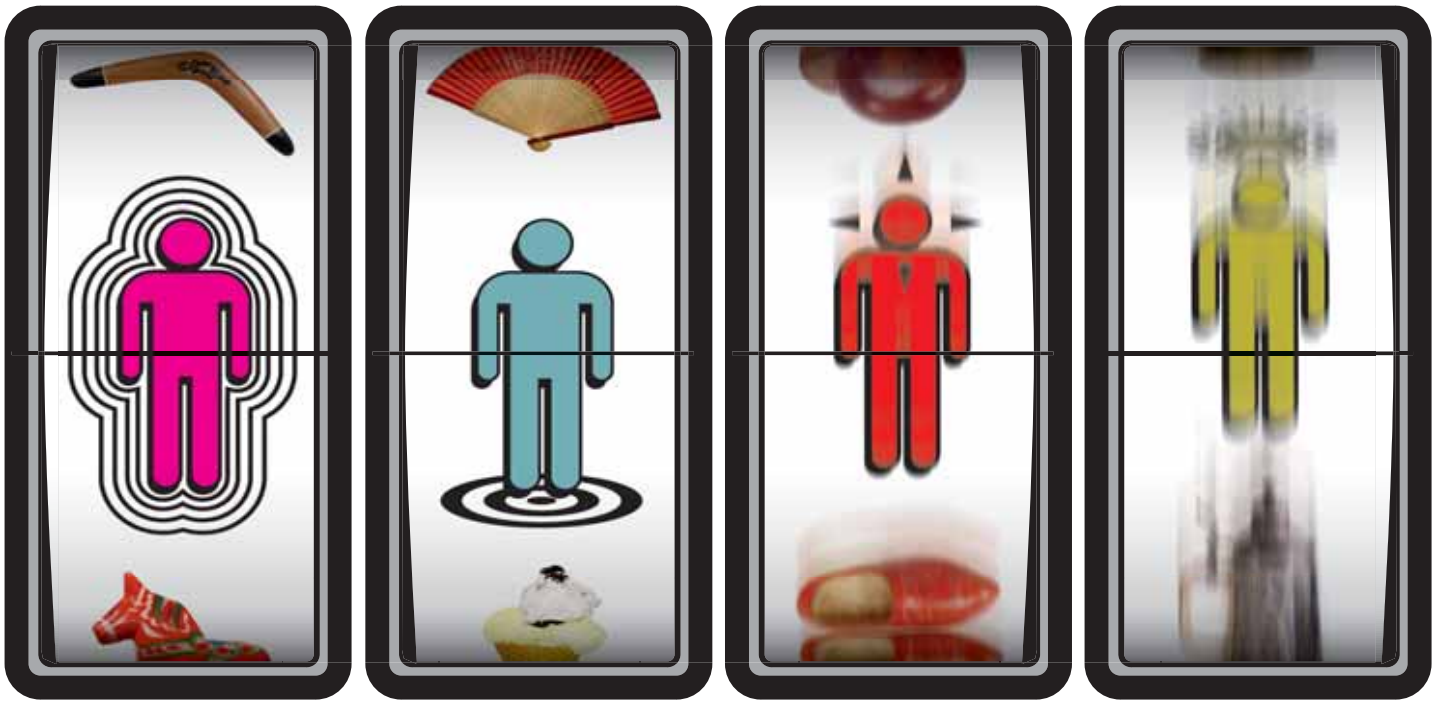


PartyGAMiNG

PartyGaming Plc Annual report 2006



A winning strategy

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PartyGaming faced the severest of tests in October 2006 when we terminated all real money games to customers in the US. The impact on our business, customers and employees was immediate. So was our response. We rationalised and reorganised but remained focused on our stated business strategy. Adversity often breeds opportunity and we have the brands, the people and the resources to seize it with both hands.

Key to strategy icons

Throughout this report we have highlighted where one of our four key strategies is being deployed.

Grow the player base



Localise the customer offer



Broaden the product base



Act responsibly



Introduction


In this 2006 annual report we have tried to provide an open and transparent view of PartyGaming's business environment, operations, financial performance and prospects in what is a global and highly dynamic online gaming market.

Four key facts

- > PartyGaming is the world's leading listed online gaming company
- > Formed in 1997, the Company listed on the London Stock Exchange in June 2005 (ticker: PRTY)
- > Regulated and licensed by the Government of Gibraltar, the Group has over 1,200 employees
- > We offer online poker, casino, sports betting, bingo and backgammon

Looking forward is always a challenge but in this annual report we have attempted to give as candid a view as we can, based on our current knowledge and expectations. New markets, new products and new legislation can each and collectively have a significant impact, both positive and negative, on our business performance.

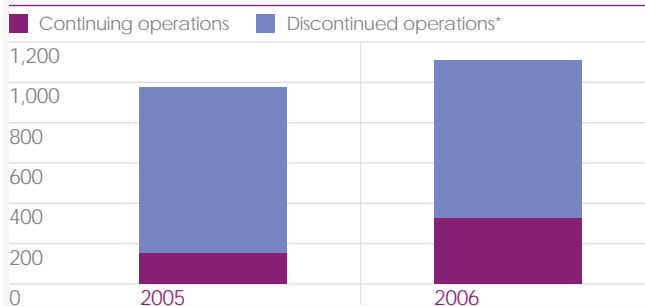
All references to financial performance and key performance indicators refer to our Continuing operations, unless expressly stated otherwise.

 The full statutory accounts contained at the end of this document have been structured so as to set out clearly the performance of the Continuing non-US facing business, as well as the performance to 13 October 2006 of the business as a whole.

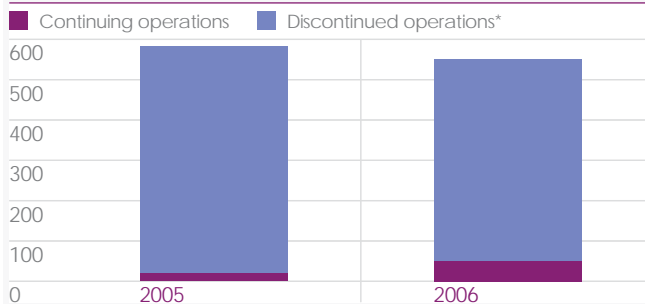
Our Group performance

A summary of the Group's performance in 2006, comprising Continuing operations and Discontinued operations*, is shown below.

Total revenue \$m



Total Clean EBITDA# \$m



Revenue

+13%

\$1,104.9 million

Clean EBITDA#

-6%

\$550.7 million

Profit before tax

-57%

\$138.9 million

Clean EPS#

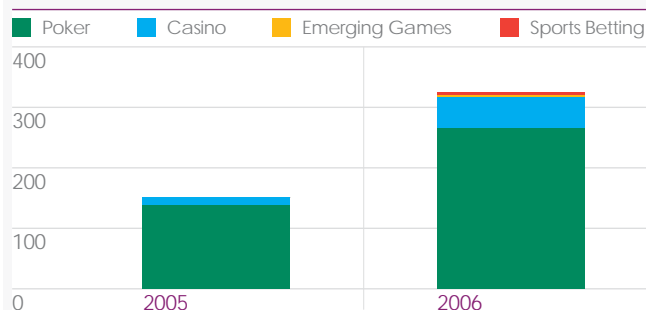
-7%

12.9 cents

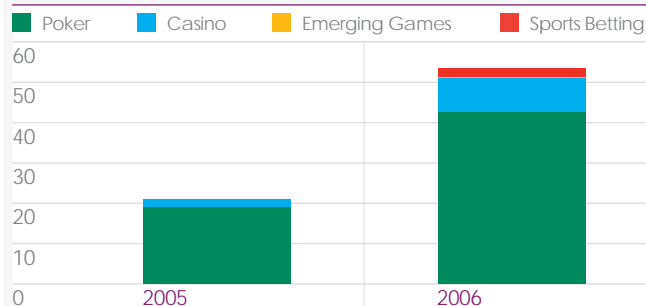
Our Continuing operations

The Continuing operations grew strongly in 2006, despite being impacted by the enactment of the Unlawful Internet Gambling Enforcement Act (the "UIGEA") on 13 October 2006.

Continuing revenue \$m



Continuing Clean EBITDA# \$m



Note: Chart above is before unallocated costs.

Continuing revenue \$m

	2006	2005	Increase (%)
Poker	266.4	139.7	91
Casino	51.0	13.5	278
Sports Betting	5.6	-	n/a
Emerging Games	2.0	-	n/a
Total	325.0	153.2	112

Continuing Clean EBITDA# \$m

	2006	2005	Increase (%)
Poker	42.7	19.0	125
Casino	8.2	1.8	356
Sports Betting	2.3	-	n/a
Emerging Games	0.3	-	n/a
Unallocated costs	(2.6)	(1.1)	n/a
Total	50.9	19.7	158

Revenue

+112%

\$325.0 million

Clean EBITDA#

+158%

\$50.9 million

Loss before tax

+64%

\$77.4 million

Clean EPS#

+500%

0.4 cents

*Operations located physically outside of the US but which relate to customers in the US and therefore were discontinued following the enactment of the UIGEA on 13 October 2006.

#EBITDA/EPS before reorganisation costs, IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins and charges relating to share-based payments.

Our games

With a broad product suite, our players can place a bet, test their skill, their luck or just play for fun!

Poker

Our largest business segment, key brands include PartyPoker, EmpirePoker and Noble Poker.



	2006
Revenue*	82%
Clean EBITDA*	80%
Unique active players	634,500
Revenue per day	\$728,700

*Percentage of Continuing revenue/Clean EBITDA

Casino

Our second largest segment offers over 50 different casino games including blackjack, roulette, video poker, slot machines and bingo games. Key brands include PartyCasino, PartyBingo, SwissCasino, EnterCasino, Monaco-GoldCasino, King Casino and Club Dice.



	2006
Revenue*	16%
Clean EBITDA*	15%
Unique active players	276,800
Revenue per day	\$139,800

Sports Betting

Non-US-facing sports betting was added to the portfolio in August 2006 with the acquisition of Gamebookers. PartyBets was launched on a trial basis in November and is now available on the integrated Party platform.



	2006
Revenue*	2%
Clean EBITDA*	4%
Unique active players	78,800
Revenue per day	\$37,300

Emerging Games

Added to the portfolio during 2006, this segment currently comprises PartyGammon, the Group's online backgammon site that was launched in June.



	2006
Revenue*	1%
Clean EBITDA*	1%
Unique active players	35,200
Revenue per day	\$10,600

The key to our success

Our strategy



Our objective is to deliver attractive long-term returns for our investors through profitable growth. This will be achieved by implementing the following business strategies

Our business drivers*

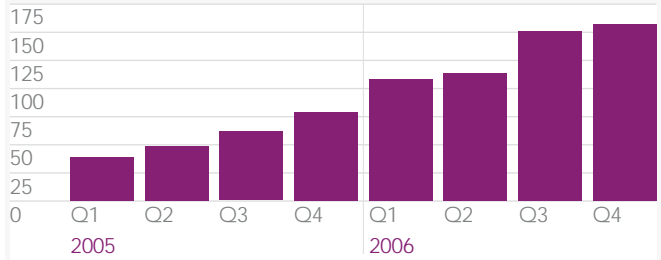


Grow the player base



Continue to grow the player base through a programme of innovative marketing and promotions in international markets

Consolidated new player sign-ups 000s

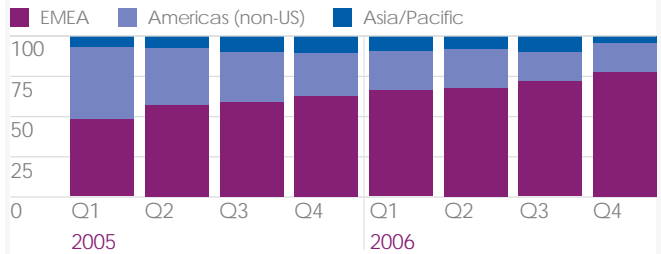


Localise the customer offer



Improve access to our games by making them available in different languages and currencies, both of which will broaden their appeal

Consolidated sign-ups by region %

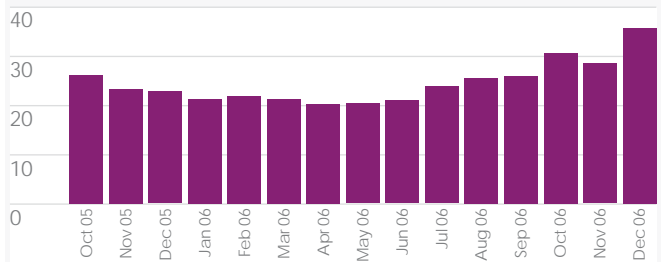


Broaden the product base



Develop new games both internally and through licensing from third-parties that will enable cross-selling across a broad range of products

Poker players playing multiple games %



Act responsibly



Provide entertainment for adults at a competitive price in a safe and secure environment whilst helping to ensure that online gaming does not assume too large a role in their lives

Certification

The Group was reawarded a GamCare certificate in 2006



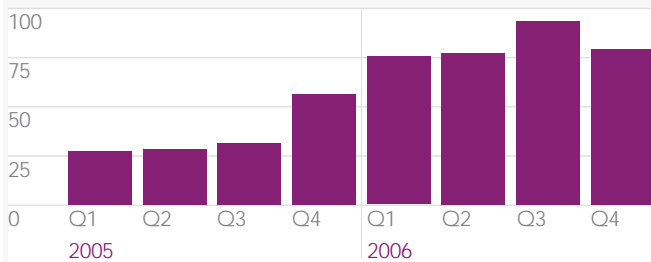
*Note all metrics exclude skins

Our performance*

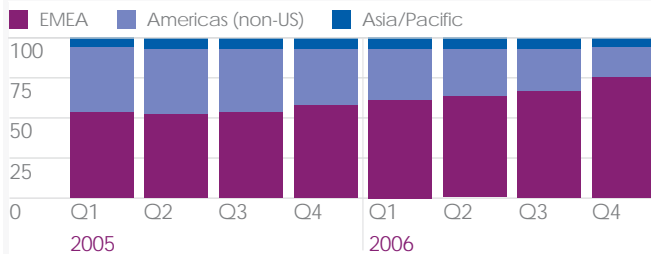


Our future

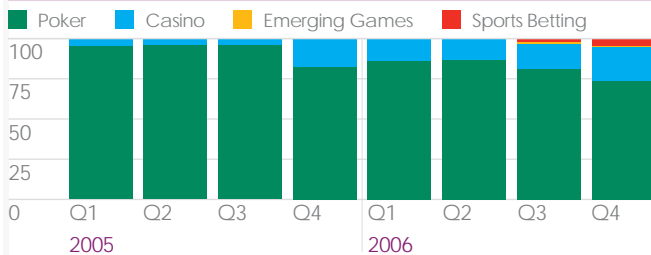
Quarterly revenue \$m



Quarterly split of revenue by region %



Quarterly mix of revenue by product %



A responsible approach

We encourage our customers to play within their own means



- > Keep growing internationally
- > Roll-out multi-lingual sites
- > Launch multi-currency
- > Develop new revenue streams
- > Continue to engage with regulators around the world and manage regulatory compliance
- > Seek entry into new markets through strategic partnerships

From poker face...



...to horse race



Broad product base

Whatever your game, chances are you will find it at PartyGaming. We now offer more than 50 different games and formats from poker to virtual horse racing.



Chairman's statement

"Last year saw the Group deliver against all of the operational objectives that were outlined at the time of the IPO."

Maintaining a strong position in a fast moving and highly competitive sector is a tough and demanding challenge for any company. However, the signing into US law of the Unlawful Internet Gambling Enforcement Act ('UIGEA') in October 2006 resulted in a seismic shift in the structure of the online gaming industry as well as an immediate and substantial impact on PartyGaming's business performance. The full implications represented one of the toughest challenges faced by our management team, one that they addressed quickly and, as ever, with consummate professionalism.

Whilst we were never complacent, we were both surprised and disappointed by the legislative change in the US. The Board of PartyGaming believes that regulation is the best way forward for online gaming, which already has millions of customers around the world. Customers should always come first and so too should the protection of their interests through proper and appropriate regulation. This includes customer security, probity and responsible gaming; none of which are optional extras: they are must-haves.

However, there was no time to dwell on what might have been. Instead our focus has been on securing the Group's future revenue streams which now come exclusively from customers outside the US. This annual report provides details on the Group's strategy in this new world and is focused on the performance and prospects for our Continuing operations.



Michael Jackson
Chairman



Despite the impact of the UIGEA, last year saw the Group deliver against all of the operational objectives that were outlined at the time of the IPO. Our achievements were acknowledged by our peers who voted us 'Operator of the Year' in eGaming's industry awards for 2006. All of our achievements were made possible by excellent leadership, management and outstanding professional commitment and drive from our employees, many of whom suffered the consequences of the legislative changes in the US that resulted in a 41% reduction in the total workforce. We wish all of our former employees every success for the future and thank them for their endeavours that have put PartyGaming at the forefront of online gaming.

Since his arrival in April 2006, Mitch Garber has been instrumental in accelerating PartyGaming's expansion outside of the US and has led and overseen numerous developments and successes. These include three acquisitions and the launch of a number of new products. The speed with which the business reorganised and was put back on a level footing in the aftermath of the UIGEA is a testament to his leadership and business acumen and also to the strength and depth of his management team that I believe is the best in the industry.

During the year, two of PartyGaming's founders, Anurag Dikshit and Vikrant Bhargava, took the most difficult decision any entrepreneur can take by relinquishing executive responsibilities and stepping down from the Board. Brian Larcombe, Nigel Kenny and Janos Libor, all of whom made substantial contributions to PartyGaming's development, also stepped down from the Board at the end of 2006. We thank them for their efforts and wish them the best of luck for the future.

Despite the structural and management changes, 2006 was still a year of substantial progress: we introduced a fully integrated and Party-branded platform with shared wallet technology, and we launched PartyCasino, PartyGammon and PartyBingo as well as multi-lingual versions of our client software. We also announced four acquisitions, three of which helped to consolidate our position in online casino and online poker whilst the other took us into sports betting. The acquisition of Gamebookers, a non-US facing sports betting business, was soon followed by the launch of PartyBets on the fully-integrated platform.

Dividends

Following the decision to shut down activities to customers in the US and the consequent restructuring of the business during the fourth quarter of 2006, the Board believed that it was inappropriate to pay an interim dividend. While the business has shown a healthy recovery since the passing of the UIGEA, the Board believes that it would be imprudent to recommend the payment of a final dividend for the 2006 financial year.

Outlook

When recounting PartyGaming's achievements for 2006, I would like to reiterate my comment in last year's annual report that 'this business moves at a rapid pace, constantly adapting to changes and opportunities within the marketplace'. The same holds true today and in a short space of time we have already built a substantial business outside of the US, one that has grown strongly in 2006. Whilst we are only a few months into the year, the Group has made an encouraging start to 2007 and your Board remains confident about making further progress this year.

Chief Executive's business review

“The Group's primary objective has always been to deliver attractive long-term returns for our shareholders”

I joined as Chief Executive Officer of PartyGaming in April 2006. The attractions of the role were many; PartyGaming was then the world's largest online gaming company, operating in a sector that I knew well and one that had delivered spectacular growth. PartyGaming was a pioneer in the sector and it had already been very successful in capturing the lion's share of that sector growth, becoming a multi-billion dollar corporation, listed on the full market of the London Stock Exchange and also a constituent of the FTSE 100 share index.

My immediate task was to define a set of objectives with my fellow executives and the Board and then develop, agree and implement a strategy for the Group – one that was sufficiently flexible to ensure that PartyGaming could continue to rise to the challenges in one of the most dynamic sectors in business today. The pending threat of a change in the legislative landscape in our then largest market, the US, meant that both the objectives and strategy needed to work irrespective of legislative or other legal developments.

Objectives and strategy

Whilst the enactment of the UIGEA has had a substantial impact on the scale and structure of PartyGaming, the Group's business objectives and strategy remain robust. The Group's primary objective has always been to deliver attractive long-term returns for our shareholders and the effective closure of a major market was clearly a significant setback. However, PartyGaming has a proven track record in seizing opportunities during periods of rapid change and I believe it is well placed to capitalise on the anticipated growth and opportunities that exist in international markets. Nonetheless, whilst the business model has proved its ability to generate high returns, its sustainability will be heavily dependent on the continued management of both regulatory compliance and reputation risk.



Mitch Garber
Chief Executive Officer



Achievements in 2006

- > Launch of integrated platform and shared wallet
- > Launch of PartyCasino, PartyBingo and PartyGammon
- > Entry into non-US sports betting via acquisition of Gamebookers and launch of PartyBets
- > Multi-lingual versions of PartyPoker

Priorities for 2007

- > Keep growing the international player base
- > Roll-out multi-lingual functionality
- > Roll-out multi-currency versions of games
- > Continue to manage regulatory compliance
- > Seek international partnerships

Online gaming is a relatively young industry and operates in regulatory and legal environments that tend to lag behind market and product developments. Whilst the combination of the internet and gaming has proved to be contentious in a number of territories, we continue to believe that ultimately a regulatory framework for online gaming is the only sensible, long-term solution. Companies like PartyGaming are setting the standard both in terms of the quality of operations and also in helping to assist governments and regulators to formulate appropriate safeguards for the benefit of consumers. As eGaming Review's 'Operator of the Year' in 2006, we have been widely recognised by our peers for the quality of our operations and also for our approach to responsible gaming. By setting high standards we are able to demonstrate what can be achieved to ensure fair play and protect our customers around the world.

Understanding regulatory developments and managing regulatory compliance are clearly important to the long-term success of our business. Closely aligned with the management of regulatory compliance is the management and preservation of our corporate reputation. As a gaming business that means ensuring that our customers are treated fairly. In practical terms, we aim to ensure that our games and services are offered to customers in a safe and secure environment, one that seeks to protect children and the vulnerable.



Industry leader

PartyGaming was voted 'Operator of the Year' in 2006, a reflection of the Group's standing amongst its peers.

Chief Executive's business review

Our objective, to drive shareholder returns whilst managing regulatory compliance and reputation risk, has been set in the context of a highly competitive international marketplace, one that is continuing to grow and is changing daily from a technological as well as a regulatory perspective. The business strategies that we are executing to achieve our objective, in order of priority, are as follows:

Grow the player base – This is a key driver of revenue. The take-up of online gaming by adults around the world is still very small and the sector accounts for just 5.4%¹ of the global gaming market by value. The market rate of growth from international territories since 2003 has been much faster than from the US and this is expected to continue. Since early 2005, PartyGaming's international expansion has been focused on developing markets outside of the US and this has been accelerated following the passing of the UIGEA. Through the continued development of new and exciting marketing campaigns as well as the exploitation of a broad variety of marketing channels, the Group continues to see considerable potential in a number of markets. Mergers and acquisitions ('M&A') have also proved to be an incremental source of new customers and PartyGaming will continue to explore opportunities that meet its financial and strategic criteria.

Localise the customer offer – The Group's already substantial success in international markets has been achieved despite the fact that players have had to play all games in English, rather than their local language. PartyGaming is set on broadening the appeal of its games in international markets and increasing the number of active players by offering multi-lingual as well as multi-currency options for its games as well as through the development of local alliances.

Broaden the product base – For some time the Group has offered a broad suite of online games on the back of both internal development that included poker, casino and bingo, as well as through M&A and the licensing of technology from third-parties. The addition of backgammon took place in June 2006 and the Group acquired Gamebookers, a non-US facing sports betting business, on 3 August 2006. The Group has since launched PartyBets, its own Party-branded sports book that is fully integrated into the PartyAccount shared wallet.

Act responsibly – Setting, maintaining and improving high standards of responsibility are key elements of the Group's business strategy. This is important from a regulatory and reputation standpoint and also makes sound commercial sense. Whilst the vast majority of PartyGaming's customers enjoy playing games, a small minority can find themselves in a position where gaming may be assuming too large a part of their lives. The Group has put in place a series of checks and balances to help such players recognise the signs of problem gaming and provide them with information about where they can turn to for help. The 'know your limits' logo that now appears on our sites seeks to ensure that customers are aware of and play within their own means.

¹ Based on gross gaming yield – Global Betting and Gaming Consultants, February 2007

Players are encouraged to set time and deposit limits to improve self-awareness of how much they are playing and self-exclusion tools are also available if required. Protecting children is a paramount objective. The Group uses third-party databases wherever practicable to verify the identity and age of customers before they play and also seeks to encourage parents and guardians to keep their log-in and payment details confidential to prevent misuse by children.

Measuring our success

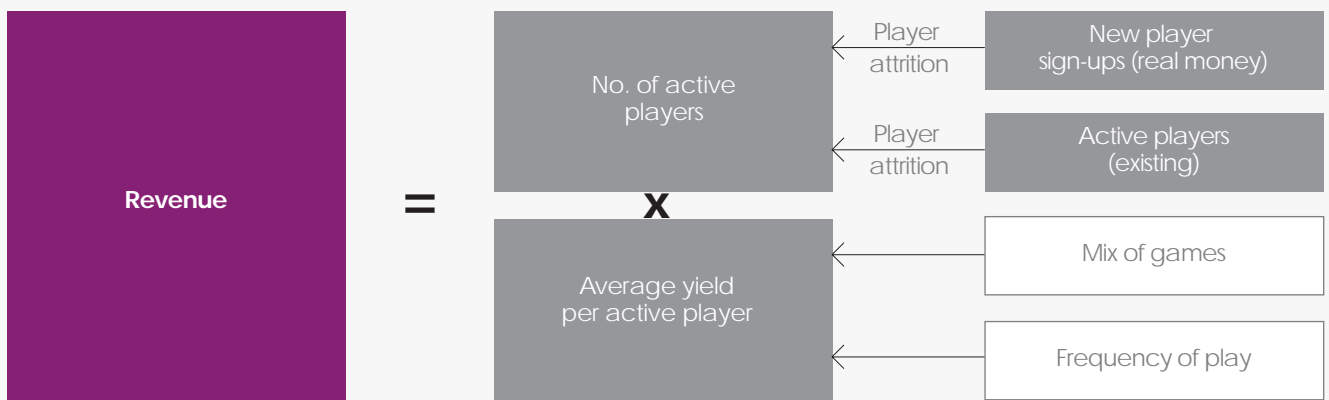
The delivery of attractive returns for shareholders is something that can only be proven over time, but in large part will be determined by revenue growth, as well as our ability to control costs. Revenue growth is dependent upon the dynamics of each of our key performance indicators ('KPIs') and therefore our success should be measured by the impact of the strategies outlined above on each of the KPIs and ultimately revenue and Clean EBITDA.

Whilst the inter-relationship between our revenue and our KPIs is complex, the key dynamics can be illustrated by the diagram below.

The growth of our customer base can be seen from the number of new player sign-ups and unique active players, both of which then feed into active player days and average daily revenue. The number of new player sign-ups and existing active players that remain active tend to reduce over time – new sign-ups may find that online gaming is not for them while existing players may lose interest or may migrate to competitors. This decay profile is known as 'player attrition'. As a result, the active player base is constantly changing. Increasing new player sign-ups, as well as retaining existing players are important drivers of revenue growth. The recent launch of multi-lingual and soon to be launched multi-currency versions of our games during 2007, should all help to drive new player sign-ups and improve player retention.

Summary of our business model

- Key performance indicators
- Other indicators
- Financial results



Chief Executive's business review

Average daily yield per active player is another key variable in the revenue equation. Player yield is influenced by frequency of play, the mix of games played, the overall mix of players (including their experience), and exogenous factors such as changes in exchange rates. As large numbers of new, less-experienced players are added to the overall player pool, so the average yield can be expected to fall – inexperienced players tend to play and spend less than their more experienced counterparts. In summary, the equation is complex!

Measuring the success or otherwise of initiatives to increase player yield needs to be viewed in the context of the other key performance indicators, and the growth in active players in particular. A falling average yield may simply indicate a hugely successful sign-ups strategy rather than a failing yield management strategy. Conversely, a rising yield per player may be a function of a very poor level of new player sign-ups rather than a successful yield management initiative.

Attracting players using different marketing techniques and promotions and ensuring that the right player receives the right promotion at the right time is a complex and important activity. PartyGaming has developed and will continue to invest in innovative campaigns that are backed up by sophisticated delivery systems, deployed across a multitude of marketing channels. Our 'Everyone's Playing' campaign was designed to promote games across the integrated Party-branded systems platform; the simplicity of the 'Everyone's Playing' tag line and supporting visuals also enabled us to roll-out the campaign in many different languages around the world. The addition of multi-currency during 2007 should also broaden the international appeal of the Group's products.

Broadening the product base is another way we can maximise player yield. When we introduced blackjack on to PartyPoker in October 2005, the gross spend per player that played both poker and blackjack increased by over 40%. By cross-selling additional games to players we can both increase player yield and also extend player life – players are less likely to lose interest or join other sites if they have other new and exciting games to play. Over the past 18 months we have launched blackjack on PartyPoker, we have also launched PartyCasino, PartyGammon, a new version of PartyBingo, PartyBets as well as virtual horse and dog racing. While we have no published targets regarding the number of games we would like to have, we expect to continue to add new games over time. These might be games that we acquire through M&A transactions, games developed by our own software developers in-house, or games developed by and licensed from third-parties.

The Group continues to take corporate responsibility very seriously. We invest large amounts of time, effort and capital in developing increasingly sophisticated systems and processes that allow us to continue to raise the bar on what can be achieved in terms of player security, age verification and responsible gaming. Being recognised by regulators and public bodies such as GamCare, a leading UK charity and authority on problem gambling, for setting the industry standard will continue to be a way of monitoring our progress in this area. While such a strategy may act as a drag on profit growth in the short-term, by helping to secure the trust and confidence of our players, as well as governments and regulators, this is an important and long-term source of value for the Group.

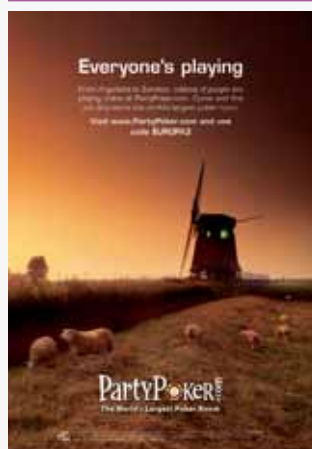
Managing regulatory compliance

The online gaming industry is like many others and has a number of inherent risks associated with it. These include general business risks such as changing consumer tastes, competitive and economic risks and so on. While each of these is important and needs to be managed, the current lack of clarity regarding the regulatory position around the world and the potential impact upon our business, both positive and negative, of major shifts in that position means that the management of regulatory compliance is an important strategic consideration for the Group. It can have direct consequences on player volumes, player yield and thus revenue and profit.

Developing a business strategy capable of withstanding shifts in the regulatory landscape is vital to achieving our long-term objectives. As we continue to expand internationally, the task of accurately assessing the impact of political and regulatory change and remaining compliant become increasingly complex. For some time we have recognised the importance of this task and have a dedicated team that is responsible for monitoring and managing our compliance, as well as a network of advisers around the world to ensure that we are as well-prepared as possible to deal with actual and potential changes in the regulatory and political landscape.

Each of the business strategies outlined above were unaffected by the passing of the UIGEA. The considerable experience of the management team and of the Board meant that the Group has been able to withstand what was a considerable blow to our business. However, the passage of the Act did require that we make a number of structural changes to our management organisation so that it was better aligned with the international, multi-product, multi-lingual and now multi-currency nature of our business.

The management of our own resources in executing our business strategies has also had to adapt as a result of the changes to our business. I am pleased to say that, while our operating margins have been affected by the removal of US revenues, the performance since we stopped taking bets from US customers has been strong and is evidence of our ability to adapt quickly to what was a seismic event for our Company.



Everyone's playing
The Group has recently launched a new marketing campaign.

Chief Executive's business review

Managing our people

The requisite reorganisation of our business following the passage of the UIGEA was significant: we reduced the number of employees by over 40% and totally reorganised the management structure. This was executed in a very supportive manner in a matter of weeks and is a reflection of the quality and professionalism of our people. We run a lean ship at PartyGaming and require a high level of individual responsibility from all of our staff as well as a very high work ethic. Our operating mantra is that 'if something needs doing – do it'. Such an environment does not suit everyone, but for those who are able to thrive in a dynamic workplace, we aim to ensure that the rewards are at least as good or better than anywhere else in the industry. All of our employees have a stake in the Company and so are highly geared to performance. But working at PartyGaming is not just about financial rewards. We have a flat management structure so that ideas flow and the identification of issues does not get lost in layers of bureaucracy – things need to and do happen fast! This is one of the reasons behind our success and I believe will also be a key factor going forward. We can attract and retain the best people not just because we pay them well but because PartyGaming is a dynamic, challenging and exciting place to work where there are big opportunities to make a real and valuable contribution. I think that it is this factor that separates us from our competitors.

