The Ministry of Business, Innovation and Employment and SkyCity Entertainment Group Limited

Report in connection with the New Zealand International Convention Centre

10 May 2013

Table of contents

1 Introduction

The Ministry of Business, Innovation and Employment (the 'Ministry'), on behalf of the Crown, and SkyCity Entertainment Group Limited ('SkyCity') (together the 'parties') have reached agreement on the basis on which SkyCity will design, develop, construct, maintain and operate the New Zealand International Convention Centre ('NZICC'). In exchange, the Crown will provide certain concessions (including regulatory changes) to SkyCity (the 'proposed transaction').

The concessions include allowing for:

- extending the renewal date of the Auckland Casino Venue Licence (the 'Licence') from 2021 to 2048 and allowing the Licence to encompass all of SkyCity's properties in Federal Street, Auckland;
- 230 additional single terminal gaming machines ('STGMs') (taking the total allowable under the licence to 1,877);
- 40 additional gaming tables (taking the total allowable under the licence to 150);
- either 12 gaming tables or SkyCity can substitute each table for the right to operate an automated table game with 20 Automated Table Game Player Stations ('ATGPSs');
- up to 17% of all STGMs, ATGPSs and electronic table games being able to accept banknotes with a denomination greater than $20, but only in restricted areas of the Auckland casino; and
- introducing ticket-in ticket-out ('TITO') and card-based cashless gambling technology on all STGMs and ATGPSs and electronic table games at the Auckland casino.

In addition, the parties have agreed that in the event the regulatory concessions are changed during the life of the agreement by the actions of the Crown then compensation will be paid to SkyCity. Our analysis assumes they are fair and not onerous on either party. The parties have also agreed that the Crown will also compensate SkyCity in the event there is any increase in casino duty (or other tax which applies only to casinos) in respect of SkyCity's business in Auckland between the signing of the full agreement and four years after the NZICC opens.

KordaMentha has been appointed to provide a report giving an independent and impartial assessment of the reasonableness of the financial evaluation of the proposed transaction and the methodology applied to valuing it (the 'Report'). We comment only on the financial implications of the proposed transaction. We have not been engaged to consider:

- alternative proposals to design, develop, construct and operate the NZICC;
- the benefits to the New Zealand economy from having the NZICC; and
- social impacts of the regulatory concessions.

The financial analysis of both the NZICC and the regulatory concessions are based on an Excel Model dated 18 April 2013 (the 'Model'), prepared by SkyCity. The assumptions underpinning the modelling of the NZICC include information and opinions provided by external parties, as well as SkyCity. The assumptions underpinning the modelling of the concessions are based on detailed information and assumptions provided by SkyCity. Much of this information and the assumptions are based on the performance of SkyCity's existing Auckland casino business. SkyCity is the only source of such information and assumptions. Accordingly, the Ministry has relied upon this information and the assumptions and modelling provided by SkyCity and has agreed that they should be used as the basis of the financial analysis of the NZICC and the regulatory concessions. References in this report that 'the parties' have agreed certain matters or adopted certain positions or assumptions generally mean that those matters, positions or assumptions are based on the assumptions in and results produced by the Model, prepared by SkyCity.

We have evaluated the key assumptions underpinning the analysis to assess whether they lie within a reasonable range, from the perspective of both parties, for the purposes of forming our opinion. We are not casino industry experts and have not been instructed to verify the accuracy or completeness of information provided to us nor have we carried out any form of due diligence or audit of the information.

The Ministry and SkyCity have confirmed to KordaMentha that, to the best of their knowledge and belief the prospective financial information provided to KordaMentha by each party and which was used by KordaMentha in its analysis, was prepared in good faith on the basis of reasonable assumptions and represent and continues to represent their genuine views.

We note that the Government announced on 21 April 2013 that it intends to seek an appropriation in Budget 2013 for $34 million over four years to significantly expand New Zealand's focus on international business events, including conferences, conventions and exhibitions. This is not an obligation placed on the Crown under the Heads of Agreement and has been excluded from the analysis of the proposed transaction. The parties' rationale for this is that the investment will not be used solely to promote the NZICC (or any other particular venue) but will be used by Tourism New Zealand to attract more, and significantly larger, business conferences to New Zealand.

The Report has been prepared to assist the Ministry and SkyCity in reaching their objective of agreement on the proposed transaction. Its purpose is to inform and assist the parties. However, it is not binding on them.

In forming our opinions we have relied upon information provided to us by the Ministry and SkyCity, including a Heads of Agreement dated 10 May 2013 (the 'HoA'), which sets out the assumptions underpinning the base case, which has been negotiated and agreed between the parties (the 'base case').

We have relied upon information set out in Excel Models (including the Model) prepared by SkyCity, the Ministry and their respective advisers. We have not verified the models nor confirmed their mechanical accuracy.

The Report does not restate the details of each party's assumptions underpinning their financial analyses, which are set out in their respective submissions. The Report focuses on the key issues and our analysis and conclusions thereon.

The sources of information, to which we have had access and upon which we have relied, are set out in Appendix 1 of this report. This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and the restrictions upon the use of this report. References to $ relate to New Zealand dollars, unless specified otherwise. References to years or financial years mean SkyCity's financial year end 30 June. Please note tables may not add due to rounding.

2 The base case

A summary of the net present value ('NPV') of the proposed transaction using two separate valuation methodologies: (1) discounting cash flows using hurdle rates; and (2) discounting cash flows using weighted average costs of capital ('WACC'), as assessed by the parties, is set out below:

Table 2.1: Base case NPV summary ($ million)

	Hurdle rates	WACC
NZICC – capital costs	(307)	(307)
NZICC – ground lease	(47)	(47)
NZICC – operations and on-spend	13	13
Subtotal – NZICC	(341)	(341)
Regulatory concessions – STGMs	92	111
Regulatory concessions – ATGPSs	85	103
Regulatory concessions – Tables	65	79
Regulatory concessions – TITO uplift	75	90
Subtotal – regulatory concessions	316	382
Casino capital costs (incl. tax depreciation)	(60)	(64)
Value attributed to licence extension	75	75
Net present value	(10)	51

The table set out above shows that, based on hurdle rates adopted by the parties, the NPV of the proposed transaction is broadly nil. This implies that the value of the concessions granted to SkyCity are equal to the costs associated with designing, building and operating the NZICC, based on hurdle rates considered appropriate for SkyCity to achieve.

The parties have also evaluated the proposed transactions based on WACC. That alternative calculation arrives at an NPV for the proposed transaction of $51 million. This analysis suggests that the value created by SkyCity from undertaking the proposed transaction is $51 million, which the parties consider to be a broadly reasonable return to SkyCity from undertaking the investment.

The analysis set out in our report is our independent and impartial assessment of the reasonableness of the financial evaluation of the proposed transaction and the methodology that the parties have applied to evaluating it.

Of necessity, our work relies on SkyCity's modelling and analysis because much of the information in each party's submission is provided by SkyCity.

3 Executive summary

3.1 The proposed transaction

SkyCity will design, develop, construct, and operate the NZICC. In exchange the Crown will provide certain regulatory concessions including:

- extending the renewal date of the Licence from 2021 to 2048 and allowing the Licence to encompass all of SkyCity's properties in Federal Street;
- 230 additional STGMs;
- 40 additional gaming tables;
- either 12 gaming tables or each table can be substituted with 20 ATGPSs;
- up to 17% of all STGMs, ATGPSs and electronic table games being able to accept banknotes with a denomination greater than $20, but only in restricted areas of the Auckland casino; and
- introducing TITO and card-based cashless gaming technology on all STGMs, ATGPSs and electronic table games at Auckland casino.

In addition, the parties have agreed that in the event the regulatory concessions are changed by the Crown, then SkyCity would be paid compensation.

3.2 NPV of the proposed transaction

3.2.1 Hurdle rates

The NPV of the proposed transaction, assessed using hurdle rates and underlying assumptions that we consider reasonable, compared to the parties' analysis is set out in the table below:

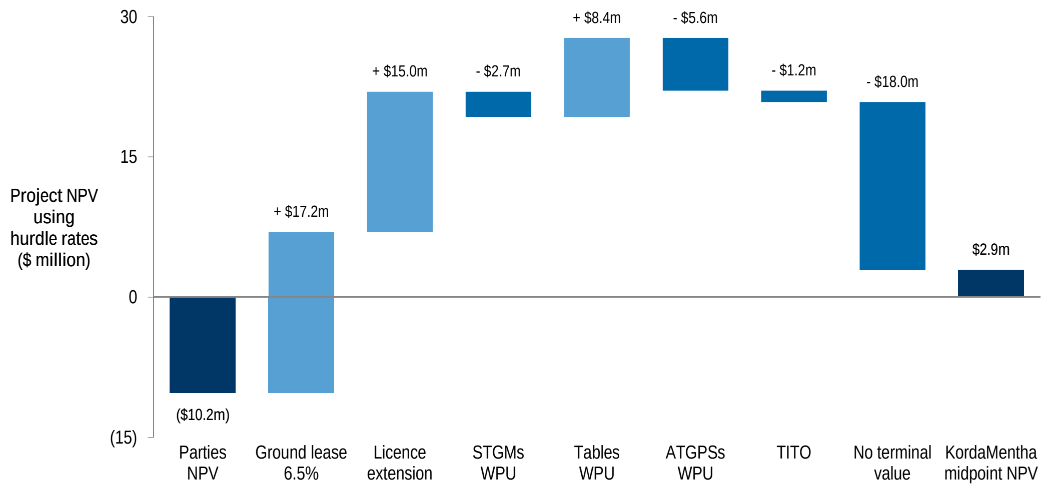
Table 3.1: Hurdle rate NPV summary ($ million)

	Base case	KordaMentha Low	KordaMentha High
NZICC – capital costs	(307)	(307)	(307)
NZICC – ground lease	(47)	(29)	(29)
NZICC – operations and on-spend	13	13	13
Subtotal – NZICC	(341)	(323)	(323)
Regulatory concessions – STGMs	92	75	91
Regulatory concessions – ATGPSs	85	61	87
Regulatory concessions – Tables	65	57	80
Regulatory concessions – TITO uplift	75	69	71
Subtotal – regulatory concessions	316	261	329
Casino capital costs (incl. tax depreciation)	(60)	(59)	(59)
Subtotal – value excl. licence extension	(85)	(121)	(53)
Value attributed to licence extension	75	65	115
Net present value	(10)	(56)	62

The table above shows, based on the assessments set out in the Report and hurdle rates we consider reasonable, we assess the NPV of the proposed transaction in a range between ($56 million) and $62 million with a mid-point of $3 million.

