.6)	(3.2)
• IPO-related expenses	2(b)	(22.6)	-
• Skin-related settlement costs	2(c)	(145.8)	-
Total administrative expenses		(373.1)	(76.3)
Distribution expenses		(271.1)	(142.2)
<b>Profit from operating activities</b>	3	<b>332.4</b>	383.2
Finance income	4	3.5	1.4
Finance costs	4	(10.2)	(12.9)
Share of loss of associate		(0.8)	-
<b>Profit before tax</b>		<b>324.9</b>	371.7
Tax	5	(31.7)	(21.6)
<b>Profit after tax</b>		<b>293.2</b>	350.1
Attributable to:			
Equity holders of the parent		293.2	348.5
Minority interest		-	1.6
		<b>293.2</b>	<b>350.1</b>
Basic earnings per Share (cents)	7	7.7	9.2
Diluted earnings per Share (cents)	7	7.5	9.2

All amounts relate to continuing operations

# Consolidated statement of changes in equity

For the year ended 31 December 2005

	Note	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Exchange differences on translation of foreign operations		0.0	0.0
Net income/expense recognised directly to equity		0.0	0.0
Profit after tax for the period		293.2	350.1
Total recognised income and expense for the period		293.2	350.1
Issue of share capital	20	0.1	-
Equity share options charge	2(a)	65.6	3.2
Total changes in equity		358.9	353.3
Attributable to:			
Equity holders of the parent		358.9	351.7
Minority interests		-	1.6
		<b>358.9</b>	<b>353.3</b>

# Consolidated balance sheet

As at 31 December 2005

	Note	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
<b>Non-current assets</b>			
Intangible assets	8	30.3	7.7
Property, plant and equipment	9	37.1	13.3
Investment in associates	11	1.0	-
		<b>68.4</b>	<b>21.0</b>
<b>Current assets</b>			
Trade and other receivables	12	128.3	107.8
Cash and cash equivalents	13	194.9	133.9
Short-term investments	14	6.8	-
		<b>330.0</b>	<b>241.7</b>
<b>Total assets</b>		<b>398.4</b>	<b>262.7</b>
<b>Current liabilities</b>			
Bank overdrafts	13	(1.8)	(1.8)
Trade and other payables	15	(201.5)	(39.5)
Shareholder loans	16	-	(223.9)
Income and other taxes payable		(64.8)	(28.0)
Client liabilities and progressive prize pools	17	(165.8)	(104.6)
Provisions	18	(6.2)	(4.7)
		<b>(440.1)</b>	<b>(402.5)</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	(4.2)	(6.1)
Shareholder loans	16	-	(258.9)
		<b>(4.2)</b>	<b>(265.0)</b>
<b>Total liabilities</b>		<b>(444.3)</b>	<b>(667.5)</b>
<b>Total net liabilities</b>		<b>(45.9)</b>	<b>(404.8)</b>
<b>Equity</b>			
Share capital	20	0.1	0.0
Share premium account	21	0.4	0.4
Share option reserve	21	68.8	3.2
Retained earnings	21	710.2	417.0
Other reserve	21	(825.4)	(825.4)
<b>Equity attributable to equity holders of the parent</b>		<b>(45.9)</b>	<b>(404.8)</b>

These accounts were approved by the Board on 28 February 2006 and signed on its behalf by

**Richard Segal** Chief Executive Officer  
**Martin Weigold** Group Finance Director

# Consolidated statement of cash flows

For the year ended 31 December 2005

	Year ended 31 December 2005	Year ended 31 December 2004
Note	\$million	\$million
Profit before tax	324.9	371.7
Adjustments for:		
Amortisation of intangibles	4.3	0.3
Interest expense	10.2	12.9
Interest income	(3.5)	(1.4)
Depreciation of property, plant and equipment	13.0	4.3
Increase in share option reserve	65.6	3.2
Loss on investment in associate	0.8	-
<b>Operating cash flows before movements in working capital and provisions</b>	<b>415.3</b>	<b>391.0</b>
Increase in trade and other receivables	(20.0)	(54.6)
Increase in trade and other payables	225.7	89.9
Increase in provisions	1.5	2.8
Income taxes paid	(2.3)	-
Cash generated by working capital	204.9	38.1
<b>Net cash inflow from operating activities</b>	<b>620.2</b>	<b>429.1</b>
<i>Investing activities</i>		
Purchases of property, plant and equipment	(36.8)	(11.9)
Purchases of intangible assets	(22.6)	-
Purchase of minority interest in subsidiary	-	(5.8)
Interest received	3.5	1.4
Purchase and cancellation of own shares	-	(2.0)
Investment in associated undertaking	(1.8)	-
Increase in short-term investments	(6.8)	-
<b>Net cash used in investing activities</b>	<b>(64.5)</b>	<b>(18.3)</b>
<i>Financing activities</i>		
Issue of shares	-	0.9
Interest paid	(9.6)	(11.0)
Cost of revolving credit facility	(2.3)	-
Repayment of shareholder loans	(482.8)	(343.2)
<b>Net cash used in financing activities</b>	<b>(494.7)</b>	<b>(353.3)</b>
<b>Net increase in cash and cash equivalents</b>	<b>61.0</b>	<b>57.5</b>
Net cash and cash equivalents at beginning of period	132.1	74.6
Net cash and cash equivalents at end of period	193.1	132.1
Cash and cash equivalents	194.9	133.9
Bank overdraft	(1.8)	(1.8)
	13	132.1

# Notes to the consolidated financial statements

## Accounting policies

### Basis of preparation

These financial statements comply with the Gibraltar Companies (Consolidated Accounts) Ordinance 1999, the Gibraltar Companies (Accounts) Ordinance 1999 and the Gibraltar Companies Ordinance 1930, as amended.

Accounts for the year ended 31 December 2005 will be made available following the Company's Annual General Meeting.

### Basis of accounting

The financial statements have been prepared in accordance with those International Financial Reporting Standards including International Accounting Standards (IASs) and interpretations, (collectively IFRS), published by the International Accounting Standards Board (IASB) which have been adopted by the European Commission and endorsed for use in the EU.

The financial statements have been prepared under the historical cost convention other than for the valuation of certain financial instruments.

The functional currency used in the preparation of these consolidated financial statements is United States Dollars (USD) as is the presentation currency. The functional currency is the currency in which the parent company operates and it reflects the economic substance of the underlying events and circumstances of the Group. A small minority of Group companies operate in Pounds Sterling and Indian Rupees but the amounts involved are not material.

Assets, liabilities and expenses of the Group are translated from Pounds Sterling and Indian Rupees into USD as follows:

- assets and liabilities are translated at the closing rate existing at the balance sheet date;
- income and expenses are translated at the exchange rates existing at the dates of the transactions or at a rate that approximates the actual exchange rates;
- equity items other than the net profit or loss for the period that are included within retained earnings are translated at the closing rate existing at the balance sheet date; and
- any exchange differences arising from the above translations are recognised in the income statement.

### Basis of consolidation

Subsidiaries are those companies controlled, directly or indirectly by PartyGaming Plc. Control exists where the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Except as noted below, subsidiaries are consolidated from the date of acquisition (i.e. the date on which control of the subsidiary effectively commences) to the date of disposal (i.e. the date on which control over the subsidiary effectively ceases).

Except as noted below, the financial information of subsidiaries is included in the consolidated financial statements using the acquisition method of accounting. On the date of acquisition the assets and liabilities of the relevant subsidiaries are measured at their fair values. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Under Section 10(2) of the Gibraltar (Consolidated Accounts) Ordinance 1999, the Company is exempt from the requirement to present its own income statement.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

### Accounting for the Company's acquisition of the controlling interest in PartyGaming Holdings Limited

The Company's controlling interest in its directly held, wholly owned subsidiary, PartyGaming Holdings Limited (formerly Headwall Ventures Limited), was acquired through a transaction under common control, as defined in IFRS 3 *Business Combinations*. The Directors note that transactions under common control are outside the scope of IFRS 3 and that there is no guidance elsewhere in IFRS covering such transactions.

IFRS contain specific guidance to be followed where a transaction falls outside the scope of IFRS. This guidance is included at paragraphs 10 to 12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This requires, *inter alia*, that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards. In this regard, it is noted that the United States Financial Accounting Standards Board (FASB) has issued an accounting standard covering business combinations (FAS 141) that is similar in a number of respects to IFRS 3. Further there is currently a major project being run jointly by the IASB and FASB to converge IFRS and US GAAP.

In contrast to IFRS 3, FAS 141 does include, as an Appendix, limited accounting guidance for transactions under common control which, as with IFRS 3, are outside the scope of that accounting standard. The guidance contained in FAS 141 indicates that a form of accounting that is similar to pooling of interests accounting, which was previously set out in Accounting Principles Board (APB) Opinion 16, may be used when accounting for transactions under common control.

Having considered the requirements of IAS 8, and the guidance included within FAS 141, it is considered appropriate to use a form of accounting which is similar to pooling of interests when dealing with the transaction in which the Company acquired its controlling interest in PartyGaming Holdings Limited.

# Notes to the consolidated financial statements

## continued

### Accounting policies (continued)

In consequence, the Consolidated Financial Statements for PartyGaming Plc reports the result of operations for the period as though the acquisition of its controlling interest through a transaction under common control had occurred at 1 January 2004. The effects of intercompany transactions have been eliminated in determining the results of operations for the period prior to the acquisition of the controlling interest, meaning that those results are on substantially the same basis as the results of operations for the period after the acquisition of the controlling interest.

Similarly, the consolidated balance sheets and other financial information have been presented as though the assets and liabilities of the combining entities had been transferred at 1 January 2004.

### Associates

Where the Group has the power to exercise significant influence over (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

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

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate and subject to impairment in the same way as goodwill arising on a business combination described below.

Investments in associates held by the Company are carried at cost less any impairment in value.

### Investments in subsidiaries

Investments in subsidiaries held by the Company are carried at cost less any impairment in value.

### Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement.

### Revenue

Revenue from online gaming, comprising poker, casino and 'white label/skins' (third party entities that use the Group's platform and certain services), is recognised in the accounting periods in which the gaming transactions occur.