Current trading and outlook

In the four weeks ended 28 January 2007, average gross daily revenue reached \$1,172,000, a 19% increase from that achieved in the four weeks to 11 December 2006, as disclosed in the trading update given by the Company at the end of 2006. In poker, new player sign-ups averaged over 2,300 per day and there were on average 58,000 active players per day, generating average gross daily revenue of \$789,000. In casino, average gross daily revenue was \$318,000² while in sports betting, gross win per day averaged \$58,000 per day. Backgammon generated average gross revenue of \$7,000 per day.

In the following four weeks, ended 25 February 2007, average gross daily revenue had increased to \$1,327,000, a 13% increase over January. In poker, new player sign-ups averaged over 2,400 per day and there were on average 66,000 active players per day, generating average gross daily revenue of \$856,000. In casino, average gross daily revenue had increased to \$378,000 per day while in sports betting, gross win per day had increased to \$86,000 per day. Backgammon revenues fell to gross revenue of \$6,000 per day. The growth in revenue has had a positive influence on profitability and Clean EBITDA margins of the Continuing operations should benefit from further revenue growth.

Territories within EMEA have been and continue to grow rapidly and thus provide exciting opportunities for the Group. Our product development, marketing and customer service is now totally focused on customers outside the US, including Asia. Customers from parts of Asia may represent a substantial but as yet untapped opportunity for the Group. We are exploring several initiatives in the region and believe that these opportunities and our plans in other international markets will bear fruit in the medium to long-term.

The legislative landscape and market dynamics around the world are constantly changing making it difficult to predict exactly what things will look like in 12 months' time. However, it is clear that online gaming has huge popular appeal among adults around the world and it is generally accepted that this trend will continue.

It is against this background that the Board believes that whilst regulatory uncertainties continue in a number of territories, the Group has the resources and the necessary skills to execute its strategy and achieve its long-term objective of delivering attractive returns for shareholders.



Solid start in 2007

Gross daily revenue in February 2007 was \$1.3 million per day, up from below \$1 million per day in the four weeks to 11 December 2006.

² Including Empire Online and Intercontinental Online Gaming casinos at their average daily rate post-acquisition on 19 January 2007

From being one down...



...to getting one over



Good news, bad news?

Win or lose, our customers play for entertainment. It's not about changing your life, it's about the unadulterated pleasure you get from beating your competitor!



Review of 2006



Results – Group

Total revenue in 2006 was up 13% to \$1,104.9 million (2005: \$977.7 million) reflecting a mixed picture with strong revenue growth from outside the US, but US revenue was down 5% as a result of the termination of all real money games to players in the US from 13 October 2006.

Administrative expenses fell from \$373.1 million to \$350.5 million, the prior year having been impacted by skin-related settlement costs of \$145.8 million and IPO-related expenses of \$22.6 million. Excluding these non-recurring expenses, administration expenses increased by 71%. This reflected a \$47.6 million increase in share-based payments driven by new issues of nil-cost options to management following the passing of the UIGEA, and a share-based payment charge arising from payments made by the Bonita Trust to past and present employees of the Group.

Financial summary

Year to 31 December	Continuing operations \$million	Discontinued operations [#] \$million	2006 Total Group \$million	Continuing operations \$million	Discontinued operations [#] \$million	2005 Total Group \$million
Revenue						
Poker	266.4	559.2	825.6	139.7	719.4	859.1
Casino	51.0	219.2	270.2	13.5	105.1	118.6
Sports Betting	5.6	–	5.6	–	–	–
Emerging Games	2.0	1.5	3.5	–	–	–
Total Revenue	325.0	779.9	1,104.9	153.2	824.5	977.7
Clean EBITDA*						
Poker	42.7	341.7	384.4	19.0	490.2	509.2
Casino	8.2	160.1	168.3	1.8	73.8	75.6
Sports Betting	2.3	–	2.3	–	–	–
Emerging Games	0.3	(2.0)	(1.7)	–	–	–
Unallocated Corporate	(2.6)	–	(2.6)	(1.1)	–	(1.1)
Total Clean EBITDA*	50.9	499.8	550.7	19.7	564.0	583.7
Operating Profit	(77.6)	216.3	138.7	(209.1)	541.5	332.4
Profit before Tax	(77.4)	216.3	138.9	(216.6)	541.5	324.9
Profit after Tax	(83.4)	211.8	128.4	(223.1)	516.3	293.2
Basic EPS (cents)	(2.2)	5.6	3.4	(5.9)	13.6	7.7
Clean EPS* (cents)	0.4	12.5	12.9	(0.1)	14.0	13.9

[#]Operations located physically outside of the US but which relate to US customers that were no longer accepted following the passing of the UIGEA on 13 October 2006

*EBITDA/EPS before reorganisation costs, IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins, and charges relating to share-based payments (see Reconciliation of Clean EBITDA to operating profit below)

Distribution expenses increased by 34% to \$362.8 million, driven primarily by increased levels of activity. As a percentage of revenue, distribution expenses increased from 27.7% to 32.8% reflecting marketing activities focused on new geographic markets and the opening of a new disaster recovery centre in the Channel Islands.

During the year, reorganisation costs totalling \$250.4 million were incurred. Of this amount, \$243.2 million related to reorganisation costs arising from the decision to terminate all real money games to customers in the US following the enactment of the UIGEA and has been included in Discontinued operations. The primary components of these reorganisation costs related to the consequent impairment of intangible assets, principally Empire Poker, totalling \$115.5 million; provisions made in respect of potential payment processor bad debts of \$63.9 million as detailed in note 14 to the financial statements; the write-off of committed marketing expenditures of \$32.3 million relating to contracts entered into before the enactment of the UIGEA for which no benefit to the Group arises; impairment of technology licences relating to onerous contracts; and redundancy and other costs totalling \$17.0 million.

These factors together meant that despite the increase in revenues, operating profit fell by 58% to \$138.7 million, profit before tax fell by 57% to \$138.9 million, and profit after tax fell by 56% to \$128.4 million.

Clean EBITDA fell by 6% to \$550.7 million (2005: \$583.7 million) despite a strong performance by casino, the benefit of which was more than off-set by increases in fixed costs that were not fully recovered following the loss of revenue in the fourth quarter. Basic Clean EPS fell to 12.9 cents (2005: 13.9 cents) and basic EPS fell to 3.4 cents (2005: 7.7 cents).

Having paid a \$200 million final dividend in respect of the 2005 financial year in May 2006, the impact of the UIGEA meant that no interim dividend was paid during the year in order to provide the Board with the flexibility to deploy its resources effectively, including on acquisitions, should suitable opportunities arise. The Board also believes that in the current environment, it would be imprudent to recommend the payment of a final dividend for the 2006 financial year.

The table overleaf provides a reconciliation of the movements between Clean EBITDA and operating profit after including the effect of the reorganisation costs.



Revenue growth

Despite the impact of the UIGEA, Group revenues, including Discontinued operations, grew by 13% in 2006.



Review of 2006

Reconciliation of Clean EBITDA* to operating profit

Year to 31 December	2006 \$million	2005 \$million
Clean EBITDA* – Continuing operations	50.9	19.7
Depreciation	(20.3)	(10.8)
Amortisation	(10.1)	(0.3)
Non-recurring settlement charge	–	(145.8)
Share-based payments	(90.9)	(49.3)
IPO-related expenses	–	(22.6)
Operating loss from Continuing operations before reorganisation costs	(70.4)	(209.1)
Operating profit from Discontinued operations before reorganisation costs*	459.5	541.5
Operating profit before reorganisation costs	389.1	332.4
Reorganisation costs	(250.4)	–
Total operating profit	138.7	332.4
Continuing Clean earnings (loss) per share* (cents)	0.4	(0.1)
Continuing Basic loss per share (cents)	(2.2)	(5.9)
Total Clean earnings per share* (cents)	12.9	13.9
Total Basic earnings per share (cents)	3.4	7.7

*EBITDA/EPS before reorganisation costs, IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins as well as charges relating to share-based payments

#After charging share-based payments of \$22.3 million (2005: \$16.3 million) and depreciation and amortisation of \$18.0 million (2005: \$6.2 million) to Discontinued operations

To provide a clearer picture of PartyGaming's Continuing operations and in compliance with relevant accounting standards, the financial results for both 2006 and 2005 have been segmented between Continuing operations (comprising revenues and costs associated with customers located outside the US) and Discontinued operations (operations located physically outside of the US but which relate to customers in the US that were no longer accepted following the enactment of the UIGEA on 13 October 2006). While full details of the consolidated performance of Continuing and Discontinued operations are contained in the financial statements and the accompanying notes, all references to financial performance or key performance indicators throughout this document refer to the Continuing non-US facing business only, unless expressly stated otherwise.

Results – Continuing operations

The Continuing operations again delivered a strong performance in 2006 with revenue up 112% to \$325.0 million (2005: \$153.2 million).

Clean EBITDA from Continuing operations was adversely impacted by the enactment of the UIGEA, as well as by \$7.5 million of one-off costs relating to the change of Chief Executive Officer, but still grew strongly in 2006 reaching \$50.9 million, an increase of 158% over the previous year.

Poker remained the largest individual business segment within Continuing operations, representing 82% of 2006 revenues (2005: 91%) and 80% of Clean EBITDA (2005: 91%). However, the launches of PartyCasino during the first quarter of 2006 as well as PartyGammon and PartyBets later in the year have improved the balance of the Group's business. PartyPoker remained the major force behind the Group's poker business in 2006 and Continuing poker revenue grew by 91% to \$266.4 million (2005: \$139.7 million). Clean EBITDA from poker increased by 125% to \$42.7 million (2005: \$19.0 million), driven by the substantial growth in poker revenue from outside the US.

The casino business also enjoyed strong revenue growth in 2006: up 278% to \$51.0 million (2005: \$13.5 million). This was due to the addition of blackjack in October 2005, the launch of PartyCasino during the first quarter of 2006 as well as an increase in the popularity of the casino product amongst non-US customers. Clean EBITDA for this business segment also increased strongly by 356% to \$8.2 million (2005: \$1.8 million).

Sports Betting and Emerging Games made first-time contributions to revenue of \$5.6 million and \$2.0 million respectively and to Clean EBITDA of \$2.3 million and \$0.3 million respectively.

Despite the passage of the UIGEA, that required immediate action to realign the cost base and consequently impacted margins, the Group's Continuing Clean EBITDA margin was impacted but still increased from 12.9% to 15.7%.

Regulation

In executing the business strategy, the Group monitors and seeks advice in respect of each of the relevant regulatory environments as part of an ongoing operational risk and regulatory compliance assessment process.

On 13 October 2006, PartyGaming stopped customers in the US from playing or making deposits on any of the Group's real money sites. Whilst a number of other operators continue to take bets from US customers, we made our decision out of respect for the clear policy choice made by the US Congress through passage of the UIGEA. PartyGaming respectfully disagrees with that policy determination and believes that internet gaming offered by regulated, reputable operators remains the right approach to this industry sector.

Following the enactment of the UIGEA, an enforcement action was taken by certain US regulatory agencies against third-parties that had previously been active in the online gaming sector and the Group is aware of speculation that those agencies have made enquiries of certain banks and other advisers. In the view of the Board, this makes it uncertain as to what further actions, if any, US regulatory agencies may take in the future. Further information is provided in note 22a of the financial statements.

The World Trade Organisation ('WTO') has found that the US legislative position on internet gambling is in violation of US trade commitments and the European Union's top financial regulator recently commented that the US position was 'protectionist'. Whether this may prompt further action by the European Union ('EU') remains to be seen.

In Europe, the EU Commissioner in charge of Internal Markets and Services is pressing ahead with proceedings against several Member States that he believes may be in breach of European Community law, specifically Article 49 of the Treaty of Rome: the freedom to provide and receive services within the EU without discrimination on grounds of nationality – a fundamental principle upon which the European single market is founded. These infringement proceedings have been issued against Member States that seek to prohibit international operators that are licensed and regulated within the EU from offering gambling services within their Member State.

While a process to decide the matter is underway, it is unlikely that the position will be resolved in the short-term. In the meantime, a number of Member States are seeking to enforce laws that will effectively prohibit residents from accessing and enjoying games provided by online gaming operators, despite the view taken by the EU that such action may be in contravention of Article 49. In other jurisdictions such as parts of Asia, while certain online games are permitted using subscription-based gaming models, in many markets gambling online is currently prohibited under local law.

The Board continues to believe that the development of a modern regulatory framework, like those in Gibraltar, the UK, Alderney and Antigua is the most sensible way forward. Online gaming is already enjoyed by millions of adults around the world and the market is expected to grow substantially. PartyGaming believes regulation can strike the right balance between providing adults with a safe and secure gaming environment online whilst ensuring that appropriate protections are put in place to protect children and the vulnerable. What is also clear from the recent experience in the US is that prohibition only drives customers to seek alternative, less transparent sources of online games from businesses that are less likely to provide the protections afforded by publicly-listed and regulated companies.

Review of 2006

Business developments in 2006

The past financial year again witnessed rapid change and development across all aspects of the Group's business. Even before the UIGEA, the number one priority was to continue to drive international revenue growth. Whilst broadening the appeal of PartyGaming's products and services to international customers through the introduction of multi-lingual and multi-currency offerings was just conceptual in the first half of 2006, PartyPoker.com is now available in 13 languages while the poker client is fully functional in six languages. Gamebookers is available in 11 languages, and both PartyCasino and PartyBingo clients are available in English and German with other languages to follow. The introduction of multi-lingual functionality is just one example of how once a strategic objective has been identified, the Group has mobilised resources to provide an end-to-end solution including design, testing and final execution within a very short timeframe. Such skills differentiate the Group from many of its competitors and require excellent project management and communication across each of the three pillars of our business: sales and player marketing, technology and customer service. Further details regarding the developments in each of these three areas during the year is provided below.

Sales and player marketing

New player sign-ups are a key driver of revenue growth. The Group's marketing function is the engine behind the growth in new player sign-ups, and has again delivered a strong performance. Over 527,000 new real money non-US players were added to the Group's shared wallet – an increase of 133% over the previous year. This was achieved despite the fact that the marketing function underwent a substantial reorganisation following the decision to terminate all real money games to customers in the US that affected the operation during the fourth quarter of 2006.

New player sign-ups are sourced across a variety of different channels including an extensive affiliate network and offline as well as online media. This approach has delivered strong growth in international sign-ups, unique active players and consolidated active player days in each of our key international segments:

New player sign-ups (000)

	2006	2005	% increase
EMEA ³	382.6	131.1	192%
Americas (non-US)	102.2	71.6	43%
Asia Pacific	42.4	23.1	84%
Total	527.2	225.8	133%

Unique active players (000)

	2006	2005	% increase
EMEA ³	530.3	163.5	224%
Americas (non-US)	162.3	95.5	70%
Asia Pacific	56.4	25.7	119%
Total	749.0	284.7	163%

Active player days (million)

	2006	2005	% increase
EMEA ³	11.3	3.3	242%
Americas (non-US)	4.7	2.8	68%
Asia Pacific	1.0	0.4	150%
Total	17.0	6.5	162%

The total number of unique active players for the 12 months to 31 December 2006 increased by 163% to almost 749,000, (2005: 285,000) with the average number of daily players increasing by 160% to nearly 47,000. Despite strong competition from those sites that continue to offer real money games to customers in the US, it is estimated that in the week ended 25 February 2007 PartyPoker.com had approximately 15.4%⁴ of the global online poker market (versus 10.7% in mid November 2006), although this is still significantly below its estimated share before the UIGEA was enacted.

³ Europe, Middle East and Africa

⁴ Based on the average number of daily real money cash game players – source: PokerSiteScout.com, week to 25 February 2007

Systems and product development

2006 was a year of constant change from the perspective of our product development, systems and infrastructure activities. The launch of a new systems platform in February 2006 marked the first step in our transformation to a multi-product, multi-lingual and, in 2007, multi-currency operation. The integrated platform supports four distinct product lines: poker, casino (including bingo), sports betting and emerging games (currently backgammon). All of them are fully integrated through one PartyAccount, allowing access to the full range of Party games through a single deposit. Also during 2006, the Group moved to a multi-channel offering with the launch of a web-based 'no download' poker product.

Following the simultaneous launch of PartyCasino and the integrated platform in February 2006, the Group added PartyGammon, PartyBingo (now with 90-ball bingo), PartyBets, virtual racing and multi-player blackjack.

The Group's proprietary technology infrastructure and operating platform lie at the very heart of the customer's experience. In addition to delivering new products and services, there is a continuous programme of upgrades and system improvements to maintain and improve the gaming experience for our customers. Creating new tools to assist with the design and testing of new products as well as systems to improve customer security and protection are all part of the remit of the Group's systems and product development function.

The Group has a dedicated team of approximately 300 full time software engineers and associated staff that have a proven track record for innovation and process improvement. In 2007 their focus will be on delivering the roll-out of new features, new games and continuing to improve the quality of the customer experience.

Customer service

PartyGaming's dedicated round-the-clock customer support sets it apart from many of its competitors. Since terminating all real money games to customers in the US, the international spread of the Group's player base has prompted several changes to the structure of the customer service operation. Multi-lingual customer service is now supported from purpose-built premises that will provide ready access to a large pool of suitably skilled personnel.

The Group separated the customer service teams earlier in the year to allow a more focused approach on individual customer segments, with revised targets for customer times via phone and email. Having been awarded a second GamCare certificate in June 2006 for our approach to and high standards of responsible gaming, PartyGaming continues to seek ways in which to improve further its systems and processes to ensure the protection of children and the vulnerable or anyone for whom gaming may have become too large a part of their lives. GamCare is widely regarded as one of the world's leading promoters of responsible attitudes towards gaming.

Management

The plans for realigning the Group's cost base following the passing of the UIGEA, whilst painful, were executed rapidly and with the highest professionalism. Over 40% of the workforce was laid-off within a three-month time frame and the rationalisation was at all levels of the business and across all of our locations. The Board has also undergone significant change during the year with the appointment of Mitch Garber as CEO following the departure of Richard Segal, the departure of Anurag Dikshit and Vikrant Bhargava, both founders of the Group, as well as three non-executive Directors: Brian Larcombe, Nigel Kenny and Janos Libor. The Board thanks each of the former Directors for their substantial contribution and wishes them well for the future.

Review of 2006

Acquisitions

The online gaming industry has grown rapidly and has for some time been expected to experience a major consolidation in terms of the number of operators. While there have been some corporate transactions in the sector, the mass consolidation expected has yet to materialise. The Board continues to believe that M&A can complement the Group's organic growth strategies in achieving the primary objective of delivering attractive long-term returns for shareholders. During 2006 the Group announced four acquisitions for an aggregate consideration of approximately \$450 million in cash and stock. A summary of the acquisitions announced during 2006 is provided below:

Date completed	Business and assets acquired	Description	Consideration
6 Mar 2006	EmpirePoker.com	Poker	\$254 million*
3 Aug 2006	Gamebookers.com	Non-US sports betting	€103 million†
19 Jan 2007	Various websites from Empire Online Limited	Casino and poker	\$48 million
19 Jan 2007	Various websites from Intercontinental Online Gaming Limited	Casino and bingo	\$18 million

*Includes \$127.8 million for the settlement of litigation claims relating to Empire Online Limited and expenses of \$3.7 million

†Includes deferred consideration

Dividend

On 19 May 2006 the Group paid a final dividend in respect of the 2005 financial year totalling \$200 million. Following the decision to terminate all real money games to customers in the US and the consequent reorganisation of the business, the Board believed that it was inappropriate to pay an interim dividend for the 2006 financial year. The Board also believes that in the current environment, it would be imprudent to recommend the payment of a final dividend for the 2006 financial year. The Board continues to review the appropriate dividend policy for the Group going forward.

2007 developments

This year will see PartyGaming complete a number of key projects and commence other initiatives aimed at driving the business forward into 2008 and beyond. The full roll-out of our multi-lingual project is expected to be completed during the first half of 2007 and the Group may add further languages as required. The multi-currency offering will launch during the first half of 2007, allowing customers to play games and hold their client balances in either Pounds Sterling, Euros or US Dollars. While peer-to-peer games such as poker, multi-player blackjack, progressive jackpot games and tournaments will continue to be played in US Dollars, individual games against the house such as single player blackjack and sports betting will soon be available in these currencies. Both these initiatives should broaden the appeal of the Group's games internationally.

Having already launched a 'no download' version of PartyPoker, allowing players to enjoy games even when they are not at home or using their regular computer, we plan to launch similar versions for all of the Group's real money games, providing greater access for customers around the world. A new mobile application for PartyCasino now provides another alternative channel for customers.

Segmental analysis

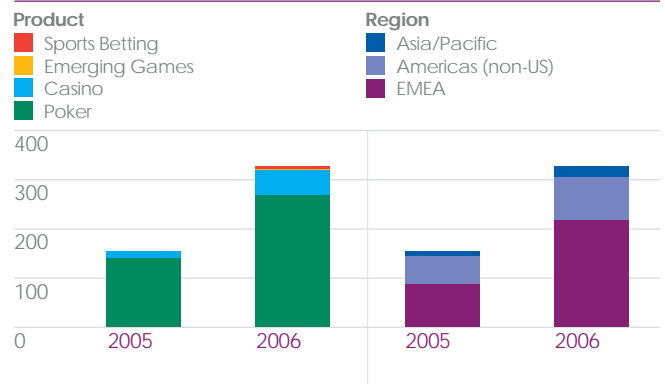
Year to 31 December	Revenue		Clean EBITDA*	
	2006 \$million	2005 \$million	2006 \$million	2005 \$million
Poker	266.4	139.7	42.7	19.0
Casino	51.0	13.5	8.2	1.8
Sports Betting	5.6	-	2.3	-
Emerging Games	2.0	-	0.3	-
Unallocated corporate	-	-	(2.6)	(1.1)
Total Continuing	325.0	153.2	50.9	19.7
Discontinued operations	779.9	824.5	499.8	564.0
Total	1,104.9	977.7	550.7	583.7

*EBITDA before reorganisation costs, IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins, as well as charges relating to share-based payments (see Reconciliation of Clean EBITDA to operating profit earlier in this document)



Geographic mix
67% of Continuing revenue in 2006 came from customers in Europe, Middle East and Africa.

Revenue by product and territory \$m



Revenue from the continuing business was up 112% over the previous year, reflecting our continued drive into a number of new territories, strong growth in established markets, particularly within EMEA, and by first time contributions from acquisitions made in the period. Whilst poker revenue grew strongly, the largest percentage year-on-year increase was in the casino business that benefited from the launch of blackjack on PartyPoker in October 2005 and the launch of PartyCasino in February 2006. Clean EBITDA from Continuing operations increased by 158%, also driven by the strong growth in casino.

Review of 2006

The Clean EBITDA margin for the continuing business was 15.7% (2005: 12.9%). Whilst higher than the previous year, it was impacted by the immediate loss of revenue following the passing of the UIGEA when a number of high value international players migrated to sites that continued to offer real money games to customers in the US and could therefore offer greater player liquidity. The consequent impact on overall margins was mitigated in part by growth in new player sign-ups and a strong performance in casino where bonus rates as a percentage of gross revenue remained lower than normal following the launch of blackjack and PartyCasino.

The termination of all real money games to customers in the US was the primary driver behind reorganisation costs incurred during the fourth quarter of 2006 totalling \$250.4 million of which \$7.2 million related to Continuing operations.

Clean earnings per share from Continuing operations was 0.4 cents (2005: loss per share of 0.1 cents). Total Clean earnings per share (including Discontinued operations), was 12.9 cents per share (2005: 13.9 cents).

Consolidated key performance indicators (including Sports Betting)

Year to 31 December Continuing operations*	2006	2005	Annual growth	Growth in Q4 06 vs Q3 06
Active player days (million)	17.0	6.5	162%	22%
Daily average players (000s)	46.6	17.9	160%	23%
Yield per active player day (\$)	19.1	21.6	(12%)	(31%)
New real money sign-ups (000s)	527.2	225.8	133%	4%
Unique active players during the period (000s)	749.0	284.7	163%	12%
Average daily revenue (\$000)	889.5	387.1	130%	(15%)

*Excluding skins

Total active player days for the Continuing operations reached 17.0 million, an increase of 162% over 2005, driven by strong growth in new player sign-ups that increased by 133% to over 527,000. Sign-ups were particularly strong in EMEA following the introduction of new marketing campaigns and an increased focus on this geographic market. As a result, despite a dip in average daily player volumes immediately following the passing of the UIGEA, the number of unique active players during the year increased strongly to 749,000 players, an increase of 163% over the comparable period in 2005. EMEA performed particularly strongly with a 224% increase in unique active players to over 530,000, or 71% of the total.

While a number of high value players stopped playing during the fourth quarter, active player days still grew by 162% versus 2005 driven by the rapid growth in new player sign-ups and the consequent increase in the active player base. The loss of high value players had a significant impact on overall yield per active player day that fell to \$19.1 versus \$21.6 in the previous year. Average daily revenue for the year as a whole increased to nearly \$890,000 per day, up from \$387,000 in 2005.

There follows a more detailed review of the Continuing operations, including each of the individual product segments.

Full details of all quarterly key performance indicators can be downloaded from the Group's website at: <http://www.partygaming.com/investor/documentation.html>

Poker

Year to 31 December Continuing operations	2006 \$million	2005 \$million	% change
Gross revenue	301.0	146.9	105%
Bonuses and other fair value adjustments to revenue	(34.9)	(19.1)	83%
Net revenue from own sites	266.1	127.8	108%
Income from skins	0.3	11.9	(97%)
Net poker revenue	266.4	139.7	91%
Continuing Clean EBITDA	42.7	19.0	125%
Clean EBITDA margin	16.0%	13.6%	

Poker continued to represent the largest business segment at 82% of revenue and 80% of Clean EBITDA. After falling sharply following the suspension of real money games to customers in the US, PartyPoker.com's market position has recovered strongly. Excluding skins, continuing net poker revenues increased by 108% versus the previous year to \$266.1 million (2005: \$127.8 million) with average daily revenue of \$729,000 (2005: \$350,000). The impact of the UIGEA on the Continuing operations can best be seen by the fact that average daily poker revenues in the fourth quarter of 2006 fell to \$632,000 per day versus \$821,000 in the third quarter.

Clean EBITDA margins in poker increased to 16.0% from 13.6% the previous year, reflecting growth in revenues partially offset by investment in corporate infrastructure.



Strong growth in Poker
Clean EBITDA increased by 125% in 2006 to \$42.7 million.

Poker – Key performance indicators

Year to 31 December Continuing operations*	2006	2005	Annual growth	Growth in Q4 06 vs Q3 06
Active player days (million)	15.0	6.4	134%	15%
Daily average players (000s)	41.1	17.6	134%	16%
Yield per active player day (\$)	17.7	19.9	(11%)	(34%)
New real money sign-ups (000s)	467.5	204.4	129%	0%
Unique active players during the period (000s)	634.5	261.0	143%	8%
Average daily revenue (\$000)	728.7	350.1	108%	(23%)

*Excluding skins

The popularity of online poker has continued to expand throughout the world and over the past 12 months both real money sign-ups and the number of unique active players have grown strongly by 129% and 143% respectively. Total active player days in poker more than doubled, reaching 15.0 million (2005: 6.4 million), primarily driven by the growth in new real money sign-ups.

As we expected, attrition rates increased following the UIGEA with approximately 24% of all 2006 poker sign-ups remaining active after six months and 20% after 12 months. This compares with the six and 12 month figures for 2005 sign-ups of 29% and 23% respectively. Across all real money non-US poker sign-ups as at 31 December 2006, the proportion of players who were active after six months was approximately 27%, after 12 months it was 24% and after 18 months it was 22%.

Yield per active player day was down by 11% year-on-year to \$17.7 (2005: \$19.9). Whilst the continued expansion into a number of new territories had a positive influence on yield (early adopters are usually the first to start playing and tend to have above average spend), this was outweighed by the growth in the number of casual players in maturing markets as well as by the loss of a number of high value players during the fourth quarter of 2006 when continuing poker yield fell to \$12.9 versus \$19.4 in the previous quarter.

Review of 2006

Casino

Year to 31 December Continuing operations	2006 \$m	2005 \$m	% change
Gross revenue	59.7	15.2	293%
Bonuses and other fair value adjustments to revenue	(8.7)	(1.7)	412%
Net casino revenue	51.0	13.5	278%
Clean EBITDA	8.2	1.8	356%
Clean EBITDA margin	16.1%	13.3%	

Having been totally transformed by the launch and cross-selling of blackjack to poker players during the second half of 2005, the casino business was given a further boost in February 2006 with the launch of PartyCasino.com. This in turn increased the proportion of revenue generated by casino to 16% of Continuing operations in 2006 (2005: 9%).

The Clean EBITDA margin increased to 16.1% (2005: 13.3%) and was influenced by a number of factors. While there were positive effects on margin, from both low acquisition cost (the majority of the increase in revenue coming almost exclusively from existing PartyGaming players) and lower bonus rates than the previous year, the loss of a number of high value poker players did have a knock-on effect in casino. A summary of the key performance indicators for the casino business during the year, together with the percentage movement between the third and fourth quarter 2006 is shown in the following table:



Casino growth

A full year's contribution from blackjack plus the launch of PartyCasino in 2006 produced a 356% increase in Clean EBITDA.

Casino – Key performance indicators

Year to 31 December Continuing operations*	2006	2005	Annual growth	Growth in Q4 06 vs Q3 06
Active player days (000s)	1,838.9	386.1	376%	38%
Daily average players (000s)	5.0	1.1	355%	39%
Yield per active player day (\$)	27.8	34.9	(20%)	(15%)
New real money sign-ups (000s)	25.8	21.1	22%	(29%)
Unique active players during the period (000s)	276.8	82.2	237%	26%
Average daily revenue (\$000)	139.8	37.0	278%	17%

*Excluding skins

Now hosting 47 different casino games including blackjack, roulette, slots, video poker, as well as virtual horse and dog racing, PartyCasino offers a full suite of casino games to players and all using one player account. While there has not yet been any dedicated marketing effort to support the new brand pending launch of the multi-lingual and multi-currency offerings, the casino business has already seen a material uplift in player traffic, activity levels and revenue. Daily average players increased by 355% and active player days increased by 376% while the number of unique active players was up by 237% year-on-year. Yield per active player day was down to \$27.8 (2005: \$34.9), reflecting the launch of blackjack that tends to attract more casual players than regular casino games. Whilst yield was also impacted by the loss of a number of high yielding players from the platform in the fourth quarter of 2006, average net daily casino revenue still increased substantially from \$37,000 to nearly \$140,000 in 2006. Customer bonuses remained below long-term norms averaging 15% of gross revenue (2005: 11%).

Sports Betting

Year to 31 December Continuing operations	2006 \$ million	2005 \$ million	% change
Total Stakes	114.3	-	n/a
Gross Revenue (or Gross Win)	7.8	-	n/a
Bonuses and other fair value adjustments to revenue	(2.2)	-	n/a
Net Sports Betting revenue	5.6	-	n/a
Gross win margin	6.8%	-	
Clean EBITDA	2.3	-	n/a
Clean EBITDA margin	41.1%	-	n/a

The acquisition of Gamebookers was completed on 3 August 2006 and in mid-November the Group released PartyBets to a limited number of customers before going live a month later. PartyBets is now fully integrated on the Party-branded systems platform. In the period from acquisition to 31 December 2006 Sports Betting produced total gross win of \$7.8 million and Clean EBITDA of \$2.3 million. Due to being operational for only a couple of weeks, PartyBets did not make a meaningful contribution in 2006.

Sports Betting – Key performance indicators

Year to 31 December Continuing operations	2006	2005	Annual growth	Growth in Q4 06 vs Q3 06
Active player days (000s)	1,409.0	-	n/a	68%
Daily average players (000s)	9.3	-	n/a	8%
Yield per active player day (\$)	4.0	-	n/a	(7%)
New real money sign-ups (000s)	31.4	-	n/a	68%
Unique active players during the period (000s)	78.8	-	n/a	57%
Average daily revenue (\$000)	37.3	-	n/a	1%

Gamebookers has performed in line with our expectations since its acquisition in August 2006 with customer volumes, numbers of bets placed and gross win margins all ahead of the previous year. Gamebookers is particularly popular in central and eastern Europe and will continue to operate as a betting brand. PartyBets will be promoted more aggressively later in the year, by which stage it will be available in multi-currency format.

