

## PRESS RELEASE

28 August 2009

**PartyGaming Plc**  
**Half year report for the six months to 30 June 2009**

**Financial summary (unaudited)**

Six months to 30 June	2009 \$million	2008 \$million
<b>Net revenue</b>		
Poker	102.6	153.9
Casino <sup>^</sup>	89.3	89.5
Sports Betting	7.7	8.9
Bingo <sup>^</sup>	1.7	2.5
<b>Total net revenue</b>	<b>201.3</b>	254.8
<b>Clean EBITDA*</b>		
Poker	25.7	36.0
Casino <sup>^</sup>	36.0	26.7
Sports Betting	1.5	1.2
Bingo <sup>^</sup>	0.2	(0.1)
Unallocated Corporate	(2.7)	1.1
<b>Total Clean EBITDA* - Continuing operations</b>	<b>60.7</b>	64.9
Total Clean EBITDA* - Discontinued operations <sup>#</sup>	(0.7)	(4.0)
<b>Total Clean EBITDA*</b>	<b>60.0</b>	60.9
Profit from operating activities - Continuing operations	36.8	27.8
Profit before tax - Continuing operations	38.0	30.3
Profit after tax - Continuing operations	35.2	26.7
(Loss) Profit after tax	(66.9)	22.7
Clean EPS* (cents) - Continuing operations	9.7	10.6
Basic EPS (cents) - Continuing operations	8.7	6.6
Clean EPS* (cents)	9.6	9.6
Basic EPS (cents)	(16.5)	5.6

- Continuing revenue in-line with market expectations at \$201.3m (2008: \$254.8m) reflecting currency movements, competitive pressures in poker and consumer slowdown
- Continuing Clean EBITDA\* slightly ahead of market expectations at \$60.7m (2008: \$64.9m); total Clean EBITDA down 1% to \$60.0m (2008: \$60.9m)
- Non-Prosecution Agreement reached with the US Authorities resulting in loss after tax of \$66.9m (2008: profit of \$22.7m) due to full provision for \$101.0m settlement (2008: nil)
- Clean EPS\* down 8% to 9.7 cents (2008: 10.6 cents); total Clean EPS unchanged at 9.6 cents; total basic loss per share of 16.5 cents (2008: EPS 5.6 cents)
- Significant progress in B2B with four new deals signed
- Acquisition of Cashcade after the period end
- Trading since 30 June 2009 has been in line with management's expectations

<sup>^</sup> During the first half of 2008 \$0.5m of Casino revenue was generated from the Bingo platform. This is now reported as Bingo revenue. Associated costs of \$0.2m have also been reallocated.

\* EBITDA/EPS before the provision for costs associated with the Group's Non-Prosecution Agreement and before non-cash charges relating to share-based payments (see reconciliation of Clean EBITDA to operating profit below).

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

Commenting on today's results announcement, Jim Ryan, PartyGaming Chief Executive Officer, said:

"As expected this has been a challenging first half given year-on-year currency movements, competitive pressures and the impact of the macroeconomic downturn. While revenues have fallen year-on-year, we have seen a corresponding benefit of currency movements on our cost base, and this along with the benefits of our cost reduction programme put in place last year, has meant that we have been able to mitigate most of the impact on Clean EBITDA.

"With second quarter average daily revenue up 17% on the previous quarter, casino has been our star performer and continues to go from strength-to-strength, consolidating our position as the world's leading online casino. During the period, over 60 new games were added in addition to the launch of our dedicated casino affiliate and marketing programmes, all of which were contributors to the strong performance of casino. While poker continues to face competitive challenges from the US-facing sites, the launch of our Italian poker network and a much improved loyalty programme and retention process has seen poker numbers stabilising in the second quarter with unique active players 5% ahead of the first quarter, despite the second quarter being a seasonally quiet period.

"Our B2B strategy has delivered four deals so far this year that will start to contribute during the final quarter of 2009. With more deals in the pipeline we remain confident that we can continue to grow this important new source of revenue.

"With many of our competitors still to resolve their legacy issues with the US authorities, we have sought to take advantage of the window of opportunity that now exists to consolidate the market at sensible prices. Our acquisition of Cashcade that was completed in July 2009 gives us a market leading position in the \$1.5 billion global online bingo market, one that we aim to exploit to the full."

On current trading Jim Ryan added:

"In the three weeks ended 18 August 2009, which represents the peak holiday season in most of the Group's core markets, trading has been strong, in line with management's expectations: including Cashcade, average gross daily revenue was up 32% versus the average for the previous quarter to \$1,923,700 (Q2 09: \$1,453,600). In poker, new player sign-ups averaged 1,300 per day and there were on average 51,000 active players per day, generating average gross daily revenue of \$642,900. In casino, average gross daily revenue was \$713,200, in bingo it was \$510,800 while in sports betting, average gross win per day was \$56,800.

"The Group continues to make good progress in 2009 despite a challenging business environment. Our three-year strategy is on track. Given our robust trading performance and outlook, we remain confident about the Group's prospects and look forward to the rest of the year with confidence."

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**Analyst meeting, webcast, dial-in and conference call details: 28 August 2009**

There will be an analyst meeting for invited UK-based analysts at Numis Securities, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT starting at 9.30am BST. There will be a simultaneous webcast and dial-in broadcast of the meeting. To register for the live webcast, please pre-register for access by visiting the Group website ([www.partygaming.com](http://www.partygaming.com)). Details for the dial-in facility are given below. A copy of the webcast and slide presentation given at the meeting will be available on the Group's website later today.

An interview with Jim Ryan, Chief Executive Officer and Martin Weigold, Group Finance Director, in video/audio and text will also be available from 7.00am BST on 28 August 2009 on: <http://www.partygaming.com> and on <http://www.cantos.com>.

**Dial-in details to listen to the analyst presentation: 28 August 2009**

9.20 am            Please call +44 (0) 20 8609 0582  
Title              PartyGaming Interim Results  
9.30 am            Meeting starts

A recording of the meeting will be available for a period of seven days from 28 August 2009. To access the recording please dial the following replay telephone number:

Replay telephone number        +44 (0)20 8609 0289  
Replay passcode:                    270027#

All times are British Summer Time.

**About PartyGaming Plc**

PartyGaming Plc is the world's leading listed online gaming company. The Group is a constituent of the FTSE 250 share index with its shares listed on The London Stock Exchange under the ticker: PRTY. In the year to 31 December 2008, PartyGaming's Continuing operations generated revenues of \$472.9m and Clean EBITDA of \$144.2m. PartyGaming's principal brands are PartyPoker.com, one of the world's largest online poker rooms, EmpirePoker.com, PartyCasino.com, PartyBingo.com, PartyGammon.com, PartyBets.com, PartyMarkets.com, FoxyBingo.com, ThinkBingo.com, BingoScotland.com, CheekyBingo.com, GetMinted.com and Gamebookers.com. None of the Group's sites accepts real money customers located in the US. The Group is a responsible gaming operator as recognised by GamCare a leading responsible gaming charity in the UK.

PartyGaming is regulated and licensed by the Government of Gibraltar and by the Alderney Gambling Control Commission and is certified by GamCare as a responsible gaming operator and is also a constituent member of the FTSE4Good Index of companies. For more information, please visit [www.partygaming.com](http://www.partygaming.com).

# Business Review

## Introduction

PartyGaming offers a broad range of games and owns some of the biggest and best known brands in online gaming. While full details of the consolidated performance of Continuing and Discontinued operations are contained in the financial information and the accompanying notes, all references to financial performance or key performance indicators throughout this document refer to the Continuing non-US facing business only, unless expressly stated otherwise.

## Results

Net revenue for the six months to 30 June 2009 was down 21% to \$201.3m (2008: \$254.8m) reflecting the significant appreciation in the US dollar, that was responsible for approximately half of the year-on-year decrease, as well as competitive pressures in poker and the consumer downturn. Poker bore the brunt of these factors and revenue decreased by 33% versus 2008. Casino was flat year-on-year with adverse currency movements and lower cross-sell from poker being offset by higher levels of spend from our casino players, largely due to the improved quality and quantity of games offered on our flagship casino product, PartyCasino. Sports betting revenue was down 13% versus the prior year due to adverse currency movements but the number of unique active players was up by 28%, helped by a record number of new player sign-ups in the period. Bingo revenue was down 32% due to the termination of the white label agreement with ITV as well as adverse currency movements.

A continued focus on the Group's cost base, together with the fact that the majority of the Group's costs are in non-US\$ currencies, meant that despite the reduction in revenue, Clean EBITDA decreased by just 6% to \$60.7m (2008: \$64.9m) and Clean EBITDA margins increased from 25.5% to 30.2%.

Discontinued operations incurred a loss at the Clean EBITDA level of \$0.7m (2008: \$4.0m), primarily reflecting lower legal fees following the Company's Non-Prosecution Agreement ('NPA') that was reached with the United States Attorney's Office for the Southern District of New York (the 'USAO') on 6 April 2009.

As a result, total Clean EBITDA (including Discontinued operations) was slightly lower at \$60.0m (2008: \$60.9m). However, a provision for costs associated with the NPA totalling \$101.0m resulted in a total operating loss of \$64.9m in the period (2008: operating profit \$23.8m). While profit after tax from Continuing operations increased to \$35.2m (2008: \$26.7m), the total loss before tax after taking the NPA into account was \$64.1m (2008: profit before tax \$26.3m) and the total loss after tax was \$66.9m (2008: profit after tax \$22.7m).

Continuing Clean EPS was down by 8% to 9.7 cents (2008: 10.6 cents) but lower share based-payments meant that basic EPS from Continuing operations was up 32% to 8.7 cents (2008: 6.6 cents). Total Clean EPS was unchanged at 9.6 cents and basic loss per share, taking into account the charges associated with the NPA, was 16.5 cents (2008: EPS 5.6 cents).

The table below provides a reconciliation of the movements between Clean EBITDA and operating (loss)/profit:

#### Reconciliation of Clean EBITDA to operating (loss) / profit

Six months to 30 June	2009 \$million	2008 \$million
<b>Continuing operations</b>		
Clean EBITDA	60.7	64.9
Depreciation	(6.7)	(9.4)
Amortisation	(12.1)	(11.4)
Share-based payments	(4.3)	(16.3)
Impairment losses - assets held for sale	(0.8)	-
Profit from operating activities - Continuing operations	36.8	27.8
<b>Discontinued operations</b>		
Clean EBITDA	(0.7)	(4.0)
Provision for payments associated with the Group's Non-Prosecution Agreement	(101.0)	-
Loss from operating activities - Discontinued operations	(101.7)	(4.0)
<b>Total (loss) profit from operating activities</b>	<b>(64.9)</b>	<b>23.8</b>

#### Progress on our three year strategic plan

Following the appointment of Jim Ryan as CEO in June 2008, we announced a refined approach in August 2008 that built upon the existing pillars of our corporate strategy, namely to:

- **grow the player base;**
- **localise the customer offer;**
- **broaden the product base; and**
- **act responsibly**

The refined approach involved the focus on four key processes that were identified as being key to our future success and that we sought to embed within all areas of operations. These were:

- **Operational excellence** – raising our already high operational standards
- **Delighting the customer** – ensuring we deliver the most exciting gaming products and the best customer service
- **Leveraging our core assets** – developing our B2B offer through white labels and gaming services
- **Leveraging the assets of others** – licensing the most popular brands in entertainment and the best games available from third-party providers to supplement our own market leading games

#### H1 2009 business developments

Applying each of these processes across our business has already begun to deliver positive results and we are confident that we can continue to build on these early successes to achieve our long-term objective of becoming the world's most valuable online gaming company. Our progress in the first half of 2009 has been significant, both strategically and operationally.

