

Corporate Governance

The SKYCITY board and management confirm that the company is committed to maintaining best practice governance structures throughout its operations in New Zealand and Australia.

SKYCITY is a leading New Zealand-based entertainment company listed on the New Zealand and Australian stock exchanges (NZX and ASX respectively). It is a requirement of these exchanges that the board of directors formally adopts approved corporate governance practices. The governance structures and processes adhered to by SKYCITY are regularly reviewed to ensure that the highest levels of behaviour and accountability are achieved and to ensure that SKYCITY's governance continues to be consistent with international best practice both in compliance format and in substance.

SKYCITY'S APPROACH TO CORPORATE GOVERNANCE

Framework

At SKYCITY, governance reflects the tone and behavioural expectations that the board sets on behalf of stakeholders. It encompasses the company's decision-making structures and the mechanisms used to manage the organisation.

The board has adopted the 10 governance principles, as set out below. These principles reflect the ASX, NZX and New Zealand Securities Commission's governance recommendations.

The board of SKYCITY Entertainment Group, through a set of formal policies and procedures:

- establishes a clear framework for oversight and management of the company's operations and for defining the respective roles and responsibilities of the board and management
- structures itself to be effective in discharging its responsibilities and duties
- sets standards of behaviour expected of company personnel
- safeguards the integrity of the company's financial reporting
- ensures timely and balanced disclosure
- respects and facilitates the rights of shareholders
- recognises and manages risk
- encourages board and management effectiveness
- remunerates fairly and responsibly
- recognises its obligations to all stakeholders.

The governance framework at SKYCITY is defined by the company's board charter which includes a number of supporting charters and policies and expands on the governance principles as defined by the NZX and the ASX. The support charters and policy statements, in addition to the company's constitution, comprise the following:

- Terms of Appointment and Terms of Reference for Directors
- Audit and Risk Committee Charter
- Governance and Remuneration Committee Charter
- Nomination Committee Charter
- Code of Business Practice
- Code for Securities Transactions and Insider Trading Policy
- Delegated Authorities Policies
- Protected Disclosures Policy
- Policies and Procedures for Employees
- Risk Management Programme
- Relationship Governance Policy.

Corporate Governance (continued)

COMPLIANCE WITH NZX BEST PRACTICE CODE AND ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

The NZX and ASX Listing Rules require SKYCITY to disclose the extent to which it has followed the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, respectively.

- **NZX Best Practice Code**

In accordance with the requirements of NZX Listing Rule 10.5.3(i), SKYCITY confirms that it has complied with the NZX Corporate Governance Best Practice Code during the 2004/05 year.

The requirements of the NZX Best Practice Code relate to code of ethics, director appointment, training and remuneration, separation of board and management, supply of information from management to board, and board performance. The Code requires that separate Audit, Remuneration and Nomination committees should be established for larger organisations such as SKYCITY and identifies the preferred membership criteria for those committees. The Code also refers to the important relationship between the external auditor and the company.

- **ASX Principles and Best Practice Recommendations**

In accordance with the requirements of ASX Listing Rule 4.10, SKYCITY confirms that it has complied with the ASX Corporate Governance Council's Principles and Best Practice Recommendations, except in respect of recommendations that the company's internal policies and procedures are made available to external parties and that any options plan is approved by shareholders.

SKYCITY believes that the board charter and the comprehensive references to governance in this annual report provide good disclosure of the company's internal processes and mechanisms and that the underlying intentions of the various ASX Corporate Governance Council's recommendations on reporting of internal mechanisms have been met.

The Managing Director Share Option Plan 2002 was approved by shareholders at the 2002 annual meeting of the company. A replacement share rights plan is proposed for the Managing Director to cover the period 2005-08 and this plan will be included as an agenda item for the company's annual meeting to be held on 28 October 2005. The Notice of Annual Meeting, to be circulated to shareholders on 12 October 2005, will include details of the proposed Managing Director Share Rights Plan.

The Executive Share Rights Plan 2005 was approved by the board in December 2004. The Share Rights Plan is essentially a renewal of the company's longer-term incentive remuneration structure for senior executives but, due to changes in the mechanism within the plan, the number of new shares which will be issued will be significantly reduced. The original executive share option plan was approved by shareholders at the 1999 annual meeting of the company and was then subsequently extended and approved by directors in August 2002. The major difference in the 2002 renewal was that the period prior to exercise of options was (except in special circumstances) extended from one year to three years. The Executive Share Rights Plan (which replaces the Executive Share Options Plan 2002) continues to impose a three-year restriction before benefits under the Plan can be realised by participants.

