

## Corporate Governance

The Board is committed to maintaining the highest standards of corporate governance. The following describes how the Group applies the main and supporting principles of section 1 of the Combined Code on Corporate Governance (June 2008), which sets out principles of good governance and a code of best practice.

On 29 September 2010, the Irish Stock Exchange ('ISE') amended the Listing Rules of the ISE to require listed companies to apply the provisions of the new UK Corporate Governance Code published in June 2010. The UK Corporate Governance Code applies to accounting periods beginning on or after 30 September 2010. In addition, the ISE introduced the Irish Corporate Governance Annex to apply to accounting periods beginning on or after 18 December 2010.

The Board welcomes these corporate governance developments, which apply to the Group for the year ending 31 December 2011.

Our policy on corporate governance is as follows:

### Board role and responsibilities

Your Board has overall responsibility for the leadership, control and oversight of the Group. Responsibility for the management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board for its exercise. The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to committees of the Board.

Certain decisions of the Group are formally reserved to the Board. The Board has responsibility for approving Group objectives, strategy, annual budgets, major acquisitions and capital projects, and treasury policy. It sets governance policies and ensures implementation thereof. It defines the roles and responsibilities of the Chairman, Chief Executive, other directors and the Board sub-committees. In addition, the Board approves the interim management statements, half-yearly and annual financial statements, reviews the Group's systems of internal control and approves any significant changes in accounting policies. It approves all resolutions and related documentation put before shareholders at general meetings. The Board sets the Group's dividend policy, approves the interim dividend and recommends the final dividend.

### Induction and development of non-executive directors

New directors are provided with extensive induction materials and are comprehensively briefed on the Group, its operations, corporate governance best practice and their duties as a director. Briefings with the executive directors and senior management are also held on a regular basis.

Individual directors may seek independent professional advice, at the expense of the Company, in the furtherance of their duties as a director. No such professional advice was sought by any director during the year.

### Board composition, refreshment and renewal

The Board should comprise a mix of the necessary business skills required to provide leadership, control and oversight of the management of the business and to contribute to the development and advancement of business strategy. Paddy Power is a specialist business and it is in the best interests of all shareholders that it should always retain the betting industry savvy that has been part of the fabric of the Board, both as a private and public company.

The current Board comprises a mix of executive directors, founding directors and directors recruited for the particular skill and experience they would bring to Paddy Power. The standard terms of the letter of appointment of non-executive directors are available, on request, from the Company Secretary.

At each Annual General Meeting of the Company, it has been the practice that every director who has been in office at the completion of each of three successive Annual General Meetings since he or she was last appointed or reappointed, should retire from office. That practice will continue for the AGM on 17 May 2011.

Any director appointed by the Board is subject to election by shareholders at the first opportunity after his or her appointment. Non-executive directors who have served longer than nine years (e.g. three three-year terms) are subject to annual re-election. Reappointment is not automatic. Directors who are seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee.

In line with the principles of the new UK Corporate Governance Code, the Group will adopt a policy of annual re-election for all board directors with effect from the AGM to be held in May 2012.

The Board is committed to a policy of Board refreshment and renewal. William Reeve was appointed to the Board on 19 May 2010 and will seek election at the 2011 AGM. This follows the appointment of Jane Lighting to the Board in September 2009. The appointments of William Reeve and Jane Lighting to the Board as non-executive directors formed part of a recruitment process undertaken in conjunction with external recruitment consultants.

Breon Corcoran retires from the Board by rotation in 2011 and, being eligible, offers himself for re-election at the 2011 AGM. As Brody Sweeney has completed a second three year term, the Board has carried out a review of his remaining as a non-executive director in the context of his performance and commitment to the role and believe that it is appropriate for him to do so. Brody, therefore also offers himself for re-election at the 2011 AGM. Fintan Drury, who will complete a third term as a director in 2011, will step down from the Board before the end of the year.

David Power and Stewart Kenny, both founder members of the Company, have served on the Board for longer than nine years. The Combined Code sets out that non-executive directors may serve longer than nine years, subject to annual re-election. The Board has performed a review of the appropriateness of their continuing to serve as directors and believes that their experience within the industry remains central to your Company's continued development and success and that their continuance in office is in the best interests of the Company and its shareholders. Both David and Stewart therefore offer themselves for re-election at the AGM in May 2011.