Strategic developments include the resolution of the Company's legacy issues in the US and the announcement of a number of B2B deals as well as the acquisition of Cashcade, albeit shortly after the period end. On the operational front, we have launched our Italian poker network, introduced over 60 new games into our casino, updated the PartyPoker.com and PartyCasino.com brands, launched a dedicated affiliate network for PartyCasino.com and rolled out the first of our white label products. A brief summary of each of these developments is provided below.

#### *Non-Prosecution Agreement*

Resolving our legacy issues with the United State's Attorney's Office for the Southern District of New York (the 'USAO') was an important milestone for the Group and a key strategic objective for 2009. The Non-Prosecution Agreement ('NPA') confirmed that the Company would not be prosecuted for its activities prior to the passing of the Unlawful Internet Gambling Enforcement Act ('UIGEA') on 13

October 2006 and included a commitment by PartyGaming to pay \$105m over a 42-month period. Since concluding the NPA, the Group has been able to pursue consolidation opportunities that previously had not been possible due to an inability to raise finance from the debt markets, or to issue new equity as consideration for acquisitions, due to concerns surrounding the legacy issues in the US.

#### *Acquisitions*

The Board has long recognised that the online gaming industry is ripe for consolidation and has been determined that the Group plays an active part. On 23 July 2009 the Group acquired Cashcade, the UK's number one online bingo business<sup>1</sup>, for a cash consideration of £71.9m with up to £24m in contingent consideration, depending on future profit performance. Acquiring businesses that meet both the Group's strategic and financial criteria is a core element of the Group's long-term plan. The structure of the purchase agreement for Cashcade means that the Group will pay between 5.0 and 5.9 times EBITDA and the Group now is a market leader in online bingo. Given the timing of this acquisition, further details are set out in note 17 to the condensed financial statements below.

#### *B2B*

Having announced back in August 2008 a strategy to pursue B2B deals – both white labels, where we contract with the customer but leverage the brands of our business partner, as well as network services, where we act as a service provider to a third-party gaming operator – we have concluded a further four alliances in the first half.

A global alliance with the CIRSA Gaming Corporation was struck in February 2009 to develop gaming opportunities in Spanish speaking countries. CIRSA is a market leader in land-based gaming operations in Spain and Latin America and has a presence in more than 70 countries. As part of a three-year deal, the initial focus will be on casino and bingo, followed by poker. The CIRSA service, branded 'Azartia', launched in August 2009 ([www.azartia.com](http://www.azartia.com)).

DM plc is the UK's largest direct marketing company, a specialist in player recruitment and a leader in the provision of game cards. We launched their branded service in July 2009 under the 'Glitterball Bingo' and 'Fireball Casino' brands.

In April 2009 we announced an alliance with INTRALOT S.A., one of the world's largest government suppliers of lottery systems. Initially focused on Italian poker, INTRALOT joined our Italian poker network, [www.partypoker.it](http://www.partypoker.it), following the launch of its Italian poker site, [www.poker.intralot.it](http://www.poker.intralot.it), in July 2009. The new site is the first to join the Group's Italian poker network, which it is hoped will capture a significant share of the regulated Italian online poker market.

Channel 5 Broadcasting is a major UK broadcaster, boasting a weekly audience in excess of 30 million viewers. Five's average daily reach is around 19.4% of the UK population or the equivalent of 10.9m individuals. In June 2009 we announced that we would be launching a dedicated online gaming service under the 'Five' brand during the second half of 2009. This service launched in August 2009.

Our B2B plan is part of our wider strategy to broaden the player base and expand geographic reach. The quality of our portfolio of business customers is a testament to the Company's reputation for quality and service with an ability to deliver the tailored solutions required by business customers. With the addition of STV, Mirror Group and EMAP as customers following the acquisition of Cashcade, we expect to continue to build the portfolio and generate a valuable revenue stream over the next few years.

#### *Italian Poker*

Following the introduction of a regulatory regime by the Italian government in 2008, the Italian online poker market has grown rapidly. Despite being ring-fenced so that Italian players are only able to play against other Italian players, in the first six months of 2009 it is estimated to have generated gross turnover of approximately €1,034m and gross rake of approximately €150m, making it one of Europe's largest online poker markets. Limited at present to tournament poker only, the government now plans to allow ring games and certain online casino games from the fourth quarter of 2009. The Group launched PartyPoker.it in late June 2009. The site represents the cornerstone of our Italian poker network, which operates outside of the main PartyPoker.com player liquidity pool. While at the early stages of its development, with the addition of INTRALOT to the poker network, the addition of cash game poker and casino games later this year, we believe that Italy will develop into an increasingly important market for the Group.

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<sup>1</sup> [BingoPort.com](http://BingoPort.com)

### Product expansion

Leveraging the assets of others through the licensing of popular international brands has become an important element of our business strategy and has helped to consolidate our position as the largest online casino in the world. Having pioneered the use of Hollywood-themed slot games in 2007, we have continued to add new world-class branded slots to our product suite during the first half of 2009. In addition to our *Rambo* and *Frank Sinatra* slots, that were both developed in-house, we have also introduced some of the most popular online games in the market such as *Monopoly*, *Cleopatra*, *Fantastic Four*, *Spiderman* and *the Incredible Hulk*. The addition of over 60 new games in the first half has been a key driver of the continued success of the Group's casino segment.

A summary of the performance of the Group's operations during the first half is set out below.

### 1. Sales and player marketing

The Group's sales and marketing function has continued to attract new players with over 380,000 new real money player sign-ups during the first half of 2009. This represents a 17% increase over the same period last year due to a continued effort to add new players to our system, particularly in Europe, the Middle East and Africa. By product, casino benefited from the introduction of new games as well as a dedicated affiliate and marketing programme that was targeted at 'pure play' casino players while sports sign-ups were driven by more competitive bonus offers. Despite competitive pressures from US-facing sites, poker added over 250,000 new players, 6% up on the prior year, following a number of new marketing initiatives. Bingo sign-ups fell to just over 3,000 reflecting the closure of ITV bingo which generated the majority of new sign-ups in the comparative period in 2008.

An analysis of international sign-ups, unique active players and consolidated active player days in each of our key international segments is provided below:

#### New player sign-ups '000

Six months to 30 June	2009	2008	% change
EMEA*	340.1	273.6	24%
Americas (non-US)	28.9	36.3	(20%)
Asia Pacific	12.0	14.4	(17%)
<b>Total</b>	<b>381.0</b>	<b>324.3</b>	<b>17%</b>

#### Unique active players '000

Six months to 30 June	2009	2008	% change
EMEA*	696.2	708.7	(2%)
Americas (non-US)	95.0	131.2	(28%)
Asia Pacific	30.1	41.5	(27%)
<b>Total</b>	<b>821.3</b>	<b>881.4</b>	<b>(7%)</b>

#### Active player days m

Six months to 30 June	2009	2008	% change
EMEA*	9.8	11.1	(12%)
Americas (non-US)	1.7	2.4	(29%)
Asia Pacific	0.4	0.6	(33%)
<b>Total</b>	<b>11.9</b>	<b>14.1</b>	<b>(16%)</b>

\* Europe, Middle East and Africa

The repositioning of the PartyPoker and PartyCasino brands with the 'Feel It' tagline took place towards the end of the first half and was supported by major offline and online multi-media campaigns, including television advertising in our major markets. This resulted in an immediate uplift in new player sign-ups and active player days. Poker also saw an increase in player activity on the back of innovative new game promotions such as the *Million Dollar Hand* which helped to differentiate PartyPoker from the competition.

The introduction of a new Palladium Club Reward Programme during the period completely revamped the Group's loyalty scheme that is focused on increasing both the retention of VIP players and the Group's share of their online gaming spend. Following its successful launch, the programme was extended to include medium value players that are also now able to redeem their player points for rewards that are highly competitive with those programmes offered by our competitors.

Despite the increase in new player sign-ups, the number of unique active players in the period fell by 7% year on year. The main drop was seen in the Americas, which is largely represented by Canada, where the liquidity advantage of those sites that continue to accept US players is strongest.

## **2. Systems and product development**

PartyGaming's integrated systems platform is a key differentiator for the Group. Whilst we already offer a single sign-on and a single wallet with access to poker, casino, bingo, sports and backgammon, the Group has continued to expand and improve its product offering with substantial progress made in the first half. During the first six months the Group's 349 technical staff in Hyderabad supported seven major software releases with over 500 specific projects requiring over 2.1 million lines of code to be changed. These included upgrades to both our B2C offering as well as our expanding B2B business.

Having entered into a number of licensing arrangements with games manufacturers such as Cryptologic, WagerWorks and NextGen during the second half of 2008, the technology and product teams spent the first six months rolling out over 60 new games onto the Group's casino platform that now boasts 130 different games. As well as introducing third-party games on to our platform, we also launched a number of exclusive games that were developed in-house such as *Sinatra*, *Rambo* and *Raptor Island*. With such a large number of games now available, a simultaneous upgrade to the PartyCasino lobby was also introduced.

In poker, there have been a number of product and security enhancements following the launch of the next generation of PartyPoker that took place at the end of September 2008. The introduction of nine-seat tables is one example - it has increased the average speed of a hand of poker on those tables by 3.5 seconds, providing faster games for our players. Security is our number one priority and in order to offer even greater protection, players are now able to opt-in to have a remote security tag that provides additional protection for their player account, over and above their unique log-in and password. These are just two examples of new measures that have been well received by players, as have the embedded versions of blackjack and roulette that now reside within the poker client. The development of new payment mechanisms requires that the Group is always able to offer the latest and most convenient solutions for players, hence the addition of a further 10 new payment mechanisms including Pay-Pal in the UK and Ireland as well as CartaSi and PostePay in Italy following the launch of our Italian poker network which went live in June 2009. Finally, we also launched Gamebookers poker at the end of June to attract players from territories in Central and Eastern Europe where the Gamebookers brand is particularly strong.

