

James D. Packer

Chairman



**COMMERCIAL-IN-CONFIDENCE
STRICTLY CONFIDENTIAL**

21 June 2013

Mr Chris Eccles
Director General
Department of Premier and Cabinet
NSW Government
Level 39, Governor Philip Tower
1 Farrer Place
Sydney NSW 2000

Dear Mr Eccles

Crown Sydney Hotel Resort – Unsolicited Proposal – Detailed Proposal

I believe that Sydney deserves one of the world's great hotels.

Crown's proposal for an iconic six-star hotel resort on the harbour at Barangaroo South will give Sydney a landmark hotel it can be proud of.

Sydney's hotels are not competitive with the best hotels in Asia and the city is missing out on a valuable segment of the Asian luxury tourist market.

Sydney has a significant opportunity to capitalise on the enormous growth in Asian tourism - particularly high net worth tourists from China. To realise this opportunity, Sydney needs a luxury hotel resort that is designed, constructed and operated to world-class standards.

Barangaroo South represents a spectacular opportunity to showcase an iconic six-star hotel resort and Crown has secured the harbour's best available site for the Crown Sydney Hotel Resort.

The Crown Sydney Hotel Resort will be Sydney's first six-star hotel resort. It will feature 350 hotel rooms and suites, 80 luxury apartments, signature restaurants, bars, luxury retail outlets, pool and spa facilities, conference rooms and VIP gaming facilities. The VIP gaming facilities at the Crown Sydney Hotel Resort are necessary to make such a world-class project commercially viable.

Crown's project has been carefully planned over a long period of time and is underpinned by Crown's unrivalled understanding of the Asian tourist market. Crown's in-house design and development team have the experience to deliver a world-class project having successfully delivered similar projects in Australia and Macau.

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Significant and unique benefits for NSW

The Crown Sydney Hotel Resort will deliver significant and unique benefits for the people of New South Wales.

Our project will deliver the following benefits to the New South Wales economy in the first full year of operations of the entire Crown Sydney Hotel Resort:

- Gross State Product is estimated to increase by \$638 million;
- Employment is estimated to increase by between 2,300 and 3,300;
- Export income is estimated to increase by \$513 million; and
- Business investment is estimated to increase by \$151 million.

Importantly, Crown Sydney will also deliver a very significant increase in gaming tax revenue for the NSW Government which is forecast to be up to \$1.4 billion over the first ten years of full operation.

As part of our proposal, Crown will guarantee that by 2036 the NSW Government will have received from Crown Sydney \$1 billion in gaming tax revenue. In addition, Crown will guarantee that the average annual gaming tax received by the NSW Government from Crown Sydney and The Star in the first three years after Crown Sydney opens will exceed the gaming tax revenue received by the NSW Government from The Star in the year prior to Crown Sydney opening.

Crown will also make an upfront payment of up to \$250 million to the NSW Government upon the issue of the VIP gaming licence.

Assisting New South Wales to meet its tourism targets

The world-class Crown Sydney Hotel Resort will assist New South Wales in meeting its tourism targets by attracting a larger share of the booming Asian outbound tourism market.

Crown has built a reputation throughout Asia, in particular China, as a world leader in service provision for high net worth tourists. No other company has had the same success in bringing these highly discerning tourists to Australian hotel resorts, an element which will be critical in making the Crown Sydney Hotel Resort project a success.

Crown Sydney will be a globally recognised landmark building which complements the Sydney Harbour Bridge and the Sydney Opera House. As such, it will also attract mainstream international tourists and the general public to Barangaroo where they can enjoy the world-class hospitality experiences provided by the hotel resort.

In addition, the Crown Sydney Hotel Resort will assist Sydney to compete with the best cities in the world for major international conferences and events and will alleviate Sydney's shortage of premium hotel accommodation.

Crown's proven track record will result in an increase in Sydney's share of the international VIP gaming market

Despite Sydney's many attractions including its magnificent harbour, The Star attracts less than 1% of the international VIP gaming market. In contrast, Crown Melbourne generated more than double The Star's international VIP gaming revenue last year.

The Star's performance has lagged that of Crown Melbourne in all VIP gaming markets over the last decade including the local VIP gaming market where The Star generates less than two-thirds of the revenue generated by Crown Melbourne. This is despite Sydney being the larger and more affluent city. Consequently, the NSW Government is being short-changed through lower gaming tax revenue.

I believe that Crown Sydney will be able to almost treble the volume of VIP business coming to Sydney from Asia, and in particular, China. Unlike Echo, Crown has the advantage of being able to leverage its joint venture in Macau – Melco Crown Entertainment (MCE). MCE has a significant share of the Macau VIP gaming market which is the largest VIP gaming market in the world. In addition, Crown has an extensive sales network throughout Asia and has a proven track record of attracting high net worth tourists and VIP gaming customers from Asia to Australia for almost 20 years.

