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This document comprises a prospectus relating to Playtech Limited ("Playtech" or the "Company") and has been prepared in accordance with the Prospectus Rules made by the Financial Services Authority (the "Prospectus Rules") pursuant to section 73A of FSMA. This document has been approved as a prospectus by the Financial Services Authority and made available to the public as required by paragraph 3.2 of the Prospectus Rules.

The Ordinary Shares are currently admitted to trading on AIM. Application has been made to the Financial Services Authority and to the London Stock Exchange respectively for admission of all the Ordinary Shares to: (i) the Official List; and (ii) trading on the London Stock Exchange's Main Market for listed securities ("Admission"). It is expected that Admission will become effective and that dealings in the Ordinary Shares on the London Stock Exchange will commence at 8.00 a.m. on 2 July 2012. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange.

Prospective investors should read the entire document and, in particular, the section headed "Risk Factors" when considering an investment in the Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of such Risk Factors.

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# Playtech Limited

*(incorporated in the Isle of Man with registered number 008505V)*

## Applications for listing on the Official List and admission to trading on the London Stock Exchange's Main Market for listed securities

### Issued Shares on Admission

*Number*  
289,287,628

*Sponsor, financial adviser and broker*  
**Canaccord Genuity Limited**

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Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA or paragraph 3.4 of the Prospectus Rules, the publication of this document does not, under any circumstances, create any implication that there has been no change in the affairs of the Group since, or that the information contained in this document is correct at any time subsequent to, the date of this document.

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## SUMMARY

The following summary should be read as an introduction to this Prospectus. Any decision to invest in the Company should be based on consideration of this Prospectus as a whole by the prospective investor. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each member state of the European Economic Area (“EEA”), civil liability attaches to those persons responsible for the summary, including any translation of the summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the EEA States, have to bear the costs of translating this document before legal proceedings are initiated.

### Introduction

The Group’s business was founded in 1999 by entrepreneurs from the casino, software engineering and multi-media industries. Playtech, the holding company of the Group, was incorporated in the British Virgin Islands (“BVI”) in 2002. On 21 June 2012, the Company’s registration was re-domiciled to the Isle of Man.

The Group’s principal business activities are the design, development and licensing of software, and the provision of complementary services, for the licensed gambling industry. Playtech also has a 29 per cent. stake in William Hill Online, a joint venture with the William Hill Group.

The Group’s principal software products are online casino, poker, bingo and sportsbetting; live and TV casino; mobile casino, bingo and sportsbetting; and Videobet software for land-based terminals. All of the Group’s software products can be incorporated onto its sophisticated player management system (known as the IMS), have multi-currency functionality and are available in a variety of languages. Playtech’s shares have been admitted to trading on AIM since March 2006. Given the growth in the Company’s business, the Board, as stated in the circular to shareholders dated 23 November 2011, believes that it is now appropriate to move to a Premium Listing on the London Stock Exchange.

### Reasons for obtaining a Premium Listing and the move to the Official List from AIM

The Directors believe that a Premium Listing and move to the Main Market will:

- provide a more appropriate platform for the continued growth of the Company and further raise its profile and status as a growth focused business;
- place the Company in a better position to achieve improved liquidity and valuation in its Ordinary Shares due to the higher number of institutional investors who regularly trade in shares of companies admitted to the Official List and the higher profile of such companies; and
- benefit Shareholders due to the further development of Playtech’s corporate governance, regulatory and reporting disciplines. Playtech already adopts many of the corporate governance, regulatory and reporting disciplines required of companies with a Premium Listing.

Furthermore, the Board considers the Main Market to be a more appropriate market for a company of Playtech’s size and maturity, given Playtech’s growth since its IPO.

Application has been made to the Financial Services Authority and to the London Stock Exchange respectively for admission of all the Ordinary Shares to: (i) the Official List; and (ii) trading on the Main Market. It is expected that Admission will become effective and that dealings in the Ordinary Shares on the Main Market will commence at 8.00 a.m. on 2 July 2012.

### Principal business activities of the Group

The Group’s principal business activities are the design, development and licensing of software, and the provision of complementary services, for the licensed gambling industry. The Group generates revenue from licensing software products to Licensees and charging a royalty based on a percentage of a Licensee’s net revenue. The Group also generates revenue from the provision of services which

complement its software offering and this combination enables the Group to provide a turnkey solution to Licensees. Playtech also has a 29 per cent stake in William Hill Online, a joint venture with the William Hill Group.

### **Principal customers and markets**

The Group aims to derive revenues from a diverse customer base to minimise the impact to the overall business of any changes in the operating environment that occur in a particular market. The number of Licensees for the Group's software products has grown from 39 Licensees at the time of the IPO in 2006 to over 100 as at the date of this document, including a number of the leading names in the gambling industry. In 2011, the Group had approximately 30 Licensees contributing €1 million or more in revenues, with only two Licensees representing more than 10 per cent. of total revenues. Approximately half of the Group's total software revenues are derived from Licensees operating under licences in regulated markets in Europe.

The Group currently provides its complementary services to over 60 customers, all of which are existing Licensees of Playtech's software. A majority of these customers utilise a variety of services, principally hosting, network management and payment advisory services. A smaller number of these customers use the Group's premium marketing services and CRM capabilities.

### **Strategy**

#### *Strategic positioning*

The Group's strategy is to create a business with significant scale and a full product and service capability, underpinned by a pre-eminent technology platform. Through a combination of organic development and targeted acquisitions, the Company has sought to implement this strategy to maximise opportunities as the online gambling industry continues to undergo significant change and becomes increasingly sophisticated. In particular, the online gambling industry is seeing convergence between online and land-based channels and between social gaming and mainstream online gambling. The Directors believe that the Group has positioned itself to take advantage of the opportunities that these developments present.

#### *Products and Services*

The Group's goal is to become the supplier of choice to the gambling industry's well established operators attracted by the scale and breadth of its player networks, the size of its content library and the sophistication of the IMS platform allied with a broad range of complementary services.

The Group's software development focus is to enable its diverse Licensee base to optimise player revenues and loyalty by providing high quality player management tools that can be utilised across online and land-based platforms, and new gaming content.

The Group provides a cost effective and highly experienced service capability to reduce operating costs and deliver market leading expertise in non-core areas particularly for new entrants to regulating markets to ensure their market penetration is timely and successful. The Group's strategy will be to continue to seek further opportunities to provide a broad range of outsourced services to Licensees.

#### *Turnkey solutions*

Following the acquisition of PTTS, the Group can now offer products and services as a single source supplier of gambling solutions, particularly to the number of new entrants targeting regulated markets, to whom it can offer affiliate marketing services and sophisticated CRM solutions, combined with advanced player management systems which allows operators to leverage their market-leading gaming content and cross-channel capabilities.

#### *Joint ventures*

The Group's strategy is to establish long-term partnerships in appropriate markets such as the UK, Germany and South Africa, where the Group has been chosen as a joint venture partner by leading domestic land-based operators. These partners are looking to develop a market-leading offering, supported by experienced marketing and player management capabilities.

### *Social gaming*

Consistent with the Group's overall strategic objective, Playtech is actively seeking to enter the relatively new and rapidly growing social gaming segment of the gambling industry. As an attractive and cost effective entry point into the social gaming arena, the Group recently licensed certain social gaming software from Skywind thereby giving it access to a full suite of products and a substantial development team with expertise in social gaming. Through the combination of this software, the Group's existing expertise in real money gaming and further investment of resources, Playtech intends to position itself as the leading full B2B social gaming supplier.

### **Remote gambling regulation**

As a supplier of software and complementary services to the licensed gambling industry, the Group operates in a regulatory environment which is in a state of constant development. The relatively recent evolution of the remote gambling regulatory environment has seen the enactment and implementation of new or updated laws and regulations as a variety of jurisdictions seek to regulate and tax gambling transactions with their citizens. Other jurisdictions, however, have sought to strengthen monopolistic regimes or, in the alternative, prohibit gambling with their citizens altogether.

### **Growth**

Since the IPO, the Group has continued to grow through a mixture of organic growth coupled with strategic acquisitions and investments. Organic growth has been driven by a focus on product innovation and development of cross-platform capabilities, and the ability of the Group to cross-sell a wider range of products across its more diverse Licensee base. The Group's strategic acquisitions and investments (including joint ventures) since the IPO have complemented this organic growth by expanding the Group's product and services range and its number of Licensees. The Group will continue to review strategic opportunities following Admission.

### **Selected financial information**

The financial information set out below has been extracted without material adjustment from the historical financial information of the Group for the three years ended 31 December 2011 as set out in Part 4B of this document. A summary of the results over that period is set out below. Investors should read the whole of this document and not rely solely on key or summarised information.

	<i>Year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Revenues	114,775	142,294	207,485
Income from associate	22,534	30,792	36,073
<b>Gross Income</b>	<b>137,309</b>	<b>173,086</b>	<b>243,558</b>
Operating profit	56,449	45,309	52,154
Depreciation and Amortisation (excluding amortisation of intangibles on associate)	8,778	17,090	29,137
EBITDA	65,227	62,399	81,291
Income from associate	22,534	30,792	36,073
Employee stock option expenses	5,150	5,855	4,678
Decline in fair value of available-for-sale investments	399	2,223	551
One-off legal costs relating to the litigation with the William Hill Group	–	–	1,389
Professional expenses on acquisitions	360	1,802	1,488
<b>Adjusted EBITDA</b>	<b>93,670</b>	<b>103,071</b>	<b>125,470</b>

## **Current trading and prospects**

Playtech has continued to perform strongly in 2012. PTTS has outperformed expectations and certain Licensees have launched in the Spanish market following the recent commencement of regulated activity. William Hill Online continues to perform strongly and demonstrates Playtech's ability to forge significant earnings enhancing partnerships with leading gambling businesses. The Directors believe that Playtech is well positioned for continued growth and remain confident of the Company's future prospects.

## **Admission to the Official List and FTSE indices**

Applications have been made for the Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. Following Admission, the Company expects to be eligible for inclusion in the FTSE indices.

## **Risk Factors**

The Group's business, operating results and financial condition could be materially adversely affected by a number of risks relating to the Group and its business. The Directors consider that the risks include those set out below but investors should read the whole of this document including the "Risk Factors" section of this document and not rely solely on the summary information set out below.

### ***Risks relating to the online gambling regulatory environment***

- Legislation or regulation may be interpreted in such a way as to criminalise certain activities of the Group, its Licensees or any of their respective agents or intermediaries, particularly in certain territories
- The market's perception of the distinction between gambling operators and their suppliers and the associated regulatory risks continues to evolve
- The evolution of the gambling regulatory environment within the European Union, where the majority of the Group's revenue is generated, may not result in an open and thriving online gambling market
- Legislation or regulation may develop in a way that requires the Group and/or its Licensees to obtain a variety of local licences which could be detrimental to the long-term commercial interests of the Group
- Licences can be revoked or key conditions can be amended
- There remains a risk of suitability and regulatory legacies crystallising, with a corresponding potential detriment to the Group's future commercial opportunities
- Gambling operators are reliant on third party affiliates to provide localised marketing services on their behalf. Such affiliates may become subject to prosecution or, indeed, regulation, both of which may affect their ability to conduct such marketing activity
- The introduction of specific legislation and/or the continued inconsistency as to the legality of online gambling may deter third party suppliers from dealing with Licensees
- The technological solutions that Licensees have in place to block the access to services by customers, in certain jurisdictions, may fail
- The Group may become an unwitting party to fraud being committed by customers
- As an international business, the Group is subject to a variety of local laws and regulations, which are ever-evolving
- Legislation may be introduced to effect taxation of newly regulated gambling activities in a way that is detrimental to the profitability of the Group
- There is a risk that more prescriptive regulations may be put in place with regard to social gaming

### *Risks relating to the Group's business*

- Competition may affect the Group's financial performance
- The Group must continue to innovate in order to compete
- The Group is reliant on its top 10 Licensees
- There is a risk that the Group will no longer have a stake in William Hill Online beyond early 2013 and a further risk that the fair market value which may be determined will be below the value that the Directors consider the stake to be worth.
- The Group is reliant on its key personnel and employees
- The Group may not be able to protect its intellectual property rights and could be at risk of infringing third party intellectual property rights
- Failure by the Group to obtain appropriate trade mark protections worldwide may adversely impact the Group's business
- The business of the Group is dependent on the continued growth and maintenance of the internet
- The Group, as a software business, relies on the ongoing stability of its products and the technology needed to support them.
- The Group and its Licensees are constantly vulnerable to hacking, DDOS attacks, malicious acts and other cybercrime
- The Group is reliant on third party suppliers
- The international nature of the Group's business is key to its revenue but further international expansion cannot be assured
- The Group's business could suffer financial loss if Licensees experienced high levels of payment default by customers or payment service providers
- Licensees are vulnerable to player fraud
- The Group is reliant on Licensees maintaining and enhancing their brands
- The Group is subject to on-going reputational challenge of dealing in the gambling industry
- The Group is reliant on Licensees having effective internal controls
- Integration of future acquisitions, investments and joint ventures may not go as planned and could cause the Group to lose Licensees
- Foreign exchange risks
- The taxation that the Group is subject to may change and adversely affect the Group's business

### *General Risk Factors*

- Global economic outlook

### *Risk Factors relating to the Ordinary Shares*

- Brickington's interests in Ordinary Shares
- More active trading in the Ordinary Shares may not occur
- Playtech must ensure it has control of the majority of its assets otherwise it may no longer be eligible for a Premium Listing
- If the Company is wound up, distributions to holders of the Ordinary Shares will be subordinated to the claims of creditors
- Dividends may reduce

- Volatility
- Future substantial sales of Ordinary Shares in the public market may depress the share price
- The Group's Ordinary Shares may not be suitable for all investors



## RISK FACTORS

An investment in the Company involves a variety of risks. Accordingly prospective investors should consider carefully the specific risk factors set out below in addition to the other information contained in this document before investing in the Company. The Directors consider the following risks to be the most significant for potential investors, but these risks are not set out in any particular order or priority. In particular, the Company's performance may be materially and adversely affected by changes in the market and/or economic conditions and by changes in the laws and regulations (including any tax laws and regulation) relating to, or affecting, the Group or the interpretation of such laws and regulations.

If any of the following risks materialise, the business, financial condition, results or future operations of the Group could be materially and adversely affected. In such circumstances, the trading price of the Ordinary Shares could decline and investors could lose part or all of their investment in the Ordinary Shares. In addition, the risks below are not the only risks to which the Company may be subject. The Company may be unaware of certain risks or believe certain risks to be immaterial which later prove to be material.

### 1. Risks relating to the online gambling regulatory environment

#### 1.1 *Legislation or regulation may be interpreted in such a way as to criminalise certain activities of the Group, its Licensees or any of their respective agents or intermediaries, particularly in certain territories*

1.1.1 The Group generates the majority of its income through licensing its proprietary software to gambling operators in return for a share of the revenue such operators make by providing gambling services to customers where such services are dependent on that software and the functionality it provides. One of the consequences of the Group's supply of operational gambling software to Licensees, in return for a share of revenue, is the potential regulatory risk associated with doing so. Whilst in many jurisdictions laws and regulations may not specifically apply to supplies by gambling software licensors (as distinct from its Licensees' supplies to customers), this is not universally the case and, indeed, a number of jurisdictions have sought to regulate or prohibit such supply explicitly.

1.1.2 Furthermore, the Group relies on the continuity of supply by its Licensees to their customers using the gambling related software and technology which the Group licenses. Laws and regulations relating to the supply of gambling services are complex, inconsistent and evolving and the Group may be subject to such laws either directly through explicit service provision or indirectly insofar as it has assisted the supply to Licensees who are themselves subject to such laws.

1.1.3 Operators within the remote gambling industry have sought, in the past, to justify their activities by asserting that if remote gambling is permitted from the country of origin (i.e. from the point of supply) then the laws in the country of receipt would have to specifically outlaw the activity of the customer (remotely accessing online gambling services or an entity in that jurisdiction) or have the authority to implement laws that impacted outside the jurisdiction in order to render the activity illegal, or entitle the country of receipt to assert jurisdiction. Operators have sought to reduce any associated risks of jurisdictions forming a contrary view by limiting or omitting to have physical presence in such jurisdictions where any connected activities are not clearly legal.

There are a number of jurisdictions that consider this rationale to be unjustified. Indeed in some territories, laws have been passed to expressly criminalise the provision of (and sometimes the participation in) gambling, irrespective of where the operator is located and licensed. For the greater part these laws have not been tested.

Some jurisdictions seek to regulate gambling; others seek to prohibit it. Contrasts in culture and socio-economics have created inconsistencies in the way in which gambling

is both perceived and the way in which it is regulated, sometimes creating seemingly artificial distinctions between different gambling products. There is a corresponding, continuing risk to any participant in the gambling industry (be they an operator, supplier or other service provider) that jurisdictions in which customers are located may seek to argue that such a participant was acting illegally in accepting or assisting in the acceptance of wagers from its citizens or in the manner in which it operates gaming networks. This could lead to actions being brought against Licensees which, in turn, could have a detrimental effect on the financial performance and the reputation of the Group. Similarly, where supply by the Group to the Licensee is critical to the gambling transaction, one cannot rule out the risk that direct enforcement action will be taken against a member of the Group or any of its Directors.

- 1.1.4 Many jurisdictions have not updated their laws to address the supply of remote gambling, which by its nature is a multi-jurisdictional activity. Moreover, the legality of online gambling and the provision of software, services and gaming network management is subject to uncertainties arising from differing approaches by legislatures, regulators and enforcement agents including in relation to determining in which jurisdiction the game or the bet takes place and therefore which law applies. This uncertainty creates a risk for the Group that even in instances where older laws have not been updated to address new technology, courts may interpret older legislation in an unfavourable way and determine Licensees' and/or the Group's activities to be illegal. This could lead to actions being brought against Licensees and/or the Group or any of its Directors, all or any of which may, individually or collectively, have a detrimental effect on the financial performance and the reputation of the Group.
- 1.1.5 The Group monitors legal and regulatory developments in all of its material markets closely and generally seeks to keep abreast of legal and regulatory developments affecting the gambling industry as a whole. However, the Group does not necessarily monitor, on a continuous basis, the laws and regulations in every jurisdiction where its Licensees derive business and, correspondingly, from where the Group may derive revenue share. The Group adapts its regulatory policy and, therefore, the scope of its ongoing monitoring on the basis that an individual market's materiality to both any relevant Licensee and to the Group may change. Typically if individual market revenue is (or, in the view of the Directors might in the next two years become) material, the Group's Risk and Compliance Committee will commission local law advice (material in this regard would mean any jurisdiction which the Directors believe accounts for three per cent. or more of Gross Income). Despite this precaution, it nevertheless may continue to receive a revenue share from Licensees' dealing in jurisdictions where the Group may be unaware of the full extent of enforcement risk.
- 1.1.6 The Directors of the Group are not located, nor does the Group have tangible assets or physical presence, in jurisdictions where the Directors are aware of any material legal or regulatory risk associated with such location. Nor does it conduct activities where its support of Licensees is also explicitly illegal. Where appropriate, the Group takes the additional precautionary step of requiring that its Licensees block wagers from such jurisdictions, as well as jurisdictions where there is no scope for a Licensee to argue that its activities are not illegal. The Group's Risk and Compliance Committee's duties include regularly evaluating regulatory developments to establish whether to augment the list of blocked territories. Furthermore, the Group regularly sense-tests the regulatory rationale of Licensees but, given that day-to-day management of operational risk will remain in the purview of Licensees, the Group protects itself through contractual mechanisms allowing it to suspend or terminate services if a Licensee's risk position becomes untenable.
- 1.1.7 Despite the monitoring undertaken by the Group and the precautions it takes as to the location of employees or assets, there remains a prospect that, in the event of legislation being interpreted in an unfavourable or unanticipated way, such measures are not sufficient and result in actions being brought against the Group or its directors,

all of which would have a detrimental effect on the financial performance and the reputation of the Group. Furthermore, similar actions could be brought against Licensees with the consequence that revenue streams from such Licensees may be frozen or traced at the behest of authorities even if no Group entity is made a party to any legal proceedings against any such Licensee. Customers may face problems in legitimately moving monies in and out of certain jurisdictions which will impact upon payments to Licensees. Finally, there is also a risk that Directors or employees of the Group or individuals engaged by it (or directors, employees or individuals connected to any Licensee) may face extradition, arrest and/or detention in (or from) such territories even if they are only temporarily present.

- 1.1.8 There are a number of jurisdictions in which Licensees may have customers where it may be unlawful or may become unlawful for individuals to engage in online gambling. In these circumstances, any attempt in the future by regulatory authorities to take enforcement action against such individuals could significantly affect demand for the products and services supplied to Licensees by the Group and have a detrimental effect on its financial performance and reputation.
- 1.1.9 There are three territories from where certain Licensees derive business and which, the Directors believe currently account for more than three per cent. of Gross Income, in relation to which the Directors believe it is appropriate to draw specific attention to the associated risks. These are China, Malaysia and Germany.
- 1.1.10 In the case of China whilst local lawyers have confirmed that there is some ambiguity as to the laws in the territory and they have dubious extraterritorial effect, the enforcement agencies in the territory are unpredictable.
- 1.1.11 In Malaysia, local lawyers are of the view that, whilst in respect of online gambling there is some ambiguity as to the laws in the territory, the question of whether such gambling laws would have extraterritorial effect remains untested.
- 1.1.12 In the case of Germany, federal gambling laws may imminently change which may require a number of Licensees to exit the market. This will depend on whether there is a reasonable prospect of challenging the new laws after they are implemented on the basis of incompatibility with Germany's wider obligations under European law. However, the Group hopes that its joint venture with Gauselmann in Germany will offset any potential revenue loss in this regard (Gauselmann is a well established land based operator in Germany).
- 1.1.13 With respect to other jurisdictions from where Licensees derive business and which, the Directors believe, account for (or, in the Directors' view, within the next two years might account for) three per cent. or more of Gross Income, the legal positions are more fully described in Part 2 of this document, and any risks associated with those territories are covered by the more generic risk factors set out in this section.
- 1.1.14 Set out below are further details relating to the risks associated with supplying gambling and related software to operators whose end users are located in China, Malaysia and Germany.
- 1.1.15 *The People's Republic of China ("China")*

For the year ended 31 December 2011, the Directors believe that approximately 3.6 per cent. of Gross Income was generated through Licensees transacting with the Chinese market.

Under Article 303 of the Chinese Criminal Law, gambling is defined as a crime which is prohibited, albeit some gambling activities, although still contrary to the Law of the People's Republic of China on Penalties for Administration of Public Security ("**the Law on Penalties**") (i.e. a form of administrative law), are not regarded as criminal. It is not precisely clear how these provisions cover distinct activities and/or overlap.

Both these laws pre-date the internet, but both the Criminal Law and the Law on Penalties have been augmented by opinions and notices issued by the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security in order to clarify what activities are deemed to cover online gambling.

The Criminal Law has also been extended since 2010, not just to cover the setting up of a website for gambling (which has been caught pursuant to court interpretation since 2005) but also other forms of activity which directly support online gambling, such as payment handling. In the case of the Law on Penalties, the provisions have also been extended to cover providing internet access; payment support in connection with gambling; participation in gambling outside China (by an end user in China); and the settling of debts within China in connection with gambling carried out by Chinese nationals outside China.

However, based on advice provided by local legal counsel, the Directors believe that such laws, regulations and interpretations will not be applicable to the Company given it does not conduct any activity within China. Therefore, the supply of online gambling software remotely will not be subject to the jurisdiction of China, and furthermore in circumstances where the supply is not made by Chinese nationals, Chinese authorities would need to seek international co-operation for cross-jurisdictional enforcement, which the Directors have been advised would be highly unlikely to occur in circumstances where the activities by the Group and the Licensees are licensed and/or are otherwise lawful in the jurisdictions in which they conduct business.

Enforcement action has been consistent with this legal differentiation in that the focus of such enforcement has only been targeted at Chinese players, agents and suppliers and reinforced by the shutting down of websites in China and the seizure of related funds. The Group has no physical presence in China through employees or assets and the Directors are advised that the risk of enforcement would also be remote for that reason.

Chinese Anti-Money Laundering Law, the Criminal Law as well as related legislation (*The Regulations on Anti-Money Laundering by Financial Institutions, The Administrative Measures on Report of Large Amount Transactions and Suspicious Transactions by Financial Institutions and The Interpretation of the Supreme People's Court on Several Issues concerning the Specific Application of the Law in the Trial of Money Laundering and other Criminal Cases*) categorises gambling as an organised crime. The facilitation of payments from the proceeds of crime is also an illegal activity and financial institutions and certain non-financial institutions must adhere to stringent reporting procedures in relation to any suspicious flow of funds. Likewise, there are strict currency controls in remitting monies from China which prohibit the unauthorised movement of money.

Although the Group is not directly involved in processing or facilitating any financial transactions, it does require its Licensees to ensure that they monitor carefully the lawfulness of the remittances made to and/or from China.

However, there remains a risk that the Licensees' business may be disrupted by attempts by Chinese enforcement authorities to prevent monies being remitted from and to China in connection with gambling. Such prevention would have a negative financial impact upon the Group.

Finally, although the Group attempts to ensure that its Licensees do not participate in any illegal activity from within China (e.g. internet café promotions), there is no guarantee that the relevant Licensee will at all times remain in full compliance with its contractual obligations. Consequently there is a risk that the business of the Licensee may be shut down in China and individuals associated with the Licensee arrested, which in turn will give rise to an economic as well as a reputational risk for the Group.

#### 1.1.16 *Malaysia*

For the year ended 31 December 2011, the Directors believe that approximately 8.4 per cent. of Gross Income was generated through Licensees transacting with the Malaysian market.

Under the Common Gaming Houses Act 1953 (“CGHA”), the provision, participation or facilitation of gambling in a “common gaming house” is prohibited. Gambling in public, advertising and promoting a common gaming house and the promotion of a public lottery, along with the sale of lottery tickets, is also illegal. The Lotteries Act 1952 (“LA”) also prohibits any lottery promoted or conducted without a permit. The definition of “lottery” under the LA is wide and includes any game whereby money or money’s worth is allotted in any manner depending upon, or to be determined by, chance or lot.

The Directors have been advised that it is debatable whether the CGHA and LA applies to the provision of online gambling. A common gaming house can comprise a “place” or “spot” but the Directors understand that its application to virtual environments remains untested in Malaysia. Moreover, although the definition of lottery in the CGHA could overlap with gaming (and the provisions are expressly intended to cover and include lotteries taking place outside Malaysia) the Directors are advised that it is likely to apply only if the lottery tickets were actually being sold in Malaysia, due to enforcement being more probable where there is physical nexus with the jurisdiction. This view is augmented by the fact that the CGHA was passed in a pre-internet age and the legislature could not have anticipated any form of remote gambling that did not involve a physical presence of the operator or the physical distribution of tickets. Despite this, the Directors understand that local authorities have however indicated (orally) that they are of the view that online gambling does come within the purview of the existing laws.

Both the CGHA and LA have a wide definition of gaming machine and both Acts prohibit any dealings in respect of such gaming machines, including supplies in Malaysia. A gaming machine will include a computer program designed or adapted for playing a game of chance or mixed chance or skill on any machine or device. The Directors have been advised that the drafting of the Acts is sufficiently wide to catch any party in the supply chain particularly if the software is downloaded or installed in Malaysia (the Licensees may permit end users in Malaysia to do so) or if the Group’s branding is visible on any of the games. However, local lawyers are not aware of this interpretation having been tested in any published case law and any potential impact on the Company is unclear particularly when it is considered that it is the Licensees and not the Company that make the supply into Malaysia and local counsel advise that the CGHA has no extra-territorial application. The Malaysian courts may consider that an offence has been committed in Malaysia if the supply is to customers in Malaysia, but local counsel are not aware that any published case law has considered this point.

The CGHA also contains prohibitions on those who care for and manage or in any manner assist in the care and management of illegal common gaming houses. The Directors have been advised that the provision of associated services such as advertising services, marketing affiliate services, hosting services, financial management services and customer services may fall within this prohibition. In addition, there are other wider aiding and abetting offences under section 116 of the Penal Code. However, the application of the law purports to be in respect of offences committed within the jurisdiction and it is unclear how it could apply to an entity such as the Company which is located outside Malaysia and where the supply is online. Although it is an offence for a lottery or gambling customer to participate in unauthorised gambling, it still may be argued that the law still ties the offence to the sale of lottery tickets or participation in gaming in a place or spot within the jurisdiction.

The Directors have been advised that in the absence of activities in physical premises, e.g. an internet café or similar, and based on a purely remote supply there would be a number of arguments which would have to be considered by the Malaysian Courts before they would be able to assert that the CGHA had been breached and/or for them to claim jurisdiction over any Licensees and likewise the Group. The Group by or via its contractual obligations of Licensees seeks to ensure that no illegal activity is conducted in any jurisdiction where the enforcement risk may impact upon the Group, but there is no guarantee that this will not occur insofar as the Malaysian market is targeted by the Licensees and this may lead to Licensees being prosecuted with the consequential financial and reputational risk for the Group.

Further, the Directors have also been advised that there is a risk that internet service providers (“ISPs”), at the direction of the relevant authorities, could be obliged to restrict or prevent access to online gambling websites operated by offshore operators. This clearly could also have a financial impact upon the revenue of Licensees and, therefore, the Group.

In addition, there are provisions under the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 (“AMLATFA”) which impact upon the handling of any proceeds of crime and which purport to have an extra-territorial effect, albeit again there would need to be proof that any underlying activity was illegal which in the case of online gambling would be moot. There are also currency control restrictions and credit card guidelines which would preclude money transfers in connection with gambling.

Malaysia also has international treaties in place pursuant to the Mutual Assistance in Criminal Matters Act in 2002 (“MACMA”). Other signatories of MACMA, including the Philippines where some Licensees are based, permit the Malaysian authorities to assist in investigations in the recovery, forfeiture or confiscation of property in respect of any crime which could include gambling, providing the issues raised above are addressed. However, the Directors are advised that this is dependent on the underlying activity being considered illegal.

In summary, therefore, clearly if the premise that an online gaming operator is outside Malaysian law has nonetheless placed itself in breach of the CGHA or the LA, then Malaysia has the enforcement tools to make claims extra-territorially and seize assets which may not be confined to Malaysian-related gambling revenues. Where Licensees elect to make promotions, provide services or undertake activities within the jurisdiction there is an enhanced risk that an action will be brought against those Licensees and correspondingly the risk of action being brought against the Company may be increased, depending on the facts of the case and the offence in question. There is a risk that if a successful prosecution is brought against the Licensees in Malaysia further actions may be brought in Malaysia against the Company or the Group. In these circumstances the Company or the Group may consider it prudent to block business from Malaysia. Attempts by the authorities to recover extra-territorially in turn could result in a reputational and financial loss to the Group as well as embroiling it in protracted litigation.

The Directors have been advised that the Malaysian government has a stated policy of not encouraging gambling, and the Malaysian authorities continue to take a hard-line approach to the prohibition of gambling within Malaysia which is underpinned by social and religious considerations that may influence Malaysian courts interpretation of legislation. However, local lawyers are not aware of this having been translated into enforcement action being brought against operators located outside the jurisdiction. It is difficult to predict how far the Malaysian authorities would be prepared to go to take enforcement action against internet gambling operators and suppliers, despite legal arguments that may be put forth to support the exclusion of online gambling from the application of current laws.

Finally, there are proposed changes to the law in Malaysia which may specifically outlaw online gambling. Clearly, therefore, at that juncture there is a risk that the Licensees will need to shut their Malaysian markets and that will, in turn, negatively impact upon the Group's financial performance.

#### 1.1.17 *Germany*

For the year ended 31 December 2011, the Directors believe that approximately 7.7 per cent. of Gross Income was generated through Licensees transacting with the German market.

The Germany Interstate Treaty on Gambling (the "**Interstate Treaty**"), maintained the monopolistic regime for gambling in Germany whilst outlawing all forms of online gambling. Arguments as to whether the Interstate Treaty's compliance with European law rendered it unenforceable had been made by opponents of the Interstate Treaty since its implementation, and their arguments were bolstered by the findings of the ECJ in the Carmen Media case, in which the ECJ expressed the view that elements of the German monopolistic betting rights were contrary to European law. The German press and academics widely espoused the view following that decision in September 2010 that the Interstate Treaty was unenforceable as a consequence. The Interstate Treaty's expiry in late 2011 caused the Federal States to consider a new (albeit very limited) licensing regime for sports betting operators which has been notified to the European Commission (the Interstate Treaty's expiry date has been extended to allow this to happen). However, Schleswig-Holstein, one of the Landers (or states) had openly criticised the limited regime proposed and has implemented its own regime (with a more liberal licensing base) which has been approved by the European Commission with the first licences now granted. However, due to a government reshuffle in Schleswig-Holstein in early May 2012, Schleswig-Holstein has confirmed its plans to conform to the 2012 Treaty, when implemented. This is subject, however, to legal advice in connection with its ability to repeal the legislation which permitted the licences to be granted, revoke the licences, and its exposure to damages claims that might result were it to take such action.

The European Commission has written to the German government and indicated that there may be instances of infringement insofar as the proposed state law is implemented without certain safeguards in place (for example, a limited number of licensees would only be acceptable for a finite period of time during which issues such as social harm can be assessed). Despite the concerns raised by the European Commission, the majority of the federal states have ratified the 2012 Treaty in the form notified to the European Commission and the 2012 Treaty will most likely come into effect on 1 July 2012.

The uncertainty with the German regulatory position will remain until the 2012 Treaty's compliance with European law has been assessed by the relevant courts.

As a consequence a number of the Group's Licensees may need to close their offerings to the German market and the Group would need to consider whether it would require blocking by its Licensees of customers in Germany. Either way, it has the potential to impact upon the Group's financial position in the relatively short term given that the position is due to be resolved in the summer of 2012. Despite this, the Group is optimistic that its joint venture with Gauselmann in Germany will enable it to continue to derive material revenues from the territory.

### 1.2 *The market's perception of the distinction between gambling operators and their suppliers and the associated regulatory risks continues to evolve*

1.2.1 Whilst from an enforcement perspective, operators that directly provide gambling services to their customers are generally perceived to be exposed to a greater degree of enforcement risk than their suppliers, in some jurisdictions laws extend to directly impact such gambling suppliers. Furthermore, a supplier's nexus with a particular

jurisdiction may expose it to specific enforcement risks, irrespective of whether there has been an attempt to bring proceedings against any supported operator.

1.2.2 The online gambling market has developed such that the nature of some of the services undertaken by suppliers on behalf of operators places them closer to the actual customer transaction, arguably rendering them quasi-operators in their own right. A number of fundamental points have begun to emerge from these market developments:

- Suppliers cannot claim ignorance of, or indifference to, the origin of an operator's business. Indeed, enforcement proceedings brought against an operator may result in action being taken against a supplier (and even brought in the absence of the former). From a reputational and risk perspective, therefore, it is not sufficient for a supplier to avoid evaluating the risks associated with the businesses of the entities it supplies.
- Any income streams may prove vulnerable to freezing or tracing claims if an operator's wagering activity is construed as illegal.
- The fact that a supplier receives a revenue share may, in the view of some regulators, enhance culpability, given that the contractual arrangement enshrines a concept of risk and reward.
- On the basis suppliers are in the technical position, in some cases, to deploy blocking techniques, it increases responsibility for determining from where its operators take business.

1.2.3 Ultimately, the market may view, or in the future may view, the regulatory risk associated with the business of supplying software and services to online gambling operators as being comparable with the regulatory risk attaching to operators themselves. In such circumstances, there is an associated risk that investors may apply valuation methods to any such supplier that are the same as the valuation methods used to value operators, and which build in the same regulatory risk even though, in many territories, such suppliers would be considered sufficiently removed from the transactional activity to warrant the application of a discrete risk analysis.

1.2.4 The Group does have a small B2B white label business that is customer facing. This is largely a legacy supply which the Group inherited on acquisition of the Virtue Fusion business. Its *de minimis* financial contribution to the Group is such that the associated risks are likewise small. In addition, the customers are largely UK based which, on the basis that the Group is licensed in Alderney, gives rise to no regulatory issues because UK law expressly permits licence holders in certain jurisdictions – and Alderney is one – to target UK customers.

1.3 *The evolution of the gambling regulatory environment within the European Union, where the majority of the Group's revenue is generated, may not result in an open and thriving online gambling market*

1.3.1 The application of European laws designed to enshrine EU-wide trade freedoms is the subject of ongoing and developing jurisprudence which, ultimately, may result in a regulatory environment that impacts negatively on multi-national stakeholders in the gambling industry such as the Group and its Licensees.

1.3.2 The Treaty on the Functionality of the European Union embodies the principle that, within the European Union, each Member State and their constituent citizens, can freely trade with other Member States and their constituent citizens. It arguably follows that restrictions on supply and movement of goods, services, people and capital are not permitted unless certain justifications are evident. Accordingly, if a gambling operator is prohibited from freely operating in Europe by an EU Member State's domestic law, such an approach may be unlawful under EU law (which is supreme over a Member State's domestic law). However, Member States are permitted to derogate from such principles and to legislate and impose discriminatory restrictions where to do so would



be justifiable to achieve the aim of safeguarding public interest. The ability for Member States to introduce or seek to maintain such restrictive legal systems or to introduce punitive tax or duty regimes alongside new regulation of online gambling, with respect to gambling activities, could impede the financial growth of Licensees and, by implication, the Group.

- 1.3.3 A number of Member States have recently introduced local licensing regimes, some as a result of pressure brought by the European Commission. However, the way in which national laws are evolving is unpredictable and in some instances laws have appeared to have been fully implemented by certain Member States in contravention of the jurisprudence of the European Court of Justice and in contravention of guidance given to Member States by the European Commission following review and comment on draft laws and regulations. As a result, the Group and its Licensees remain subject to on-going uncertainty and to the associated risks that such laws may, ultimately, be interpreted and implemented in a disadvantageous way.
- 1.4 *Legislation or regulation may develop in a way that requires the Group and/or its Licensees to obtain a variety of local licences which could be detrimental to the long-term commercial interests of the Group*
- 1.4.1 The law and regulation pertaining to gambling is in a constant state of change. Various jurisdictions, particularly those in Europe, have recently implemented (or are in the process of implementing) changes to their markets by introducing competitive licensing and regulatory frameworks. Whilst these developments may provide growth opportunities for Licensees, and hence for the Group, such new licensing regimes may evolve in such a way as to prove commercially disadvantageous.
- 1.4.2 New licensing regimes may impose licensing conditions, such as the requirement to locate significant technical infrastructure within the relevant territory or establish and maintain real-time data interfaces with the regulator, that present operational challenges. The effect on Licensees' businesses may be exacerbated by commercially onerous taxes or the requirement to pay retrospective taxes, as a condition of licence grant, as has happened in Spain. Further, regulations may restrict Licensees' ability to offer certain of the Group's key products or may limit Licensees' scope to market such products in the way they would wish to do so, all of which may deter a Licensee from committing to an emerging local licensing regime. Further, Licensees may face a potential loss of competitiveness to the extent that restrictions are imposed on customer choice (e.g. deposit caps and pay-out limits). Those restrictions may combine with an incoherent and inconsistent policy of enforcement against entities without a licence, so as to reduce the perceived value of such a licence.
- 1.4.3 Moreover, licensing regimes may require Licensees to ring-fence player liquidity, as has happened in the development of the French, Italian and Spanish licensing regimes (albeit that all three jurisdictions are in discussions to pool liquidity). However, this formal co-operation is yet to occur and in the meantime the Group's poker networks require high levels of customer liquidity and a significant reduction of this liquidity could have a detrimental effect on its wider business.
- 1.4.4 The opening of new markets, and the clarification of restrictions surrounding online gambling in other markets where the legal position is currently unclear, may attract new entrants to the online gambling sector or strengthen the position of competing suppliers. A significant failure by the Group to attract new entrants to a new market or failures by its existing Licensees to obtain a licence or compete effectively in a new market may have adverse effects.
- 1.4.5 Local licence application procedures can be onerous. A degree of business disruption would likely to be caused by the requirement on Licensees to obtain any number of licences. Licensees' revenues could also be impacted by the imposition of licence fees and additional indirect taxes (including retrospective taxes) and, depending upon how

the Group's revenue share arrangements with individual Licensees is calculated, such costs could impact the Group's revenues. Regulations can also be ill-considered, exposing Licensees to double taxation for the same transaction (in some jurisdictions the requirement to pay tax is determined where the customer is based and in others where critical equipment and functions are carried out). In addition, in some jurisdictions there is a requirement to register to pay taxes with retrospective effect, before an entity can qualify to apply for a licence. Even if this requirement is of questionable validity, it is a difficult one to challenge where an entity wishes to obtain a licence. Moreover, there is likewise no guarantee that the retrospective period currently required will not be extended.

- 1.4.6 Conversely, to the extent that local licences are not obtained by Licensees (whether through a strategic decision or as a result of limited availability), such Licensees may risk heightened enforcement exposure from local authorities in the relevant jurisdictions (not least in light of the probability of legislation expressly banning the offering of unauthorised online gambling locally, thereby removing all ambiguity in preceding legislation). This may impact materially upon revenues and reputation where actions are brought directly against the Group and/or Licensees to prevent any unauthorised supplies.
- 1.4.7 In addition, the ongoing compliance costs associated with any licensing requirements may be significant (for example, despite having obtained a licence initially in France, certain operators have exited the market on the basis that continued compliance costs, coupled with operational restraints, render the market commercially unsustainable). Sums may be required by way of bonds (which under the Spanish licensing regime, for example, run to millions of Euros, depending upon which products are required to be licensed), and the requirement to provide security for customer deposits will likely become standard (so as to prevent the same problems arising as occurred when the Full Tilt poker operation, which was effectively closed by US indictments, left customers unable to recover their unutilised deposits).
- 1.4.8 In short, the evolution of local licensing regimes, in any number of territories, may prove to be detrimental to the financial performance of Licensees and ultimately the Group on the basis of operational requirements and associated restrictions.

#### 1.5 *Licences can be revoked or key conditions can be amended*

Gambling operators use a variety of third party software products as the technical foundation of the services they supply. In certain territories, such suppliers are required themselves to obtain and maintain local licences. The Group is obliged, given the nature of the technology it supplies, to obtain such licences in a number of territories. Insofar as any of these licences are withdrawn or not renewed on equivalent terms (e.g. where there is change in view as to what equipment needs to be located locally) it could have a material adverse effect upon the viability of those business ventures and hence on the continuity of supply to Licensees. This in turn, would have a material adverse effect on the financial position of the Group.

#### 1.6 *There remains a risk of suitability and regulatory legacies crystallising, with a corresponding potential detriment to the Group's future commercial opportunities*

- 1.6.1 Until the implementation of the Unlawful Internet Gambling Enforcement Act ("UIGEA") in the US in October 2006 the Group supplied software to Licensees taking wagers from the US. Following the passage of UIGEA, the Group has required all Licensees to block all such wagers. There is no guarantee that Licensees' blocking mechanisms will always be effective. Any failure thereof may result in the Group inadvertently facilitating wagers from the US which may be in contravention of certain federal or state laws. This could give rise to a risk of enforcement proceedings and may also have a detrimental financial impact upon the Group's business.
- 1.6.2 Although there are indicators that the US state and federal authorities may yet regulate some forms of online gambling (and this has already occurred in a small number of states), it is unclear the extent to which there are viable commercial opportunities for

non-US industry participants. Furthermore, any pre-UIGEA facilitation and any inadvertent post-UIGEA facilitation may preclude Licensees and/or the Group availing themselves of any such commercial opportunities which would have a clear detrimental effect on the financial growth potential of the Group. Moreover, although the Group has successfully satisfied the probity requirements in certain states, there is no guarantee that its association with the online gambling industry (and the fact its Licensees have taken business from jurisdictions where the taking of such business is not expressly permitted (the so-called “grey” market)), may prevent the Group from passing a suitability test in some states or from partnering with some third parties.

1.6.3 In addition, legacy issues and associations with individuals or entities within the online gambling industry may also yet prove pertinent in any jurisdiction where the Group has aspirations to acquire a licence or partner with third party entities.

1.7 *Gambling operators are reliant on third party affiliates to provide localised marketing services on their behalf. Such affiliates may become subject to prosecution or, indeed, regulation, both of which may affect their ability to conduct such marketing activity*

1.7.1 The gambling industry relies on networks of marketing affiliates to promote its services, often by way of localised advertising initiatives, which are vital for maximising customer acquisition opportunities and assisting with customer retention programmes. As well as Licensees operating their own affiliate networks, certain Licensees outsource the provision of such to the Group, which it may provide itself or further sub-contract to third parties.

1.7.2 If local gambling laws or regulations are applied to prevent such affiliates from continuing to conduct business in any given territory, this would have a material adverse effect on the business of Licensees and on the Group. Alternatively, legislation may be passed that seeks to regulate and/or restrict such business activity which could render such affiliate networks less efficient or less effective. The Group’s financial position may be adversely affected in such circumstances.

1.7.3 Furthermore, by their nature, affiliate networks operate in such a way that it can be a challenge to monitor their day-to-day activities. Whilst the Group seeks to impose terms and conditions on the affiliate networks it manages on behalf of Licensees, nevertheless there may be a commercial incentive in the networks’ arrangements with Licensees for such affiliates to operate in a way that contravenes local laws and regulations, such as local data protection laws. Where such activity does occur, the Group has the ability to terminate such relationships but, in the interim, may suffer damage to reputation. Moreover, in such circumstances Licensees may choose to cease relying upon the Group for affiliate management services, thereby damaging its financial performance.

1.8 *The introduction of specific legislation and/or the continued inconsistency as to the legality of online gambling may deter third party suppliers from dealing with Licensees*

1.8.1 Legislation that aims to prohibit or restrict financial transactions with remote gambling operators will have a detrimental effect on the businesses of Licensees. Such prohibition or restrictions may be imposed as a result of concerns relating to fraud, unauthorised payment processing and money laundering or may follow the introduction of specific legislation aimed at preventing the supporting of financial transactions with gambling operators who do not possess the relevant jurisdictional licence. Not all such jurisdictions, however, will have implemented a licensing regime and yet may pressurise banks and other financial institutions to block wagering transactions as a crude and limited way of protecting incumbent monopolies or similar. Some Licensees may rely on improperly coded transactions in an attempt to circumvent such blocking and therefore may be exposed to monies being misappropriated by unreliable payment processors, which would reduce revenue. Furthermore, in some instances, the use of certain payment processing mechanisms may give rise to allegations that any related

proceeds are tainted. Where payment processors adopt methods to circumvent blocking initiatives, this could give rise to tracing activity by enforcement agencies, which may lead to business disruption for any suppliers of an implicated operator. Where the Group is required, as such a supplier, to assist with such investigations this may have a detrimental effect on the reputation of the Group.

1.8.2 Some Licensees additionally may rely upon syndicates or agents to generate business in certain markets. Underpinning these arrangements are cash transfers and credit structures (both of which can typically occur in a licensed betting office) but which may give rise to potential money laundering issues in an online environment, where there is no way to guard against the anonymity of participants, particularly in jurisdictions where such arrangements are the norm, e.g. Asia and Italy. Whilst this is primarily an operator risk, there is a risk that any action taken against any Licensees will impact upon the Group through tracing and freezing claims.

1.8.3 The introduction of legislation or regulations requiring internet service providers in any jurisdiction to block access to the Licensees' websites may restrict the ability of customers to access the Group's products. Any such developments will have a detrimental effect on the financial performance of Licensees and hence on the Group.

1.9 *The technological solutions that Licensees have in place to block the access to services by customers, in certain jurisdictions, may fail*

1.9.1 The Group contractually obliges its Licensees to block access to its products by customers located in certain jurisdictions. Furthermore, any marketing of such products to customers in such jurisdictions is similarly prohibited. The Group currently adopts such a stance in the following significant jurisdictions: the United States, Israel, Bulgaria, Cyprus, Hong Kong and the Philippines and, unless the holder of a valid licence, in Estonia, France and Spain. Furthermore, Licensees are obliged to block certain products to certain other jurisdictions, including Turkey.

1.9.2 There is no guarantee that the technical blocks the Licensees are required to implement will be effective, which could place such Licensees (and potentially, the Group) in breach of the relevant laws and regulations and/or in breach of specific licences they hold, which would also have a detrimental effect on the financial position of such Licensees and the Group.

1.9.3 Moreover, there is an additional, ongoing risk that the current list of jurisdictions from which the Group must require its Licensees to block access is enlarged, as there is a possibility that regulators who grant licences to Licensees and/or the Group will require the blocking of specific additional jurisdictions. Furthermore, the fact that voluntary blocking has not occurred may be considered to be incompatible with suitability for licensing. Similarly, jurisdictions may update their laws and regulations in such a way as to render the supply of gambling services into that jurisdiction legally unsustainable. In all such circumstances, additional blocking activity may have a detrimental effect on the financial position of the Group.

1.10 *The Group may become an unwitting party to fraud being committed by customers*

Through its operation of the iPoker network, the Group is responsible for undertaking cross-cage reconciliation as between the various Licensees participating in the iPoker network. In doing so, the Group will facilitate inter-Licensee settlement of accounts and to protect it, as a service provider, retain security deposits from Licensees. Through its operation of the iPoker network, the Group may inadvertently handle funds that have been the subject of fraudulent player behaviour (such as collusion or "chip-dumping"), which could lead to it becoming involved in criminal investigations even if no entity within the Group is made a party to any legal proceedings against any such player. This may involve the Group incurring cost, the diversion of management time and a disruption to some Licensees' businesses. In addition to the Group's own monitoring activities, Licensees are encouraged to use fraud

monitoring tools made available by the Group and to employ sufficient staff to prevent problems occurring but there can be no guarantee these will not occur.

1.11 *As an international business, the Group is subject to a variety of local laws and regulations, which are ever-evolving.*

1.11.1 In addition to the laws and regulations relating to gambling, the Group is subject to a wide variety of laws and regulatory requirements, non-compliance or deemed non-compliance with which could result in serious financial and other penalties for the Group. Compliance with all such laws and regulations laws is complex and expensive.

1.11.2 For example, the Group must comply with data protection and privacy laws. In the event that confidential information is wrongfully used or misappropriated by the Group or by its affiliates or intermediaries, the Group could face legal sanctions. The Group relies upon database administrators to maintain its databases, and there is a risk that any of these people could wrongfully use, misappropriate or otherwise unlawfully or improperly exploit customer data. It is possible that laws in various jurisdictions may be introduced or interpreted in a manner which is inconsistent with the Group's existing data practices, and which could, therefore, have a material adverse effect on the Group.

1.11.3 European legislation may develop to have a bearing on delivery of services and content by certain media channels, even if there may be no EU directive specific to remote gambling for the foreseeable future. Competition laws may impact upon the Group's business models and any acquisition strategy that the Group may choose to adopt in future, depending on how the gambling market is analysed for competition purposes and particularly where convergence between bricks and mortar and remote delivery will significantly enhance customer penetration and potential overlap. In short, there is a risk that the most commercially sustainable growth strategy may be limited by such laws and regulations.

1.12 *Legislation may be introduced to effect taxation of newly regulated gambling activities in a way that is detrimental to the profitability of the Group*

1.12.1 Generally speaking, regulated gambling activities will not only be subject to direct corporate taxation, but also indirect taxes and gambling duties. As the regulatory environment has developed, particularly in the European market, it is becoming clear that the favourable taxation environment to which Licensees have previously been subject may become less favourable, as jurisdictions seek to impose their own regulation and taxation regimes on what was, traditionally, an offshore activity. As a consequence of an increased burden affecting Licensees, the Group may see a reduction in related revenue share or a pressure to re-negotiate with key Licensees.

1.12.2 Specifically, Licensees of the Group with significant customer bases in three of the Group's major markets, the UK, Germany and Italy, may become subject to less favourable tax regimes in the short-to-medium term. The UK Government announced, in July 2011 (and confirmed in the March 2012 budget), its intention to introduce a regulatory regime by which any operator transacting with UK citizens would need to hold a licence from the UK's Gambling Commission and would become subject to a point-of-consumption tax regime which would result in a number of Licensees facing significantly higher rates of gaming duty. Such an initiative would require an overhaul of the current gambling and related tax laws and remains the subject of on-going debate and lobbying by a variety of interested parties. With regard to Italy, in February 2012 proposals were mooted by the Government that would alter the taxation system and replace the gross profits tax with a turnover based tax, which could have a material impact on the profitability of Italian Licensees. Were either (or both) of these initiatives to develop, it could have a materially detrimental effect on the financial position of the Group. With respect to the small number of Licensees that may or may not obtain a licence at a German federal level at the end of June 2012, the legislator has introduced

a five per cent. turnover tax in relation to bets which will come into effect once the respective law has been promulgated.

1.12.3 Furthermore, although in many jurisdictions gambling winnings are currently not subject to income tax or are taxed at low rates, this is not the case universally and future regulatory regimes may introduce such taxation and make participation in the Group's products, as supplied by Licensees, less attractive for players in those jurisdictions.

1.13 *There is a risk that more prescriptive regulations may be put in place with regard to social gaming*

The Group has recently entered the social gaming space. Accordingly, it will continue to monitor the legal and taxation position in this segment of the market carefully. Issues such as the legal definition of "free" or "play for fun" and the wider social responsibility issues (including in connection with participation in the social media networks by minors) may vary from territory to territory. Gambling regulators in a number of jurisdictions (including the UK Gambling Commission) are actively considering whether elements of the social gaming model, such as subscription play, the purchase of tokens for use in games and the trade value of virtual currencies, will bring such social gaming activity within the definition of gambling within their territory. There is a risk that ultimately more prescriptive regulations (for example in relation to advertising) will be put in place to address these issues which may require certain social games to be licensed or which may otherwise restrict the growth of the market. In addition, specific social gaming taxes may be levied. The Directors believe that, notwithstanding these developments, social gaming would remain a powerful tool for legitimate player recruitment for gaming operators and, with the benefit of existing gambling compliance infrastructures in place, Licensees should be well positioned to operate effectively in accordance with any new regulatory requirements. It may also create additional opportunities for the Group which would look to license its social games to Licensees who wish to participate in this segment of the market. In this regard, it should be noted that the Group's rights and obligations under its software and services agreement with Skywind dated 11 June 2012 (pursuant to which the Group was granted, inter alia, licences for certain social gaming software) would be unaffected as a result of any specific regulation of social gaming. The Group has derived to date negligible earnings from the social gaming segment of the market albeit the Group's future prospects for this segment of the market cannot yet be determined given the uncertainty surrounding the future regulatory environment.

2. **Risks relating to the Group's business**

2.1 *Competition may affect the Group's financial performance*

2.1.1 The gambling industry is extremely competitive and so is the related software and services industry that supports it. Failure to compete effectively may result in the loss of Licensees and also the inability to attract new Licensees.

2.1.2 Such a competitive environment can lead to pressure from Licensees in respect of the royalty rates and other fees charged by the Group. In addition, Licensees might choose, when contractually permitted to do so, to migrate to competing software providers. New software providers may also enter the market, thereby increasing competition.

2.1.3 Furthermore, the regulatory constraints to which the Group is subject and itself imposes are not universally applicable and, for various reasons, some of the Group's competitors may choose to assist their respective licensees with wagering with citizens in jurisdictions that the Group would not support. Whilst the Directors do not believe any such jurisdictions would be key in terms of potential revenues for Licensees (and consequently the Group), there is a risk that, if such competitors of the Group do not impose similar restrictions, then restrictions imposed by the Group on its Licensees may adversely affect its ability to retain existing Licensees or to attract new Licensees which, consequently, would have an adverse impact on the Group's financial position and growth prospects.