Poker revenue represents the commission ("rake") charged or tournament entry fees where the player has concluded his participation in the tournament. Casino revenue represents net house win. Revenue in respect of 'white label/skin' arrangements is the net commission invoiced. Revenue is measured at the fair value of the consideration received or receivable and is net of certain promotional bonuses.

Interest income is recognised on an accruals basis.

### Segment information

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or products or services within a particular economic environment (geographical segment) which are subject to risks and rewards that are different to those of other segments.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

### Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## Accounting policies (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes directly attributable costs incurred in bringing the asset to working condition for its intended use, including professional fees. Depreciation commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, evenly over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	– over length of lease
Plant, machinery, computer equipment	– 33% per annum
Fixtures, fittings, tools and equipment, vehicles	– 20% per annum

Where an item of property, plant or equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditure is capitalised where it is incurred to replace a component of an item of plant, property or equipment where that item is accounted for separately including major inspection and overhaul. All other subsequent expenditure is expensed as incurred, unless it increases the future economic benefits to be derived from that item of plant, property and equipment.

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the identifiable assets and liabilities of an acquired subsidiary, associate or jointly controlled entity.

For acquisitions where the agreement date is on or after 31 March 2004, goodwill is not amortised and is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Goodwill arising on earlier acquisitions was being amortised over its estimated useful life of 20 years. In accordance with the transitional provisions of IFRS 3 *Business Combinations*, the unamortised balance of goodwill at 31 December 2004 was frozen and reviewed for impairment, and will be reviewed for impairment at least annually.

### Intangible assets

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 acquisitions during the period the useful economic life of the intangible assets acquired is estimated to be between 18 months and five years.

### Internally generated assets – research and development expenditure

Expenditure incurred on development activities, including the Group's software development, is capitalised only where 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. The expenditure capitalised includes the cost of materials, labour and an appropriate proportion of overheads. All other development expenditure is expensed as incurred.

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. All other expenditure, including that incurred in order to maintain the related intangible asset's current level of performance, is expensed as incurred.

### Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss for goodwill is not reversed in a subsequent period unless:

- The impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur; and
- Subsequent external events have occurred that reverse the effect of that event.

# Notes to the consolidated financial statements

## continued

### Accounting policies (continued)

#### Trade and other receivables

Trade and other receivables are stated at amortised cost less provision for impairment.

#### Cash and cash equivalents

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

#### Trade and other payables

Trade and other payables are stated at amortised cost.

#### Share option charge

The Group has applied the requirements of IFRS 2 *Share-based Payments*. The Group issues equity-settled share-based payments to certain employees.

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of the Shares that will eventually vest. Fair value is measured by use of a suitable option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

For cash-settled share-based payment transactions, the goods or services received and the liability incurred are measured at the fair value of the liability. Up to the point at which the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with changes being recorded in the income statement. The Group records the expense based on the fair value of the share-based payments on a straight-line basis over the vesting period.

#### Provisions

The Group recognises a provision in the balance sheet when it has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Where time value is material, the amount of the related provision is calculated by discounting the cash flows at a pre-tax rate that reflects market assessments of the time value of money and any risks specific to the liability.

#### Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

#### Financial instruments

A substantial portion of the Group's revenue is received in its functional currency. As such, currency exposure on revenues is minimal. Further, the Group minimises foreign currency exposure by netting non-US\$ deposits and payments of winnings in the respective currency.

Additionally, other exposures include interest rate risk from borrowings and the investment of cash balances. The Group seeks to limit these risks by investing cash in short-term instruments and interest income is recognised on an accruals basis.

#### Dividends

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

#### Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the fair value of the proceeds received. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.



## 1. Business and geographical segment information

For management purposes and transacting with customers, the Group is divided into the following two operating divisions:

- Poker; and
- Casino.

These divisions are the basis on which the Group reports its primary segment information. Unallocated corporate expenses, assets and liabilities relate to the entity as a whole and cannot be allocated to individual segments.

	Poker \$million	Casino \$million	Unallocated corporate \$million	Consolidated \$million
<b>Year ended 31 December 2005</b>				
Revenue	859.1	118.6	-	977.7
Clean EBITDA	509.2	75.6	(1.1)	583.7
Profit before tax	354.0	75.0	(104.1)	324.9
<i>Other information</i>				
Capital additions	12.4	0.3	24.1	36.8
Depreciation and amortisation	8.6	0.6	8.1	17.3
<b>Balance sheet</b>				
<i>Assets</i>				
Assets – tangibles	12.2	1.0	23.9	37.1
Assets – intangibles	30.3	-	-	30.3
Assets – associates	1.0	-	-	1.0
Segment assets – current	144.1	9.2	176.7	330.0
Total assets	187.6	10.2	200.6	398.4
<i>Liabilities</i>				
Segment liabilities	329.2	10.1	105.0	444.3
Impairment losses	43.6	5.2	-	48.8
Product development	1.1	0.4	0.7	2.2
Cash flows from operating activities	558.6	78.6	(17.0)	620.2
Cash flows from investing activities	(36.8)	(0.3)	(27.4)	(64.5)
Cash flows from financing activities	-	-	(494.7)	(494.7)

	Poker \$million	Casino \$million	Unallocated corporate \$million	Consolidated \$million
<b>Year ended 31 December 2004</b>				
Revenue	553.0	48.6	-	601.6
Clean EBITDA	361.9	29.0	0.1	391.0
Profit before tax	360.1	28.4	(16.8)	371.7
<i>Other information</i>				
Capital additions	3.0	1.4	7.5	11.9
Depreciation and amortisation	1.9	0.6	2.1	4.6
<b>Balance sheet</b>				
<i>Assets</i>				
Assets – tangible	4.0	1.4	7.9	13.3
Assets – intangible	7.7	-	-	7.7
Segment assets – current	96.5	8.7	136.5	241.7
Total assets	108.2	10.1	144.4	262.7
<i>Liabilities</i>				
Segment liabilities	(129.0)	(6.6)	(531.9)	(667.5)
Impairment losses	40.6	1.6	-	42.2
Product development	2.6	1.1	-	3.7
Cash flows from operating activities	392.5	28.8	7.8	429.1
Cash flows from investing activities	(10.7)	(1.4)	(6.2)	(18.3)
Cash flows from financing activities	(0.2)	-	(353.1)	(353.3)

### Revenue by Geographical Segment

The following table provides an analysis of the Group's revenue by geographical segment.

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
USA	824.5	533.5
Europe	81.0	30.3
Canada	54.1	25.7
Rest of the world	18.1	12.1
Total revenue	977.7	601.6

# Notes to the consolidated financial statements

## continued

### 1. Business and geographical segment information (continued)

#### Carrying Value of Fixed Assets by Geographical Segment

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Europe	26.0	7.4
Canada	6.0	4.2
Rest of the world	5.1	1.7
Total fixed assets	37.1	13.3

#### Capital Expenditure by Geographical Segment

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Europe	27.1	7.3
Canada	4.7	3.3
Rest of the world	5.0	1.3
Total capital expenditure	36.8	11.9

### 2(a) Share option charges

Prior to flotation, the Principal Shareholders established a share option plan for the benefit of the current and future workforce. Under the terms of the plan, the existing workforce were granted a number of nil-cost options to be satisfied by existing shares which had been issued to a dedicated employee trust. As such, the exercise of these options had no dilutive effect on Shareholders who subscribed at the IPO and will have no cash impact on the Company. International Financial Reporting Standards requires that the fair value of the options be amortised through the income statement over the life of the options. Nil-cost options issued pre-IPO were granted in order to attract and retain key employees and are considered to be significant. As a result there is a non-cash charge of \$65.6 million (2004: \$3.2 million), which has been included within the income statement in the period. This can be analysed as follows:

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Charge relating to		
- nil-cost options issued pre-IPO	(63.4)	(3.2)
- nil-cost options issued post-IPO	(2.2)	-
Total	(65.6)	(3.2)

Of the nil-cost options issued, \$10.4 million (2004: nil) related to employees of the parent company.

### 2(b) IPO-related expenses

The total IPO-related expenses were \$88.0 million of which the Company incurred \$22.6 million (2004: nil). Given that no new money was being raised for the Company, the IPO-related expenses were apportioned between the selling Shareholders and the Company based on contractual arrangements.

### 2(c) Skin-related settlement costs

At the time of the IPO, the Group made it clear that it would seek to change the basis of its relationships with its skins partners, the rationale for them having diminished following the Group's rapid expansion since 2003.

In November 2005, the Group announced the acquisition of the player database and intellectual property of MultiPoker for US\$14.5 million in cash. MultiPoker is a leader in online poker in Scandinavia with more than 255,000 registered players. The Group also announced the termination of its skin arrangement with IntertopsPoker.com which has since become an affiliate of PartyPoker, allowing PartyPoker to market its services to IntertopsPoker.com players. At the same time the Group announced that it had agreed to terminate its skin arrangement with Coral Eurobet.

Also in November 2005, the Group announced that it was in discussions regarding a possible offer to acquire the business and assets of Empire Online Limited ('EOL'). Those discussions were terminated on 21 November 2005 and EOL announced that it was proposing to commence legal proceedings against the Group for, *inter alia*, breach of contract following the separation of PartyPoker from the rest of the Group's skins. On 14 February 2006, the Group announced that it had agreed to acquire the business and assets of EmpirePoker.com, its last remaining skin, from EOL as well as some other associated assets, for a total cash consideration of \$250 million. As part of the transaction, that is subject to the approval by EOL shareholders on 6 March 2006, EOL has agreed to withdraw all legal claims against the Group.

As required under IFRS, a non-recurring charge of \$145.8 million has been included in the 2005 financial year within Administration Expenses to reflect the settlement of disputes arising from the separation of PartyPoker players from EmpirePoker and all of the other third party skins. The agreement with EOL is conditional upon the approval of EOL shareholders and the Group has received irrevocable powers of attorney from EOL shareholders representing approximately 56 per cent of the issued share capital of EOL to effect that their votes will be cast in favour of any necessary resolution.