The key differences between the mid-point NPV that we consider reasonable and the parties' analysis are set out at Figure 3.1:

Figure 3.1: Differences between the parties and KordaMentha



3.2.2 WACC

The NPV of the proposed transaction, assessed using WACCs and underlying assumptions that we consider reasonable, compared to the parties' analysis is set out in the table below:

Table 3.2: WACC NPV summary ($ million)

	Base case	KordaMentha Low	KordaMentha High
NZICC – capital costs	(307)	(307)	(307)
NZICC – ground lease	(47)	(35)	(35)
NZICC – operations and on-spend	13	13	13
Subtotal – NZICC	(341)	(329)	(329)
Regulatory concessions – STGMs	111	95	115
Regulatory concessions – ATGPSs	103	77	109
Regulatory concessions – Tables	79	72	101
Regulatory concessions – TITO uplift	90	84	88
Subtotal – regulatory concessions	382	328	412
Casino capital costs (incl. tax depreciation)	(64)	(64)	(64)
Subtotal – value excl. licence extension	(24)	(65)	19
Value attributed to licence extension	75	65	115
Net present value	51	nil	134

The table above shows, based on the assessments set out in the Report and WACCs we consider reasonable, we have assessed the NPV of the proposed transaction in a range between $nil and $134 million with a mid-point of $67 million.

The calculations set out above are based on our analysis undertaken on the financial information provided by SkyCity and the Ministry.

3.3 Reasonableness of the proposed transaction

Given excess returns are allowed for in the hurdle rate, we would expect the NPV of the proposed transaction (assessed using hurdle rates) to be broadly nil, in order for the project to be acceptable to both parties.

Based on the NPV of the proposed transaction of between say ($56 million) and $62 million using appropriate hurdle rates the proposed transaction is within a reasonable range, albeit the assessed range is very wide.

Using appropriate WACC the proposed transaction has a positive NPV between $nil and $134 million for SkyCity.

The mid-point of the NPV of the proposed transaction that we have assessed is $3 million using hurdle rates and $67 million using WACC.

On balance, we consider the proposed transaction to be within the range of reasonableness from the perspective of both parties.

Our mid-point NPV using WACC is $67 million. Excluding the value of the licence extension, which is subjective and there are cogent arguments to support alternative estimates, the mid-point NPV is negative $23 million. We consider it reasonable for SkyCity to expect a value-enhancing return from the proposed transaction. In effect, our analysis says the value gain to SkyCity is equal to the licence extension less $23 million. The licence extension provides certainty over SkyCity's existing Auckland casino business, which brokers value at more than $2 billion.

Given the inherent uncertainty underlying key assumptions we do not consider it necessary that the NPV of the proposed transaction using hurdle rates should necessarily be nil in order to be broadly reasonable.

We note that there is a relatively wide range of results for the proposed transaction, which we would consider reasonable because a number of underlying assumptions are highly uncertain and subjective, including projected win per unit per day ('WPU') for the additional STGMs, ATGPSs and tables provided under the regulatory concessions. We agree with the parties that it is likely that additional games will not achieve utilisation levels as high as existing games. However, projecting the level of dilution is very subjective. Undertaking high level cross-checks of the impact of assumed WPUs on SkyCity's projected revenues results in a wide range of results, which appear broadly reasonable. We note that we are not experts in this area.

The Report has been prepared to assist the Ministry and SkyCity in reaching their objective of agreement on the proposed transaction. Its purpose is to inform and assist the parties. However, it is not intended to be binding on them.

In forming a view on whether to proceed with the proposed transaction each of the parties will need to consider their own views on value, risk and other factors and their own particular circumstances. We would expect the parties to consult their own advisers. However, the expansion of the Auckland casino would appear to be a natural fit for SkyCity's business and may be considerably lower risk than other investment opportunities available to it, even if they were to have higher projected ex-ante returns.

3.4 Key issues

The parties have evaluated the proposed transaction using hurdle rates and WACCs that they have determined appropriate for each of the key components of the proposed transaction. A table setting out the discount rates adopted by the parties, and by KordaMentha, is as follows:

Table 3.3: Discount rates

	Hurdle Rates		WACC	
	Parties	KordaMentha	Parties	KordaMentha
NZICC construction	5.0%	5.0%	5.0%	5.0%
NZICC operations	17.0%	17.0%	17.0%	17.0%
NZICC ground lease	10.0%	12.0%	10.0%	10.0%
Auckland casino cashflows	12.0%	12.0%	10.5%	10.0%
Licence extension	n/a	10.0%	n/a	10.0%

The key discount rate, which affects the outcome of the NPV analysis, is the discount rate for Auckland casino cashflows. In our view, it is appropriate to discount the cash flows attributable to the expansion of SkyCity's Auckland casino by a hurdle rate greater than our assessment of SkyCity's long run WACC of 10% but less than its Board approved hurdle rate of 15%. We consider the hurdle rate adopted by the parties of 12% is broadly reasonable.

We consider it reasonable for SkyCity to expect to earn some premium (or value enhancement) from undertaking the transaction however in this case we do not consider a hurdle rate of 15% is appropriate. The casino expansion is a natural extension of its existing business and without making allowance for any other adjustment to the proposed transaction if SkyCity were to earn a hurdle rate of 15% on the proposed cash flows this would be equivalent to the transaction providing it with a mid-point NPV of more than $140 million at its WACC of 10% (based on indicative calculations). This is a return in excess of what we consider reasonable for the Crown to provide.

We illustrate the sensitivity of results to changing the assessed hurdle rate for SkyCity's casino operations from 12%, as follows:

Table 3.4: NPV sensitivity ($ million)

Discount rate	10%	11%	12%	13%	14%
Midpoint NPV	67	32	3	(22)	(43)

The table above shows that NPV results are very sensitive to relatively small changes in hurdle rates as a result of the magnitude of negative and positive cashflows and the long-dated nature of the positive cashflows where steady state returns are not achieved until c.2021. Given the assessment of an appropriate discount rate is highly subjective then a relatively large positive or negative NPV could still result in a transaction broadly reasonable from the perspective of both parties.

The HoA says any agreement will terminate on 30 June 2048. If the concessions are adversely changed by the Crown prior to 2048, then it will pay compensation to SkyCity. In our appraisal methodology we have assumed the concessions cease at 2048 and no terminal value is applied. Although it is possible that the concessions will continue beyond 2048, this is at the Crown's discretion, inherently uncertain and could involve offsetting consideration from SkyCity.

SkyCity says it has allowed for a total project cost for acquiring land and constructing the NZICC of $402.3 million, comprising land of $87.3 million, build cost of $315 million and excluding any financing costs. For the purposes of our analysis we have been instructed to assume this amount represents the total cost which SkyCity will incur and that the parties will need to agree a specification of the NZICC that can be achieved within this cost.

The parties have agreed that for the purposes of evaluating the proposed transaction the value of the underlying land (agreed between the parties at $64.8 million) should be represented as an on-going lease cost to the project. This approach has been taken after deciding that the underlying land should not be expected to earn a return on capital equivalent to SkyCity casino's discount rate. This approach is more favourable to the Crown and we consider it reasonable. For the purposes of our analysis, we consider that a lease cost of 6.5% of the value of the underlying land is appropriate.

We note that the Government announced on 21 April 2013 that it intends to seek an appropriation in Budget 2013 for $34 million over four years to significantly expand New Zealand's focus on international business events, including conferences, conventions and exhibitions. This is not an obligation placed on the Crown under the Heads of Agreement and has been excluded from the analysis of the proposed transaction. The parties' rationale for this is that the investment will not be used solely to promote the NZICC (or any other particular venue) but will be used by Tourism New Zealand to attract more, and significantly larger, business conferences to New Zealand.

We have assessed that the operational assumptions for the regulatory concessions adopted by the parties broadly lie within a wide range of reasonableness, although in some cases they are at the end of the range which is favourable to SkyCity.

SkyCity says that it does not have sufficient capacity and would need to incur capex costs of approximately $39,000 per seat (where one seat is required for each of STGMs and ATGPSs and six seats for a table) in order to extend gaming areas. The assumed cost per seat has been based on SkyCity's experience in relation to its recent establishment and refurbishment of the Diamond Room. We are not experts in refurbishing casinos and have relied on SkyCity's assessment.

In our view, the assessed value of the licence renewal is highly subjective. Our assessment of the value of the licence renewal is between say $65 million and $115 million and includes value ascribed for a number of subjective elements which, although difficult to quantify, nonetheless have value to SkyCity.

By renewing the Auckland licence to 2048, SkyCity would have certainty until 2048 (at the earliest); improve investor confidence over the continuity of Auckland cashflows (beyond the current renewal date of 2021); and remove the opportunity for the government to impose further limiting conditions on its licence. In addition, there is a prospect that future Auckland casino licences could be structured in a different commercial manner, for example in a number of countries, including Australia, lump sum payments or annual licence fees are paid to acquire licences. The current renewal process under the Gambling Act 2003 does not prescribe the payment of any substantial renewal fees or other obligations.

4 Investment appraisal methodology

4.1 Valuation approach

The parties have evaluated the proposed transaction using discounted cash flow ('DCF') analysis to determine the NPV of the proposed transaction. The DCF analysis is based on:

- financial projections to 2048; and
- mid-period discounting, back to June 2013, when the project is expected to start.

We consider that DCF analysis is the appropriate methodology to evaluate the proposed transaction. The proposed transaction does not reach 'steady state' cash flows until c.2021 and therefore investment appraisal methodologies which focus on short-term returns (such as earnings before interest, tax, depreciation and amortisation ('EBITDA') multiples, return on invested capital or investment payback) are less appropriate.

For completeness we have, however, cross-checked the results of the evaluation of the regulatory concessions using EBITDA multiples.

4.2 WACC and hurdle rates

The parties have evaluated the proposed transaction using discount rates based on:

- WACC; and
- hurdle rates.

The WACC for a particular project is the minimum expected rate of return on investment required by an investor. In the event that a project's expected cash flows are discounted using WACC and the NPV of the project is zero then the investment is neither value enhancing nor value diminishing for the investor. In order for SkyCity to be incentivised to undertake the proposed transaction we would expect it to generate a positive NPV for SkyCity using WACC discount rates.

Like SkyCity, in practice many companies have a predetermined hurdle rate in excess of their WACC that new projects must meet. This allows companies to rank projects, allocate funds between competing projects and help to ensure that investments are value enhancing. Hurdle rates, include an allowance for excess returns (or value enhancement) to be generated. Given excess returns are allowed for in the discount rate, the resulting NPV would be expected to be broadly nil, in order for the project to be acceptable to both parties.

We consider the use of both WACC and hurdle rates to evaluate the proposed transaction to be reasonable.

5 Discount rates

The parties have evaluated the proposed transaction using hurdle rates and WACCs that they have determined appropriate for each of the key components of the proposed transaction. A table setting out the discount rates adopted by the parties, and by KordaMentha, is as follows:

Table 5.1: Discount rates

	Hurdle Rates		WACC	
	Parties	KordaMentha	Parties	KordaMentha
NZICC construction	5.0%	5.0%	5.0%	5.0%
NZICC operations	17.0%	17.0%	17.0%	17.0%
NZICC ground lease	10.0%	12.0%	10.0%	10.0%
Auckland casino cashflows	12.0%	12.0%	10.5%	10.0%
Licence extension	n/a	10.0%	n/a	10.0%

5.1 Approach

The parties have agreed that the discount rate for a particular component of the project should be based on the risk of that particular component of the project. SkyCity's own corporate WACC is not necessarily the appropriate measure of risk for incremental investment opportunities. As a result, the parties have assessed separate discount rates for each of the key components in the proposed transaction including:

- construction of the NZICC;
- cash flows which are dependent on the operational performance of the NZICC;
- cash flows related to a hypothetical ground lease of land underlying the NZICC;
- cash flows which are dependent on the operational performance of SkyCity, including the regulatory concessions, casino expansion, increase in tables and machines; and
- extension of the Licence.