2.1.4 The provision of marketing and advertising services is also a competitive market. Operators rely on third party affiliate marketers to assist in the acquisition and

retention of customers. The Group undertakes such affiliate marketing activities for certain Licensees as an additional service to its licensing of software. In doing so, it relies on third party affiliates itself, who may provide corresponding services to a variety of gambling solution providers and operators. There is a risk that the Group may not be able to offer remuneration for affiliates that is as attractive as that offered by competitive affiliate networks or by Licensees' directly and consequently, the Group may make its marketing services less attractive to operators.

2.1.5 The on-going evolution of gambling regulation could lead to increased competition, over time, as large land-based operators, games companies and other online entertainment companies may seek to enter the remote gambling market. Such organisations, with long established and trusted brands, may buy or build capabilities to allow them to effectively compete with the Group and/or its Licensees. This could lead to a reduction in Licensees' revenue and profitability, which would in turn negatively impact upon the Group's financial performance.

## 2.2 *The Group must continue to innovate in order to compete*

2.2.1 Online gambling is a relatively new phenomenon and the Group's success is dependent on its continued popularity.

2.2.2 The online gambling industry is highly competitive and Licensees must offer, and therefore their suppliers must develop, new products and services that will continue to attract and retain a broad range of players. The Group must continue to invest significant resources in research and development in order to enhance its technology, products and services. If the Group is unable to adapt its technology products to satisfy player demand, it may lose the confidence of Licensees who may choose to concentrate marketing efforts on products offered by the Group's competitors. Failure to adapt to changing market needs and developing opportunities will hamper the Group's ability to attract new Licensees or retain existing Licensees and the sustained loss of Licensees could lead to a reduction in revenues and profitability which would negatively impact upon the Group's financial performance.

2.2.3 With the emergence and development of new products, new technologies, or option of new player practices, there is a risk that the Group's existing services and products and proprietary technology may be considered obsolete. The Group's ability to compete in the market and its financial position would suffer were it unable to respond to technological advances, emerging industry standards or player tastes in a timely and cost-effective manner.

2.2.4 Furthermore, as a greater number of individuals are connecting to the internet using devices other than personal computers (such as mobile phones and television), the technology which the Group has developed for these devices may not be widely adopted. Use of these devices has increased and it is uncertain whether the Group's software will remain competitive in these new environments.

2.2.5 Finally, the Group relies to a degree on its continued ability to secure branded content for some of its games, for example, the characters from the Marvel comic books. There can be no guarantee that it will be able to continue with such arrangements or will be able to do so on commercially viable terms, after the current contractual terms expire.

## 2.3 *The Group is reliant on its top 10 Licensees*

The top 10 Licensees (in terms of revenue generated) for the year ended 31 December 2011 contributed 68 per cent. of the revenue of the Group. To the extent that the businesses of these Licensees deteriorate, or are adversely affected by any of the issues described in this section, the Group's revenue stream from these sources may also be adversely impacted. Furthermore, if any of these Licensees were to migrate to a competitor, this would have an adverse effect on the financial position of the Group.

2.4 *There is a risk that the Group will no longer have a stake in William Hill Online beyond early 2013 and a further risk that the fair market value which may be determined will be below the value that the Directors consider the stake may be worth*

2.4.1 Under the terms of the William Hill Online framework shareholders agreement, WH Ltd (a subsidiary of William Hill PLC and owner of a 71 per cent. stake in WHO) has an option to acquire the Group's 29 per cent. stake (held by Genuity) in WHO (the "WHO Stake") in early 2013 or 2015 (and, in any event, by 30 April 2013 or 30 April 2015) for 'fair market value'. Fair market value will be determined by following a prescribed procedure involving the appointment of a valuer by each of Genuity and WH Ltd and an independent valuer appointed jointly by Genuity and WH Ltd. Genuity has the right to receive its consideration from the exercise of the call option in cash and/or (at Genuity's election) in William Hill PLC's shares (up to a maximum 9.99 per cent. interest).

2.4.2 If WH Ltd chooses to exercise its rights under the call option, any such exercise will likely require the approval of William Hill PLC's shareholders. In addition, should WH Ltd choose to exercise such rights, the Directors anticipate that the William Hill Group would need to raise finance to fund the exercise of the call option, and so even if WH Ltd wishes to exercise its rights under the call option, there can be no guarantee that the acquisition of the WHO Stake would proceed. There is therefore uncertainty regarding the Group's continued stake in WHO beyond early 2013. If WH Ltd does acquire the WHO Stake pursuant to the call option (whether in 2013 or 2015), there can be no guarantee that the determination of fair market value of WHO (and therefore of the WHO Stake) will be in line with the value that the Directors and/or investors believe should be attributed to the same. If WH Ltd does acquire the WHO Stake pursuant to the call option, the Board intends to use any cash proceeds as it sees fit, in the best interests of Shareholders at that time, which may include all or any of the funding of further acquisitions, the establishment of new joint ventures, the development of new technologies or a capital return to Shareholders.

2.5 *The Group is reliant on its key personnel and employees*

2.5.1 Whilst the Group has entered into employment and/or consulting arrangements with each of its executive directors, senior management and key personnel with the aim of securing their services, the Group's future success depends in large part on their continued service, the retention of which cannot be guaranteed. In particular, the loss of the Group's Chief Executive Officer, Chief Operations Officer and certain other members of senior management could materially adversely affect the Group's business. The loss of any such member could harm or delay the plans of the business either whilst management time is directed to finding suitable replacements (who, in any event, may not be available to the Group), or, if not, covering such vacancy until suitable replacements can be found. In either case, this may have a material adverse effect on the future of the Group's business.

2.5.2 The Group's ability to compete effectively in the markets in which it operates depends upon its ability to retain and motivate its existing workforce. The loss of a significant number of its employees or any of its key employees, or any increased costs that the Group may incur in order to retain any such employees, may adversely affect the business of the Group.

2.6 *The Group may not be able to protect its intellectual property rights and could be at risk of infringing third party intellectual property rights*

2.6.1 The Group's ability to compete effectively depends, amongst other things, on its ability to protect, register and enforce, (as appropriate), its intellectual property rights, including, in particular, its intellectual property rights relating to its proprietary software and its patents and trade mark rights. The Group's inability to protect these rights could reduce the value of the Group.



- 2.6.2 The Group faces the risk that the use and exploitation of its intellectual property rights, including, in particular, rights relating to its proprietary software, may infringe the intellectual property rights of a third party. The Group also faces the risk that its intellectual property rights may be infringed by a third party, and there can be no assurance that the Group will successfully prevent or restrict any such infringing activity. The costs incurred in bringing or defending any infringement actions may be substantial, regardless of the merits of the claim, and an unsuccessful outcome for the Group may result in royalties or damages being payable and/or the Group being required to cease using any infringing intellectual property or embodiments of any such intellectual property (such as software). If any of the Group's intellectual property is held to be infringing, there can be no assurance that the Group will be able to develop or obtain (on favourable terms or at all) alternative non-infringing intellectual property.
- 2.6.3 The Group has received, and expects to receive from time to time, letters from patent holders alleging that certain of its products and services infringe their patent rights. Some of these have resulted in, and some of these may result in, litigation proceedings being commenced against any member of the Group and its directors, or settlements for amounts that may be material to the Group. The Group will need to divert resources to address any such claims that have arisen or may arise.
- 2.6.4 There can be no assurance that third parties will not independently develop or have not so developed similar or equivalent software to the Group's proprietary software, or will not otherwise gain access to the Group's source code, software or technology.
- 2.6.5 There can be no assurance that the Group's registered intellectual property is valid or enforceable and such intellectual property may be subject to challenge or circumvention by third parties. The Group has not registered all intellectual property rights that are registrable and which are material to its business and no assurance can be given that any applications for registration made by the Group will be successful, as applied for or at all.
- 2.6.6 Licensees' customer databases, including financial information, are important assets of those businesses. Any loss or corruption of these databases, through hackers or otherwise, would compromise a significant asset of such Licensees.
- 2.6.7 The Group also seeks to protect its technology as trade secrets, where applicable. These trade secrets may cease to be protected if and to the extent that they have fallen into the public domain.
- 2.7 *Failure by the Group to obtain appropriate trade mark protections worldwide may adversely impact the Group's business*
- The Group has a number of registered trade marks in the United Kingdom, the European Union and elsewhere. The Group may not be able to obtain trade mark registrations in other parts of the world, although it may have acquired common law rights in the Playtech name in the jurisdictions in which it operates through its use of the Playtech brand. The absence of a registered trade mark may make it more difficult for the Group to prevent others from using the same or a similar name.
- 2.8 *The business of the Group is dependent on the continued growth and maintenance of the internet*
- 2.8.1 The Group's business is dependent on the internet and on the continued growth and maintenance of the internet infrastructure. There can be no assurance that the internet infrastructure will continue to be able to support the demands placed on it by continued growth in the number of users of and amount of traffic on the internet. The success of Licensees' businesses depends upon the continued growth and maintenance of internet infrastructure together with the Group continuing to remain abreast of changes in technology in order to meet Licensees' and their customer's needs.

- 2.8.2 To the extent that the internet infrastructure is unable to support the demands placed upon it, Licensees' businesses may be adversely affected. For example, the internet has experienced outages and delays, and future interruptions could harm relationships that Licensees have with their customers.
- 2.8.3 The Group may also suffer from the adverse effect of the delay or cancellation of government programmes designed to expand broadband access. The reduction in the growth of, or a decline in, broadband and internet access poses a risk to Licensees and, by proxy, to the Group and could adversely affect its ability to support wagering in the corresponding markets.
- 2.9 *The Group, as a software business, relies on the ongoing stability of its products and the technology needed to support them*
- 2.9.1 The Group's ability to provide its software to Licensees depends upon the integrity, reliability and operational performance of its systems. Any major systems failure, including network, software, internet or hardware failure which causes material delay or interruption in the operation of the Group's systems, or of the software, could have an adverse effect on the Licensees' business (including a possible reduction in Licensees' revenues), which would in turn negatively impact upon the Group's financial performance. In addition, Licensees could have a direct claim against the Group as a result of such systems failure.
- 2.9.2 The Group has in place business continuity procedures, data and disaster recovery systems and security measures in the event of a failure or disruption of, or damage to, the Group's network or IT systems. Such procedures may not, however, be sufficient to ensure that the Group is able to carry on its business in the ordinary course if they fail or are disrupted, such that the Group may not be able to anticipate, prevent or mitigate any material adverse effect of any failure on its operations or financial performance.
- 2.10 *The Group and its Licensees are constantly vulnerable to hacking, DDOS attacks, malicious acts and other cybercrime*
- 2.10.1 The businesses of Licensees may be adversely affected by activities such as system intrusions, distributed denial of service attacks, virus spreading, and other forms of cybercrime. Such activities can disrupt internet sites, cause system failures, business disruption and may damage the computer equipment of Licensees' and/or their customers, as well as harming the computer systems of the Group itself. Furthermore, as a provider to certain Licensees of technical support services, such as hosting or provision of other operational infrastructure, such cybercrime may lead to contractual claims by affected Licensees.
- 2.10.2 The Group adopts industry-standard protections to detect any intrusion or other security breaches, together with preventative measures safeguarding against sabotage, hackers, viruses and cybercrime. However, there can be no assurances that the Group, nor its Licensees will not be damaged by malicious viruses or worms, nor that intrusions and attacks will or can be prevented in the future. If efforts to combat these attacks are unsuccessful, it may cause delay and business interruption, financial loss or damage to the Group or its Licensees' reputations and customer relationships, which could damage the Group's reputation in the markets in which it operates and have a material effect on its relationships with its Licensees and therefore on its financial performance.
- 2.11 *Reliance on third party suppliers*
- The Group and its Licensees all rely on hosting providers, marketing support services, communications carriers and other third parties for the day-to-day operation of their respective businesses. Any failure by one or more of these third parties may jeopardise the business and operations of the Group and/or its Licensees. In turn, this would affect the Licensees'

customers' ability to access the products supplied by the Group and may have a material adverse impact on its financial performance.

2.12 *The international nature of the Group's business is key to its revenue but further international expansion cannot be assured*

2.12.1 The majority of the Group's revenue is generated from outside the UK. A key element of the Group's strategy involves expanding the Group's business internationally. However, there can be no assurance that international marketing efforts will continue to be successful and that its services will maintain current levels of international revenue or generate significant additional international revenues.

2.12.2 The Group also faces other risks related to international expansion, including delays in the acceptance of the internet as a medium of commerce and gambling in international markets and difficulties in managing international operations due to distance, language and cultural differences. In addition, international expansion exposes the Group to risks associated with tariffs and trade barriers and limitations on fund transfers; exchange rate fluctuations; potential adverse tax consequences; challenges of developing, maintaining and supporting local language and currency capabilities; greater risk of chargebacks and higher levels of fraud in some countries; legal and regulatory restrictions; currency exchange rate fluctuations; foreign exchange controls that might prevent the Group from repatriating cash; political and economic instability and export restrictions; and higher costs associated with doing business internationally. Any of these risks could harm the Group's international expansion efforts, which would in turn have a material adverse effect on its business, revenue and financial position.

2.12.3 The planned expansion of the Group's business will place additional demands on the Group's management, customer support, marketing, administrative and technological resources. Management cannot be certain that it will be able to manage successfully the Group's anticipated growth. If the Group is unable to manage its growth effectively, its business, financial condition or results of operations could be adversely affected.

2.13 *The Group's business could suffer financial loss if Licensees experienced high levels of payment default by customers or payment service providers*

2.13.1 The Group is subject to risks of payment default by its Licensees' customers. Chargebacks on credit (or some debit) cards occur when cardholders, card issuers or payment service providers seek to void a card or other payment transaction by challenging the validity of the transaction. Typical reasons for such action include:

- (a) the unauthorised use of cardholder's details; or
- (b) a cardholder's claim that a merchant failed to perform.

In the Licensees' business, there is the possibility of customers seeking to reverse a losing stake by falsely claiming that they did not authorise the use of their credit card.

The risk of chargeback transactions is greater in certain markets. Although there are generally control procedures to limit chargebacks, these procedures may not be effective. If any Licensees' chargeback rates become excessive, credit card associations could levy additional costs or fines or even withdraw their service to that Licensee. Any such actions could reduce Licensees' net revenues and, consequently, the revenue of the Group.

2.13.2 A Licensees' ability to accept bets placed by their customers and transfer funds internationally is dependent on global payments and multi-currency processing systems. If a major Licensee's current arrangements for the provision of such systems were to be terminated there is no guarantee that multi-currency and international funds transfer capability could be sourced from other providers, or that the quality of the services would remain the same. Certain governments may also take the view that any use of its currency in any jurisdiction where there are doubts in relation to the legality of the

underlying activity render such sums vulnerable to forfeiture (as has happened recently with the US attempts to control dollar usage).

2.13.3 In addition, if there is any deterioration in quality of the payment processing services, or any interruption to the services provided by third parties, or if such services are unable to cope with demands placed upon them, or if any increased processing charges for services are imposed, potential customers may be deterred from using the Licensees' products.

2.14 *Licensees are vulnerable to player fraud and need to have effective internal controls*

The online gambling industry may be vulnerable to attack by customers through collusion and fraud on Licensees' websites. Such attempts, if not detected and stopped, could result in a loss in confidence in the customer base of such websites. This could lead to customers leaving a Licensees' site in favour of a competitor. For example, as alluded to in paragraph 1.10 above, collusion can be effected between online poker players by their adoption of sophisticated computer programmes to play games automatically. The Group has implemented detection and prevention controls to minimise the opportunities for fraudulent play, but is aware of the need to continually monitor and develop such protections.

In addition, the Group is reliant on Licensees having effective internal controls to prevent fraud as it derives the majority of its revenue from royalty arrangements with its Licensees that would be adversely impacted by such activities. The Group cannot ensure that its Licensees financial processes and reporting systems provide reliable financial reports and effectively prevent fraud, however the Group does have its own systems in place and audit rights with Licensees, and also encourages its Licensees to enhance and develop their internal controls, including in the areas of access and security.

2.15 *The Group is reliant on Licensees maintaining and enhancing their brands*

The Group's future success is dependent upon the Licensees' performance, maintenance and further building of their brands. Maintaining and enhancing these brands will require significant expense. As the market becomes more competitive, the value of these brands may not be maintained or enhanced.

2.16 *The Group is subject to on-going reputational challenge of dealing in the gambling industry*

2.16.1 The gambling industry is subject to negative publicity relating to perceptions of underage gambling, exploitation of vulnerable customers and the historic link of the gambling industry to criminal enterprise. As a supplier to the industry, such negative publicity can affect the reputation and correspondingly affect the financial performance of the Group.

2.16.2 Typically, all Licensees are required under the terms of the various regulatory licences they maintain to ensure their services are not accessible by minors and that they take steps to prevent individuals with actual or suspected gambling addiction from participating in their services. To the extent that Licensees' sites are accessed by minors and/or problem gamblers, brand reputation could be tarnished. Situations can arise where minors or compulsive gamblers could access Licensee's websites. Where they do so, as well as negative publicity and potential regulatory censure, litigation by way of class action against the Licensees could ensue, all of which would have a corresponding detrimental effect on the Group.

2.17 *Integration of future acquisitions, investments and joint ventures may not go as planned and could cause the Group to lose Licensees*

2.17.1 As part of the Group's business strategy, it has made and may continue to make acquisitions or significant investments in complementary businesses and/or enter into joint venture partnerships in regulated markets or otherwise. Any such acquisitions, investments or joint ventures are and will be accompanied by risks, including the difficulty of integrating the operations and personnel of the acquired business, the inability to obtain

a return from the investment or joint venture and the impairment of relationships with employees and Licensees as a result of poor integration of such businesses.

2.17.2 If the Group decides in the future to make further acquisitions or investments, to become an operator or to enter into new joint venture arrangements the Group may lose Licensees (or compromise its ability to attract new Licensees) if they consider the Group to be competing with them. Furthermore, in such circumstances, the Group will face similar risks to those outlined in this section as being faced by Licensees or other service providers.

## 2.18 *Foreign exchange risks*

The Group generates revenues predominantly in Euros and pounds sterling and prepares its financial statements in Euros. In addition, most of the Group's expenses are in Euros or currencies linked to the Euro. Nonetheless, the Group may be subject to foreign exchange risk which may arise because the Group has operations located in various parts of the world. However, the functional currency of these operations is the Euro and the Group is not substantially exposed to fluctuations in exchange rates in respect of assets held overseas. In addition, foreign exchange risk may also arise where Group revenues and expenses are paid in currencies other than Euros. Whilst the Group's policy is not to enter into any currency hedging transactions, the Directors believe that the Group maintains appropriate treasury policies to manage currency fluctuations.

## 2.19 *The taxation that the Group is subject to may change and adversely affect the Group's business*

2.19.1 The Group's operations are principally located in the Philippines, Estonia, Bulgaria, the UK, Cyprus and Israel. The Group's operations in these jurisdictions are currently subject to different rates of taxation than its Isle of Man operations. There can be no assurance that the levels of taxation to which the Group is subject in the Isle of Man and other jurisdictions, including those referred to above, will not be increased or changed, which could have a material adverse effect on the amount of tax payable by the Group and its financial condition and results of operations.

2.19.2 The Licensees' customers are located in a number of different jurisdictions. Revenues earned from customers located in a particular jurisdiction may give rise to the imposition of direct, indirect or turnover taxes in that jurisdiction. In addition, as Licensees need to continue to obtain local licences to enable them to target specific markets, they may be obliged to pay non-gaming local taxes too. This potentially could erode Licensees' margins for particular markets, which in turn may affect the financial viability of a specific market, and/or result in the Licensee wishing to re-negotiate its arrangements with the Group.

2.19.3 If a member of the Group is found to be, or to have been, tax resident in any jurisdiction other than that in which it is incorporated or domiciled or to have a taxable permanent establishment or other taxable presence elsewhere, other than in the case of certain members of the Group providing services which may have permanent establishments in any of the countries mentioned above whether on the basis of existing law or the current practice of any tax authority or by reason of a change in law or practice, this may have a material adverse effect on the amount of tax payable by the Group.

2.19.4 Any change in any member of the Group's tax status or in taxation legislation, practice or its interpretation, could adversely affect the post-tax returns to shareholders.

## 3. **General Risk Factors**

### 3.1 *Global economic outlook*

3.1.1 Demand for the Group's products and services is influenced by general economic and consumer trends beyond the Group's control. There can be no assurance that its

business and corresponding financial performance will not be adversely affected by general economic or consumer trends. In particular, the current difficult global economic conditions are unprecedented in the Group's operating history, and if such conditions continue or worsen, there can be no assurance that they will not have a material adverse effect on the Group's business, financial condition and results of operations.

3.1.2 These conditions have produced downward pressure on stock prices and on the availability of credit for financial institutions and corporations. If these levels of market disruption and volatility continue, the Group might experience reductions in business activity, increased funding costs and funding pressures, a decrease in the market price of its Ordinary Shares, a decrease in asset values, additional write-downs and impairment charges and lower profitability.

3.1.3 The Euro is the Group's base currency and legal uncertainty about the satisfaction of obligations to fund commitments in Euro following any breakup of or exits from the Eurozone (particularly in the case of investors domiciled in affected countries) could also have a material adverse effect on the Group's financial condition.

#### **4. Risk Factors Relating to the Ordinary Shares**

##### **4.1 *Brickington's interests in Ordinary Shares***

The Company's largest Shareholder, Brickington, will own approximately 49.66 per cent. of the issued Ordinary Shares upon Admission. If Brickington (or any person acting in concert (as defined in the City Code) with it) acquires additional Ordinary Shares which increase its/their proportion of the voting rights, it will be required under Rule 9 of the City Code to make a general offer to all other Shareholders for the remaining Ordinary Shares. Whilst the City Code contains specific rules governing the offer terms following such an acquisition, including the level of the offer price and the fact that it must be in cash (or include a cash alternative), there can be no guarantee that any such offer would be made at a price at which other Shareholders would be prepared to accept or which includes a control premium. In addition, if following completion of such an offer, Brickington (together with persons acting in concert with it) controlled more than 50 per cent. of the Company, for so long as that interest remained above 50 per cent., it would be able to increase its shareholding thereafter without incurring any further obligation under Rule 9 of the City Code to make a general offer.

##### **4.2 *More active trading in the Ordinary Shares may not occur***

4.2.1 Investors should be aware that the value of the Ordinary Shares (and any income received from them) may go down as well as up and that they may not be able to realise their investment.

4.2.2 Although the Company has applied for admission of the Ordinary Shares to the Premium Segment of the Official List and to trading on the London Stock Exchange's market for listed securities, and it is expected that these applications will be approved, the Group can give no assurance that the trading market for the Ordinary Shares will be more active than when such securities were admitted to trading on AIM or, if developed, will be sustained following Admission. If an active trading market is not developed or maintained, the liquidity and trading price of the Ordinary Shares could be adversely affected.

##### **4.3 *Playtech must ensure it has control of the majority of its assets, otherwise it may no longer be eligible for a Premium Listing***

In accordance with the Listing Rules, Playtech has a continuing obligation to ensure that it controls the majority of its assets at all times. The current joint ventures are, and are expected to continue to be, subject to equity accounting and as a result will not count as controlled assets. Depending on the success of these joint ventures and any new joint ventures or investments entered into by Playtech, there is a risk that Playtech could be in a position where it does not control the majority of its assets and hence would no longer be eligible for a Premium Listing.

However, Playtech acknowledges that it will need to discuss the structure of any proposed joint venture or investment with its advisers in the early stages of any negotiations to ensure that Playtech is able to meet its continuing obligations under the Listing Rules. As a result, there is a risk that Playtech may not be able to enter into a strategic transaction where it would mean that there was a risk that it would breach its continuing obligations.

4.4 *If the Company is wound up, distributions to holders of the Ordinary Shares will be subordinated to the claims of creditors*

On a return of capital on a winding-up, holders of Ordinary Shares will be entitled to be paid out of the assets of the Company available to members only after the claims of all creditors of the Company have been settled.

4.5 *Dividends may reduce*

4.5.1 The ability of the Company to continue to pay out dividends on the Ordinary Shares will depend on, *inter alia*, growth in the underlying assets of the Group and on the solvency of the Company.

4.5.2 The Law requires the directors of the Company to carry out a liquidity or cashflow test and a balance sheet solvency test before any dividend or distribution payment can be made. The test requires the Board to make a future assessment by making reference to the solvency test being satisfied immediately after a distribution or dividend payment is made. If at the time a dividend or distribution payment is to be made the Directors believe that the solvency test cannot be passed, then no payment may be made to holders of the Ordinary Shares.

4.6 *Volatility*

The market price of the Ordinary Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Ordinary Shares or in response to various factors and events, including legal or regulatory changes affecting the Group's operations or interests, variations in the Group's operating results and any further downturn in the online gaming industry.

4.7 *Future substantial sales of Ordinary Shares in the public market may depress the share price*

Sales of a substantial number of Ordinary Shares by holders of such shares in the public market could adversely depress the market price of the Ordinary Shares.

4.8 *The Ordinary Shares may not be suitable for all investors*

The Ordinary Shares may not be a suitable investment for all investors. In particular, investors should be aware of the fast-changing regulatory framework within which the Group operates and which, as is extensively discussed in this document, will significantly determine the Group's future direction. Before making a decision to invest, investors are advised to consult an appropriate independent adviser authorised under FSMA who specialises in advising on the acquisition of shares and other securities.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of Prospectus	28 June 2012
Last day of trading of Ordinary Shares on AIM	29 June 2012
Delisting of Ordinary Shares from AIM	8.00 a.m. on 2 July 2012
Admission of the Ordinary Shares to the Official List	8.00 a.m. on 2 July 2012
Commencement of dealings on the London Stock Exchange's main market for listed securities	8.00 a.m. on 2 July 2012

Each of the times and dates in the above timetable is subject to change. All times are London times unless stated otherwise.



## FORWARD LOOKING STATEMENTS AND OTHER INFORMATION

Some of the statements in this document include forward looking statements which reflect the Directors' current views with respect to financial performance, business strategy, and future plans both with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could" and similar statements are of a future or forward looking nature.

All forward looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the "Risk Factors" section of this document, which should be read in conjunction with the other cautionary statements that are included in this document. Any forward looking statement in this document reflects the Group's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations and growth strategy.

These forward looking statements speak only as of the date of this document. Subject to any obligation under the Prospectus Rules, the Listing Rules or the Disclosure Rules, the Company undertakes no obligation to publicly update or review any forward looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

At various places in this Prospectus, reference is made to legal advice obtained by the Company in respect of several different matters. The Company does not waive privilege in any of that legal advice by referring to it in this document or otherwise.

### **No action to be taken by Shareholders**

Shareholders are not required to take any action upon receipt of this document. The Company is not issuing any new Ordinary Shares nor is it seeking to raise any new money in connection with Admission.

This document has been published solely to enable the Company to obtain admission of the Ordinary Shares to the Official List and to trading on the Main Market.

### **Rounding**

Certain figures in this Prospectus have been subject to rounding adjustments. Accordingly, any apparent discrepancies in tables between the totals and the sums of the relevant amounts are due to rounding.

## DIRECTORS, COMPANY SECRETARY AND ADVISERS

<b>Directors</b>	Roger Withers ( <i>Non-executive Chairman</i> ) Moran (“Mor”) Weizer ( <i>Chief Executive Officer</i> ) David Mathewson ( <i>Chief Financial Officer</i> ) Alan Jackson ( <i>Non-executive Director</i> ) Andrew Thomas ( <i>Non-executive Director</i> )
<b>Company Secretary</b>	Paul Wright
<b>Registered Office, Principal Place of Business of the Company and Business Address of the Directors</b>	2nd Floor St George’s Court Upper Church Street Douglas, Isle of Man IM1 1EE
<b>Sponsor, financial adviser and broker</b>	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR England
<b>Auditors and reporting accountant</b>	BDO LLP 55 Baker Street London W1 7EU England
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## PART 1

### INFORMATION ON THE GROUP

#### 1. Introduction

The Group's business was founded in 1999 by entrepreneurs from the casino, software engineering and multi-media industries. Playtech, the holding company of the Group, was incorporated in the British Virgin Islands ("BVI") in 2002. On 21 June 2012, the Company's registration was re-domiciled to the Isle of Man.

The Group's principal business activities are the design, development and licensing of software, and the provision of complementary services, for the licensed gambling industry.

The Group's principal software products are online casino, poker, bingo and sportsbetting; live and TV casino; mobile casino, bingo and sportsbetting; and Videobet software for land-based terminals. All of the Group's software products can be incorporated onto its sophisticated player management system (known as the IMS), have multi-currency functionality and are available in a variety of languages.

The Group provides a range of complementary services to operators including marketing services, operational and support services, payment advisory services and network management services. The combination of these software products and services enables the Group to offer a turnkey solution to its Licensees. The vast majority of the Group's products and services are licensed to operators on a revenue share basis. The revenue share model ensures that the Group is aligned with the businesses of its Licensees, thereby developing a strong relationship focused on achieving common business objectives.

The Ordinary Shares have been admitted to trading on AIM since March 2006. Given the growth in the Group's business, the Board, as stated in the circular to shareholders dated 23 November 2011, believes that it is now appropriate to move to a Premium Listing on the Main Market of the London Stock Exchange.

#### 2. History and development of the Group

The Group's business was first established in 1999 and, having expanded significantly, the Company's shares were admitted to trading on AIM in March 2006 giving the Company a market capitalisation of approximately £550 million. The IPO raised £265 million (before expenses) through a placing of Ordinary Shares on behalf of the Company and certain of its pre-IPO shareholders including Brickington Trading Limited (a wholly owned subsidiary of a trust, one of the ultimate beneficiaries of which is Mr. Teddy Sagi, one of the founders of the Group's business).

Since the IPO, the Group has continued to grow through a mixture of organic growth coupled with strategic acquisitions and investments. Organic growth has been driven by a focus on product innovation and development of cross-platform capabilities, and the ability of the Group to cross-sell a wider range of products across its more diverse Licensee base. The Group's strategic acquisitions and investments (including in joint ventures) since the IPO have complemented this organic growth by expanding the Group's product and services range as well as its number of Licensees.

In October 2006, the passage of the Unlawful Internet Gambling Enforcement Act ("UIGEA") in the US resulted in the closure of the lawful US online gambling market. The Group immediately required all its Licensees to cease taking business from the US market. Whilst this had a material effect on the Group's business, the Group was less exposed than some of its competitors and, due to the diversity of its Licensee base, its pro forma annualised revenues returned to pre-UIGEA levels within approximately 12 months. During this period, in January 2007, the Group acquired certain non-US poker assets from Tribeca Tables Europe Limited for a total cash consideration of US\$75 million.

This acquisition immediately gave the Group access to additional Licensees and it enabled the Group's iPoker network to become one of the largest online poker networks.

In June 2008, Playtech raised £112 million through a placing of new Ordinary Shares, the net proceeds of which were ultimately utilised in December 2008 in connection with the Group's joint venture with the William Hill Group to form William Hill Online (or WHO). Under the arrangements for the establishment of WHO, the William Hill Group contributed its online operations to WHO and Playtech acquired (for US\$250 million) and then immediately injected certain affiliate marketing and other assets into WHO in return for a 29 per cent. stake in the venture. In addition the Group entered into an arms' length software licensing agreement with WHO. Further details of the WHO joint venture are set out in paragraph 13.10 of Part 6 of this document.

In December 2009, the Group acquired GTS, a UK based developer of an open software platform for delivery of its own and third party games to the games pages of operators. The total consideration paid was approximately €18.2 million.

In January 2010, the Group entered into certain strategic arrangements with Scientific Games for joint businesses including exclusive agreements for Videobet to develop gaming terminal software for Scientific Games and its subsidiary The Global Draw.

In February 2010, the Group acquired the business and assets of Virtue Fusion Limited, comprising a bingo software system and the businesses providing networked bingo games for its licensees including Mecca and William Hill Online, for a total consideration of £36 million.

In January 2011, the Group acquired IGS, a provider of software based casino management systems to land-based casinos, for a total consideration of up to £5.5 million, including an initial payment of £2.5 million.

In July 2011, the Group acquired PTTS, which carries out a wide range of complementary B2B services that provide support to Licensees. The acquisition has allowed the Group itself to provide a broad range of ancillary gambling related services to Licensees that enhances its commercial proposition and competitive position in the expanding online gambling marketplace. Initial consideration of €121 million has been paid and further consideration up to €140 million is payable dependent on the future performance of the PTTS businesses. Further details of the terms of this transaction are set out in paragraph 13.9 of Part 6 of this document.

In August 2011, the Group extended its capabilities to deliver mobile gambling when it acquired Mobenga, a Swedish based provider of a mobile sportsbetting platform. The acquisition brought well regarded technology to the Group in a segment which the Directors believe is a key contributor to future growth in online gambling. The total consideration payable is up to €23.8 million including an initial payment of €8 million. Further details of the terms of this transaction are set out in paragraph 13.8 of Part 6 of this document.

In November 2011, Playtech announced that it was raising, conditional on shareholder approval, £100 million through a placing of new Ordinary Shares to fund further acquisitions and joint ventures. The fundraising was completed in December 2011. Further details of the terms of this transaction are set out in paragraph 13.7 of Part 6 of this document.

In December 2011, Playtech acquired Ash Gaming, a leading developer of interactive gambling and betting games for the online gaming market. This acquisition expanded the range of games that the Group can offer to its Licensees for play on their "games tab". The total consideration payable is up to £23 million. Further details of the terms of this transaction are set out in paragraph 13.6 of Part 6 of this document.

In January 2012, Playtech announced the acquisition of Geneity, a UK based provider of online gambling software products focusing primarily on the sportsbook and lottery sectors. This acquisition should assist the Group in competing in the important and competitive sportsbetting segment. The total cash consideration payable is up to £15 million. Further details of the terms of this transaction are set out in paragraph 13.5 of Part 6 of this document.

At the same time as announcing the acquisition of Geneity, Playtech also announced that the Group had entered into joint ventures with Gauselmann, Germany's leading land-based gambling operator and owner of the Merkur gambling brand, and Peermont, one of South Africa's leading casino and resort operators, summary details of which are set out below:

- The Group has a 49.99 per cent. stake in its joint venture with Gauselmann. The joint venture has been established to offer broad-based sportsbetting and gambling products and services in anticipation of expected German regulation.
- The Group has a 50 per cent. stake in its joint venture with Peermont. The joint venture will initially offer sportsbetting and, later, broad-based gambling, subject to the introduction of new regulation.

Further details of these joint venture arrangements are set out respectively in paragraphs 13.3 and 13.4 of Part 6 of this document.

### **3. Business Overview**

The Group's principal business activities are the design, development and licensing of software, and the provision of complementary services, for the licensed gambling industry. The Group generates revenue from licensing software products to Licensees and charging a royalty based on a percentage of a Licensee's net revenue. The Group also generates revenue from the provision of services which complement its software offering and this combination enables the Group to provide a turnkey solution to Licensees. These services generate revenue predominantly on a revenue share basis. The revenue share model ensures that the Group's business is aligned with the businesses of its Licensees, thereby developing a strong relationship focused on achieving common business objectives.

#### **3.1 Platform**

The Group has developed a sophisticated technology platform, known as the IMS, onto which all its software products can be incorporated. The IMS can enable each application to be accessed by players through a single user account using the same username-password combination for all products offered by that Licensee. This assists Licensees in managing their operations by way of a single management interface, allowing opportunities for cross-selling from one product to another and improving player loyalty and yield.

The IMS provides Licensees with a variety of features including customer relationship tools, affiliate and web tracking, transaction processing and system security, a suite of responsible gambling tools and extensive reporting capabilities. The IMS's modular architecture and scalability enable it to grow with a Licensee's business and accommodate future product diversification.

The Group's cross-platform capability is a fundamental element of its product offering and links various distribution channels for gambling content (online, live and TV, mobile and land-based channels) on the same operator platform. Players can transition between products and platforms, playing the same games at home, on the move or in a land-based venue, whilst enjoying a unified bonus and loyalty programme. The ability to maintain a consistent offering across all platforms allows Licensees to leverage their brands in new channels, increase retention across their entire business and deliver additional ways of playing.

In addition to the IMS's back end capabilities, the Group owns the proprietary EdGE™ open games platform, which allows the integration of a large number of games from different providers and technologies into a Licensee's games offering. The EdGE™ platform gives the Group a competitive advantage in offering its Licensees easy access to the latest games experiences and technologies.

#### **3.2 Products and Services**

##### *Casino*

The casino product is the Group's main software product line in terms of the Group's revenue. Licensees' players are offered, where permitted, all the main suite of casino games including

classic table and card games such as roulette, blackjack and baccarat; multi-line and multi-spin slots; video poker and keno; progressive bonus-stage jackpot games; and other games that are continually refreshed with the launch of new products playable in multiple languages and currencies. Through the Group's platform, Licensees can choose from a wide range of games content to stimulate player activity.

Many of the Group's games feature well known fictional characters, such as the Incredible Hulk and Captain America, or are based on successful TV game formats, such as Deal or No Deal. These premium branded games have proven themselves to be an increasingly important part of the customer proposition and the Group continues to deliver new brands into its games portfolio.

The casino product is available through various formats and platforms including the traditional web-based online version, a standalone games tab and the Group's live dealer and TV offerings which consist of live videostreaming from centres designed as real land-based casinos or television studios. The live format attracts players who enjoy the interaction with the dealers and the enhanced community feel of the playing experience.

A variety of the casino games are available on the Group's mobile platform where automatic bonuses, loyalty points and VIP levels are configured and integrated on the IMS. The mobile platform enables Licensees to use tools such as push advertising and SMS messaging to improve their marketing and player acquisition. In addition, casino games are offered to Licensees as side games embedded into, and played concurrently with, the Group's poker and bingo offerings, giving Licensees the ability to optimise revenue streams in parallel to poker and bingo revenue streams.

#### *Poker*

The Group's poker product offers several different game types (including Texas Hold'em, Omaha and Omaha Hi-Lo), playable in multiple languages and currencies and enabling full-screen play, multi-table gameplay, detailed in-game statistics, hand strength display and a wide variety of embedded casino side games which can be played concurrently with the poker games, giving Licensees the ability to optimise revenue streams.

Licensees of the poker product have access to the Group's iPoker network which allows Licensees' players to play against each other, increasing the pool of players available at any particular time (referred to in the online gambling industry as player "liquidity"), a key marketing advantage for an online poker operator. Tournaments on the iPoker network include online satellites to land-based events and daily, weekly and monthly tournaments.

In addition, iPoker provides centralised table and tournament management, designed to provide Licensees with protection against the threat of player collusion and aims to ensure a fair and secure playing environment to support a successful and reputable poker gaming operation.

#### *Bingo*

The Group provides its customers with a bingo software platform connected to one of the largest bingo networks in the online gambling industry. The UK network recently held events that involved over 12,000 concurrent players and generated over £1 million in ticket sales in a single evening. As bingo operates on a pari-mutuel basis with prizes derived from the game stakes, the participation of a large number of players in each game on the bingo networks allows sizeable prizes for low individual stakes.

The Group's bingo offering is available in multiple languages and currencies and, similar to poker, also includes a wide variety of embedded casino side games, which can be played concurrently with the bingo games, giving Licensees the opportunity to optimise revenue streams. Under licensing arrangements, the Group can offer bingo games based on popular television programmes such as Blockbusters and Britain's Got Talent.

As the community aspect is an extremely important element of bingo playing, the Group provides chat moderation services to certain Licensees. There are over 200 part-time chat moderators providing player interaction in a wide range of languages.

### *Sportsbetting*

The Group offers a sportsbetting platform for both online and mobile devices. Sportsbetting is often the cornerstone of both an online and a land-based operator's business. The Group historically focused more on online gaming and had not developed its sportsbetting capabilities significantly, until recently. With the increasing focus on maximising cross-platform and cross product opportunities, the Directors recognised that sportsbetting had become an increasingly important channel for player acquisition. In addition, online sportsbetting has often been one of the first products to be regulated in a market. Recognising these dynamics, the Group acquired Geneity in January 2012.

The online sportsbetting platform acquired by the Group has a modular architecture which makes it flexible and easily customisable for both small and large operators. The product provides automated event setup and settlement tools to allow operators to manage large numbers of events and markets with little operational overheads. It has a live-betting console and content management features.

The Group's mobile solution, provided by Mobenga, delivers a sportsbetting offering onto handheld devices, including smart phones and tablets, across Apple iOS, Android and HTML. The mobile platform offers Licensees a range of features such as a touch user interface (TUI) and advanced functionality, including live video streaming which is integrated with its existing platform.

### *Videobet*

The Group provides server based technologies for land-based gaming machines providing a complete end-to-end solution for land-based operators. These range from completely standalone gaming machines to full server based video lottery and fixed odds betting terminals (FOBTs) integrated to a central monitoring system based on the IMS. The Videobet technology can manage full server-based configurations, whilst operating in a mixed environment of standalone gaming machines and integrate with other management information and third-party monitoring systems. Working with The Global Draw, the gaming machine distributor, the Group has rolled out the Videobet Technology to The Global Draw's UK bookmaker customers, including Ladbrokes and Coral. There are approximately 20,000 machines utilising the Videobet Technology.

The Group also provides software based casino management systems to land-based casinos, through IGS. These systems include client relationship management (CRM), loyalty and cash desk operations for table gaming, poker and slots.

### *Services*

The Group provides a range of complementary services alongside its software products offering. These operations are principally based in the Philippines and Bulgaria and comprise the following:

#### *Marketing services*

Marketing services comprise affiliate management, customer management, data mining and statistical analysis, advertising and marketing services, including search engine optimisation. These services are important for the successful and cost effective acquisition of new players. The Group has access to an extensive affiliate marketing network and affiliates are incentivised for driving players to Licensees' operations.

#### *Operational and support services*

Operational and support services comprise 24 hour player support and co-location hosting services for Licensees' game servers and player databases. The support services are designed to support Licensees' retention of, and cross selling to, its players.

#### *Payment advisory services*

Payment advisory services comprise advice to Licensees in relation to payment processing providers and transactions monitoring, including reconciling transactions from data in their back-end systems.

#### *Network management services*

Network management services comprise managing the day to day operation of the iPoker network including fraud and collusion prevention and a dedicated 24 hour online support team, to ensure the smooth operation of each poker room on the iPoker network.

The combination of the software and complementary services enables the Group to provide a turnkey solution to its Licensees. The Directors consider that the ability to provide a turnkey solution is particularly attractive to new entrants targeting regulating markets, where demand for turnkey solutions is expected to be high. The Directors believe that the Group is in a strong position to win business in such markets.

### **3.3 *Other interests, including joint ventures***

#### *William Hill Online (WHO)*

The Group receives significant income from its 29 per cent. shareholding in William Hill Online (WHO), which it acquired in December 2008. In the financial year ended 31 December 2011, Playtech received, in addition to royalties received through the licensing of software and the provision of services to WHO, €36.1 million as its share of the profit of WHO (2010: €22.5 million). WH Ltd (a subsidiary of William Hill PLC and the entity that holds the 71 per cent. shareholding in WHO) has an option to acquire the Group's shareholding in WHO (held by Genuity) in early 2013 or 2015 for fair market value with the consideration to be satisfied (at the Group's election) in cash or shares in William Hill PLC (or a combination of both). Further details of the arrangements relating to WHO are set out in paragraph 2 of this Part 1 and in paragraph 13.10 of Part 6 of this document.

#### *Other*

The Group owns approximately 10 per cent. of AsianLogic Limited, which operates a number of online casinos in Asian markets using the Group's software. In the financial year ended 31 December 2011, the Group received dividends from AsianLogic Limited of €3.1 million (2010: €1.1 million).

The Group also owns approximately 10 per cent. of Sportech PLC, a leading UK pari-mutuel football gaming business, and owner of The New Football Pools, for a consideration of €11.3 million. Sportech PLC is also a Licensee of the Group. The Group has not received any dividends from Sportech PLC to date.

The Group has joint ventures with Gauselmann in Germany and Peermont in South Africa, further details of which can be found in paragraph 2 of this Part 1 and respectively paragraphs 13.3 and 13.4 of Part 6 of this document.

### **3.4 *Principal customers and markets***

The Group aims to derive revenues from a diverse customer base to minimise the impact to the overall business of any changes in the operating environment that occur in a particular market. The number of Licensees for the Group's software products has grown from 39 Licensees at the time of the IPO in 2006 to over 100 as at the date of this document, including a number of the leading names in the gambling industry. In 2011, the Group had approximately 30 Licensees contributing €1 million or more in revenues each although the top 10 Licensees (in terms of revenue generated) contributed 68 per cent. of the total revenues of the Group. Approximately 40 per cent. of the Group's total software revenues are derived from Licensees in regulated markets in Europe.

The Group currently provides its complementary services to over 60 customers, all of which are existing Licensees of the Group's software. A majority of these customers utilise a variety



of services, principally hosting, network management and payment advisory services. A smaller number of these customers use the Group's marketing services and CRM capabilities.

### 3.5 *Licences*

Historically, it has been the operators of online gambling websites who have had to obtain formal licences from regulators in various jurisdictions rather than their suppliers. However, a number of regulators do require that either software providers or individual games that are offered for play are subject to formal accreditation or licensing requirements.

The Group maintains various licences in Alderney (Category One, Category Two, Core Service Provider and Foreign Gambling Associate certificates). It maintains a Client Provider Authorisation in Kahnawake to allow it to support the iPoker network and a network licence in Antigua. It also holds licences to manufacture and supply gambling software in the UK. It is a recognised software supplier in Tasmania. It has a service provider licence in the Philippines. In addition, the Group has recently secured a licence in Spain in accordance with the recently enacted legislation to offer network management services to its Licensees in that market. The Group will seek to obtain any requisite licences in its targeted jurisdictions.

## 4. **Online Gambling Market**

### 4.1 *History and development*

The online gambling market developed in the mid-1990s. By 2004 the market was estimated as having revenues of approximately €8 billion per annum, and it has since continued to grow substantially.

The market has benefitted from improved broadband penetration and speed, technological advances, a growing number of market participants, and greater acceptance of online gambling as a mainstream leisure pastime. Since the passage of UIGEA, which intended to close the US market in 2006, mainstream operators have focused on Europe and, in particular, on markets where legislation begins to allow various forms of online gambling on a locally regulated basis.

### 4.2 *Overall market size*

Gambling has existed for centuries and it is a major worldwide industry. Data compiled by gambling industry consultants H2 Gambling Capital suggests that the reported global gambling market from licensed jurisdictions grew from €201 billion in 2004 to over €285 billion in 2011, as defined by gross gambling yield to the operator.

The figure for 2011 comprises approximately €187 billion from commercial operations such as casinos, betting shops, gaming machine arcades and regulated online "e-gaming", and approximately €98 billion from monopolies such as lotteries and horse race betting pari-mutuels.

### 4.3 *Online growth*

In 2011, H2 Gambling Capital reported that the online segment was worth €24.6 billion in terms of gross gambling yield (not including the online activities of horse race betting, pari-mutuels or state lottery monopolies). Of this, casino represented 24 per cent.; poker represented 13 per cent.; bingo/other gaming represented 11 per cent. and commercial sportsbetting, including horse racing represented 25 per cent.. Of these, casino and bingo/other gaming had grown over the past 12 months at eight per cent. and 18 per cent. respectively, while poker had fallen back by 19 per cent. following the closure of the three largest sites that had continued to service the United States market until the Department of Justice indictments in April 2011.

### 4.4 *Market participants*

The online gambling market has a wide range of participants and has become more specialised as it continues maturing as a substantial global industry. At the outset of the online gambling

market, operators managed an end-to-end offering, from software and content development through to direct player marketing, but as more participants entered the online market, businesses evolved to outsourcing certain elements, principally software for back-end systems and games content. More recently, operators have increasingly outsourced a wide range of support and marketing services.

Industry participants have traditionally been defined within two categories:

**B2C:** the B2C sector includes all player-facing activities. Operators typically have a strong advertising and marketing-led business model and seek to attract players to their websites and encourage ongoing loyalty from their active players. These operators include dedicated online casino, poker and sportsbook sites, some of which have existed for over a decade. More recently, major land-based casino and betting businesses have sought to develop their own online businesses.

In addition to commercial operators, there has been a growing B2G segment, comprising state-owned or state-controlled entities such as lotteries and other organisations that have looked to enter the online gambling market as a B2C operator. It is anticipated that as new regulation in a country or territory is introduced that clarifies any legal uncertainty surrounding online gambling, the current monopoly providers in such jurisdictions will be well placed to take advantage of these opportunities and will become important players in that market.

**B2B:** supporting B2C and B2G operators are a number of technology providers offering software platforms, specialist products and marketing and other services, or content such as new casino side games. These businesses compete to offer the highest quality gambling products, services and technology systems that enable the operators to optimise player revenues.

Operators may choose to outsource a range of functions depending on their own in-house capabilities and any regulatory constraints. For example, a sportsbook operator may look for a complementary bingo, poker or casino product; server hosting services; or consider joining a poker or bingo network to benefit from enhanced player liquidity.

#### 4.5 *Competition and market dynamics*

Historically, the Group has traditionally faced competition for B2B mandates from other software providers in the industry. More recently, some operators have entered newly regulated markets in partnership with substantial and well-recognised local businesses. This gives these operators access to a well-known local brand enabling them to benefit from combined and enhanced player liquidity. In return these operators typically provide a white label solution for their local partner. The desire of the Group to compete effectively with such operators by offering a turnkey solution was the main driver behind the acquisition of PTTS in July 2011.

Perhaps the most significant of industry trends is the growing convergence of the land-based and online market segments. Both the online and land-based segments adopt common techniques for player attraction and retention, such as VIP levels and loyalty schemes. Operators are becoming more aware of the importance of player retention and of incentivising the player on an individual basis, whether they are playing online, on a mobile or tablet, or in a land-based environment. The convergence is principally being driven by the fact that as countries such as France and Spain have introduced new legislation to regulate online gambling, established land-based operators seek to develop their online presence.

The explosion of social networking sites such as Facebook has given rise to a market for social gaming, which is almost exclusively play for fun or for virtual currency. The social gaming market has attracted a large number of players. The Directors believe that web based social media has been effective at driving players to real money online gambling leading to a convergence between the social gaming and online gambling markets. Most recently, the online gambling market has seen many established gambling companies pay significant sums to acquire capabilities in social gaming in anticipation that this will allow them to market online

gambling products to players on social gaming networks. In response to this convergence, the Directors recognised that the Group needed to expand its product range to include social gaming and play for fun capabilities. Accordingly, the Company announced on 12 June 2012 that the Group has entered into licensing agreements with Skywind to give the Group access to various social gaming software including back-end capabilities, poker, casino, bingo and rummy software as well as providing the Group with access to a development team with experience in social gaming.

## 5. Strategy

### *Strategic positioning*

The Group's strategy is to create a business with significant scale and a full product and service capability, underpinned by a pre-eminent technology platform. Through a combination of organic development and targeted acquisitions, the Company has sought to implement this strategy to maximise opportunities as the online gambling industry continues to undergo significant change and become increasingly sophisticated. In particular, the online gambling industry is seeing convergence between online and land-based channels and between social gaming and mainstream online gambling. The Directors believe that the Group has positioned itself to take advantage of the opportunities that these developments present.

The Group's reach extends further than traditional online gambling and now includes other channels, such as mobile and tablet, live broadcast and TV, land-based gambling and social gaming, where the convergence of operator activity and management of the player experience is shaping the industry.

In addition, providing Licensees with a range of outsourced services, as well as a comprehensive technology solution has further expanded the market opportunity for the Group. This ability to offer a turnkey solution has also enabled the Group to extend its relationships with existing operators as well as new entrants to the online gambling industry, and also to form joint ventures with well-recognised local operators as their markets adopt regulation.

The Directors believe that the move to locally-regulated markets and the advent of social gaming has redefined the way in which operators and service providers address each market. Strategic alliances with other B2B providers, or as part of a consortium, have brought greater global reach and extended the Group's capabilities in market segments where a local presence or track record is critical.

The Group's strategy, supported by its strong balance sheet, now centres on developing its highly complementary business channels: products and services, turnkey solutions, joint ventures and social gaming. Through this multi-channel approach, the Directors believe that Playtech will be in a position to maximise the potential for growth and market share in newly-regulating markets in addition to strengthening the existing relationships with traditional operators.

### *Products and Services*

The Group's goal is to become the supplier of choice to the gambling industry's well established and well recognised operators who would be attracted by the scale and breadth of its player networks, the size of its content library and the sophistication of the IMS platform allied with a broad range of complementary services.

The Group's software development focus is to enable its diverse Licensee base to optimise player revenues and loyalty by providing high quality player management tools that can be utilised across online and land-based platforms, and new gaming content. The Group intends to target operators in newly regulating markets with a full suite of gambling and social gaming products and services along with responsible gambling tools which comply fully with the evolving regulatory landscape.

New entrants to regulating markets are increasingly looking for a greater degree of expert support from their service providers. The Group's strategy will be to continue to seek further opportunities to provide a broad range of outsourced services to Licensees.

### *Turnkey solutions*

Following the acquisition of PTTS, the Group can now offer products and services as a single source supplier of gambling solutions, particularly to the growing number of new entrants targeting regulated markets. The Group can offer such new entrants affiliate marketing services and sophisticated CRM solutions, combined with advanced player management systems which allows operators to leverage its market-leading gaming content and cross-channel capabilities.

Providing Licensees with a range of outsourced services, as well as a comprehensive technology offering, has further expanded the market opportunity for the Group. Through its turnkey solution, the Group can deliver a cost effective offering for Licensees, either from a low-cost Playtech location or a local greenfield site, depending on the requirements of the operator or jurisdiction. The Directors believe this will enable the Group to extend its relationships with existing gambling operators, as well as new entrants to the online gambling industry, and to form joint ventures with well recognised local operators as their markets adopt regulation

### *Joint ventures*

The Group's strategy is to identify new partners with whom it can establish long-term partnerships in appropriate markets such as the UK, Germany and South Africa, where the Group has been chosen as a joint venture partner by leading domestic land-based operators. These partners are looking to develop a market-leading offering, supported by highly experienced marketing and player management capabilities. Such joint venture partners recognise the benefits of the Group's wide expertise as they compete in their markets against established international businesses transitioning from being offshore dot.com operators to local market participants.

The Group's strategy here is to provide its expertise with products and services whilst its local partners commit their gambling brands, and any online operations, customer lists and management to the new joint venture. Both parties' interests are aligned through the injection of working capital, as required under the joint venture arrangements, into the joint venture until the venture becomes self-financing. This model is designed to maximise both joint venture partners' potential financial returns whilst maintaining the Group's profile as a B2B provider. These partnerships also provide cornerstone liquidity pools for Playtech's networks in a ring-fenced market, benefitting all Licensees within the networks.

### *Social gaming*

Consistent with the Group's strategic objective of being the supplier of choice to the gambling industry, Playtech has been closely monitoring developments in the social gaming arena and analysing a number of ways to penetrate this relatively new and rapidly growing segment of the market, as Licensees and brand owners seek to leverage their online gambling assets and skills into this segment. The Group has identified significant potential in both this newly presented segment of the market and a cross-platform model with traditional real money gaming. The Group recently licensed certain social gaming software from Skywind which comprises a platform with back-end capabilities, poker, casino, bingo and rummy, thereby providing Playtech will a full suite of social gaming products. The software licence also gives the Group access to a development team with experience in social gaming.

The Group's strategy is to combine this software with its wide distribution channels and transferable real money gambling expertise and marketing capabilities into the social gaming arena and is devoting resources in order to launch a full B2B social gaming offering which will appeal to existing Licensees and third parties. Playtech will seek to expand its social gaming offering both through additional development and appropriate acquisitions, as opportunities arise.

