

Our
past...

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This Annual Report marks the end of an era but also the beginning of a new and exciting time in the Company's development. The metamorphosis from PartyGaming into bwin.party digital entertainment plc sets us apart from our competitors and we believe puts us in pole position to exploit the continued expansion of online gaming worldwide.

Our business story

Welcome to our 2010 Annual Report

Some key facts

PartyGaming is the world's leading listed online gaming company

Listed on the London Stock Exchange in June 2005

Regulated and licensed by the Governments of Gibraltar, France and Italy and by the Alderney Gambling Control Commission, the Group has approximately 1,400 employees

We offer a broad suite of online games including poker, casino, bingo and sports betting

A leading provider of B2B services through commercial alliances around the world

2010 highlights

- Established French poker network with three B2B partners
- 30 games added to PartyCasino
- Almost 900,000 new players added to our systems
- Successful expansion of World Poker Tour into Europe
- Winner of two International Gaming Awards for Casino and Bingo Operator of the Year

The future

bwin.party digital entertainment

Transformational merger with bwin to be completed in March 2011

Our business story...

Our performance

Business review

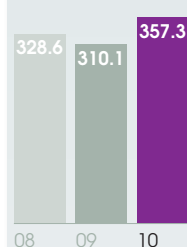
Governance

Financial statements

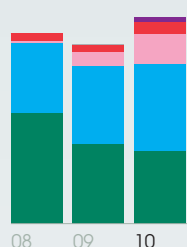
Other information

Total revenue

Performance €m



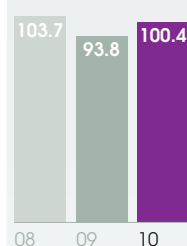
Game segmentation



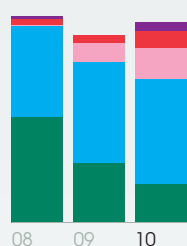
	2010 € million	2009 € million	Change %
Poker~	124.8	136.8	(9)
Casino	151.4	136.3	11
Bingo	51.4	22.8	125
Sports Betting	20.8	13.2	58
Other revenue ⁺	8.9	1.0	790
Total	357.3	310.1	15

Continuing Clean EBITDA[#]

Performance €m



Game segmentation



	2010 € million	2009 € million	Change %
Poker~	19.3	29.7	(35)
Casino	52.7	51.7	2
Bingo	15.2	9.3	63
Sports Betting	9.0	4.0	125
Unallocated	4.2	(0.9)	n/a
Total	100.4	93.8	7

Total revenue

€357.3m

(2009: €310.1m)

Continuing Clean EBITDA[#]

€100.4m

(2009: €93.8m)

Continuing Clean EBITDA[#] margin

28.1%

(2009: 30.2%)

Continuing Clean EPS[#]

13.5€cents

(2009: 14.9€cents)

~ Including backgammon.

⁺ Other revenue consists primarily of revenue from network services and fees from broadcasting, hosting and subscriptions.

[#] From continuing operations before the provision for costs associated with the Group's Non-Prosecution Agreement, reorganisation costs, impairment losses, merger and acquisition costs and before non-cash charges relating to share-based payments.

Our business story...

Our games

Our aim is to secure leading positions in each of our four product verticals

Poker

In 2010, we maintained our position as the world's largest pool of poker liquidity#. PartyPoker, our best-known product, is supported by third-party brands under B2B agreements.

	2010	2009
Net revenue	€124.8m	€136.8m
Clean EBITDA†	€19.3m	€29.7m
% of revenue	35%	44%
% of Clean EBITDA	19%	32%
Unique active players*	446,000	438,400
Average daily revenue	€341,900	€374,500

Casino

PartyCasino is the world's largest online casino offering slots, blackjack, roulette and a broad range of other games.

	2010	2009
Net revenue	€151.4m	€136.3m
Clean EBITDA†	€52.7m	€51.7m
% of revenue	42%	44%
% of Clean EBITDA	53%	55%
Unique active players*	172,600	170,700
Average daily revenue	€414,800	€373,500



Fact file	2010	2009
Languages	15	14
Currencies	€, \$	€, \$



Fact file	2010	2009
Languages	14	10
Currencies	€, \$, £	€, \$, £

Excluding US-facing sites.

* Total during fourth quarter 2010.

† From continuing operations.

Bingo

Foxy Bingo, PartyBingo and Cheeky Bingo are the Group's main bingo sites, supported by white label sites that are focused on specific geographic markets.

	2010	2009
Net revenue	€51.4m	€22.8m
Clean EBITDA [†]	€15.2m	€9.3m
% of revenue	14%	7%
% of Clean EBITDA	15%	10%
Unique active players*	113,200	182,700
Average daily revenue	€140,800	€62,500

Sports Betting

PartyBets and Gamebookers offer odds on up to 25 different sports as well as live betting on up to 44 events per day.

	2010	2009
Net revenue	€20.8m	€13.2m
Clean EBITDA [†]	€9.0m	€4.0m
% of revenue	6%	4%
% of Clean EBITDA	9%	4%
Unique active players*	83,100	85,700
Average daily revenue	€56,900	€36,200



Fact file	2010	2009
Languages	3	4
Currencies	\$, €, £	\$, €, £



Fact file	2010	2009
Languages	11	10
Currencies	\$, €, £	\$, €, £

Chairman's statement

“Unrivalled strength and depth in all of our products gives us confidence.”



Rod Perry
Chairman

PartyGaming's ambition to become the global leader in online gaming became reality in 2010 when we sealed our transformational merger with bwin, one of the industry's great success stories. Investors in both companies voted overwhelmingly in favour of all resolutions relating to the merger at their respective extraordinary general meetings that took place in January 2011. The enlarged company, to be called bwin.party digital entertainment plc ('bwin.party'), begins its life at the end of March 2011 and I believe it can look forward to a successful future.

bwin, best known for its sports betting operations, has been at the vanguard of the industry's push to be allowed to offer its services freely across borders in the European Union where legislation in individual Member States has lagged behind the technological and operational advances made by online gaming companies.

The spread of regulation across the EU continued in 2010 and will most likely continue throughout this year and beyond. This will bring about change and challenges from a business perspective, but this is nothing new for our Company. Our merger with bwin means that we are in a strong position to prosper in the face of these challenges and can exploit what is set to be an exciting shift into the next stage of the online gaming industry's development.

This is going to see bwin.party enter new regulated markets both in Europe as well as the United States, should legislators, either at federal or state level, allow Americans to take part in gaming online under the protection of a safe and secure regulatory regime.

The enlarged bwin.party group will have unrivalled strength and depth in all four of online gaming's main product verticals of sports betting, poker, casino and bingo. PartyGaming and bwin also bring healthy balance sheets, both are cash generative and have strong brand portfolios. This is underpinned by a wealth of talent across the combined business that underscores our decision to put a seal on our merger plans last July, almost two years after our first exploratory discussions took place.

As Jim Ryan, Chief Executive Officer of PartyGaming, states in his review of 2010 on pages 8 to 13, we have remained fully focused on our rolling three-year business strategy. The primary objective was to become the world's most valuable listed online gaming company and to become a leader in sports betting – the merger with bwin delivers on both of these strategic goals.

I would like to acknowledge the vision and dedication of the executive and senior management team, supported by the tireless efforts of our employees, to turn our merger plans into reality. Mergers are labour intensive and require huge intellectual, emotional and physical effort, but from the very moment we made our formal merger announcement our management and employees moved up through the gears and continued to deliver on our strategic plan. At no time did we reduce our standards of excellence and quality that have been at the very heart of the Group's long-term success.

PartyGaming is changing and so too is my role. I have enjoyed my time as Chairman since being appointed to the post in August 2008. Simon Duffy, who has a wealth of business experience, will become the Chairman of bwin.party and I very much look forward to working with him in my new capacity as Deputy Chairman and Senior Independent Director to ensure that the full benefits of the merger are delivered for shareholders.

Finally, I would like to take this opportunity in my last Chairman's statement to pay tribute to Stephen Box, who served us well as a Non-Executive Director and sadly died prematurely in early 2010.

Dividends

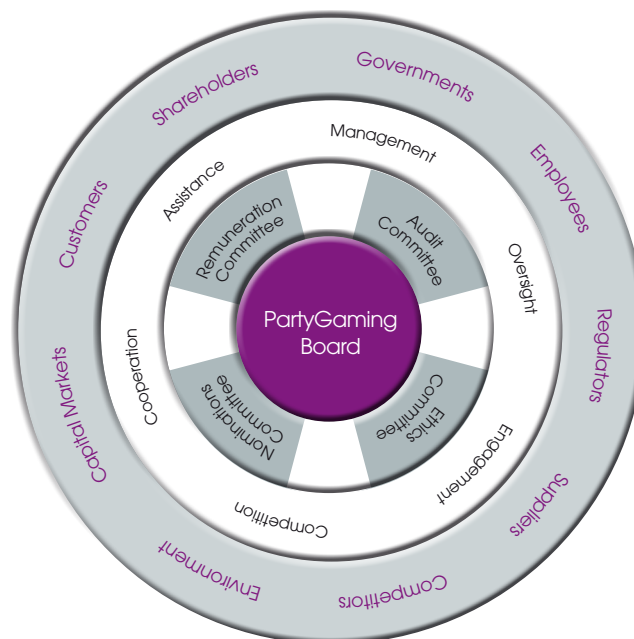
Whilst optimistic about the outlook, given the wide range of opportunities that can benefit the enlarged group, in accordance with the terms of the merger implementation agreement entered into at the time the merger with bwin was announced, the Board is not recommending a final dividend for 2010. However, the board of bwin.party will look to establish a dividend policy for the enlarged group as soon as the merger is completed.

Governance

Our management controls and procedures are ingrained throughout all aspects of our business. The four Board committees ensured that PartyGaming maintained high standards of professionalism as well as business ethics in 2010. Further details about our approach to corporate governance and reports of the Nominations, Audit, Ethics and Remuneration Committees can be found on pages 45 to 71.

In addition to the formal financial and regulatory audits that we undertake, our policies and procedures have also historically been subject to an independent assessment by GoodCorporation, which has gained worldwide recognition as one of the leading organisations working in the field of corporate responsibility and business ethics. Following our announced merger with bwin we chose not to conduct an assessment in 2010, but continued to address areas identified in its 2009/10 report. Post-completion of the merger with bwin we expect to conduct a formal review of the enlarged Group's policies and procedures. Further details about our approach to stakeholder management and some of the actions we undertook in 2010 can be found on pages 33 to 39.

Our system of Governance



Outlook

Our merger with bwin will present many new opportunities. The enlarged Group, with its increased scale, broad portfolio of brands, strong balance sheet and increased capacity to innovate will allow us to leverage these opportunities as we enter a period of unprecedented regulatory transition. The game is changing and we are ready to play.

Chief Executive's review

“We are determined to maintain our focus on operational excellence, challenge convention and search for new, more effective processes to achieve our goals and deliver results.”

Jim Ryan
Chief Executive Officer



Introduction

A 'defining moment' can take many forms but our agreement to merge with bwin Interactive Entertainment AG in July 2010 certainly qualifies as just that. The merger will define our future by transforming our business and placing us at the forefront of the online gaming industry's next stage of development – one that is set to be dominated by a transition from unregulated to regulated markets. The merger achieves two prime objectives of PartyGaming's three-year rolling strategy – to become a leader in online sports betting and become the world's most valuable online gaming company by stock market capitalisation.

This Annual Report marks the end of an era, but also the beginning of a new and exciting time in the Company's development. The metamorphosis from PartyGaming into bwin.party digital entertainment plc sets us apart from our competitors and I believe puts us in pole position to exploit the continued expansion of online gaming worldwide. We have formalised this year's Annual Report into two distinct documents: first, this Annual Report represents the document of record regarding PartyGaming Plc's performance in 2010 and fulfils all of the Company's statutory reporting obligations; and second, we have prepared a much more forward looking document setting out the vision and strategy for bwin.party digital entertainment plc, including the combined Group's unaudited pro forma financial performance, to give shareholders and other stakeholders a clear picture of where the combined Group is heading.

Developments in 2010

Whilst the merger represents the most significant strategic development in 2010, I would also like to reflect on our operating performance in 2010, with a particular focus on 'the big growth question' that we posed ourselves at the beginning of the year: "How will we increase revenue in 2010?"

This may have seemed like a straightforward enough question at the beginning of 2010, but it proved to be a more complex challenge as we had to shake-off and move on from the adverse impact of the previous year's 'perfect storm' of volatile currency movements, the global financial crisis and an unlevel playing field in poker.

However, we did increase total revenue by 15.2% in 2010 with improvements in Casino, our star performer; Sports Betting, which enjoyed a successful World Cup, combined with a number of operational enhancements that improved gross win margins and reduced bonus costs; and Bingo that benefited from the full integration of Cashcade that we acquired in the summer of 2009. Poker was the one area of our business where revenue did not grow in 2010 with a tough operating environment dominated by US-facing sites that are able to leverage their greater player liquidity and also their superior cash resources into those markets where we are able to compete.

Our merger with bwin will certainly help to level the playing field and improve our market share in poker. Once we combine our respective player liquidity pools, our position in both regulated markets such as Italy and France, as well as in other markets should also increase. In addition to the uplift in player liquidity, we also hope to benefit from having a more focused brand strategy that should help to improve our return on marketing spend in individual territories. As we move from a landscape of unregulated to regulated markets, the advantages of scale are not limited to just poker but are significant across all products.

The prospect of regulatory change is not limited to Europe and we are encouraged by the political will to seek to regulate and license online poker in some US States, most notably New Jersey, Florida and California. Further initiatives to do the same at a federal level cannot be ruled out in 2011 and we have been working hard to ensure we are well placed to monetise the US opportunity as soon as, and in whatever form it presents itself. Please read pages 16 to 17 for further details on how we are addressing the evolution of the regulatory landscape.

The careful execution of our three-year rolling strategy has continued to generate strong operating cashflow from continuing operations that remained unchanged at €86.3m in 2010 (2009: €86.3m). With a change in name to bwin.party digital entertainment plc and a clearly defined new strategy for the combined group, we expect this will continue as we extract the full benefit from the bwin merger, in particular the €55m of annualised cost and revenue synergies that we have already identified.

Delivering the strategy

Despite the headwinds of regulatory change and competitive pressures, the four main pillars of our rolling three-year business strategy remained in place during 2010, being: grow the player base, localise the customer offer, broaden the product base and act responsibly. The strategy for the enlarged bwin.party embodies these elements and is detailed in the enclosed bwin.party document accompanying this Annual Report.

As we have stated before, the online gaming market is experiencing unprecedented structural and regulatory change and we expect this to continue throughout the rest of this year.

As we execute the integration of both bwin and PartyGaming we are determined to maintain our focus on operational excellence, challenge convention and search for new, more effective and efficient processes to achieve our goals and deliver results.

Our merger with bwin will mean that many of our historic corporate management structures will have to evolve, catering for the expanded depth of our combined business operations and expertise.

Chief Executive's review

The management approach of bwin.party will be focused on achieving objectives through the continual assessment of our plans and their implementation across all parts of the Group. During 2010, this process was managed through fortnightly executive meetings to assess business performance and trends, supported by bi-annual meetings involving our most senior executives at which they interrogate all aspects of our strategy and tactics to test the business strategy and make changes where necessary to keep us on course.

In executing the four elements of our strategy during 2010, we continued to draw upon four key drivers that we have previously identified as likely to improve our chances of success and that we seek to apply to all of our tactical plans. The key drivers are:

Operational excellence – focus on our core operations, ensuring all aspects of our business are optimised and delivering the desired results.

Delight the customer – by creating the most enjoyable player experience, through a balanced mix of innovation, technology and customer care, we believe that our customer appeal and customer retention rates will increase, delivering higher returns on investment.

Leverage our own assets – compared with many other listed companies, the Group has a relatively high proportion of intangible assets such as our brands, extensive customer lists, several years of international online gaming experience, technical know-how and expertise and, the jewel in the crown – our multi-product, multi-currency and multi-lingual technology platform. All of these assets are important for our business-to-consumer offer and are also now being put to good use by others through business-to-business (B2B) deals to generate incremental revenue streams for the Group.

Leverage the assets of others – owning the vast majority of our content has historically been a key differentiator between PartyGaming and several of our main competitors. However, we recognise that we don't have all the best ideas, products and brands and that there are third-party assets that we can draw upon to improve our product offer and enhance the customer experience.

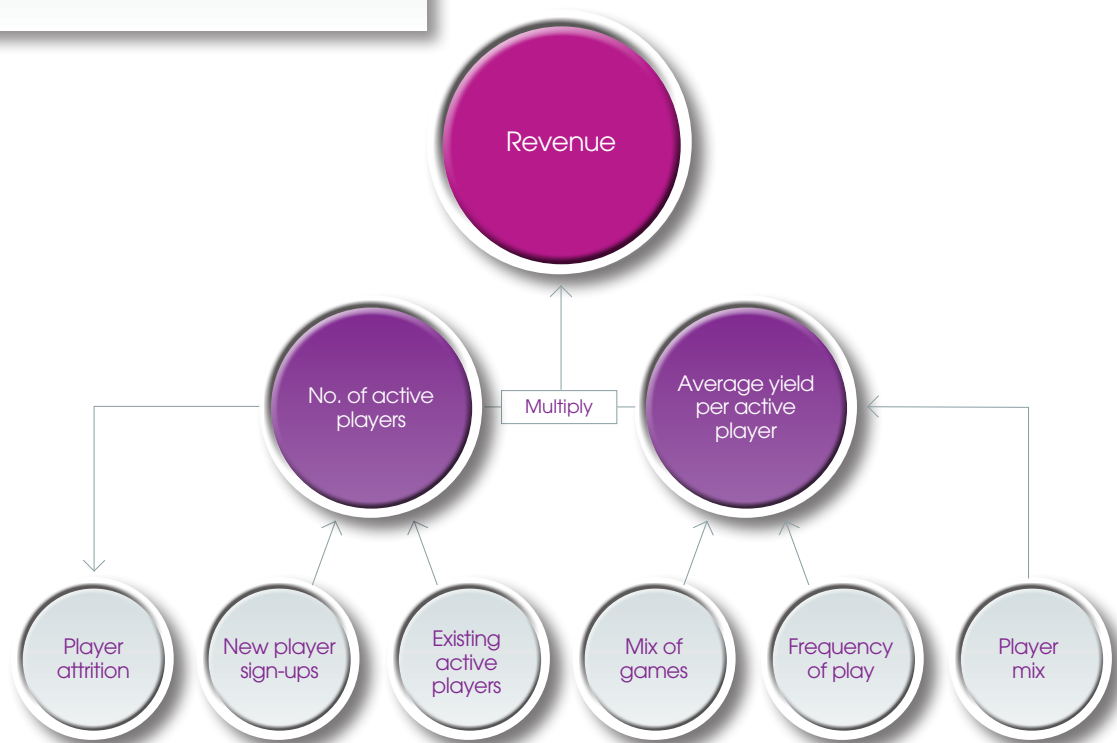
The 'Review of 2010' and the 'Our markets, products and brands' sections in this Annual Report contain a number of examples of how the Group has exploited these drivers to execute our business strategy.

But examples such as these count for little if they are not backed-up by financial results and in particular the generation of substantial and sustainable cashflow. This requires both revenue growth and careful management of costs, all within a well-defined and flexible risk-management framework.

Revenue growth

Our revenue model

Revenue is driven by the number of players and how much they spend. This diagram highlights the key drivers of our revenue model.



As shown by our revenue model above, there are two key drivers of revenue: the number of active players we have and the amount of revenue generated each time they play. Growing the player base, as I have already mentioned, was one of the four main pillars of our business strategy in 2010, and we added 896,200 new players to our system, compared with 802,800 in 2009 – an increase of 12%.

Core elements that drive and influence these important metrics include our marketing campaigns and the quality of our products, both of which we continued to improve through numerous software upgrades, product launches and marketing promotions in 2010. We added 30 new games to PartyCasino during the year, of which nine unique slots were developed by our in-house team. Our *Gladiator* and *Cash Machine* promotions were both innovative and highly successful campaigns that continued into 2011.

Other key influences on revenue growth include external factors such as the competitive landscape, currency movements, the macroeconomic climate and the introduction of new regulatory regimes by governments. Regulation is of course an opportunity and a threat – the opportunity to advertise freely, in many cases for the first time, is a major opportunity to grow revenue and EBITDA, whilst regulatory costs and taxes may drive revenue in the opposite direction.

While encouraged by the early performance in both Italy and France, it is too early to be definitive about the net impact of regulation in both markets on long-term performance. However, we continue to believe that the prospects for revenue growth remain significant as more new geographic markets open and the fact that while growing, the online gaming still represented less than 8.5% in 2010 of the total gaming market.¹

Chief Executive's review

Managing costs and regulatory compliance

Managing the cost base for any business is critical for long-term success, especially for businesses like ours that have global reach, are exposed to currency movements as well as shifts in technology and consumer tastes. In addition, the transition from unregulated to regulated markets means that online gaming operators are also now having to manage the associated entry costs for each new market including the cost of implementing technical requirements and modifications, marketing and gaming taxes.

In the face of these challenges in 2010, through a tightly controlled cost management process the Group delivered a Clean EBITDA margin of 28.1%, in line with our previous guidance. Whilst proud of our track record for anticipating and adapting swiftly our infrastructure and organisation to changes in our business environment, the transition to regulated markets and some associated investment together with a full year of Cashcade and WPT meant that we finished the year with 6% more staff than in 2009.

Whilst focused on managing costs and achieving our short-term financial goals, this is never at the expense of our long-term objective of sustainable, profitable growth. Managing our risks and regulatory compliance are core competencies: collectively they equate to our reputation, which we have to safeguard and enhance to make certain that we do not lose the confidence or trust of our customers. As the regulatory landscape becomes more complex, we assess the need for additional investment and resource by continually asking ourselves 'what if?' This is crucial, because the breadth and nature of risks faced is constantly shifting. Besides our own review processes for managing risks, external regulators and compliance bodies regularly audit our business operations, ensuring that we maintain high standards, whilst continuing to maximise profits: acting responsibly is a core element of our strategy and will continue to be so for bwin.party.

The bottom line is that we are measured by our results, attained in a risk-managed framework that is intended to deliver the long-term value of our prime assets.

Managing our people

Any organisation is defined by the people that work there and at PartyGaming we aim to recruit the very best talent. As well as having the requisite professional and academic qualifications, our approach to recruitment also takes account of an individual's broader attributes such as their ability to innovate and adapt, their drive and teamwork and their ability to keep abreast of what is by any measure a fast-moving, innovative, highly demanding and competitive company and industry.

This is not an environment that suits everybody but for those that are excited by it, our management approach is to encourage employees to assume responsibility, to use their initiative and to work hard to help us achieve our objectives. In return, we pay well and reward well with a total remuneration package geared to the Group's financial performance and execution of our strategic plan, with senior executives being the most-gearred overall. By being linked to PartyGaming's profit performance and the implementation of our strategy, our remuneration policy ensures we remain focused on delivering value for our investors.

Collectively our Company is measured by our overall financial performance and the performance of each and every one of our employees is assessed twice a year against pre-determined objectives. Our appraisal process enables us to recognise and nurture talent and, at the same time, also highlights performance that may be below par.

Financial rewards and incentives are an important but only partial element of our approach to people management. We see it as vital that our employees have a clear view of our business strategy, their role in achieving that strategy and our performance against pre-determined milestones. This requires our communications to be direct and open, delivered through a variety of channels including regular 'town hall' meetings, newsletters, eCommunications and the intranet, all of which are employed to ensure that wherever they are working in the business, our staff know where we are going, what progress we are making and what they can do to help to get us there faster.

Objectives for 2011 and outlook

Our merger with bwin represents an exciting new chapter in the development of our Company. It signals a transformation into a clear market leader across the four major product verticals of sports betting, poker, casino and bingo. With our merger expected to complete at the end of March 2011, we are focused on putting into action the detailed plans that we have prepared so that we can extract the €55m of financial synergies we have already identified, integrate all aspects of the two organisations and set in motion the business strategy for the combined Group. While we have identified a number of individual strategies that we will be adopting, each of these can be classified under four broad headings:

Focus on regulated and to-be-regulated markets –

Our industry is undergoing an unprecedented regulatory shift from unregulated towards regulated markets. As the world's largest listed online gaming company, we are going to focus our efforts on securing meaningful market shares in each of our four product verticals in all of the major regulated and to-be-regulated markets. This will be achieved through a combination of both organic as well as acquisition-led growth. At the same time, we will continue to lobby governments for legislation that both meets the needs and desires of the regulators whilst remaining commercially attractive to ensure that regulated companies are not at a significant disadvantage to unregulated companies.

Invest in development of technology and brands –

Both bwin and PartyGaming's success has been borne out of an ability to innovate and a willingness to invest in developing the best products and brands. Our drive and determination to remain at the vanguard of the industry has seen both businesses expand into new areas and develop new and innovative products – this is at the very centre of our success and is part of our DNA. Despite being less than 15 years old, our respective brands and products are already some of the strongest in the industry – we want to make them stronger through delivery of the best customer experience, irrespective of product or channel.

Secure long-term strategic partnerships – both bwin and PartyGaming have a long history of recognising the value from long-term relationships with strategic partners. bwin's brand has become synonymous with sport through its sponsorship of some of the world's biggest names in sport such as Real Madrid, AC Milan and Bayern Munich. Both bwin and PartyGaming have also forged strong partnerships with a number of corporate customers such as PMU and Amaury in France. These are just some examples of how both companies have recognised the value that can be created from leveraging the assets of others.

Act responsibly – as a market leader, we are determined to lead by example. We are intent on opening new markets and promoting the merits of real money gaming around the world. Our reputation for fair play and responsible gaming is second to none and is driven by the fact that the trust of our customers is a pre-requisite for long-term success. Both bwin and PartyGaming have been pioneers in the areas of gambling research and innovation. Building on bwin's existing collaboration with Harvard Medical School, the combined group plans to increase its efforts to promote safe and secure gaming on the internet.

As we enter this unprecedented period of regulatory change, there are going to be opportunities and challenges ahead as we make the transition to regulated markets. But we have a clearly defined plan and are focused on delivering the synergies already identified from our merger with bwin that should help to smooth this transition. We are confident about the outlook and the enlarged Group's prospects.

14 Review of 2010

Highlights

Total revenue

€357.3m

+15.2%

Continuing Clean EBITDA*

€100.4m

+7.0%

Continuing Clean EPS*

13.5€ cents

-(9.4%)

Net cashflow from Continuing operations

€86.3m

Financial summary

Year ended 31 December	2010 €million	2009 €million
Revenue		
Poker	124.8	136.8
Casino	151.4	136.3
Bingo	51.4	22.8
Sports Betting	20.8	13.2
Net revenue	348.4	309.1
Other revenue	8.9	1.0
Total revenue	357.3	310.1
Clean EBITDA*		
Poker	19.3	29.7
Casino	52.7	51.7
Bingo	15.2	9.3
Sports Betting	9.0	4.0
Unallocated	4.2	(0.9)
Clean EBITDA* from Continuing operations	100.4	93.8
Clean EBITDA from Discontinued operations [#]	(0.2)	(0.6)
Total Clean EBITDA*	100.2	93.2
Profit from operating activities – Continuing operations	46.3	56.4
Profit before tax – Continuing operations	43.8	57.4
Profit after tax – Continuing operations	40.2	53.3
Profit (loss) after tax	38.9	(18.5)
Basic EPS (€ cents) – Continuing operations	9.8	13.1
Clean EPS* (€ cents) – Continuing operations	13.5	14.9
Basic EPS (€ cents)	9.5	(4.5)
Clean EPS* (€ cents)	13.4	14.8

* EBITDA/EPS before the provision for costs associated with the Group's Non-Prosecution Agreement, reorganisation costs, impairment losses, merger and acquisition costs and before non-cash charges relating to share-based payments (see reconciliation of Clean EBITDA to operating profit on page 15).

[#] Operations located physically outside of the US but which relate to US customers that were no longer accepted following the enactment of the UIGEA.

Results overview

Total revenue increased by 15% to €357.3m (2009: €310.1m) reflecting strong growth in casino and sports betting as well as a full year's contribution from Cashcade and WPT that were acquired in 2009, mitigated by a soft performance in poker. As expected, the transition to regulated markets in both Italy and France, where establishing a meaningful market share has required significant investment in marketing together with structurally lower margins due to gaming taxes, meant that Clean EBITDA margins were lower at 28.1% (2009: 30.2%), albeit at the top-end of our guidance. Clean EBITDA increased by 7% to €100.4m (2009: €93.8m).

The following table provides a reconciliation of the movements between Clean EBITDA and operating profit:

Reconciliation of Clean EBITDA to operating profit/(loss)

Year ended 31 December	2010 €million	2009 €million
Continuing operations		
Clean EBITDA	100.4	93.8
Depreciation	(6.4)	(8.3)
Amortisation	(32.8)	(21.2)
Share-based payments	(9.2)	(6.2)
Impairment losses – assets held for sale	(0.1)	(0.4)
Reorganisation costs	(0.7)	(1.3)
Merger and acquisition expenses	(4.9)	-
Profit from operating activities – Continuing operations	46.3	56.4
Discontinued operations		
Clean EBITDA	(0.2)	(0.6)
Provision for payments associated with the Group's Non-Prosecution Agreement	-	(70.2)
Loss from operating activities – Discontinued operations	(0.2)	(70.8)

The Group's performance in 2010 and during the first few weeks of 2011 have been driven by the effective implementation of our business strategy. During the year we have sought to capitalise on a series of strategic, operational and regulatory developments in pursuit of our overall objectives.

Strategic developments

bwin merger

Our merger with bwin was unanimously approved by both sets of shareholders on 28 January 2011 and represents a transformational step forward for the Group. Securing market-leading positions in each of our product verticals, including sports betting, that historically was the Group's smallest contributor to revenue and Clean EBITDA. With €55 million of annualised cost and revenue synergies to be realised we believe that the combined Group will be well-placed to seize opportunities in what we expect to be an unprecedented period of regulatory change across a number of geographic markets, both in Europe and internationally. Merger and acquisition expenses of €4.9m were incurred in 2010.

Elsewhere, we have continued to develop a series of meaningful business relationships both with B2B customers as well as potential joint venture partners in both regulated and to-be-regulated markets. Following the announcement of our proposed merger with bwin, we have continued to explore a number of potential business partnerships that may be formalised should the requisite legislation come into force.

Operational developments

Operationally, we launched our French poker network on 1 July 2010 and are pleased with its performance since then. Compared with the second half of 2009, we have grown our average daily poker revenues in France by over 220% before gaming taxes and by 77% after gaming taxes are taken into account. Our B2B business partners in France have proven to be major assets in our drive to build market share in that market and we look forward to further growth in 2011. On product, we added 30 new games to PartyCasino including *Kung Food* and *Snow Business* that were both developed in-house, are exclusive to PartyGaming and which are already among our most popular slot games. Elsewhere, having launched Gamebookers casino earlier in the year we also launched www.PartyBets.fr as well as a mobile betting application during the second half. In bingo we launched into Scandinavia and also launched rollover bingo in the UK. Further details on some of these developments are summarised below.

B2B

Our B2B business was transformed in 2010 with the opening of the French market and the launch of sites for three new partners there: PMU, AB Groupe and Aviation Club de France.

While hopes that a poker-only internet gaming bill might make it onto the statute books in the US proved to be optimistic in 2010, we continued to build strong relationships with a number of major groups based in the US and, regardless of whether there is legislation at the state or federal level, we believe that we are well-placed to take advantage of the opening of the US market.

French poker

Since going live on 1 July 2010, our French poker network has gone from strength to strength. With a market share in France of approximately 14%¹, our average daily revenue from poker in December 2010, after gaming taxes was already 155% higher than for the same period the previous year.

New casino games

Having added ten new casino games during the first half we added a further 20 games in the second half, as well as launched our in-house no download casino for clients that prefer not to download and install the full casino software onto their PCs. This allowed us to replace similar products supplied by third parties. Our in-house games developers again played a major part in improving and extending our casino games portfolio that now comprises over 160 games. In December 2010, five out of our top ten slot games in terms of amounts wagered were developed in-house.

Regulatory developments

There follows a review of the key regulatory developments as we see them and how they may have a bearing on our business.

United States

During 2010, a number of legislative initiatives were introduced looking to regulate internet gaming in the United States. Bills were introduced at both federal and state levels with differing degrees of success.

At a federal level, while some progress was made with The Internet Gambling, Regulation Consumer Protection and Enforcement Act sponsored by Congressman Barney Frank, the focus of attention shifted towards the end of 2010 with the publication of a poker only-bill sponsored by Senator Harry Reid. Whilst this latest bill failed to get attached to any legislation before Congress ended in December 2010, the strong effort to do so may be a signal that a similar bill will be reintroduced at some point during the new Congress. In February 2011, California's Republican Congressman John Campbell announced his intention to publish a new federal bill later this month to regulate and license internet gambling in the United States. Congressman Barney Frank is expected to be the Democratic co-sponsor of the bill.

