

CORPORATE GOVERNANCE

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.

SKYCITY's governance structures and processes are regularly reviewed to ensure that the highest levels of behaviour and accountability are achieved and to ensure that the company's governance continues to be consistent with international best practice both in compliance format and in substance.

In establishing its governance policies and procedures the SKYCITY board has adopted ten governance parameters as the cornerstone principles of its corporate governance charter. These cornerstone principles, set out below, reflect the Corporate Governance Best Practice Code of the New Zealand Stock Exchange (NZX), Corporate Governance Guidelines of the Australian Stock Exchange (ASX) and the New Zealand Securities Commission's governance recommendations.

The ten cornerstone principles set by the board are:

1. Establish 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.
2. Structure itself to be effective in discharging its responsibilities and duties.
3. Set standards of behaviour expected of company personnel.
4. Safeguard the integrity of the company's financial reporting.
5. Ensure timely and balanced disclosure.
6. Respect and facilitate the rights of shareholders.
7. Recognise and manage risk.
8. Encourage board and management effectiveness.
9. Remunerate fairly and responsibly.
10. Recognise the obligations to all stakeholders.

The board charter is the principal specification of the governance framework within which SKYCITY conducts

its affairs. The other supporting charters and policy documents which combine together to comprise SKYCITY's governance framework include:

- The company's Constitution
- Audit and Risk Committee Charter
- Governance and Remuneration Committee Charter
- Nomination Committee Charter
- Terms of Appointment/Terms of Reference for Directors
- Director Independence Guidelines
- 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
- Environmental Policy
- Host Responsibility Policy.

A copy of the board charter and attachments can be obtained from the 'Investor Centre' subsection of the SKYCITY website at www.skycitygroup.co.nz

The objectives of SKYCITY's ten cornerstone governance principles are set out on the following pages.

PRINCIPLE 1

Establish 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.

SKYCITY's procedures are designed to:

- enable the board to provide strategic guidance for the company and effective oversight of management
- clarify the respective roles and responsibilities of board members and senior executives in order to facilitate board and management accountability to both the company and its shareholders.

Role of the board

SKYCITY's board of directors is responsible for supervising the management of the company.

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 all applicable company and casino law and regulation is complied with, and that the company is well managed for the benefit of its shareholders and other stakeholders. The board also oversees management's risk profiling and business continuity plans.

Specific responsibilities of the board include:

- oversight of the company, including its control and accountability procedures and systems
- 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 the progress of capital expenditures, capital management initiatives, and acquisitions and divestments
- approval of 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 and performance review 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 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 board has responsibility for the affairs and activities of the company, which in practice is achieved through delegation to the Managing Director and others (including SKYCITY-appointed directors on subsidiary company boards) who are charged with the day to day leadership and management of the company.

The Managing Director also has responsibility to manage and oversee the interfaces between the company and the public and to act as the principal representative of the company.

The board maintains a formal set of delegated authorities that clearly defines the responsibilities which are delegated to the Managing Director and management and those which are retained by the board. These delegated authorities are approved by the board and are subject to annual review by the board.

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 the company's affairs, provided they have previously notified the board chairperson of their intention to do so.

The company provides a deed of indemnity in favour of each director and senior management personnel and provides professional indemnity insurance cover for directors and executives acting in good faith in the conduct of the company's affairs.

PRINCIPLE 2

Structure the board to be effective in discharging its responsibilities and duties.

Board effectiveness requires the efficient discharge of the duties imposed by law on the directors and the addition of value to the company. To achieve this the SKYCITY board is structured to:

- have a sound understanding of, and competence to deal with, the current and emerging issues of the business
- effectively review and challenge the performance of management and exercise independent judgement, and
- assist in the selection of candidates for shareholder vote.

Board composition

The board ensures that it is of an effective composition and size to adequately discharge its responsibilities and duties and to add value to the company's decision-making.