BOARD OF DIRECTORS

- **Role of the Board and Responsibilities**

SKYCITY's board of directors is elected by shareholders to govern the business in the shareholders' best interests.

The board establishes the company's objectives, the major strategies for achieving those objectives, the overall policy framework within which the business of the company is conducted, and monitors management's performance with respect to these matters.

The board is also responsible for ensuring that the company's assets are maintained under effective stewardship, that decision-making authorities within the organisation are clearly defined, that the letter and intent of New Zealand and Australian company and casino law is complied with, and that the company is well managed for the benefit of its shareholders. The board also oversees management's risk profiling and business continuity plans.

Specific responsibilities of the board include the following:

- oversight of the company, including its control and accountability procedures and systems, and the delegation of authorities within the company
- approval and monitoring of the progress of significant capital expenditure projects, capital management initiatives, and acquisitions and divestments, and the funding thereof
- approval of the corporate strategy and objectives and oversight of the adequacy of the company's resources required to achieve the strategic objectives
- approval and monitoring of actual results against the annual business plan and budget (including the capital expenditure plan)
- review and ratification of the company's systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- appointment, performance and removal of the Managing Director (chief executive officer)
- confirmation of the appointment and removal of the senior executive group (being the direct reports to the Managing Director)
- setting the remuneration of the Managing Director and approval of the remuneration of the senior executive group.

The board has appointed three committees, being:

- the Audit and Risk Committee
- the Governance and Remuneration Committee
- the Nomination Committee.

Each committee is authorised to deal with matters as set out in its committee charter and/or falling within its intended mandate, on the following basis:

- to submit recommendations to the board on matters for which decision-making authority has not been delegated by the board
- to make decisions on matters for which decision-making authority has been delegated by the board.

The board maintains a formal set of delegated authorities (including a Treasury Policy), which clearly define the responsibilities that are delegated to management and those which are retained by the board. These delegated authorities are approved by the board and are subject to formal review by the board on a regular basis but not less than once per annum.

The board appoints new directors under formal terms of reference/appointment. Directors must comply with the terms of reference at all times.

The Code of Business Practice sets out the board's policy on conflicts of interest. When conflicts of interest exist, directors exclude themselves from discussions, and do not vote in respect of the relevant matters.

The chairperson of the board and the chairpersons of the board committees are elected by the non-executive directors. SKYCITY supports the separation of the role of board chairperson from the chief executive officer position.

The chairperson's role is to manage the board effectively, to provide leadership to the board, and to facilitate the board's interface with the Managing Director. The current chairman of the board, Mr Rod McGeoch, is a non-executive director and meets the independence criteria as set by the board in Schedule 2 of the board charter.

Corporate Governance (continued)

• Board Charter

SKYCITY's board and management are committed to ensuring that the company maintains best practice governance structures and principles and the highest ethical standards. In this regard, the board has developed a board charter, which describes the board's role and responsibilities and regulates board procedures. It incorporates the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, the NZX governance and the NZX Corporate Governance Best Practice Code recommendations, and the New Zealand Securities Commission's Governance Principles and Guidelines.

The board charter and its attached schedules are the principal specification of the governance framework within which SKYCITY conducts its affairs. A copy of the board charter is posted on the company's website at www.skycitygroup.co.nz in the 'Investor Centre' subsection.

• Director Independence

The board charter requires that the board contains a majority of its number who are independent of management, substantial shareholders, or other parties with whom SKYCITY has a business or other relationship that could reasonably be perceived to interfere with the exercise of unfettered and independent judgement. In addition, the board will ensure it comprises not less than the minimum number of independent directors required by the listing rules of the stock exchanges on which the company's securities are quoted.

In determining the independence of directors, the board has adopted the definition of independence set out in the NZX Corporate Governance Best Practice Code, and has taken into account the independence guidelines as recommended in the ASX Principles of Good Corporate Governance.

As required by the board charter, the board chairperson, Rod McGeoch, is an independent director, is not the company's chief executive officer, and has ensured that he has the time necessary to discharge the role effectively.

At its August 2005 meeting, the board reviewed the status of each director in accordance with the independence specification (as set out in Schedule 2 of its charter) which mirrors the independence tests of the NZX Code. The board determined that all current directors, other than the Managing Director (Evan Davies), were independent.

The board noted that, under the ASX Independence Guidelines, all non-executive directors except Bill Trotter would be considered independent. Mr Trotter is not independent, under these Guidelines, given his relationship with First NZ Capital Limited, which is a consultant and advisor to the company. Mr Trotter is Executive Chairman of First NZ Capital Group Limited.

Directors are required to ensure that all relationships and appointments bearing on their independence (whether generally or for a specific matter) are disclosed on a timely basis and must provide any further information required to enable the board to make an informed assessment of their independence on a continuous basis.