At a state level, several proposals to regulate and license intra-state online poker in California as well as in New Jersey, Florida and Iowa remain work in progress but have yet to reach any conclusion. While California, Florida and Iowa are at a relatively early stage, the proposals in New Jersey are more advanced. Having been passed in both the local Senate and Assembly, the New Jersey bill is now awaiting signature by the State Governor to enact it in law. However, a number of commentators have highlighted the fact that constitutional and other concerns within New Jersey may result in the Governor vetoing the bill. Were this to occur, whilst disappointing, it should not prevent any of the other state initiatives from being successful and we are continuing to monitor all of these developments closely.

As with any political process, the timing and prospects of any of these federal or state measures becoming law remains uncertain.

¹ Based on the average number of daily money cash game players - source (Pokerscout.com)

Europe

In Brussels, a green paper on online gaming is expected to be published shortly by the European Commission and this is expected to mark the beginning of a three-month public consultation that could serve as a precursor to any future community directive on online gaming. In the absence of legal harmonisation, disputes over the validity of legal enforcement against a number of online gaming companies have resulted in cases being taken to the Court of Justice of the European Union ('CJEU').

During 2010 a number of key judgements were issued although perhaps the most significant were the *Markus Stoß et al* (Joined Cases C-316/07, C-358/07 to 360/07, C-409/07 and C-410/07), *Winner Wetten* (Case C-409/06) and *Carmen Media* (Case C-46/08) cases regarding the validity of the German State Lottery Treaty that were handed down in September 2010. In summary, the CJEU ruled that the State Lottery Treaty was both 'inconsistent' and 'incoherent' and therefore could not be applied under EU law. We are now awaiting a revised proposal from the German authorities on what should replace the State Lottery Treaty although the 16 states or *Länder* have yet to agree on a way forward. The next meeting of the Minister Presidents is expected to take place on 10 March and will be followed by a further meeting in June 2011.

France opened its market for online sports betting in June 2010 and online poker on 1 July 2010. Italy has already created a regulatory framework for licensing online tournament poker and is expected to expand the regime to include cash game poker and certain casino table games in 2011.

The Danish government remains committed to opening its online gaming market in 2011, although it is currently defending a claim that the proposed tax rate under the new regime would be unduly favourable to online operators and that it is equivalent to State Aid, which is being looked at by the European Commission. While Belgium has enacted a law for the regulation of online gambling there, the requirement to first have a land-based license is seen by many as being in breach of EU law although no action has yet been taken by the European Commission. Elsewhere, during the first two months of 2011, proposals have been published in Greece and Spain that seek to regulate online gaming activities. We expect to receive greater clarity on the likely path these proposals might take over the coming months.

The Directors continue to believe that regulation rather than prohibition of online gaming is the most sensible option for governments.

New player sign-ups (000)

Year ended 31 December	2010	2009	% change
EMEA*	814.2	723.3	13%
Americas (non-US)	57.0	56.3	1%
Asia Pacific	25.0	23.2	8%
Total	896.2	802.8	12%

Active player days (m)

Year ended 31 December	2010	2009	% change
EMEA*	27.3	22.7	20%
Americas (non-US)	3.2	3.4	(6%)
Asia Pacific	0.8	0.9	(11%)
Total	31.3	27.0	16%

*Europe, Middle East and Africa.

Directors

As mentioned in the 2009 Annual Report, Stephen Box, an independent Non-Executive Director and Chairman of the Audit Committee, sadly passed away during the year following a prolonged period of illness.

Change of name

Following the Extraordinary General Meeting that took place on 28 January 2011 and subject to completion of the merger with bwin, the Company's name will be changed on 31 March 2011 to bwin.party digital entertainment plc.

Dividend

In accordance with the terms of the merger implementation agreement entered into with bwin on 29 July 2010, the Board has not recommended the payment of a final dividend in 2010. Assuming that the merger completes as planned on 31 March 2011, the Board of the combined Group will determine the combined Group's dividend policy in the light of its financial performance and the potential returns available from alternative uses of capital.

Current trading and outlook

The Group has continued to perform in-line with the Board's expectations. In the two-month period ended 28 February 2011, average gross daily revenue was €1,431,800 (Q410: €1,425,400). New poker player sign-ups increased to an average of 1,905 per day (Q410: 1,853) and there were on average 52,400 active players per day (Q410: 50,400). Average gross daily revenue for poker was €452,600 (Q410: €440,200), for casino was €557,100 (Q410: €577,200), for bingo was €339,100 (Q410: €337,200) and for sports betting was €83,000 (Q410: €70,800).

We are entering an unprecedented period of regulatory change and there are going to be challenges ahead as we make the transition to regulated markets. But we have a clearly defined plan and are focused on delivering the synergies already identified from our merger with bwin that should help to smooth this transition. We are confident about the outlook and the Group's prospects.

Summary of Results

Year ended 31 December	Total revenue		Clean EBITDA	
	2010 €million	2009 €million	2010 €million	2009 €million
Poker	125.9	136.8	19.3	29.7
Casino	151.4	136.3	52.7	51.7
Bingo	52.5	23.3	15.2	9.3
Sports Betting	20.8	13.2	9.0	4.0
Unallocated Corporate	6.7	0.5	4.2	(0.9)
Total Continuing operations	357.3	310.1	100.4	93.8
Discontinued operations	-	-	(0.2)	(0.6)
Total	357.3	310.1	100.2	93.2

Total revenue increased by 15% versus the previous year, driven by a full year's contribution from Cashcade and a strong performance in casino and sports betting that helped to mitigate the impact of a challenging macroeconomic environment and an unlevel playing field in poker caused by the continued acceptance of US-based players by certain operators. Despite the impact of gaming taxes and investment in newly regulated markets, careful cost control and currency gains meant that the impact on Clean EBITDA margins was limited and Clean EBITDA increased by 7% to €100.4m (2009: €93.8m). Overall, Clean EBITDA margins fell to 28.1% (2009: 30.2%) reflecting increased marketing spend in Italy during the first half and the launch of www.PartyPoker.fr in July.

The underlying performance of each of our consolidated key performance indicators, which are based on net revenue, are highlighted below:

Consolidated Key Performance Indicators

Year ended 31 December	2010	2009	% change
Active player days (million)	31.3	27.0	16%
Daily average players (000s)	85.8	74.0	16%
Yield per active player day (€)	11.1	11.4	(3%)
New real money sign-ups (000s)	896.2	802.8	12%
Average daily net revenue (€000)	954.4	846.7	13%

A full year's contribution from Cashcade together with the launch of our French poker network helped to drive active player days and daily average players that both increased by 16% in 2010, assisted by a 12% increase in new player sign-ups which increased across all regional segments. For both sign-ups and active player days, EMEA continues to be the Group's most significant region geographically. While player yields declined by 3% year-on-year to €11.1, continued declines in poker were mitigated by strong growth in casino and sports. The net effect was that average daily net revenue for the year as a whole, increased by 13% year-on-year to €954,400 (2009: €846,700).

There follows a more detailed review of the Continuing operations including each of the individual product segments. Full details of all of the Group's historic quarterly key performance indicators can be downloaded from the Group's website at www.partygaming.com.

Poker

Year ended 31 December	2010 €million	2009 €million	% change
Gross revenue	166.7	174.4	(4%)
Bonuses and other fair value adjustments to revenue	(41.9)	(37.6)	(11.%)
Net revenue	124.8	136.8	(9%)
Other revenue	1.1	-	n/a
Total revenue	125.9	136.8	(8%)
Clean EBITDA	19.3	29.7	(35%)
Clean EBITDA margin	15.3%	21.7%	

Gross poker revenues declined 4% versus the prior year primarily due to continued competitive pressures and a slowdown in consumer spending. Bonuses and other fair value adjustments to revenue were in line with our guidance at approximately 25% of gross revenue (2009: 22%). We continued to develop our product with the launch of a number of new features in the year including 'anonymous heads up', 'rabbit cam', 'fold and show' and 'double hold'em'.

The Group remains in third place in the global poker rankings, a position it has held for most of 2010. In the week ended 28 February 2011, it is estimated that the Group had approximately 6% of the global online poker market versus 6% in February 2010. In France, having launched on 1 July 2010 the Group's poker network, including PMU, has established an estimated market share of approximately 14%, putting the Group in joint third place in terms of poker liquidity.¹

The operational gearing inherent within the Group's business model meant that the reduction in net revenue, together with the cost of marketing initiatives in France and Italy impacted Clean EBITDA margins that reduced to 15.3% (2009: 21.7%). As a result, poker Clean EBITDA declined to €19.3m (2009: €29.7m).

The table below shows the key performance indicators for poker versus the prior year:

Poker – Key Performance Indicators

Year ended 31 December	2010	2009	% change
Active player days (million)	18.5	18.4	1%
Daily average players (000s)	50.7	50.5	0%
Yield per active player day (€)	6.7	7.4	(9%)
New real money sign-ups (000s)	530.4	496.1	7%
Average daily net revenue (€000)	341.9	374.5	(9%)

Despite a 7% increase in new player sign-ups to 530,400 (2009: 496,100), player numbers remained flat reflecting intense competition in the global poker market.

The trends in poker player attrition have followed a similar pattern to that seen in recent years. Approximately 13% of all 2010 poker sign-ups remained active after six months versus 17% of all 2009 sign-ups this time last year. As at 31 December 2010, across all real money poker sign-ups, the proportion of players remaining active after six months was approximately 21% (2009: 23%), after 12 months it was 16% (2009: 17%) and after 18 months it was 14% (2009: 14%).

Yield per active player day fell to €6.7 (2009: €7.4) reflecting a change in the geographic mix of sign-ups, an increasing proportion of recreational players as well as higher levels of player bonuses.

Casino

Year ended 31 December	2010 €million	2009 €million	% change
Total stakes	5,118.0	5,202.0	(2%)
<i>Hold</i>	4.0%	3.6%	
Gross revenue	204.0	185.6	10%
Bonuses and other fair value adjustments to revenue	(52.6)	(49.3)	(7%)
Net and total revenue	151.4	136.3	11%
Clean EBITDA	52.7	51.7	2%
<i>Clean EBITDA margin</i>	34.8%	37.9%	

Despite having had to close our French casino business at the end of the first half of 2010 following the introduction of the new regulatory regime in France, the Group's casino business delivered another strong performance in 2010. The total amount wagered on casino games decreased by 2% to €5.1 billion (2009: €5.2 billion) but gross revenue increased by 10% to €204.0m (2009: €185.6m) thanks to a higher hold percentage of 4.0% (2009: 3.6%). The recent trend of an improving customer and product mix continued during the period with a reduced reliance on poker customers as a source of player traffic. This helped to increase the proportion of total wagers being placed on higher hold games such as slots and jackpot slots that represented 51% of total casino wagers (2009: 47%). A small reduction in bonuses and other fair value adjustments from 26.6% to 25.8% of gross revenue meant that net revenue increased by 11% to €151.4m.

After a softer performance in the first half due to the timing of a number of marketing campaigns, Clean EBITDA margins recovered during the second half of 2010. However, the particularly strong performance in 2009 meant that year-on-year Clean EBITDA margins decreased to 34.8% (2009: 37.9%). As a result, while revenue grew by 11%, Clean EBITDA increased by 2%. Having added 30 new games to the casino portfolio during the year, including nine new slots developed in-house, we plan to add further new games during 2011 to ensure that PartyCasino remains the world's largest online casino. A summary of the key performance indicators for the casino business during 2010 is shown in the table below:

Casino - Key Performance Indicators

Year ended 31 December	2010	2009	% change
Active player days (000s)	3,921.6	4,001.2	(2%)
Daily average players (000s)	10.7	11.0	(3%)
Yield per active player day (€)	38.6	34.1	13%
New real money sign-ups (000s)	92.0	103.0	(11%)
Average daily net revenue (€000)	414.8	373.5	11%

While we continued to focus on growing the volume of dedicated casino players, the closure of the French casino in the second half of 2010 impacted a number of the key performance indicators in the period. If France was excluded from the analysis, both active player days and daily average players would have increased by 1%. Whilst overall player activity is down 2%, player yields rose by 13%, reflecting the improving player mix and the shift towards higher yielding games. Taking all of these movements together, average daily net revenue increased by 11% to €414,800 (2009: €373,500).

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Bingo

Year ended 31 December	2010 €million	2009 €million	% change
Gross revenue	121.9	53.0	130%
Bonuses and other fair value adjustments to revenue	(70.5)	(30.2)	(133%)
Net revenue	51.4	22.8	125%
Other revenue	1.1	0.5	120%
Total revenue	52.5	23.3	125%
Clean EBITDA	15.2	9.3	63%
Clean EBITDA margin	29.0%	39.9%	

The year-on-year performance of our bingo business was transformed by the acquisition of Cashcade in July 2009. With the benefit of a full year's contribution from Cashcade, and a significant improvement in PartyBingo, gross revenue increased by 130% versus the previous year and net revenue increased by 125%. With the addition of €1.1m of other revenue from network services, bingo now represents approximately 15% of Group total revenue, up from 7% in 2009.

The reduction in Clean EBITDA margins from 39.9% to 29.0% reflects a more normalised phasing of marketing spend during the year that in 2009 had been particularly weighted towards the first half and was an increase over that achieved in the first half of 2010. The launch into Scandinavia also impacted on margins in the second half. A summary of the key performance indicators for bingo are shown below:

Bingo – Key Performance Indicators

Year ended 31 December	2010	2009	% change
Active player days (000s)	7,434.2	3,324.3	124%
Daily average players (000s)	20.4	9.1	124%
Yield per active player day (€)	6.9	6.9	–%
New real money sign-ups (000s)	207.7	88.7	134%
Average daily net revenue (€000)	140.8	62.5	125%

All of the key performance indicators for bingo showed strong growth over the prior year due to the full year contribution from Cashcade. Adjusting for the mid-year impact of the acquisition, the underlying growth rate in daily bingo revenue was 11%. The return to more normalised Clean EBITDA margins meant that Clean EBITDA was €15.2m (2009: €9.3m).

Sports Betting

Year ended 31 December	2010 €million	2009 €million	% change
Total stakes	355.9	343.6	4%
Gross win margin	7.2%	5.5%	
Gross revenue	25.7	18.9	36%
Bonuses and other fair value adjustments to revenue	(4.9)	(5.7)	14%
Net and total revenue	20.8	13.2	58%
Clean EBITDA	9.0	4.0	125%
Clean EBITDA margin	43.3%	30.3%	

The Group's sports betting business delivered a very strong performance in 2010. Whilst the FIFA World Cup during the summer certainly helped to drive total stakes, operational improvements and a focus on increasing the volume of combination bets were also important factors. Live betting continued to drive betting volume and represented approximately 49% of total wagers in 2010 (2009: 47%). Having already introduced statistical models for both tennis and football, we also added basketball and volleyball during the second half of the year as part of our effort to increase gross win margins for live betting. Gross win margins in the second half continued to build on the momentum achieved during the first six months with pre-match betting margins for the full year of 9.8% and live betting margins of 3.9% resulting in a total gross win margin of 7.2% (2009: 5.5%). Our tighter control on bonuses, that fell from 1.7% of the amount wagered the previous year to 1.4%, meant we removed a number of unprofitable players and this helped to drive net revenue performance that increased by 58% year-on-year.

The increase in net revenue and the operational leverage of the business helped to boost Clean EBITDA margins to 43.3% (2009: 30.3%) and Clean EBITDA rose by 125% to €9.0m (2009: €4.0m).

Sports Betting – Key Performance Indicators

Year ended 31 December	2010	2009	% change
Active player days (000s)	3,687.7	3,552.5	4%
Daily average players (000s)	10.1	9.7	4%
Yield per active player day (€)	5.6	3.7	51%
New real money sign-ups (000s)	66.1	115.0	(43%)
Average daily net revenue (€000)	56.9	36.2	57%

Total active player days and the daily average number of players both increased by 4%, primarily driven by the impact of the World Cup. The reduction in bonus costs was a contributory factor to a reduction in new player sign-ups that were down by 43% versus the prior year but with a consequent rise in player yield and improved gross win margin, average daily revenue increased by 57% to €56,900.

Other revenue

Other revenue was €8.9m in the period (2009: €1.0m) and reflects substantially increased contributions of €6.5m from WPT and €2.4m from our B2B network services customers. During the second half of 2010 WPT launched Season 9 including an expanded European presence, building on the successful events in London, Amnéville and Marrakech. WPT also entered into a multi-year TV deal with Fox Sports Net with enhanced promotional and broadcast time commitments throughout the year for the WPT series and for the ClubWPT online poker service. Our efforts to exploit new technologies continued in 2010 and WPT's Facebook application has become Facebook's fourth largest poker application. We also launched 'WPT Hold 'em III', the latest variant on our mobile poker application that has already accumulated 16 million downloads.

Cost of sales

Cost of sales, comprising gaming duties payable in regulated markets as well as the amortisation of TV production costs in respect of WPT increased to €6.9m (2009: €0.3m) due to the launch of poker and sports betting services in France as well as a full year of WPT costs.

Distribution costs

Year ended 31 December	2010 €million	2009 €million	% change
Customer acquisition and retention	65.6	49.6	(32%)
Affiliates	48.7	45.5	(7%)
Other customer bonuses (not netted from revenue)	5.8	5.1	(14%)
Customer bad debts	4.6	4.1	(12%)
Webhosting and technical services	34.0	25.2	(35%)
Distribution costs	158.7	129.5	(23%)
<i>Distribution costs as a % of total revenue</i>	44.4%	41.8%	

Customer acquisition and retention spend increased to 18.4% of total revenue, up from the 15–16% range that we have seen in recent years. This increase reflected a number of factors: first lower than expected returns on marketing spend associated with the delayed launch of cash game poker in Italy; second there is a full year impact of Cashcade that tends to spend more on customer acquisition than the other product verticals and third, there was the Group's launch into the French poker market with growth in revenues tending to lag marketing spend. Affiliate expenses decreased to 13.6% of total revenue (2009: 14.7%) reflecting our efforts to rationalise the number of affiliates and to secure more favourable terms from those that remain part of our network. Other customer bonuses and customer bad debts remained steady year-on-year at 1.6% and 1.3% of total revenue respectively. A 35% increase in webhosting and technical service costs reflects the full year impact of Cashcade's gaming platforms being hosted by third parties, as well as increased royalty payments attributable to our third-party providers of slots and branded content on the back of higher slot revenues.

As a result, total distribution expenses increased to 44.4% of total revenue (2009: 41.8%) which was within the range of previous guidance given.

Administrative expenses

Year ended 31 December	2010 €million	2009 €million	% change
Transaction fees	18.9	19.0	1%
Staff costs	57.4	47.7	(20%)
Other overheads	21.2	19.0	(12%)
Clean EBITDA administrative expenses	97.5	85.7	(14%)
Depreciation	6.4	8.3	23%
Amortisation	32.8	21.2	(55%)
Impairment losses - assets held for sale	0.1	0.4	75%
Reorganisation expenses	0.7	1.3	46%
Administrative expenses before share-based payments	137.5	116.9	(18%)
Share-based payments	9.2	6.2	(48%)
Administrative expenses	146.7	123.1	(19%)
<i>Clean EBITDA administrative expenses as a % of total revenue</i>	27.3%	27.6%	
<i>Administrative expenses before share-based payments as a % of total revenue</i>	38.5%	37.7%	
<i>Administrative expenses as a % of total revenue</i>	41.1%	39.7%	

Administrative expenses generally comprise those costs that tend to be more fixed in nature. While transaction fees and other overheads fell as a percentage of total revenue, the full year impact of Cashcade and WPT resulted in a slight increase in staff costs as a percentage of total revenue and increases in share-based payments and amortisation. The net effect was that Clean EBITDA administrative expenses showed a modest decline to 27.3% as a percentage of total revenue whilst there was a modest increase in administrative expenses before share-based payments that reached 38.5% of total revenue in 2010 versus 37.7% in 2009.

Transaction fees continued to fall as a proportion of revenue with the benefit of renegotiated payment contracts beginning to feed through to the bottom line. The full year impact of both Cashcade and WPT meant that staff costs increased as a proportion of revenue to 16.1% of revenue having been 15.4% of revenue in 2009. Depreciation fell to 1.8% of revenue reflecting the fact that an increasing proportion of the Group's assets are now fully depreciated. However, following completion of the Proposed Merger with bwin and the relocation and associated fit-out of new office premises in Gibraltar and India, depreciation is expected to increase in 2011.

Share-based payments

Charges associated with share-based payments increased reflecting the addition of staff from Cashcade and WPT together with further grants of fair market value options as part of the Group's overall incentive scheme.

Taxation

The tax charge for the year is €3.6m (2009: €4.1m) reflecting an effective tax rate for Continuing operations of 8.2% (2009: 7.1%). The increase from the prior year is attributable to a full year's contribution of Cashcade, whose operations are subject to UK tax at 28.0%. As a percentage of Clean EBITDA from Continuing Operations, the effective tax rate fell from 4.4% to 3.6%. There is no tax associated with Discontinued operations and other comprehensive income.

Net cash

Year ended 31 December	2010 €million	2009 €million
Cash and cash equivalents	193.6	145.1
Short-term investments	3.1	8.1
Loans and borrowings	(40.0)	(38.7)
Net cash	156.7	114.5
Payment service providers	22.2	16.3
	178.9	130.8
Less: Client liabilities and progressive prize pools	(93.1)	(87.2)
	85.8	43.6

Cashflow

Year ended 31 December	2010 €million	2009 €million
Net cashflow from Continuing operations	86.3	86.3
Net cashflow from Discontinued operations	(22.6)	(11.0)
Net cashflow from operating activities	63.7	75.3
Issue of ordinary shares	1.8	1.6
Purchase of own shares	-	(2.8)
Proceeds from bank borrowings	-	38.7
Acquisitions	-	(92.3)
Acquisitions – deferred payment	(9.2)	-
Capital expenditure	(8.0)	(4.2)
Purchases of intangible assets	(3.8)	(2.9)
Other	4.1	0.1
Net cashflow	48.6	13.5

Net cashflow from Continuing operations was flat at €86.3m (2009: €86.3m) reflecting the increase in Clean EBITDA offset by costs associated with the merger with bwin. The net cashflow from Discontinued operations relates primarily to payments made to the US authorities in association with the Group's Non-Prosecution Agreement ('NPA'). The increase in 2010 reflects the first full year of payments associated with the NPA. Proceeds from bank borrowings in 2009 represented a loan of £35m from the Royal Bank of Scotland plc that was drawn in late December 2009 and becomes repayable by the end of 2012, with capital repayments starting in 2011. Acquisitions comprise the initial cash purchase of both Cashcade and World Poker Tour; the deferred payment on acquisitions comprises further consideration payable to the vendors of these businesses based upon their financial performance. The increase in capital expenditure in 2010 relates primarily to investment in computer equipment throughout the business.

Principal risks

The principal risks facing the Group are set out on pages 31 and 32 of this report.

By order of the Board of Directors

Martin Weigold

Group Finance Director

3 March 2011

26 Our markets, products and brands

The online gaming industry has grown rapidly since coming into being in the mid-1990s. It is a popular form of entertainment for millions of adults around the world and independent forecasters predict that the industry will continue to grow over the coming years.

Excluding the US and focusing on the four major product segments of sports betting, poker, casino and bingo, H2GC, a leading independent consultancy estimates that online Gross Gaming Yield ('GGY') in 2010 was \$21.4bn, up 12.0% on the previous year.¹ The consultancy also estimates that each of the four major online segments will continue to grow, reaching approximately \$30.5bn by 2015, implying a compound annual growth rate of approximately 7.3%. (Source: H2GC, February 2011).

In the last few years online gaming's development has benefited from the roll-out of broadband services; from significant investment by the online gaming industry to promote its services; from increased consumer confidence in effective and low-cost payment mechanisms; and from traditional bricks and mortar businesses making their products available on the internet.

Growth has also been driven by an expanding customer demographic. As the early adopters, who typically were in the 18–25 age-bracket, become older and continue to play, they are being joined by the next generation of gamers, many of whom now choose to enjoy their first gaming experience online rather than in land-based gaming premises. In addition to these factors, regulatory shifts and technological developments such as the introduction of smart phones and computer tablets can also be expected to increase online gaming as a proportion of total gaming revenue.

These forces have resulted in a highly polarised online gaming industry. In February 2011, Casinocity.com, an independent online gaming directory, listed 2,288 online casinos, poker rooms and other gaming sites that were open for business. However, only a small number of these sites have meaningful scale and most of them are small and are unlikely to establish a global footprint that can attract enough customers to generate significant revenues.

While the ready availability of third-party software makes it relatively straightforward for an operator to enter the market, the barriers to success are much higher and the advantages of scale have already resulted in the emergence of a few large players. These barriers can be expected to increase as regulatory shifts require operators to pay gaming taxes and incur compliance costs. It is widely expected that these developments are likely to result in further industry consolidation and the emergence of a limited number of international, multi-product operators.

As alluded to above, the online gaming industry is now entering an unprecedented phase of regulatory change. In Europe, as well responding to pressure from the European Commission to reduce trade barriers, an increasing number of countries are recognising the economic and consumer benefits that can be attained through implementing proper regulatory regimes for online gaming. Similar considerations are also taking place outside Europe in regions such as North and South America. This shift towards regulated markets, especially in Europe, can be expected to be a major factor affecting the evolution and direction of the online gaming industry over the next few years. Europe is a prime territory for PartyGaming.

The global online gaming sector, excluding the US can be divided into four prime categories. Excluding lotteries, which in the majority of cases are the preserve of state-controlled entities, sports betting is the largest segment, estimated to have been worth \$10.5bn of GGY in 2010 (48.1% of the market), followed by casino at \$5.1bn (23.5%), poker at \$3.7bn (17.2%) and bingo at \$2.4bn (11.2%).

¹ Source: H2 Gambling (Sp) Capital, February 2011

PartyGaming offers Party-branded offerings for all four of these categories through an integrated platform and a shared wallet that enables consumers to move seamlessly across all of its products without the need to have separate accounts or log-ins. Customers can play any Party-branded game once they have created and deposited in their unique Party Account.

We also offer a variety of games under different brands that reside on third-party technology platforms. If players choose to leave one of our Party-branded sites, we aim to use these brands, which offer an alternative gaming experience, to retain their custom.

Whilst PartyPoker is our flagship brand, we have successfully diversified our business in recent years and have established market leading positions in casino, principally through PartyCasino, and in bingo following the purchase of Cashcade in the summer of 2009. Sports betting was the smallest of our four main products in 2010 but, as we said we would, we remained focused on becoming a leader in this field and announced our proposed merger with bwin in July last year.

Poker

Looking at PartyGaming's product categories in turn, poker has been around for centuries and is arguably the world's favourite card game both offline and online. A main catalyst for the explosive growth in the early years of online poker was the World Poker Tour ('WPT'), which broke new ground in 2003 by televising high stakes tournaments that proved to be a hugely popular format.

Televised coverage of poker games has soared since the WPT enabled viewers to see each player's cards during a game, enhancing the broadcasting appeal of the game. The financial rewards available to players has also soared since poker became popular viewing on television, with a number of internationally renowned tournaments including the WPT and The World Series of Poker where players can win large prizes: the 2010 winner of the World Series of Poker, 23-year-old Jonathan Duhamel, scooped almost \$9m in prize money compared with the \$10.2m won on last year's ATP Tour by Rafael Nadal.

Acquired by PartyGaming in late 2009, the WPT has continued to extend its reach outside of the US by hosting six events in Europe in 2010. Also in 2010, WPT-branded poker and casino sites were launched on the PartyGaming platform. WPT programming was broadcast in over 150 countries.

Online poker operators have capitalised on the acceptance of gambling as a mainstream form of adult entertainment and the convenience offered by the internet. H2GC estimates that the global online poker market was worth \$5.1bn of GGY in 2010, a 6.6% increase over 2009. The US market remained a dominant force in online poker with H2GC estimating it generated \$1.3bn of global GGY yield in 2010, compared with \$1.2bn in the previous year.

Predicting the future growth rate and trends for global poker revenue is being made more difficult due to the changes to the regulatory landscape referred to above. Following the introduction of a ring-fenced market in Italy, where only residents based in the country can play against each other, France followed suit last year with its own ring-fenced regime.

More European countries are expected to roll-out regulated regimes for online poker, but it remains unclear as to whether they will adopt a ring-fenced approach or accept the industry's traditional pooled liquidity approach whereby players from different countries can play against each other on the same table. As a result of these developments, there are three distinct market models: regulated and ring-fenced so-called 'dot-national' markets, regulated and non-ring fenced and the unregulated, shared liquidity 'dotcom' market. As more countries regulate betting and gaming by their residents and assuming they also seek to ring-fence their player liquidity, so the unregulated dotcom market can be expected to grow more slowly, or even decline, while newly regulated markets expand.

Excluding the US, the global online poker market is forecast to achieve a CAGR of 10.4% between 2010 and 2015 when the total gross gaming yield from online poker is expected to reach \$6.1bn of GGY.¹

¹ Source: H2 Gambling Capital, February 2010. CAGR includes online poker, casino, bingo and sports betting.

Another useful independent data source that analyses poker player traffic is www.pokerscout.com. The site's analysis does have limitations as it is restricted to cash games only, excluding tournament games that typically constitute approximately 30% of total poker traffic. It also is unable to analyse the value of individual players. It does however provide a useful proxy for the overall structure of the market. Using data from the week ending 26 February 2011, the site showed the market shares of the top five leading operators as follows: PokerStars (41%), Full tilt (22%), PartyGaming (6%), iPoker (owned by Playtech) (5%) and OnGame (owned by bwin) (4%).

As mentioned elsewhere in this Annual Report, an unlevel playing field in the global poker market is being driven by the fact that a limited number of sites continue to accept real money customers from the US, which remains the largest individual online poker market in the world, but one where PartyGaming and other publicly listed companies believe it is prohibited to offer online poker games. This situation complicates the dynamics of the poker market as the US-facing sites are able to exploit their high levels of player liquidity and significant US profits in order to secure strong positions in other markets. It remains to be seen what action, if any, the authorities in the US will take against such companies.

In addition to the need for excellent software, multi-lingual customer services and safe and secure payments, sufficient player liquidity is a pre-requisite for success in online poker. It means that players can quickly find a table to play at the stakes they want. Being able to offer attractive tournaments and promotions are also important for success.

Despite the challenges presented by the unlevel playing field in online poker, PartyPoker.com, which was launched in 2001 is the world's third largest poker site in terms of player liquidity and is set to consolidate its position further following the completion of the merger with bwin that owns the Ongame network, the fifth largest pool of dotcom poker player liquidity. Poker remains a significant business segment for the Group, generating 34.9% of total revenue in 2010 (2009: 44%) and 19.2% of Clean EBITDA (2009: 32%).

In addition to the Group's PartyPoker.com site, PartyPoker.it which was launched in May 2009, PartyPoker.fr went live in July 2010 following the introduction of a regulatory regime for French residents by the French government. Our French site, which is outside of the Group's main poker liquidity pool, operates with a ring-fenced pool of French players and forms the cornerstone of the Group's French poker network that also includes our network services partner PMU, as well as white labels for AB Groupe and Aviation Club de France.

Casino

Poker is, however, just one part of the online gaming industry's growth story. Online casinos emerged in the mid-1990s and have grown strongly since then. Excluding the US, the global online casino market was estimated at \$5.1bn of GGY in 2010 and is forecast by H2GC to reach \$8.0bn by 2015, implying a compound annual growth rate of 9.3%.

Our online casino business has a global footprint and is a market leader, predominantly achieved through our main and also the industry's biggest brand – PartyCasino. Casino was our largest segment in 2010, generating revenue of €151.4m (2009: €136.3m) and Clean EBITDA of €52.7m (2009: €51.7m).

Casino players play against the 'house' and so player liquidity is not as important for delivering an enjoyable player experience. However, a large number of players is important as it means that operators can offer larger jackpot prizes that are a major attraction for casino customers. PartyCasino offers some of the largest jackpots on the internet: our *Melon Madness* slot, which was developed by our in-house team, re-seeds at \$1.5m after the jackpot has been hit. Big jackpot wins paid out on PartyCasino's slots in 2010 included £2.3m on *Sweet Hawaii*, £1.8m on *Fire Drake*, £1.9m on *Melon Madness* and £1.5m on *Snow Business*, another of our in-house productions.

PartyCasino's rise to the forefront of the online casino industry in recent years has been supported by the introduction of a variety of new content, including some unique slot games that have been developed in-house and incorporated into our portfolio. Image and media rights agreements with Hollywood studios and other companies have been used by our in-house team to produce an exclusive range of slots that include *The Godfather*, *Rambo*, *Terminator*, *Gone With The Wind* and *Resident Evil*.

We have also created several of our own branded games, drawing upon the skills of our in-house design team. The movie-branded slots as well as the other games developed in-house are amongst our most popular, generating attractive margins for the Group. However, PartyCasino customers can also enjoy a range of the many well-established online slot games that have been developed by third-party suppliers, including such titles as *Monopoly*, *Midas Millions* and *Cleopatra*.