In order to meet these requirements, the board membership comprises a range of skills and experience to ensure that it has a proper understanding of and competence to deal with the current and emerging issues of the business, to effectively review and challenge the performance of management, and to exercise independent judgement.

Directors are appointed under the company's Terms of Appointment and Terms of Reference for Directors and board charter for a term of three years or are subject to re-appointment on a more frequent basis in order for the company to comply with the listing rule rotation requirements of the NZX and the ASX.

SKYCITY supports the separation of the role of board chairperson from the Managing Director/Chief Executive Officer position. The current chairman of the board, Rod McGeoch, is an independent director and is not the Managing Director or Chief Executive Officer and has ensured that he has the time necessary to discharge the role effectively. The chairman of the board and the chairpersons of the board committees are elected by the non-executive directors.

The board has established the Nomination Committee to make recommendations on the board's size, selection and removal of directors, on appropriate procedures for director and board evaluation and performance review, the induction, orientation and training of new directors in the company's operations and the gaming/entertainment sector generally, and on the board's succession planning. All directors are members of the Nomination Committee and Rod McGeoch is chair of this committee.

The company's constitution also requires all potential directors to have satisfied the extensive probity requirements of each jurisdiction in which the company holds gaming licences.

The directors at the date of this annual report are Rod McGeoch (Chairman), Evan Davies (Managing Director and the only executive director), Rob McLeod, Patsy Reddy, Sir Dryden Spring, Elmar Toime and Bill Trotter. A brief biography of each director is set out on pages 38 and 39.

Mr Toime and Sir Dryden Spring will retire by rotation at the 2006 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 be formally requested by the board to stand for re-election. At its August 2006 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 Mr Toime and Sir Dryden. The board noted that both Mr Toime and Sir Dryden have indicated that they would be pleased to continue to contribute to the company's affairs for a further term and have requested both directors to stand for re-election at the 2006 annual meeting.

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.

At its June 2006 meeting, the board reviewed the status of each director in accordance with the independence specification of the NZX Code and determined that all current directors, other than the Managing Director (Evan Davies), are independent.

The board noted that, under the ASX Independence Guidelines, all non-executive directors except Mr Trotter are considered independent. Mr Trotter is not independent under the ASX 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.

SKYCITY's Code of Business Practice sets out the board's policy on conflicts of interest. 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. When conflicts of interest exist, directors exclude themselves from discussions and do not vote in respect of the relevant matters. The disclosure of existing interests is an ongoing responsibility of each director.

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

Board committees

The board has three formally appointed committees, being the Audit and Risk Committee, Governance and Remuneration Committee and Nomination Committee. The non-executive directors of the board appoint the chairperson of each committee.

Each committee operates under a charter document as agreed by the board. Each committee charter and the performance of each committee is subject to formal review by the board on an annual basis.

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 are authorised to do so by their charters or have been specifically mandated to do so.

All directors are entitled to attend any committee meeting. All directors receive the papers for each committee and the minutes of the committee meetings. The Managing Director attends the board's Audit and Risk Committee and Governance and Remuneration Committee meetings in an ex-officio capacity. 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.

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.

During the 2005/06 year, the board met formally on eight occasions, seven of which were scheduled meetings and one of which was called to attend to particular items of business. The Audit and Risk Committee met five times, the Governance and Remuneration Committee four times and the Nomination Committee met once. In addition, the directors convened by teleconference to discuss specific issues on a number of occasions during the year. Sir Dryden Spring was chairman at each meeting of the Audit and Risk Committee, as was Patsy Reddy at each meeting of the Governance and Remuneration Committee and Rod McGeoch at the Nomination Committee meeting. The following table shows attendances at board and committee meetings by

directors during the year ended 30 June 2006 with the number of meetings held in brackets.

	BOARD (8)	AUDIT & RISK (5)	GOVERNANCE & REMUNERATION (4)	NOMINATION (1)
Rod McGeoch	8		4	1
Evan Davies	8			1
Rob McLeod	8	5		1
Patsy Reddy	8		4	1
Sir Dryden Spring	8	5		1
Elmar Toime	7	5		1
Bill Trotter	8		4	1

PRINCIPLE 3

Set standards of behaviour expected of company personnel.

