

16 October 2020



Crown Resorts Limited

Legal and Regulatory Update

PRIVILEGED AND CONFIDENTIAL

CROWN RESORTS

Class Action

The Applicant has made application for the trial date (9 November 2020) to be vacated which the court has granted. The new trial date has been fixed to commence on 25 October 2021 with an expected duration of six weeks.

Richard Murphy and Glen Ward of MinterEllison will be in attendance at the meeting to present further in relation to this matter.

GST Matter

On 10 September 2020, Her Honour Justice Davies of the Federal Court of Australia handed down judgment in the Crown and Burswood GST matters. These matters relate to the GST treatment of commissions and win and loss rebates in respect of foreign patrons who attend Crown's casinos as junket participants. Her Honour found in favour of Crown that these commissions and win and loss rebates form part of Crown's and Burswood's gambling supplies and should be included in their global GST amounts. Her Honour's reasons are in respect of two sample tax periods. Her Honour made orders on 6 October 2020 regarding these two sample tax periods. The Commissioner is able to appeal these orders made by her Honour. To date the Commissioner has not yet lodged an appeal. Crown should know by early November whether or not the Commissioner appeals the orders made by her Honour in respect of the two sample periods.

Her Honour has also made orders requiring the exchange of documents in support of further tax periods to assist in determining whether the judgment will extend to all tax periods which were the subject of the dispute.

The parties have until 18 December 2020 to either:

- Provide to the Court a copy of a proposed form of orders which give effect to the Court's reasons for judgment dated 10 September 2020 in respect of each tax period in dispute in the proceedings; or
- Approach the Court to have the matter listed for a case management hearing in respect of each tax period in dispute in the proceedings.

Costs have been awarded in Crown's favour. As previously advised, the total GST refunds which Crown and Burswood can expect to receive for all tax periods which were the subject of the dispute is approximately \$180 million.

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ASIC – 2020 Financial Report

On 13 October 2020, Crown received an information request in respect of the financial report for the year ended 30 June 2020. ASIC has requested information in relation to the following areas:

- Asset Impairment – details regarding the discount rates used in relation to the Melbourne, Sydney and Perth casinos;
- Disclosure of Non-IFRS Financial Information – explanation on the emphasis of non-IFRS financial information;
- Disclosure of Future Prospects – detail how the Operating and Financial Review complies with the requirements in relation to the provision of information on the possible impacts of further COVID-19 lockdowns or a prolonged economic recession; and
- Segment Reporting Disclosure – confirmation that segment reporting information presented to the Chief Operating Decision Maker is provided on a theoretical basis.

Crown is required to respond to the information request by 28 October 2020 and will work with Ernst & Young on the response. Crown will also engage Deloitte to assist with the draft response.

ASIC Corporate Governance Taskforce

The implementation of the proposed actions to address ASIC's feedback on Crown's corporate governance practices in relation to executive remuneration will continue to be overseen by the People, Remuneration and Nomination Committee.

AUSTRALIAN RESORTS

For updates on AML/CTF matters, please refer to Agenda Item 8.

ILGA Inquiry (AUSTRAC) – Riverbank / Southbank

The ILGA Inquiry has focused on elements of Crown's historical AML/CTF practices, particularly related to transactions on the Riverbank and Southbank accounts. Crown is engaged with AUSTRAC on this issue and has provided an initial response to AUSTRAC and is currently preparing a substantive response to the queries AUSTRAC has put to Crown. As part of this response and more broader purposes, Crown is continuing to review these accounts.

It is noted that the Riverbank and Southbank bank accounts were closed in December 2019 and on 18 September 2020, Crown management issued a direction that, effective immediately, cash deposits into Crown's bank accounts were no longer permitted. As part of this direction, Crown has issued letters to local and international patrons who have deposited cash into Crown's bank accounts over the past 12 months, with the letter advising each patron of this prohibition. Crown management is also working with ANZ bank to identify controls around cash deposits into Crown's bank accounts.