Elsewhere, we continue to seek to improve some of our classic table games including blackjack and roulette and also through introducing innovative new games such as those that use live dealers.

Bingo

Our third largest product segment, our bingo business operates in a fast-growing but highly fragmented global market. H2GC estimates that the global online bingo market generated \$2.7bn of GGY in 2010, an increase of 22.1% over the previous year. Excluding the US, the global online bingo market was worth an estimated \$2.4bn in 2010. H2GC also forecasts that (excluding the US) bingo GGY will reach \$3.5bn by 2015, implying a compound annual growth rate of 7.7%.

The Group's position in online bingo was transformed in the summer of 2009 by the acquisition of Cashcade that owns some of the most popular online bingo brands in the UK. According to H2GC, the UK is the largest online bingo market in the world, generating approximately \$491.5m of GGY in 2010. PartyBingo, Foxy Bingo, Think Bingo and Cheeky Bingo are some of the Group's most popular bingo brands.

The acquisition of Cashcade has transformed our bingo performance, both in terms of revenue and Clean EBITDA. Together with PartyBingo, which went through a major make-over in 2010, our bingo sites collectively produced revenue in 2010 of €51.4m (2009: €22.8m) and Clean EBITDA of €15.2m (2009: €9.3m).

Like poker, player liquidity in bingo is important for long-term success. As a pari mutual game, the more players there are then the bigger the potential prizes on offer to customers. The online bingo experience has sought to replicate many of the offline bingo characteristics including the ability for players to socialise through online chat rooms.

Another important success factor and business driver for online bingo operators are side games – games played while the main bingo game is taking place. Our players have access to a broad range of games including our progressive jackpot slots *Melon Madness*, *Gold Mega Jackpot* and *Marvel Hero Jackpot*.

We are focused on expanding our bingo customer base outside of the UK and in late 2010 we launched a site into the Scandinavian market. Other potential markets for online bingo include Spain and a number of Latin American countries.

Sports Betting

Determined to secure a market leading position in each of our four product verticals, in July last year we announced our transformational merger with bwin, which is a market leader in sports betting.

In 2010 our sports segment, which comprised of the Gamebookers and PartyBets brands, generated €20.8m of net revenue and Clean EBITDA of €9.0m.

The global sports betting market is made up of a high number of private companies, making it difficult to obtain accurate market share data. However, excluding the US, it is estimated that the global online sports betting segment was worth \$10.5bn of GGY in 2010, up by 10.4% on the previous year. This growth is expected to continue with H2GC forecasting that it will reach \$13.4bn by 2015, a compound annual growth rate of 5.0%.

The popularity of different sports varies by territory which impacts the mix of wagers and the margins available to betting operators. Horse racing and football are particularly popular in the UK while football and tennis are among the most popular events in other parts of continental Europe.

Offering odds on a wide variety of sporting events is important. So too is scale, because a broadly-based pool of bets means that an operator is better able to manage its portfolio of risk. Punters bet against the 'house' and so it is possible for the operator to lose money if it fails to set odds correctly; but, across a wide variety of bets and events, an operator should be able to make a positive return, or gross win margin.

Other

In addition to poker, casino, sports betting and bingo, in 2010 we rebranded our PartyMarkets financial markets, spread betting and trading contracts for difference product as InterTrader.com. This site, which we classify as an emerging product, allows customers to make bets based on movements in the financial markets.

Our risks

Our approach to assessing and managing our risks remained focused on asking ourselves 'what if?' In 2010 we held 12 major workshops to assess whether any individual risk had increased, decreased or become obsolete since it was last assessed; to identify any new risks, especially from recent key business events; and to identify the likelihood of a risk occurring and its possible impact on the Group.

The workshops also help to ingrain the importance of risk management throughout all business functions. Facilitated by the Internal Audit & Risk Management team, the workshops involve key people from each of the Group's prime functions including Technology, Marketing, Human Resources, Operations, Finance, Legal and Company Secretarial.

Two high-level workshops were conducted by the Executive Risk Committee in 2010 and attended by the Executive Directors, primarily to ensure that all strategic risks were identified and to reach a consensus on the significant risks resulting from the 12 functional workshops. Finally, the Audit Committee then reviewed the outcomes from all 14 workshops on two separate occasions.

Many of the threats and challenges faced by online gaming companies are similar to those faced by other leisure and entertainment industries. They include competition, changes to consumer tastes, maintaining healthy financial ratios in compliance with banking covenants, loss of key personnel and so on.

There are also certain risks that are more specific to PartyGaming and to the online gaming industry that deserve particular mention. They can be categorised under four main groups, being: technology, regulation, an unlevel playing field in online poker and taxation. Additionally, there are specific risks associated with PartyGaming's merger with bwin.

Technology

Beginning with the four main risk groups, improving our gaming platform and products is a never-ending and vital process that helps maintain our competitive edge, keeps us abreast of evolving consumer tastes and upholds our valuable reputation for offering responsible, safe and secure gaming online.

Most of our gaming technology is proprietary, which means that we are better placed to manage risks associated with technological and regulatory change compared to competitors that are heavily reliant on third-party software and systems.

However, we share the industry's general risks that arise from sourcing broadband and communications, data management and storage services as well as a raft of other services from external suppliers. We seek to offset these risks through ensuring we are not overly reliant on any single supplier as well as having in place fully functional disaster recovery centres.

Regulation and compliance

Regulation and compliance is probably the most complex of our main risk groups and is a critical management process for the Group. Our international reach across many different regimes requires that we cater for what is a complex web of political and cultural attitudes towards online gaming. Our compliance obligations range from the administration of our gaming licences in Gibraltar, Italy, France and Alderney to assessing what impact country-specific and pan-regional rules and regulations might have on our business and the wider industry. Whilst attitudes towards online gaming as a leisure pursuit continue to evolve, there is always a risk that certain territories may seek to outlaw online gaming entirely or one or more of the products we offer.

We advocate that the best way to protect consumers is to license and regulate online gaming, a concept that is now being addressed by several countries around the world and particularly so in Europe: in 2010 France joined the UK, Malta and Italy by introducing online gaming regimes for online sports betting and online poker only (bingo and casino were excluded, at least for now). However, unlike the UK, the Italian and French governments have sought to ring-fence their national markets. Denmark is expected to follow the UK and Malta by adopting a more progressive regulatory model in 2011 with the regulation of poker, sports betting and casino games and at the same time allow its residents to play against players from other countries. Italy is poised to further liberalise its market with the opening of cash game poker, certain casino table games as well as online bingo. Spain, Germany, Greece and Holland are among several European countries that are now actively considering developing their own regulatory regimes.

We remain of the view that our conservative approach and proven management of regulatory compliance, together with the scale that we will enjoy following the merger with bwin will result in significant business opportunities over the medium to longer term.

Unlevel playing field in poker

Without regulatory change in the US, we and many other online poker operators can expect to continue to face a tough competitive environment, particularly against those sites that accept online gaming customers from the US. To mitigate the impact of this unlevel playing field in online poker, we are concentrating our efforts on operational excellence, increasing our brands' strength and keeping the consumer at the heart of everything we do.

Taxation

Taxation is the fourth category of risk which we believe is material. Group companies operate only where they are incorporated, domiciled or registered. 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. We manage these risks by considering tax as part of our business planning.

Integration with bwin

The process of integrating PartyGaming and bwin is expected to be complex and represents a substantial challenge for the Directors and the rest of the management team. In particular, combining the resources of two groups that rely upon different technology platforms may prove costly and difficult to achieve technically. Second, the integration of the two groups is expected to require substantial management attention and other resources. While there can be no guarantee that all elements of the integration will be successful, both PartyGaming and bwin expect that the significant investment in planning and preparation that has already taken place will help to ensure a smooth transition. An in-depth analysis of the risks faced by PartyGaming and bwin and bwin.party can be found in the Circular and Prospectus published on 23 December 2010 and available at www.partygaming.com.

Our values Responsibility

We are focused on the long-term returns that can be obtained from committed investment in responsible business practices.

Corporate Social Responsibility ('CSR') is a long and complex chain of many different and individual steps, meaning that we have to draw upon both internal and external expertise and procedures to ensure that our high standards are not undermined. We have invested large amounts of human as well as financial capital in building the requisite trust and confidence in our products and brands to succeed and as a result are not prepared to compromise on anything that might damage these important attributes in the eyes of our key stakeholders.

Our high ethical standards apply to all aspects of our business: how we deal with our customers – the fairness and integrity of our games have to be upheld and ring-fenced; they also apply to our suppliers and how we agree to do business together; as well as our employees through a variety of channels from health and safety to non-discriminatory employment terms and conditions. But acting responsibly is not just about how we operate and interact with our immediate stakeholders. We also believe we should put something back into society through charitable donations and via a *pro bono* scheme for employees.

We believe that it is important to have both a high level and independent oversight of responsible gaming and wider CSR initiatives. Martin Weigold, Group Finance Director, has executive responsibility for our CSR-related matters, a role he has held since 2005. The overall process is overseen by the Ethics Committee of the Board, which is chaired by Tim Bristow who became an Independent Non-Executive Director in 2007.

The Committee comprises three other Board members, being Rod Perry, Lewis Moonie and Rami Lerner, who meet to consider ethical and social matters relating to all of our activities and are responsible for preparing and maintaining the Group's ethical and social policies.

While there is no formal requirement to have an Ethics Committee, the Board agreed back in 2005 that the importance of CSR to the long-term prospects of the Group justified its formation. The Committee has a broad remit, it includes reviewing the adequacy of our CSR-related policies, proposals and procedures, which in turn include, responsible gaming, compliance with our gaming licences, anti-money laundering, the fairness and integrity of our gaming systems as well as our impact on the environment and the communities where we have offices.

GoodCorporation

As referenced in the Chairman's Statement on page 7, since 2005 we have been subject to an independent assessment of our stakeholder management and policies by GoodCorporation, which has gained worldwide recognition as one of the leading organisations working in the field of corporate responsibility and business ethics.

The conclusion of the GoodCorporation 2009/10 report was an 'overall strong performance' by the Group. We were commended for our support for community activities and received merits for 45% of the policies and processes assessed by GoodCorporation.

Following our announced merger with bwin, we chose not to conduct a separate assessment in 2010/11 but we did continue to address areas that were identified as having room for improvement in the GoodCorporation 2009/10 report.

Examples of some of the areas we addressed in 2010 were as follows:

- > Reorganisation management: with regards to concerns raised by employees in London, we focused on improving the skills of our Human Resources staff so that they could in turn coach all line managers about how to better communicate business restructuring plans and to manage the transition to a new organisational structure.
- > Health and Safety: gaps were identified in this area at recently acquired companies. Health and Safety representatives have now been appointed in each location and are co-ordinated centrally from Gibraltar to establish core standards for first aiders, fire marshals and basic health and safety policy across all offices.
- > Training: training was not discussed systematically in staff appraisals. Managers now know how to discuss training opportunities as part of the employee appraisal process and we have also launched a 'Learning All Sorts' portal through which employees can gain access to more than 6,000 hours worth of training programmes for a wide variety of subjects and disciplines.
- > Responsible gaming: to address some inconsistent use of responsible gaming messages, we conducted a full audit to ensure a responsible gaming link and 'No under 18s' message on the home page of all of our websites.
- > Affiliate advertising: we tightened up on the terms and conditions for all affiliates to ensure that any advertising on young people's websites will not be tolerated under any circumstances.
- > Protection: a system has been put in place to ensure that responsible gaming training is undertaken by all staff, not just customer-facing staff and anti-money laundering training is also undertaken by all relevant staff.

Following completion of the merger, it is expected that a formal review of the policies and procedures for bwin.party digital entertainment plc will be conducted as soon as is practicable.

The remainder of this section of the Annual Report gives insight into our approach to responsible gaming, our relationships with employees and customers, and how we interact with our suppliers, local communities, the environment, shareholders and other providers of capital.

Our relationships

Customers and responsible gaming

The clear message we want all of our customers to understand and adhere to when playing on our sites is: 'Know your limits'. For the vast majority of people, gaming is a source of great entertainment and fun. However, as with many other consumable products and services, for a very small minority, gaming can cause problems and we are committed to doing our part to ensure that this is kept to a minimum.

Prevalence studies conducted in several countries in recent years show that the incidence of problem gambling is low, typically less than 1%. However, as a responsible gaming company, our objectives are to prevent underage gambling, protect the vulnerable and keep out crime. Our philosophy is that 'prevention is better than cure' and this is core to our approach to responsible gaming. It also makes good business sense by reducing fraud and preserving our reputation as a responsible operator.

Protecting children is of paramount importance. As well as appropriate messaging on our sites and all our advertising, we make extensive use of third-party age verification tools to prevent children from playing on our gaming sites.

We are already using the very best technology available in this area and will continue to look at other solutions as more accurate and sophisticated child protection and know-your-customer technology is developed.

Whilst we acknowledge no system can be guaranteed as being 100% secure, we continue to strive to achieve this goal.

Responsibility is not just about customer ID and child protection. When it comes to responsible gaming, this presents a different set of challenges for the Group. Determining what player behaviour might constitute 'problem gambling' is extremely difficult. Whilst we can see how a player behaves on our sites, we do not know about their personal circumstances, their lifestyle or income, all of which are important for identifying problem gambling. Even after years of research into the subject, the leading academics in this field cannot agree on a single definition of what is a 'problem gambler'.

As an industry we are investigating whether or not it may be possible to prevent potential problems before they manifest themselves by building predictive models based on historic player behaviour. Whether such research will ultimately be successful in its goal is unknown but in the meantime our approach is to encourage players to take control of their own gaming experience through the use of a series of responsible gaming tools that are available on all our sites.

These include session timers, so players know how long they have been playing, as well as tools to help them assess whether they may be gambling too much and if so, who they can talk to in order to get expert help. We encourage players to set deposit limits when they first join one of our sites, again to take control of their spending behaviour. We also have an automated self-exclusion and account closure system so that players can choose to take a break by using an easy-to-use online calendar. With all of these tools, once a limit has been set by a customer it cannot then be countermanded – 'no' really does mean 'no'.

We know that even with such tools in place, there will be a small percentage of customers that refuse to use them and/or refuse to recognise the fact that they may have a problem. This is especially true at the far end of the spectrum where pathological disorders may cause irrational gambling behaviour and these remain the subject of medical research.

While the percentage of players with such problems is very small and the fact that the vast majority of our customers adopt a sensible approach to gaming on our sites, complacency is not on our agenda: we remain committed to advising and helping customers to know and play within their limits.

As well as conducting our own extensive testing of all games before launch, we also engage approved testing houses on a regular basis to ensure that our games are fair and that statistical outcomes are as expected, in line with game rules. We also monitor playing behaviour, protecting players from anyone seeking to gain an unfair advantage by cheating or in contravention of our terms and conditions.

It goes without saying that preventing crime and ensuring our systems and payments are secure is a key priority for us. With representation on the Gaming Committee of the International Money Laundering Prevention Officers, Anti-Money Laundering Europe, the Remote Casino Working Group of the Financial Action Task Force, and the Remote Gambling Association's ('RGA') Anti-Crime, Regulatory, International and Social Responsibility forums, the Group takes the issue of tackling crime very seriously.

Once developed and approved by senior management and the Ethics Committee, responsible gaming policies and procedures are then permeated throughout the rest of the organisation. All of our employees are required to take regular online training for responsible gaming issues using a programme developed with GamCare, which also certifies annually that we do what we say when it comes to responsible gaming. Responsibility is a feature of all of our business activities ranging from software development and game design, right through to marketing and customer service.

We aim to ensure that our games do not incorporate items that research indicates may encourage uncontrolled gaming by customers and our marketing staff undertake responsible gaming training on a regular basis. This is in addition to ensuring that our advertising complies with local laws and also with the Advertising Code developed by the British Advertising Standards Agency. Our 'Know Your Limits' campaign is reinforced by our voluntary promotion of www.gambleaware.co.uk that appears on all of our UK advertising.

Whilst we have invested heavily in seeking to prevent customers from developing gambling-related problems, we recognise that some will slip through the net. In an effort to try and help those that do, we subscribe to the Gambling Therapy Service that helps players to obtain information about responsible gaming and to seek counselling, if required, using an online service that is offered in more than 20 languages.

We participate in several international associations and councils that seek to promote responsible gaming issues. In addition to being a member of the two main industry associations – EGBA and the RGA – we have also received accreditation for fair gaming, player protection and responsible operator conduct by eCOGRA, a non-profit organisation.

We recognise that as the world's leading listed online gaming company that is also a member of the FTSE4Good Index Series of Companies, we have an important role to play in leading the industry in this important area – it is one we are proud to accept.

36 Our relationships Employees

As a pure online business, in addition to our brands and our technology, our people represent a key asset. As a result, we place a premium on having highly-skilled, self-motivated and dynamic employees who understand what our business needs to succeed in a fast-moving and highly competitive industry.

Our high expectations are matched by the potential rewards on offer for employees. We seek to correlate closely an individual's overall remuneration package with their contribution to the success of the Group through a mixture of short-, medium- and long-term incentives. These include competitive salaries, employee share plans and an annual bonus scheme linked to Clean EBITDA performance.

This reward process and all of our employee data, is managed through 'Pi', the Company's Enterprise Resource Planning tool. This provides transparency for managers and employees on the appraisal process and allows individuals to actively participate in their own objective-setting and assessment, as well as identifying areas for further training and development.

We take training and development seriously. With a well-trained workforce we can exploit new systems, software and management tools to seize new opportunities and guard against potential competitive threats.

In 2010, we added a programme of Learning for all employees to tap into, anytime, anywhere and anyplace. Branded 'Learning Allsorts' this 24/7 E-Learning solution offers a vast range of both technical and skills-based training. Being an online business, learning using this method has become extremely popular with more than 300 days of training being undertaken by more than 750 users in the first eight months since its introduction.

We continued to run our in-house training programmes which have this year been accredited by the Institute of Training & Occupational Learning ('ITOL') giving our employees recognised certification on completion of different development programmes ranging from general office skills to a senior management diploma. Across the Group we have run 780 days of training which has been attended by 1,970 delegates.

We also continue to ensure that as a group we are fully compliant with our regulatory training and based on rolling figures to take into account new starters as at the end of 2010. A total of 95%* of all employees had completed our GamCare accredited social responsibility course.

Our focus on improving communication across the Group remains undiminished, because we believe that it fosters a well-motivated and engaged workforce and helps to ensure that employees understand and commit to our business strategy.

As at 31 December	2010	2009	2008
Headcount	1,380	1,301	1,191
Male:Female	66:34	66:34	69:31
Nationalities	39	34	26
Voluntary staff turnover	14%	11%	21%
Grievances	29	12	19
Redundancies	43	83	114
Working hours lost to sickness	1.4%	1.7%	1.4%

* Less than 100% owing to new starters and leavers.

Our relationships

Suppliers

The supply chain for our business is overseen by a centrally-based procurement team that adheres to set policies and procedures that are designed to alleviate exposure to risks and to foster long-term business alliances. Arm's-length relationships with all our suppliers is paramount to ensure the best products and services are procured at the best prices and all our suppliers must adhere to the Group's procurement policy.

Our Enterprise Resource Planning system governs each stage of the supply chain and we have a preferred list of significant suppliers covering a wide range of goods and services. New suppliers have to undergo a competitive tender process and have their financial strength, quality control and business ethics assessed.

Excluding more than 5,200 unique active suppliers that constitute our affiliate network, in 2010 we used more than 1,650 suppliers for a wide range of goods and services, up from around 1,050 the year before. In terms of financial value, our largest supplier provided €5.4m of goods and services to us during the year and there were 13 other companies that were paid over €1.5m in 2010. The wide range of goods and services provided by our key suppliers includes broadband and other telephony services, creative design, computer hardware and software, advertising, marketing agencies, affiliates and media buyers.

We take pride in ensuring that we settle invoices promptly, taking an average of 15 days to pay for trade purchases in 2010 compared with 30 days in 2009.

Our relationships

Environment and community

While we are a low impact company compared to many other corporations, we are committed to minimising our environmental impact by reducing our consumption of utilities, materials and travel by employees. Measures undertaken in our offices include high efficiency servers, switching off air-conditioning outside of normal office hours, using energy efficient light sources and ensuring computer and electrical equipment is switched off when not in use.

We maintain a tight rein on employee travel. All travel by air or rail is recorded and has to be approved by executive management. Greater use of video conferencing facilities between offices benefits the environment, our finances and also productivity by reduced travel time. We do not have a company car scheme and staff use public transport whenever possible.

In 2010, our head office in Gibraltar achieved recertification for the international standards in Health and Safety (OHSAS 18001: 2007) and Environmental Management Systems (ISO 14001: 2004), which help us monitor and improve our environmental performance that includes recycling a broad range of materials wherever practicable and encouraging employees to save paper by printing documents in black and white, double-sided or preferably not at all. All of our other offices are in the process of being independently assessed to the same standards.

As an employer with several offices around the world we also seek to put something back into the local communities where we have operations through a combination of both *pro bono* activities by our staff as well as through philanthropic contributions.

The Group's philosophy on putting something back into the community has been fully embraced by our staff. More than 46% of our workforce participated in *pro bono* activities in 2010, up from 39% in 2009. This impressive achievement has been fostered by our policy to enable employees to spend between 4-8 hours of Company time on charitable, community or environmental projects so that they can enhance their personal development whilst returning something to our local communities.

The Group allocates between 0.2% and 0.25% of the prior year's Clean EBITDA towards worthy causes. We donated €212,690 to charities in 2010, of which €134,000 went to organisations associated with problem gambling including the Gambling Research, Education and Treatment Foundation in the UK, Gambling Therapy Services, an industry-wide project that provides counselling services in 22 different languages for problem gamblers, and Adictel in France.

Our relationships

Shareholders and other providers of capital

Since becoming listed on the London Stock Exchange's Main Market on 30 June 2005, PartyGaming has built strong and lasting relationships with many investors and other providers of capital through a process of open access to our senior management team and a high level of transparency, especially with regards to financial disclosure.

Our half-year and full-year financial results, as well as our quarterly Key Performance Indicators and Interim Management Statements, help to keep analysts and investors informed about our trading performance and operational developments.

Besides these updates and the information contained on our corporate website and in other published documents, we have established a regular communication programme of face-to-face meetings, webcasts, conferences and conference calls with shareholders, investors and other stakeholders. This is complemented by analyst research from several leading financial institutions, each of which contribute to an independent analysis of all market forecasts for the Group. A summary of this analysis is regularly updated and made available on the Group's website at www.partygaming.com.

Board of Directors

Rod Perry (65) [^]•••

Non-Executive Chairman

Rod Perry was appointed as Non-Executive Chairman of PartyGaming in August 2008. He originally joined the Group in April 2005 and became a Non-Executive Director in May 2005. Rod had previously 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 was appointed to the executive committee in 1997. He retired from the 3i board in July 2005.



Jim Ryan (49) •

Chief Executive Officer

Jim Ryan joined PartyGaming in June 2008. Prior to joining PartyGaming, he was Chief Executive Officer of St. Minver Limited and he has also held senior posts at two publicly listed companies as President and Chief Executive Officer of Excapsa Software Inc and as Chief Financial Officer of CryptoLogic Inc. Educated at Brock University in Ontario, Canada, where he obtained a business degree with first class honours, Jim obtained professional qualifications as a Chartered Accountant from the Canadian Institute of Chartered Accountants.



Martin Weigold (45)

Group Finance Director

Martin Weigold joined PartyGaming in January 2005. Prior to joining the Group, 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. Other posts have included the Vice President of Finance of Walt Disney Television International. 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.



Key to Committees

- Audit Committee member
- Remuneration Committee member
- Nominations Committee member
- Ethics Committee member

"^" indicates Chairman of the Committee

Lord Moonie (64) ◆◆◆◆◆**Senior Independent Director**

Lord Moonie joined the Group in December 2007 as an Independent Non-Executive Director, and became Senior Independent Director in August 2008. Before being made a Life Peer he was the Member of Parliament for Kirkcaldy between 1987 and 2005. He held the position of Under Secretary for State at the Ministry of Defence between January 2000 and June 2003. Before becoming an MP, he studied medicine and was a consultant in public health medicine, a senior medical adviser and clinical pharmacologist in the pharmaceutical industry.

**Tim Bristow (55)** ◆◆◆◆◆**Independent Non-Executive Director**

Tim Bristow has been an independent Non-Executive Director of PartyGaming since May 2007. Tim is the Chief Executive Officer of Gibtelecom, Gibraltar's primary telecommunications provider. His past directorships mainly include Gibraltar-based subsidiaries of the Northumbrian Water Group, Verizon and British Telecom. Tim was formerly the Financial and Development Secretary of Gibraltar. He was previously a Director at the National Audit Office in London, where he trained as an accountant after graduating and had experience of working with United Nations agencies.

**Rami Lerner (56)** ◆◆◆◆◆**Non-Executive Director**

Rami Lerner joined the Group in March 2009 as a Non-Executive Director. Previously he served in Israel's Prime Minister's Office from 1981 to 2003, finishing his career as an Executive Senior Officer. Between 2003 to 2005 he was the Chief Executive Officer of the Society for the Protection of Nature in Israel. Currently he is the Managing Director of his family's investment fund.



Directors' report

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The Board of PartyGaming presents the Directors' report and the audited financial statements for the Group for the year ended 31 December 2010.

The Directors

The current Directors of PartyGaming are listed on pages 40 and 41 together with a biography of each individual. Biographies of the Directors joining the Board on completion of the merger with bwin are set out on page 107 of the Circular and in the 2011 AGM Notice.

Principal activities and business review

The Group is the world's leading listed online gaming company and owns and operates a number of well-known brands including, PartyPoker, PartyCasino, PartyBets, Gamebookers, PartyBingo, World Poker Tour and PartyGammon as well as a number of other gaming sites. These brands operate under gaming licences held by companies within the Group and which have been granted by the Government of Gibraltar, Alderney's Gambling Control Commission, Italy's AAMS and France's ARJEL.

The Group is headquartered and operates from Gibraltar and the Company and a majority of its subsidiaries are registered in Gibraltar.

Significant events in 2010

During 2010 the following significant events occurred:

- > On 29 July 2010, PartyGaming Plc and bwin Interactive Entertainment AG announced they had agreed the basis of a proposed merger of PartyGaming Plc and its subsidiaries and bwin Interactive Entertainment AG and its subsidiaries.
- > The merger will be effected by way of a merger by acquisition pursuant to the Cross-Border Mergers Directive (2005/56/EC) in accordance with which, at completion of the merger, bwin Interactive Entertainment AG's assets and liabilities will be transferred to PartyGaming Plc and bwin Interactive Entertainment AG will be dissolved without going into liquidation. It is proposed that, conditional upon and with effect from completion of the merger, PartyGaming Plc (as the absorbing entity) will be renamed bwin.party digital entertainment plc. bwin.party will remain registered in Gibraltar, where the central management and operational headquarters following the merger of its group of companies will also be located. Details of the merger are contained in the Company's Prospectus and Circular published on 23 December 2010 and available on the PartyGaming corporate website.

- > On 1 July 2010 the Group was awarded licences by ARJEL, the French Gaming Regulator, to operate online poker and sports betting websites for residents in France effective immediately. The Group signed exclusive B2B deals with PMU the largest pari-mutuel horse racing company in France, AB Groupe, a leading TV broadcaster and Aviation Club de France a prestigious card room and exclusive private members' club.

- > Simon Duffy's appointment as the new Chairman on completion of the merger was a significant step for the Board in 2010 as a move towards the final stages of preparation for the merger. Mr Duffy has held numerous executive, non-executive and advisory positions in major corporations across a wide range of business sectors. His appointment takes effect on completion.

- > It was also with great sadness that the Company announced the death of Stephen Box in March 2010 who had served on the Board of Directors as a Non-Executive Director since his appointment in 2007.

A review of these events and the Group's business and prospects are set out in the Chairman's Statement on pages 6 and 7, the Chief Executive's Review on pages 8 to 13 and the Review of 2010 on pages 14 to 25. A description of the principal risks and uncertainties facing the Group are set out in the 'Our risks' section on page 31.

Results and dividend

The Company did not pay an interim dividend during the year ended 31 December 2010 and, for the reasons set out in the Chairman's Statement, the Board is not recommending the payment of a final dividend in respect of 2010. As disclosed in the Prospectus and Circular, the Company's dividend policy post completion of the merger has not yet been determined and will be decided by the Board after completion, taking into account the balance between investor expectations and the capital demands required to promote the combined Group's organic growth strategy and engage in future acquisition opportunities.

Events subsequent to the year end

On 28 January 2011 PartyGaming's and bwin's shareholders overwhelmingly approved the merger of the two businesses. Page 303 of the Circular sets out the nine resolutions approved by PartyGaming's Shareholders. As at the date of this report, it was anticipated the merger will be effected on 31 March 2011 once the Gibraltar Supreme Court order sanctioning the transaction takes effect.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review and Review of 2010 from pages 9 to 25. The financial position of the Group, its cashflow, liquidity position and borrowings are set out in the aforementioned section. In addition, note 26 to the financial statements on page 97 includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources together with a large number of players and long-term contracts with a number of corporate customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe the Group is well placed to manage its business risks successfully despite the current challenging economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report.

Customer and creditor payment policy

The Group is committed to prompt payment of customer cashout requests and maintains adequate cash reserves to cover customer withdrawals and balances. Normally payments will be made to customers within seven days of receiving 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 informs the supplier without delay and seeks to settle the dispute quickly.

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. The Chief Executive Officer is the Director who reports on and takes responsibility on the Board for the Group's employees and associated policies.

Charitable and political donations

For the year ended 31 December 2010 the Group made charitable donations of €212,690 (2009: €204,813). The Group has not made any contributions to any political parties.

Share capital and Shareholders

Shares in issue

During 2010 the Company issued 709,610 ordinary shares of 0.015 pence each ('Shares') under the Company's block listing in respect of the PartyGaming Plc All-Employee Option Plan. As at 31 December 2010 there were 413,061,701 Shares in issue. From the year-end to 28 February 2011 a further 3,671 Shares have been issued under the aforementioned block listing and as a result, as at 28 February 2011 there were 413,065,372 Shares in issue.

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.

Authorised share capital

As at 28 February 2011 the Company has an authorised share capital of £105,000 divided into 700,000,000 Shares.

Pursuant to the resolutions passed by PartyGaming Shareholders at the EGM held in Gibraltar on 28 January 2011, from the Gibraltar Supreme Court order sanctioning the merger becoming effective the authorised share capital of the Company will be increased from 700,000,000 ordinary shares to 1,500,000,000 ordinary shares (and so from £105,000 to £225,000) by the creation of 800,000,000 new ordinary shares of nominal value of 0.015 pence each in the capital of the Company.

Allotment Authority

At the 2011 EGM the Directors were authorised to allot £67,500 (representing, in aggregate, 450 million new Shares) to facilitate the issuance of new Shares to the bwin shareholders in order to effect the merger. This authority will expire at the conclusion of the 2011 AGM (or, if earlier 29 July 2011) and is in addition to the authority granted at the 2010 AGM, which authorised the Directors to allot new Shares up to an initial aggregate nominal amount of £20,575 (137.16 million Shares), with a further authority to allot further new Shares up to an aggregate of £20,575 to be used only for a fully pre-emptive rights issue. This 2010 AGM authority expires at the Company's 2011 AGM (or, if earlier, at close of business on 29 July 2011).

The Directors were also empowered at the 2010 AGM, pursuant to the Articles, to allot Shares for cash, pursuant to the above 2010 AGM authority, as if pre-emption rights did not apply to the allotment, provided that such authority be limited to (i) the allotment of shares in connection with a rights issue, open offer or any other pre-emptive offer in favour of Shareholders, but subject to such exclusions as may be necessary to deal with the 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 Shares for cash up to an aggregate nominal amount of £3,093 (20.62 million Shares). This authority also expires at the Company's 2011 AGM (or, if earlier, at close of business on 29 July 2011).

Directors' report

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The 2010 AGM authorities have not been utilised to date.

Authority to buy-back Shares

At the 2010 AGM a special resolution was passed authorising the Company to purchase up to 10% of its issued share capital. To date no Shares have been purchased under this authority, which expires at the Company's 2011 AGM (or, if earlier, at close of business on 29 July 2011).

Non-voting Shares

As at 28 February 2011, of the 413,065,372 Shares in issue, 3,994,588 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 Shares 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 exercise of share options under certain Share Plans.