## Directors' independence

The Combined Code states that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. The Group has determined that Tom Grace, Fintan Drury, Jane Lighting, Pádraig Ó Ríordáin, William Reeve and Brody Sweeney are independent. The Chairman, Nigel Northridge, was independent on his appointment to the Board as a non-executive director in July 2003 and as Chairman in January 2009. David Power and Stewart Kenny are founder members of the Company and have served on the Board for longer than nine years and are not considered by the Board to be independent. There are three executives on the Board (Patrick Kennedy, Breon Corcoran and Jack Massey).

The Board currently comprises six independent non-executive directors, two non-executive directors and three executive directors. Fintan Drury will step down from the Board before the end of 2011. On his retirement, the Board will remain compliant with the Combined Code such that at least half the Board, excluding the Chairman, will comprise directors determined by the Board to be independent.

As part of its review, the Board considered the independence of Fintan Drury. Fintan joined the Board in August 2002 and was Chairman of the Group from May 2003 to December 2008. The Board has concluded that, notwithstanding his prior role as Chairman, Fintan is independent in character and judgement and is accordingly an independent non-executive director within the spirit and meaning of the Combined Code.

The Board also considered the independence of Mr Pádraig Ó Ríordáin, given his role as Managing Partner of Arthur Cox, one of the Group's legal advisors. The Board has concluded that, notwithstanding this relationship, Pádraig is independent in character and judgement and is accordingly an independent non-executive director within the spirit and meaning of the Combined Code. He has a demonstrated record of such independence, including his appointment in 2007 by the then Minister for Finance to the Irish Government's Advisory Forum on Financial Legislation, on which he serves as Independent Chairman, the role of Managing Partner which he fulfils at his firm and his appointment as a member of ILEG, the advisory body to the European Commission on the future crisis management and resolution regime for the European banking sector. The Board took account of the fees paid to Arthur Cox for its legal services and, in particular, considered the test of 'materiality', as set out by some of the proxy voting agencies, relating to the level of fees paid to Arthur Cox. The Board concluded that the fees are not material to Pádraig's independent judgement given the scale of the operations and financial results of Arthur Cox and the work it has done for the Group. Pádraig has not provided any legal services to the Group since his appointment to the Board.

### The Chairman's role

I have been Chairman of the Group since January 2009. The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of his non-executive colleagues and ensures constructive relationships exist between executive and non-executive directors. He is the guarantor of effective communications with shareholders and ensures that the Board is apprised of the views of shareholders.

As Chairman, I also meet with the non-executive directors independently of the executive directors. I meet regularly with the Chief Executive to discuss all aspects of the business's performance and, on an occasional basis, we meet with other senior members of the management team together.

### Directors' fees

As reported in the 2007 Annual Report, the standard non-executive fee was set at €70,000 in 2008. It was also agreed that the Audit Committee chair would receive an additional fee of €20,000, that chairs of other Committees would be paid an additional fee of €12,000 and that the Chairman would receive an annual fee of €200,000.

These fees were reviewed in January 2010 and it was agreed that they would remain unchanged.

Non-executive directors are not eligible to participate in the Group's bonus schemes, option plans or share award schemes. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans.

### Board performance evaluation

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required and I have met with all the directors individually to discuss their performance. The senior independent director has conducted a review of my performance with the non-executive directors, while also taking into account the views of the executive directors, the results of which have been discussed with me.

The Board conducts an annual evaluation of its own performance as do each of its Committees. This involves the completion of assessment questionnaires by all directors covering the performance of the Board and by the Committee members in relation to the individual Committees. Other aspects that are reviewed include the effectiveness of the Chairman, executive and non-executive directors, the monitoring of operational performance, corporate governance, as well as leadership and culture. A summary of the conclusions from the evaluation are considered by the Board and any appropriate actions are taken. The Board also recognises the need for periodic external evaluation, which is now required at least every three years as set out in the new UK Corporate Governance Code.