Payroll Audit

A detailed update on this matter will be provided to the Risk Management Committee at its 20 October 2020 meeting. The Board will be provided with a verbal update on this matter at the meeting.

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IHG Trade Mark Matter

Detailed updates in relation to this matter have previously been provided. Discussions continue between IHG and Crown in relation to the dispute related to the parties' respective use of the CROWNE PLAZA and CROWN brands for hotel services.

Crown is actively trying to close this matter out and is in regular contact with IHG.

CROWN MELBOURNE*Regulatory matters*

Crown Melbourne continues to remain engaged with the Victorian Regulator and Government on a proactive basis to address any regulatory issues associated with the shut-down.

VCGLR Show Cause Notice

On 2 October 2020, the VCGLR issued Crown with a Show Cause Notice relating to Crown Melbourne's compliance with its Junket and Premium Player Programs (Including VIP Telephone Betting and the Introduction of Players) Internal Control Statement (ICS) as required under the *Casino Control Act 1991* (Vic).

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Receipt of the show cause notice follows an investigation by the VCGLR Compliance Division. It is alleged that Crown Melbourne did not comply with clause 2.5.1 of the ICS, which provides the "Crown will ensure that it has robust processes in place to consider the ongoing probity of its registered Junket Operators, Junket Players & Premium Players, and consequently failed to implement the system approved as required under the Act. The allegations relate to the following persons:



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Australian Resorts – AUSTRAC Enforcement Team investigation

Crown responded in late 2019 and early in 2020 to s 167 Notices issued by AUSTRAC regarding a Compliance Assessment of its Crown Melbourne AML/CTF Program, with a focus on High Risk Customers and Politically Exposed Persons.

The AUSTRAC Regulatory Operations team identified potential non-compliance with the AML/CTF Act and Rules, including concerns with:

- Ongoing Customer Due Diligence (section 36);
- Adopting and maintaining an AML/CTF Program (section 81); and
- Compliance with Part A of an AML/CTF Program (section 82).

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The above three are all civil penalty provisions.

On 2 October 2020, AUSTRAC advised Crown Melbourne in writing that in light of this, it had referred the Assessment to its Enforcement team to carry out an investigation, noting that it has the discretion to widen the scope of the original s 167 Notice.

On 16 October 2020, AUSTRAC issued Crown Melbourne with information requests in relation to this investigation.

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Australian Commission for Law Enforcement Integrity – Operation Angove

In September 2020, the Integrity Commission completed its investigation into corruption allegations concerning interaction between the Department of Home Affairs (**Home Affairs**) and the Australian Border Force (**ABF**) with Crown Melbourne and their VIPs who travelled to Australia, particularly from China.

The investigation considered three allegations including (a) whether there was corruption by Home Affairs staff in relation to the provision of Australian visas for Crown VIPs; (b) whether there was corruption by ABF staff in relation to the clearing of those VIPs at the Australian Border; and (c) whether an ABF staff member engaged in corrupt conduct while employed by a VIP junket operator.

On the basis of the material collected during the investigation and the analysis of that material, the Integrity Commissioner made no findings of corrupt conduct in relation to the three corruption issues investigated.

It should however be noted that the Commissioner did identify a number of issues with the administration of the visa support arrangement between Home Affairs and Crown and off-terminal clearances by the ABF. These issues included lack of documentation about the visa support arrangement, poor record keeping, including gaps in recorded reasons for decisions, and a lack of understanding of national policies and procedures for front line staff.

Dinner by Heston Blumenthal

There have been no further developments on this matter since the last report in August.

Building Cladding Issue – Crown Melbourne

Work progresses in relation the various workstreams previously identified in relation to this matter.

Crown is still awaiting the BAB's final determination on this matter.

Crown is proactively replacing small sections of cladding along the Podium riverfront during this low traffic period.