Significant Shareholders

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	Shares held as at 28 February 2011	% of total issued Shares	% of total voting rights ⁽⁸⁾
Emerald Bay Limited ⁽¹⁾	58,498,667	14.16	14.30
Stinson Ridge Limited ⁽²⁾	58,498,666	14.16	14.30
FIL Limited ⁽³⁾	41,398,453	10.02	10.12
Janus Capital Management LLC ⁽⁴⁾	33,083,038	8.01	8.09
Prudential plc ⁽⁵⁾	23,452,615	5.68	5.73
Steinberg Asset Management, LLC ⁽⁶⁾	20,773,667	5.01	5.08
Black Rock, Inc. ⁽⁷⁾	20,663,593	5.00	5.05
Employee Trust ⁽⁸⁾	3,994,588	0.97	n/a

(1) Emerald Bay Limited is a company wholly-owned by Ruth Parasol a Principal Shareholder. Ruth Parasol and Russell DeLeon (see note 2 below) are married.

(2) Stinson Ridge Limited is a company wholly-owned by Russell DeLeon, a Principal Shareholder. Russell DeLeon and Ruth Parasol (see note 1 above) are married.

(3) Fidelity International Limited informed the Company of its holding on 18 August 2010 and the above disclosure is based on that notification.

(4) Janus Capital Management LLC informed the Company of its holding on 8 February 2011 and the above disclosure is based on that notification.

(5) Prudential plc informed the Company of its holding on 22 October 2009 and the above disclosure is based on that notification.

(6) Steinberg Asset Management, LLC informed the Company of its holding on 17 February 2011 and the above disclosure is based on that notification.

(7) Black Rock, Inc. informed the Company of its holding on 29 September 2010 and the above disclosure is based on that notification.

(8) As at 28 February 2011, PartyGaming had a total of 413,065,372 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 28 February 2011 the total number of Shares with voting rights was 409,070,784.

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') such Principal Shareholder undertakes to:

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

On completion of the merger a new relationship agreement between the Principal Shareholders and the Company dated 29 July 2010 comes into effect. It reduces the period of prior notice from not less than ten business days to not less than four business days.

Directors' share interests

The beneficial interests of the Directors in office at 31 December 2010 in the issued share capital of the Company are set out in the Remuneration report on page 69 of the Annual Report.

2011 Annual General Meeting

The notice of the 2011 AGM together with the associated explanatory notes are set out in a separate document accompanying the Annual Report.

By order of the Board of Directors

Robert Hoskin
Company Secretary
3 March 2011

Corporate governance statement

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Introduction

PartyGaming has a premium listing for its Shares on the London Stock Exchange and is therefore required by the Financial Service Authority's ('FSA's') Listing Rules to comply, or explain non-compliance, with the principles set out in the Combined Code on Corporate Governance (the 'Code'). In addition, the Company is also required to comply with the corporate governance requirements set out in the FSA's Disclosure and Transparency Rules.

Throughout the year to 31 December 2010, the Company has complied fully with the Code's principles except, as detailed below, in respect of (i) the independence of the Board, (ii) the membership of the Audit Committee, (iii) the membership of the Remuneration Committee, (iv) the performance-related elements of Executive Director remuneration and (v) executive share options being offered at a discount.

The Current Directors

Director	Age	Position	Committees	Date of appointment	Date of last re-appointment	Date of resignation
Rod Perry	65	Non-Executive Chairman (since 29 August 2008)	Chairman of the Nominations Committee since 29 August 2008 (appointed as a member on 31 May 2005) and since 31 May 2005 a member of the Remuneration Committee (chairing it between 10 May 2007 to 29 August 2008) and Ethics Committee (chairing it between 31 May 2005 to 10 May 2007). A member of the Audit Committee from 31 December 2006 to 29 August 2008 (chairing it from appointment until 13 December 2007)	31 May 2005	7 May 2009	-
Jim Ryan	49	Chief Executive Officer	Member of the Nominations Committee (appointed 21 August 2008)	30 June 2008	7 May 2009	-
Martin Weigold	45	Group Finance Director	-	4 April 2005	7 May 2009	-
Lewis Moonie	64	Senior Independent Non-Executive Director	Chairman of the Remuneration Committee since 29 August 2008 (appointed 13 December 2007), chaired the Audit Committee since 29 April 2010 (appointed a member on 13 December 2007) and a member of the Nominations and Ethics Committees (appointed 13 December 2007)	13 December 2007	29 April 2010	-
Tim Bristow	55	Independent Non-Executive Director	A member of the Audit, Remuneration and Nominations Committees and Chairman of the Ethics Committee (appointed 10 May 2007)	4 May 2007	29 April 2010	-
Rami Lerner	56	Non-Executive Director	A member of the Ethics and Nominations Committees (appointed 4 March 2009 and 15 December 2009 respectively)	4 March 2009	7 May 2009	-
Stephen Box	59	Independent Non-Executive Director	Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees (appointed 13 December 2007)	13 December 2007	15 May 2008	6 March 2010*

* PartyGaming announced on 8 March 2010 that Stephen Box had died after a period of illness.

Corporate governance statement

The Directors after the bwin Merger

Director	Age	Position	Committees
Simon Duffy	61	Chairman	Nominations Committee (Chairman) Integration Committee
Jim Ryan	49	Co-Chief Executive Officer	Integration Committee Nominations Committee
Norbert Teufelberger	45	Co-Chief Executive Officer	Integration Committee Nominations Committee
Joachim Baca	39	Chief Operations Officer	-
Martin Weighold	45	Chief Financial Officer	-
Rod Perry	65	Deputy Chairman and Senior Independent Director	Remuneration Committee (Chairman) Audit Committee Integration Committee Nominations Committee
Per Afrell	53	Independent Non-Executive Director	Ethics Committee Nominations Committee Remuneration Committee
Tim Bristow	55	Independent Non-Executive Director	Ethics Committee (Chairman) Audit Committee Nominations Committee
Manfred Bodner	48	Non-Executive Director	Integration Committee (Chairman) Nominations Committee
Helmut Kern	45	Independent Non-Executive Director	Audit Committee (Chairman) Ethics Committee Nominations Committee Remuneration Committee
Rami Lerner	56	Non-Executive Director	-
Lewis Moonie	64	Independent Non-Executive Director	Ethics Committee Nominations Committee Remuneration Committee
Georg Riedl	51	Non-Executive Director	Nominations Committee

Biographical details of the current Directors are set out under the 'Board of Directors' section of the Annual Report on pages 40 and 41. Biographies of the new Directors joining the Board on completion of bwin merger are set out on page 107 of the Circular and in the 2011 AGM Notice.

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 assess and manage risk.

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. These can be categorised into a number of key areas including but not limited to:

- > Long-term business plan, strategy, budgets and forecasts;
- > Restructuring or reorganisation of the Group and material acquisitions and disposals;
- > The Group's finance, banking and capital structure arrangements;
- > Approval of capital expenditure and financial guarantees above certain levels;
- > Financial reporting (interim and annual financial results and interim management statements);
- > Dividend policy;
- > Shareholder circulars, convening Shareholder meetings and stock exchange announcements;
- > Approval of the Group's remuneration policy (following recommendations from the Remuneration Committee);
- > Approval of the Group's risk management and control framework and the appointment/re-appointment of the external auditors (following recommendations from the Audit Committee);
- > Approval of the Group's policies in relation to corporate and social responsibility, health and safety and the environment.

The Board and its committees met in Gibraltar throughout 2010 and details of the number of meetings and attendance records are set out in the table below.

	Total number of scheduled meetings held during the year ended 31 December 2010 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	9	3	3	1	6
Rod Perry	9/9	-	3/3	1/1	6/6
Jim Ryan	9/9	-	-	3/3	-
Martin Weigold	9/9	-	-	-	-
Lewis Moonie	9/9	3/3	3/3	1/1	6/6
Tim Bristow	9/9	3/3	3/3	1/1	6/6
Rami Lerner	9/9	-	3/3	0/0	-
Stephen Box	0/1	0/1	-	0/1	0/1

During the year the Chairman has also met with the Non-Executive Directors without the Executive Directors present. Led by the Senior Independent Director, the Non-Executive Directors have also met without the Chairman present.

The Company maintains directors' and officers' liability insurance and prospectus indemnity insurance cover.

The Chairman and 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.

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 judgment and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement. The Company complied with this recommendation until 6 March 2010, when Stephen Box, an independent Director died. Since then the membership of the Company's Board has been made up of two independent Non-Executive Directors (Lewis Moonie and Tim Bristow), three non-independent Directors (Jim Ryan, Martin Weigold and Rami Lerner) and the Chairman of the Board (Rod Perry).

The Directors have agreed a balanced management structure for the combined Group from completion, drawing upon the considerable management strength and experience of both PartyGaming and bwin. However, as disclosed in the Prospectus and Circular, subject to a material change in the holdings of bwin's largest Shareholder, Androsch Privatstiftung of whom Georg Riedl is a director, following completion, the Board will initially not comply with the recommendation of the Code relating to Board independence, because excluding the Chairman, the Board will have five independent Directors (Per Afrell, Tim Bristow, Helmut Kern, Lewis Moonie and Rod Perry) and initially seven non-independent Directors (Joachim Baca, Manfred Bodner, Rami Lerner, Georg Riedl, Jim Ryan, Norbert Teufelberger and Martin Weigold).

While the Board will not at first comply with the provisions of the Code relating to board composition, if the composition of the Board remains non-compliant on 31 December 2011 then the composition of the Board will be changed by the appointment of two additional independent Directors to ensure satisfaction with this governance recommendation.

The appointment of Rami Lerner, (the 'Nominated Director') was made under the terms of the relationship agreement entered into at the time of the Company's IPO in June 2005 by, amongst others, PartyGaming, Ruth Parasol and Russell DeLeon. Under the terms of this agreement, provided that Ruth Parasol

and Russell DeLeon collectively maintain an interest in 15% or more of PartyGaming's issued share capital, they are entitled to nominate an individual for appointment as a Non-Executive Director to the PartyGaming Board. Ruth Parasol DeLeon and Russell DeLeon, who together retain an interest in 28.32% of PartyGaming's issued share capital, nominated Rami Lerner to act as their appointee to the Board. Owing to the background to his appointment, Rami Lerner does not satisfy the normal criteria for independence.

On 29 July 2010 a new relationship agreement with Ruth Parasol and Russell DeLeon dated 29 July 2010 was entered into by the Company and this was approved as a related party transaction by Shareholders at the EGM. This new agreement preserves the right of nomination described above whilst these PartyGaming founder shareholders maintain at least 5% of the Company's issued share capital.

On 29 July 2010 the Company also entered into a relationship agreement with bwin's founder shareholders (Androsch Privatstiftung and New Media and Holding Limited), which comes into effect on completion. The bwin relationship agreement also gives the bwin founder shareholders the right to nominate an individual for appointment as a Non-Executive Director to the Company's Board whilst they maintain collectively at least 5% of the Company's issued share capital. The bwin founder shareholders have nominated Manfred Bodner to act as their appointee. Owing to the background of his appointment and his relationship with the bwin group, Manfred Bodner does not satisfy the normal criteria for independence.

Despite the technical imbalance of independent and non-independent Directors, the Board continues to be satisfied that it has and can continue to maintain a sufficient degree of independence for the following reasons:

- > On the majority of business items considered by the Board, a non-independent Non-Executive Director is independent, because the interests of the relevant Principal Shareholders and the Company do not conflict. On issues when the interests of the Company and interests of the Principal Shareholders may conflict, mechanisms in the relationship agreement and/or letters of appointment for the non-independent Non-Executive Director allow the independent Directors to exclude them from the decision-making process.
- > The independent Directors have not been and will not be in a minority to the Executive Directors.
- > The Chairman of the Board was and shall be independent on appointment.
- > The Board is of a sufficient size with the appropriate balance of skills and experience to manage the imbalance appropriately.

Corporate governance statement

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 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 and rigorous evaluation of their performance for the year ended 31 December 2010, utilising the services of a third-party corporate governance consultancy, Lintstock Limited, which advises many FTSE100 and FTSE250 companies. The evaluation has been conducted using a confidential questionnaire. The results have been reviewed by the Chairman and discussed with individual Directors.

Remuneration

The Board has appointed a Remuneration Committee to deal with matters regarding the remuneration of the Chairman of the Board, Executive Directors and senior management. The Directors' Remuneration Report appears on pages 53 to 70 of the Annual Report. 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.

Relations with Shareholders

The Board recognises the need for a productive dialogue with Shareholders based on a mutual understanding of objectives. Ruth Parasol DeLeon and Russell DeLeon hold 28.32% of PartyGaming's issued Share capital and are represented on the Board by their nominee. In addition, the Chief Executive Officer, Group Finance Director and Chairman assisted by the Director of Corporate Affairs, meet with institutional Shareholders as regularly as possible. The Senior Independent Director can be contacted through the Company's registered office in the event that any Shareholder wishes to raise an issue they believe would be inappropriate to raise with the Chairman, Chief Executive Officer or Group Finance Director direct.

Report of the Nominations Committee

Purpose

The Board has adopted a formal, rigorous and transparent procedure for the appointment of new Directors to the Board by appointing a Nominations Committee to lead the process of appointment and make recommendations to the Board. Following the death of Stephen Box in March 2010 the Committee began the process of engaging a third-party recruitment agency to recruit further members to the Board. However, due to the proposed merger with bwin first announced in July 2010, the process of recruiting new Board members has been overtaken by matters in relation to the merger and the composition of the Board post completion. For full details please refer to the Prospectus.

Membership

The members of the Nominations Committee are or were in 2010 as follows:

- > Rod Perry (Chairman)
- > Stephen Box (deceased 6 March 2010)
- > Tim Bristow
- > Rami Lerner
- > Lewis Moonie
- > Jim Ryan

Details of the future membership of the Nominations Committee are set out on page 46 of the Annual Report.

Responsibilities

The Nominations Committee has adopted terms of reference, approved by the Board that are available on the Company's website:

www.partygaming.com/investor/nomination_terms.html.

In summary, the main responsibilities of the Nominations Committee are:

- > to regularly review the Board structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any adjustments that are deemed necessary;
- > to give full consideration to succession planning for Directors and other senior management in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the Board in the future;
- > to be responsible for identifying and nominating candidates for the approval of the Board, to fill Board vacancies as and when they arise; and
- > to make recommendations to the Board concerning the re-election by Shareholders of any Director under the 'retirement by rotation' provisions in the Articles.

Business during the year

During 2010 the Nominations Committee met once to deal with the following business:

February

- > Consider the appointment of at least one new Independent Non-Executive Director and agree the profile for possible candidates.
- > Agree the recommendation for the re-appointment of certain Directors at the 2010 AGM
- > Review the Committee's work and its terms of reference
- > Review the succession plans for Directors and senior managers

The Nominations Committee implemented a process during the year to recruit at least one new independent Non-Executive Director. A third party recruitment agency was engaged to assist with the search. This project was stopped when the Company entered into the merger implementation agreement with bwin on 29 July 2010, owing to the changes to Board membership resulting from the proposed Merger. Consequently, no appointments to the Board were made during 2010. The Board rather than the Nominations Committee considered and agreed all matters relating to the appointments resulting from the Merger as part of the Board's overall process of agreeing the final terms of the Merger with bwin.

Terms of appointment

The letters of appointment for each of the current 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 to maintain an active and progressive Board. The Board does not expect that any Non-Executive Director will serve for a period greater than nine years.

The Code recommends that notice or contract periods for directors should be set at one year or less. As disclosed in the Remuneration report on pages 53 to 70 the notice periods for all the Directors comply with this recommendation.

The letters of appointment for the Non-Executive Directors and the service agreements for the Executive Directors will be available for inspection 30 minutes prior to and during the AGM.

Rod Perry

Chairman of the Nominations Committee
3 March 2011

Report of the Audit Committee

Purpose

The Board is required by the Code to establish formal and transparent arrangements for considering how it should apply the required financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's joint auditors, BDO LLP and BDO Limited.

Membership

The Board has done this by appointing an Audit Committee. The members of the Audit Committee are:

- > Stephen Box (Chairman) (died 6 March 2010)
- > Lewis Moonie (Successor Chairman)
- > Tim Bristow

Details of the future membership of the Audit Committee are set out on page 46 of the Annual Report. Tim Bristow 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 and therefore the Company has been non-compliant with this recommendation since the death of Stephen Box. As disclosed in the Nominations Committee's report, the Company did begin the process of finding a least one new independent Director, however, this process was stopped because of the proposed merger. On completion the Audit Committee will be chaired by Helmut Kern and its other members will be Tim Bristow and Rod Perry. Helmut Kern has recent and relevant financial experience. The Directors therefore consider that the Audit Committee will comply with the Code recommendations regarding the Audit Committee following the merger taking effect.

Responsibilities

The Audit Committee has adopted terms of reference, approved by the Board that are available on the Company's website: www.partygaming.com/investor/audit_terms.html. In summary the main responsibilities of the Audit Committee are:

- > to consider and make recommendations to the Board as regards the appointment of the head of the internal audit function and also the external auditors as well as the re-appointment of the latter;
- > to recommend the audit fee to the Board and to develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by the external auditor;
- > to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and to review, and challenge where necessary, the actions and judgements of management in relation to the half-year and annual financial statements before submission to the Board;
- > to meet with the external auditors post-audit at the reporting stage to discuss the audit, including problems and reservations arising from the audit, and any matters the auditor may wish to discuss (in the absence of management, where necessary);
- > to make recommendations to the Board concerning any proposed, new or amended accounting policy;
- > to monitor and review the internal audit programme and its effectiveness;
- > to ensure co-ordination between the officers responsible for internal audit and the external auditors, and that the internal audit function is adequately resourced and has appropriate standing within the Company;
- > to consider any major audit recommendations and to consider the major findings of internal investigations and

management's response (in the absence of management, where necessary); and

- > to monitor and review the Company's systems for internal financial control, financial reporting, internal control and risk management.

Business during the year

During the year to 31 December 2010, the Audit Committee met three times to deal with the following business:

February:

- > Review the 2009 Annual Report
- > Review the external auditors' report and the required letter of representation from the Company
- > Consider the non-audit services provided by the external auditors
- > Consider whether to recommend the re-appointment of the external auditors at the 2009 AGM
- > Review the internal audit status report

July:

- > Review the latest consolidated risk report
- > Review the latest internal audit status report
- > Consider and recommend the adoption of an updated delegation of authority
- > Receive a report from the external auditors on their plans for auditing the 2010 financial results and confirmation of their continuing independence
- > Agree the updated external auditors' engagement letter
- > Consider the non-audit services provided by the external auditors
- > Review the external auditors' interim review relating to the 2010 interim results and the required letter of representation from PartyGaming
- > Review the 2010 interim results

December:

- > Review the December 2010 consolidated risk report
- > Review the latest internal audit status report
- > Review the follow-up in respect of the management letter arising from the audit of the 2009 annual results
- > Approve the 2011 internal audit plan and budget
- > Review an updated report from the external auditors on their plans for auditing the 2010 financial results
- > Review the non-audit fees paid to the external auditors
- > Review the Committee's work in 2010 and its terms of reference

At these meetings, members met with management and with the internal and external auditors. The Audit Committee members also met privately with the external auditors and separately with the internal audit function, without management representatives present.

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. In doing so the Audit Committee continues to exercise its authority to seek any information it requires from any employee of the Company.

In 2011, the Audit Committee has met once to review and recommend the approval of the 2011 preliminary press release and the 2010 Annual Report.

Risk management and effective internal controls

The section, 'Our risks' on pages 31 to 32 of the Annual Report sets out the main risks impacting the Group's business.

PartyGaming maintains a robust system of internal control for the purpose of safeguarding the investment of Shareholders in the Company and the Group'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. PartyGaming's system of internal control reduces the probability that business risks might impede the Company in achieving its objectives, but it cannot eliminate these risks and can therefore provide only reasonable, not absolute, assurance against material misstatement or loss.

The Group has an internal audit department, which also carries out the Company's risk management monitoring. During the year, management identified the risks attaching to the business and, on an ongoing basis, efforts are being taken to mitigate these risks. Throughout the year PartyGaming's internal auditors performed internal audits of offices and departments within the business to assess whether adequate internal controls are in place to protect the Group, its employees and Shareholders. The internal audit reports are presented to the Audit Committee and the Head of Internal Audit meets regularly with the Audit Committee as well as Chairman of the Audit Committee, to whom he has direct access.

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

The Group continues to adopt and publicise a formal 'whistleblowing' procedure by which employees can, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. This procedure is set out in the Group's employee handbooks and has 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.

External Auditors

During the year ended 31 December 2010, BDO LLP was appointed under an engagement letter to act as auditors to enable the Company to meet its obligations to prepare financial statements in accordance with the Listing Rules. For the purposes of filing the Company's financial statements in Gibraltar, BDO LLP and BDO Limited have been appointed to act as joint auditors to allow an audit report to be issued under Section 10 of the Gibraltar Companies (Accounts) Act 1999.

In accordance with its duties, the Audit Committee made recommendations to the Board on the appointment of the external auditors, approved their remuneration (both subject to Shareholder approval) and also approved their terms of engagement. The Audit Committee has also established a policy regarding the appointment of auditors to perform non-audit services for the Group, over and above the external audit and will keep this under ongoing review. This policy dictates that in the Company's financial year, the total fees for non-audit services provided by the external auditors, excluding non-audit fees for due diligence for acquisitions and other specific matters noted below, should not exceed the total fees for audit services they provide. In the year ended 31 December 2010, the proportion of total non-audit fees to total audit fees paid to the external auditors was 0.016:1.0.

In addition to their statutory duties, BDO LLP is also employed where, as a result of their position as auditors or for their specific expertise, they either must, or the Audit Committee accepts they are best placed to, perform the work in question. This is primarily work in relation to matters such as shareholder circulars, Group borrowings, regulatory filings and certain business acquisitions and disposals. In such circumstances the Audit Committee will separately review the specific service requirements and consider any impact on objectivity and independence of the auditors and any appropriate safeguards to this. As such the Audit Committee believes it appropriate for these non-audit services to be excluded from the 1:1 ratio set out above. In the year ended 31 December 2010 the total fees paid to the external auditors in respect of due diligence for acquisitions was €0.9 million.

Lewis Moonie

Chairman of the Audit Committee
3 March 2011

Report of the Ethics Committee

Purpose

The Board believes that the way in which the Group behaves and interacts with its stakeholders is key to the Group's long-term success and development. Reflecting the importance the Group 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.

Membership

The members of the Ethics Committee in 2010 are as follows:

- > Tim Bristow (Chairman)
- > Rami Lerner
- > Lewis Moonie
- > Rod Perry

Details of the future membership of the Ethics Committee are set out on page 46 of the Annual Report.

Responsibilities

The Ethics Committee has adopted terms of reference, approved by the Board that are available on the Company's website: www.partygaming.com/investor/ethics_terms.html. In summary, the main responsibilities of the Ethics Committee are to oversee that the Group has effective controls and policies regarding the following:

- > responsible gaming including the prevention of underage or problem gambling;
- > compliance with the gaming licenses held by the Company or any of its subsidiaries;
- > anti-money laundering;
- > the fairness and integrity of the Company's gaming systems and the process for managing any challenges to the fairness and/or integrity of these systems;
- > privacy and data protection;
- > employment matters relating to codes of conduct and health and safety;
- > charitable donations and investment in the local community;
- > the Company's suppliers and service providers;
- > the Company's impact on the environment; and
- > gambling license probity matters.

From a day-to-day management perspective, the Group Finance Director has executive responsibility for CSR matters.

Business during the year

During 2010 the Ethics Committee met three times to deal with the following business:

February:

- > Review role of Head of Regulatory Compliance
- > Review reports from the Head of Regulatory Compliance and the Anti-Money Laundering Officer
- > Review of CSR management strategy
- > Approve the CSR disclosures in the 2009 Annual Report
- > Review the charitable donations made by the Group in 2009
- > Review of GoodCorporation presentation
- > Review the Committee's work in 2009 and its terms of reference

October:

- > Review reports from the Head of Regulatory Compliance and the Anti-Money Laundering Officer
- > Review of CSR management strategy
- > Receive a GoodCorporation update
- > Review the policies and processes adopted by the Group to ensure its games remain fair
- > Review a summary of eCOGRA EGBA Standards Compliance Audit
- > Consider the need for a Group-wide probity policy
- > Review of the 2010 charitable donations

December:

- > Review of Group probity policy

Tim Bristow

Chairman of the Ethics Committee
3 March 2011

Remuneration report

Remuneration policy summary

Policy: To provide market-competitive total remuneration packages enabling the recruitment and retention of high calibre individuals required to drive the future growth and performance of its business, recognising the highly competitive and dynamic nature of the online gaming sector and placing an emphasis on providing a share-based remuneration packages appealing to entrepreneurial and innovative executives.

Fixed elements		Market positioning for 2011	
Salary	Amounts/Benefits/Awards		
	Executive Director	2010	2011
	Jim Ryan (CEO/Co-CEO)	£500,000	£500,000
	Martin Weigold (Group Finance Director/CFO)	£428,500	£428,500
	Norbert Teufelberger (Co-CEO)	-	£500,000
	Joachim Baca (COO)	-	£428,500
Benefits	Private medical insurance, permanent health insurance and life assurance.		Lower - Median quartile
Pension	None		N/A
Variable elements		Market positioning for 2011	

Annual Bonus	Executive Director	2010 - Annual executive bonus scheme	
	Jim Ryan (CEO)	£960,000 (£480,000 paid in cash and £480,000 paid in deferred shares).	
	Martin Weigold (Group Finance Director)	£352,403 (paid in cash).	
		2011 - Bonus Banking Plan	
	All Executive Directors	Up to 300% of annual salary. Half the award paid in cash and half deferred into shares vesting in Year 3 and 4, subject to 50% forfeiture of outstanding amounts in Year 2 and 3 for underperformance.	Upper quartile
Share Incentives	2010	2011	Upper quartile
	Executive fair market value options ('Executive FMV Plan') vesting after three years subject to satisfying Clean EPS performance condition.	Value Creation Plan: Shares banked at the end of Years 1, 2 and 3 subject to TSR performance outperforming a threshold by at least 10% each year. Share pool equivalent to 4% of the outperformance of the threshold, with each Executive Director receiving 10% of the pool. Shares vest in Years 3 and 4.	
	Performance Share Plan awards ('PSP') vesting after three years subject to satisfying three-year TSR performance condition.		
	Nil-cost share options granted on recruitment and for retention (vesting over 4 - 5 years).		

Remuneration report

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Introduction

During 2010 the Remuneration Committee undertook a review of its remuneration policy to ascertain if it was still effective and appropriate for the Group's incentive and retention needs. Soon after the review began with the Company's new remuneration consultants, PartyGaming announced the proposed merger with bwin and the review process was adapted to take account of the needs of the new combined business.

As a result of the review, the Remuneration Committee identified short-comings with the Company's long-term incentive plans ('LTIPs'). Four new replacement share plans were developed to ensure all aspects of the remuneration policy were focused on incentivising employees to integrate the two groups, maximise the cost synergies and grow the combined businesses.

We then consulted with PartyGaming's major shareholders regarding these proposed changes to the remuneration policy in the last quarter of 2010. Following a generally supportive response, the new share plans were formally presented to all Shareholders in the Circular published on 23 December 2010. On 28 January 2011 the new LTIPs were overwhelmingly approved by Shareholders at the EGM. Details of the new LTIPs are set out in this report and the first awards will be made following completion of the merger.

This is my last report to Shareholders, as I am stepping down as Chairman of the Remuneration Committee once the merger takes effect. As already disclosed to Shareholders, Rod Perry will be taking up the position. I would like to take the opportunity to thank Shareholders for their support during my tenure as Committee Chairman and for their understanding of the remuneration challenges presented by the online gaming sector.

This report is prepared in accordance with the Large and Medium-Sized Companies & Groups (Accounts and Reports) Regulations 2008, Schedule 8.

An ordinary resolution to approve this report will be proposed at the 2011 AGM. 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.

Lewis Moonie

Chairman of the Remuneration Committee
3 March 2011

Purpose and responsibilities

The Board has appointed the Remuneration Committee to oversee the remuneration policy and practices adopted by the Group. The Committee's terms of reference are available on PartyGaming's website, www.partygaming.com

The key objectives are to:

- > establish competitive remuneration terms that allow the Group to recruit, retain and incentivise the most talented managers;
- > promote the achievement of PartyGaming's rolling 3-year business strategy through the provision of appropriate targets that stretch and motivate employees to deliver on the strategic objectives;
- > ensure effective risk management is encouraged through reward; and
- > ensure senior executive remuneration is aligned with the interests of PartyGaming's Shareholders and other stakeholders.

The Committee's main responsibilities are:

- > agree the remuneration policy for the Chairman of the Board, Executive Directors, Company Secretary and senior executives (together the 'Senior Officers') and review regularly the ongoing appropriateness and relevance of the remuneration policy;
- > ensure the remuneration policy provides for individuals to receive appropriate remuneration and incentives to encourage enhanced performance and to be rewarded, in a fair and responsible manner, for their individual contributions to the success of the Group;
- > review annually the total individual remuneration package of the Senior Officers;
- > liaise with the Nominations Committee to ensure that the remuneration of any newly appointed Senior Officer is within the Company's overall remuneration policy;
- > set and monitor performance criteria for any bonus arrangements for the Senior Officers (excluding the Chairman) and the framework of the bonus structure for staff generally;
- > approve the length and terms of all service contracts of appointment letters for the Chairman on the Board and Executive Directors;
- > review and approve the introduction of new share option and share award schemes, set or recommend the performance criteria for awards, determine each year whether awards will be made and the overall amount of the awards and approve any awards proposed for Senior Officers; and
- > approve the terms of termination of the Chairman of the Board or any Executive Director and ensure such terms are fair and reasonable and not excessive, that failure is not rewarded and that the duty to mitigate loss is fully recognised.

Membership and advisers

- > Lewis Moonie (Chairman) – appointed 13 December 2007, Chairman from 29 August 2008
- > Stephen Box – appointed 13 December 2007 (died 6 March 2010)
- > Tim Bristow – appointed 10 May 2007
- > Rod Perry – appointed 31 May 2005

Rod Perry is also the Chairman of the Board and was independent on appointment and so in accordance with the Combined Code is eligible for membership of the Committee. However, when the Committee is discussing the Chairman of the Board's remuneration he takes no part in the discussion and decision process.

The Code recommends that a minimum of three Independent Directors should serve on the Remuneration Committee and therefore the Company has been non-compliant with this recommendation since the death of Stephen Box. As disclosed in the Nominations Committee's report, the Company did begin the process of finding a least one new independent Director, however, this process was stopped because of the merger with bwin. On completion of the merger the Remuneration Committee will have four Independent Directors (Per Afrell, Helmut Kern, Lewis Moonie and Rod Perry). The Directors therefore consider that the Remuneration Committee will on completion of the merger comply with the Code's recommendation regarding composition of the Remuneration Committee.

The Company Secretary is the secretary to the Committee.

Until June 2010 Kepler Associates, a specialist consultancy, were engaged to advise the Committee and management on market remuneration trends, short and long-term incentives and general executive remuneration matters. No other services were provided to PartyGaming by Kepler. Following a beauty parade of remuneration advisory firms in the second quarter of 2010, PricewaterhouseCoopers ('PwC') succeeded Kepler as adviser to the Committee and management on executive remuneration issues. In 2010 a different department of PwC had already been providing the Group with certain internal audit services under a separate engagement letter, however, PwC will not be providing these services in 2011.

In pursuance of performing its duties effectively, the Committee consulted with the CEO, Group Finance Director and the Group Human Resources Director during its meetings, although no individual was involved in any decisions as to their own remuneration.

Business during 2010

During the year to 31 December 2010, the Remuneration Committee met six times in Gibraltar to deal with the following business:

February:

- > Approve the 2009 senior management bonus
- > Agree the 2010 senior management bonus objectives
- > Ratification of Chief Operations Officer remuneration package
- > Review share option entitlement and allocation methodology
- > Determine vesting of 2007 ESOP and PSP awards
- > Approve the 2009 Remuneration report
- > Review proposed 2010 long-term incentive plan ('LTIP') awards

June:

- > Review of presentations from short-listed remuneration consultants
- > Agree engagement of PwC

July:

- > Review recent trends in remuneration
- > Review the Group's remuneration strategies and recommendations for future remuneration and incentive packages
- > Review the share capital dilution impact of equity-based incentives
- > Approve the latest share plan grants
- > Review of senior executive awards and exercises
- > Review of the performance of the PSP awards against TSR benchmarks

September:

- > Review of new reward arrangements
- > Review treatment of existing share awards
- > Agree shareholder consultation process

October:

- > Review of current plan rules and participation levels for new plans
- > Modelling of new reward arrangements
- > Sign-off shareholder consultation documentation
- > Review of existing remuneration arrangements for Executive Directors and proposed service agreements for new Directors
- > Approve the letter of appointment and annual fee for new Board Chairman and review remuneration disclosures in the Prospectus

December:

- > Approve the service agreements for the new Directors joining at Completion
- > Approve the new share plan rules and bwin rollover plan
- > Approval of Prospectus and Circular disclosures regarding remuneration policy
- > Review outstanding senior executive awards and exercises
- > Annual review of Committee's work and terms of reference
- > Agree the items to be discussed at the next Committee meeting
- > The members of the Committee met with PwC without members of senior management present

Remuneration report

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Remuneration policy

In 2010 the policy remained to provide market-competitive total remuneration packages enabling the Group to recruit and retain high calibre individuals required to drive the future growth and performance of its business. The Group operates in the highly competitive and dynamic online gaming sector and particular emphasis is therefore placed on providing a share-based remuneration package appealing to entrepreneurial and innovative executives. In addition, the Committee takes into account a range of special circumstances specific to the Group. These include the rapid pace of change in the Group, the fledgling nature of the online gaming sector and the requirement that Executive Directors and certain Senior Officers relocate to, and discharge all their responsibilities from, Gibraltar.