SKYCITY actively promotes ethical and responsible behaviour and decision-making by:

- clarifying and promoting observance of its guiding values
- clarifying the standards of ethical behaviour required of company directors and key executives (that is, officers and employees who have the opportunity to materially influence the integrity, strategy and operation of the business and its financial performance) and encouraging the observance of those standards, and
- communicating the requirements relating to trading in company's securities by directors and employees.

Directors 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. Directors must also ensure that information they hold about the company is treated in strict confidence and that property of the company (including information) is used solely in the best interests of the company. Members of the board must also comply with the company's codes for business practice and securities transactions and the company's insider trading policy.

The Governance and Remuneration Committee is responsible for monitoring the organisational integrity of business operations to ensure the maintenance of a high standard of ethical behaviour. This includes ensuring that SKYCITY operates in compliance with its Code of Business Practice, which sets out the guiding principles of its relationships with stakeholder groups such as regulators, shareholders, customers, and employees.

The company's Code of Business Practice is an integral component of the board charter and addresses the following areas:

- compliance with laws, NZX and ASX Listing Rules, casino licences, other regulatory requirements, and co-operation with regulatory bodies
- honest and fair dealing with customers, suppliers 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, and
- the receipt of any benefits from external parties.

The company maintains a code of practice for directors and senior executives that 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, before trading in the company's securities, must obtain the prior consent of the Managing Director or the chairperson or deputy chairperson of the board. The Managing Director, before trading in the company's securities, must obtain the prior consent of the chairperson or deputy chairperson of the board.

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 are 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.

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. The company communicates regularly with the 'officers' to remind them of their obligations and facilitates the filing of notices to ensure full compliance with this requirement.

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

PRINCIPLE 4

Safeguard the integrity of the company's financial reporting.

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 board has established an Audit and Risk Committee. This committee comprises three directors, all of whom are independent non-executive directors and financially literate.

The Audit and Risk Committee has responsibility for oversight of the quality, reliability, and accuracy of the company's internal and external financial statements, the quality of the company's external result presentations, its internal control environment and risk management programmes, and for its relationships with its internal and external auditors.

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

The Managing Director and the General Manager Group Finance are required to state in writing to the Audit and Risk Committee that the company's interim and full year financial statements 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 General Manager Corporate provide assurance on the internal control environment, as set out in Principle 7.

The Audit and Risk Committee meets with the internal and external auditors independently of management as often as is appropriate, but not less than twice per annum. The Committee oversees the independence of the company's internal and external auditors and monitors the scope and quantum of work undertaken and fees paid to the auditors for other than audit work. The Committee has adopted an External Audit Independence Policy that sets out the framework for assessing and maintaining audit independence.

The Committee has formally reviewed the independence status of PricewaterhouseCoopers and is satisfied that its 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 of the company.

Fees paid to PricewaterhouseCoopers during the 2005/06 year were for audit services \$655,000, other assurance services \$988,000 and tax advisory services \$1,429,000. Details of these fees are set out in note 7 to the financial statements.

The Audit and Risk Committee Charter requires rotation of the external audit partner not less frequently than every five years. David Randell (PricewaterhouseCoopers), current external audit partner for SKYCITY, was appointed effective October 2003.

SKYCITY policy is that there is a separation of the provision of internal and external audit services. Ernst and Young has acted as SKYCITY's internal audit service provider (previously PricewaterhouseCoopers) since 1 October 2004. Ben Palmer (Ernst and Young), current internal audit partner, was appointed in September 2004.

PRINCIPLE 5

Ensure timely and balanced disclosure.

The board is committed to ensuring timely and balanced disclosure of all material matters concerning the company to ensure compliance with the letter and intent of NZX and ASX Listing Rules such that:

- all investors have equal and timely access to material information concerning the company, including its financial situation, performance, ownership and governance, and
- company announcements are factual and presented in a clear and balanced way.