We consider that it is appropriate for the discount rate for a particular project to reflect the risk of that specific project. As a result, we support the approach of using separate discount rates for materially different operations.

5.2 Discount rates applied for the proposed transaction

5.2.1 NZICC construction

The parties' have assumed that once SkyCity has committed to the construction costs of the NZICC these are lower risk cash flows than the returns from operating the NZICC.

The parties have assessed an appropriate discount rate (hurdle rate and WACC) for NZICC construction costs is 5.0% based on SkyCity's post-tax cost of debt.

This approach effectively assumes that SkyCity could fund the construction of the NZICC with debt and that there is a time value of money benefit in not having to do so until those funds are drawn. We consider this approach reasonable.

5.2.2 Cashflows dependent on NZICC operations

The parties have agreed that cash flows which depend on uncertain and greenfield investment in the NZICC should be discounted at a rate which reflects the risk of that investment and not necessarily a discount rate benchmarked to SkyCity's own casino operations.

We agree that SkyCity's investment in the NZICC is inherently riskier than an investment in its own casino operations as a result of:

- increased exposure to:
  - health of the global economy;
  - international travel costs; and
  - the impact from volatile currencies.
- the new business nature of the NZICC and the unproven and unpredictable nature of this investment; and
- convention centres have a history of suboptimal economic returns globally.

The parties have adopted a discount rate (hurdle rate and WACC) of 17% for those cash flows dependent on the NZICC operations.

The assessment of discount rates for uncertain greenfield investments is typically highly subjective and the use of long established asset pricing models to determine WACCs are usually not appropriate.

In our experience, broadly comparable greenfield investments are often appraised using a wide range of discount rates of say 12% to 20%. Although the typical range observed is very wide and any discount rate adopted is highly subjective, we consider the discount rate of 17% adopted by the parties for the NZICC is reasonable. Our conclusion has also been arrived at after considering that the cash flows generated by NZICC operations are a relatively small component of the proposed transaction and therefore the evaluation of the proposed transaction is not sensitive to the discount rate adopted for the NZICC dependent cash flows.

5.2.3 Cash flows dependent on SkyCity's casino expansion

WACC

The parties have assessed a WACC for SkyCity's existing business of 10.5%, after taking into account:

- Goldman Sachs' analysis (undertaken at January 2012) which showed that SkyCity's WACC was:
  - 8.9% based on interest rates observed in the New Zealand market in January 2012;
  - 10.5% based on a long term average of interest rates observed in the New Zealand market over the last 15 years, up to January 2012;
  - 8.7% to 10.3%, with an average of 9.3% based on research analysts' estimates of SkyCity's WACC at January 2012; and
- Australian casino operators had WACCs in the range of 9.0% to 11.2% with an average of 9.9% based on broker reports available at January 2012 (albeit Goldman Sachs would expect the Australian market risk premium to be lower than New Zealand's, which would justify a higher WACC for SkyCity than observed for casino operators in Australia).

In order to assess the reasonableness of SkyCity's WACC of 10.5% we have performed our own analysis using parameters which KordaMentha has deemed appropriate for the New Zealand market.

Based on our analysis we have estimated SkyCity's post tax nominal WACC to be in a range of 9.8% to 10.2%. As a result, the parties WACC is outside our range. After discussions with both parties, we consider a WACC of 10% would be more appropriate.

Our WACC estimate has been determined as follows:

$$WACC = R_d(1-T_c)\frac{D}{D+E} + R_e\frac{E}{D+E}$$

where:

- R_d = Pre-tax cost of debt = 6.9%, based on a borrowing margin of 3.0% above the long term risk-free rate
- T_c = Marginal corporate tax rate = 28%
- D / E = Target gearing (where E represents market capitalisation) = between 25% and 35%, based on SkyCity's analysis and our review of broadly comparable listed companies
- R_e = Cost of equity = 11.0% to 12.1%

We have determined the cost of equity using the Brennan-Lally specification of the Capital Asset Pricing Model, which uses the following formula:

$$R_e = R_f(1-T_i) + \beta_e[R_m - R_f(1-T_i)]$$

where:

- R_f = Risk free rate = 3.9% (based on observed 5 year and 10 year government bonds extrapolated to 35 years)
- T_i = Investors' effective tax rate on interest, dividends and capital gains = 28%
- β_a = Asset Beta = 0.88 to 0.92 (based upon a review of the betas of comparable companies set out at Appendix 3)
- β_e = Equity Beta = β_a (1+D/E) = 1.10 to 1.24
- R_m- R_f (1- T_i) = Expected excess return, after investor taxes, on the market portfolio of equity investments = 7.5%

We have also cross-checked our WACC assessment by considering results using a different WACC calculation for each year of the cashflow projections based on the New Zealand government bonds yield curve. This analysis results in a WACC equivalent to 9.8% applied across all years, which is in line with our WACC estimate.

Hurdle rate

SkyCity has a Board approved investment policy which says that new investment is required to achieve a hurdle rate of 15%.

We understand this policy has been in place since April 2009.

SkyCity also notes that its hurdle rate of 15% appears to broadly align with hurdle rates adopted by Australian gaming operators based on anecdotal evidence available from broker reports, company announcements and press releases. However, the anecdotal evidence relies on a number of uncertain assumptions.

In our view, it is appropriate to apply a hurdle rate for the expansion of SkyCity's Auckland casino by a rate greater than SkyCity's WACC of 10% but less than its Board approved hurdle rate of 15%.

We consider it reasonable for SkyCity to expect to earn some premium or value enhancement from undertaking the transaction however in this case we do not consider a hurdle rate of 15% is appropriate because:

- hurdle rates can include an allowance for over-optimism in management's forecast. In this particular set of circumstances where the Ministry is a counter-party to the transaction there is much less incentive for management to be overly optimistic in their financial projections; and
- without making allowance for any other adjustment to the proposed transaction if SkyCity were to earn a hurdle rate of 15% on the proposed cash flows this would be equivalent to the transaction providing it with a mid-point NPV of more than $140 million at a WACC of 10% (based on indicative calculations). Based on the NZICC construction costs proposed this is a return in excess of what we consider reasonable for the Crown to provide.

The parties have assessed an appropriate hurdle rate to apply to the expansion of SkyCity's existing Auckland casino business is 12% after taking into account:

- SkyCity's WACC;
- SkyCity's Board approved hurdle rate of 15%;
- anecdotal evidence on hurdle rates on announced major projects of large scale listed gaming operators in Australia which are in the range of 14% to 15% and in SkyCity's view New Zealand would have a higher market risk premium and these returns could be increased by 0.5% to 1.0% in the New Zealand market; and
- the Auckland casino expansion is a logical extension to SkyCity's current business and therefore SkyCity's hurdle rate of 15% has been adjusted down.

Although highly subjective, we consider that a premium of 2% above the WACC appropriate for SkyCity results in a hurdle rate that is broadly reasonable. This additional premium allows for a value enhancing outcome for SkyCity and takes into account the degree of uncertainty in the cash flows, in particular the risks associated with increasing casino patronage.

We consider this discount rate is appropriate to apply to consider the reasonableness of the proposed transaction. However, this does not mean that SkyCity should necessarily undertake the proposed transaction at this rate of return. If SkyCity has other investment opportunities available to it which offer returns in excess of 12% (of the same risk) then, given it has limited resources, we would expect it to undertake the higher returning investment opportunities.

5.2.4 Cash flows related to a hypothetical ground lease

The parties have agreed that for the purposes of evaluating the proposed transaction the value of the underlying land (agreed between the parties at $64.8 million) should be represented as an on-going lease cost to the project. This approach has been taken after deciding that the underlying land should not be expected to earn a return on capital equivalent to SkyCity casino's discount rate. This approach is more favourable to the Crown and we consider it reasonable. The parties' analysis is based on a lease cost equal to 8% of the value of underlying land. The parties were unable to provide any support for this assumption. Based on our knowledge of typical ground lease rates in Auckland CBD, for the purposes of our analysis, we have assumed a lease cost equivalent to 6.5% of the value of the underlying land.

The parties have applied an appropriate discount rate (hurdle rate and WACC) for cash flows related to the hypothetical ground lease of 10.0%. We understand that this is based on SkyCity's WACC. We do not understand why this differs from the WACC that the parties have applied when evaluating the cash flows generated from expansion of casino operations.

There is an argument that the appropriate discount rate to apply for the hypothetical ground lease required for the NZICC should be 17% as the parties have adopted elsewhere for NZICC operations. However, we understand that the hypothetical ground lease would be likely to be paid by SkyCity and therefore consider the approach to base the appropriate discount rate on SkyCity's discount rate to be reasonable.

5.2.5 Note

For the purposes of the analysis in our report we have evaluated the separate components of the proposed transaction based on the use of hurdle rates in the first instance. Later in the Report at page 32 we perform analysis using WACCs. Please note, however, that assessments of NPV set out in the Report before page 32 are based on the hurdle rates that we consider appropriate for the component parts of the proposed transaction, as set out above.

6 NZICC design, construction and development

The proposed transaction includes capital expenditure ('capex') associated with the design, construction and development of the NZICC as set out in the table below:

Table 6.1: NZICC capex ($ million)

Land – site NZICC will occupy	64.8
Land – site preparation	22.4
Land – net cost (excluding Future Development Unit)	87.3
NZICC build cost	315.0
Total capex (excl. finance costs)	402.3

Note: The NPV of NZICC capital expenditure differs from the amounts set out in the table above due to the treatment of land for evaluation purposes and discounting cash flows.

SkyCity says it has allowed for a total project cost for acquiring land and constructing the NZICC of $402.3 million, excluding any financing costs.

For the purposes of our analysis we have been instructed to assume this amount represents the total cost which SkyCity will incur and that the parties will need to agree a specification of the NZICC that can be achieved within this cost. Therefore, our analysis assumes any cost over-runs are not SkyCity's responsibility.

Land costs

The total budgeted land costs amount to $92.3 million, and are made up of the market value of land already owned by SkyCity and land expected to be acquired for the project at cost.

The $92.3 million includes:

- $69.8 million is the value ascribed to the site the NZICC will occupy, based on a valuation report prepared by Bower Valuations as at 31 July 2012;
- less an estimated $5 million related to a Future Development Unit ('FDU') that will not be occupied by the NZICC and therefore has been excluded from the parties' analysis (to give a net land cost of $64.8 million); and
- residual costs of $22.4 million, which relate to buildings that will be demolished to prepare the site.

