

Stage 3 Outcomes and Transaction Summary

Unsolicited Proposal: Crown Sydney Hotel Resort

Introduction

This document is a summary of the outcomes of Stage 3 of the Unsolicited Proposal put forward by Crown Limited in relation to the Crown Sydney Hotel Resort. On 30 October 2013 Crown Limited changed its name to Crown Resorts Limited. It is referred to below simply as 'Crown'.

At the end of Stage 3, Crown Group Companies (defined below) have committed to the State of New South Wales (NSW) to proceed with the development of the Crown Sydney Hotel Resort in Barangaroo South, Sydney, and the subsequent commencement of VIP gaming from 2019. The details negotiated in Stage 3 are consistent with the published outcomes of the Government's response to Crown's Stage 2 proposal, and NSW's interests have been enhanced by the inclusion of detailed securities and guarantees.

Under Crown's proposal, Crown proposes to develop an iconic 6 star hotel, with a VIP gaming facility for members and guests. There will be no general public access, no low limit gaming and no poker machines. A licence fee payment of \$100 million¹ will be paid by Crown to NSW upon issue of the licence and Crown will pay gaming taxes once the facility commences operation, expected in November 2019.

The completion of the project is still subject to a number of conditions and approvals. These are set out in more detail in the section "Next Steps" below, but include:

- passing of amending legislation;
- approval under the *Environmental Planning and Assessment Act*, to be obtained for the Crown Sydney Hotel Resort, which has several stages (**Planning Approval**);
- approval by the Independent Liquor and Gaming Authority (**ILGA**) of an application that Crown Sydney Gaming Pty Limited (**Crown Sydney**) will make for a restricted gaming licence (**Licence Approval**).

There is no guarantee that all of these matters will be resolved, on terms acceptable to NSW and Crown, within an acceptable timeframe for both parties.

Both the Planning Approval and the Licence Approval are governed by separate legislative regimes, and ILGA is an independent authority. NSW has not guaranteed to the Crown Group Companies that it will receive Planning Approval, Licence Approval or that amending legislation will be passed. Both NSW and the Crown Group Companies have the right to terminate the commitments if any of these matters are not achieved on acceptable terms within specified timeframes (in addition to other termination rights that each has).

Parties

The parties to the transaction are: The State of New South Wales (**NSW**) and Crown Sydney Gaming Pty Ltd, Crown Sydney Property Pty Ltd, Crown Sydney Holdings Pty Ltd and Crown Resorts Limited (**Crown Group Companies**).

¹ Note that a non-refundable \$5 million deposit was paid on 23 July 2013.

Key Terms: Legislation

In order to proceed with the proposal, the *Casino Control Act 1992 (Existing Act)* needs to be amended. The amending Bill, the Casino Control Amendment (Barangaroo Restricted Gaming Facility) Bill 2013 (**Bill**) is proposed to be introduced into the NSW Parliament in November 2013.

The Bill provides for the following (amongst other things):

- for the licensing of a restricted gaming facility in Barangaroo South;
- that the Barangaroo restricted gaming facility can only be at Barangaroo South, and that there may only be one restricted gaming licence in force at any one time;
- allows the Minister administering the legislation to provide directions to ILGA about the terms of a restricted gaming licence that it may grant, and to specify the boundaries of the Barangaroo restricted gaming facility;
- that only an approved applicant may apply for a restricted gaming licence (noting that Crown will be approved as the applicant by the Minister);
- specifies the form of application for a restricted gaming licence and the matters that ILGA is to consider in determining whether the approved applicant, and its associates, are suitable persons to be concerned in or associated with the management and operation of the Barangaroo restricted gaming facility;
- the ability for the precise boundaries of the Barangaroo restricted gaming facility to be redefined by ILGA, on application of the holder of the licence as the Crown Sydney Hotel Resort is developed and in the future (but only within Barangaroo South);
- ILGA cannot impose changes to licence conditions on the Barangaroo restricted gaming licence without the holder's consent (unless the change relates to a disciplinary matter);
- gaming cannot commence at the Barangaroo restricted gaming facility before 15 November 2019;
- the playing of poker machines is not lawful at the Barangaroo restricted gaming facility;
- the minimum bet limits for games are determined as follows:
 - (a) in the case of baccarat, blackjack or roulette (whether played at a table or by way of an electronic device):
 - \$30 for baccarat, \$20 for blackjack and \$25 for roulette (note in the case of roulette, the minimum bet limit is the minimum total of all bets placed by a player per spin), or
 - such higher amount as ILGA determines in accordance with the restricted gaming licence; and
 - (b) in the case of any other game, the amount ILGA determines in accordance with the restricted gaming licence.

Note that the stipulated minimum bet amounts shown above are for a single hand or spin, and that hands or spins occur at high frequencies in these games.

At the minimum bet limits indicated above, Crown estimates that this will be equivalent to hourly gaming turnover of \$2,160, \$1,800, and \$1,500 respectively for the three games listed in (a) above. On this basis, the annual minimum turnover at these minimum bet limits would be between \$313,000 and \$450,000 per player depending upon which game is played.