The disclosure of existing interests is an ongoing responsibility of each director. Where a conflict of interest arises (or where a potential conflict of interest may arise), each director must formally advise the company about any matter relating to that conflict (or potential conflict) of interest.

There have been no subsequent changes to the independence determinations for each director as at the date of this annual report.

• Board Structure and Membership

Directors are appointed under the company's Terms of Appointment, Terms of Reference for Directors and the board charter for a term of three years or are subject to reappointment on a more frequent basis in order for the company to comply with the listing rules of the NZX and the ASX.

The board currently comprises seven directors, six of whom are non-executive. Evan Davies, Managing Director of the company, is the only executive director.

Rob McLeod was appointed to the board on 8 October 2004. Mr McLeod's appointment was confirmed by shareholders at the 2004 annual meeting.

Patsy Reddy and Bill Trotter, current directors of the company, will retire by rotation at the 2005 annual meeting of the company and, being eligible, offer themselves for re-election. The board charter requires that any director who has served for two terms since their first appointment by shareholders must be formally requested by the board to stand for re-election. At its August 2005 meeting, the board considered its composition, the mix of skills and experience on the board, the term of directors on the board, and a range of other matters relating to the continuance of Ms Reddy and Mr Trotter. The board noted that Ms Reddy and Mr Trotter had indicated that they would be pleased to continue to contribute to the company's affairs for a further term and it requested both directors to stand for re-election at the 2005 annual meeting.

BOARD AND COMMITTEE MEETING ATTENDANCE

The board meets at least six times per annum (over one and a half days) on a formal, scheduled basis and on other occasions as required.

The non-executive directors of the board (and the board's committees) also meet independently of the Managing Director and management personnel on a number of occasions during the course of the year, to discuss various issues.

During the 2004/05 year, the board met formally on a total of seven occasions, six of which were scheduled meetings and one of which was called to attend to particular items of business. In addition, the directors convened by teleconference to discuss specific issues on a number of occasions during the year. The table below shows attendances at board and committee meetings by directors during the year ended 30 June 2005.

	BOARD	AUDIT AND RISK COMMITTEE	GOVERNANCE AND REMUNERATION COMMITTEE	NOMINATION COMMITTEE
Number of meetings held	7	4	4	1
R H McGeoch	7	1*	4	1
E W Davies	7	4**	4**	1
R A McLeod	7	3*		1
P L Reddy	7		4	1
Sir Dryden Spring	7	4		1
E Toime	7	4		1
W R Trotter	6		3	1

* Rob McLeod joined the Audit and Risk Committee in October 2004 replacing Rod McGeoch.

** Evan Davies attends meetings of the Audit and Risk Committee and Governance and Remuneration Committee in an ex-officio capacity but is not a member of either committee.

Corporate Governance (continued)

BOARD COMMITTEES

• Committee Roles and Composition

The committees of the board review and analyse policies and strategies, usually developed by management, which are within their terms of reference. The board's committees examine proposals and, where appropriate, make recommendations to the board. The committees do not take action or make decisions on behalf of the board except where they have been specifically mandated to do so.

The board appoints the chairperson of each committee.

All committees are required to comprise a minimum of three members.

Each committee operates under a charter document, as agreed by the board, which sets out its role and responsibilities, authorities, relationship with the board, reporting requirements, composition, structure and membership requirements. Copies of these committee charters are attachments to the board charter. Each committee charter is subject to formal review by the board on an annual basis.

The board, on an annual basis, reviews the performance of each committee in accordance with its charter.

All directors are entitled to attend any committee meeting and receive the agenda and the papers for each committee meeting and the minutes of each meeting. The Managing Director (Evan Davies) attends meetings of each of the board's committees.

From time to time the board creates specific subcommittees to deal with a particular matter or matters and/or to have certain decision-making authority as the board may elect to delegate to that subcommittee. The minutes of any such subcommittee meetings are circulated to all directors.

• Audit and Risk Committee

Current members of the Audit and Risk Committee are Sir Dryden Spring (chairman), Rob McLeod and Elmar Toime.

The Audit and Risk Committee's primary roles are to assist the board in fulfilling its responsibilities relating to accounting and reporting, tax planning and compliance, internal control practices and procedures, and protection of the company's assets and business operations through risk planning and mitigation strategies and adequate insurance coverage.

The committee's responsibilities also include the oversight of the quality, reliability, and accuracy of the company's internal and external financial statements, for the accuracy of the company's external result presentations, and for its relationships with its internal and external auditors.