### 3. Profit from operating activities

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
This has been arrived at after charging:		
Staff costs	104.0	21.8
Amortisation of goodwill and intangibles	4.3	0.3
Depreciation on property, plant and equipment	13.0	4.3
Product development (including staff costs)	2.2	3.7
Transaction fees	46.2	29.3
Exchange loss	1.2	0.0
Auditors remuneration for		
– Audit services	0.7	0.4
– IPO-related expenses	7.2	–
– IT related services	0.4	–
– Due diligence for acquisitions	0.7	–
– Other services	0.0	0.2
Impairment losses – trade receivables	48.8	42.2

### 4. Finance income and costs

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Interest payable	(10.2)	(12.9)
Interest on bank deposits	3.5	1.4
Net finance cost	(6.7)	(11.5)

### 5. Tax

#### (a) Analysis of tax charge for the year

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Current tax expense for the period	31.7	21.6
Deferred tax	–	–
Income tax expense for the year	31.7	21.6

Domestic income tax is calculated at 35% (2004: 35%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rate prevailing in the relevant jurisdiction.

There are no material deferred tax balances arising in the year.

#### (b) Factors affecting the tax charge for the year

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Profit before tax from continuing operations	324.9	371.7
Tax at the weighted average tax rate of the Group being tax expense at the effective tax rate for the period	18.5	21.6
Effect of IPO-related expenses, Share option charges, and skin-related settlement costs	13.2	0.0
Income tax expense	31.7	21.6

The Group's policy is to manage, control and operate Group companies only in the countries in which they are registered. However, the rules and practice governing the taxation of e-commerce activity are evolving in many countries. It is possible that the amount of tax that will eventually become payable may differ from the amount provided in these financial statements. In calculating the tax provision, in addition to any amounts due in respect of jurisdictions in which Group companies are currently incorporated or domiciled, a provision has been made to cover the Directors' best estimate of additional taxation exposures which may arise.

The Group has received indemnities from the Principal Shareholders in connection with certain potential historic corporate taxation liabilities. The Directors consider the likelihood of any such liability arising to be remote. Accordingly, neither has a provision for any such potential taxation been made, nor has an asset been recognised in respect of the indemnity.

# Notes to the consolidated financial statements

## continued

### 5. Tax (continued)

#### (c) Factors that may affect future tax charges

At the year end, there were PartyGaming Group companies and associates registered in Gibraltar, India and the UK.

In Gibraltar, the Group benefits from the exempt company regime. The Gibraltar exempt company regime will be phased out between 1 July 2006 and 31 December 2010; under current rules assessable income is taxed in Gibraltar at 35.0%.

In India, the Group benefits from a tax holiday on income from qualifying activities until March 2009; under current rules assessable income is taxed in India at approximately 36.6%.

### 6. Staff Costs

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Aggregate remuneration comprised:		
Wages and salaries	35.6	17.6
Option charge	65.6	3.2
Other benefits	2.8	1.0
	<b>104.0</b>	<b>21.8</b>

	Year ended 31 December 2005 Number	Year ended 31 December 2004 Number
Average number of employees		
Directors	9	2
Administration	73	41
Customer service	791	473
Others	316	213
Total	<b>1,189</b>	<b>729</b>

### 7. Earnings per Share

	Year ended 31 December 2005 cents	Year ended 31 December 2004 cents
Basic earnings per Share	7.7	9.2
Diluted earnings per Share	7.5	9.2
Basic earnings per Share before share option charges, IPO-related expenses and skin-related settlement costs	13.9	9.3
Diluted earnings per Share before share option charges, IPO-related expenses and skin-related settlement costs	13.6	9.3

The calculation of basic and diluted earnings per Share is based on the following data:

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
<b>Earnings</b>		
Earnings for the purpose of basic and diluted earnings per Share being profit from ordinary activities attributable to equity holders of the parent	293.2	348.5
Share option charges	65.6	3.2
IPO-related expenses	22.6	-
Skin-related settlement costs	145.8	-
Earnings for the purpose of basic and diluted earnings per Share before share option charges, IPO-related expenses and skin-related settlement costs	<b>527.2</b>	<b>351.7</b>

## 7. Earnings per Share (continued)

In accordance with IAS 33, the weighted average number of Shares for basic and diluted earnings per Share takes into account the one to four ordinary share sub-division that occurred on 5 May 2005 and the number of options which vested following flotation (see note 20).

	Year ended 31 December 2005 Number million	Year ended 31 December 2004 Number million
Number of Shares in issue	4,000.0	3,776.0
Number of Shares issued to the Employee Trust	(224.0)	-
Effect of Shares which vested during the period	15.6	-
<b>Weighted average number of ordinary Shares for the purposes of basic earnings per Share</b>	<b>3,791.6</b>	<b>3,776.0</b>

The Shares held by the Employee Trust are accounted for as treasury shares.

In accordance with IAS 33, the weighted average number of Shares for diluted earnings per Share takes into account all potentially dilutive Shares granted, which are not included in the number of Shares for basic earnings per Share above. Although the unvested potentially dilutive Shares are contingently issuable, in accordance with IAS 33 the period end is treated as the end of the performance period. Those option holders who were employees at that date are deemed to have satisfied the performance requirements and their related potentially dilutive Shares have been included for the purpose of diluted EPS (see note 24).

	Year ended 31 December 2005 Number million	Year ended 31 December 2004 Number million
<b>Number of Shares for diluted earnings per Share</b>		
Number of Shares in issue	4,000.0	3,776.0
Number of Shares issued to the Employee Trust	(224.0)	-
Effect of Shares which vested during the period	15.6	-
Effect of potential dilutive vested and unvested Shares	92.6	-
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per Share</b>	<b>3,884.2</b>	<b>3,776.0</b>

## 8. Intangible assets

	Other intangibles \$million	Goodwill \$million	Total \$million
<b>Cost</b>			
As at 1 January 2004	-	2.1	2.1
Additions	-	8.0	8.0
As at 31 December 2004	-	10.1	10.1
Additions	26.9	-	26.9
As at 31 December 2005	<b>26.9</b>	<b>10.1</b>	<b>37.0</b>
<b>Amortisation</b>			
As at 1 January 2004	-	2.1	2.1
Charge for the year	-	0.3	0.3
As at 31 December 2004	-	2.4	2.4
Charge for the year	4.3	-	4.3
As at 31 December 2005	<b>4.3</b>	<b>2.4</b>	<b>6.7</b>
<b>Carrying amounts:</b>			
As at 31 December 2005	<b>22.6</b>	<b>7.7</b>	<b>30.3</b>
As at 31 December 2004	-	7.7	7.7

In accordance with IFRS 3, the Group regularly monitors the carrying value of its intangible assets. A review was undertaken at 31 December 2005 to assess whether the carrying value of assets was supported by the net present value of future cash flows derived from assets using cash flow projections for each asset in respect of the period to 31 March 2015.

The other intangible assets primarily include the customer database and relationships acquired from MultiPoker, PokerNOW and IntertopsPoker. The value is based on cash flow projections from existing customers taking into account the expected impact of attrition.

The discount rates for the review were based on company specific pre-tax weighted average cost of capital percentages and ranged from 9% to 12%.

The results of the review undertaken at 31 December 2005 indicated that no impairment was necessary in respect of intangible assets.

# Notes to the consolidated financial statements

## continued

### 9. Property, plant and equipment

	Land and buildings \$million	Plant, machinery and vehicles \$million	Fixtures, fittings, tools and equipment \$million	Total \$million
<b>Cost or valuation</b>				
As at 1 January 2004	0.1	0.6	7.2	7.9
Additions	1.4	0.3	10.2	11.9
As at 31 December 2004	1.5	0.9	17.4	19.8
Additions	6.3	2.7	27.8	36.8
Transfers	(0.2)	0.2	-	-
As at 31 December 2005	<b>7.6</b>	<b>3.8</b>	<b>45.2</b>	<b>56.6</b>
<b>Depreciation and impairment losses</b>				
As at 1 January 2004	0.0	0.2	2.0	2.2
Charge for the year	0.0	0.3	4.0	4.3
As at 31 December 2004	0.0	0.5	6.0	6.5
Charge for the year	0.7	0.8	11.5	13.0
As at 31 December 2005	<b>0.7</b>	<b>1.3</b>	<b>17.5</b>	<b>19.5</b>
<b>Carrying amount</b>				
As at 31 December 2005	<b>6.9</b>	<b>2.5</b>	<b>27.7</b>	<b>37.1</b>
As at 31 December 2004	1.5	0.4	11.4	13.3

### 10. Commitments for capital expenditure

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Contracted but not provided for	3.7	4.6

### 11. Investments

#### Group

The Group acquired a 35% interest in the ordinary share capital of a company incorporated in England and Wales, in the period ended 31 December 2005, for a cash consideration of \$1.8m (this represents 35% of the voting rights). This is accounted for under the equity method. The Group's share of losses for the period ended 31 December 2005 was \$0.8m, resulting in a carrying value of \$1.0 million.

#### Group

	\$million
As at 1 January and 31 December 2004	-
Additions	1.8
Share of loss of associate	(0.8)
As at 31 December 2005	<b>1.0</b>

#### Company

As at 31 December 2004 the Company held a 43.2% interest in the ordinary share capital of PartyGaming Holdings Limited at a cost of \$0.4 million. During the year ended 31 December 2005 it acquired the remaining 56.8% share capital of PartyGaming Holdings Limited for a fair value of \$1.53 billion and as at 31 December 2005 held 100% of the share capital.

Additionally, the Company has issued share options with a fair value of \$52.0 million (2004: \$3.2 million) in respect of employees of subsidiary undertakings. These amounts have been added to the carrying value of the Company's investment in its subsidiary undertakings.

#### Company

	\$million
As at 1 January 2004	-
Additions	0.4
Options issued to employees of subsidiary undertakings	3.2
As at 31 December 2004	3.6
Additions	1,533.6
Options issued to employees of subsidiary undertakings	52.0
As at 31 December 2005	<b>1,589.2</b>

## 12. Trade and other receivables

### Group

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Trade receivables	108.7	91.9
Prepayments	12.0	5.3
Other receivables	7.6	10.6
	<b>128.3</b>	<b>107.8</b>

### Company

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Due from Group companies	254.0	-
	<b>254.0</b>	<b>-</b>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value, which is based on estimates of amounts recoverable. The recoverable amount is determined by calculating the present value of expected future cash flows.