Review of 2006

Emerging Games

Year to 31 December Continuing operations	2006 \$million	2005 \$million	% change
Gross revenue	2.2	-	n/a
Bonuses and other fair value adjustments to revenue	(0.2)	-	n/a
Gross win	2.0	-	n/a
Clean EBITDA	0.3	-	n/a
Clean EBITDA margin	15.0%	-	n/a

The Emerging Games segment comprises PartyGammon.com, the Group's real money backgammon site that was launched on 23 June 2006. Having benefited from the presence of a number of customers based in the US, the business experienced a substantial reduction in player liquidity following the termination of all real money games to customers in the US and this affected player activity and average daily revenue. Total revenue from Continuing operations in the period was \$2.0 million and the business generated Clean EBITDA of \$0.3 million.

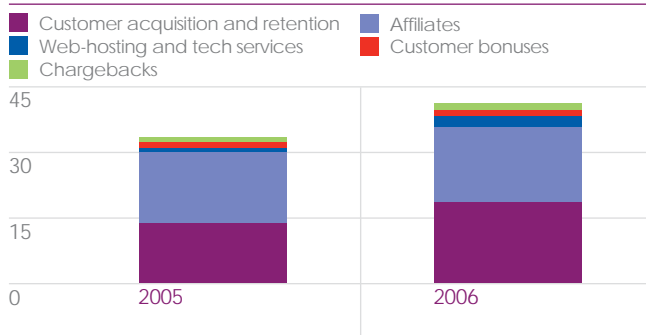
Emerging Games – Key performance indicators

Year to 31 December Continuing operations	2006	2005	Annual growth	Growth in Q4 06 vs Q3 06
Active player days (000s)	249.1	-	n/a	22%
Daily average players (000s)	1.3	-	n/a	25%
Yield per active player day (\$)	8.2	-	n/a	(59%)
New real money sign-ups (000s)	2.5	-	n/a	40%
Unique active players during the period (000s)	35.2	-	n/a	139%
Average daily revenue (\$000)	10.7	-	n/a	(50%)

Distribution costs

Year to 31 December	2006 \$million	2005 \$million	% change
Customer acquisition and retention	60.1	21.0	186%
Affiliates	56.1	25.0	124%
Other customer bonuses (not netted from revenue)	4.6	1.8	156%
Customer bad debts	4.5	1.9	137%
Webhosting and technical services	8.1	1.6	406%
Total Continuing distribution costs	133.4	51.3	160%
Continuing distribution costs as a % of revenue	41%	33%	
Discontinued distribution costs	229.4	219.8	4%
Total distribution costs	362.8	271.1	34%

Continuing distribution costs as a % of revenue



Total distribution costs for the Continuing operations increased by 160% compared with the previous year, the most significant increases being in customer acquisition costs and affiliate costs.

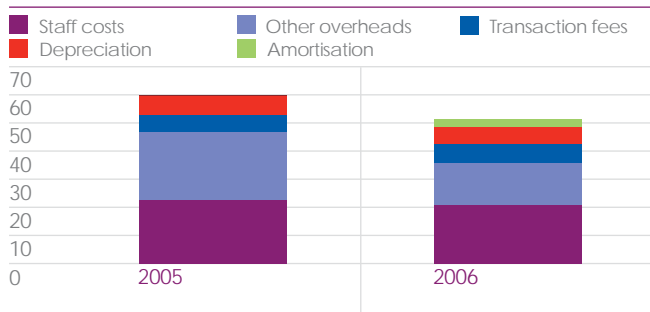
As a proportion of revenue, total distribution costs increased to 41% (2005: 33%) reflecting the move into a number of new territories that require some general brand promotion that does not generate revenue in the short-term. Affiliates remain an important marketing channel for promoting the Group's products in new territories and continue to account for a significant proportion of the Group's revenue.

Customer bad debts, as a proportion of revenues, were similar to the previous year while webhosting costs increased as a result of the opening of a disaster recovery centre in the Channel Islands and increased customer volume.

Administrative expenses

Year to 31 December	2006 \$million	2005 \$million	% change
Transaction fees	22.1	9.5	133%
Depreciation	20.3	10.8	88%
Amortisation	10.1	0.3	3,267%
Staff costs	68.2	34.4	98%
Other overheads	47.9	37.2	29%
	168.6	92.2	83%
Share-based payments	90.9	49.3	84%
Continuing administrative costs before non-recurring items	259.5	141.5	83%
IPO-related expenses	-	22.6	n/a
Skin-related settlement costs	-	145.8	n/a
Continuing administrative costs	259.5	309.9	(16%)
Continuing administrative costs as a % of revenue	80%	92%	
Discontinued administrative costs	91.0	63.2	44%
Total administrative costs	350.5	373.1	(6%)

Continuing administrative expenses* as a % of revenue



*Before share-based payments and one-off items

Administrative expenses before share-based payments, IPO-related expenses and skin-related settlement costs increased by 83% to \$168.6 million but fell from 60% of revenue to 52% reflecting the substantial growth in revenues and operating leverage of the business, in particular in respect of staff costs and other overheads.

Transaction fees increased by 133% to \$22.1 million, reflecting a substantial increase in player deposits and withdrawals. As a proportion of revenue, transaction fees increased from 6.2% to 6.8%, reflecting the introduction of lower deposit limits in October, as well as the cost of employing additional customer verification methods that became available during the year.

Depreciation and amortisation increased from \$11.1 million to \$30.4 million, reflecting investment in new IT infrastructure and the acquisition of Empire Poker.com and Gamebookers during the year.

Share-based payments

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, existing employees were granted a number of nil-cost options to be satisfied by existing shares which had effectively been gifted by the Principal Shareholders 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 \$90.9 million, including a \$17.4 million charge relating to The Bonita Trust (2005: \$49.3 million) which has been included within the income statement.

Prior to year end, a further 73.9 million nil-cost options were granted to the Executive Directors and other key employees of the Group, resulting in an increase in the share-based payments charge required under IFRS. The exercise of these options will be satisfied by shares held by the Employee Trust. The Employee Trust received an additional gift totalling 40.0 million PartyGaming shares from the Principal Shareholders on 29 December 2006.

Review of 2006

Bonita Trust

The Bonita Trust was established in Gibraltar in 2004, effectively by the Group's Principal Shareholders, to benefit the communities where the Group and its employees and service providers operate. The Bonita Trust is operated by an independent professional trustee.

The Bonita Trust has philanthropic objectives and supports medical, cultural and educational programmes, principally directed to benefit the communities of Gibraltar, India and the UK. In addition, employees of PartyGaming and their families are a beneficiary class of The Bonita Trust.

In December 2006, The Bonita Trust made or committed to make payments to certain individuals that were employed or had previously been employed by the Group. These payments were made independently of the Group and were over and above the amounts that the Board had already determined should be paid by the Group to those employees and former employees. However, as these payments were based primarily on the Company's share price, the Board considers these to fall under the criteria for share-based payments under IFRS 2 and in the year to 31 December 2006 has charged an amount to the income statement totalling \$26.8 million, as if such amounts had been paid by the Group itself. A corresponding amount has been recorded as a capital contribution in the Group's balance sheet. Of the \$26.8 million, \$9.4 million relates to Discontinued operations.

The Group has been informed that during 2006 The Bonita Trust made donations and other payments in respect of its other objectives totalling \$8.4 million (2005: nil). Disclosure of these payments has been made as it is possible that the Group's name may be linked with them. It is emphasised that neither The Bonita Trust nor any person or entity connected with The Bonita Trust sought any advice from, the Group, its Directors or key management in deciding whether these

payments should be made. In addition, none of the payments were made in respect of any obligations incurred, or services received, by the Group, nor did they fall within the scope of IFRS 2 *Share-Based Payments*. Consequently, no entries have been made to the Group's financial statements in respect of these payments.

Further details on The Bonita Trust can be found at www.bonitatrust.org.

Associates and joint ventures

Year to 31 December	2006 \$million	2005 \$million
35% interest in a company incorporated in England	(0.3)	(0.8)

The Group acquired a 35% interest in a company incorporated in England during the first half of 2005. The Group's share of losses during the period totalled \$0.3 million (2005: \$0.8 million).

Finance income and costs

Year to 31 December	2006 \$million	2005 \$million
Interest payable and other charges	(3.7)	(10.2)
Interest receivable	4.2	3.5
Net interest receivable (payable)	0.5	(6.7)

Taxation

The effective tax rate based on the total tax charge is 7.6% (2005: 9.8%). The effective tax rate for the period is 9.8% before share-based payments (2005: 5.7% before share-based payments, IPO-related expenses and skin-related settlement costs).

Net cash⁵

As at 31 December 2006, the Group had net cash of \$43.4 million (31 December 2005: \$199.9 million) after substantial player balance withdrawals, as evidenced by a \$96.2 million reduction in client liabilities during the fourth quarter of 2006. Following the enactment of the UIGEA and subsequent discussions with its bankers, the Group's multi-currency revolving credit facility will be cancelled on or before 30 April 2007. As at 31 December 2006 there was a \$12.0 million drawdown on this facility.

⁵ Net cash is defined as cash, cash equivalents and short-term investments less bank debt



Net cash

The Group had net cash of \$43.4 million at the year end having returned over \$96 million in customer deposits during the fourth quarter of 2006.



Cashflow

Year to 31 December	2006 \$million	2005 \$million
Cashflow from operations before movements in working capital	431.0	415.3
Working capital movements	(116.2)	204.9
Net cashflow from operating activities	314.8	620.2
Capital expenditure	(48.3)	(36.8)
Acquisitions of intangibles	(224.4)	(22.6)
Investment in associated undertaking	-	(1.8)
Short-term investments	(2.3)	(6.8)
Net finance income (costs)	1.4	(6.1)
Drawdown of revolving credit facility	12.0	(2.3)
Repayment of shareholder loans	-	(482.8)
Equity dividends paid	(200.0)	-
Cash (outflow) inflow	(146.8)	61.0

Operating cashflow before movements in working capital increased by 4% to \$431.0 million. The movements in working capital year-on-year were affected by the withdrawal of deposits by customers based in the US during the fourth quarter as well as by the presence of a one-off charge in 2005 relating to non-recurring skin-related settlement costs of \$142.2 million, net of expenses, that was paid in 2006. Acquisitions and capital expenditure of \$272.7 million and the final dividend for 2005 of \$200.0 million resulted in a net cash outflow during the year of \$146.8 million (2005: inflow of \$61.0 million).

Capital expenditure

Capital expenditure during the period was \$48.3 million (2005: \$36.8 million) and is analysed in more detail in the table below:

Year to 31 December	2006 \$million	2005 \$million
Poker	0.4	12.4
Casino	0.4	0.3
Sports Betting	1.5	-
Emerging Games	4.0	-
Corporate assets	42.0	24.1
Total	48.3	36.8

The increase in spend on corporate assets relates primarily to technology infrastructure, including a new disaster recovery centre in Guernsey, third-party application licenses and office fit-out costs.

Purchase of intangible assets

During the period the Group acquired the EmpirePoker.com skin, and other associated white label and affiliate agreements relating to AceClub.com and StarluckCasino.com, from Empire Online Limited ('EOL') together with the withdrawal of all legal claims by EOL against the Group, for a total cash consideration of \$250 million, excluding related expenses. Of the total consideration, \$122.2 million was attributed to the acquisition and the balance to the settlement of the legal claims by EOL against the Group.

On 3 August 2006 the Group announced the acquisition of the business and assets of Gamebookers, an exclusively non-US facing online sportsbook business, from Trident Gaming PLC for net cash consideration of €103.3 million (\$132.0 million).

Two further acquisitions were completed following the balance sheet date and are described in note 30 to the financial statements.

From global bingo...



...to local lingo



Speaking your language

Our customers from around the world are not limited to speaking one language. That's why over the past year we have launched our games and websites in a number of additional languages and have built a multi-lingual customer services team to support them.



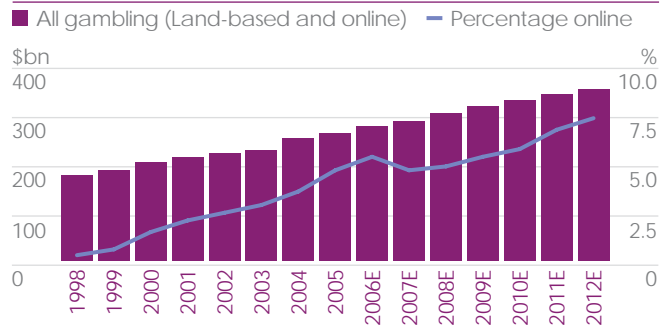
Our markets

PartyGaming operates in the global online gaming sector, a relatively small but growing part of the total global gaming market. To put the Group's performance in context and to provide some macro-economic background, it is helpful to first look at the scale and dynamics of the global gaming market before considering the global online gaming sector and then the key market segments within it that are of primary importance to the Group: poker, casino and sports betting.

The global gaming market

An independent estimate by Global Betting and Gaming Consultants ('GBGC') puts the global gaming market's gross gaming yield for 2006 at \$279.0 billion, up from \$265.5 billion in 2005. Online gaming is estimated to represent just 5.4% of the total, or \$15.2 billion, compared with 4.7% (\$12.4 billion) in the previous year.

The global gaming market – gross gaming yield⁶



Source: GBGC

Historically, North America has been the largest single gaming market and its residents are estimated to have generated approximately 35.3% of the total global gross gaming yield in 2006, followed closely by Europe (35.0%) and then Asia and the Middle East (19.3%). As the chart above shows, the passing of the UIGEA is expected to interrupt, albeit temporarily, the growth of the online gaming sector.

⁶ Gross gaming yield is defined as gross turnover less the amounts paid out to players as winnings

The global online gaming sector

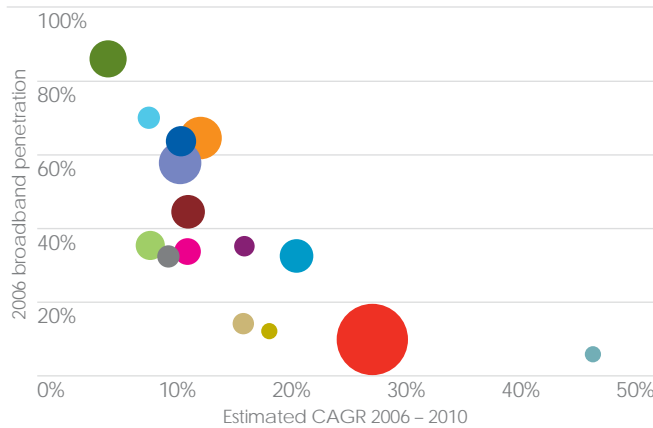
Online gaming is a subset of the global gaming market but is one that has grown rapidly. Since the internet transcends geographical and physical boundaries, online gaming customers can log on to sites from almost anywhere in the world. The growth in online gaming has been driven by the increased spread and penetration of broadband services, by the popularity of gaming generally and by the online gaming industry itself that has continued to promote its services around the globe.

The adoption of the European Information Society 2010 Strategy ('2010') by the European Commission in 2005 was an important step in driving towards the objective of making the European Union a more dynamic and competitive economy. The deregulation of telecoms industries coupled with the growth in the popularity of cable as a medium have resulted in an impressive expansion of both numbers of broadband households as well as broadband penetration. Similar developments in other territories should provide further impetus for broadband penetration around the world.

As can be seen from the previous chart, revenues from the global gambling industry have delivered a steady compound annual growth rate ('CAGR') of between 5% and 6% per annum since 1998. Increasingly, gaming is recognised as being a mainstream leisure pursuit for adults to enjoy in a variety of different formats. However, while the enactment of the UIGEA has affected the size of the online gaming market in the US and the world as a whole, it has not affected the overall growth prospects for the online gaming sector over the next few years. The online gaming sector outside North America is estimated to have been worth approximately \$8.0 billion in 2006 against \$6.2 billion in the previous year, an annual increase of 28%⁷. Over the next few years, online gaming outside of North America is expected to continue to be one of the fastest growing segments of the overall gaming market, reaching \$14.6 billion by 2010, implying a CAGR of over 16%. GBGC believes that the US will move to a regulated and licensed regime for online gaming within five years when it is expected to grow strongly.

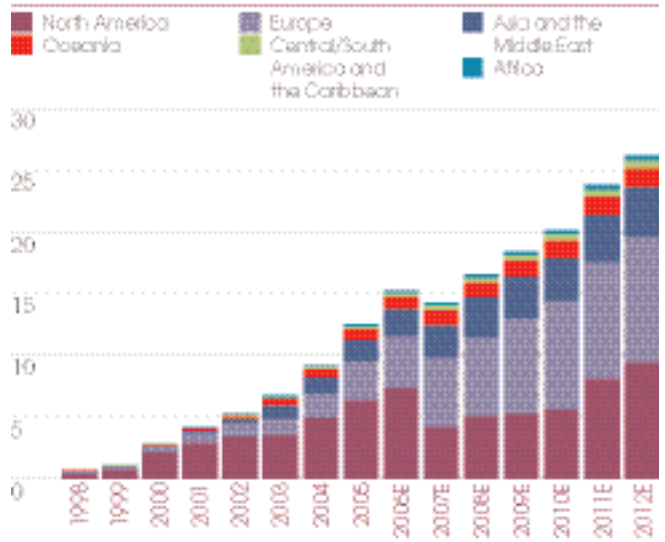
Number of broadband households

Australia	2.8m	Germany	11.5m	Poland	1.6m
Brazil	25.0m	Italy	7.2m	Russia	2.5m
Canada	7.5m	Japan	29.0m	Spain	4.6m
China	50.0m	Mexico	3.7m	South Korea	14.0m
France	8.8m	Netherlands	4.7m	UK	10.5m



Source: PriceWaterhouseCoopers - Global Entertainment and Media Outlook: 2006 - 2010

Online gaming sector - gross gaming yield by player location \$bn



Source: GBGC

7 Source: GBGC, February 2007

Our markets

Given the low barriers to entry and access to a large potential market, the online gaming sector has attracted a large number of operators and is highly competitive. As at 1 March 2007, CasinoCity.com, an independent casino and gaming directory, listed over 2,400 online gaming sites that were then open for business.

Whilst the barriers to entry are low, the barriers to delivering long-term success in this highly dynamic and competitive market are much higher. As a result, only a few companies have achieved real critical mass on a global scale and have continued to grow their revenue base through investment in product development, innovative marketing, customer service and increasingly sophisticated technology. The enactment of the UIGEA has also resulted in material changes to the structure of the gaming industry and particularly online poker. This is covered in more detail under 'Market structure' below.

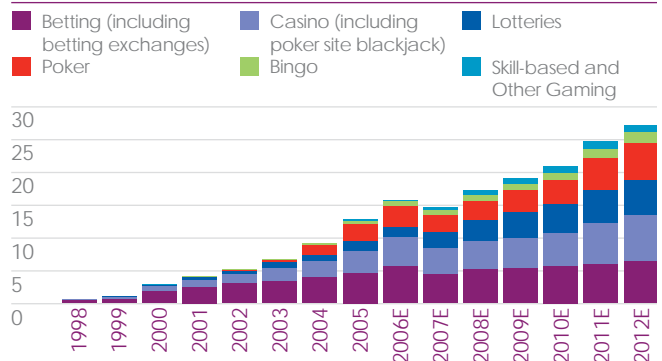
The online gaming sector has several, distinct segments. Currently, the largest segment is online sports betting, which in 2006, including North America, was estimated to have represented around 37% of total online gross gaming yield, followed by online casinos (29%) and poker (21%). Historically, the two most important segments for PartyGaming have been poker and casino. However, non-US facing sports betting is expected to become a significant contributor to the Group's future success following the acquisition of Gamebookers and the subsequent launch of PartyBets in November 2006.

Online poker

Poker is one of the world's most popular card games and has been around in various forms for decades if not centuries. Whilst North America probably has the most poker players in the world, the game has also continued to increase in popularity in many other countries. This growth in popularity is believed to be due to the televising of high value tournaments, such as the World Series of Poker and the World Poker Tour, as well as the strong growth in online poker.

The strength of the internet as a gaming medium and the growth in the popularity of poker as a leisure pursuit in international markets have collectively delivered strong growth in both the number of people playing the game online and the total amount of revenue captured by the operators. It is estimated that in 2006 there were approximately three million online poker players worldwide⁸ and GBGC estimates that approximately \$3.1 billion of global gross gaming yield was generated from online poker in 2006, more than double the \$1.4 billion estimated to have been generated in 2004. Although smaller than sports betting and casino, for the past few years poker has been one of the online gaming sector's fastest growing segments. Whilst forecasting rates of growth is made more complex by continuous changes in the legislative landscape around the world, it is expected that the historic hyper rates of growth seen in online poker will continue to moderate towards more normalised levels. Excluding the US, GBGC estimates that the online poker segment will grow at a CAGR of over 14% per annum between 2006 and 2010 compared with 162% per annum between 2003 and 2006.

Online gaming sector - gross gaming yield by product \$bn





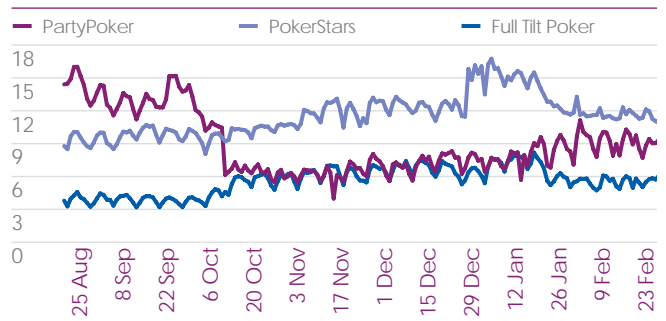
Player liquidity
 According to PokerSiteScout.com, PartyPoker has doubled its peak number of daily players since the lows achieved following the enactment of the UIGEA.

Success in online poker

Whilst the high rates of growth in poker over recent years have attracted a number of online poker operators, the Group believes that success depends upon a number of important features:

Player liquidity – players want to be able to find a table offering the game and stakes they want, with plenty of other players to make it interesting. Player liquidity is therefore an important factor in attracting and retaining customers. It also means that the larger sites can host a greater variety of tournaments and can offer larger cash prizes. The Group’s decision to stop taking deposits and real money wagers from US players on 13 October 2006 resulted in a material reduction in player liquidity and the subsequent loss of a number of non-US players that migrated to sites that continued to accept players from the US and therefore had greater player liquidity. However, since then, as shown in the chart below, PartyPoker has continued to increase the number of players playing on its site thereby increasing its appeal.

Peak players 000s



Source: PokerSiteScout.com – peak number of players playing cash games

PokerStars and Full Tilt Poker are the two largest competitors in terms of peak players playing cash games. Both of these sites continued to accept bets from US players following the enactment of the UIGEA.

Our markets

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. However, restrictions on television advertising for online gaming in certain territories require operators to be both creative in developing other advertising channels as well as speculative by investing in new, alternative and innovative marketing strategies.

Quality of product – maintaining a fresh and constantly updated customer offer and being able to add new features to existing games is vital in order to keep pace with changing consumer tastes and to stay ahead of the competition.

Payment processing expertise – offering a broad variety of pay-in and withdrawal mechanisms, that are easy to use, as well as being safe and secure, is also key. Winning and retaining the trust of the consumer can only be achieved by executing payment transactions 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. The international nature of the online gaming market means that being able to offer help in multiple languages is becoming increasingly important.



Payment mechanisms

PartyGaming now has 17 different payment mechanisms available for its customers.



Market structure

Obtaining reliable market share data for online gaming segments is always difficult. However, taking published data from PokerSiteScout.com, an independent source of poker player traffic data, the Group has been able to examine the average numbers of daily players across each of the major online poker sites. Taking the latest available data for the week to 25 February 2007, the market shares of the major players are estimated as shown below:

Market share*

PokerStars (US)	22.5%
PartyPoker	15.4%
Full Tilt Poker (US)	10.0%
Ongame Network	6.9%
Everest	6.8%
Microgaming Network (US)	4.6%
UltimateBet (US)	4.4%
Bodog (US)	3.4%
iPoker Network	2.6%
Others	23.3%



Source: PokerSiteScout.com (Note – those sites that as at 25 February 2007 continued to accept wagers from customers in the US are denoted with 'US' in parentheses)

*Based on average daily players on cash games for the week ended 25 February 2007

Online casino

Online casinos were some of the first online gaming sites to be launched, with the first site believed to have been open in 1996. By 2000, the global gross gaming yield from online casinos was estimated to have been \$0.8 billion. Since then online casino revenues have grown strongly, reaching an estimated gross gaming yield in 2006 of \$4.4 billion, implying a compound annual growth rate of 33%. Excluding the US, the online casino market is estimated by GBGC to have been worth \$2.4 billion in 2006. GBGC expects it will continue to grow at approximately 13% per annum until 2010 by when it is expected to be worth \$3.9 billion.

As casino customers play against 'the house' unlike poker or other 'peer-to-peer' games, player liquidity is not such an important issue but can help to generate large jackpot prizes. As a result there are many more online casino sites than any other form of online gaming site. CasinoCity.com lists over 950 online casino sites, representing almost 40% of the total online gaming sites that it monitors. The issues of control of software, payment processing, customer service and marketing still remain. Scale can also be an advantage by giving customers confidence in the site's integrity and a sense that the house has the finances to pay out large winnings. Games in online casinos include slots, roulette, blackjack and video poker to name but a few. 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, and the highly fragmented nature of the casino segment, market share data for the online casino segment is very difficult to obtain.

Online sports betting

The placing of wagers on sporting events is probably one of the world's oldest pastimes. Popular throughout the world, the growth of online sports betting has been underway for many years. In 2006 the global online sports betting market, including betting exchanges, was estimated to be worth approximately \$5.6 billion, having grown at a compound annual rate since 2000 of 21%⁹. Excluding the US, which is estimated to be the largest online sports betting market in the world, GBGC estimates that the size of the online sports betting market was approximately \$2.6 billion in 2006. It predicts that, in the absence of any material changes in the regulatory environment, this will increase to approximately \$3.8 billion by 2010, implying a compound annual growth rate of 9.2%. The popularity of different sports by territory also impacts the mix of sports that attract wagers. In the UK, horseracing and football are particularly popular while in other parts of continental Europe football and tennis are among the most popular events.

From answering calls...



...to paying out windfalls



Money in your wallet

Nothing is more important to us than our customers. We have over 200 representatives at our customer service centres in Europe and India able to provide expert help and assistance with deposits, withdrawals or any other enquiries, all 24/7.

Our business

Products and brands

2006 saw a major expansion in the number of products and brands offered by PartyGaming. While PartyPoker, one of the world's largest online poker rooms, remains our most prominent brand, through product development and acquisition we have introduced two new gaming segments to complement our traditional strengths in poker and casino. A new Emerging Games segment was formed in June 2006 with the launch of PartyGammon and in August 2006 we began to offer sports betting following the acquisition of Gamebookers, a non-US facing sports book.

Extending the Party brand into new product areas was predicated on the creation of a shared wallet and single customer account across all products. In February 2006 we launched PartyAccount, allowing players to move easily from one game to another without the need for separate logins or deposits. At the same time we also launched PartyCasino. We have since added PartyGammon, PartyBingo and PartyBets to the integrated platform.

Having developed a broad product suite, the addition of multi-lingual versions of our games, allowing customers to play in their first language was a logical next step. During 2007 we will also allow customers to manage and deposit funds in different currencies. These and other innovations will help build on PartyGaming's position as a truly international business and the world's leading listed online gaming company.



Business mix

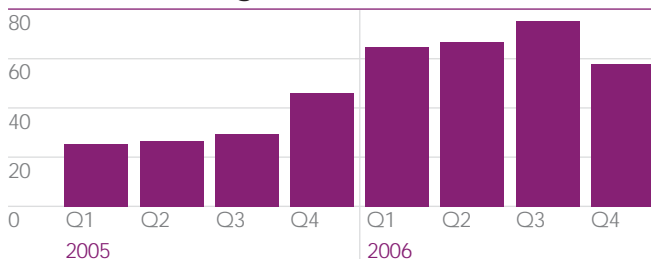
Following the addition of backgammon and sports betting in 2006, the Group now has four key product segments: Poker, Casino, Sports Betting and Emerging Games.



Poker

Poker remains our largest business segment with PartyPoker continuing to be our flagship brand. In 2006 poker represented 82% of revenue from Continuing operations and 80% of Continuing Clean EBITDA. While player liquidity and poker revenues were undoubtedly affected by the passing of the UIGEA in the fourth quarter of 2006, the growth of poker revenues since the beginning of 2005 has been impressive.

Poker – Continuing revenue \$m



In March 2006 we acquired EmpirePoker.com, with the remaining gaming assets and brands of Empire Online Limited as well as those of Intercontinental Online Gaming Limited following in January 2007. We now offer poker under a variety of brands including PartyPoker.com, EmpirePoker.com, NoblePoker.com and FairPoker.com. The provision of several secondary brands allows PartyGaming to attract customers that may not wish to play on PartyPoker and prefer to play elsewhere. Where permitted, we offer players the chance to play for free on PartyPoker.com and also at a separate site, PartyPoker.net.

How online poker works

The mechanics are quite simple: the Group essentially acts as the host for customers wanting to play poker against each other and as such we simply charge players a fee, or 'rake', for every hand of real money poker they play (where the pot is greater than \$1 and where the hand reaches the 'flop'). Players can compete with one another either through online tournaments or on individual tables, known as 'ring games'.

Ring games

Ring games have traditionally been the most popular format, generating between 70% and 80% of the Group's poker revenues. In 2006, ring games represented 76% of Continuing gross poker revenues. Players have a wide variety of different types of poker games they can play including Texas Hold 'em (the most popular game representing 90% of total poker revenues in 2006) as well as Omaha High and 7-card stud. Each is a variation on the core game of poker with players competing against each other for the total amount wagered for any particular hand (the 'pot'), minus the rake. The amount of rake varies depending on the pot size, but is subject to a cap with a maximum of \$5 for high limit tables.

Tournaments

Tournament play differs from ring games in that rather than playing with real money, players receive chips in a tournament which they then use to play against each other. With only a set number of chips available, players are progressively knocked out until the winning player emerges with all of the chips. The winning player, and usually those in second and third places, receive a prize, normally in cash. Revenue varies depending on the size of the 'buy-in' and the number of players participating. The Group offers a wide variety of different tournaments with different prize levels for single-table tournaments as well as multi-table tournaments.

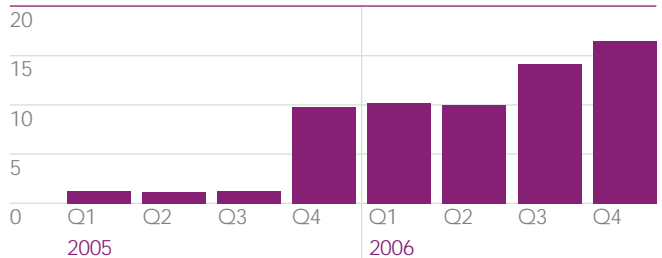
Our business

Products and brands

Casino

2006 was a year of change for our casino businesses. Revenues were boosted by a full year's contribution from blackjack as well as the launch of PartyCasino in February 2006 and the subsequent integration of PartyBingo on to the Party-branded systems platform in July 2006. Casino is the second largest business segment and revenue grew by 278% from \$13.5 million in 2005 to \$51.0 million in 2006.

Casino – Continuing revenue \$m



Through PartyCasino and our other major casino brands, we offer over 50 different casino games including blackjack, roulette, poker and slot machines. In addition to these traditional games, PartyGaming's commitment to innovation was illustrated by the introduction of new games during 2006 such as virtual horse and virtual dog racing as well as multi-player blackjack. PartyBingo.com offers a variety of online bingo games as well as five and three-reel slots, Keno, and video poker.

Rather than playing against each other as in poker, in casino and bingo games players bet against the house. The outcome of each game is determined by randomly generated results, which are regularly and independently audited by third-parties to verify their fairness.

 **Independent testing**
The Group's random number generator is checked every day by an independent third party.



Sports Betting

On 3 August 2006, the Group acquired Gamebookers, a non-US-facing sports book. As a recent addition to the portfolio, the new segment represented only 2% of Continuing revenues and 4% of Continuing Clean EBITDA in the year to 31 December 2006.