7 Operation of NZICC facilities

7.1 Revenue and operating expenses

The revenue and operating expense assumptions adopted by the parties for the operation of the NZICC have been reviewed for reasonableness by Horwath, except for:

- allowance for an additional 20 events (concerts), which generate additional revenues of $1.2 million per annum (in real terms) not included by Horwarth;
- adjusted sales and marketing expenses to $3.6 million per annum (in real terms) versus the $5.0 million reviewed by Horwarth;
- adjusted general and administration costs to $3.3 million per annum (in real terms) from the $3.6 million reviewed by Horwarth; and
- parking revenues and costs.

We have relied upon those assumptions which have been reviewed for reasonableness by Horwarth.

7.2 Sales and marketing expenses

The analysis assumes on-going marketing costs of $3.6 million per annum increasing by annual inflation of 2.5% per annum.

We understand that this has been revised down from $5.0 million reviewed by Horwarth because the Government announced on 21 April 2013 that it intends to seek an appropriation in Budget 2013 for $34 million over four years to significantly expand New Zealand's focus on international business events, including conferences, conventions and exhibitions.

7.3 Parking

The analysis is based on 780 available spaces; average revenues of $13.50 per day; and an operating margin of 80%, which is higher than SkyCity's current parking business of approximately 75% because the additional spaces will be joined to and share the existing SkyCity infrastructure and will result in some synergies in operating costs.

We understand that the assumed average daily revenues align with rates currently earned by SkyCity.

Market commentators have projected that capital cost of building 780 available spaces would have been approximately $39 million if they were built as a standalone car park.[1]

We consider that it is possible that SkyCity could use its current parking facilities to meet, at least some of, the needs of the NZICC given it has some capacity during day time from Monday to Friday afternoon.

However, we understand from SkyCity that if these additional car parks were not built then SkyCity would be unable to achieve its expected uplift in patronage assumed when assessing the financial returns of the regulatory concessions.

[1] Forsyth Barr broker note on SkyCity dated 15 March 2012.

8 On-spend at SkyCity as a consequence of the NZICC

The NZICC is expected to attract incremental visitors which will generate additional on-spend at SkyCity's Auckland casino.

The Ministry has estimated that the NZICC will generate total visitor days of approximately 350,000 per annum. Goldman Sachs published a broker note on SkyCity on 22 March 2012 (the 'GS March 2012 broker note') which estimated 70% (say 250,000) of these visitors would visit SkyCity, driven by its food, entertainment and accommodation offerings. Given SkyCity's current annual visitations are approximately 5.5 million, this represents an uplift of 4.5%.

The parties have factored the uplift expected in gaming revenue due to NZICC visitors into the analysis of incremental Auckland casino cash flows detailed later in the Report.

Other areas where NZICC visitors would increase SkyCity's Auckland earnings include:

- hotels;
- food and beverage; and
- the Sky Tower.

SkyCity says that its two existing hotels operate at very high occupancy levels and therefore there is limited scope to increase occupancy significantly. As a result, the parties assume that while SkyCity is able to capture around 50% of convention customers, the majority of these replace low yield customers so that the net increase in room nights represents only 10% of the potential new room demand generated by the NZICC (estimated by Horwath). This results in incremental hotel revenues of approximately $5 million per annum by FY20. The parties adopt an operating margin of 70% on the incremental revenue, which is higher than the margin currently earned in the hotels business due to the impact of fixed costs and ceasing current low yield arrangements with airlines and the like in order to improve capacity available for NZICC visitors.

The projections of on-spend at SkyCity's hotel are limited by SkyCity's existing capacity. The projections do not make any allowance for additional capacity from expanding the existing hotels. This opportunity is currently excluded from the proposed transaction.

9 Regulatory concessions

9.1 Regulatory and market environment

SkyCity's competitors in Auckland involve gaming machines that are operated by pubs and clubs and are regulated under the Gambling Act 2003 (the 'Act').

Under the Act, the Auckland Council gives consent to gaming venues in Auckland but has no control over the number of machines at each venue. We understand that, with a few exceptions, the Auckland Council's policy is for a 'sinking lid' on venues with no new venues allowed.

STGMs outside of the casino are operated differently from SkyCity's STGMs and not directly comparable, including having restrictions on:

- maximum wager of $2.50;
- maximum prize of $500; and
- maximum jackpot of $1,000.

Gambling expenditure in Auckland between 2000 and 2012 is set out below:

Table 9.1: Gambling expenditure in Auckland

	2000		2004		2012		2004-12
	$ million	% of NZ	$ million	% of NZ	$ million	% of NZ	CAGR
Casino	270	79%	368	76%	347	74%	(0.7%)
Pub/Club Gaming Machines	126	28%	303	29%	251	29%	(2.3%)
Lotteries *	86	31%	92	32%	142	34%	5.6%
Racing *	71	31%	78	32%	97	34%	2.8%
Total Gambling	553	43%	841	41%	838	41%	(0.1%)

* Region data not available for Lotteries and Racing – distributed on basis of population
Sources: SkyCity (NZIER and DIA)

SkyCity's Auckland gaming revenue has decreased at a 0.7% compound annual growth rate ('CAGR') from 2004 to 2012.

9.2 Review of the key parameters underlying the regulatory concessions

In order to assess the NPV of the regulatory concessions there are a number of key assumptions, apart from discount rates, including the:

- number of additional games and the timing of their introduction;
- expected WPUs of the additional games; and
- operating expenses of the games, including marketing costs.

The number of new additional games and the timing of their introduction is set out in the HoA.

It is relatively simple to compare the expected operating expenses from the new games to historical financial performance for each type of game.

However, the assessment of WPUs for the additional STGMs, ATGPSs and tables provided under the regulatory concessions, is highly subjective and inherently uncertain. We agree with the parties that it is likely that additional games will not achieve utilisation levels as high as existing games. However, projecting the level of dilution on new games is very subjective.

Although we have undertaken analysis on the projected revenues and operating expenses from the new games, because of the commercial sensitivity of that data we are not able to disclose it in the Report.

We have sought to assess the reasonableness of the assumed WPUs for new games assessed in the Model by reviewing:

- broker reports, which comment on the proposed transaction; and
- benchmarking data on the WPUs of games in broadly comparable situations where a significant casino expansion has been undertaken. However, we note that there is limited public information available around WPUs in the event of casino expansions.

9.2.1 Broker reports

SkyCity has provided us with broker reports it has, which discuss the proposed transaction and broadly similar circumstances involving other casino operators in Australasia. The broker reports provided are not exhaustive and it is possible that there is other salient information not made available to us. Brokers are a good source of information on an industry but are not all casino experts, nor do they work with perfect information.

GS March 2012 broker report

The GS March 2012 broker report sets out analysis of the potential uplift in underlying gaming revenue at SkyCity's Auckland casino as a result of the proposed regulatory concessions. The GS March 2012 broker report concludes that an expected increase in machine numbers of between 350 and 500 would lead to WPUs on the incremental machines being 45% to 65% of pre-expansion levels.

We note that the GS March 2012 broker report did not differentiate between STGMs and ATGPSs.

GS November 2012 broker report

In November 2012, Goldman Sachs' provided an updated broker report (the 'GS November 2012 broker report'), which set out a revised estimate of the dilution impact on WPUs for incremental machines. Based on a review of the Star City Casino expansion (in Sydney) and an expected increase of between 350 and 500 new units, Goldman Sachs estimated WPUs for incremental machines would be between 30% and 45% of pre-expansion WPUs.

Goldman Sachs also estimated the value of the Licence extension to be $50 million based on Star City's payment of A$100 million for an additional 12 years exclusivity and certainty over gaming tax in 2009. These two deals appear similar but differ in a number of ways. For example, Star City got exclusivity only, and only for 12 years. The proposed transaction has a licence extension for 35 years, plus additional items.

In the GS November 2012 broker report, it was noted that EBITDA earned on incremental tables could be materially less than existing tables. Goldman Sachs estimated that in the event there is revenue dilution, EBITDA margins will also be affected due to fixed costs associated with operating the tables.

Morningstar May broker report

Morningstar Equity Research produced a broker report of SkyCity on 2 May 2012 ('Morningstar May broker report') which included some high-level analysis of the potential financial implications from the introduction of new machines as a result of the proposed transaction.

The Morningstar May broker report assumed WPUs from new machines would be approximately 45% of pre-expansion WPUs. It also estimated weighted average WPUs (across new and existing machines) would be back to levels observed now within six years. This implies new machines WPUs would be approximately 60% of existing machines WPUs (an increase of 33% relative to initial WPUs of 45%).

Nomura broker report

Nomura Equity Research produced a broker report of SkyCity on 13 February 2013 ('Nomura February 2013 broker report') which included some high-level analysis of the value to SkyCity of the proposed transaction, including:

- Nomura estimated a 10% uplift in WPUs from TITO and higher bill acceptor limits; and
- Nomura estimated the value to SkyCity of a 25 year licence extension to be $50 million.

9.2.2 Recent gaming expansions

Adelaide

In December 2012, SkyCity and the South Australian Government agreed that SkyCity would undertake redevelopment works costing approximately A$350 million in return for various concessions, including:

- increasing the number of STGMs at SkyCity's Adelaide casino from 995 to 1,500;
- increasing the number of tables from 90 to 200 (including an allowance for up to 15 automated table games with 20 ATGPSs each);
- making changes to the tax regime for the SkyCity's Adelaide casino which are, on balance, more favourable than the current tax regime; and
- allowing TITO and removing transaction limits in premium areas, and allowing cashless gaming on all machines and tables.

The expansion has not yet occurred; therefore, there is no available data to show how Adelaide casino has performed post-expansion. Based on the broker reports made available to us, there is no publically available estimate of the value of the concessions, other than a report prepared by Goldman Sachs on 13 February 2013, which did not discuss key assumptions other than to note there was an estimated 10% uplift in WPUs from the introduction of cashless gaming. SkyCity has declined to provide us with its financial evaluation of the Adelaide expansion, which is understandable given the circumstances (i.e. it is in commercial negotiations with the Ministry and is not obliged to provide this information).

Darwin

SkyCity has been able to provide us with some data concerning its approval to operate an additional 200 STGMs in Darwin in 2009. In this case, total STGMs increased from 550 to 750, an increase of 36%.

Immediately following the introduction of additional machines, average WPUs fell from A$336 in FY09 to A$240 in FY10, a decrease of 29%. However, SkyCity has previously announced that it estimated the impact of the introduction of a smoking ban at its Darwin casino in January 2010 to have had a detrimental impact of around 15%. Adjusting for this abnormal event, the implied WPUs of the additional machines were equivalent to approximately 40% of the WPUs achieved from Darwin's existing machines in the first year of operation.

WPUs in Darwin have not significantly increased from FY10 and H1-FY13 results are much the same.

Northern Territory pubs and clubs

The GS March 2012 broker report analysed the impact of growth in STGMs in Northern Territory pubs and clubs. That analysis showed real WPUs (adjusted for market growth) had declined as penetration has risen in the Northern Territory. Real WPUs on incremental product averaged approximately 50% of peak returns achieved in 2002.

KordaMentha

Star City Casino

We have reviewed analysis of Star City Casino's experience following an expansion of gaming facilities[2], including an increase in ATGPSs from 150 in 2010 to 615 by December 2011, and an increase in table numbers from 200 to 330 over the same period. In total, gaming seats at Star City increased by 44% over 2011 with the vast majority introduced between September and December 2011.