## 13. Cash and cash equivalents

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Cash in hand and current account	194.9	133.9
Bank overdrafts	(1.8)	(1.8)
	<b>193.1</b>	<b>132.1</b>

## 14. Short-term investments

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Cash on deposit for more than 3 months	6.8	-

## 15. Trade and other payables

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Trade and other current payables	201.5	39.5
Non-current payables to former minority shareholders	4.2	6.1

Trade and other payables comprise of amounts outstanding for trade purchases and other ongoing costs. The average credit period for trade purchases is 30 days. The carrying amount of trade and other payables approximates to their fair value which is based on net present value of expected future cash flows.

## 16. Bank debt and shareholder loans

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Current	-	223.9
Non-current	-	258.9
Total shareholder loans	-	482.8
Total bank debt and shareholder loans	-	482.8

# Notes to the consolidated financial statements

## continued

### 17. Client liabilities and progressive prize pools

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Client liabilities and progressive prize pools	165.8	104.6

Client liabilities and prize pools represent amounts due to customers including net deposits received, undrawn winnings, jackpots and tournament prize pools and certain promotional bonuses.

### 18. Provisions

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Provision at beginning of period	4.7	1.9
Additional net provision in period	1.5	2.8
Provision at end of period	6.2	4.7

Provisions are expected to be settled within the next year and relate to chargebacks which are recognised as the Directors' best estimate of the provision based on past experience of such expenses applied to the level of activity.

### 19. Operating lease commitments

The total future minimum lease payments under non-cancellable operating lease commitments are analysed below:

	As at 31 December 2005		As at 31 December 2004	
	Land & Buildings \$million	Other assets \$million	Land & Buildings \$million	Other assets \$million
Payments due				
Within one year	0.9	0.0	0.0	0.0
Later than one year but not later than five years	5.5	0.0	0.0	0.0
More than five years	2.9	0.0	0.0	0.0
	9.3	0.0	0.0	0.0

Rental costs under operating leases are charged to the income statement in equal annual amounts over the period of leases.

### 20. Share capital

	Issued and fully paid \$	Number million
<b>Ordinary shares</b>		
As at 1 January and 31 December 2004	40,800	408.0
Issued during the year ended 31 December 2005	59,652	3,592.0
As at 31 December 2005	100,452	4,000.0

Shares issued are converted into US dollars at the exchange rate prevailing on the date of transaction. The issued and fully paid share capital of the Group amounts to \$100,452 and is split into 4,000,000,000 ordinary shares. The share capital in UK sterling is £60,000 and translates at an average exchange rate of \$1.6742 USD to GBP. The authorised share capital of £75,000 comprises 5,000,000,000 ordinary shares of 0.0015p.

#### Authorised share capital and significant terms and conditions

The total authorised share capital of £75,000 comprises 5,000 million ordinary shares with a par value of 0.0015 pence. All issued Shares are fully paid. The holders of ordinary shares are entitled to receive dividends when declared and are entitled to one vote per Share at meetings of the Company. The share capital is shown on the basis that it has been in issue throughout the period. The following changes in share capital occurred during the period:

- On 31 January 2005, the authorised share capital was increased from \$50,000 to \$100,000 divided into 1,000,000,000 ordinary shares of \$0.0001 each.
- On 7 February 2005, 536,000,000 ordinary shares of \$0.0001 each were issued to acquire the controlling interest in PartyGaming Holdings Limited as set out in the accounting policies.
- On 5 May 2005, the authorised share capital of the Company of \$100,000 divided into 1,000,000,000 ordinary shares of \$0.0001 each was redenominated into £60,000 divided into 1,000,000,000 ordinary shares of 0.006 pence each. The authorised share capital of £60,000 divided into 1,000,000,000 ordinary shares of 0.006 pence each was then sub-divided into 4,000,000,000 ordinary shares of 0.0015 pence each.
- On 26 May 2005, the authorised share capital was increased from £60,000 divided into 4,000,000,000 ordinary shares of 0.0015 pence each to £75,000 divided into 5,000,000,000 ordinary shares of 0.0015 pence each.



## 20. Share capital continued

### Authorised share capital and significant terms and conditions continued

5. On 13 June 2005, 224,000,000 ordinary shares of 0.0015 pence each were issued conditional on flotation to the Employee Trust. The Trustee has waived all voting and dividend rights in respect of shares held by the Employee Trust.
6. A total of 159.0 million ordinary shares of 0.0015 pence each were conditionally granted under the share option scheme. 36.2 million shares vested during the period of which 31.3 million shares had been exercised by employees at 31 December 2005.

## 21. Reserves

### Group

	Share premium \$million	Retained earnings \$million	Other reserves \$million	Share option reserve \$million
<b>As at 1 January 2004</b>	0.4	68.6	(0.4)	-
Profit from ordinary activities attributable to equity holders of the parent	-	348.5	-	-
Purchase and cancellation of own shares	-	(0.1)	-	-
Reserves created on business combination under common control	-	-	(825.0)	-
Share option charge	-	-	-	3.2
<b>As at 31 December 2004</b>	0.4	417.0	(825.4)	3.2
Profit from ordinary activities attributable to equity holders of the parent	-	293.2	-	-
Share option charges	-	-	-	65.6
Issue of treasury shares	-	-	0.0	-
<b>As at 31 December 2005</b>	<b>0.4</b>	<b>710.2</b>	<b>(825.4)</b>	<b>68.8</b>

The other reserve of \$825.4 million is the amount arising from the application of accounting which is similar to the pooling of interests method, as set out in the accounting policies note. Under this method of accounting, the difference between the consideration for the controlling interest and the nominal value of the shares acquired is taken to other reserves on consolidation. As a result, the share capital reflects PartyGaming Plc's share capital and the retained earnings for the period ended 31 December 2005 and reflects the cumulative profits as if the current group structure had always been in place.

Treasury shares relate to 224,000,000 ordinary shares of 0.0015p issued to the Employee Trust under the PartyGaming Plc Share Option Plan.

### Company

	Share premium \$million	Retained earnings \$million	Other reserves \$million	Share option reserve \$million	Capital reserve \$million
<b>As at 1 January 2004</b>	0.4	-	-	-	-
Share option charge	-	-	-	3.2	-
<b>As at 31 December 2004</b>	0.4	-	-	3.2	-
Issue of treasury shares	-	-	(0.0)	-	-
Share option charge	-	-	-	62.4	-
Profit from ordinary activities attributable to equity holders	-	243.6	-	-	-
Capital reserve	-	-	-	-	1,533.5
<b>As at 31 December 2005</b>	<b>0.4</b>	<b>243.6</b>	<b>(0.0)</b>	<b>65.6</b>	<b>1,533.5</b>

The Company's capital reserve arises in respect of the excess of fair value of the shares issued over the nominal value of shares issued in acquiring the 56.8% share capital of PartyGaming Holdings Limited in February 2005 (see accounting policies and note 11).

## 22. Financial risk management

The Group's financial instruments comprise cash and liquid resources, and various items, such as trade receivables and payables that arise directly from its operations. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

Management monitors liquidity to assure that sufficient liquid resources are available to the Group. The Group's principal financial assets are cash, bank deposits and trade and other receivables.

The Group's credit risk is primarily attributable to receivables from payment service providers and from customers who charge back deposits made after playing on the Group's websites. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the balance sheet. There is no significant concentration of credit risk.

Investments are allowed only in liquid securities and only with counter parties that have a credit rating equal to or better than the Group. The Group considers that its exposure to interest rate risk is acceptable and will continue to monitor this position.

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than US dollars. In respect of such transactions and other monetary assets and liabilities held in currencies other than US dollars, the amounts involved have historically been immaterial. Going forward the Group will continue to monitor the position and will take steps to ensure that the net exposure is kept to an acceptable level.

At 31 December 2005, the Group had a revolving credit facility of \$200 million, on which interest on the drawn amount is charged at 1 per cent above Libor. The Group considers that its exposure to interest rate risk is acceptable and will continue to monitor the position.

# Notes to the consolidated financial statements

## continued

### 22. Financial risk management (continued)

#### Effective interest rate and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate the effective interest rates at the balance sheet dates and the periods in which they reprice.

	Effective interest rate %	Total \$million	6 months or less \$million	6-12 months \$million	1-2 years \$million	2-5 years \$million
At 31 December 2004						
Cash and cash equivalents	2.24%	133.9	133.9	-	-	-
Bank overdrafts	0.00%	1.8	1.8	-	-	-
Secured loans:						
US\$ fixed rate shareholder loan	3.00%	482.8	111.1	112.8	229.1	29.8
US\$ loan payable to former minority	3.00%	8.5	1.4	0.8	2.1	4.2
At 31 December 2005						
Cash and cash equivalents	1.80%	194.9	194.9	-	-	-
Bank overdrafts	0.00%	1.8	1.8	-	-	-
Short-term investments	3.83%	6.8	6.8	-	-	-
Secured loans:						
US\$ fixed rate shareholder loan	3.00%	-	-	-	-	-
US\$ loan payable to former minority	3.00%	6.3	1.3	0.8	1.9	2.3

### 23. Related parties

#### Relationships

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Anurag Dikshit, Ruth Parasol and Russell DeLeon are the ultimate controlling shareholders of the Group. During the period the controlling shareholders, and corporate entities controlled by controlling shareholders received aggregate consulting fees as follows:

	\$million
Year ended 31 December 2004	0.7
Year ended 31 December 2005	0.5

As disclosed in the Listing Particulars, under the terms of the Relationship Agreement between the Company and Ruth Parasol and Russell DeLeon dated 14 June 2005, these Principal Shareholders have the right to nominate for appointment to the Board a suitable person whilst they together have an interest of 15% or more of the Company's issued share capital. Ruth Parasol and Russell DeLeon have nominated Janos Libor and after considering the nomination, the Board and its Nominations Committee approved the appointment of Janos Libor. Since the date of appointment to the year end, Janos Libor was paid US\$ 26,160 by the Company for services rendered as a Non-Executive Director.