The Audit and Risk Committee must undertake sufficient inquiry of the company's management and the company's internal and external auditors in order to be satisfied as to the validity and accuracy of the company's financial reporting.

The committee meets four times per annum on a formal scheduled basis and on other occasions as required.

The Audit and Risk Committee comprises at least three directors, all of whom are independent, non-executive directors, who must be financially literate.

The committee is chaired by an independent director who is not also the chairperson of the board. At least one member of the committee must have financial expertise (i.e. has knowledge and experience of accounting, and of financial matters and regulations).

The Audit and Risk Committee meets with the company's internal and external auditors independently of management as often as is appropriate, but not less than twice per annum.

The Audit and Risk Committee oversees the independence of the company's internal and external auditors and monitors the scope and quantum of work undertaken by, and fees paid to, the auditor for other than audit work.

This annual report, in Note 3 to the financial statements, identifies the level of audit and other services provided by PricewaterhouseCoopers, the company's auditor, during the 2004/05 financial year. In the year ended 30 June 2005, assurance services provided by PricewaterhouseCoopers totalled \$1.439 million and tax advisory services totalled \$1.097 million.

The committee has formally reviewed the independence status of PricewaterhouseCoopers and is satisfied that their objectivity and independence is not compromised as a consequence of other than audit work undertaken for the company. PricewaterhouseCoopers has confirmed to the committee that it is not aware of any matters that could affect its independence in performing its duties as auditor for the company.

The Audit and Risk Committee Charter requires rotation of external and internal audit partners not less frequently than every seven years but with a guideline that five years is, except in special circumstances, an appropriate period of tenure for any one individual. David Randell, current external audit partner for SKYCITY, succeeded John Harvey as audit partner in February 2003.

Until 30 September 2004, PricewaterhouseCoopers provided external audit and internal audit services to SKYCITY. In mid-2004 the board resolved to separate the provision of internal and external audit services. After a formal tender process during September, Ernst & Young was appointed as SKYCITY's internal audit service provider, with effect from 1 October 2004.

- **Governance and Remuneration Committee**

The current members of the Governance and Remuneration Committee are Patsy Reddy (chairperson), Rod McGeoch and Bill Trotter.

The Governance and Remuneration Committee monitors senior executive performance and remuneration, the ethics of the organisation, protection of the group's casino licences, statutory and regulatory compliance, host responsibility and problem gambling programmes and initiatives, and the identification of and planning for emerging issues.

The Governance and Remuneration Committee meets not less than three times per annum on a formal scheduled basis and on other occasions as required. During the 2004/05 year, the Governance and Remuneration Committee met on four separate occasions.

The composition of the committee meets the requirement of the committee charter, being that the committee comprises at least three non-executive directors, a majority of whom are independent.

The Governance and Remuneration Committee's responsibilities include:

- monitoring organisational integrity of business operations to ensure a high standard of ethical behaviour is maintained by the organisation
- reviewing the company's remuneration policies and procedures and approving senior executive remuneration and incentives
- reviewing incentive remuneration plan performance targets and recommending incentive payments and targets to the board for approval
- overseeing the company's recruitment, retention and termination policies and procedures for senior management
- reviewing the Managing Director's performance evaluation of his direct reports and approving salaries and incentive remuneration, executive share option participation, and any other variation of the terms and conditions of employment of the Managing Director's direct reports
- reviewing the performance of Ms Heather Shotter, an associated person of the Managing Director, and determining her performance objectives, remuneration in terms of salary, incentive bonus and executive share option participation
- reviewing the Relationship Governance Policy and monitoring compliance with that policy. This policy sets out the procedures that are required to be followed with respect to related parties within the organisation
- overseeing management succession planning for key roles within the company
- reviewing non-executive director remuneration
- monitoring relationships with shareholders and ensuring the intent of the board charter as to communications with shareholders is achieved
- monitoring issues relating to the Group's casino licences and relationships with government licensing and regulatory agencies
- monitoring the company's compliance with NZX and ASX Listing Rules, and companies and commercial legislation applicable to the group's business operations
- overseeing and monitoring the Group's host responsibility and problem gambling programmes and initiatives, and ensuring co-operation with social and government agencies
- ensuring the board charter and support charters and policies continue to represent best corporate governance practice and are appropriate to the company's operations
- monitoring the company's procedures and internal authorities relating to the communication of company information to external parties including shareholders, financial analysts and commentators, and the media.

Corporate Governance (continued)

• **Nomination Committee**

All directors are members of the Nomination Committee and Rod McGeoch is chair of this committee.

The Nomination Committee meets at least once per annum to review board and director performance and on other occasions as required in order to attend to any other matters under its charter.

