



# Crown Limited

## Memorandum

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**To:** The Board of Directors  
**Copy:** Ken Barton  
**From:** Michael Neilson  
**Date:** 15 July 2013  
**Subject:** **Crown Sydney Update**

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### Update

Attached is an update paper covering:

- Details of the financial submission made to the NSW Government as part of Crown's Stage 2 Submission;
- Details of the licence fee/tax rate option selected by the NSW Government including new conditions imposed on the project;
- Details of the resultant impact on the financial returns to Crown; and
- Next steps for the project to proceed through Stage 3 and beyond.

### Suggested resolution:

It is **resolved** as follows:

1. That the Crown Sydney Update presentation be noted;
2. That the Chairman and CEO be authorised to negotiate and finalise the terms of the Stage 3 Participation Agreement, to be signed in order to commence Stage 3 of the Unsolicited Proposal process, such terms to include the payment to the NSW Government of a \$5 million non-refundable deposit and a covenant not to acquire any shares in Echo during the Stage 3 process, and to do such further acts and things related to or reasonably required to complete the Stage 3 Participation Agreement;
3. That any two directors or one director and the company secretary be authorised to sign on behalf of the company the Stage 3 Participation Agreement and any other agreement or document necessary to give effect to the Stage 3 Participation Agreement;
4. That the Chairman and CEO be authorised to negotiate and finalise the terms of the Framework Agreement, to be signed at the completion of Stage 3 of the Unsolicited Proposal process, such terms to broadly reflect the terms set out in the presentations made to this and prior Board meetings, and to do such further acts and things related to or reasonably required to complete the Framework Agreement;



5. That any two directors or one director and the company secretary be authorised to sign on behalf of the company the Framework Agreement and any other agreement or document necessary to give effect to the Framework Agreement; and
6. That all actions taken on behalf of the company as part of the Crown Sydney Unsolicited Proposal be hereby ratified and approved.

Michael Neilson  
**General Counsel and  
Company Secretary**



**Annexure  
Crown Sydney Update**

See attached.



Strictly confidential

# Crown Sydney

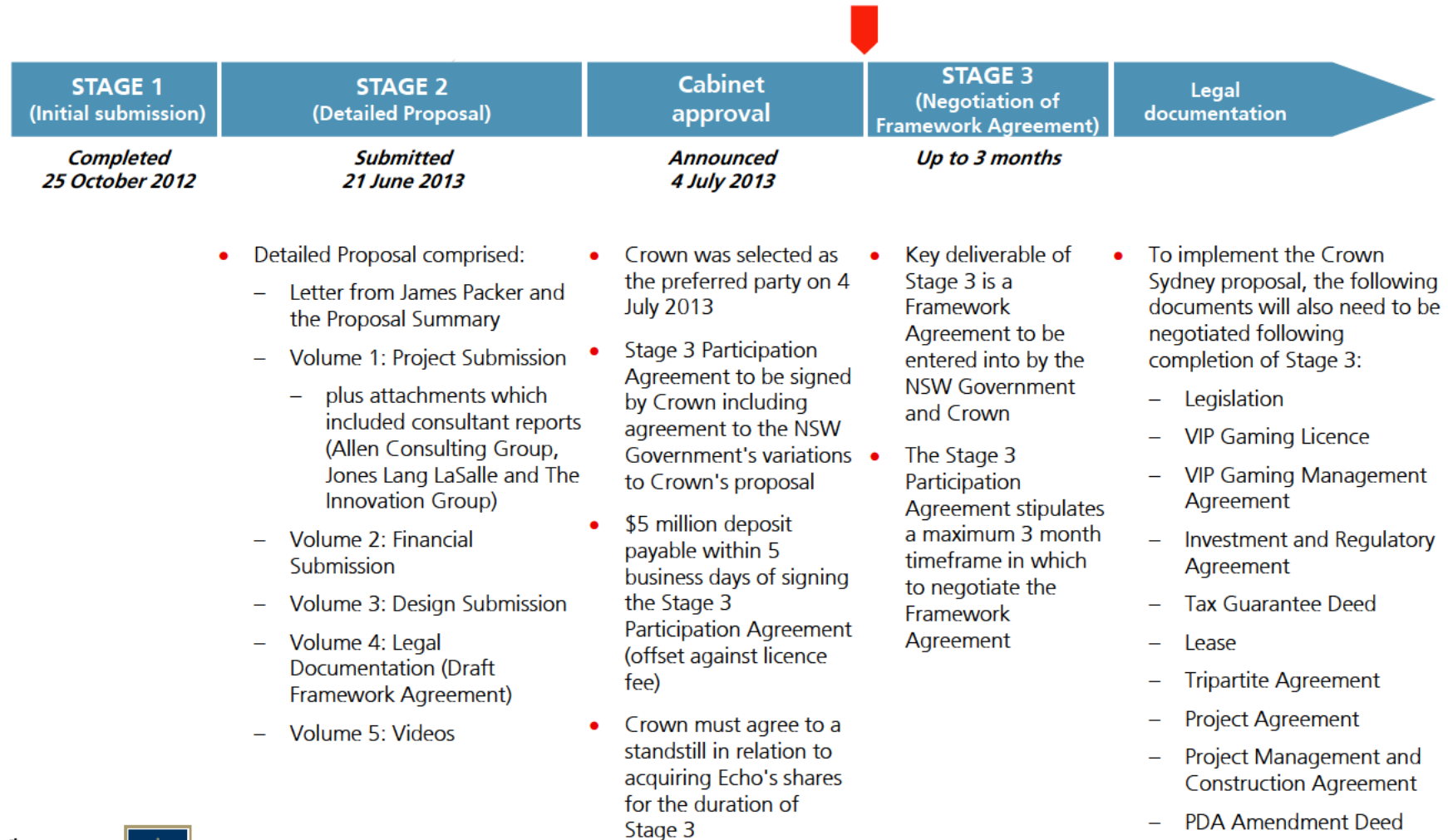
## *Update on Unsolicited Proposal Process*