In contrast, The Star has failed to capitalise on the opportunities provided by the growth in Chinese tourism, the massive Asian high-roller market and Sydney's natural attraction as a superior destination for high-end tourists and VIP players.

Echo (and its predecessors) have a track record of failing to invest sufficient capital to create tourism facilities of world standard (e.g. Treasury Casino in Brisbane and Jupiters Casino on the Gold Coast). In December 2010, a \$625 million investment in Echo's Queensland casinos was announced in exchange for various concessions from the Queensland Government. More than two years later, only \$40 million (or 6%) of that promised investment has been made. Despite benefiting from some of the Government's concessions between 2008 and 2012, the normalised EBIT (after significant items) from those properties has fallen by around 40%.

When Echo has attempted to undertake major investments it has failed to deliver on its promise to government and shareholders (e.g. The Star in Sydney). An expansion of The Star was announced in 2007 and has been revised on numerous occasions with a final investment of \$860 million. Despite this investment, between 2008 and 2012 The Star's normalised EBIT (after significant items) has fallen by around 40%. Earlier this month Echo's CEO admitted that the targeted return on Echo's latest investment at The Star had not yet been achieved.

In contrast to Echo's poor record in creating world-class tourism infrastructure and optimising the financial and economic returns to State Governments, Crown has an impressive record of investing in our Melbourne and Perth resorts and delivering returns for all stakeholders. Both Crown Melbourne and Crown Perth have transformed tourism infrastructure in those cities and our strong relationships with Governments, Unions and other stakeholders have been of mutual benefit over many years.

Crown and its associates have developed (or are developing) 12 new hotels in Melbourne, Perth, Macau and Manila—of which four are six-star standard. Over the seven years to 2015, Crown and its associates will have spent in excess of \$10 billion of capital expenditure across their Australian and Asian properties. Between 2008 and 2012, Crown invested \$1.8 billion in its Australia properties, with EBITDA increasing from around \$600 million to \$800 million.

Crown's superior financial capacity and its investment grade credit rating provide confidence that it will deliver on its promise to build one of the world's great hotel resorts in Sydney.

Responsible gaming at Crown Sydney

It is important to note that Crown Sydney will not offer poker machines or low limit tables and the VIP gaming facilities will not be accessible by the NSW general public – it will be a members only facility. As such, VIP gaming at Crown Sydney will minimise the issues surrounding problem gambling. Based on Crown Melbourne's experience, it is estimated that only 5% of local gaming patrons would play in such a restricted gaming facility.

In addition, Crown Sydney will provide state-of-the-art responsible gaming programs and initiatives in a unique partnership with Mission Australia to further reduce problem gambling concerns.

Project Partners

To achieve our employment and corporate social responsibility goals, Crown has secured the support of the National Centre of Indigenous Excellence, Penrith Panthers Rugby League Club, United Voice (NSW Branch) and Mission Australia. These outstanding partners makes this a best practice project and a model for future commercial / community partnerships. Crown has reached agreement with United Voice (NSW Branch) in relation to the issue of installing and maintaining state-of-the-art air quality technology. In order to effectively compete with Macau, Singapore and the rest of Asia, Crown Sydney will need to permit smoking in VIP gaming areas.

To conclude, I am proud to be in a position where I can propose the Crown Sydney Hotel Resort to the NSW Government. I believe that Crown will provide a truly iconic tourist attraction for Sydney, provide significant employment and training opportunities and generate billions of dollars of additional tax revenue for the State of NSW.

Crown's Detailed Proposal comprises Volumes 1 to 5 and accompanies this letter. A summary of our proposal is attached to this letter.

Yours sincerely



James Packer
Chairman

Encl.

Crown Sydney Hotel Resort – Summary of Crown’s Proposal June 2013

Background to the Crown Sydney proposal

- Sydney deserves one of the world’s best hotels
- Barangaroo South represents a spectacular opportunity to showcase an iconic six-star hotel resort
- Sydney is yet to capitalise on the opportunities provided by the massive growth in Asian tourism, particularly from China, and the many attractions of Sydney for high net worth tourists and VIP players
- Sydney’s current hotel offering (including The Star’s latest hotel) does not match the standard of the best hotels in Asia
- Despite the many attractions of Sydney, its share of the international VIP gaming market is only c.0.7%. The Star significantly underperforms Crown Melbourne in all VIP gaming markets - Crown Melbourne is currently generating more than double The Star’s international VIP gaming revenue and 50% more local VIP gaming revenue than The Star
- A world-class six-star hotel resort will enable Sydney to capitalise on the growth in Asian tourism, particularly high net worth and luxury focussed tourists from China
- Incorporating world-class VIP gaming into such a hotel resort will provide a further attraction to high net worth tourists from China and other Asian countries and will make the project commercially viable
- Crown has the track record to design, construct and operate such an iconic six-star hotel resort in Sydney. This project will generate high-end tourism for Sydney and significantly grow Sydney’s international, interstate and local VIP gaming markets