IHG Matter

Detailed updates in relation to this matter have previously been provided. Discussions continue between IHG and Crown in relation to the dispute related to the parties' respective use of the CROWNE PLAZA and CROWN brands for hotel services. Numerous individual disputes have been settled recently. There are

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CROWN PERTH*Smoking Exemption*

By way of background, in compliance with conditions imposed as part of the exemption issued to Crown Perth which permits indoor smoking in the International Gaming Facilities (Pearl Room, Sky Salon and Crown Towers Salons), Crown Perth submits six monthly reports to the Director General of the Department of Health, and Western Australian WorkSafe Commissioner. The reports confirm Crown Perth's compliance with the conditions of the smoking exemption.

In August 2020, the Western Australian WorkSafe Commissioner (most recently appointed in December 2018) requested additional information from Crown Perth in relation to the scope of the exemption; the smoke extraction technology used; the three yearly reviews provided by an external consultant as to whether the technology is considered "world's best practice"; and whether it was Crown Perth's intention to no longer rely on the smoking exemption.

Following a recent briefing to and instruction from the Crown Resorts Chief Executive Officer, the request has been responded to in writing, and a meeting is scheduled with the WorkSafe Commissioner in late October 2020.

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Juvenile Incident

In July 2020, a juvenile gained entry to the Main Gaming Floor, purchased liquor and played on a gaming machine. The juvenile's appearance, demeanor and confidence, did not raise suspicion with staff regarding her age. The juvenile was ultimately identified when she was unable to pay for drinks and was questioned by Security. Through this process, Security found identification which, although having a strong resemblance to the juvenile, did not belong to her.

Although the juvenile did appear over 18 years old and had fraudulently used another person's identification, in response to the incident, Crown Perth:

- undertook performance management of applicable staff;
- reinforced to applicable staff the need to ask for identification where they suspect a customer may be a juvenile; and
- included a specific focus for Crown Perth's RSA Officers on checking identification during their shifts following this incident.

Crown Perth's RSA Awareness Week, conducted in September 2020, included a key message that the checking of identification is "everyone's responsibility". The development of this key message was in direct response to this incident.

The matter was considered by the Gaming & Wagering Commission at its October 2020 meeting and no further action was taken by Commission.

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Cashless – Use of EFTPOS

The first phase of Crown Perth's implementation of EFTPOS on gaming tables commenced on 27 July 2020. The implementation is currently in its "pilot" phase (Phase 2), which involves EFTPOS on 24 tables for a period of 13 weeks. This is in advance of full operational implementation (Phase 3).

For the first approximately 6 months, Crown Perth has implemented the additional control of a \$500 daily withdrawal limit to apply to all non-premium areas.

As required by the Commission, a report will be provided to the Commission after 3 months of operation, in relation to "the use, take up and any issues from the conduct of cashless gaming".

Rapid Fusion

In January 2020, Crown Perth was notified by the Regulator of a potential issue with respect to the Rapid Fusion product's software signature checking process. The issue resulted in the inability to confirm whether the software in operation in a terminal is the correct, approved version. The product manufacturer has since formally advised that the impact of the issue is limited to the software signature checking process and that it does not undermine the security or integrity of the products operation. Further, it advised of an interim process which can be used to ensure the correct software signature checking outcome is generated, until such time as the development of the permanent fix (currently in progress) is released. No further commentary or action has been received by the Regulator at this stage. COVID-19 has affected the ability of the manufacturer to finalise the fix, and the Regulator has continued to be updated on the progress of this matter.

SG Gaming – Fusion Double Zero Roulette

In July 2020, gaming manufacturer SG Gaming advised Crown Perth of an issue with Fusion's betting option "First 4 Bets" available on Double Zero Roulette during the period 27 June 2020 and 23 July 2020. SG Gaming advised that payments for this betting option were not being correctly calculated, resulting in both overpayments and underpayments being made. During the period, total amounts bet using this option were \$1,219, with revenue of \$204. The Regulator has been advised and Crown Perth has requested a full report from SG Gaming regarding this issue, including why this issue was not detected through its own QA processes as well as the Authorised Testing Facility certification process. Double Zero Roulette has since been removed from Fusion, such that it is unavailable for customers to play on Fusion. Double Zero Roulette will not be available for play on Fusion until such time as the matter is resolved, and the Regulator has considered the matter. No customer complaints or comments regarding this matter have been received, and Crown is in the process of contacting loyalty members who may have bet this option during this period.