#### Remuneration of key management personnel

Key management personnel are those individuals who the Directors believe have significant authority and responsibility for planning, directing and controlling the activities of the Group. The aggregate short-term and long-term benefits and share-based payments of the Directors and key management personnel of the Group are set out below:

	Short-term \$million	Long-term \$million	Share-based \$million	Total \$million
Year ended 31 December 2004	5.2	-	3.2	8.4
Year ended 31 December 2005	9.7	-	39.5	49.2

Remuneration of Directors is set out in the Remuneration Report.

### 23. Related parties (continued)

#### Transactions

The following aggregate balances were due to/(from) key management at each period end:

	As at 31 December 2005 \$million	As at 31 December 2004 \$million
Due to	2.5	1.8
Due from	(0.1)	(0.0)

The wife of a Principal Shareholder owns a property leased to the Group's Indian subsidiary. Rentals paid were:

	\$
Year ended 31 December 2004	28,230
Year ended 31 December 2005	30,323

Additionally a security deposit in the sum of \$13,800 has been paid.

The total IPO-related expenses were \$88.0 million of which the Company incurred \$22.6 million (2004: nil). Given that no new money was raised for the Company, the IPO-related expenses were apportioned between the selling shareholders and the Company based on contractual arrangements.

One of the Group subsidiaries has leased an unfurnished property to the Group Finance Director at an annual lease rental of £36,000, which the Directors believe is a fair rental value of the property.

The Principal Shareholders have also given certain indemnities to the Group.

On 29 April 2004, PartyGaming Holdings Limited acquired a 100% interest in ElectraWorks Ltd for a total consideration of \$826.0 million in a transaction under common control. The shareholders of ElectraWorks Ltd also ultimately owned PartyGaming Holdings Limited in similar proportions.

The consideration was settled by way of cash of \$118.0 million and loans of \$708.0 million. The loans were repayable in quarterly instalments by 29 April 2007 and bear compound interest at 3%. The loans were secured by way of a mortgage debenture over the assets of the Group.

During the period to 31 December 2005, capital repayments to shareholders were made totalling \$482.8 million (year ended 31 December 2004: \$343.2m) and interest charged of \$5.1 million (year ended 31 December 2004: \$12.6 million), repaying these loans and any interest accrued in full. As at 29 April 2004, PartyGaming Plc owned 43.2% of PartyGaming Holdings Limited. On 7 February 2005 PartyGaming Plc acquired the remaining interest through a transaction under common control.

#### Share option arrangements

Directors and employees have conditional nil-cost option arrangements under service contracts, which were formally granted under the Group's share option plan during the year ended 31 December 2005.

### 24. Share options

The Group has designed the PartyGaming Plc Executive Share Option Plan ('the Plan') as a reward and retention incentive for employees and self-employed consultants of the Group, including the Executive Directors (the 'Participants'). Certain individuals have nil-cost option arrangements under their service contracts, which were formally granted under the Plan during the year. Each option takes the form of a right, exercisable at nil-cost, to acquire shares in the Company. Options granted under the Plan during the period generally vest in instalments over a four to five year period, commencing on 30 June 2005.

	Year ended 31 December 2005 Number million	Year ended 31 December 2004 Number million
Outstanding at beginning of period	40.0	-
Options granted during the period	119.0	40.0
Options lapsed during the period	(1.0)	-
Exercised during the period	(31.3)	-
Outstanding at end of period	126.7	40.0
Exercisable at the end of period	4.9	-
Weighted average share price	£1.18	N/A
Weighted average remaining contractual life of options outstanding	756 days	923 days

# Notes to the consolidated financial statements

## continued

### 25. Principal subsidiary undertakings

The Company is the holding company of the Group. The following table shows details of the Company's principal subsidiary undertakings. Each of these companies is wholly-owned by a member of the Group, the issued share capital of each is fully paid and each will be included in the consolidated accounts of the Group (unless otherwise specified):

Name of company	Country of incorporation or registration and operation
Bay Management Limited	Gibraltar
ElectraGames Limited	Gibraltar
ElectraWorks Limited	Gibraltar
iGlobalMedia Entertainment Limited	Gibraltar
iGlobalMedia Marketing (Gibraltar) Limited	Gibraltar
iGlobalMedia Marketing (UK) Limited	United Kingdom
IVY Comptech Private Limited	India
Leo Data Limited	Gibraltar
Paytech International Limited	Gibraltar
PartyGaming Services (UK) Limited	United Kingdom
WPC Productions Limited	Gibraltar

### 26. Post balance sheet event

On 14 February 2006, the Group announced that it had agreed to acquire the business and assets of EmpirePoker.com, its last remaining skin, from EOL as well as some other associated assets, for a total cash consideration of \$250 million. As part of the transaction, that is subject to the approval by EOL shareholders on 6 March 2006, EOL has agreed to withdraw all legal claims against the Group.

As required under International Financial Reporting Standards, a non-recurring charge of \$145.8 million has been included in the 2005 financial year within Administration Expenses to reflect the settlement of disputes arising from the separation of PartyPoker players from EmpirePoker and all of the other third party skins. See note 2(c) for further details.

### 27. Dividend

The Board is pleased to recommend an inaugural final dividend of 5.25 cents per share which will be considered at the Annual General Meeting to be held on 4 May 2006.

	Year ended 31 December 2005 \$million	Year ended 31 December 2004 \$million
Final dividend (proposed)	200.0	-

#### Dividends per ordinary share

	Year ended 31 December 2005 \$ cents	Year ended 31 December 2004 \$ cents
Final dividend (proposed)	5.25	-

# Company balance sheet

As at 31 December 2005

	Note	As at 31 December 2005 \$million	As at 31 December 2004 \$million
<b>Non-current assets</b>			
Investments	11	1,589.2	3.6
<b>Current assets</b>			
Due from group companies	12	254.0	-
<b>Total assets</b>		<b>1,843.2</b>	<b>3.6</b>
<b>Total net assets</b>		<b>1,843.2</b>	<b>3.6</b>
<b>Equity</b>			
Share capital	20	0.1	0.0
Share premium account	21	0.4	0.4
Other reserve	21	(0.0)	-
Share option reserve	21	65.6	3.2
Retained earnings	21	243.6	-
Capital reserve	21	1,533.5	-
<b>Total equity</b>		<b>1,843.2</b>	<b>3.6</b>

These accounts were approved by the Board on 28 February 2006 and signed on its behalf by

**Richard Segal** Chief Executive Officer  
**Martin Weigold** Group Finance Director

# Company statement of changes in equity

For the year ended 31 December 2005

		Year ended 31 December 2005	Year ended 31 December 2004
	Note	\$million	\$million
Profit after tax for the period being total recognised income for the period		243.6	-
Issue of share capital	21	0.1	0.4
Equity share option charge	21	62.4	3.2
Capital reserve	21	1,533.5	-
Total changes in equity		1,839.6	3.6

# Company statement of cash flows

For the year ended 31 December 2005

		Year ended 31 December 2005	Year ended 31 December 2004
	Note	\$million	\$million
Profit before tax		243.6	-
Increase in share option reserve	2(a)	10.4	-
Operating cash flows before movements in working capital and provisions		254.0	-
Increase in trade and other receivables		(254.0)	-
Cash generated by working capital		(254.0)	-
Net cash and cash equivalents		-	-

The Company does not have its own bank account, with its cash obligations being discharged by its operating subsidiaries. Amounts paid in cash by those subsidiaries are accounted for through an adjustment to the related inter-company balances. In consequence, the Company has no cash flows of its own.

# Notice of AGM

Notice is hereby given that the 2006 Annual General Meeting of PartyGaming Plc will be held on Thursday 4 May 2006 at 11.00 a.m. at Tercentenary Sports Hall, Bayside Sports Centre, Bayside Road, Gibraltar to consider the following business (all Resolutions are proposed as Ordinary Resolutions and will be decided on a poll):

1. To receive the financial statements, Directors' Report and Auditors' Report for the year ended 31 December 2005.
2. To approve the Remuneration Report for the year ended 31 December 2005.
3. To declare a final dividend of 5.25 cents per Share payable on 19 May 2006 to those Shareholders on the register of members on 7 April 2006.
4. To re-appoint BDO Stoy Hayward LLP and BDO Fidecs Chartered Accountants Limited as the Company's auditors with BDO Fidecs Chartered Accountants Limited acting as the auditor for the purposes of Section 10 of the Gibraltar Companies (Accounts) Ordinance 1999.
5. To authorise the Directors to set the auditors' remuneration.
6. To re-appoint Janos Libor as a Director
7. To re-appoint Martin Weigold as a Director.
8. To re-appoint Nigel Kenny as a Director.
9. To re-appoint Lars Berg as a Director.

By order of the Board of Directors

**David Abdo**  
**General Counsel and Company Secretary**

PartyGaming Plc  
711, Europort  
Gibraltar

29 March 2006

## Notes:

### 1. General

The Notice of AGM is an important document. If there is anything you do not understand then you should consult with the appropriate professional adviser. If you have any questions regarding how to attend and/or vote at the AGM then please contact the Registrar.

If you have recently sold all of your PartyGaming Shares and/or Depositary Interests then please send this document and the enclosed forms to the person who sold the Shares/Depositary Interests for you. They can then send them to the new owner of the Shares/Depositary Interests.

References to times in the Notice are to the time in Gibraltar which is one hour ahead of British Summer Time ('BST').

### 2. Re-appointment of the Directors (Resolutions 6 to 9)

Biographies of Messrs. Libor, Weigold, Kenny and Berg are set out in the Annual Report in the Board of Directors section. The Board unanimously recommends the re-appointment of these Directors for the reasons set out in the Directors' Report.

### 3. Right of attendance

#### 3.1 Shareholders

To have the right to come and vote at the AGM, you must be a Shareholder of the Company holding Shares entered on the Company's register of members by 11.00 a.m. (10.00 a.m. BST) on 2 May 2006. If you are planning on attending the AGM the Company would be grateful if you could also return the enclosed attendance card. This assists us in ensuring we have sufficient seating and refreshments for those planning to attend.

#### 3.2 Depositary Interest Holders

To have the right to come and vote at the AGM, you must be entered on the Company's register of Depositary Interests by 11.00 a.m. (10.00 a.m. BST) on 2 May 2006 and bring to the AGM a letter of corporate representation validly executed on behalf of the Depositary. A letter of corporate representation can be obtained from the Depositary.