**6. Background to, and reasons for, obtaining a Premium Listing and moving to the Main Market**  
The Directors believe that a Premium Listing and move to the Main Market will:

- provide a more appropriate platform for the continued growth of the Company and further raise its profile and status as a growth-focused business;
- place the Company in a better position to achieve improved liquidity and valuation in its Ordinary Shares due to the higher number of institutional investors who regularly trade and

invest in shares of companies admitted to the Official List and the higher profile of such companies; and

- benefit Shareholders due to the further development of Playtech's corporate governance, regulatory and reporting disciplines. Playtech already adopts many of the corporate governance, regulatory and reporting disciplines required of companies with a Premium Listing. In addition, as a result of the Company's re-domiciliation to the Isle of Man, the Company will be subject to the Takeover Code on Admission.

Furthermore, the Board considers the Main Market to be a more appropriate market for a company of Playtech's size and maturity, given Playtech's growth since its IPO.

Application has been made to the Financial Services Authority and to the London Stock Exchange respectively for admission of all the Ordinary Shares to: (i) the Official List; and (ii) trading on the Main Market. It is expected that Admission will become effective and that dealings in the Ordinary Shares on the Main Market will commence at 8.00 a.m. on 2 July 2012. No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange.

Following Admission, the Company expects to be eligible for inclusion in the FTSE Actuaries Share Indices. In order to qualify for inclusion in the FTSE All Share Index, the Company will need to meet certain liquidity requirements (measured by volumes of shares traded) and the total market value of the issued Ordinary Shares must exceed certain levels measured on the quarterly index review dates. On the basis of the current FTSE UK Index Series Rules and the market capitalisation of the Ordinary Shares as at 27 June 2012 (being the latest practicable date for this information prior to publication of this document), provided that trading in the Ordinary Shares meets the liquidity requirement, the Company expects to be eligible for inclusion in the FTSE 250 Index at the September 2012 review date.

## 7. Selected Financial Information

The financial information set out below has been extracted without material adjustment from the historical financial information of the Group for the three years ended 31 December 2011 as set out in Part 4B of this document.

	<i>Year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Revenues	114,775	142,294	207,485
Income from associate	22,534	30,792	36,073
<b>Gross Income</b>	<b>137,309</b>	<b>173,086</b>	<b>243,558</b>
Operating profit	56,449	45,309	52,154
Depreciation and Amortisation (excluding amortisation of intangibles on associate)	8,778	17,090	29,137
EBITDA	65,227	62,399	81,291
Income from associate	22,534	30,792	36,073
Employee stock option expenses	5,150	5,855	4,678
Decline in fair value of available-for-sale investments	399	2,223	551
One-off legal costs relating to the litigation with the William Hill Group	–	–	1,389
Professional expenses on acquisitions	360	1,802	1,488
<b>Adjusted EBITDA</b>	<b>93,670</b>	<b>103,071</b>	<b>125,470</b>

## 8. Current Trading and Prospects

Playtech has continued to perform strongly in 2012. PTTS has outperformed expectations and certain Licensees have launched in the Spanish market following the recent commencement of regulated activity. William Hill Online continues to perform strongly and demonstrates Playtech's ability to forge significant earnings enhancing partnerships with leading gambling businesses. The Directors believe that Playtech is well positioned for continued growth and remain confident of the Company's future prospects.

## 9. Dividend Policy

The Board has adopted a policy of paying out up to 40 per cent. of adjusted net profit in any financial year by way of dividend which, it is intended, would be paid as to one-third as an interim dividend and two-thirds as a final dividend. The Directors will continue to monitor the level of cash retained within the business as well as investment opportunities available to the Group and, from time to time, review the continued appropriateness of such policy.

The amount of dividend per Ordinary Share paid in respect of each of the financial years ended 31 December 2009, 31 December 2010 and 31 December 2011 was as follows:

	<i>Year Ended</i> <i>31 December</i> <i>2009</i> €	<i>Year Ended</i> <i>31 December</i> <i>2010</i> €	<i>Year Ended</i> <i>31 December</i> <i>2011</i> €
Dividend per Ordinary Share	0.180	0.190	0.165

## 10. Directors, Senior Management, Employees and Location of Offices

### *Directors*

#### **Roger Withers**, *Non-executive Chairman (aged 69)*

Roger started his career with Booz, Allen & Hamilton as an international management consultant and, subsequently, has over 30 years' experience in the leisure and gaming industries. In 1973, Roger joined Ladbrokes where he held a number of senior positions in the bookmaking, casino, lottery and gaming machine divisions. In 1986, he joined Bass where his roles included Managing Director of BLMS and Coral Racing and Executive Chairman of Bass Leisure South Africa. He retired from Bass in 1998. Since then, he has held a number of other non-executive directorships, including chairman of Arena Leisure plc as well as with a number of substantial privately held companies in the property, technology, publishing and exhibitions sectors. He is also currently non-executive chairman of Sportech PLC, the pools and tote betting company.

#### **Mor Weizer**, *Chief Executive Officer (aged 36)*

Mor was appointed as the Group's Chief Executive Officer in May 2007. Prior to this he was the chief executive officer of one of the Group's subsidiaries, Techplay Marketing Ltd, which required him to oversee the Group's licensee relationship management, product management for new licensees and the Group's marketing activities. Prior to joining the Group, Mor worked for Oracle for over four years, initially as a development consultant and then as a product manager, which involved creating sales and consulting channels on behalf of Oracle Israel and Oracle Europe, the Middle East and Africa. Before this, he worked in a variety of roles, including as an auditor and financial consultant for PricewaterhouseCoopers and a systems analyst for Tadiran Electronic Systems Limited, an Israeli Company that designs electronic warfare systems.

#### **David Mathewson**, *Chief Financial Officer (aged 64)*

David is a qualified chartered accountant and has significant banking and advisory experience having been a director of corporate finance at Noble Grossart Limited and non-executive director of Noble & Co Limited. He has been a director of many publicly listed companies including investment trusts over the past 20 years. Recent appointments have included non-executive director and then chairman of Sportech PLC, senior independent director of Edinburgh UK Tracker Trust plc and chairman of Asian Growth Properties Limited.

**Alan Jackson, Senior Independent Non-executive Director (aged 68)**

Alan has over 30 years' experience in the leisure industry. From 1973 to 1991, he occupied a number of positions at Whitbread, principally as managing director of Beefeater Steakhouse and also the Whitbread restaurant division where he was responsible for the creation and development of the Beefeater, Travel Inn and TGI Friday brands. In 1991, he founded his own business which became Inn Business Group plc in 1995 and was subsequently acquired by Punch Taverns plc in 1999. He has been chairman of The Restaurant Group plc since 2001. He is also deputy chairman and senior independent director at Redrow plc.

**Andrew Thomas, Non-executive Director (aged 69)**

Andrew is a member of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Taxation and has enjoyed a career as an accountant and businessman, much of which was gained in the leisure industries. Andrew is currently chairman of Randalls Limited, a family owned pub company, in Jersey, where he has his home and of The Greenalls Group Pension Trustees Limited. Andrew previously served as chairman of The Greenalls Group PLC and as a non-executive director of JJB Sports PLC and of The Restaurant Group PLC, as well of serving on the boards of a number other public and private companies. He is the founding partner in the Cheshire based accountancy firm, Moors Andrew Thomas & Co. LLP.

**Senior Management**

**Rafael ("Rafi") Ashkenazi, Chief Operating Officer (aged 36)**

Rafi joined the Group as Chief Operating Officer in January 2006 and served as a Director of the Company, stepping down in January 2010. From 2001 until 2005, Rafi was vice president of project & products for SQLink Group, an Israeli company and provider of end-to-end IT services specialising in on-site software consulting and services. Prior to this, Rafi worked at Hapoalim Bank, the largest bank in Israel, as a systems analyst and developer.

**Ron Hoffman, Vice President Finance (aged 35)**

Ron joined the Group in 2004 and spent the last eight years managing the financial department at Playtech assisting with the AIM IPO in 2006 and supporting the growth of the Group's business through its operations and financial planning and reporting. He previously held a senior managerial position at Ernst & Young in Israel.

**Employees**

Playtech is headquartered in the Isle of Man, and has a number of offices worldwide principally in Estonia (Tartu and Tallinn), Bulgaria (Sofia), the UK (London and Ipswich), Israel (Tel Aviv) and the Philippines (Manila).

In 2011, the Group employed an average of 1,737 people, an increase of approximately 56 per cent. from 2010. This increase was principally due to the acquisition of PTTS in July 2011 the bulk of whom are customer support agents based in Bulgaria and the Philippines. Additional operations of PTTS, mainly administration and finance, are located in Cyprus.

A small team of people are located at the Company's head office in Douglas, Isle of Man including the Chief Financial Officer, the Chief Operating Officer and the Company Secretary. The main Group accounting, legal, development, customer relations, IT and security teams are located in Tel Aviv, Israel.

The main development offices are located in Estonia in offices in Tartu and Tallinn. The Tartu office employs software developers engaged in the development and support of the Group's casino IMS and other products and the Tallinn operation focuses on the development of the Videobet Technology.

The UK offices are principally devoted to the development and support of the bingo and sportsbetting products, and new games development.

Other important operations for the software business are located in Bulgaria mainly focussing on the development and support of the Group's poker product.

The table below shows the divisional breakdown of the Group's employees by their main activity and their geographical locations as at 31 December 2011.

<i>Category of activity</i>	<i>Location</i>						<i>Total</i>
	<i>Estonia</i>	<i>Philippines</i>	<i>Bulgaria</i>	<i>Israel</i>	<i>UK</i>	<i>Other</i>	
Software Development & IT	457	11	168	144	169	30	979
Support & Marketing Services	–	520	163	6	–	12	701
Chat Moderators	–	–	–	–	–	222	222
Dealer & Shufflers	–	131	–	–	–	–	131
Customer Relations	42	2	–	22	18	12	96
Sales & Marketing	5	–	–	7	3	10	25
Finance & Administration and Legal	19	14	23	24	7	20	107
HR & Training	6	13	11	4	3	–	37
Other	–	108	61	7	1	9	186
<b>Total</b>	<b>529</b>	<b>799</b>	<b>426</b>	<b>214</b>	<b>201</b>	<b>315</b>	<b>2,484</b>

## 11. Corporate Governance and Internal Controls

The Company recognises the importance of the principles of good corporate governance. The Isle of Man (where the Company is now registered) does not have a formal corporate governance regime. However, following Admission, the Company will be required under the Listing Rules and the Disclosure and Transparency Rules to report its compliance or otherwise with the UK Corporate Governance Code in its annual financial statements for that year. The Board is of the opinion that, as at the date of this document, it is fully compliant with the UK Corporate Governance Code.

The Board is accountable to Shareholders for good corporate governance and the statement set out below describes how the Group applies the principles identified in the UK Corporate Governance Code.

The Company is controlled through the Board, which currently comprises two Executive Directors and three Non-executive Directors. The Chairman and the other two Non-executive Directors are all considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment.

The principal role of the Board is the protection and advancement of Shareholders' interests. A formal schedule of matters reserved for consideration by the Board gives it responsibility for overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters. The Board also reviews the strategic direction of the Group, any codes of conduct, annual budgets, progress towards achievement of these budgets and any capital expenditure programmes.

### *Audit Committee*

The Audit Committee is comprised of two independent Non-executive Directors and is chaired by Andrew Thomas. The duties of the Audit Committee include monitoring the auditors performance and reviewing accounting policies and financial reporting procedures.

### *Nomination Committee*

The Nomination Committee is comprised of three independent Non-executive Directors and is chaired by Roger Withers. The Nomination Committee is responsible for reviewing the size, structure and composition of the Board, succession planning and identifying and nominating candidates for all senior management and Board positions.

### *Remuneration Committee*

The Remuneration Committee is comprised of two independent Non-executive Directors and is chaired by Alan Jackson. The Remuneration Committee considers the terms and conditions of employment and overall remuneration of the Executive Directors, the Company Secretary and key members of executive management regarding share options, salaries, incentive payments and performance related pay. The Board determines the remuneration of Non-executive Directors. No Director is involved in any decisions as to his/her own remuneration.



### *Risk and Compliance Committee*

The Company has established a Risk and Compliance Committee chaired by Alan Jackson, the Company's Senior Independent Non-executive Director. The other members consist of Andrew Thomas, the Company Secretary, the General Counsel of the Group and the Group's Head of Compliance. The Risk and Compliance Committee receives presentations from management on risk, compliance and regulatory issues and reviews the related internal systems.

### *Relationship with the largest shareholder*

The Company's largest shareholder is Brickington which owns approximately 49.66 per cent. of the Company's issued Ordinary Shares as at the date of this document. Brickington is a wholly owned subsidiary of a trust, one of the ultimate beneficiaries of which is Teddy Sagi, one of the Group's founders. At the time of the Company's IPO in March 2006, an agreement was entered into which included certain provisions regulating the relationship between Brickington and the Company. In connection with the Company's Premium Listing, the Company and Brickington have entered into the Relationship Agreement which replaces the arrangements entered into in March 2006. Pursuant to the terms of the Relationship Agreement, Brickington has agreed that: (i) it will vote its Ordinary Shares in such a manner so as to procure that each member of the Group is capable of carrying on its business independently of Brickington and its associates; and (ii) it will not exercise any of the voting rights attaching to its Ordinary Shares in such a manner so as to procure any amendment to the Articles which would be inconsistent with, undermine or breach any of the provisions of the Relationship Agreement. Brickington has also agreed that all transactions and relationships between it (or any of its associates) and the Company will be on arms' length terms. With effect from Admission, Brickington will, for so long as it holds at least 30 per cent. of the issued Ordinary Shares, have the right to appoint two non-executive directors to the Board. Brickington has also given certain non-compete undertakings to the Company including in relation to B2B real money software.

In connection with the Relationship Agreement, Mr. Sagi has entered into an agreement with the Company pursuant to which Mr. Sagi will, as and when requested to do so by the Company, provide advisory services to the Company for a nominal fee of €1 per annum until either Mr. Sagi ceases to be interested (whether legally or beneficially) in any Ordinary Shares or either party terminates the agreement following its fifth anniversary, whichever is the earlier.

### *Corporate Social Responsibility*

Playtech is committed to integrating corporate social responsibility within its businesses, supporting the continued generation of sustainable value and enhancing the Group's ability to deliver on its strategic objectives. The Group's corporate and social responsibility initiatives are under the overall supervision of the Risk and Compliance Committee, under the chairmanship of Alan Jackson. The Board believes that the Group's true value is reflected not simply by its balance sheet but through its intangible assets such as goodwill, the Group's people and the Group's reputation.

In particular, as a leader in the online gambling industry, Playtech takes its responsibilities to operators and regulators seriously and is focused on co-operating with both on issues of responsible gambling. The IMS provides operators with the latest responsible gambling solutions: embedded systems and controls (such as self-exclusion tools and wagering limits) to facilitate responsible gambling for players and to help ensure a safe playing environment for all.

By embracing policies and behaviours governing social responsibility, the Company creates more valuable relationships with its stakeholders by demonstrating its focus on managing material non-financial risks in the business.

## **12. Taxation**

The policy of the Group will be to continue to manage and operate each member of the Group in a way that is intended to ensure that it has a taxable presence only in the jurisdiction in which it has a registered business presence and that it has no taxable permanent establishment or other taxable presence in any other jurisdiction. It is the intention of the Directors to continue to conduct

the affairs of the Company so that the central management and control of the Company is exercised in the Isle of Man.

### **13. CREST**

CREST is a paperless settlement procedure enabling ownership of securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of Ordinary Shares in the CREST system. The Ordinary Shares are expected to be admitted to CREST on 2 July 2012 with ISIN number IM00B7S9G985, following the winding up of the Company's depository interest facility which is anticipated to occur at close of business on 29 June 2012.

Accordingly, settlement of transactions in Ordinary Shares following Admission may take place directly within CREST if any Shareholder so wishes. CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

## PART 2

### REMOTE GAMBLING REGULATION

#### Remote Gambling Regulation

This section provides a description of the legal and regulatory environment as it applies to the supply of remote gambling services (and the associated supply of software and services to remote gambling operators).

As well as the following general descriptions, attention is drawn to the section headed “Risk Factors” which describes specific risks associated with the Group’s operations.

#### 1. Overview

The regulatory environment to which the remote gambling industry is subject is in a state of constant development. The relatively recent evolution of the remote gambling regulatory environment has seen the enactment and implementation of new or updated laws and regulations as a variety of jurisdictions seek to regulate and tax gambling transactions with their citizens. Other jurisdictions, however, have sought to strengthen monopolistic regimes or, in the alternative, prohibit gambling with their citizens altogether.

The Group generates the majority of its income through licensing its proprietary software to operators who, themselves, then supply to end users located in a variety of jurisdictions. Historically, operators have sought to justify their activities by relying on the legality of their operations in their country of origin, and reducing any associated risks of jurisdictions in which their end users are based forming a contrary view, by limiting or omitting their physical presence in such jurisdictions, where any such activities were not clearly legal. The Group does not locate tangible assets or maintain a physical presence in any jurisdictions where it has been made aware of any material legal or regulatory risk associated with such location or presence. The Group contractually obliges its Licensees to block access to its products by customers located in certain jurisdictions. The Group takes the additional precautionary step of ensuring that its Licensees also block wagers from such jurisdictions, as well as from jurisdictions where there is no scope for a Licensee to argue that its activities are not illegal. The Group currently adopts such a stance in relation to the United States, Israel, Bulgaria, Cyprus, Hong Kong, the Philippines and, unless the Licensee holds a valid licence, in Estonia, France and Spain. Furthermore, Licensees are obliged to block certain products to certain other jurisdictions, including Turkey.

As regulation continues to evolve, so too does the Group’s on-going compliance. Whilst in many jurisdictions, laws and regulations may not specifically apply to supplies by gambling software licensors and service providers (as distinct from operators’ supplies to end users), this is not universally the case and, indeed, a number of jurisdictions have sought to regulate such supply explicitly. The Group may also be obliged, given the nature of the technology it supplies, to obtain licences in a number of territories as regulation may require.

The Group currently holds a number of licences relating to the supply of gambling software and related services. Group companies hold such licences or authorisations in Alderney, Antigua, Kahnawake, the Philippines, Spain, Tasmania and the UK. The Group will seek to obtain any requisite licences in its targeted jurisdictions.

As legislation is introduced to regulate remote gambling, so related legislation will be enacted to effect taxation of such regulated gambling activities. The financial dynamics of the remote gambling industry are rapidly changing. As the regulatory environment has developed, particularly in the European market, the favourable taxation environments to which the Group’s Licensees have previously been subject may be replaced by less favourable environments, as jurisdictions seek to impose their taxation on what was, traditionally, an offshore activity. Specifically, the Group’s major market, the UK, may become subject to less favourable tax burdens in the short-to-medium term

following the UK Government's announcement in July 2011 of its intention to introduce a regulatory regime by which any operator transacting with UK citizens would need to hold a licence from the UK's Gambling Commission and would become subject to a point-of-consumption tax regime which would result in a number of Licensees facing significantly higher rates of duty. In addition some regimes do not acknowledge that it may result in the operator being taxed twice for the same transaction (at the location of the operator and at the location of the customer).

## 2. European Union Countries

The Treaty on the Functioning of the European Union ("TFEU") embodies the principle that, within the European Union, each Member State and their constituent citizens, can freely trade with other Member States and their constituent citizens. It arguably follows that restrictions on supply and movement of goods, services, people and capital are not permitted unless certain justifications are evident. Accordingly, if a gambling operator is prohibited from freely operating in Europe by an EU Member State's domestic law, such an approach may be unlawful under EU law (which is supreme over a Member State's domestic law). However, Member States are permitted to derogate from such principles and to legislate and impose discriminatory restrictions where to do so would be justifiable to achieve the aim of safeguarding public interest. The ability for Member States to introduce or seek to maintain restrictive legal systems forms the basis of the evolution of the remote gambling regulatory environment. The application of European laws designed to enshrine EU-wide trade freedoms is the subject of on-going and developing jurisprudence.

A number of Member States have recently introduced local licensing regimes, notably France and Spain (following Italy's staggered licensing development over the past few years). Yet, the way in which national laws are evolving is unpredictable, and in some instances laws appear to have been fully implemented by certain Member States in contravention of the jurisprudence of the ECJ, and also in contravention of guidance given to Member States by the European Commission following review and comment on draft laws and regulations.

A myriad of local regulations are having a substantial effect on the remote gambling industry as operators and suppliers alike count the cost of multi-jurisdictional regulation and compliance. Technical requirements and operational constraints, such as the requirement to ring-fence player liquidity, as has happened as a consequence of developments in the Italian and French licensing regimes, can impact the commercial appeal of operators and, it follows that it may also impact financially upon their suppliers. Co-operation between Member States and their gambling regulators is in its infancy and, if such co-operation does develop towards harmonisation of sorts, be it in respect of uniform technical standards or common approaches towards player protection, it remains to be seen how beneficial this will ultimately be to the industry and its component parts.

## 3. US

Until the implementation of the Unlawful Internet Gambling Enforcement Act ("UIGEA") in the US in October 2006 the Group supplied software to Licensees taking wagers from the US. Following the passage of UIGEA, the Group has required all Licensees to block all such wagers.

Although there are strong indicators that the US state and federal authorities may yet regulate some forms of online gambling (and this has already occurred in a small number of states), it is unclear as to the extent to which there are viable commercial opportunities for non-US industry players. Furthermore, any pre-UIGEA facilitation and any inadvertent post-UIGEA facilitation may preclude Licensees and/or the Group availing themselves of any such commercial opportunities which would have a clear detrimental effect on the financial growth potential of the Group. That said, the Group has successfully satisfied the probity requirements for suppliers to certain US state operators, although there is no guarantee it would be successful in securing such approvals in any additional US states.

It is unclear as yet whether the Department of Justice ("DoJ"), at a federal level, or state prosecutors, at a state level look to make recovery for transgressions of relevant law prior to the implementation of UIGEA. Some operators have brokered settlements with the DoJ but these may not provide complete immunity from prosecution.

#### 4. Country specific regulatory overview

The following sections provide a summary of the legal and regulatory issues arising from the Group's material markets. For the purpose of this document, the Group's material markets are considered to be those jurisdictions from where, through the Group's Licensees' activities, the Directors believe that three per cent. or more of Gross Income is (or, in the next two years might be) ultimately derived. The following summaries are in alphabetical order and, at the end of each section, the relevant proportion of Gross Income for the year ended 31 December 2011 is specified.

For the purpose of this section, "gambling" is deemed to encompass all forms of wagering, whilst "gaming" encompasses casino, poker and bingo.

##### *Canada*

The Canadian Criminal Code generally prohibits the conduct of gambling activity within Canada save that provincial governments are permitted to provide gambling services, and to license registered charities to provide certain kinds of gambling services within their respective jurisdictions.

Canada has proved to be an important territory for a number of gambling operators for a number of years. Yet, unlike other key jurisdictions where the purported legal uncertainty has been a key component of an associated risk rationale, there have been precedents in Canada set by prosecutions where the application of its laws to the supply into the jurisdiction of offshore remote gambling services has been confirmed.

Whenever a company chooses to supply gambling software to operators who are located offshore and yet who take Canadian customers, they assume a risk in doing so, as they could be construed as aiding and abetting an offence and/or committing a direct offence (that is, leasing and/or possessing a device for gambling). Managing that risk, therefore, becomes a matter of location and the ability of an enforcement agency to actually commence proceedings. It is clear that Canadian law enforcement authorities are required to serve the accused in Canada in order to pursue such proceedings. However, there are a number of hurdles in bringing a successful prosecution in Canada and it is likely that the relevant prosecuting bodies would be more inclined to pursue an operator as opposed to a supplier where both are located offshore. In addition, absent the service of indictments effected locally or reliance on extradition (none of which has occurred as yet for online gambling) the Canadian courts could not assert jurisdiction.

The Group has been advised that any operator of remote gambling services and any of their key suppliers such as software suppliers should ensure that they do not locate any of their operations, assets or personnel in Canada as doing so would potentially render them at risk to enforcement action albeit that there are significant hurdles in bringing a successful prosecution, not least because there have been no real precedents set as yet for such prosecution. The Directors have been advised too that the Canadian authorities have also been wary of bringing any challenge in relation to the sovereignty of Kahnawake where a number of the Licensees are licensed and locate equipment. In the case of the Group it does not locate equipment or employees there.

For the year ended 31 December 2011, approximately 3.2 per cent. of Gross Income was generated through Licensees transacting with the Canadian market.

##### *The People's Republic of China ("China")*

There is a general prohibition of gambling in China whether offered online or through land-based channels, pursuant to Article 303 of the Criminal Law. Gambling is also subject to administrative penalties under the Law on Penalties for Administration of Public Security ("**the Law on Penalties**"). Whilst the laws themselves are silent on their applicability to online gambling, notices regarding gambling have been published by the Ministry of Public Security that indicate the views of the authorities. A 2005 interpretive notice extended the definition of "gambling" to encompass online gambling.

The Group has been advised by local counsel that the jurisdictional reach of the Chinese authorities to assert both the Criminal Law and the Law on Penalties is restricted. The authority to assert jurisdiction in relation to online gambling follows the local legal principle that the illegal activity should be handled by authorities where the defendants are domiciled. In the context of online

gambling therefore, that location is identified by the establishment of servers of the gambling websites, the place where internet access is provided, places where the owners or management of the gambling website are domiciled, and the places where the agents of the gambling sites are located or where players are located.

Chinese authorities can prosecute Chinese nationals undertaking gambling activities wherever the illegal activity takes place. For foreign nationals, China could only assert authority if the crime or result of the crime occurs within China. The same is true in terms of servers or assets located outside of China. Thus for offshore operators or software suppliers with no local presence in China or non-Chinese employees, local counsel have advised that China does not have jurisdiction and such activities currently will not attract risk of enforcement.

Furthermore, due to the laws on the illegality of any form of gambling in China, it would not be prudent to pursue any civil legal action through the local court system and/or arbitration as the circumstances will be found in clear contradiction of the established laws. It would also not be effective to pursue international litigation and/or arbitration in an effort to gain a reprieve in China, as any foreign judgments and award would not be enforceable locally for the same reasons.

In 2010, the Ministry of Public Security issued an opinion stating that anyone providing software development services to a gambling operator was committing a crime. However, this is also subject to a limited territorial application.

For the year ended 31 December 2011, approximately 3.6 per cent. of Gross Income was generated through Licensees transacting with the Chinese market.

### *Germany*

The gambling regulatory framework in Germany is fragmented. An interstate treaty, established in 2008 (the “**Interstate Treaty**”), enforced a state monopoly on gambling and prohibited online gambling. In preparation for the expiry of the Interstate Treaty on 31 December 2011 a new draft interstate treaty (“**2012 Treaty**”) was agreed in principle by 15 of Germany’s 16 states.

The aim of the 2012 Treaty is to partially liberalise the gambling market by introducing a regulatory regime for sportsbetting, with 20 licences to be made available to private operators. Online gaming (including poker) would continue to be prohibited. The 2012 Treaty has been notified to the European Commission and the European Commission raised concerns as regards the conformity of the 2012 Treaty with European laws. The European Commission indicated that there may be instances of infringement insofar as the proposed 2012 Treaty is implemented without certain safeguards in place (for example, a limited number of licensees would only be acceptable for a finite period of time, during which issues such as social harm could be assessed). Despite these concerns, the majority of the parliaments of the federal states have ratified the 2012 Treaty in the form notified to the European Commission and the 2012 Treaty will most likely come into force on 1 July 2012. Except for a small number of licensed sports betting operators which may offer online betting under certain strict requirements, the supply of remote gaming services to individuals located on German territory (with the possible exception of Schleswig-Holstein), remains prohibited.

Schleswig-Holstein, the only German state not to sign the 2012 Treaty, implemented its own gambling regime which came into effect on 1 January 2012, it has now awarded its first licences. However, due to a government reshuffle in Schleswig-Holstein in early May 2012, Schleswig-Holstein has confirmed its plans to conform to the 2012 Treaty, when implemented. This is subject, however, to legal advice in connection with its ability to repeal the legislation (which permitted the licences to be granted), revoke the licences, and its exposure to damages claims, that might result were it to take such action.

The future of online gambling in Germany is therefore uncertain. Many operators have continued to take German business, using the criticism handed down by the ECJ in the Carmen Media case (ECJ C-46/08) to argue that the Interstate Treaty was, in effect, unenforceable. However, subsequent decisions by the German Federal Administrative Court of Justice and the German Federal Court held that at least with respect to the prohibition of remote gambling, the Interstate Treaty is in line with German constitutional and European laws.

A provider of software and associated services to the online gambling industry is likely to be held to be acting in contravention of German law, as it currently stands, if it supplies operators who take German business, in particular by aiding and abetting. Due to the concerns raised in relation to the conformity of both the Interstate Treaty and 2012 Treaty with European laws, legal opinion is divided over the level of risk associated with operators continuing to take such business. The uncertainty with the German regulatory position will remain until the 2012 Treaty's compliance with European laws has been assessed by the relevant courts.

For the year ended 31 December 2011, approximately 7.7 per cent. of Gross Income was generated through Licensees transacting with the German market.

### *Italy*

Italy has gradually evolved as a regulated market following the implementation of the Bersani Decree in 2006. It represents one of the first major European territories to embrace the regulation of online gambling albeit that regulations have evolved in a very piecemeal fashion, on a product by product basis. This has resulted in there not being a wholly consistent approach to the market and a number of dot com sites continue to target Italian customers without the benefit of a licence. This is partly due to the perception that there has hitherto been a relatively low enforcement risk, but whether this remains true for operators is unclear. Nonetheless, the Directors have been advised that the risk for suppliers to operators remains low, irrespective of whether the latter are licensed. However, the Risk and Compliance Committee will carefully monitor the position. This having been emphasised, the Directors have been advised that AAMS is of the view that it has requisite authority to recover Italian taxes (plus penalties) against non-Italian licensed operators offering games to Italian players. This may lead to a more co-ordinated enforcement approach against parties that have profited from the unlicensed Italian market.

Article 4 of Law 13 December 1989 No. 401 ("Law 13") prohibits the remote organisation, management and offering of games regulated by the Italian gambling authority, the Amministrazione Autonoma dei Monopoli di Stato ("AAMS"), without the required licence. Operating licences are issued by AAMS. Most forms of gambling, that have developed in today's market, are licensable.

For the year ended 31 December 2011, approximately 10.7 per cent. of Gross Income was generated through Licensees transacting with the Italian market.

### *Malaysia*

The Common Gaming Houses Act 1953 ("CGHA") makes it an offence for a place to be kept or used as a "common gaming house". A common gaming house includes "*any place kept or used for gaming to which the public or any class of the public may have access*". Depending on the interpretation of a "place", the CGHA may cover the remote gambling environment. The participation, provision or facilitation of gaming is also illegal under the CGHA, as is gaming in a public place and the promotion of a public lottery. The CGHA criminalises unauthorised gambling for both players and operators.

The Lottery Act 1952 ("LA") also regulates gambling but more specifically, as the name suggests, lotteries. Construed widely, the definition of "lottery" under the LA may include bingo.

Although the CGHA does not specifically allude to the remote gambling environment, it does contain provisions relating to the prohibition of gaming machines. A "gaming machine" is defined as "*any mechanical, electrical or electronic machine or device (including any computer program used in such machine or device)...designed...for the purpose of playing a game of chance...*". Any type of dealing with a "gaming machine" including importing, manufacture, supply or operation is captured under the prohibition in the CGHA. Local counsel are of the view software used in the supply of remote gambling could fall into the definition of "gaming machine", but to the best of local counsel's knowledge the interpretation is untested in the Malaysian courts.

In the event the remote gambling operator's services are viewed as illegal under the CGHA or LA, a supplier's provision of services to such operators may be construed as an abetment of an offence and therefore a criminal offence under the Penal Code. This is predicated on the underlying offence being committed under the CGHA or LA.

As there is no specific legislation that governs remote gambling in Malaysia, it is a question of interpretation for Malaysian authorities as to whether any such online gambling activity would fall under the ambit of the local laws.

The applicability of the CGHA or the LA to remote gambling operators and therefore to the suppliers of support services (both based outside Malaysia) appear to be untested and there is no published case law on the matter. If the CGHA provisions are wide enough to encompass a supplier's activities as a dealer in gaming machines or a party who plays a role in the operation of a common gaming house (if it was determined that definition applied to online gambling websites), any sanction or penalty against such a supplier would be difficult to enforce, given the supplier had no assets or infrastructure located within Malaysia.

Based on the provisions which state that the CGHA and LA only apply "throughout Malaysia", local counsel advise it would appear that the CGHA has no extraterritorial application. Therefore, if an operator's server is based in Malaysia, there would be obvious potential criminal liability for such operator. If, however, an offshore operator bases its servers outside Malaysia, the Malaysian authorities would have difficulty successfully enforcing any sanctions or penalties against the offshore operator (or their suppliers), assuming that such operator (or supplier) has no assets or physical presence in Malaysia. There is a risk that the Malaysian authorities may seek to direct ISPs to prevent or restrict access to online gambling websites. However, to local counsel's knowledge the authorities have never taken such action in respect of gambling websites (although such action may not always be made public).

Money laundering in Malaysia is legislated for by the Anti-Money Laundering and Anti-Terrorism Financing Act 2001 ("AMLATFA") and makes it an offence for a person to engage, directly or indirectly, in a transaction that involved the proceeds of any unlawful activity. "Unlawful activity" includes any activity that is related directly or indirectly to any serious offence or any foreign serious offence. This would include money generated from remote gambling contrary to the CGHA or LA and therefore such a breach may have corresponding consequences under the AMLATFA. Those involved in online gambling activities and the removal of funds from Malaysia will be engaging in money laundering activities under Malaysian law. The AMLATFA purports to have extra territorial effect insofar as an offshore operator acting in contravention of the CGHA or LA is committing a money-laundering offence by facilitating the remittance of funds to and from players in Malaysia. Additionally, obligations are placed upon reporting institutions such as banks and financial institutions to identify large or suspicious transactions.

Certain officers at the Ministry of Finance in Malaysia have indicated that online gambling legislation is being considered, such statements are not binding on the Ministry and it is unclear whether such laws will come to fruition. It is anticipated however that such legislation would impose an absolute prohibition for both the provision and participation of online gambling activities and may remove the ambiguity over the application of the laws to the operation of a gambling website from outside the jurisdiction.

Until that happens, a supplier of software to remote gambling operators targeting Malaysia from outside the territory is potentially contravening the CGHA and the LA, although the application of such laws to activities occurring outside Malaysia remains debatable and the enforcement risk and enforcement may be difficult for that reason.

For the year ended 31 December 2011, approximately 8.4 per cent. of Gross Income was generated through Licensees transacting with the Malaysian market.

### ***Russia***

Gambling in Russia is primarily governed by the Federal Law No. 244-FZ "*On the State Regulation of Activities Associated with the Organisation and Conduction of Gambling and on Amending Specific Legislative Acts of the Russian Federation*" of 29 December 2006 ("**Gaming Law**"). Under Article 5(3) of the Gaming Law provision of internet gambling is expressly prohibited.

Offshore supply of online gambling services is not an area that Russian courts or legislation have directly addressed and no clear or reliable practice or approach has developed with regard to Russian



jurisdiction over offshore online gambling services. From various commentaries, it is suggested that factors including the technical location of servers that should be used to determine if Russian authorities have the ability to assert jurisdiction, coupled with the use of .ru and .su domain names.

Although it cannot be said with any certainty what preventative measures Russian authorities will or are likely to take against the provision of gambling facilities remotely, there has been a developing trend in enforcement actions to block access to websites involving online gambling as well as political and religious extremist groups which may provide some indication of the way in which the Russian courts might address online gambling, e.g. court orders for website blocking. This trend does indicate that Russian prosecutors are likely to use such website blocking cases as their primary enforcement tool against access to online gambling.

The historical lack of enforcement appetite and the lack of clear rules for asserting jurisdiction render the supply of online gambling opportunities into Russia for the near term at a modest risk of direct prosecution (under criminal or administrative law) against operators of offshore gambling services in the absence of an operator's or supplier's physical presence in Russia, or the location of assets in Russia. There is a medium, but growing, risk that payments or access to websites providing gambling services to the Russian market may be blocked or otherwise hindered at the local, regional or national level. It is important to note that the rules and practice for enforcement in this context are not well developed in Russia and a new presidential administration has recently come to power, so changes in the rules, interpretation or enforcement practices may adversely affect the risk profile for offshore gambling operations.

For the year ended 31 December 2011, approximately 3.6 per cent. of Gross Income was generated through Licensees transacting with the Russian market.

### *Spain*

Online gambling in Spain is regulated by the recently enacted Act no. 13/2011, dated 27 May 2011, entitled the Regulation of Gambling Activities (“RGA”). Article 9 of the RGA requires operators to obtain the requisite licences in order to offer “gambling” activities in Spain. “Gambling” under the RGA includes casino games and betting whereas an “operator” is an entity that has its revenue connected with the exploitation of gambling in Spain and the gambling activities offered to Spanish residents are operated or commercialised by that entity. Regulation of slots is expected to be implemented in 2012.

Royal Decree 1614/2011 developed the RGA further and extended the definition of “gambling” to include gambling networks. Article 3.3 states that operators “*managing gambling networks to which other gambling operators are members of or are adhered to and that allow their respective users betting amounts in common*” will be considered as gambling operators. It is therefore only operators and network providers that require a licence in order to operate remote gambling websites or networks in Spain. Although no provisions are in place for the supply of software into the jurisdiction, supplying to unlicensed operators may be construed as aiding and abetting and accordingly attract its own sanctions.

Spain's move to a regulated environment criminalises the offering of unlicensed gambling activities for both operators and network providers meaning that operators of a poker network will need to obtain a licence in order to take business from Spain legally. The Group has recently secured a network licence in Spain. The Group also now blocks wagers from Spain unless the relevant Licensee has a local licence.

For the year ended 31 December 2011, approximately 2.6 per cent. of Gross Income was generated through Licensees transacting with the Spanish market.

### *UK*

The Gambling Act 2005 (“**Gambling Act**”) is the primary legislation in relation to both land-based and online gambling in the UK. The Gambling Act is relatively sophisticated with different levels of regulation for different product types. There is no restriction on the number of private operators who can apply for licences, save the National Lottery which is reserved to the operator of the National Lottery, currently Camelot.

Section 41 of the Gambling Act requires that gambling software suppliers hold a gambling software licence from the Gambling Commission for the “manufacture, supply, installation or adaptation” of gambling software in the UK. Whether based in the UK or overseas, software licensors that supply to companies that conduct business in the UK are required to adhere to the remote gambling and software standards which set out the technical, security and testing requirements of the software. However, such technical requirements do not apply to software licensees wanting to supply only to overseas operators. Software can therefore be supplied outside the UK but would have to meet the requirements of whichever jurisdiction the gambling operation is based in.

The advertising and marketing into the UK by EEA licensed operators or operators located in the so-called White Listed jurisdictions (Alderney, Antigua, Isle of Man and Tasmania) is permitted even without the benefit of a local licence (operators are only obliged to obtain a licence if certain key equipment is located in the UK) subject to the restrictions on the promotion of lottery products.

Changes are however mooted (and referenced in this year’s Budget) which will see gambling regulated on a point of consumption basis making it necessary for all operators who do not currently possess a UK gambling licence and who wish to transact with players or advertise into the jurisdiction to pay tax in the UK. The proposed changes may or may not also require such operators to obtain a licence in the UK. However, a change in primary legislation is required, and whilst the UK government had intended to implement the required changes to the Gambling Act in 2013, the timetable is by no means certain. Also, there may yet be points of challenge under EU law, given that the proposals are more about revenue generation than consumer protection.

For the year ended 31 December 2011, approximately 29.7 per cent. of Gross Income was generated through Licensees transacting with the UK market.

## PART 3

### OPERATING AND FINANCIAL REVIEW

*The following operating and financial review should be read in conjunction with the historical financial information relating to the Group which is included in Part 4B of this document and with the information relating to the business of the Group included elsewhere in the Prospectus. This review contains certain forward-looking statements that reflect the current view of the Group's management and involve risks and uncertainties. The actual future results of the Group may differ materially from those discussed herein. Factors that could cause or contribute to such differences include, without limitation those discussed in the "Risk Factors" section and elsewhere in this document.*

*The selected financial information discussed in this Part 3 has been extracted without material adjustment from the historical financial information on the Group as at, and for the financial years ended, 31 December 2009, 31 December 2010 and 31 December 2011, set out in Part 4B of this document except as otherwise noted.*

#### 1. Financial Highlights

	<i>Year ended 31 December</i>		
	2009 €'000	2010 €'000	2011 €'000
Revenues	114,775	142,294	207,485
Income from associate	22,534	30,792	36,073
<b>Gross Income</b>	<u>137,309</u>	<u>173,086</u>	<u>243,558</u>
Operating profit	56,449	45,309	52,154
Depreciation and Amortisation (excluding amortisation of intangibles on associate)	8,778	17,090	29,137
EBITDA	65,227	62,399	81,291
Income from associate	22,534	30,792	36,073
Employee stock option expenses	5,150	5,855	4,678
Decline in fair value of available-for-sale investments	399	2,223	551
One-off legal costs relating to the litigation with the William Hill Group	–	–	1,389
Professional expenses on acquisitions	360	1,802	1,488
<b>Adjusted EBITDA</b>	<u>93,670</u>	<u>103,071</u>	<u>125,470</u>
Net profit attributable to owners of the parent	69,511	64,670	77,696
Amortisation on acquisitions and intangibles of associate	13,795	15,782	21,567
One-off legal costs relating to the litigation with the William Hill Group	–	–	1,389
Decline in fair value of available-for-sale investments	399	2,223	551
Employee stock option expenses	5,150	5,855	4,678
Professional expenses on acquisitions	360	1,802	1,488
Financial cost on deferred consideration (including exchange differences)	186	1,936	6,049
Previous year taxes	–	939	(571)
<b>Adjusted Net Profit</b>	<u>89,401</u>	<u>93,207</u>	<u>112,847</u>
Adjusted basic EPS (in Euro cents)	37.3	38.5	46.2
Adjusted diluted EPS (in Euro cents)	36.0	37.1	45.7

<i>Other measures</i>	€ million	€ million	€ million
Total Assets	327.2	384.1	771.0
Net cash and cash equivalents	58.7	68.5	137.3
Cash generated from operating activities and dividend from associates:			
Net cash provided by operating activities	70.7	71.0	74.4
Dividend from associate	18.5	32.3	35.1
<b>Total</b>	<b>89.2</b>	<b>103.3</b>	<b>109.5</b>

*Gross Income is a key measure adopted by management to assess the performance of its business comprising total revenues from Licensees including fees charged for services rendered, plus profits generated from the Group's shareholding in WHO.*

*EBITDA represents earnings before interest, taxation, depreciation and amortisation computed as operating profit for an accounting period plus depreciation and amortisation, excluding amortisation of intangibles on associate and acquisitions.*

*Adjusted EBITDA is EBITDA plus income from associate and before charging employee stock option expenses, decline in fair value of available for sale investments, one-off legal costs relating to the litigation with the William Hill Group and professional expenses on acquisitions.*

## 2. Overview and Background

The Group's growth in trading performance over the last three years is principally attributable to its ability to continue to attract new Licensee business whilst supporting and growing revenues from existing Licensees, the strong results of WHO and the Group's complementary acquisitions and product enhancements.

The Group has focused on the continued development of the IMS, its technology platform, new games and products in response to demand from its Licensees, and new opportunities particularly in newly regulating markets. This continual development process supports revenue growth across a wide range of products and geographic markets.

The Group has a diverse Licensee base, with approximately 30 of its Licensees each generating over €1 million of revenue in 2011, and benefits from substantial economies of scale which support significant software development capability. With a high proportion of fixed costs, being principally employee-related, the revenue share model delivers the potential for substantial operational gearing.

In December 2008, the Group entered into an agreement with the William Hill Group to facilitate the integration of the online businesses of the William Hill Group and the businesses and contracts, (comprising an affiliate marketing business, customer services operation and gaming brands and websites) which were purchased by the Group immediately prior to the creation of WHO. The transaction resulted in the Group receiving a 29 per cent. share of WHO, which comprises the enlarged combined casino and poker operations, together with WHO's existing online sportsbook. In accordance with accounting standards, Playtech records 100 per cent. of the licence fees received from WHO as revenue, with its profit share being shown separately in the statement of comprehensive income as "income from associate". On that basis, Gross Income (total revenues and income from associate before amortisation of intangibles) became the benchmark for the Group's trading performance.

In December 2009, the Group acquired GTS, a UK-based developer of an open software platform for delivery of its own and third party games to the games pages of operators. The total consideration paid was approximately €18.2 million.

In January 2010, the Group entered into certain strategic arrangements with Scientific Games for joint businesses including exclusive agreements for Videobet to develop gaming terminal software for Scientific Games and its subsidiary The Global Draw.

In February 2010, the Group acquired the business and assets of Virtue Fusion Limited, comprising a bingo software system and the businesses providing networked bingo games for its licensees including Mecca and William Hill Online, for a total consideration of £36 million.

In January 2011, the Group acquired IGS, a provider of software based casino management systems to land-based casinos, for a total consideration of up to £5.5 million, including an initial payment of £2.5 million.

In July 2011, the Group acquired PTTS, which carries out a wide range of complementary B2B services that provide support to Licensees. The acquisition has allowed the Group itself to provide a broad range of ancillary gambling related services to Licensees that enhances its commercial proposition and competitive position in the expanding online gambling marketplace. Initial consideration (following a working capital adjustment) of €121 million has been paid and further consideration up to €140 million is payable dependent on the future performance of the PTTS businesses. As a result of the strong performance of the PTTS Group in the current financial year, the Board believes there is an increased likelihood of accelerated payment of the full amount of this further consideration. Further details of the terms of this transaction (including the payment terms of the further consideration) are set out in paragraph 13.9 of Part 6 of this document.

In August 2011, the Group extended its capabilities to deliver mobile gambling when it acquired Mobenga, a Swedish based provider of a mobile sportsbetting platform. The acquisition brought well regarded technology to the Group in a segment which the Directors believe is a key contributor to future growth in online gambling. The total consideration payable is up to €23.8 million including an initial payment of €8 million. Further details of the terms of this transaction are set out in paragraph 13.8 of Part 6 of this document.

In November 2011, Playtech announced that it was raising, conditional on shareholder approval, £100 million through a placing of new Ordinary Shares to fund further acquisitions and joint ventures. The fundraising was completed in December 2011. Further details of the terms of this transaction are set out in paragraph 13.7 of Part 6 of this document.

In December 2011, Playtech acquired Ash Gaming, a leading developer of interactive gambling and betting games for the online gaming market. This acquisition expanded the range of games that the Group can offer to its Licensees for play on their “games tab”. The total consideration payable is up to £23 million. Further details of the terms of this transaction are set out in paragraph 13.6 of Part 6 of this document.

### 3. Revenues

Revenues are generated mainly through royalty income receivable from Licensees which comprises a percentage of the Licensees’ revenue generated from the use of the Group’s products or services and is recognised in the accounting periods in which the gaming activity occurs.

	<i>Year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Casino revenue	76,757	96,710	114,385
Poker revenue	33,813	27,406	21,793
Bingo revenue	235	10,853	15,064
Services revenue	827	1,079	43,012
Videobet revenue	1,363	2,026	7,769
Other revenues	1,780	4,220	5,462
<b>Total revenue</b>	<b>114,775</b>	<b>142,294</b>	<b>207,485</b>

Total revenue for the year ended 31 December 2011 increased 46 per cent. to €207.5 million while in the year ended 31 December 2010, revenues increased 24 per cent. to €142.3 million; this was in part offset by the impact of the closure of the French offshore market in June 2010, which had been a significant continental European market for the Group. After excluding the impact from

acquisitions in the year and the closure of the offshore market in France, the Group achieved 12 per cent. growth in revenues in 2010, and 21 per cent. in 2011.

In 2011, casino revenues increased 18 per cent. to €114.4 million (2010: €96.7 million, up 26 per cent.) in part due to the further development of the branded games portfolio. Poker revenues decreased by 20 per cent. to €21.8 million (2010: €27.4 million, down 19 per cent.) reflecting the trends shown in the market. Bingo revenues increased by 39 per cent. in 2011 to €15.1 million; in 2010, bingo revenues totalled €10.9 million presenting a greatly enhanced bingo capability through the acquisition of Virtue Fusion in February of that year.

As a result of the acquisition of PTTS on 1 July 2011, Playtech for the first time earned significant services revenues of €43 million. Services to customers comprise marketing services, operational support services, payment advisory services and network management services.

Revenue from Videobet totalled €7.8 million (2010: €2.0 million), an increase of 283 per cent., as a result of the completion of the roll out of gaming machines by The Global Draw utilising Videobet's software in the second quarter of 2011. There are now approximately 20,000 gaming machines utilising Videobet software.

When the French licensing regime was introduced in 2010, this had a material bearing on revenue streams given the majority of Licensees elected not to get a licence and, as a consequence, to exit the market.

The same is a likely consequence in Germany where only a limited number of licences are available, and for sportsbetting only, particularly given that there may no longer be an option of licensing in Schleswig-Holstein.

In Spain, whilst numerous licences were granted on 1 June 2012, it is still not clear what in total all those operators will pay by way of retrospective taxes, which in certain circumstances will impact on the Group's commercial relationship with some of its Licensees. It is also not clear if challenge under EU law (of the Spanish authorities' right to retrospectively tax) will be made and what financial benefit will flow back through to the Group, if such a challenge is successful.

In the UK, if the proposed regime to license all operators who take business from the UK is implemented (which the UK government has committed to do with effect from the end of 2013 albeit it is far from clear that there is sufficient parliamentary time to permit this to happen) this, too, will have a material impact on revenues, unless the proposals can be successfully challenged. There is some doubt whether protection of the consumers is in reality secondary to fiscal opportunism and this would be the source of a challenge under EU law.

Social gaming may also have a significant impact on future revenues depending on whether the Group is able to monetise the social gaming software it has recently licensed from Skywind. Revenues in the social gaming sector continue to remain high, but the appeal of the games is sometimes difficult to predict and they are becoming more costly to produce. In addition, the underlying costs of using the interface of the larger social network sites to promote any games, are continuing to increase. Also greater market penetration will ultimately mean the increased threat of regulation given there is no universal definition of play for fun in all jurisdictions, and this too will impact upon revenues.

Any opening of the US market for online poker will also create significant revenues for certain of the Group's Licensees and joint venture partners, albeit only Nevada has fully implemented the enabling legislation thus far.

#### **4. Operating Costs**

The Group's growth in revenues stems from the continuing development of the Company's existing products and platforms, as well as the acquisition of and investment in new products. Such investments and acquisitions allow the Group to improve its overall product offering, penetrate new markets, facilitate future organic growth and increase the portfolio of Licensees, thereby gaining additional market share and growth in revenues. The Group's principal operating costs are its employees and revenue-based fees payable to third parties.

	<i>Year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Operating expenses	58,326	96,985	155,331
Depreciation and Amortisation	(8,778)	(17,090)	(29,137)
Employee stock option expenses	(5,150)	(5,855)	(4,678)
Decline in fair value of available-for-sale investments	(399)	(2,223)	(551)
Professional expenses on acquisitions	(360)	(1,802)	(1,488)
One-off legal costs relating to litigation with the William Hill Group	–	–	(1,389)
<b>Adjusted Operating Expenses</b>	<u>43,639</u>	<u>70,015</u>	<u>118,088</u>
Revenue driven costs	(4,100)	(12,574)	(25,091)
Adjusted operating expenses excluding revenue driven costs	<u>39,539</u>	<u>57,441</u>	<u>92,995</u>
Employee related costs <sup>(1)</sup>	25,363 64%	39,594 69%	64,309 69%
Administration and office costs <sup>(1)</sup>	5,748 15%	8,852 16%	11,872 13%
Travel, exhibition and marketing costs <sup>(1)</sup>	4,421 11%	4,608 8%	4,730 5%
Cost of service <sup>(1)</sup>	– –	831 1%	4,266 5%
Other operational costs <sup>(1)</sup>	4,007 10%	3,556 6%	7,818 8%
	<u>39,539</u>	<u>57,441</u>	<u>92,995</u>

(1) These figures have been extracted from the Group's annual reports for the years ended 31 December 2010 and 31 December 2011; and in the case of the year ended 31 December 2009, the figures have been extracted from the Group's underlying accounting records.

Adjusted operating expenses for the year ended 31 December 2011 increased by 69 per cent. to €118.1 million (2010: €70.0 million). After excluding the effects of acquisitions made during the year, adjusted operating expenses increased by 23 per cent., mainly due to higher employee-related costs and an increase in revenue driven costs linked to the overall increase in revenues. These two items made up 76 per cent. of Group's adjusted operating expenses.

Employee costs for the year ended 31 December 2011 totalled €64.3 million (excluding €7.8 million of development costs capitalised) an increase of 62 per cent. on the prior year. The increase is mainly attributable to the full year impact of the acquisitions made in 2010 as well as the acquisitions made in 2011. As a percentage of adjusted non-revenue related costs, employee costs have remained steady at just below 70 per cent. since the start of 2010.

Excluding the effects of acquisitions made in 2011, employee related costs increased by 20 per cent. in 2011 mainly due to the increase in headcount in the year, reflecting the Group's continued investment in additional sales and support teams required in regulated or soon to be regulating markets and in preparation for key projects.

Revenue driven costs comprise mainly fees paid to sales agents and license fees paid to third parties for branded content, which are typically calculated as a share of the revenues generated from a particular game. These costs have continued to increase as branded games, such as Pink Panther, Rocky, Iron Man 2 and The Punisher, increase in popularity. Furthermore, a substantial proportion of the increase has been driven by the acquisition of PTTS in July 2011 which accounts for 37 per cent. of the total revenue driven costs for 2011.

Playtech has also focused on managing cost inflation across the business, and other costs including office, travel, cost of service and other operating costs have remained relatively steady year-on-year.

Total adjusted operating expenses for the year ended 31 December 2010 were €70.0 million an increase of 60 per cent. over 2009. The increase, which was in line with budget, was mainly due to anticipated increases in employee-related costs, together with the increase in revenue-based fees payable to third parties. These two items made up 75 per cent. of Group's adjusted operating expenses in the year to 31 December 2010.

Cost of service is mainly comprised of hosting costs. The increase in 2011 is mainly due to the acquisitions made during the year, of which PTTS was the largest.

## 5. Depreciation and Amortisation

Amortisation and depreciation costs of €29.1 million in 2011 (2010: €17.1 million) include depreciation of €5.4 million (2010: €3.4 million) and amortisation of €15.8 million (2010: €7.5 million) relating to acquisitions and exclude amortisation relating to the investment in WHO. Of the remaining €7.9 million, €5.8 million was due to amortisation of internally generated development costs (2010: €4.7 million) and €2.1 million related to other intangibles (2010: €1.5 million).

## 6. Financial Income and Tax

Cash is principally held in short-term deposits, which generate interest income. Interest received in the year 2011 totalled €0.5 million (2010: €0.5 million, 2009: €0.5 million). Financial income also included €3.1 million received as dividends from the investment in AsianLogic Limited (2010: €1.1 million, 2009: €1.7 million), but was offset by the discounting of deferred consideration of €6.1 million, mainly relating to the recent acquisitions of PTTS (in 2010, €1.9 million related to the acquisitions of GTS and the business and assets of Virtue Fusion Limited and exchange rate differences on deferred consideration in respect of the investment in WHO).

The Group is tax registered, managed and controlled from the Isle of Man, where the corporate tax rate is set at zero. The Group's subsidiaries are located in different jurisdictions and are taxed on their residual profits.

The tax charge in 2011 of €0.9 million is post a credit correction to the previous year tax of €0.6 million (2010: €2.3 million, including a one-off prior year tax charge of €0.9 million; 2009: €0.8 million). The effective rate excluding this correction was 1.9 per cent. (2010: 2.1 per cent., excluding the one-off charge; 2009: 1.2 per cent.).