The Crown Sydney project

- 1** Iconic hotel resort building Crown is proposing to design, construct and operate Sydney's first six-star luxury hotel resort at Barangaroo South on Sydney Harbour. The Crown Sydney Hotel Resort will be world-class and will feature 350 hotel rooms and suites, 80 luxury apartments, signature restaurants, bars, luxury retail outlets, pool and spa facilities, conference rooms and VIP gaming facilities.
- The Crown Sydney Hotel Resort will be constructed on a 6,000sqm site located on the northwest corner of Barangaroo South. The building will have a height of approximately 250m, which equates to approximately 70 floors.
- The 'iconic' standard of the hotel resort will be assured through the appointment of a world-class architect. Wilkinson Eyre, one of the world's best architects, has been engaged to design a landmark building that will be instantly recognisable around the world, complement Sydney icons like the Sydney Harbour Bridge and the Sydney Opera House and help attract international tourists.
- Construction of the Crown Sydney Hotel Resort is subject to receipt of all necessary approvals including BDA and Ministerial planning approvals.
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2 Construction standard & internal design	The Crown Sydney Hotel Resort and its facilities will be of '6-star' standard (ie. superior to the existing Australian 5 star industry standard).
	This 6-star facility is distinguishable from a Forbes 5-star and Australian 5-star hotel standard based on the following criteria:
	<ul style="list-style-type: none">• Hotel suite/villa room size – 100-500sqm• Standard room size – 55-70sqm• Lobby area – architecturally dramatic with high levels of service and amenity• Porte cochere – statement arrival with personalised greeting and capacity for limousine and valet• Facilities – large-scale spa facilities with segregated VIP treatment rooms and customised treatments• Restaurants – multiple signature dining experiences with celebrity chefs in highly designed environments• Restaurant covers - Signature restaurant clustering creates a dining precinct which results in visitation. Restaurant covers are expected to be 150-200% of room count• Cocktail lounge/bar - Signature lounge environment which is 'destinational' in nature and leverages the unique aspects of the location• Meeting and convention space – unique outdoor environments which leverage Sydney's climate and harbour environment
3 Significant harbour-side location	Barangaroo is the most prominent development site in Australia. The unique combination of commercial, tourism, cultural facilities and parklands makes it one of the most transformative developments in Australia.
	The Crown Sydney Hotel Resort will help the NSW Government meet its objective of making Barangaroo an active and vibrant destination, both during the day and at night.
	Barangaroo is Sydney's last waterfront site of scale with connectivity to the CBD and harbour side tourism precinct. In its proposed location on the northwest corner of Barangaroo South, the Crown Sydney Hotel Resort will serve as the transitional bridge between the commercial office towers of Barangaroo South and the open space and parklands of Barangaroo Central and the headlands.

4	Entitlement to develop land	<p>Following a public tender, Lend Lease entered into an agreement with the Barangaroo Delivery Authority (BDA) to pay for the right to develop all the land at Barangaroo South and to then facilitate 99 year leases between the BDA and the owners of each new building. Crown has entered into an agreement with Lend Lease (the Exclusive Dealing Agreement (EDA)) which provides Crown with the exclusive right to develop a hotel resort at Barangaroo South.</p> <p>Under the EDA, Lend Lease will work as a project partner on an exclusive basis with Crown to design and construct the Crown Sydney Hotel Resort.</p> <p>The Crown Sydney Hotel Resort will be constructed on a 6,000sqm site at Barangaroo South, which will be leased by Crown from the BDA for a term of 99 years.</p> <p>Crown has various rights in relation to the site at Barangaroo South proposed for the Crown Sydney Hotel Resort as set out in the EDA entered into by Crown and Lend Lease.</p> <p><i>[Text redacted]</i></p>
5	Timeframes for construction and opening	<p>Crown's estimated timetable for construction of the Crown Sydney Hotel Resort involves a total of approximately 60-70 months including:</p> <ul style="list-style-type: none">• Specifications and design – approximately 4-6 months• Approvals – approximately 6-12 months• Tender & Negotiation – approximately 4-6months• Construction – approximately 42 months• Pre-opening – approximately 3 months <p>The hotel (including restaurants, bars and retail) at Crown Sydney is expected to open in 2018 and the VIP gaming facilities are expected to open from November 2019, following the expiry of Echo's exclusivity arrangements.</p>