Gamebookers offers bets on a variety of sporting events, in 11 languages and accepts bets in 27 currencies. As at 31 December 2006, Gamebookers had more than 353,000 registered customers in over 100 countries. In November 2006 the Group added a sports betting product to the main Party-branded systems platform with the preliminary launch of PartyBets. In the period since Gamebookers was acquired and including PartyBets, Sports Betting generated gross win of \$7.8 million, and had over 78,000 active customers. As with casino games, customers place bets against the house and revenue or 'gross win' represents stakes placed, less winnings paid out.

Emerging Games – Backgammon

A key element of the Group strategy is to increase the number of games available on the integrated Party-platform through both in-house development and, going forward, through licensing from third-parties. Currently the only product within the Emerging Games segment is PartyGammon which launched in June 2006. While the online backgammon market is estimated to be quite small at present, the Group believes that properly marketed it could have potential in a number of territories around the world, particularly in parts of the Mediterranean and Middle East. In 2006 this new segment represented 1% of Group revenues and 1% of Clean EBITDA.

As with poker, backgammon is a 'peer-to-peer' game. Players can play either in single matches or in tournament play where a series of knock-out rounds are staged to determine an eventual champion. In return for facilitating these games, PartyGaming receives between 4% and 7% of stakes, varying with the size of wager and type of game.

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. Total customer bonuses and PartyPoints (earned through a loyalty programme), as a proportion of gross revenue, have increased over time and in 2006 as a whole represented 9.4% of gross revenue (2005: 8.1%) although the overall bonus figure as a proportion of gross revenue in the fourth quarter of 2006 was 12.4% (2005: 7.6%). Bonus rates in casino tend to be much higher than in poker reflecting higher player yields and speed of play.



Customer growth

On average, over 9,600 Sports Betting customers were active on the Group's sites each day in the fourth quarter of 2006, an 8% increase over the previous quarter.



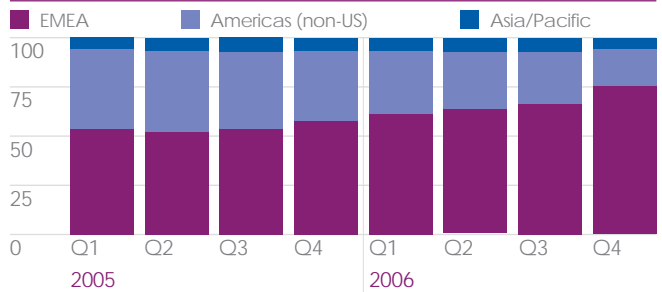
Our business

Customers

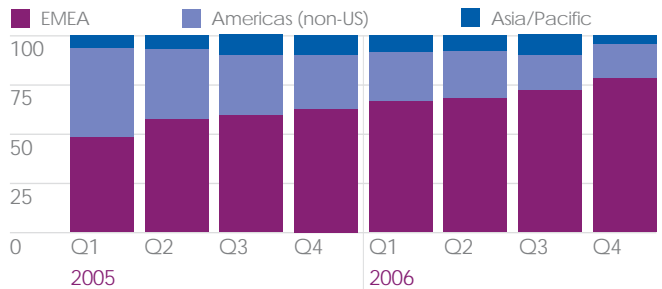
Despite the passing of UIGEA, the Group retains one of the largest online gaming customer databases of any listed company. Excluding the US we have six million ongoing registered players, of which 749,000 real money players were active in 2006, i.e. generated revenue for the Group in 2006.

The Group segments its customers into three geographic regions: Europe, Middle East and Africa ('EMEA'), our most important region, representing approximately 73% of total new real money player sign-ups and 67% of total Continuing revenue; the Americas, which includes Canada, Latin America and South America, accounting for approximately 19% of new player sign-ups and 26% of total Continuing revenue in 2006; and Asia Pacific, which remains a relatively small contributor to both sign-ups and average daily revenue.

Geographic split of revenues %



Geographic split of new player sign-ups %



Average hand of poker

In 2006, on average a hand of poker on our site lasted 39.2 seconds (2005: 42.2 seconds).



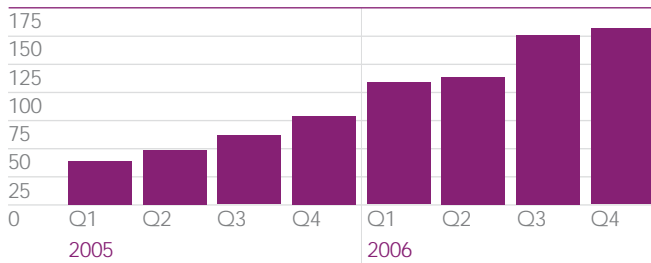
Customer dynamics vary depending upon the game being played. In poker, on average, customers tend to play between seven and eight times each month, playing approximately 150 hands of poker in total, or roughly 20 hands each time. Average session time is around quarter of an hour each time they play. By comparison in casino, players on average play between three and four times each month and backgammon players between four and five times a month. Sports betting dynamics are different again with players placing an average number of 17 bets, eight times per month.

For each of our business segments there are two key performance indicators that we monitor closely: (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).

Poker - player activity

The decision by the Group to terminate all real money games to customers located in the US on 13 October 2006 had an immediate and significant impact that resulted in the loss of all US players but also the loss of some non-US players who migrated to a number of poker sites that continued to offer games to customers in the US.

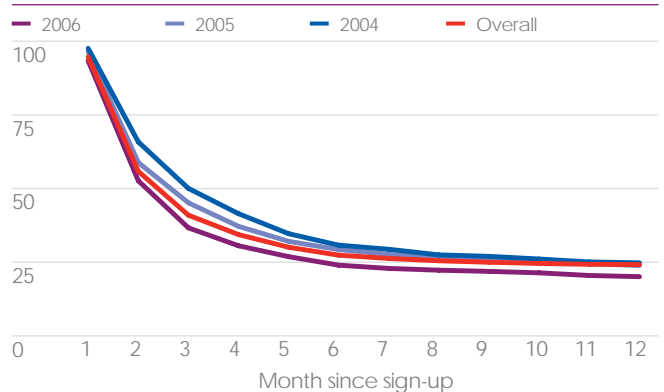
Poker - sign-ups 000s



The Group refocused its marketing activities on non-US markets, particularly those in EMEA and the Americas (excluding US), helping to stabilise player liquidity and initiate a recovery in player traffic. Since the passing of the Act the Group has achieved strong levels of new player sign-ups reaching over 1,400 per day in the fourth quarter of 2006. How new player sign-ups translate into numbers of active players is in part influenced by the Group’s ability to retain new players, as well as its ability to sustain the interest of existing players so that they continue to play games.

The following chart illustrates the trends in player retention for new player sign-ups overall (i.e. including all new player sign-ups since we began to offer poker) as well as for just those sign-ups that made a deposit in 2004, 2005 and 2006.

Poker - player retention %

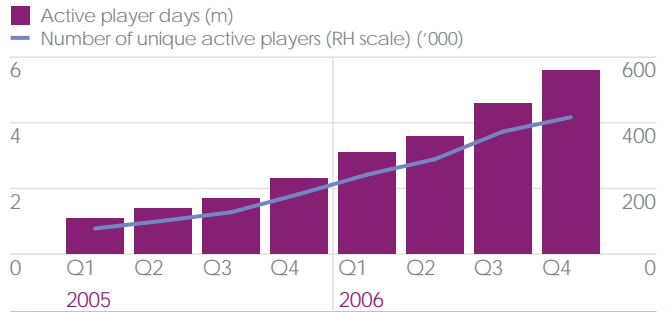


Our business Customers

The retention of new player sign-ups is an important factor for the long-term success of the business. As at 31 December 2006, on average across all non-US players, approximately 27% of new players who sign-up are expected to still be active after six months and around 24% after 12 months. Thereafter, the attrition rates are relatively low and after 18 months approximately 22% remain active.

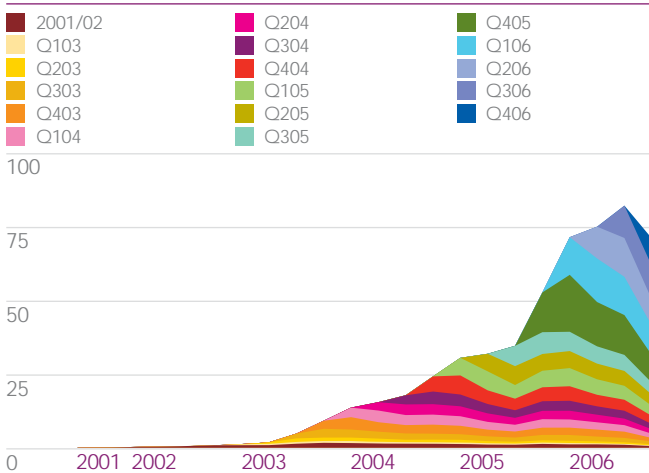
Historically, even as the number of players who originally signed-up in a particular period and continue to play declines over time, the total revenue generated by that group of players has tended to remain relatively stable. In other words, players that continue to play over time have tended to increase their spend, thereby mitigating the impact of those players that leave the site or become inactive. The result has been that each group of poker players that signs-up adds an incremental layer of revenue. The impact of the UIGEA on this trend can be seen from the chart below where there is a sharp drop in revenue generated by all groups of sign-ups in the fourth quarter of 2006.

Poker – active player days and unique active players



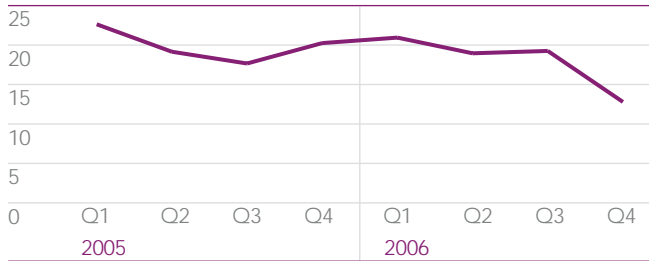
Two additional factors affecting player activity are marketing and seasonality. Historically, whilst the Group has continued to grow the number of active real money players each quarter, the rate of growth in registered players tends to fluctuate throughout the calendar year reflecting the impact of marketing campaigns as well as the inherent seasonality of the business. Both of these factors also affect player yield.

Gross poker revenue by quarter of sign-up \$m



Poker – yield

Poker – yield per active player day \$m



While the level of player activity is important in driving revenues, so is the yield generated per player every time they are active. Poker yield is influenced by a number of factors including seasonality, marketing spend and the balance of experienced and casual players in the total player pool.

As with many other online businesses, the first and fourth quarters have historically been strong with the second quarter being seasonally quieter. As daylight hours increase and the weather in the Group's main markets improve, people typically spend less time online. The third quarter tends to be better than the second but not as strong as the first or fourth quarters.

Another important factor impacting average player yield is the relative experience of players. New and relatively inexperienced players tend to spend less time playing and also tend to play at lower stakes and therefore generate lower yield. As a result, given the continued growth in new player sign-ups, poker yields have tended to fall over time. The impact of the UIGEA and the loss of high-raking players during the fourth quarter of 2006 also had a significant impact on poker player yield which fell to \$12.9 from \$19.4 in the previous quarter.



Poker yield

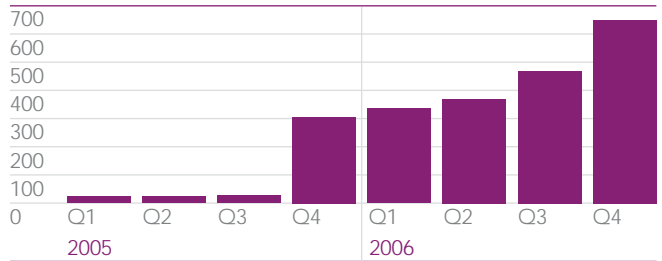
Yield per active player day in poker fell sharply to \$12.9 in the fourth quarter of 2006 following the enactment of the UIGEA.

Our business Customers

Strong growth
 Casino revenues grew strongly in 2006 and represented 16% of Continuing revenue.

Casino – player activity

Casino – total active player days '000



The fact that PartyCasino is now part of the integrated systems platform means that new player sign-ups are not the biggest source of new player traffic for the Group's casino business.

The level of player activity for the Continuing operations grew strongly in 2006 following the addition of blackjack in 2005 and the successful launch of PartyCasino and its integration into the unified Party-platform that allowed for greater cross-selling between the Group's other games, especially poker.

Casino – yield

Casino – yield per active player day \$



Broadly speaking, similar factors of seasonality, player experience and marketing spend affect casino yield, although casino yields for individual players can be more volatile than in poker. This is particularly true for larger high-rolling players or 'whales' as they are known in the industry, that can have a greater effect on the overall result. Typically, casino games are quicker to play and players generate revenue on an individual basis, unlike in poker where there may be as many as 10 players involved in generating rake from one hand of poker (although multi-player blackjack is an example of a 'peer-to-peer' casino game).



Sports Betting – player activity

Whilst factors such as marketing and the weather do play a part, player activity levels in sports betting tend to be largely driven by the timing of major sporting events on which customers can place wagers. These include large set piece events such as the football World Cup or the Wimbledon Tennis Championships, as well as the regular seasons of the most popular sports. The timing of such events means that the number of bets placed and total amount wagered can vary substantially month to month. The volume of bets placed and average bet size can also vary substantially between countries.

Gross win

The conversion from stakes placed to revenue (or 'gross win') is determined by the gross win margin. This reflects the ability of the bookmaker to price the odds correctly and ultimately make a profit. Typically in online sports betting, gross win margins are between 5% and 7% but can vary markedly. Gross win margins can be negative when an unexpected result occurs and the bookmaker has not taken appropriate steps to mitigate the financial impact of such an event occurring. Volatility in gross win margins can be reduced through a combination of careful risk management and through offering a broad portfolio of bets that help to spread the impact of an unexpected event across a wider revenue base.



Gross win margin

The Group's Sports Betting activities achieved a gross win margin of 6.8% in 2006.



Our business Operations

The Group's operations can be divided into three core areas: systems and technology, marketing and customer service. With locations in Europe, and India, the Group's headquarters are in Gibraltar where all senior management are based and all key operational decisions are made. Gibraltar also has a number of other key business activities such as finance, legal and human resources. Elsewhere in Europe the Group has established a new multi-lingual customer service centre and also has a marketing subsidiary that provides marketing support. The Group's business process outsourcing operation ('BPO') in Hyderabad, India provides support for a number of the Group's systems, software development and customer service activities.

Systems and technology

Our systems and technology are a core part of the continued success of the business. Having scalable 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.

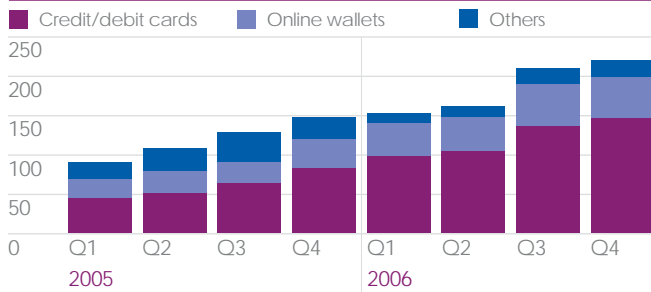
The Group's track record in growing its business over a relatively short period is a testament to the scalability of the Group's systems. The Group seeks to ensure that there is always headroom for additional customer traffic and so is continuously reviewing capacity requirements as the business develops.

Software development

Whilst the Group has long recognised the value in owning and developing its own gaming software, thereby ensuring maximum flexibility on upgrading and improving the customer offer, the dynamics of the online gaming market also mean that speed to market is every bit as important as control. The Group's 300 software engineers and associated staff, continue to be responsible for the smooth operation of the systems architecture as well as for upgrades and improvements to existing games, and also for the development of new games. However, the Group recognises that this team does not have a monopoly on excellent games development. The recent acquisition of websites from EOL and IOG that use software provided by Playtech, demonstrates that the Group is also now interested in entering into a limited number of software licensing agreements with third parties. Potential providers include those that have a proven product that can either be integrated into the Party-branded systems platform or that represents an attractive secondary brand to complement the existing product suite.

Payment processing

Customer deposits \$m



In order for real money customers to play they must first pay-in funds to their player account with the Group. When customers log on to 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.

Credit cards and debit cards are by far the most popular method of payment representing approximately 65% of total deposits in 2006 with online wallets and other methods providing the balance. The value of funds paid in by customers is closely correlated with the number of active players and the level of player activity. Deposits from customers outside the US in 2006 totalled \$738.9 million (2005: \$472.2 million).

The Group continues to expand the number of ways that customers can pay-in funds and now offers 17 different mechanisms, more than any of our competitors. We provide a secure, confidential and easy to use system. 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 debit card or online wallet. Bank transfer and paper cheques can also be used. Over 42% of withdrawals by non-US customers in 2006 were made using online wallets.

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 the first half of 2007.



Net deposits

Total net deposits (after deducting all customer withdrawals) in 2006 was \$210 million (2005: \$128 million).



Our business Operations

Marketing

Having robust, reliable and scalable systems is essential to the ongoing success of the Group but 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 that seek to encourage existing players to continue to play and ensure that they remain loyal and are not lured to other sites.

Direct channel marketing is dominated by the use of television advertising and promotion. Historically, this has proven to be one of the most effective methods of increasing new player sign-ups. However, in a number of territories, local laws restrict the use of television advertising or promotion for gaming or online gaming. In such cases, the Group seeks to use other forms of direct marketing including, where permitted, radio and billboard advertising, sponsorship, direct mail (sending software on CDs through the post), print media as well as online campaigns such as banner advertising and search engine promotions. Use of these other media tends to result in higher customer acquisition costs on a per player basis.

Affiliates help to generate player traffic for the Group's websites. The Group has one of the largest marketing affiliate programmes in the world and as at 31 December 2006, the Group had over 100,000 registered affiliates of which approximately 1,000 were active (i.e. generated real money sign-ups) during December 2006. Affiliates are particularly important in helping to identify new markets for the Group by driving new player sign-ups to a Group site. Affiliates of PartyGaming must first sign-up to the terms and conditions at PartyPartners.com (the Group's dedicated affiliate website), before they can start to drive traffic to the Group's sites and generate income. PartyGaming represents an attractive proposition for affiliates because of its historic success, established brands and quality offering. The affiliate network generated approximately 56% of poker revenue in 2006 (2005: 51%).

Bonuses are the third main marketing tool 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 \$25'), refer-a-friend bonus (refer someone who makes a deposit and you will earn a bonus), as well as various one-off promotions. As explained earlier, most bonuses are netted from revenue in accordance with International Financial Reporting Standards.

Customer service

Providing customers with excellent customer service care can greatly enhance the customer offer. Our customer service operations in Europe and India have a dedicated function with over 200 representatives that provide a 24/7 service, addressing technical as well as personal account enquiries and also offering a multi-lingual capability.

Our customer service activity is separated into two teams: transaction services which deals with payment processing queries plus a fraud detection team; 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. These are shown below together with our corresponding performance in 2006.

- > 80% of all cash out verifications are completed and processed within six hours – 2006: 83%
- > 80% of all phone calls are answered within 10 seconds – 2006: 81%
- > 85% of all customer service emails are answered within 60 minutes – 2006: 73%
- > 80% of transaction services emails are answered within 90 minutes – 2006: 71%

While the targets for email response were met during the first half of 2006, the termination of all real money games to customers in the US in October 2006 resulted in a large increase in the volume of customer contacts during the fourth quarter and was the reason why email responses fell below the performance target for 2006 as a whole.



Customer care

Our customer service and transaction services team fielded over 4 million customer contacts in 2006.

From Doris...



...to Darius



Friendly competition

Our players come in all shapes and sizes so no matter who you are, how old you are or where you are from, at PartyGaming you can always find a likeminded competitor to pit your wits against. Game on!



Our risks

Key risks

PartyGaming operates in a relatively new and highly dynamic business sector and faces a number of challenges in the day-to-day running of its operations. Many of these risks are similar to those faced by most commercial enterprises: competitive pressures, management and execution risk, changing consumer tastes and so on. However, there are also a number of issues that are particular to companies operating in the online gaming industry, as well as risks that are specifically relevant to PartyGaming. Key industry-specific risks include changes to the regulation of online gaming around the world and changes in technology while company specific risks include, for example, changes in the Group's strategy or organisation that may result in a less favourable tax structure.

Online gaming regulation

In executing the business strategy, the Group monitors and seeks advice in respect of each of the relevant regulatory environments as part of an ongoing operational risk and regulatory compliance assessment process. Whilst in most countries, the regulatory regime for land-based gaming operations is well-established, the same cannot be said for gaming on the internet. While some countries believe that regulation is the preferred solution, others appear to be in favour of prohibition.

On 13 October 2006, PartyGaming stopped customers in the US from playing or making deposits on any of the Group's real-money sites. Whilst many other operators continue to take bets from US customers, we made our decision out of respect for the clear policy choice made by the US Congress through passage of the UIGEA. PartyGaming respectfully disagrees with that policy determination and believes that internet gaming offered by regulated, reputable operators remains the right approach to this industry sector.

Notwithstanding the Group's actions, the aggressive public statements made by certain US regulatory authorities suggest that there remains a residual risk of an adverse impact arising from the Group having had customers in the US prior to the enactment of the UIGEA.

Furthermore, the Group is aware of press speculation that certain US regulatory authorities have made enquiries of banks and other financial advisers that have had involvement with the internet gaming industry. Certain customary indemnities have been given by the Company to its advisers in connection with the Company's initial public offering in June 2005 and other assignments, and claims under such indemnities cannot be ruled out. The Group has not, however, received notice of any such claim to date.

As highlighted in the Review of 2006 earlier in this document, the World Trade Organisation and the EU Commissioner in charge of Internal Markets and Services have already challenged certain jurisdictions, including the US and several Member States within the EU, regarding their stance towards online gaming. What further steps may be taken, if any, and the possible implications for the online gaming industry is not yet clear.

Such a landscape is confusing, causes uncertainty and affects the Group's ability to operate effectively. What is clear is that 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 that restricts the processing of payments relating to online gaming transactions or the advertising of online gaming can each have a major impact on customer volumes and revenue.

The Board continues to believe that the development of a modern regulatory framework, like those in Gibraltar, the UK, Alderney and Antigua is the most sensible way forward. Online gaming is already enjoyed by millions of adults around the world and the market is expected to grow substantially. PartyGaming believes regulation can strike the right balance between providing adults with a safe and secure gaming environment online whilst ensuring that appropriate protections are put in place to protect children and the vulnerable. What is also clear from the recent experience in the US is that prohibition only drives customers to seek alternative, less transparent sources of online games from businesses that are less likely to provide the protections afforded by publicly-listed and regulated companies.

Technology

As a purely online business, the integrity and operation of PartyGaming's computer and communication systems are critical for the ongoing success of the Group. Ensuring that appropriate protections are in place to detect any intrusion as well as preventative measures such that the operating systems are safeguarded against hackers, email viruses, distributed denial of service ('DDoS') attacks and other forms of cyber crime is essential. Any failure in these measures could result in a decline in user traffic and impact the Group's operations, reputation and financial performance. As part of the systems infrastructure, the Group regularly reviews its system security using internal and external audit procedures to verify the continued effectiveness of the Group's security systems.

Just as important as protecting the existing infrastructure is being able to continuously improve that infrastructure with software and hardware upgrades to cater for increasing player traffic, as well as introducing new games and additional features on existing games. Any failure to implement such upgrades successfully might affect both the quality of our gaming products and services and the experience of our customers. Managing this risk is complex and involves a complete development process, including detailed project design and specification as well as rigorous internal and external testing of the product release to ensure that the fairness of the game is unaffected and that all aspects are functioning as expected. Finally, following the general release to customers, the Group continues to audit the performance of the product on an ongoing basis through both internal and external reviews.

Our risks

As well as controlling the functionality of the games themselves, the Group 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 our customers. Any failure in one or more of these providers could result in the loss of revenue or customers. To help mitigate this risk, in 2006 the Group successfully established a new disaster recovery and business continuity centre in Guernsey, operating under licence by the Alderney Gambling Control Commission. While the centre has been rigorously tested on a number of occasions, there can be no assurance that, if required, any failure and/or associated relocation to Guernsey would not have a consequent impact on the Group's business performance.

Taxation

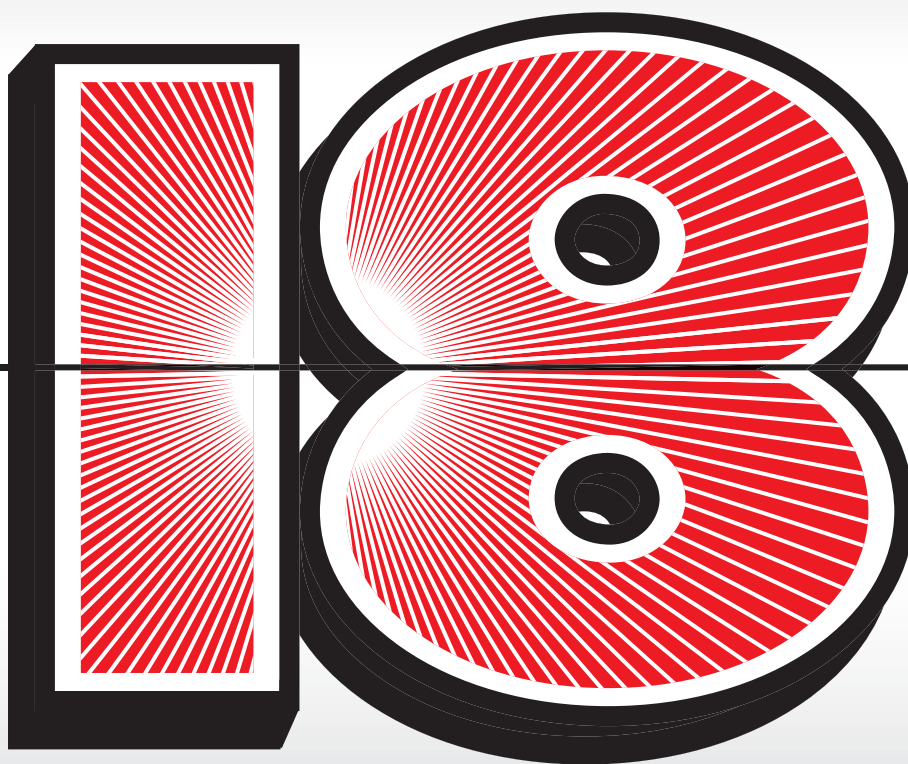
The Group aims to ensure that each Group company is resident for tax purposes only in the jurisdiction in which it is incorporated or domiciled and that it has no taxable permanent establishments or other taxable presence in any other jurisdiction. The Group's customers are located worldwide. Revenues 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.

A change in control or activity of any Group company which is a Gibraltar exempt company would trigger the loss of its tax exempt status in Gibraltar, although this is not expected to have a material adverse effect on the overall tax rate of the Group.

From first timer...



Responsible gaming

PartyGaming leads the industry in responsible gaming practices.



We operate a strict adults only policy and provide a range of customer led controls on session play and spend to ensure our players can enjoy our games in a controlled way.

...to old timer

Our values

Responsibility

Operating in a proper and responsible manner is something that is ingrained into PartyGaming's business culture. As the business has developed, we have sought to embed a number of corporate and social responsibility ('CSR') policies into our key business strategies, reflecting the fact that being responsible is important for our business, our community and our stakeholders.

As an international group we have many responsibilities to a broad spectrum of stakeholders that includes customers, providers of capital, employees, affiliates, suppliers, local communities, regulators/licensing bodies, trade associations, consumer protection organisations and governments.

In addition to the CSR obligations required of all public companies, as a gaming company we recognise that we have other specific responsibilities. Our philosophy is focused on behaving properly and responsibly in our dealings with all stakeholders and with our customers in particular. As a purely online business, we recognise the risks and potential damage to our business and reputation if we fail to meet anything less than the highest standards of professional and ethical conduct – we may fail to meet certain licensing obligations but just as important, dissatisfied customers will simply click away to a competitor. To help manage our stakeholder relationships, we have established a framework comprising a series of policies that define the way in which we interact with each of our key stakeholder groups.

The Group Finance Director has executive responsibility for CSR matters while our approach to CSR related issues is overseen by the Ethics Committee of the Board. The Committee not only has responsibility for overseeing our CSR policy framework, but crucially, also the implementation of these policies in practical terms. The Committee is chaired by Rod Perry and its members in 2006 were Lars Berg, Michael Jackson and Janos Libor. The Committee has a broad remit that includes responsible gaming, fairness of gaming platforms and community and charitable contributions.

As part of our ongoing commitment to improving our CSR policies and processes, in 2005 the Company engaged the services of GoodCorporation, an independent accreditation organisation in this field, to assist in a preliminary verification and audit of many of our existing practices and policies and in particular those that affect the Group's key stakeholders. On completion of this review, we received a written report and presentation covering areas such as employees, customers, suppliers, shareholders, community and the environment. While the report confirmed the presence and effectiveness of strong policies and working practices across many areas, it also identified a number of areas where policies were weak or were not working effectively. During 2006 the Group made good progress on addressing many of the issues highlighted in the GoodCorporation report. Whilst the substantial change to the shape and scale of our business has meant that a further complete audit of all of the Group's CSR policies and practices has not been possible in 2006, GoodCorporation did complete a focused review of the key areas identified in the 2005 report and concluded that all areas have been addressed.

It is hoped that GoodCorporation will conduct a follow-up review of all of the Group's policies and practices during 2007 with a view to providing the Directors with an update on progress made since the original assessment in 2005. It is intended that this will be summarised in the Group's 2007 annual report. Below we have set out our approach to managing each of the Group's key stakeholders and further information can be found on the Group's website: www.partygaming.com.



GoodCorporation review

Having conducted a full review in 2005, it is hoped that GoodCorporation will complete a further review of the Group's working practices during 2007.

Our values

Customers and responsible gaming

Providing a safe and secure environment for our customers to enjoy the game of their choosing is our number one priority. That said, wherever possible we also encourage our players to game responsibly, within their own means and to check that they are acting in accordance with local laws or any other laws that may apply to them.

Protecting vulnerable customers is a key element of our strategy and in particular the prevention of underage gaming on our 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.

As a Group we are continually seeking ways to improve our existing procedures and controls in order to promote responsible gaming. These include: only being able to have one player account (so that if later a player is excluded, or chooses 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 predetermined period. This is in addition to providing links to suitably qualified counselling services for people seeking additional help.

We were pleased that the Group's efforts in this area were again rewarded by the receipt from GamCare in 2006 of another certificate in recognition of the Group's high standards of responsible gaming and player protection. The Group was assessed and demonstrated high standards in each of the following key areas:

- age verification;
- customer led controls for spend and session play;
- self-exclusion options;
- reality checks within game screens;
- social responsibility content and sources of help; and
- customer service training.

In addition, the Group implemented the 'Know Your Limits' campaign during 2006 to highlight the Group's approach to responsible gaming and to encourage players to game responsibly. The Know Your Limits logo now appears on all of the Group's gaming sites.

As well as responsible gaming, the Group also seeks to ensure that its sites are safe and secure, with daily checks on the random number generator by an independent third party. In addition to numerous protections built into the gaming software and systems architecture, PartyGaming also has a dedicated team of operatives that investigate suspicious player behaviour to ensure fair play on the Group's sites is maintained.



GamCare certification

GamCare is widely recognised as a leading authority on the provision of support, advice and counselling to people affected by gambling problems.



Know Your Limits

Introduced in 2006, the Know Your Limits logo seeks to encourage customers to play within their own means.

Our values

Employees

The achievement of the Group's objectives is heavily reliant on the timely execution of the Group's business strategies by the Directors, the senior management team and the workforce as a whole. Developing and implementing appropriate people strategies are critical to ensuring we attract and retain talented employees that can adapt quickly to changes in the business and regulatory environment. Attracting and relocating people to the local area from international markets is always a challenge for any business. The Group maintains a strong working relationship with the Gibraltar authorities ensuring we maintain an appropriate balance of overseas as well as local employees in order to support the local economy.

Over the past 12 months the Group has undergone substantial organisational change following the termination of all real money games to customers in the US. Having hit a peak of over 2,080 full time employee equivalents in September 2006, by the end of the year this had been reduced to just 1,203 reflecting the loss of the majority of the Group's revenues which historically had been generated by customers based in the US. This restructuring required enormous professionalism from our Human Resources team. Within days of the UIGEA passing, a firm policy and approach to redundancies had been agreed, incorporating the requirements for an appropriate consultation process, redundancy and relocation terms, as well as outplacement support.