In November 2012, Goldman Sachs estimated the dilution in WPUs at Star City Casino based on 2H12 data. It estimated incremental revenue on new gaming product (including tables) to be 30% of pre-expansion levels and only 15% after allowing for market growth (based on increases in household consumption). However, we consider the growth adjusted estimate too low given there was limited growth in WPUs in Sydney pubs and clubs over the comparable period.

9.2.3 Summary of available data

Single terminal gaming machines

A summary of the data available, described above, for WPUs for new STGMs is set out in the following table:

Table 9.2: Publically available WPU data for new STGMs

Win per unit as a percentage of existing units	
GS November 2012 broker report estimate	30% to 45%
GS March 2012 broker report estimate	45% to 65%
Morningstar May broker report estimate – Year 1	45%
Morningstar May broker report estimate – Year 6	Year 1 x 133%
Darwin Casino expansion – first two years	40%
Northern Territory pubs and clubs	48%
Star City Casino expansion	30%

Tables

Broker comments in respect of the projected WPUs for tables following the proposed transaction include:

- the GS March 2012 broker report projected new tables' WPUs would be 45% to 50% of existing tables' WPUs, albeit this was before the November update; and
- the Morningstar May broker report predicted new tables' WPUs would be approximately 67% of existing tables' WPUs.

TITO

Nomura estimated a 10% uplift in WPUs from TITO and higher bill acceptor limits.

Licence

Goldman Sachs and Nomura have both put a value on the Licence extension of $50 million. Goldman Sachs's estimate is based on Star City's payment of A$100 million for an additional 12 years exclusivity and certainty over gaming tax in 2009.

[2] GS March 2012 broker report

9.3 Single terminal gaming machines

9.3.1 Expected revenue

230 STGMs are expected to be introduced into SkyCity's Auckland casino.

As the section above discussed, the parties have assumed that new STGMs WPUs will be below the average of SkyCity's existing STGMs[3]. This is expected because additional machines are unlikely to achieve utilisation rates as high as existing machines because expected demand will not match supply of additional machines and as a result there will be a dilution effect.

We have undertaken analysis on the projected revenues from new STGMs.

To review base case WPUs for new STGMs, SkyCity has provided us with data showing WPUs for its existing STGMs stratified by performance.

The projected WPUs for new machines are inherently uncertain and a range of assumptions could reasonably be undertaken and determining the level of underperformance of the additional machines versus existing machines is highly subjective, particularly beyond the early years of the expansion.

We have analysed a number of scenarios after taking into account:

- the base case position agreed between the parties;
- broker reports;
- other casinos' experience of the introduction of additional machines;
- areas of growth in customers for SkyCity which should flow through to higher real returns for STGMs, including:
  - Auckland population growth, which is forecast to be the fastest growing region in New Zealand and to grow by approximately 1.5% per annum;
  - the additional capacity in car parking should allow for increased patronage at the casino in peak times; and
  - additional patronage expected from the NZICC attendees.

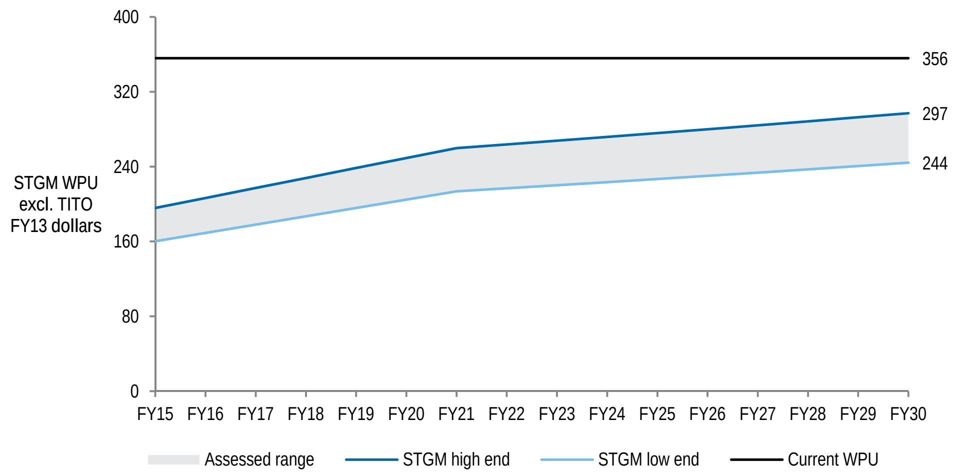
Given the inherent uncertainty a large number of scenarios appear broadly reasonable. Therefore, there is a wide range which we would consider reasonable. For the purposes of our analysis we have assumed a low and high end of a reasonable range based on the following:

- **Low end:** based on the WPUs on additional STGMs increasing from 45% of existing STGMs WPUs (based on the mid-point of publically available data) to 60% over a six year period (based on the Morningstar May broker report). Thereafter, we have assumed a real growth rate of 1.5% per annum, based on projected population growth in Auckland; and
- **High end:** based on the WPUs on additional STGMs increasing from 55% of existing STGMs WPUs (based on the high-end of publically available data), to 73% over a six year period. Thereafter, we have assumed a real growth rate of 1.5% per annum, based on projected population growth in Auckland.

[3] Existing WPUs are based on SkyCity's management forecast for FY13, which SkyCity management have instructed us is their best view of WPUs for the year.

A graph setting out our range of reasonable WPUs (in real terms) is set out below.

Figure 9.1: KordaMentha's assessed reasonable range for STGMs WPUs



9.3.2 Operating expenses

We have relied on the operating cost assumptions set out in the Model in our analysis, which do not appear unreasonable when compared to FY12 actuals and FY13 projections.

9.3.3 Summary

Our range of reasonable approaches to the assessment of WPU projections results in NPV estimates (using a hurdle rate of 12%) as follows:

Table 9.3: NPV impact from changes in the STGMs ($ million)

	Base	Low	High
NPV at hurdle rates	91.6	75.0	91.0
Impact on valuation when compared to base case	nil	(16.7)	(0.6)

We consider a reasonable range of NPVs for the introduction of additional STGMs lies in a range of $75 million to $91 million.

9.4 Tables

The proposed transaction is based on an additional 40 table games being made available to SkyCity above the 110 already in place. Of these table games the parties have assumed that:

- 20 will be deployed on the main gaming floor ('MGF tables');
- 8 will be domestic VIP ('VIP tables'); and
- 12 will be international VIP tables ('International tables').

9.4.1 Expected revenues

We have undertaken analysis on the projected revenues from new tables.

Estimates of new table WPUs and the projected path for the future are inherently uncertain and subjective.

We have analysed a number of scenarios after taking into account:

- the base case position agreed between the parties;
- broker reports;
- other casinos' experience of the introduction of additional tables;
- areas of growth in customers for SkyCity which should flow through to higher real returns for tables, including:
  - Auckland population growth, which is forecast to be the fastest growing region in New Zealand and to grow by approximately 1.5% per annum;
  - the additional capacity in car parking should allow for increased patronage at the casino in peak times; and
  - additional patronage expected from the NZICC attendees.

Main gaming floor tables

Given the inherent uncertainty a large number of scenarios appear broadly reasonable. Therefore, there is a wide range which we would consider reasonable. For the purposes of our analysis we have assumed a low and high end of a reasonable range based on the following:

- **Low end:** based on the WPUs on additional MGF tables increasing from 20% to 31.5% of existing MGF tables WPU over a six year period. These estimates are based on a stratification (by quintile) of WPUs for existing MGF tables. Thereafter, we have assumed a real growth rate of 1.5% per annum, based on projected population growth in Auckland; and
- **High end:** based on the WPUs on additional MGF tables increasing from 35% to 46.5% of existing MGF tables WPU over a six year period. These estimates are broadly based on broker reports. Thereafter, we have assumed a real growth rate of 1.5% per annum, based on projected population growth in Auckland.

VIP tables

Given the inherent uncertainty a large number of scenarios appear broadly reasonable. Therefore, there is a wide range which we would consider reasonable. For the purposes of our analysis we have assumed a low and high end of a reasonable range based on the following:

- **Low end:** based on our high end estimate less 15% (i.e. 38% increasing to 57%) and thereafter growing at 1.5% per annum; and
- **High end:** based on the WPUs on additional VIP tables increasing from 53% to 72% of existing VIP tables WPU over a six year period. These estimates are based on a stratification of WPUs for existing VIP tables. Thereafter, we have assumed a real growth rate of 1.5% per annum, based on projected population growth in Auckland.

International tables

We understand International tables' financial performance is dependent on the number and spend of key customers and that capacity of tables, whilst of some relevance, is not a key driver. As a result, instead of looking at WPUs per existing International table we have analysed the expected NPV of International tables. In our view, if International tables do not generate NPV at least equal to NPVs of tables deployed as MGF tables they are unlikely to be used as International Tables.

9.4.2 Operating expenses

We have relied on the operating cost assumptions set out in the Model in our analysis, which do not appear unreasonable when compared to FY12 actuals and FY13 projections.

9.4.3 Summary

Our assessed NPV range for tables (using a hurdle rate of 12%) is as follows:

Table 9.4: Assessed NPV range for tables ($ million)

	Base	Low	High
MGF tables	23	18	28
VIP tables	36	28	36
International tables	6	11	17
Tables NPV at hurdle rates	65	57	80
Impact on valuation when compared to base case	nil	(8)	15

The parties assessed NPV for International tables, using hurdle rates, is below our range. Our range has been assessed based on our view that the NPV for international tables is unlikely to be less than the average NPV per new MGF table, assessed by us at $0.9 million to $1.4 million. We have adopted this approach after considering:

- SkyCity says International tables are dependent on customers and not capacity; and
- International tables can be utilised as required. When the tables are not used as International tables, they can be used elsewhere (e.g. as MGF tables).

9.5 Additional 12 tables or automated tables

Given the dilution being projected on new table WPUs we have evaluated this concession on the basis that SkyCity seeks to maximise the NPV of concessions by opting to substitute all 12 gaming tables with fully automated tables (20 ATGPSs for each table substituted), such as the Vegas Stars gaming product.

9.5.1 Expected revenue

We have undertaken analysis on the projected revenues from new tables or automated tables.

We have analysed the proposed transaction on the basis that 240 new ATGPSs are introduced on top of the 40 devices currently in situ. This is a significant expansion of ATGPSs, which up until now have only been trialled on a small scale by SkyCity.

We do not consider it is necessarily appropriate to assess the WPUs for new ATGPSs as a proportion of the WPUs on the existing AGTPSs given they make up only a very small sample.