Benefits to NSW from Crown's proposal

6	Upfront licence fee and tax rates	<p>Crown is proposing two alternative combinations of upfront licence fee and tax rates:</p> <ul style="list-style-type: none"> • (Option A): upfront licence fee of \$100 million, tax rate of 10% (including GST) on international and interstate VIP revenue, tax rate of 27.5%¹ (including GST) on local VIP revenue; or • (Option B): upfront licence fee of \$250 million, tax rate of 9% (including GST) on international and interstate VIP revenue, tax rate of 23%² (including GST) on local VIP revenue <p>The upfront licence fee proposed under each option will be payable upon issue of the licence (which is expected to be in CY2013).</p>
7	Tax Guarantee	<p>Crown Sydney will guarantee to the State:</p> <ul style="list-style-type: none"> • The average annual normalised gaming taxes received by the State from Crown Sydney and The Star in financial years 2020 to 2022 will exceed the normalised gaming taxes received by the State from The Star in financial year 2019; and • In the case of Option B only, Crown Sydney will pay gaming taxes of at least \$1 billion to the State over the first 15 years of full operation of the Hotel Resort (financial years 2022 to 2036). <p>The guarantee is conditional on there being no force majeure event, no material adverse change and no change to gaming taxes, levies or other payments relating to gaming in NSW.</p>
8	Significant additional gaming taxes	<p>Given that Crown Sydney will significantly grow the size of the international, interstate and local VIP table gaming markets, Gross Gaming Tax (GGT) payable and State Gaming Tax Revenue received by the NSW Government are expected to increase following the opening of Crown Sydney.</p>

¹ Comprises State gaming tax of 18.41% including the 2% responsible gaming levy, plus 9.09% GST

² Comprises State gaming tax of 13.91% including the 2% responsible gaming levy, plus 9.09% GST

Additional GGT payable by Crown Sydney and The Star of:

- c.\$150 million (Option A) or c.\$130 million (Option B) in FY22³ – represents an increase of up to c.50% (compared to the estimated level in FY22 in the absence of Crown Sydney)
- c.\$2 billion (Option A) or c.\$1.8 billion (Option B) over the first 10 years of full operation (FY22 to FY31) (compared to the estimated level in the absence of Crown Sydney)
- NPV (including upfront licence fee) of c.\$1.1 billion (Option A) or c.\$1.2 billion (Option B) up to FY31
- NPV (including upfront licence fee) of c.\$5.1 billion (Option A) or c.\$4.8 billion (Option B) over the life of the project

Additional SGTR received by the NSW Government from Crown Sydney and The Star:

- c.\$105 million (Option A) or c.\$90 million (Option B) in FY22 – represents an increase of up to c.45% (compared to the estimated level in FY22 in the absence of Crown Sydney)
- c.\$1.4 billion (Option A) or c.\$1.2 billion (Option B) over the first 10 years of full operation (FY22 to FY31) (compared to the estimated level in the absence of Crown Sydney)
- NPV (including upfront licence fee) of c.\$830 million (Option A) or c.\$870 million (Option B) up to FY31
- NPV (including upfront licence fee) of c.\$3.7 billion (Option A) or c.\$3.3 billion (Option B) over the life of the project

Note: if the actual win rate at Crown Sydney and The Star was 1.60% (rather than 1.35%), the additional SGTR received by the NSW Government from Crown Sydney and The Star referred to above would increase by:

- c.\$9 million (Option A) or c.\$7 million (Option B) in FY22
- c.\$110 million (Option A) or c.\$95 million (Option B) over the first 10 years of full operation (FY22 to FY31)
- c.\$60 million (Option A) or c.\$50 million (Option B) of NPV (including upfront licence fee) up to FY31
- c.\$300 million (Option A) or c.\$260 million (Option B) of NPV (including upfront licence fee) over the life of the project

The NSW Government must rebate GST back on international and interstate VIP gaming revenue.

³ FY22 has been adopted as a reference point given that it is the first year which reflects the full impact of all of Crown Sydney's operations

9 Potential for further taxation revenue	<p>The international VIP gaming market is expected to be c.\$4,400 billion in FY22.</p> <p>If an iconic world-class hotel resort situated on one of the world's great harbours with one of the world's best VIP gaming facilities is able to attract more high net worth international gaming customers than projected, there will be additional gaming tax payable to the NSW Government.</p> <p>For example, if Crown Sydney achieved an additional 1% of the global VIP gaming market (ie. Australia's market share grows to 5.2% rather than 4.2%) the additional SGTR referred to in Item 8 would increase by:</p> <ul style="list-style-type: none">• c.\$35 million (Option A) or c.\$30 million (Option B) in FY22• c.\$470 million (Option A) or c.\$395 million (Option B) over the first 10 years of full operation (FY22 to FY31)• c.\$245 million (Option A) and c.\$205 million (Option B) of NPV (including upfront licence fee) up to FY31• c.\$1.3 billion (Option A) and c.\$1.1 billion (Option B) of NPV (including upfront licence fee) over the life of the project
10 Economic benefits	<p>The Crown Sydney Hotel Resort will provide a significant contribution to the NSW economy and employment through the investment in the facility, the expenditure incurred in operating the facility and through stimulating tourism. In order to measure these potential benefits, Crown engaged the Allen Consulting Group to estimate the economic benefit of the Project.</p> <p>The modelling undertaken by the Allen Consulting Group estimates the following benefits to the NSW economy in FY22 (the first full year of operations):</p> <ul style="list-style-type: none">• Gross State Product (GSP) is estimated to increase by \$638 million;• Employment (both direct and indirect) is estimated to increase by between 2,300 to 3,300;• Export income is estimated to be \$513 million higher than in Crown Sydney's absence; and• Business investment is estimated to increase by \$151 million. <p>Business investment during construction is estimated to increase by \$381 million in FY17.</p>