In spite of the dramatic change to the scale and mix of our workforce, PartyGaming remains a very cosmopolitan place to work. As at 31 December we had a total of 26 different nationalities represented across the Group and approximately 40% of the employees were female. All employees are issued with a contract of employment. There is also a Group intranet site which contains all of our people policies and processes. These outline the way in which we expect our employees to behave, the policies that are relevant to them and the obligations the Company has to each and every one of them. In addition, the site provides helpful information for new recruits and those relocating to Gibraltar.

As an internet business, ensuring that our staff have all of the technical skills and knowledge that they need to do their jobs, as well as helping them to develop the next generation of products and services, is essential. Training is an ongoing part of life at PartyGaming and is provided both internally and externally. For example, our customer service operators in Europe, many of whom are multi-lingual, undergo a rigorous training programme, including classroom sessions as well as on-the-job training before speaking to customers. We also provide funding for employees' personal development, such as learning a new language.

Our values

Employees

PartyGaming operates in a highly competitive and dynamic international market and a key business need is to recruit and retain high calibre individuals who can continue to drive the future growth and performance of what is a highly entrepreneurial business. The enactment of the UIGEA had a significant impact on the overall value of our employees' total remuneration. Share ownership by all employees is a key element of our remuneration policy and as such employees have witnessed a near 80% reduction in the value of their holdings. In response it was essential to put in place an appropriate long-term incentive plan.

Having completed a detailed review of the Group's long-term incentive arrangements during 2006, two new Share Option Plans have been proposed to reward all employees across the organisation. Designed by external consultants and agreed with the Remuneration Committee, the plans aim to ensure that those individuals that are critical to the ongoing success of the business are suitably incentivised over the medium-term with rewards geared to strong share price performance, thereby aligning the interests of shareholders and employees.

The Board recognises that the continued and careful management of our people is critical to the ongoing success of the Group. As part of this management process, the Group has established a number of people processes and systems to ensure that issues surrounding succession planning and talent management, learning and development, rewards, health and safety, performance management and whistle-blowing are all monitored and controlled. For example, during 2006 the Company introduced a change in the performance management process to ensure closer alignment between the organisation's business objectives and those of individual employees. This change fed through to influence the structure of employee bonus payments in 2006 and will continue to be a priority for the business in 2007.

During the coming year, the Group will introduce a new system for managing the Group's human resources that, among other things, will enable the measurement and tracking of key people metrics. This data will provide the final link in ensuring PartyGaming has a robust people strategy that is fully embedded within the core business strategy and can be effectively measured to demonstrate the value of effective Human Capital Management.



Diversity

As at 31 December 2006 the Group had employees from 26 different nations and remains a highly cosmopolitan working environment.



Our values

Suppliers

Our key suppliers include providers of systems hardware, bandwidth and telecommunications services, payment processing, advertising and other media. Careful management and the continued performance of these suppliers are important for the continued success of our business. In our dealings with key suppliers, we seek to operate to the highest professional standards and pursue mutually beneficial long-term relationships. Our objective is to deliver best value for the Company whilst operating in a fair and reasonable manner. We aim to incorporate commitments to fair treatment and prompt payment into all of our supplier contracts.

We recognise that whenever PartyGaming enters into a new relationship with a supplier, we may be exposing the Group to a variety of potential risks, whether they be financial, reputational or otherwise. To reduce these risks and to reflect best practice in this area, we have put in place a policy to cover the selection and ultimate approval of vendors as well as the protocol to be followed in managing supplier relationships over time. A series of checks are undertaken before suppliers can be added to the Group's supplier list and they can be linked to our internal payment systems.

We aim to assess the quality of suppliers against a number of different criteria, including financial strength, to ensure long-term reliability; their ability to deliver enduring quality and value; as well as their commitment to innovation and their ability to help us develop new products, processes and ways of working that will give the Group a commercial advantage.

Having reviewed our supplier policy during 2006, we now aim to ensure that our suppliers also meet the standards of our wider corporate responsibility agenda. During the selection process we request from potential suppliers any available information regarding their corporate and social responsibility policies, including their environmental policy. These are then reviewed periodically so that we can ensure that their business practices and policies are compatible with our own. As part of this process we also ask that suppliers notify us about any material changes to their CSR and environmental policies and practices and ensure that they are in turn aware of the Group's overall objectives regarding corporate and social responsibility.

Our values

Environment

As an online company, we believe we have a relatively low impact on the environment but recognise that as with any commercial enterprise, the day-to-day running of our business will inevitably have consequences. We are fully committed to minimising the effects our operations may have on the environment. We aim to review our procedures on a regular basis to assess the possible impact of our business practices and to determine where improvements can be made in a cost-effective way.

PartyGaming complies with and aims to exceed applicable environmental laws, regulations and industry standards in all of the countries in which it operates.

Implementation of ISO standards

In 2006 PartyGaming began implementing the ISO 14000 series of standards dealing with environmental management. These standards provide management tools that will enable the Group to monitor and improve its environmental performance. In particular it is expected that the implementation of these standards will help to ensure that PartyGaming:

- > continues to develop and maintains a suitable environmental policy;
- > establishes a high level environmental management system setting out responsibilities, authorities, relationships, functions, processes, practices, procedures and resources;
- > identifies the most significant environmental aspects of PartyGaming's past, present and future activities, products and services;
- > clarifies and respects all legal and regulatory requirements in relation to the environment;
- > sets appropriate environmental objectives and targets;
- > creates and builds on existing processes to ensure that environmental objectives and targets are met; and
- > continually monitors and improves the environmental management system.

Recycling

We are committed to the introduction of more recycling programmes throughout our businesses and wherever practicable materials such as paper, computer equipment and printer consumables are already recycled.

Energy consumption

With a limited number of office locations and total staff numbers of approximately 1,200 worldwide, the Group's total energy consumption is small when compared with many other global businesses. However, the Group has taken a number of steps to ensure that this is kept to a minimum wherever possible:

- > air conditioning and other electrical systems are turned off when not required, such as late at night or at weekends;
- > energy efficient light sources are fitted in many of our offices and we are looking at introducing them across all of our facilities; and
- > computers, monitors and other electrical equipment are switched off outside of working hours to avoid wastage.

Travel

As an international business with offices in a number of locations, there is a need for employees to travel between offices as well as to other territories as part of our day-to-day business activities. However, whenever practicable email, video and teleconferencing facilities are used to avoid non-essential air travel. Staff are encouraged to use public transport where practical and the Group does not have a company car scheme.

During 2007, PartyGaming intends to put in place a number of other travel-related initiatives including:

- > building a carbon footprint for the organisation and developing an action plan to reduce carbon emissions; and
- > assessing the environmental advantages of replacing company-owned vehicles in Gibraltar with energy efficient hybrid models, as and when they become due for renewal.

Suppliers

We aim to work with quality suppliers and also to encourage them to adopt a similar approach to our own regarding low impact environmental policies and principles.

Our values

Community

With customers located around the world, PartyGaming's social responsibilities extend far beyond the communities where our offices are based. We have developed a successful business that spans many territories across the globe. That success is due in varying degrees to the resources and infrastructure provided by both local communities as well as society at large and we want to put something back – not just because we can, but because we believe it is right and because our employees want to as well. This isn't just about giving money, although that is what most people immediately think of. It is about making a contribution to society and that contribution is not just about dollars, pounds or euros – it can take a variety of forms. PartyGaming's philosophy is that we aim to donate both money and, through employee involvement, personal time to worthy causes, including gaming charities.

PartyGaming aims to give between 0.20% and 0.25% of its annual EBITDA to a broad variety of charitable causes. In 2006 we exceeded this target with total donations totalling \$750,080 through donations to a number of charities involved principally with helping those with problems relating to gambling, cancer research, children and disaster and famine relief. The recipients of funds in 2006 included:

Responsibility in Gambling Trust, GamCare and Gordon House
Water Aid
Oxfam East Africa Food Crisis Appeal
Cancer Research UK
British Heart Foundation
British Red Cross Indonesia Earthquake Appeal
Body and Soul – Families affected by HIV and AIDS
Small Steps for Parents – Helping parents whose children suffer with motor and sensory impairment
Cherry Trees – Respite care for children with learning and developmental disabilities
Amber – Helping young unemployed people

In selecting the beneficiaries of monetary and other donations, we look to select charities that are efficient in terms of effective and low cost administration that results in more money going to where it is needed rather than being lost in delivering it.

In India, our Ivy Comptech subsidiary has set up a charitable body known as the Ivy Foundation with the aim of working in areas outside its business interests and to contribute in its own way to the development of the people of Andhra Pradesh, the state in which it is located. Through the Foundation, Ivy seeks to support welfare and the general well-being of the general public, to perform the role of a good corporate citizen as well as to discharge the social responsibility of a successful corporate enterprise. The Ivy Foundation is an autonomous body that will undertake charitable activities in the areas of education, health care, housing, welfare and general well-being of the general public in times of tragedy and emergency.

All of the Group's employees are also encouraged to organise one-off events throughout the year, raising money for charities of their choice. In the UK employees can also elect to give money every month to charities of their choice through a tax effective Payroll Giving scheme.

PartyGaming supports employee involvement in charities and at least matches the amount raised by employees. In 2006, for instance, we donated an additional \$20,000 to a team from the London office who took part in a 5km 'fun run' for cancer research.

Charity, though, is much more than about making financial donations. PartyGaming employees are encouraged to spend at least one day every year on *pro bono* work in the local communities around their offices.

For example, In London in 2007 the local *pro bono* activities will be co-coordinated through City Action for Community Development. Established in 1998 by the Corporation of London, City Action acts as a free broker to facilitate the transfer of time, skills and resources between City of London-based firms and community-based organisations in the seven boroughs surrounding the City; Camden, Hackney, Islington, Lambeth, Southwark, Tower Hamlets and Westminster.

Engaging companies in practical activities enables them to contribute to the social and economic regeneration of the local community. City Action aims to put business at the heart of the community and so does PartyGaming. In 2007 we hope that our employees will again help us to put something back into the community where they live and work so that we can share a little bit of our success.

Our values

Shareholders and other providers of capital

Since its flotation on the London Stock Exchange in June 2005, the Group has had to deal with enormous structural, legislative and organisational change. This has required a regular and open dialogue with all of our investors and investment analysts around the world. Ensuring that the markets are aware of all material developments and have a good understanding of the Group's risks, opportunities and business strategy is vital in order to instil confidence in the management team and their ability to deliver that strategy. In addition to the publication of financial results every six months, the Group also publishes trading updates during the second and fourth quarter, providing commentary and data on current trading patterns. The Chief Executive Officer, Group Finance Director and Director of Investor Relations are engaged in a regular programme of conference calls, presentations and meetings with investors and analysts around the world, providing them with an opportunity to ask questions and improve their understanding of the Group's strategy and key business dynamics.

From winning fortunes
with one royal...



...to changing fortunes with another



Charity in the community



PartyGaming is committed to helping communities and worthy causes around the world. In 2006 the Group gave a total of \$750,000 to a wide range of charitable institutions.

Board of Directors



Michael Jackson (57)
Non-Executive Chairman

Michael Jackson became Chairman of PartyGaming in May 2005. He 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. In addition, Michael is a director and investor in a

number of other quoted and unquoted companies. Until he stepped down on 1 August 2006, Michael was the Chairman of the FTSE 100 software group, The Sage Group plc, which, during his time as a director, grew from a capitalisation of £1 million in 1983 to over £3 billion. Michael holds an MA in law from Cambridge University and qualified as a Chartered Accountant with Coopers & Lybrand.



Mitch Garber (42)
Chief Executive Officer

Mitch Garber joined PartyGaming as Chief Executive Officer on 19 April 2006. Before joining the Group, Mitch was Executive Chairman of FireOne Group Plc, a leading provider of payment processing services to the online gaming industry. FireOne was partly demerged from Optimal Group Inc. and floated on AIM in June 2005. He was simultaneously Executive Vice President of Optimal Group Inc.,

the Nasdaq-listed payments processing and services company (and owner of 76% of FireOne) and President and CEO of Optimal Payments Inc., the largest subsidiary of Optimal Group. Mitch was also President and CEO of Terra Payments Inc., which was listed on the Toronto Stock Exchange, before merging with Optimal Group in April 2004. A graduate of McGill University in Montreal and of the University of Ottawa, Mitch is a qualified attorney.



Martin Weigold (41)
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.



Lars Berg (59)
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. From March 1999 to August 2000 Lars was a member of the executive board of Mannesmann AG heading up the telecommunications business, and from 1994 until 1999 he was President and Chief Executive Officer of Telia AB. Prior to this Lars held various management positions in the Ericsson Group.



Rod Perry (61)
Senior Independent
Non-Executive Director

Rod Perry became a Non-Executive Director of PartyGaming in May 2005. He is the Board's Senior Independent Non-Executive Director. 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 present the Directors' Report and the audited financial statements for the year ended 31 December 2006.

Principal activities and business review

Since its foundation in 1997, the Group has become the world's leading listed online gaming company, operating PartyPoker, PartyCasino, PartyBingo, PartyGammon, Gamebookers, Empire Poker and a number of other major gaming sites. Companies in the Group have been granted and maintain gaming licences granted by the Government of Gibraltar, Alderney Gambling Control Commission and Kahnawake Gaming Commission. The Group is headquartered in and operates from Gibraltar and the Company and a majority of its subsidiaries are registered under The Companies (Taxation and Concessions) Act as exempt companies for Gibraltar tax purposes.

On the 14 February 2006 the Group announced the acquisition from Empire Online Limited ('EOL') of the EmpirePoker.com skin and other white label and affiliate agreements relating to AceClub.com and StarluckCasino.com, together with the withdrawal of all legal claims by EOL against the Group, for a total cash consideration of US\$250 million. On 3 August 2006 PartyGaming acquired the business and assets of Gamebookers, a non US-facing online sports betting business for approximately US\$132 million. Following the signing of the Unlawful Internet Gambling Enforcement Act by the US President on 13 October 2006 the Group terminated all real money activities to customers located in the US with immediate effect. On 29 December 2006 the Group announced the acquisition of several leading online gaming websites and certain assets from EOL and Intercontinental Online Gaming Limited ('IOG') in consideration for PartyGaming issuing 115,193,842 new shares.

The acquisition of the assets from EOL and IOG completed on 19 January 2007.

A detailed review of the Group's business and prospects are set out in the Chairman's Statement and Chief Executive's Business Review contained in this Annual Report.

Results and dividends

During the year the Company made a profit of \$128.4 million (2005: US\$293.2 million). The Company did not pay an interim dividend during the year ended 31 December 2006 and for the reasons set out in the Chairman's Statement and Chief Executive's Business Review contained in this Annual Report, the Board is not recommending the payment of a final dividend in respect of 2006.

The Directors

Details of the current Directors are set out under the 'Board of Directors' section of the Annual Report. Vikrant Bhargava,

Brian Larcombe and Nigel Kenny served as Directors of the Company throughout 2006 and stepped down from the Board with effect from 31 December 2006. Richard Segal, Anurag Dikshit and Janos Libor each served as Directors during 2006, stepping down from the Board on 4 May 2006, 23 May 2006 and 22 December 2006 respectively.

Mitch Garber, who was appointed a Director on 19 April 2006, in accordance with the Articles, retired as a Director at the conclusion of the Company's Annual General Meeting held on 4 May 2006 and was re-appointed a Director at a Board meeting immediately following that Annual General Meeting. In accordance with the Articles, Mitch Garber will retire and seek re-appointment as a Director at the 2007 AGM. In addition, a number nearest to one-third of the remaining four Directors is required under the Articles of Association to retire and seek re-appointment. Consequently, Rod Perry 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 AGM.

Directors' share interests

The beneficial interests of the Directors in office at 31 December 2006 in the issued share capital of the Company are set out in the table below:

	Ordinary shares 1 March 2007	Ordinary shares 31 December 2006	Ordinary shares 1 January 2006*
Chairman			
Michael Jackson	600,000	600,000	862,069
Executive Directors			
Mitch Garber ⁽¹⁾	4,083,331	4,083,331	–
Martin Weigold	648,448	684,448	1,368,896
Vikrant Bhargava ⁽²⁾	n/a	278,293,333	344,960,000
Non-Executive Directors			
Lars Berg	184,293	184,293	184,293
Rod Perry	50,862	50,862	50,862
Brian Larcombe ⁽²⁾	n/a	508,621	508,621
Nigel Kenny ⁽²⁾	n/a	50,862	50,862

*or on date of appointment.

(1) Appointed on 19 April 2006.

(2) Resigned as Directors on 31 December 2006.

Mitch Garber 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 ('Shares'). At the year end the Company had in issue and admitted to the Official List and to trading on the London Stock Exchange 4,000,000,000 Shares. Subsequent to the year end the Company issued for non-cash consideration a further 115,193,842 new Shares in respect of the acquisition of certain business assets from EOL and IOG.

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 depository to hold the shares and issue dematerialised depository interests ('Depository Interests') representing the underlying Shares which are held on trust for the holders of the Depository Interests.

As disclosed in the 2005 Annual Report, 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. Following the above-mentioned allotment of 115,193,842 shares on 19 January 2007, the Directors retain authority until 10 June 2010 to allot a further 884,806,158 Shares. The Directors are also empowered until 10 June 2010, pursuant to Articles 22 to 25, 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). This authority has yet to be utilised.

Of the Shares in issue, as at 1 March 2007 166,570,091 Shares were held in the Company's employee benefit trust, the PartyGaming Plc Shares Trust (the 'Employee 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.

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

Significant shareholdings

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

Shareholder	Ordinary shares currently held as at 1 March 2007	Percentage of issued share capital	Percentage of total voting rights ⁽⁵⁾
Crystal Ventures Limited ⁽¹⁾	1,138,085,333	27.66	28.82
Cheam Directors Limited ⁽²⁾	584,986,667	14.22	14.81
Cheam Directors Limited ⁽³⁾	584,986,667	14.22	14.81
Orbis Holdings Limited ⁽⁴⁾	227,770,211 ⁽⁴⁾	5.53	5.77
Employee Trust	166,570,091	4.05	N/A

(1) A company owned indirectly by Anurag Dikshit, a Principal Shareholder and formerly a Director (resignation: 23 May 2006).

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

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

(4) Orbis Holdings Limited informed the Company of its holding on 9 February 2007.

(5) As at 1 March 2007, PartyGaming had a total of 4,115,193,842 Shares in issue. Each Share carries the right to one vote, with the exception of Shares held by the Employee Trust, which has waived the voting rights in respect of the Shares it holds. Consequently as at 1 March 2007 the total number of Shares with voting rights was 3,948,623,751.

The Principal Shareholders entered into a Relationship Agreement with the Company dated 14 June 2005. This agreement contains 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;

Directors' report

(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.

Anurag Dikshit was employed by the Group until 15 November 2006 and received a total salary in this period of US\$350,412. Vikrant Bhargava was an employee of the Company throughout the year ended 31 December 2006 and received a total salary for the year of US\$645,033. During the year Russell DeLeon and Ruth Parasol were each engaged under consultancy agreements with the Company. The consultants were appointed as independent and separate consultants to PartyGaming and the Company was entitled to call upon their services in respect of strategic advice, business development, product development and regulatory affairs. Each consultant was paid a fee for services performed, and was reimbursed by the Company in respect of reasonable and necessary expenses incurred in the performance of those services. Both consultancy agreements were terminated with the Company's consent with effect from 21 December 2006. In the period to 21 December 2006 Russell DeLeon and Ruth Parasol received \$222,871 each in consultancy fees.

Employees

Our employees are critical to the future success of the Group. Without their dedication, professionalism and drive the Group would be unable to serve its customers' needs and achieve its objectives. At the time of the IPO, 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. A further 40 million Shares were gifted to the Employee Trust in 2006 by founder Shareholders of the Company. In addition, the Company is in the process of implementing three further share plans, the PartyGaming Plc Executive Share Option Plan, the PartyGaming Performance Share Plan and the PartyGaming All-Employee Option Plan. Information about the Company's long-term incentive plans is contained in the Remuneration Report. Further details regarding the Group's employee policies are set out in the 'Our Values' section of the Annual Report. 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 associated policies.

Customer and creditor payment policy

The Group is committed to prompt payment of customer cashout requests and maintains adequate cash reserves to cover customer cashouts and balances. Normally payments will be made to customers within seven 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 ensure compliance with such agreed terms. 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's success and development. To this end 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 'Our Values' section and information on the Ethics Committee is given in the Corporate Governance Report.

Charitable and political donations

For the year ended 31 December 2006 the Group made donations of US\$750,080 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 'Our Values' section.

Auditors

During the year ended 31 December 2006, 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) Act 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 3) together with an ordinary resolution authorising the Directors to set the auditors' remuneration (resolution 4).

Annual General Meeting

The Company's AGM will be held on Thursday 10 May 2007 at the Caleta Hotel, Catalan Bay, Gibraltar at 11.00 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 Section 178 (1) of the Gibraltar Companies Act 1930 to present the annual accounts for the year to 31 December 2006 to shareholders to formally receive them. This gives shareholders the opportunity to raise any questions about the 2006 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 2006.

Resolution 3 – 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 4 – 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 5 and 6 – To re-appoint certain Directors (ordinary resolutions)

Resolutions 5 and 6 deal with the re-appointment of Mitch Garber and Rod Perry. 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 'Corporate Governance' section of this report, the Board believes that it is in the best interests of the Company to re-appoint these individuals as Directors.

Resolution 7 – Share buyback authority (special resolution)

In certain circumstances, it may be advantageous for the Company to purchase its own Shares and resolution 7 seeks authority from Shareholders to do so. The resolution specifies the maximum number of Shares that may be acquired (10% of the Company's issued ordinary share capital) and the maximum and minimum prices at which they may be bought.

Any Shares purchased in this way will, unless the Directors determine that they are to be held as treasury shares, be cancelled and the number of Shares in issue will be reduced accordingly. Shares held in treasury will not automatically be cancelled and will not be taken into account in future calculations of earnings per share (unless they are subsequently resold or transferred out of treasury). The Directors will only purchase such Shares after taking into account the effects on earnings per share and the benefit for Shareholders.

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.

By order of the Board of Directors

David Abdo

General Counsel and Company Secretary

1 March 2007

From Austrians...



International reach

Being a truly global company, our customers come from all over the world. Whichever hemisphere you are from, somebody somewhere is ready to accept your challenge.



...to Australians

Corporate governance

With the exception of the relevant provisions in the Companies Act 1930, 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 year to 31 December 2006, the Company has complied fully with the Code's principles except as detailed below, in respect of the Chairman's second FTSE 100 chairmanship, the Chairman's initial fixed term of service, the independence of the Board, the performance-related elements of Executive Director remuneration and executive share options being offered at a discount.

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 to effectively assess and manage risk.

Director	Age	Position	Committees	Date of appointment	Date of last re-appointment	Date of resignation
Michael Jackson	57	Non-Executive Chairman	Chairman of the Nominations Committee and member of the Ethics Committee (appointed 31 May 2005) and Remuneration Committee (appointed 23 February 2007)	31 May 2005	24 June 2005	–
Mitch Garber	42	Chief Executive Officer	Member of the Nominations Committee (appointed 4 May 2006)	19 April 2006	–	–
Martin Weigold	41	Group Finance Director	–	4 April 2005	4 May 2006	–
Lars Berg	59	Independent Non-Executive Director	A member of the Audit, Nominations and Ethics Committees (appointed 31 May 2005). Chairman of the Remuneration Committee since 31 December 2006	31 May 2005	4 May 2006	–
Rod Perry	61	Senior Independent Non-Executive Director	Chairman of the Ethics Committee and member of the Remuneration and Nominations Committees (appointed 31 May 2005). Chairman of the Audit Committee since 31 December 2006	31 May 2005	24 June 2005	–
Vikrant Bhargava	34*	Group Marketing Director	–	4 April 2005	24 June 2005	31 December 2006
Nigel Kenny	58*	Independent Non-Executive Director	Until 31 December 2006 Chairman of the Audit Committee and member of the Remuneration and Nominations Committees (appointed 31 May 2005)	31 May 2005	4 May 2006	31 December 2006

Corporate governance

Director	Age	Position	Committees	Date of appointment	Date of last re-appointment	Date of resignation
Brian Larcombe	53*	Deputy Chairman and Senior Independent Non- Executive Director	Until 31 December 2006 Chairman of the Remuneration Committee and member of the Audit and Nominations Committees (appointed 31 May 2005)	31 May 2005	24 June 2005	31 December 2006
Anurag Dikshit	34*	Group Operations Director	–	4 April 2005	24 June 2005	23 May 2006
Richard Segal	42*	Chief Executive Officer	Member of the Nominations Committee (appointed 31 May 2005 until 19 April 2006)	31 May 2005	24 June 2005	19 April 2006
Janos Libor	41*	Non-Executive Director	Until 22 December 2006 a member of the Ethics and Nominations Committee (appointed 5 December 2005)	19 October 2005	4 May 2006	22 December 2006

*Age on date of resignation

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

	Total number of meetings held during the year ended 31 December 2006 and the number of meetings attended of the maximum number that each Director was entitled to attend				
	Board	Audit Committee	Ethics Committee	Nominations Committee	Remuneration Committee
Total held in year	8	5	3	2	6
Michael Jackson	7/8	n/a	2/3	1/2	n/a
Mitch Garber ⁽¹⁾	5/5	n/a	n/a	1/1	n/a
Martin Weigold	8/8	n/a	n/a	n/a	n/a
Lars Berg	7/8	4/5	2/3	1/2	n/a
Rod Perry	8/8	n/a	3/3	2/2	6/6
Vikrant Bhargava	8/8	n/a	n/a	n/a	n/a
Nigel Kenny	8/8	5/5	n/a	2/2	6/6
Brian Larcombe	8/8	5/5	n/a	2/2	6/6
Anurag Dikshit ⁽²⁾	4/4	n/a	n/a	n/a	n/a
Richard Segal ⁽³⁾	3/3	n/a	n/a	1/1	n/a
Janos Libor	8/8	n/a	3/3	2/2	n/a

(1) Mitch Garber was appointed as a Director of the Company on 19 April 2006.

(2) Anurag Dikshit resigned as a Director of the Company on 23 May 2006.

(3) Richard Segal resigned as a Director of the Company on 19 April 2006 but remained an employee until 4 May 2006.

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 2006. Led by the Senior Independent Director, the Non-Executive Directors met in 2006 without the Chairman present to review the latter's performance.

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. Michael Jackson was chairman of The Sage Group plc, a FTSE 100 company, until he stepped down from this position with effect from 1 August 2006. During the seven months to 1 August 2006 the Board was satisfied that Michael Jackson was able to devote sufficient time to his duties as Chairman of PartyGaming Plc.

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 23 May 2006 the Company had four independent Non-Executive Directors (excluding the Chairman) (Brian Larcombe, Lars Berg, Nigel Kenny and Rod Perry), one non-independent Non-Executive Director (Janos Libor) and four Executive Directors (Mitch Garber (and prior to his appointment on 19 April 2006, Richard Segal), Martin Weigold, Vikrant Bhargava and Anurag Dikshit) and therefore the Company did not comply with the Code.

On 23 May 2006 Anurag Dikshit stepped down as a Director restoring a balance of four independent Directors and four non-independent Directors. Following the resignations of Janos Libor on 22 December 2006 and Brian Larcombe, Vikrant Bhargava and Nigel Kenny on 31 December 2006 there is a balance of two non-independent Directors and two independent Directors (excluding the Chairman) serving on the Board.

Following Brian Larcombe's departure from the Board on 31 December 2006, Rod Perry 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.

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. During the reporting year Michael Jackson chaired the Nominations Committee and Brian Larcombe, Lars Berg, Nigel Kenny, Janos Libor and Rod Perry were members. Richard Segal was also a member of the Nominations Committee until 19 April 2006, when he stepped down as Chief Executive Officer and was replaced by Mitch Garber. The membership of the Nominations Committee was changed further as a result of the departures from the Board of Janos Libor with effect from 22 December 2006 and Brian Larcombe and Nigel Kenny with effect from 31 December 2006. The current members of the Nominations Committee are Michael Jackson, Lars Berg, Rod Perry and Mitch Garber. 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).

An external search consultancy was engaged by the Nominations Committee and given a description of the role and capabilities required for suitable candidates to fulfil the role of Chief Executive Officer following Richard Segal's decision to leave the Company. The Nominations Committee reviewed 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 made recommendations to the Board as to which candidates were best suited to the selection criteria. As a result of this process, on 22 March 2006 the Board resolved to appoint Mitch Garber as the new Chief Executive Officer with effect from 19 April 2006.

The Board currently has only two independent Non-Executive Directors (excluding the Chairman) and therefore it is looking to recruit a further independent Director. An external search consultancy has not been engaged by the Nominations Committee to assist with this process, because the Nominations Committee has already identified potential candidates. An announcement about any appointment of a new independent Director will be made if a candidate is found and accepts an offer to join the Board.

Corporate governance

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.

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 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 via reports and information collated by management, the Company Secretary and the Company's advisers.

Performance evaluation

The Directors have undertaken a formal evaluation of their performance in the year to 31 December 2006. The evaluation has focused on the effectiveness of the Chairman, individual Directors, 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 appointment. Mitch Garber, who was appointed a Director on 19 April 2006, in accordance with the Articles, retired as a Director at the conclusion of the Company's Annual General Meeting held on 4 May 2006 and was re-appointed a Director at a Board meeting immediately following that Annual General Meeting. In accordance with the Articles, Mitch Garber will retire and seek re-appointment as a Director at the 2007 AGM.

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. With the exception of Mitch Garber, each of the Directors has stood for re-election at least once within the last two years. Consequently, the Directors have agreed that Rod Perry will be retiring at the AGM and will be 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 Mitch Garber and Rod Perry as Directors at the AGM.

The letters of appointment for each of the Non-Executive Directors do not specify a fixed term of appointment. 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). During the year ended 31 December 2006 Brian Larcombe chaired the Remuneration Committee and the other members were Nigel Kenny and Rod Perry. All three members were independent Non-Executive Directors. Following the departures from the Board of Brian Larcombe and Nigel Kenny with effect from 31 December 2006, Lars Berg has been appointed to and made Chairman of the Remuneration Committee. In accordance with the terms of the revised Code which allows an independent Chairman of the Board to sit on the Remuneration Committee and takes effect in respect of reporting periods beginning on or after 1 November 2006, Michael Jackson has also been appointed a member of the Remuneration Committee. 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. The Remuneration Report sets out why the Company does not comply fully with the Code's requirement that performance-related elements of remuneration should form a significant proportion of the total remuneration package of the Executive Directors. In addition, the Remuneration Report also explains why the Company does not comply with the Code's recommendation that executive options are not offered at a discount.

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 established an Internal Audit department, which also carries out the Company's risk management monitoring. During the year, management have identified the risks attaching to the business and, on an ongoing 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 whether 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 Head 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).

Corporate governance

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.

During the year to 31 December 2006, the Audit Committee was chaired by Nigel Kenny and the other members were Lars Berg and Brian Larcombe. All three members were independent Non-Executive Directors and Nigel Kenny had recent and relevant financial experience. Following the departures from the Board of Nigel Kenny and Brian Larcombe with effect from 31 December 2006, Rod Perry has been appointed a member and Chairman of the Audit Committee. Rod Perry has recent and relevant financial experience. The Code recommends that a minimum of three independent Directors (excluding the Chairman of the Board) should serve on the Audit Committee. At this time the Company does not have three independent Directors (excluding the Chairman of the Board) and therefore cannot comply with this recommendation for the time being. As disclosed earlier in this report, the Board is currently looking at recruiting a further independent Director and it is envisaged that if such an appointment is made the new independent Director will be appointed to the Audit Committee.

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 year to 31 December 2006, the Audit Committee met five times. In doing so it monitored the integrity of the Company's preliminary full year results announcement and the annual report for the year ended 31 December 2005, the 2006 half year financial statement and the pre-close trading statement. In 2007 the Audit Committee has met once to review and recommend the approval of the preliminary full year results announcement and the annual report for the year ended 31 December 2006. 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 that the integrity of the Company's financial reporting is sound.

The Company has adopted a formal 'whistleblowing' 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 2006 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.

Ethics Committee and corporate and social responsibility

Reflecting the importance the Company places on corporate and social responsibility ('CSR'), the Board has appointed an Ethics Committee, despite there being no requirement to do so under the Code. Rod Pery is Chairman of the Committee and Lars Berg and Michael Jackson are the other members (Janos Libor was also a member until his departure from the Board on 22 December 2006). 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. The Group Finance Director has executive responsibility for CSR matters. The Ethics Committee met three times during the year ended 31 December 2006.