## 7. Cash Flow

The Group is a highly cash generative business and, in addition to the dividends received from WHO, the placing of new Ordinary Shares at the end of 2011 further increased the cash balances of the Company. The main uses of funds relate to the consideration payable for acquisitions and investments. During 2011, Playtech has drawdown €27.5 million from its available banking facilities for financing the acquisition of Ash Gaming, the net cash and cash equivalents as at 31 December 2011 amounted to €137.3 million (2010: €68.5 million, 2009: €58.7 million), representing 18 per cent. (2010: 18 per cent., 2009: 18 per cent.) of the Group's total assets.

In the year ended 31 December 2011, the Group generated €74.4 million from its operating activities (2010: €71.0 million, 2009: €70.7 million), and in addition received €35.1 million of dividend payments from associates, which are presented as cash generated from investing activities (2010: €32.3 million, 2009: €18.5 million). This together represents a cash conversion rate of 87 per cent. from adjusted EBITDA (2010: over 100 per cent.; 2009: 95 per cent.).

In 2011, the Group's cash usage from investing activities was €100.0 million (2010: €21.7 million, 2009: €7.4 million), €81.7 million of which was consideration for acquisitions made in 2011, the balance being represented by the final payments for the consideration of GTS and the business and assets of Virtue Fusion Limited, and the settlement of final payment for the assets acquired in connection with the creation of WHO (altogether totalling €30.5 million), and netted-off by the dividend received from the investment in WHO.

Cash generated from financing activities in 2011 was €122.0 million, consisting of the net proceeds of the placing of new Ordinary Shares of €117.5 million, the funds drawdown under the credit facility of €27.5 million (plus interest payable), netted off by the payment of the final dividend for the year ended 31 December 2010 of €23.4 million (2010: cash used in financing activities of €39.5 million; 2009: cash used in financing activities of €36.1 million, both being the payments of dividends to shareholders).



## 8. Balance Sheet

Net cash and cash equivalents as at 31 December 2011 were €137.3 million (2010: €68.5 million; 2009: €58.7 million).

The majority of the trade receivables balance represents amounts payable by Licensees for the month of December, as these are typically paid one month in arrears.

Intangible assets as at 31 December 2011 totalled €365.2 million (2010: €100.4 million, 2009: €65.5 million), the majority of which is comprised of intangible assets acquired from PTTS, Tribeca, Ash Gaming, Mobenga, GTS and the business and assets of Virtue Fusion Limited; goodwill that arose from those acquisitions; patent and intellectual property rights and development costs of new games and products.

As at 31 December 2011, available for sale investments totalled €12.4 million (2010: €10.9 million, 2009: €5.5 million) and comprise the investments in Sportech PLC and AsianLogic Limited. An investment in CY Foundation was sold in the first half of 2010.

Investments in equity-accounted associates of €163.0 million mainly relate to the investment in WHO, but also includes the investment in the ITL partnership and Sciplay (2010: €162.6; 2009: €170.4 million).

As at 31 December 2011, long and short term deferred consideration balances of €75.3 million are due in respect of the PTTS acquisition and represent the present value of instalments payable on the balance of the initial consideration. As at 31 December 2010, the deferred consideration balance was €15.0 million representing the present value of the consideration payable to a third party for assets acquired and then injected into WHO. That balance was paid in full by the end of 2011.

Long and short term contingent consideration of €111.9 million represents the present value of the contingent consideration to be paid for the acquisition of PTTS and the acquisition of Mobenga and IGS (2010: €16.5 million for the investment in GTS and the acquisition of the business and assets of Virtue Fusion Limited; 2009: €6.9 million for the investment in GTS).

## 9. Capital Resources

The Group finances its activities and operations by a combination of operating revenues (and consequent cash generation thereon), equity share issues and debt facilities.

### 9.1 Cash and cash equivalents

The table below shows the Group's cash and cash equivalents.

	As of 31 December		
	2009 €000	2010 €000	2011 €000
Cash at bank	29,880	29,550	111,492
Deposits	28,820	38,969	53,340
	<u>58,700</u>	<u>68,519</u>	<u>164,832</u>

The Group's cash and cash equivalents are mainly held in Euros and pounds sterling.

### 9.2 Indebtedness

The table below shows the Group's indebtedness.

	As of 31 December		
	2009 €000	2010 €000	2011 €000
Current bank borrowings	–	–	13,787
Non-current bank borrowings	–	–	13,746
	<u>–</u>	<u>–</u>	<u>27,533</u>

The Group's borrowings are denominated in Euros and the financial risk management is described in note 28 of the historical financial information set out at Part 4B of this document.

The rate at which the liabilities are payable is 2.25 per cent. above Euro LIBOR. The loan is payable in eight quarterly instalments starting in March 2012.

As at 31 December 2011, the Group had undrawn committed borrowing facilities available of €82.6 million with three banks as summarised below.

	<i>Committed at 31 December 2011 €000</i>	<i>Utilised at 31 December 2010 €000</i>	<i>Undrawn at 31 December 2011 €000</i>
Bank Hapoalim B.M.	50,000	–	50,000
Bank Leumi (UK) plc	30,000	27,400	2,600
Israel Discount Bank Limited	30,000	–	30,000
	<u>110,000</u>	<u>27,400</u>	<u>82,600</u>

The Group repaid the entire loan balance outstanding at 31 December 2011 of €27.5 million in February 2012 out of existing cash resources, restoring undrawn committed borrowing facilities to €110 million. Subsequently, the Group drew down €75 million of borrowing facilities from Bank Hapoalim B.M. (€50 million) and Bank Leumi (UK) plc (€25 million) in order to fund the accelerated payment of PTTS initial consideration, in April 2012, on similar terms to those set out above, other than the loan from Bank Hapoalim B.M. is repayable in two annual installments, commencing in April 2013.

### 9.3 *Cash flow*

The Group's cash flows are discussed in paragraph 7 of this Part 3 of this document.

### 9.4 *Funding and treasury policies*

The Group's funding and treasury policies and objectives in respect of related matters are described in note 28 of the historical financial information set out at Part 4B of this document.

## 10. **Dividends**

The Board has adopted a policy of paying out up to 40 per cent. of adjusted net profits in any financial year by way of dividend which, it is intended, would be paid as to one-third as an interim dividend and two-thirds as a final dividend. The Company paid a combined interim and final dividend for the 2011 financial year. Accordingly, the Board determined to pay a dividend in May 2012 for the 2011 financial year of 16.5 € cents per share. This represents a total payment for the year ended 31 December 2011 of €47.7 million (2010: €46.1 million).

## PART 4A

# ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION OF THE PLAYTECH GROUP



BDO LLP  
55 Baker Street  
London  
W1U 7EU

The Directors  
Playtech Limited  
2nd Floor  
St George's Court  
Upper Church Street  
Douglas  
Isle of Man  
IM1 1EE

28 June 2012

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

**Playtech Limited (the "Company") and its subsidiary undertakings  
(together, the "Playtech Group")**

### **Introduction**

We report on the financial information set out in Part 4B. This financial information has been prepared for inclusion in the prospectus dated 28 June 2012 of Playtech Limited (the "Prospectus") on the basis of the accounting policies set out in note 2 to the financial information. This report is required by item 20.1 of annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

### **Responsibilities**

The directors of the Company are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex I of the PD Regulation consenting to its inclusion in the Prospectus.

### **Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence

relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Playtech Group as at 31 December 2009, 2010 and 2011 and of its profits, changes in equity and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

**BDO LLP**  
*Chartered Accountants*

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

## PART 4B

## HISTORICAL FINANCIAL INFORMATION OF THE PLAYTECH GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	For the year ended 31 December		
		2009 €'000	2010 €'000	2011 €'000
Revenues	4	114,775	142,294	207,485
Distribution costs		(45,453)	(72,867)	(129,140)
Administrative expenses		(12,873)	(24,118)	(26,191)
Total operating costs		<u>(58,326)</u>	<u>(96,985)</u>	<u>(155,331)</u>
Operating profit before the following items:		68,764	68,863	82,644
Professional expenses on acquisition		(360)	(1,802)	(1,488)
Employee stock option expenses	9	(5,150)	(5,855)	(4,678)
Amortisation of intangible assets	11	(6,406)	(13,674)	(23,773)
Decline in fair value of available-for-sale investments	14	(399)	(2,223)	(551)
Total		<u>(12,315)</u>	<u>(23,554)</u>	<u>(30,490)</u>
Operating profit	5	56,449	45,309	52,154
Financing income – other		2,148	1,690	3,972
Exchange rate differences – on deferred consideration	12	232	–	–
Financing income	6	<u>2,380</u>	<u>1,690</u>	<u>3,972</u>
Financing cost – movement in deferred and contingent consideration		(418)	(736)	(6,075)
Financing cost – other		(93)	(424)	(1,186)
Exchange rate differences – on deferred consideration	12	–	(1,200)	–
Total financing cost	6	<u>(511)</u>	<u>(2,360)</u>	<u>(7,261)</u>
Income from associate	12	22,534	30,792	36,073
Amortisation of intangibles in associate	12	(10,513)	(8,266)	(5,729)
Share of profit of associate		12,021	22,526	30,344
Share of loss in joint venture	12	–	(152)	(546)
Profit before taxation		70,339	67,013	78,663
Tax expense	7	(828)	(2,343)	(957)
Profit for the year		69,511	64,670	77,706
Other comprehensive income for the year:				
Transfer to profit and loss on sale		–	(1,025)	–
Adjustments for change in fair value of available-for-sale equity instruments		1,025	–	1,995
Total comprehensive income for the year		<u>70,536</u>	<u>63,645</u>	<u>79,701</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

		<i>For the year ended 31 December</i>		
		2009	2010	2011
		€'000	€'000	€'000
	<i>Note</i>			
<b>Profit for the year attributable to:</b>				
Owners of the parent		69,511	64,670	77,696
Non-controlling interest		–	–	10
		<u>69,511</u>	<u>64,670</u>	<u>77,706</u>
<b>Total comprehensive income attributable to:</b>				
Owners of the parent		70,536	63,645	79,691
Non-controlling interest		–	–	10
		<u>70,536</u>	<u>63,645</u>	<u>79,701</u>
<b>Earnings per share for profit attributable to the owners of the parent during the year</b>				
	8			
Basic (cents)		29.0	26.7	31.8
Diluted (cents)		28.0	25.7	31.4

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Additional paid in capital €'000</i>	<i>Available- for-sale reserve €'000</i>	<i>Retained earnings €'000</i>	<i>Total attributable to equity holders of the parent €'000</i>	<i>Non- controlling interest €'000</i>	<i>Total equity €'000</i>
Balance at 1 January 2009	180,097	–	50,109	230,206	–	230,206
Total comprehensive income for the year	–	1,025	69,511	70,536	–	70,536
Dividends paid	–	–	(39,562)	(39,562)	–	(39,562)
Exercise of options	3,466	–	–	3,466	–	3,466
Employee stock option scheme	–	–	5,270	5,270	–	5,270
Balance at 31 December 2009	<u>183,563</u>	<u>1,025</u>	<u>85,328</u>	<u>269,916</u>	<u>–</u>	<u>269,916</u>
Total comprehensive income for the year	–	(1,025)	64,670	63,645	–	63,645
Dividends paid	–	–	(45,593)	(45,593)	–	(45,593)
Exercise of options	6,127	–	–	6,127	–	6,127
Employee stock option scheme	–	–	5,855	5,855	–	5,855
Balance at 31 December 2010	<u>189,690</u>	<u>–</u>	<u>110,260</u>	<u>299,950</u>	<u>–</u>	<u>299,950</u>
Total comprehensive income for the year	–	1,995	77,696	79,691	10	79,701
Dividends paid	–	–	(23,377)	(23,377)	–	(23,377)
Issue of share capital (net of issue costs)	117,549	–	–	117,549	–	117,549
Exercise of options	614	–	–	614	–	614
Acquisition of non-controlling interest	–	–	–	–	(59)	(59)
Purchase of treasury shares	–	–	(366)	(366)	–	(366)
Employee stock option scheme	–	–	4,678	4,678	–	4,678
Balance at 31 December 2011	<u>307,853</u>	<u>1,995</u>	<u>168,891</u>	<u>478,739</u>	<u>(49)</u>	<u>478,690</u>

## CONSOLIDATED BALANCE SHEET

		<i>As of 31 December</i>		
	<i>Note</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
		<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	10	8,395	12,876	21,548
Intangible assets	11	65,459	100,384	365,201
Investments in equity-accounted associates and joint ventures	12	170,366	162,583	162,997
Available-for-sale investments	14	5,513	10,932	12,376
Other non-current assets	15	2,309	6,070	2,820
		<u>252,042</u>	<u>292,845</u>	<u>564,942</u>
<b>Current assets</b>				
Trade receivables	16	6,324	13,385	21,007
Other receivables	17	10,119	9,364	20,228
Cash and cash equivalents	18	58,700	68,519	164,832
		<u>75,143</u>	<u>91,268</u>	<u>206,067</u>
<b>Total assets</b>		<u>327,185</u>	<u>384,113</u>	<u>771,009</u>
<b>Equity</b>				
Additional paid-in capital		183,563	189,690	307,853
Available-for-sale reserve	14	1,025	–	1,995
Retained earnings		85,328	110,260	168,891
Equity attributable to equity holders of parent	19	269,916	299,950	478,739
Non-controlling interest		–	–	(49)
<b>Total equity</b>		<u>269,916</u>	<u>299,950</u>	<u>478,690</u>
<b>Non-current liabilities</b>				
Loans and borrowings	21	–	–	13,746
Other non-current liabilities	20	1,168	953	1,423
Deferred revenues	14	14,745	11,469	8,919
Deferred tax liability	23	2,231	1,950	5,287
Deferred consideration	13	–	–	41,752
Contingent consideration	13	6,983	5,474	110,985
		<u>25,127</u>	<u>19,846</u>	<u>182,112</u>
<b>Current liabilities</b>				
Loans and borrowings	21	–	–	13,787
Trade payables	22	8,823	13,013	17,678
Progressive and other operators' jackpots		1,068	12,847	20,491
Tax liabilities		1,087	1,499	1,837
Deferred revenues	14	3,441	3,644	4,986
Deferred consideration	13	13,554	15,001	33,591
Contingent consideration	13	–	11,059	929
Other payables	24	4,169	7,254	16,908
		<u>32,142</u>	<u>64,317</u>	<u>110,207</u>
<b>Total equity and liabilities</b>		<u>327,185</u>	<u>384,113</u>	<u>771,009</u>



## CONSOLIDATED STATEMENT OF CASH FLOWS

		<i>For the year ended 31 December</i>		
		2009	2010	2011
		€'000	€'000	€'000
	<i>Note</i>			
<b>Cash flows from operating activities</b>				
Profit after tax		69,511	64,670	77,706
Adjustments to reconcile net income to net cash provided by operating activities (see below)		2,017	8,924	(1,525)
Income taxes paid		(841)	(2,591)	(1,821)
Net cash provided by operating activities		<u>70,687</u>	<u>71,003</u>	<u>74,360</u>
<b>Cash flows from investing activities</b>				
Long-term deposits		172	(238)	33
Long-term loan		(1,141)	(1,003)	2,560
Dividend received from equity-accounted associates		18,528	32,269	35,087
Acquisition of property, plant and equipment		(5,886)	(7,176)	(12,562)
Investment in available-for-sale investments	14	–	(11,332)	–
Proceeds from sales of available-for-sale investments		–	2,665	–
Investments in joint ventures	12	–	(2,920)	(4,445)
Acquisition of intangible assets		(2,309)	(111)	(79)
Acquisition of subsidiary, net of cash acquired		(11,310)	(26,136)	(97,189)
Capitalised development costs		(5,503)	(7,793)	(9,542)
Investment in equity-accounted associates	12	–	–	(15,001)
Proceeds from sale of property, plant and equipment		–	57	1,138
Net cash used in investing activities		<u>(7,449)</u>	<u>(21,718)</u>	<u>(100,000)</u>
<b>Cash flows from financing activities</b>				
Dividends paid to the holders of the parent		(39,562)	(45,593)	(23,377)
Issue of share capital, net of issue costs		–	–	117,549
Purchase of treasury shares		–	–	(366)
Proceeds from bank borrowings		–	–	27,533
Exercise of options		3,466	6,127	614
Net cash (used in)/from financing activities		<u>(36,096)</u>	<u>(39,466)</u>	<u>121,953</u>
Increase in cash and cash equivalents		27,142	9,819	96,313
Cash and cash equivalents at beginning of year		31,558	58,700	68,519
Cash and cash equivalents at end of year		<u>58,700</u>	<u>68,519</u>	<u>164,832</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### Adjustment to reconcile net income to net cash provided by operating activities

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
<b>Income and expenses not affecting operating cash flows</b>			
Depreciation	2,372	3,416	5,364
Amortisation	6,406	13,674	23,773
	<u>8,778</u>	<u>17,090</u>	<u>29,137</u>
Income from associate	(22,534)	(30,792)	(36,073)
Amortisation of intangibles in associate	10,513	8,266	5,729
Share of loss in joint venture	–	152	547
Decline in fair value of available-for-sale investment	399	2,223	551
Employee stock option plan expenses	5,150	5,855	4,678
Income tax expense	828	2,343	957
Others	122	16	105
<b>Changes in operating assets and liabilities</b>			
Decrease/(increase) in trade receivables	4,156	(2,791)	(4,250)
Increase in other receivables	(3,076)	(176)	(5,461)
Increase in trade payables	2,788	1,933	(17,359)
(Decrease)/increase in progressive and other operators' jackpot	(361)	3,483	7,644
(Decrease)/increase in other payables	(1,444)	4,395	14,201
Decrease in deferred revenues	(3,302)	(3,073)	(1,931)
	<u>2,017</u>	<u>8,924</u>	<u>(1,525)</u>

### Acquisition of subsidiary, net of cash acquired

	<i>Note</i>	<i>For the year ended 31 December</i>		
		<i>2009</i>	<i>2010</i>	<i>2011</i>
		<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Acquisition of Gaming Technology Solutions Limited	25	11,310	–	7,399
Acquisition of Virtue Fusion Limited	25	–	26,136	8,122
Acquisition of Intelligent Gaming Systems Limited	25	–	–	2,836
Acquisition of PT Turnkey Services Limited	25	–	–	44,314
Acquisition of Mobenga AB Limited	25	–	–	7,830
Acquisition of Ash Gaming Limited	25	–	–	27,027
Acquisition of S-Tech Limited	25	–	–	(339)
		<u>11,310</u>	<u>26,136</u>	<u>97,189</u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of preparation

The financial information provided is for the Playtech Group's three financial years ended 31 December 2009, 2010 and 2011. The entities included in the Playtech Group for each year is set out at note 27.

The financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs"). In the current year the Playtech Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting periods beginning on 1 January 2011.

#### *New standards, interpretations and amendments not yet effective*

The following new standards, interpretations and amendments, which have not been applied to these financial statements, will or may have an effect on the Playtech Group's future financial statements:

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

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (effective for annual periods beginning on or after 1 July 2012).

The following new standards, interpretations and amendments, which have not yet been endorsed by the EU, are effective for annual periods beginning on or after 1 January 2013:

IFRS 10 Consolidated Financial Statements;

IFRS 11 Joint Arrangements;

IFRS 13 Fair Value Measurement;

IAS 28 Investments in Associates and Joint Ventures;

Disclosures – Offsetting Financial Assets and Liabilities (Amendments to IFRS 7);

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (effective for annual periods beginning on or after 1 January 2014);

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).

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

None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the Playtech Group's future financial statements.

### 2. Significant accounting policies

#### *Foreign currency*

The financial information of the Company and its subsidiaries is prepared in Euro (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Playtech Group. Transactions and balances in foreign currencies are converted into Euro in accordance with the principles set forth by International Accounting Standard (IAS) 21 ("The Effects of Changes in Foreign Exchange Rates"). Accordingly, transactions and balances have been converted as follows:

Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet date; Income and expense items – at exchange rates applicable as of the date of recognition of those items. Non-monetary items are converted at the rate of exchange used to convert the related balance sheet

items i.e. at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognised in the consolidated statement of comprehensive income.

#### ***Basis of consolidation***

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of the Company and its subsidiaries (the “Playtech Group”) as if they formed a single entity. Intercompany transactions and balances between Playtech Group companies are therefore eliminated in full.

#### ***Revenue recognition***

Income receivable from contracting parties comprises a percentage of the revenue generated by the contracting party from use of the Playtech Group’s intellectual property in online gaming activities and land based gaming operations, and from fees charged for services rendered. Income is recognised in the accounting periods in which the gaming transactions occur or the services are rendered. Royalty and other income receivable under fixed-term arrangements are recognised over the term of the agreement on a straight line basis.

#### ***Distribution costs***

Distribution costs represent the direct costs of the function of providing services to customers, costs of the development function and advertising costs.

#### ***Share-Based Payments***

Certain employees participate in the Playtech Group’s share option plans which commenced with effect from 1 December 2005. The fair value of the options granted is charged to the consolidated statement of comprehensive income on a straight line basis over the vesting period and the credit is taken to equity, based on the Playtech Group’s estimate of shares that will eventually vest. Fair value is determined by the Black-Scholes and Binomial valuation model. The share options plan does not have any performance conditions other than continued service.

#### ***Income Taxes and Deferred Taxation***

Provision for income taxes is calculated in accordance with the tax legislations and applicable tax rates in force at the balance sheet date in the countries in which the Playtech Group companies have been incorporated.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the Playtech Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the Playtech Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in

which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### *Dividend distribution*

Final dividends are recorded in the Playtech Group's financial information in the period in which they are approved by the Playtech Group's shareholders. Interim dividends are recognised when paid.

### *Property, Plant and Equipment*

Property, plant and equipment comprise computers, leasehold improvements, office furniture and equipment, and motor vehicles and are stated at cost less accumulated depreciation. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Computers and gaming machines	33.33
Office furniture and equipment	7.00–20.00
Building and leasehold improvements	10.00–20.00, or over the length of the lease
Motor vehicles	15

Subsequent expenditures are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Playtech Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

### *Business Combinations*

The consolidated financial information incorporates the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

### *Intangible Assets*

Intangible assets comprise externally acquired patents, domains, and customer lists. Intangible assets also include internally generated capitalised software development costs. All such intangible assets are stated at cost less accumulated amortisation. Where intangible assets are acquired as part of a business combination they are recorded initially at their fair value. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount.

Amortisation is calculated using the straight-line method at annual rates estimated to write off the costs of the assets over their expected useful lives and is charged to operating expenses from the point the asset is brought into use. The principal annual rates used for this purpose are:

	%
Domain names	Nil
Internally generated capitalised development costs	33.33
Technology IP	20–33.33
Customer list	7–12.50
Affiliate contracts	5–12.50
Patents	Over the expected useful lives 10–33

Intangible assets identified under the investment in equity accounted associates

	%
Software	10
Customer relationships	71
Affiliate contracts	52
WHO Brands	7
Purchase assets brands	10
Covenant not to compete	20

Management believes that the useful life of the domain names is indefinite. Domain names are reviewed for impairment annually.

Expenditure incurred on development activities including the Playtech Group's software development is capitalised only where the expenditure will lead to new or substantially improved products, the products are technically and commercially feasible and the Playtech Group has sufficient resources to complete development.

Subsequent expenditure on capitalised intangible assets is capitalised only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

### *Goodwill*

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the Playtech Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2011, cost comprised the fair value of assets given, and liabilities assumed, plus any direct costs of acquisition. Changes in the estimated value of contingent consideration arising on business combinations completed by this date were treated as an adjustment to cost and, in consequent, resulted in a change in the carrying value of goodwill.

For business combinations completed on or after 1 January 2011, cost comprises the fair value of assets given and liabilities assumed, plus the amount of any non-controlling interests in the acquiree. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense in the consolidated statement of comprehensive income, within administrative costs.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Goodwill is not amortised and is reviewed for impairment, annually or more specifically if events or changes in circumstances indicate that the carrying value may be impaired.

### *Impairment*

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

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

recognition to each of the group's cash generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

### *Associates*

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

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

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

### *Joint Ventures*

The Playtech Group's investment in a jointly controlled entity is included in the financial statements under the equity method of accounting. The group includes the assets it controls, its share of any income and the liabilities and expenses of jointly controlled operations and jointly controlled assets in accordance with the terms of the underlying contractual arrangement.

### *Financial Assets*

The Playtech Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Playtech Group has not classified any of its financial assets as held to maturity. The Playtech Group does not hold any financial assets at fair value through profit and loss.

### *Loans and Receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The Playtech Group's receivables comprise trade and other receivables, cash and cash equivalents, and loans to customers in the balance sheet

Trade receivables which principally represent amounts due from licensees are carried at original invoice value less an estimate made for bad and doubtful debts based on a review of all outstanding amounts at the year-end. An estimate for doubtful debts is made when there is objective evidence that the Playtech Group will not be able to collect amounts due according to the original terms of receivables. Bad debts are written off when identified.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Where cash is on deposit with maturity dates greater than three months, it is disclosed within other receivables.

Loans to customers are in respect of formal loan agreements entered into between the Playtech Group and its customer, which are carried at original advanced value less a provision for impairment. They are classified between current and non-current assets in accordance with the contractual repayment terms of each loan agreement.

#### *Available-for-Sale Financial Assets*

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

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

#### *Share Capital*

Ordinary shares are classified as equity and are stated at the proceeds received net of direct issue costs.

#### *Financial Liabilities*

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Several of the Playtech Group's licensees participate in progressive jackpot games. Each time a progressive jackpot game is played, a preset amount is added to a cumulative jackpot for that specific game. The accrual for the jackpot at the consolidated balance sheet date is included in progressive jackpot and other operator's jackpot liabilities.

Loans and bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

#### *Fair Value Measurement Hierarchy*

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement (see note 28). The fair value hierarchy has the following levels:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest-level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

#### *Long-Term Liabilities*

Long-term liabilities are those liabilities that are due for repayment or settlement in more than 12 months from the balance sheet date.



### *Provisions*

Provisions, which are liabilities of uncertain timing or amount, are recognised when the Playtech Group has a present obligation as a result of past events, if it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### *Non-controlling interests*

Non-controlling interest is recognised at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

### *Treasury shares*

Consideration paid/received for the purchase/sale of treasury shares is recognised directly in equity. The cost of treasury shares held is presented as a separate reserve (the "treasury share reserve"). Any excess of the consideration received on the sale of treasury shares over the weighted average cost of the shares sold is credited to retained earnings.

## **3. Critical accounting estimates and judgements**

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the Playtech Group's earnings and financial position are impairment of goodwill, the recognition and amortisation of development costs and the useful life of property, plant and equipment, the fair value of available for sale investments, share based payments, legal proceedings and contingent liabilities, determination of fair values of intangible assets acquired in business combinations, income tax, and determination of fair value of contingent consideration.

### *Estimates and Assumptions*

#### *Impairment of Goodwill*

The Playtech Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Such estimates are based on management's experience of the business, but actual outcomes may vary. More details including carrying values are included in note 11.

#### *Amortisation of Development Cost and Other Intangible Assets and the Useful Life of Property, Plant and Equipment*

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods. More details including carrying values are included in notes 10 and 11.

#### *Fair Value of Available-for-Sale Investments*

The Playtech Group determines the fair value of available for sale investments that are not quoted using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates for future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

The methods and assumptions applied, and the valuation techniques used, are disclosed in note 28.

#### *Share-Based Payments*

The Playtech Group has a share based remuneration scheme for employees. The fair value of share options is estimated by using the Black-Scholes and Binomial models, on the date of grant based on

certain assumptions. Those assumptions are described in note 9 and include, among others, the dividend growth rate, expected share price volatility, expected life of the options and number of options expected to vest.

#### *Legal Proceedings and Contingent Liabilities*

Management regularly monitors the key risks affecting the Playtech Group, including the regulatory environment in which the Playtech Group operates. A provision will be made where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial information. More details are included in note 30.

#### *Determination of Fair Value of Intangible Assets Acquired*

The fair value of the intangible assets acquired is based on the discounted cash flows expected to be derived from the use of the asset. Further information in relation to the determination of fair value of intangible assets acquired is given in notes 12 and 25.

#### *Income Taxes*

The Playtech Group is subject to income tax in jurisdictions in which it is registered and judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Playtech Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The Playtech Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. More details are included in note 7.

#### *Determination of the fair value of contingent consideration*

The fair value of contingent consideration is based on the probability of expected cash flow outcomes and the assessment of present values using appropriate discount rates. Further information in relation to the determination of the fair value of contingent consideration is given in note 25.

The preparation of financial information in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### **4. Segmental analysis**

Management considers that the Playtech Group's activity as a single source supplier of online gaming solutions constitutes one operating and reporting segment, as defined under IFRS 8.

Management review the performance of the Playtech Group by reference to group-wide profit measures and the revenues derived from six main product groupings:

- Poker
- Casino
- Bingo
- Videobet
- Services
- Other.

The group-wide profit measures are adjusted net profit (see note 8) and adjusted EBITDA. Management believes the adjusted profit measures represent more closely the underlying trading performance of the business. No other differences exist between the basis of preparation of the performance measures used by management and the figures in the group financial statements.

There is no allocation of operating expenses, profit measures, assets and liabilities to individual product groupings. Accordingly the disclosures below are provided on an entity-wide basis.

*Revenue by product*

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Casino	76,757	96,710	114,385
Poker	33,813	27,406	21,793
Bingo	235	10,853	15,064
Videobet	1,363	2,026	7,769
Services	827	1,079	43,012
Other	1,780	4,220	5,462
Total revenues	<u>114,775</u>	<u>142,294</u>	<u>207,485</u>

There were two licensees who individually accounted for more than 10 per cent. of the total revenue of the group during the years ended 31 December 2009, 2010 and 2011. Revenue from these licensees, respectively, totalled €44.8 million, €44.3 million and €77.6 million in each respective year.

*Geographical Analysis of Revenues by Jurisdiction of Gaming Licence*

Analysis by geographical regions is made according to the jurisdiction of the gaming licence of the licensee. This does not reflect the region of the end users of the Playtech Group's licensees whose locations are worldwide.

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Gibraltar	12,340	44,149	54,813
Canada	47,849	42,809	65,185
Curacao	33,925	14,752	11,755
Philippines	4,703	9,855	20,941
Rest of world	15,958	30,729	54,791
	<u>114,775</u>	<u>142,294</u>	<u>207,485</u>

*Geographical Analysis of Non-current assets*

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
British Virgin Islands	225,462	220,399	439,033
Isle of Man	20,719	58,313	75,802
Sweden	–	–	19,167
Cyprus	1,993	7,438	14,418
Estonia	1,970	4,222	7,020
UK	295	378	5,698
Rest of world	1,603	2,095	3,804
	<u>252,042</u>	<u>292,845</u>	<u>564,942</u>

## 5. Operating profit

Operating profit is stated after charging:

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Directors' compensation</i></b>			
Short-term benefits of directors	1,233	1,471	1,603
Share-based benefits of directors	980	898	748
Bonuses to executive directors	488	528	438
	<u>2,701</u>	<u>2,897</u>	<u>2,789</u>
	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Auditors' remuneration</i></b>			
Audit services			
Parent company and Playtech Group audit	160	144	204
Audit of overseas subsidiaries	40	125	138
Non-audit services			
Other acquisitions and assurance services	117	355	379
Taxation compliance	–	46	86
	<u>317</u>	<u>670</u>	<u>807</u>
	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Development costs (including capitalised development costs)	<u>7,431</u>	<u>16,972</u>	<u>22,844</u>

## 6. Financing income and costs

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Finance income</i></b>			
Interest received	508	492	475
Dividend received from available-for-sale investments	1,729	1,074	3,075
Exchange rate differences – on deferred consideration	143	–	–
Exchange differences	–	124	422
	<u>2,380</u>	<u>1,690</u>	<u>3,972</u>
<b><i>Finance cost</i></b>			
Finance cost-movement in deferred and contingent consideration	(418)	(736)	(6,075)
Exchange differences – on deferred consideration	–	(1,200)	–
Bank charges	(93)	(424)	(1,186)
	<u>(511)</u>	<u>(2,360)</u>	<u>(7,261)</u>
Net financing income/(expense)	<u>1,869</u>	<u>(670)</u>	<u>(3,289)</u>

## 7. Taxation

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<i>Current income tax</i>			
Income tax on profits of subsidiary operations	1,345	1,685	1,866
Previous year taxes	–	939	(571)
Deferred tax (note 23)	(517)	(281)	(338)
	<u>828</u>	<u>2,343</u>	<u>957</u>

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

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Profit before tax	70,339	67,013	77,706
Tax at effective rate in Isle of Man	–	–	–
Higher rates of current income tax in overseas jurisdictions	1,345	1,685	1,866
Adjustments in respect of previous periods	–	939	(571)
Effect of deferred tax originating in overseas jurisdictions	(517)	(281)	(338)
Total tax charge	<u>828</u>	<u>2,343</u>	<u>957</u>

The group is tax registered, managed and controlled from the Isle of Man where the corporate tax rate is set to zero. The majority of profits arise in the British Virgin Islands. No tax is assessed in the British Virgin Islands, the Company's country of incorporation. The Playtech Group's subsidiaries are located in different jurisdictions. The subsidiaries are taxed on their residual profit.

The previous year's taxes in 2010 of €0.9 million were due to the finalisation of tax assessments relating to 2006. The tax credit in 2011 of €0.6 million relates to the creation of deferred tax asset in one of the group's subsidiaries.

The deferred tax is due to the reversal of temporary differences arising on the acquisition of certain businesses in the current and prior year.

## 8. Earnings per share

Earnings per share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the earnings, being profit after tax, is as follows:

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	<i>Euro cents</i>	<i>Euro cents</i>	<i>Euro cents</i>
Basic	29.0	26.7	31.8
Diluted	<u>28.0</u>	<u>25.7</u>	<u>31.4</u>
	2009	2010	2011
	€'000	€'000	€'000
Profit for the year	<u>69,511</u>	<u>64,670</u>	<u>77,696</u>

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Denominator – basic			
Weighted average number of equity shares	<u>239,476,501</u>	<u>242,011,308</u>	<u>244,113,262</u>
Denominator – diluted			
Weighted average number of equity shares	239,476,501	242,011,308	244,113,262
Weighted average number of share options	<u>8,562,031</u>	<u>9,173,326</u>	<u>3,066,593</u>
Weighted average number of shares	<u>248,038,532</u>	<u>251,184,634</u>	<u>247,179,855</u>

### *Adjusted Earnings per Share*

The adjusted earnings per share presents the profit for the year before charging professional costs on acquisitions, legal costs related to the litigation with the William Hill Group, previous year taxes and expenses related to the investment in joint venture and after various non-cash charges relating to acquisitions and investments together with the employee stock option plan. The directors believe that the adjusted profit represents more closely the underlying trading performance of the business.

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Euro cents</i>	<i>Euro cents</i>	<i>Euro cents</i>
Basic – adjusted	37.3	38.5	46.2
Diluted – adjusted	<u>36.0</u>	<u>37.1</u>	<u>45.7</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Profit for the year	69,511	64,670	77,696
Decline in fair value of available-for-sale investments	399	2,223	551
Amortisation on acquisitions	3,282	7,516	15,838
Amortisation of intangibles in associate	10,513	8,266	5,729
	13,795	15,782	21,567
Movement in deferred and contingent consideration	418	736	6,075
Employee stock option expense	5,150	5,855	4,678
Professional expenses on acquisitions	360	1,802	1,488
One-off legal costs relating to the litigation with the William Hill Group	–	–	1,389
Previous year taxes	–	939	(571)
Exchange differences – on deferred consideration	<u>(232)</u>	<u>1,200</u>	<u>(26)</u>
Adjusted profit for the year	<u>89,401</u>	<u>93,207</u>	<u>112,847</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Denominator – basic			
Weighted average number of equity shares	<u>239,476,501</u>	<u>242,011,308</u>	<u>244,113,262</u>
Denominator – diluted			
Weighted average number of equity shares	239,476,501	242,011,308	244,113,262
Weighted average number of share options	<u>8,562,031</u>	<u>9,173,326</u>	<u>3,066,593</u>
Weighted average number of shares	<u>248,038,532</u>	<u>251,184,634</u>	<u>247,179,855</u>

Out of the entire share options outstanding, 2,952,991, 2,089,468 and 9,716,729, at 31 December 2009, 2010 and 2011 respectively, have been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out of the money) and therefore it would not be advantageous for the holders to exercise those options. The total number of options in issue is disclosed in note 9.

## 9. Employee benefits

Total staff costs comprise the following:

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Salaries and related costs	29,628	47,732	66,901
Employee stock options	5,270	5,855	4,678
	<u>34,898</u>	<u>53,587</u>	<u>71,759</u>

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
<i>Average number of employees</i>			
Distribution	743	1,041	1,627
General and administration	74	81	110
	<u>817</u>	<u>1,122</u>	<u>1,737</u>

The Playtech Group has the following employee share option plans (“ESOP”) for the granting of non-transferable options to certain employees:

- Playtech 2005 Share Option Plan (the “Plan”) and Israeli plans: options granted under the plans vest on the first day on which they become exercisable which is typically between one to four years after grant date.
- GTS 2010 Company Share Option Plan (“CSOP”): options granted under the plan vest on the first day on which they become exercisable which is three years after grant date.

The overall term of the ESOP is five to ten years. These options are settled in equity once exercised. Option prices are either denominated in USD or GBP, depending on the option grant terms.

On 19 March 2009, the directors approved a repricing plan to convert options previously granted in USD to an equivalent GBP price. The impact of the modification was to recognise an incremental fair value charge of €2.7 million and €0.2 million during the years ended 31 December 2009 and 2010 respectively.

On 1 July 2010, the directors approved an amendment to the Plan, to extend the time during which options can be exercised from five years to ten years. The impact of the modification was to recognise an incremental fair value charge of €2.3 million and €1.7 million during the years ended 31 December 2010 and 2011.

At 31 December 2011, options under this scheme were outstanding over:

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Shares vested on 30 November 2008 at an exercise price of \$2.50 per share	213,679	141,067	141,067
Shares vested on 30 November 2008 at an exercise price of £1.45 per share	851,020	489,979	410,250
Shares fully vested on 30 November 2008 at an exercise price of £2.32 per share	133,334	133,334	133,334
Shares vesting on 6 February 2009 at an exercise price of £1.45 per share	333,334	–	–
Shares vesting between 1 December 2006 and 6 February 2009 at an exercise price of \$4.50 per share	521,379	325,046	282,046
Shares vesting between 1 December 2006 and 6 February 2009 at an exercise price of £2.55 per share	611,666	611,666	610,000
Shares vesting between 1 December 2006 and 1 December 2009 at an exercise price of £2.29 per share	200,000	200,000	200,000

	<i>As of 31 December</i>		
	2009 <i>Number</i>	2010 <i>Number</i>	2011 <i>Number</i>
Shares vesting between 28 March 2007 and 28 March 2009 at an exercise price of £2.57 per share	200,000	200,000	200,000
Shares vesting between 21 June 2007 and 21 June 2009 at an exercise price of \$5.75 per share	64,603	11,000	11,000
Shares vesting between 21 June 2007 and 21 June 2009 at an exercise price of £3.16 per share	71,978	60,334	60,334
Shares vesting between 11 October 2007 and 11 October 2009 at an exercise price of £1.72 per share	833,334	208,334	208,334
Shares vesting between 11 December 2007 and 11 December 2009 at an exercise price of \$4.35 per share	520,902	65,000	65,000
Shares vesting between 11 December 2007 and 11 December 2009 at an exercise price of £2.21 per share	285,270	276,669	254,669
Shares vesting between 31 December 2007 and 31 October 2010 at an exercise price of £3.79 per share	250,000	250,000	–
Shares vesting between 31 December 2007 and 31 October 2010 at an exercise price of \$7.48 per share	75,000	75,000	75,000
Shares vesting between 16 May 2008 and 16 May 2010 at an exercise price of \$7.50 per share	40,000	20,000	20,000
Shares vesting between 16 May 2008 and 16 May 2010 at an exercise price of £3.79 per share	1,163,000	1,143,000	1,143,000
Shares vesting between 18 June 2008 and 18 June 2010 at an exercise price of \$7.79 per share	9,468	9,468	9,468
Shares vesting between 18 June 2008 and 18 June 2010 at an exercise price of £3.96 per share	143,920	121,808	110,252
Shares vesting between 18 June 2008 and 18 June 2010 at an exercise price of £3.30 per share	10,000	10,000	10,000
Shares vesting between 3 October 2008 and 3 October 2011 at an exercise price of \$6.90 per share	300,000	–	–
Shares vesting between 10 October 2008 and 10 October 2011 at an exercise price of £3.51 per share	150,000	112,500	112,500
Shares vesting between 20 November 2008 and 20 November 2011 at an exercise price of \$7.19 per share	30,000	30,000	30,000
Shares vesting between 20 November 2008 and 20 November 2011 at an exercise price of £3.51 per share	94,000	55,500	55,500
Shares vesting between 31 December 2008 and 31 December 2010 at an exercise price of \$7.68 per share	28,500	18,000	18,000
Shares vesting between 31 December 2008 and 31 December 2010 at an exercise price of £3.86 per share	55,000	49,500	41,000
Shares vesting between 25 April 2009 and 25 April 2012 at an exercise price of \$8.61 per share	40,000	–	–
Shares vesting between 25 April 2009 and 25 April 2012 at an exercise price of £4.35 per share	666,500	569,667	522,167
Shares vesting between 21 May 2009 and 21 May 2012 at an exercise price of £5.31 per share	500,000	500,000	500,000
Shares vesting between 28 November 2009 and 28 November 2012 at an exercise price of £3.20 per share	1,832,353	1,674,210	1,502,725
Shares vesting between 31 December 2008 and 31 December 2011 at an exercise price of £3.1725 per share	200,000	200,000	200,000
Shares fully vesting on 22 May 2012 at an exercise price of £4.155 per share	805,000	765,000	765,000
Shares fully vesting on 22 May 2012 at an exercise price of £4.05 per share	75,000	75,000	75,000
Shares fully vesting on 6 November 2012 at an exercise price of £3.70 per share	1,386,000	1,260,000	1,130,000
Shares vesting between 18 April 2012 and 18 April 2013 at an exercise price of £5.12 per share	–	1,098,000	1,063,000



	<i>As of 31 December</i>		
	<i>2009 Number</i>	<i>2010 Number</i>	<i>2011 Number</i>
Shares vesting between 3 June 2012 and 3 June 2013 at an exercise price of £4.84 per share	–	328,000	220,000
Shares vesting between 26 August 2012 and 26 August 2013 at an exercise price of £4.16 per share	–	288,670	264,725
Shares fully vesting on 26 August 2013 at an exercise price of £4.16 per share	–	216,330	180,275
Shares fully vesting on 10 March 2014 at an exercise price of £3.5225 per share	–	–	1,999,950
Shares fully vesting on 25 August 2014 at an exercise price of £3.0325 per share	–	–	100,000
Shares fully vesting on 16 December 2014 at an exercise price of £2.30 per share	–	–	120,000
	<u>12,694,240</u>	<u>11,592,082</u>	<u>12,843,596</u>

The total number of shares exercisable as of 31 December 2009, 2010 and 2011 was 6,908,693, 5,971,186 and 6,220,707 respectively.

The fair value of the options that were granted in respect of equity-settled schemes was €5.3 million, €5.9 million and €4.1 million for 2009, 2010 and 2011 respectively. €5.2 million, €3.8 million and €1.0 million was recognised as an expense in the consolidate statement of comprehensive income and €0.1 million had been capitalised as part of development costs during the year ended 31 December 2009.

The following table illustrates the number and weighted average exercise prices of shares options for the ESOP.

	<i>As of 31 December</i>			<i>As of 31 December</i>		
	<i>2009 Number of options</i>	<i>2010 Number of options</i>	<i>2011 Number of options</i>	<i>2009 Weighted average exercise price</i>	<i>2010 Weighted average exercise price</i>	<i>2011 Weighted average exercise price</i>
Outstanding at beginning of the year	13,665,204	12,694,240	11,592,082	\$5.56, £3.15	\$5.12, £3.20	\$4.57, £3.62
Granted during the year	2,266,000	1,958,000	2,331,650	£3.87	£4.82	£3.4386
Forfeited	(1,517,208)	(665,718)	(876,434)	\$7.47, £3.43	\$6.61, £3.71	£3.8744
Exercised	(1,719,756)	(2,394,440)	(203,702)	\$3.00, £1.70	\$4.38, £1.92	\$4.50, £2.22
Outstanding at the end of the year	<u>12,694,240</u>	<u>11,592,082</u>	<u>12,843,596</u>	<u>\$5.12, £3.20</u>	<u>\$4.57, £3.62</u>	<u>\$4.58, £3.59</u>

The weighted average share price at the date of exercise of options was £4.48, £5.08 and £3.47 in 2009, 2010 and 2011 respectively. The weighted average fair value of options granted during the year at the date of grant was £1.47, £1.67 and £1.78 in 2009, 2010 and 2011 respectively.

Share options outstanding at the end of the year have the following exercise prices:

<i>Expiry date</i>	<i>Exercise price</i>	<i>As of 31 December</i>		
		<i>2009 Number</i>	<i>2010 Number</i>	<i>2011 Number</i>
1 December 2010	Between £1.45 and £2.55	2,129,970	–	–
Between 6 February 2011 and 11 December 2011	Between \$4.35 and \$5.75 and between £1.72 and £3.16	3,010,528	473,666	–
Between 15 May 2012 and 31 December 2012	Between £3.30 and £3.96	2,048,889	1,164,333	310,333
Between 25 April 2013 and 31 December 2013	\$4.35 and £3.20	3,238,853	1,490,830	1,323,002
Between 22 May 2014 and 6 November 2014	Between £3.70 and £4.155	2,266,000	790,000	740,000
1 December 2012	\$2.50 and between £1.45 and £2.32	–	764,380	684,651
Between 6 February 2016 and 11 December 2016	Between \$4.50 and \$5.75 and between £1.72 and £3.16	–	1,484,383	1,891,383
Between 15 May 2017 and 31 December 2017	Between \$7.19 and \$7.79 and between £3.79 and £3.96	–	730,443	1,314,387
Between 25 April 2018 and 31 December 2018	\$4.35 and between £3.1725 and £5.31	–	1,453,047	1,401,890
Between 22 May 2019 and 6 November 2019	Between £3.70 and £4.155	–	1,310,000	1,230,000
Between 18 April 2020 and 26 August 2020	Between £4.16 and £5.12	–	1,931,000	1,728,000
Between 10 March 2021 and 16 December 2021	Between £2.30 and £3.5225	–	–	2,219,950
		12,694,240	11,592,082	12,843,596

The fair value of the options granted under the ESOP is estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions made during the years ended 31 December 2009, 2010 and 2011:

For options granted on 22 May 2009, 6 November 2009 and 24 November 2009:

Dividend yield (%)	2%–3.06%
Expected volatility (%)	56.1%–56.29%
Risk free interest rate (%)	2.06%–2.61%
Expected life of options (years)	3–4.5
Weighted average exercise price	£3.87

For options modified as a result of the repricing on 19 March 2009:

Dividend yield (%)	2%
Expected volatility (%)	39.7%–56.4%
Risk free interest rate (%)	1.24%–2.02%
Expected life of options (years)	1–4
Weighted average exercise price	£3.32

For options granted on 18 April 2010, 3 June 2010 and 24 August 2010:

Dividend yield (%)	2.8%–2.85%
Expected volatility (%)	42.1%–53.0%
Risk free interest rate (%)	1.30%–2.63%
Expected life of options (years)	3.61–4.61
Weighted average exercise price	£4.82

The fair value of the amendment to Plan was estimated as at the date of grant using the Binomial model.

For options modified as a result of the amendment to Plan on 1 July 2010:

Dividend yield (%)	2.76%
Expected volatility (%)	52.9%
Risk free interest rate (%)	2.35%
Expected life of options (years)	5.42
Weighted average exercise price	£3.32

For options granted on 11 March 2011, 26 August 2011 and 16 December 2011:

Dividend yield (%)	2.76%–2.81%
Expected volatility (%)	49.8%–50.5%
Risk free interest rate (%)	2.15% to 3.78%
Weighted average exercise price	£3.44

The volatility assumption, measured at the standard deviation of expected share price return, is based on a statistical analysis of daily share price over a period starting from the initial date of flotation through to the grant date.

## 10. Property, plant and equipment

	<i>Computers and gaming machines</i> €'000	<i>Office furniture and equipment</i> €'000	<i>Motor vehicles</i> €'000	<i>Leasehold improvement</i> €'000	<i>Total</i> €'000
<b>Cost</b>					
At 1 January 2009	6,974	767	72	496	8,309
Additions	5,431	181	57	217	5,886
Acquired through business combinations	75	43	–	48	166
Disposals	(412)	(14)	–	(32)	(458)
At 31 December 2009	12,068	977	129	729	13,903
Additions	4,553	178	37	2,408	7,176
Acquired through business combinations	847	39	–	–	886
Disposals	(412)	(63)	(12)	(97)	(584)
At 31 December 2010	17,056	1,131	154	3,040	21,381
Additions	8,855	403	64	3,240	12,562
Acquired through business combinations	2,066	219	110	322	2,717
Disposals	(1,410)	(165)	–	–	(1,575)
At 31 December 2011	26,567	1,588	328	6,602	35,085

	<i>Computers and gaming machines</i> €'000	<i>Office furniture and equipment</i> €'000	<i>Motor vehicles</i> €'000	<i>Leasehold improvement</i> €'000	<i>Total</i> €'000
<b>Accumulated depreciation</b>					
At 1 January 2009	3,237	138	26	85	3,486
Charge	2,087	208	16	61	2,372
Disposals	(342)	(3)	–	(5)	(350)
At 31 December 2009	4,982	343	42	141	5,508
Charge	3,045	176	30	165	3,416
Disposals	(289)	(24)	(9)	(97)	(419)
At 31 December 2010	7,738	495	63	209	8,505
Charge	4,457	176	56	675	5,364
Disposals	(262)	(70)	–	–	(332)
At 31 December 2011	11,933	601	119	884	13,537
<b>Net book value</b>					
As of 31 December 2009	7,086	634	87	588	8,395
As of 31 December 2010	9,318	636	91	2,831	12,876
As of 31 December 2011	14,634	987	209	5,718	21,548

## 11. Intangible assets

	<i>Patents and domain names</i> €'000	<i>Technology IP</i> €'000	<i>Development costs</i> €'000	<i>Customer list and Affiliates</i> €'000	<i>Goodwill</i> €'000	<i>Total</i> €'000
<b>Cost</b>						
At 1 January 2009	3,142	1,185	10,670	25,554	10,801	51,352
Additions	620	1,689	5,623	–	–	7,932
Acquired on business combinations	134	1,783	–	8,032	10,902	20,851
At 31 December 2009	3,896	4,657	16,293	33,586	21,703	80,135
Additions	101	10	7,793	–	–	7,904
Acquired on previous year business combinations	–	–	–	–	1,182	1,182
Acquired on business combinations	3,900	3,035	–	18,828	13,750	39,513
At 31 December 2010	7,897	7,702	24,086	52,414	36,635	128,734
Additions	79	–	9,542	287	–	9,908
Acquired on previous year business combinations	–	–	–	–	(1,200)	(1,200)
Acquired through business combinations	965	4,721	655	144,256	129,285	279,882
At 31 December 2011	8,941	12,423	34,283	196,957	164,720	417,324

	<i>Patents and domain names</i> €'000	<i>Technology IP</i> €'000	<i>Development costs</i> €'000	<i>Customer list and Affiliates</i> €'000	<i>Goodwill</i> €'000	<i>Total</i> €'000
<b>Accumulated amortisation</b>						
At 1 January 2009	618	63	1,733	5,856	–	8,270
Provision	394	93	2,660	3,259	–	6,406
At 31 December 2009	1,012	156	4,393	9,115	–	14,676
Provision	845	1,830	4,720	6,279	–	13,674
At 31 December 2010	1,857	1,986	9,113	15,394	–	28,350
Provision	836	2,570	5,805	14,562	–	23,773
At 31 December 2011	2,693	4,556	14,918	29,956	–	52,123
<b>Net book value</b>						
As of 31 December 2009	2,884	4,501	11,900	24,471	21,703	65,459
As of 31 December 2010	6,040	5,716	14,973	37,020	36,635	100,384
As of 31 December 2011	6,248	7,867	19,365	167,001	164,720	365,201

Included in technology IP – assets acquired under business combinations – during the year ended 31 December 2011 are in-process R&D costs of €2.4 million in respect of the Ash Gaming acquisition (see note 25).

Management believes that domain names are stated at fair value and have an indefinite life due to their nature.

Amortisation of intangible assets is included in distribution costs. Included in the additions to development costs is €0.1 million in respect of share-based payments for the year ended 31 December 2009.

Assets acquired on previous year's business combinations during the year ended 31 December 2011 of €1.2 million relates to adjustments made to the GTS goodwill as a result of the finalisation of the contingent consideration during that year.

In accordance with IAS 36, the Playtech Group regularly monitors the carrying value of its intangible assets, including goodwill. Goodwill is allocated to six (2009 and 2010 – three) cash generating units ("CGU"), and the carrying values are below. In the years ended 31 December 2009 and 2010, management identified Tribeca as a CGU. Tribeca was an asset purchase in 2007 and management are now of the opinion that the underlying cash flows associated with this previous CGU can no longer be separately identified, and are now consumed within the Playtech Group's poker product.

At 31 December 2011 the recoverable amount of the CGUs has been determined from value-in-use calculations based on cash flow projections from the formally approved budget for 2012 and detailed projections covering the periods as noted below.

Key assumptions are as follows:

- For the GTS CGU with carrying value of €18.0 million (2010: 20.4 million): discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific risks related to the goodwill. Annual growth rate of 1% for 2012, 10% for 2013-2015 and 2% for the following years, based on the average forecasted GDP growth rate for the UK.
- For the VF CGU with carrying value of €33.3 million (€36.6 million): discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific risks related to the goodwill. Annual growth rate of 9.6% for 2012, 4% for 2013, 3% for 2014, 2.5% for 2015 and 2% for the following years, based on the average forecasted GDP growth rate for the UK.
- For the IGS CGU with carrying value of €4.4 million (2010: €nil): Discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific

risks related to the goodwill. Annual growth rate of 226% for 2012, 34% for 2013, 43% for 2014, 20% for 2015-2016 and 2% for the following years, based on the average forecast GDP growth rate for the UK.

- For the Mobenga CGU with carrying value of €20.1 million (2010: €nil): Discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific risks related to the goodwill. Annual growth rate of 50% for 2012-2013, 63% for 2014, 10% for 2015, 13% for 2016 and 2% for the following years, based on the average forecast GDP growth rate for the UK.
- For the PTTS CGU with carrying value of €218.4 million (2010: €nil): Discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific risks related to the goodwill. Annual growth rate of 22% for 2012, 62% for 2013, 4% for 2014, 5% for 2015, 2% for 2016 and 2% for the following years, based on the average forecast GDP growth rate for the UK.
- For the Ash Gaming CGU with carrying value of €28.5 million (2010: €nil): Discount rate of 15.5% which is based on the Playtech Group's WACC to reflect management's assessment of specific risks related to the goodwill. Annual growth rate, 40% for 2013, 28% for 2014 and 14% for 2015, 5% for 2016 and 2% for the following years, based on the average forecast GDP growth for the UK.

The results of the review indicated that there was no impairment of goodwill at 31 December 2011. Management has also reviewed the key assumptions and forecasts for the customer lists and affiliates, applying the above same key assumptions. The results of the reviews indicated that there was no impairment of the intangible assets at 31 December 2011.