The Committee also considers corporate performance on environmental, social and governance ('ESG') issues when setting the remuneration of Executive Directors and senior managers, ensuring these good practice objectives are appropriately addressed in each individual's objectives. The Remuneration Committee also reviews whether incentive structures may raise ESG risks by inadvertently motivating irresponsible behaviour and is of the view that this is not the case with the current incentive structures.

During 2010 the Remuneration Committee implemented a review of the Group's remuneration policy, which then coincided with the Company agreeing to merge with bwin subject to Shareholder approval and the sanction of the Gibraltar and Austrian courts. As a result of this review, the Remuneration Committee determined that whilst the principles supporting the remuneration policy were still appropriate, the current LTIPs (All-Employee Option Plan, Executive Share Option Plan and Performance Share Plan), were not sufficiently effective in driving strong performance and encouraging the retention of employees.

As a result, together with PwC, the Remuneration Committee developed new share plans; the Bonus Banking Plan ('BBP'), Value Creation Plan ('VCP') (both only for Executive Directors and the most senior managers), Bonus & Shares Plan ('BSP') (similar to the BBP but for mid to senior managers not participating in the BBP) and Global Share Plan ('GSP') (for all employees).

In reviewing the remuneration policy, the Remuneration Committee took into account a number of key factors. These include:

- > the nature of the market in which the Group operates and, in particular, the fact that the regulation and legality of online gaming varies from jurisdiction to jurisdiction, is subject to uncertainties and may be impacted by adverse changes to regulation of online gaming or the interpretation of regulation by regulators;
- > the need for incentive arrangements to incorporate suitable risk adjustment provisions to ensure executives do not receive unjustified windfalls;
- > the need to attract and retain key talent and drive high performance;
- > increasing regulation impacting the Group's margins due to internal cost of compliance and taxation;
- > the effect of operating a regulated business model means that where countries introduce licensing requirements the Group may be required to cut-off income from a particular market in order to be able to apply for licenses when regulations come in to force: this can have a substantial impact on both the Group's share price and revenues;

- > the opening of the US online gambling market under a federal or state licensing regime, together with the timing of such a development, may have a substantial impact on the Group's financial and share price performance. The remuneration policy has to be flexible and durable enough to accommodate these changes without becoming compromised; and
- > the need to reconcile UK corporate governance guidance with market remuneration practices in all jurisdictions where the Group has employees.

In creating the new long-term incentive plans specifically, the Remuneration Committee took account of the risks associated with the PartyGaming and bwin businesses and the following impact they have on the Company's remuneration policy:

- > long-term incentives with standard three-year performance periods are difficult to use to motivate and retain senior executives due to the fast moving nature of the market;
- > comparative total shareholder return targets are inappropriate as even direct industry comparators have a different focus on the various gaming verticals and different risk exposure;
- > incentives need to be flexible enough to deal with the changing regulatory environment in which the Group operates; and
- > the remuneration challenge for the Group is to have remuneration arrangements in place where part of the reward provided to senior executives is linked to shareholder return and is not completely undermined by the risk factors impacting the sector and the Group.

In the fourth quarter of 2010, ahead of the Prospectus and Circular being published regarding the proposed bwin merger, the Chairman of the Remuneration Committee and the Chairman of the Board consulted with the Company's major Shareholders regarding the update to the remuneration policy and specifically the introduction of the four new share plans in place of the four existing plans. Following the favourable feedback from this process, at the EGM on 28 January 2011 Shareholders overwhelmingly approved the introduction of the BBP, VCP, BSP and GSP.

As a result of this process, the Group has adopted a highly leveraged incentive policy for 2011 to ensure that the profile of the remuneration is supportive of the Group's business strategy and the effect of legislative changes. In conjunction with this approach, the revised policy adopts comparatively modest elements for the fixed elements of the total remuneration package (lower to median quartile salary and minimal benefits and no pension provision).

The following table sets out the basic salaries paid to the Executive Directors in 2010 and to be paid in 2011, together with information about the other constituent elements of their overall remuneration packages:

Element of Remuneration	Remuneration Committee Rationale		
Salary	The Remuneration Committee's policy is to have a highly leveraged incentive framework which will reward participants if stretching performance conditions are met. In order to support this strategy fixed elements of the remuneration package for 2011 have been set below the market median.		
	Executive Director	2010*	2011
	Jim Ryan CEO/Co-CEO	£500,000	£500,000
	Martin Weigold Group Finance Director	£428,500	£428,500
	Norbert Teufelberger Co-CEO	n/a	£500,000**
	Joachim Baca COO	n/a	£428,500**
	* Unchanged from 2009		
	** From appointment on the merger becoming effective, anticipated to happen on 31 March 2011.		

During 2010 the following comparator groups were used for benchmarking Executive Director remuneration:

- (i) The following FTSE 250 companies with a similar market capitalisation:

ARM Holdings Limited	Bovis Homes	Chemring
CSR	Dana Petroleum	De La Rue
Ferrexpo	Halma	Hikma
Hochschild	Homeserve	Hunting
Misys	Peter Hambro	Premier Oil
Rotork	Soco	Spirax-Sarco
Spirent	Ultra Electronics	

- (ii) Listed gaming and entertainment companies:

888 Holdings	Betsson AB	Cryptologic
International Game Technology	Ladbrokes	MGM Resorts International
Paddy Power	Playtech	Rank Group
Scientific Games	Sportingbet	Unibet
William Hill		

From 2011 and the Merger taking effect, the Remuneration Committee resolved it was appropriate to amend the Company's comparator groups by adopting the following:

- (i) FTSE 250;
(ii) FTSE 51-100; and
(iii) a bespoke comparator group of the following international companies:

888 Holdings	Fortinet	Opentable
ASOS	IAC/Interactivecorp	Paddy Power
Betsson AB	International Game Technology	Playtech
Boyd Gaming Corporation	Ladbrokes	Rank Group
Concur Techs	Las Vegas Sands	Rightmove
Cybersource	MGM Resorts International	Sportingbet
Digital River	Moneysupermarket Com Gp.	Unibet
E*Trade Financial	Monster Worldwide	Verisign
Expedia	NCR	William Hill
	Net Entertainment Ne 'AB'	WMS Industries
		Yell Group

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Element of Remuneration	Remuneration Committee Rationale
Benefits	Benefits only include private medical insurance, permanent health insurance and life assurance. In line with the Remuneration policy the level of fixed costs incurred as part of the executive remuneration package has been set at the minimum level.

Element of Remuneration	Remuneration Committee Rationale
Pensions	There will continue to be no Company pension contribution. In line with the Remuneration policy the level of fixed costs incurred as part of the executive remuneration package has been set at the minimum level.

Element of Remuneration	Remuneration Committee Rationale
Annual Bonus	<p>For 2010 the Executive Directors participated in the senior management bonus scheme introduced in 2008. The bonus outcome is based 75% on the Group's performance against a stretching Clean EBITDA target for the year and 25% on an individual's performance against challenging personal objectives set at the beginning of the year. The two elements operate independently, but a bonus is only payable if the Group achieves at least 80% of the year's Clean EBITDA bonus target.</p> <p>The bonus entitlement for the Executive Directors is normally up to 150% of basic salary for the CEO and 120% of salary for the Group Finance Director, with approximately 60% of the maximum bonus payable for achieving the Clean EBITDA target.</p> <p>Senior Officers just below the Executive Directors are eligible for a maximum bonus of 100% of basic salary, with approximately 60% of the bonus payable for achieving the Clean EBITDA target.</p> <p>Personal objectives for the CEO were set by the Chairman of the Board and agreed with the Remuneration Committee and the Board at the beginning of the year. The Group Finance Director's personal objectives were set by the CEO and agreed with the Remuneration Committee and the Board. The personal objectives set for the Executive Directors and senior managers not only emphasise growing the business, but also the promotion of effective risk management and ensuring a robust internal control environment exists and evolves within the Group.</p> <p>The Remuneration Committee has exercised discretion to award \$960,000 to Jim Ryan as an annual bonus in recognition of his performance during 2010. This equates to 192% of Jim Ryan's annual salary and so in recognition of the fact that this is higher than the normal bonus maximum of 150% of annual salary, the Committee has decided to award 50% of the total bonus payable in cash and 50% in deferred Shares. The deferred Shares will vest in four equal tranches, quarterly, over a 12 month commencing on 30 June 2011 subject to continued employment on the relevant vesting date. It should be noted that the immediate cash element is 96% of salary, which is within the normal bonus maximum of 150%.</p> <p>The Remuneration Committee awarded £352,403 to Martin Weigold as an annual bonus in recognition of his performance in 2010. This equates to 82% of Martin Weigold's annual salary and is within the normal 120%.</p> <p>No employee of the Company received a bonus for 2010 higher than the bonus payments reported above.</p> <p>For 2011 the bonus opportunity provided under the Bonus Banking Plan has been set at the upper quartile against the comparators. The rationale behind why the Remuneration Committee felt that this Plan was most appropriate is set out in the previous section and full details of the Plan are provided in this report on page 63.</p>

Name	Position	Maximum participation level (% of basic salary)
Jim Ryan	Co-CEO	300
Norbert Teufelberger	Co-CEO	300
Martin Weigold	CFO	250
Joachim Baca	COO	250

Element of Remuneration

Remuneration Committee Rationale

Share Incentives

For Executive Directors – Awards made under the Executive Share Option Plan (fair-market value options) and Performance Share Plan.

The equity incentive opportunity provided under the Value Creation Plan has been set at the upper quartile against the comparators. The rationale behind why the Remuneration Committee felt that this VCP was most appropriate is set out in the previous section and full details of the VCP are provided in this report on page 63.

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Long-term incentive plans for 2010

Plan:	Executive Share Option Plan ('ESOP')
Eligibility:	Executive Directors and Senior Managers only
Introduced:	2007
Purpose:	Focus participants on long-term financial growth
Grants:	Annual
Annual award range:	45,000 to 250,000 Shares
Maximum award:	200% of salary (exceptional)
Strike price:	Yes (closing price day before grant)
Vesting:	After three years
Voting and dividend rights:	None
Source of Shares:	New issue
Performance condition:	2008 and 2009 awards subject to average Clean EPS growth being at least 15% per annum over the three-year period. 2010 awards adopted a sliding scale rather than cliff vesting, with the threshold for which 25% of an award would vest, set at 5% Clean EPS growth of 5% per annum, rising on a straight-line basis to 100% vesting for growth of 15% per annum.
Status:	In accordance with the rules performance of all outstanding awards measured to date of EGM. All awards failed to satisfy the performance condition and all so awards lapsed. No new awards to be granted.

Plan:	Performance Share Plan ('PSP')
Eligibility:	Executive Directors and Senior Managers only
Introduced:	2007
Purpose:	Focus participants on long-term external performance relative to peers
Grants:	Annual
Annual award range:	45,000 to 250,000 shares
Maximum award:	300% of salary (exceptional)
Strike price:	No
Vesting:	After three years
Voting and dividend rights:	None
Source of Shares:	New issue or Employee Trust
Performance condition:	Three-year TSR performance relative to a peer group. For 2008 and 2009 awards peer group was 888 Holdings, bwin, Cryptologic, Ladbrokes, Paddy Power, Sportingbet, Unibet and William Hill. For 2010 half of an award vested dependent on the TSR performance against the TSR performance of the FTSE 250 (excluding investment companies) and the vesting of the balance of the award was dependent on the TSR performance against a comparator group of 888 Holdings, 32Red, bwin, Betsson, Cryptologic, Gigamedia, Paddy Power, Playtech, Rank Group, Scientific Games, Sportingbet and Unibet. For all awards the threshold level of performance, for which 25% of an award would vest requires the Company's TSR to equal the median of the comparator group, rising on a straight-line basis to 100% vesting if the Company's TSR exceeds the median by 10% per annum over the three-year period (equivalent to upper quartile performance). The Remuneration Committee also has to be satisfied that actual performance over the three-year period is a genuine reflection of the Company's performance.
Status:	<p>March 2008 awards (performance period 1 January 2008 to 31 December 2010) outperformed peer group by 10.8% per annum so will vest 100%. For awards made subsequently, the Remuneration Committee, as disclosed in the Prospectus and Circular, has exercised its discretionary powers and measured the TSR performance condition up to the date of the EGM to determine the number of shares capable of vesting. Vesting will still occur on the original vesting dates and is subject to continued employment. This approach was adopted because (i) the treatment is consistent with the ESOP, (ii) post merger the VCP and BBP are the appropriate plans for driving performance and (iii) it is an equitable arrangement for all stakeholders, as it rewards participants for performance up to the merger, but retains the original vesting dates. These awards will vest as follows:</p> <ul style="list-style-type: none"> > October 2008 awards: TSR outperformance of 4.1% determining that 55.5% of each award will vest on 30 September 2011. > April 2009 awards: TSR outperformance of 11.2% determining that 100% of each award will vest on 31 March 2012. > September 2009 awards: TSR outperformance of 4.4% determining that 57.8% of each award will vest on 30 September 2012. > April 2010 awards: TSR threshold not met and awards will lapse on the merger completing. <p>No new awards to be granted.</p>

Long-term incentive plans for 2010 continued

Plan:	All-Employee Option Plan ('AEOP')
Eligibility:	All employees except Executive Directors
Introduced:	2007
Purpose:	To align the interests of employees with Shareholders
Grants:	Annual
Annual award range:	25,000 – 100,000 Shares
Maximum award:	300% of salary (exceptional)
Strike price:	Yes (closing price day before grant)
Vesting:	Initial grant vests every 6 months over a 3-year period with subsequent grants vesting half after 2.5 years and half after 3 years
Voting and dividend rights:	None
Source of Shares:	New Issue
Performance condition:	No, time vesting only
Status:	No changes to existing awards as a result of merger. No new grants after merger.
Plan:	Share option plan ('Nil-Cost Plan')
Eligibility:	All employees and consultants
Introduced:	2005
Purpose:	To recruit and retain key employees and consultants
Grants:	Ad hoc, to suit key person retention/recruitment needs
Annual award range:	Dependent on particular individual retention/hiring requirements
Maximum award:	No maximum
Strike price:	No
Vesting:	Generally over 4 to 5 years
Voting and dividend rights:	None
Source of Shares:	Employee Trust
Performance condition:	Majority of grants only subject to continued employment, but a minority subject to performance conditions
Status:	No changes to existing awards as a result of merger. No new grants after merger.

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Status summary of awards granted to the Executive Directors

Director	Award	Number of Shares over which awards granted at 1 January 2010	Number of Shares over which awards granted during the year to 31 December 2010	Exercise price of award granted (pence)	Vesting		Exercise		Lapsed	Number of Shares over which awards remain unexercised or unexercised at 31 December 2010	Expiry dates
					Date	Vested number of Shares	Date	Exercised number of Shares			
Jim Ryan	Executive FMV Plan	770,100 ⁽¹⁾	250,000 ⁽²⁾	310.10	-	Nil	-	Nil	Nil	1,020,100 ⁽³⁾	10.10.08 – 05.03.10 (10 year life for each option)
	PSP Plan	770,100 ⁽⁴⁾	250,000 ⁽⁵⁾	Nil	-	Nil	-	Nil	Nil	1,020,100 ⁽⁶⁾	Vest automatically if performance condition satisfied
	Nil-Cost Plan	1,075,000 ⁽⁷⁾	Nil	Nil	31.03.10 30.06.10 31.09.10 31.12.10	62,500 62,500 87,500 87,500	06.08.10 30.09.09 31.12.09	125,000 87,500 87,500	Nil	775,000	30.06.18
Martin Weigold	Executive FMV Plan	597,262 ⁽⁸⁾	200,000 ⁽⁹⁾	310.10	25.02.10	88,360	-	Nil	Nil	797,262 ⁽³⁾	11.05.17 – 05.03.2020 (10 year life for each option)
	PSP Plan	508,902 ⁽¹⁰⁾	200,000 ⁽¹¹⁾	Nil	-	Nil	-	Nil	Nil	708,902 ⁽¹²⁾	Vest automatically if performance condition satisfied
	Nil-Cost Plan	929,554 ⁽¹³⁾	Nil	n/a	31.12.10	50,000	-	Nil	Nil	929,554	06.04.15 – 09.04.19 (10 year life for each option)

(1) This amount is made up of two awards. The first award was granted on 10 October 2008 at a strike price of 155 pence per share and the performance period runs from 1 July 2008 to 30 June 2011. The second award was granted on 9 April 2009 and the performance period runs from 1 January 2009 to 31 December 2011.

(2) This award was made on 5 March 2010 and the applicable performance period runs from 1 January 2010 to 31 December 2012.

(3) The future vesting of these awards is conditional on the participant continuing to be employed by the Company on the relevant vesting dates and the relevant performance conditions being satisfied, save that in the event that employment ceases before vesting owing to factors such as injury, disability or ill health, then unless the Remuneration Committee determines otherwise, subject to the satisfaction of the performance conditions, a proportion of an award may vest. In the event of a change of control of the Company or a scheme of arrangement, depending on the circumstances, the ESOP rules allow for pro-rated vesting subject to the extent the performance condition has been satisfied or for the award to be exchanged for an equivalent award granted by the acquiring company. Subsequent to the year-end, in accordance with the ESOP rules, the performance conditions of all outstanding ESOP awards was measured to 28 January 2011, the date on which Shareholders approved the merger with bwin. The Remuneration Committee concluded that the performance conditions had not been satisfied and all outstanding awards lapsed on 22 February 2011.

(4) This amount is made up of two awards. The first award was made on 10 October 2008 over 645,100 Shares and the TSR performance period runs from 1 July 2008 to 30 June 2011. The second award was made on 9 April 2009 over 125,000 Shares and the TSR performance period runs from 1 January 2009 to 31 December 2011.

(5) This award was made on 9 April 2010 and the applicable performance period runs from 1 January 2010 to 31 December 2012.

(6) As described on page 56 of this report, the Remuneration Committee exercised its discretion in relation to the bwin merger transaction and measured the performance conditions of all three outstanding awards to 28 January 2011, the date of the Company's EGM to approve the merger with bwin. The Remuneration Committee has concluded that the October 2008 has partly satisfied its performance condition and 55.5% of the total award (358,030) Shares will vest on 30 September 2011. In addition, the April 2009 performance condition has been satisfied to its maximum potential and therefore 125,000 Shares of that award will vest on 31 March 2012 respectively. The 2010 award failed to satisfy its performance condition and will lapse in its entirety on the merger taking effect.

(7) This award was made on 30 June 2008. This award is split into two tranches:

Tranche 1 vested 100,000 Shares on grant, 200,000 Shares on 30 June 2009, 62,500 Shares on 30 September 2009 and 62,500 Shares on 31 December 2009. 375,000 Shares vest every quarter in six lots of 62,500 Shares beginning on 31 March 2010 and ending on 30 June 2011. 200,000 Shares vest in 4 lots of 50,000 Shares between 30 June 2011 and 30 June 2012, with the first quarterly vesting on 30 September 2011. The total number of Shares vesting under Tranche 1 is 1,000,000 Shares.

Tranche 2 vests 100,000 Shares in 4 quarterly lots of 25,000 Shares between 30 June 2010 and 30 June 2011, with the first quarterly vesting on 30 September 2010. Between 30 June 2011 and 30 June 2012 100,000 Shares will vest in 4 quarterly tranches of 25,000 Shares commencing with the first vesting on 30 September 2011. Finally, between 30 June 2012 and 30 June 2013 300,000 Shares will vest in 4 quarterly amounts of 75,000 Shares commencing with the first vesting on 30 September 2012. The total number of Shares vesting under Tranche 2 is 500,000 Shares.

The future vesting of this award is conditional on the participant's continued employment by the Company on the relevant vesting dates, save as described as follows. In the event of the termination of his employment by the Company for cause, he will be entitled to exercise the award 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 the participant entering into a written waiver and release of all claims against the Group relating to his employment or its termination, he will also be entitled to exercise his option in respect of the Shares which would have vested under Tranche 1 and Tranche 2 in the 12 months following the notice date. In the event of the participant's resignation then the Tranche 1 and 2 Shares vest on the same basis as if the Company had terminated his employment without cause. On a change of control of the Company the participant shall be entitled to vest all outstanding Tranche 1 and 2 Shares. This option is unaffected by the merger.

The Combined Code on Corporate Governance recommends that performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors. Whilst this award forms a significant part of the CEO's remuneration package, the Remuneration Committee was of the view that a performance condition would detract from the attraction and retention capabilities of the award and it was necessary to make the award on these terms in order to secure the CEO's service over an initial five-year term. All other awards granted to the CEO provide for vesting to be conditional on the satisfaction of stretching performance conditions. The Combined Code also recommends that executive share options should not be offered at a discount. This award has been granted at nil-cost on issue and exercise. At the time the award was made the Remuneration Committee was of the view that such terms were necessary in order for the Company to either secure or retain his long-term service.

(8) This amount is made up of three awards. The first award was granted on 11 May 2007 over 88,360 Shares with a strike price of 457.50 pence and a performance period that ran from 1 January 2007 to 31 December 2009. The Remuneration Committee determined in 2010, in conjunction with the Board's approval of the Company's 2009 annual financial statements, that the Clean EPS performance condition attaching to this first award had been met. This award therefore vested on 25 February 2010, but will lapse if not exercised before completion of the merger with bwin. The second award was made on 6 March 2008 over 171,402 Shares with a strike price of 250.00 pence and the performance period runs from 1 January 2008 to 31 December 2010. The third award was made on 9 April 2009 with a strike price of 227.00 pence and the performance period runs from 1 January 2009 to 31 December 2011.

- (9) This award was made on 5 March 2010 with a strike price of 310.10 pence and the applicable performance period runs from 1 January 2010 to 31 December 2012.
- (10) This amount is made up of two awards. The first award was granted on 6 March 2008 over 171,402 Shares and the TSR performance period runs from 1 January 2008 to 31 December 2010. Subsequent to the year-end the Remuneration Committee determined that the TSR performance condition had been met to its maximum potential and therefore all the Shares will vest under this award on 31 March 2011. The second award was made on 9 April 2009 over 337,500 Shares and the performance period runs from 1 January 2009 to 31 December 2011.
- (11) This award was made on 9 April 2010 and the performance period runs from 1 January 2010 to 31 December 2012.
- (12) As described on page 56 of this report, the Remuneration Committee exercised its discretion in relation to the bwin merger transaction and measured the performance conditions of the April 2009 and April 2010 awards to 28 January 2011, the date of the Company's EGM to approve the merger with bwin. The Remuneration concluded that the April 2009 award's performance condition had been satisfied to its maximum potential and therefore subject to the merger taking effect, 337,500 Shares will vest on 31 March 2012. The 2010 award failed to satisfy its performance condition and will lapse in its entirety on the merger taking effect.
- (13) These Shares relate to three awards made on 6 April 2005, 29 December 2006 and 9 April 2009. The first two awards finished vesting on 31 December 2008. The third award vests in four lots of 50,000 Shares on 31 December 2009, 31 December 2010, 31 December 2011 and 31 December 2012. Unvested Shares vest on a change of control. The future vesting of this award is conditional on the participant's continued employment by the Company on the relevant vesting dates, save as described as follows. In the event of the participant's resignation or the termination of his employment by the Company for cause, he will be entitled to exercise the award 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 the participant entering into a written waiver and release of all claims against the Group relating to his employment or its termination, he will also be entitled to exercise the award 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, all unvested Shares will vest. None of these options is affected by the merger.
- The Combined Code recommends that executive share options should not be offered at a discount. This award has been granted at nil-cost on issue and exercise. At the time the award was made the Remuneration Committee was of the view that such terms were necessary in order for the Company to either secure or retain his long-term service.

Long-term incentive plans for 2011 – For Executive Directors and top tier senior management

Bonus Banking Plan

The key features of the BBP are:

- > at the beginning of the plan period of 3 financial years participants will have a plan account to which contributions will be made;
- > no contribution will be made to a participant's plan account unless the performance criteria are met;
- > each participant will have a maximum annual contribution as a percentage of salary;
- > the Remuneration Committee will set the performance criteria for each plan year. The performance criteria are as follows:
 - > a minimum threshold level of Clean EBITDA will be required for there to be any payment under the BBP;
 - > assuming the threshold is met a percentage of Clean EBITDA is used to create the bonus pool;
 - > a participant's annual payment from the bonus pool may also be subject to the satisfaction of additional KPIs;
 - > where the forfeit threshold Clean EBITDA is not achieved 50% of the deferred balance in a participant's plan account will be forfeited;
 - > participants will be entitled to an annual payment of 50% of their plan account at the end of each plan year. All balances will be deferred in shares. On the fourth anniversary of the start of the plan period the remainder of the balance of participants' plan accounts will be paid.
 - > Full disclosure of the thresholds set, the actual Clean EBITDA performance achieved and the corresponding contribution to the bonus pool, payments and deferred balances held by participants will be provided in the annual remuneration report. The 2011 thresholds cannot be set until the merger with bwin has been completed.

> Participation levels:

Name	Position	Maximum participation level (% of basic salary)
Jim Ryan	Co-CEO	300
Norbert Teufelberger	Co-CEO	300
Martin Weigold	CFO	250
Joachim Baca	COO	250
Top tier senior managers		150-200

Value Creation Plan

The key features of the VCP are:

- > under the VCP, participants are allocated a number of VCP points from a total pot;
- > these VCP points have no value on grant but give the Participants the opportunity, during the 3 year performance period, to share in 4% of the total value created for shareholders in excess of an annual hurdle of 10% share price growth from the initial share price at annual measurement points;
- > the value to each participant will be set by reference to the number of VCP Points held in proportion to the total VCP Points allocated and will be delivered in Shares;
- > at each measurement date participants will bank shares (in the form of a nil-cost option) with a value equivalent to the excess value created using the prevailing share price. 50% of any banked shares will become exercisable at the end of year 3, with the remainder at the end of year 4;
- > the level of value created for Shareholders will be determined by reference to the appreciation in the Company's share price, the amount of dividends paid and any share buy backs (absolute total shareholder return);
- > the shareholder value created at each measurement date will be calculated using the average share price over the 30 day period prior to the relevant measurement date;
- > the annual hurdle will be the higher of:
 - > 10% compounded annually from the initial price; and
 - > the average share price at the start of the relevant year (or previous measurement date if this is higher than at the start of the relevant year); and
- > the starting or initial price for determining the level of value required at the first measurement date will be agreed by the Remuneration Committee when making the first awards under the VCP shortly after the merger completes.

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> Participation levels:

Name	Position	Participation level (Allocation of VCP pool)
Jim Ryan	Co-CEO	10%
Norbert Teufelberger	Co-CEO	10%
Martin Weigold	CFO	10%
Joachim Baca	COO	10%
Top tier senior managers		2% to 4%

Examples of how both the BBP and VCP may operate are set out in the Circular on pages 91 to 96.

How the Value Creation Plan and Bonus Banking Plan address the issues

The key factors taken into account when updating the remuneration policy, as disclosed on page 56 have influenced the design of the BBP and VCP as follows:

The Bonus Banking Plan provides:

- > the flexibility for the Remuneration Committee to set annual targets mitigating against some of the risk of the sector;
- > the use of strategic key performance indicators as additional conditions for payments to be made under the Bonus Banking Plan allows a more holistic, flexible and durable approach rather than focusing purely on a relatively narrow set of financial metrics;
- > it ensures that any objectives based on integration and synergy savings from the merger are underpinned by profit performance before any bonus is earned;
- > the minimum performance thresholds ensure that key executives are encouraged to focus on sustainable long-term performance; and
- > the deferral in shares and the real risk of forfeiture through claw-back ensure a balance between the interests of Shareholders and key executives.

The Value Creation Plan ensures:

- > key executives will only benefit from material increases in absolute total shareholder return ensuring a direct alignment between the benefits received and value to Shareholders; and
- > the annual banking of shares under the Value Creation Plan results in an immediate shareholding which because of the restrictions on disposal provides an ongoing exposure to the share price of the Company, encouraging decisions maintaining and enhancing shareholder value.

Other long-term incentive plans being operated by the Group from 2011

	Bonus and Share Plan	Global Share Plan
Summary	<p>The key features of the BSP are:</p> <ul style="list-style-type: none"> > Participants will have a maximum annual bonus potential as a percentage of salary; > a Participant will earn their share of the bonus based on the satisfaction of a combination of Company, Divisional and individual objective performance measures; subject to the maximum bonus potential; > bonuses will be paid part in cash and part in deferred shares or options (with a maximum discounted exercise price of 100% to market value at grant) and with deferral periods up to three years. 	<p>The key features of the GSP are:</p> <ul style="list-style-type: none"> > participants will be able to purchase a maximum of £1,500 (or local currency equivalent) shares p.a.; > subject to the retention of these shares for three years and subject to continued employment, the Company may provide matching shares up to a maximum ratio of 2 matching shares for 1 employee purchased share; and > participants may be awarded an additional maximum of £3,000 shares p.a. for Executive Directors and £25,000 p.a. for other employees (or local currency equivalent).
Eligible Employees	Senior management of the Group excluding Executive Directors and next line of reports. Participation in the Bonus Banking Plan and/or VCP will prohibit participation in the Bonus and Share Plan.	All employees of the Group including Executive Directors.
Maximum Opportunity	150% of salary	£1,500 of employee purchased shares p.a. £3,000 of matching shares p.a. £3,000 of free shares p.a. for Executive Directors and £25,000 p.a. for other employees (or local currency equivalents).

bwin.party Rollover Option Plan

In addition to the four new share plans described above the Company is also introducing the bwin.party Rollover Option Plan ('ROP'). The purpose of the ROP is to effect the grant of rollover options over bwin.party Shares to replace unexercised options granted under the two bwin fair market value option plans. On the day the merger takes effect the bwin options over bwin shares will be rolled into equivalent options under the ROP over bwin.party Shares on terms which reflect the same exchange ratio as applies to bwin shareholders. The ROP generally replicates the commercial terms of the bwin option plans, save that the exercise price will be expressed in pounds sterling and not euros. There are bwin options over approximately 2.8 million bwin shares and so applying the merger share exchange ratio of 12.23 bwin.party Shares for each bwin share, all options under the two bwin option plans will be rolled over into an aggregate of approximately 35.0 million shares under the ROP. New bwin.party Shares will be issued to satisfy exercised ROP awards, however, these bwin.party Shares will not count towards the Company's 10% dilution limit.

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The Employee Benefit Trust

In April 2005 the Company's Principal Shareholders established the PartyGaming Plc Shares Trust ('the Employee Trust'). In June 2005 at the time of the IPO, the Principal Shareholders effectively gifted 22.4 million Shares to the Employee Trust (224 million Shares prior to the 10 for 1 share consolidation carried out in May 2008). On 29 December 2006, following the passing of the UIGEA, certain Principal Shareholders gifted a further 4 million Shares (40 million Shares prior to the consolidation) to the Employee Trust as part of a key employee retention programme. These Shares have been used to satisfy the exercise of awards made under the Nil-Cost Plan. As a result, to date the exercise of options awarded under the Nil-Cost Plan ('Nil-Cost Options') has not been dilutive to those Shareholders or Depository Interest Holders investing in PartyGaming from the IPO. Despite Nil-Cost Option exercises using these Shares not having a cash impact on the Company, International Financial Reporting Standards require the fair value of the Nil-Cost Options to be amortised through the statement of comprehensive income over their vesting period, based on the Group's estimate of the Shares that will eventually vest.

Following the acquisition of Cashcade in 2009, the Company granted Nil-Cost Options to a small number of key Cashcade employees for the purpose of securing their retention beyond the two-year acquisition earn-out. As the Employee Trust did not have sufficient unallocated Shares to provide for these awards, the Company gifted sufficient funds to the Employee Trust to purchase 1 million existing Shares in the market, which it carried out on 21 October 2009. Consequently, the acquisition of these Shares has had a cash impact on the Company. The Company may in the future make further such donations to the Employee Trust if the Board deems such action to be in the best interests of the Company.

As at 28 February 2011, the Trust held 3,994,588 Shares, all of which have been allocated to existing Nil-Cost Share Options.

The Trust's trustee has waived all dividend and voting rights attaching to the Shares in the Trust.