As well as changes that affect the customer experience directly, we have also introduced a number of 'back-office' enhancements such as improved player communication and marketing tools that allow us to improve the conversion of visitors into players. The enhancements also enable us to automate promotions and reactivation campaigns to discrete segments of our customer base thereby ensuring a much improved programme of contact with players, one that is event-driven rather than being reliant on a predetermined timetable.

The Group launched the first of its recently signed B2B deals with Glitterball Bingo and Fireball Casino (both for DM plc) that went live in July 2009, with similar products for INTRALOT, CIRSA and FIVE launched after the period end.

### **3. Customer service**

Delighting the customer remains a core focus for us – by creating a great online gaming experience our players will continue to play with us and will also help to attract other players to our platform. Helping those who require assistance or who have queries regarding their player account also helps us to generate revenue and minimise customer loss.

Our multi-lingual customer service teams are an important element of our business model. At the end of June 2009 we had over 200 full-time customer service agents who provide support in 13 languages other than English. During the first half we had over 336,400 customer contacts of which 187,000 were via email and the balance by phone. Our customer service teams are increasingly pro-active, contacting players that we are aware are having problems with log-in or payments to ease their access to playing our games.

#### **Regulatory developments**

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 has agreed to pay \$105 million, payable over 42 months in semi-annual instalments ending on 30 September 2012.

As mentioned in the Group's 2008 Annual Report, certain online gaming businesses continue to offer real money games to customers in the US. This represents a continuing competitive threat to listed businesses like PartyGaming that immediately stopped customers in the US from playing or making deposits on any of the Group's real money sites following the enactment of the UIGEA. While the USAO has taken steps to enforce against such activity, including the seizure of funds from payments organisations based in the US, there can be no guarantee that any further action will be taken against such companies and that, if successful, the competitive position of the Group will be improved.

The Internet Gambling, Regulation Consumer Protection and Enforcement Act sponsored by Barney Frank, the Chair of the US House of Representatives Financial Services Committee, and its companion Internet Gambling Tax Act, sponsored by Jim McDermott, continue to gain support and it is expected that hearings will begin in September 2009. Robert Menendez introduced a similar bill into the US Senate in August 2009, called the Internet Poker And Games Of Skill Regulation, Consumer Protection, And Enforcement Act Of 2009 that seeks to put in place a federal framework under which internet gambling would be licensed and regulated in the US. At a state level, proposals to regulate and license intra-state online poker in California are being contemplated while a study into the implications of such a regime in Florida is also underway. Whilst encouraged by these developments, the prospects of success for each of these measures and the implications for PartyGaming's prospects were they to succeed, remain uncertain.

In Europe, while the infringement process taken by the European Commission against Member States has been interrupted by the European elections, as well as the change in Commissioners that is expected to be completed later this year, a number of countries are taking steps to reform their domestic gambling laws. France has put forward proposals to license and regulate its online gaming market, although the European Commission has expressed concern over certain aspects of the proposed law. A similar position exists in Belgium, Estonia and Romania where new laws that affect online gaming have been introduced but concerns have been raised by the Commission. In Sweden, proposals for a new framework for online gambling have been criticised by a number of bodies including the Swedish media, the online betting industry as well as the Swedish Football Association and it is believed that the Swedish government is now reviewing these proposals. A draft law in Denmark that seeks to liberalise the online gaming market and will offer licenses for online sports betting, casino and poker games whilst retaining a monopoly over lottery games has been notified to the European Commission. At the same time however, the Netherlands is continuing to press ahead with legal action against certain online sports betting companies for alleged breaches of its domestic gaming laws, even though these laws themselves appear to be in breach of EC law. The European Court of Justice is expected to rule in the long-awaited case involving the Santa Casa da Misericórdia de Lisboa and Bwin in September 2009 and this may well have important implications for other gambling monopolies across Europe.

As a Group we continue to pursue a level playing field for our products and services across Europe and continue to believe that a regulatory framework can strike the right balance between providing adults with a safe and secure online gaming environment whilst ensuring protection for children and the vulnerable. However, we also believe that a uniform framework across Europe is unlikely to become a reality in the short-term.

## **Directors and management**

The only changes in the Board's composition in the first half of 2009 were the appointment of Rami Lerner as a Non-Executive Director who replaced John Davy following his resignation on 4 March 2009, and the resignation of John O'Malia on 28 February 2009.

## **Dividend**

While the Group continues to make solid progress in executing its published strategy, in light of the attractive consolidation opportunities that continue to be available to the Group following the settlement with the USAO, the Board is not recommending payment of an interim dividend. The Board will continue to review the appropriate dividend policy for the Group taking into account the need to retain sufficient financial flexibility to take advantage of such consolidation opportunities.

## **Current trading and outlook**

In the 4 weeks ended 28 July 2009, that included Cashcade with effect from 23 July 2009, average gross daily revenue was \$1,525,200, a 5% increase over the average daily revenue achieved in the previous quarter (Q2 09: \$1,453,600). In poker, new player sign-ups averaged 1,300 per day and there were on average 49,000 active players per day, generating average gross daily revenue of \$645,300. In casino, average gross daily revenue was \$720,100 while in bingo it was \$115,300. In sports betting, gross win per day averaged \$44,500.

In the following 3 weeks, ended 18 August 2009, which represents the peak holiday season in most of the Group's core markets, average gross daily revenue was \$1,923,700, a 26% increase over the average daily revenue achieved in July and 32% above the previous quarter. In poker, new player sign-ups averaged 1,300 per day and there were on average 51,000 active players per day, generating average gross daily revenue of \$642,900. In casino, average gross daily revenue was \$713,200, in bingo it was \$510,800 while in sports betting, average gross win per day was \$56,800.

The performance of the business in recent weeks has been strong as expected – the positive impact of Cashcade being mitigated by the fact that August tends to be one of the softest periods in the year. While the macroeconomic outlook remains uncertain, having successfully implemented new retention measures in poker, the continued expansion of our B2B offering, our confidence in the achievement of the targets set for Cashcade and the continued strong performance of our casino business, we remain confident about the full year outlook and of making good progress in the remainder of 2009.

## SUMMARY OF RESULTS

Six months to 30 June	Net revenue		Clean EBITDA	
	2009 \$million	2008 \$million	2009 \$million	2008 \$million
Poker	102.6	153.9	25.7	36.0
Casino	89.3	89.5	36.0	26.7
Sports Betting	7.7	8.9	1.5	1.2
Bingo	1.7	2.5	0.2	(0.1)
Unallocated Corporate	-	-	(2.7)	1.1
<b>Total Continuing operations</b>	<b>201.3</b>	254.8	<b>60.7</b>	64.9
Discontinued operations	-	-	(0.7)	(4.0)
<b>Total</b>	<b>201.3</b>	254.8	<b>60.0</b>	60.9

The strengthening of the US dollar, the challenging macroeconomic environment and continued competitive pressures in poker all contributed to a 21% reduction in revenue versus the prior year. Currency is estimated to have had the most significant impact, accounting for at least half of the year-on-year movement. The impact on Clean EBITDA was mitigated by the fact that the majority of the Group's costs are in currencies other than US dollars as well as a continued programme of careful cost management that has grown Clean EBITDA margins to 30.2% (2008: 25.5%).

The consolidated key performance indicators underlying this performance are highlighted below:

### Consolidated Key Performance Indicators

Six months to 30 June Continuing operations	2009	2008	Annual change	Change in Q2 09 vs Q1 09
Active player days (million)	11.9	14.1	(16%)	(5%)
Daily average players (000s)	65.7	77.7	(15%)	(6%)
Yield per active player day (\$)	16.9	18.0	(6%)	6%
Yield per unique active player (\$)	245.1	289.1	(15%)	3%
New real money sign-ups (000s)	381.0	324.3	17%	(9%)
Unique active players during the period (000s)	821.3	881.4	(7%)	(2%)
Average daily net revenue (\$000)	1,112.0	1,400.0	(21%)	0%

Each of the factors mentioned above has continued to have a negative impact on the Group's Key Performance Indicators. Total active player days and the average number of daily players fell by 16% and 15% respectively. Despite a 17% increase in new player sign-ups, unique active players were down by 7% to 821,300 - the increased awareness of competitor sites as well as a reduction in consumer spending generally both contributed to the reduction in player frequency.

Yield per unique active player fell by 15% to \$245.1. This reduction in yields can in part be attributed to the macroeconomic factors mentioned above as well as the increased cost of player bonuses, particularly in poker, reflecting the increasingly competitive nature of the online poker market. The loss of a number of VIP players has also been a factor in the first half due to the fact that the Group's loyalty programme was uncompetitive. This has now been addressed with the launch of a new VIP programme that is already starting to have a positive impact on our VIP business.

The cumulative effect of these factors was a 21% reduction in average daily net revenue in the first six months of 2009 to \$1,112,000 (2008: \$1,400,000).

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:

[http://www.partygaming.com/prty/en/investors/financialperformance/fp\\_kpis](http://www.partygaming.com/prty/en/investors/financialperformance/fp_kpis).

## Poker

Six months to 30 June	2009 \$million	2008 \$million	% change
<b>Gross revenue</b>	<b>127.3</b>	180.3	(29%)
Bonuses and other fair value adjustments to revenue	(24.7)	(26.4)	(6%)
<b>Net revenue</b>	<b>102.6</b>	153.9	(33%)
<b>Continuing Clean EBITDA</b>	<b>25.7</b>	36.0	(29%)
<i>Clean EBITDA margin</i>	<b>25.0%</b>	23.4%	

Despite the decline, poker remains the largest business segment in terms of net revenue with 51% of the total and 41% of Clean EBITDA before unallocated corporate costs in the period, although this is a reduction on the previous year (from 60% and 56% respectively). PartyPoker.com remains one of the largest sources of player liquidity for online poker but has lost some market share, particularly to competitor sites that continue to offer real money games to players in the US. It is estimated that in the week ended 23 August 2009 PartyPoker.com had approximately 7%<sup>1</sup> of the global online poker market (versus approximately 8% in August 2008). Gross poker revenue was down 29% but an increase in fair value adjustments to revenue, comprising certain bonus costs as well as costs of player rewards associated with the Group's loyalty programme, meant that net revenue declined by 33% to \$102.6m (2008: \$153.9m). Following the seizure of payment processor funds held on behalf of operators that continue to accept deposits from customers in the US by the USAO in June 2009, the Group sought to enhance the appeal of its own sites relative to US-facing sites with the launch of a major marketing campaign. While this held back profit margins in the period, careful management of costs together with favourable currency movements meant that Clean EBITDA margins still increased to 25.0% (2008: 23.4%) generating Clean EBITDA of \$25.7m (2008: \$36.0m).