### 4. Voting

#### 4.1 Shareholders

Shareholders may attend the AGM in person and vote on a show of hands or on a poll. A Shareholder entitled to attend and vote at the AGM may also appoint a proxy to attend and, on a poll, vote in his/her place. A proxy need not be a Shareholder of the Company. A proxy may demand or join in demanding a poll but has no right to speak at the meeting, except with the permission of the Chairman.

A proxy form may be submitted in hard copy form by post or courier or electronically via the [www.partygaming-shares.com](http://www.partygaming-shares.com) website and by selecting the Annual General Meeting tab on the left hand side of the page. Hard copy proxy forms must be completed by or on behalf of the Shareholder. If the Shareholder is a corporation then the proxy form must be executed by a duly authorised person or under its common seal or in a manner authorised by its constitution. A proxy form is enclosed with the Annual Report. **To be valid completed proxy forms must be returned to The Registrar, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU to be received no later than 11.00 a.m. (10.00 a.m. BST) on 2 May 2006.**

Shareholders wishing to submit proxy forms electronically should visit the [www.partygaming-shares.com](http://www.partygaming-shares.com) website and select the Annual General Meeting tab on the left hand side of the page. **To be valid electronic proxy instructions must be received by the Registrar no later than 11.00 a.m. (10.00 a.m. BST) on 2 May 2006.**

# Notice of AGM

## continued

### 4.2 Depositary Interest Holders

Depositary Interest Holders may attend in person and vote on a show of hands or on a poll if the Depositary has appointed them a corporate representative (see section 3.2 above). Depositary Interest Holders not wishing to attend the AGM but wishing to vote in respect of the resolutions to be considered at the AGM can do so by instructing the Depositary. This may be done in one of two ways:

(i) Depositary Interest Holders who are CREST members may give such an instruction utilising the CREST electronic voting service in accordance with the procedures described in the CREST Manual. CREST personal Depositary Holders or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for an instruction made by CREST to be valid, the appropriate CREST message ('a CREST proxy instruction') must be properly authenticated in accordance with CRESTCo's requirements and must contain information required for such instructions, as described in the CREST Manual. **The message, in order to be valid, must be transmitted so as to be received by the Depositary's agent, ID RA10 by 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.** The time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Depositary's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Depositary may treat as invalid a CREST voting instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. Please refer to the CREST Manual for further guidance.

(ii) Depositary Interest Holders who cannot give voting instructions via CREST should complete the enclosed form of direction and submit it to the Depositary. If the Depositary Interest Holder is a corporation then the form of direction must be executed by a duly authorised person or under its common seal or in a manner authorised by its constitution. **To be valid forms of direction must be received by the Depositary no later than 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.**

### 5. PartyGaming employees

PartyGaming employees who have exercised their PartyGaming options and have retained all/some of the resultant Shares, hold these Shares through the PartyGaming Nominee Account Service, Capita IRG Trustee (Nominees) Limited. Employees who wish to attend the AGM, speak and vote at the AGM should request Capita IRG Trustee (Nominees) Limited to appoint them as a corporate representative. This is done by completing the Nominee Account Instruction form enclosed with their Annual Report. Whether an eligible employee wishes to attend the AGM or not, they are recommended to complete the Nominee Account Instruction form and send it to The Registrar, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom, to be received no later than 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.

### 6. Documents for inspection

Copies of the following documents are available for inspection during normal business hours at the Company's registered office at 711 Europort, Gibraltar. These documents will also be available for inspection at Tercentenary Sports Hall, Bayside Sports Centre, Bayside Road, Gibraltar on the day of the meeting from 10.30 a.m. until the conclusion of the meeting:

- Memorandum and Articles of Association;
- Listing Particulars;
- Executive Directors' Service Agreements;
- Non-Executive Directors' letters of appointment;
- The signed Annual Report for the year ended 2005; and
- Register of Members.



# Shareholder information

## Share information

Ordinary Shares of 0.0015 pence in issue: 4,000,000,000\*

Number of Shares in the free float (as at 31 December 2005): 899,800,406 (22.5)%

Listing: London Stock Exchange since 30 June 2005

TDL: PRTY.L

ISIN Number: G10000A0ERMF2

SEDOL Number: BOB3SV4

\*See 'Depositary Interests' section below. As at 31 December 2005 893,793,041 Shares were held by the Depositary in respect of 893,793,041 Depositary Interests, one Depositary Interest being represented by one Share.

## Share price

(all prices mid-market Shares at the close of business)

Offer price	116p
High during the period to 31 December 2005	176p
Low during the period to 31 December 2005	71p
31 December 2005	134p
Increase over the period	15.5%
FTSE 100 Index increase over the period	11.8%

Share price information is available on the Company's website, [www.PartyGaming.com](http://www.PartyGaming.com) and the London Stock Exchange website, [www.londonstockexchange.co.uk](http://www.londonstockexchange.co.uk). In the UK, information can also be found in The Financial Times, The Times and The Daily Telegraph share price listings.

## Market capitalisation

The market capitalisation of PartyGaming Plc as at 31 December 2005 was £5.4 billion (equivalent to US\$9.4 billion). The Company is ranked within the FTSE 100 Index of companies.

## Depositary Interests

The Company has entered into depositary interest arrangements to enable investors to settle and pay for interests in the Shares through the CREST system. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another without the need to use share certificates or written instruments of transfer. Securities issued by non-UK companies, such as PartyGaming, cannot be held or transferred in the CREST system. Under arrangements put in place by the Company, a depositary holds the Shares and has issued dematerialised depositary interests representing the underlying Shares which are held on trust for the holders of the Depositary Interests.

Capita IRG Trustees Limited ('Capita IRG Trustees' or the 'Depositary'), a sister company of PartyGaming's Registrars, Capita IRG (Offshore) Limited, has issued the dematerialised depositary interests or 'Depositary Interests'. The Depositary Interests are independent securities constituted under English law which may be held and transferred through the CREST system.

The Depositary Interests have been created pursuant to and issued on the terms of a deed poll executed by Capita IRG Trustees in favour of the holders of the Depositary Interests from time to time (the 'Deed Poll').

As at 31 December 2005 893,793,041 Shares were held by the Depositary in respect of a total 893,793,041 Depositary Interests. There were 1,316 Depositary Interest Holders on the Depositary Interest register as at that date.

Each Depositary Interest is treated as one Share for the purposes of determining, for example, eligibility for any dividends. Capita IRG Trustees will pass on to holders of Depositary Interests any stock or cash benefits received by it as the holder of Shares on trust for such Depositary Interest holder. Depositary Interest holders will also be able to receive notices of meetings of holders of Shares and other notices issued by the Company to its shareholders.

The Depositary must pass on to Depositary Interest Holders and, so far as they are reasonably able, exercise on behalf of Depositary Interest Holders all rights and entitlements received or to which they are entitled in respect of the underlying Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to call for, attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form in which they are received together with amendments and additional documentation necessary to effect such passing-on, or, as the case may be, exercised in accordance with the Deed Poll. The Depositary Interests have the same ISIN and SEDOL numbers as the underlying Shares and do not have a separate listing on the Official List.

### Registrar

Capita IRG (Offshore) Limited  
Victoria Chambers  
Liberation Square  
1/3 The Esplanade  
St. Helier  
Jersey

E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
Telephone: 01534 632310  
Fax: 01534 632236

### UK Transfer Agents

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

Website: [www.capitaregistrars.com](http://www.capitaregistrars.com)  
E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
Telephone: 0870 162 3100 (from UK)  
+ 44208 639 2157 (from overseas)  
Fax: 020 8639 2342

### Depositary

Capita IRG Trustees Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU  
United Kingdom

E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)  
Telephone: 0870 162 3135 (from UK)  
+ 44208 639 3135 (from overseas)  
Fax: 020 8639 2213

# Shareholder information

## continued

### Dividends

The Company intends paying two dividends each year, an interim dividend in October and a final dividend in May, in the approximate proportions of one third and two thirds, respectively, of the total annual dividend. Dividends are not subject to any withholding tax in Gibraltar and are therefore paid gross. For further information, see the taxation section elsewhere in this Shareholder Information section.

The first dividend to be recommended by the Board following the Offer is the final dividend in respect of the year ended 31 December 2005. As anticipated and explained in the Listing Particulars this dividend represents two thirds of the total dividend which would have been paid for the full year 2005 had the Company been listed since 1 January 2005. Subject to this final dividend being approved by Shareholders at the AGM on 4 May 2006 this dividend will be paid to Shareholders and Depository Interest Holders on 19 May 2006. The record date for the final dividend is 7 April 2006 and the Shares go ex-dividend on 5 April 2006. Dividends will be declared and paid by the Company in US dollars.

In order to assist Shareholders and Depository Interest Holders, the cash dividend may be paid either in US dollars or, if holders so elect, in Pounds Sterling. Should you wish to elect to receive this dividend and all future dividends in Pounds Sterling you should follow the instructions below. **If you make no election you will continue to receive your dividend in US dollars.** If you elect to receive your dividend payable on 19 May 2006 in Pounds Sterling, the exchange rate for the purchase of Pounds Sterling with US dollars quoted by the Company at or about 5.00 p.m. (4.00 p.m. BST) on 28 April 2006 will apply. Please note that Shareholders and Depository Interest Holders will only be able to use the procedure mentioned below for making their currency election. **No other form of election will be accepted.**

### Procedure for Depository Interest Holders

If you hold your Shares in Depository Interest form in CREST and will continue to do so at 5.00 p.m. on the relevant dividend record date and whether or not you have validly elected to receive your dividends in CREST, you may elect to receive your dividend in Pounds Sterling by means of the CREST procedures to effect such an election referred to below. If you are a CREST Personal Member, or other CREST Sponsored Member, you should consult your CREST sponsor, who will be able to take the appropriate action on your behalf.

The CREST procedures require the use of the Dividend Election Input Message in accordance with the CREST Manual. The message includes the following fields which, for a valid election to be made, must be correctly input as indicated below by close of business on the Pound Sterling election deadline (20 April 2006 for the final dividend payable on 19 May 2006).