The current composition of the committee meets the requirements of the committee charter that the committee should comprise a minimum of three independent directors, which directors form the majority of the committee.

One of the primary roles of the Nomination Committee is to recommend the appointment and removal of directors. Ultimately the appointment and removal of directors is governed by the company's constitution. The constitution requires all potential directors to have satisfied the extensive probity requirements of each jurisdiction in which the company holds gaming licences.

The Nomination Committee's responsibilities include:

- making recommendations to the board as to its size
- regularly reviewing the criteria for selection of directors and recommending to the board any necessary alterations
- determining search and selection processes for new potential directors
- recommending appropriate director candidates to the board
- determining appropriate procedures for director and board evaluation and performance review
- recommending the removal of a director from the board
- ensuring that potential director candidates understand the role of the board and the time commitment involved when acting as a member of the board
- ensuring adequate induction, orientation and training for directors in the company's operations and the gaming/entertainment sector generally
- reviewing the board's succession planning.

GENERAL MATTERS RELATING TO DIRECTORS

• **Knowledge and Expertise**

The Nomination Committee's charter includes assessment of the role and responsibilities, performance, composition, structure, training, and membership requirements of the board, with this assessment being formally undertaken on an annual basis.

Directors are expected to maintain an up-to-date knowledge of the company's business operations and of the industry sectors within which the company operates. Briefings, circulation of information and site visits are organised as appropriate to assist directors to be aware of and to understand company and industry issues.

• **Indemnity and Insurance**

The company has signed a deed of indemnity, access and insurance in favour of each director (and a nominated group of senior executives), which covers acts or omissions of directors (or executives) in their capacity as such.

The company also provides professional indemnity insurance cover for directors acting in good faith in the conduct of the company's affairs.

The company has effected directors' and officers' liability insurance cover for the 12-month period 30 September 2004 to 30 September 2005 at a premium cost of \$108,400 (plus GST) and statutory and employer's liability insurance for the 12-month period at a premium cost of \$26,785 (plus GST).

- **Protection of Company Information**

Members of the board (and management) must ensure that sensitive information they have access to about the company is well protected and treated in strict confidence, and that property of the company (including information) is used solely in the best interests of the company.

The company maintains internal policies and procedures and monitors compliance with those policies and procedures in order to protect the confidentiality of its commercially-sensitive information.

- **Other**

Under the board charter, directors are required to advise the chairperson of all outside directorships or other appointments which may have a bearing on their role as a SKYCITY director, prior to taking up any such appointment.

Directors are entitled to obtain independent professional advice (at the expense of the company) on any matter relating to their responsibilities as a director or to the company's affairs, provided they have previously notified the board chairperson of their intention to do so. No such notifications or requests were received from directors during the 2004/05 year.

INTEGRITY AND ETHICAL BEHAVIOUR

Members of the board (and management) must, at all times, comply with the express terms and spirit of their fiduciary obligations to the company, including acting honestly and in good faith and in what they reasonably believe to be the best interests of the company.

The company operates in accordance with a Code of Business Practice (attached as Schedule 3 to the board charter). The Code sets out the guiding principles of the company's relationships with stakeholder groups including regulators, shareholders, customers, and employees.

The Code addresses the following areas:

- compliance with laws and casino licences, and co-operation with regulatory bodies
- honest and fair dealing with customers and employees
- respect for and compliance with human rights standards
- preservation of privacy and confidentiality of company and personal information
- insider trading obligations
- conflicts of interest
- competitive behaviours and actions
- promotional and advertising responsibilities
- community participation and contribution
- host responsibility
- receiving gifts or other benefits from external parties.

The company has adopted a policy for employees to report instances of suspected breaches of laws or wrongdoing by the company and/or any of its employees or directors, without fear of adverse consequences, and for such reporting to be properly investigated.

The company maintains a code of practice for directors and senior executives which sets out the procedures that must be followed before trading in the company's securities. Prior consent must be obtained from the Company Secretary before undertaking any trading in the company's securities. The Company Secretary must obtain the prior consent of the Managing Director or the chairperson or deputy chairperson of the board. The Managing Director must obtain the prior consent of the chairperson or deputy chairperson of the board.

Corporate Governance (continued)

Details of any share trading by directors or executives who are subject to the company's Insider Trading Policy and Code for Securities Transactions are notified to the board. The company's Policy and Code is supported by education for directors and executives about their obligations when trading in the company's securities. The company's Code prohibits trading in the company's securities by company personnel outside the window periods as defined by the Insider Trading (Approved Procedure for Company Officers) Notice 1996.