## Poker - Key Performance Indicators

Six months to 30 June	2009	2008	Annual change	Change in Q2 09 vs Q1 09
Active player days (million)	9.1	11.4	(20%)	(2%)
Daily average players (000s)	50.0	62.6	(20%)	(4%)
Yield per active player day (\$)	11.3	13.5	(16%)	(6%)
Yield per unique active player (\$)	173.2	220.4	(21%)	(13%)
New real money sign-ups (000s)	250.3	235.2	6%	(11%)
Unique active players during the period (000s)	592.0	698.3	(15%)	5%
Average daily net revenue (\$000)	566.4	845.7	(33%)	(10%)

As noted above, while trading in our poker segment has been subject to extreme competitive pressures from sites that continue to take bets from players based in the US, the Group has been successful in continuing to attract large numbers of new players and sign-ups increased by 6% to 250,300 (2008: 235,200). However, the daily average number of players fell by 20% to 50,000 (2008: 62,600) – an uncompetitive loyalty programme and the continued strong cross-sell from poker to casino were also factors that impacted player frequency and overall performance of our poker segment.

A much improved loyalty scheme was rolled out in June 2009 and the new scheme, which was initially focused on VIPs, has now been extended to middle value players. The Group has also designed and introduced a number of new promotions in the period that have proved popular with players including, 'The Million Dollar Hand', 'Gladiator' and 'The Million Dollar Race'. Enhancements have been made to both the tournament lobby and playing area and a new nine-seat table has also been introduced that has helped to increase the speed of play. To promote these improvements, the PartyPoker brand has been repositioned with a major multi-media marketing campaign under a new tagline of 'Feel it' that promotes the Group's focus on delivering the most exciting poker games on the internet.

On player retention, the impact of some of the initiatives highlighted above were already starting to have an impact with approximately 18.2% of all 2009 poker sign-ups remaining active after six months versus 16.9% of all 2008 sign-ups. As at 30 June 2009, across all real money poker sign-ups, the

<sup>1</sup> Based on the average number of daily real money cash game players - source: PokerScout.com.

proportion of players remaining active after six months was approximately 23.4% (2008: 25.8%), after 12 months it was 18.2% (2008: 20.2%) and after 18 months it was 14.4% (2007: 16.3%).

In May 2009 we launched our new Italian poker network under the new Italian licensing regime. Since early July 2009, PartyPoker.it has begun to benefit from players being provided to the network by INTRALOT, the Group's B2B partner in Italy. Currently restricted to tournament poker only, following recent legislation in Italy, it is expected that licensees will also be allowed to offer cash games in poker as well as certain casino games, possibly during the fourth quarter of 2009. Having already grown strongly in the first six months of 2009, the Group believes that Italy will become a significant online gaming market and that our Italian network will generate an attractive new stream of revenue in the medium to long-term.

## Casino

Six months to 30 June	2009 \$million	2008 \$million	% change
<b>Gross revenue</b>	<b>121.9</b>	121.8	0%
Bonuses and other fair value adjustments to revenue	<b>(32.6)</b>	(32.3)	1%
<b>Net revenue</b>	<b>89.3</b>	89.5	0%
<b>Continuing Clean EBITDA</b>	<b>36.0</b>	26.7	35%
<i>Clean EBITDA margin</i>	<b>40.3%</b>	29.8%	

The Group's casino business delivered another outstanding performance during the first half of 2009 with Clean EBITDA up by 35% to \$36.0m (2008: \$26.7m). Revenue was flat year-on-year due to adverse currency movements which partially offset the increase in player yields. Consequently, Clean EBITDA margins increased from 29.8% to 40.3%. Casino also increased its significance within the business and represented 44% of Group revenues and 57% of Clean EBITDA before unallocated corporate costs (2008: 35% and 42% respectively).

At constant currency, the total amount wagered increased by 1% to \$4,154m (2008: \$4,121m) but it was the ability to increase the average hold to 3.3% (2008: 2.9%) which had the largest impact on net revenue. This was primarily due to a positive shift in the games mix away from low value games such as blackjack, that represented 14% of net casino revenue (2008: 23%), coupled with the exclusive nature of many of the Group's new slot machines that have been able to generate above-average holds without any damage to bet volume. A summary of the key performance indicators for the casino business during the half year and the percentage movement between the first and second quarter of 2009 is shown in the table below:

## Casino - Key Performance Indicators

Six months to 30 June	2009	2008	Annual change	Change in Q2 09 vs Q1 09
Active player days (000s)	<b>2,003.3</b>	2,276.5	(12%)	(6%)
Daily average players (000s)	<b>11.1</b>	12.5	(11%)	(7%)
Yield per active player day (\$)	<b>44.6</b>	39.3	13%	26%
Yield per unique active player (\$)	<b>290.4</b>	245.2	18%	40%
New real money sign-ups (000s)	<b>56.9</b>	35.9	58%	(14%)
Unique active players during the period (000s)	<b>307.6</b>	364.7	(16%)	(16%)
Average daily net revenue (\$000)	<b>493.5</b>	491.3	0%	17%

The first half of 2009 has seen a significant expansion in the Group's casino offering, with over 60 new games added to PartyCasino. Having pioneered the use of Hollywood-branded slots in 2007, through licensing agreements with Paramount Pictures, STUDIOCANAL and Warner Brothers to name but a few, the Group has continued to develop exclusive premium themed games with the *Rambo* and *Sinatra* slots as well as *Raptor Island* that were all launched in the first half. Subsequent to the end of the period the Group has also delivered and launched *Naked Gun*, *High Noon* (both Paramount), as well as *Resident Evil* (CAPCOM) which is based on one of the world's biggest computer games. As well as developing our own games, we have also added some of the most popular games on the internet that have been developed by third parties such as CryptoLogic, NextGen, WagerWorks and Electracade. The expanded games suite has proved to be highly successful and despite the movement in currency, average daily net revenue increased to \$493,500 (2008: \$491,300).

Our efforts to reduce the cannibalisation effect of cross-selling casino games to our poker players meant that the average number of daily players in casino decreased by 11% and the total number of unique active players decreased by 16%. However, the impact was mitigated by strong growth in new player sign-ups that increased by 58% to 56,900 in the period (2008: 35,900). Reducing our reliance on poker players to drive casino revenues was one of our stated objectives and whilst the daily average number of players fell by 11% to 11,100 (2008: 12,500), this was more than offset by an increase in player yields. The yield per unique active player grew by 18% year-on-year to \$290.4 (2008: \$245.2). As well as a strong performance from PartyCasino, the EOL/IOG casino brands also delivered a strong performance in the period with revenue of \$23.1m (2008: \$23.6m) despite the movement in currencies.

## Sports Betting

Six months to 30 June	2009 \$million	2008 \$million	% change
<b>Total stakes</b>	<b>266.2</b>	279.4	(5%)
<b>Gross revenue (or gross win)</b>	<b>13.1</b>	12.3	7%
Bonuses and other fair value adjustments to revenue	(5.4)	(3.4)	59%
<b>Net revenue</b>	<b>7.7</b>	8.9	(13%)
<i>Gross win margin</i>	<b>4.9%</b>	4.4%	
<b>Continuing Clean EBITDA</b>	<b>1.5</b>	1.2	25%
<i>Clean EBITDA margin</i>	<b>19.5%</b>	13.5%	

The Group's sports betting activity, comprising PartyBets.com and Gamebookers.com, saw total stakes fall to \$266.2m in the period (2008: \$279.4m). When currency movements are taken into account, this was a robust performance. In constant currency, we estimate that the total amounts wagered would have increased by approximately 15% year-on-year, even though last year represents a difficult comparison due to the positive impact of the Euro 2008 soccer tournament. Live betting has continued to grow strongly and represented over 46% of total stakes in the period (2008: 39%).

The overall gross win margin improved to 4.9% (2008: 4.4%) with the hold on live betting volume increasing to 2.3% (2008: 1.9%). Whilst a significant improvement on last year, this was lower than we expected due to a particularly weak second quarter. Contributing factors included unfavourable results in European football, which accounts for over 50% of the total turnover, while tennis, which accounts for over 20% of total turnover, got off to a very bad start with a negative hold when the top 16 seeded players reached the last 16 at the Australian Open in January; however, both the French Open and Wimbledon were profitable, both achieving double-digit gross win margins.

## Sports Betting - Key Performance Indicators

Six months to 30 June	2009	2008	Annual change	Change in Q2 09 vs Q1 09
Active player days (000s)	<b>1,863.5</b>	1,807.0	3%	(12%)
Daily average players (000s)	<b>10.3</b>	9.9	4%	(13%)
Yield per active player day (\$)	<b>4.1</b>	4.9	(16%)	(22%)
Yield per unique active player (\$)	<b>46.5</b>	68.7	(32%)	(25%)
New real money sign-ups (000s)	<b>70.7</b>	42.4	67%	11%
Unique active players during the period (000s)	<b>165.5</b>	129.7	28%	(8%)
Average daily net revenue (\$000)	<b>42.5</b>	49.0	(13%)	(31%)

The fundamentals of our sports betting business continued to grow with player activity and new player sign-ups growing year-on-year. Yields were impacted by currency movements as well as an increase in the rate of bonuses year-on-year which increased from 1.2% of the amounts wagered to 2.0%. This increase was partly due to the introduction of bonus arrangements that proved to be ineffective and which have now been removed. As a result, we expect the rate of bonuses in the second half of 2009 to fall to around the same level seen in the second half of 2008. Taken together, all of these factors meant that average daily net revenue decreased by 13% year-on-year. However, the benefit of currency movements on costs, together with continued careful management of the cost base meant that Clean EBITDA increased by 25% to \$1.5m (2008: \$1.2m).

## Bingo

Six months to 30 June	2009 \$million	2008 \$million	% change
<b>Gross revenue</b>	<b>2.2</b>	3.3	(33%)
Bonuses and other fair value adjustments to revenue	(0.5)	(0.8)	(38%)
<b>Net revenue</b>	<b>1.7</b>	2.5	(32%)
<b>Continuing Clean EBITDA</b>	<b>0.2</b>	(0.1)	N/A
<i>Clean EBITDA margin</i>	<b>11.8%</b>	(4.0%)	

The termination of the Group's white label agreement with ITV in the UK was the main driver for the decline in bingo revenue and all of the key performance indicators versus the prior year. Active player days fell by 20% to 144,900 (2008: 181,400) and unique active players by 19% to 28,000 (2008: 34,500) on the back of a substantial reduction in new player sign-ups, most of which had been generated from the broadcast of ITV's Bingo Night Live show. As a result, net revenue fell by 32% to \$1.7m (2008: \$2.5m) whilst at the Clean EBITDA level showed a small profit due to a reduction in other customer bonuses.