16 July 2013



# Update on the process

Crown has been invited to participate in Stage 3 of the process



## Update on Stage 2 final offer

Crown's final offer proposed two alternative combinations of upfront licence fees, tax rates and tax guarantees

The NSW Government selected Option A with modifications

		Crown Option A	Crown Option B	Government modified Option A
<b>Upfront licence fee</b>	Payable upon granting of the licence (which is expected to be in CY2013)	\$100 million	\$250 million	\$100 million
<b>Tax rates</b>	Local VIP	27.5% <sup>1</sup>	23.0% <sup>2</sup>	29.0% <sup>3</sup>
	International / interstate VIP	10% <sup>4</sup>	9% <sup>4</sup>	10% <sup>4</sup>
<b>Guarantee 1<sup>1</sup></b> ("Cannibalisation" guarantee)	The average annual normalised gaming taxes received by the NSW Government from Crown Sydney and The Star in FY20 to FY22 will exceed the normalised gaming taxes received by the NSW Government from The Star <sup>4</sup> in FY19	✓	✓	✓
<b>Guarantee 2<sup>1</sup></b> (\$1 billion guarantee)	Crown Sydney will pay gaming taxes of at least \$1 billion to the NSW Government over the first 15 years of full operation (ie. FY22 to FY36)	✗	✓	✓ (modified to also include \$100 million licence fee)

Note:

1 Comprises State gaming tax of 16.41% + 2% responsible gaming levy + 9.09% GST

2 Comprises State gaming tax of 11.91% + 2% responsible gaming levy + 9.09% GST

3 Comprises State gaming tax of 17.91% + 2% responsible gaming levy + 9.09% GST

4 Including GST. The NSW Government will be required to reimburse Crown for any GST paid to the Federal Government in relation to international and interstate revenue



# The NSW Government's conditional offer

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## The NSW Government proposed further conditions including additional membership criteria and a revised definition of minimum bet limits

**Crown is required to accept these conditions as a term of entry to Stage 3**

### Additional conditions

- VIP membership
  - the NSW Government accepted Crown's starting position on VIP membership, but added a number of additional criteria including:
    - a 24 hour cooling off period for NSW residents applying for membership who cannot demonstrate a track record of VIP gaming at other casinos;
    - rules to be developed to ensure that guests are bona fide; and
    - regular reviews of members gaming activity to ensure that they are entitled to retain membership
- Minimum bet limits
  - the NSW Government revised the definition of minimum bet limits for table games so as to be the **greater** of:
    - \$30 for Baccarat, \$20 for Blackjack and \$25 for Roulette<sup>1</sup>; and
    - the lowest minimum bet for the equivalent game applying in any of Crown's VIP areas in Melbourne
  - Crown had proposed that the definition of minimum bet limits would be the **lower** of these two amounts
- Review of taxes
  - licence fee, taxes, levies and charges and other payments relating to the conduct of gaming operations will be the subject of an independent review process after 20 years of operation
  - factors that will be considered include market conditions, financial viability and competitiveness and the return on capital of the licensee
  - the final criteria that forms the basis of the review will be developed during Stage 3 in consultation with Crown
- Regulation
  - the costs of regulation of Crown Sydney will be met by Crown
  - ILGA will determine day to day regulatory requirements and investigate and implement a system of third party exclusion procedures to protect families, which will apply to all casinos in NSW
  - the approach to regulation of Crown Sydney and The Star is intended to be consistent over time (including front money for rebate play) having regard to best regulatory practice

Note:

- 1 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



# Updated financial profile and financial returns

The conditions imposed by the NSW Government are not currently expected to have a material impact on the projected returns for the Crown Sydney project

Under the Government's offer, Crown Sydney is expected to generate [redacted] million in EBITDA in FY22 versus [redacted] million under Crown's proposed Option A

The revised \$1 billion tax guarantee equates to only [redacted] of the forecast taxes paid to the NSW Government over the period

The changes to membership criteria and specification of minimum bet limits are not currently expected to have a material impact on revenue projections

## Crown Sydney financial summary (FY22)

Jun y/e	Government modified Option A
<b>Revenue</b>	
International VIP	[redacted]
Interstate VIP	[redacted]
Local VIP	[redacted]
Hotel and other <sup>1</sup>	[redacted]
<b>Total revenue</b>	[redacted]
<b>Allocated expenses</b>	
<b>Gaming tax expense<sup>2</sup></b>	
<b>Contribution</b>	
International VIP	[redacted]
Interstate VIP	[redacted]
Local VIP	[redacted]
Hotel and other	[redacted]
<b>Total contribution</b>	[redacted]
% margin	[redacted]
Corporate costs	[redacted]
<b>EBITDA</b>	[redacted]
% margin	[redacted]

## \$1 billion guarantee

	Government modified Option A
Tax paid (FY22-FY36) <sup>3</sup>	[redacted]
Guarantee amount	[redacted]
Less: upfront licence fee	[redacted]
<b>Guaranteed tax amount</b>	[redacted]
% of forecast tax paid	[redacted]

	Crown Option A	Government modified Option A
<b>Indicative financial returns</b>		
NPV <sup>4</sup>	[redacted]	[redacted]
IRR	[redacted]	[redacted]
Payback period	[redacted]	[redacted]

Notes:

- 1 'Hotel and other' includes hotel, pool & spa, restaurants, bars and retail
- 2 Including 29.0% on local VIP revenue (comprising State gaming tax of 17.91% + 2% responsible gaming levy + 9.09% GST) plus 10% on international and interstate VIP (after the NSW Government reimburses Crown for any GST paid on international and interstate revenue)
- 3 Calculated as local VIP tax rate of 19.91% (State gaming tax of 17.91% + 2% responsible gaming levy) + international / interstate tax rate of 10%
- 4 At a discount rate of [redacted]





## Updated estimated project cost

The total cost of the Crown Sydney project is currently estimated to be c [REDACTED] (previously c [REDACTED]), adjusted for proceeds from apartment sales and pre-opening expenses

### Estimated project cost—key assumptions

A\$m	Low cost	Base cost	High cost
Licence fee	100	100	100
Land cost (estimate)	[REDACTED]	[REDACTED]	[REDACTED]
Design and pre-construction (incl. exclusivity fee)	[REDACTED]	[REDACTED]	[REDACTED]
Remediation of land	[REDACTED]	[REDACTED]	[REDACTED]
Hotel resort construction	[REDACTED]	[REDACTED]	[REDACTED]
Apartment construction	[REDACTED]	[REDACTED]	[REDACTED]
Gaming equipment	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total gross project cost</b>	[REDACTED]	[REDACTED]	[REDACTED]
Proceeds from apartment sales (post Lend Lease's profit share)	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total net project cost</b>	[REDACTED]	[REDACTED]	[REDACTED]
Pre-opening expenses	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total project cost</b>	[REDACTED]	[REDACTED]	[REDACTED]

### Changes to estimated project cost since 7 May Board meeting

- Upfront licence fee of \$100m, payable in a single instalment

# Potential scenarios

	A downside case	Government modified Option A	An upside case
<b>Key assumptions</b>			
Licence fee	\$100m	\$100m	\$100m
Total project cost <sup>1</sup>			
<b>Sydney international VIP</b>			
Market growth rate			
Sydney vs Melbourne			
Crown Sydney market share			
<b>Sydney local VIP</b>			
Market growth rate			
Melbourne local VIP market			
Sydney vs Melbourne			
Crown Sydney market share			
<b>Indicative impact on Crown</b>			
FY22 EBITDA			
NPV (at [REDACTED])			
IRR			
<b>Indicative impact on Government</b>			
Incremental Gross Gaming Tax paid in FY22 (incl. GST)			
Incremental State Gaming Tax Revenue received by NSW Government in FY22 <sup>2</sup>			
Incremental State Gaming Tax Revenue received by NSW Government over first 10 years of full operation <sup>2</sup>			



Notes:

- Includes licence fee, proceeds from apartment sales (post Lend Lease's profit share) and pre-opening expenses
- Comprises gaming taxes paid directly to the NSW Government, plus an estimate of the NSW Government's net share of GST paid on gaming revenue (assumed to be 31% of the amount of GST payable in connection to gaming revenue), less any refund paid by the NSW Government in connection with GST

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