Relations with Shareholders

The Board recognises the need for a productive dialogue with Shareholders based on a mutual understanding of objectives. As over 50% of the shares in issue are still owned by three of the founding Shareholders, all of whom have had representation on the Board at certain times during 2006, the process of the Directors engaging with and being aware of the views of these Shareholders has and continues to be straightforward. 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 at the AGM on Thursday 10 May 2007. Saving any unforeseen circumstances, all the Directors will be present at the 2007 AGM and the Chairmen of the Audit, Remuneration, Nominations and Ethics Committees will be available to answer questions relating to their Committees.

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.

From US Dollars...



...to Pounds Sterling, to Euros, to...



Multi-currency functionality



Playing games at PartyGaming is not all about dollars and cents. In 2007 we will enable our customers to manage their accounts and play games in either US dollars, Pounds Sterling or Euros... with more to come.



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 2006. The Company is incorporated in Gibraltar and so 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. However, in pursuit of best practice and full and transparent disclosure, this Remuneration Report 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 10 May 2007. 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 and BDO Fidecs Chartered Accountants Limited have audited the sections headed 'Share Option Plans' and 'Emoluments table', to the extent required by the regulations.

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 and broad policy for the remuneration of the Chief Executive Officer, Executive Directors, Company Secretary and any other senior management reporting directly to the Chief Executive Officer. The Committee also annually reviews 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 Group's website (www.partygaming.com/investor/remuneration_terms.htm) or on request from the Company Secretary. During the year to 31 December 2006, the Remuneration Committee comprised three independent Non-Executive Directors; Brian Larcombe (Chairman), Nigel Kenny and Rod Perry. Following the departures from the Board of Brian Larcombe and Nigel Kenny with effect from 31 December 2006, Lars Berg has been appointed to and made Chairman of the Remuneration Committee. Michael Jackson has also been appointed a member of the Remuneration Committee, in accordance with the terms of the revised Combined Code on Corporate Governance, which allows an independent Chairman of the Board to sit on the Remuneration Committee in reporting periods beginning on or after 1 November 2006.

The Secretary to the Remuneration Committee is the Secretary to the Company.

In the year to 31 December 2006, the Committee met six 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 their own remuneration. The Committee has also retained the services of 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 the high-calibre individuals required to drive the future growth and performance of its business. Being an online gaming business operating in a fast-moving and competitive environment, a particular emphasis is placed on providing a share-based remuneration package appealing to entrepreneurial and innovative executives.

When establishing policies on remuneration, the Remuneration Committee takes into account a range of special circumstances specific to the Company. These include the rapid pace of change in 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 relocate to and discharge all their responsibilities from Gibraltar. The Company's policy is that fixed compensation (salary and benefits) should reflect the appropriate rate for each role, taking into account market practice in the gaming and internet sectors as well as geographic location. Variable rewards provided through share options and bonuses currently form approximately 70% of the Chief Executive Officer's total remuneration opportunity whilst they form approximately 90% of the total remuneration opportunity for the Group Finance Director and senior management. The senior management bonus scheme rewards the achievement of short-term corporate and personal objectives; the Share Option Plans reward share price performance.

In 2006, the Company undertook a thorough compensation and benefits review for all employees. This review was impacted by the passing of the Unlawful Internet Gambling Enforcement Act (the 'UIGEA') in the US and was amended to reflect the termination of all real money games to customers located in the US and the subsequent large fall in the Company's share price. The results were considered by the Remuneration Committee and following this review, clear and consistent remuneration packages have been introduced across different employment grades as well as the Group. The Company has also formulated a new long-term incentive strategy which proposes the introduction of two further share plans – a performance share plan and a new fair market value option plan – to help achieve the Company's remuneration strategy. Details of the Company's share option plans and awards are set out below.

Salary

Executive Directors' salaries are reviewed annually with changes implemented from 1 January each year. 2007 salaries have been benchmarked by the Remuneration Committee's advisers against three comparator reference groups: (i) other FTSE 250 companies with a similar market capitalisation as the Company; (ii) listed companies in the gaming sector and (iii) listed software companies. Executive Directors' basic salary levels exceed the market median, whilst the total cash payments made to Executive Directors (which aggregates basic salary and target bonuses) are below the market median. Therefore, for 2007 the Remuneration Committee has resolved that it is appropriate to increase Executive Directors' basic salaries by 5%, in line with the increase for employees generally. Executive Directors' 2006 and 2007 salaries were/are as follows:

Name	Position	2006 salary \$	2007 salary \$
Mitch Garber	Chief Executive Officer	1,000,000	1,050,000
Martin Weigold	Group Finance Director	709,536	745,013

Benefits

Executive Directors receive private medical insurance, permanent health insurance and life assurance. There are no pension benefits or company car allowances, although Mitch Garber has the sole use of a vehicle owned by the Company and located in Gibraltar. Mitch Garber is also entitled under his service agreement to an allowance for the provision of furnished accommodation in Gibraltar having a rental cost per annum of approximately US\$150,000 (plus service and utility costs) and to the reimbursement of all reasonable expenses incurred by him and his family in relocating to Gibraltar, which amounted to US\$62,909 in total.

Senior management bonus scheme

For the year to 31 December 2006, the Executive Directors participated in a senior management bonus scheme approved by the Remuneration Committee. The Executive Directors were eligible for an incentive with a maximum award of 50% of basic salary, with the exception of Mitch Garber who was entitled to a maximum award of 100% of basic salary pro-rated for the period 19 April 2006 to 31 December 2006. When originally formulated and approved by the Remuneration Committee, the awards would be earned for achieving stretching targets linked to revenue, Clean EBITDA and personal performance against agreed objectives. No bonus would be payable were revenue thresholds not met. The performance measures were chosen for their relevance in driving short-term performance of the business.

As explained throughout the Annual Report, the enactment of the UIGEA had a material impact on the Company's business in the fourth quarter of 2006. As a result, the Remuneration Committee agreed to measure the performance of all Executive Directors and senior management solely against their personal objectives rather than against revenue and Clean EBITDA.

Bonus payments made to the Executive Directors for the year to 31 December 2006 were as follows:

Executive Director	Bonus paid \$
Mitch Garber	711,538
Martin Weigold	354,768
Vikrant Bhargava	nil
Anurag Dikshit	nil
Richard Segal*	183,134

*Details of Richard Segal's 2006 bonus entitlement were set out in the 2005 Remuneration Report.

Remuneration report

The Remuneration Committee has reviewed the structure of the senior management bonus scheme in respect of the year ending 31 December 2007. Mitch Garber and Martin Weigold will be eligible for incentives with a maximum award of 100% and 75% of basic salary respectively. Mitch Garber's award will be based solely on his performance against stretching personal objectives agreed with the Chairman of the Board, the Remuneration Committee and the Board. The awards for Martin Weigold and senior management will be earned for achieving stretching targets linked to revenue, Clean EBITDA and personal performance objectives agreed with the Chief Executive Officer, the Remuneration Committee and the Board. These performance measures were chosen for their relevance in driving short-term performance of the business in the current uncertain and challenging environment for the online gaming industry following the enactment of the UIGEA.

As part of the measures taken by the Company to retain Mitch Garber's services following the passing of the Unlawful Internet Gambling Enforcement Act, he is entitled to receive a loyalty bonus of US\$2 million in cash from the Company on 1 December 2007 if he remains employed by the Company on that date. In addition, on 29 December 2006 Line Trust Corporation Limited, trustee of the PartyGaming Plc Shares Trust (the 'Employee Trust'), awarded the Chief Executive Officer a retention bonus of £3 million payable in thirty equal monthly tranches from 1 December 2006 to 1 May 2009 conditional on his continued employment on each payment date. The Employee Trust has also awarded him 2,000,000 Shares at nil-cost which will vest if he remains an employee of the Company on 1 May 2009. The cash payments detailed above become payable in full and the 2,000,000 Shares shall vest in their entirety on a change of control of the Company or on termination of his employment for any reason other than for cause.

Share Option Plans

Executive Directors, senior managers and other staff are eligible to participate in the Company's long-term incentive arrangements which are currently structured around two option plans, but as disclosed below it is proposed to introduce two further 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. Each option granted to date under the Share Option Plan ('nil-cost options') takes the form of a right to acquire Shares or Depositary Interests at nil-cost

on particular vesting dates, subject only to continued employment. The exercise of nil-cost options is satisfied by the transfer to participants of Shares held in the Employee Trust established prior to Admission. Such nil-cost option exercises 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 these nil-cost options be amortised through the income statement over their vesting period, based on the Group's estimate of the Shares that will eventually vest.

The Combined Code on Corporate Governance recommends that executive share options should not be offered at a discount. The options awarded under the Share Option Plan are awarded at nil-cost on issue and vesting. At the time awards were made to the Executive Directors the Remuneration Committee was of the view that such awards were necessary in order for the Company to either secure or retain their services.

Prior to the year end, founding Shareholders of the Company gifted a further 40,000,000 Shares to the Employee Trust. As at 1 March 2007, 166,570,091 Shares were held in the Employee Trust to cover outstanding nil-cost options; 13,093,104 Shares are available in the Employee Trust for future awards under the Share Option Plan.

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

(a) Awards to the Chief Executive Officer

On his appointment to the Board on 19 April 2006, Mitch Garber was granted a nil-cost option under the Share Option Plan over 27,000,000 Shares, with a requirement that he retain at least 3,500,000 Shares whilst an employee of the Company. The Remuneration Committee ascertained that this quantum of Shares was appropriate in order to attract him to join PartyGaming, to incentivise and reward him for leading the Group and to reflect industry-specific and Company-specific factors.

Prior to the year end, following the gift to the Employee Trust by founder Shareholders of the Company of an additional 40,000,000 Shares as part of a key employee retention programme, the Chief Executive Officer was awarded a new nil-cost option under the Plan over a further 15,000,000 Shares, vesting in 30 monthly tranches of 500,000 Shares to 1 May 2009.

Share Option awards to the CEO

Grant date	Number of Shares over which option granted	Number of Shares vested as at 31 December 2006	Number of Shares over which option exercised as at 31 December 2006
19 April 2006 (Note 1)	3,499,998 (Category One) (Note 2)	3,499,998	3,499,998
19 April 2006 (Note 1)	3,499,998 (Category Two) (Note 3)	1,166,666	583,333
19 April 2006 (Note 1)	20,000,004 (Category Three) (Note 4)	nil	nil
29 December 2006 (Note 5)	15,000,000 (Note 5)	500,000	nil
Total	42,000,000	5,166,664	4,083,331

Note 1: Nil-cost option granted on 19 April 2006 comprises three categories, each exercisable at nil-cost.

Note 2: Category One comprised 3,499,998 Shares which vested monthly from 19 May 2006 to 19 October 2006 in equal tranches of 583,333 Shares. No performance conditions apply to Category One nil-cost options.

Note 3: Category Two comprised a further 3,499,998 Shares that vest monthly from 19 November 2006 to 19 April 2007 in equal tranches of 583,333 Shares. No performance conditions apply to Category Two nil-cost options.

Note 4: Category Three comprised 20,000,004 Shares that vest on a quarterly basis over 12 quarters, starting on 31 July 2007, subject to the satisfaction of certain Total Shareholder Return ('TSR') performance criteria. As a consequence of the material change to the Group's business resulting from the UIGEA being enacted, with effect from 8 November 2006, the Remuneration Committee resolved that it was appropriate to waive the TSR performance conditions in respect of the Category Three nil-cost options and to accelerate the vesting schedule. As a result, the Category Three nil-cost options will now vest in eight monthly tranches of 1,250,000 Shares each from 19 May 2007 to 19 December 2007, with a final one-off vesting of 10,000,004 Shares on 19 April 2008.

Note 5: No performance conditions apply to this nil-cost option.

The future vesting of the Chief Executive Officer's nil-cost option is conditional on his continued employment by the Company on the relevant vesting dates, save as described as follows. In the event of his resignation or the termination of his employment by the Company for cause, the Chief Executive Officer will be entitled to exercise his nil-cost options only in respect of the Shares which have vested as at the date the notice of resignation or termination is given ('notice date'). If employment is terminated by the Company for any reason other than for cause then, subject to him entering into a written waiver and release of all claims against the Group relating to his employment or its termination, he will in addition be entitled to exercise his April 2006 nil-cost option in respect of the Shares which would have vested in the 12 months following the notice date. His December 2006 option will vest in full upon the termination of his employment by the Company for any reason other than for cause. In the event of a change of control of the Company, the Chief Executive Officer's December 2006 nil-cost option will vest in full and his April 2006 nil-cost option will either be rolled-over into an appropriate number of shares in the acquiring company vesting on the same basis or, if roll-over is not provided, then he will be entitled to exercise this option in respect of the Shares which would have vested in the 12 months following the date of the change of control.

(b) Awards to the Group Finance Director

As set out in the 2005 Remuneration Report, Martin Weigold was originally granted a nil-cost option over 16,000,000 Shares, vesting in respect of 3,680,000 Shares on Admission with the balance vesting in equal instalments each calendar quarter following Admission and ending on 31 December 2009. On 29 December 2006, in relation to the one-off adjustment to existing incentive awards following the enactment of the UIGEA, the vesting schedule was amended so the remaining 8,897,776 Shares vest in nine equal quarterly instalments up to and including 31 December 2008.

On 29 December 2006 in relation to the aforementioned one-off adjustment to existing incentive awards, Martin Weigold was granted a new nil-cost option over 8,897,776 Shares vesting quarterly in nine equal instalments from and including 31 December 2006.

Remuneration report

Share Option awards to the Group Finance Director

Grant date	Number of Shares over which option granted	Number of Shares vested as at 31 December 2006	Number of Shares over which option exercised as at 31 December 2006
6 April 2005	16,000,000	9,886,417	8,897,776
29 December 2006	8,897,776	988,641	nil
Total	24,897,776	10,875,058	8,897,776

The future vesting of the Group Finance Director's nil-cost options is conditional on his continued employment by the Company on the relevant vesting dates, save as described as follows. In the event of his resignation or the termination of his employment by the Company for cause, the Group Finance Director will be entitled to exercise his nil-cost options only in respect of the Shares which have vested as at the date the notice of resignation or termination is given ('notice date'). If employment is terminated by the Company for any reason other than for cause then, subject to him entering into a written waiver and release of all claims against the Group relating to his employment or its termination, he will in addition be entitled to exercise his nil-cost options in respect of the Shares which would have vested in the 12 months following the notice date. In the event of a change of control of the Company the Group Finance Director's nil-cost options will either be rolled-over into an appropriate number of shares in the acquiring company vesting on the same basis or, if roll-over is not provided, then he will be entitled to exercise his nil-cost options in respect of the Shares which would have vested in the 12 months following the date of the change of control.

(c) Future grants

The Remuneration Committee has no intention to grant any further nil-cost options under the Share Option Plan to the existing Executive Directors. In future this plan will only be used in exceptional circumstances in connection with the recruitment or retention of key individuals.

(d) Entitlement of the departing Chief Executive

As disclosed in the 2005 Remuneration Report, in connection with the arrangements agreed on 27 February 2006 under which Richard Segal left the Company, it was agreed that Richard Segal's nil-cost option over a balance of 26,250,000 Shares continued to accrue until his leaving date. In addition, Richard Segal was entitled to exercise his nil-cost option in respect of those Shares which would have vested during the 12 months following his leaving date (being 7,500,000 Shares). As a result, on his leaving date of 4 May 2006, Richard Segal's nil-cost option vested and was subsequently exercised in respect of 14,625,550 Shares. The remaining 16,174,450 Shares lapsed.

(e) Awards to other Directors

As Founding Shareholders in the Company, Anurag Dikshit and Vikrant Bhargava, who served as Directors until 23 May 2006 and 31 December 2006 respectively, were not granted options under the Share Option Plan. In accordance with the Code, none of the Non-Executive Directors have been granted nil-cost options under the Share Option Plan.

(f) Status summary of options granted

Options under only the Share Option Plan have been granted during the year to 31 December 2006 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.

Summary of options granted

Executive Director	Number of Shares over which nil-cost options granted on 1 January 2006	Number of Shares over which nil-cost options granted during the year to 31 December 2006	Vested	Exercised	Lapsed	Number of Shares over which nil-cost options remain unvested or unexercised at 31 December 2006	Expiry date
Mitch Garber	nil	19.04.06 – 27,000,000 29.12.06 – 15,000,000	19.05.06 – 583,333 19.06.05 – 583,333 19.07.06 – 583,333 19.08.06 – 583,333 19.09.06 – 583,333 19.10.06 – 583,333 19.11.06 – 583,333 19.12.06 – 583,333 29.12.06 – 500,000	08.06.06 – 583,333 30.06.06 – 583,333 02.10.06 – 1,749,999 10.11.06 – 583,333 27.11.06 – 583,333	nil	37,916,669	19.04.16 (option granted on 19.04.06) 29.12.16 (option granted on 29.12.06)
Martin Weigold	10,951,104	29.12.06 – 8,897,776	31.03.06 – 684,432 30.06.06 – 684,448 30.09.06 – 684,448 31.12.06 – 988,641 31.12.06 – 988,641	31.03.06 – 684,432 30.06.06 – 684,448 02.10.06 – 684,448	nil	17,795,552	06.04.15 (option granted on 06.04.05) 29.12.16 (option granted 29.12.06)
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*	30,800,000	nil	31.03.06 – 1,875,000 04.05.06 – 8,200,550	05.05.06 – 14,625,550	05.05.06 – 16,174,450	nil	n/a

*Details regarding Richard Segal's Share Option entitlement on termination were set out in the Company's 2005 Remuneration Report.

Remuneration report

(ii) The PartyGaming Plc Executive Share Option Plan

On Admission, the Company also adopted the PartyGaming Plc Executive Share Option Plan which 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 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 Executive Share Option Plan.

Following the long-term incentive review and a consultation with the Company's 14 largest institutional Shareholders, the Company is seeking Shareholder approval for two new Plans, the PartyGaming All-Employee Option Plan and the PartyGaming Performance Share Plan. A circular was dispatched to Shareholders on 2 March 2007 proposing the introduction of these new plans and convening an extraordinary general meeting for 21 March 2007. In conjunction with the introduction of these new plans, the Company also intends to begin issuing awards under the Executive Share Option Plan to the Executive Directors in Spring 2007. The primary purpose of this Plan is to focus participants on long-term internal performance. It is intended that awards will be made annually up to 200% of salary exercisable if the growth in Clean EPS equals or exceeds 15% per annum, with no re-testing provisions.

(iii) The PartyGaming All-Employee Option Plan (proposed)

The primary purpose of this new Plan is to align the interests of employees with Shareholders. All staff with the exception of the Executive Directors will be eligible to receive annual awards under the PartyGaming All-Employee Option Plan, as follows:

- normal annual grants of between 40% and 170% of salary. Awards of up to 300% of salary in exceptional circumstances (e.g. initial awards on recruitment); and
- options to vest on continued employment; 50% after 2.5 years and 50% after three years; initial awards (e.g. on recruitment) to vest in one-sixth tranches every six months over three years.

The Remuneration Committee recognises it is unusual for a UK-listed company to grant time-vesting option awards, but considers it essential to attract talented executives from around the world, to attract the best talent to Gibraltar, and also to help ensure the continued retention of the Company's existing talent. Subject to Shareholder approval of the All-Employee Option Plan on 21 March 2007, the first awards under this plan will be made in Spring 2007.

(iv) The PartyGaming Performance Share Plan (proposed)

The primary purpose of this Plan is to focus participants on long-term external performance. Senior managers (including the Executive Directors) will be eligible to annual share awards under the PartyGaming Performance Share Plan of up to 200% of salary for Executive Directors and up to 40% of salary for senior managers in normal circumstances (300% in exceptional circumstances), vesting on three-year TSR relative to an index based on sector comparators. Subject to Shareholder approval of the Performance Share Plan on 21 March 2007, the first awards under this plan will be made in Spring 2007.

Executive Director service contracts

Mitch Garber and Martin Weigold were appointed Executive Directors under terms of service agreements with the Company (the 'Service Agreements' and each a 'Service Agreement') dated 22 March 2006 and 4 April 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 12 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 12 months' notice is not given to the Executive Director or where the Executive Director terminates by giving 12 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.

Details regarding the Company's payment to Richard Segal in respect of his departure on 4 May 2006 were set out in the Company's 2005 Remuneration Report.

Anurag Dikshit, who served as an Executive Director until his resignation which took effect on 23 May 2006, remained an employee until 15 November 2006. No compensation payment was paid to him in respect of the termination of his services to the Group.

Vikrant Bhargava served as an Executive Director until 31 December 2006. No compensation payment was paid to him in respect of the termination of his services to the Group.

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 £525,000 increased from £500,000 with effect from 1 September 2006 (2005: £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.

Non-Executive Directors' terms of appointment and remuneration

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

Brian Larcombe was appointed the Deputy Chairman and Senior Independent Director under an appointment letter dated 31 May 2005. With effect from 1 September 2006 his annual fee of £175,000 was increased to £200,000.

Rod Perry, Lars Berg, Nigel Kenny and Janos Libor were all appointed under appointment letters dated 17 April 2005, 21 April 2005, 10 May 2005 and 19 October 2005 respectively. Each of them was entitled to an annual fee of £75,000, which with effect from 1 September 2006 was increased to £100,000. In addition £10,000 per annum is payable for chairmanship of any Board Committee. Rod Perry is Chairman of the Ethics Committee and during 2006 Nigel Kenny was Chairman of the Audit Committee. Janos Libor resigned as a Director on 22 December 2006 and Brian Larcombe and Nigel Kenny resigned as Directors on 31 December 2006. As a result of these changes, Rod Perry was appointed Chairman of the Audit Committee and Lars Berg was appointed Chairman of the Remuneration Committee.

Emoluments table

Name	Basic salary/fees \$	Signing on fee \$	Bonus \$	Allowances/benefits \$	Total emoluments \$	Proceeds from sale of nil-cost options \$	2006 total \$	2005 total \$
Executive Directors								
Mitch Garber	711,538	6,000,000	895,833	221,979	7,829,350	–	7,829,350	n/a
Martin Weigold	709,536	–	354,768	8,944	1,073,248	5,833,073	6,906,321	8,586,305
Vikrant Bhargava	645,033	–	–	8,302	653,335	–	653,335	512,654
Anurag Dikshit	350,412	–	–	7,121	357,533	–	357,533	485,722
Richard Segal*	1,449,316	–	183,134	54,376	1,686,826	–	1,686,826	20,232,843
Non-Executive Directors								
Michael Jackson	936,832	–	–	–	936,832	–	936,832	3,280,496
Brian Larcombe	337,875	–	–	–	337,875	–	337,875	2,022,115
Lars Berg	153,580	–	–	–	153,580	–	153,580	288,259
Nigel Kenny	172,010	–	–	–	172,010	–	172,010	274,429
Janos Libor	153,580	–	–	–	153,580	–	153,580	26,160
Rod Perry	172,010	–	–	–	172,010	–	172,010	282,560
Aggregate emoluments	5,791,722	6,000,000	1,433,735	300,722	13,526,179	5,833,073	19,359,252	35,991,543

* Details of Richard Segal's emolument entitlement are set out in the Company's 2005 Remuneration Report.

Remuneration report

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. During the year, following a review of an analysis of fees paid generally to Non-Executive Directors and Chairmen of the Board prepared by Kepler Associates, the Executive Directors increased the annual fees paid to the Chairman of the Board and Non-Executive Directors as detailed above. The Remuneration Committee and the Board also reviewed the fees paid to the Chairman of the Board and increased the annual fee as detailed above. Subsequent to the year end, following the reduction in the size of the Board and in recognition of the increased duties falling upon the remaining Non-Executive Directors, the total annual fees (including fees for chairing Board Committees) payable to Lars Berg and Rod Perry have been increased to £150,000 each with effect from 1 January 2007.

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.

Non-Executive Directors are not entitled to participate in any of the Company's incentive or share plans.

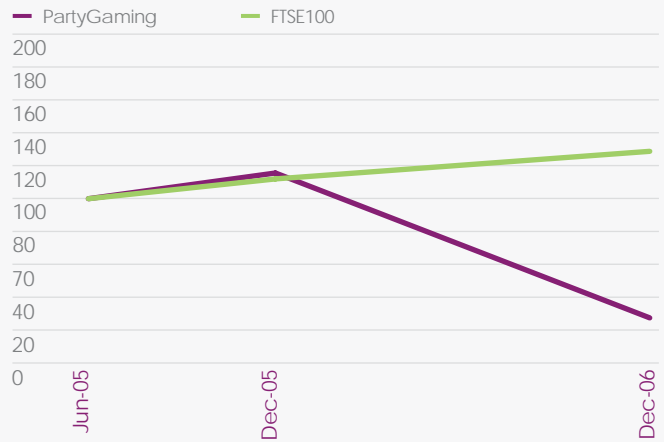
External appointments

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. During the year to 31 December 2006 Martin Weigold did not receive any fees for his services to Ion Group Limited.

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 for the period since the Company's IPO. As with the 2005 Remuneration Report, 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 was a constituent member until October 2006. The below graph plots the value of an investment of £100 in the Company's Shares and in the FTSE 100 Index and the sector peer group index from Admission to 31 December 2006. 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.

Value of £100, since 30 June 2005 PartyGaming vs. FTSE100 Index



Lars Berg Chairman of the Remuneration Committee

1 March 2007

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) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930, and a Directors' Remuneration Report which complies with the requirements of the UK 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) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930.

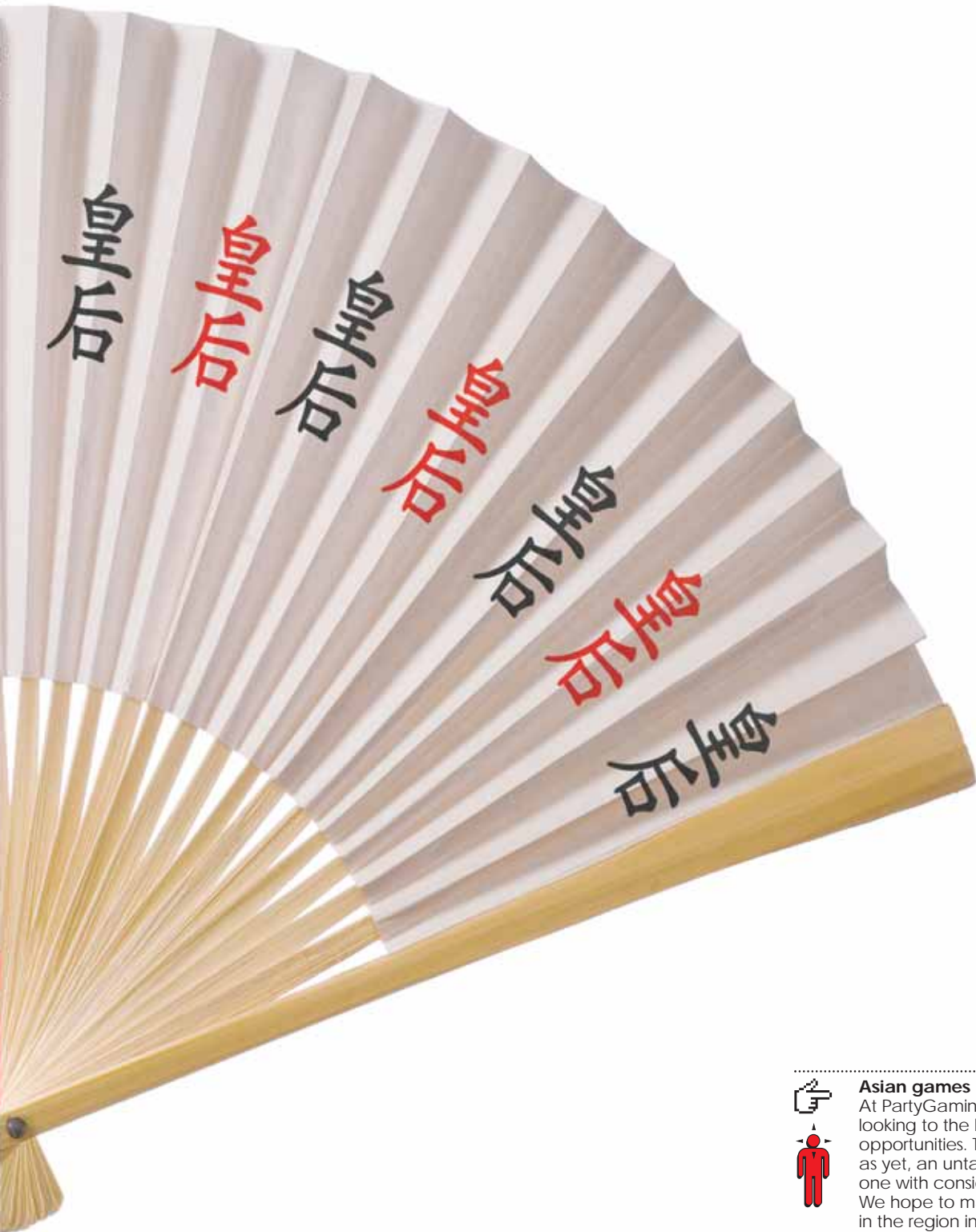
International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and the Company's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in 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.

From our origins...



...to the orient



Asian games

At PartyGaming we are always looking to the horizon for new opportunities. The Far East remains, as yet, an untapped market but one with considerable potential. We hope to make good progress in the region in 2007.

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 2006 which comprises the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cashflow Statements, the Group and Parent Company Statement of Changes in Equity and the related notes 1 to 32. 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 IFRS 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 of the UK Financial Services Authority (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) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930, 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, 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 2006 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) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930; and
- > the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with Schedule 7A of the UK Companies Act 1985.

Emphasis of matter – Regulatory issues

In forming our opinion, which is not qualified, we have considered the adequacy of, and draw attention to, the disclosures made in note 22(a) to the financial statements concerning the residual risk of adverse action arising from the Group having had customers in the US prior to the enactment of the Unlawful Internet Gambling Enforcement Act. Note 22(a) includes a statement that the Group has not been able to quantify any potential impact of the regulatory uncertainty on the financial statements for the year ended 31 December 2006.