## 12. Investments in equity accounted associates and joint ventures

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Investments in equity-accounted associates and joint ventures comprise:			
Investment in William Hill Online (associate)	170,366	162,245	156,618
Investment in Scisplay (joint venture)	–	338	332
Investment in International Terminal Leasing	–	–	6,047
	<u>170,366</u>	<u>162,583</u>	<u>162,997</u>

### *Investment in William Hill Online*

The investment in WH Online has been accounted for using the equity method in the consolidated financial statements and has been recognised initially at cost being the Playtech Group's 29% share of the fair value of the total net assets of the associate together with the goodwill on acquisition. In accordance with IAS 28, profits distributed to the Playtech Group in proportion of their respective shareholding have been recognised as share of profits of associates. Software license royalty fees charged to WH Online have been recognised as revenues in the Playtech Group accounts.

WH has an option to acquire the Playtech Group's interest in WH Online on an independent fair value basis, exercisable after four or six years from 31 December 2008 (the "Option"). Upon exercise of the Option, the Playtech Group has the right to receive a portion of the proceeds in WH shares, not exceeding 10% of WH's outstanding share capital at the time of issue.

WH has entered into a contract with the Playtech Group for a minimum term of five years from 31 December 2008 for the provision of online gaming software for poker and casino.

Movements in the carrying value of the investment are as follows:

	€'000
Investment in equity-accounted associates at 1 January 2009	181,072
Adjustment to expenses	(172)
Income from associate	22,534
Amortisation of intangibles in associate	(10,513)
Dividend	(22,555)
	<hr/>
Investment in equity-accounted associates at 31 December 2009	170,366
Income from associate	30,792
Amortisation of intangibles in associate	(8,266)
Dividend	(30,647)
	<hr/>
Investment in equity-accounted associates at 31 December 2010	162,245
Income from associate	36,073
Amortisation of intangibles in associate	(5,729)
Dividend	(35,971)
	<hr/>
Investment in equity-accounted associates at 31 December 2011	156,618

The deferred consideration as of 31 December 2009 and 2010 of €15.0 million was payable in the beginning of 2011 due to an extension of payment terms granted by the vendor of the original purchased assets that were subsequently injected into William Hill Online at the time of the acquisition in 2008. The deferred consideration for the acquisition of the Purchased Assets was payable in US dollars. This caused an exchange rate income/(expense) in the amount of €0.2 million, (€1.2 million) and €26,000 that was reflected in the consolidated statement of comprehensive income for 2009, 2010 and 2011 respectively.

Management has reviewed the key assumptions and forecasts for the above mentioned assets and the result of the review indicated that there was no impairment of the Playtech Group's investment in WH Online at 31 December 2011.

Aggregated amounts relating to associates are as follows:

	<i>31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	€'000	€'000	€'000
Total assets	98,385	116,584	167,337
Total liabilities	62,937	84,740	113,388
Revenues	229,470	295,200	369,945
Profit	74,450	105,519	122,970

#### *Investment in Sciplay*

On 21 January 2010, the Playtech Group formed a strategic partnership with Scientific Games Corporation to jointly develop and market nextgeneration internet and land-based gaming products and services to regulated gaming operators in the US and other countries.

Exclusive joint ventures focused on the B2G online gaming market on a global basis, called Sciplay International Sarl and Sciplay (Luxembourg) Sarl (hereinafter "Sciplay"), will utilise Playtech's technology capabilities together with Scientific Games' global infrastructure and experience.

On 30 April 2010 each of the parties purchased 50% of the share capital issued of Sciplay for a total consideration of €13,000. In addition each of the parties contributed €100,000 share premium to Sciplay International Sarl and \$150,000 to Sciplay (Luxembourg) Sarl by contribution in kind of intangible assets. The Playtech Group contributed an exclusive licence to copyrighted software for interactive gaming activities and Scientific Games contributed the right to use the patented MAPS database, the implied utilisation of the "Scientific Games" trademark in interaction with customers and in the development of the "SciPlay" trademark, and general expertise in the lottery business.

On 28 September 2010 each of the parties paid additional paid-in capital of €477,000 (€227,000 to Sciplay International Sarl and €250,000 to Sciplay (Luxembourg) Sarl).

In January 2011 each of the parties paid additional paid in capital of €524,000 (€251,000 to Sciplay International Sarl and €273,000 to Sciplay (Luxembourg) Sarl) and in July 2011 each of the parties paid additional paid in capital of €88,000 to Sciplay (Luxembourg) Sarl.

The Playtech Group's share in the Sciplay loss for the period amounted to €0.4 million and €0.6 million in 2010 and 2011 respectively, which has been recognised in the consolidated statement of comprehensive income.

	€'000
Cash consideration	13
Additional paid-in capital	477
Contribution in kind	216
Share of loss in Sciplay	(368)
	<hr/>
Investment in Sciplay as at 31 December 2010	338
Additional paid-in capital	612
Share of loss in Sciplay	(618)
	<hr/>
Investment in Sciplay as at 31 December 2011	<u>332</u>

Aggregated amounts relating to the Sciplay joint venture are as follows:

	31 December		
	2009	2010	2011
	€'000	€'000	€'000
Total assets	–	1,094	1,225
Total liabilities	–	426	416
Revenues	–	–	–
Loss	–	(736)	(1,236)
	<hr/>	<hr/>	<hr/>

The investment in Sciplay was sold to Scientific Games on 23 January 2012 for €nil consideration.

#### *Investment in International Terminal Leasing*

On 8 March 2011, the Playtech Group entered into an agreement with Scientific Games to form a partnership called International Terminal Leasing (hereinafter "ITL") which relates to the strategic partnership with Scientific Games Corporation.

Prior to the formation of the above joint venture, in 2010 the Playtech Group paid a total amount of €2.4 million as contribution towards the purchase of gaming machines on behalf of the partnership. This was accounted for as a loan to ITL within non-current assets, as at 31 December 2010. Upon formation of the joint venture referred to above, the loan of €2.4 million was converted into capital contributions, and accordingly form part of the group's investment as a general partner of ITL.

The group's future profit share from this joint venture varies depending on the commercial arrangements in which ITL and its partners enter into with third parties. However, the group's share of profit is expected to be between 20%-50%.

Additional contributions of €5.2 million for the purchase of gaming machines were made in the year. In addition the Playtech Group received a return on initial investments of €1.7 million during the year.

Movements in the carrying value of the investment during the year are as follows:

	€'000
Reclassification of non-current asset as at 8 March 2011	2,430
Additional contributions payable	5,209
Share of profit in joint venture	71
Return of initial investment	(1,663)
	<hr/>
Investment in joint venture at 31 December 2011	<u>6,047</u>



Aggregate amounts relating to the ITL joint venture are as follows:

	<i>31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Total assets	–	–	28,764
Total liabilities	–	–	226
Revenues	–	–	2,881
Profit	–	–	400
	<hr/>	<hr/>	<hr/>

### 13. Deferred and contingent consideration

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Non-current deferred consideration consists of:			
Acquisition of PT Turnkey Services Limited (note 25)	–	–	41,752
	<hr/>	<hr/>	<hr/>
Current deferred consideration consists of:			
Investment in William Hill Online (note 12)	13,554	15,001	–
Acquisition of PT Turnkey Services Limited (note 25)	–	–	33,591
	<hr/>	<hr/>	<hr/>
	13,554	15,001	33,591
	<hr/>	<hr/>	<hr/>

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Non-current contingent consideration consists of:			
Acquisition of GTS Limited (note 25)	6,983	5,474	–
Acquisition of Intelligent Gaming Systems Limited (note 25)	–	–	709
Acquisition of PT Turnkey Services Limited (note 25)	–	–	98,643
Acquisition of Mobenga AB Limited (note 25)	–	–	11,633
	<hr/>	<hr/>	<hr/>
	6,983	5,474	110,985
	<hr/>	<hr/>	<hr/>
Current contingent consideration consists of:			
Acquisition of GTS Limited (note 25)	–	2,937	–
Acquisition of Intelligent Gaming Systems Limited (note 25)	–	–	929
Acquisition of Virtue Fusion (note 25)	–	8,122	–
	<hr/>	<hr/>	<hr/>
	–	11,059	929
	<hr/>	<hr/>	<hr/>

### 14. Available for sale investments

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Available-for-sale investments comprise:			
Investment in Foundation Group Limited	3,459	–	–
Investment in AsianLogic	2,054	2,054	2,054
Investment in Sportech plc	–	8,878	10,322
	<hr/>	<hr/>	<hr/>
	5,513	10,932	12,376
	<hr/>	<hr/>	<hr/>

	2009 €'000	2010 €'000	2011 €'000
Change in fair value of available-for-sale investments:			
Investment in Foundation Group Limited	(1,025)	231	–
Investment in AsianLogic	399	–	–
Investment in Sportech plc	–	(2,454)	1,444
	<u>(626)</u>	<u>(2,223)</u>	<u>1,444</u>

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

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets classified as available-for-sale.

During the year ended 31 December 2010, the Playtech Group sold all of its shares in Foundation Group Limited. Prior to the sale of shares, the carrying value declined by €0.8 million which was recognised in the consolidated statement of comprehensive income as an impairment. On disposal of the shares, the available for sale reserve at 31 December 2009 of €1.025 million was reclassified to profit and loss, resulting in a net credit of €0.2 million in the consolidated statement of comprehensive income for the year ended 31 December 2010.

As at 3 July 2009, AsianLogic shares were delisted from AIM. At that date, the share price was £0.245. The Directors do not consider there to have been any further impairment in the investment since 3 July 2009.

During 2009, 2010 and 2011 the Playtech Group received dividends of €1.7 million, €1.1 million and €3.1 million that have been reflected in the consolidated statement of comprehensive income as finance income

On 27 January 2010, the Playtech Group acquired a 9.99% stake in Sportech PLC, a UK's leading pari-mutuel football gaming business, and owner of The New Football Pools, for a total consideration of €11.3 million. As at 31 December 2010 and 2011 the market value of this investment was €8.9 million and €10.3 million respectively. An impairment charge of €2.5 million (2010: €0.6 million) has been recognised in the consolidated statement of comprehensive income during the six months ended 30 June 2011. However following an increase in the market value during the second half of 2011, an amount of €2.0 million (2010: €nil) has been recognised directly in equity, within the available for sale reserve.

Foundation Group Limited and AsianLogic entered into software licence agreement as part of the shares acquisition in 2007. The directors considered that the fair value of the consideration received by way of discount to the market value represented deferred income of the software licence agreement. The revenues are being recognised over the remaining lifetime of the software licence agreement, and as at 31 December 2009, 2010 and 2011, the following amounts are included in deferred revenues:

	<i>As of 31 December</i>		
	2009 €'000	2010 €'000	2011 €'000
<b><i>Deferred revenues – non-current</i></b>			
Foundation Group Limited	12,150	10,207	8,264
AsianLogic	2,595	1,262	–
Other	–	–	655
	<u>14,745</u>	<u>11,469</u>	<u>8,919</u>

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Deferred revenues – current			
Foundation Group Limited	1,943	1,943	1,943
AsianLogic	1,334	1,334	1,262
Others	164	367	1,781
	<u>3,441</u>	<u>3,644</u>	<u>4,986</u>

#### 15. Other non-current assets

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Loan to customer	1,833	2,679	221
Loan to affiliate	–	157	1,845
Advance for partnership (note 12)	–	2,430	–
Rent and car lease deposits	476	793	743
Other	–	11	11
	<u>2,309</u>	<u>6,070</u>	<u>2,820</u>

#### 16. Trade receivables

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Customers	3,828	10,974	16,599
Related parties (note 26)	2,496	2,411	4,408
	<u>6,324</u>	<u>13,385</u>	<u>21,007</u>

#### 17. Other receivables

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Prepaid expenses	2,139	2,584	4,871
VAT and other taxes	1,191	1,197	3,643
Short-term investment	42	47	2,106
Advance to suppliers	70	17	152
Related party receivable (note 26)	5,136	2,459	2,871
Loan to customer	713	1,116	530
Loan to affiliate	–	1,013	4,700
Other receivables	828	931	1,355
	<u>10,119</u>	<u>9,364</u>	<u>20,228</u>

Included in prepaid expenses at 31 December 2011 is €887,000 in respect of the Ash Gaming acquisition (note 25).

## 18. Cash and cash equivalents

	As of 31 December		
	2009 €'000	2010 €'000	2011 €'000
Cash at bank	29,880	29,550	111,492
Deposits	28,820	38,969	53,340
	<u>58,700</u>	<u>68,519</u>	<u>164,832</u>

The Playtech Group held cash balances which include monies held on behalf of operators in respect of operators' jackpot games and poker operation. The balances held at the year-end are set out below and the liability is included in trade payables:

	As of 31 December		
	2009 €'000	2010 €'000	2011 €'000
Funds attributable to jackpots	1,068	12,847	20,491
Poker security deposits	670	1,447	15,562
Other	–	438	272
	<u>1,738</u>	<u>14,732</u>	<u>36,325</u>

## 19. Shareholders' equity

### Share capital

Share capital is comprised of no par value shares as follows:

	As of 31 December		
	2009 Number	2010 Number	2011 Number
Authorised	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Issued and paid up	<u>240,204,579</u>	<u>242,599,019</u>	<u>289,314,348</u>

(1) The group has no authorised share capital but is authorised under its memorandum and article of association to issue up to 1,000,000,000 shares of no par value.

During the year ended 31 December 2011, the Playtech Group issued 46,511,627 shares for a total consideration of €119.5 million. Share issue costs of €1.9 million have been deducted from the gross proceeds.

A reconciliation of the movement in issued shares is below:

Number of shares in issue:

At 1 January 2009, 31 December 2009 and 31 December 2010	242,599,019
Share placing	46,511,627
Exercise of share options	203,702
At 31 December 2011	<u>289,314,348</u>

### Treasury shares

In June 2011, the Company purchased 100,000 ordinary shares of no par value to be held as treasury shares. The weighted average cost of own shares held in treasury is £3.2849 per share.

### *Share Option Exercised*

During the years ended 31 December 2009, 2010 and 2011, 1,719,756, 2,394,440 and 203,702 share options were respectively exercised.

### *Distribution of Dividend*

In May 2009, the Playtech Group distributed €18,194,198 as a final dividend for 2008.

In October 2009, the Playtech Group distributed €21,368,175 as an interim dividend for 2009.

In May 2010, the Playtech Group distributed €22,913,530 as a final dividend for 2009.

In October 2010, the Playtech Group distributed €22,679,613 as an interim dividend for 2010.

In May 2011, the Playtech Group distributed €23,377,446 as a final dividend for 2010.

### *Reserves*

The following describes the nature and purpose of each reserve within owner's equity:

<i>Reserve</i>	<i>Description and purpose</i>
Additional paid-in capital	Share premium (i.e. amount subscribed for share capital in excess of nominal value)
Available-for-sale reserve	Changes in fair value of available-for-sale investments (note 14)
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income

## **20. Non-current liabilities**

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Long-term trade payables	1,038	767	756
Severance pay	130	186	667
	<u>1,168</u>	<u>953</u>	<u>1,423</u>

## **21. Loans and borrowings**

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Current bank borrowings	–	–	13,787
Non-current bank borrowings	–	–	13,746
	<u>–</u>	<u>–</u>	<u>27,533</u>

The rate at which the liabilities are payable is 2.25% above Euro LIBOR. The loan is payable in eight quarterly instalments starting in March 2012. The Playtech Group repaid the entire balance in February 2012.

The Playtech Group has undrawn committed borrowing facilities available at 31 December 2011 of €82.6 million.

## 22. Trade payables

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Suppliers	3,901	3,986	8,577
Customer liabilities	529	7,971	7,915
Related parties (note 26)	4,269	443	75
Other	124	613	1,111
	<u>8,823</u>	<u>13,013</u>	<u>17,678</u>

## 23. Deferred tax liability

The deferred tax liability is due to temporary differences on the acquisition of certain businesses.

The movement on the deferred tax liability is as shown below:

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
At beginning of the year	–	2,231	1,950
Arising on acquisitions during the year	2,748	–	3,675
Reversal of temporary differences, recognised in the consolidated statement of comprehensive income	(517)	(281)	(338)
	<u>2,231</u>	<u>1,950</u>	<u>5,287</u>

## 24. Other payables

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Payroll and related expenses	3,308	5,999	10,262
Accrued expenses	841	1,218	5,112
Related parties (note 26)	–	–	599
Other payables	20	37	935
	<u>4,169</u>	<u>7,254</u>	<u>16,908</u>

## 25. Acquisitions

### *Year ended 31 December 2009*

#### *Acquisition of Gaming Technology Solutions*

On 8 December 2009 the Playtech Group acquired 100% of the shares of Gaming Technology Solutions Limited, which owns 100% of the shares of VS Technology Limited and VS Gaming Limited (hereinafter GTS Group). The GTS Group's principal activity is to provide cutting-edge software to operators in the gaming industry, and through the GTS Enhanced Gaming Engine (EdGE) platform, provide clients with access to soft and casino games (hereinafter GTS business).

An initial consideration of €10.85 million was paid in cash and additional contingent consideration of up to €10.8 million is payable in respect of the adjusted EBIT performance in 2010 and 2011 in the first quarters of 2011 and 2012 respectively.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	166	–	166
Intangible assets	134	9,815	9,949
Trade receivables	398	–	398
Other receivables	214	–	214
Cash and cash equivalents	169	–	169
Trade payables	(426)	–	(426)
Tax liabilities	(103)	–	(103)
Other payable	(73)	–	(73)
Deferred tax liability	–	(2,748)	(2,748)
Net identified assets	<u>479</u>	<u>7,067</u>	<u>7,546</u>
Goodwill			<u>10,902</u>
Present value of consideration			<u>18,448</u>
			€'000
Cash consideration			10,851
Contingent consideration			7,346
Expenses paid in cash			628
Finance cost arising on discounting of contingent consideration			(377)
Present value of consideration			<u>18,448</u>
Cash purchased			<u>(169)</u>
Net cash paid			<u>18,279</u>

The contingent consideration of €7.0 million (net of discount of €0.4 million) is dependent on profits generated by the GTS business over a period of two years following the date of acquisition. The amount initially included above represents the Directors' current best estimate of the amount payable, which they consider is likely to be paid, as at 31 December 2009. During the year ended 31 December 2010, Management re-assessed the fair value of the expected consideration to be paid in the future. Based on this review, the amount of contingent consideration was increased from €7.0 million (net of discount of €0.4 million) to €8.4 million (net of discount of €0.2 million) as at 31 December 2010. As this was an acquisition in 2009 and accounted for under the old IFRS 3 rules, the adjustment was recognised in goodwill in the financial information for the year ended 31 December 2010.

Adjustments to fair value include the following:

	<i>Amount</i>	<i>Amortisation</i>
	€'000	%
IP Technology	1,783	20.0
Customer list	8,032	12.5
Total intangible fixed assets	<u>9,815</u>	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS36, the Playtech Group will regularly monitor the carrying value of its interest in GTS Group.

The key assumptions used by management to determine the value in use of the IP Technology and customer relationships within GTS Group are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The royalty rate was based on a third party market participant assumption for use of the IP Technology, considering market competition, market share, profitability and prevailing rates for similar properties.
- The discount rate assumed is equivalent to the WACC for the customer relationships and WACC plus 1% for the IP Technology.
- The growth rates and attrition rates were based on market analysis.

Management have not disclosed GTS's contribution to Playtech Group profit since the acquisition date nor have they disclosed the impact the acquisition would have had on the Playtech Group's revenue and profits if it had occurred on 1 January 2009, because the amounts are not material.

### *Year ended 31 December 2010*

#### *Acquisition of Virtue Fusion Limited*

On 12 February 2010 the Playtech Group entered into an assets purchase agreement with Virtue Fusion Limited, the leading developer and licensor of online bingo products. The Playtech Group purchased the IP Technology, customer list, brand, plant and equipment, other assets and 100% of the shares of Virtue Fusion Limited subsidiaries: Virtue Fusion CM Limited, Virtue Fusion (Alderney) Limited and Virtue Fusion NV (hereinafter VF business).

The group paid an initial consideration, including working capital adjustments, of €37.7 million (£33.2 million) in cash and additional contingent consideration of €8.1 million (£7.0 million) was paid in March 2011 based on adjusted EBIT performance in 2010. No further contingent consideration is payable in respect of this acquisition.

Details of the fair value of identifiable assets and liabilities acquired from subsidiaries, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	886	–	886
Intangible assets	–	25,763	25,763
Trade receivables	3,600	–	3,600
Other receivables	702	–	702
Cash and cash equivalents	11,610	–	11,610
Trade payables	(1,587)	–	(1,587)
Progressive and other operators' jackpot	(8,296)	–	(8,296)
Other payable	(702)	–	(702)
Net identified assets	<u>6,213</u>	<u>25,763</u>	31,976
Goodwill			<u>13,750</u>
Present value of consideration			<u>45,726</u>
			€'000
Cash consideration			37,746
Contingent consideration			8,122
Finance cost arising on discounting of contingent consideration			(142)
Present value of consideration			<u>45,726</u>
Cash purchased			<u>(11,610)</u>
Net cash payable (of which €26.2 million was paid in 2010)			<u>34,116</u>



Adjustments to fair value include the following:

	<i>Amount</i> €'000	<i>Amortisation</i> %
Customer list	18,828	12.5
IP Technology	3,035	10.0
Brand	3,900	10.0
Total intangible fixed assets	<u>25,763</u>	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS 36, the Playtech Group will regularly monitor the carrying value of its interest in the VF business.

The key assumptions used by management to determine the value in use of the IP Technology, customer relationships and Brands within VF business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The royalty rate was based on a third-party market participant assumption for use of the IP Technology and brand, considering market competition, quality, absolute and relative profitability.
- The discount rate assumed is equivalent to the WACC for the brand, WACC plus 1% for the IP Technology and WACC plus 2% for the customer relationships.
- The growth rates and attrition rates were based on market analysis.

The contingent consideration for the acquisition of the purchased assets was payable in GBP. This caused an exchange rate income in the amount of €0.3 million that was reflected in the income statement for 2010.

Following the acquisition date, VF contributed €18.0 million and €5.5 million to group revenues and profits respectively in the year ended 31 December 2010. The Playtech Group has not disclosed the results of the Combined Group as if the VF acquisition had occurred on 1 January 2010 as they consider the amounts involved to be immaterial.

#### *Year ended 31 December 2011*

##### *Acquisition of Intelligent Gaming Systems Limited*

On 26 January 2011, the Playtech Group acquired 100% of the shares of Intelligent Gaming Systems Limited (hereinafter "IGS"). IGS is a provider of software based casino management systems to land-based casinos.

The group paid an initial consideration of €2.9 million (£2.5 million) in cash and additional contingent consideration of up to €3.5 million (£3.0 million) is payable in respect of the adjusted PBT performance in 2011-2013 in the beginning of each following year.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	27	–	27
Intangible assets	–	973	973
Trade receivables	110	–	110
Cash and cash equivalents	79	–	79
Deferred tax liability	–	(273)	(273)
Trade payables	(134)	–	(134)
Net identified assets	<u>82</u>	<u>700</u>	<u>782</u>
Goodwill			<u>3,691</u>
Fair value of consideration			<u>4,473</u>
			€'000
Cash consideration			2,914
Non-current contingent consideration			748
Current contingent consideration			894
Finance cost arising on discounting of contingent consideration			<u>(83)</u>
Fair value of consideration			4,473
Cash purchased			<u>(79)</u>
Net cash payable (of which €2.9 million was paid in 2011)			<u>4,394</u>

The contingent consideration is dependent on profits generated by the IGS business in 2011-2013. The amount included above represents the fair value of contingent consideration as at the acquisition date. Management has determined the fair value of contingent consideration using valuation techniques taking into account the probability of expected outcomes and appropriate discount rates. The computed fair value at acquisition is presented in the table above, and the undiscounted range of possible payments is between €nil and €3.5 million. The movement in contingent consideration since acquisition, which relates solely to the time value of money, is included in note 6 to the financial information.

Adjustments to fair value include the following:

	<i>Amount</i>	<i>Amortisation</i>
	€'000	%
Customer list	90	12.5
IP Technology	883	12.5
Total intangible fixed assets	<u>973</u>	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS 36, the Playtech Group will regularly monitor the carrying value of its interest in the IGS business.

The key assumptions used by management to determine the value in use of the IP Technology and customer relationships within the IGS business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The royalty rate was based on a third party market participant assumption for use of the IP Technology, considering market competition, quality, absolute and relative profitability.

- The discount rate assumed is equivalent to the WACC for the IP Technology and the customer relationships.
- The growth rates and attrition rates were based on market analysis.

Management have not disclosed IGS's contribution to the Playtech Group profit since the acquisition date nor have they disclosed the impact the acquisition would have and on the Playtech Group's revenue and profits if it had occurred on 1 January 2011, because the amounts are not material.

#### *Acquisition of PT Turnkey Services Limited*

On 10 March 2011 the Playtech Group entered into an agreement to purchase 100% of the issued share capital of PT Turnkey Services Limited (hereinafter "PTTS") from Worldwide Online Enterprises Limited (hereinafter "WOE"). On completion, 1 July 2011, PTTS, a newly incorporated holding company established in connection with the acquisition, owned a group of new companies (together the PTTS Group) which owned the assets carrying out a range of complementary B2B online gaming service operations that provide support to the Playtech Group's licensees.

WOE is related to Playtech by virtue of a significant common shareholder.

The PTTS Group provides marketing and ancillary services to operators of online gaming businesses. These comprise four separate service offerings - marketing, operations, payment advisory and network management.

In consideration, the Playtech Group will pay an initial amount of €140 million, reduced by estimated working capital adjustment of €14.8 million, to be spread over instalments during the next two years, plus up to €140 million contingent consideration depending on adjusted EBITDA performance in 2014, to be spread over instalments during the following 18 months. The right to receive the contingent consideration will be accelerated in certain limited circumstances including, subject to certain conditions, where PTTS Group's total EBITDA for any two consecutive quarters prior to 30 June 2012 achieves a run rate which represents on an annualised basis, the payment of the maximum consideration provided the EBITDA for the first relevant quarter is at least €8 million and the second quarter is greater than the first.

Management has determined the fair value of contingent consideration using valuation techniques taking into account the probability of expected outcomes and appropriate discount rates. The computed fair value at acquisition is presented in the table below, and the undiscounted range of possible payments is between €nil and €140 million. The movement in contingent consideration since acquisition, which relates solely to the time value of money, is included in note 6 to the financial information.

Details of the provisional fair value of identifiable assets and liabilities acquired from subsidiaries, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Provisional fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	1,910	–	1,910
Intangible assets	132,758	–	132,758
Non-current accounts receivable	1,610	–	1,610
Trade receivables	969	–	969
Other receivables	3,319	–	3,319
Cash and cash equivalents	687	–	687
Trade payables	(21,266)	–	(21,266)
Non-current accounts payable	(124)	–	(124)
Net identified assets	<u>119,863</u>	<u>–</u>	<u>119,863</u>
Provisional goodwill			<u>93,374</u>
Fair value of consideration			<u>213,237</u>

	€'000
Cash consideration	45,000
Non-current deferred consideration	35,195
Current deferred consideration	45,000
Contingent consideration	140,000
Finance cost arising on discounting of deferred and contingent consideration	(51,958)
Fair value of consideration	213,237
Cash purchased	(687)
Net cash payable (of which €45 million was paid in 2011)	212,550

The book value and fair value of intangibles on acquisition include the following:

	<i>Amount</i> €'000	<i>Amortisation</i>
Customer list	66,994	12.5 years
Affiliate programme	64,554	12.5 years
Total intangible fixed assets	131,548	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS 36, the Playtech Group will regularly monitor the carrying value of its interest in the PTTS business.

The key assumptions used by management to determine the value in use of the customer relationships and Affiliates program within PTTS business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The discount rate assumed is equivalent to the WACC for the customer relationships and affiliates program.
- The growth rates and attrition rates were based on market analysis.

Since the acquisition date, PTTS has contributed €41.2 million to group revenues, €2.1 million to group profits, €11 million to Playtech Group adjusted EBITDA and €9.8 million to Playtech Group adjusted net profit respectively. The Combined Group revenues as if the PTTS acquisition had occurred on 1 January 2011 would have been higher by €39.2 million, the Combined Group profits by €1.4 million, the Combined Group adjusted EBITDA and adjusted net profit (excluding the impact of financing costs on deferred and contingent consideration) would have been higher by €10.6 million and €9.0 million respectively.

#### *Acquisition of Mobenga AB Limited*

On 31 August 2011 (hereinafter "Completion") the Playtech Group acquired 100% of the shares of Mobenga AB (hereinafter "Mobenga"), the leading mobile sportsbook betting platform provider.

An initial consideration, including working capital adjustments, of €8.2 million was paid in cash and additional contingent consideration of €8.7 million is payable in the first quarter of 2014 based on the net profit before tax in 2013. Immediately prior to Completion, the Playtech Group acquired the Intellectual property and Technology (hereinafter "IP Technology") of Mobenga AB for cash consideration of €1 million.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Provisional fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	17	–	17
Intangible assets (Customer list)	1,000	3,563	4,563
Trade and other receivables	406	–	406
Cash and cash equivalents	169	–	169
Trade and other payables	(374)	–	(374)
Deferred tax liability	–	(937)	(937)
Net identified assets	<u>1,218</u>	<u>2,626</u>	<u>3,844</u>
Provisional goodwill			<u>15,672</u>
Fair value of consideration			<u>19,516</u>
			€'000
Cash consideration			8,000
Contingent consideration			12,384
Finance cost arising on discounting of contingent consideration			<u>(868)</u>
Fair value of consideration			19,516
Cash purchased			<u>(169)</u>
Net cash payable (of which €8 million was paid in 2011)			<u>19,347</u>

Fair value adjustments on acquisition relate solely to the customer list, which is being amortised at a rate of 12.5% per annum.

The contingent consideration is dependent on profits generated by the Mobenga business in 2013. The amount included above represents the fair value of contingent consideration as at the acquisition date. Management has determined the fair value of contingent consideration using valuation techniques taking into account the probability of expected outcomes and appropriate discount rates. The computed fair value at acquisition is presented in the table above, and the undiscounted range of possible payments is between €nil and €15.8 million. The movement in contingent consideration since acquisition, which relates solely to the time value of money, is included in note 6 to the financial information.

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS 36, the Playtech Group will regularly monitor the carrying value of its interest in the Mobenga business.

The key assumptions used by management to determine the value in use of the IP Technology and customer relationships within Mobenga business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The royalty rate was based on a third party market participant assumption for use of the IP Technology, considering market competition, quality, absolute and relative profitability.
- The discount rate assumed is equivalent to the WACC for the IP Technology and the customer relationships.
- The growth rates and attrition rates were based on market analysis.

Management have not disclosed Mobenga's contribution to the Playtech Group profit since the acquisition date nor have they disclosed the impact the acquisition would have and on the Playtech Group's revenue and profits if it had occurred on 1 January 2011, because the amounts are not material.

#### *Acquisition of Ash Gaming Limited*

On 15 December 2011 the Playtech Group acquired 100% of the shares of Ash Gaming Limited (hereinafter "Ash Gaming"), the leading developers of interactive gambling and betting games.

The total consideration of €27.4 million (£23 million) was paid in cash, of which €8.9 million (£7.5 million) was paid into an Escrow account to be held and released to the venders over the next three years, depending upon the successful completion of certain conditions and indemnities. If such conditions are not satisfied, some of the funds held in Escrow may be repaid back to the Playtech Group. As at the acquisition and balance sheet date, the fair value of consideration assumes that there will be €0.9 million of repayments.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Provisional fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	123	–	123
Intangible assets	2,439	9,860	12,299
Trade receivables	1,694	–	1,694
Other receivables	243	–	243
Cash and cash equivalents	327	–	327
Trade payables	(173)	–	(173)
Other payables	(1,331)	–	(1,331)
Deferred revenue	(454)	–	(454)
Deferred tax liability	(10)	(2,465)	(2,475)
Net identified assets	<u>2,858</u>	<u>7,395</u>	10,253
Provisional goodwill			<u>16,214</u>
Fair value of consideration			26,467
Cash purchased			<u>(327)</u>
Net cash paid			<u>26,140</u>

Adjustments to fair value include the following:

	<i>Amount</i>	<i>Amortisation</i>
	€'000	%
Customer list	8,999	8
Brand	861	16.67
Total intangible fixed assets	<u>9,860</u>	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the Playtech Group's position in comparison to its competitors in the market. In accordance with IAS 36, the Playtech Group will regularly monitor the carrying value of its interest in the Ash Gaming business.

The key assumptions used by management to determine the value in use of the IP Technology, brand and customer relationships within Ash Gaming business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.

- The royalty rate was based on a third party market participant assumption for use of the IP Technology, considering market competition, quality, absolute and relative profitability.
- The discount rate assumed is equivalent to the WACC for the IP Technology and the customer relationships.
- The growth rates and attrition rates were based on market analysis.

Management have not disclosed Ash Gaming's contribution to the Playtech Group profit since the acquisition date nor have they disclosed the impact the acquisition would have on the Playtech Group's revenue and profits if it had occurred on 1 January 2011, because the amounts are not material.

#### *Acquisition of S-Tech Limited*

On 24 November 2011 the Playtech Group acquired 85% of the shares of S-Tech Limited (hereinafter "S-Tech"), a live games provider in Asia. As of the purchase date S-Tech had net liabilities and therefore the consideration paid was the \$1 par value of 85 shares.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Provisional fair value on acquisition</i>
	€'000	€'000	€'000
Property, plant and equipment	654	–	654
Trade and other receivables	411	–	411
Cash and cash equivalents	338	–	338
Trade and other payables	(346)	–	(346)
Other payables	(1,455)	–	(1,455)
Net identified assets	<u>(398)</u>	<u>–</u>	<u>(398)</u>
Provisional goodwill			339
Non-controlling interest			<u>59</u>
Total consideration			<u>–</u>

During the year ended 31 December 2011, the group recognised a non-controlling interest of €10,000 owing to ESL, the 15% shareholder.

#### **26. Related parties and shareholders**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party.

Gamepark Trading Ltd, Tech Corporation and 800pay Ltd were previously related by virtue of a common significant shareholder, however, on 1 July 2011, they sold their assets to PTTS subsidiary companies immediately prior to the acquisition by Playtech (as referred to in note 25). Oriental Support Services, Netplay TV PLC and Sceptre Leisure Plc are related by virtue of a common significant shareholder. The former chief executive officer of Emphasis Services Limited ("ESL"), AsianLogic Limited ("ALL") and S-Tech Limited was a director of the Playtech Group until 10 March 2010. S-Tech Limited became a subsidiary of the Playtech Group during the year ended 31 December 2011.

Sportech PLC is related by virtue of a common non-executive Director. WH Online and Sciplay are associates of the Playtech Group.

The following transactions arose with related parties:

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
<b><i>Revenue including income from associate</i></b>			
ESL	4,507	7,764	4,514
S-tech Ltd	259	51	–
Sceptre Leisure plc	504	364	–
Sportech	–	–	167
Netplay TV plc	29	1,399	2,226
WH Online	33,795	46,398	58,497
	<u>33,795</u>	<u>46,398</u>	<u>58,497</u>
	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
<b><i>Share of profit/(loss) in joint venture</i></b>			
ITL	–	–	72
Sciplay	–	(368)	(618)
<b><i>Operating expenses</i></b>			
Gamepark Trading Limited	267	211	95
S-tech Ltd	249	15	–
Tech Corporation	99	146	136
800pay Ltd	56	69	63
ESL	1,285	288	167
	<u>1,285</u>	<u>288</u>	<u>167</u>

The following are year-end balances:

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Gamepark Trading Limited	4,185	117	–
Tech Corporation	75	319	43
800pay Ltd	9	7	32
ESL	–	–	599
Total related party creditors	<u>4,269</u>	<u>443</u>	<u>674</u>
Netplay TV plc	29	306	270
Sportech	–	–	73
Sceptre Leisure plc	1,337	–	–
WH Online	5,784	4,512	6,897
Sciplay	–	52	39
Total related party debtors	<u>7,150</u>	<u>4,870</u>	<u>7,279</u>
Sportech plc (note 14)	–	8,878	10,322
ALL (note 14)	2,054	–	–
Total investment in related parties	<u>2,054</u>	<u>8,878</u>	<u>10,322</u>

The details of key management compensation (being the remuneration of the directors) are set out in note 5.



## 27. Subsidiaries

Details of the Playtech Group's subsidiaries as at 31 December 2009, 2010 and 2011 are set out below:

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
<b>Subsidiaries at 31 December 2009</b>			
Playtech Software Ltd	British Virgin Islands	100%	Main trading company of the Playtech Group, owns the intellectual property rights and licenses the software to customers
OU Playtech (Estonia)	Estonia	100%	Designs, develops and manufactures online software
Techplay Marketing Ltd	Israel	100%	Marketing and advertising
Video B Holding Ltd	British Virgin Islands	100%	Trading company for the Videobet software, owns the intellectual property rights of Videobet and licenses it to customers
OU Videobet	Estonia	100%	Develops software for fixed odds betting terminals and casino machines (as opposed to online software)
Playtech Bulgaria	Bulgaria	100%	Designs, develops and manufactures online software
PTVB Management Ltd	Isle of Man	100%	Management
Playtech (Cyprus) Ltd	Cyprus	100%	Dormant
Playtech Live Ltd	British Virgin Islands	100%	Dormant
Networkland Ltd	British Virgin Islands	100%	Dormant
Playtech Bingames Ltd	British Virgin Islands	100%	Technical support
Evermore Trading Ltd	British Virgin Islands	100%	Holder of convertible notes in Foundation
Playtech Software India Ltd	India	100%	Designs, develops and manufactures online software India Ltd
Genuity Services Ltd	British Virgin Islands	100%	Holder of investment in WH Online
Playtech Services (Cyprus) Ltd	Cyprus	100%	Activates the Italian iPoker network
VB (Video) Cyprus Ltd	Cyprus	100%	Trading company for the Videobet product to Romanian companies
Guideview Trading Limited	Cyprus	100%	Licenses software to companies
Playtech Sports Limited	British Virgin Islands	100%	Holds sports betting IP
Regisol Holdings Limited	Cyprus	100%	Dormant
Playtech Software Bulgaria EOOD	Bulgaria	100%	Dormant
Makemoreprofit Investments Ltd	British Virgin Islands	100%	Holder of Guideview Trading Limited
Techplay S.A. Software LTD	Israel	100%	Develops online software
Technology Trading IOM Limited	Isle of Man	100%	Owns the intellectual property rights of the GTS, VF and Ash Gaming businesses
<b>The GTS Group</b>			
Gaming Technology Solutions Limited	UK	100%	Holds VS Gaming and VS Technology
VS Gaming Limited	UK	100%	Develops soft and casino games
VS Technology Limited	UK	100%	Develops EdGE platform
<b>Additional subsidiaries at 31 December 2010</b>			
Bandwick Investments Ltd	Cyprus	100%	Holding Company of Bandwick Investments OU
Bandwick Investments OU	Estonia	100%	Owns a building
Virtue Fusion (Alderney) Limited	Alderney	100%	Shareholder of Bingo Networks (Alderney) Limited
VF Interactive Gaming Limited	Malta	100%	Dormant

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Virtue Fusion CM Limited	UK	100%	Chat moderation services provider to end users of VF licenses
Playtech Services Romania S.R.L	Romania	100%	Providing customer support
VB CMS OU	Estonia	100%	Develops software for fixed odds betting terminals and casino machines
Playtech Software (Alderney) Ltd	Alderney	100%	To hold the company's Alderney gaming license
Playtech Gaming SAS	France	100%	Dormant
<b>Additional subsidiaries at 31 December 2011</b>			
Intelligent Gaming Systems Limited	UK	100%	Casino management systems to land based businesses
VF 2011 Limited	Alderney	100%	Holds license in Alderney for online gaming
<b>The PTTS Group</b>			
PT Turnkey Services Limited	British Virgin Islands	100%	Holding company of the Turnkey Services group
PT Turnkey EU Services Limited	Cyprus	100%	Turnkey services for EU online gaming operators
PT Entretenimiento Online EAD	Bulgaria	100%	Poker & bingo network for Spain
PT Marketing Services Limited	British Virgin Islands	100%	Marketing services to online gaming operators
PT Domains Limited	British Virgin Islands	100%	Domains & hosting services to online gaming operators
Fullaccess Trading Limited	Cyprus	100%	Domains & hosting services for EU
Ciera Trading Limited	Cyprus	100%	Marketing services to parent company
KarminaTrading Limited	British Virgin Islands	100%	Marketing services to parent company
PT Operational Services Limited	British Virgin Islands	100%	Operational & hosting services to online gaming operators
Tech Hosting Limited	Alderney	100%	Alderney hosting services
PT Antigua Limited	Antigua	100%	Operational services
PT Entertainment Services	Antigua	100%	Holder of Antiguan licence for iPoker network & online gaming operator
Paragon International Customer Care Limited	British Virgin Island and branch office in the Philippines	100%	English customer support, chat, fraud, finance, dedicated employees services to parent company
Starting Point Consultants Limited	Cyprus	100%	Operational & administration services to parent company
CSMS Limited	Bulgaria	100%	Consulting and online technical support, data mining processing and advertising services to parent company
TCSP Limited	Serbia	100%	Operational services for Serbia
Xwise marketing (Israel) Limited	Israel	100%	Marketing services to parent company
Xwise Research & Development (Israel) Limited	Israel	100%	Maintenance to affiliate program of parent company
S-Tech Limited	British Virgin Islands and branch office in the Philippines	85%	Live games services to Asia
PT Advisory Services Limited	British Virgin Islands	100%	Holds PT processing Advisory Ltd
PT Processing Advisory Limited	British Virgin Islands	100%	Advisory services for processing & cashier to online gaming operators
PT Processing EU Advisory Limited	Cyprus	100%	Advisory services for processing & cashier for EU online gaming operators
PT Network Management Limited	British Virgin Islands	100%	Manages the iPoker network
Gamepark Investments Limited	British Virgin Islands	100%	Subsidiary of PT Network Management

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Playtech Mobile (Cyprus) Limited	Cyprus	100%	Holds the IP of Mobenga AB
Playtech Holding Sweden AB	Sweden	100%	Holding company of Mobenga AB
Mobenga AB	Sweden	100%	Mobile sportsbook betting platform developer
Ash Gaming Limited	UK	100%	Develops interactive gambling and betting games

## 28. Financial Instruments and risk management

The Playtech Group is exposed to a variety of financial risks, which result from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the Playtech Group's financial performance and position. The Playtech Group's financial instruments are its cash, available-for-sale financial assets, trade receivables, loan receivables, accounts payable and accrued expenses. The main purpose of these financial instruments is to raise finance for the Playtech Group's operation. The Playtech Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the Playtech Group's financial instruments are credit risks and market price risks, which include interest rate risk, currency risk and equity price risk. The risk management policies employed by the Playtech Group to manage these risks are discussed below.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Playtech Group's income and operating cash flows are substantially independent of changes in market interest changes. The management monitors interest rate fluctuations on a continuous basis and acts accordingly.

Where the Playtech Group has generated a significant amount of cash, it will invest in higher earning interest deposit accounts. These deposit accounts are short term and the Playtech Group is not unduly exposed to market interest rate fluctuations.

The Playtech Group advanced loans to affiliates and customers for a total amount of €2.0 million, €1.0 million and €5.0 million during the years ended 31 December 2009, 2010 and 2011 respectively. Interest on the loans for the years ended 31 December 2009, 2010 and 2011 was charged at rates of 5.5% to 7%, 5.5% and 5% respectively.

The loans are repayable in monthly instalments.

A 1% change in deposit interest rates would impact on the profit before tax by €100,000 to €150,000, €40,000 and €50,000 in the years ended 31 December 2009, 2010 and 2011 respectively.

### *Credit Risk*

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The Playtech Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances.

The Playtech Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the Playtech Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the balance sheet net of bad debt provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic circumstances.

Wherever possible and commercially practical the Playtech Group invests cash with major financial institutions that have a rating of A- as defined by Standard & Poors. The Playtech Group maintains

monthly operational balances with banks that do not meet this credit rating in Israel and in the Philippines to meet local salaries and expenses. These balances are kept to a minimum and typically do not exceed €1 million at any time during the monthly payment cycle. During 2009, 2010 and 2011 the Playtech Group held approximately 50%, 26% and 14% of its funds respectively in financial institutions below A- rate.

	<i>Total</i> €'000	<i>Financial institutes with A- and above rating</i> €'000	<i>Financial institutes below A- rating</i> €'000
As at 31 December 2009	58,700	28,420	30,280
As at 31 December 2010	68,519	49,714	18,805
As at 31 December 2011	<u>164,832</u>	<u>141,463</u>	<u>23,369</u>

The ageing of trade receivables that are past due but not impaired can be analysed as follows:

	<i>Total</i> €'000	<i>Not past due</i> €'000	<i>1-2 months overdue</i> €'000	<i>More than 2 months past due</i> €'000
As at 31 December 2009	6,470	5,498	714	258
As at 31 December 2010	13,506	8,807	3,885	814
As at 31 December 2011	<u>21,007</u>	<u>13,607</u>	<u>5,380</u>	<u>2,020</u>

The above balances relate to customers with no default history.

A provision for doubtful debtors is included within trade receivables that can be reconciled as follows:

	2009 €'000	2010 €'000	2011 €'000
Provision at the beginning of the year	93	146	121
Charged to income statement	154	64	2,019
Utilised	(101)	(89)	(311)
Provision at end of the year	<u>146</u>	<u>121</u>	<u>1,829</u>

Related party receivables of €2.3 million, €2.4 million and €2.9 million were not past due at 31 December 2009, 2010 and 2011 respectively.

As at 31 December 2009, 2010 and 2011 the Playtech Group held undrawn credit facilities of €nil, €50 million and €82.6 million respectively.

### **Currency Risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Foreign exchange risk arises because the Playtech Group has operations located in various parts of the world. However, the functional currency of those operations is the same as the Playtech Group's primary functional currency (Euro) and the Playtech Group is not substantially exposed to fluctuations in exchange rates in respect of assets held overseas.

Foreign exchange risk also arises when Playtech Group operations are entered into in currencies denominated in a currency other than the functional currency.

The Playtech Group's policy is not to enter into any currency hedging transactions.

### *Equity Price Risk*

The Playtech Group's balance sheet is exposed to market risk by way of holding some investments in other companies on a short term basis (note 14). Variations in market value over the life of these investments have or will have an impact on the balance sheet and the income statement.

The directors believe that the exposure to market price risk is acceptable in the Playtech Group's circumstances.

The Playtech Group's balance sheet includes available-for-sale investments with a value of €3.5 million, €8.9 million and €10.3 million at 31 December 2009, 2010 and 2011 respectively, which are subject to fluctuations in the underlying share price.

A change of 1% in shares price will have an impact of €0.1 million on the consolidated statement of comprehensive income and the fair value of the available for sale investments will change by the same amount.

### *Capital Disclosures*

Given the repayment of the loan in the beginning of 2012 and the Playtech Group's significant retained earnings, capital risk is not considered significant.

### *Liquidity Risk*

Liquidity risk arises from the Playtech Group's management of working capital and the financial charges on its debt instruments.

The Playtech Group's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

The following are the contractual maturities (representing undiscounted contractual cash flows) of the Playtech Group's financial liabilities:

#### *Year ended 31 December 2009*

	<i>Total</i>	<i>Within 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Trade payables	8,823	8,823	–	–
Other accounts payable	4,169	4,169	–	–
Progressive and other operators' jackpots	1,068	1,068	–	–
Deferred consideration	13,955	13,955	–	–
Contingent consideration	7,346	–	7,346	–
Other non-current liabilities	1,168	–	1,038	130

#### *Year ended 31 December 2010*

	<i>Total</i>	<i>Within 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Trade payables	13,013	13,013	–	–
Other accounts payable	7,254	7,254	–	–
Progressive and other operators' jackpots	12,847	12,847	–	–
Deferred consideration	15,001	15,001	–	–
Contingent consideration	16,795	11,059	5,736	–
Other non-current liabilities	953	–	767	186

*Year ended 31 December 2011*

	Total €'000	Within 1 year €'000	1-2 years €'000	2-5 years €'000
Trade payables	17,678	17,678	–	–
Loans and borrowings	27,533	13,787	13,746	–
Other accounts payable	16,908	16,908	–	–
Progressive and other operators' jackpots	20,491	20,491	–	–
Deferred consideration	80,194	35,195	45,000	–
Contingent consideration	131,331	929	768	129,634
Other non-current liabilities	1,423	–	756	667

*Total financial assets and liabilities*

The fair value together with the carrying amount of the financial assets and liabilities shown in the balance sheet are as follows:

	2009		2010		2011	
	Fair value €'000	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000	Carrying amount €'000
Cash and cash equivalents	58,700	58,700	68,519	68,519	164,832	164,832
Available-for-sale investments	5,513	5,513	10,932	10,932	12,376	12,376
Other assets	18,752	18,752	28,819	28,819	44,055	44,055
Deferred consideration	13,955	13,955	15,001	15,001	75,343	75,343
Contingent consideration	6,983	6,983	16,533	16,533	111,914	111,914
Loans and borrowings	–	–	–	–	27,533	27,533
Other liabilities	15,228	15,228	34,067	34,067	56,500	56,500

Included in available-for-sale investments at 31 December 2009, 2010 and 2011 is €3.5 million and €2.0 million, €8.9 million and €2.0 million, and €10.3 million and €2.0 million measured at fair value using level 1 and level 2 respectively. These are the Playtech Group's only financial assets which are measured at fair value.

**29. Post balance sheet events**

*Acquisition of Geneity Limited*

On 24 January 2012, the Playtech Group acquired 100% of the issued share capital of Geneity Limited ("Geneity") shares, a UK based provider of e-gaming software products, focused primarily on the sportsbook and lottery sectors, for an initial cash consideration of £11 million (subject to a working capital adjustment), of which £4 million will be held in escrow for 30 months. A further £4 million in cash will be payable subject to certain agreed deliverables to be provided by Geneity.

As of the approval date of the financial statements by the board the Playtech Group had not completed the valuation of the fair value of the intangible assets and liabilities acquired, and accordingly these disclosures are not provided in the financial statement.

*Joint Venture with Merkur Interactive GmbH*

In January 2012, the Playtech Group entered into an agreement with Merkur Interactive GmbH, the online division of the Gauselmann Group. The agreement provides for the joint development of an online gaming operation focused on new opportunities as the German online markets regulate, together with a related software licensing agreement.

*Accelerated payment of PTTS initial consideration*

Pursuant to the acquisition of PTTS, which was announced on 10 March 2011, the Company agreed to pay Worldwide Online Enterprises Limited ("WOE") an initial cash consideration of €140 million (less a working capital adjustment of €14.8 million) in broadly equal, non-interest bearing half-yearly instalments over the 30 months following completion of the acquisition in July 2011.

On 17 April 2012, Playtech announced that it had agreed with WOE to aggregate the outstanding €80.2 million balance of the initial consideration into one payment of €76 million, (the “Discounted Outstanding Initial Consideration”) which reflected a discount to the net present value of that outstanding balance and produced a revised initial consideration of €121 million. Playtech financed substantially all of the payment of the Discounted Outstanding Initial Consideration from its available banking facilities.

This Discounted Outstanding Initial Consideration will not affect any amounts which may become payable under the earn-out provisions agreed at the time of the acquisition of PTTS (defined as the Additional Consideration in the announcement of 10 March 2011).

### **30. Contingent liabilities**

The Playtech Group is not a gaming operator and does not provide gaming services to players. As part of the Board’s ongoing regulatory compliance process, the Board continues to monitor legal and regulatory developments and their potential impact on the Playtech Group.

Management is not aware of any contingencies that may have a significant impact on the financial position of the Playtech Group.

## PART 4C

# ACCOUNTANT'S REPORT OF HISTORICAL FINANCIAL INFORMATION OF THE PTTS GROUP



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IM1 1EE

28 June 2012

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

**PT Turnkey Services Limited ("PTTS") and its subsidiary undertakings  
(together, the "PTTS Group")**

### **Introduction**

We report on the financial information set out in Part 4D. This financial information has been prepared for inclusion in the prospectus dated 28 June 2012 of Playtech Limited (the "Prospectus") on the basis of the accounting policies set out in note 2 to the financial information. This report is required by item 20.1 of annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

### **Responsibilities**

The directors of Playtech Limited are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex I of the PD Regulation consenting to its inclusion in the Prospectus.