11	Employment and training benefits	<p>Crown Sydney will directly employ approximately 1,250 employees. In addition, Allen Consulting Group estimates that the indirect impact on New South Wales' employment will be a further increase of between c.1,000 and 2,000 jobs in FY22.</p> <p>Crown proposes to establish training colleges in Penrith (at the Penrith Panthers Group's proposed Community Centre) and in Redfern (at the National Centre of Indigenous Excellence (NCIE)). These training facilities will provide skilled staff to Crown Sydney and long-term employment opportunities for Indigenous Australians and residents of Western Sydney.</p>
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12	Tourism benefits	<p>The Crown Sydney Hotel Resort will provide a major boost to the NSW Tourism sector, including:</p> <ul style="list-style-type: none">• Helping the NSW Government to meet its State tourism objectives;• Helping NSW to become more competitive with domestic and international tourist destinations;• Assisting NSW in attracting a greater share of Asia’s booming outbound tourism market;• Attracting high net worth tourists and increasing visitor spend;<ul style="list-style-type: none">– high net worth tourists have significantly higher levels of on-spend both within the hotel resort and within the host city. For example, at Crown Melbourne alone, luxury retail sales generated from VIP gaming customers are estimated to be c.\$30 million p.a. This amount excludes luxury retail expenditure by VIP gaming customers outside of the hotel resort• Attracting a greater share of international VIP gaming players;• Helping NSW to compete for major domestic and international events; and• Providing a strategic addition to the stock of hotel accommodation in Sydney. <p>The location of a globally recognised building on the harbour near the Sydney Harbour Bridge and the Sydney Opera House will also assist in attracting mainstream international tourists to Barangaroo.</p> <p>The design of the building will allow the general public to access the ground floor of the luxurious Crown Sydney Hotel Resort and also enjoy the restaurants and bars which will have views of Sydney Harbour and the Barangaroo precinct.</p> <p>The ability to experience one of the world’s great buildings from close-up will add another dimension to the Barangaroo visitor and tourist experience.</p>
13	Non-tourism benefits from high net worth visitors	<p>High net worth visitors that frequent the VIP gaming facility on a regular basis will typically explore opportunities to undertake investment and other economic activity in the host city.</p>

14	Unique tourist attractions available to Crown Sydney Hotel Resort	<p>Crown proposes to offer VIP guests access to regional tourism venues at Ellerston Retreat and Perisher Ski Resort.</p> <p>Ellerston Retreat is a luxury day retreat with an exclusive golf course in the Hunter Valley of rural New South Wales.</p> <p>Perisher is the southern hemisphere's largest alpine resort located in the Snowy Mountains and is Australia's most popular snow holiday destination.</p>
15	The Star is also expected to benefit	<p>Given that Crown Sydney will significantly grow the size of the international, interstate and local VIP table gaming markets, The Star is also expected to benefit following the opening of Crown Sydney.</p> <p>The Star's revenue from VIP gaming is expected to improve by c.15% (compared to the estimated level in FY22 in the absence of Crown Sydney) as a result of the growth in the markets.</p> <p>Crown is strongly of the view that "cannibalisation" of State Gaming Tax Revenue (SGTR) will not occur given that total Sydney VIP gaming revenues will significantly increase following the opening of Crown Sydney. However, Crown's financial analysis indicates that even if "cannibalisation" of all of The Star's local VIP revenue were to occur, the impact on SGTR would be minimal.</p> <p>Growth in The Star's VIP gaming business (which is expected to occur following the opening of Crown Sydney) is incremental to the continued growth of The Star's main gaming floor and poker machine businesses, which are expected to represent c.50% of The Star's revenue in FY22.</p>

VIP gaming at Crown Sydney

- 16 VIP gaming—
licence
conditions
- VIP gaming will be permitted at the Crown Sydney Hotel Resort under the following licence conditions:
- i. VIP gaming will not include poker machines.
 - ii. VIP gaming will not include low limit tables. "Low limit table" means a gaming table with a minimum bet limit of less than the lower of:
 - a. \$30 for Baccarat , \$20 for Blackjack and \$25 for Roulette⁴ ; and
 - b. the lowest minimum bet limit for the equivalent game located in any of the VIP gaming areas at Crown Melbourne from time to time.

Note: The minimum bet limits specified in paragraph ii(a) above would equate to minimum turnover per hour of c.\$2,160 for Baccarat, c.\$1,800 for Blackjack and c.\$1,500 for Roulette, assuming typical rates of VIP play (based on Crown Melbourne data).
 - iii. The VIP Gaming Licence will not permit access by the NSW general public to the gaming areas of Crown Sydney – access by NSW residents will be restricted through a membership system which aims to attract high-spend patrons, similar to that operating in the VIP Gaming areas at Crown Melbourne.
 - iv. Smoking will be permitted in all VIP gaming areas but subject to the commitments set out in Item 20 below.
 - v. VIP gaming may include the operation of traditional table games, semi-automated table games and fully automated table games.
 - vi. The total floor space occupied by table games must be the lesser of:
 - a. 20,000sqm; and
 - b. 20% of the total gross floor area of the building.