- (i) Dividend Election Reference – you must indicate here a reference for the dividend election which is unique to your CREST participant I.D.;
- (ii) Account ID – If you have more than one member account, you must indicate the member account I.D. to which the election relates: the relevant account must be enabled (i) at the time your Dividend Election Input Message is entered into CREST, and (ii) on the relevant dividend payment date;
- (iii) ISIN – This is GI000A0ERMF2;
- (iv) Evergreen – This field must be entered with its flag set to “yes”. This requests the Company to apply your election to the current dividend and to all future dividends in respect of your entire Depository Interest holding in CREST at each relevant record date until (i) you delete your Dividend Election Input Message and that deletion is accepted in accordance with the CREST procedures on behalf of the Company, (ii) you transfer your Depository Interest holding in CREST, or (iii) the facility is withdrawn by the Directors;
- (v) Corporate Action Number – This is not to be input;
- (vi) Distribution type – You must enter “currency” here;
- (vii) Currency code – This is GBP;
- (viii) Number of shares – This field should be left blank. If this field is completed, the message will be rejected;
- (ix) Contact details – this field is optional, although you are asked to include details of whom to contact in the event of a query relating to your election.

A valid election made by means of Dividend Election Input Message will, to the extent it relates to Shares held in Depository Interests at the relevant record date, supersede all previous written elections made in respect of holdings in the same member account.

You may only revoke an election which has been made by Dividend Election Input Message by utilising the CREST procedures for deletions described in the CREST Manual. The deletion will be valid in relation to the then current dividend only if the deletion is accepted, in accordance with the CREST procedures, by or on behalf of the Company prior to close of business on the Pound Sterling election deadline (20 April 2006 for the final dividend payable on 19 May 2006). With respect to subsequent dividend payments, the valid revocation must be received by the record date for the relevant dividend payment. It is recommended that you input any deletion message 48 hours in advance of this deadline to give the Company or its agent sufficient time to accept the deletion.

There is no facility to amend an election which has been made by Dividend Election Input Message; if you wish to change your election details, you must first delete the existing election as described above and then input a Dividend Election Input Message with the required new details.

**Any attempts to send a new Dividend Election Input Message, where an existing Dividend Election Message is present and has not been deleted, will be rejected.**

### Procedure for Registered Shareholders

Shareholders wishing to make a Pounds Sterling election should complete and submit the enclosed election form to the Registrar no later than 6.00 p.m. (5.00 p.m BST) on 20 April 2006.

### General notes

Shareholders or Depositary Interest Holders who submit their currency election instruction after the Pound Sterling election deadline (20 April 2006 for the final dividend payable on 19 May 2006) will receive their dividends in US dollars.

Incorrectly completed currency election forms will be rejected.

Elections may not be split in respect of one Share or Depositary Interest holding and elections are enduring for future dividends unless a subsequent election is submitted to the Registrar or Depositary.

Depositary Interest Holders who hold their Depositary Interests through CREST will receive their dividend payments through CREST irrespective of whether they elect to have the dividend paid in Pounds Sterling.

Shareholders who elect to receive the dividend in Pounds Sterling are advised to complete a BACS instruction so that their dividend can be paid electronically directly into their bank account. A BACS instruction form is enclosed for completion and should be submitted to the Registrar no later than the close of business on 28 April 2006. If a BACS instruction is not validly submitted then dividends will be paid by cheque.

Shareholders receiving US dollar dividend payments will be sent a cheque. Unfortunately, the BACS payment process can only be used for Pounds Sterling payments.

### Dividend calendar

#### Final dividend

Ex-dividend date	5 April 2006
Record date	7 April 2006
Sterling election deadline	20 April 2006
\$/£ foreign exchange	28 April 2006
Payable	19 May 2006

#### Interim dividend

Ex-dividend date	13 September 2006
Record date	15 September 2006
Sterling election deadline	6 October 2006
\$/£ foreign exchange transaction	13 October 2006
Payable	27 October 2006

### Annual General Meeting, attendance and voting

Date and time: Thursday 4 May 2006 at 11.00 a.m.

Venue: Tercentenary Sports Hall, Bayside Sports Centre, Bayside Road, Gibraltar

The Notice of AGM is contained within this document, setting out the resolutions to be considered at the meeting.

The Company will also be broadcasting live the AGM proceedings at Deutsche Bank, 75 London Wall, London EC2, starting at 10.00 a.m. BST. Registered Shareholders and Depositary Interest Holders with the requisite letter of corporate representation are welcome to attend the broadcast.

If you are a Shareholder planning on attending the AGM in Gibraltar, or the broadcast of AGM proceedings in London, the Company would be grateful if you could also return the enclosed attendance card. This assists us in ensuring we have sufficient seating and refreshments for those planning to attend.

### Shareholders

To have the right to come and vote at the AGM, you must be a Shareholder of the Company holding Shares entered on the Company's register of members at 11.00 a.m. (10.00 a.m. BST) on 2 May 2006.

Shareholders may attend the AGM in person and vote on a show of hands or on a poll. A Shareholder may also appoint a proxy to attend the AGM and, on a poll, vote in his/her place. A proxy need not be a Shareholder of the Company. A proxy may demand or join in demanding, a poll but has no right to speak at the meeting, except with the permission of the Chairman.

A proxy form may be submitted in hard copy form by post or courier or electronically via the [www.partygaming-shares.com](http://www.partygaming-shares.com) website and by selecting the Annual General Meeting tab on the left hand side of the page. Hard copy proxy forms must be completed by or on behalf of the Shareholder. If the Shareholder is a corporation then the proxy form must be executed by a duly authorised person or under its common seal or in a manner authorised by its constitution. A proxy form is enclosed with the Annual Report. **To be valid completed proxy forms must be returned to The Registrar, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom to be received no later than 11.00 a.m. (10.00 a.m. BST) on 2 May 2006.**

Shareholders wishing to submit proxy forms electronically should visit the [www.partygaming-shares.com](http://www.partygaming-shares.com) website and select the Annual General Meeting tab on the left hand side of the page. **To be valid electronic proxy instructions must be received by the Registrar no later than 11.00 a.m. (10.00 a.m. BST) on 2 May 2006.**

# Shareholder information

## continued

### Depositary Interest Holders

If you are a Depositary Interest Holder and you wish to attend and vote at the AGM, you must be entered on the Company's register of Depositary Interests by 11.00 a.m. (10.00 a.m. BST) on 2 May 2006 and bring to the AGM a letter of corporate representation validly executed on behalf of the Depositary. A letter of corporate representation can be obtained from the Depositary.

Depositary Interest Holders may then attend in person and vote on a show of hands or on a poll. Depositary Interest Holders not wishing to attend the AGM but wishing to vote in respect of the resolutions to be considered at the AGM can do so by instructing the Depositary. This may be done in one of two ways:

- (i) Depositary Interest Holders who are CREST members may give such an instruction utilising the CREST electronic voting service in accordance with the procedures described in the CREST Manual. CREST personal Depositary Holders or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for an instruction made by CREST to be valid, the appropriate CREST voting instruction must be properly authenticated in accordance with CRESTCo's requirements and must contain information required for such instructions, as described in the CREST Manual. **The message, in order to be valid, must be transmitted so as to be received by the Depositary's agent, ID RA10 by 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.** The time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the Depositary's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Depositary may treat as invalid a CREST voting instruction in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or to procure that his/her CREST sponsor or voting service provider takes such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. Please refer to the CREST Manual for further guidance.

- (ii) Depositary Interest Holders who cannot give voting instructions via CREST should complete the enclosed Form of Direction and submit it to the Depositary. If the Depositary Interest Holder is a corporation then the Depositary Instruction form must be executed by a duly authorised person or under its common seal or in a manner authorised by its constitution. **To be valid Forms of Direction must be received by the Depositary no later than 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.**

Investors in the Shares or the Depositary Interests holding through a nominee service should arrange with that nominee service provider to be appointed as a corporate representative in respect of their holding in order to attend and vote at the AGM.

### PartyGaming employees

PartyGaming employees who have exercised their PartyGaming options and have retained all/some of the resultant Shares, hold these Shares through the PartyGaming Nominee Account Service, Capita IRG Trustee (Nominees) Limited. Employees who wish to attend the AGM, speak and vote at the AGM should request Capita IRG Trustee (Nominees) Limited to appoint them as a corporate representative. This is done by completing the Nominee Account Instruction form enclosed with their Annual Report. Whether an eligible employee wishes to attend the AGM or not they are recommended to exercise the votes in respect of their Shares by completing the Nominee Account Instruction form and sending it to The Registrar, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, United Kingdom to be received no later than 11.00 a.m. (10.00 a.m. BST) on 1 May 2006.

### Corporate calendar

31 December 2005	Year-end
27 January 2006	2005 fourth quarter KPI's announced
28 February 2006	Preliminary announcement of 2005 annual results
29 March 2006	Annual report posted
5 April 2006	Shares go ex-dividend
7 April 2006	Record date for final dividend
18 April 2006	2006 first quarter KPI's announced
20 April 2006	Last day for electing for final dividend to be paid in Pounds Sterling
28 April 2006	Foreign exchange transaction for Pounds Sterling dividend payments
1 May 2006	Deadline for submitting AGM form of direction
2 May 2006	Deadline for submitting AGM proxy forms
4 May 2006	Annual General Meeting
19 May 2006	Final dividend paid
30 June 2006	Half year-end
September 2006	Preliminary announcement of 2006 half year results
October 2006	Interim dividend paid
31 December 2006	Year-end

## Analysis of Share and Depository Interest holdings

Holdings of Shares/Depository Interests as at 31 December 2005	Number of accounts	% of total accounts	% of total Shares/ Depository Interests	Number of Shares/ Depository Interests
Up to 1,000	785	31.5	0.01	484,092
1,001 to 10,000	1,116	44.7	0.10	4,169,055
10,001 to 100,000	291	11.7	0.25	9,983,013
100,001 to 1,000,000	182	7.3	1.69	67,481,414
1,000,001 to 10,000,000	91	3.6	8.13	325,190,643
10,000,001 to 100,000,000	25	1.0	14.56	582,235,169
100,000,001 to 1,000,000,000	3	0.1	13.48	539,064,622
Over 1,000,000,000	2	0.1	61.78	2,471,391,992
Totals	2,495	100.0	100.00	4,000,000,000

The interests of the Directors in the Company's share capital is set out in the Directors' Report. The interests of the Directors in the Company's share options are set out in the Remuneration Report.