Given the restrictions of no poker machines, no low limit tables and members only access, Crown estimates that, based on Crown Melbourne data, only 5% of local casino gaming patrons would play in the Barangaroo Restricted Gaming Facility at the Crown Sydney Hotel Resort.

- only members and guests are permitted to participate in gaming at the Barangaroo restricted gaming facility (see below for details on policies and criteria);
- while the playing of baccarat, blackjack or roulette at the Barangaroo restricted gaming facility is approved, the rules for those games and the equipment to be used, and any other games to be played (plus their rules, equipment and minimum bet limits) are to be approved by ILGA;
- upon opening, the holder of the restricted gaming licence will be able to provide credit to a person not ordinarily resident in Australia, if the credit is to enable the person to participate in a rebate player arrangement or a tour group arranged by an international marketing agent that is approved by ILGA;
- smoking will be permitted at the Barangaroo restricted gaming facility, provided that the restricted gaming licence is subject to conditions requiring that international best practice standard air quality equipment to be installed, maintained, quarterly tested, repaired (if necessary) and operated at the Barangaroo restricted gaming facility (see below for more information on air quality commitments made by Crown); and
- gaming machines are not permitted throughout the Crown Sydney Hotel Resort.

Key Terms: Commitments

The commitments made to date provide for (amongst other things, and excluding matters that are also included in the summary of key legislation terms):

- Only members and guests may be admitted;
 - Crown Sydney is required to have a membership policy, a policy for the review of memberships and a guest policy. Copies of each form part of the commitments and must be provided to ILGA, who may audit compliance by Crown Sydney with each of those policies. Copies of any amended policies must also be provided to ILGA, and those amendments will not be effective if ILGA is not satisfied with the amendments being consistent with agreed principles relating to members and guests;

Under the agreed principles, people may be granted membership if they:

- are already members of a VIP gaming facility;

- are from overseas or interstate and have been accepted into 'high roller' rebate based play (this includes requirements for front money); or
- have applied for membership and that membership has been granted having regard to the membership policy.

NSW residents may be granted membership if they meet the membership requirements, but subject to a 24 hour 'cooling off' period unless they can provide evidence that they are already a member of an International or Australian VIP gaming facility.

The membership policy will require:

- written applications, acknowledging the conditions of gambling in the Barangaroo restricted gaming facility;
- background security checks;
- membership cards (which must contain a provision to identify the member) to be used to grant access to the Barangaroo restricted gaming facility;
- inclusion in a members' database;
- adherence to dress standards and rules; and
- not being an excluded, banned or self-excluded person.

Crown Sydney must review each member's status and suitability to be a member within its first six months of operation and at least annually thereafter.

The guest policy will require:

- a maximum of three guests may be admitted with a member;
 - all guests' personal details will be recorded in the database;
 - except in the cases of spouses or partners, there will be limits on the number of times that a person can be admitted as a guest;
 - persons staying in the Crown Sydney Hotel Resort may be admitted as guests for the period of their stay (with background security checks if their stay is for more than two days);
 - management may grant guest access to people who live outside NSW or Australia; and
 - people who are accompanied by a director of a Crown Group company may be admitted as guests.
- the Barangaroo restricted gaming facility can operate 24 hours a day, every day of the year;
 - the Crown Sydney Hotel Resort will be licensed to serve alcohol in all areas;
 - the restricted gaming licence will have a 99 year term (if granted);
 - the total area in which gaming is conducted within the Barangaroo restricted gaming facility cannot exceed the lesser of: 20,000 square metres or 20% of the total size of the Crown Sydney Hotel Resort;
 - the gaming taxes to be paid to NSW by Crown Sydney are:

a) Non-rebate Duty: on Non-rebate Gaming Revenue is 29%, which includes the 2% Responsible Gaming Levy and GST, payable weekly; and

b) Rebate Player Duty: on Rebate Gaming Revenue is 10%, which includes GST, payable four weekly;

- Crown commits to building a 6 star iconic hotel resort including standard rooms and suites, premium suites, villas and super villas, an architecturally dramatic lobby area, luxurious spa facilities, multiple signature restaurants with celebrity chefs, destination cocktail bar and outdoor meeting and convention environments;
- Air Quality;
 - Crown commits to installing international best practice standard air quality technology prior to commencement of gaming, to establish maintenance manuals for that equipment and to have independent expert assessments undertaken quarterly to determine whether that plan is being implemented and any additional maintenance that is required.
 - If there is a major failure of the air quality technology, Crown has committed to repairing or replacing it as soon as practicable and smoking will not be permitted in the affected areas until the technology is restored to the levels that existed prior to the failure or breakdown.
 - Quarterly testing of air quality is required to be undertaken by an independent expert appointed by Crown to ensure that the operating efficiency of the equipment remains at a high level of compliance with its design standard and whether any additional maintenance is required.
 - Every 10 years an independent expert report is to be prepared on whether equipment upgrades or replacement would achieve demonstrable improvements in air quality to reach international best practice standards. After review by Crown, including peer review, if that report concludes that such upgrades should be made, Crown must make those upgrades as soon as practicable.
 - The required reports are made available to the Minister for Health, who will in turn report annually to Parliament on these matters.
- Crown has undertaken to provide or engage service providers to provide responsible gaming support services at the Crown Sydney Hotel Resort;
- In relation to competition, Crown has agreed that it (and it will procure that its related bodies corporate, including Consolidated Press Holdings) will not acquire any securities in Echo Entertainment Limited (owner of “The Star”) until the later of:
 - (a) the day on which construction of the Crown Sydney Hotel Resort commences; and
 - (b) the earlier of:
 - ILGA receiving the legislative power to regulate acquisitions of shares in both licence holders on the basis of competition issues; and