From 3 May 2004, 'officers' of the company (currently comprising 18 senior-level executives) must formally disclose their SKYCITY shareholdings and other securities holdings to the NZX within five business days of any change in their holding of such securities.

Directors and staff are not permitted to participate in any gaming or wagering activity at SKYCITY-operated properties or at a related company, including Christchurch Casino.

FINANCIAL REPORTING

- **Framework**

The board is responsible for ensuring that effective policies and procedures are in place to provide confidence in the integrity of the company's financial reporting.

The Managing Director and the Group General Manager Finance have certified to the board in writing that the financial statements included in this annual report present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. The Managing Director and the General Manager Corporate have certified to the board in writing that the confirmation referred to above is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and that the company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

- **Timely and Balanced Disclosure**

The company communicates its financial and key operational performance results in a clear, effective, balanced, and timely manner to its shareholders, analysts and other market commentators, and to the stock exchanges on which the company's securities are listed.

This result information is available on the company's website.

The company's policy is to provide timely and sufficient information in appropriate format so as to enable external parties to achieve a sound understanding of the company's performance during any six-month reporting period and to achieve an understanding of the key elements of the company's business strategy.

The board and the Audit and Risk Committee ensure that company announcements are made in a timely manner, are factual, do not omit any material information, and are expressed in a clear and objective manner.

The agenda for each board meeting includes formal consideration of the company's disclosure obligations and any matters relevant thereto.

The Company Secretary is responsible for bringing any matter relevant to the company's disclosure obligations to the attention of the board.

RECOGNITION AND MANAGEMENT OF RISK

The company maintains a programme for the identification, assessment, monitoring, and management of risk to the company's business. The risk management programme is approved and overseen by the Audit and Risk Committee in accordance with the charter for that committee.

The company maintains an up-to-date risk profile for each of its business operations and ensures that business continuity and disaster recovery plans are in place and are well understood throughout the organisation.

The company also maintains comprehensive business continuity, material damage and liability insurance covers to ensure that the earnings of the business are well covered in the event of adverse circumstances.

REMUNERATION

The board is supported by the Governance and Remuneration Committee on matters relating to staffing, personnel (human resources) and remuneration.

• Non-Executive Director Remuneration

Non-executive director remuneration is paid in the form of directors' fees. Directors' fees for the 2004/05 year were paid in cash.

The total remuneration available to non-executive directors is determined by shareholders at the annual meeting. At the 2003 annual meeting, shareholders approved, effective from 1 November 2003, a total remuneration amount for non-executive directors of \$600,000 per annum (plus GST if any).

Non-executive directors are paid the same base fee but additional fees may be paid, at the discretion of the board, to a director who undertakes additional work at the specific request of the board. No such additional fees were paid during the 2004/05 financial year.

The chairpersons of the board and the committees are paid additional remuneration to reflect the additional responsibilities of their positions. Where the board or a committee chairperson is also the chair of the Nomination Committee, no additional remuneration is paid for that chairperson role.

For those directors who were in office on or before 1 May 2004, SKYCITY's constitution permits the company, at the discretion of the board, to make a retirement payment to a director (or to his or her dependants), provided that the total amount of the payment does not exceed the total remuneration of the director in his or her capacity as a director in any three years chosen by the company. For directors appointed after 1 May 2004 the NZX Listing Rules require that the amount or method of calculation of any retirement benefit be authorised by shareholders.

Retirement allowances for SKYCITY directors were discontinued at 30 June 2004 with retirement allowances accrued to that date frozen as to amount. Retirement allowances accrued up to 30 June 2004 will be payable upon the retirement of a director, provided that the director has served at least three years on the board. Retirement allowances accrued as at 30 June 2004 will not carry any interest entitlement between 1 July 2004 and the date of payment.

In order to reflect the remuneration value foregone as a result of the discontinuation of retirement allowances, directors' fees were increased with effect from 1 July 2004. The fees, effective 1 July 2004, are \$80,000 for non-executive directors, \$160,000 for the chairman of the board, and \$12,500 for committee chairpersons. Total directors' fees under this structure have remained within the \$600,000 total limit approved by shareholders at the 2003 annual meeting.

Prior to the new fees being approved, the board obtained independent confirmations from John Egan Associates of Sydney that the fees were fair and reasonable, having regard to market practice for companies of similar size and complexity in Australasia at that time and from Deloitte Corporate Finance Auckland that the 23% adjustment to fees was an appropriate financial adjustment to compensate non-executive directors for the discontinuation of retirement allowances.

Directors' expenses reasonably incurred in carrying out their duties as directors are paid for by the company.