A table of those parties with a material interest in 3 per cent. or more of the Company's share capital or, in the case of other interests in 10 per cent. or more of the share capital, as notified to the Company in accordance with the Gibraltar Disclosure of Interests in Shares Ordinance 1998, the Articles and Deed Poll, is set out in the Directors' Report.

### Taxation

The following statements are intended to apply only as a general guide to current tax law for an individual Shareholder who holds Shares as an investment and who is the beneficial owner of the Shares. Shareholders should consult their own tax advisers in connection with their potential liability to pay tax in the country of their nationality or the country where they live on disposal, gift or bequest of their Shares or on the receipt of dividends.

#### Taxation of dividends

PartyGaming Plc is not required to withhold tax in Gibraltar in respect of dividends. Shareholders, whether resident in Gibraltar or not, receive the full amount of the dividend declared.

#### Taxation of capital gains

There is no capital gains tax in Gibraltar on a disposal of Shares in PartyGaming Plc. Shareholders may be liable to pay tax in the country of their nationality or the country where they live.

#### Stamp duty

No stamp duty is chargeable in Gibraltar on the transfer of Shares in PartyGaming Plc for as long as PartyGaming Plc is a tax-exempt company. There is no stamp duty reserve tax in Gibraltar.

Provided that the Shares are not registered in any register kept in the UK by or on behalf of the Company, an agreement to transfer the Shares would not be expected to be subject to UK stamp duty or stamp duty reserve tax. The Share register is not kept in the UK and it is not intended that any such register will be kept in the UK. A transfer on sale of Shares would not be expected to be subject to UK stamp duty or stamp duty reserve tax provided that the instrument of transfer is not executed in the UK and does not relate to any property situate or to any matter or thing to be done in the UK.

No UK stamp duty or stamp duty reserve tax is expected to be payable on an agreement to transfer Depository Interests within CREST provided that relevant conditions are met including in particular that (i) no register of Shares is kept in the UK by or on behalf of the Company; (ii) the central management and control of the Company is not exercised in the UK. It is intended that these conditions will be met. It is not expected that an instrument subject to UK stamp duty or stamp duty reserve tax would be created in respect of such a transfer.

# Definitions

The following definitions apply throughout this document unless the context requires otherwise:

'Act' or 'Companies Act'	UK Companies Act 1985, as amended
'Admission'	admission of the ordinary share capital of the Company, issued and to be issued pursuant to the Offer, to the Official List and to trading on the London Stock Exchange's market for listed securities, which occurred on 30 June 2005
'Annual General Meeting' or 'AGM'	the Annual General Meeting of Shareholders convened for 11.00 a.m. on 4 May 2006 at Tercentenary Hall, Bayside Sports Centre, Bayside Road, Gibraltar
'Annual Report'	the Company's financial statements and accompanying reports for the year ended 31 December 2005
'Articles'	the articles of association of the Company
'Board' or 'Directors'	the Executive Directors and the Non-Executive Directors listed in the Board of Directors section in this Annual Report
'Company' or 'PartyGaming'	PartyGaming Plc
'Companies Ordinance'	the Gibraltar Companies Ordinance, as amended
'CREST'	the system for the paperless settlement of trades in listed securities, of which CrestCo is the operator
'CrestCo'	CrestCo Limited, the operator of CREST
'Deed Poll'	a deed poll executed by the Depositary in favour of the holders of Depositary Interests from time to time
'Depositary' or 'Capita IRG Trustees'	Capita IRG Trustees Limited
'Depositary Agreement'	the depositary agreement dated 14 June 2005 between the Company and Capita IRG Trustees Limited
'Depositary Interest Holder'	holders of the Depositary Interests
'Depositary Interests'	the dematerialised depositary interests in respect of the Shares issued or to be issued by the Depositary
'\$'	represents US dollars throughout
'Dresdner Kleinwort Wasserstein' or 'DrKW'	Dresdner Kleinwort Wasserstein Limited and/or Dresdner Kleinwort Wasserstein Securities Limited, as appropriate
'Employee Trust'	the PartyGaming Plc Shares Trust, a discretionary share ownership trust established by the Company in which the beneficiaries include all of the current and former employees and self-employed consultants of the Group
'Executive Directors'	the executive directors of the Company
'Gambling Ordinance 2005'	the Gibraltar Gambling Ordinance, which was enacted in 2005 and is expected to be brought into effect in 2006
'Gaming Ordinance'	the Gibraltar Gaming Ordinance, as amended
'Group' or 'PartyGaming Group'	the Company and its consolidated subsidiaries and subsidiary undertakings from time to time or, prior to 7 February 2005, PartyGaming Holdings Limited and its consolidated subsidiaries and subsidiary undertakings
'IFRS'	International Financial Reporting Standards
'Licence'	the licence issued under the Gaming Ordinance by Gibraltar's Financial & Development Secretary to ElectraWorks Limited, a member of the Group, for the operation of remote gambling and online casino activities from Gibraltar
'Licence Agreement'	the Gaming Licence Agreement between the Government of Gibraltar and ElectraWorks Limited
'Listing Particulars'	the Company's supplementary listing particulars issued on 27 June 2005 in connection with the Offer
'Listing Rules'	the listing rules of the UKLA
'London Stock Exchange'	London Stock Exchange plc
'Non-Executive Directors'	the non-executive directors of the Company
'Offer'	the global offer of Shares described in the Listing Particulars
'Offer Price'	the price per Share at which Shares were sold under the Offer, being 116 pence
'Official List'	the Official List of the UKLA
'Principal Shareholders'	Anurag Dikshit (holding through Crystal Ventures Limited), Russell DeLeon (holding through Stinson Ridge Limited), Ruth Parasol (holding through Emerald Bay Limited) and Vikrant Bhargava (holding through Coral Ventures Limited), each of which was a promoter of the Company
'Registrars'	Capita IRG (Offshore) Limited, the registrars of the Company
'Relationship Agreement'	the relationship agreement between the Company, Crystal Ventures Limited, Coral Ventures Limited, Stinson Ridge Limited, Emerald Bay Limited and the Principal Shareholders dated 14 June 2005
'Shareholders'	holders of Shares in the Company
'Share Option Plans'	the PartyGaming Plc Share Option Plan and the PartyGaming Plc Executive Share Option Plan
'Shares'	ordinary shares of 0.0015 pence each in the capital of the Company
'UKLA'	the UK Listing Authority
'Underwriters'	Dresdner Bank AG, an indirect subsidiary of Allianz AG (the ultimate parent company of Dresdner Kleinwort Wasserstein) acting through its London Branch at 2 Swan Lane, London EC4R 3UX, Bayerische Hypo-und Vereinsbank AG, Calyon, Commerzbank AG, Enskilda Securities AB, ING Bank NV, Mediobanca - Banca di Credito Finanziario SPA
'Underwriting Agreement'	the underwriting agreement entered into between, amongst others, the Company, Principal Shareholders, the Chairman, the Directors, the Employee Trust, certain members of senior management and the Underwriters
'United Kingdom' or 'UK'	the United Kingdom of Great Britain and Northern Ireland
'United States' or 'US'	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia

# Glossary

'active affiliates'	an affiliate who generated revenue in that month
'active player days'	aggregate number of days in the given period in which active players have contributed to rake and/or placed a wager. This can be calculated by multiplying average active players by the number of days in the period
'active player' or 'active real money player' or 'unique active player'	In relation to the Group's products, a player who has contributed to rake and/or placed a wager in the period
'affiliates'	third party online or offline marketers who drive traffic to PartyGaming's gaming sites for a flat fee or on a revenue share basis
'average active players'	the daily average number of players who contributed to rake and/or placed a wager in the given period. This can be calculated by dividing active player days in the given period, by the number of days in that period
'bots'	computer programmes capable of playing virtual poker with a predefined strategy, which can beat new and inexperienced players by the calculation of pot odds and preferred user adjustments
'BPO'	business process outsourcing
'Clean EBITDA' or 'Clean EPS'	EBITDA/EPS before IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins as well as non-cash charges relating to share options that are to be satisfied by existing Shares that were effectively gifted to the Employee Trust by the Shareholders prior to the Offer, primarily the Principal Shareholders
EBITDA'	earnings before interest, tax, depreciation and amortisation
'flop'	in Texas Hold'em and Omaha High, the first three community cards that are dealt face up in the centre of the table all at the same time. The flop also indicates the second round of betting
'gross margin'	gross win as a percentage of revenue
'gross win'	customer stakes less customer winnings
'IT'	information technology
'Omaha High'	a type of poker game
'online wallet'	a web-based account to which customers transfer funds directly from their bank accounts and from which funds are transferred for the settlement of transactions with online merchants, such as online gaming sites
'play money'	playing where no real money is involved, instead, players use 'fun money' or 'free money' to participate
'pot'	the aggregate amount wagered on each hand by the players in a ring game
'rake'	the money charged by PartyGaming for each qualifying poker hand played on its websites in accordance with the prevailing and applicable rake structure
'real money'	gambling where money is wagered, as opposed to play money where no money is wagered
'real money sign-ups'	new players who have registered and deposited funds into an account with the Group
'registered player'	a player who has registered with the Group to use its real money sites and/or its play money sites
'ring game'	a 'regular' poker game as opposed to a poker tournament
'sign-up bonus'	an amount awarded on signing-up to a gaming site, subject to applicable conditions
'sign-ups' or 'new player sign-ups'	new players who register on the Group's real money or play money sites
'skins' or 'white label services'	arrangements where third parties use the software platform and services of another online gaming operator, typically on a revenue sharing basis, with the third party providing its own front end, branding and marketing arrangements
'slots'	'slot' or 'fruit' machines
'sports betting'	placing bets on sporting events
'Texas Hold'em'	a type of poker game and the most popular form of poker on PartyPoker
'wager'	a bet on a game or sporting event
'yield per active player day'	revenue in the period divided by the number of active player days in that period

# PartyGAMING

711 Europort  
Gibraltar

[www.partygaming.com](http://www.partygaming.com)