**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the PTTS Group as at 31 December 2009, 2010 and 2011 and of its profits, changes in equity, and cash flows for the years then ended in accordance with the basis of preparation set out in note 1 to the financial information.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

**BDO LLP**

*Chartered Accountants*

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

PART 4D

HISTORICAL FINANCIAL INFORMATION OF THE PTT'S GROUP

AGGREGATED STATEMENT OF COMPREHENSIVE INCOME

		<i>For the year ended 31 December</i>		
		2009	2010	2011
		€'000	€'000	€'000
	<i>Note</i>			
Revenues	4	102,988	91,762	81,418
Distribution costs		(76,654)	(65,443)	(53,536)
Administrative expenses		(8,463)	(8,943)	(17,222)
Total operating costs		<u>(85,117)</u>	<u>(74,386)</u>	<u>(70,758)</u>
Operating profit before the following items:		18,410	18,017	19,258
Amortisation of intangible assets	10	(539)	(641)	(8,598)
Total		<u>(539)</u>	<u>(641)</u>	<u>(8,598)</u>
Operating profit	5	17,871	17,376	10,660
Financing income	6	756	1,881	675
Financing cost	6	(491)	(353)	(758)
Profit before taxation		<u>18,136</u>	<u>18,904</u>	<u>10,577</u>
Tax expense	7	(64)	(90)	(82)
Profit and total comprehensive income for the year		<u>18,072</u>	<u>18,814</u>	<u>10,495</u>
<b>Profit and total comprehensive income for the year attributable to:</b>				
Owners of the parent		18,072	18,814	10,485
Non-controlling interest		–	–	10
		<u>18,072</u>	<u>18,814</u>	<u>10,495</u>

## AGGREGATED STATEMENT OF CHANGES IN EQUITY

	<i>Invested capital attributable to equity holders of the parent</i>	<i>Non-controlling interest</i>	<i>Total invested capital</i>
	€'000	€'000	€'000
Balance at 1 January 2009	37,229	–	37,229
Total comprehensive income for the year	18,072	–	18,072
Net capital distributed	(36,353)	–	(36,353)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2009	18,948	–	18,948
Total comprehensive income for the year	18,814	–	18,814
Net capital distributed	(21,284)	–	(21,284)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2010	16,478	–	16,478
Total comprehensive income for the year	10,485	10	10,495
Acquisition of non-controlling interest	–	(59)	(59)
Net capital invested	111,594	–	111,594
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2011	138,557	(49)	138,508
	<hr/>	<hr/>	<hr/>

## AGGREGATED BALANCE SHEET

		<i>As of 31 December</i>		
	<i>Note</i>	2009 €'000	2010 €'000	2011 €'000
<b>Non-current assets</b>				
Property, plant and equipment	9	3,740	2,442	2,925
Intangible assets	10	1,197	1,660	148,404
Other non-current assets	11	1,274	1,896	1,848
		<u>6,211</u>	<u>5,998</u>	<u>153,177</u>
<b>Current assets</b>				
Trade receivables	12	17,365	16,253	8,825
Other receivables	13	1,712	993	8,424
Cash and cash equivalents	14	22,163	16,371	9,654
		<u>41,240</u>	<u>33,617</u>	<u>26,903</u>
<b>Total assets</b>		<u>47,451</u>	<u>39,615</u>	<u>180,080</u>
<b>Non-current liabilities</b>				
Other non-current liabilities	15	–	10	445
		<u>–</u>	<u>10</u>	<u>445</u>
<b>Current liabilities</b>				
Trade payables	16	21,126	19,438	18,631
Progressive and other operators' jackpots		2,005	994	1,434
Tax liabilities		74	11	49
Other payables	17	5,298	2,684	21,013
		<u>28,503</u>	<u>23,127</u>	<u>41,127</u>
<b>Total liabilities</b>		<u>28,503</u>	<u>23,137</u>	<u>41,572</u>
<b>Total net assets</b>		<u>18,948</u>	<u>16,478</u>	<u>138,508</u>
<b>Invested capital attributable to:</b>				
Equity holders of the parent		18,948	16,478	138,557
Non-controlling interest		–	–	(49)
		<u>18,948</u>	<u>16,478</u>	<u>138,508</u>

## AGGREGATED STATEMENT OF CASH FLOWS

	Note	<i>For the year ended 31 December</i>		
		2009 €'000	2010 €'000	2011 €'000
<b>Cash flows from operating activities</b>				
Profit after tax		18,072	18,814	10,495
Adjustments to reconcile net income to net cash provided by operating activities (see below)		10,170	(657)	28,771
Income taxes paid		(9)	(153)	(59)
Net cash provided by operating activities		<u>28,233</u>	<u>18,004</u>	<u>39,207</u>
<b>Cash flows from investing activities</b>				
Long term loans		–	(622)	48
Acquisition of property, plant and equipment	9	(2,349)	(961)	(1,689)
Acquisition of intangible assets	10	(1,444)	(1,104)	(12)
Proceeds from sale of property, plant and equipment		129	175	163
Proceeds from sale of intangible assets		–	–	4
Net cash used in investing activities		<u>(3,664)</u>	<u>(2,512)</u>	<u>(1,486)</u>
<b>Cash flows from financing activities</b>				
Acquisition of subsidiary, net of cash acquired	18	–	–	338
Net cash movements in capital distributed		(36,353)	(21,284)	(44,776)
Net cash used in financing activities		<u>(36,353)</u>	<u>(21,284)</u>	<u>(44,438)</u>
Decrease in cash and cash equivalents		(11,784)	(5,792)	(6,717)
Cash and cash equivalents at beginning of year		<u>33,947</u>	<u>22,163</u>	<u>16,371</u>
Cash and cash equivalents at end of year		<u>22,163</u>	<u>16,371</u>	<u>9,654</u>

### Adjustment to reconcile net income to net cash provided by operating activities

	<i>For the year ended 31 December</i>		
	2009 €'000	2010 €'000	2011 €'000
<b>Income and expenses not affecting operating cash flows</b>			
Depreciation	2,867	2,084	1,697
Amortisation	539	641	8,598
	<u>3,406</u>	<u>2,725</u>	<u>10,295</u>
Income tax expense	64	90	82
<b>Changes in operating assets and liabilities</b>			
Decrease in trade receivables	2,672	1,112	7,428
(Increase)/decrease in other receivables	(668)	719	(7,431)
Increase/(decrease) in trade payables	1,891	(1,688)	(807)
(Decrease)/increase in progressive and other operators' jackpot	(1)	(1,011)	440
Increase/(decrease) in other payables	2,806	(2,614)	18,329
Increase in non-current liabilities	–	10	435
	<u>10,170</u>	<u>(657)</u>	<u>28,771</u>

## NOTES TO THE AGGREGATED FINANCIAL INFORMATION

### 1. Basis of preparation

The financial information provided is for PT Turnkey Services Limited (“PTTS”) and its subsidiary undertakings (together the “PTTS Group”) in respect of the three financial years ended 31 December 2009, 2010 and 2011.

PTTS was a new holding company established by the former shareholder in connection with the acquisition of PTTS which, immediately prior to acquisition of PTTS by Playtech, acquired assets in respect of B2B online gaming service operations (the “Operations”) that provide support to Playtech’s licensees.

The financial information relating to the PTTS Group has been derived from the aggregation of results, cash flows and balance sheets of a number of businesses housed within various corporate entities, owned either by PTTS or the former shareholder of PTTS, which jointly comprise the Operations. Under the terms of the acquisition by Playtech, the sale and purchase of the Operations was completed on the basis that excess working capital over and above that required to meet certain liabilities was €Nil. Accordingly, due to the terms of the acquisition and the consequences of an aggregation, certain cash flows and balance sheet items which were not acquired by PTTS are inherently included within the financial information, although transactions and appropriations with the former shareholder of PTTS that are not related to the underlying trading of the Operations have been excluded.

The presentational format adopted for the financial information (which has been prepared solely for the purposes of this document) reflects the acquisition of various corporate entities, together with other trade and assets from other corporate entities, by PTTS, as if it was an asset acquisition. Accordingly, the financial information is drawn up on the basis of excluding issued share capital, accumulated reserves and certain shareholder loans and appropriations (in aggregate referred to as invested capital) not acquired.

Other than as described below, the financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB). In the current year the PTTS Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2011.

In preparing the financial information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 (Investment Reporting Standard applicable to public reporting engagements of historical financial information) issued by the UK Auditing Practices Board have been applied. The application of these conventions results in the following material departures from IFRS as adopted by the EU. In other respects IFRSs as adopted by the EU have been applied.

#### *Aggregation*

The entities comprising the PTTS Group do not include a single overall holding company for the three years ended 31 December 2011 and therefore, prior to 1 July 2011, did not form a legal group. However, their results and net assets have been combined and, where applicable, consolidation adjustments have been included to show this combination of businesses as a group. In particular all transactions, balances and unrealised gains on transactions between the aggregated entities have been eliminated.

#### *Earnings per share*

It has not been possible to calculate the earnings per share in accordance with IAS 33 as the PTTS Group did not have a single parent company throughout the three years ended 31 December 2011. Illustrative earnings per share information has not been provided on the basis that PTTS is now owned by Playtech Limited and any future earnings per share will be based on the results and number of shares of the group headed by Playtech Limited and not the group headed by PTTS.

### *New standards, interpretations and amendments not yet effective*

The following new standards, interpretations and amendments, which have not been applied to these financial statements, will or may have an effect on the PTTS Group's future financial statements:

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

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (effective for annual periods beginning on or after 1 July 2012).

The following new standards, interpretations and amendments, which have not yet been endorsed by the EU, are effective for annual periods beginning on or after 1 January 2013:

IFRS 10 Consolidated Financial Statements;

IFRS 11 Joint Arrangements;

IFRS 13 Fair Value Measurement;

IAS 28 Investments in Associates and Joint Ventures;

Disclosures – Offsetting Financial Assets and Liabilities (Amendments to IFRS 7);

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (effective for annual periods beginning on or after 1 January 2014);

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).

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

None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the PTTS Group's future financial statement.

## **2. Significant accounting policies**

### *Foreign currency*

The financial information of PTTS and its subsidiaries is prepared in Euro (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the PTTS Group. Transactions and balances in foreign currencies are converted into Euro in accordance with the principles set forth by International Accounting Standard (IAS) 21 ("The Effects of Changes in Foreign Exchange Rates"). Accordingly, transactions and balances have been converted as follows:

Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet date; Income and expense items – at exchange rates applicable as of the date of recognition of those items. Non-monetary items are converted at the rate of exchange used to convert the related balance sheet items i.e. at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognised in the consolidated statement of comprehensive income.

### *Basis of consolidation*

Where PTTS has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of PTTS and its subsidiaries as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

### *Revenue recognition*

Income receivable from contracting parties comprises a percentage of the revenue generated by the contracting party from use of the PTTS Group's intellectual property in B2B services provided to the online gaming activities, and from fees charged for services rendered. Income is recognised in the

accounting periods in which the gaming transactions occur or the services are rendered. Royalty and other income receivable under fixed-term arrangements are recognised over the term of the agreement on a straight line basis.

***Distribution costs***

Distribution costs represent the direct costs of the function of providing services to customers, costs of the development function and advertising costs.

***Income Taxes and Deferred Taxation***

Provision for income taxes is calculated in accordance with the tax legislations and applicable tax rates in force at the balance sheet date in the countries in which the PTTS Group companies have been incorporated.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the PTTS Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the PTTS Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

***Property, Plant and Equipment***

Property, plant and equipment comprise computers, leasehold improvements, office furniture and equipment, and motor vehicles and are stated at cost less accumulated depreciation. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Computers and gaming machines	33.33
Office furniture and equipment	7.00–20.00
Building and leasehold improvements	10.00–20.00, or over the length of the lease
Motor vehicles	15

Subsequent expenditures are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the PTTS Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.



Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

### *Intangible Assets*

Intangible assets comprise externally acquired patents, domains, and customer lists. Intangible assets also include internally generated capitalised software development costs. All such intangible assets are stated at cost less accumulated amortisation. Where intangible assets are acquired as part of a business combination they are recorded initially at their fair value. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable.

Amortisation is calculated using the straight-line method at annual rates estimated to write off the costs of the assets over their expected useful lives and is charged to operating expenses from the point the asset is brought into use. The principal annual rates used for this purpose are:

	%
Domain names	Nil
Internally generated capitalised development costs	33.33
Technology IP	20–33.33
Customer list	7–12.50
Affiliate contracts	5–12.50
Patents	Over the expected useful lives 10–33

Management believes that the useful life of the domain names is indefinite. Domain names are reviewed for impairment annually.

Expenditure incurred on development activities including the PTTS Group's software development is capitalised only where the expenditure will lead to new or substantially improved products, the products are technically and commercially feasible and the PTTS Group has sufficient resources to complete development.

Subsequent expenditure on capitalised intangible assets is capitalised only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

### *Goodwill*

Goodwill represents the excess of the cost of a business combination over the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Cost comprises the fair value of assets given and liabilities assumed, plus the amount of any non-controlling interests in the acquire. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense in the consolidated statement of comprehensive income, within administrative costs.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Goodwill is not amortised and is reviewed for impairment, annually or more specifically if events or changes in circumstances indicate that the carrying value may be impaired.

### *Impairment*

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

Where it is not possible to establish the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. – the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the PTTS Group's cash generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

### *Financial Assets*

The PTTS Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The PTTS Group has not classified any of its financial assets as held to maturity. The PTTS Group does not hold any financial assets at fair value through profit and loss.

### *Loans and Receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The PTTS Group's receivables comprise trade and other receivables, cash and cash equivalents, and loans to customers in the balance sheet

Trade receivables which principally represent amounts due from licensees are carried at original invoice value less an estimate made for bad and doubtful debts based on a review of all outstanding amounts at the year-end. An estimate for doubtful debts is made when there is objective evidence that the PTTS Group will not be able to collect amounts due according to the original terms of receivables. Bad debts are written off when identified.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Where cash is on deposit with maturity dates greater than three months, it is disclosed within other receivables.

Loans to customers are in respect of formal loan agreements entered into between the PTTS Group and its customer, which are carried at original advanced value less a provision for impairment. They are classified between current and non-current assets in accordance with the contractual repayment terms of each loan agreement.

### *Financial Liabilities*

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Several of the PTTS Group's licensees participate in progressive jackpot games. Each time a progressive jackpot game is played, a preset amount is added to a cumulative jackpot for that specific game. The accrual for the jackpot at the consolidated balance sheet date is included in progressive jackpot and other operator's jackpot liabilities.

Loans and bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

### *Long-Term Liabilities*

Long-term liabilities are those liabilities that are due for repayment or settlement in more than twelve months from the balance sheet date.

### *Provisions*

Provisions, which are liabilities of uncertain timing or amount, are recognised when the PTTS Group has a present obligation as a result of past events, if it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### *Non-controlling interests*

Non-controlling interest is recognised at the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets. The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.

## **3. Critical accounting estimates and judgements**

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the PTTS Group's earnings and financial position are impairment of goodwill, the recognition and amortisation of development costs and the useful life of property, plant and equipment, the fair value of available for sale investments, share based payments, legal proceedings and contingent liabilities, determination of fair values of intangible assets acquired in business combinations, income tax, and determination of fair value of contingent consideration.

### *Estimates and Assumptions*

#### *Impairment of Goodwill*

The PTTS Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Such estimates are based on management's experience of the business, but actual outcomes may vary. More details including carrying values are included in note 11.

#### *Amortisation of Development Cost and Other Intangible Assets and the Useful Life of Property, Plant and Equipment*

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods. More details including carrying values are included in notes 10 and 11.

#### *Legal Proceedings and Contingent Liabilities*

Management regularly monitors the key risks affecting the PTTS Group, including the regulatory environment in which the PTTS Group operates. A provision will be made where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial information. More details are included in note 22.

#### *Determination of Fair Value of Intangible Assets Acquired*

The fair value of the intangible assets acquired is based on the discounted cash flows expected to be derived from the use of the asset. Further information in relation to the determination of fair value of intangible assets acquired is given in note 11.

### *Income Taxes*

The PTTS Group is subject to income tax in jurisdictions in which it is registered and judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the PTTS Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The PTTS Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. More details are included in note 7.

The preparation of financial information in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### **4. Segmental analysis**

Management considers that the PTTS Group's activity as a single source supplier of online gaming solutions constitutes one operating and reporting segment, as defined under IFRS 8.

Management review the performance of the PTTS Group by reference to group-wide profit measures of adjusted net profit (see below) and adjusted EBITDA. Management believes the adjusted profit measures represent more closely the underlying trading performance of the business. No other material differences exist between the basis of preparation of the performance measures used by management and the figures in the PTTS Group financial statements.

The adjusted net profit represents the profit for the year before charging amortisation relating to acquisitions.

#### *Geographical Analysis of Revenues by Jurisdiction of Gaming Licence*

Analysis by geographical regions is made according to the jurisdiction of the gaming licence of the licensee. This does not reflect the region of the end users of the PTTS Group's licensees whose locations are worldwide.

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Gibraltar	7,171	8,944	8,636
Canada	89,178	71,686	62,540
Curacao	1,415	2,341	2,123
Philippines	154	186	462
Rest of world	5,070	8,605	7,657
	<u>102,988</u>	<u>91,762</u>	<u>81,418</u>

There was one licensee who individually accounted for more than 10% of the total revenue of the PTTS Group during the years ended 31 December 2009, 2010 and 2011. Revenue from this licensee amounted to €88.8 million, €70.5 million and €60.8 million in each respective year.

#### *Adjusted net profit*

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Profit for the year	18,072	18,814	10,495
Amortisation of acquisitions	–	–	7,683
Adjusted profit for the year	<u>18,072</u>	<u>18,814</u>	<u>18,178</u>

## Geographical Analysis of Non-current assets

	As of 31 December		
	2009 €'000	2010 €'000	2011 €'000
British Virgin Islands	5,136	5,068	151,289
Cyprus	29	22	29
Philippines	775	675	1,576
Rest of world	271	233	283
	<u>6,211</u>	<u>5,998</u>	<u>153,177</u>

## 5. Operating profit

Operating profit is stated after charging:

	For the year ended 31 December		
	2009 €'000	2010 €'000	2011 €'000
<i>Directors' compensation</i>			
Short-term benefits of directors	26	26	31
Bonuses to directors	–	–	–
	<u>26</u>	<u>26</u>	<u>31</u>

Following its acquisition by Playtech Limited on 1 July 2011, the PTTS Group is managed by the board of the ultimate parent company. The compensation received by the directors of the ultimate parent company is set out in the financial information of Playtech Limited in Part 4B of this document.

## 6. Financing income and costs

	For the year ended 31 December		
	2009 €'000	2010 €'000	2011 €'000
<i>Finance income</i>			
Interest received	756	1,881	675
<i>Finance cost</i>			
Bank charges and other finance costs	(491)	(353)	(758)
Net financing income/(expense)	<u>265</u>	<u>1,528</u>	<u>(83)</u>

## 7. Taxation

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Current income tax</i></b>			
Income tax on profits of subsidiary operations	64	90	82

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

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Profit before tax	18,136	18,904	10,577
Tax at effective rate in British Virgin Islands	–	–	–
Higher rates of current income tax in overseas jurisdictions	64	90	82
Total tax charge	<u>64</u>	<u>90</u>	<u>82</u>

The majority of profits arise in the British Virgin Islands. No tax is assessed in the British Virgin Islands, the Company's country of incorporation. The PTTS Group's subsidiaries are located in different jurisdictions. The subsidiaries are taxed on their residual profit.

## 8. Employee benefits

Total staff costs comprise the following:

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Salaries and related costs	10,446	13,568	13,936

  

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	Number	Number	Number
<b><i>Average number of employees</i></b>			
Distribution	728	801	843
General and administration	77	91	99
	<u>805</u>	<u>892</u>	<u>942</u>

## 9. Property, plant and equipment

	<i>Computers and related equipment</i>	<i>Office furniture and equipment</i>	<i>Motor vehicles</i>	<i>Leasehold improvement</i>	<i>Total</i>
	€'000	€'000	€'000	€'000	€'000
<b><i>Cost</i></b>					
At 1 January 2009	7,934	331	87	761	9,113
Additions	2,174	19	82	74	2,349
Disposals	(157)	(21)	(54)	–	(232)
At 31 December 2009	9,951	329	115	835	11,230
Additions	805	42	64	50	961
Disposals	(252)	–	–	–	(252)
At 31 December 2010	10,504	371	179	885	11,939
Additions	1,486	97	30	76	1,689
Acquired on business combinations	468	72	–	114	654
Disposals	(103)	(76)	(21)	(125)	(325)
At 31 December 2011	12,355	464	188	950	13,957
<b><i>Accumulated depreciation</i></b>					
At 1 January 2009	4,275	124	18	309	4,726
Charge	2,630	54	30	153	2,867
Disposals	(84)	(3)	(16)	–	(103)
At 31 December 2009	6,821	175	32	462	7,490
Charge	1,837	48	29	170	2,084
Disposals	(77)	–	–	–	(77)
At 31 December 2010	8,581	223	61	632	9,497
Charge	1,411	54	39	193	1,697
Disposals	(85)	(5)	(13)	(59)	(162)
At 31 December 2011	9,907	272	87	766	11,032
<b><i>Net book value</i></b>					
As of 31 December 2009	3,130	154	83	373	3,740
As of 31 December 2010	1,923	148	118	253	2,442
As of 31 December 2011	2,448	192	101	184	2,925

## 10. Intangible assets

	<i>Patents and domain names €'000</i>	<i>Development costs €'000</i>	<i>Customer list and affiliate contracts €'000</i>	<i>Goodwill €'000</i>	<i>Total €'000</i>
<b>Cost</b>					
At 1 January 2009	77	215	–	–	292
Additions	9	1,435	–	–	1,444
At 31 December 2009	86	1,650	–	–	1,736
Additions	10	1,094	–	–	1,104
At 31 December 2010	96	2,744	–	–	2,840
Additions	12	–	–	–	12
Acquired on business combinations	–	–	131,547	23,787	155,334
Disposals	(4)	–	–	–	(4)
At 31 December 2011	104	2,744	131,547	23,787	158,182
<b>Accumulated amortisation</b>					
At 1 January 2009	–	–	–	–	–
Provision	–	539	–	–	539
At 31 December 2009	–	539	–	–	539
Provision	–	641	–	–	641
At 31 December 2010	–	1,180	–	–	1,180
Provision	–	915	7,683	–	8,598
At 31 December 2011	–	2,095	7,683	–	9,778
<b>Net book value</b>					
As of 31 December 2009	86	1,111	–	–	1,197
As of 31 December 2010	96	1,564	–	–	1,660
As of 31 December 2011	104	649	123,864	23,787	148,404

Management believes that domain names are stated at fair value and have an indefinite life due to their nature.

In accordance with IAS 36, PTTS regularly monitors the carrying value of its intangible assets, including goodwill. Goodwill is allocated to one cash generating unit (“CGU”), and the carrying value is below.

At 31 December 2011 the recoverable amount of the CGU has been determined from value-in-use calculations based on cash flow projections from the formally approved budget for 2012 and detailed projections covering the periods as noted below.

Key assumptions for intangible assets, with carrying value of €148 million, are as follows:

- Discount rate of 15.5% which is based on the ultimate parent company’s WACC to reflect management’s assessment of specific risks related to the goodwill.
- Annual growth rate of 22% for 2012, 62% for 2013, 4% for 2014, 5% for 2015, 2% for 2016 and 2% for the following years, based on the average forecast GDP growth rate for the UK.

The results of the review indicated that there was no impairment of goodwill at 31 December 2011. Management has also reviewed the key assumptions and forecasts for the customer lists and affiliates, applying the above same key assumptions. The results of the reviews indicated that there was no impairment of the intangible assets at 31 December 2011.



## 11. Other non-current assets

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Loan to affiliate	974	1,703	1,600
Other	300	193	248
	<u>1,274</u>	<u>1,896</u>	<u>1,848</u>

## 12. Trade receivables

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Customers	14,575	14,583	6,851
Related parties (note 19)	2,790	1,670	1,974
	<u>17,365</u>	<u>16,253</u>	<u>8,825</u>

## 13. Other receivables

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
VAT and other taxes	219	96	103
Short-term investment	11	68	2,085
Advance to suppliers	204	35	150
Loan to affiliate	–	–	4,700
Other receivables	1,278	794	1,386
	<u>1,712</u>	<u>993</u>	<u>8,424</u>

## 14. Cash and cash equivalents

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Cash at bank	8,942	14,795	9,633
Deposits	13,221	1,576	21
	<u>22,163</u>	<u>16,371</u>	<u>9,654</u>

The PTTS Group held cash balances which include monies held on behalf of operators in respect of operators' jackpot games and poker operation. The balances held at the year-end are set out below and the liability is included in trade payables:

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Funds attributable to jackpots	2,005	994	1,434
Poker security deposits	17,457	12,415	13,257
	<u>19,462</u>	<u>13,409</u>	<u>14,691</u>

## 15. Non-current liabilities

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Long-term trade payables	–	10	445

## 16. Trade payables

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Suppliers	2,673	5,398	4,987
Customer liabilities	15,179	12,072	12,254
Related parties (note 19)	3,109	1,948	1,387
Other	165	20	3
	<u>21,126</u>	<u>19,438</u>	<u>18,631</u>

## 17. Other payables

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
Payroll and related expenses	781	910	1,941
Related parties (note 19)	–	–	17,371
Other payables	4,517	1,774	1,701
	<u>5,298</u>	<u>2,684</u>	<u>21,013</u>

## 18. Business combinations

### *Year ended 31 December 2011*

#### *Formation of PTTS and restructure of corporate entities by way of capital contribution*

On 1 July 2011, immediately prior to it being acquired by Playtech Limited, PTTS (being a newly incorporated holding company established in connection with the subsequent acquisition by Playtech) received trade, assets and liabilities (by way of capital contribution) from its then shareholder, Worldwide Online Enterprises Limited (“WOE”).

Following the capital contribution from WOE, PTTS owned assets which perform a range of complementary B2B online gaming service operations providing marketing and ancillary services to operators of online gaming businesses. These comprise four separate service offerings: marketing; operations; payment advisory; and network management.

Details of the provisional fair value of additional identifiable assets and liabilities acquired (via capital contribution) and goodwill which are not already recognised within the aggregation of financial information are as follows:

	<i>Book value prior to acquisition</i>	<i>Adjustments</i>	<i>Provisional fair value on acquisition</i>
	€'000	€'000	€'000
Intangible assets	–	131,547	131,547
Net additional identified assets not previously aggregated	–	131,547	131,547
Provisional goodwill			23,449
Fair value of shareholder’s capital contribution			<u>154,996</u>

Adjustments to fair value include the following:

	<i>Amount</i> €'000	<i>Amortisation</i>
Customer list	66,994	12.5 years
Affiliate programme	64,553	12.5 years
Total intangible fixed assets	<u>131,547</u>	

The main factors leading to the recognition of goodwill are the synergistic growth and revenues expected to be created by the combined highly complementary business activities and the strengthening of the PTTS Group's position in comparison to its competitors in the market. In accordance with IAS 36, the PTTS Group will regularly monitor the carrying value of its interest in the PTTS business.

The key assumptions used by management to determine the value in use of the customer relationships and affiliates program within PTTS business are as follows:

- The income approach, in particular, the relief of royalty approach was applied for the valuation, considering projected revenues derived from the business.
- The discount rate assumed is equivalent to the WACC for the customer relationships and affiliates program.
- The growth rates and attrition rates were based on market analysis.

#### *Acquisition of S-Tech Limited*

On 24 November 2011 the PTTS Group acquired 85% of the shares of S-Tech Limited (hereinafter "S-Tech"), a live games provider in Asia. As of the purchase date S-Tech had net liabilities and therefore the consideration paid was the US\$1 par value of 85 shares.

Details of the provisional fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	<i>Book value</i> <i>prior to</i> <i>acquisition</i> €'000	<i>Adjustments</i> €'000	<i>Provisional</i> <i>fair value on</i> <i>acquisition</i> €'000
Property, plant and equipment	654	–	654
Trade and other receivables	411	–	411
Cash and cash equivalents	338	–	338
Trade and other payables	(346)	–	(346)
Other payables	(1,455)	–	(1,455)
Net identified assets	<u>(398)</u>	<u>–</u>	<u>(398)</u>
Provisional goodwill			339
Non-controlling interest			59
Total consideration			<u>–</u>

During the year ended 31 December 2011, the PTTS Group recognised a non-controlling interest of €10,000 owing to Emphasis Services Limited, the 15% shareholder.

#### **19. Related parties and shareholders**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party.

MONEYCOAST TRADING LTD, Roundcube Trading Limited, Safecharge International Ltd, Smartalk Services, Easydock Investments Ltd, Netplay TV plc and Basic Idea are related by virtue of a common significant shareholder.

Playtech Limited and subsidiary companies thereof, is related by virtue of it being the ultimate parent undertaking of PTTS.

William Hill Online, a customer of the PTTS Group, is related by virtue of Playtech Limited's interest in that company.

The following transactions arose with related parties:

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Revenue</i></b>			
Easydock Investments Ltd	276	1,464	520
Emphasis Services Limited	154	186	447
MONEYCOAST TRADING LTD	–	58	228
Netplay TV plc	–	525	375
Playtech Services (Cyprus) Ltd	–	4	14
Playtech Software Limited	198	522	757
Safecharge International Ltd	396	344	94
Sportech Alderney Ltd	–	–	36
Video B Holdings Limited	60	60	60
VF 2011 Limited	–	–	47
William Hill Online	3,940	4,763	5,525
	<hr/>	<hr/>	<hr/>
<b><i>Operating expenses</i></b>			
Basic Idea	1	9	–
Playtech Software Limited	–	–	56
Roundcube Trading Limited	92	299	–
Smartalk Services	–	18	–
	<hr/>	<hr/>	<hr/>

The following are year-end balances:

	<i>As of 31 December</i>		
	2009	2010	2011
	€'000	€'000	€'000
<b><i>Related party creditors</i></b>			
Basic Idea	–	9	–
Easydock Investments Ltd	57	–	–
Emphasis Services Limited	126	126	640
Playtech Services (Cyprus) Ltd	–	61	–
Playtech Limited	–	–	6,850
Playtech Software Limited	–	725	10,186
Roundcube Trading Limited	–	5	–
Smartalk Services	–	11	2
Sportech Alderney Ltd	–	–	80
William Hill Online	2,926	1,011	1,000
	<hr/>	<hr/>	<hr/>
	3,109	1,948	18,758
	<hr/>	<hr/>	<hr/>

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
<b><i>Related party debtors</i></b>			
Easydock Investments Ltd	–	90	–
Emphasis Services Limited	–	–	106
MONEYCOAST TRADING LTD	–	12	–
Netplay TV plc	–	38	31
Playtech Services (Cyprus) Ltd	–	75	251
Playtech Software Limited	1,892	922	1,871
Roundcube Trading Limited	13	–	–
Safecharge International Ltd	31	52	–
Smartalk Services	4	–	–
Sportech Alderney Ltd	–	–	29
Video B Holdings Limited	10	5	5
VF 2011 Limited	–	–	31
William Hill Online	840	476	(350)
	<u>2,790</u>	<u>1,670</u>	<u>1,974</u>

The details of key management compensation (being the remuneration of the directors) are set out in note 5.

## 20. Subsidiaries

Details of the PTTs Group's subsidiaries as at the end of the year are set out below:

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
PT Turnkey EU Services Limited	Cyprus	100%	Turnkey services for EU online gaming operators
PT Entretenimiento Online EAD	Bulgaria	100%	Poker & Bingo network for Spain
PT Marketing Services Limited	British Virgin Islands	100%	Marketing services to online gaming operators
PT Domains Limited	British Virgin Islands	100%	Domains & hosting services to online gaming operators
Fullaccess Trading Limited	Cyprus	100%	Domains & hosting services for EU
Ciera Trading Limited	Cyprus	100%	Marketing services to parent company
KarminaTrading Limited	British Virgin Islands	100%	Marketing services to parent company
PT Operational Services Limited	British Virgin Islands	100%	Operational & hosting services to online gaming operators
Tech Hosting Limited	Alderney	100%	Alderney Hosting services
PT Antigua Limited	Antigua	100%	Operational services
PT Entertainment Services Limited	Antigua	100%	Holder of Antiguan licence for iPoker network & online gaming operator
Paragon International Customer Care Limited	British Virgin Island and branch office in the Philippines	100%	English customer support, chat, fraud, finance, dedicated employees services to parent company
Starting Point Consultants Limited	Cyprus	100%	Operational & administration services to parent company
CSMS Limited	Bulgaria	100%	Consulting and online technical support, data mining processing and advertising services to parent company
TCSP Limited	Serbia	100%	Operational services for Serbia

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
Xwise marketing (Israel) Limited	Israel	100%	Marketing services to parent company
Xwise Research & Development (Israel) Limited	Israel	100%	Maintenance to affiliate program of parent company
S-Tech Limited	British Virgin Islands and branch office in the Philippines	85%	Live games services to Asia
PT Advisory Services Limited	British Virgin Islands	100%	Holds PT Processing Advisory Ltd
PT Processing Advisory Limited	British Virgin Islands	100%	Advisory services for payment processing & cashier to online gaming operators
PT Processing EU Advisory Limited	Cyprus	100%	Advisory services for processing & cashier for EU online gaming operators
PT Network Management Limited	British Virgin Islands	100%	Manages the iPoker network
Gamepark Investments Limited	British Virgin Islands	100%	Subsidiary of PT Network Management Ltd

## 21. Financial Instruments and risk management

The PTTS Group is exposed to a variety of financial risks, which result from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the PTTS Group's financial performance and position. The PTTS Group's financial instruments are its cash, trade receivables, loan receivables, accounts payable and accrued expenses. The main purpose of these financial instruments is to raise finance for the PTTS Group's operation. The PTTS Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the PTTS Group's financial instruments are credit risks and market price risks, which include interest rate risk, currency risk and equity price risk. The risk management policies employed by the PTTS Group to manage these risks are discussed below.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The PTTS Group's income and operating cash flows are substantially independent of changes in market interest changes. The management monitors interest rate fluctuations on a continuous basis and acts accordingly.

Where the PTTS Group has generated a significant amount of cash, it will invest in higher earning interest deposit accounts. These deposit accounts are short term and the PTTS Group is not unduly exposed to market interest rate fluctuations.

The PTTS Group advanced loans to affiliates and customers for a total amount of €974,000, €1.7 million and €6.3 million during the years ended 31 December 2009, 2010 and 2011 respectively. The average interest on the loans is 3%, 3% and 4.5% respectively.

The loans are repayable in monthly instalments.

A 1% change in deposit interest rates would not have a material impact on the profit before tax for the years ended 31 December 2009, 2010 and 2011.

### *Credit Risk*

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The PTTS Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances.

The PTTS Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the PTTS Group's maximum exposure to credit risk in connection with its

financial assets. Trade and other receivables are carried on the balance sheet net of bad debt provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic circumstances.

Wherever possible and commercially practical the PTTS Group invests cash with major financial institutions that have a rating of A- as defined by Standard & Poors. The PTTS Group maintains monthly operational balances with banks that do not meet this credit rating in Israel and in the Philippines to meet local salaries and expenses. These balances are kept to a minimum and typically do not exceed €1 million at any time during the monthly payment cycle. During 2009, 2010 and 2011 the PTTS Group held approximately 99%, 99% and 74% of its funds respectively in financial institutions below A- rate.

	<i>Total</i> €'000	<i>Financial institutes with A- and above rating</i> €'000	<i>Financial institutes below A- rating</i> €'000
As at 31 December 2009	22,163	134	22,029
As at 31 December 2010	16,371	74	16,297
As at 31 December 2011	<u>9,654</u>	<u>3,066</u>	<u>6,588</u>

The ageing of trade receivables that are past due but not impaired can be analysed as follows:

	<i>Total</i> €'000	<i>Not past due</i> €'000	<i>1-2 months overdue</i> €'000	<i>More than 2 months past due</i> €'000
As at 31 December 2009	17,365	17,196	132	37
As at 31 December 2010	16,253	15,409	831	13
As at 31 December 2011	<u>8,825</u>	<u>8,557</u>	<u>244</u>	<u>24</u>

The above balances relate to customers with no default history.

A provision for doubtful debtors is included within trade receivables that can be reconciled as follows:

	2009 €'000	2010 €'000	2011 €'000
Provision at the beginning of the year	-	-	-
Charged to income statement	-	-	12
Acquired on business combinations	-	-	52
Utilised	-	-	-
Provision at end of the year	<u>-</u>	<u>-</u>	<u>64</u>

Related party receivables of €2.8 million, €1.7 million and €2 million were not past due at 31 December 2009, 2010 and 2011 respectively.

### **Currency Risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Foreign exchange risk arises because the PTTS Group has operations located in various parts of the world. However, the functional currency of those operations is the same as the PTTS Group's primary functional currency (Euro) and the PTTS Group is not substantially exposed to fluctuations in exchange rates in respect of assets held overseas.

Foreign exchange risk also arises when PTTS Group operations are entered into in currencies denominated in a currency other than the functional currency.

The PTTS Group's policy is not to enter into any currency hedging transactions.

### Liquidity Risk

Liquidity risk arises from the PTTS Group's management of working capital and the financial charges on its debt instruments.

The PTTS Group's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

The following are the contractual maturities (representing undiscounted contractual cash flows) of the PTTS Group's financial liabilities:

#### Year ended 31 December 2009

	Total	Within	1-2 years	More than
	€'000	1 year	€'000	2 years
		€'000	€'000	€'000
Trade payables	21,126	21,076	48	2
Other accounts payable	5,298	5,283	6	9
Progressive and other operators' jackpots	2,005	2,005	-	-

#### Year ended 31 December 2010

	Total	Within	1-2 years	More than
	€'000	1 year	€'000	2 years
		€'000	€'000	€'000
Trade payables	19,438	19,338	51	49
Other accounts payable	2,684	2,624	50	10
Progressive and other operators' jackpots	994	994	-	-
Other non-current liabilities	10	-	-	10

#### Year ended 31 December 2011

	Total	Within	1-2 years	More than
	€'000	1 year	€'000	2 years
		€'000	€'000	€'000
Trade payables	18,631	18,631	-	-
Other accounts payable	21,013	20,858	106	49
Progressive and other operators' jackpots	1,434	1,434	-	-
Other non-current liabilities	445	296	9	140

#### Total financial assets and liabilities

The fair value together with the carrying amount of the financial assets and liabilities shown in the balance sheet are as follows:

	2009		2010		2011	
	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount
	€'000	€'000	€'000	€'000	€'000	€'000
Cash and cash equivalents	22,163	22,163	16,371	16,371	9,654	9,654
Other assets	19,077	19,077	17,246	17,246	17,249	17,249
Other liabilities	28,429	28,429	23,116	23,116	41,078	41,078

## 22. Contingent liabilities

The PTTS Group is not a gaming operator and does not provide gaming services to players. However, as part of the ultimate parent company's ongoing regulatory compliance process, Management continues to monitor legal and regulatory developments and their potential impact on the PTTS Group.

Management is not aware of any contingencies that may have a significant impact on the financial position of the PTTS Group.



## PART 4E

# ACCOUNTANT'S REPORT OF HISTORICAL FINANCIAL INFORMATION OF THE GTS GROUP



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IM1 1EE

28 June 2012

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

**Gaming Technology Solutions Limited ("GTS") and its subsidiary undertakings  
(together, the "GTS Group")**

### **Introduction**

We report on the financial information set out in Part 4F. This financial information has been prepared for inclusion in the prospectus dated 28 June 2012 of Playtech Limited (the "Prospectus") on the basis of the accounting policies set out in note 2 to the financial information. This report is required by item 20.1 of annex I of the Commission Regulation (EC) No. 809/2004 (the "PD Regulation") and is given for the purpose of complying with that item and for no other purpose.

### **Responsibilities**

The directors of Playtech Limited are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by the law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 23.1 of annex I of the PD Regulation consenting to its inclusion in the Prospectus.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions outside the United Kingdom and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

**Opinion**

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the GTS Group as at 31 December 2009, 2010 and 2011 and of its profits, changes in equity and cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

**BDO LLP**

*Chartered Accountants*

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

## PART 4F

## HISTORICAL FINANCIAL INFORMATION OF THE GTS GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<i>For the year ended 31 December</i>		
	<i>Note</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenues	4	3,110	11,564	14,784
Distribution costs		(531)	(2,182)	(2,778)
Administrative expenses		(2,399)	(7,040)	(9,863)
Other operating income	5	1,610	–	–
Net operating costs		<u>(1,320)</u>	<u>(9,222)</u>	<u>(12,641)</u>
Operating profit before the following items:		205	2,471	2,416
Profit on disposal of Intellectual property rights		1,611	–	–
Employee stock option expenses	8	–	(93)	(237)
Amortisation of intangible assets	10	(26)	(36)	(33)
Total		<u>1,585</u>	<u>(129)</u>	<u>(270)</u>
Operating profit	5	1,790	2,342	2,143
Financing cost		(1)	(1)	–
Profit before taxation		<u>1,789</u>	<u>2,341</u>	<u>2,143</u>
Tax expense	6	(508)	(728)	(677)
Profit for the period attributable to the equity holders of the parent and total comprehensive income for the year		<u>1,281</u>	<u>1,613</u>	<u>1,466</u>
<b>Earnings per share for profit attributable to the owners of the parent during the year</b>	7			
Basic (pence)		2.85	3.58	3.26

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Called up share capital £'000</i>	<i>Share premium account £'000</i>	<i>Capital contribution reserve £'000</i>	<i>Retained earnings £'000</i>	<i>Total equity £'000</i>
Balance at 1 January 2009	2,250	130	–	(2,057)	323
Total comprehensive income for the year	–	–	–	1,281	1,281
Balance at 31 December 2009	2,250	130	–	(776)	1,604
Total comprehensive income for the year	–	–	–	1,615	1,615
Employee stock option scheme	–	–	93	–	93
Balance at 31 December 2010	2,250	130	93	839	3,312
Total comprehensive income for the year	–	–	–	1,466	1,466
Employee stock option scheme	–	–	237	–	237
Balance at 31 December 2011	2,250	130	330	2,305	5,015

## CONSOLIDATED BALANCE SHEET

		<i>As of 31 December</i>		
	<i>Note</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	9	152	219	425
Intangible assets	10	115	80	47
		<u>267</u>	<u>299</u>	<u>472</u>
<b>Current assets</b>				
Trade receivables	11	419	4,357	3,693
Other receivables	12	1,823	1,858	1,479
Cash and cash equivalents	13	128	1,735	2,057
		<u>2,370</u>	<u>7,950</u>	<u>7,229</u>
<b>Total assets</b>		<u>2,637</u>	<u>8,249</u>	<u>7,701</u>
<b>Equity</b>				
Called up share capital	14	2,250	2,250	2,250
Share premium account	14	130	130	130
Capital contribution reserve		–	93	330
Retained earnings	14	(776)	839	2,305
<b>Total equity</b>		<u>1,604</u>	<u>3,312</u>	<u>5,015</u>
<b>Current liabilities</b>				
Trade payables	15	222	3,105	792
Tax liabilities		548	728	358
Other payables	16	263	1,104	1,536
		<u>1,033</u>	<u>4,937</u>	<u>2,686</u>
<b>Total equity and liabilities</b>		<u>2,637</u>	<u>8,249</u>	<u>7,701</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

		<i>For the year ended 31 December</i>		
		2009	2010	2011
		£'000	£'000	£'000
	<i>Note</i>			
<b>Cash flows from operating activities</b>				
Profit after tax		1,281	1,615	1,466
Adjustments to reconcile net income to net cash provided by operating activities (see below)		(1,104)	840	266
Income taxes paid		(2)	(548)	(1,047)
Net cash provided by operating activities		<u>175</u>	<u>1,907</u>	<u>685</u>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	9	(68)	(297)	(363)
Acquisition of intangible assets	10	(55)	–	–
Finance costs		(1)	(1)	–
Net cash used in investing activities		<u>(124)</u>	<u>(298)</u>	<u>(363)</u>
<b>Cash flows from financing activities</b>				
Capital payments under finance lease arrangements		(13)	(2)	–
Net cash (used in)/from financing activities		<u>(13)</u>	<u>(2)</u>	<u>–</u>
Increase in cash and cash equivalents		38	1,607	322
Cash and cash equivalents at beginning of year		90	128	1,735
Cash and cash equivalents at end of year		<u>128</u>	<u>1,735</u>	<u>2,057</u>

### Adjustment to reconcile net income to net cash provided by operating activities

		<i>For the year ended 31 December</i>		
		2009	2010	2011
		£'000	£'000	£'000
<b>Income and expenses not affecting operating cash flows</b>				
Depreciation		60	230	157
Amortisation		26	36	33
		<u>86</u>	<u>266</u>	<u>190</u>
Employee stock option plan expenses		–	93	237
Income tax expense		508	728	677
Others		1	1	–
<b>Changes in operating assets and liabilities</b>				
(Increase)/decrease in trade receivables		(63)	(3,938)	664
(Increase)/decrease in other receivables		(100)	(35)	379
Increase/(decrease) in trade payables		67	2,883	(2,313)
(Decrease)/increase in other payables		(1,603)	842	433
		<u>(1,104)</u>	<u>840</u>	<u>267</u>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of preparation

The financial information provided is for Gaming Technology Solutions Limited and its subsidiary undertakings (together the “GTS Group”) in respect of the three financial years ended 31 December 2009, 2010 and 2011.

The financial information has been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union (“adopted IFRSs”). In the current year the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as they have been adopted by the European Union, that are relevant to its operations and effective for accounting periods beginning on 1 January 2011.

#### *New standards, interpretations and amendments not yet effective*

The following new standards, interpretations and amendments, which have not been applied to these financial statements, will or may have an effect on the GTS Group’s future financial statements:

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

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (effective for annual periods beginning on or after 1 July 2012).

The following new standards, interpretations and amendments, which have not yet been endorsed by the EU, are effective for annual periods beginning on or after 1 January 2013:

IFRS 10 Consolidated Financial Statements;

IFRS 11 Joint Arrangements;

IFRS 13 Fair Value Measurement;

IAS 28 Investments in Associates and Joint Ventures;

Disclosures – Offsetting Financial Assets and Liabilities (Amendments to IFRS 7);

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (effective for annual periods beginning on or after 1 January 2014);

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2015).

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

None of the other new standards, interpretations and amendments, which are effective for periods beginning after 1 January 2011 and which have not been adopted early, are expected to have a material effect on the GTS Group’s future financial statement.

### 2. Significant accounting policies

#### *Foreign currency*

The financial information of GTS and its subsidiaries is prepared in Sterling (the functional currency), which is the currency that best reflects the economic substance of the underlying events and circumstances relevant to the GTS Group. Transactions and balances in foreign currencies are converted into Sterling in accordance with the principles set forth by International Accounting Standard (IAS) 21 (“The Effects of Changes in Foreign Exchange Rates”). Accordingly, transactions and balances have been converted as follows:

Monetary assets and liabilities – at the rate of exchange applicable at the balance sheet date; Income and expense items – at exchange rates applicable as of the date of recognition of those items. Non-monetary items are converted at the rate of exchange used to convert the related balance sheet

items i.e. at the time of the transaction. Exchange gains and losses from the aforementioned conversion are recognised in the consolidated statement of comprehensive income.

#### ***Basis of consolidation***

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial information presents the results of the Company and its subsidiaries (the “GTS Group”) as if they formed a single entity. Intercompany transactions and balances between GTS Group companies are therefore eliminated in full.

#### ***Revenue recognition***

Income receivable from contracting parties comprises a percentage of the revenue generated by the contracting party from use of the GTS Group’s intellectual property in online gaming activities and land based gaming operations, and from fees charged for services rendered. Income is recognised in the accounting periods in which the gaming transactions occur or the services are rendered. Royalty and other income receivable under fixed-term arrangements are recognised over the term of the agreement on a straight line basis.

#### ***Distribution costs***

Distribution costs represent the direct costs of the function of providing services to customers, costs of the development function and advertising costs.

#### ***Share-Based Payments***

Certain employees participate in the ultimate parent company’s share option plan. The fair value of the options granted is charged to the consolidated statement of comprehensive income on a straight line basis over the vesting period and the credit is taken to equity, based on the GTS Group’s estimate of shares that will eventually vest. Fair value is determined by the Black-Scholes and Binomial valuation model. The share options plan does not have any performance conditions other than continued service.

#### ***Income Taxes and Deferred Taxation***

Provision for income taxes is calculated in accordance with the tax legislations and applicable tax rates in force at the balance sheet date in the countries in which the GTS Group companies have been incorporated.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the consolidated balance sheet differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where the GTS Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax assets and liabilities are offset when the GTS Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable group company; or
- different group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in



which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### ***Property, Plant and Equipment***

Property, plant and equipment comprise computers, leasehold improvements, office furniture and equipment and are stated at cost less accumulated depreciation. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Computers and related equipment	33.33
Office furniture and equipment	7.00–20.00
Building and leasehold improvements	10.00–20.00, or over the length of the lease

Subsequent expenditures are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the GTS Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the consolidated statement of comprehensive income.

### ***Business Combinations***

The consolidated financial information incorporates the results of business combinations using the purchase method. In the consolidated balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income statement from the date on which control is obtained.

### ***Intangible Assets***

Intangible assets comprise externally acquired trademarks and intellectual property rights. All such intangible assets are stated at cost less accumulated amortisation. Where intangible assets are acquired as part of a business combination they are recorded initially at their fair value. Carrying amounts are reviewed on each balance sheet date for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable.

Amortisation is calculated using the straight-line method at annual rates estimated to write off the costs of the assets over their expected useful lives and is charged to operating expenses from the point the asset is brought into use. The principal annual rates used for this purpose are:

	%
Trademarks	Nil
Technology IP	20–33.33

Management believes that the useful life of the trademarks is indefinite. Domain names are reviewed for impairment annually.

Subsequent expenditure on capitalised intangible assets is capitalised only where it clearly increases the economic benefits to be derived from the asset to which it relates. All other expenditure, including that incurred in order to maintain an intangible assets current level of performance, is expensed as incurred.

### ***Goodwill***

Goodwill represents the excess of the cost of a business combination over, in the case of business combinations completed prior to 1 January 2010, the GTS Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired and, in the case of business

combinations completed on or after 1 January 2010, the total acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2011, cost comprised the fair value of assets given, and liabilities assumed, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated income statement. Goodwill is not amortised and is reviewed for impairment, annually or more specifically if events or changes in circumstances indicate that the carrying value may be impaired.

### *Impairment*

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

Where it is not possible to establish the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. – the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the group's cash generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the consolidated statement of comprehensive income, except to the extent they reverse gains previously recognised in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed.

### *Financial Assets*

The GTS Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The GTS Group has not classified any of its financial assets as held to maturity. The GTS Group does not hold any financial assets at fair value through profit and loss.

The GTS Group's receivables comprise trade and other receivables, cash and cash equivalents, and loans to customers in the balance sheet.

Trade receivables which principally represent amounts due from licensees are carried at original invoice value less an estimate made for bad and doubtful debts based on a review of all outstanding amounts at the year-end. An estimate for doubtful debts is made when there is objective evidence that the GTS Group will not be able to collect amounts due according to the original terms of receivables. Bad debts are written off when identified.

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. Where cash is on deposit with maturity dates greater than three months, it is disclosed within other receivables.

### *Share Capital*

Ordinary shares are classified as equity and are stated at the proceeds received net of direct issue costs.

### *Financial Liabilities*

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Loans and bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense

over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated balance sheet. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

### *Provisions*

Provisions, which are liabilities of uncertain timing or amount, are recognised when the GTS Group has a present obligation as a result of past events, if it is probable that an outflow of funds will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

### **3. Critical accounting estimates and judgements**

The areas requiring the use of estimates and critical judgments that may potentially have a significant impact on the GTS Group's earnings and financial position are impairment of goodwill, the recognition and amortisation of development costs and the useful life of property, plant and equipment, share based payments, legal proceedings and contingent liabilities, determination of fair values of intangible assets acquired in business combinations, and income tax.

#### *Estimates and Assumptions*

##### *Impairment of Goodwill*

The GTS Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Such estimates are based on management's experience of the business, but actual outcomes may vary. More details including carrying values are included in note 9.

##### *Useful Life of Property, Plant and Equipment*

Property, plant and equipment are depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness.

Changes to estimates can result in significant variations in the amounts charged to the consolidated statement of comprehensive income in specific periods. More details including carrying values are included in note 10.

##### *Share-Based Payments*

The GTS Group has a share based remuneration scheme for employees in respect of options over shares in the ultimate parent company. The fair value of share options is estimated by using the Black-Scholes and Binomial models, on the date of grant based on certain assumptions. Those assumptions are described in note 8 and include, among others, the dividend growth rate, expected share price volatility, expected life of the options and number of options expected to vest.

##### *Legal Proceedings and Contingent Liabilities*

Management regularly monitors the key risks affecting the GTS Group, including the regulatory environment in which the GTS Group operates. A provision will be made where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial information. More details are included in note 20.

##### *Income Taxes*

The GTS Group is subject to income tax in jurisdictions in which it is registered and judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the GTS Group recognises tax liabilities based on estimates of whether additional taxes and interest

will be due. The GTS Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. More details are included in note 6.

The preparation of financial information in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

#### 4. Segmental analysis

Management considers that the GTS Group's activity as a single source supplier of online gaming solutions constitutes one operating and reporting segment, as defined under IFRS 8. Similarly, Management review the performance of the GTS Group by reference to group-wide profit measures and the revenues derived from a single product, being services provided to the gaming industry.

The group-wide profit measures are adjusted net profit (see note 7) and adjusted EBITDA. Management believes the adjusted profit measures represent more closely the underlying trading performance of the business. No other differences exist between the basis of preparation of the performance measures used by management and the figures in the group financial statements.

##### *Geographical Analysis of Revenues by Jurisdiction of Gaming Licence*

Analysis by geographical regions is made according to the jurisdiction of the gaming licence of the customer. This does not reflect the region of the end users of the Group's licensees whose locations are worldwide.

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gibraltar	1,367	2,903	2,726
Channel Islands	122	3,726	5,445
United Kingdom	–	2,855	3,757
Malta	877	1,518	2,438
Italy	475	429	187
Rest of world	269	133	231
	<u>3,110</u>	<u>11,564</u>	<u>14,784</u>

There were three customers who individually accounted for more than 10% of the total revenue of the GTS Group during the years ended 31 December 2009 and 2010, and two customers who individually accounted for more than 10% of the total revenue of the GTS Group during the year ended 31 December 2011. Revenue from these customers, respectively, totalled £2,028,000, £7,376,000 and £8,586,000 in each respective year.

##### *Geographical Analysis of Non-current assets*

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
UK	<u>267</u>	<u>299</u>	<u>472</u>

## 5. Operating profit

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
<i>Directors' compensation</i>			
Short-term benefits of directors	196	26	157
Bonuses to directors	–	–	–
	<u>196</u>	<u>26</u>	<u>157</u>
	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
<i>Auditors' remuneration</i>			
Audit services			
Parent company and Group audit	16	26	26
Non-audit services			
Taxation compliance	5	8	8
	<u>21</u>	<u>34</u>	<u>34</u>
	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
Development costs (including capitalised development costs)	<u>1,046</u>	<u>1,128</u>	<u>1,585</u>

During the year ended 31 December 2009, the GTS Group sold its Intellectual Property rights to a related party for £1,611,000, generating a profit on disposal of the same amount.

## 6. Taxation

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
<i>Current income tax</i>			
UK corporation tax	<u>508</u>	<u>728</u>	<u>677</u>

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

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
Profit before tax	1,789	2,341	2,143
Tax at effective rate in the UK	501	656	556
Non deductible expenses	7	53	76
Depreciation in excess of capital allowances	–	30	7
Tax losses utilised	–	(4)	–
Other timing differences	–	(7)	38
Total tax charge	<u>508</u>	<u>728</u>	<u>677</u>

## 7. Earnings per share

Earnings per share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the earnings, being profit after tax, is as follows:

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>pence</i>	<i>pence</i>	<i>pence</i>
Basic	<u>2.85</u>	<u>3.58</u>	<u>3.26</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit for the year	<u>1,282</u>	<u>1,613</u>	<u>1,466</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
<i>Denominator – basic</i>			
Weighted average number of equity shares	<u>45,000,100</u>	<u>45,000,100</u>	<u>45,000,100</u>

### *Adjusted Earnings per Share*

The adjusted earnings per share presents the profit for the year after various non-cash charges relating to the employee stock option plan and profits on disposal of Intellectual Property rights. The directors believe that the adjusted profit represents more closely the underlying trading performance of the business.

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>pence</i>	<i>pence</i>	<i>pence</i>
Basic – adjusted	<u>(0.73)</u>	<u>3.79</u>	<u>3.78</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Profit for the year	1,281	1,613	1,466
Profit on disposal of Intellectual Property rights	(1,611)	–	–
Employee stock option expense	–	93	237
Adjusted (loss)/profit for the year	<u>(330)</u>	<u>1,706</u>	<u>1,703</u>
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
<i>Denominator – basic</i>			
Weighted average number of equity shares	<u>45,000,100</u>	<u>45,000,100</u>	<u>45,000,100</u>

## 8. Employee benefits

Total staff costs comprise the following:

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Salaries and related costs	1,162	5,631	7,921
Share based payments	–	93	237
	<u>1,162</u>	<u>5,724</u>	<u>8,158</u>

	<i>For the year ended 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
<i>Average number of employees</i>			
Distribution	30	94	110
General and administration	1	16	16
	<u>31</u>	<u>110</u>	<u>126</u>

On 12 February 2010, the ultimate parent company transferred certain employees to the GTS Group from an acquired business. Accordingly, the average number of employees and related costs thereof, increased significantly during the years ended 31 December 2010 and 2011. The services undertaken by the employees transferred to the GTS Group are charged to a fellow subsidiary undertaking, on a cost-plus basis, and recognised as revenue in the financial information.

The ultimate parent company introduced a Company Share Option Plan (“CSOP”) for certain employees of the GTS Group during the year ended 31 December 2010. Options granted, in the ultimate parent company, under the CSOP vest on the first day on which they become exercisable which is three years after grant date. Further details on the terms of this scheme are discussed in more detail in the financial information of Playtech Limited set out in Part 4B.

At 31 December 2011, options under this scheme were outstanding over:

	<i>As of 31 December</i>		
	<i>2009</i>	<i>2010</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Shares vesting on 27 August 2012 at an exercise price of £4.14 per share	–	242,500	212,500
Shares vesting on 27 August 2013 at an exercise price of £4.16 per share	–	242,500	212,500
Shares vesting on 10 March 2014 at an exercise price of £3.52 per share	–	–	50,000
	<u>–</u>	<u>485,000</u>	<u>475,000</u>

There were no shares exercisable as of 31 December 2010 and 2011.