## Bingo - Key Performance Indicators

Six months to 30 June	2009	2008	Annual change	Change in Q2 09 vs Q1 09
Active player days (000s)	<b>144.9</b>	181.4	(20%)	(28%)
Daily average players (000s)	<b>0.8</b>	1.0	(20%)	(22%)
Yield per active player day (\$)	<b>11.8</b>	14.0	(16%)	(3%)
Yield per unique active player (\$)	<b>61.3</b>	73.5	(17%)	(9%)
New real money sign-ups (000s)	<b>3.1</b>	10.8	(71%)	(76%)
Unique active players during the period (000s)	<b>28.0</b>	34.5	(19%)	(23%)
Average daily net revenue (\$000)	<b>9.5</b>	14.0	(32%)	(30%)

Despite this weaker performance from the bingo segment in the period, the Board has long held the view that the \$1.5 billion bingo market represents an exciting opportunity and the acquisition in recent weeks of Cashcade, the UK's market leader, has transformed the Group's bingo business, moving PartyGaming into a leading position in the global bingo market.

## Distribution costs

Six months to 30 June	2009 \$million	2008 \$million	% change
Customer acquisition and retention	<b>30.8</b>	48.6	(37%)
Affiliates	<b>30.3</b>	36.6	(17%)
Other customer bonuses (not netted from revenue)	<b>4.3</b>	4.2	2%
Customer bad debts	<b>3.2</b>	1.2	167%
Webhosting and technical services	<b>12.2</b>	15.8	(23%)
<b>Distribution costs</b>	<b>80.8</b>	106.4	(24%)
<i>Distribution costs as a % of net revenue</i>	<b>40.1%</b>	41.8%	

Despite an increasingly competitive environment, the macroeconomic conditions coupled with currency movements meant that customer acquisition and retention costs fell by 37% in the period to \$30.8m (2008: \$48.6m) where they represented 15.3% of net revenue (2008: 19.1%). Affiliate costs also fell in absolute terms but increased slightly as a proportion of revenue from 14.4% of net revenue in 2008 to 15.1% in 2009 reflecting the launch of a dedicated affiliate programme for casino. Customer bad debts increased as a proportion of net revenue, reflecting increasing penetration of new markets in parts of Eastern Europe as well as a more normalised level of recovery of fraudulent balances from players and affiliates than was achieved in the previous year. Lower webhosting and technical services costs reflect favourable currency movements as well as the benefit of certain contractual renegotiations. As a proportion of net revenue, total distribution costs fell to 40.1% (2008: 41.8%).

## Administrative expenses

Six months to 30 June	2009	2008	%
Continuing operations	\$million	\$million	change
Transaction fees	12.0	17.1	(30%)
Depreciation	6.7	9.4	(29%)
Amortisation	12.1	11.4	6%
Staff costs	33.0	48.3	(32%)
Other overheads	13.5	19.3	(30%)
<b>Administrative expenses before share-based payments</b>	<b>77.3</b>	105.5	(27%)
Share-based payments	4.3	16.3	(74%)
<b>Administrative expenses</b>	<b>81.6</b>	121.8	(33%)
Administrative expenses before share-based payments as a % of net revenue	38.4%	41.4%	
Administrative expenses as a % of net revenue	40.5%	47.8%	

Administrative expenses before share-based payments continued to decline both in absolute terms but also as a percentage of revenue, falling by 27% to \$77.3m (2008: \$105.5m) and from 41.4% to 38.4% of net revenue. The favourable impact of currency movements together with the Group's continued careful management of its cost base has again meant that Clean EBITDA margins have been able to increase, despite the year-on-year reduction in reported revenue. Staff costs again represented the largest saving, down 32% year-on-year.

## Share-based payments

Prior to flotation, the Principal Shareholders established a share option plan for the benefit of the current and future workforce. Under the terms of the plan, existing employees were granted a number of nil-cost options to be satisfied by existing shares which had effectively been gifted by the Principal Shareholders to a dedicated employee trust. As such, the exercise of these options had no dilutive effect on shareholders who subscribed at the IPO and will have no cash impact on the Company. International Financial Reporting Standards require that the fair value of the options be amortised through the income statement over the life of the options. The reduction in the non-cash charge to \$4.3m (2008: \$16.3m) reflects the fact that the majority of nil-cost options have been fully amortised.

The total charge relating to nil-cost options was \$1.6m (2008: \$13.4m) and to other options was \$2.7m (2008: \$2.9m). Further details are contained in note 6 to the Financial Information below.

## Finance income and costs

The Group generated net income from its cash balances in the period of \$1.2m (2008: \$2.5m). The fall in net income arises from a reduction in the general level of interest rates available for cash deposits.

## Taxation

The tax charge for the period has decreased to \$2.8m (2008: \$3.6m).

## Net cash<sup>1</sup>

As at 30 June 2009 the Group had net cash of \$239.9m (31 December 2008: \$201.4m). On 23 July 2009 the Group paid £71.9m (\$119.0m) in cash as consideration relating to the acquisition of Cashcade. Further details are contained in note 17 to the Financial Information below.

<sup>1</sup> Net cash is defined as cash, cash equivalents and short term investments less bank debt

## Cashflow

Six months to 30 June	2009 \$million	2008 \$million
<b>Net cash inflow from operating activities</b>	<b>42.3</b>	66.1
Capital expenditure	(3.7)	(4.3)
Acquisitions of intangibles	(2.3)	(32.3)
Proceeds from sale of fixed assets	0.1	-
Increase in short-term investments	(0.6)	(1.0)
Issue of ordinary shares	0.9	-
Net interest received	1.2	0.7
<b>Net cashflow</b>	<b>37.9</b>	29.2

Net cashflow increased by 30% to \$37.9m (2008: \$29.2m) primarily due to the payment of the deferred consideration on the Gamebookers acquisition that was made in the prior year. During the period a payment of \$5.0m was made to the USAO as part of the NPA.

### Capital expenditure

Capital expenditure during the period was \$3.7m (2008: \$4.3m) comprising primarily replacement computer and office equipment.

### Principal risks

The principal risks facing the Group for the remaining six months of the year are unchanged from those reported in the Annual Report 2008. These risks, together with the Group's risk management process in relation to these risks, are detailed on pages 60 and 61 of the Annual Report 2008 (which is available for download at [www.partygaming.com](http://www.partygaming.com)) and relate to the following areas:

- Regulatory compliance
- Technology
- Competitive environment
- Taxation

## Statement of Directors' responsibilities

This half-year report is the responsibility of, and has been approved by, the Directors of PartyGaming Plc. Accordingly, the Directors confirm that to the best of their knowledge:

- the condensed consolidated set of financial statements has been prepared in accordance with IAS 34 – *Interim Financial Reporting* as issued by the IASB and endorsed and adopted by the European Union;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the 2008 Annual Report.

The Directors of PartyGaming Plc are listed in the PartyGaming Annual Report for the year ended 31 December 2008 and a list of current Directors is also maintained on the PartyGaming Plc website: [www.partygaming.com](http://www.partygaming.com).

By order of the Board of Directors of PartyGaming Plc  
**Martin Weigold**

Group Finance Director  
28 August 2009

## Financial Information

### Condensed consolidated statement of comprehensive income (unaudited)

Six months to 30 June	Notes	2009 \$million	2008 \$million
<b>Continuing operations</b>			
Net revenue	5	201.3	254.8
Other operating (expense) income		(2.1)	1.2
Administrative expenses			
• Other administrative expenses		(77.3)	(105.5)
• Share-based payments	6	(4.3)	(16.3)
Total administrative expenses		(81.6)	(121.8)
Distribution expenses		(80.8)	(106.4)
<b>Profit from operating activities</b>		<b>36.8</b>	27.8
Finance income		1.2	2.7
Finance costs		-	(0.2)
<b>Profit before tax</b>		<b>38.0</b>	30.3
Tax	7	(2.8)	(3.6)
Profit after tax from Continuing operations		35.2	26.7
Loss after tax from Discontinued operations	4	(102.1)	(4.0)
<b>(Loss) profit after tax attributable to the equity holders of the parent</b>		<b>(66.9)</b>	22.7
<b>Other comprehensive income:</b>			
Exchange differences on translation of foreign operations		0.6	2.4
<b>Total comprehensive (expense) income after tax attributable to the equity holders of the parent</b>		<b>(66.3)</b>	25.1
<b>(Loss) earnings per share (cents)</b>			
Basic	8	(16.5)	5.6
Diluted	8	(16.5)	5.3
<b>Continuing earnings per share (cents)</b>			
Basic	8	8.7	6.6
Diluted	8	8.2	6.2

## Condensed consolidated statement of financial position (unaudited)

	Notes	As at 30 June 2009 \$million	As at 31 December 2008 \$million	As at 30 June 2008 \$million
<b>Non-current assets</b>				
Intangible assets	9	174.7	184.5	193.4
Property, plant and equipment	10	14.2	16.7	24.7
		<b>188.9</b>	201.2	218.1
<b>Current assets</b>				
Assets held for sale		5.5	5.9	9.0
Trade and other receivables		51.2	50.8	56.7
Short-term investments		8.9	8.3	9.5
Cash and cash equivalents		231.0	193.1	148.5
		<b>296.6</b>	258.1	223.7
<b>Total assets</b>		<b>485.5</b>	459.3	441.8
<b>Current liabilities</b>				
Trade and other payables	11	(66.4)	(44.1)	(65.0)
Income taxes payable		(3.5)	(2.8)	(6.0)
Client liabilities and progressive prize pools		(123.7)	(131.1)	(132.7)
Provisions	12	(2.0)	(2.0)	(3.3)
		<b>(195.6)</b>	(180.0)	(207.0)
<b>Non-current liabilities</b>				
Trade and other payables	11	(71.7)	-	-
		<b>(71.7)</b>	-	-
<b>Total liabilities</b>		<b>(267.3)</b>	(180.0)	(207.0)
<b>Total net assets</b>		<b>218.2</b>	279.3	234.8
<b>Equity</b>				
Share capital	14	0.1	0.1	0.1
Share premium account		67.3	66.4	66.4
Capital contribution reserve		34.7	34.7	34.7
Retained earnings		941.2	1,003.8	954.2
Other reserve		(825.4)	(825.4)	(825.4)
Currency reserve		0.3	(0.3)	4.8
<b>Equity attributable to equity holders of the parent</b>		<b>218.2</b>	279.3	234.8

## Condensed consolidated statement of changes in equity (unaudited)

	Share capital \$million	Share premium \$million	Capital contribution reserve \$million	Retained earnings \$million	Other reserve \$million	Currency reserve \$million	Total equity \$million
As at 1 January 2008	0.1	66.4	34.7	915.2	(825.4)	2.4	193.4
Total comprehensive income for the period	-	-	-	22.7	-	2.4	25.1
Share-based payments	-	-	-	16.3	-	-	16.3
As at 30 June 2008	0.1	66.4	34.7	954.2	(825.4)	4.8	234.8
Total comprehensive income (expense) for the period	-	-	-	44.2	-	(5.1)	39.1
Share-based payments	-	-	-	5.4	-	-	5.4
As at 31 December 2008	0.1	66.4	34.7	1,003.8	(825.4)	(0.3)	279.3
Total comprehensive income (expense) for the period	-	-	-	(66.9)	-	0.6	(66.3)
Issue of shares	-	0.9	-	-	-	-	0.9
Share-based payments	-	-	-	4.3	-	-	4.3
<b>As at 30 June 2009</b>	<b>0.1</b>	<b>67.3</b>	<b>34.7</b>	<b>941.2</b>	<b>(825.4)</b>	<b>0.3</b>	<b>218.2</b>

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 Principal Shareholders and cash held by the Employee Trust. Retained earnings are the cumulative net gains and losses recognised in the condensed consolidated income statement after the effect of share-based payments. Currency reserve represents the gains/losses arising on retranslating the net assets of overseas operations into US dollars.