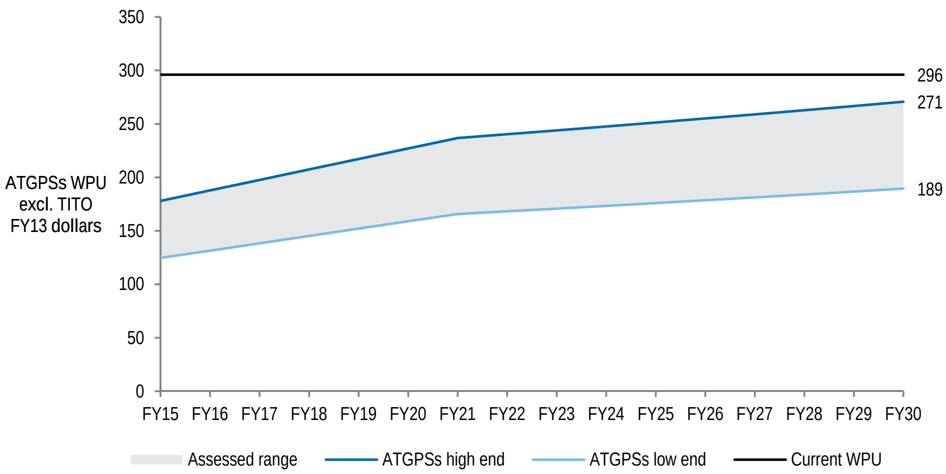
We note that WPUs on existing ATGPSs are currently generating 83% ($296) of the WPUs earned by STGMs ($355). There could be a large number of reasons for this difference including the denomination of the machines, where they are located on the casino floor and the fact that this average return is based on a small sample of 40.

Due to the limited information on automated tables, we have assessed a low and high end for a reasonable range for ATGPSs WPUs around 83% of the midpoint we estimate for new STGMs WPUs, as follows:

- **Low end:** based on 70% of the midpoint we estimated for new STGMs WPUs; and
- **High end:** based on 100% of the midpoint we estimated for new STGMs WPUs.

A graph setting out our range of reasonable WPUs (in real terms) is set out below.

Figure 9.2: KordaMentha's assessed reasonable range for ATGPSs WPUs



9.5.2 Operating expenses

We have relied on the operating cost assumptions set out in the Model in our analysis, which do not appear unreasonable when compared to FY12 actuals and FY13 projections.

9.5.3 Summary

Our assessed range of reasonable approaches to the assessment of WPU projections results in NPV estimates (using a hurdle rate of 12%) as follows:

Table 9.5: NPV impact from changes in ATGPSs ($ million)

	Base	Low	High
NPV at hurdle rates	84.6	60.7	86.6
Impact on valuation when compared to base case	nil	(23.9)	2.0

We consider a reasonable range of NPVs for the introduction of additional tables or automated tables lies in a range of $61 million to $87 million.

9.6 Ticket-in ticket-out and card-based cashless gaming

We understand that there is demand from customers for the convenience of being able to move from machine to machine without cashing out.

TITO is a form of cashless gaming facilitated by use of thermal printed tickets, which store credits (with a cash value). Credits can be uploaded to gaming devices and redeemed for cash at the cashier. All unclaimed TITO vouchers stay in a clearing account and after 12 months the unredeemed value is paid to a charitable trust.

Card-based cashless gaming refers to SkyCity's intended introduction of cards, which store credits (with a cash value) and can be uploaded to gaming devices and redeemed for cash at the cashier.

The parties agree that there would be an expected uplift in revenue performance at machines enabled with TITO and card-based cashless gaming. Because tables are operated with chips that are transferable there is not expected to be any uplift in revenue. A summary of the assumed revenue uplifts and NPV impact (assessed by the parties) is as follows:

Table 9.6: Impact of TITO

	Base
Impact on STGM revenues	+6%
Impact on automated tables revenue	+4%
NPV of TITO at a 12% hurdle rate ($ million)	74.9

The parties have assumed capital costs to enable TITO and card-based cashless gaming on machines of $5,000 per machine.

Although SkyCity currently has 300 TITO enabled machines, we understand it is difficult to benchmark their performance against existing machines because machines are spread throughout different parts of the casino and the configuration and characteristics of individual STGMs vary significantly.

We understand the best comparison is amongst 5¢ machines. There are 384 5¢ machines at SkyCity Auckland, of which 98 are TITO enabled and 286 are without TITO.

SkyCity's TITO enabled machines are the 'Aristocrat' brand. A direct comparison of the TITO and non-TITO Aristocrat machines shows WPUs for TITO enabled machines were 4.1% higher for the nine months ended 31 March 2013.

Although the analysis set out above is only indicative, and based on small sample sizes, we consider the assumed uplift for STGMs of 6% to be broadly reasonable. Furthermore, we understand, and both parties seem to accept, that users of automated tables have less demand for TITO and therefore we consider the uplift of 4% appears broadly reasonable.

A table setting out our assessment of the NPV of introducing TITO is as follows:

Table 9.7: NPV impact of TITO ($ million)

	Base	Low	High
NPV at hurdle rates	74.9	68.9	71.4
Impact on valuation when compared to base case	nil	(6.1)	(3.5)

We have assessed a reasonable range of NPVs for the introduction of TITO/cashless gaming lies in the range of $69 million to $71 million.

10 Capex required to extend gaming areas

The analysis includes $28 million for capex for the building fit-out associated with the additional gaming product.

SkyCity says that it does not have sufficient capacity and would need to incur capex costs equivalent to approximately $39,000 per seat (where one seat is required for a machine and six seats for a table) in order to extend gaming areas. The assumed cost per seat has been based on SkyCity's experience in relation to its recent capital expenditure works, including the establishment and refurbishment of the Diamond Room.

Apart from having undertaken a site visit of SkyCity's Auckland premises where SkyCity management have shown us what they consider to be their lack of capacity, we have not undertaken any detailed work in this area and do not consider ourselves qualified to opine on whether capex is required to house the additional gaming product. Therefore, our analysis assumes that SkyCity's modelling is reasonable.

11 Licence extension and compensation in the event the regulatory concessions are amended

11.1 Valuation adopted by the parties

SkyCity and the Ministry have agreed a value for the licence extension of $75 million.

We understand that this figure has been arrived at through negotiation rather than detailed financial analysis.

11.2 Indicative analysis as a cross-check

We consider that the value of the licence extension also captures the value to SkyCity from having agreed compensation in the event that the regulatory concessions are amended. We have undertaken some indicative valuation analysis based on updating calculations that were prepared by SkyCity and the Ministry in their initial submissions. These calculations were not subsequently used by SkyCity and the Ministry to arrive at the value of $75 million.

We have based our calculations of the NPV of the proposed licence extension on the following approach:

- SkyCity's projected EBITDA for FY21; multiplied by
- an EBITDA multiple; multiplied by
- an assessed likelihood of non-renewal; plus
- costs that would have been expected to be incurred in the renewal process.

These amounts are then discounted to arrive at an NPV.

We have also calculated the benefit of deferring future licence renewals, as a result of the licence being up for renewal nine years later than would otherwise have been the case.

Our assessment of the value of licence renewal is between say $65 million and $115 million and is based on:

- FY21 EBITDA projected by SkyCity (excluding the regulatory concessions, which are valued elsewhere);
- both parties determined that there is a very low probability of SkyCity not having its licence renewed in 2021. We have assumed a probability of non-renewal of between say 4% and 5%;
- an EBITDA multiple of 9.0x to 10.0x;
- costs of renewal of say $5 million;
- a discount rate of 10% as discussed earlier in the report;
- inclusion of additional value associated with deferring the on-going licence renewals; and
- other subjective elements discussed below.

We consider it is appropriate to make allowance in the value of the licence extension for a number of other subjective elements which, although difficult to quantify, nonetheless have value to SkyCity.

By renewing the licence to 2048, SkyCity would remove the opportunity for the Crown to impose further limiting conditions on its licence.

We consider that recent announcements made by opposition political parties about how they propose to regulate the electricity industry and the increased awareness of possible interventionist policies by those parties in other industries is indicative of regulatory risks for SkyCity. This further highlights the benefit to SkyCity from agreeing its licence extension now and having compensation provisions set out in the HoA in the event the regulatory concessions are amended.

There is a prospect that future Auckland casino licences could be structured in a different commercial manner, for example in a number of countries, including Australia, lump sum payments or annual licence fees are paid to acquire licences. The current renewal process under the Gambling Act 2003 does not prescribe the payment of any substantial renewal fees or other obligations.

Although it is difficult to make direct comparisons given different economic and regulatory environments (including different gaming taxes), the New South Wales ('NSW') government received a lump sum payment for extending the casino licence for exclusivity in NSW for a 12 year term in 2007.

We have made a broad estimate of the value of the other subjective elements of between say $20 million and $50 million, in our analysis.

We consider that the parties' estimate of NPV of the licence extension is broadly reasonable, but note that there are cogent arguments to support alternative NPVs.

12 NPV of the proposed transaction

12.1 Hurdle rates

The NPV of the proposed transaction, assessed using hurdle rates and underlying assumptions that we consider reasonable, compared to the parties' analysis is set out in the table below:

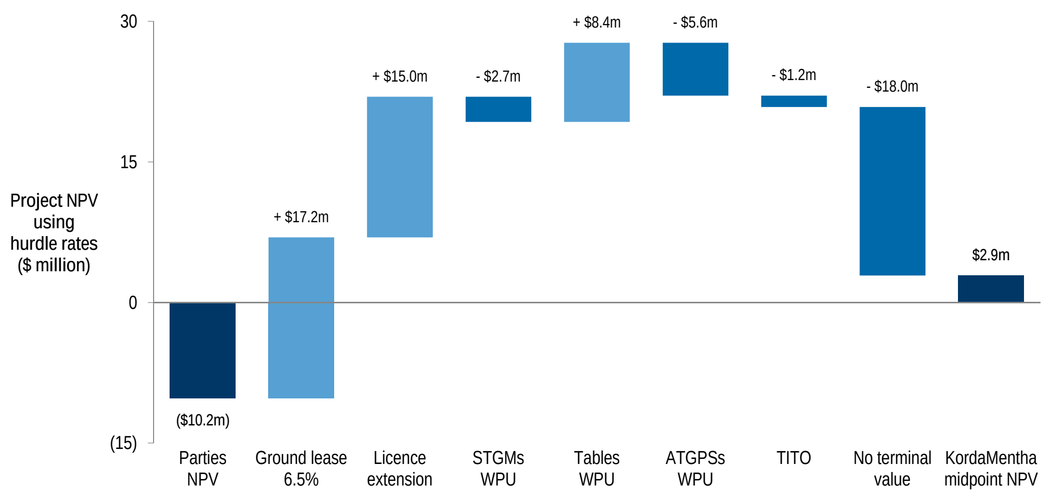
Table 12.1: Hurdle rate NPV summary ($ million)

	Base case	KordaMentha	
		Low	High
NZICC – capital costs	(307)	(307)	(307)
NZICC – ground lease	(47)	(29)	(29)
NZICC – operations and on-spend	13	13	13
Subtotal – NZICC	(341)	(323)	(323)
Regulatory concessions – STGMs	92	75	91
Regulatory concessions – ATGPSs	85	61	87
Regulatory concessions – Tables	65	57	80
Regulatory concessions – TITO uplift	75	69	71
Subtotal – regulatory concessions	316	261	329
Casino capital costs (incl. tax depreciation)	(60)	(59)	(59)
Subtotal – value excl. licence extension	(85)	(121)	(53)
Value attributed to licence extension	75	65	115
Net present value	(10)	(56)	62

The table above shows, based on the assessments set out in the Report and hurdle rates we consider reasonable, we assess the NPV of the proposed transaction in a range between ($56 million) and $62 million.