The fair value of the options that were granted in respect of equity-settled schemes was £700,000 and £76,500 for 2010 and 2011 respectively. £93,000 and £237,000 was recognised as an expense in the consolidated statement of comprehensive income during the years ended 31 December 2010 and 2011 respectively.

The following table illustrates the number and weighted average exercise prices of shares options for the ESOP.

	<i>As of 31 December</i>			<i>As of 31 December</i>		
	2009	2010	2011	2009	2010	2011
	<i>Number of options</i>	<i>Number of options</i>	<i>Number of options</i>	<i>Weighted average exercise price</i>	<i>Weighted average exercise price</i>	<i>Weighted average exercise price</i>
Outstanding at beginning of the year	–	–	485,000	–	–	£4.16
Granted during the year	–	485,000	50,000	–	£4.16	£3.52
Forfeited	–	–	(60,000)	–	–	£4.16
Outstanding at the end of the year	–	485,000	475,000	–	£4.16	£4.09

Share options outstanding at the end of the year have the following exercise prices:

<i>Expiry date</i>	<i>Exercise price</i>	<i>As of 31 December</i>		
		2009	2010	2011
		<i>Number</i>	<i>Number</i>	<i>Number</i>
27 August 2012	£4.16	–	485,000	425,000
11 March 2012	£4.16	–	–	50,000
		–	485,000	475,000

The fair value of the options granted under the CSOP is estimated as at the date of grant using the Black-Scholes model. The following table gives the assumptions made during the years ended 31 December 2010 and 2011:

	<i>As of 31 December</i>		
	2009	2010	2011
Dividend yield (%)	–	2.9%	2.8%
Expected volatility (%)	–	42.1%	50.5%
Risk free interest rate (%)	–	1.3%	3.8%
Expected life of options (years)	–	3	3
Weighted average exercise price	–	£4.16	£3.52

The volatility assumption, measured at the standard deviation of expected share price return, is based on a statistical analysis of daily share price over a period starting from the initial date of flotation through to the grant date.



## 9. Property, plant and equipment

	<i>Office furniture and equipment £'000</i>	<i>Computer equipment £'000</i>	<i>Leasehold improvement £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 January 2009	51	131	59	241
Additions	7	61	–	68
At 31 December 2009	58	192	59	309
Additions	21	105	12	138
Transferred from fellow subsidiary undertaking	30	129	–	159
At 31 December 2010	109	426	71	606
Additions	138	224	1	363
At 31 December 2011	247	650	72	969
<b>Accumulated depreciation</b>				
At 1 January 2009	9	84	4	97
Charge	11	37	12	60
At 31 December 2009	20	121	16	157
Charge	34	183	13	230
At 31 December 2010	54	304	29	387
Charge	28	113	16	157
At 31 December 2011	82	417	45	544
<b>Net book value</b>				
As of 31 December 2009	38	71	43	152
As of 31 December 2010	55	123	41	219
As of 31 December 2011	165	233	27	425

On 12 February 2010, the ultimate parent company transferred certain assets to the GTS Group from an acquired business, at the net book value of those assets.

## 10. Intangible assets

	<i>Trademarks</i> £'000	<i>Intellectual property rights</i> £'000	<i>Goodwill</i> £'000	<i>Total</i> £'000
<b>Cost</b>				
At 1 January 2009	–	122	2,548	2,670
Additions	13	43	–	56
At 31 December 2009, 2010 and 2011	<u>13</u>	<u>165</u>	<u>2,548</u>	<u>2,726</u>
<b>Accumulated amortisation</b>				
At 1 January 2009	–	37	2,548	2,585
Provision	–	26	–	26
At 31 December 2009	–	63	2,548	2,611
Provision	–	36	–	36
At 31 December 2010	–	98	2,548	2,646
Provision	–	33	–	33
At 31 December 2011	<u>–</u>	<u>131</u>	<u>2,548</u>	<u>2,679</u>
<b>Net book value</b>				
As of 31 December 2009	<u>13</u>	<u>102</u>	<u>–</u>	<u>115</u>
As of 31 December 2010	<u>13</u>	<u>67</u>	<u>–</u>	<u>80</u>
As of 31 December 2011	<u>13</u>	<u>34</u>	<u>–</u>	<u>47</u>

Management believes that trademarks are stated at fair value and have an indefinite life due to their nature.

In accordance with IAS 36, the Group regularly monitors the carrying value of its intangible assets, including goodwill.

Key assumptions for intangible assets, with carrying value of £47,000, are as follows:

- Discount rate of 15.5% which is based on the ultimate parent company's WACC to reflect management's assessment of specific risks related to the goodwill.
- Annual growth rate of 1% for 2012, 10% for 2013-2015 and 2% for the following years, based on the average forecasted GDP growth rate for the UK.

The results of the reviews indicated that there was no impairment of the intangible assets at 31 December 2011.

## 11. Trade receivables

	<i>As of 31 December</i>		
	<i>2009</i> £'000	<i>2010</i> £'000	<i>2011</i> £'000
Customers	419	904	1,255
Related parties (note 17)	–	3,453	2,438
	<u>419</u>	<u>4,357</u>	<u>3,693</u>

## 12. Other receivables

	As of 31 December		
	2009 £'000	2010 £'000	2011 £'000
Prepaid expenses	176	234	236
Related parties (note 17)	1,611	1,447	1,028
Other receivables	36	177	215
	<u>1,823</u>	<u>1,858</u>	<u>1,479</u>

## 13. Cash and cash equivalents

	As of 31 December		
	2009 £'000	2010 £'000	2011 £'000
Cash at bank	<u>128</u>	<u>1,735</u>	<u>2,057</u>

## 14. Shareholders' equity

### Share capital

	As of 31 December		
	2009 £'000	2010 £'000	2011 £'000
Allotted, called up and fully paid 45,000,100 Ordinary shares of 5p each:	<u>2,250</u>	<u>2,250</u>	<u>2,250</u>

### Reserves

The following describes the nature and purpose of each reserve within owner's equity:

Reserve	Description and purpose
Share premium account	Amount subscribed for share capital in excess of nominal value
Capital contribution reserve	Cumulative share based payment charge recognised in the consolidated statement of comprehensive income in respect of share options granted to employees of the GTS Group over shares in the ultimate parent company.
Retained earnings	Cumulative net gains and losses recognised in the consolidated statement of comprehensive income.

## 15. Trade payables

	As of 31 December		
	2009 £'000	2010 £'000	2011 £'000
Suppliers	222	464	271
Related parties (note 17)	–	2,641	521
	<u>222</u>	<u>3,105</u>	<u>792</u>

## 16. Other payables

	<i>As of 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
Payroll and related expenses	49	553	–
Accrued expenses	205	342	836
Related parties (note 17)	–	176	–
Other payables	9	33	700
	<u>263</u>	<u>1,104</u>	<u>1,536</u>

## 17. Related parties and shareholders

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's making of financial or operational decisions, or if both parties are controlled by the same third party.

Playtech Limited, and subsidiary companies thereof, are related by virtue of them being the ultimate parent undertaking of the GTS Group.

The following transactions arose with related parties:

	<i>For the year ended 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
<b><i>Revenue</i></b>			
Playtech Services (Cyprus) Limited	–	392	488
Technology Trading (IOM) Limited	–	2,461	3,267
Virtue Fusion (Alderney) Limited	–	3,269	4,831
	<u>–</u>	<u>6,122</u>	<u>8,626</u>
<b><i>Operating expenses</i></b>			
Playtech Services (Cyprus) Limited	–	655	869
	<u>–</u>	<u>655</u>	<u>869</u>
<b><i>Profit on disposal of intellectual property rights</i></b>			
Technology Trading (IOM) Limited	1,611	–	–
	<u>1,611</u>	<u>–</u>	<u>–</u>

The following are year-end balances:

	<i>As of 31 December</i>		
	2009	2010	2011
	£'000	£'000	£'000
<b><i>Related party creditors</i></b>			
Virtue Fusion (Alderney) Limited	–	2,379	521
Playtech Services (Cyprus) Limited	–	262	–
Virtue Fusion (CM) Limited	–	176	–
	<u>–</u>	<u>2,817</u>	<u>521</u>
<b><i>Related party debtors</i></b>			
Technology Trading (IOM) Limited	1,611	4,900	2,962
Intelligent Gaming Systems Limited	–	–	18
Playtech Services (Cyprus) Limited	–	–	369
Playtech Software Limited	–	–	13
Virtue Fusion (CM) Limited	–	–	104
	<u>1,611</u>	<u>4,900</u>	<u>3,466</u>

The details of directors' compensation (being the remuneration of the directors) are set out in note 5.

## 18. Subsidiaries

Details of the GTS Group's subsidiaries as at 31 December 2011 are set out below:

<i>Name</i>	<i>Country of incorporation</i>	<i>Proportion of voting rights and ordinary share capital held</i>	<i>Nature of business</i>
VS Gaming Limited	UK	100%	Develops soft and casino games
VS Technology Limited	UK	100%	Develops EdGE platform

## 19. Financial Instruments and risk management

The GTS Group is exposed to a variety of financial risks, which result from its financing, operating and investing activities. The objective of financial risk management is to contain, where appropriate, exposures in these financial risks to limit any negative impact on the GTS Group's financial performance and position. The GTS Group's financial instruments are its cash, trade receivables, accounts payable and accrued expenses. The main purpose of these financial instruments is to raise finance for the GTS Group's operation. The GTS Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to the segregation of duties and principals. The risks arising from the GTS Group's financial instruments are credit risks and market price risks, which include interest rate risk and currency risk. The risk management policies employed by the GTS Group to manage these risks are discussed below.

### *Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The GTS Group's income and operating cash flows are substantially independent of changes in market interest changes. The management monitors interest rate fluctuations on a continuous basis and acts accordingly.

Where the GTS Group has generated a significant amount of cash, it will invest in higher earning interest deposit accounts. These deposit accounts are short term and the GTS Group is not unduly exposed to market interest rate fluctuations.

### *Credit Risk*

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The GTS Group closely monitors the activities of its counterparties and controls the access to its intellectual property which enables it to ensure the prompt collection of customers' balances.

The GTS Group's main financial assets are cash and cash equivalents as well as trade and other receivables and represent the GTS Group's maximum exposure to credit risk in connection with its financial assets. Trade and other receivables are carried on the balance sheet net of bad debt provisions estimated by the Directors based on prior year experience and an evaluation of prevailing economic circumstances.

Wherever possible and commercially practical the GTS Group invests cash with major financial institutions that have a rating of above A- as defined by Standard & Poors.

The ageing of trade receivables that are past due but not impaired can be analysed as follows:

	<i>Total</i>	<i>Not past due</i>	<i>1-2 months overdue</i>	<i>More than 2 months past due</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
As at 31 December 2009	419	302	89	28
As at 31 December 2010	4,357	4,006	305	46
As at 31 December 2011	<u>3,693</u>	<u>3,040</u>	<u>637</u>	<u>285</u>

The above balances relate to customers with no default history.

Related party receivables of £3,453,000 and £2,438,000 were not past due at 31 December 2010 and 2011 respectively.

### *Currency Risk*

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

Foreign exchange risk arises when GTS Group operations are entered into in currencies denominated in a currency other than the functional currency.

The GTS Group's policy is not to enter into any currency hedging transactions.

### *Capital Disclosures*

The Board is of the opinion that, on the basis that the GTS Group has no borrowings, Capital risk is not significant.

### *Liquidity Risk*

Liquidity risk arises from the GTS Group's management of working capital and the financial charges on its debt instruments.

The GTS Group's policy is to ensure that it will have sufficient cash to allow it to meet its liabilities when they become due.

The following are the contractual maturities (representing undiscounted contractual cash flows) of the GTS Group's financial liabilities:

#### *Year ended 31 December 2009*

	<i>Total</i> £'000	<i>Within 1 year</i> £'000	<i>1-2 years</i> £'000	<i>2-5 years</i> £'000
Trade payables	419	419	–	–
Other accounts payable	1,611	1,611	–	–

#### *Year ended 31 December 2010*

	<i>Total</i> £'000	<i>Within 1 year</i> £'000	<i>1-2 years</i> £'000	<i>2-5 years</i> £'000
Trade payables	4,357	4,357	–	–
Other accounts payable	1,858	1,858	–	–

#### *Year ended 31 December 2011*

	<i>Total</i> £'000	<i>Within 1 year</i> £'000	<i>1-2 years</i> £'000	<i>2-5 years</i> £'000
Trade payables	3,693	3,693	–	–
Other accounts payable	1,479	1,479	–	–

### *Total financial assets and liabilities*

The fair value together with the carrying amount of the financial assets and liabilities shown in the balance sheet are as follows:

	2009		2010		2011	
	<i>Fair value</i> £'000	<i>Carrying amount</i> £'000	<i>Fair value</i> £'000	<i>Carrying amount</i> £'000	<i>Fair value</i> £'000	<i>Carrying amount</i> £'000
Cash and cash equivalents	128	128	1,735	1,735	2,057	2,057
Other assets	2,242	2,242	7,950	7,950	7,229	7,229
Other liabilities	436	436	3,656	3,656	1,951	1,951

## 20. Contingent liabilities

The GTS Group is not a gaming operator and does not provide gaming services to players. As part of the ultimate parent company's ongoing regulatory compliance process, Management continues to monitor legal and regulatory developments and their potential impact on the GTS Group.

Management is not aware of any contingencies that may have a significant impact on the financial position of the GTS Group.

## PART 5

### CAPITALISATION AND INDEBTEDNESS

#### 1. Capitalisation

The table below sets out the Group's total equity attributable to shareholders at 31 December 2011. The information has been extracted without material adjustment from, and should be read together with, the historical financial information of the Playtech Group set out in Part 4B of this document.

	<i>As at</i> <i>31 December</i> <i>2011</i> <i>€'000</i>
<i>Shareholders' equity (excluding retained earnings and available-for-sale reserve)</i>	
Additional paid in capital	<u>307,853</u>

Other than the exercise of options during the period from 1 January 2012 to 31 May 2012, amounting to an increase in additional paid in capital of €70,000, there has been no material change to the capitalisation of the Group since 31 December 2011.

#### 2. Total indebtedness

The table below sets out the Group's total indebtedness as at 31 March 2012. The figures have been extracted from the underlying accounting records of the Group.

	<i>As at</i> <i>31 March</i> <i>2012</i> <i>€'000</i> <i>(unaudited)</i>
<i>Short term borrowings and obligations</i>	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	–
<i>Long term borrowings and obligations</i>	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	–
	<u>–</u>

At 31 March 2012, the Group had no borrowings. In April 2012, the Group drew down €75 million of borrowing facilities in order to finance the accelerated payment of PTTS initial consideration.



### 3. Net indebtedness

The table below sets out the Group's net indebtedness as at 31 March 2012. The figures have been extracted from the underlying accounting records of the Group.

All Group commitments can be funded from existing cash resources and operating cash flows.

	<i>As at</i> <i>31 March</i> <i>2012</i> <i>€'000</i> <i>(unaudited)</i>
<i>Cash and cash equivalents</i>	
Cash at bank	86,104
Deposits	64,134
	<hr/> 150,238
<i>Current financial indebtedness</i>	
Current bank debt	–
Current portion of non-current debt	–
Other current financial debt	–
	<hr/> –
	<hr/>
<i>Net current financial indebtedness</i>	<hr/> 150,238
<i>Non-current financial indebtedness</i>	
Non-current bank debt	–
Other non-current financial debt	–
	<hr/> –
	<hr/>
<i>Net financial indebtedness</i>	<hr/> 150,238

Of the total gross cash and cash equivalents, €35.3 million is held on behalf of operators in respect of operators' jackpot games and poker operation.

As at 31 March 2012 the Group had no material indirect or contingent indebtedness.

Other than the draw down of €75 million of borrowing facilities referred to in paragraph 2 of this Part 5, there has been no material change in the indebtedness of the Group since 31 March 2012.

## PART 6

### ADDITIONAL INFORMATION

#### 1. Persons responsible

The Directors whose names are set out in paragraph 10 of Part 1 of this document and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Incorporation and status of the Company

- 2.1 The Company was incorporated and registered in the British Virgin Islands on 12 September 2002 under the International Business Companies Act (cap 291) of the BVI with registered no 513063 as a company limited by shares and was automatically re-registered under the BVI Business Companies Act, 2004 on 1 January 2007. On 21 June 2012, the Company's registration was re-domiciled to the Isle of Man with registration number 008505V.
- 2.2 The principal legislation under which the Company operates is the Isle of Man Companies Act 2006.
- 2.3 The registered office and principal place of business of the Company is 2nd Floor, St George's Court, Upper Church Street, Douglas, IM1 1EE, Isle of Man. The telephone number of the Company's principal office is +44 1624 645 999.

#### 3. Share capital of the Company

- 3.1 Under the Law, the Company is not required to have an authorised share capital. As at 27 June 2012 (being the latest practicable date prior to the date of this document), the Company has power to issue Ordinary Shares under its memorandum and articles of association (the "Articles"). The number of issued shares of the Company immediately following Admission will be 289,287,628 Ordinary Shares.
- 3.2 The following is a summary of the material changes in the number of issued Ordinary Shares (which includes Ordinary Shares previously held in treasury) which have occurred between 1 January 2009 and the end of the period covered by the audited financial information contained in Part 3 of this document:
  - 3.2.1 in the financial year ended 31 December 2009, 1,719,756 Ordinary Shares were issued on the exercise of options pursuant to the terms of the 2005 Share Option Plan; such shares were admitted to trading on AIM shortly after their issue;
  - 3.2.2 in the financial year ended 31 December 2010, 2,394,440 Ordinary Shares were issued on the exercise of options pursuant to the terms of the 2005 Share Option Plan; such shares were admitted to trading on AIM shortly after their issue;
  - 3.2.3 on 27 June 2011, the Company purchased 100,000 Ordinary Shares in the market which were held as treasury shares until their cancellation on 22 June 2012;
  - 3.2.4 on 21 December 2011, 46,511,627 Ordinary Shares were issued pursuant to a placing with institutional and other investors; such shares were admitted to trading on AIM on that date; and;
  - 3.2.5 in the financial year ended 31 December 2011, 203,702 Ordinary Shares were issued on the exercise of options pursuant to the terms of the 2005 Share Option Plan; such shares were admitted to trading on AIM shortly after their issue.
- 3.3 As at 31 December 2011, the total Ordinary Shares in issue was 289,314,348. During the financial year ended 31 December 2011, 46,715,329 Ordinary Shares were issued and

100,000 Ordinary Shares were purchased in the market, as described in paragraph 3.2 above.

3.4 During the period between 1 January 2012 and 27 June 2012 (being the latest practicable date before the publication of this document) the Company has issued 73,280 new Ordinary Shares following the exercise of options pursuant to the terms of the 2005 Share Option Plan, such shares were admitted to trading on AIM shortly after their issue and cancelled the 100,000 Ordinary Shares held in treasury as referred to in paragraph 3.2.3 of this Part 6.

3.5 By resolutions of the Shareholders passed on 16 May 2012 it was resolved, *inter alia*:

3.5.1 that pursuant to and for the purposes of, article 6 of the Articles, the Directors be empowered to allot new Ordinary Shares for cash, pursuant to the authority conferred on them by article 5 of the Articles, provided that such power be limited to the allotment of an aggregate number of 14,466,875 Ordinary Shares and shall expire at the earlier of the conclusion of the next succeeding annual general meeting of the Company or, if shorter, on 16 August 2013 save that the Company may, before such expiry, make offers or agreements which would or might require Ordinary Shares to be allotted and the Directors may allot Ordinary Shares in pursuance of such offer or agreement notwithstanding that the authority conferred by the resolution has expired; and

3.5.2 that the Directors be generally and unconditionally authorised for the purposes of article 5.1 of the Articles to allot: (a) shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate of 96,445,832 Ordinary Shares; and in addition; (b) equity securities of the Company (within the meaning of the Articles) in connection with an offer of such securities by way of a rights issue up to an aggregate of 192,891,664 Ordinary Shares, provided that these authorities expire on 16 August 2013 or, if earlier, the conclusion of the next annual general meeting of the Company but so that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares pursuant to such an offer or agreement as if this authority had not expired.

For the purposes of this resolution “rights issue” means an offer of equity securities to holders of Ordinary Shares in the capital of the Company on the register on a record date fixed by the directors in proportion (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any treasury shares, fractional entitlements or legal or practical issues arising under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or any other matter.

3.6 Immediately following Admission, the Company will have the power to issue up to 96,445,832 Ordinary Shares (otherwise than in connection with a rights issue) representing approximately 33.33 per cent. of the Ordinary Shares in issue the Company. Approximately 12.6 per cent. of such power will be reserved for the issue of up to 12,176,126 Ordinary Shares on the exercise of the options to be issued under the Share Option Schemes, as referred to in paragraph 6 below.

3.7 Other than on exercise of the share options as described in paragraph 6 below, the Company has no present intention to issue any new Ordinary Shares of the Company.

3.8 The Company does not have in issue any securities not representing share capital.

3.9 No shares of the Company are currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived.

3.10 Save as disclosed in this paragraph 3, there has been no issue of shares or loan capital of the Company or any other member of the Group (other than intra-group issues by wholly owned

subsidiaries) in the three years immediately preceding the date of this document and (other than on the exercise of the options to be issued under the Share Option Schemes, as referred to in paragraph 6 below) no such issues are proposed.

- 3.11 Save as disclosed in paragraph 13 below, no commissions, discounts, brokerages or other special terms have been granted by the Company or any other member of the Group in connection with the issue or sale of any shares or loan capital of the Company or any other member of the Group in the three years immediately preceding the date of this document.
- 3.12 Save as disclosed in paragraph 3.6 above, on Admission no shares or loan capital of the Company or any other member of the Group will be under option or has been agreed conditionally or unconditionally to be put under option.
- 3.13 None of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to the Official List.
- 3.14 The Ordinary Shares in issue as at the date of this document have been created pursuant to the International Business Companies Act (cap 291) of the BVI, the BVI Business Companies Act, 2004 and the articles of association of the Company in place prior to the Re-domiciliation and are ordinary shares of no par value in the Company.
- 3.15 The Ordinary Shares are in registered form. No temporary documents of title will be issued and prior to the issue of definitive certificates, transfers will be certified against the register.

#### **4. Memorandum and Articles of Association**

The Company's memorandum of association provides that the Company has unlimited capacity to carry on or to undertake any business or activity, to do, or to be subject to, any act or to enter into any transaction.

The Articles contain provisions, *inter alia*, to the following effect:

##### **4.1 *Voting rights***

Subject to any special rights or restrictions as to voting attached to any shares by or in accordance with the Articles, on a show of hands every member who is present in person or by proxy and entitled to vote has one vote and on a poll every member who is present in person or by proxy and entitled to vote has one vote for every share of which he is the holder.

##### **4.2 *Restrictions on voting***

No member shall, unless the Board otherwise determines, be entitled to vote at a general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by him or to exercise any right as a member unless all calls or other sums presently payable by him in respect of that share have been paid to the Company. In addition, any member who having been served with a notice by the Company requiring such member to disclose to the Board in writing within such reasonable period as may be specified in such notice, details of any past or present beneficial interest of any third party in the shares or any other interest of any kind whatsoever which a third party may have in the shares and the identity of the third party having or having had any such interest, fails to do so may be disenfranchised by service of a notice by the Board.

##### **4.3 *Dividends***

Subject to the provisions of the Articles and the Law, and to the rights of persons entitled to shares with special rights as to dividend, the Company may, by a resolution of the Directors, declare and pay a dividend to members at such times and of such amounts as the Directors think fit. The Board may by resolution, and subject to the Law, declare and pay such interim dividends (including any dividend payable at a fixed rate) at such time and in such amount as the Directors think fit.

Unless otherwise provided by the rights attached to the share, no dividend or other moneys payable by the Company or in respect of a share shall bear interest as against the Company.

All dividends unclaimed for a period of six years after having become due for payment shall (if the Board so resolves) be forfeited and shall revert to the Company.

The Board may with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, provided that the Company has a sufficient number of shares authorised for allotment to give effect to it, offer to any holders of shares the right to elect to receive shares of the same class credited as fully paid, in whole or in part instead of cash in respect of the whole or some part (to be determined by the Board) of any dividend declared.

#### 4.4 *Return of capital*

If the Company is wound up, the surplus assets remaining after payment of all creditors are to be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively and, if such surplus assets are insufficient to repay the whole of the paid up capital, they are to be distributed so that as nearly as may be the losses are borne by the members in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. This is subject to the rights attached to any shares which may be issued on special terms or conditions.

#### 4.5 *Variation of rights*

Subject to the provisions of the Law, if at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company (and notwithstanding that the Company may be, or be about to be, in liquidation) may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of shares representing not less than 75 per cent. of the voting rights attached to the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of the class duly convened and held as provided in the Articles (but not otherwise).

Subject to the terms on which any shares may be issued, the rights or privileges attached to any class of shares shall be deemed to be varied or abrogated by the reduction of the capital paid up on such shares or by the allotment of further shares ranking in priority for the payment of a dividend or in respect of capital or howsoever or which confer on the holders voting rights more favourable than those conferred by such first mentioned shares.

#### 4.6 *Transfer of shares*

All transfers of shares, in the case of certificated shares, shall be effected by an instrument of transfer in writing in any usual form or, in the case of uncertificated shares, without a written instrument in accordance with the Uncertificated Regulations. The Board may refuse to register any transfer of a certificated share unless:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of a share on which the Company has no lien;
- (c) it is in respect of only one class of shares;
- (d) it is in favour of a single transferee or not more than four joint transferees; and
- (e) it is delivered for registration to the Registered Agent, or such other person or place as the Board may from time to time determine, accompanied (except in the case of a transfer where a certificate has not been required to be issued) by the certificate for the shares to which it relates and/or such other evidence as the Board may reasonably require to prove the title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so, provided that where any such shares are admitted to AIM, the Official List maintained by the UK Listing Authority or another recognised investment exchange,

such refusal does not prevent dealings in shares of the relevant class in the Company from taking place on an open and proper basis.

#### 4.7 *Alteration of capital and purchase of own shares*

The Company in general meeting may from time to time by ordinary resolution:

- (a) consolidate all or any of its shares into shares of a larger amount; or
- (b) redenominate all or any of such shares as shares denominated in another currency on such basis as the Board sees fit; or
- (c) sub-divide such shares, or any of them.

Whenever, as a result of any consolidation, division or subdivision of shares any member would become entitled to fractions of a share, the Board may deal with the fractions as it thinks fit.

Subject to the provisions of the Law, and the Articles and to any rights being attached to any shares, the Company may purchase or otherwise acquire its own shares for any consideration provided that the Company continues to have at least one member at all times. The Company may purchase or acquire shares issued by the Company:

- (i) pursuant to an offer to all members which, if accepted, would leave the relative rights of the members unaffected and which affords each member a period of not less than 14 days within which to accept the offer; or
- (ii) pursuant to an offer to one or more members to which all members have consented in writing; or
- (iii) by market purchases (within the meaning of section 693(4) of the Act) provided that such purchase or acquisition has been authorised by a special resolution save that the Board is authorised to repurchase up to 10 per cent. of the Ordinary Shares in issue on Admission, with such authority expiring on 30 June 2013 or, if sooner, the end of the Company's annual general meeting in 2013 provided that: (A) the minimum price, exclusive of any expenses, which may be paid for an Ordinary Share is £0.01; (B) the maximum price, exclusive of any expenses, which may be paid for each Ordinary Share is an amount equal to the higher of: (a) 105 per cent. of the average of the middle market quotations for an Ordinary Share, as derived from the London Stock Exchange Daily Official List, for the five business days immediately preceding the day on which the Ordinary Share is purchased; and (b) the amount stipulated by Article 5(1) of the Buy-back and Stabilisation Regulations 2003; or
- (iv) by off-market purchase (within the meaning of section 693(2) of the Act).

The Company shall not make any offer pursuant to the methods set out in (ii) (iii) or (iv) above unless the Directors have passed a resolution stating that in their opinion the offer transaction benefits the remaining members and the terms of the offer are fair and reasonable to the Company and the remaining members. The directors are also required under the Law to pass a resolution confirming that the Company will immediately after the repurchase of the shares be able to satisfy the solvency test referred to in section 49 of the Law, which the Company satisfies if it is able to pay its debts as they become due in the normal course of the Company's business and the value of its assets exceeds the value of its liabilities.

#### 4.8 *Disclosure of interests in shares*

Each member of the Company is required to comply with the notification obligations to the Company contained in Chapter 5 of the Disclosure and Transparency Rules of the UK Financial Services Authority as if the Company was a UK issuer. The Board may at any time serve an Information Notice (such term as defined in the Articles) upon a member or on any person appearing to be interested in shares held by that member and if they fail to comply which such notice various sanctions as specified in the Articles will apply to that member such that a member must notify the Company of the percentage of its voting rights held as a

shareholder or held or is deemed to hold through its direct or indirect holding of financial instruments (falling within the meaning of DTR 5.3.1R(1)), or a combination of such holdings) if the percentage thresholds of those voting rights reaches, exceeds or falls below 3 per cent., 4 per cent., 5 per cent., 6 per cent., 7 per cent., 8 per cent., 9 per cent., 10 per cent. and each 1 per cent. threshold thereafter up to 100 per cent.. The Board may at any time serve an Information Notice upon a member or on any person appearing to be interested in shares held by that member and if they fail to comply with such notice various sanctions, including restrictions on voting, transfer and dividend payments in respect of the relevant shares in the Articles will apply to that member. DTR 5 provides that disclosure by a Shareholder to the Company must be made within two trading days of the event giving rise to the notification requirement.

#### 4.9 *General meetings*

##### *Annual general meetings*

Subject to the provisions of the Law, annual general meetings shall be held at such time and place as the Board may determine, however at least one annual general meeting shall be held in each calendar year and not more than 15 months shall pass from one annual general meeting to the next.

##### *Convening of general meetings*

The Board may convene a general meeting, other than an annual general meeting, whenever it thinks fit.

##### *Orderly conduct of meetings*

The Board may, for the purpose of facilitating shareholder attendance at a general meeting, or controlling the level of attendance and ensuring the safety of those attending at any place specified for the holding of a general meeting, from time to time make such arrangements as the Board shall in its absolute discretion consider to be appropriate and may from time to time vary any such arrangements in place or make new arrangements thereof. The entitlement of any member or proxy to attend a general meeting at such place shall be subject to any such arrangements as may be for the time being approved by the Board.

##### *Notice of general meetings*

An annual general meeting shall be convened by not less than 21 clear days' notice in writing. A general meeting other than an annual general meeting shall be convened by not less than 14 clear days' notice in writing.

##### *Quorum*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business but the absence of a quorum shall not preclude the choice or appointment of a Chairman, which shall not be treated as part of the business of the meeting. Two persons entitled to attend and to vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, shall be a quorum.

##### *Adjournment*

If, within 15 minutes (or such longer interval not exceeding one hour as the chairman of the meeting in his absolute discretion thinks fit) from the time appointed for the holding of a general meeting, a quorum is not present or if, during a meeting, such a quorum ceases to be present, the meeting, if convened on the requisition of members, shall be dissolved. In any other case, the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other day and at such time and place as the Chairman (or, in default, the Board) may determine not being more than 28 days after the date that the original general meeting was convened.

#### 4.10 *Directors*

##### *Number*

Unless and until otherwise determined by the Company by ordinary resolution, the number of Directors (other than any alternate Directors) shall not be less than two and there shall be no maximum number of Directors.

##### *Appointment of Directors*

Subject to the Articles, the Company may by ordinary resolution appoint a person who is willing to act to be a Director, either to fill a vacancy, or as an addition to the existing Board, and may also determine the rotation in which any Directors are to retire. Without prejudice to the power of the Company to appoint any person to be a Director pursuant to the Articles, the Board shall have power at any time to appoint any person who is willing to act as a Director, either to fill a vacancy or as an addition to the existing Board, but the total number of Directors shall not exceed any maximum number fixed in accordance with the Articles. Any Director so appointed shall hold office only until the next annual general meeting of the Company following such appointment and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors who are to retire by rotation at that meeting.

##### *Remuneration*

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors (in addition to fees paid for employment or executive services) such sum as the Board may from time to time determine, provided that such amount shall not exceed in aggregate £1,000,000 (one million pounds) per annum or such greater sum as the Company in general meeting shall from time to time determine by ordinary resolution. Any fees payable shall be distinct from any salary, remuneration or other amounts payable to a Director.

##### *Selection of Directors to retire*

Any Director who is not required to retire by rotation but who has been in office for three years or more since his appointment or his last re-appointment or who would have held office at not less than three consecutive annual general meetings of the Company without retiring shall retire from office.

##### *Retirement of Directors*

At each annual general meeting one-third of the Directors (excluding any Director who has been appointed by the Board since the previous annual general meeting) or, if their number is not an integral multiple of three, the number nearest to one-third but not exceeding one-third shall retire from office (but so that if there are fewer than three Directors who are subject to retirement by rotation under this Article one shall retire).

##### *Removal of Directors*

The Company may by ordinary resolution passed at a meeting called for such purpose or by written resolution consented to by members holding at least 75 per cent. of the voting rights in relation thereto, remove any Director before the expiration of his period of office notwithstanding anything in the Articles or in any agreement between the Company and such Director and, without prejudice to any claim for damages which he may have for breach of any contract of service between him and the Company, may (subject to the Articles) by ordinary resolution, appoint another person who is willing to act as a Director in his place.

A Director may also be removed from office by the service on him of a notice to that effect signed by all the other Directors.

##### *Vacation of office of Director*

Without prejudice to any provisions for retirement contained in the Articles the office of a Director shall be vacated if:



- (a) he resigns by notice in writing delivered to the Registered Agent at the registered office of the Company or tendered at a Board meeting in which event he shall vacate that office on the service of that notice on the Company or at such later time as is specified in the notice or he offers in writing to resign from his office and the Directors resolve to accept such offer; or
- (b) he ceases to be a Director by virtue of any provision of the Law, is removed from office pursuant to the Articles or becomes prohibited by law from being a Director; or
- (c) he becomes bankrupt, has an interim receiving order made against him, makes any arrangement or compounds with his creditors generally; or
- (d) an order is made by any court of competent jurisdiction (whether in the Isle of Man, the United Kingdom or elsewhere) on the ground (howsoever formulated) of mental disorder for his detention or for the appointment of a guardian or receiver or other person to exercise powers with respect to his property or affairs or he is admitted to hospital in pursuance of an application for admission for treatment under any statute for the time being in force in the Isle of Man or the United Kingdom relating to mental disorder or, in any other territory, in pursuance of an application for admission under analogous legislation or regulations and the Board resolves that his office be vacated; or
- (e) he shall be absent, without the permission of the Board from Board meetings for six consecutive months (whether or not an alternate Director appointed by him attends) and the Board resolves that his office be vacated; or
- (f) he is convicted of an indictable offence and the Directors shall resolve that it is undesirable in the interests of the Company that he remains a Director of the Company; or
- (g) the conduct of that Director (whether or not concerning the affairs of the Company) is the subject of either: (i) an order declaring him to be a “disqualified person” within the meaning of the Law; or (ii) an investigation by the police of any jurisdiction and the Board shall resolve that it is undesirable that he remains a Director; or
- (h) he has otherwise been disqualified from acting as a Director.

#### *Executive Directors*

The Board may from time to time appoint and delegate or entrust to and confer on any Director holding executive office (including a Chief Executive or Managing Director) such of its powers, authorities and discretions (with power to sub delegate) for such time, on such terms and subject to such conditions as it thinks fit, and the Board may from time to time revoke, withdraw, alter or vary all or any of such powers.

#### *Power to appoint alternate Directors*

Each Director (other than an alternate Director) may by notice in writing under his hand delivered to the Registered Agent at the registered office or, if in electronic form, received by the Registered Agent, or at a meeting of the Directors or in any other manner approved by the Board appoint any other Director or any person approved for that purpose by the Board and willing to act to be his alternate and may in like manner remove from office an alternate Director so appointed by him.

#### *Directors’ interests*

A Director who to his knowledge is in any way (directly or indirectly) interested in any contract arrangement, transaction or proposal with the Company shall, forthwith after becoming aware of the fact, disclose the interest to the Board.

Save as provided in the Articles, a Director shall not vote on or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any proposal whatsoever to which the Company is, or is to be, a party and in which he has (directly or indirectly) an interest which is material

(other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) or a duty which conflicts with the interests of the Company unless his duty or interest arises only because the resolution relates to one of the matters set out in the following sub-paragraphs in which case he shall be entitled to vote and be counted in the quorum:

- (a) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (b) the giving by the Company to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiaries for which he himself has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- (c) the giving of any other indemnity where all other Directors are also being offered indemnities on substantially the same terms;
- (d) where the Company or any of its subsidiaries is offering securities in which offer the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Director is to participate;
- (e) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares (as that term is used in Part 22 of the UK 2006 Companies Act) representing one per cent. or more of either any class of the equity share capital, or the voting rights, in such company;
- (f) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiaries which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (g) concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons including Directors; or
- (h) any proposal concerning the funding of expenditure by one or more Directors on defending proceedings against him or them, or doing anything to enable such Director or Directors to avoid incurring such expenditure.

#### *Benefits*

The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (whether by insurance or otherwise) for or to institute and maintain any institution, association, society, club, trust, fund, other establishment or profit sharing, share incentive, share purchase or employees' share scheme calculated to advance the interests of the Company or to benefit any person who is or has at any time been a Director of the Company or any company which is a subsidiary company of or allied to or associated with the Company or any such subsidiary or any predecessor in business of the Company or of any such subsidiary and for any member of his family (including a spouse or former spouse) and any person who is or was dependent on him.

#### *Powers of the board*

Subject to the provisions of the Law, the Articles and to any directions given by special resolution, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company whether relating to the central management and control of the business, and/or the effective management of the Company, or not.

#### *Borrowing powers*

Subject to the Articles, the Board may exercise all the powers of the Company to borrow money and mortgage or charge all or part of the undertaking, property and assets (present or future) and uncalled capital of the Company and, subject to the Law, to create and issue

debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party. The Board shall restrict the borrowings of the Company and shall exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to ensure (as regards subsidiaries, to the extent possible by such exercise) that the aggregate principal amount outstanding in respect of Monies Borrowed (such term as defined in the Articles) by the Group does not at any time, without the previous sanction of an ordinary resolution, exceed: (i) four times the Adjusted Capital and Reserves (as defined in the Articles); or (ii) any higher limit fixed by ordinary resolution which is applicable at the relevant time.

#### *Indemnity of officers*

The Articles provide that subject to the provisions of the Law and certain restrictions as set out in the Articles, that without prejudice to any indemnity to which he may be otherwise entitled, every Director, alternate Director or officer of the Company (other than an auditor) shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution or discharge of his duties or exercise of his powers or otherwise in relation to them including (without prejudice to the generality of the foregoing) any liability incurred defending any proceedings (whether civil or criminal) which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company.

#### *Delegation to individual Directors*

The Directors may entrust to and confer upon any Director holding any executive office or employment any of the powers exercisable by them as Directors with power to sub-delegate upon such terms and conditions and with such restrictions as they think fit and either collaterally with or to the exclusion of their own powers, authorities and discretions, and may from time to time revoke, withdraw, alter or vary all or any of such powers but no person dealing in good faith and without notice of the revocation or variation shall be affected by it. Any Director with such delegated powers shall be required to update the Board at meetings of the Board as to any developments arising in connection with the delegation of such powers.

#### *Committees*

The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) for such time on such terms and subject to such conditions as it thinks fit to any committee consisting of one or more persons (whether members of the Board or not) provided that any such committee shall only meet and exercise its powers, authorities and discretions from outside the United Kingdom and Israel. Any committee so formed may exercise its power to sub-delegate by sub-delegating to any other committee, subject to the aforementioned restrictions on location on such committees or to any Director (whether or not a member or members of the committee).

## **5. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Ordinary Shares are expected to be admitted to, and accordingly enabled for settlement in, CREST on 2 July 2012 following the winding up of the Company's depository interest facility which is anticipated to occur at close of business on 29 June 2012.

## **6. Share Option Schemes**

### **6.1 2005 Share Option Plan**

The Company adopted the 2005 Share Option Plan ("ESOP") in 2005 in order to provide an incentive to retain employees and to attract new employees, directors, consultants and service providers. The ESOP is governed by the laws of England and Wales. The ESOP is administered by the remuneration committee of the Board (the "Committee").

The Committee has the power to grant options, to determine the number of and the terms on which options will be granted and when the options may be exercised. The Committee determines the number of authorised but unissued shares reserved for the ESOP. Subject to certain ESOP requirements, the options granted will vest as set out in each individual option agreement. Most options vest over three years. A summary of the ESOP's key terms are set out below.

The exercise price per share is determined by the Committee subject to any applicable law.

Each option expires on the date specified by the Committee in the option agreement or if earlier, upon a merger, reconstruction or consolidation if they are not rolled over into the new successor company. In addition, options lapse on termination of the relevant person's employment or appointment for cause. On termination of the relevant person's employment or appointment, otherwise than for cause, vested options may only be exercised for a limited period following termination. Subject to the terms of the option agreement, options do not vest on a change of control. The ESOP provides that options may instead be rolled over or substituted for shares in the new successor company into which the Company has merged or by which it is acquired. The Committee may, at its discretion, allow options to be exercised early.

If there is a variation in share capital, the exercise price and number of shares subject to options may be adjusted by the Committee. The Committee may terminate or amend the ESOP in any respect at any time, subject to the rules of any relevant stock exchange or, if required under applicable law, shareholder approval.

The ESOP originally provided that it would terminate five years after its adoption, or earlier in certain circumstances. Following a change in the rules of the ESOP (approved by the Committee in 2010) the unexercised options expire ten years after the date of grant, unless the relevant employee leaves the Group's employment, in which case the unvested options lapse and any vested options lapse three months after the date the employment ends.

On 19 March 2009, the Directors approved a repricing plan to convert options previously granted in US Dollars to an equivalent pounds sterling price, subject to agreement by the individual optionholders. In certain cases, optionholders did not agree to such repricing.

On 4 April 2012, the Directors approved an amendment to the ESOP with the effect that the Committee may, on exercise of an option, require participants to take Ordinary Shares with a market value equal to the growth in value of the Ordinary Shares under the option between the day of grant and settlement of the option. In addition, the Committee may agree with a participant that he should receive cash equal to the market value of the Ordinary Shares under option less the exercise price payable.

As at 27 June 2012 (being the latest practicable date prior to the date of this document), 11,855,657 Ordinary Shares are subject to outstanding options granted under the ESOP. A total of 7,915,306 Ordinary Shares have been issued on the exercise of options granted under the ESOP and options over a total of 4,690,516 Ordinary Shares have expired or been cancelled. A table showing those options that have been granted and remain outstanding is set out below.

<i>Vesting date</i>	<i>Exercise Price per Ordinary Share</i>	<i>Number</i>
Shares vested on 30 November 2008	US\$2.50	139,267
Shares vested on 30 November 2008	£1.45	317,048
Shares vested on 30 November 2008	£2.32	133,334
Shares vested between 1 December 2006 and 6 February 2009	US\$4.50	257,046
Shares vested between 1 December 2006 and 6 February 2009	£2.55	610,000
Shares vested between 1 December 2006 and 1 December 2009	£2.29	200,000
Shares vested between 21 June 2007 and 21 June 2009	US\$5.75	11,000
Shares vested between 21 June 2007 and 21 June 2009	£3.16	60,334

<i>Vesting date</i>	<i>Exercise Price per Ordinary Share</i>	<i>Number</i>
Shares vested between 11 October 2007 and 11 October 2009	£1.72	208,334
Shares vested between 11 December 2007 and 11 December 2009	US\$4.35	65,000
Shares vested between 11 December 2007 and 11 December 2009	£2.21	228,002
Shares vested between 16 May 2008 and 16 May 2010	US\$7.50	20,000
Shares vested between 16 May 2008 and 16 May 2010	£3.79	1,056,334
Shares vested between 18 June 2008 and 18 June 2010	US\$7.79	9,468
Shares vested between 18 June 2008 and 18 June 2010	£3.96	92,784
Shares vested between 18 June 2008 and 18 June 2010	£3.30	10,000
Shares vested between 10 October 2008 and 10 October 2011	£3.51	112,500
Shares vested between 20 November 2008 and 20 November 2011	US\$7.19	30,000
Shares vested between 20 November 2008 and 20 November 2011	£3.51	55,500
Shares vested between 31 December 2008 and 31 December 2010	US\$7.68	18,000
Shares vesting between 31 December 2008 and 31 December 2010	£3.86	41,000
Shares vested between 25 April 2009 and 25 April 2012	£4.35	510,167
Shares vested between 21 May 2009 and 21 May 2012	£5.31	500,000
Shares vesting between 28 November 2009 and 28 November 2012	£3.20	1,429,091
Shares vesting between 31 December 2008 and 31 December 2011	£3.1725	200,000
Shares fully vested on 22 May 2012	£4.155	740,000
Shares fully vested on 22 May 2012	£4.05	75,000
Shares fully vesting on 6 November 2012	£3.70	950,000
Shares vesting between 18 April 2012 and 18 April 2013	£5.12	941,000
Shares vesting between 3 June 2012 and 3 June 2013	£4.84	220,000
Shares vesting between 26 August 2012 and 26 August 2013	£4.16	258,130
Shares fully vesting on 10 March 2014	£3.5225	1,720,650
Shares fully vesting on 25 August 2014	£3.0325	100,000
Shares fully vesting on 16 December 2014	£2.30	120,000
Shares fully vesting on 22 June 2015	£3.4775	276,000

## 6.2 *Company Share Option Plan (“CSOP”)*

Following the acquisitions of GTS and of the business and assets of Virtue Fusion Limited, in February 2010, it was decided to establish an incentive plan to retain and incentivise key employees in the acquired businesses. As part of these arrangements, the Board approved the establishment of a HM Revenue & Customs (“HMRC”) approved Company Share Option Plan under which options may be granted to UK-based employees which are, assuming full compliance with the rules of the CSOP, subject only to capital gains tax on any growth in value. Under the rules of the CSOP, options may not be exercised until the third anniversary of grant. Except in certain limited circumstances, such as death or disability, such options will lapse if the employee leaves the employment of the Group. The rules of the CSOP were approved by HMRC in August 2010. As at 27 June 2012 (being the latest practicable date prior to the date of this document) 320,469 Ordinary Shares are subject to outstanding options granted under the CSOP, which vest if the option holder remains in employment after a three year period. No options to purchase Ordinary Shares have yet been exercised. A table showing those outstanding options that have been granted is set out below:

<i>Number of Ordinary Shares under option</i>	<i>Date of grant</i>	<i>Exercise price per Ordinary Share</i>	<i>Start of exercise period</i>	<i>End of exercise period</i>
176,469	27 August 2010	£4.16	27 August 2013	26 August 2020
144,000	22 June 2012	£3.4775	22 June 2015	21 June 2022

### 6.3 *The 2012 Playtech Long Term Incentive Plan (“New Plan”)*

#### *Eligibility*

Any employee (including an executive director) of the Company and its subsidiaries will be eligible to participate in the New Plan at the discretion of the Committee.

#### *Grant of awards*

The Committee may grant awards over Ordinary Shares within six weeks following the Company’s announcement of its results for any period. The Committee may also grant awards within six weeks of adoption of the New Plan or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards.

The Committee may grant awards as: (i) conditional awards of Ordinary Shares; (ii) nil (or nominal) cost options; (iii) forfeitable Ordinary Shares; (iv) “market value” options with an exercise price equal to the prevailing share price at or around the time awards are granted; or (v) share appreciation rights. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after the adoption of the New Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

#### *Option price*

Where awards are granted in the form of “market value” options, the price per Ordinary Share payable upon exercise of an option will not be less than the middle-market price for an Ordinary Share on the London Stock Exchange on the dealing day immediately before the date of grant (or on such other dealing day(s) as the Committee may decide).

#### *Vesting of awards*

Awards normally vest three years after grant (or on such other date or dates that the Committee determines prior to the grant of awards) to the extent that any applicable performance conditions have been satisfied and provided that the participant is still employed in the Group. Options are then exercisable from the date of vesting up until the tenth anniversary of grant (or for such other period as determined by the Committee at the time of grant) unless they lapse earlier.

#### *Dividend equivalents*

The Committee may decide that participants will receive a payment (in cash and/or Ordinary Shares) of an amount equivalent to the dividends that would have been paid on the Ordinary Shares in respect of which their awards vest between the time when the awards were granted and the time when they vest or are settled (as the Committee determines appropriate). This amount may assume the reinvestment of dividends.

#### *Leaving employment*

As a general rule, an award will lapse upon a participant ceasing to hold employment or being a director in the Group. However, if a participant ceases to be an employee or a director because of his ill health, injury, disability, retirement, redundancy or his employing company or the business for which he works being sold out of the Group or in other circumstances at the discretion of the Committee, then his award will vest on the date when it would have vested if he had not ceased such employment or office. The extent to which an award will

vest in these situations will depend upon two factors: (i) the extent to which any applicable performance conditions have been satisfied; and (ii) the pro-rating of the award to reflect the period of time between the grant of the award and the individual's cessation of employment relative to the original vesting period, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

#### *Corporate events*

In the event of a takeover or winding up of the Company (which is not an internal corporate reorganisation) all awards will vest early subject to: (i) the extent that any performance conditions have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Awards structured as options then remain exercisable for a limited period.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Ordinary Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

#### *Participants' rights*

Conditional awards of Ordinary Shares, share appreciation rights and options will not confer any shareholder rights until the conditional awards of Ordinary Shares have vested or the share appreciation rights or options have been exercised and the participants have received their Ordinary Shares. Holders of awards of forfeitable Ordinary Shares will have shareholder rights from when the awards are made except they may be required, at the Committee's discretion, to waive their rights to vote and receive dividends.

#### *Rights attaching to Ordinary Shares*

Any Ordinary Shares allotted when an award vests or is exercised will rank equally with Ordinary Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

#### *Variation of capital*

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Ordinary Shares, the Committee may make such adjustment as it considers appropriate to the number of Ordinary Shares subject to an award and/or the exercise price payable (if any).

The Committee may, on exercise of an option, require participants to take Ordinary Shares with a market value equal to the growth in value of the Ordinary Shares under the option between the day of grant and settlement of the option. In addition, the Committee may agree with a participant that he should receive cash equal to the market value of the Ordinary Shares under option less the exercise price payable.

#### *Overall New Share Plan limits*

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than 10 per cent. of the issued Ordinary Shares of the Company under the New Share Plan and any other employee share plan adopted by the Company. Treasury Shares will count as new issue Ordinary Shares for the purposes of these limits unless institutional investors decide that they need not count. Ordinary Shares issued or to be issued under awards or options granted under the 2005 Share Option Plan before on the AIM IPO will not count towards these limits.

#### *Alterations to the New Plan*

The Committee may, at any time, amend the New Plan in any respect, provided that participant approval is obtained for any amendments that are to the disadvantage of participants (other than any amendments to any performance conditions applicable to awards).

### *Clawback*

The Committee may, within three years of an award vesting, decide that a participant will be subject to clawback where there has been a misstatement of the Company's financial results or accounts or if the participant's employment is terminated because of his misconduct. The Committee may require the satisfaction of the clawback by way of a reduction in the vesting, or size of, any other award and/or a requirement to make a cash payment.

#### 6.4 *Videobet options*

In addition to the plans set out above, in December 2009, the Board approved the establishment of a phantom share plan for the senior executives of Videobet, in order to retain and incentivise the management team. The overall size of the plan is limited in amount to an amount of shares equal to 2.5 per cent. of the share capital of Videobet and will vest once the Company has received in cash an amount equal to its total investment in Videobet plus an amount equal to base rate plus 10 per cent. on such invested amount compounded annually. Participants will be able to exercise their awards on a share sale or listing of Videobet or such earlier date as is agreed between the participant and the Company, acting through the Committee.

#### 7. **Directors' and Senior Management's interests**

- 7.1 As at 27 June 2012 (being the latest practicable date prior to the date of this document) and on Admission, the interests (all of which are beneficial) of the Directors and the members of Senior Management and their immediate families (including any interest known to that Director or which could with reasonable diligence be ascertained by him or any person connected with a Director within the meaning of section 252 to 255 of the Act) in the issued shares of the Company are or are expected to be as follows:

<i>Director/Senior Management</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Ordinary Shares issued</i>	<i>Number of Ordinary Shares under option</i>
<b>Directors</b>			
Roger Withers	19,333	0.0	–
Mor Weizer	–	–	1,200,000
David Mathewson	–	–	100,000
Alan Jackson	5,000	0.0	–
Andrew Thomas	–	–	–
<b>Senior Management</b>			
Rafi Ashkenazi	–	–	191,668
Ron Hoffman	–	–	105,000

- 7.2 As at 27 June 2012 (being the latest practicable date prior to the date of this document) and on Admission the Company is aware of the following existing Shareholders (other than any Director or member of Senior Management) who by virtue of the notifications made to it pursuant to the Articles and/or the Disclosure and Transparency Rules, are or will be, or are expected to be, immediately following Admission interested, directly or indirectly, in 3 per cent. or more of the issued shares of the Company:

<i>Name</i>	<i>Number of Ordinary Shares</i>	<i>Following Admission Percentage of voting rights</i>
Brickington Trading Limited	143,645,782	49.66
BlackRock Advisors (Institutional Group)	19,876,519	6.87
Capital Research & Management	14,311,675	4.95
Greenlight Capital	11,029,476	3.81
Interexpo Trading Limited	8,774,200	3.03



- 7.3 Save as disclosed in paragraphs 7.1 and 7.2 above, the Company and the Directors are not aware of any person who directly or indirectly, jointly or severally, exercises or could exercise control over the Company nor is it aware of any arrangements, the operation of which may at a subsequent date result in a change of control of the Company.
- 7.4 The persons including the Directors and members of the Senior Management, referred to in paragraphs 7.1 and 7.2 above, do not have voting rights that differ from those of other Shareholders.
- 7.5 No Director has any interest in any transactions which are or were unusual in their nature or conditions or which are or were significant to the business of the Group and which were effected by any member of the Group in the current or immediately preceding financial year or which were effected during an earlier financial year and which remain in any respect outstanding or unperformed.
- 7.6 Save in respect of any Subsidiaries, the Directors and members of the Senior Management currently hold, and have during the five years preceding the date of this document held, the following directorships, partnerships or been a member of the senior management:

<i>Name of Director/ Senior Management</i>	<i>Current directorships and partnerships</i>	<i>Past directorships and partnerships</i>
Roger Withers	Sportech PLC	
Mor Weizer	Sportech PLC	None
David Mathewson	None	Edinburgh UK Tracker Trust plc Asian Growth Properties Limited AMZ Holdings Plc GFED Games Limited GFED International Ltd. Ifafa Tech Inc. Silverstate Capital Advisers Talk 107 Edinburgh plc Murray VCT plc Robertson Homes Limited Robertson Group Limited Corsie Group plc
Alan Jackson	The Restaurant Group plc Woodrow Farm Limited Redrow plc The Kimblewick Hunt Limited	Charles Wells Limited Living Ventures Limited Strobe 2 Luminar Group Holdings plc Randalls Vantier (Jersey) Limited
Andrew Thomas	The Greenalls Group Pension Trustees Limited Betterlease Limited (non-trading) Gerald Brunt Productions Limited Randalls Limited Livock & Edwards Limited Jumil Investments Limited Summerseat Holdings Limited Savernake Holdings (D) Limited Savernake Holdings No 2 (Jersey) Limited Lansdowne Investments Limited Moors Andrew Thomas (PC) Limited Moors Andrew Thomas & Co LLP	The Restaurant Group PLC Thomas Brunt & Associates Limited Roadcraft (Crane & Plant Hire) Limited JJB Sports PLC Pearlalpha Limited Castlebronze Limited
Rafi Ashkenazi	None	None
Ron Hoffman	Synergia Band	None

The business address of all the Directors and the members of Senior Management is 2nd Floor, St George's Court, Upper Church Street, Douglas, Isle of Man IM1 1EE.