Corporate Governance (continued)

• Managing Director Remuneration

The Managing Director (Evan Davies) has an employment contract with SKYCITY which reflects standard conditions appropriate to a chief executive operating within the New Zealand business community. Under his contract, Mr Davies is paid a salary plus an annual performance-related incentive amount, as approved by the board.

The performance-related incentive is a variable amount and is determined with reference to the return on invested capital achieved by the company during the financial year and also various performance measures which are set by the board for each year, in consultation with Mr Davies. These measures include financial and strategic criteria set with reference to the company's business and strategic plans as well as qualitative criteria including corporate governance and leadership. Performance against these measures is assessed at the end of each year and payment of the amount so determined is made in cash. The maximum amount payable to Mr Davies as performance-related incentive is currently set at an amount equal to his fixed salary.

Mr Davies also has a long-term equity incentive, comprising 2,338,530 share options issued by the company under the terms of the Managing Director Share Option Plan, as approved by shareholders at the 2002 annual meeting. The options vested on 10 September 2005 and must be exercised by 10 September 2007. Any options not exercised at that time will lapse. At the date of this report Mr Davies has not exercised any of the 2,338,530 options.

The exercise price escalates from the date of issue by an amount equal to the company's cost of equity less dividends paid and other returns to shareholders. In this way the options have no value unless the return to shareholders over the period since the date of issue has exceeded the return which shareholders should expect from their investment. The value of these options at the date of issue, as determined by the Black-Scholes method of valuation, was \$350,000 per annum for the three-year period from 1 July 2002 to 30 June 2005.

Before setting the remuneration for the Managing Director, the board receives formal advice from one or more independent remuneration consultants with expertise in the Australasian listed company environment, to ensure that the remuneration is structured in a way that is fairly aligned with shareholders' interests and appropriately set having regard to the remuneration provided to senior executives in comparable companies in New Zealand and Australia.

• SKYCITY Employee Remuneration

The Governance and Remuneration Committee reviews employee remuneration strategy, policy, and practices. External advice from recognised remuneration consultants is regularly sought on best practice remuneration structure, market trends, and market rates.

The guiding principles that underpin SKYCITY's remuneration policies are:

- to be market competitive at all levels to ensure the company can attract and retain best possible talent
- to be performance-oriented so that remuneration practices recognise and reward high levels of performance and to avoid an entitlement culture
- to provide a significant at risk component of total remuneration which drives performance to achieve company goals and strategy
- to manage remuneration within levels of cost efficiency and affordability
- to align remuneration for senior executives with the interests of shareholders.

Processes and practices exist which ensure consistency throughout the SKYCITY Group in approach and implementation of remuneration policy.

All salaried roles within SKYCITY are job-sized using internationally-recognised methodology to measure the impact, accountability, and complexity of each role as it contributes to the organisation. Advice is then sought as to remuneration ranges by job band or level being paid by the market to ensure competitiveness at both base and total remuneration levels. Individual remuneration is set within the appropriate range taking into account such things as individual capability, scarcity of resource, and specific business needs. This process ensures internal equity between roles and allows comparison with the overall market. Remuneration ranges are reviewed annually to reflect any market movements.

Every alternate year SKYCITY engages an international remuneration consultancy to undertake a survey, with other companies considered appropriate as comparatives, to test senior executive remuneration levels specific to roles to ensure further valid comparison data.

SKYCITY also participates in and accesses several recognised remuneration surveys each year to provide detailed information including both data and trends. These also assist SKYCITY in ensuring market competitiveness.

SKYCITY has a formal performance review process. Each year the company reviews its strategic and risk management plans and develops an annual operating plan. This cascades to each business and, in turn, to each function and each role. Formal goals are set for each salaried staff member as an individual performance plan to clarify expectations against which individual performance is assessed.

SKYCITY's commitment to paying for performance means that, along with taking market relativities into account, each person's remuneration is directly linked to the degree to which they have delivered the goals set out in their individual performance plan.

Remuneration increases for the senior executive team are approved by the Governance and Remuneration Committee.

- **Performance Pay Incentive Plan (PPI)**

SKYCITY operates an at-risk component of total remuneration for all salaried employees called Performance Pay Incentive (PPI). The amount of variable pay a person can receive varies according to the band or level at which their role is evaluated. To enable payment of any at-risk incentive component, the business has to achieve minimum financial targets. If those targets are not met no bonus incentive is paid. In addition to overall financial achievement, all salaried staff have a number of individual targets that they must achieve which account for up to 50% of their at-risk remuneration.