The key differences between the mid-point NPV that we consider reasonable and the parties' analysis are set out at Figure 12.1:

Figure12.1: Differences between the parties and KordaMentha



12.2 WACC

The NPV of the proposed transaction, assessed using WACCs and underlying assumptions that we consider reasonable, compared to the parties' analysis is set out in the table below:

Table 12.2: WACC NPV summary ($ million)

	Base case	KordaMentha Low	KordaMentha High
NZICC – capital costs	(307)	(307)	(307)
NZICC – ground lease	(47)	(35)	(35)
NZICC – operations and on-spend	13	13	13
Subtotal – NZICC	(341)	(329)	(329)
Regulatory concessions – STGMs	111	95	115
Regulatory concessions – ATGPSs	103	77	109
Regulatory concessions – Tables	79	72	101
Regulatory concessions – TITO uplift	90	84	88
Subtotal – regulatory concessions	382	328	412
Casino capital costs (incl. tax depreciation)	(64)	(64)	(64)
Subtotal – value excl. licence extension	(24)	(65)	19
Value attributed to licence extension	75	65	115
Net present value	51	nil	134

The table above shows, based on the assessments set out in the Report and WACCs we consider reasonable, we have assessed the NPV of the proposed transaction in a range between $nil and $134 million.

The calculations set out above are based on our analysis undertaken on the financial information provided by SkyCity and the Ministry.

12.3 Implied EBITDA multiple

In order to cross-check the NPV results set out above we have compared the implied EBITDA multiples of the value of the regulatory concessions (assessed using WACC and excluding the extension of the licence) to EBITDA multiples for broadly comparable companies, discussed in Appendix 3.

The multiples provide some very broad comfort over our conclusions but this analysis also highlights that EBITDA multiples are not appropriate to accurately assess the proposed transaction because 'steady state' cashflows are not reached until FY21.

Appendix 1: Sources of Information

KordaMentha have relied on the following information in preparation of the Report:

- initial submission made by SkyCity on 8 January 2012 - the submission included SkyCity's draft financial model of the proposed NZICC transaction;
- updated draft financial model provided by SkyCity dated 2 May 2012 and memo setting out changes made since SkyCity's initial submission;
- updated draft financial model provided by SkyCity dated 18 April 2013 and memo setting out changes made since SkyCity's prior update;
- initial submission made by the Ministry on 8 January 2012 - the submission included the Ministry's financial model of the proposed NZICC transaction. A substantially updated version of the financial model was subsequently provided to us on 18 January 2012 and then updated for revised assumptions on 20 January 2012;
- broker notes and a presentation provided by SkyCity on 18 January 2012;
- broker notes provided by SkyCity on 3 May 2012 and 17 April 2013;
- the HoA (dated 10 May 2013);
- various direct communications with SkyCity, the Ministry, and their advisors; and
- publically available information.

Appendix 2: Qualifications and Declarations

Qualifications

KordaMentha is an independent firm affiliated with KordaMentha Australia. KordaMentha has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports.

The persons responsible for preparing and issuing this report are Michael Stiassny (BCom, LLB, CA); Grant Graham (BCom, CA); Shane Bongard (BCom (Hons)); and Shaun Hayward (BCom and BProp). All four have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of KordaMentha's opinion of the reasonableness of the proposed transaction. KordaMentha expressly disclaims any liability to the Ministry and SkyCity if they rely or purport to rely on the Report for any other purpose and to any other party who relies or purports to rely on the Report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

Independence

KordaMentha does not have at the date of this report, and has not had, any relationship, or conflict of interest that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha has been confirmed as being free of conflict by the Ministry and SkyCity for the purposes of the Report.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the proposed transaction. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to the Ministry and SkyCity, for the purpose of verifying the factual matters contained in the Report. The Ministry and SkyCity have confirmed to KordaMentha that, to the best of their knowledge and belief the prospective financial information provided to KordaMentha by each party and which was used by KordaMentha in its analysis, was prepared in good faith on the basis of reasonable assumptions and represent and continues to represent their genuine views. Further, the Ministry and SkyCity have confirmed to KordaMentha that there are no matters not disclosed to KordaMentha that they consider relevant in preparing the Report.

Appendix 3: Comparable companies

Descriptions of comparable companies are set out below.

The table below summarises key valuation metrics for the comparable companies.

Table A3.1: Key information on comparable companies as at 30 April 2013

Company	Country	Primary Activity	Market cap (NZ$ million)	EBITDA Multiple Current	EBITDA Multiple Forecast	Asset Beta	Net Debt /Equity	R^2
Australasia								
Crown	Australia	Casinos	11,369	14.6x	13.3x	1.00	19%	0.40
Echo Entertainment	Australia	Casinos	3,564	9.0x	8.1x	0.58	24%	0.21
Sky City Entertainment	New Zealand	Casinos	2,521	10.0x	9.3x	0.92	23%	0.48
Tatts Group	Australia	Wagering/sports betting	5,562	11.5x	10.9x	n/a	29%	0.10
Tabcorp	Australia	Wagering/sports betting	3,053	8.0x	7.7x	0.61	47%	0.18
Australasia median				10.0x	9.3x	0.77	24%	
Asia								
Galaxy Entertainment	Hong Kong	Casinos	22,116	12.8x	11.2x	0.86	(3%)	0.12
SJM Holdings	Hong Kong	Casinos	16,358	10.3x	9.5x	0.82	(19%)	0.12
Melco Crown Entertainment	Hong Kong	Casinos	15,654	14.4x	12.8x	1.86	11%	0.36
Sands China	Macau	Casinos	51,264	17.0x	14.6x	0.64	3%	0.12
Wynn Macau	Macau	Casinos	18,222	13.7x	12.6x	0.73	(4%)	0.12
MGM China Holdings	Macau	Casinos	10,404	11.2x	10.2x	0.81	(5%)	0.14
Kangwon Land	South Korea	Casinos	6,669	8.7x	7.3x	0.70	(18%)	0.20
Paradise Co	South Korea	Casinos	1,932	15.1x	13.4x	n/a	(13%)	0.07
Asia median				13.3x	11.9x	0.81	(5%)	
North America								
Las Vegas Sands	United States	Casinos	53,505	12.5x	11.4x	3.14	17%	0.47
Wynn Resorts	United States	Casinos	16,009	11.2x	10.7x	1.86	29%	0.45
MGM Resorts International	United States	Casinos	7,849	11.5x	10.7x	1.35	177%	0.27
Penn National Gaming	United States	Casinos	5,297	8.1x	7.8x	0.91	55%	0.38
Churchill Downs	United States	Casinos	1,536	8.3x	7.7x	0.97	11%	0.39
Pinnacle Entertainment	United States	Casinos	1,292	7.5x	6.8x	0.83	121%	0.31
Ameristar Casinos	United States	Casinos	1,017	7.7x	7.3x	n/a	210%	0.29
Boyd Gaming	United States	Casinos	1,193	9.7x	9.4x	n/a	482%	0.30
Isle of Capri Casinos	United States	Casinos	338	7.2x	6.5x	n/a	366%	0.29
Great Canadian Gaming	Canada	Casinos	740	6.7x	6.5x	1.01	50%	0.33
North America median				8.2x	7.7x	1.01	88%	
Median				10.3x	9.5x	0.88	23%	

Source: Capital IQ

Note: we removed the asset betas of Tatts Group and Paradise Co due to their low R2 and Boyd Gaming, Ameristar Casinos and Isle of Capri Casinos due to their net debt being greater than 200% of their equity. Current EBITDA multiples are based on consensus estimates of the companies' earnings in the current financial year. Forecast EBITDA multiples are based on consensus estimates of the companies' earnings in the next financial year.

EBITDA multiples

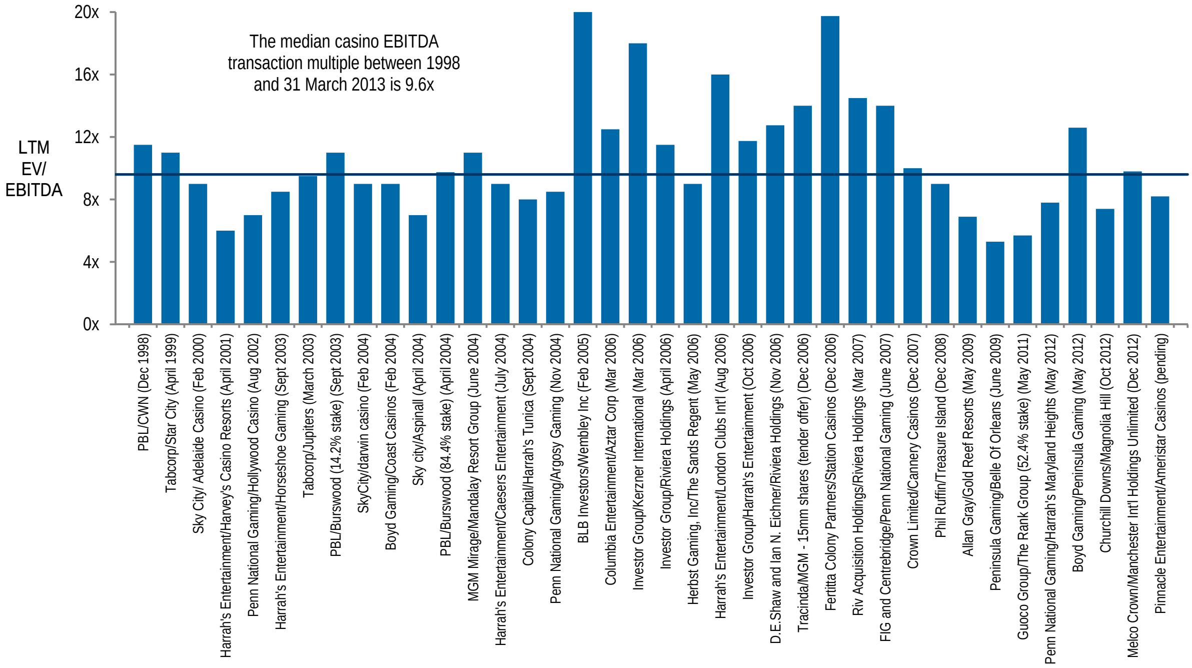
There are five (including SkyCity itself) listed Australasian gaming companies which are broadly comparable to SkyCity's operations. We note three of these companies (Crown Casino, Echo Entertainment and SkyCity) operate casinos and therefore we consider these companies most comparable to SkyCity. EBITDA multiples for the three Australasian companies that focus on casinos range between 8.1x and 13.3x forecast earnings.

EBITDA multiples for the companies listed in the special administrative regions of China (Hong Kong and Macau) are generally higher than Australasia, reflecting their strong growth prospects.

We also note that the North American and Australasian casino operators with the highest EBITDA multiples in their respective regions (Las Vegas Sands, Wynn Resorts MGM Resorts International and Crown Casino) all have interests in Macau-based casinos.