BDO Stoy Hayward LLP
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1 March 2007

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1 March 2007

Consolidated income statement

	Notes	Year ended 31 December 2006			Year ended 31 December 2005		
		Continuing Operations \$million	Discontinued Operations \$million	Total \$million	Continuing Operations \$million	Discontinued Operations \$million	Total \$million
Revenue – net gaming revenue	2	325.0	779.9	1,104.9	153.2	824.5	977.7
Other operating expense		(2.5)	–	(2.5)	(1.1)	–	(1.1)
Administrative expenses							
• Other administrative expenses		(168.6)	(68.7)	(237.3)	(92.2)	(46.9)	(139.1)
• Share-based payments	4	(90.9)	(22.3)	(113.2)	(49.3)	(16.3)	(65.6)
• IPO-related expenses	3(a)	–	–	–	(22.6)	–	(22.6)
• Skin-related settlement costs	3(b)	–	–	–	(145.8)	–	(145.8)
Total administrative expenses		(259.5)	(91.0)	(350.5)	(309.9)	(63.2)	(373.1)
Distribution expenses		(133.4)	(229.4)	(362.8)	(51.3)	(219.8)	(271.1)
Profit (loss) from operating activities							
before reorganisation costs		(70.4)	459.5	389.1	(209.1)	541.5	332.4
Reorganisation costs	3	(7.2)	(243.2)	(250.4)	–	–	–
Profit (loss) from operating activities	7	(77.6)	216.3	138.7	(209.1)	541.5	332.4
Finance income	5	4.2	–	4.2	3.5	–	3.5
Finance costs	5	(3.7)	–	(3.7)	(10.2)	–	(10.2)
Share of loss of associate	13	(0.3)	–	(0.3)	(0.8)	–	(0.8)
Profit (loss) before tax		(77.4)	216.3	138.9	(216.6)	541.5	324.9
Tax	6	(6.0)	(4.5)	(10.5)	(6.5)	(25.2)	(31.7)
Profit (loss) after tax		(83.4)	211.8	128.4	(223.1)	516.3	293.2
Earnings per share							
Basic (cents)	9	(2.2)	5.6	3.4	(5.9)	13.6	7.7
Diluted (cents)	9	(2.2)	5.4	3.3	(5.9)	13.3	7.5

Consolidated statement of changes in equity

	Notes	Year ended 31 December 2006 \$million	Year ended 31 December 2005 \$million
Exchange differences on translation of foreign operations		0.2	–
Net income recognised directly to equity		0.2	–
Profit after tax for the year		128.2	293.2
Total recognised income and expense for the year		128.4	293.2
Issue of share capital		–	0.1
Equity share-based payments	4	113.9	65.6
Increase in Employee Trust assets	24	5.7	–
Movement in currency reserve		0.2	–
Equity dividend at 5.25 cents per share	31	(200.0)	–
Total changes in equity		48.2	358.9
Attributable to:			
Equity holders of the parent		48.2	358.9

Consolidated balance sheet

	Notes	As at 31 December 2006 \$million	As at 31 December 2005 \$million
Non-current assets			
Intangible assets	10	151.9	30.3
Property, plant and equipment	11	54.6	37.1
Investment in associate	13	–	1.0
		206.5	68.4
Current assets			
Trade and other receivables	14	67.3	128.3
Cash and cash equivalents	15	46.3	194.9
Short-term investments	16	9.1	6.8
		122.7	330.0
Total assets		329.2	398.4
Current liabilities			
Bank overdrafts	15	–	(1.8)
Bank and other loans	17	(14.1)	–
Trade and other payables	18	(78.7)	(201.5)
Income taxes payable		(67.6)	(57.9)
Other taxes payable		(18.2)	(6.9)
Client liabilities and progressive prize pools	19	(109.1)	(165.8)
Provisions	20	(5.5)	(6.2)
		(293.2)	(440.1)
Non-current liabilities			
Trade and other payables	18	(30.0)	(4.2)
Bank and other loans	17	(3.7)	–
Total liabilities		(326.9)	(444.3)
Total net assets (liabilities)		2.3	(45.9)
Equity			
Share capital	23	0.1	0.1
Share premium account	24	0.4	0.4
Share-based payments reserve	24	155.9	68.8
Capital contributions reserve	24	32.5	–
Retained earnings	24	638.6	710.2
Other reserve	24	(825.4)	(825.4)
Currency reserve	24	0.2	–
Equity attributable to equity holders of the parent		2.3	(45.9)

Consolidated statement of cashflows

	Notes	Year ended 31 December 2006 \$million	Year ended 31 December 2005 \$million
Profit before tax		138.9	324.9
Adjustments for:			
Amortisation of intangibles		25.6	4.3
Impairment of intangibles		115.5	–
Interest expense		3.7	10.2
Interest income		(4.2)	(3.5)
Depreciation of property, plant and equipment		22.8	13.0
Impairment of tangible assets		7.8	–
Increase in share-based payments reserve		87.1	65.6
Increase in capital contributions reserve		32.5	–
Loss on investment in associate		0.3	0.8
Impairment of associate		0.7	–
Loss on sale of assets		0.1	–
Currency translation reserve		0.2	–
Operating cashflows before movements in working capital and provisions		431.0	415.3
Decrease (increase) in trade and other receivables		61.0	(20.0)
(Decrease) increase in trade and other payables		(175.7)	225.7
(Decrease) increase in provisions		(0.7)	1.5
Income taxes paid		(0.8)	(2.3)
Cash generated by working capital		(116.2)	204.9
Net cash inflow from operating activities		314.8	620.2
<i>Investing activities</i>			
Purchases of property, plant and equipment		(48.3)	(36.8)
Purchases of intangible assets		(224.4)	(22.6)
Interest received		4.2	3.5
Investment in associated undertaking		–	(1.8)
Increase in short-term investments		(2.3)	(6.8)
Net cash used in investing activities		(270.8)	(64.5)
<i>Financing activities</i>			
Interest paid		(2.8)	(9.6)
Equity dividend paid		(200.0)	–
Revolving credit facility		12.0	(2.3)
Repayment of shareholder loans		–	(482.8)
Net cash used in financing activities		(190.8)	(494.7)
Net (decrease) increase in cash and cash equivalents		(146.8)	61.0
Net cash and cash equivalents at beginning of year		193.1	132.1
Net cash and cash equivalents at end of year		46.3	193.1
Cash and cash equivalents	15	46.3	194.9
Bank overdraft		–	(1.8)
		46.3	193.1

Notes to the consolidated financial information

1. Accounting policies

Basis of preparation

These financial statements comply with the Gibraltar Companies (Consolidated Accounts) Act 1999, the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930. Accounts for the year ended 31 December 2006 will be made available following the Company's Annual General Meeting. 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 for the purposes of the Group's full year financial statements.

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

IFRIC 4 – *Determining whether an arrangement contains a lease* (effective for annual periods beginning on or after 1 January 2006).

IFRIC 5 – *Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds* (effective for annual periods beginning on or after 1 January 2006).

IFRIC 6 – *Liabilities arising from participating in a specific market: waste electrical and electronic equipment* (effective for annual periods beginning on or after 1 December 2005).

The following standards and interpretations, issued by the IASB or IFRIC, have not been adopted by the Group and the Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods:

IFRS 8 – *Operating segments* (effective for annual periods beginning on or after 1 January 2009).

IFRIC 7 – *Applying the restatement approach under IAS 29 – Financial reporting in hyperinflationary economies* (effective for annual periods beginning on or after 1 March 2006).

IFRIC 8 – *Scope of IFRS 2 – Accounting for share-based payments* (effective for annual periods beginning on or after 1 May 2006).

IFRIC 9 – *Reassessment of embedded derivatives* (effective for annual periods beginning on or after 1 June 2006).

IFRIC 10 – *Interim financial reporting and impairment* (effective for annual periods beginning on or after 1 November 2006).

IFRIC 11 – *Group and treasury share transactions* (effective for annual periods beginning on or after 1 March 2007).

IFRIC 12 – *Service concession arrangements* (effective for annual periods beginning on or after 1 January 2008).

IFRS 8 contains requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The standard is concerned only with disclosure and replaces IAS 14 – Segment reporting. The Group is currently assessing the impact this standard will have on the presentation of its consolidated results.

1. Accounting policies (continued)

Critical accounting policies, estimates and judgements

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

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

Taxation	note 6
Intangible assets and impairment of goodwill	note 10
Payment processor receivables	note 14
Provisions	notes 14 and 20
Regulatory compliance and contingent liabilities	note 22
Share-based payments	note 27

Basis of accounting

The Consolidated 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 this Consolidated Financial Statements is United States Dollars 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, Indian Rupees, Euros and Bulgarian Lev but the amounts involved are not material.

Assets, liabilities and expenses of the Group are translated from Pounds Sterling, Euros, Indian Rupees and Bulgarian Lev into US dollars 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) Act 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.

Notes to the consolidated financial information

1. Accounting policies (continued)

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.

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 investors' 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. The carrying amount of the associate is tested under IAS 36 for impairment wherever the application of the requirements of IAS 39 indicate that the carrying value of the associate might be impaired.

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 rate ruling when the transaction occurs.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's functional and presentational currency (US dollars) at exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to US dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in equity, and are recognised in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement.

1. Accounting policies (continued)

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 and Emerging Games revenue represents the commission charged or tournament entry fees where the player has concluded his/her participation in the tournament. Casino and Sports Betting revenue represents net house win adjusted for the fair market value of gains and losses on open betting positions. 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).

Taxation

Income tax expense represents the sum of the Directors' best estimate of taxation exposures 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 other than where IAS 12 *Income Taxes* contains specific examples. 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 not 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.

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.

Notes to the consolidated financial information

1. Accounting policies (continued)

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 year, 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 cashflows 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 cashflows 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 cashflows 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.

1. Accounting policies (continued)

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.

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-based payments

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, for those share options which contain only non-market vesting conditions, 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. For cash payments made by The Bonita Trust, the charge is recorded when the Trustees commit to make the payment.

Where equity instruments of the parent company or a subsidiary are transferred, or cash payments based on the company's (or a subsidiary's) share price are made, by shareholder(s) or entities that are effectively controlled by one or more shareholder(s), the transaction is accounted for as a share-based payment, unless the transfer or payment is clearly for a purpose other than payment for goods or services supplied to the Group.

Where equity instruments are transferred by one or more shareholder(s), the amount recorded in reserves is included in the share-based payment reserve. Where a cash payment is made, this is recorded as a capital contribution.

Treasury shares

The consideration paid or received for the purchase or sale of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve. Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to the share premium account.

Provisions and contingent liabilities

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 the Group has a possible obligation as a result of a past event that may, but probably will not, result in an outflow of economic benefits, no provision is made. Disclosures are made of the contingent liability including, where practicable, an estimate of the financial effect, uncertainties relating to the amount or timing of outflow of resources, and the possibility of any reimbursement.

Where time value is material, the amount of the related provision is calculated by discounting the cashflows at a pre-tax rate that reflects market assessments of the time value of money and any risks specific to the liability.

Notes to the consolidated financial information

1. Accounting policies (continued)

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 income 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 dollar deposits and payments of winnings in the respective currency.

Additionally, other exposures include interest rate risk from borrowing 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.

2. Business and geographical segment information

For management purposes and transacting with customers, the Group's operations can be segmented into the following four operating divisions:

- Poker;
- Casino (including Bingo);
- Sports Betting; and
- Emerging Games, currently comprising Backgammon.

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.

2. Business and geographical segment information (continued)

Year ended 31 December 2006	Poker \$million	Casino \$million	Sports Betting \$million	Emerging Games \$million	Unallocated corporate \$million	Consolidated \$million
Continuing operations						
Revenue	266.4	51.0	5.6	2.0	–	325.0
Clean EBITDA	42.7	8.2	2.3	0.3	(2.6)	50.9
Profit before tax	26.8	7.8	(4.7)	(0.2)	(107.1)	(77.4)
Discontinued operations						
Revenue	559.2	219.2	–	1.5	–	779.9
Clean EBITDA	341.7	160.1	–	(2.0)	–	499.8
Profit before tax	332.3	159.9	–	(2.3)	(273.6)	216.3
Total operations						
Revenue	825.6	270.2	5.6	3.5	–	1,104.9
Clean EBITDA	384.4	168.3	2.3	(1.7)	(2.6)	550.7
Profit before tax	359.1	167.7	(4.7)	(2.5)	(380.7)	138.9
Other information						
Capital additions and intangibles acquired	126.3	0.4	138.3	4.0	42.0	311.0
Depreciation and amortisation	25.3	0.6	7.0	0.8	14.7	48.4
Balance sheet						
Total assets	81.0	9.3	134.1	1.0	103.8	329.2
Total liabilities	181.5	34.7	3.8	1.3	105.6	326.9
Impairment losses						
Intangible fixed assets	115.5	–	–	–	–	115.5
Tangible fixed assets	–	–	–	2.9	4.9	7.8
Trade receivables – processors	45.8	18.0	–	0.1	–	63.9
Trade receivables – bad debts	40.8	6.4	0.1	–	–	47.3
Cashflows						
from operating activities	546.4	183.2	2.6	2.1	(419.5)	314.8
from investing activities	(126.3)	(0.4)	(100.0)	(4.0)	(40.1)	(270.8)
from financing activities	–	–	–	–	(190.8)	(190.8)

Notes to the consolidated financial information

2. Business and geographical segment information (continued)

Year ended 31 December 2005	Poker \$million	Casino \$million	Sports Betting \$million	Emerging Games \$million	Unallocated corporate \$million	Consolidated \$million
Continuing operations						
Revenue	139.7	13.5	–	–	–	153.2
Clean EBITDA	19.0	1.8	–	–	(1.1)	19.7
Profit before tax	(132.3)	1.4	–	–	(85.7)	(216.6)
Discontinued operations						
Revenue	719.4	105.1	–	–	–	824.5
Clean EBITDA	490.2	73.8	–	–	–	564.0
Profit before tax	487.1	73.6	–	–	(19.2)	541.5
Total operations						
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
Other information						
Capital additions and intangibles acquired	39.3	0.3	–	–	24.1	63.7
Depreciation and amortisation	8.6	0.6	–	–	8.1	17.3
Balance sheet						
Total assets	187.6	10.2	–	–	200.6	398.4
Total liabilities	329.2	10.1	–	–	105.0	444.3
Impairment losses						
Intangible fixed assets	–	–	–	–	–	–
Tangible fixed assets	–	–	–	–	–	–
Trade receivables – processors	5.3	0.7	–	–	–	6.0
Trade receivables – bad debts	43.7	5.2	–	–	–	48.9
Cashflows						
from operating activities	558.6	78.6	–	–	(17.0)	620.2
from investing activities	(36.8)	(0.3)	–	–	(27.4)	(64.5)
from financing activities	–	–	–	–	(494.7)	(494.7)

Revenue by geographical segment

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

Year ended 31 December	2006 \$million	2005 \$million
EMEA	216.7	86.8
Americas (non-US)	86.1	56.2
Asia Pacific	22.2	10.2
Continuing operations	325.0	153.2
Discontinued operations	779.9	824.5
Total revenue	1,104.9	977.7

2. Business and geographical segment information (continued)**Carrying value of total assets by geographical segment**

Year ended 31 December	2006 \$million	2005 \$million
EMEA	153.9	36.6
Americas (non-US)	170.3	357.0
Asia Pacific	5.0	4.8
Total assets	329.2	398.4

Capital expenditure and intangibles acquired by geographical segment

Year ended 31 December	2006 \$million	2005 \$million
EMEA	275.2	32.0
Americas (non-US)	34.4	27.1
Asia Pacific	1.4	4.6
Total capital expenditure and intangibles acquired	311.0	63.7

3. Reorganisation costs

Year ended 31 December	2006 \$million	2005 \$million
Reorganisation costs relating to Continuing operations		
Impairment of The Poker Channel Ltd	(0.7)	–
Impairment of fixed assets	(4.3)	–
Impairment of technology licenses	(0.7)	–
Impairment of committed marketing expenditure prepayments	(1.5)	–
Total reorganisation costs relating to Continuing operations	(7.2)	–
Reorganisation costs relating to Discontinued operations		
Impairment of intangible assets	(115.5)	–
Impairment of fixed assets	(3.5)	–
Impairment of committed marketing expenditure prepayments	(32.3)	–
Impairment of technology licenses	(10.3)	–
Impairment of payment processor receivables	(63.9)	–
Share-based payments (note 4)	(0.7)	–
Redundancy and other costs	(17.0)	–
Total reorganisation costs relating to Discontinued operations	(243.2)	–
Total reorganisation costs	(250.4)	–

Notes to the consolidated financial information

3. Reorganisation costs (continued)

During the year, reorganisation costs totalling \$250.4 million were incurred. Of this amount, \$243.2 million related to reorganisation costs arising from the decision to terminate all real money games to customers in the US following the enactment of the UIGEA and has been included in Discontinued operations. Due to the significance of Discontinued operations on the business, costs relating to the reorganisation have been disclosed as a separate line item within the income statement. The primary components of these reorganisation costs related to the consequent impairment of intangible assets, principally Empire Poker, totalling \$115.5 million; provisions made in respect of potential payment processor bad debts of \$63.9 million are detailed in note 14; the write-off of committed marketing expenditures of \$32.3 million relating to contracts entered into before the enactment of the UIGEA for which no benefit to the Group arises; impairment of technology licences relating to onerous contracts; and redundancy and other costs totalling \$17.0 million.

3. (a) IPO-related expenses

The 2005 total IPO-related expenses were \$88.0 million of which the Company incurred \$22.6 million. 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. There were no IPO-related expenses incurred in 2006.

3. (b) 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 was 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, EOL agreed to withdraw all legal claims against the Group.

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

4. Share-based payments

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, employees 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. IFRS requires that the fair value of the options be amortised through the income statement over the life of the options. The share-based payments also reflect payments made by the Bonita Trust to certain employees (see note 26). As a result there is a charge of \$113.9 million (2005: \$65.6 million), which has been included within the income statement in the period.

4. Share-based payments (continued)

Year ended 31 December	2006 \$million	2005 \$million
Charge relating to		
– nil-cost options issued pre-IPO	(25.5)	(63.4)
– nil-cost options issued post-IPO	(60.9)	(2.2)
– Bonita Trust charge* (see note 26)	(26.8)	–
	(113.2)	(65.6)
Included in reorganisation costs	(0.7)	–
Total	(113.9)	(65.6)

*A corresponding credit of \$26.8 million in respect of this charge has been included in reserves

Following the enactment of the UIGEA, the Company implemented on 29 December 2006 a one-off adjustment to existing incentive awards and also granted new incentive awards by using an additional 40 million shares gifted to the Employee Trust by certain founders of the Company. As part of a key employee retention programme, the Company waived the total shareholder return performance targets that were applicable to 20 million out of the 27 million shares over which an option was granted to Mitch Garber, Chief Executive Officer, on 19 April 2006 under the PartyGaming Plc Share Option Plan (the 'Plan'). The vesting schedule was also accelerated so that these 20 million shares will now vest in eight monthly tranches of 1.25 million shares from 19 May 2007 to 19 December 2007 with the remainder vesting on 19 April 2008.

Mitch Garber was also granted a new option under the Plan over 15 million shares, vesting in 30 equal monthly tranches until 1 May 2009. Provided he remains in employment until 1 May 2009 he will also be awarded two million shares from the Employee Trust. Mitch Garber is also entitled to £3 million payable by the Employee Trust in 30 equal monthly instalments until 1 May 2009 provided he remains in employment on each payment date. The £3 million has been realised from the net proceeds of sale of shares from the Trust.

As part of the key employee retention exercise the Company also accelerated the vesting of the option granted to Martin Weigold, Group Finance Director, on 6 April 2005 under the Plan, so that the balance of his unvested shares (8,897,776 shares) would vest in nine equal quarterly tranches until 31 December 2008. An additional grant over 8,897,776 shares was also made which vests in the same instalments as the aforementioned option.

Further nil-cost options over approximately 50 million shares have been granted to other key employees of the Group.

5. Finance income and costs

Year ended 31 December	2006 \$million	2005 \$million
Interest payable	(3.7)	(10.2)
Interest on bank deposits	4.2	3.5
Net finance income (cost)	0.5	(6.7)

Notes to the consolidated financial information

6. Tax

(a) Analysis of tax charge

Year ended 31 December	2006 \$million	2005 \$million
Income tax expense for the year	(10.5)	(31.7)

Domestic income tax is calculated at 35% (2005: 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 period.

The effective tax rate based on the total tax charge is 7.6% (2005: 9.8%). The effective tax rate for the period is 9.8% before share-based payments (2005: 5.7% before share-based payments, IPO-related expenses and skin-related settlement costs).

(b) Factors affecting the tax charge for the year

The total charge for the year can be reconciled to accounting profit as follows:

Year ended 31 December	2006 \$million	2005 \$million
Profit before tax	138.9	324.9
Tax at the weighted average tax rate of the Group being tax expense at the effective tax rate for the period	(13.9)	(18.5)
Effect of IPO-related expenses, share-based payments, skin-related settlement costs, depreciation and amortisation	(10.9)	(13.2)
Effect of adjustment to the weighted average tax rate of the Group being tax expense at the effective tax rate for prior periods	14.3	-
Income tax expense	(10.5)	(31.7)

The Group's policy is to manage, control and operate Group companies only in the countries in which they are registered. At the year end there were Group companies registered in Gibraltar, India, the UK, Alderney, Bulgaria, Bermuda and Antigua. 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. Where the actual outcome differs from the amounts originally recorded, the tax and deferred tax provisions will be affected in the period(s) in which the determination is made.

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.

(c) Factors that may affect future tax charges

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 36.7%.

7. Profit from operating activities

Year ended 31 December	2006 \$million	2005 \$million
This has been arrived at after charging:		
Staff costs	192.8	104.0
Amortisation of goodwill and intangibles	25.6	4.3
Depreciation on property, plant and equipment	22.8	13.0
Product development (including staff cost)	5.5	2.2
Transaction fees	62.1	46.2
Exchange loss	2.5	1.2
Auditors' remuneration for		
– Audit services	1.1	0.7
– IPO-related expenses	–	7.2
– IT related services	–	0.4
– Due diligence for acquisitions	0.7	0.7
Impairment losses – trade receivables (bad debts)	47.3	48.8
Impairment losses – trade receivables (processors)	63.9	6.0
Impairment losses – fixed assets	7.8	–
Impairment losses – intangibles	115.5	–

8. Staff costs

Year ended 31 December	2006 \$million	2005 \$million
Aggregate remuneration comprised:		
– Wages and salaries	74.1	35.6
– Share-based payments	113.9	65.6
– Other benefits	4.8	2.8
	192.8	104.0

Year ended 31 December	2006 Number	2005 Number
Average number of employees		
– Directors	9	9
– Administration	120	73
– Customer service	958	791
– Others	540	316
Total	1,627	1,189

Notes to the consolidated financial information

9. Earnings per share ('EPS')

	Continuing operations Cents	Discontinued operations Cents	Total
Year ended 31 December 2006			
Basic EPS	(2.2)	5.6	3.4
Diluted EPS	(2.2)	5.4	3.3
Basic Clean* EPS	0.4	12.5	12.9
Diluted Clean* EPS	0.4	12.2	12.5
Year ended 31 December 2005			
Basic EPS	(5.9)	13.6	7.7
Diluted EPS	(5.9)	13.3	7.5
Basic Clean* EPS	(0.1)	14.0	13.9
Diluted Clean* EPS	(0.1)	13.7	13.6

*EPS before restructuring costs, IPO-related expenses, non-recurring costs associated with the settlement of legal claims by certain skins, as well as charges relating to share-based payments.

Basic earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held by the Company.

Year ended 31 December	2006			2005		
	Before reorganisation costs	Reorganisation costs	Total	Before reorganisation costs	Reorganisation costs	Total
Adjusted earnings (\$million)	492.0	(250.4)	241.6	527.2	–	527.2
Weighted average number of ordinary shares (million)	3,807.6	3,807.6	3,807.6	3,791.6	3,791.6	3,791.6
Adjusted earnings per ordinary share (cents)	12.9	(6.6)	6.3	13.9	–	13.9
Basic earnings (loss) (\$million)	378.8	(250.4)	128.4	293.2	–	293.2
Weighted average number of ordinary shares (million)	3,807.6	3,807.6	3,807.6	3,791.6	3,791.6	3,791.6
Basic earnings (loss) per ordinary share (cents)	9.9	(6.6)	3.4	7.7	–	7.7

Clean earnings per share

Management believes that Clean earnings per share reflects the underlying performance of the business and assists in providing a clearer view of the fundamental performance of the Group. Clean EBITDA and Clean earnings per share are performance measures used internally by management to manage the operations of the business and remove the impact of one-off and non-cash items. They are therefore calculated before reorganisation costs, 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-based payments which are to be satisfied by existing shares that were effectively gifted to the Employee Trust by the Principal Shareholders and share-based payments to employees made by The Bonita Trust (see note 26).

9. Earnings per share ('EPS') (continued)

Clean net earnings attributable to equity shareholders is derived as follows:

Year ended 31 December	2006			2005		
	Continuing operations \$million	Discontinued operations \$million	Total \$million	Continuing operations \$million	Discontinued operations \$million	Total \$million
Earnings (loss) for the purposes of basic and diluted earnings per share being profit from ordinary activities attributable to equity holders of the parent	(83.4)	211.8	128.4	(223.1)	516.3	293.2
Reorganisation costs	7.2	243.2	250.4	–	–	–
Earnings before reorganisation costs	(76.2)	455.0	378.8	(223.1)	516.3	293.2
Share-based payments	90.9	22.3	113.2	49.3	16.3	65.6
IPO-related expenses	–	–	–	22.6	–	22.6
Skin-related settlement costs	–	–	–	145.8	–	145.8
Clean net earnings	14.7	477.3	492.0	(5.4)	532.6	527.2

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 27).

Year ended 31 December	2006 Number million	2005 Number million
Number of shares for basic earnings per share		
Number of shares in issue	4,000.0	4,000.0
Number of shares issued to the Employee Trust	(264.0)	(224.0)
Number of shares sold by the Employee Trust	10.1	–
Number of shares vested in the previous periods	36.2	–
Effect of shares which vested during the period	25.3	15.6
Weighted average number of ordinary shares for the purposes of basic earnings per share	3,807.6	3,791.6

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

Notes to the consolidated financial information

9. Earnings per share ('EPS') (continued)

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 27).

Year ended 31 December	2006 Number million	2005 Number million
Number of shares for diluted earnings per share		
Number of shares in issue	4,000.0	4,000.0
Number of shares issued to the Employee Trust	(264.0)	(224.0)
Number of shares sold by the Employee Trust	10.1	–
Number of shares vested in the previous periods	36.2	–
Effect of shares which vested during the period	25.3	15.6
Effect of potential dilutive vested and unvested shares	114.6	92.6
Weighted average number of ordinary shares for the purposes of diluted earnings per share	3,922.2	3,884.2

10. Intangible assets

	Other intangibles \$million	Goodwill \$million	Total \$million
Cost or valuation			
As at 1 January 2005	–	10.1	10.1
Additions	26.9	–	26.9
As at 31 December 2005	26.9	10.1	37.0
Additions	101.7	161.0	262.7
As at 31 December 2006	128.6	171.1	299.7
Amortisation and impairment losses			
As at 1 January 2005	–	2.4	2.4
Charge for the year	4.3	–	4.3
As at 31 December 2005	4.3	2.4	6.7
Charge for the year	25.6	–	25.6
Impairments	41.8	73.7	115.5
As at 31 December 2006	71.7	76.1	147.8
Carrying amounts:			
As at 31 December 2006	56.9	95.0	151.9
As at 31 December 2005	22.6	7.7	30.3

The other intangible assets primarily include the customer database and relationships acquired in respect of Empire Poker, Gamebookers, MultiPoker, PokerNOW and IntertopsPoker. The values are based on cashflow projections from existing customers taking into account the expected impact of attrition.

In accordance with IFRS 3, the Group regularly monitors the carrying value of its intangible assets. A review was undertaken at 31 December 2006 to assess whether the carrying value of assets was supported by the net present value of future cashflows derived from those assets using cashflow projections for a five year period.

10. Intangible assets (continued)

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 future cashflows have been modelled to decline in line with historic player attrition patterns which are consistent with those experienced by the Group as a whole in recent years.

The results of the review undertaken at 31 December 2006 indicated that impairment totalling \$115.5 million, predominantly in respect of Empire Poker, was necessary in respect of the intangible assets, arising due to the enactment of the UIGEA.

Other intangible assets represent customer lists, brands and other intangibles which are being amortised over their estimated useful economic lives of between 18 months and five years.

11. Property, plant and equipment

	Land and buildings \$million	Plant, machinery and vehicles \$million	Fixtures, fittings, tools and equipment \$million	Total \$million
Cost or valuation				
As at 1 January 2005	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	7.6	3.8	45.2	56.6
Additions	8.6	1.2	38.5	48.3
Disposals	–	(0.1)	(0.1)	(0.2)
As at 31 December 2006	16.2	4.9	83.6	104.7
Depreciation and impairment losses				
As at 1 January 2005	–	0.5	6.0	6.5
Charge for the year	0.7	0.8	11.5	13.0
As at 31 December 2005	0.7	1.3	17.5	19.5
Charge for the year	1.7	1.2	19.9	22.8
Impairments	–	–	7.8	7.8
As at 31 December 2006	2.4	2.5	45.2	50.1
Carrying amount				
As at 31 December 2006	13.8	2.4	38.4	54.6
As at 31 December 2005	6.9	2.5	27.7	37.1

12. Commitments for capital expenditure

Year ended 31 December	2006 \$million	2005 \$million
Contracted but not provided for	2.8	3.7

13. Investments

Group

Investment in associate

The Group acquired a 35% interest in the ordinary share capital of The Poker Channel Ltd, a company incorporated in England, in the year ended 31 December 2005, for a cash consideration of \$1.8 million (this represents 35% of the voting rights). This is accounted for under the equity method. Based on the trading results of this company, this investment was impaired to nil.

Notes to the consolidated financial information

13. Investments (continued)

Company

Investment in subsidiary undertakings

	\$million
As at 1 January 2005	3.6
Additions	1,533.6
Options issued to employees of subsidiary undertakings	52.0
As at 31 December 2005	1,589.2
Additions	–
Options issued to employees of subsidiary undertakings	48.8
Adjustment	3.2
As at 31 December 2006	1,641.2

During the year ended 31 December 2005 the Company acquired 56.8% of the share capital of PartyGaming Holdings Limited for a fair value of \$1.53 billion, having previously held a 43.2% interest.

During the year ended 31 December 2006 the Company issued share options with a fair value of \$48.8 million (2005: \$52.0 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.

14. Trade and other receivables

Group

Year ended 31 December	2006 \$million	2005 \$million
Trade receivables	36.8	108.7
Prepayments	20.3	12.0
Other receivables	10.2	7.6
	67.3	128.3

In aggregate, \$69.9 million is considered to be at risk in respect of amounts due from payment processors of which \$63.9 million arose following the enactment of the UIGEA. Due to issues around current regulatory matters (see note 22) there is a degree of uncertainty as to actions the Group is able to undertake to enforce collection of these debts which may impact the eventual recoverable amounts. Accordingly, the Directors have assessed their best estimate of the recoverability of these debts as nil.

Company

Year ended 31 December	2006 \$million	2005 \$million
Due from Group companies	234.5	254.0

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

15. Cash and cash equivalents

Year ended 31 December	2006 \$million	2005 \$million
Cash in hand and current account	46.3	194.9
Bank overdrafts	-	(1.8)
	46.3	193.1

16. Short-term investments

Year ended 31 December	2006 \$million	2005 \$million
Cash on deposit for more than three months	3.4	6.8
Restricted cash	5.7	-
	9.1	6.8

Restricted cash relates to the cash held in the Employee Trust payable to Mitch Garber relating to incentive awards over a 30 month period from December 2006.

17. Bank debt and other loans

Year ended 31 December	2006 \$million	2005 \$million
Bank debt and other loans – current	14.1	-
Bank debt and other loans – non-current	3.7	-
Total	17.8	-

The \$12.0 million drawn under a revolving credit facility will be repaid on or before 30 April 2007.

In October 2006, following the passing of the UIGEA, the Company put in place arrangements for a short-term loan facility to be provided by founders of the Company, should the need arise. A \$50 million facility agreement was executed and placed in escrow, undated, such that if required, the Company could choose immediately to date the document and to drawdown the facility which would be for a term of six months from the drawdown date. In the event that the loan agreement was taken out of escrow, an arrangement fee of 0.25% of the facility amount would be payable and interest thereon would accrue at the rate of 6% per annum. There was no need for additional cash resources in 2006 and the facility agreement remained in escrow as at 31 December 2006.

18. Trade and other payables**Group**

Year ended 31 December	2006 \$million	2005 \$million
Trade and other current payables	78.7	201.5
Non-current payables	30.0	4.2

Notes to the consolidated financial information

18. Trade and other payables (continued)

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 the net present value of expected future cashflows. Included within the non-current payables of \$30.0 million is \$27.7 million related to deferred consideration due to the vendors of Gamebookers and \$2.3 million payable to former minority shareholders. For terms of these and maturity dates please see note 25.

Company

Year ended 31 December	2006 \$million	2005 \$million
Trade and other payables	1.4	–

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.

19. Client liabilities and progressive prize pools

Year ended 31 December	2006 \$million	2005 \$million
Client liabilities	99.1	159.5
Progressive prize pools	10.0	6.3
	109.1	165.8

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

20. Provisions

Year ended 31 December	2006 \$million	2005 \$million
Provision at beginning of period	6.2	4.7
(Decrease) increase in provision during period	(0.7)	1.5
Provision at end of period	5.5	6.2

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

21. Operating lease commitments

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

Year ended 31 December	2006		2005	
	Land and buildings \$million	Other assets \$million	Land and buildings \$million	Other assets \$million
Payments due				
Within one year	0.8	–	0.9	–
Later than one year but not later than five years	5.1	–	5.5	–
More than five years	1.9	–	2.9	–
	7.8	–	9.3	–

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

22. Contingent liabilities

From time to time the Group is subject to legal claims and actions against it. The Group takes legal advice as to the likelihood of success of such claims and actions.

(a) Regulatory issues

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

Following the enactment of the UIGEA on 13 October 2006, the Group stopped taking any deposits from customers in the US and barred such customers from wagering real money on all of the Group's sites. Notwithstanding this, the aggressive public statements made by certain US regulatory authorities suggest that there remains a residual risk of an adverse impact arising from the Group having had customers in the US prior to the enactment of the UIGEA.