The other reserve of \$825.4 million is the amount arising from the application of accounting which is similar to the pooling of interests method, as set out in the Group's accounting policies in the 2008 Annual Report. Under this method of accounting, the difference between the consideration for the controlling interest and the nominal value of the shares acquired is taken to other reserves on consolidation. As a result, the share capital and reserves reflect PartyGaming Plc's share capital and the retained earnings for each of the periods ended 30 June 2008, 31 December 2008 and 30 June 2009 and reflects the cumulative profits as if the current Group structure had always been in place.

## Condensed consolidated statement of cashflows (unaudited)

<i>Six months to 30 June</i>	<b>2009</b>	2008
	<b>\$million</b>	\$million
(Loss) profit for the period	<b>(66.9)</b>	22.7
Adjustments for:		
Amortisation of intangibles	<b>12.1</b>	11.4
Interest expense	<b>-</b>	0.2
Interest income	<b>(1.2)</b>	(2.7)
Depreciation of property, plant and equipment	<b>6.7</b>	9.4
Impairment of assets held for sale	<b>0.8</b>	-
Increase in reserves due to share-based payments	<b>4.3</b>	16.3
(Profit) loss on sale of property, plant and equipment	<b>-</b>	0.2
Currency translation reserve	<b>(0.1)</b>	1.1
Income tax expense	<b>2.8</b>	3.6
<b>Operating cashflows before movements in working capital and provisions</b>	<b>(41.5)</b>	62.2
Decrease in trade and other receivables	<b>0.3</b>	6.8
Increase (decrease) in trade and other payables	<b>85.5</b>	(0.3)
Decrease in provisions	<b>-</b>	(1.7)
<b>Cash generated from operating activities</b>	<b>44.3</b>	67.0
Income taxes paid	<b>(2.0)</b>	(0.9)
<b>Net cash inflow from operating activities</b>	<b>42.3</b>	66.1
<i>Investing activities</i>		
Purchases of property, plant and equipment	<b>(3.7)</b>	(4.3)
Sale of property, plant and equipment	<b>0.1</b>	-
Purchases of intangible assets	<b>(2.3)</b>	(32.3)
Interest received	<b>1.2</b>	2.7
Increase in short-term investments	<b>(0.6)</b>	(1.0)
<b>Net cash used in investing activities</b>	<b>(5.3)</b>	(34.9)
<i>Financing activities</i>		
Issue of ordinary shares	<b>0.9</b>	-
Interest paid	<b>-</b>	(2.0)
<b>Net cash used in financing activities</b>	<b>0.9</b>	(2.0)
<b>Net increase in cash and cash equivalents</b>	<b>37.9</b>	29.2
Net cash and cash equivalents at beginning of period	<b>193.1</b>	119.3
<b>Net cash and cash equivalents at end of period</b>	<b>231.0</b>	148.5

## Notes to the condensed consolidated financial statements

### 1. Basis of preparation

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*, and have been prepared on the basis of International Financial Reporting Standards ('IFRSs') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the European Union that are effective for the year ending 31 December 2009.

The unaudited interim condensed financial statements for the six months ended 30 June 2009, which were approved by the Board on 28 August 2009, do not comprise statutory accounts, and should be read in conjunction with the Annual Report for the year ended 31 December 2008. Those accounts have been reported upon by the Group's auditors and delivered to Companies House in Gibraltar. The report of the auditors on those accounts was unqualified but included an emphasis of matter paragraph relating to certain contingent liabilities. Those contingent liabilities no longer exist as at 30 June 2009. The Annual Report is published in the Investors section of the Group website ([www.partygaming.com](http://www.partygaming.com)) and is available from the Company on request.

Except as described below, the accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 December 2008.

In the current financial year the Group will adopt the following International Accounting Standards ('IASs') and interpretations, issued by the International Accounting Standards Board or the IFRIC, for the first time with no significant impact on its condensed consolidated results or financial position:

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation* (effective for annual periods beginning on or after 1 October 2008).

IFRIC 17 – *Distributions of Non-cash Assets to Owners* (effective for annual periods beginning on or after 1 July 2009). This was early adopted by the Group in accordance with best practice.

IAS 1 – *Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2009).

IAS 32 and IAS 1 (Amended) - *Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after 1 January 2009).

IFRS 1 and IAS 27 (Amended) - *Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate* (effective for annual periods beginning on or after 1 January 2009).

Improvements to IFRSs (effective for annual periods beginning on or after 1 January 2009).

The following interpretations were issued by the IFRIC and IASB before 30 June 2009 but were not effective for the 2009 year end:

IAS 27 (Amended) - *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009).

IAS 39 (Amended) - *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* (effective for annual periods beginning on or after 1 July 2009).

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

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

## 2. Seasonality of operations

Seasonality is one of many factors that affect quarter on quarter revenue growth. Like many other online businesses with customer bases located predominantly in the Northern hemisphere, during the winter months consumers tend to spend more time online than during the summer months. In addition, as the Group's customer base becomes more casual in nature, so seasonality can be expected to have a greater impact as customers that have a broad variety of interests, including online gaming, can be expected to take advantage of longer daylight hours and better weather conditions to enjoy other leisure pursuits.

## 3. Restatement of prior periods

In the interim accounts for the period ended 30 June 2008 and the annual accounts for the year ended 31 December 2008, casino net revenue generated from the bingo platform was classified as part of casino. This is now reported as bingo net revenue. In the six months to 30 June 2008 the amount was \$0.5 million with associated costs of \$0.2 million.

## 4. Discontinued operations

### Consolidated statement of comprehensive income

	2009 \$million	2008 \$million
Six months to 30 June		
Non-Prosecution Agreement	(101.0)	-
Other	(0.7)	(4.0)
Administrative expenses	(101.7)	(4.0)
<b>Loss from operating activities</b>	<b>(101.7)</b>	<b>(4.0)</b>
<b>Finance costs</b>	<b>(0.4)</b>	<b>-</b>
<b>Loss after tax</b>	<b>(102.1)</b>	<b>(4.0)</b>
<b>Loss per share (cents)</b>		
Basic and diluted	(25.2)	(1.0)

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 ('NPA') 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 \$105.0 million, details of which are shown in note 11. The charge of \$101.0 million (2008: \$nil) in respect of the NPA reflects the fair value of the settlement. Other costs relate primarily to legal costs associated with the above. Finance costs relate to its amortisation.

### Consolidated statement of cashflows

	2009 \$million	2008 \$million
Six months to 30 June		
Net cash outflow from operating activities	(5.7)	(4.0)
<b>Net decrease in cash and cash equivalents</b>	<b>(5.7)</b>	<b>(4.0)</b>

## 5. Revenue and business segment information

For management purposes and transacting with customers, the Group's operations are segmented into the following four operating segments:

- > poker (including emerging games),
- > casino
- > sports betting, and
- > bingo.

These divisions are the basis upon which the Group reports its segment information. Unallocated corporate expenses relate to the Group as a whole and are not allocated to individual segments.

Six months to 30 June 2009	Poker \$million	Casino \$million	Sports Betting \$million	Bingo \$million	Unallocated corporate \$million	Consolidated \$million
<b>Continuing operations</b>						
Net revenue	102.6	89.3	7.7	1.7	-	201.3
Clean EBITDA	25.7	36.0	1.5	0.2	(2.7)	60.7
Profit (loss) before tax	24.0	33.4	(4.6)	0.2	(15.0)	38.0
<b>Discontinued operations</b>						
Clean EBITDA	-	-	-	-	(0.7)	(0.7)
Loss before tax	-	-	-	-	(102.1)	(102.1)
<b>Total operations</b>						
Net revenue	102.6	89.3	7.7	1.7	-	201.3
Clean EBITDA	25.7	36.0	1.5	0.2	(3.4)	60.0
Profit (loss) before tax	24.0	33.4	(4.6)	0.2	(117.1)	(64.1)

Six months to 30 June 2008	Poker \$million	Casino \$million	Sports Betting \$million	Bingo \$million	Unallocated corporate \$million	Consolidated \$million
<b>Continuing operations</b>						
Net revenue	153.9	89.5	8.9	2.5	-	254.8
Clean EBITDA	36.0	26.7	1.2	(0.1)	1.1	64.9
Profit (loss) before tax	34.5	23.9	(4.9)	(0.1)	(23.1)	30.3
<b>Discontinued operations</b>						
Clean EBITDA	-	-	-	-	(4.0)	(4.0)
Loss before tax	-	-	-	-	(4.0)	(4.0)
<b>Total operations</b>						
Net revenue	153.9	89.5	8.9	2.5	-	254.8
Clean EBITDA	36.0	26.7	1.2	(0.1)	(2.9)	60.9
Profit (loss) before tax	34.5	23.9	(4.9)	(0.1)	(27.1)	26.3

#### Geographical analysis of net revenue

Six months to 30 June	2009 \$million	2008 \$million
Germany	41.4	51.4
Canada	30.9	43.0
United Kingdom	17.5	27.1
Other	111.5	133.3
<b>Net revenue</b>	<b>201.3</b>	254.8

## 6. Share-based payments

Six months to 30 June	2009 \$million	2008 \$million
Charge relating to nil-cost options issued pre-IPO	-	1.2
issued post-IPO	1.6	12.2
Total charge relating to nil-cost options	1.6	13.4
FMV Plan	1.5	2.9
PSP Plan	1.0	-
Executive FMV Plan	0.2	-
<b>Total charge</b>	<b>4.3</b>	<b>16.3</b>

Prior to flotation, the founder shareholders established the PartyGaming Plc Share Option Plan (the 'Nil-Cost Plan') for the benefit of the current and future workforce. Under the terms of the Nil-Cost Plan each option takes the form of a right, exercisable at nil-cost, to acquire shares in the Company, the vesting of which is satisfied by existing shares which were issued to the Employee Trust in June 2005.