As a cross-check to the observed trading multiples we have also sourced the transaction EBITDA multiples from a broker note prepared by Goldman Sachs for Crown Casino and Capital IQ, which are set out at Figure A3.1.

Figure A3.1: EBITDA transaction multiples between 31 December 1998 and 31 March 2013



We note that casino businesses have generally transacted in a range of 8.0x to 11.0x historical EBITDA earnings, with a median of 9.6x.

We consider an EBITDA multiple in the range of 9.0x to 10.0x is appropriate for SkyCity for the purposes of our high-level evaluation analysis set out in the Report.

Our estimate of an appropriate EBITDA multiple range is supported by SkyCity's own trading multiples.

Asset beta

We have assessed an asset beta in the range of 0.88 to 0.92 for SkyCity. We arrived at this range based on our review of comparable company asset betas' set out above.

Company descriptions

Set out below are descriptions of the comparable companies.

Crown Casino

Crown Limited ('Crown Casino') operates in the gaming and entertainment industry, primarily in Australia. It owns and operates Crown Entertainment Complex in Melbourne and Crown Perth Entertainment Complex in Perth. Crown Entertainment Complex comprises 2,500 single terminal gaming machines and approval to operate 500 table games; three hotels offering approximately 1,600 rooms; conference centre; banqueting facilities; 70 restaurants and bars; boutiques and retail outlets; a multi-screen cinema complex; a bowling alley; and an interactive gaming auditorium. Crown Perth includes approval to operate 2,000 gaming machines and 220 table games; two hotels; 22 restaurants and bars; a nightclub; a convention centre; 2,300 seat theatre; 20,000 seat dome; a day spa; and retail outlets. Crown Casino also owns and operates the Aspinalls Club, a high-end casino in London and has interests in casino/hotel properties in Macau, which include the City of Dreams, Altira Macau, and Mocha Clubs.

Echo Entertainment

Echo Entertainment Group Limited ('Echo Entertainment') provides leisure and entertainment services in Australia. It offers services related to casino gambling, entertainment and hospitality including operating the Star casino in Sydney; the Jupiters hotels and casinos in Queensland; and Treasury hotel and casino in Brisbane. It also manages the Gold Coast convention and exhibition centre as well as holds interests in and manages the Townsville entertainment and convention centre in Queensland.

Tatts Group

Tatts Group Limited ('Tatts Group'), together with its subsidiaries, provides gaming services in Australia and the United Kingdom. It operates gaming machines and club Keno in Victoria; and lottery licences in Victoria, New South Wales, Tasmania, Australian Capital Territory, the Northern Territory, and Queensland, as well as conducts Totalisator and fixed odds betting on thoroughbred, harness, greyhounds, and other sporting events in Queensland, South Australia, and the Northern Territory. It also offers gaming services in Queensland, New South Wales and the Northern Territory. Tatts Group was founded in 1881.

Tabcorp

Tabcorp engages in the provision of leisure and entertainment services in Australia. It operates in four segments: Wagering, Media & International, Victorian Gaming, and Keno. The Wagering segment conducts wagering activities through a network of agencies, hotels, and clubs in Victoria and New South Wales; provides on course tote at thoroughbred, harness, and greyhound metropolitan and country race meetings; and offers tote and fixed odds betting on sporting events. The Media & International segment is involved in television and radio operations focusing on the racing industry and other sporting activities, including Sky racing, Sky Sports radio, and various other Australian and international broadcasting services. The Victorian Gaming segment owns and operates single terminal gaming machines in licensed hotels and clubs under the Tabaret brand. The Keno segment operates Club Keno games through a joint venture arrangement in Victoria; and operates Keno in New South Wales and Queensland.

Galaxy Entertainment

Galaxy Entertainment Group Limited ('Galaxy Entertainment'), an investment holding company, operates in the gaming and entertainment industry in Macau. It also manufactures, distributes and sells construction materials such as concrete pipes and piles, asphalt, ready mixed concrete, concrete products, aggregates, and slag in Hong Kong, Macau, and Mainland China, and engages in quarrying, equipment leasing, property investment and holding, aircraft owning, financing, and trading activities, as well as provides project management, hotel management, and quality assurance services. It is based in Central, Hong Kong.

SJM Holdings

SJM Holdings Limited ('SJM Holdings') engages in the development and operation of casinos and related facilities in Macau. It conducts VIP gaming, mass market table gaming, slot and other gaming machines. SJM Holdings is also involved in the operation of hotels and the provision of catering and related services.

Melco Crown Entertainment

Melco Crown Entertainment Limited ('Melco'), through its subsidiaries, engages in the development, ownership, and operation of casino gaming and entertainment resort facilities primarily in Macau. It owns and operates City of Dreams, an integrated resort development, which features approximately 400 gaming tables and 1,300 gaming machines; guest rooms; a stage performance theatre; approximately 20 restaurants and bars, 69 retail outlets, and an audio visual multimedia experience; and recreation and leisure facilities, including health and fitness clubs, swimming pools, spa and salons, and banquet and meeting facilities. Melco also operates Altira Macau that features approximately 228 gaming tables; hotel rooms consisting of suites and villas and non-gaming entertainment venues. In addition, it owns and operates Mocha Clubs, which provide single player machines with various games consisting of progressive jackpots, as well as multi-player games. Melco was incorporated in 2004 and is based in Central, Hong Kong.

Sands China

Sands China Ltd. ('Sands China'), an investment holding company, develops, owns, and operates integrated resorts in Macau. Its resorts contain gaming areas, meeting space, convention and exhibition halls, retail and dining areas, and entertainment venues. It owns and operates the Sands Macau casino in Macau; The Venetian Macau Resort Hotel and the Plaza Macau. Its properties comprise 3,554 suites and hotel rooms, 1,135 table games, 3,388 slot machines, 70 restaurants and food outlets, as well as other integrated resort amenities.

Wynn Macau

Wynn Macau Limited ('Wynn Macau'), through its subsidiaries, owns and operates a hotel and casino resort in Macau. It conducts VIP casino and mass market casino and slot machine gaming operations. It is also involved in real estate development, design, and preconstruction activities.

MGM China

MGM China Holdings Limited ('MGM China') engages in the development and operation of casino games of chance and other casino games, and related hotel and resort facilities in Macau. Its casino has 1,184 slot machines, 427 gaming tables, and multiple VIP and private gaming areas; and its hotel comprises 35 storeys with 582 deluxe rooms, 468 standard guest rooms, 99 luxury suites, 15 private luxury villas, leisure areas, 9 restaurants and bars, and 1,593 square metres of convention space.

Kangwon Land Corp

Kangwon Land Corp. ('Kangwon') engages in the casino and leisure business in Korea. It operates casino's consisting of 132 table game machines, and 960 slot and video game machines; hotels and condominiums; ski slopes; and golf courses. Kangwon was founded in 1998 and is based in South Korea.

Paradise

Paradise Co., Ltd., ('Paradise') together with its subsidiaries, primarily engages in the ownership and operation of casinos, spas, and hotels in South Korea. It operates various casinos. Paradise was founded in 1972 and is headquartered in South Korea.

Las Vegas Sands

Las Vegas Sands Corp. ('Las Vegas Sands'), together with its subsidiaries, owns, develops, and operates various integrated resort properties primarily in the United States, Macau and Singapore. It owns and operates numerous casinos including The Venetian Resort Hotel Casino, The Palazzo Resort Hotel Casino and The Sands Expo and Convention Center in Las Vegas, Nevada.

Wynn Resorts

Wynn Resorts Limited (‘Wynn Resorts’), together with its subsidiaries, engages in the development, ownership, and operation of casino resorts. It owns and operates two casino resort complexes in Las Vegas, the Wynn Las Vegas and Encore at Wynn Las Vegas with approximately 4,750 hotel rooms and suites; 220 table games; 2,430 slot machines; and 1 poker room.

MGM Resorts International

MGM Resorts International (‘MGM Resorts’), through its subsidiaries, owns and operates casino resorts. It also owns and operates Shadow Creek golf course in North Las Vegas; Fallen Oak golf course in Saucier, Mississippi; and the Primm Valley golf club at the California state line. It owns and operates approximately 15 resorts in the United States.

Penn National Gaming

Penn National Gaming, Inc. (‘Penn National’) owns and manages gaming properties in the United States and Canada. At 2012, it owned, managed, or had interests in 25 facilities in 18 jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Mississippi, Missouri, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Texas, West Virginia, and Ontario.

Churchill Downs

Churchill Downs Incorporated (‘Churchill Downs’) engages in the horseracing, casino gaming, and entertainment businesses. It offers gaming products through its casinos in Mississippi; and slot and video poker operations in Louisiana and Florida. It operates Harlow’s Casino Resort & Hotel, a casino, hotel, and entertainment centre that includes approximately 900 slot machines, 15 table games, a poker room, a 105-room attached hotel, and dining facilities in Greenville, Mississippi; Calder Casino, a slot facility, which operates approximately 1,200 slot machines; Fair Grounds Slots, a slot facility that operates approximately 600 slot machines in Louisiana; and Video Services, LLC, which owns and operates approximately 700 video poker machines in Louisiana.

Pinnacle Entertainment

Pinnacle Entertainment, Inc. (‘Pinnacle’) owns, develops, and operates casinos, and related hospitality and entertainment facilities in the United States. It operates casinos, such as L’Auberge Lake Charles in Lake Charles, Louisiana; River City Casino and Lumière Place Casino, and Hotels in St. Louis, Missouri; Boomtown New Orleans in New Orleans, Louisiana; Belterra Casino Resort in Vevay, Indiana; and Boomtown Bossier City in Bossier City, Louisiana.

Ameristar Casinos

Ameristar Casinos, Inc. (‘Ameristar’) develops, owns and operates casinos and related hotel, food and beverage, entertainment, and other facilities in the United States. It primarily offers slot plays, as well as a range of table games, including blackjack, craps, roulette, and poker.

Boyd Gaming

Boyd Gaming Corporation (‘Boyd Gaming’), together with its subsidiaries, operates as a multi-jurisdictional gaming company in the United States. It owns casino space, containing approximately 25,973 slot machines, 655 table games, and 11,418 hotel rooms. It also owns and operates 16 gaming entertainment properties located in Nevada, Illinois, Louisiana, Mississippi, Indiana, and New Jersey.

Isle of Capri Casinos

Isle of Capri Casinos, Inc. ('Isle of Capri Casinos') develops, owns, and operates regional gaming facilities; and related dining, lodging, and entertainment facilities in the United States. It owns and operates 15 casino gaming facilities.

Great Canadian Gaming

Great Canadian Gaming Corporation ('Great Canadian Gaming') operates in the gaming and entertainment industry in the United States and Canada. It operates 10 casinos; a thoroughbred racetrack that offers slot machines; racetracks; community gaming centres; a bingo hall; a resort with hotels; a conference centre and a marina; show theatres; and various associated food, beverage and entertainment facilities. It has operations in British Columbia, Ontario and Nova Scotia in Canada; and Washington State in the United States.