⁴ For the purpose of determining the minimum bet limit in relation to Roulette, the bet limit represents the minimum total of all bets placed per player, per spin

- vii. Subject to paragraph vi above:
 - a. Crown may designate the location of table games within the Hotel Resort building from time to time; and
 - b. there is no limit on the number of table games.
- viii. VIP gaming may be conducted 24 hours a day, 7 days a week, 365 days a year.
- ix. The Crown Sydney Hotel Resort will be licensed to serve alcohol in all areas.
- x. Expiry date for the VIP Gaming Licence will be the expiration date of the lease (refer to Item 21 for further detail).

The VIP Gaming Licence can only be varied by agreement between Crown and the State of NSW.

17 Access to VIP gaming areas

The licence conditions imposed on the VIP gaming at Crown Sydney will constrain the appeal of VIP gaming to a small proportion of local gaming patrons.

Based on Crown Melbourne data, only approximately 5% of local gaming patrons participate in the type of gaming which is proposed to be offered at Crown Sydney (ie. no poker machines, no low limit tables and members only – no general public).

Given the typical frequency of play of those local gaming patrons, and based on the specified minimum bet requirements proposed for Crown Sydney, the minimum annual turnover per local gaming patron is estimated to be between \$313,000 and \$450,000 p.a. at Crown Sydney.

It is not in Crown's commercial interests to allow general public access to the VIP gaming facilities at Crown Sydney given the limited size of the VIP gaming facilities. The exclusive and private nature of the VIP gaming facilities is incompatible with allowing access to the general public. Accordingly, Crown will ensure that the table games at Crown Sydney will be occupied by high value players rather than lower value mass market players. Within this framework, members will be permitted to invite a limited number of guests to the VIP gaming areas from time to time.

18 Responsible Gambling The VIP gaming facilities at Crown Sydney will significantly reduce the potential for problem gambling issues to arise given:

- there will be no poker machines;
- there will be no low limit tables; and
- the VIP gaming facilities will be for members only – no general public – membership system to be similar to Crown Melbourne.

Crown will provide a unique set of responsible gaming programs and services to its Crown Sydney patrons and will commit to a standard of care no less than is provided at Crown Melbourne.

Crown has recently signed a Memorandum of Understanding with Mission Australia to cover the provision of responsible gaming support services for the Crown Sydney Hotel Resort. The MOU details a number of responsible gaming support services, which will be delivered by Crown and Mission Australia at the Crown Sydney Hotel Resort.

Crown will introduce a voluntary self-exclusion program to Crown Sydney, similar to that at Crown Melbourne. In addition, where family/friends of a customer raise concerns with Crown in relation to a customer's gaming behaviour at Crown Sydney, Crown will seek permission to approach and discuss the concerns of the family/friends in order to directly assist and provide the appropriate services (eg. self-exclusion; information and counselling). If such permission is not provided, Crown's trained responsible gaming staff will consider the information provided and (whilst respecting the rights and privacy of both the customer and their family/friends) will endeavour to engage with the customer to assist with any appropriate responsible gaming services that may be required.

19 Membership process	<p>Prospective members of the VIP gaming facility at the Crown Sydney Hotel Resort will need to complete an application form.</p> <p>Upon applying for membership, applicants will be required to acknowledge that they understand they are joining a VIP gaming facility subject to the licence conditions set out in Item 16.</p> <p>Crown will conduct regular membership review processes such that members with a playing history that is not consistent with a VIP gaming facility may not be entitled to have their membership renewed.</p> <p>In accepting and reviewing membership, Crown will have regard to, amongst other things, whether the individual is a member of VIP gaming facilities at other Australian or international VIP gaming facilities.</p>
20 Smoking will be permitted in VIP gaming areas	<p>Permitting patrons to smoke in VIP gaming areas is absolutely critical for Crown Sydney given the internationally competitive nature of VIP gaming and the fact that all of Crown Sydney's competitors in Singapore, Macau, Philippines and Las Vegas allow smoking in VIP gaming areas.</p> <p>Smoking will be permitted in all VIP gaming areas but subject to the commitments set out below in relation to air quality.</p> <p>Crown has entered into a Memorandum of Understanding with United Voice (NSW Branch), which deals with the issue of air quality technology as follows:</p> <ul style="list-style-type: none">• installation and maintenance of state of the art air quality technology in all VIP Gaming Areas;• quarterly testing by an independent expert is to be conducted to assess the ongoing operating performance of the air quality technology;• the results of the quarterly independent testing are to be made available to health and safety representatives of workers rostered to work in the VIP Gaming Areas;• on a quarterly basis Crown is to report to the minister as to Crown's compliance with the requirements set out above; and• an annual report, based on these quarterly reports, is to be provided to the Minister for the Minister to table in parliament. <p>Crown Sydney's gaming areas will include some non-smoking tables, reflecting the preferences of some VIP gaming customers.</p>

As the prevalence of smoking continues to decline throughout the world, Crown anticipates that the proportion of VIP gaming tables at Crown Sydney which are dedicated to non-smoking customers will increase.