Following the enactment of the UIGEA, the Company implemented on 29 December 2006 a one-off adjustment to existing Nil-Cost Plan awards by granting new incentive awards by using an additional 40 million shares gifted to the Employee Trust by the Principal Shareholders of the Company. As such, the exercise of these Nil-Cost Plan options has no cash impact on the Company. However, IFRS requires that the fair value of the options be amortised through the income statement over the life of the options.

In the first half of 2007, following a consultation with major shareholders, the Company introduced the PartyGaming Plc All-Employee Option Plan ('FMV Plan') and PartyGaming Plc Performance Share Plan ('PSP Plan') and also began making awards under the existing PartyGaming Plc Executive Share Option Plan ('Executive FMV Plan').

## 7. Tax

### Analysis of tax charge

Six months to 30 June	2009 \$million	2008 \$million
<b>Income tax expense for the period</b>	<b>2.8</b>	<b>3.6</b>

There are no material deferred tax balances arising during the period. There is no tax associated with Discontinued operations.

### Factors affecting the tax charge for the period

The Group's policy is to manage, control and operate Group companies only in the countries in which they are registered. At the period end there were Group companies registered in 12 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 condensed consolidated financial statements.

### Factors that may affect future tax charges

In Gibraltar, the Group benefits from the exempt company regime. The Gibraltar exempt company regime will be phased out by 31 December 2010; assessable income is taxed in Gibraltar at the mainstream corporation tax rate, which is expected to be 10% from 1 January 2011.

In India, the Group benefits from a tax holiday on income from qualifying activities, which has been extended until March 2011; under current rules assessable income is taxed in India at approximately 34%. The Minimum Alternative Tax has increased from 11.33% to approximately 17% from 1 April 2009. Fringe benefit tax, which is payable at approximately 34% on a proportion of specified benefits provided or deemed to have been provided to past and present employees in India, has been abolished with effect from 1 April 2009.

## 8. Earnings per share ('EPS')

Six months to 30 June	2009			2008		
	Continuing operations cents	Discontinued operations cents	Total cents	Continuing operations cents	Discontinued operations cents	Total Cents
Basic EPS	8.7	(25.2)	(16.5)	6.6	(1.0)	5.6
Diluted EPS*	8.2	(25.2)	(16.5)	6.2	(1.0)	5.3
Basic Clean EPS	9.7	(0.1)	9.6	10.6	(1.0)	9.6
Diluted Clean EPS*	9.2	(0.1)	9.0	10.1	(1.0)	9.1

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

### 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.

Six months to 30 June	2009 Total	2008 Total
<b>Basic EPS</b>		
Basic (loss) earnings (\$million)	(66.9)	22.7
Weighted average number of ordinary shares (million)	406.1	404.6
Basic (loss) earnings per ordinary share (cents)	(16.5)	5.6
<b>Basic Clean EPS</b>		
Adjusted earnings (\$million)	38.8	39.0
Weighted average number of ordinary shares (million)	406.1	404.6
Adjusted earnings per ordinary share (cents)	9.6	9.6

### 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 provision for payments associated with the Group's Non-Prosecution Agreement, and non-cash charges relating to share-based payments.

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

Six months to 30 June	2009			2008		
	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	35.2	(102.1)	(66.9)	26.7	(4.0)	22.7
Share-based payments	4.3	-	4.3	16.3	-	16.3
Provision for payments associated with the Group's NPA	-	101.0	101.0	-	-	-
Unwinding of discount of the Group's NPA	-	0.4	0.4	-	-	-
<b>Clean net earnings (loss)</b>	<b>39.5</b>	<b>(0.7)</b>	<b>38.8</b>	<b>43.0</b>	<b>(4.0)</b>	<b>39.0</b>

	2009 Number million	2008 Number million
<b>Six months to 30 June</b>		
<b>Weighted average number of shares</b>		
Number of shares in issue as at 1 January	411.5	400.0
Number of shares in issue as at 1 January held by the Employee Trust	(6.7)	(11.3)
Weighted average number of shares issued during the period	0.1	-
Effect of vested share options	1.2	15.9
<b>Weighted average number of ordinary shares for the purposes of basic earnings per share</b>		
	406.1	404.6
Effect of potential dilutive unvested shares	23.6	23.0
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share</b>		
	429.7	427.6

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

## 9. Intangible assets

	Other intangibles \$million	Goodwill \$million	Development expenditure \$million	Total \$million
<b>Cost or valuation</b>				
As at 1 January 2008	157.6	208.7	6.4	372.7
Additions	0.6	-	1.0	1.6
As at 30 June 2008	158.2	208.7	7.4	374.3
Additions	0.9	-	1.8	2.7
As at 31 December 2008	159.1	208.7	9.2	377.0
Additions	-	-	2.3	2.3
<b>As at 30 June 2009</b>	<b>159.1</b>	<b>208.7</b>	<b>11.5</b>	<b>379.3</b>
<b>Amortisation</b>				
As at 1 January 2008	92.9	76.1	0.5	169.5
Charge for the period	10.3	-	1.1	11.4
As at 30 June 2008	103.2	76.1	1.6	180.9
Charge for the period	10.4	-	1.2	11.6
As at 31 December 2008	113.6	76.1	2.8	192.5
Charge for the period	10.7	-	1.4	12.1
<b>As at 30 June 2009</b>	<b>124.3</b>	<b>76.1</b>	<b>4.2</b>	<b>204.6</b>
<b>Carrying amounts</b>				
As at 30 June 2008	55.0	132.6	5.8	193.4
As at 31 December 2008	45.5	132.6	6.4	184.5
<b>As at 30 June 2009</b>	<b>34.8</b>	<b>132.6</b>	<b>7.3</b>	<b>174.7</b>

The other intangible assets primarily include the customer lists, brands and other intangibles acquired in respect of Gamebookers and the acquisitions from EOL and IOG which are being amortised over their estimated useful economic lives of between 18 months and ten years. The values are based on cashflow projections from existing customers taking into account the expected impact of player attrition.

Development expenditure represents software infrastructure assets that have been developed and generated internally. They are being amortised over their estimated useful economic lives of between three and five years.

In accordance with IAS 36, the Group regularly monitors the carrying value of its intangible assets. A detailed review was undertaken at 31 December 2008 to assess whether the carrying value of assets was supported by the net present value of future cashflows derived from those assets using cashflow projections for a ten-year period. The Board are not aware of any evidence of impairment during the current period.

## 10. Property, plant and equipment

	Land and buildings \$million	Plant, machinery and vehicles \$million	Fixtures, fittings, tools and equipment \$million	Total \$million
<b>Cost or valuation</b>				
As at 1 January 2008	14.6	5.1	89.8	109.5
Exchange movements	1.4	(0.2)	(0.4)	0.8
Additions	0.2	1.5	2.6	4.3
Reclassified as assets held for sale	(9.0)	-	-	(9.0)
Disposals	-	(0.3)	(3.5)	(3.8)
As at 30 June 2008	7.2	6.1	88.5	101.8
Exchange movements	(1.7)	(0.9)	(9.9)	(12.5)
Additions	0.1	0.1	3.9	4.1
Disposals	-	-	(1.0)	(1.0)
As at 31 December 2008	5.6	5.3	81.5	92.4
Exchange movements	<b>0.5</b>	<b>0.2</b>	<b>3.6</b>	<b>4.3</b>
Additions	<b>0.1</b>	<b>0.3</b>	<b>3.3</b>	<b>3.7</b>
Disposals	-	-	<b>(0.2)</b>	<b>(0.2)</b>
<b>As at 30 June 2009</b>	<b>6.2</b>	<b>5.8</b>	<b>88.2</b>	<b>100.2</b>
<b>Depreciation</b>				
As at 1 January 2008	3.3	3.7	64.8	71.8
Exchange movements	0.6	(0.5)	(0.6)	(0.5)
Charge for the period	0.6	0.4	8.4	9.4
Disposals	-	(0.2)	(3.4)	(3.6)
As at 30 June 2008	4.5	3.4	69.2	77.1
Exchange movements	(1.0)	(0.6)	(8.0)	(9.6)
Charge for the period	0.1	1.4	7.7	9.2
Disposals	-	-	(1.0)	(1.0)
As at 31 December 2008	3.6	4.2	67.9	75.7
Exchange movements	<b>0.3</b>	<b>0.2</b>	<b>3.2</b>	<b>3.7</b>
Charge for the period	<b>0.6</b>	<b>0.3</b>	<b>5.8</b>	<b>6.7</b>
Disposals	-	-	<b>(0.1)</b>	<b>(0.1)</b>
<b>As at 30 June 2009</b>	<b>4.5</b>	<b>4.7</b>	<b>76.8</b>	<b>86.0</b>
<b>Carrying amounts</b>				
As at 30 June 2008	2.7	2.7	19.3	24.7
As at 31 December 2008	2.0	1.1	13.6	16.7
<b>As at 30 June 2009</b>	<b>1.7</b>	<b>1.1</b>	<b>11.4</b>	<b>14.2</b>

## 11. Trade and other payables

	<b>As at 30 June 2009 \$million</b>	As at 31 December 2008 \$million	As at 30 June 2008 \$million
Amounts due under Non-Prosecution Agreement	24.7	-	-
Other	41.7	44.1	65.0
<b>Current liabilities</b>	<b>66.4</b>	44.1	65.0
<b>Later than 1 year and not later than 5 years</b>			
Amounts due under Non-Prosecution Agreement	71.7	-	-
<b>Non-current liabilities</b>	<b>71.7</b>	-	-

The carrying amount of other liabilities approximates to their fair value which is based on the net present value of expected future cashflows.

On 6 April 2009 the Group entered into a Non-Prosecution Agreement ('NPA') 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 \$105.0 million. The fair value of the amount payable under the NPA of \$101.0 million is measured at amortised cost based on cashflows discounted at 2%. \$5.0 million was paid on 10 April 2009, and the remaining amount is payable as follows:

	<b>As at 30 June 2009 \$million</b>
Payable on:	
30 September 2009	10.0
31 March 2010	15.0
30 September 2010	15.0
31 March 2011	15.0
30 September 2011	15.0
31 March 2012	15.0
30 September 2012	15.0
<b>Total</b>	<b>100.0</b>

## 12. Provisions

	<b>As at 30 June 2009 \$million</b>	As at 31 December 2008 \$million	As at 30 June 2008 \$million
Provision at beginning of period	2.0	5.0	5.0
Charged to income statement	5.3	2.6	1.2
Credited to income statement	(5.3)	(5.6)	(2.9)
<b>Provision at end of period</b>	<b>2.0</b>	2.0	3.3

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

### 13. 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.

#### Regulatory issues

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

The Board is not aware of any regulatory issue that would give rise to a contingent liability.

#### Litigation

The Group is the defendant in a US action which is based on alleged collusion taking place on the Group's online poker tables. This action has been brought by two individual plaintiffs who are seeking class certification. The class seeking to be represented comprises poker customers in the US who from 1 January 2002 played real money games on the Group's sites.