- 7.7 David Mathewson was appointed a director of Corsie Group plc on 1 March 2006, a position from which he resigned on 29 April 2008. Corsie Group plc entered administration on 9 May 2008. On 9 November 2009, the company exited administration and was dissolved on 22 October 2010.
- 7.8 Save as disclosed in this paragraph 7, none of the Directors or the members of Senior Management has at any time within the last five years:
- (a) had any convictions (whether spent or unspent) in relation to offences involving fraud or dishonesty;
  - (b) been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
  - (c) been a director or senior manager of a company which has been put into receivership, compulsory liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors; or
  - (d) been the subject of any bankruptcy or been subject to an individual voluntary arrangement or a bankruptcy restrictions order.
- 7.9 There are no arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which any Director or member of Senior Management was selected.
- 7.10 There are no restrictions agreed by any Director or member of Senior Management on the disposal within a certain period of time of their holdings in the Company's securities.
- 7.11 Save in respect of the interests of the Directors in the Ordinary Shares of the Company described in paragraph 7.1 above, no Director has any actual or potential conflicts of interest between their duties to the Company and their private interests and/or other duties.

## 8. Directors' and Senior Management's remuneration and service agreements

- 8.1 Each of the Executive Directors and members of Senior Management has entered into a service contract. Their respective salaries are as follows:

<i>Name</i>	<i>Date employment commenced</i>	<i>Annual Salary</i>
Mor Weizer	02/05/2007	€525,315
David Mathewson	10/06/2010	€325,621
Rafi Ashkenazi	21/03/2006	US\$372,000
Ron Hoffman	31/08/2004	NIS720,000

Each of the Executive Directors and members of Senior Management have been appointed on terms which can be terminated by either party on six months notice.

- 8.2 Each of the service contracts provide for the Executive Directors' and members of Senior Management's salaries to be reviewed annually. The Executive Directors and members of Senior Management are also entitled to other benefits commensurate with their position including permanent health insurance, life assurance and in certain cases a fully expensed company car and accommodation expenses. No Executive Director or member of Senior Management is a member of any pension plan operated by the Group.
- 8.3 No Executive Director or members of Senior Management is entitled to any benefits upon termination of his appointment under the terms of his agreement with the Group.
- 8.4 Each of the non-executive Directors have entered into agreements with the Company. Their annual fees are as follows:

<i>Name</i>	<i>Annual fee (£)</i>
Roger Withers	352,868
Alan Jackson	150,000
Andrew Thomas	80,000

Each of the non-executive Directors have been appointed on terms which can be terminated by either party on 90 days' notice save in the case of Andrew Thomas where the period is six months.

- 8.5 The aggregate remuneration paid (including pension fund contributions and benefits in kind) to the Directors and members of Senior Management by members of the Group in the year ended 31 December 2011 was as follows:

	<i>Salary/Fee</i>	<i>Bonus</i>	<i>Benefits</i>	<i>Total</i> <i>(excluding</i> <i>option</i> <i>charges)</i>	<i>Option</i> <i>charges</i>	<i>Total</i> <i>emoluments</i>
	<i>(€)</i>	<i>(€)</i>	<i>(€)</i>	<i>(€)</i>	<i>(€)</i>	<i>(€)</i>
Roger Withers	389,180	nil	nil	389,180	nil	389,180
Mor Weizer	525,315	270,302	12,401	808,018	696,448	1,504,466
David Mathewson	325,621	119,356	38,708	483,685	17,150	500,835
Alan Jackson	114,882	nil	nil	114,882	nil	114,882
Andrew Thomas	N/A	N/A	N/A	N/A	N/A	N/A
Rafi Ashkenazi	216,000	100,000	38,000	353,000	nil	353,000
Ron Hoffman	120,032	260,505	48,401	428,938	60,122	489,060

## 9. The Company and its Subsidiaries

The Company is the holding company of the Group and has the following principal Subsidiaries:

<i>Name</i>	<i>Country of</i> <i>registration or</i> <i>incorporation</i>	<i>Registered</i> <i>Office</i>	<i>Principal</i> <i>activity</i>	<i>Percentage of</i> <i>issued share</i> <i>capital held by</i> <i>the Company</i>
Playtech Software Limited	British Virgin Islands	Trident Chambers P.O. Box 146, Road Town, Tortola, British Virgin Islands	Main trading company of the Group, owns the IP rights and licences of the software	100
Video B Holdings Limited	BVI	As above	Trading company for Videobet software, owns IP rights of Videobet and licences it to customers	100
Genuity Services Limited	BVI	As above	Holder of investment in WHO	100
PT Turnkey Services Limited	BVI	As above	Holding company	100
PT Marketing Services Limited	BVI	As above	Provider of marketing services	100
PT Domains Limited	BVI	As above	Holder of various domain names for marketing purposes	100
PT Operational Services Limited	BVI	As above	Provision of support services	100
PT Advisory Services Limited	BVI	As above	Provision of reconciliation series on payments	100
PT Network Management Limited	BVI	As above	Provision of iPoker network and other networked games	100

<i>Name</i>	<i>Country of registration or incorporation</i>	<i>Registered Office</i>	<i>Principal activity</i>	<i>Percentage of issued share capital held by the Company</i>
Playtech Services (Cyprus) Limited	Cyprus	3 Athinodorou Street, Dasoulpoulos, Strovolos 2085, Nicosia, Cyprus	Trading company for EU customers and holds IP	100
Technology Trading IOM Limited	Isle of Man	2nd Floor, St. George's Court, Upper Church Street, Douglas, Isle of Man	Holding company	100
Gaming Technology Solutions Limited	England & Wales	55 Baker Street, London W1 7EU	Holding company and provides software development services	100
Virtue Fusion (Alderney) Limited	Alderney	Inchalla, Le Val, Alderney, Channel Islands	Licensor of online bingo software	100
Mobenga A.B.	Sweden	Box 5220 200 72 Malmö Skane County Sweden	Development of mobile sportsbetting	100
Ash Gaming Limited	England & Wales	61 Southwark Street, London	Development and licensing of online games	100

## 10. Principal Establishments

The principal establishments of the Group are as follows:

<i>Company</i>	<i>Location</i>	<i>Approx area</i>	<i>Tenure</i>	<i>Current rent (per annum excl VAT)</i>	<i>Terms of lease</i>
Bandwick Investments OU	Vanemuise Street, Tartu, Estonia	2,550 sq metres	Freehold	Nil	Nil
Gaming Technology Services Limited	10 Jamestown Road, London NW1	10,000 sq feet	Leasehold	£320,000	10 years expiring June 2022
Ash Gaming Limited	Front 5th Floor, 61 Southwark Street, London SE1	4,544 sq feet	Leasehold	£89,040	5 years expiring 29 January 2015 (subject to a break clause in January 2013)
Paragon International Customer Care Limited	4th Floor and part 9th and 14th Floor, Yuchengo Tower 1 RCBC Plaza 6819 Ayala Ave, Makati City, Philippines	2,200 sq metres	Leasehold	Philippine Peso 17,901,528	3 years expiring 31 December 2013 (provided that Paragon may terminate on 6 months notice at any time after 30 June 2012)
Techplay Marketing Limited	5 Floor, 2 Shoam Street, Ramat Gan, Tel Aviv 52510	1,499 sq metres	Leasehold	New Israeli Shekels 1,980,636	8.5 years terminating on 1 July 2020 (subject to break exercisable on 7 months notice between 27th and 48th month of the term)

<i>Company</i>	<i>Location</i>	<i>Approx area</i>	<i>Tenure</i>	<i>Current rent (per annum excl VAT)</i>	<i>Terms of lease</i>
Techplay S.A. Software Limited	5 Floor, 2 Shoam Street, Ramat Gan, Tel Aviv 52510	2,031 sq metres	Leasehold	New Israeli Shekels 1,416,780	8.5 years terminating on 1 July 2020 (subject to break exercisable on 7 months notice between 27th and 48th month of the term)
OU VideoBet	Paldiski mnt 27/29, 10612 Tallinn, Estonia	236 sq metres	Leasehold	€189,840	10 years terminating on 30 September 2015 (subject to a right to terminate on 12 months notice)
Playtech Bulgaria	Office Building C 115 L Mladost District, Tsarigardsko Shore Blvd, Sofia, Bulgaria	1,718 sq metres	Leasehold	€177,552	5 years from 1 January 2011 (subject to a right to terminate on 6 months notice between the 34th and 46th month of the term)
PTVB Management Limited	2nd Floor, St George's Court Upper Church Street, Douglas, Isle of Man	2,200 sq feet	Leasehold	£48,500	3 years from 1 June 2010

## 11. The City Code

### 11.1 *Mandatory takeover bids*

The City Code applies to all takeover and merger transactions in relation to the Company, and operates principally to ensure that shareholders are treated fairly and are not denied an opportunity to decide on the merits of a takeover and that shareholders of the same class are afforded equivalent treatment. The City Code provides an orderly framework within which takeovers are conducted and the Panel on Takeovers and Mergers has now been placed on a statutory footing.

The City Code is based upon a number of General Principles which are essentially statements of standards of commercial behaviour. General Principle One states that all holders of securities of an offeree company of the same class must be afforded equivalent treatment and if a person acquires control of a company, the other holders of securities must be protected. This is reinforced by Rule 9 of the City Code which requires a person, together with persons acting in concert with him, who acquires shares carrying voting rights which amount to 30 per cent. or more of the voting rights to make a general offer. “**Voting rights**” for these purposes means all the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting. A general offer will also be required where a person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights, acquires additional shares which increase his percentage of the voting rights. Unless the Panel consents, the offer must be made to all other shareholders, be in cash (or have a cash alternative) and cannot be conditional on anything other than the securing of acceptances which will result in the offeror and persons acting in concert with him holding shares carrying more than 50 per cent. of the voting rights.

There are not in existence any current mandatory takeover bids in relation to the Company.

### 11.2 *Squeeze out*

Section 160 of the Law provides that if, within certain time limits, an offer is made for the issued shares of the Company, the offeror is entitled to acquire compulsorily any remaining shares if it has, by virtue of acceptances of the offer, acquired or unconditionally contracted

to acquire not less than 90 per cent. in value of the shares to which the offer relates and in a case where the shares to which the offer relates are voting shares, not less than 90 per cent., of the voting rights carried by those shares. The offeror would effect the compulsory acquisition by sending a notice to outstanding shareholders telling them that it will compulsorily acquire their shares and then, the offerer shall, unless on an application made to the court by a dissenting shareholder within one month from the date on which the notice was given the court thinks fit to order otherwise, pay the consideration for the shares to the Company to hold on trust for the outstanding shareholders. The consideration offered to shareholders whose shares are compulsorily acquired under the Law must, in general, be the same as the consideration available under the takeover offer.

## 12. Taxation

The following section is a summary guide only to certain aspects of tax in the UK and the Isle of Man, based on current law and published practice, both of which may change at any time (possibly with retrospective effect). This is not a complete analysis of all the potential effects of acquiring, holding and disposing of Ordinary Shares, nor will it relate to the specific tax position of all Shareholders in all jurisdictions. If you are in any doubt as to your tax position, or if you are subject to tax in a jurisdiction other than those discussed below, you should consult your own professional advisers.

### 12.1 UK Taxation

#### *The Company*

The policy of the Group will be to continue to manage and operate each of the Group companies in a way that is intended to ensure that it has a taxable presence only in the jurisdiction in which it has a registered business presence and that it has no taxable permanent establishments or other taxable presence in any other jurisdiction. It is the intention of the Directors to continue to conduct the affairs of the Company such that the central management and control of the Company is exercised in the Isle of Man.

#### 12.1.1 UK Shareholders

##### *Taxation of dividends*

Shareholders who are resident in the United Kingdom for tax purposes may, depending on their circumstances, be liable to UK income tax or corporation tax in respect of dividends paid by the Company in relation to Ordinary Shares whether directly or by way of reinvestment of income.

For Shareholders who are individuals and who are not taxable on the remittance basis, income tax will generally be charged at the rate of 10 per cent. or 32.5 per cent. or 42.5 per cent. (the 32.5 per cent. tax rate applies if the individual is a higher rate tax payer and the 42.5 per cent. tax rate applies to the extent that the individual has taxable income in excess of £150,000 per annum).

Where a taxpayer has other taxable income of less than £150,000, the receipt of a dividend may result in his total taxable income exceeding the £150,000 threshold. In that event, the dividend will be taxed partly at 32.5 per cent. (up to the £150,000 income threshold) and partly at 42.5 per cent. (on the excess above the £150,000 threshold). Any dividend on Ordinary Shares will ordinarily carry a tax credit equal to one ninth of the dividend, provided that the individual's interest in the Ordinary Shares is less than 10 per cent. For Shareholders who are higher rate taxpayers (taxed at 32.5 per cent.) entitled to a tax credit this gives an effective tax rate of 25 per cent. of the net cash dividend. For Shareholders with taxable income in excess of £150,000 per annum (taxed at 42.5 per cent.) entitled to a tax credit this gives an effective tax rate of approximately 36.1 per cent. of the net cash dividend.

Individuals who are taxable on the remittance basis should seek their own advice in relation to the tax treatment of dividends paid by the Company.

For corporate Shareholders, the tax treatment of dividends paid by the Company in respect of Ordinary Shares will depend upon the size of the recipient company. Any corporate Shareholder which is not small will generally be exempt from corporation tax on the dividend.

Certain small companies will be taxable at their marginal rate of corporation tax on all dividends received from the Company. A tax credit should also be given for any underlying tax (that is, tax paid on the profits out of which the dividend was paid), provided the relevant corporate Shareholder controls at least 10 per cent. of the voting rights in the Company and certain detailed conditions are satisfied. Corporate Shareholders should seek their own separate advice as to whether they are a small company for these purposes.

#### *Taxation of chargeable gains*

In the case of those Shareholders who are individuals or otherwise not within the charge to corporation tax, capital gains tax may be payable on any chargeable gain arising upon a disposal of Ordinary Shares. Any such gain may be subject to tax at a rate of 28 per cent. for individuals with taxable income in excess of £35,000 (and, therefore, liable to income tax at the higher or additional rate) subject to the availability of relevant reliefs and exemptions. Individual Shareholders are not subject to tax on chargeable gains up to the annual exempt amount. For the 2012/2013 tax year this is £10,600.

Shareholders within the charge to UK corporation tax may be subject to corporation tax on chargeable gains in respect of any gain arising on a disposal of Ordinary Shares. Indexation allowance may apply to reduce any chargeable gain arising on a disposal of the Ordinary Shares but will not create or increase an allowable loss.

#### *Close company*

Shareholders who are resident or ordinarily resident for tax purposes in the United Kingdom who hold more than 10 per cent. of the Company (either alone or taking into account the interests of persons connected with them), should seek their own separate advice on the basis that in certain circumstances (i.e. if the Company is or becomes a close company for UK tax purposes) a proportion of gains made by the Company could be attributable to them under section 13 of the Taxation of the Chargeable Gains Act 1992.

#### *Inheritance taxation*

On the basis of the assumption in paragraph 12.1.2 below, the Ordinary Shares will be assets situated outside the United Kingdom for the purposes of United Kingdom inheritance tax. Ordinary Shares owned by a UK domiciled individual may (subject to certain exemptions and reliefs) be subject to UK inheritance tax on the death of the individual or, in certain circumstances, if the Ordinary Shares are the subject of a gift or other transfer of value by the individual. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. UK inheritance tax is not generally chargeable on gifts to individuals made more than seven years before the death of the donor. Holders should consult an appropriate professional adviser if they make a gift or transfer of value of any kind to, or intend to hold Ordinary Shares through, trust arrangements. Holders should also seek professional advice in a situation where there is a potential for a double charge to UK inheritance tax and an equivalent tax in another jurisdiction.

#### **12.1.2 Stamp Duty and Stamp Duty Reserve Tax**

The following comments are intended as a guide to the general UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT") position and do not relate to persons such as market makers, brokers, dealers, intermediaries and persons connected with depository arrangements or clearance services to whom special rules apply. UK Stamp Duty (at the

rate of 0.5 per cent., rounded up where necessary to the next £5, of the amount of the value of the consideration for the transfer) is payable on any instrument of transfer of Ordinary Shares executed within, or that relates to any matter or thing to be done in the United Kingdom. In practice, as the register of members of the Company is maintained outside the UK, no duty is ordinarily payable.

An exemption from stamp duty is available where the amount or value of the consideration is £1,000 or less, provided that it is certified on the instrument of transfer that the transaction does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

### 12.1.3 *Isle of Man Taxation*

The Isle of Man Government levies both indirect and direct taxes, including:

- Value added tax, customs and excise duties and vehicle license duty, and
- Income tax, applicable to both individuals and companies.

The Isle of Man does not operate any capital gains tax, stamp duty, stamp duty land tax or inheritance taxes.

#### *The Company*

Following its redomiciliation process, the Company is resident for taxation purposes in the Isle of Man by virtue of its incorporation. With effect from 6 April 2006, the Isle of Man introduced a zero rate of tax for all companies except those which derive their income from banking business and land and property in the Isle of Man, or who elect to pay income tax at a rate of 10 per cent. (the “zero/10 regime”).

The Company and other Isle of Man resident Subsidiaries do not undertake any activities which fall within the 10 per cent. tax rate nor have (or will) any of these entities elected to pay tax at the 10 per cent. rate and therefore pay tax at zero per cent.

In order to prevent Isle of Man companies owned by Isle of Man resident individuals rolling up profits at the zero per cent. rate, the Isle of Man introduced the Distributable Profits Charge (“DPC”) at the same time as the zero/10 regime. The DPC was replaced by the Attribution Regime for Individuals (“ARI”) for accounting periods commencing on or after 6 April 2008. However, the ARI has been abolished with effect for accounting periods commencing after 6 April 2012.

#### *Shareholders*

Holders of Ordinary Shares resident in the Isle of Man will, depending on their particular circumstances, be liable to Isle of Man income tax on dividends received from the Company.

An Isle of Man company has no requirement to make any deduction or withholding of tax on dividends paid to Shareholders resident outside of the Isle of Man. Any dividends paid from income subject to tax at 10 per cent. will carry a 10 per cent. tax credit for Isle of Man income tax purposes. This tax credit will not be refundable where the recipient is not an Isle of Man resident. Therefore, UK-resident Shareholders will not incur any liability to Isle of Man non-resident income tax in relation to dividends paid on Ordinary Shares held by them and the Company will not become liable to make any withholding on payments made to a non-resident of the Isle of Man.

## 13. Material contracts

The following are the only contracts (not being contracts entered into in the ordinary course of business) which have been entered into by members of the Group in the two years immediately preceding the date of this document and which are material or which have been entered into at any time by any member of the Group and which contain any provision under which any member of



the Group has any obligation or entitlement which is, or may be, material to the Group as at the date of this document:

- 13.1 an introduction agreement between the Company and Canaccord Genuity entered into on 28 June 2012 pursuant to which the Company appointed Canaccord Genuity as sponsor for the purposes of Admission and to carry out the duties of a sponsor as provided by Chapter 8 of the Listing Rules. The agreement contains customary warranties and indemnities given by the Company to Canaccord Genuity. In consideration for the provision of its services to the Company in connection with Admission, the Company has agreed to pay Canaccord Genuity a fee of £450,000;
- 13.2 an agreement between Brickington and the Company dated 28 June 2012 pursuant to which Brickington has agreed that: (i) it will vote its Ordinary Shares in such a manner so as to procure that each member of the Group is capable of carrying in its business independently of Brickington and its associates; and (ii) it will not exercise any of the voting rights attaching to its Ordinary Shares in such a manner so as to procure any amendment to the Articles which would be inconsistent with, undermine or breach any of the provisions of the Relationship Agreement. Brickington has also agreed that all transactions and relationships between it (or any of its associates) and the Company will be on arms' length terms. For so long as Brickington holds at least 30 per cent. of the issued Ordinary Shares, it shall have the right to appoint two non-executive directors to the Board. Brickington has also given certain non-compete undertakings to the Company including in relation to B2B real money software;
- 13.3 a subscription and shareholders agreement (the "**Gauselmann SSA**") between Playtech Services (Cyprus) Limited (a wholly owned indirect subsidiary of the Company) and Merkur Interactive GmbH ("**Gauselmann**") dated 29 December 2011 (as varied by a transfer and novation deed dated 9 February 2012 pursuant to which Playtech Services (Cyprus) Limited novated its rights and obligations under the Gauselmann SSA to another wholly owned indirect subsidiary of the Company, PT Turnkey EUServices Limited ("**PT Services**")), pursuant to which Gauselmann and PT Services agreed to subscribe for 50.01 per cent. and 49.99 per cent. respectively of the shares in Modrino Holdings Limited, a company incorporated in Cyprus (the "**Gauselmann JVCo**") in order to establish and operate a business engaged in regulated online gambling products and services in Germany so as to take advantage of the expected changes to German gambling regulations.

In connection with the Gauselmann SSA, Playtech Software agreed to provide certain software and services to the Gauselmann JVCo under a separate arms' length licensing agreement, and Gauselmann has granted the Gauselmann JVCo a perpetual royalty free licence to exclusively use certain Gauselmann and Merkur brands for the purposes of online gambling in return for the payment of certain licence fees. The licence can be terminated in certain circumstances following Gauselmann or its associates ceasing to be a shareholder in the Gauselmann JVCo.

Under the terms of the Gauselmann SSA, following receipt of the relevant regulatory licences in Germany, PT Services will inject into the Gauselmann JVCo certain marketing knowhow and personnel and Gauselmann will inject certain infrastructure and business relationships.

The overall management and control of the Gauselmann JVCo is vested in its board of directors. The business of the Gauselmann JVCo is to be operated in accordance with an operating budget agreed from time to time by its board of directors. Each shareholder is entitled to appoint one director to the board for every 17 per cent. of the shares held by it, so that the initial board of directors consists of four persons, two each from PT Services and Gauselmann. Save in certain limited circumstances, all actions and resolutions at general meetings of the Gauselmann JVCo require the approval of persons holding 66.66 per cent. of the issued shares in the Gauselmann JVCo, and all actions and resolutions at board meetings of the Gauselmann JVCo shall be passed by a majority vote of the board of the Gauselmann JVCo.

Under the Gauselmann SSA, PT Services and Gauselmann have agreed to provide up to €10.7 million each by way of shareholder loans during the 18 month period following receipt of the relevant regulatory licences although the parties have agreed subsequently, in principle,

to increase this commitment to €20 million each subject to an assessment of the overall requirement of the JVCo at the relevant time. All shareholder loans bear interest at the rate of 3-month EURIBOR plus 3 per cent. per annum. The Gauselmann JVCo is intended to be self-financing after this 18 month period.

The Gauselmann SSA contains a prohibition on the transfer of shares in the Gauselmann JVCo prior to the seventh anniversary of receipt of relevant regulatory licences save in the event of a sale of the entire issued share capital of the Gauselmann JVCo or a listing. Any proposed transfer thereafter shall be subject to customary pre-emption provisions on transfer which allow one shareholder the opportunity to acquire the shares of the other shareholder (“proposed seller”) in the event that the proposed seller wishes to dispose of its interests to a *bona fide* third party, as well as tag along rights requiring that it be entitled to sell shares as part of the proposed transfer. The Agreement also contains customary drag along rights in the event that holder(s) of more than 75 per cent. of the share capital wish to sell their shares in the Gauselmann JVCo to a third party.

Furthermore, in the event that: (i) following the seventh anniversary of receipt of relevant regulatory licences, a shareholder deadlock situation arises; or (ii) a competitor of PT Services or Gauselmann becomes the beneficial controlling shareholder of the other, the Gauselmann SSA contains a “shoot out” mechanism whereby (on the occurrence of (i) above) either shareholder or (on the occurrence of (ii) above) the shareholder which has not been subject to a beneficial change of control (the “initiating shareholder”) shall become entitled to serve a notice (“shoot out notice”) stating a price at which it is willing to buy-out the shares and shareholder loans (if any) of, or have its shares and shareholder loans (if any) bought out by, the other shareholder (the “receiving shareholder”). On receipt of a shoot out notice, the receiving shareholder is entitled to institute a fair market valuation procedure to the extent it wishes to challenge the price set out in the shoot out notice. Within a prescribed period following receipt of a shoot out notice or, where relevant, completion of the fair market value process, the receiving shareholder must elect to either buy-out the initiating shareholder or be bought out by the initiating shareholder at the price set out in the shoot out notice (as adjusted (where relevant) pursuant to the fair market valuation procedure and to take account of their relative percentage shareholdings held in the Company).

In the event of certain material events of default by PT Services or Gauselmann, the non-defaulting shareholder may initiate the shoot procedure above but on terms whereby a 20 per cent. discount applies where the defaulting shareholder is bought-out and a 20 per cent. premium applies where the non-defaulting shareholder is bought out.

The Gauselmann SSA contains restrictive covenants from PT Services and Gauselmann to protect the interests of the Gauselmann JVCo.

- 13.4 a subscription and shareholders agreement (the “**Peermont SSA**”), pursuant to which Playtech Services (Cyprus) Limited, a wholly owned indirect subsidiary of the Company, and Peermont Global (Proprietary) Limited (“**Peermont**”) agreed to each subscribe for 50 per cent. of the shares in a new company incorporated under the laws of the Republic of South Africa with the name Vengatrim (Proprietary) Limited (the “**Peermont JVCo**”) in order to establish and operate an online bookmaker’s business and once online casinos are legalised by the relevant South African licensing authorities, an online casino business.

Under the Peermont SSA, Playtech has agreed to grant the Peermont JVCo a licence to use its online casino software and to render a package of turnkey services, including affiliate network management, online media buying, player acquisition and retention, customer service, data mining, fraud detection and prevention and player value optimisation, in return for agreed fees. Peermont has agreed to provide financial, legal, IT, HR, compliance, marketing and other services in return for agreed fees.

The overall management and control of the Peermont JVCo is vested in its board of directors. The business of the Peermont JVCo shall be operated in accordance with an operating budget agreed from time to time by its board of directors. Each shareholder is entitled to appoint one

director to the board for every 20 per cent. of the shares held by it, so that the initial board of directors consists of four persons, two each from Playtech and Peermont. The chair of the Peermont JVCo board rotates between the shareholders on an annual basis and has no second or casting vote.

The Peermont JVCo is intended to be self-financing, however Playtech and Peermont have agreed that should the Peermont JVCo require additional funding this will be provided by them in proportion to their shareholding by way of shareholder loans. It has been agreed in principle/it is anticipated, that each of Playtech and Peermont will provide up to €5 million by way of such loans. If either Playtech or Peermont fails to provide the necessary financing, the other party shall be entitled, but not obligated, to cover the shortfall (a "Shortfall Loan"). All shareholder loans will bear interest at the prime rate of First National Bank in South Africa and any Shortfall Loans will attract interest at five per cent. above such prime rate. Shortfall Loans shall at the election of the majority provider of such loans be capitalised in accordance with a prescribed formula.

The Peermont SSA contains customary pre-emption provisions on transfer of shares which allow one shareholder the opportunity to acquire the shares and outstanding shareholder loans (if any) of the other shareholder ("proposed seller") in the event that the proposed seller wishes to dispose of its interests to a *bona fide* third party or to the remaining shareholders, as well as drag-along rights in the event that shareholder(s) holding more than 75 per cent. of the share capital wish to sell their shares in the Peermont JVCo to a third party. The Peermont SSA also contains provisions requiring the shareholders to dispose of shares (if required) to comply with South African legislative requirements relating to the holding of equity by 'black people' (as defined in such legislation) or deeming a sale in the event that either of Playtech or Peermont enters into any insolvency proceeding or is found unsuitable to hold a direct or indirect interest in the Company.

- 13.5 a sale and purchase agreement dated 23 January 2012 between Mark Lee, Philip Slater, William Slater and Matthew Williams (as sellers) and Technology Trading in relation to the acquisition of the entire issued share capital of Geneity, a UK based provider of e-gaming software products focused primarily on the sportsbook and lottery sectors, for a total cash consideration of up to £15 million, comprising initial consideration of £11 million (subject to a working capital adjustment) and deferred consideration of up to £4 million. £7 million of the initial consideration was paid on completion and the remaining £4 million has been placed in retention for a period of 30 months from completion and is being retained, amongst other things, against any claims relating to the customary warranties and indemnities given by the sellers in favour of TTIOM under the sale and purchase agreement. The £4 million of deferred consideration will be payable on or prior to the third anniversary of completion dependent on certain agreed deliverables being provided by Geneity;
- 13.6 a sale and purchase agreement dated 15 December 2011 between Chris Ash and others (as sellers) and TTIOM (as buyer) in relation to the acquisition of the entire issued share capital of Ash Gaming for a total cash consideration of up to £23 million, comprising initial consideration of £15.5 million paid on completion and deferred consideration of up to £7.5 million which has been placed in retention. Up to £6 million of the deferred consideration is due to be paid to the sellers as to 25 per cent., 25 per cent. and 50 per cent. on the first, second and third anniversaries of completion respectively, and is being retained, amongst other things, against any claims relating to the customary warranties and indemnities given by the sellers in favour of TTIOM under the sale and purchase agreement. The remaining £1.5 million of deferred consideration will be payable on or around the third anniversary of the date of completion dependent on Ash Gaming delivering an agreed number of new games prior to such date;
- 13.7 a placing agreement between the Company and Canaccord Genuity entered into on 23 November 2011 whereby Canaccord Genuity agreed to procure subscribers for 46,511,627 new Ordinary Shares at 215p per Ordinary Share. Under the placing agreement, the Company agreed to pay Canaccord Genuity a fee of £1.45 million and any applicable VAT, in

connection with its obligations under the placing agreement. The placing agreement contained customary representations and warranties and indemnities given by the Company to Canaccord Genuity;

- 13.8 a sale and purchase agreement dated 15 July 2011 between Christian Rajter and others (as sellers) and Playtech Software (as buyer) as amended by a deed of variation dated 10 May 2012 in relation to the acquisition of the entire issued share capital of Mobenga AB for a total cash consideration of up to €23.8 million, comprising initial consideration of €8 million (subject to a working capital adjustment) and additional consideration of up to €15.8 million. €6.4 million of the initial consideration was paid on completion which took place on 31 August 2011 and the remaining €1.6 million has been placed in retention subject to a phased release over a 24 month period from completion and is being retained against any claims relating to the customary warranties and indemnities given by the sellers in favour of Playtech Software under the sale and purchase agreement. The sellers will receive: (i) €830,739 for each completed launch of a new project between completion and 31 December 2013 up to a maximum amount of €10,800,000; (ii) €2,000,000 on the completed launch of a customer on the Group's sportsbook before 31 December 2013; and (iii) €3,000,000 following the successful development of a mobile hub platform for the Group;
- 13.9 a sale and purchase agreement dated 10 March 2011 (and subsequently amended by an agreement dated 16 April 2012) between Worldwide Online Enterprises Limited (as seller) and the Company (as buyer) in relation to the acquisition of the entire issued share capital of PT Turnkey Services, the owner of a group of companies (together with PTTS, the "PTTS Group") carrying out a range of complementary B2B online gaming service operations that provide support to the Group's licensees, for an initial cash consideration totalling approximately €121 million (after a working capital adjustment). The agreement contains customary warranties and indemnities given by the seller in favour of the Company. Additional consideration based on the financial performance of the PTTS Group in the period from completion to 31 December 2014 will become payable in cash, to the extent that seven times the adjusted EBITDA of the PTTS Group for 2014 exceeds €140 million. The additional consideration is capped at €140 million and will be paid in four broadly equal non-interest bearing instalments over the 18 month period following the determination of the additional consideration. The right to receive additional consideration will be accelerated in certain limited circumstances including, subject to certain conditions, where the PTTS Group's total adjusted EBITDA for any two consecutive quarters prior to 30 June 2014 is at least €20 million (thereby showing an annualised adjusted EBITDA of €40 million) subject to the adjusted EBITDA for the first relevant quarter being at least €8 million, in which case the maximum additional consideration will become payable. The sale and purchase agreement contains agreed principles for the allocation of revenues where both software and non-software support services are provided to a customer of the Group; and
- 13.10 a framework shareholders' agreement dated 19 October 2008 (as subsequently amended on 29 December 2008, 21 December 2010 and 13 May 2011) (the "Framework Agreement") between WH Ltd, a wholly owned subsidiary of William Hill PLC, Genuity, Playtech Software, WHG Trading Limited ("WHO1") and WHG (International) Limited ("WHO2") (WHO1 and WHO2 together being "WHOCos"), which governs and regulates the shareholder and related arrangements in respect of William Hill Online, pursuant to separate arms' length agreements, licenses certain software and provides certain services.

Pursuant to the Framework Agreement, the share capital of the WHOCos was allotted such that WH Ltd owned 71 per cent. and Genuity owned 29 per cent. of the issued share capital of the WHOCos.

In consideration for the allotment of these shareholdings, Genuity agreed to contribute certain online gaming businesses, comprising an affiliate marketing business, customer services operations and related gaming brands, websites, assets and contracts together providing vertically integrated services to the European online gaming marketplace, which it had acquired immediately prior to such contribution from third parties including companies ultimately

owned by trusts in which Teddy Sagi was beneficially interested for a total consideration of up to US\$250 million in cash and WH Ltd contributed (or agreed subsequently following an integration strategy to contribute) assets relating to its remote gambling business and services in connection therewith.

As is customary in an arrangement of this nature and to provide governance rights to reflect the parties' shareholdings in the WHOCos, the parties agreed certain operational provisions, including, among other things:

- (a) WH Ltd agreed to conduct its remote gambling business through the medium of WHO;
- (b) WH Ltd may nominate up to three directors to the boards of each company within WHO and Genuity may nominate two directors to the boards of each such company;
- (c) Genuity was afforded certain information rights to receive financial and commercial information on the trading and progress of WHO;
- (d) WH Ltd and Genuity undertook that WHO would not undertake certain material actions without the consent of both WH Ltd and Genuity, including:
  - (i) creating encumbrances over the assets of WHO or entry into any financial bonds or guarantees (other than pursuant to ordinary course trading);
  - (ii) save for certain exceptions, entry into any acquisition or disposal or series of acquisitions or disposals in any one year exceeding £10 million;
  - (iii) entry into any borrowings or finance obligations;
  - (iv) changing the constitutional documents of a member of WHO;
  - (v) the issue or purchase shares in any member of WHO;
  - (vi) the declaration of a dividend by a member of WHO other than in accordance with an agreed mechanism described below;
  - (vii) altering the share rights of any of the shares in the WHOCos; or
  - (viii) permitting the transfer the shares held in the WHOCos by Genuity or WH Ltd.

WH Ltd and Genuity agreed that dividends of WHO would be declared and paid (subject to certain exceptions) on a regular quarterly basis and would be split such that each of WH Ltd and Genuity would receive the profits of WHO in proportion to their shareholdings in the WHOCos.

Genuity agreed to allow the William Hill Group's sportsbook business and its online arcade business to remain outside of WHO for a specified period following completion. If the businesses were not transferred to WHO during this period, Genuity's shareholding in the WHOCos would be increased (up to a maximum of 32 per cent.) to compensate it for the non-transfer. Both businesses were transferred into WHO during the specified period. However, if at any time following the transfer of the businesses set out above to WHO, WH Ltd requires the transfer of the businesses to a UK incorporated company of WHO then Genuity's shareholding in the WHOCos would be increased (up to a maximum of 32 per cent.) to compensate it for such transfer.

Pursuant to the Framework Agreement, Genuity granted WH Ltd a call option such that it may (at its discretion) in either 2013 or 2015 acquire Genuity's shares in the WHOCos and the trademarks and domain names licensed to the WHOCos by Genuity for fair market value. The fair market value is determined following a prescribed procedure involving the appointment of valuers by each of Genuity and WH Ltd and an independent valuer appointed jointly by Genuity and WH Ltd. Genuity may elect to receive a proportion of its consideration in shares in William Hill PLC in substitution for cash (subject to certain exceptions) provided that any such shares to be issued to Genuity shall not exceed 9.99 per cent. of William Hill PLC's issued share capital immediately following such issue, and provided further that the receipt of such shares does not result in Genuity or its associates owning more than 20 per cent. of the then issued share capital of William Hill PLC. If WH Ltd does not elect to

exercise its option in either 2013 or 2015, Genuity has been granted an “unwind right” which permits Genuity to transfer its shareholdings in the WHOCos to a third party provided that before it does so WH Ltd has a matching right in respect of such sale which, if exercised, compels Genuity to transfer its shares to WH Ltd.

Genuity and WH Ltd also provided to each other and to the WHOCos, title, trading and financial warranty and indemnity protection customary with an arms’ length sale or transfer of shares and assets in connection with the shares and assets that each party contributed to WHO. These warranties were subject to customary limitations.

Genuity and WH Ltd also agreed to provide non-compete protections broadly customary in a transaction of this type to the other to ensure that the interests of either party in WHO were not materially prejudiced by the actions of the other shareholder.

Playtech Software undertook to indemnify and guarantee the performance of Genuity under the provisions of the Framework Agreement.

Pursuant to the terms of the Framework Agreement, Genuity consented to the transfer in January 2011 of the William Hill Group’s telephone betting business to WHO on terms whereby the profits/losses of the telephone business are ringfenced in a separate division for the sole account of WH Ltd, with the exception of an annual support fee of £1 million per annum payable to Playtech Software.

#### 14. Related party transactions

14.1 On 11 June 2012, GTS entered into two 10 year leases for approximately 10,000 sq feet of modern, fully fitted-out office space and nine furnished apartments at Jamestown Road, Camden, London with Anise Developments Limited and Anise Residential Limited respectively at an aggregate rent of £750,000 per annum. Anise Developments Limited and Anise Residential Limited are both wholly owned subsidiaries of a trust, one of the ultimate beneficiaries of which is Teddy Sagi, one of the Group’s founders.

14.2 On 11 June 2012, Playtech Software entered into a software licence and services agreement with Skywind pursuant to the terms of which the Group was granted licences for certain social gaming and real money software (together with the right to certain ancillary development and social marketing services from Skywind) for use in its core B2B business models and any future B2C business models adopted by the Group.

The real money gaming software (excluding mobile) and comprising a platform, rummy and poker is being licensed on a perpetual basis (the “**Perpetual Software**”) and the remainder of the software, principally social gaming and real money mobile software, is being licensed for an initial three year term (the “**Non-Perpetual Software**”).

The overall licence fee paid by the Group will be €6 million per annum plus a royalty fee of 20 per cent. of revenue generated through the use of the licensed software in social gaming activity during the term of the licence of the Non-Perpetual Software. No royalties are to be paid based on revenues generated from the use of the real money software. The licence of the real money software is exclusive on a forward looking basis for B2B for so long as the Non-Perpetual Software is licensed by Playtech. Furthermore, the Supplier has agreed not to license the social gaming software to B2B competitors of the Company during any period where the Group is licensing such software.

The agreement contains a mechanism for the extension of the licence of the Non-Perpetual Software for up to a further three years following the expiry of the initial three year period at no additional cost and on terms whereby exclusivity is preserved. The obligations of Skywind under the software licence agreement are guaranteed by Brickington (which, as is the case for Skywind, is a company owned by a trust, one of the ultimate beneficiaries of which is Teddy Sagi). Under the software licence, Playtech Software has granted Skywind the right to use the Group’s games content from its games library in Skywind’s B2C social gaming business on a royalty free basis (subject to consent, where relevant, of third party brand owners and the payment of certain charges in respect of branded content). The provision of

such games content shall cease at the same time as the licence for the Non-Perpetual Software expires. Playtech Software has further committed, subject to entry into definitive legal documentation, to licence to Skywind its gaming software for use in any future B2C real money operation of Skywind on arms' length terms consistent with those generally offered to the Group's licensees.

14.3 On 11 June 2012, Teddy Sagi entered into an advisory services agreement with the Company pursuant to which Mr. Sagi will, as and when requested to do so by the Company, provide advisory services to the Company for a nominal fee of €1 per annum until either Mr. Sagi ceases to be interested (whether legally or beneficially) in the Ordinary Shares or either party terminates the agreement following its fifth anniversary, whichever is the earlier.

14.4 Other than those matters referred to in paragraphs 13.2, 13.9, 14.1, 14.2 and 14.3 above and in Note 26 of the Historical Financial Information of the Group set out in Part 4B of this document, no member of the Group has entered into any related party transaction (which, for these purposes, are those set out in the standards adopted according Regulation (EC) No. 1606/2002) since 1 January 2009 and upto the date of the document.

Annex III  
Para 3.1  
LR 6.1.16

## 15. Working capital

The Company is of the opinion that, taking into account the financing facilities available, the working capital available to the Group is sufficient for its present requirements, that is, for at least the period of twelve months from the date of publication of this document.

Annex I  
Para 20.8

## 16. Litigation

There are no and have not, in the twelve months prior to the date of this document, been any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had in the recent past, significant effects on the Group's financial position or profitability.

Annex I  
Para 20.9

## 17. General

17.1 Save as set out in this paragraph 17.1, there have been no significant changes in the financial or trading position of the Group since 31 December 2011, the date to which the last audited accounts of the Group were prepared.

Annex I  
Paras 2.1,  
20.4.1

On 24 January 2012, the Playtech Group acquired the entire issued share capital of Geneity for an initial cash consideration of £11 million (subject to a working capital adjustment), of which £4 million will be held in escrow for 30 months. A further £4 million in cash will be payable subject to certain agreed deliverables to be provided by Geneity. Further details of this acquisition are set out in paragraph 13.5 of this Part 6.

Annex I  
Para 23.1  
Annex III  
Para 10.3

On 17 April 2012, Playtech announced that it had agreed with Worldwide Online Enterprises Limited ("WOE") to aggregate the outstanding balance of the initial consideration payable to WOE for the acquisition of PTTS into one payment of €76 million (the "Discounted Outstanding Initial Consideration") which reflected a discount to the net present value of that outstanding balance. Playtech financed substantially all of the payment of the Discounted Outstanding Initial Consideration from its available banking facilities, as described below. This Discounted Outstanding Initial Consideration will not affect any amounts which may become payable under the earn-out provisions agreed at the time of the acquisition of PTTS. Further details of this acquisition are set out in paragraph 13.9 of this Part 6.

In February 2012 the Group repaid its entire outstanding loan balance of €27.5 million as at 31 December 2011, out of existing cash resources, restoring undrawn committed borrowing facilities to €110 million. Subsequently, the Group drew down €75 million of borrowing facilities in order to fund the Discounted Outstanding Initial Consideration.

17.2 BDO LLP, chartered accountants of 55 Baker Street, London W1U 7EU have been the auditors of the Company for the three financial years ended 31 December 2011 and have given unqualified audit reports on the statutory accounts of the Company for those financial years.

Annex III  
Para 10.1

- 17.3 BDO LLP have given and not withdrawn their written consent to the inclusion in this document of their reports in Parts 4A, 4C and 4E in the form and context in which they are included. BDO LLP have no material interest in the Company.
- 17.4 Canaccord Genuity Limited is registered in England and Wales under number 1774003 and its registered office is at 88 Wood Street, London EC2V 7QR. Canaccord Genuity Limited is regulated by the Financial Services Authority and is acting in the capacity as sponsor and broker to the Company.
- 17.5 Canaccord Genuity Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references to it in the form and context in which they appear.
- 17.6 Save as otherwise disclosed in this document there are no patents or other intellectual property rights, licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Group's business or profitability.
- 17.7 Where information has been sourced from a third party as specifically noted in this document, the Company confirms that this information has been accurately reproduced and that, as far as the Company is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Unless otherwise stated, such information has not been audited.
- 17.8 The ISIN for the Ordinary Shares is IM00B7S9G985.

#### **18. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any day (except Saturdays, Sundays, bank and public holidays) free of charge to the public at the offices of the Company and at the offices of Berwin Leighton Paisner LLP, Adelaide House, London Bridge, London EC4R 9HA from the date of this document to the date one month from the date of Admission:

- 18.1 the memorandum of association of the Company and the Articles;
- 18.2 the reports prepared by BDO LLP set out in Parts 4A, 4C and 4E of this document; and
- 18.3 the audited financial information referred to in paragraph 17.2 above.

**28 June 2012**



## DEFINITIONS

In this document the following expressions have the following meanings, unless the context requires otherwise:

“AAMS”	the Italian Amministrazione Autonoma dei Monopoli di Stato;
“Act”	the UK Companies Act 2006 (as amended);
“Adjusted EBITDA”	EBITDA plus income from associate and before charging employee stock option expenses, decline in fair value of available for sale investments, one-off legal costs relating to the litigation with the William Hill Group and professional expenses on acquisitions;
“Adjusted Operating expenses”	represent operating expenses before charging depreciation and amortisation, employee stock options, decline in fair value of available-for-sale investments, one-off legal costs relating to the litigation with the William Hill Group and professional expenses on acquisitions;
“Admission”	admission of the Ordinary Shares to the premium listing segment of the official list of the UKLA and to trading on the Main Market;
“AIM”	AIM, a market operated by the London Stock Exchange;
“AIM IPO”	admission of the Company’s then issued Ordinary Shares to trading on AIM on 28 March 2006;
“AMLATFA”	the Malaysian Anti-Money Laundering and Anti-Terrorism Financing Act 2001;
“Articles”	the articles of association of the Company as at the date of this document;
“Ash Gaming”	Ash Gaming Limited, a subsidiary of the Company;
“BDO”	BDO LLP, auditors and reporting accountant to the Company;
“Board” or “Directors”	the board of directors of the Company from time to time which, as at Admission, will comprise the Executive Directors and the Non-executive Directors;
“Brickington”	Brickington Trading Limited, a company incorporated in the BVI and a wholly owned subsidiary of a trust, one of the ultimate beneficiaries of which is Teddy Sagi, one of the Group’s founders;
“BVI”	the British Virgin Islands;
“BVI Registry”	the Registry of Corporate Affairs in the BVI;
“Canaccord Genuity”	Canaccord Genuity Limited of 88 Wood Street, London EC2V 7QR;
“CGHA”	the Malaysian Common Gaming Houses Act 1953;
“City Code”	the City Code on Takeovers and Mergers issued by the Panel on Takeovers and Mergers in the United Kingdom and, from time to time, any successor or replacement body thereof;
“Company” or “Playtech”	Playtech Limited (registered in the Isle of Man under company number 008505V) whose registered office address is at 2nd Floor, St George’s Court, Upper Church Street, Douglas, Isle of Man IM1 1EE;
“Company Share Option Plan” or “CSOP”	the Group’s HMRC approved share option plan which was approved by HMRC in August 2010, a summary of the principal terms of which is set out in paragraph 6.2 of Part 6 of this document;

“CREST”	the computerised system for the paperless settlement of trades and the holding of shares in uncertificated form, operated by CRESTCo Limited;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755);
“DBGGA”	the Dutch Betting and Gaming Act 1964;
“DCC”	the Dutch Criminal Code;
“DOJ”	US Department of Justice;
“DTR’s” or “Disclosure and Transparency Rules”	the rules relating to the disclosure of information made in accordance with Section 73A(3) of FSMA;
“EBITDA”	earnings before interest, taxation, depreciation and amortisation computed as operating profit for an accounting period plus depreciation and amortisation, excluding amortisation of intangibles on associate and acquisitions;
“ECJ”	The European Court of Justice;
“EdGE™”	the enhanced gaming engine being the GTS open-platform software;
“EU”	European Union;
“Euro” or “€”	means the currency of the member states of the EU that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome in 1957), as amended;
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST;
“Euro Zone”	means the member states that have adopted the Euro as their common currency and sole legal tender;
“Executive Directors”	the executive directors of the Company, namely, Mor Weizer and David Mathewson;
“Financial Services Authority” or “FSA”	the Financial Services Authority of the United Kingdom;
“FSMA”	the UK Financial Services and Markets Act 2000, as amended;
“Gambling Act”	the UK Gambling Act 2005;
“Gaming Law”	the Russian Federal Law No. 244-FZ “ <i>On the State Regulation of Activities Associated with the Organisation and Conduction of Gambling and on Amending Specific Legislative Acts of the Russian Federation</i> ” of 29 December 2006;
“Gauselmann”	Merkur Interactive GmbH (together with, where the context requires, its group companies);
“GlüStV”	the <i>Glücksspielstaatsvertrag</i> , Germany’s Interstate Treaty on Gambling;
“GTS” or “Gaming Technology Solutions”	Gaming Technology Solutions Limited, a subsidiary of the Company;
“GTS Group”	GTS and its subsidiaries;
“Geneity”	Geneity Limited, a subsidiary of the Company;
“Genuity”	Genuity Services Limited, a subsidiary of the Company, which holds the 29 per cent. shareholding in WHO;

“Gross Income”	total revenues from Licensees including fees charged for services rendered, plus share of profits from the Group’s shareholding in WHO, a key measure adopted by the Group to assess the performance of its business;
“Group” or “Playtech Group”	the Company and its subsidiaries;
“IFRS”	International Financial Reporting Standards (including International Accounting Standards);
“IGS”	Intelligent Gaming Systems Limited, a subsidiary of the Company;
“IMS”	the Playtech software platform information management system;
“Interstate Treaty”	Germany Interstate Treaty, established in 2008;
“IPO”	the admission of the Company’s Ordinary Shares to trading on AIM which became effective on 28 March 2006;
“Isle of Man CREST Regulations”	Uncertificated Securities Regulations 2006;
“LA”	the Malaysian Lottery Act 1952;
“Law”	the Isle of Man Companies Act 2006 (as amended from time to time);
“Law on Penalties”	the Law on Penalties for Administration of Public Security in China;
“Law 13”	Article 4 of Italy Law 13 December 1989 No. 401;
“Licensees”	the companies and other entities to which the Group may from time to time license its software products and/or complementary services;
“Listing Rules”	the listing rules made by the UKLA under section 73A of FSMA;
“London Stock Exchange”	London Stock Exchange plc;
“MACMA”	the Malaysian Mutual Assistance in Criminal Matters Act in 2002;
“Main Market”	the London Stock Exchange’s main market for listed securities;
“Member State”	member state of the EU;
“Mobenga”	Mobenga A.B., a subsidiary of the Company;
“New Share Option Company Plan” or “NSOP”	the 2012 Playtech Long Term Incentive Plan adopted by the Company on 13 March 2012, a summary of the principal terms of which is set out in paragraph 6.4 of Part 6 of this document of the Company;
“NIS”	New Israeli Shekels, the lawful currency of Israel;
“Non-executive Directors”	Roger Withers, Alan Jackson and Andrew Thomas, non-executive directors of Company as at the date of this document;
“Official List”	the official list of the UKLA;
“Ordinary Shares”	the ordinary shares of no par value of the Company;
“Part VI Rules”	the rules contained in Part VI of FSMA;
“Peermont”	Peermont Global (Proprietary) Limited (together with, where the context requires, its group companies);
“Playtech Software”	Playtech Software Limited, a subsidiary of the Company;
“Premium Listing”	the premium listing segment of the Official List;
“Prospectus”	this document, which constitutes a prospectus relating to the Company in accordance with the Prospectus Rules;

“Prospectus Rules”	the rules made for the purposes of Part VI of FSMA in relation to offers of securities to the public and admission of securities to trading on a regulated market;
“PT Turnkey Services” or “PTTS”	PT Turnkey Services Limited, a subsidiary of the Company;
“PTTS Group”	PTTS and its subsidiaries;
“PTVB”	PTVB Management Limited, a subsidiary of the Company;
“Re-domiciliation”	the re-domiciliation of the Company from the BVI to the Isle of Man which took effect on 21 June 2012;
“Registered Agent”	a person, licensed under the Isle of Man Fiduciary Services Acts 2008, required by the Law to be the Company’s agent for the purposes of the Law;
“Registrar”	Computershare Investor Services plc;
“RGA”	Spanish Act no. 13/2011, dated 27th May 2011, entitled the Regulation of Gambling Activities;
“Senior Management”	Rafi Ashkenazi and Ron Hoffman;
“Shareholder”	a holder of Ordinary Shares;
“Share Option Plans”	the ESOP, the CSOP and the NSOP;
“Skywind”	Skywind Holdings Limited, a company incorporated in the BVI and a wholly owned subsidiary of a trust, one of the ultimate beneficiaries of which is Teddy Sagi, one of the Group’s founders;
“Subsidiary” or “Subsidiaries”	as defined in section 1159 of the Act;
“Technology Trading” or “TTIOM”	Technology Trading IOM Limited, a subsidiary of the Company;
“Tribeca”	Tribeca Tables Europe Limited, a subsidiary of the Company;
“UIGEA”	the US Unlawful Internet Gambling Enforcement Act, which came into force on Friday 13 October 2006;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
“UKLA”	the United Kingdom Listing Authority, being the FSA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
“UK Corporate Governance Code”	the UK Corporate Governance Code published in June 2010 by the Financial Reporting Council;
“uncertificated” or “in uncertificated form”	recorded on the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the Isle of Man CREST Regulations, may be transferred by means of CREST;
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the district of Columbia;
“US Securities Act”	the US Securities Act of 1933, as amended;
“US\$” or “US dollar”	the lawful currency of the United States;
“VAT”	value added tax;
“VFA”	Virtue Fusion (Alderney) Limited, a subsidiary of the Company;
“Videobet”	Video B Holdings Limited, a subsidiary of the Company;

“Videobet Technology”	gambling software developed for use in land-based gambling terminals;
“WH Ltd”	William Hill Organization Limited, a member of the William Hill Group;
“WHO” or “William Hill Online”	means WHG Trading Limited, WHG (International) Limited and their respective subsidiaries;
“William Hill Group”	William Hill PLC and its subsidiaries (other than WHO);
“2005 Share Option Plan” or “ESOP”	the Playtech Limited 2005 Global Share Option Plan adopted by the Company on 1 November 2005, a summary of the principal terms of which is set out in paragraph 6.1 of Part 6 of this document;
“2012 Treaty”	a new draft of Germany Interstate Treaty agreed in principle by 15 of Germany’s 16 states on 31 December 2011; and
“£” or “pounds sterling” and “p”	respectively pounds and pence sterling, the lawful currency of the United Kingdom.

## GLOSSARY OF TECHNICAL TERMS

“B2B”	business to business;
“B2C”	business to customer;
“B2G”	business to government;
“betting”	making or accepting a bet on: (i) the outcome of a race, competition or other event or process; (ii) the likelihood of anything occurring or not occurring; or (iii) whether anything is true or not;
“CRM”	client relationship management;
“DDOS attack”	Distributed Denial of Service attack, an attempt to make a network resource unavailable to its intended users;
“FOBTs”	fixed odds betting terminals;
“gambling”	both betting and gaming;
“gaming”	playing a game of chance for a prize (and a game of chance shall also include: (i) a game that involves an element of chance and an element of skill; (ii) a game that involves an element of chance that can be eliminated by superlative skill; and (iii) a game that is presented as involving an element of chance but does not include a sport;
“gross gambling yield”	the total value of bets or stakes placed less winnings paid to end users;
“iPoker network”	the poker platform hubs hosted by the Group on an inter and intra jurisdiction basis for and on behalf of Licensees;
“ISP”	internet service providers;
“online” or “remote”	in this document, the terms “online” and “remote” are used interchangeably and, unless the context otherwise requires, shall include communications using the internet, mobile or tablet;
“operator”	an entity which operates a B2C gambling business which interacts and/or contracts with players, unless the context otherwise requires;
“white label solution”	services comprising end to end gambling support for third party brand owners which hold the requisite gambling licence(s); and
“white listed”	a non EEA jurisdiction which has been approved by the Secretary of State in the UK pursuant to s331(4) of the Gambling Act 2005, so that operators licensed in that jurisdiction may advertise to customers based in the UK.