Dilution

Issued share capital as at 28 February 2011	413,065,372 (pre-Merger)
Total number of Shares committed to PSP awards	3.4 million, of which 1.68 million shares due to lapse on completion of the merger
Total number of Shares committed to ESOP	0
Total number of Shares committed to AEOP	22 million
New issue limits	No more than 10% of issued share capital under PSP, ESOP, AEOP, BBP, VCP, BSP and GSP. No more than 5% of issued share capital under PSP, ESOP, BBP, VCP and BSP.

Service contracts and letters of appointment**Key terms of Executive Director terms and conditions of employment:**

Date entered into:	Jim Ryan – 15 May 2008 Martin Weigold – 4 April 2005
Remuneration and benefits:	Entitlements to basic salary, discretionary bonus, participation in the Company's long-term incentive plans, private and medical insurance and life assurance
Notice period:	12 months by either party (unless gross misconduct when termination is immediate)
Termination payment:	Payment in lieu of notice up to 12 months' basic salary plus a payment to compensate for the value of any contractual lost benefits
Non-compete:	During employment and for 12 months following departure
Change of control:	No provision for a compensation payment
Expenses:	Reimbursement reasonably incurred in connection with duties
Holiday entitlement:	30 working days plus Gibraltar public holidays
Sickness:	100% basic salary for first 130 days in 12 consecutive calendar months and thereafter at the discretion of the Remuneration Committee
Governing law:	English law

Post-completion of the merger with bwin the appointment of Norbert Teufelberger (Co-CEO) and Joachim Baca (COO) will take effect. The terms of their appointment are as per the disclosures above. If the employment of Norbert Teufelberger is terminated prior to the third anniversary of the date of his appointment by the Company or by Norbert Teufelberger in certain prescribed circumstances under the Regulatory Process Agreement or on a change of control, in each case where there are no grounds for summary termination by the Company, the Company will offer to engage him as a consultant until the third anniversary of his appointment date on terms which are in respect of remuneration (including incentive arrangements) no less favourable when taken as a whole than the terms of his employment arrangements would have been had they continued until the third anniversary of his appointment date. No compensation will be payable upon expiry of the term on the third anniversary of his appointment date unless the period of the consultancy agreement is less than 12 months, in which case Norbert Teufelberger will receive an additional payment on the expiry of the consultancy agreement equal to the amount (if any) by which the aggregate of any termination payments under the service agreement and payments under the consultancy agreement is less than the payment in lieu of notice which Norbert Teufelberger would have received under the service agreement if the Company had chosen to exercise its right to terminate the service agreement by making a payment in lieu of notice. If Norbert Teufelberger accepts the Company's offer, he will have no right to claim compensation in respect of the termination of his contract of employment under the provisions described above.

Following completion of the merger, if a change of control of the Company (as defined in each service agreement) takes place, each of the Executive Directors may, in the 12 months following the change of control, terminate his employment if the Company makes a material adverse change to his title, responsibilities or status or changes his principal place of work to a place other than Gibraltar by giving three months' notice to the Company in writing. The Company will then be required to pay the relevant Executive Director a payment equal to the amount he would have received had his employment been terminated in accordance with the payment in lieu provision in his service agreement.

Key terms of appointment for the Non-Executive Directors ('NEDs'):

Date entered into:	Rod Perry – 29 August 2008 (on Completion replace by letter of appointment dated 16 December 2010) Lewis Moonie – 13 December 2007 (on Completion replace by letter of appointment dated 16 December 2010) Tim Bristow – 4 May 2007 Rami Lerner – 4 March 2009
Term:	No fixed period of service, but NEDs stand for re-election at least once every three years prior to which the Nominations Committee reviews the independence, commitment and performance of those standing for re-election and then the Board decides whether to recommend the reappointment
Termination:	Chairman – six months by either party Other NEDs – three months by either party
Fees:	See below
Expenses:	All reasonable out-of-pocket expenses incurred in carrying out duties
Governing law:	English law

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The appointments of Simon Duffy, Per Afrell, Manfred Bodner, Helmut Kern and Georg Riedl take effect from completion of the bwin merger and with the exception of Manfred Bodner, their letters of appointment are as per the disclosures above. The proposed terms applicable to Manfred Bodner reflect the special duties he will discharge in his role as Chairman of the Integration Committee. The appointment of Manfred Bodner is terminable by either party by 12 months' notice. The Company will have the right to elect to terminate the appointment of Manfred Bodner by making a payment in lieu of notice equal to his fee and target bonus (if any) for his 12 month notice period or unexpired period thereof. Any rights which Manfred Bodner has to preservation of awards under the Bonus Banking Plan or the Value Creation Plan will be in accordance with the rules of those schemes and will not be affected by any payment in lieu.

If the appointment of Manfred Bodner is terminated prior to the third anniversary of his appointment date by the Company, by Manfred Bodner not being re-elected by the Shareholders in a general meeting, or by Manfred Bodner in certain prescribed circumstances under the Regulatory Process Agreement or on a change of control, in each case where there are no grounds for summary termination of the appointment by the Company, the Company will offer to engage him as a consultant until the third anniversary of his original appointment date on terms which are no less favourable in terms of fees (including incentive arrangements) than the terms of his letter of appointment would have been had it continued until the third anniversary of his original appointment date. No compensation will be payable upon expiry of the term on the third anniversary of the appointment date unless the period of the consultancy agreement is less than 12 months, in which case Manfred Bodner will receive an additional payment on the expiry of the consultancy agreement equal to the amount (if any) by which the aggregate of any termination payments under the appointment letter and payments under the consultancy agreement is less than the payment in lieu of notice which Manfred Bodner would have received under the appointment letter if the Company had chosen to exercise its right to terminate the appointment letter by making a payment in lieu of notice. If Manfred Bodner accepts the Company's offer, he will have no right to claim compensation in respect of the termination of his appointment under the provisions described above.

Upon termination of the appointment of Manfred Bodner (except where terminated summarily or where the appointment is terminated in circumstances where the Company is required to offer Manfred Bodner a consultancy agreement, the Company will offer Manfred Bodner a new appointment letter on its standard terms then applicable to Non-Executive Directors.

If a change of control of the Company takes place, Manfred Bodner may, in the 12 months following the change of control, terminate his appointment if the Company makes a material adverse change to his title, responsibilities or status or changes his principal place of work to a place other than Gibraltar by giving three months' notice to the Company in writing. The Company will then be required to pay him a payment equal to the amount he would have received had his appointment been terminated in accordance with the payment in lieu provision in his letter of appointment.

In respect of the period following completion of the merger, the Chairman and each Non-Executive Director, except for Manfred Bodner, will not be entitled to participate in the VCP, BBP, GSP or BSP. Manfred Bodner, Georg Riedl, Helmut Kern, and Per Afrell will be granted replacement options for the options they held in the bwin option plans prior to completion under the bwin.party Rollover Option Plan details of which are set out on page 65 of this report.

With effect from completion of the merger, Manfred Bodner will be eligible to participate in such incentive arrangements for Executive Directors as are approved by the Company from time to time, including the Value Creation Plan and the Bonus Banking Plan. Manfred Bodner's letter of appointment provides that if his appointment terminates in certain prescribed circumstances under the Regulatory Process Agreement, Mr. Bodner will be treated as a good leaver under the terms of the Value Creation Plan and the Bonus Banking Plan.

The Combined Code on Corporate Governance and its successor, the UK Corporate Governance Code, recommend that remuneration for non-executive directors should not include share options or other performance-related elements. The reasons for the participation of Messrs. Bodner, Afrell, Kern and Riedl in the Company's new share plans to various degrees is described in the paragraphs above and was disclosed in the Circular and Prospectus as part of the process of seeking Shareholder approval for the new share plans.

The Chairman of the Board and the other Non-Executive Directors are not entitled to participate in any Company pension scheme.

Copies of the service contracts and letters of appointment are available for inspection during normal business hours at the Company's registered office in Gibraltar. These documents will also be available for inspection at the venue for the 2011 AGM from 30 minutes prior to that meeting until its conclusion.

External appointments

Executive Directors are required to seek the consent of the Board before accepting external appointments as non-executive directors. None of the current Executive Directors is a director of a company outside the Group for which they or the Company receives or received a fee during the year to 31 December 2010.

NED fees

Recommendations for the remuneration of the Non-Executive Directors are made by the Executive Directors to the Board.

The levels of fees are set recognising the responsibilities and time commitment made, as well as for the particular risks and challenges impacting upon the Company and the sector in which it operates. The fees were last reviewed in October 2010 and no changes were made except in respect of the fees paid to the Chairman and Deputy Chairman/Senior Independent Director post completion of the merger.

Position	Annual fee
Pre-Merger	
Chairman of the Board & Chairman of the Nominations Committee (Rod Perry)	£345,000
Senior Independent Director (Lewis Moonie)	£150,000
Independent Non-Executive Director (Tim Bristow)	£130,000
Non-Independent Director (Rami Lerner)	£100,000
Chairman of the Audit Committee (Stephen Box/Lewis Moonie)	£20,000
Chairman of the Remuneration Committee (Lewis Moonie)	£20,000
Chairman of the Ethics Committee (Tim Bristow)	£20,000
Post-Merger	
Chairman of the Board and Chairman of the Nominations Committee (Simon Duffy)	£350,000
Deputy Chairman, Senior Independent Director & Chairman of the Remuneration Committee (Rod Perry)	£250,000
Chairman of the Integration Committee (Manfred Bodner)	£465,000
Independent Non-Executive Director (Per Afrell, Tim Bristow, Helmut Kern, Lewis Moonie)	£130,000
Non-Independent Non-Executive Director (Rami lerner, Georg Riedl)	£100,000
Chairman of the Audit Committee (Helmut Kern)	£20,000
Chairman of the Ethics Committee (Tim Bristow)	£20,000

The Non-Executive Directors are not entitled to participate in any of Company's incentive or long-term incentive plans with two exceptions following completion of the bwin merger. First, Per Afrell, Manfred Bodner, Helmut Kern and Georg Riedl received bwin fair-market value options and on the merger becoming effective will receive replacement fair market value options under the bwin.party Rollover Option Plan in exchange for the automatic cancellation of their original bwin options. No further awards will be made under the bwin.party Rollover Option Plan. Secondly, Manfred Bodner will be eligible to participate in the BBP (up to a maximum of 300% of his annual fee) and VCP (10% of the allocated VCP participation pool) in recognition of the special duties he is expected to discharge in his role of Chairman of the Integration Committee.

Actual fees paid in respect of services provided in 2010:

Director	£	€
Stephen Box ¹	27,419	31,951
Tim Bristow	150,000	174,791
Rami Lerner	100,000	116,527
Lewis Moonie	170,000	198,096
Rod Perry	345,000	402,018

¹ On 8 March 2010 the Company announced that Stephen Box had died following a period of illness.

Directors' interests in PartyGaming Shares

Director	Shares		Share Plan Awards		Total at 31 December 2010
	1 January 2010	31 December 2010	1 January 2010	31 December 2010	
Tim Bristow	8,000	8,000	0	0	8,000
Rami Lerner	0	0	0	0	0
Lewis Moonie	15,940	15,940	0	0	15,940
Rod Perry	5,086	5,086	0	0	5,086
Jim Ryan	425,000	725,000	2,615,200	2,815,200	3,540,200
Martin Weigold	68,444	68,444	2,035,718	2,435,718	2,504,162

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Total emoluments overview

(Name)	Basic fee/ salary €	Annual bonus €	Allowances/ benefits €	Total emoluments €	Net proceeds from exercise of options €	2010 total €	2009 total €
<i>Chairman</i>							
Rod Perry	402,018	–	–	402,018	–	402,018	372,248
<i>Executive Directors</i>							
Jim Ryan	582,635	1,118,659	23,358	1,724,652	–	1,724,652	1,016,693
Martin Weigold	499,318	410,645	8,243	918,206	–	918,206	3,842,822
<i>Non-Executive Directors</i>							
Stephen Box ⁽¹⁾	31,951	–	–	31,951	–	31,951	161,847
Tim Bristow	174,791	–	–	174,791	–	174,791	161,847
Rami Lerner	116,527	–	–	116,527	–	116,527	89,044
Lewis Moonie	198,096	–	–	198,096	–	198,096	183,427

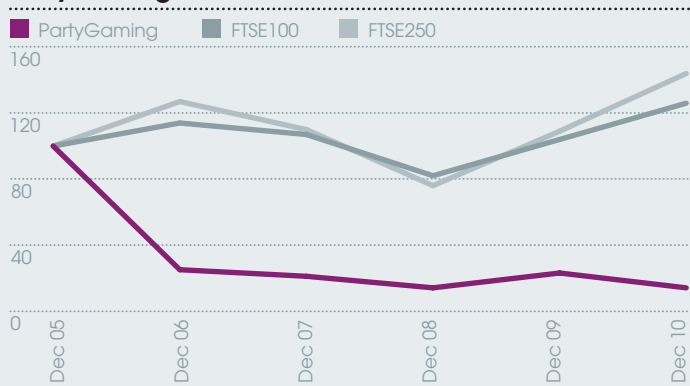
(1) On 8 March 2010 the Company announced that Stephen Box had died following a period of illness.

TSR performance comparison

To assist Shareholders in reviewing the appropriateness of PartyGaming's remuneration policies and practices, the Company is required by regulation to set out a graph in this report showing the total shareholder return ("TSR") of PartyGaming's Shares against the TSR performance of a suitable index over a five year period. As was done for the last report, the Remuneration Committee have chosen to use both the FTSE250 Index and the FTSE100 Index as comparators, because at different times since the IPO PartyGaming has been a constituent of both indices. The graph following plots the value of £100 in PartyGaming's Shares and in the FTSE100 and FTSE250 indices from 31 December 2005 to 31 December 2010. The change in value of the holdings in the two indices 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 January 2006

PartyGaming vs. FTSE100 Index and FTSE250 Index



Note: Shareholders should note that in October 2006 PartyGaming's share price experienced a sharp fall as a result of the passing of the UIGEA as it caused the loss of 76% of the Company's revenue base.

Auditor review

BDO LLP and BDO Limited have audited the sections headed "long-term incentive plans for 2010" and "Total emoluments overview" to the extent they are required to do so by section 421 of the UK Companies Act 2006.

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and consolidated financial statements in accordance with the Gibraltar Companies (Consolidated Accounts) Act 1999, the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies Act 1930 (as amended), International Financial Reporting Standards as adopted by the European Union ('IFRS') and Article 4 of the IAS Regulation, and the FSA's Disclosure and Transparency Rules and Listing Rules.

The Directors are also responsible for preparing the Company's financial statements in accordance with the Gibraltar Companies (Accounts) Act 1999 and the Gibraltar Companies Act 1930 (as amended). The Directors have also chosen to prepare the Company's financial statements in accordance with IFRS.

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 (as amended), and a Directors' Remuneration Report which complies with the requirements of the UK's Large and Medium-Sized Companies & Groups (Accounts and Reports) Regulations 2008, Schedule 8.

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.

In accordance with International Accounting Standard 1 the Directors are required to prepare financial statements for each financial year that present fairly the financial position of the Group and the Company and the financial performance and cashflows of the Group and the Company for that period. 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.

In preparing the financial statements the Directors are required to:

- > Select suitable accounting policies and then apply them consistently.
- > Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- > Provide additional disclosure 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 Group's financial position and financial performance.

In accordance with DTR 4.1.12 of the FSA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge:

- (a) the Group's financial statements have been prepared in accordance with IFRS and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- (b) the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board of Directors

Robert Hoskin
Company Secretary

3 March 2011

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We have audited the financial statements (the 'financial statements') of PartyGaming Plc for the year ended 31 December 2010 which comprise the Group statement of comprehensive income, the Group and Company statements of financial position, the Group and Company statements of changes in equity, the Group and Company statements of cashflows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the Company's members those matters that we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the Directors' are responsible for preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ('APB's') Ethical Standards for Auditors.

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 and in accordance with Section 421 of the UK Companies Act 2006 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 (as amended), and the part of the Remuneration Report to be audited has been properly prepared in accordance with Section 421 of the UK Companies Act 2006. We also report to you whether in our opinion, the information disclosed in the Directors' Report is 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 regarding Directors' remuneration and other transactions is not disclosed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- > the Group and Company's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- > 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 (as amended); and
- > the part of the Remuneration Report described as having been audited has been properly prepared in accordance with Section 421 of the UK Companies Act 2006.

Opinion on other matters prescribed by legal and regulatory requirements

In our opinion information given in the Directors' Report for the year ended 31 December 2010 for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under Gibraltar legal and regulatory requirements we are required to report to you if, in our opinion:

- > 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 law regarding Directors' remuneration and other transactions is not disclosed.

Under the Listing Rules we are required to review:

- > the Directors' statement in relation to going concern;
- > the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code on Corporate Governance specified for our review; and
- > certain elements of the Remuneration Report.

BDO LLP

Chartered Accountants
55 Baker Street
London W1U 7EU

United Kingdom
3 March 2011

Christian Summerfield (Statutory Auditor)

For and on behalf of

BDO Limited

Registered Auditors
Montagu Pavillion
8-10 Queensway
PO Box 1200
Gibraltar
3 March 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

BDO Limited, a Gibraltar limited company, is registered in Gibraltar with company number 52200

Consolidated statement of comprehensive income

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Year ended 31 December	Notes	2010 €million	2009 €million
Continuing operations			
Net revenue		348.4	309.1
Other revenue		8.9	1.0
Total revenue	2	357.3	310.1
Cost of sales		(6.9)	(0.3)
Gross profit		350.4	309.8
Other operating income		6.2	-
Other operating expenses	3	(4.9)	(0.8)
Administrative expenses excluding share-based payments		(137.5)	(116.9)
Share-based payments	4	(9.2)	(6.2)
Administrative expenses		(146.7)	(123.1)
Distribution expenses		(158.7)	(129.5)
Profit from operating activities	5	46.3	56.4
Finance income	7	0.9	1.2
Finance expense	7	(3.4)	(0.2)
Profit before tax		43.8	57.4
Tax	8	(3.6)	(4.1)
Profit after tax from Continuing operations		40.2	53.3
Loss after tax from Discontinued operations	9	(1.3)	(71.8)
Profit (loss) for the year attributable to the equity holders of the parent		38.9	(18.5)
Other comprehensive income (expense):			
Exchange differences on translation of foreign operations, net of tax		3.7	(1.2)
Total comprehensive income (expense) for the year attributable to the equity holders of the parent		42.6	(19.7)
Earnings (loss) per share (cents)			
Basic	10	9.5	(4.5)
Diluted	10	9.0	(4.5)
Continuing earnings per share (cents)			
Basic	10	9.8	13.1
Diluted	10	9.3	12.7

Consolidated statement of financial position

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As at 31 December	Notes	2010 €million	2009 €million	2008 €million
Non-current assets				
Intangible assets	11	211.9	232.9	128.2
Property, plant and equipment	12	9.5	8.5	11.6
Investments	14	1.7	-	-
		223.1	241.4	139.8
Current assets				
Assets held for sale	15	2.2	4.0	4.1
Trade and other receivables	16	48.3	35.0	33.9
Short-term investments	17	3.1	8.1	5.8
Cash and cash equivalents	18	193.6	145.1	134.2
		247.2	192.2	178.0
Total assets		470.3	433.6	317.8
Current liabilities				
Trade and other payables	19	(60.9)	(57.8)	(30.6)
Income taxes payable		(8.2)	(4.8)	(1.9)
Client liabilities and progressive prize pools	20	(93.1)	(87.2)	(91.2)
Loans and borrowings	21	(9.9)	-	-
		(172.1)	(149.8)	(123.7)
Non-current liabilities				
Trade and other payables	19	(27.7)	(54.8)	-
Loans and borrowings	21	(30.1)	(38.7)	-
Deferred tax	22	(7.4)	(10.9)	-
		(65.2)	(104.4)	-
Total liabilities		(237.3)	(254.2)	(123.7)
Total net assets		233.0	179.4	194.1
Equity				
Share capital	25	0.1	0.1	0.1
Share premium account		49.5	47.7	46.1
Own shares	25	(2.8)	(2.8)	-
Capital contribution reserve		24.1	24.1	24.1
Retained earnings		733.5	685.4	697.7
Other reserve		(573.7)	(573.7)	(573.7)
Currency reserve		2.3	(1.4)	(0.2)
Equity attributable to equity holders of the parent		233.0	179.4	194.1

These consolidated financial statements were approved by a duly appointed and authorised committee of the Board on 3 March 2011 and were signed on its behalf by Rod Perry and Tim Bristow, Directors.

Consolidated statement of changes in equity

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Year ended 31 December 2010	As at 1 January €million	Issue of shares €million	Total comprehensive income for the year €million	Share-based payments €million	As at 31 December €million
Share capital	0.1	-	-	-	0.1
Share premium account	47.7	1.8	-	-	49.5
Own shares	(2.8)	-	-	-	(2.8)
Capital contribution reserve	24.1	-	-	-	24.1
Retained earnings	685.4	-	38.9	9.2	733.5
Other reserve	(573.7)	-	-	-	(573.7)
Currency reserve	(1.4)	-	3.7	-	2.3
Total equity	179.4	1.8	42.6	9.2	233.0

Year ended 31 December 2009	As at 1 January €million	Issue of shares €million	Purchase of shares €million	Total comprehensive expense for the year €million	Share-based payments €million	As at 31 December €million
Share capital	0.1	-	-	-	-	0.1
Share premium account	46.1	1.6	-	-	-	47.7
Own shares	-	-	(2.8)	-	-	(2.8)
Capital contribution reserve	24.1	-	-	-	-	24.1
Retained earnings	697.7	-	-	(18.5)	6.2	685.4
Other reserve	(573.7)	-	-	-	-	(573.7)
Currency reserve	(0.2)	-	-	(1.2)	-	(1.4)
Total equity	194.1	1.6	(2.8)	(19.7)	6.2	179.4

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

Capital contribution reserve is the amount arising from share-based payments made by parties associated with the original Principal Shareholders and cash held by the Employee Trust.

Retained earnings represent cumulative profit/(loss) for the year, share-based payments and any other items of other comprehensive income not disclosed as separate reserves in the table above.

The other reserve of €573.7 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 retained earnings reflect the cumulative profits as if the current Group structure had always been in place.

Currency reserve represents the gains/losses arising on retranslating the net assets of overseas operations into Euros.

Consolidated statement of cashflows

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Year ended 31 December	2010 €million	2009 €million
Profit (loss) for the year	38.9	(18.5)
Adjustments for:		
Depreciation of property, plant and equipment	6.4	8.3
Amortisation of intangibles	32.8	21.2
Impairment of assets held for sale	0.1	0.4
Interest expense	4.5	0.2
Interest income	(0.9)	(1.2)
Increase in reserves due to share-based payments	9.2	6.2
Profit on sale of property, plant and equipment	(0.1)	(0.1)
Income tax expense	3.6	4.1
Operating cashflows before movements in working capital and provisions	94.5	20.6
(Increase) decrease in trade and other receivables	(12.3)	4.0
(Decrease) increase in trade and other payables	(14.2)	53.6
(Decrease) increase in provisions	(0.1)	0.1
Cash generated from operations	67.9	78.3
Income taxes paid	(4.2)	(3.0)
Net cash inflow from operating activities	63.7	75.3
<i>Investing activities</i>		
Acquisition of subsidiaries and businesses, net of cash acquired	-	(92.3)
Acquisition of subsidiaries and businesses, net of cash acquired – deferred payment	(9.2)	-
Purchases of intangible assets	(3.8)	(2.9)
Purchases of property, plant and equipment	(8.0)	(4.2)
Sale of property, plant and equipment	0.2	0.1
Purchase of investments	(1.7)	-
Sale of assets held for sale	1.8	-
Decrease (increase) in short-terms investments	4.9	(1.3)
Interest received	0.9	1.4
Net cash used in investing activities	(14.9)	(99.2)
<i>Financing activities</i>		
Issue of ordinary shares	1.8	1.6
Purchase of own shares	-	(2.8)
Proceeds from bank borrowings	-	38.7
Interest paid	(2.0)	(0.1)
Net cash (used in) generated by financing activities	(0.2)	37.4
Net increase in cash and cash equivalents	48.6	13.5
Exchange differences	(0.1)	(2.6)
Cash and cash equivalents at beginning of year	145.1	134.2
Cash and cash equivalents at end of year	193.6	145.1

Notes to the consolidated financial statements

1. Accounting policies

Basis of preparation

The Group and parent 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 consolidated and company financial statements comply with the Gibraltar Companies (Accounts) Act 1999, the Gibraltar Companies (Consolidated Accounts) Act 1999 and the Gibraltar Companies Act 1930 (as amended).

Statutory accounts for the year ended 31 December 2010 will be filed with Companies House Gibraltar following the Company's Annual General Meeting.

Since the Group and parent have changed the reporting currency during the year from US dollars to Euros, under the requirements of IAS 1 - *Presentation of Financial Statements* the statements of financial position as at 31 December 2008 are also included and shown in Euros along with their accompanying notes.

New accounting standards and interpretations

The following relevant standards and interpretations, issued by the IASB or 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:

IFRS 2 (Amended) - *Group Cash-settled Share-based Payment Transactions* (effective for annual periods beginning on or after 1 January 2010).

IFRS 3 (Revised) - *Business Combinations* (effective for annual periods beginning on or after 1 July 2009).

The following relevant standards and interpretations, issued by the IASB or the IFRIC have been early adopted by the Group in line with best practice with no significant impact on its consolidated results or financial position:

IAS 32 (Amended) - *Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010).

IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods beginning on or after 1 July 2010).

IAS 24 (Revised) - *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011).

The following relevant interpretations were issued by the IASB or the IFRIC before the year end but were not effective for the 2010 year end:

IFRS 7 (Amended) - *Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011).

IAS 12 (Amended) - *Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012).

IFRS 9 - *Financial Instruments* (effective for annual periods beginning on or after 1 January 2013).

The Group is currently assessing the impact, if any, that these standards will have on the presentation of its consolidated results.

Critical accounting policies, estimates and judgements

The preparation of 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, judgements and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year. These policies, together with references to the related notes to the financial statements, can be found as follows:

Functional currency	note 1
Revenue recognition	note 2
Intangible assets and impairment of goodwill	note 11
Regulatory compliance and contingent liabilities	note 24
Share-based payments	note 28

1. Accounting policies (continued)

Basis of accounting

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

Functional and reporting currency

Reflecting the fact that the Eurozone has become the predominant economic environment in which the Group's gaming companies operate based on the currencies with which players fund their accounts, as well as the expected opening of a number of newly regulated regimes in France, Italy and other Eurozone markets, the Group has changed the functional currency of certain of its gaming companies from US dollars to Euros.

In line with IAS 21 the change took effect from the date the Group determined that the characteristics required to identify the functional currency had changed. The Group determined this occurred during 2010 and for accounting purposes is effective from 1 January 2010.

In addition, the Group has changed in 2010 the reporting currency used for the financial statements of the Group from US dollars to Euros, as the gaming companies referred to above represent a significant majority of the Group's revenue.

All financial data for prior periods has been converted using the exchange rate at 1 January 2010 of 1 US dollar = 0.695 Euros.

As the Company's only significant transactions are in US dollars, instalments of the Non-Prosecution Agreement, funded by surplus US dollars generated by the rest of the Group, the US dollar continues to be its functional currency. To be consistent with the Group the reporting currency of the Company has also been changed to Euros.

A number of Group companies operate in functional currencies other than Euros.

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, the financial information of subsidiaries is included in the consolidated financial statements using the acquisition method of accounting, and 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).

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 Companies (Consolidated Accounts) Act 1999, the Company is exempt from the requirement to present its own statement of comprehensive income.

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

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

The Company's controlling interest in its directly held, wholly-owned subsidiary, PartyGaming Holdings Limited (formerly Headwall Ventures Limited), was acquired through a transaction under common control, using a form of accounting that is similar to pooling of interests.

Investments in subsidiaries

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

Notes to the consolidated financial statements

1. Accounting policies (continued)

Foreign currency

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their 'functional currency') are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of the reporting year. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in a separate component of equity.

On consolidation, the results of overseas operations are translated into Euros at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the end of the reporting year. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the 'currency reserve').

Exchange differences recognised in the statement of comprehensive income of group entities' separate financial statements on the translation of long-term monetary items forming part of the group's net investment in the overseas operation concerned are reclassified to the currency reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Revenue

Revenue from online gaming, comprising poker (including backgammon), casino, bingo, sports betting and network services (third-party entities that use the Group's platform and certain services), as well as fees from broadcasting, hosting and subscriptions, is recognised in the accounting periods in which the gaming transactions occur.

Revenue is measured at the fair value of the consideration received or receivable and is net of certain promotional bonuses and the value of PartyPoints accrued.

Net revenue consists of net gaming revenue and revenue generated from foreign exchange commissions on customer deposits and withdrawals and account fees. Poker (including backgammon) net revenue represents the commission charged or tournament entry fees where the player has concluded his or her participation in the tournament. Casino, bingo and sports betting net revenue represents net house win adjusted for the fair market value of gains and losses on open betting positions. Revenue generated from foreign exchange commissions on customer deposits and withdrawals and account fees is allocated to each reporting segment.

Other revenue consists primarily of revenue from network services, and fees from broadcasting, hosting and subscriptions. Revenue in respect of network service arrangements where the third-party owns the relationship with the customer is the net commission invoiced.

Interest income is recognised on an accruals basis.

Cost of sales

Cost of sales consists primarily of broadcasting costs. Broadcasting costs are expensed over the applicable life-cycle of each programme based upon the ratio of the current year's revenue to the estimated remaining total revenues.

Segment information

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Each segment's operating results are regularly reviewed by the Group to make decisions about resources to be allocated to the segment and assess its performance. The method for determining what information to report is based on the way management organises the operating segments within the Group for decision-making purposes and for the assessment of financial performance. The Group reviews financial statements presented by product type which are supplemented by some information about geographic regions for the purposes of making operating decisions and assessing financial performance. Therefore, the Group has determined that it is appropriate to report according to product segment.

Other operating income

Other operating income consists primarily of exchange gains.

Other operating expenses

Other operating expenses consist primarily of exchange losses and merger and acquisition expenses and are recognised on an accruals basis.

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 consolidated statement of comprehensive income 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 end of the reporting year.

1. Accounting policies (continued)

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 exemptions.

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 the end of each reporting year 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, with the exception of freehold land and buildings which are stated at cost and are not depreciated due to immateriality.

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

Depreciation is provided to write-off the cost, less estimated residual values, of all property, plant and equipment with the exception of freehold land and buildings, 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. From 2010 onwards, as a result of adoption of IFRS 3 (Revised) all acquisition-related expenses are recognised in the consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income 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.

Externally acquired intangible assets

Intangible assets are recognised on business combinations if they are separate from the acquired entity or give rise to other contractual or legal rights. Identifiable assets are recognised at their fair value at the acquisition date. The identified intangibles are amortised over the useful economic life of the assets.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Internally generated intangible 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.

Amortisation of intangible assets

Amortisation is provided to write-off the cost of all intangible assets, with the exception of goodwill, evenly over the periods the Group expects to benefit from their use, and varies between:

Brand and domain names	- 10% to 20% per annum
Broadcast libraries	- 50% per annum
Capitalised development expenditure	- 20% to 33% per annum
Contractual relationships	- over the length of the contract
Customer lists and contracts	- 20% to 50% per annum
Intellectual property and gaming licences	- over the length of the licence
Non-contractual relationships	- 33% per annum
Software	- 20% to 33% per annum

Impairment of goodwill, other intangibles and property, plant and equipment

At the end of each reporting year, the Group reviews the carrying amounts of its goodwill, other intangibles and property, plant and equipment 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.

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. Impairments related to goodwill are not reversed.

1. Accounting policies (continued)

Assets held for sale

Non-current assets and disposal groups are classified as held for sale if the carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as being met only when the sale is highly probable, management is committed to a sale plan, the asset is available for immediate sale in its present condition and the sale is expected to be completed within one year from the date of classification. These assets are measured at the lower of carrying value and fair value less associated costs of sale.

Investments

Non-derivative financial assets classified as available-for-sale comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. In accordance with IAS 39, a significant or prolonged decline in the fair value of an available-for-sale financial asset is recognised in the consolidated statement of comprehensive income.

Purchases and sales of available-for-sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available for sale reserve. On sale, the amount held in the available-for-sale reserve associated with that asset is removed from equity and recognised in the consolidated statement of comprehensive income.

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 and 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 consolidated statement of comprehensive income. 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 parties related to Principal Shareholders, the charge is recorded when there is a commitment 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

Treasury shares relate to shares gifted to the Employee Trust by the Company. The cost of treasury shares creates an own share reserve. When options issued by the Employee Trust are exercised the own share reserve is reduced and a gain or loss is recognised in reserves based on proceeds less weighted-average cost of shares exercised.

Provisions and contingent liabilities

The Group recognises a provision in the consolidated statement of financial position 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 statements

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 consolidated statement of financial position 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 to the consolidated statement of comprehensive income.

Rentals payable under operating leases are charged directly to the consolidated statement of comprehensive 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.

Derivative financial instruments

The Group uses derivative financial instruments to manage currency cashflows and to hedge foreign exchange risk on non-US dollar denominated financial assets and liabilities. The derivative instruments used by the Group consist mainly of spot and forward foreign exchange contracts.