Payments under the PPI scheme have a minimum trigger point based on company financial targets and increase according to the degree by which the company performs relative to its financial targets. In this way the PPI incentive scheme links individual reward to business performance and shareholder interests. Staff who participate in the PPI scheme are paid 40% in cash and 60% in SKYCITY shares. The value of shares is determined by the closing price of SKYCITY shares on the NZSX for the 10 trading days following the announcement of the SKYCITY annual result. The shares components of the PPI bonus are issued in three equal tranches over a two-year period.

PPI is only paid when the company's (or business unit's) Return on Investment Capital has exceeded (or is close to) the predetermined target(s) as set by the board (on the recommendation of the Governance and Remuneration Committee) at the start of the financial year.

Under the PPI, salaried personnel's base bonuses range from 6.5% to 30.0% of annual salary. The actual bonus amount can be zero or between 0.15 times and 1.5 times the base bonus percentage depending on company performance against target. Individual PPI bonus payments are then subject to performance against personal goals set at the beginning of the year.

During the 2004/05 year, a total of 670 SKYCITY salaried personnel received total PPI bonuses of \$969,000 (an average bonus payment of \$1,446 per participant).

- **Customer Experience Incentive (CEI)**

SKYCITY also has an at-risk incentive plan for waged staff called Customer Experience Incentive (CEI). This scheme reflects the company's commitment to providing outstanding experiences for customers. Waged staff can earn additional bonus remuneration depending on the achievement of financial targets and customer satisfaction targets based on focused surveys run by independent survey companies.

CEI is only paid when the company's (or business unit's) predetermined financial and customer service targets have been met.

Bonuses under the CEI range from \$60 to \$450 (\$60 to \$550 from 2005/06) net after tax in any six-month period, depending on the number of hours worked in the six-month periods ending 31 December and 30 June in each year.

During the 2004/05 year 1,773 waged employees received total CEI bonuses of \$164,000 (an average bonus payment of \$92.50 per participant).

Both the PPI and CEI incentive schemes require that sufficient returns have been created during the period in order to cover the cost of bonuses paid, but also to ensure that the cost of such bonuses are only a proportion of the returns created. In this way, shareholders and employees share in the returns created, but employees only share in those returns (under the PPI/CEI schemes) when they have met the predetermined financial and other thresholds.

Corporate Governance (continued)

- **Senior Executive Share Option Plan**

In addition to the Managing Director Share Option Plan referred to earlier in this section, share options are issued to a group of approximately 50 senior executives under the Executive Share Options Plan (expires 2005 – refer below). Options are issued as a long-term incentive to encourage retention and value creation. The Governance and Remuneration Committee recommends to the board for approval the number of options to be granted to each executive. The number of options issued to an executive is determined based on an option valuation, independently calculated by Deloitte Corporate Finance using the Black-Scholes methodology.

The exercise price of executive share options is structured so that the employee benefits only if the total return received by the company's shareholders, measured as the combination of share price appreciation and dividends, exceeds the company's estimated cost of equity over the same period. The company's estimated cost of equity to be used in the calculation is equivalent to the market's return expectations for a company with the risk profile and prospects of SKYCITY Entertainment Group Limited.

The estimated cost of equity used to determine the exercise price is recalculated on an annual basis on the anniversary of the issue date of the option, to ensure that the performance target continues to reflect changes in market conditions.

The base exercise price for executive share options is the average closing price of SKYCITY shares on the NZSX over the 10 trading days following the release of the company's result for the financial year to 30 June to the New Zealand and Australian stock exchanges. The base exercise price, which is independently calculated, is escalated (on a daily basis) by the company's estimated cost of equity capital adjusted for dividends between the date the option was issued and its exercise date.

The Executive Share Option Plan is structured to align executive interests with shareholder interests and to motivate executives to drive company performance and to reward executives for their loyalty and commitment throughout a three-year period.

Options issued under the SKYCITY Executive Share Option Plan, except in special circumstances, cannot be exercised until three years from the date of issue. Options issued under the Plan lapse if not exercised on or before the fifth anniversary of their date of issue.

- **Senior Executive Share Rights Plan**

The Executive Share Option Plan 2002 expired on 30 June 2005 and has been replaced from 1 July 2005 by the Executive Share Rights Plan (Rights Plan). The Rights Plan operates in much the same way as the Options Plan, using the same cost of equity less dividends structure for determining the base price multiplier, except that the net benefit is calculated and then the required number of shares are issued at the date of exercise. This will result in significantly fewer new shares being issued than was the case under the previous plan. The terms of the Rights Plan, which was approved by the board in December 2004, is for a three-year period ending 30 June 2008.

The board undertook extensive research and obtained independent expert advice on longer-term incentive remuneration structures before finalising the terms of the Executive Share Rights Plan. It is satisfied that the Plan will continue to provide senior executives with an effective longer-term value incentive based on the company's equity market performance.