Furthermore, the Group is aware of press speculation that certain US regulatory authorities have made enquiries of banks and other financial advisers that have had involvement with the internet gaming industry. Certain customary indemnities have been given by the Company to its advisers in connection with the Company's initial public offering in June 2005 and other assignments, and claims under such indemnities cannot be ruled out. The Group has not, however, received notice of any such claim to date.

(b) Litigation

The Group is the defendant in a US action which is based on alleged collusion taking place on the Group's online poker tables. This action has been brought by two individual plaintiffs who are seeking class certification. The class seeking to be represented comprises poker customers in the US who from 1 January 2002 played real money games on the Group's sites. The Group believes the action to be without merit, but has not submitted to US jurisdiction and therefore the action has not been contested.

The Group has received legal advice that, having not submitted to US jurisdiction, any eventual US default judgement could not be enforced in territories where the Group has its principal assets and new substantive proceedings would need to be brought on the merits in such territories. The Group believes it has strong defences and any such proceedings, if they were to be brought, would be vigorously defended.

The Board believes that a sufficiently reliable estimate of the potential liability in connection with each of the above matters cannot be made and consequently no provision has been made.

23. Share capital

	Issued and fully paid \$	Number million
Ordinary shares		
As at 1 January 2005 and 31 December 2005	100,452	4,000.0
Issued during the year ended 31 December 2006	-	-
As at 31 December 2006	100,452	4,000.0

Shares issued are converted into US dollars at the exchange rate prevailing on the date of issue. 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 (GBP) is £60,000 and translates at an average exchange rate of \$1.6742 to GBP. As at 31 December 2006, 143,555,517 (2005: 194,104,622) ordinary shares were held as treasury shares by the Employee Trust.

Authorised share capital and significant terms and conditions

The total authorised number of shares 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 Trustee has waived all voting and dividend rights in respect of shares held by the Employee Trust. The share capital is shown on the basis that it has been in issue throughout the period. There were no changes to share capital during the year.

Notes to the consolidated financial information

24. Reserves

Group

	Share premium \$million	Retained earnings \$million	Other reserve \$million	Share-based payments reserve \$million	Capital contributions reserve \$million	Currency reserve \$million
As at 1 January 2005	0.4	417.0	(825.4)	3.2	–	–
Profit from ordinary activities attributable to equity holders of the parent	–	293.2	–	–	–	–
Share-based payments	–	–	–	65.6	–	–
As at 1 January 2006	0.4	710.2	(825.4)	68.8	–	–
Profit from ordinary activities attributable to equity holders of the parent	–	128.4	–	–	–	–
Share-based payments	–	–	–	87.1	26.8	–
Dividend	–	(200.0)	–	–	–	–
Exchange differences on translation of foreign operations	–	–	–	–	–	0.2
Increase in Employee Trust assets	–	–	–	–	5.7	–
As at 31 December 2006	0.4	638.6	(825.4)	155.9	32.5	0.2

Share premium is the amount subscribed for share capital in excess of nominal value. Retained earnings is the cumulative net gains and losses recognised in the consolidated income statement. Share-based payments reserve is the amount arising from share-based payments made by the Group. Capital contributions reserve is the amount arising from the cash settled share-based payments made by The Bonita Trust and cash held by the Employee Trust. Currency reserve is the gains/losses arising on retranslating the net assets of overseas operations into Sterling.

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 Group's accounting policies. 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 each of the periods ended 31 December 2006, reflects the cumulative profits as if the current Group structure had always been in place.

Company

	Share premium \$million	Retained earnings \$million	Share-based payments reserve \$million	Capital reserve \$million
As at 1 January 2005	0.4	–	3.2	–
Profit from ordinary activities attributable to equity holders	–	243.6	–	–
Share-based payments	–	–	62.4	–
Capital reserve	–	–	–	1,533.5
As at 1 January 2006	0.4	243.6	65.6	1,533.5
Profit from ordinary activities attributable to equity holders	–	140.8	–	–
Share-based payments	–	–	87.1	–
Adjustment	–	–	3.2	–
Dividend	–	(200.0)	–	–
As at 31 December 2006	0.4	184.4	155.9	1,533.5

The Company's capital reserve arose 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 13).

25. 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 ensure 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 processors and from customers who dispute their 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. The Group has made provision against \$69.9 million of payment processor receivables following the enactment of the UIGEA. There is no other 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 credit risk on investments is acceptable and will continue to monitor this position. The Group has no significant exposure to interest rate risk given that it has a net cash position.

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than US dollars. The Group continually monitors the foreign currency risk and takes steps to ensure that the net exposure is kept to an acceptable level.

In July 2006 the Group entered into a five year \$500 million revolving credit facility ('the Facility'). Following the passing of the UIGEA by the US Congress on 30 September 2006 (and the subsequent signing into legislation by President Bush) the terms of the Facility prevented additional drawings. On 30 September the Group commenced discussions with the lenders of the Facility to establish if there was a basis for a continuance. No basis for continuing the Facility was established. Drawings on the Facility at 31 December 2006 were \$12 million. The Group will repay the \$12 million drawing on or before 30 April 2007, following which the Facility will be automatically cancelled.

Effective interest rate and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following tables indicate their effective interest rates at the balance sheet dates and the repayment dates.

	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 2005						
Cash and cash equivalents	1.80%	194.9	194.9	-	-	-
Short-term investments	3.83%	6.8	6.8	-	-	-
US\$ loan payable to former minority shareholders	3.00%	(6.3)	(1.3)	(0.8)	(1.9)	(2.3)
Bank overdraft	nil	(1.8)	(1.8)	-	-	-
At 31 December 2006						
Cash and cash equivalents	2.34%	46.3	46.3	-	-	-
Short-term investments	3.70%	3.4	3.4	-	-	-
Restricted cash	0.00%	5.7	1.2	1.2	2.3	1.0
Revolving Credit Facility	6.37%	(12.0)	(12.0)	-	-	-
US\$ loan to a vendor of Gamebookers	5.37%	(5.9)	(1.1)	(1.1)	(2.1)	(1.6)
Euro deferred consideration due to vendors of Gamebookers	3.32%	(27.7)	-	-	(27.7)	-
US\$ loan payable to former minority shareholders	3.60%	(6.0)	(2.9)	(0.8)	(2.3)	-

The Directors consider that the fair value of the financial assets and financial liabilities set out above are not significantly different from their carrying amounts.

Notes to the consolidated financial information

26. Related parties

Group

Relationships

Transactions between the Group companies that have been eliminated on consolidation are not disclosed in this note.

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

	\$million
Year ended 31 December 2005	0.5
Year ended 31 December 2006	0.8

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, as well as 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 2005	9.7	–	39.5	49.2
Year ended 31 December 2006	14.7	–	56.1	70.8

Transactions

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

	2006 \$million	2005 \$million
As at 31 December		
Due to	1.0	2.5
Due from	(0.6)	(0.1)

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

	\$
Year ended 31 December 2005	30,323
Year ended 31 December 2006	30,649

Additionally a security deposit in the sum of \$13,800 has been paid (2005: \$13,800).

In 2005, the total IPO-related expenses were \$88.0 million of which the Company incurred \$22.6 million. 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. There were no IPO-related costs in 2006.

In terms of property related transactions, certain of the Group's subsidiaries have entered into the following arrangements:

- leased an unfurnished property to the Group Finance Director at an annual lease rental of £44,400 (\$84,000), which the Directors believe is the fair rental value of the property;
- acquired underleases over two furnished properties for the use of the Chief Executive Officer which the Directors believe have a fair rental value of £84,000 (\$158,800); and
- acquired a property which is available for the use of the Chief Executive Officer at fair rental value. The Chief Executive Officer has not availed himself of the property and the property has been leased to another employee at fair rental value.

26. Related parties (continued)

Former Directors and founders have leased their personal properties to employees of the Group. The Directors believe that these lease arrangements are fair value personal arrangements between the parties involved and are independent of the Group.

Principal Shareholders have also given certain indemnities to the Group.

A Principal Shareholder provided a loan of €2.5 million (\$3.3 million) to the GMG Trust in connection with the acquisition of a property. This property is rented by one of the owners of a supplier. Subsequent to the loan being granted, the requirement to repay the loan has been forgiven.

The enactment of the UIGEA resulted in a 'prohibitive legislative occurrence', as defined under the terms of the Group's revolving credit facility, which prevented further drawdown until discussions with lenders had determined whether there was a basis for the credit facility to be continued. Due to the fact that customer redemptions are paid out more quickly than the receipt of customer deposits, it was anticipated that the enactment of the UIGEA might result in a temporary constraint on cashflow. Therefore, the Company put in place arrangements for a short-term loan facility to be provided by founders of the Company, should the need arise. A \$50 million facility agreement was executed and placed in escrow, undated, such that if required, the Company could choose immediately to date the document and to drawdown the facility which would be for a term of six months from the drawdown date. In the event that the loan agreement was taken out of escrow, an arrangement fee of 0.25% of the facility amount would be payable and interest thereon would accrue at the rate of 6% per annum.

Whilst there was a substantial cash outflow post-UIGEA as customers in the US and elsewhere sought to withdraw their client balances (as evidenced by a \$96.2 million reduction in client liabilities in the fourth quarter of 2006), there was no need for additional cash resources and the facility agreement remained in escrow as at 31 December 2006.

Company

PartyGaming Plc (the 'Company') does not have its own bank account, with its cash obligations for operating expenditure, being discharged by its operating subsidiaries. Amounts paid by those subsidiaries are accounted for through an adjustment to the related inter-company balances. During the year, \$20.9 million of costs (2005: \$31.0 million including IPO-related costs of \$22.7 million) were incurred by subsidiaries on behalf of the Company.

In 2006, the Company received through inter-company account a dividend of \$200.0 million (2005: \$285.0 million) from its immediate subsidiary undertaking, PartyGaming Holdings Limited. In 2006, the Company declared a dividend to shareholders of \$200 million (2005: nil) which was paid through the bank account of PartyGaming Holdings Limited.

During the year, the Company entered into a revolving credit facility with its bankers and \$90.0 million of the facility was drawn down directly by ElectraWorks Limited. As at 31 December 2006 the facility was drawn down by \$12.0 million.

The Directors and certain key management of the Company were remunerated through cash payments made by other entities within the Group of \$14.9 million (2005: \$4.1 million) and share options issued by the Company with a share-based payment expense of \$38.3 million (2005: \$10.4 million). Additionally, the Company has granted options over its shares to employees of certain subsidiaries. The share-based payments expense for the year in respect of these share options of \$48.8 million (2005: \$52.0 million) has been added to the Company's cost of investment in those subsidiaries. Disclosures relating to share options are included in note 27.

Share option arrangements

Certain key management and certain Directors were granted nil-cost options under service contracts, which were formally granted under the Group's share option plan (see note 27).

Notes to the consolidated financial information

26. Related parties (continued)

Bonita Trust

The Bonita Trust was established in Gibraltar in 2004 effectively by the Group's Principal Shareholders to benefit the communities where the Group and its employees and service providers operate. The Bonita Trust is operated by an independent professional trustee.

The Bonita Trust has philanthropic objectives and supports medical, cultural and educational programmes, principally directed to benefit the communities of Gibraltar, India and the UK. In addition, employees of PartyGaming and their families are a beneficiary class of The Bonita Trust.

In December 2006, The Bonita Trust made or committed to make payments to certain individuals that were employed or had previously been employed by the Group. These payments were made independently of the Group and were over and above the amounts that the Board had already determined should be paid by the Group to those employees and former employees. However, as these payments were based primarily on the Company's share price, the Board considers these to fall under the criteria for share-based payments under IFRS 2 and in the year to 31 December 2006 has charged an amount to the income statement totalling \$26.8 million, as if such amounts had been paid by the Group itself. A corresponding amount has been recorded as a capital contribution in the Group's balance sheet. Of the \$26.8 million, \$9.4 million relates to Discontinued operations.

The Group has been informed that during 2006 The Bonita Trust made donations and other payments in respect of its other objectives totalling \$8.4 million (2005: nil). Disclosure of these payments has been made as it is possible that the Group's name may be linked with them. It is emphasised that neither The Bonita Trust nor any person or entity connected with The Bonita Trust sought any advice from, the Group, its Directors or key management in deciding whether these payments should be made. In addition, none of the payments were made in respect of any obligations incurred, or services received, by the Group, nor did they fall within the scope of IFRS 2 *Share-Based Payments*. Consequently, no entries have been made to the Group's financial statements in respect of these payments.

Further details on The Bonita Trust can be found at www.bonitatrust.org.

27. Share-based payments

The Group has designed a 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. During the year, 136.2 million options over the share capital were granted to Participants, representing 3.4% of the total issued share capital. Each option takes the form of a right, exercisable at nil-cost, to acquire shares in the Company. Options granted under the share option scheme during the period generally vest in instalments over a four to five year period. IFRS requires that the fair value of the options be amortised through the income statement over the life of the options. In calculating fair value the Group has used the binomial options pricing model. An appropriate discount has been applied to reflect the fact that dividends are not paid on options that have not vested or have vested and have not been exercised. There are no performance conditions attached to options issued by the Group. Details of modifications to share options are set out in note 4.

Share options

	2006 Number million	2005 Number million
Year ended 31 December		
Outstanding at beginning of period	126.7	40.0
Options granted during the period	136.2	119.0
Options lapsed during the period	(39.9)	(1.0)
Exercised during the period	(52.7)	(31.3)
Outstanding at end of period	170.3	126.7
Exercisable at the end of period	3.6	4.9
Weighted average share price for options exercised	£1.01	£1.18
Weighted average remaining contractual life of options outstanding	1,077 days	756 days

28. Acquisitions made during the period

Empire Poker

On 14 February 2006 the Group acquired the business and assets of Empire Poker. In calculating the goodwill arising on acquisition, the fair value of the net assets of Empire Poker has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised as follows:

	Book value on acquisition \$million	Fair value adjustment \$million	Fair value \$million
Intangible fixed assets	–	52.0	52.0
Net assets	–	52.0	52.0

The fair value adjustment relates to the recognition of the customer lists, brands and other intangibles acquired as part of the acquisition. These intangibles are being amortised over their estimated useful economic lives of between 18 months and five years.

	[\$million]
Fair value of net assets acquired	52.0
Goodwill	73.9
Fair value of consideration including expenses	125.9
Which is represented by:	
Cash consideration to Empire Online Limited	122.2
Expenses	3.7
Total cash consideration	125.9

The revenue and operating profit generated from this acquisition in the post-acquisition period to December 2006 was \$24.6 million and \$16.2 million respectively. Had the business been owned for the entire period of 2006, the revenue and operating profit would have been \$31.1 million and \$20.6 million respectively.

An amount of \$105.6 million is included within the reorganisation costs in respect of impairment of these assets acquired following the enactment of the UIGEA.

Gamebookers

On 3 August 2006 the Group acquired the businesses and assets connected with the Gamebookers.com website, an exclusively non-US facing online sports betting and casino business, from Trident Gaming PLC for net cash consideration of €103.3 million (\$132.0 million) after adjusting for working capital adjustments of €3.0 million.

These adjustments are summarised as follows:

	Book value on acquisition \$million	Fair value adjustment \$million	Fair value \$million
Intangible fixed assets	0.5	49.3	49.8
Net (liabilities) assets	(3.0)	48.6	45.6

The fair value adjustment relates to the recognition of the customer lists, brands and other intangibles acquired as part of the acquisition. These intangibles are being amortised over their estimated useful economic lives of between eight months and five years.

	\$million
Fair value of net assets acquired	45.6
Goodwill	86.4
Fair value of consideration including expenses	132.0

Notes to the consolidated financial information

28. Acquisitions made during the period (continued)

Which is represented by:

	\$million
Cash consideration to Trident Gaming PLC including expenses of \$2.9 million	98.5
Deferred consideration	27.7
Loan note	5.8
	132.0

The revenue and operating profit generated from the Gamebookers business in the post-acquisition period to December 2006 was \$9.0 million and \$4.4 million respectively. Had the business been owned for the entire period of 2006, the revenue and operating profit would have been \$21.6 million and \$10.6 million respectively.

29. 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):

Subsidiary name	Registered office address	Share capital (issued and fully paid)
Bay Management Limited	711 Europort, Gibraltar	3,000 ordinary shares of \$1 each
Denicrest Sports (Antigua) Limited	60, Nevis Street, St Johns, Antigua and Barbuda	1 common share of \$1
ElectraGames Limited	711 Europort, Gibraltar	10,000 ordinary shares of \$1 each
ElectraWorks (Alderney) Limited	York House, Victoria Street, Alderney Channel Islands, GY9 3TA	1 ordinary share of £1 each
ElectraWorks Limited	711 Europort, Gibraltar	1,180,000 ordinary shares of \$0.01 each
GB Services Eood	1, Polk. Drangov Street, 1504, Sofia, Bulgaria	100 ordinary shares of BGL100 each
iGlobalMedia Entertainment Limited	711 Europort, Gibraltar	50,000 ordinary shares of \$1 each
iGlobalMedia Marketing (Gibraltar) Limited	711 Europort, Gibraltar	7,500 ordinary shares of \$1 each
iGlobalMedia Marketing (UK) Limited	18 King William Street, London, EC4N 7BP	1 ordinary share of £1
IVY Comptech Private Limited	401, Ashoka Bhoopal Chambers, Secunderabad - 500 003, Andhra Pradesh India	50,000 shares of INR10 each
Leo Data Limited	711 Europort, Gibraltar	1,000 ordinary shares of \$1 each
PartyBets Limited	711 Europort, Gibraltar	2,000 ordinary shares of £1 each
PartyGaming Finance Limited	Clarendon House, 2 Church Street, Hamilton HM 1, Bermuda	2,227,012,000 ordinary shares of \$1 each
PartyGaming Holdings Limited	711 Europort, Gibraltar	944,000,000 ordinary shares of \$0.00001 each
PartyGaming IA Limited	Clarendon House, 2 Church Street, Hamilton HM 1, Bermuda	2,227,012,000 ordinary shares of \$1 each
PartyGaming Services (UK) Limited	18 King William Street, London EC4N 7BP	1 ordinary share of £1
Paytech International Limited	711 Europort, Gibraltar	8,500 ordinary shares of \$1 each
WPC Productions Limited	711 Europort, Gibraltar	1,850,000 ordinary shares of \$0.01 each

30. Post balance sheet events

Empire Online Limited

On 19 January 2007 the Group acquired the assets, players and gaming related contracts associated with Empire Online Limited, an exclusively non-US facing gaming business. In consideration for the acquisition, PartyGaming issued 83,325,934 new shares in PartyGaming based on an average price of 29.32 pence over the 15 days prior to the date of acquisition.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Empire Online Limited has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised as follows:

	Book value on acquisition \$million	Fair value adjustment \$million	Fair value \$million
Intangible fixed assets	221.8	(202.8)	19.0
Net assets	222.1	(202.8)	19.3

The fair value adjustment relates to the write-off of goodwill and the attributing of fair values of customer lists and brands acquired as part of the acquisition. These customer lists and brands are being amortised over their estimated useful economic lives of up to five years.

	\$million
Fair value of net assets acquired	19.3
Goodwill	28.3
Fair value of consideration including expenses	47.6

This is represented by:

	\$million
Share-based consideration to Empire Online Limited	37.9
Deferred share-based consideration to Empire Online Limited	9.5
Expenses	0.2
	47.6

Intercontinental Online Gaming Limited

On 19 January 2007 the Group acquired the business and assets of Intercontinental Online Gaming Limited, an exclusively non-US facing gaming business. In consideration for the acquisition PartyGaming issued 31,867,908 new shares in PartyGaming based on an average price of 29.32 pence over the 15 days prior to the date of acquisition.

In calculating the goodwill arising on acquisition, the fair value of the net assets of Intercontinental Online Gaming Limited has been assessed and adjustments from book value have been made where necessary. These adjustments are summarised as follows:

	Book value on acquisition \$million	Fair value adjustment \$million	Fair value \$million
Intangible fixed assets	–	10.0	10.0
Net assets	3.4	10.0	13.4

Notes to the consolidated financial information

30. Post balance sheet events (continued)

The fair value adjustment relates to the recognition of the customer lists and brands acquired as part of the acquisition. These intangibles are being amortised over their estimated useful economic lives of up to five years.

	\$million
Fair value of net assets acquired	13.4
Goodwill	5.0
Fair value of consideration including expenses	18.4
This is represented by:	
Share-based consideration to Intercontinental Online Gaming Limited	15.3
Deferred share-based consideration to Intercontinental Online Gaming Limited	2.9
Expenses	0.2
	18.4

As a result of these two transactions a total of 115,193,842 new shares have been issued since the balance sheet date.

31. Dividend

During 2006 the Group paid a final dividend in respect of the 2005 financial year on 19 May 2006 totalling \$200.0 million (being 5.25 cents per share). Following the decision to terminate all real money games to customers in the US and the consequent reorganisation of the business that took place during the fourth quarter of 2006, the Board believed that it was inappropriate to pay an interim dividend in 2006. The Board also believes that in the current environment, it would be imprudent to recommend the payment of a final dividend for the 2006 financial year.

32. Cashflows from Discontinued operations

	2006 \$million	2005 \$million
Net cash from operating activities	404.2	600.1
Net cash used in investing activities	(115.3)	(22.6)
Net cash used in financing activities	-	-
Net increase in cash and cash equivalents	288.9	577.5

Company balance sheet

As at 31 December	Note	2006 \$million	2005 \$million
Non-current assets			
Investments	13	1,641.2	1,589.2
Current assets			
Due from Group companies	14	234.5	254.0
Total assets		1,875.7	1,843.2
Current liabilities			
Trade and other payables	18	(1.4)	–
Total liabilities		(1.4)	–
Total net assets		1,874.3	1,843.2
Equity			
Share capital	23	0.1	0.1
Share premium account	24	0.4	0.4
Share-based payments	24	155.9	65.6
Retained earnings	24	184.4	243.6
Capital reserve	24	1,533.5	1,533.5
Total equity		1,874.3	1,843.2

These accounts were approved by the Board on 1 March 2007 and signed on its behalf by

Mitch Garber
Chief Executive Officer

Martin Weigold
Group Finance Director

Company statement of changes in equity

Year ended 31 December	Note	2006 \$million	2005 \$million
Profit after tax for the period being total recognised income for the period		140.8	243.6
Issue of share capital	24	–	0.1
Equity share-based payments	24	90.3	62.4
Capital reserve	24	–	1,533.5
Dividends paid	24	(200.0)	–
		31.1	1,839.6

Company statement of cashflows

Year ended 31 December	Note	2006 \$million	2005 \$million
Profit before tax		140.8	243.6
Share-based payments	26	38.3	10.4
		179.1	254.0
Decrease (increase) in trade and other receivables		19.5	(254.0)
Increase in trade and other payables		1.4	–
Dividends paid		(200.0)	–
Net cash from operating activities and 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 cashflows of its own.

Shareholder information

Share information

The Company has only one class of share in issue, ordinary shares of 0.0015 pence each ('Shares').

As at	Shares in issue	No. of voting rights	No. of shares in free float
31 December 2006	4,000,000,000	3,856,444,483	1,233,276,483
1 March 2007	4,115,193,842	3,948,623,751	1,592,271,751

The Company's Shares have been admitted to trading on the London Stock Exchange since 30 June 2005.

TDL: PRTY.L

ISIN Number: G1000A0ERMF2

SEDOL Number: BOB3SV4

Share price

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

Offer price	116p
1 January 2006	134p
High during the period to 31 December 2006	155p
Low during the period to 31 December 2006	26p
30 September 2006*	107p
31 December 2006	31.75p
Decrease over the year	72.6%
FTSE 250 Index increase over the period	13.0%

*The last day of trading before US Congress passed the Unlawful Internet Gambling Enforcement Act.

Share price information is available on the Company's website, www.partygaming.com and the London Stock Exchange website, 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 2006 was £1.27 billion (equivalent to US\$2.49 billion). The Company is currently ranked within the FTSE 250 Index of companies.

Depository Interests

The Company has entered into depository 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 depository holds the Shares and has issued dematerialised depository interests representing the underlying Shares which are held on trust for the holders of the Depository Interests.

Capita IRG Trustees Limited ('Capita IRG Trustees' or the 'Depository'), is part of the same group of companies as PartyGaming's Registrars, Capita IRG (Offshore) Limited, and has issued the dematerialised depository interests ('Depository Interests'). The Depository Interests are independent securities constituted under English law which may be held and transferred through the CREST system.

The Depository 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 Depository Interests from time to time (the 'Deed Poll').

As at 31 December 2006 133,047,028 Shares were held by the Depository in respect of a total 1,330,479,028 Depository Interests. There were 1,868 Depository Interest Holders on the Depository Interest register as at that date.

Shareholder information

Each Depositary Interest is treated as one Share. 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. Depositary Interest Holders will also be able to receive notices of meetings of holders of Shares and other notices issued by the Company to 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

Email: 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
Email: ssd@capitaregistrars.com
Telephone: 0870 162 3100 (from UK)
+ 44 208 639 2157 (from overseas)
Fax: + 44 208 639 2342

Depositary

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

Email: ssd@capitaregistrars.com
Telephone: 0870 162 3135 (from UK)
+ 44 208 639 3135 (from overseas)
Fax: + 44 208 639 2213

Dividend

For the reasons set out in the Chairman's Statement and the Chief Executive's Business Review of this Annual Report, the Board is not recommending the payment of a final dividend in respect of the year ended 31 December 2006.

Annual General Meeting

Date and time: Thursday 10 May 2007 at 11.00 a.m.
Venue: The Caleta Hotel, Catalan Bay, Gibraltar.

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

If you are a Shareholder planning on attending the AGM in Gibraltar 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. Please see the Notice of AGM contained in this document for further information regarding attendance and procedure to be followed at the AGM.

Corporate calendar

31 December 2006	Year-end
1 March 2007	Preliminary announcement of 2006 annual results
4 April 2007	Annual report posted
7 May 2007	Deadline for submitting AGM form of direction (Depositary Interest Holders only)
8 May 2007	Deadline for submitting AGM proxy forms (Shareholders only)
10 May 2007	Annual General Meeting
30 June 2007	Half year-end
31 December 2007	Year-end

Analysis of Share and Depository Interest holdings

Holdings of Shares/Depository Interests as at 31 December 2006	Number of accounts	% of total accounts	% of total Shares/ Depository Interests	Number of Shares/ Depository Interests
Up to 1,000	1,132	28.38	0.02	715,277
1,001 to 10,000	1,992	49.94	0.20	8,084,435
10,001 to 100,000	536	13.44	0.45	17,896,324
100,001 to 1,000,000	216	5.41	1.91	76,613,419
1,000,001 to 10,000,000	81	2.03	7.34	293,447,731
10,000,001 to 100,000,000	26	0.65	15.68	627,187,311
100,000,001 to 1,000,000,000	4	0.10	15.70	627,996,836
Over 1,000,000,000	2	0.05	58.70	2,348,058,667
Totals	3,989	100.00	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% or more of the Company's share capital or, in the case of other interests in 10% or more of the share capital, as notified to the Company in accordance with the Gibraltar Disclosure of Interests in Shares Act 1998, the Articles and Deed Poll, is set out in the Directors' Report.

Company announcements

Copies of announcements made by the Company are available on the Company's website, www.partygaming.com.

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 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. 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.

Notice of AGM

Notice is hereby given that the 2007 Annual General Meeting of PartyGaming Plc will be held on Thursday 10 May 2007 at 11.00 a.m. at the Caleta Hotel, Catalan Bay, Gibraltar to consider the following business (with the exception of Resolution 7, which is a Special Resolution, all Resolutions are proposed as Ordinary Resolutions. All resolutions will be decided on a poll):

1. To receive the financial statements, Directors' Report and Auditors' Report for the year ended 31 December 2006.
2. To approve the Remuneration Report for the year ended 31 December 2006.
3. 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) Act 1999.
4. To authorise the Directors to set the auditors' remuneration.
5. To re-appoint Mitch Garber as a Director.
6. To re-appoint Rod Perry as a Director.
7. That the Company be generally and unconditionally authorised to make market purchases within the meaning of section 79 of the Companies Act 1930 of ordinary shares of 0.0015 pence each of the Company ('Shares') provided that:
 - (a) the maximum number of Shares hereby authorised to be acquired is 411,519,384;
 - (b) the minimum price that may be paid for any such Share is 0.0015 pence, the nominal value of a Share;
 - (c) the maximum price that may be paid for any such Share is an amount equal to 105% of the average of the middle market quotations for a Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Share is contracted to be purchased; and
 - (d) the authority hereby conferred shall expire on the date of the AGM of the Company in 2008 or, if earlier, 10 November 2008; but a contract for purchase may be made before such expiry, that will or may be executed wholly or partly thereafter, and a purchase of ordinary shares may be made in pursuance of any such contract.

By order of the Board of Directors

David Abdo

General Counsel and Company Secretary

PartyGaming Plc
711 Europort
Gibraltar

21 March, 2007

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').

The business of the meeting is set out in the AGM notice and a summary of and rationale for each resolution is set out in the 'Corporate Governance' section of the 2006 Annual Report.

Biographies of Messrs. Garber and Perry are set out in the Board of Directors section of this Annual Report. The Board unanimously recommends the re-appointment of these Directors for the reasons set out in the Directors' Report and the 'Corporate Governance' section of the 2006 Annual Report.

2. Right of attendance

2.1 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 8 May 2007. 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.

2.2 Depository Interest Holders

To have the right to come and vote at the AGM, you must be entered on the Company's register of Depository Interests by 11.00 a.m. (10.00 a.m. BST) on 8 May 2007 and bring to the AGM a letter of corporate representation validly executed on behalf of the Depository. A letter of corporate representation can be obtained from the Depository.

3. Voting

3.1 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 website. 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 8 May 2007.**

Shareholders wishing to submit proxy forms electronically should visit the 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 8 May 2007.**

3.2 Depository Interest Holders

Depository Interest Holders may attend in person and vote on a show of hands or on a poll if the Depository has appointed them a corporate representative (see section 2.2 above). Depository 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 Depository. This may be done in one of two ways:

(i) Depository 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 Depository 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 Depository's agent, ID RA10 by 11.00 a.m. (10.00 a.m. BST) on 7 May 2007.** 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 Depository's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Depository 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.

Notice of AGM

(ii) Depository Interest Holders who cannot give voting instructions via CREST should complete the enclosed form of direction and submit it to the Depository. If the Depository 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 Depository no later than 11.00 a.m. (10.00 a.m. BST) on 7 May 2007.

4. PartyGaming employees

PartyGaming employees who have exercised their PartyGaming options and have retained all/some of the resultant Shares and hold these Shares through the PartyGaming Nominee Account Service, Capita IRG Trustee (Nominees) Limited and wish to attend 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 7 May 2007.

5. 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 the Caleta Hotel, Catalan Bay, 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 2006; and
- Register of Members.

Glossary

'active affiliates'	an affiliate who generated revenue in that period
'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
'BPO'	business process outsourcing
'Clean EBITDA' or 'Clean EPS'	EBITDA/EPS before reorganisation costs, 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-based payments
'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

Glossary

'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

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 10 May 2007 at the Caleta Hotel, Catalan Bay, Gibraltar
'Annual Report'	the Company's financial statements and accompanying reports for the year ended 31 December 2006
'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 Act'	the Gibraltar Companies Act
'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
'Discontinued operations'	operations located physically outside of the US but which relate to customers in the US and therefore were discontinued following the enactment of the UIGEA on 13 October 2006
'\$'	represents US dollars throughout
'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
'EMEA'	Europe, Middle East and Africa
'Empire Poker'	EmpirePoker.com
'Executive Directors'	the executive directors of the Company
'Gambling Act'	the Gibraltar Gambling Act
'Gamebookers'	www.gamebookers.com, one of the Group's sports betting websites

Definitions

'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 Act 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
'PartyAccount'	the Group's shared wallet that enables customers to play a variety of games, all using a single customer account
'PartyBets'	www.partybets.com, one of the Group's sports betting websites that is also fully integrated into PartyAccount
'PartyBingo'	www.partybingo.com, the Group's bingo website
'PartyCasino'	www.partycasino.com, the Group's principal casino website
'PartyGammon'	www.partygammon.com, the Group's backgammon website
'PartyPoker'	www.partypoker.com, the Group's principal poker website
'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 whom 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

'UIGEA'	The Unlawful Internet Gambling Enforcement Act that was enacted in the US on 13 October 2006
'UKLA'	the UK Listing Authority
'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

PartyGAMING

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