Derivative financial instruments are recognised in the statement of financial position at fair value calculated using either discounted cashflow techniques or by reference to market prices supplied by banks. Changes in the fair value of derivative financial instruments are recognised in the consolidated statement of comprehensive income.

The Group presently does not adopt any form of hedge accounting as described in IAS 39 and does not anticipate any requirement to do so in the foreseeable future.

Financial assets

The Group's financial assets which are financial instruments are categorised as loans, receivables and available-for-sale financial assets.

These include restricted cash and unrestricted bank deposits with maturities of more than three months. Amounts held as security deposits are considered to be restricted cash. There are no financial assets that are classified as 'held to maturity'. A category for 'in the money' derivative financial instruments was not required since there were no derivative financial instruments held as at 31 December 2010 or 31 December 2009.

Non-derivative financial assets classified as available-for-sale comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. In accordance with IAS 39, a significant or prolonged decline in the fair value of an available-for-sale financial asset is recognised in the consolidated statement of comprehensive income.

Purchases and sales of available-for-sale financial assets are recognised on settlement date with any change in fair value between trade date and settlement date being recognised in the available-for-sale reserve. On sale, the amount held in the available-for-sale reserve associated with that asset is removed from equity and recognised in the consolidated statement of comprehensive income.

Short-term investments are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the amounts due from payment processors that remit funds on behalf of customers and other types of contractual monetary asset and cash (and cash equivalents). They are initially recognised at fair value, plus transaction costs directly attributable to their acquisition or issue. They are subsequently carried at amortised cost using the effective interest rate method, less any provisions for impairment.

Trade and other receivables represent short-term monetary assets which are recognised at fair value less impairment and other related provisions, which are recognised when there is objective evidence (primarily default or significant delay in payment) that the Group will be unable to collect all of the amounts due. The amount of such a provision is the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable.

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.

Financial liabilities

The Group's financial liabilities are all categorised as financial liabilities measured at amortised cost. Financial liabilities include the following items:

- > Client liabilities, including amounts due to progressive prize pools.
- > Trade payables and other short-term monetary liabilities which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method, which ensures that interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position.
- > Loans and borrowings, comprising bank borrowings and overdrafts, which are initially recognised at fair value, net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently valued at amortised cost using the effective interest rate method. Interest expense in this context includes initial transaction costs, as well as any interest or coupon payable while the liability is outstanding.
- > A category for 'out of the money' derivative financial instruments was not required since there were no derivative financial instruments as at 31 December 2010 or 31 December 2009.

1. Accounting policies (continued)

Share capital

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

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.

2. Segment information

For management purposes and transacting with customers, the Group's operations can be segmented into the following reporting segments:

- > poker (including backgammon),
- > casino,
- > bingo,
- > sports betting and
- > unallocated corporate (including World Poker Tour).

These segments are the basis upon which the Group reports its segment information. Unallocated corporate expenses, assets and liabilities relate to the Group as a whole and are not allocated to individual segments. The measure of reporting segment performance is Clean EBITDA and the basis for arriving at this is the same as the Group accounts.

Year ended 31 December 2010	Poker €million	Casino €million	Bingo €million	Sports betting €million	Unallocated corporate €million	Consolidated €million
Continuing operations						
Net revenue	124.8	151.4	51.4	20.8	-	348.4
Other revenue	1.1	-	1.1	-	6.7	8.9
Total revenue	125.9	151.4	52.5	20.8	6.7	357.3
Clean EBITDA	19.3	52.7	15.2	9.0	4.2	100.4
Profit (loss) before tax	16.3	47.6	0.3	3.4	(23.8)	43.8
Discontinued operations						
Clean EBITDA	-	-	-	-	(0.2)	(0.2)
Loss before tax	-	-	-	-	(1.3)	(1.3)
Total operations						
Net revenue	124.8	151.4	51.4	20.8	-	348.4
Other revenue	1.1	-	1.1	-	6.7	8.9
Total revenue	125.9	151.4	52.5	20.8	6.7	357.3
Clean EBITDA	19.3	52.7	15.2	9.0	4.0	100.2
Profit (loss) before tax	16.3	47.6	0.3	3.4	(25.1)	42.5

Notes to the consolidated financial statements

2. Segment information (continued)

Year ended 31 December 2009	Poker €million	Casino €million	Bingo €million	Sports betting €million	Unallocated corporate €million	Consolidated €million
Continuing operations						
Net revenue	136.8	136.3	22.8	13.2	–	309.1
Other revenue	–	–	0.5	–	0.5	1.0
Total revenue	136.8	136.3	23.3	13.2	0.5	310.1
Clean EBITDA	29.7	51.7	9.3	4.0	(0.9)	93.8
Profit (loss) before tax	26.8	47.5	3.3	(2.6)	(17.6)	57.4
Discontinued operations						
Clean EBITDA	–	–	–	–	(0.6)	(0.6)
Loss before tax	–	–	–	–	(71.8)	(71.8)
Total operations						
Net revenue	136.8	136.3	22.8	13.2	–	309.1
Other revenue	–	–	0.5	–	0.5	1.0
Total revenue	136.8	136.3	23.3	13.2	0.5	310.1
Clean EBITDA	29.7	51.7	9.3	4.0	(1.5)	93.2
Profit (loss) before tax	26.8	47.5	3.3	(2.6)	(89.4)	(14.4)

Geographical analysis of total revenue

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

Year ended 31 December	2010 €million	2009 €million
United Kingdom	79.3	47.9
Germany	48.3	56.9
Canada	43.4	42.3
Other	186.3	163.0
Total revenue	357.3	310.1

Geographical analysis of non-current assets

The following table provides an analysis of the Group's non-current assets by location:

Year ended 31 December	2010 €million	2009 €million
United Kingdom	95.3	105.3
Bermuda	76.2	80.1
Gibraltar	45.3	51.7
Other	6.3	4.3
Non-current assets	223.1	241.4

3. Other operating expenses

Year ended 31 December	2010 €million	2009 €million
Merger and acquisition expenses	4.9	–
Exchange losses	–	0.8
	4.9	0.8

Merger and acquisition expenses relate to the costs incurred during the year in relation to the proposed merger with bwin Interactive Entertainment AG

4. Share-based payments

Year ended 31 December	2010 €million	2009 €million
Nil-cost Plan	2.9	1.6
FMV Plan	2.9	2.4
PSP Plan	2.4	1.6
Executive FMV Plan	1.0	0.6
Total charge	9.2	6.2

Details of the share option plans are shown in note 28 and within the Remuneration report.

5. Profit from operating activities

Year ended 31 December	2010 €million	2009 €million
This has been arrived at after charging (crediting):		
Directors' emoluments	7.0	5.0
Other staff costs	59.6	48.9
Amortisation of intangibles	32.8	21.2
Depreciation on property, plant and equipment	6.4	8.3
Product development (including staff cost)	3.3	4.7
Profit on disposal of fixed assets	(0.1)	(0.1)
Transaction fees	18.9	19.0
Exchange (gain) loss	(6.1)	0.8
Impairment losses – trade receivables (bad debts)	2.9	4.9
Impairment losses – assets held for sale	0.1	0.4
Reorganisation expenses	0.7	1.3
Auditors' remuneration – audit services	0.5	0.5
Auditors' remuneration – merger and acquisition expenses	0.9	–

In 2009 the auditors earned €0.8 million of merger and acquisition costs which were capitalised as goodwill.

6. Staff costs

Year ended 31 December	2010 €million	2009 €million
Aggregate remuneration including Directors comprised:		
Wages and salaries	53.3	44.2
Share-based payments	9.2	6.2
Employer social insurance contribution	2.8	2.4
Other benefits	2.0	2.4
	67.3	55.2

Details of Directors' emoluments are set out in the Remuneration Report.

Year ended 31 December	2010 Number	2009 Number
Average number of employees		
Directors	6	8
Administration	134	130
Customer service	356	352
Others	868	777
	1,364	1,267

Notes to the consolidated financial statements

7. Finance income and expense

Year ended 31 December	2010 €million	2009 €million
Interest income	0.9	1.2
Finance income	0.9	1.2
Interest expense	(1.9)	(0.1)
Unwinding of discount on current and non-current liabilities	(1.5)	(0.1)
Finance expense	(3.4)	(0.2)
Net finance (expense) income	(2.5)	1.0

8. Tax

Analysis of tax charge

Year ended 31 December	Notes	2010 €million	2009 €million
Current tax expense for the year		7.4	5.8
Deferred tax credit for the year	22	(3.8)	(1.7)
Income tax expense for the year		3.6	4.1

The effective tax rate for Continuing operations for the year based on the associated tax expense is 8.2% (2009: 7.1%). There is no tax associated with Discontinued operations and other comprehensive income.

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

Year ended 31 December	Notes	2010 €million	2009 €million
Profit before tax from Continuing operations		43.8	57.4
Loss before tax from Discontinued operations	9	(1.3)	(71.8)
Profit (loss) before tax		42.5	(14.4)
Tax at effective rate in Gibraltar		-	-
Different tax rates applied in overseas jurisdictions		7.4	5.8
Effect of deferred tax originating in overseas jurisdictions	22	(3.8)	(1.7)
Income tax expense for the year		3.6	4.1

Factors affecting the tax charge for the year

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 13 countries including Gibraltar. However, the rules and practice governing the taxation of eCommerce 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 the financial statements.

Factors that may affect future tax charges

In Gibraltar, the Group benefited from the exempt company regime, which was phased out on 31 December 2010. Assessable income is taxed in Gibraltar at the rate of 10% thereafter.

In India, the Group benefits from a tax holiday on income from qualifying activities until March 2011; under current rules assessable income is taxed in India at approximately 34%. A Minimum Alternative Tax of approximately 17% applies.

As the Group is involved in worldwide operations, future tax charges will be affected by the levels and mix of profitability in different jurisdictions.

9. Discontinued operations

Consolidated statement of comprehensive income

Year ended 31 December	Notes	2010 €million	2009 €million
Non-Prosecution Agreement		-	70.2
Other		0.2	0.6
Administrative expenses		0.2	70.8
Loss from operating activities		0.2	70.8
Finance costs		1.1	1.0
Loss after tax		1.3	71.8
Loss per share (cents)			
Basic and diluted	10	0.3	17.6

Consolidated statement of cashflows

Year ended 31 December	2010 €million	2009 €million
Loss for the year	(1.3)	(71.8)
Adjustment for interest expense	1.1	1.0
Operating cashflows before movements in working capital and provisions	(0.2)	(70.8)
(Decrease) increase in trade and other payables	(22.4)	59.8
Net cash outflow from operating activities	(22.6)	(11.0)
Exchange differences	4.5	-
	(18.1)	(11.0)

Discontinued operations refers to those operations located physically outside of the US but which relate to US customers that were no longer accepted following the enactment of the UIGEA.

On 6 April 2009 the Group entered into a Non-Prosecution Agreement with the US Attorney's Office for the Southern District of New York (the 'USAO'). Under the terms of the agreement, the USAO will not prosecute the Group for providing internet gaming services to customers in the US prior to the enactment of the UIGEA and the Group has agreed to pay \$105 million, payable in semi-annual instalments over a period ending on 30 September 2012. The cost of the Non-Prosecution Agreement above of €70.2 million in 2009 represents the present value of the settlement amount of \$105 million. Finance costs relate to its accretion.

Other costs relate primarily to legal fees associated with the above and other legal actions relating to US operations prior to the enactment of the UIGEA, net of amounts reimbursed by the Group's insurers.

10. Earnings per share ('EPS')

Year ended 31 December	2010			2009		
	Continuing operations € cents	Discontinued operations € cents	Total € cents	Continuing operations € cents	Discontinued operations € cents	Total € cents
Basic EPS	9.8	(0.3)	9.5	13.1	(17.6)	(4.5)
Diluted EPS	9.3	* (0.3)	9.0	12.7	* (17.6)	* (4.5)
Basic Clean EPS	13.5	(0.1)	13.4	14.9	(0.1)	14.8
Diluted Clean EPS	12.7	* (0.1)	12.7	14.4	* (0.1)	14.3

* A diluted EPS calculation may not increase a basic EPS calculation.

Notes to the consolidated financial statements

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

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 as treasury shares.

Year ended 31 December	2010 Total	2009 Total
Basic EPS		
Basic earnings (loss) (€million)	38.9	(18.5)
Weighted average number of ordinary shares (million)	408.5	406.9
Basic earnings (loss) per ordinary share (€cents)	9.5	(4.5)
Basic Clean EPS		
Adjusted earnings (€million)	54.8	60.2
Weighted average number of ordinary shares (million)	408.5	406.9
Adjusted earnings per ordinary share (€cents)	13.4	14.8

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 the provision for items associated with the Group's Non-Prosecution Agreement, reorganisation costs, merger and acquisition costs and before non-cash charges relating to share-based payments.

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

Year ended 31 December	2010			2009		
	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 attributable to equity holders of the parent	40.2	(1.3)	38.9	53.3	(71.8)	(18.5)
Share-based payments	9.2	-	9.2	6.2	-	6.2
Provision for payments associated with the Group's Non-Prosecution Agreement	-	-	-	-	70.2	70.2
Unwinding of discount associated with the Group's Non-Prosecution Agreement	-	1.1	1.1	-	1.0	1.0
Merger and acquisition expenses	4.9	-	4.9	-	-	-
Reorganisation expenses	0.7	-	0.7	1.3	-	1.3
Clean net earnings (loss)	55.0	(0.2)	54.8	60.8	(0.6)	60.2

Year ended 31 December	2010 Number million	2009 Number million
Weighted average number of shares		
Number of shares in issue as at 1 January	412.4	411.5
Number of shares in issue as at 1 January held by the Employee Trust	(4.6)	(6.7)
Weighted average number of shares issued during the year	0.4	0.3
Weighted average number of shares purchased during the year	-	(0.2)
Effect of vested share options	0.3	2.0
Weighted average number of ordinary shares for the purposes of basic earnings per share	408.5	406.9
Effect of potential dilutive unvested shares	23.2	14.2
Weighted average number of ordinary shares for the purposes of diluted earnings per share	431.7	421.1

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 year 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.

11. Intangible assets

	Notes	Goodwill €million	Acquired intangibles €million	Other intangibles €million	Total €million
Cost or valuation					
As at 1 January 2009		145.0	109.5	7.5	262.0
Acquired through business combinations		67.1	57.6	–	124.7
Additions		–	–	2.9	2.9
Exchange movements		(1.0)	(0.4)	(1.0)	(2.4)
As at 31 December 2009		211.1	166.7	9.4	387.2
Adjustment to prior year acquisitions	30	(3.7)	–	–	(3.7)
Additions		–	–	3.8	3.8
Exchange movements		10.9	8.8	2.8	22.5
As at 31 December 2010		218.3	175.5	16.0	409.8
Amortisation					
As at 1 January 2009		52.9	78.3	2.6	133.8
Charge for the year		–	19.0	2.2	21.2
Exchange movements		–	(0.1)	(0.6)	(0.7)
As at 31 December 2009		52.9	97.2	4.2	154.3
Charge for the year		–	27.7	5.1	32.8
Exchange movements		3.9	6.1	0.8	10.8
As at 31 December 2010		56.8	131.0	10.1	197.9
Carrying amounts					
As at 31 December 2009		158.2	69.5	5.2	232.9
As at 31 December 2010		161.5	44.5	5.9	211.9

Acquired intangible assets are those intangible assets purchased as part of an acquisition and primarily include customer lists, brands, software and broadcast libraries. The value of acquired intangibles is based on cashflow projections at the time of acquisition. Customer lists from existing customers take into account the expected impact of player attrition.

Other intangibles primarily include development expenditure, long-term gaming and intellectual property licences and purchased domain names. Development expenditure represents software infrastructure assets that have been developed and generated internally. Licences are amortised over the life of the licences and other intangibles are being amortised over their estimated useful economic lives of between three and five years.

During 2010 both contingent consideration, and consequently goodwill, were subsequently revised down by €3.7 million based on Cashcade's profit performance in 2010 which was in the middle of the target range for the earnout.

Goodwill

Goodwill is allocated to the following cash generating units (CGUs):

As at 31 December	2010 €million	2009 €million
PartyPoker	6.4	6.0
Gamebookers	64.5	60.0
EOL/IOG	26.1	26.1
Cashcade	64.5	66.1
At end of year	161.5	158.2

Notes to the consolidated financial statements

11. Intangible assets (continued)

Impairment

In accordance with IAS 36, the Group regularly monitors the carrying value of its intangible assets. A detailed review was undertaken at 31 December 2010 to assess whether the carrying value of assets was supported by the net present value of future cashflows derived from those assets.

In respect of the PartyPoker, EOL/IOG, WPT and Cashcade CGUs, the directors have concluded that there are no reasonably possible changes in key assumptions which would cause the carrying value of goodwill and other intangibles to exceed their value in use.

Gamebookers	Excess of the recoverable amounts over the carrying value €million	Key assumptions used in the projections			Break-even analysis with other key assumptions remaining the same		
		Discount rate	Operating margin	Growth rate	Discount rate	Operating margin	Growth rate
As at 31 December 2009	9.5	9.5%	31.0%	14.1%	12.1%	27.3%	10.3%
As at 31 December 2010	10.0	12.1%	41.2%	3.6%	15.5%	35.9%	(1.4%)

The recoverable amount of Gamebookers has been determined from value in use calculations based on cashflow projections covering the following ten year period. The Group believes that going beyond five years' cashflows in the value in use calculations is appropriate given the Group is an established business and is a leader in a growth industry. The projections include the formally approved budget for 2011 and detailed projections covering the following two year period to 31 December 2013.

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the Group's weighted average cost of capital, adjusted to reflect management's assessment of specific risks related to the CGU. Growth rates have been based on estimates published in February 2010 by H2 Gambling Capital, an independent consultant to the online gambling industry.

12. Property, plant and equipment

	Notes	Land and buildings €million	Plant, machinery and vehicles €million	Fixtures, fittings, tools and equipment €million	Total €million
Cost or valuation					
As at 1 January 2009		3.9	3.7	56.6	64.2
Acquired through business combinations	30	0.1	0.1	0.6	0.8
Additions		0.1	0.6	3.5	4.2
Disposals		-	(0.1)	(0.2)	(0.3)
Exchange movements		0.3	0.1	2.3	2.7
As at 31 December 2009		4.4	4.4	62.8	71.6
Additions		0.1	0.5	7.4	8.0
Disposals		(0.8)	(0.2)	(2.4)	(3.4)
Exchange movements		0.3	0.4	3.1	3.8
As at 31 December 2010		4.0	5.1	70.9	80.0
Depreciation					
As at 1 January 2009		2.5	2.9	47.2	52.6
Charge for the year		0.8	0.5	7.0	8.3
Disposals		-	(0.1)	(0.2)	(0.3)
Exchange movements		0.2	0.2	2.1	2.5
As at 31 December 2009		3.5	3.5	56.1	63.1
Charge for the year		0.7	0.6	5.1	6.4
Disposals		(0.8)	(0.1)	(2.4)	(3.3)
Exchange movements		0.1	0.2	4.0	4.3
As at 31 December 2010		3.5	4.2	62.8	70.5
Carrying amount					
As at 31 December 2009		0.9	0.9	6.7	8.5
As at 31 December 2010		0.5	0.9	8.1	9.5

13. Commitments for capital expenditure

As at 31 December	2010 €million	2009 €million	2008 €million
Contracted but not provided for	1.5	1.3	1.1

14. Investments

As at 31 December	2010 €million	2009 €million	2008 €million
Available-for-sale financial assets	1.7	-	-

On 1 December 2010, the Group acquired a 6.3% stake in Wave Crest Holdings Limited, a payment processing operation, for a total consideration of €1.7 million.

The fair value of unquoted investments is based on the most recently available market price, less any provision for impairment.

15. Assets held for sale

As at 31 December	2010 €million	2009 €million	2008 €million
Cost	2.3	5.3	5.1
Less: impairment	(0.1)	(1.3)	(0.9)
Residential properties	2.2	4.0	4.1

Residential properties that are classified as assets held for sale are no longer required by the Group and are currently being offered for sale. There are no associated liabilities. The Directors consider that the carrying amounts of assets held for sale approximate to their fair values, which are based on estimates of the present value of expected future cashflows.

One of the three properties was sold in 2010. The remaining two properties continue to be marketed and are available for sale. These properties have not yet been sold due to adverse market conditions. Whilst the properties have been treated as held for sale for a period of greater than twelve months, the directors believe that the held for sale criteria continue to be met.

16. Trade and other receivables

As at 31 December	Group			Company		
	2010 €million	2009 €million	2008 €million	2010 €million	2009 €million	2008 €million
Payment service providers	23.6	17.8	18.0	-	-	-
Less: chargeback provision	(1.4)	(1.5)	(1.4)	-	-	-
Payment service providers – net	22.2	16.3	16.6	-	-	-
Prepayments	15.8	11.3	11.5	0.3	-	-
Other receivables	10.3	7.4	5.8	-	-	-
Due from Group companies	-	-	-	80.4	159.9	139.6
	48.3	35.0	33.9	80.7	159.9	139.6

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.

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.

Movements on the provision are as follows:

As at 31 December	2010 €million	2009 €million
At beginning of year	1.5	1.4
Charged to consolidated statement of comprehensive income	2.9	4.9
Credited to consolidated statement of comprehensive income	(3.0)	(4.8)
At end of year	1.4	1.5

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17. Short-term investments

As at 31 December	2010 €million	2009 €million	2008 €million
Cash on deposit for more than three months	-	3.0	1.1
Restricted cash	3.1	5.1	4.7
	3.1	8.1	5.8

Restricted cash relates to amounts held as interest-bearing security deposits.

18. Cash and cash equivalent

As at 31 December	Group			Company		
	2010 €million	2009 €million	2008 €million	2010 €million	2009 €million	2008 €million
Cash in hand and current accounts	193.6	145.1	134.2	44.8	-	-

19. Trade and other payables

As at 31 December	Group			Company		
	2010 €million	2009 €million	2008 €million	2010 €million	2009 €million	2008 €million
Amounts due under Non-Prosecution Agreement	22.2	20.6	-	22.2	20.6	-
Deferred and contingent consideration	6.7	9.2	-	-	-	-
Other payables	32.0	28.0	30.6	2.2	1.1	-
Due to Group companies	-	-	-	33.0	43.5	4.7
Current liabilities	60.9	57.8	30.6	57.4	65.2	4.7
Amounts due under Non-Prosecution Agreement	21.7	40.1	-	21.7	40.1	-
Deferred and contingent consideration	1.8	12.2	-	-	-	-
Later than one year but not later than five years	23.5	52.3	-	21.7	40.1	-
Deferred and contingent consideration	4.2	2.5	-	-	-	-
More than five years	4.2	2.5	-	-	-	-
Non-current liabilities	27.7	54.8	-	21.7	40.1	-

On 6 April 2009 the Group entered into a Non-Prosecution Agreement with the USAO. Under the terms of the agreement, the USAO will not prosecute the Group for providing internet gambling services to customers in the US prior to the enactment of the UIGEA and the Group agreed to pay \$105 million, payable in semi-annual instalments over a period ending on 30 September 2012. The amount due under the Non-Prosecution Agreement of €43.9 million (2009: €60.7 million; 2008: €nil) is recognised at fair value and carried at amortised cost using an effective interest rate of 2%.

Deferred and contingent consideration relates to amounts payable for the acquisitions of Cashcade and WPT. The amount due for deferred and contingent consideration of €12.7 million (2009: €23.9 million; 2008: €nil) is measured at the Directors' best estimate and carried at amortised cost using effective interest rates of between 2% and 15%.

Other payables comprise amounts outstanding for trade purchases and other ongoing costs. The average credit period for trade purchases is 15 days (2009: 30 days; 2008: 30 days). The carrying amount of other payables approximates to their fair value which is based on the net present value of expected future cashflows.

The non-discounted book values for these amounts are as follows:

As at 31 December	Amounts due under Non-Prosecution Agreement			Deferred and contingent consideration		
	2010 €million	2009 €million	2008 €million	2010 €million	2009 €million	2008 €million
Within one year	22.4	20.9	-	6.8	9.3	-
Later than one year but not later than five years	22.4	41.7	-	2.4	13.7	-
More than five years	-	-	-	8.7	7.0	-
	44.8	62.6	-	17.9	30.0	-

20. Client liabilities and progressive prize pools

As at 31 December	2010 €million	2009 €million	2008 €million
Client liabilities	85.6	80.5	84.2
Progressive prize pools	7.5	6.7	7.0
	93.1	87.2	91.2

Client liabilities and progressive prize pools represent amounts due to customers including net deposits received, undrawn winnings, jackpots and tournament prize pools and certain promotional bonuses. The carrying amount of client liabilities and progressive prize pools approximates to their fair value which is based on the net present value of expected future cashflows.

21. Loans and borrowings

	Book value			Fair value		
	2010 €million	2009 €million	2008 €million	2010 €million	2009 €million	2008 €million
As at 31 December 2010						
Secured bank loan	8.7	-	-	9.9	9.9	-
Current liabilities	8.7	-	-	9.9	9.9	-
Secured bank loan	32.0	39.3	-	30.1	30.1	-
Later than one year but not later than five years	32.0	39.3	-	30.1	30.1	-
Non-current liabilities	32.0	39.3	-	30.1	30.1	-

Bank borrowings are recognised at fair value and subsequently carried at amortised cost based on their internal rates of return. The discount rate applied was 5.44%.

Principal terms and the debt repayment schedule of loans and borrowings before amortisation are as follows:

	Lender	Amount	Nominal rate	Year of maturity	Security
As at 31 December 2009	The Royal Bank of Scotland plc	£35 million	6 months LIBOR plus 4.25%	2012	Floating charge over the assets of Cashcade Limited and its subsidiary undertakings
As at 31 December 2010	The Royal Bank of Scotland plc	£35 million	6 months LIBOR plus 3.25%	2012	Floating charge over the assets of Cashcade Limited and its subsidiary undertakings

The maturity analysis of loans and borrowings, including interest and fees, is as follows:

As at 31 December	2010 €million	2009 €million
Within one year	10.2	2.2
Later than one year but not later than five years	33.1	41.9
	43.3	44.1

Unutilised borrowing facilities are as follows:

	Lender	Amount	Nominal rate	Year of maturity	Security
As at 31 December 2010	Deutsche Bank AG	€34 million	3 months EURIBOR plus 3.50%	2012	None

This facility was put in place in 2010 solely for the purpose of financing payments to those shareholders of bwin Interactive Entertainment AG who might raise an objection against the resolution approving the merger with PartyGaming Plc at its extraordinary general meeting on 28 January 2011 and who request that such objection be recorded in the minutes of said meeting. As the payments resulting from such objections total less than €10,000, the facility was subsequently cancelled on 28 January 2011.

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22. Deferred tax

As at 31 December	Notes	2010 €million	2009 €million	2008 €million
At beginning of year		10.9	-	-
Acquired through business combinations	30	-	12.6	-
Credited to consolidated statement of comprehensive income	8	(3.8)	(1.7)	-
Exchange differences		0.3	-	-
At end of year		7.4	10.9	-

Deferred tax is calculated in full on temporary differences under the liability method using tax rates applicable to the relevant jurisdictions. The above amounts relate to temporary differences arising from fair value adjustments of acquired intangible assets.

23. Operating lease commitments

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

As at 31 December	2010 €million	2009 €million
Within one year	2.4	1.8
Later than one year but not later than five years	6.1	2.9
More than five years	5.2	-
	13.7	4.7

All operating lease commitments relate to land and buildings. Rental costs under operating leases are charged to the consolidated statement of comprehensive income in equal annual amounts over the period of the leases.

24. 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.

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

The Justice and Public Safety Cabinet of the Commonwealth of Kentucky has filed a civil suit against PartyGaming Plc and other defendants in Franklin Circuit Court, a state court in Kentucky in the US. The suit, which was filed by private attorneys reportedly engaged on a contingency-fee basis, seeks a claim for damages of \$47 million which includes treble recovery of losses allegedly suffered by Kentucky residents who played on the Company's websites from 5 August 2005, until the Company's termination of US-facing activity on 13 October 2006, along with interest and costs. The Company believes the suit to be without merit and intends to defend the matter vigorously and accordingly no provision has been made in the accounts.

25. Share capital

Ordinary shares

	Issued and fully paid €million	Issued and fully paid \$	Number million
As at 1 January 2009	0.1	103,866	411.5
Employee share options exercised during the year	-	193	0.9
As at 31 December 2009	0.1	104,059	412.4
Employee share options exercised during the year	-	166	0.7
As at 31 December 2010	0.1	104,225	413.1

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 \$104,224.54 and is split into 413,061,701 ordinary shares. The share capital in UK sterling is £61,959.26 and translates at an average exchange rate of 1.6821 US dollars to £1 sterling.

Authorised share capital and significant terms and conditions

On 7 May 2009 the Company's authorised share capital was increased from £75,000 divided into 500 million ordinary shares with a par value of 0.015 pence each, to £105,000 divided into 700 million ordinary shares of 0.015 pence each. 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 of the Employee Trust has waived all voting and dividend rights in respect of shares held by the Employee Trust.

Treasury shares

	Own shares reserve €million	Number million
As at 1 January 2009	-	6.7
Purchase of own shares for the Employee Trust	(2.8)	1.0
Employee share options exercised during the year	-	(3.1)
As at 31 December 2009	(2.8)	4.6
Employee share options exercised during the year	-	(0.6)
As at 31 December 2010	(2.8)	4.0

As at 31 December 2010 4,000,045 (2009: 4,564,628) ordinary shares were held as treasury shares by the Employee Trust. During 2009 the Company purchased 1,000,000 ordinary shares which were gifted to the Employee Trust. Shares held by the Employee Trust prior to 31 December 2008 had been gifted at par value.

Notes to the consolidated financial statements

26. Financial instruments and risk management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing these risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing these risks or the methods used to measure them from previous periods, unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- > investments;
- > short-term investments;
- > trade and other receivables;
- > cash and cash equivalents;
- > loans and borrowings;
- > trade and other payables;
- > client liabilities and progressive prize pools; and
- > foreign exchange contracts.

Foreign exchange contracts are regularly used in the normal course of business but none were outstanding as at 31 December 2010 or at the prior year end. The Group operates a sports betting business and always has open bets. As at 31 December 2010 and at the prior year end the fair market value of open bets was not material. Other financial derivative instruments are permitted to be used by the Group, but none were used in the period ended 31 December 2010 or in the prior year.

Management controls and procedures

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating the required processes that ensure the effective implementation of the objectives and policies to the Group's treasury department under the auspices of the Group Treasury Committee (see below). As such, the Group's funding, liquidity and exposure to interest rate and foreign exchange rate risks are managed by the Group's treasury department. The treasury department is mandated to execute conventional forward foreign exchange contracts and swaps in order to manage these underlying risks. No other derivatives may be executed without written authority from the Board at which point an explanation of the accounting implications would also be given.

Treasury operations are conducted within a framework of policies and guidelines reviewed and approved by the Board on an annual basis which are recommended and subsequently monitored by the Group Treasury Committee. The Group Treasury Committee is chaired by the Group Finance Director. These policies include benchmark exposures and hedge cover levels for key areas of treasury risk. The Group risk management policies would also be reviewed by the Board following, for example, significant changes to the Group's business. Exposures are monitored and reported to management on a weekly basis, together with required actions when tolerance limits are exceeded. The internal control procedures and risk management processes of the treasury department are also reviewed periodically by the internal audit function. The last internal control review was undertaken during 2010 and the procedures and processes were deemed satisfactory.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible, without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Liquidity risk

Liquidity risk arises from the Group's management of its working capital as well as the finance charges and principal repayments on its debt instruments. In essence, it is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's treasury department ensures that the Group's cash and cash equivalents, and amounts due from payment service providers ('PSPs') exceed its combined client liabilities at all times. This excess is defined as the Client Liability Cover. Client liabilities principally represent customer deposits and progressive prize pools.

The Group Treasury Committee is advised of cash balances, investments, foreign currency exposures, interest income, interest expense, amounts due from PSPs, Client Liability Cover and counterparty exposures on a weekly basis.

The Group imposes a maximum debt limit of \$150 million that may mature in any one year to ensure that there is no significant concentration of refinancing risk.

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.

During 2009 the Group borrowed £35 million as a means of managing liquidity risk and at the end of 2010 had an unutilised borrowing facility of €34 million in place as a means of managing liquidity risk should the proposed merger with bwin Interactive Entertainment AG be completed.

26. Financial instruments and risk management (continued)

Capital risk

In common with many internet companies that have few physical assets, the Group has no policy as to the level of equity capital and reserves other than to address statutory requirements. The primary capital risk to the Group is the level of debt relative to the Group's net income. Accordingly, the Group's policy is that gross debt should not exceed \$300 million and that the leverage ratio of gross debt/clean EBITDA should be less than 1.5x. An analysis of gross debt is as follows:

As at 31 December	2010	2009
Gross debt (€million)	40.7	39.3
Clean EBITDA (€million)	100.2	93.2
Headroom (€million)	109.6	100.5
Ratio	0.4	0.4

Details of the Group's dividend policy is disclosed in the Chairman's Statement and also on page 18 of this Annual Report under the heading 'Review of 2010'.