Crown will meet the evolving preferences of VIP gaming customers in relation to the provision of non-smoking tables.

21 Licence
Duration

Crown seeks a VIP Gaming Licence, with a term that expires on the same date as the Lease, to be granted immediately following the enactment of new legislation and following ILGA determination of suitability.

The VIP Gaming Licence will commence on 14 November 2019, following the expiry of Echo's exclusivity arrangements.

Crown does not seek any exclusivity agreement regarding the licence.

22 Regulatory and
investment
certainty

Licence terms

Crown believes that regulatory certainty is essential given the scale of its investment in the project. The VIP Gaming Licence contains terms that are critical to the viability of the Crown Sydney Hotel Resort, as set out in Item 16 ((i) to (x)).

Accordingly, the VIP Gaming Licence can only be amended by agreement. If the State were to take action that has the effect of amending the key terms of the VIP Gaming Licence or that has some other material adverse impact on the operation of the Crown Sydney Hotel Resort, then Crown is entitled to compensation.

Taxation arrangements

If the State wishes to vary VIP gaming tax rates or introduce any new tax, levy or other charge or payment in relation to VIP gaming (or increase any such amount), it must first seek to reach agreement in relation to any such change proposed by the State. However, where the parties cannot reach agreement in relation to any such change proposed by the State, then the Treasurer has the power to unilaterally determine the outcome. If the Treasurer were to use his/her power to unilaterally determine such an outcome during the first 30 years after the issue of the VIP Gaming Licence, then Crown is entitled to compensation.

The 30 year compensation period referred to above is appropriate given:

- (a) the pay-back period of the project *[text redacted]*;
- (b) the pay-back period of the project *[text redacted]*;
- (c) the net present value of the expected cash flows generated by the project *[text redacted]*;
- (d) the internal rate of return of the project *[text redacted]*;
- (e) the total project cost of up to c.\$1.4 billion is very significant and is to be funded by Crown without any contribution by the New South Wales Government; and
- (f) Crown is assuming project risk

If the rate of GST increases, then the gaming tax rates must be adjusted so that Crown is not disadvantaged

Transaction related matters

- 23 VIP gaming and land valuation The contracts entered into by the BDA and Lend Lease in relation to 'fixed land payments' and 'value share payments' pre-date the Crown Sydney proposal.
- Accordingly, Crown seeks an amendment to the BDA's Project Development Agreement (PDA) to exclude VIP gaming from these existing arrangements *[text redacted]*
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[Text redacted]

- 24** Transaction documentation To implement the Crown Sydney proposal, the following documents will need to be executed:
- Framework Agreement;
 - Investment and Regulatory Agreement;
 - New Gaming Legislation;
 - VIP Gaming Licence;
 - VIP Gaming Management Agreement;
 - Tax Guarantee Deed;
 - Lease;
 - Tripartite Agreement;
 - Project Agreement;
 - Project Management and Construction Agreement; and
 - PDA Amendment Deed.
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Crown's track record

- 25 Crown's track record and financial capacity provide confidence that it will deliver on its promise to build one of the world's great hotels on Sydney harbour. It also provides confidence that Crown can grow Sydney's share of the global VIP gaming market

Crown has a long track record of successfully designing, constructing and operating world-class six-star luxury hotel resorts, including the following achievements:

- Crown has 20 years of experience in developing a global VIP gaming business with a well-recognised brand and operations in Melbourne, Perth, Macau and London
- Crown has a strong brand recognition in China and Macau – which has a c.75% share of the global VIP gaming market
- Crown has a strategy of investing in its properties to generate growth and returns
- Crown and its associates have developed (or are developing) 12 new hotels in Melbourne, Perth, Macau and Manila – of which four are six-star standard
- Between FY08 and FY15, Crown and its associates will have spent in excess of \$10 billion of capital expenditure across their Australian and Asian properties
- Crown is currently undertaking a \$2.8 billion investment program to ensure that its Melbourne and Perth properties remain of the highest standard
- Crown's properties in Australia attract more than 25 million visitors every year
- Crown's international visitors generate approximately one-third of Crown's revenue in Australia
- Crown's international VIP gaming turnover at its Australian properties has more than doubled over recent years
- Crown's business in Melbourne generates twice as much turnover from international VIP gaming than the equivalent operation at The Star in Sydney
- Crown has paid more than \$1.2 billion in taxes to the Victorian and West Australian Governments over the last 5 years
- Crown's Australian resorts provide employment for more than 14,400 people and Crown operates an in-house training college at Crown Melbourne
- Crown is a recognised leader in responsible gaming
- Crown has a market capitalisation of approximately \$9 billion and a strong balance sheet with an investment grade credit rating
Crown has a well-resourced and stable management team which has the know-how and experience to deliver this important project for Sydney