- The date which is 18 months after the date that the Government announces that it has accepted Crown's Stage 3 proposal;
 - NSW has committed to keeping initial gaming tax rates applicable to Crown Sydney Hotel Resort constant for the first 20 years of gaming. At that time there will be a review of gaming tax rates that will have regard to various matters including market conditions, financial viability and competitive neutrality;
 - NSW commits to undertake a review of casino gaming regulation to commence prior to June 2014 with a view to establishing a regime prior to the commencement of gaming at the Crown Sydney Hotel Resort that:
 - (a) establishes regulatory neutrality between licence holders;
 - (b) reflects best practice; and
 - (c) achieves regulatory efficiency.
- NSW will engage with stakeholders, including ILGA and the holder of the existing casino licence, as part of that review. NSW has not undertaken to implement any particular recommendations that may arise from that review;
- Crown Group Companies and NSW each have rights to terminate the arrangements if milestones (including the passing of the Bill in acceptable form and executing further agreements) are not achieved by a sunset date (31 March 2015) which can be extended in certain circumstances;
 - Crown has provided two gaming tax guarantees:
 - (a) a "start-up guarantee" over the first three years of gaming at Crown Sydney Hotel Resort, which guarantees NSW that the aggregate of gaming taxes paid by Crown and The Star over that period (calculated on a normalised basis) is at least equal to three times the amount of gaming taxes paid by The Star (on a normalised basis) in the year prior to commencement of gaming at Crown Sydney Hotel Resort; and
 - (b) a "baseline guarantee" that, over the first 15 years of Crown Sydney Hotel Resort's full operations (i.e. after a ramp up period of approximately two years), NSW will receive from Crown at least \$1 billion in gaming taxes, including the licence fee;
 - NSW has obtained the benefit of a package of security arrangements from the Crown Group Companies to support its commitments to, amongst other things, meet its contractual obligations and pay gaming taxes. This security package involves:
 - (a) a guarantee from Crown Resorts Limited, the group's parent entity;
 - (b) a charge over the shares in, and assets of Crown Sydney, which will hold the restricted gaming licence and operate the gaming business;
 - (c) guarantees from Crown Sydney Holdings, the sole shareholder of Crown Sydney, and Crown Sydney Property, the lessee of the Crown Sydney Hotel Resort site from the Barangaroo Delivery Authority, under a 99 year lease (which is yet to be granted);

- (d) Crown Sydney Property will grant Crown Sydney Gaming a sub-lease or licence over all property within the Crown Sydney Hotel Resort that is used for gaming and gaming related activities, and those sub-leases will be the subject of a mortgage in favour of NSW and ILGA;
- (e) two \$100 million bank guarantees, the first to support the gaming tax guarantees identified above and the second to support Crown Sydney's obligation to pay gaming taxes, with that guarantee the subject of a review after 20 years and, in certain circumstances, to continue for the term of the licence; and
- (f) a financial covenant in favour of NSW from Crown Resorts Limited and Crown Sydney which stipulates total liabilities must not exceed 60% of total assets as calculated for the relevant entity;

Note: certain of the guarantees and securities are subject to Crown obtaining the consent of its financiers and other State regulatory authorities, which consents must be in place before VIP gaming commences in Sydney.

- NSW undertakes to compensate relevant Crown Group Companies if certain adverse regulatory events occur during the life of Crown's licence, including cancellation of the licence (other than as a result of a disciplinary breach) and changes in gaming taxes during the initial 20 year period.

Depending on the timing and nature of the event that is being compensated for, the compensation potentially payable is a function of costs incurred by Crown, or a multiple of EBITDA of Crown's gaming operations to compensate Crown for losses suffered as a result of any such adverse action by NSW. After the initial 20 year period, any compensation will be on a "just terms" basis.

Next Steps

Completion of the Crown Sydney Hotel Resort is subject to a number of conditions. These include:

- passing of the Bill;
- ILGA reviewing a licence application and finding Crown Sydney is a suitable person to hold a restricted gaming licence;
- obtaining relevant planning approvals for the resort development;
- entering into further legally binding agreements with NSW about, amongst other things, gaming tax payment arrangements and the security package, and with ILGA in relation to the conduct and management of gaming; and
- finalising arrangements between Crown, Lend Lease and the BDA in relation to the development of Crown Sydney Hotel Resort.