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PROJECT PLATO

Recapitalization Analysis

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Summary

- JPMorgan used an EBITDA multiple approach
  - An earnings multiple approach is not feasible
    - New interest incurred by taking on additional leverage up to market levels (i.e. 45-65% of firm value) would result in minimal to negative earnings
- Key assumptions:
  - Constant 14.8x EBITDA multiple (Kerzner 2006E trading multiple on 3/17/06) applied to Upside Case model EBITDA
    - Conservative assumption given recapitalization will reduce float and increase leverage
  - Shares repurchased at $81.00
  - Cost of debt of 9.0% for 65% leverage, 8.0% for 55% leverage, and 7.0% for 45% leverage
  - $100mm of transaction costs
- The cost of debt in a recapitalization, given Kerzner's tax-exempt status, is not attractive
  - $81 per share repurchase would imply a 29.1x 2006 P/E multiple
  - At a cost of new debt of 9.0%, the equivalent P/E multiple is 11.1x
- Key observations:
  - Given constant EBITDA multiples, the blended value to all shareholders (share repurchase plus value post-recapitalization) does not improve
  - The recapitalization is dilutive to future stock price performance

Recapitalization analysis

Blended value to shareholders (share repurchase plus value post-recapitalization)

Key assumptions

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- Cost of debt of 9.0% for 65% leverage, 8.0% for 55% leverage, and 7.0% for 45% leverage
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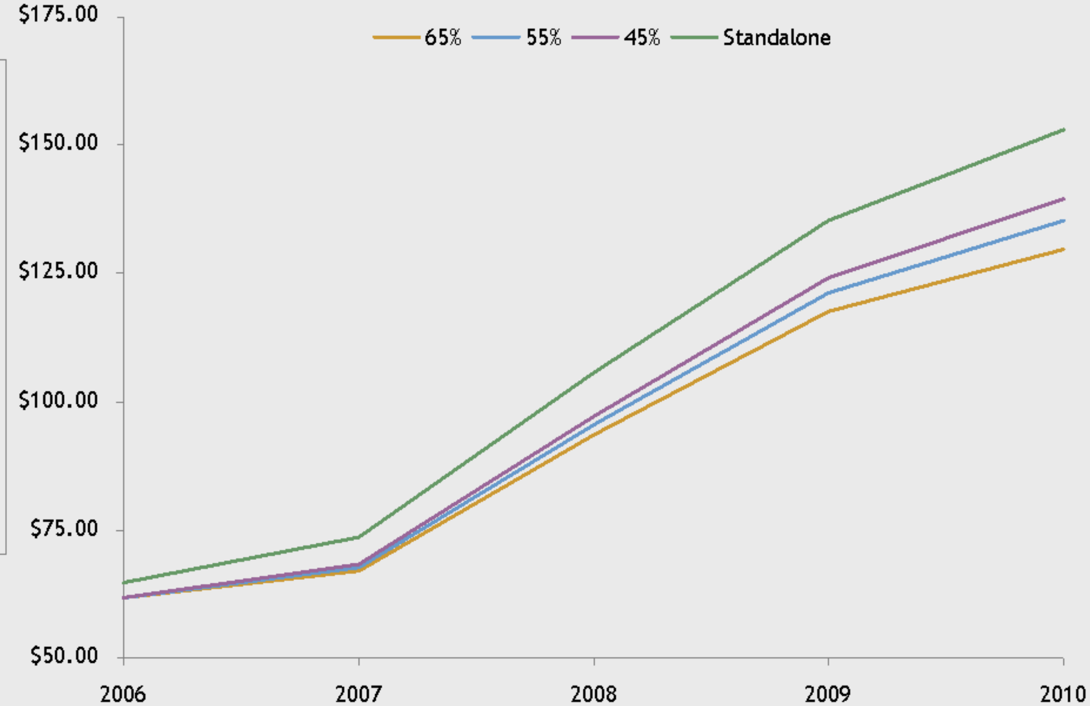

	2006	2007	2008	2009	2010
Assumed FV/EBITDA multiple	14.8x	14.8x	14.8x	14.8x	14.8x
Implied share price:					
65% PF debt/cap	$61.86	$67.09	$93.57	$117.45	$129.77
55% PF debt/cap	$61.86	$67.71	$95.63	$121.11	$135.19
45% PF debt/cap	$61.86	$68.23	$97.36	$124.18	$139.68
Standalone	$64.91	$73.55	$105.76	$135.33	$152.90
Implied P/E standalone	23.3x	26.9x	25.6x	24.7x	24.6x

Recapitalization analysis (cont'd)

Summary statistics

	Incremental debt (net of fees)	*Shares repurchased*	*Remaining shares*
45% PF debt/cap	$869	10.724	28.511
55% PF debt/cap	1,231	15.197	24.038
65% PF debt/cap	1,593	19.671	19.564

2006

EBITDA multiple

			Pro forma debt / capitalization		
		Standalone	*45%*	*55%*	*65%*
EBITDA multiple	13.8x	$56.40	$56.40	$56.40	$56.40
	14.8x	61.86	61.86	61.86	61.86
	15.8x	67.32	67.32	67.32	67.32
	16.8x	72.77	72.77	72.77	72.77

% deviation from standalone

			Pro forma debt / capitalization		
		Standalone	*45%*	*55%*	*65%*
EBITDA multiple	13.8x	*0.0%*	*(5.0%)*	*(5.0%)*	*(5.0%)*
	14.8x	*0.0%*	*(4.7%)*	*(4.7%)*	*(4.7%)*
	15.8x	*0.0%*	*(4.5%)*	*(4.5%)*	*(4.5%)*
	16.8x	*0.0%*	*(4.2%)*	*(4.2%)*	*(4.2%)*