Crown Towers Perth Residual Land – Sale and Development Agreement

On purchasing 5.823 hectares from the State to develop Crown Towers Perth in 2013, the Agreement for Sale and Development of Land required Crown to commence development of the undeveloped residual land (approximately 3 hectares) by no later than September 2020 and for all development on the land to be completed by September 2028. In failing to meet this obligation, the State has the option to repurchase the undeveloped residual land at the original purchase price.

As Crown Perth has no current plans to develop this land, management is continuing discussions with the Premier and Minister for Gaming's offices and are finalising a formal request to the Minister's Office seeking removal of the obligation to develop the land or alternatively an extension of time.

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CROWN SYDNEY*Regulatory matters*

Members of Crown's regulatory and compliance, legal and gaming teams continue to engage with Liquor & Gaming NSW (L&G) on an ongoing basis to progress regulatory matters required to be approved prior to opening.

Due to timing constraints as advised by ILGA, the presentation to be provided by Crown to ILGA was instead included as a document to be tabled at ILGA's 14 October 2020 Board meeting. The presentation included details on Crown's contractual undertakings for the Hotel Resort, including Hotel Resort Design, Features and Minimum Standards. Under the Minimum Standards undertaking, before commencement of VIP Gaming at Crown Sydney, the Hotel Resort must contain two luxury retail outlets. Crown provided information that it has entered into a lease agreement with Paspaley and agreed a Term Sheet for a lease with Watches of Switzerland, with formal documentation in progress. However, both tenants have expressed delays in opening dates, mainly due to impacts arising from COVID-19. All other minimum standards are expected to be met by early December 2020.

In addition to providing updates on contractual undertakings, the presentation is intended to provide ILGA with the necessary background information to assist in its determination of those Crown submissions which cannot be delegated to L&G, which are currently expected to be considered by ILGA in a separate sitting dedicated to Crown matters.

Under the Crown Sydney agreements with ILGA and the State of New South Wales, Crown Sydney Gaming is required to provide two bank guarantees in the amount of \$100 million each in favour of ILGA immediately prior to the date that VIP Gaming at Crown Sydney actually commences.

Crown is liaising with ILGA in respect of this requirement and the provision of bank guarantees is still subject to the receipt of credit approval by ANZ and NAB. The prior written approval of ILGA is required for the entry into the facility agreements required to deliver these bank guarantees.

Crown Sydney Gaming also requires the prior written approval of ILGA to allow it to finance its operating costs through intercompany loans and issues of capital as these concepts are captured under the major change provisions of the Casino Control Act. Crown is progressing these approvals with ILGA.

ILGA Inquiry

The Independent Liquor and Gaming Authority (**ILGA**) inquiry under section 143 of the *Casino Control Act 1992 (NSW)* has held public hearings through September and October 2020.

MinterEllison will attend the meeting to provide an update on the ILGA Inquiry at Agenda Item 9.

ASIC Notices

There have been no further developments on the ASIC Notices provided to Crown and Crown Sydney Gaming Pty Ltd since the last Report provided to the Board in August.

NSW Supervisory Levy

On 31 August 2020, ILGA sent Crown an email setting out the Government's intention to impose a supervisory levy on Crown Sydney Gaming.

On 2 September 2020, Ken Barton, Mary Manos and Chris Reilly met with representatives of NSW Treasury, ILGA and the Department of Customer Service NSW. At the meeting, Crown noted that it has a series of agreements in place with ILGA and the State of New South Wales and that Crown is seeking to

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understand the basis upon which ILGA seeks to impose a supervisory levy and the basis of the proposed quantum.

As at the date of this Report, no response has been received from ILGA.