The Group believes the action to be speculative, without merit and open to challenge on a number of grounds. The Group had not hitherto submitted to US jurisdiction and therefore the action had not been contested. In light of a number of factors, not all of which pertained at the time of the decision not to contest, the Group decided to seek to challenge the proceedings and accordingly sought and was granted permission to enter a defence and contest the action on the merits. The Group also applied to have the action dismissed, and the judge granted that order and dismissed the proceedings with prejudice on 30 September 2008. Subsequently, the plaintiffs have appealed the judge's decision.

The Board believes that the disclosure of a range of potential liability, if any, would be prejudicial to the Group's interests.

### 14. Share capital

	Issued and fully paid \$	Number million
Ordinary shares as at 30 June 2008 and 31 December 2008	103,866	411.5
Issued during the period	74	0.4
<b>Ordinary shares as at 30 June 2009</b>	<b>103,940</b>	<b>411.9</b>

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 \$103,939.73 and is split into 411,854,270 ordinary shares. The share capital in UK sterling is £61,778.14 and translates at an average exchange rate of 1.68247 US dollars to £1 sterling. As at 30 June 2009, 4,467,307 (2008: 7,544,977) ordinary shares were held as treasury shares by the Employee Trust.

Shares issued during the period relate to the exercising of certain share options (see note 16).

#### 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.

### 15. Related parties

#### Group

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

### Principal Shareholders

Anurag Dikshit, Ruth Parasol DeLeon and Russ DeLeon are the ultimate controlling shareholders of the Group. 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 (2008: \$nil).

The wife of a 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 period were \$34,000 (2008: \$37,000).

In 2008 former Directors and Principal Shareholders leased 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.

The 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:

Six months to 30 June	2009 \$million	2008 \$million
Short-term benefits	6.9	10.2
Share-based payments	2.5	41.4
	9.4	51.6

At 30 June 2009 an aggregate balance of \$1.6 million (2008: \$1.4 million) was due to Directors and key management.

The Group purchased telecommunication and utility services for \$1.7 million during the period (2008: \$2.3 million) on an arm's length basis from companies for whom a Board member is a Director, with no amounts owed at 30 June 2009 (2008: \$0.3 million).

The Group made affiliate payments of less than \$1,000 (2008: \$nil) on an arm's length basis to a company for whom a former Board member is a Director, with no amounts owed at 30 June 2009.

On 1 February 2008, the Group paid the final element of the consideration due to Trident Gaming Plc in respect of the acquisition of the business and assets connected with the Gamebookers.com website. This amounted to €21.0 million and total interest of €1.3 million. A former Board member was the former CEO of Gamebookers and received €2.1 million of the total consideration.

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 will terminate on 29 August 2009 and for a further six months afterwards he is prevented from providing services to other gaming businesses. A fee of £110,000 was payable to the former Chairman under this consultancy agreement.

In 2008 the Group's subsidiaries provided the following property arrangements during the period to the former Chief Executive Officer:

- > two furnished properties available for his use in Gibraltar which the Directors believe had a fair rental value of approximately \$150,000 per annum (plus service and utility costs); and
- > an additional property available for his use at fair rental value, but he did not avail himself of the property. One of the properties has been leased to an employee at fair rental value of €21,000 for the six months ended 30 June 2009, with a net prepayment at 30 June 2009 of €3,500.

Certain Directors and certain key management were granted Nil-Cost Plan options under service contracts which were granted under a Group share option plan (see note 16).

## 16. Share-based payments

As disclosed in note 6, 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 'Participants'). The Group has used the binomial options pricing model. An appropriate discount has been applied to reflect the fact that dividends are not paid on options that have not vested or have vested but have not been exercised.

	Nil-Cost Plan Number million	FMV Plan Number million	PSP Plan Number million	Executive FMV Plan Number million
<b>Six months ended 30 June 2009</b>				
Outstanding at beginning of period	6.0	21.0	1.7	0.3
Shares over which options granted during the period	0.5	4.1	1.0	0.5
Shares in respect of options lapsed during the period	(1.0)	(2.5)	(0.4)	-
Exercised during the period	(2.2)	(0.4)	-	-
<b>Outstanding at end of period</b>	<b>3.3</b>	<b>22.2</b>	<b>2.3</b>	<b>0.8</b>
Shares over which options granted during the period	475,000	4,086,166	991,817	502,500
Percentage of total issued share capital	0.12%	0.99%	0.24%	0.12%

	Nil-Cost Plan Number million	FMV Plan Number million	PSP Plan Number million	Executive FMV Plan Number million
<b>Six months ended 30 June 2008</b>				
Outstanding at beginning of period	9.0	7.3	0.4	0.2
Shares over which options granted during the period	2.1	12.5	0.4	0.2
Shares in respect of options lapsed during the period	(0.5)	(1.4)	(0.1)	(0.1)
Exercised during the period	(3.5)	-	-	-
<b>Outstanding at end of period</b>	<b>7.1</b>	<b>18.4</b>	<b>0.7</b>	<b>0.3</b>
Shares over which options granted during the period	2,100,000	12,539,268	407,498	171,402
Percentage of total issued share capital	0.51%	3.05%	0.10%	0.04%

### Terms and conditions

#### Nil-Cost Plan

Options granted under this plan during the period generally vest in instalments over a four to five-year period. There are no performance conditions attached to these options issued by the Group.

#### 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. Executive Directors are not eligible to receive any awards under this plan.

#### PSP Plan

These awards vest subject to the achievement of a total shareholder return ('TSR') performance target over the three-year period commencing on 1 January 2007, 1 July 2007, 1 January 2008, 1 July 2008 or 1 January 2009 compared to the median TSR of a sector 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 is broadly equivalent to upper quartile performance over three years.

### 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 periods from 1 January 2007, 1 January 2008, 1 July 2008 or 1 January 2009.

## 17. Events after the end of the reporting period

### Acquisition of 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 casinos and software services. Cash consideration was an initial £71.9 million paid upon completion and provisionally another £6.5 million is payable before the year end for the excess acquired working capital. There is a further £24.0 million in contingent consideration payable depending on future profit performance in 2009 and 2010. The acquisition was made on a debt-free / cash-free basis. Details of the provisional 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	-	65.0	65.0
Property, plant and equipment	0.3	-	0.3
Trade and other receivables	8.5	-	8.5
Cash and cash equivalents	9.9	-	9.9
Trade and other payables	(3.8)	-	(3.8)
Income taxes payable	(1.7)	-	(1.7)
Client liabilities and progressive prize pools	(1.7)	-	(1.7)
Net deferred tax	1.5	(18.2)	(16.7)
Net assets acquired	13.0	46.8	59.8
Goodwill			108.9
Consideration paid			168.7
Cash			128.9
Contingent consideration payable in cash			38.5
Costs of acquisition			1.3
Consideration paid			168.7

The provisional fair value adjustments relate primarily to the attributing of fair values of customer lists and brands acquired as part of the acquisition, and the resultant deferred tax arising thereon. These intangible assets are being amortised over their estimated useful economic lives of up to five years.

## **Independent review report to PartyGaming Plc**

### **Introduction**

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cashflows and related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

### **Directors' responsibilities**

The half-yearly financial report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed consolidated set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect to half-yearly financial reporting in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

### **BDO Stoy Hayward LLP Chartered Accountants and Registered Auditors**

55 Baker Street  
London W1U 7EU

28 August 2009

## Glossary and definitions

‘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
‘Attrition’	the ratio of real money signups which are active during the period. The measure indicates the retention profile of the players
‘Average active players’ or ‘Daily average players’	the daily average number of players who contributed to positive rake and/or placed a wager in the given period. This can be calculated by dividing active player days in that period, by the number of days in that period
‘Cashcade’	Cashcade Limited and its subsidiaries which own some of the UK’s leading bingo websites including FoxyBingo.com and ThinkBingo.com, as well as casino sites GetMinted.com and FoxyFlutter.com
‘Clean EBITDA/EPS’	EBITDA/EPS before charges associated with the Group’s Non-Prosecution Agreement, reorganisation costs and non-cash charges relating to share-based payments.
‘Company’ or ‘PartyGaming’	PartyGaming Plc
‘Discontinued operations’	operations located physically outside of the US but which relate to customers in the US that were no longer accepted following the enactment of the UIGEA on 13 October 2006
‘EBITDA’	earnings before interest, tax, depreciation and amortisation
‘EMEA’	Europe, the Middle East and Africa
‘EOL’	Empire Online Limited
‘Employee Trust’	the PartyGaming Plc Shares Trust, a discretionary share ownership trust established by the Company
‘Gamebookers’	www.gamebookers.com, one of the Group’s sports betting websites
‘Group’ or ‘PartyGaming Group’	the Company and its condensed consolidated subsidiaries and subsidiary undertakings from time to time or, prior to 7 February 2005, PartyGaming Holdings Limited (formerly Headwall Ventures Limited) and its condensed consolidated subsidiaries and subsidiary undertakings
‘IASB’	International Accounting Standards Board
‘IOG’	Intercontinental Online Gaming Limited
‘KPIs’	Key Performance Indicators, such as active player days and yield per active player day
‘NPA’	The Non-Prosecution Agreement entered into by the Group and the US Attorney’s Office for the Southern District of New York (the ‘USAO’) on 6 April 2009. 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.
‘PartyBets’	www.partybets.com, one of the Group’s sports betting websites that is also fully integrated into the Group’s shared wallet
‘PartyBingo’	www.partybingo.com, one of the Group’s bingo websites
‘PartyCasino’	www.partycasino.com, the Group’s principal casino website
‘PartyGammon’	www.partygammon.com, the Group’s backgammon website
‘PartyMarkets’	www.partymarkets.com, the Group’s financial spread betting and CFD trading website
‘PartyPoker’	www.partypoker.com, the Group’s principal poker website
‘Principal Shareholders’	Anurag Dikshit (holding through Crystal Ventures Limited), James Russell DeLeon (holding through Stinson Ridge Limited) and Ruth Parasol DeLeon (holding through Emerald Bay Limited)
‘Real money sign-up’ or ‘sign-up’	a new player who has registered and deposited funds into an account with the company. Customers are categorised between lines of business according to where they first register on the gaming site to address the issues posed by shared wallets
‘UIGEA’	The Unlawful Internet Gambling Enforcement Act that was enacted in the US on 13 October 2006
‘Unique active player’	a player who has contributed to rake or placed a wager in the period
‘USAO’	the United States Attorney’s Office for the Southern District of New York
‘Yield per unique active player’	net gaming revenue (net of customer bonuses and other fair value adjustments to revenues) divided by the number of unique active players in the period
‘Yield per active player day’	net gaming revenue (net of customer bonuses and other fair value adjustments to revenues) divided by the number of active player days in the period