## Board operations and committees

The Board holds at least eight full Board meetings each year. The Board also visited a selection of the Group's retail outlets in the UK in 2010 and three of the non-executive directors separately visited the Group's Australian division during the year. I expect all Board members to be available to me between meetings.

The composition of the Board committees as at 4 March 2011 was as follows:

### **Audit**

Tom Grace (Chair); Jane Lighting; Brody Sweeney.

### **Remuneration**

Pádraig Ó Ríordáin (Chair); Jane Lighting; Nigel Northridge.

### **Nomination**

Nigel Northridge (Chair); Fintan Drury; Pádraig Ó Ríordáin; Brody Sweeney.

### **Risk**

David Power (Chair); Breon Corcoran; Patrick Kennedy; Stewart Kenny.

## Audit Committee

The Audit Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Company and Group;
- reviewing the Group's internal controls;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- making recommendations to the Board in relation to the appointment and removal of the Group's external auditor;
- approving the remuneration and terms of engagement of the external auditor;
- evaluating the performance of the external auditor, including their independence and objectivity;
- approving non-audit services provided by the auditor in accordance with the Group's policy on non-audit services;
- developing and ensuring compliance with the Group's policy on the provision of non-audit services;
- reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- ensuring that there are appropriate procedures in place to monitor and evaluate the general business risks to which the Group is exposed.

The Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, both with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors did not wish to raise in the presence of management.

The Chairman of the Audit Committee visited the Group's Australian business in October 2010, where he met with the local internal and external auditors and management team and attended a meeting of the local audit committee.

The Audit Committee is responsible for ensuring that external auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group. A breakdown of the non-audit fees provided by the Group's auditors in 2010 is set out on page 91.

## Corporate Governance *(continued)*

The Audit Committee reviewed the letter from the Group's external auditors confirming their independence and objectivity. The Company recognises that the perceived independence and objectivity of an auditor may be compromised in circumstances where non-audit fees exceed the annual audit fee. During the year, the Committee therefore also performed a review of the audit and non-audit services provided by the external auditors, and the fees charged for those services, to ensure there was no impairment of objectivity or independence.

Paddy Power engaged KPMG, during 2010, to provide tax advisory services to the Group. KPMG also provided one-off services, during 2010, relating to the acquisition of Sportsbet. Excluding the related one-off fees for these services, non-audit fees paid to KPMG in 2010 were not in excess of the audit fee.

To ensure a rigorous, objective and independent external audit, the Company undertook a tender process for the provision of audit services to the Group following completion of the financial statements for the year ended 31 December 2010. The Company received written tenders and presentations from the four leading global audit firms for the role of external auditor. Following detailed consideration, it was decided to retain KPMG as the Group's external auditor.

When taking the decision to retain KPMG as external auditor, in order to ensure that the perceived independence and objectivity of the auditors is maintained, the Audit Committee agreed that KPMG would cease to be the primary tax advisor to the Group and that this work would be undertaken by another accounting firm. Tax advice constitutes the vast majority of non-audit fees incurred by the Group. The Audit Committee has also set a policy that non-audit fees should not exceed audit fees on an annual basis, save in exceptional circumstances. To further ensure that auditor objectivity is not compromised, KPMG have also changed the lead audit partner for the Paddy Power Group in accordance with their rotation policy.

The Audit Committee is comprised of three directors all of whom have been determined by the Board to be independent.

The Board has determined that Tom Grace, the Chairman of the Committee, has recent and relevant financial experience and therefore satisfies the requirements of the Combined Code.

### Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 58 to 60.

The Remuneration Committee is comprised of three directors all of whom have been determined by the Board to be independent.

### Nomination Committee

The Nomination Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments.

To facilitate the search for candidates to serve as non-executive directors, the Committee uses the services of independent consultants.

### Risk Committee

The Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate to a group of Paddy Power's size, for monitoring that such policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken. The Committee also sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time.

## Attendance at Board and Committee meetings

There were eight full meetings of the Board in 2010.