The company is committed to presenting its financial and key operational performance results in a clear, effective, balanced and timely manner to the stock exchanges on which the company's securities are listed, and to its shareholders, analysts and other market commentators, and ensures that such information is available on the company's website.

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

Alistair Ryan, General Manager Corporate, is Company Secretary and the Disclosure Officer for SKYCITY Entertainment Group Limited and is responsible for bringing to the attention of the board any matter relevant to the company's disclosure obligations.

PRINCIPLE 6

Respect and facilitate the rights of shareholders.

The company's shareholder communications strategy is designed to facilitate the effective exercise of shareholder rights by:

- communicating effectively with shareholders
- providing shareholders with ready access to balanced and understandable information about the company and corporate proposals, and
- facilitating participation by shareholders in general meetings of the company.

The company achieves this by ensuring that information about the company is available to all shareholders by means of personal and/or website communication and through encouraging shareholders to attend general meetings of the company and making appropriate time available at such meetings for shareholders to ask questions of directors and management.

The company's auditor attends any general meeting of shareholders and is available to answer questions about the conduct of the audits and the preparation and content of the audit reports.

PRINCIPLE 7

Recognise and manage 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/disaster recovery plans are in place and are well understood throughout the organisation.

The Managing Director and the General Manager Corporate are required to state in writing to the Audit and Risk Committee that the annual financial statements are 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.

The company maintains business continuity, material damage and liability insurance covers to ensure that the earnings of the business are well protected from adverse circumstances.

PRINCIPLE 8

Encourage board and management effectiveness.

Directors are provided with all information required for the performance of their duties. Detailed information to facilitate the decision-making process is included in the board papers and is supported by access to senior managers. 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.

The Nomination Committee ensures that new members take part in an induction programme to familiarise themselves with the company's operations and the gaming/entertainment sector generally. The board also undertakes a programme of site visits to ensure directors remain familiar with each of the company's locations.

The board and committee charters require an evaluation of their performance on an annual basis. The Nomination Committee determines and oversees the process for evaluation which includes assessment of the role and responsibilities, performance, composition, structure, training, and membership requirements of the board and its committees.

The Governance and Remuneration Committee undertakes the performance review of the Managing Director and those reporting directly to that position in accordance with the company's performance review procedures.

PRINCIPLE 9

Remunerate fairly and responsibly.

The Governance and Remuneration Committee's responsibilities include the review of SKYCITY's remuneration policies and procedures, review of the performance of the Managing Director and the direct reports to the Managing Director and approval of their remuneration and incentives, review of incentive remuneration performance targets and recommendation of incentive payments, and oversight of the company's recruitment, retention and succession policies.

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 the best available 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, and
- to align remuneration for senior executives with the interests of shareholders.

Non-executive director remuneration

Non-executive director remuneration is paid in the form of directors' fees. Fees are 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 remuneration may be paid for additional work undertaken by any director, at the discretion of the board and subject to the maximum remuneration amount which has been approved by shareholders.

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

Fees are currently \$80,000 for non-executive directors, \$160,000 for the chairman of the board, and an additional \$12,500 for committee chairpersons.

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.

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 as at 30 June 2004 will not carry any interest entitlement between 1 July 2004 and the date of payment.

The company pays for a director's expenses reasonably incurred in carrying out their duties as a director. The company secretary may authorise such expenses or refer them for approval to the board chairperson, or in the case of the board chairperson, to the chair of the Audit and Risk Committee.

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 the board sets 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 (50%), share rights (25%) and restricted shares (25%). Shareholders approved the issue of share rights and restricted shares to Mr Davies at the 2005 annual meeting.

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, approved by shareholders at the 2002 annual meeting. These options vested on 10 September 2005 and must be exercised on or before 10 September 2007. Any options not exercised at that time will lapse. At the date of this annual report, Mr Davies had not exercised any of the 2,338,530 options.