Other matters

- | | | |
|----|--|---|
| 26 | Transport access to the site | Crown does not propose or seek approval for any special transport access arrangements to the hotel resort (eg. helicopter) |
| 27 | Forecasting international and interstate VIP revenue | <p>Crown applies a “win rate” (the expected portion of the player’s bets that is retained by the operator) when forecasting international and interstate VIP revenue over long time periods.</p> <p>Crown is strongly of the view that the appropriate win rate to adopt when calculating international and interstate VIP revenue is the theoretical win rate of 1.35% (the theoretical win rate for the game of Baccarat— the preferred game for international VIP players in Australia and represents over 95% of international VIP turnover generated in Australia).</p> <p>When “normalising” VIP Revenue, Echo adopts a unique and unorthodox approach which reflects the five-year rolling average of Echo’s actual win rate. Consequently, the win rate used to “normalise” Echo’s VIP Revenue will change from year to year. For example, in FY12 Echo adopted a win rate of 1.60% in relation to The Star, as compared to 1.54% in FY11 and 1.43% in FY10.</p> <p>If Crown were to apply a higher win rate than the theoretical win rate of 1.35% in the Crown Sydney Financial Model (say 1.60%), this would have a material positive impact on the incremental Gross Gaming Tax and State Gaming Tax Revenue which are expected to be generated by the Crown Sydney proposal.</p> |

28 Discounting
future cash
flows from
Crown Sydney

In determining the appropriate discount rate to apply to future cashflows generated by Crown Sydney, the NSW Government should distinguish between 'certain cashflows' and 'projected revenue / government taxes'.

'Certain cashflows' should be discounted having regard to:

- the NSW Government's cost of capital (eg. 2022 NSW Government bond rate of 4.05%); plus
- a risk premium to reflect the counterparty's credit risk (eg. 100 bps for Crown), having regard to market capitalisation, quantum and consistency of earnings, credit rating and future capital commitments

Accordingly, an appropriate discount rate for 'certain cashflows' generated by the Crown Sydney project would be 5.05%.

'Projected revenue / government taxes' should be discounted having regard to:

- the NSW Government's cost of capital (4.05% as above); plus
- a risk premium to reflect the counterparty's credit risk (eg. 100 bps as above); plus
- a further risk premium to reflect the timing and risk associated with the projected cashflows (eg. 100 bps for Crown), having regard to the counterparty's track record of generating consistent earnings and returns on its capital employed.

Accordingly, an appropriate discount rate for Crown's 'projected revenue / government taxes' would be 6.05%.

Given Echo's track record and credit risk, Crown expects that cashflows projected as part of Echo's proposal (if any) should attract a higher discount rate than cashflows projected as part of the Crown Sydney project.

Comparison of track record—Crown v Echo

Unlike Echo, Crown has a strong track record of delivering returns for all stakeholders including Governments

Crown's track record

- Crown and its associates have developed (or are developing) 12 new hotels in Melbourne, Perth, Macau and Manila – of which four are six-star standard
- Over the seven years to 2015, Crown and its associates will have spent in excess of \$10 billion of capital expenditure across their Australian and Asian properties
- From FY08 to FY12, Crown spent c.\$1.8 billion of capex in Australia, with EBITDA increasing from c.\$600 million to c.\$800 million (c.35%)
- Crown's EBITDA is c.3x Echo's EBITDA
 - despite the population of Sydney and South East Queensland being c.30% larger than that of Melbourne and Perth
 - Crown Melbourne is currently generating more than double The Star's international VIP gaming revenue and 50% more local VIP gaming revenue than The Star
- Crown has significant financial capacity and an investment grade credit rating

“The significant capital expenditure program has ensured that Crown Melbourne and Perth continue to be two of Australia's premier tourist destinations, capable of competing with the best in the Asian region”

Rowen Craigie, Crown Limited 2012 Annual Report

Echo's track record

- Expansion of The Star
 - an expansion of The Star was announced in 2007 and has been revised on numerous occasions with a final investment of \$860 million
 - despite this investment, from FY08 to FY12 The Star's normalised EBIT (after significant items) has fallen by c.40%
- Queensland development
 - in December 2010, a \$625 million investment in Echo's Queensland casinos was announced in exchange for various concessions from the Queensland Government
 - more than two years later, only \$40 million (or 6%) of that promised investment has been made
 - despite benefiting from some of the Government's concessions between FY08 and FY12, the normalised EBIT (after significant items) from those properties has fallen by c.40%

“Although the [14%] return [on the \$870m spent at The Star] may not have been reached as quick as some were hoping, it is something that's a realistic, achievable number if not this year, then next”

John Redmond, Financial Review Sunday program – Channel 9 (2 June 2013)

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