The attendance at Board and Committee meetings by the directors who held office in 2010 are set out below:

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2010		8	5	4	3	2
Attended by:						
N Northridge*		8		4	3	
T Grace*		8	4			
F Drury*		8			3	
S Kenny**		8				2
J Lighting*		6	5	4		
P Ó Ríordáin*		7		4	2	
D Power**		8				2
W Reeve*	(1)	4				
B Sweeney*		8	5		2	
P Kennedy**		8				2
B Corcoran***		8				2
J Massey**		8				

\* Independent non-executive director

\*\* Non-executive director

\*\*\* Executive director

(1) William Reeve was appointed to the Board on 19 May 2010. There were four Board meetings after his appointment, all of which he attended.

The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no director attended less than 75% of scheduled Board or Committee meetings.

All of the directors were in attendance at the 2010 AGM on 18 May 2010.

## Senior Independent Director

The Board has appointed Tom Grace as the Senior Independent Director. Tom is available to shareholders who have concerns that cannot be addressed through the Chairman, Chief Executive or Finance Director.

## Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Company Secretary ensures that the Board members receive appropriate induction and ongoing training and development to enable them to discharge their duties. The Company Secretary is also responsible for advising the Board on all corporate governance matters.

### Internal control

The Combined Code on Corporate Governance states that:

1. The Board should maintain a sound system of internal control to safeguard the shareholders' investment and Group assets.
2. The directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls, and risk management systems.

The directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management and to internal audit. This system includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Board has also established a process of compliance which addresses the Board's responsibility to maintain, review and report on all internal controls.

The principal processes comprising the system of internal control are that:

- budgets are prepared for approval by executive management and the Board;
- income and expenditure are regularly compared to budgets;
- the consolidated financial statements are prepared subject to the oversight and control of the Group Finance Director. An appropriate control framework has been established to ensure that correct data is captured in respect of all Group companies, appropriate eliminations and other adjustments are recorded, and all the information required for disclosure in the consolidated financial statements has been provided;
- the Board establishes appropriate treasury policies for implementation by executive management;
- compliance with risk limits is reported on by the risk management department and reviewed by senior management and internal audit;
- all material commitments for expenditure and payments are compared to previously approved budgets and are subject to prior approval by personnel designated by the Board of Directors;
- regular financial results are submitted to and reviewed by the Board of Directors;
- the directors, through the Audit Committee, review the effectiveness of the Group's system of internal control; and
- an audit and security department, independent of operations, monitors and audits betting operations. They also undertake internal control reviews throughout the Group. The head of this department meets regularly with the Audit Committee.

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal controls. This review has been performed in respect of the year ended 31 December 2010. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

### Relations with shareholders

The Group is committed to ongoing communication with its shareholders. The Group operates an investor relations section on its corporate website ([www.paddypowerplc.com](http://www.paddypowerplc.com)). This contains copies of investor presentations and annual reports as well as providing access to Regulatory News Service ('RNS') statements and corporate press releases. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group's headquarters are encouraged and tours of our retail outlets are undertaken regularly. Feedback from major shareholders and reports by analysts are communicated to directors so directors can monitor their views on the Group.

The short-term financial performance of Paddy Power can be significantly influenced throughout the financial year by the run of sporting results. This is normal in the sports betting industry. For example, a disproportionate number of favourites winning at a major horse racing festival will depress short-term profitability, whereas a disproportionate number of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period. Accordingly, the Board does not believe that the typical levels of short-term profit volatility intrinsic to our business should significantly influence the investment decisions of a reasonable investor or that it should be likely to have a significant effect on the Company's share price.


The Board and management of Paddy Power carefully monitor any significant variances in financial performance to assess, based on the experience of the Company, whether such variances are attributable to the run of sporting results and therefore likely to be short-term in nature or reflect a trend which may impact on the overall performance of the Company going forward. The Board considers these two categories of variances to be fundamentally different as to their likely influence on the investment decisions of a reasonable investor and therefore on the Company's share price. The Board makes its judgements in respect of announcements to the market and its obligations under the disclosure rules to which the Company is subject against this background.

## Compliance

The directors confirm that the Company has complied throughout the accounting period with the provisions of the Combined Code.

## Conclusion

I would invite you all to consider the above carefully, and encourage any shareholders who have questions relating to this Corporate Governance statement to contact me by email at [nigel.northridge@paddypower.com](mailto:nigel.northridge@paddypower.com).



**Nigel Northridge**  
*Chairman*

4 March 2011