The exercise price of the options and share rights escalates from the date of issue by an amount equal to the company's cost of equity less distributions/dividends paid and other returns to shareholders. In this way the options and share rights have no value unless the return to shareholders over the period since the date of issue has exceeded the return that shareholders should expect from their investment.

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. This independent advice is sought 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

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 matters as individual capability, scarcity/availability of resource/skill, 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 market movements.

Every alternate year SKYCITY engages an international remuneration consultancy to undertake a survey of other companies considered appropriate as comparatives, to test remuneration levels specific to roles to ensure valid comparative 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 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 flows through into each business unit 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 subsequently 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.

The Governance and Remuneration Committee approves remuneration increases for the senior executive group.

Performance Pay Incentive Plan (PPI)

SKYCITY operates an at-risk component of total remuneration for all salaried employees titled Performance Pay Incentive (PPI). The amount of performance 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 must 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 PPI have a minimum trigger point based on company financial targets and increase according to the degree by which the company performs relative to these financial targets. In this way the PPI incentive links individual reward to business performance and shareholder interests.

Staff who participate in PPI 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 ten trading days following announcement of the SKYCITY annual result. The shares components of a 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 invested capital meets, exceeds or is within 10% of the predetermined target(s) as set by the board (on the recommendation of the Governance and Remuneration Committee) at the start of each financial year.

Under PPI, salaried personnel 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 (or business unit) performance against target. Individual PPI bonus payments are then subject to performance against the personal goals set at the beginning of the year.

For the 2005/06 year, a total of 1,038 SKYCITY salaried personnel received PPI bonuses totalling \$6.2 million (an average bonus payment of \$5,961 per participant).

Customer Experience Incentive (CEI)

SKYCITY also has an incentive remuneration plan for waged staff, titled Customer Experience Incentive (CEI). This scheme reflects the company's commitment to providing favourable 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 conducted 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.

Individual bonuses under CEI range from \$60 to \$550 net after tax in any six month period, depending on the number of hours worked during the six month periods ending 31 December and 30 June in each year.

For the 2005/06 year, 2,820 waged employees received total CEI bonuses of \$1.6 million (an average bonus payment of \$581 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 both PPI and CEI) when they have met the predetermined financial and other thresholds.

Equity-based executive remuneration

Executive Share Rights Plan

The SKYCITY Executive Share Rights Plan (Rights Plan) commenced on 1 July 2005, following expiry of the Executive Share Option Plan 2002. Share rights are issued to a group of approximately 30 senior executives. Rights 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 rights to be granted to each executive. The number of rights issued to executives is determined based on a rights valuation calculated by Deloitte Corporate Finance using the binomial methodology. The Deloitte valuation is subject to independent review by the company's auditor, PricewaterhouseCoopers.

The Executive Share Rights Plan is structured to align executive interests with shareholder interests, to motivate executives to drive company performance and to reward executives for loyalty and commitment.

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

The exercise price of executive share rights 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/distributions, exceeds the company's cost of equity over

the same period. The company's cost of equity 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 cost of equity used to determine the exercise price is recalculated on an annual basis on the anniversary of the issue date of the share right, to ensure that the performance target continues to reflect changes in market conditions.

The base exercise price for executive share rights is the average closing price of SKYCITY shares on the NZSX over the ten trading days following release of the company's result for the financial year to 30 June to the NZX and the ASX. 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/distributions between the date the right was issued and its exercise date.

At exercise, the net benefit of the share right is calculated and then the required number of shares are issued. This results in significantly fewer new shares being issued than was the case under the previous options plan. The Rights Plan, which was approved by the board in December 2004, is for a three year period to 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 Rights Plan. The board is satisfied that the Plan will provide senior executives with an effective longer-term value incentive based on the company's equity market performance.

Executive Share Option Plan

Share options have also been issued to senior executives under the Executive Share Option Plan (Option Plan) that expired in 2005.