Credit risk

Operational: The Group's operational credit risk is primarily attributable to receivables from PSPs and from customers who dispute their deposits made after playing on the Group's websites. Prior to accepting new PSPs and wherever practicable, credit checks are performed using a reputable external source. Senior management monitors PSP balances on a weekly basis and promptly takes corrective action if pre-agreed limits are exceeded. For PSPs that do not have a formal credit rating, an internal rating system is used, based on such factors as industry knowledge, their statement of financial position, profitability, customer diversification, geographic diversification, long-term stability, management credibility, potential regulatory risk and historic payment track record.

These internal ratings are monitored and reviewed on a monthly basis by the Director of Payment Processing. An internal rating of one is assessed as very strong whilst a rating of five is assessed as weak.

As at 31 December	2010 €million	2009 €million
1 (Very Strong)	3.7	0.2
2 (Strong)	11.8	6.3
3 (Good)	8.1	11.3
PSPs amounts due	23.6	17.8

Management consider the maximum credit exposure on amounts due from PSPs to be the carrying amount.

As at 31 December 2010 and 31 December 2009 there were no overdue amounts due from PSPs which had not been impaired, nor were there any partially impaired amounts. There is an inherent concentration of risk with PSPs, which are not investment grade banks, in that the majority derive most of their income from the online gaming sector. To this end, where practicable and economic, the Group seeks to substitute non-investment grade PSPs with investment grade, or at least better quality, PSPs.

The table below sets out the movement in the impairment of amounts due from PSPs.

Year ended 31 December	2010 €million	2009 €million
Impairments	0.1	-
Total impairment expense	0.1	-

Note 16 details the movement and level of provisions for PSPs.

Cash investments: Wherever possible and commercially practicable the Group invests cash through major financial institutions where the counterparty has a one year credit default swap ('CDS') as quoted by Bloomberg, of no more than 5% or, in the case of pooled money market funds, a minimum long-term credit rating of AAA on the principal, as defined by Moody's rating agency. Investments are allowed only in highly liquid securities. The Group maintains monthly operational balances with banks that do not meet this credit rating in Israel, Bulgaria and India to meet local salaries, expenses and legal requirements. These balances are kept to a minimum.

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26. Financial instruments and risk management (continued)

As at 31 December	Cash and cash equivalents		Short-term investments	
	2010 €million	2009 €million	2010 €million	2009 €million
AAA money market funds	144.3	22.5	-	-
Counterparties with CDS less than 0.5%	-	95.3	-	3.3
Counterparties with CDS between 0.5% and 1%	8.2	-	-	-
Counterparties with CDS between 1% and 1.5%	-	1.8	-	1.7
Counterparties with CDS between 1.5% and 2%	30.3	18.1	1.4	-
Counterparties without CDS or CDS more than 2%	10.8	7.4	1.7	3.1
	193.6	145.1	3.1	8.1

The treasury department may only make the following cash investments, without prior written authority by the Board:

- > cash deposits;
- > pooled money market funds;
- > certificates of deposit; and
- > commercial paper.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Market risk

Market risk arises from the Group's use of interest-bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cashflows on its long-term debt finance and cash investments through the use of a financial instrument will fluctuate because of changes in interest rates, foreign exchange rates or other market factors.

Interest rate risk

The Group's current net cash position is maintained primarily on a floating basis. In the event of a strategic change in the debt position of the Group, the interest rate management policy would be reviewed.

Currency risk

Transaction and currency liability exposures: The Group's policy is that all material transaction and currency liability exposures are economically and fully hedged using foreign exchange contracts and/or by holding cash in the relevant currency. Additionally, the Group has discretion to hedge some or all of its forecast sterling operational costs in Gibraltar and the UK for up to 12 months. No other forecast cashflows are hedged. The Group also economically hedges material committed exposures such as capital expenditure unless the period between commitment and payment is short (less than one month). Currency exposures are monitored by the Group Treasury Committee on a weekly basis. A \$5 million currency tolerance limit between Euros and any other currency is permitted in order to avoid executing low value and uneconomic foreign exchange contracts.

Net investment exposures: The Group has the flexibility to hold debt in currencies other than Euros in order to hedge non-Euro investments up to 50% of the net investment value. In managing the mix of ongoing debt exposure the Group takes into account prevailing interest rates in particular currencies and the potential impact on Group earnings ratios. At 31 December 2010 and at the prior year end the Group had a loan of £35 million.

Sensitivity analysis to currency and interest rate risk

The Group has adopted a sensitivity analysis that measures the change to the fair value of the Group's financial instruments and any resultant impact on the Group's earnings of either:

- > an instantaneous increase or decrease of 1% in market interest rates (including the annualised interest income impact of variable rate interest-bearing financial instruments), or
- > a 10% strengthening or weakening in the reporting currency against all other currencies from the rates applicable at 31 December.

The Group is exposed to interest rate movements since it holds significant amounts of cash at floating rates as well as cash equivalents to meet client liability obligations that are non-interest bearing. The Group is exposed to currency movements in the Euro, arising out of changes in the fair value of financial instruments which are held in non-Euro currencies. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

The amounts generated from the sensitivity analysis are estimates of the possible impact of market risk, assuming that specified changes occur. Actual results in the future may differ materially from these results due to other developments in financial markets that may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the following table, which therefore should not be considered as a projection of likely future events and losses.

26. Financial instruments and risk management (continued)

Prior to the current year both the reporting currency of the Group and functional currency of the majority of subsidiaries was US dollars and currency risk was managed on that basis. The sensitivity analysis below reflects that management.

	(Decrease) increase in fair value of financial instruments		Impact on earnings	Gain (loss)
	2010 €million	2009 €million	2010 €million	2009 €million
As at 31 December				
1% decrease in interest rates	-	-	(0.5)	0.3
1% increase in interest rates	-	-	1.4	1.0
10% weakening in the reporting currency	(0.8)	(2.4)	3.1	2.4
10% strengthening in the reporting currency	0.8	2.4	(3.1)	(2.4)

Insurance

The Group purchases insurance for commercial or, where required, for legal or contractual reasons. The Group also retains certain insurable risk where external insurance is not considered an economic means of mitigating these risks.

Total financial assets and liabilities and 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 end of the reporting years and the periods in which they reprice, as well as setting out the Group's accounting classification of each class of financial assets and liabilities and their fair values at 31 December 2010 and 31 December 2009.

	Of which interest-bearing						
	Carrying value €million	Fair value €million	Total €million	Effective interest rate	6 months or less €million	6 - 12 months €million	1 - 5 years €million
As at 31 December 2010							
Investments	1.7	1.7	-	-	-	-	-
Assets held for sale	2.2	2.2	-	-	-	-	-
Trade and other receivables	32.5	32.5	-	-	-	-	-
Short-term investments	3.1	3.1	3.1	0.40%	-	3.1	-
Cash and cash equivalents	193.6	193.6	182.3	0.62%	182.3	-	-
Financial assets	233.1	233.1	185.4	0.62%	182.3	3.1	-
Trade and other payables	(94.7)	(88.6)	-	-	-	-	-
Client liabilities and progressive prize pools	(93.1)	(93.1)	-	-	-	-	-
Loans and borrowings	(40.7)	(40.0)	(40.0)	5.44%	(5.0)	(4.9)	(30.1)
Financial liabilities at amortised cost	(228.5)	(221.7)	(40.0)	5.44%	(5.0)	(4.9)	(30.1)

	Of which interest bearing						
	Carrying value €million	Fair value €million	Total €million	Effective interest rate	6 months or less €million	6 - 12 months €million	1 - 5 years €million
As at 31 December 2009							
Assets held for sale	4.0	4.0	-	-	-	-	-
Trade and other receivables	23.7	23.7	-	-	-	-	-
Short-term investments	8.1	8.1	8.1	3.47%	1.7	6.4	-
Cash and cash equivalents	145.1	145.1	138.4	0.27%	138.4	-	-
Financial assets	180.9	180.9	146.5	0.45%	140.1	6.4	-
Trade and other payables	(120.6)	(112.6)	-	-	-	-	-
Client liabilities and progressive prize pools	(87.2)	(87.2)	-	-	-	-	-
Loans and borrowings	(39.3)	(38.7)	(38.7)	5.44%	-	-	(38.7)
Financial liabilities at amortised cost	(247.1)	(238.5)	(38.7)	5.44%	-	-	(38.7)

The fair values of borrowings and other financial instruments are estimated at 31 December each year by discounting the future contractual cashflows to the net present values using appropriate yield curves.

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27. Related parties

(i) Group

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

Principal Shareholders

During the period the Principal Shareholders, and corporate entities controlled by the Principal Shareholders, did not receive any remuneration in the form of salary, bonuses or consulting fees (2009: €nil).

The wife of a former Principal Shareholder owns a property and it is leased to the Group's Indian subsidiary on an arm's length basis. Rentals paid during the year ended 31 December 2009 up to the date the Principal Shareholder divested his interest in the Group to under 10% were €36,000. At the time of the divestment there were no amounts outstanding.

During 2009 former Directors and Principal Shareholders leased some of their personal properties to employees of the Group. The Directors believe that these lease arrangements were fair value personal arrangements between the parties involved and are independent of the Group.

A former Principal Shareholder and certain other Principal Shareholders have also given certain indemnities to the Group.

Directors and key management

Key management 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 of the Group are set out below:

Year ended 31 December	2010 €million	2009 €million
Short-term benefits	7.6	7.0
Share-based payments	6.5	4.0
	14.1	11.0

At the year end an aggregate balance of €3.0 million (2009: €2.0 million) was due to Directors and key management.

The Group purchased some of its communication services costing €2.1 million (2009: €2.5 million) from a company on an arm's length basis for whom a Board member is a director, with amounts owed to that company at 31 December 2010 of €nil (2009: €nil).

In 2009 and 2010 furnished property was leased to a member of key management at an annual lease rental of €42,000, which the Directors believe is the fair rental value of the property. There were no amounts owed at 31 December 2010 (2009: €nil).

After the former Chairman of the Board stepped down as a Director on 29 August 2008, he was engaged by the Group under a consultancy agreement to provide services, as required, to the Group. The consultancy terminated on 29 August 2009 and for a further six months afterwards he was prevented from providing services to other gaming businesses. A fee of £110,000 was payable to the former Chairman under this consultancy agreement.

The Group made affiliate payments on an arm's length basis of less than €1,000 in 2009 to a company for whom a former Board member was a Director, with amounts owed at the time the Board member resigned of less than €1,000.

Certain Directors and certain key management were granted share options under service contracts which were granted under a Group share option plan (see note 28).

(ii) Company

The cash obligations of PartyGaming Plc (the 'Company') for operating expenditure, are discharged in the main by its operating subsidiaries. Where this occurs, amounts paid by the subsidiaries are accounted for through an adjustment to the related inter-company balances. During the year, €6.0 million of costs (2009: €14.8 million) were incurred by subsidiaries on behalf of the Company. The Company also has an agreement with iGlobalMedia Marketing (UK) Limited, a wholly-owned subsidiary, for the provision of investor relations and public relations services to it at a cost of €1.2 million (2009: €0.9 million).

In 2009 and 2010, the Company did not receive any dividends from subsidiaries, nor declare a dividend to shareholders.

At year end, the Company did not have any other borrowing facilities.

The Directors and certain key management of the Company were remunerated through cash payments made by other entities within the Group of €3.0 million (2009: €4.0 million) and share options issued by the Company with a share-based payment expense of €3.4 million (2009: €1.6 million). Additionally, the Company has granted options over its shares to employees of certain subsidiaries. The share-based payment expense for the year in respect of these share options of €5.6 million (2009: €4.6 million) has been added to the Company's cost of investment in those subsidiaries. Disclosures relating to share-based payments are included in note 28.

Details of amounts owed to and from subsidiaries are included in notes 16 and 19.

28. Share options

As disclosed in note 4, the Group has adopted and granted awards under the Nil-Cost Plan, FMV Plan, PSP Plan and Executive FMV Plan as a reward and retention incentive for employees of the Group, including the Executive Directors. The Group has used the Black-Scholes option pricing model to value these options. 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.

	Nil-Cost Plan Number million	FMV Plan Number million	PSP Plan Number million	Executive FMV Plan Number million
Year ended 31 December 2010				
Outstanding at beginning of year	4.3	19.2	2.3	1.4
Shares over which options granted during the year	1.0	6.1	1.3	0.5
Shares in respect of options lapsed during the year	-	(1.9)	(0.2)	(0.1)
Exercised during the period	(0.5)	(0.8)	-	-
Outstanding at end of year	4.8	22.6	3.4	1.8
Exercisable at the end of year	1.9	8.9	0.4	0.9
Shares over which options granted during the year (number)	1,042,600	6,110,000	1,300,000	450,000
Percentage of total issued share capital	0.25%	1.48%	0.31%	0.11%
Weighted average share price for options exercised	£2.79	£2.95	-	-
Weighted average remaining contractual life of options outstanding upon satisfaction of performance conditions where relevant (days)	2,779	2,860	176	2,971

	Nil-Cost Plan Number million	FMV Plan Number million	PSP Plan Number million	Executive FMV Plan Number million
Year ended 31 December 2009				
Outstanding at beginning of year	6.0	21.0	1.7	1.2
Shares over which options granted during the year	1.6	4.6	1.0	0.5
Shares in respect of options lapsed during the year	(0.1)	(5.6)	(0.4)	(0.3)
Exercised during the year	(3.2)	(0.8)	-	-
Outstanding at end of year	4.3	19.2	2.3	1.4
Exercisable at the end of year	1.7	4.1	0.2	0.1
Shares over which options granted during the year (number)	1,610,336	4,591,166	1,041,817	462,500
Percentage of total issued share capital	0.39%	1.11%	0.25%	0.11%
Weighted average share price for options exercised	£2.57	£2.62	-	-
Weighted average remaining contractual life of options outstanding upon satisfaction of performance conditions where relevant (days)	2,961	3,042	490	3,202

Terms and conditions

Nil-Cost Plan

These options are not generally subject to performance conditions as this is regarded as detracting from their attraction and retention capabilities and instead usually vest on a phased basis over a four- to five-year period. The main exception to this general policy is the award made to key employees in the bingo segment, which will only vest subject to the satisfaction of a stretching EBITDA target for that business unit for 2012.

FMV Plan

Options granted under this plan during the period generally vest in instalments over a three year period. There are no performance conditions attached to options issued by the Group under the terms of the FMV Plan. Directors are not eligible to receive any awards under this plan.

PSP Plan

These options vest subject to the achievement of a total shareholder return ('TSR') performance target over the three-year period commencing on 1 January or 1 July of each year from 2007 compared to the median TSR of a comparator group. The threshold for vesting at which 25% will vest, will be TSR equalling the median of the comparator group, rising on a straight-line basis to 100% vesting if the Company's TSR exceeds the median by 10% per annum calculated over the three-year period. It is estimated that outperformance of the median by 10% per annum over that period is performance in excess of the upper quartile.

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28. Share options (continued)

Executive FMV Plan

These options vest subject to the growth in the Company's Clean Earnings per share equalling or exceeding 15% per annum in the three year period from 1 January of each year from 2007.

Outstanding share options issued under the FMV Plan and Executive FMV Plan have been granted at exercise prices between 155.0 pence and 457.5 pence (2009: between 155.0 pence and 457.5 pence).

29. Investments in subsidiaries

Company

The Company has the following investments in subsidiary undertakings:

	€million
As at 1 January 2009	814.1
Options issued to employees of subsidiary undertakings	4.6
Reversal of impairment	384.8
As at 31 December 2009	1,203.5
Options issued to employees of subsidiary undertakings	5.6
Impairment	(220.5)
As at 31 December 2010	988.6

During the year ended 31 December 2010 the Company issued share options with a fair value of €5.6 million (2009: €4.6 million) in respect of employees of subsidiary undertakings. The investment in the subsidiary undertakings have been revalued to market value at 31 December 2010 and has resulted in an impairment of €220.5 million given the reduction to the Group's market capitalisation at the year end.

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 are included in the consolidated accounts of the Group:

Name of subsidiary undertaking	Country of incorporation	Principal business
Bay Management Limited	Gibraltar	Management and IT services
Cashcade Limited	United Kingdom	Marketing services
ElectraGames Limited	Gibraltar	IT services
ElectraWorks (Alderney) Limited	Channel Islands	IT services
ElectraWorks Limited	Gibraltar	Online gaming
EZE International Limited	Gibraltar	Transaction services
GB Services Eood	Bulgaria	IT and customer support services
iGlobalMedia Entertainment Limited	Gibraltar	Online gaming
iGlobalMedia Marketing (Gibraltar) Limited	Gibraltar	Marketing services
iGlobalMedia Marketing (Israel) Limited	Israel	Marketing support services
iGlobalMedia Marketing (UK) Limited	United Kingdom	Marketing support services
IVY Comptech Private Limited	India	IT and customer support services
PartyGaming IA Limited	Bermuda	Intellectual asset management
Paytech International Limited	Gibraltar	Transaction services
PB (Italia) Srl	Italy	Online gaming
PGB Limited	Gibraltar	Online gaming
PKR Services Limited	Gibraltar	Transaction services
WPT Enterprises Inc	US	Land-based poker events

30. Acquisitions made during the prior year

Cashcade

On 23 July 2009 the Group acquired 100% of the voting equity instruments of Cashcade Limited, an exclusively non-US facing business whose principal activity is the marketing of online bingo and casino and software services. Cash consideration was an initial £71.9 million paid upon completion and another £6.5 million paid before the year end for the excess working capital acquired. There was up to £15 million of contingent consideration payable relating to the profit performance in 2009 and a maximum of £9.0 million of contingent consideration payable depending on future profit performance in 2010. The acquisition was made on a debt-free/cash-free basis. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value €million	Adjustment €million	Fair value €million
Intangible assets other than goodwill	-	45.2	45.2
Property, plant and equipment	0.2	-	0.2
Trade and other receivables	6.1	-	6.1
Cash and cash equivalents	6.6	-	6.6
Trade and other payables	(2.6)	-	(2.6)
Income taxes payable	(0.1)	-	(0.1)
Client liabilities and progressive prize pools	(0.6)	-	(0.6)
Deferred tax	-	(12.6)	(12.6)
Net assets acquired	9.6	32.6	42.2
Goodwill			67.1
Consideration			109.3
Cash			89.4
Contingent consideration – payable in cash			18.9
Costs of acquisition			1.0
Consideration			109.3

The fair value adjustments relate primarily to the attribution of fair values to customer lists and brands acquired as part of the acquisition and the resultant tax thereon. These intangible assets are being amortised over their estimated useful economic lives of up to five years. The main factors leading to the recognition of goodwill are the growth and revenue synergies created by combining business activities and cost savings of the merged operations.

The amount included above for contingent consideration represented the Directors' current best estimate of the amount payable which they consider is likely to be paid, after the effects of discounting. During 2010 both contingent consideration, and consequently goodwill, were subsequently revised down by €3.7 million based on Cashcade's profit performance in 2010 which was in the middle of the target range for the earnout.

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30. Acquisitions made during the prior year (continued)

World Poker Tour ("WPT")

On 9 November 2009 the Group acquired the business and substantially all of the assets of WPT Enterprises Inc. whose principal activities are the production and marketing of land-based poker events in the US and Europe and a US-facing subscription poker offering. Cash consideration was \$12.3 million plus an ongoing revenue share agreement which is subject to a minimum aggregate payment of \$3m over the next three years. The acquisition was made on a debt-free/cash-free basis. Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value €million	Adjustment €million	Fair value €million
Intangible assets other than goodwill	-	12.4	12.4
Property, plant and equipment	0.6	-	0.6
Trade and other receivables	1.5	-	1.5
Trade and other payables	(0.6)	-	(0.6)
Net assets acquired	1.5	12.4	13.9
Goodwill			-
Consideration			13.9
Cash			8.5
Contingent consideration - payable in cash			5.4
Consideration			13.9

The fair value adjustments relate primarily to the attribution of fair values to broadcast libraries, customer lists and brand acquired as part of the acquisition. These intangible assets are being amortised over their estimated useful economic lives of up to ten years. The amount included above for contingent consideration represents the Directors' current best estimate of the amount payable which they consider is likely to be paid, after the effects of discounting.

Had the acquisitions been made on 1 January 2009, the results of the Group would have been as follows:

	€million
Total revenue	344.0
Profit from operating activities - Continuing operations	54.0
Loss from operating activities - Discontinued operations	(70.8)
Loss from operating activities	(16.8)

31. Events after the reporting year

On 28 January 2011 at extraordinary general meetings of both PartyGaming and bwin, both sets of shareholders approved all resolutions relating to the Proposed Merger of the two companies which, subject to a Court order sanctioning the Proposed Merger, is expected to be completed on 31 March 2011.

The Proposed Merger will be effected by way of a merger by acquisition pursuant to the Cross-Border Mergers Directive (2005/56/EC) in accordance with which, at completion, bwin's assets and liabilities will be transferred to PartyGaming and bwin Interactive Entertainment AG will be dissolved without going into liquidation.

Upon completion, the holders of bwin shares will receive 12.23 shares in PartyGaming in exchange for each share which they hold in bwin. Immediately following completion, PartyGaming is expected to be 51.7% owned by existing bwin shareholders and 48.3% owned by existing PartyGaming shareholders.

Upon completion, PartyGaming plc will change its name to bwin.party digital entertainment plc and will remain registered in Gibraltar, where the central management and operational headquarters following the Proposed Merger will also be located.

The Directors have identified a number of potential cost savings and potential revenue enhancement opportunities from the Proposed Merger totalling €55 million per year, with approximately three quarters of these savings and synergies expected to be achieved during 2012 and the remainder in 2013.

Full details of the Proposed Merger are noted in the Company's prospectus and circular available from the Group's corporate website at www.partygaming.com.

Pursuant to the resolutions passed by PartyGaming shareholders at the extraordinary general meeting held in Gibraltar on 28 January 2011, the authorised share capital of the Company will be increased from 700,000,000 ordinary shares to 1,500,000,000 ordinary shares (and so from £105,000 to £225,000) by the creation of 800,000,000 new ordinary shares of nominal value of 0.015p each in the capital of the Company.

32. Dividend

The Board did not pay any dividend in respect of 2009. Under the terms of the merger implementation agreement entered into on 29 July 2010 as part of the proposed merger with bwin Interactive Entertainment AG, the Board has agreed not to pay a dividend prior to its completion. Assuming that the merger completes as planned on 1 April 2011, the Board will determine the Group's dividend policy in the light of its financial performance and the potential returns available from alternative uses of capital.

Company statement of financial position

As at 31 December	Notes	2010 €million	2009 €million	2008 €million
Non-current assets				
Investments in subsidiaries	29	988.6	1,203.5	814.1
Current assets				
Trade and other receivables	16	80.7	159.9	139.6
Cash and cash equivalents	18	44.8	–	–
		125.5	159.9	139.6
Total assets		1,114.1	1,363.4	953.7
Current liabilities				
Trade and other payables	19	(57.4)	(65.2)	(4.7)
		(57.4)	(65.2)	(4.7)
Non-current liabilities				
Trade and other payables	19	(21.7)	(40.1)	–
		(21.7)	(40.1)	–
Total liabilities		(79.1)	(105.3)	(4.7)
Total net assets		1,035.0	1,258.1	949.0
Equity				
Share capital	25	0.1	0.1	0.1
Share premium account		49.5	47.7	46.1
Own shares	25	(2.8)	(2.8)	–
Retained earnings		155.8	162.7	237.2
Capital reserve		829.9	1,050.4	665.6
Currency reserve		2.5	–	–
Total equity		1,035.0	1,258.1	949.0

These Company financial statements were approved by a duly appointed and authorised committee of the Board on 3 March 2011 and were signed on its behalf by Rod Perry and Tim Bristow, Directors.

Company statement of changes in equity

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Year ended 31 December 2010	As at 1 January €million	Issue of shares €million	Total comprehensive income (expense) for the year €million	Share-based payments €million	As at 31 December €million
Share capital	0.1	-	-	-	0.1
Share premium account	47.7	1.8	-	-	49.5
Own shares	(2.8)	-	-	-	(2.8)
Retained earnings	162.7	-	(16.1)	9.2	155.8
Capital reserve	1,050.4	-	(220.5)	-	829.9
Currency reserve	-	-	2.5	-	2.5
Total equity	1,258.1	1.8	(234.1)	9.2	1,035.0

Year ended 31 December 2009	As at 1 January €million	Issue of shares €million	Purchase of shares €million	Total comprehensive income (expense) for the year €million	Share-based payments €million	As at 31 December €million
Share capital	0.1	-	-	-	-	0.1
Share premium account	46.1	1.6	-	-	-	47.7
Own shares	-	-	(2.8)	-	-	(2.8)
Retained earnings	237.2	-	-	(80.7)	6.2	162.7
Capital reserve	665.6	-	-	384.8	-	1,050.4
Total equity	949.0	1.6	(2.8)	304.1	6.2	1,258.1

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

Retained earnings represent cumulative profit/(loss) for the year, share-based payments and any other items of other comprehensive income not disclosed as separate reserves in the table above.

The capital reserve arose in respect of the excess of fair value of the Shares issued over the nominal value of Shares issued in acquiring 56.8% of the share capital of PartyGaming Holdings Limited in February 2005 (see 'Accounting policies'), net of impairment losses less reversals on investments in subsidiaries.

Currency reserve represents the gains/losses arising on conversion of the Company results from US dollars to Euros.

Company statement of cashflows

Year ended 31 December	2010 €million	2009 €million
Loss for the year	(16.1)	(80.7)
Adjustments for:		
Increase in reserves due to share-based payments	3.6	1.6
Interest expense	(1.1)	(1.0)
Operating cashflows before movements in working capital and provisions	(13.6)	(80.1)
Decrease (increase) in trade and other receivables	90.9	(20.3)
(Decrease) increase in trade and other payables	(32.8)	101.6
Net cash inflow from operating activities	44.5	1.2
<i>Financing activities</i>		
Issue of ordinary shares	1.8	1.6
Purchase of own shares	-	(2.8)
Net cash generated by (used in) financing activities	1.8	(1.2)
Net increase in cash and cash equivalents	46.3	-
Exchange differences	(1.5)	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	44.8	-

Glossary and Definitions A-Z

'AAMS'	Agenzia Autonoma Monopolio di Stato
'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'	in relation to the Group's products, a player who has contributed to rake and/or placed a wager
'Admission'	admission of the ordinary share capital of the Company 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 3.30 p.m. on Wednesday 29 June 2011
'Annual Report'	the Company's financial statements and accompanying reports for the year ended 31 December 2010
'Articles'	the articles of association of the Company
'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
'B2B'	business-to-business
'B2C'	business-to-consumer
'B2G'	business-to-government
'Board' or 'Directors'	the Executive Directors and the Non-Executive Directors listed in the 'Board of Directors' section in this Annual Report
'bwin'	bwin Interactive Entertainment AG
'bwin.party'	bwin.party digital entertainment Plc, the new name for the Combined Group formed by the merger of PartyGaming Plc and bwin Interactive Entertainment AG
'bwin.party Shares'	the Company's existing Shares and the new shares issued to the bwin shareholders in conjunction with the completion of the merger
'CAGR'	compound annual growth rate
'Cashcade'	Cashcade Limited
'Circular'	the circular to Shareholders issued by the Company on 23 December 2010 in respect of the proposed merger with bwin
'Clean EBITDA' or 'Clean EPS'	EBITDA/EPS before the provision for costs associated with the Group's Non-Prosecution Agreement, reorganisation costs, impairment losses, merger and acquisition costs and non-cash charges relating to share-based payments
'Code'	the 2008 Combined Code on Corporate Governance annexed to the Listing Rules
'Companies Act'	Gibraltar's Companies Act 1930 (as amended)
'Company' or 'PartyGaming' or 'bwin.party'	PartyGaming Plc prior to completion of the bwin merger and bwin.party digital entertainment plc after the merger completes
'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 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
'Depositary' or 'Capita IRG Trustees'	Capita IRG Trustees Limited

'Discontinued operations'	operations located physically outside of the US but which relate to customers in the US and were terminated following the enactment of the UIGEA on 13 October 2006
'\$'	represents US dollars throughout
'EBITDA'	earnings before interest, tax, depreciation and amortisation
'eCOGRA'	a non-profit organisation, which is the independent standards authority of the online gaming industry, specifically overseeing fair gaming, player protection and responsible operator conduct
'EGM'	the extraordinary general meeting of Shareholders held by the Company on 28 January 2011 at which the merger with bwin and associated matters was approved
'EMEA'	Europe, Middle East and Africa
'Employee Trust'	the PartyGaming Plc Shares Trust, a discretionary share ownership trust established by the Company in which the potential beneficiaries include all of the current and former employees and self-employed consultants of the Group
'Executive Directors'	the Executive Directors of the Company
'Foxy Bingo'	www.foxybingo.com, one of Europe's largest active bingo sites that was acquired as part of the purchase of Cashcade
'FTSE4Good Index Series'	a benchmark of tradeable indices for responsible investors. The index is derived from the globally recognised FTSE Global Equity Index Series
'Gambling Act'	the Gibraltar Gambling Act
'Gamebookers'	www.gamebookers.com, one of the Group's sports betting websites
'GamCare'	a registered charity which is a leading authority on the provision of counselling, advice and practical help in addressing the social impact of gambling in the UK
'GGY'	Gross Gaming Yield
'gross win margin'	gross win as a percentage of the amount wagered
'gross win'	customer stakes less customer winnings
'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
'InterTrader.com'	our financial markets service, formerly known as PartyMarkets.com
'Licence Agreement'	the Gaming Licence Agreements between the Government of Gibraltar and ElectraWorks Limited and the Government of Gibraltar and PGB Limited
'Licence'	the licenses issued under the Gibraltar Gaming Act to ElectraWorks Limited for the operation of remote gambling and online casino activities from Gibraltar and to PGB Limited for the operation of remote gambling/fixed odd bets from Gibraltar
'Listing Particulars'	the Company's supplementary listing particulars issued on 27 June 2005 in connection with the Company's initial public offer
'Listing Rules'	the listing rules of the UK's Financial Services Authority
'London Stock Exchange'	London Stock Exchange plc
'new player sign-ups'	new players who register on the Group's real money sites
'Non-Executive Directors'	the Non-Executive Directors of the Company listed in the 'Board of Directors' section of the Annual Report
'Official List'	the Official List of the UK's Financial Services Authority
'PartyBets'	www.partybets.com, one of the Group's sports betting websites
'PartyBingo'	www.partybingo.com, one of the Group's principal bingo websites
'PartyCasino'	www.partycasino.com, the Group's principal casino website
'PartyGammon'	www.partygammon.com, the Group's backgammon website
'PartyPartners'	the Group's main affiliate programme

Glossary and Definitions A-Z

'PartyPoker'	www.partypoker.com, the Group's principal poker website
'player' or 'unique active player'	customers who placed a wager in the period
'Principal Shareholders'	Russell DeLeon (holding through Stinson Ridge Limited), Ruth Parasol (holding through Emerald Bay Limited) and each of whom was a promoter of the Company
'Prospectus'	the prospectus published by the Company on 23 December 2010 in respect of the issuance of new Shares to the bwin shareholders in relation to the bwin merger
'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 sign-ups' or 'sign-ups'	new players who have registered and deposited funds into an account with the Group
'real money'	gambling where money is wagered, as opposed to play money where no money is wagered
'Registrar'	Capita Registrars (Jersey) 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
'ring game'	a 'regular' poker game as opposed to a poker tournament
'Share Plans' (pre merger with bwin)	the PartyGaming Plc Share Option Plan, the PartyGaming Plc Executive Share Option Plan, the PartyGaming Plc All-Employee Option Plan and the PartyGaming Plc Performance Share Plan
'Share Plans' (post merger with bwin)	the Bonus Banking Plan, Value Creation Plan, Bonus and Shares Plan and Global Share Plan
'Shareholders'	holders of Shares in the Company
'Shares'	prior to 19 May 2008 ordinary shares of 0.0015 pence each in the capital of the Company and from 19 May 2008 ordinary shares of 0.015 pence each in the capital of the Company
'slots'	'slot' or 'fruit' machines
'sports betting'	placing bets on sporting events
'UIGEA'	The Unlawful Internet Gambling Enforcement Act that was enacted in the US on 13 October 2006
'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
'USAO'	United States Attorney's Office for the Southern District of New York
'wager'	a bet on a game or sporting event
'WPT'	the business and substantially all of the assets of The World Poker Tour acquired by the Group on 9 November 2009
'yield per active player day'	revenue in the period divided by the number of active player days in that period

For more information come
and visit our new website at:
www.bwinparty.com