The Option Plan operates in much the same way as the Rights Plan, using the same cost of equity less dividends/distributions structure for determining the base price multiplier, except that shares are issued for each option exercised. (Under the Rights Plan the number of shares issued equates to the value between the SKYCITY share price and the rights exercise price at date of exercise).

PRINCIPLE 10

Recognise the obligations to all stakeholders.

SKYCITY acknowledges legal and other obligations to non-shareholder stakeholders such as employees, suppliers, customers, regulators, and the community as a whole.

The SKYCITY Code of Business Practice sets out the company's commitment to the community and the standards of behaviour that can be expected by all stakeholders, including employees and shareholders.

SKYCITY recognises the need to control its impact on the environment and to demonstrate a sound environmental performance. The company's Environmental Policy sets out its environmental commitments. The main environmental issues are efficient utilisation of energy and water resources and the efficient handling of waste materials.

SKYCITY is aware that its business has the potential to create issues for some customers in terms of negative social impacts such as problem gambling. The SKYCITY Host Responsibility Policy has been developed to ensure a consistent responsible host culture amongst all SKYCITY staff at all properties.

The objectives of the SKYCITY Host Responsibility Policy are outlined earlier in this Annual Report. The objectives of the policy include ensuring that each SKYCITY site:

- minimises the potential harm of gaming by:
 - providing information to customers and concerned family members on problem gambling symptoms, self-detection and self-referral for help
 - implementing Group-wide processes that support customers seeking to cease gaming or moderate their behaviour (exclusion) and to take positive action against those who breach these processes
 - consulting with problem gambling counselling and support organisations
 - promoting community awareness and education initiatives on moderating gaming activities as appropriate and the services available for individuals seeking to control their behaviour.
- promotes the need for management and staff to:
 - be alert for excessive gaming activity
 - be alert for under-age gaming and alcohol consumption
 - enforce a standard of dress and behaviour
 - enforce non-smoking requirements (as applicable in New Zealand and South Australia)
 - promote the responsible consumption of alcohol
 - ensure responsible marketing, advertising, promotion and external signage relating to gaming activity, and
 - develop staff competence and commitment towards good host responsibility, through the provision of ongoing staff training.

COMPLIANCE

The NZX and ASX Listing Rules require listed companies to disclose the extent to which they have followed the NZX Corporate Governance Best Practice Code and the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations.

NZX Best Practice Code

SKYCITY confirms that it has complied with the NZX Corporate Governance Best Practice Code during the 2005/06 year.

ASX Principles and Best Practice Recommendations

SKYCITY confirms that it has complied with the ASX Corporate Governance Council's Principles and Best Practice Recommendations, except as follows:

- The company does not disclose the remuneration of its five highest-paid executives. This is an Australian Corporations Act requirement that is included in the ASX Corporate Governance Principles and Best Practice Recommendations. SKYCITY makes the remuneration disclosures required of a New Zealand company under the New Zealand Companies Act 1993 and considers that such disclosure is appropriate in the New Zealand context.
- The company does not make available to external parties certain internal policies and procedures. SKYCITY believes that the board charter and the comprehensive references to governance in this Annual Report and on the company's website provide good disclosure of the company's internal processes and mechanisms and that the underlying intention of the ASX Corporate Governance Council's recommendations on reporting of internal mechanisms have been met.
- Shareholders have not approved extensions of the SKYCITY senior executive options/rights plans. The original SKYCITY executive share option plan was approved by shareholders at the 1999 annual meeting of the company and was subsequently extended by the board in August 2002. The major difference in the 2002 renewal was that the period prior to exercise of options was extended from one year to three years. The Executive Share Rights Plan 2005 (which replaces the Executive Share Option Plan 2002) was approved by the board in December 2004 and 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 that will be issued will be significantly reduced. The Executive Share Rights Plan continues to impose a three year restriction before benefits under the Plan can be realised by participants.