



RISK MANAGEMENT COMMITTEE

Meeting of the Committee

Chairman's Office Boardroom, Crown Towers

Monday, 11 February 2019 at 10.00am



Risk Management Committee

Meeting of the Committee to be held on 11 February 2019 at 10.00am
at Level 3, Crown Towers, 8 Whiteman Street, Southbank

Attendees

Committee: Geoff Dixon (Chair)
Andrew Demetriou
Jane Halton

Mary Manos (Secretary)

By Invitation: John Alexander (Crown Resorts)
Ken Barton (Crown Resorts)
Barry Felstead (Australian Resorts, CEO)
Sasha Grist (Crown Perth GM Risk & Corporate Projects)
Lauren Harris (Crown Resorts)
Alan McGregor (Australian Resorts, CFO)
Josh Preston (Australian Resorts, CLO)
Anne Siegers (Crown Resorts, GM Risk & Audit)
David Skene (Betfair)

AGENDA

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AGENDA ITEM 1:
Minutes of Meeting held on 15 November 2018



Risk Management Committee

Minutes of a Meeting of the Committee held at
Level 3, Crown Towers, 8 Whiteman Street, Southbank, Victoria on
15 November 2018 at 11.00am

Members Present:

Geoff Dixon (Chair) (by telephone)
Andrew Demetriou
Jane Halton

Mary Manos (Secretary)

By Invitation:

John Alexander (Executive Chairman)
Ken Barton (Crown Resorts Limited)
Barry Felstead (CEO – Australian Resorts)
Sasha Grist (Crown Perth) (by telephone)
Lauren Harris (Crown Resorts Limited)
Alan McGregor (CFO – Australian Resorts)
Josh Preston (CLO – Australian Resorts)
Anne Siegers (Group GM Risk & Audit)
David Skene (Betfair)

BUSINESS

Minutes of Committee Meeting held on 2 August 2018:

It was **RESOLVED** that the Minutes of the Risk Management Committee Meeting held on 2 August 2018 be approved.

Matters Arising:

The Matters Arising paper was taken as read.

Risk Appetite:

Anne Siegers presented the Risk Appetite paper noting that the proposal is to adopt a documented Risk Appetite of the Board which has seven impact categories, each with a qualitative and quantitative threshold/trigger.

The Committee discussed the proposed Risk Appetite and requested that the Risk Appetite make clear that the reporting triggers in the Risk Appetite table can be either a single event, or a series of events

cumulating to the thresholds.

Anne Siegers provided the Committee with an overview of the Risk Management Strategy which will be presented to the Risk Management Committee for approval once finalised and explained how the Risk Appetite will sit within that broader strategy.

It was noted that the Risk Matrix represents a residual risk position. Going forward, following the implementation of CURA, the Company's system based governance recording and reporting tool (which is currently in use for the compliance framework), the Committee will be presented with a more comprehensive report which sets out a description of risks, mitigating controls and resultant residual risk position.

Mary Manos advised that the Crown Melbourne and Crown Perth Boards would be presented with the same Risk Appetite for approval at a property level. It was noted that any critical property specific risks would be presented for consideration by the relevant property's Board as well as this Committee.

It was **RESOLVED** that:

- the Risk Matrix be noted; and
- subject to clarifying that the reporting triggers in the Risk Appetite table can be either a single event, or a series of events cumulating to the thresholds, the Risk Appetite be recommended to the Crown Resorts Limited, Crown Melbourne Limited and Burwood Limited Boards for approval.

Report Against Material Risks:

The Report Against Material Risks was taken as read.

Josh Preston provided the Committee with an update on a number of key events that have taken place over the period, including:

- the progress made against the 20 Recommendations made by the Victorian Commission for Gambling and Liquor Regulation (VCGLR) as part of 6th Section 25 Review noting that management had been meeting with representatives of the the Company's Responsible Gaming Committee on a monthly basis to progress the Responsible Gaming Recommendations;
- that the VCGLR was currently investigating an electronic gaming machine which was alleged to be operating in 'unrestricted mode';
- that the VCGLR has continued to investigate the China incident and requested further information from Crown Melbourne;
- an updated VIP Operating Model was expected to be presented to the Board for consideration at its next meeting; and

- the Crown Melbourne Executive Risk & Compliance Committee recently met and, after considering the proposed new Risk Matrix, recommended that 'act of terrorism on Crown property' be moved from a consequence rating of 'major' to 'severe' and 'volatility of gaming revenue' be moved from a likelihood rating of 'unlikely' to 'possible'. These changes place both risks in the 'critical' risk category. The Committee noted that the Committee or Board would have oversight of a 'critical' risk and discussed the recent and ongoing oversight by the Committee and the Board of these two risks.

The Committee discussed the previously approved proposal to introduce armed Protective Services Officers at Crown Melbourne which will require Crown Melbourne being defined as a 'designated site'. It was noted such a designation would not be made by Government until after the upcoming State election.

David Skene informed the Committee of the following recent determination made against Betfair:

- On 2 November 2018, the Northern Territory Commission (Commission) determined that Betfair had failed to adhere to the Northern Territory Responsible Gaming Code by not having reasonably recognised red flag behaviours of a complainant who had successfully requested to cancel a \$150,000 withdrawal in February 2018.
- The Commission fined Betfair \$13,175 and ordered Betfair to refund the complainant \$150,000.
- On Monday, 5 November 2018, Betfair lodged a submission with the Commission, which had not yet responded, seeking confirmation that its decision was not enforceable on the basis that the Code contains no positive obligation to draw out red flag behaviours. It was also noted that Betfair was, in any event, agreeable to refund the \$150,000 to the complainant.
- Betfair had since amended its policies to prohibit the cancellation of withdrawal requests.

It was noted that Betfair's competitors allow the cancellation of withdrawal requests.

It was **RESOLVED** that the Report Against Material Risks be noted.

Compliance Report:

The Compliance Report was taken as read.

It was **RESOLVED** that the Compliance Report be noted.

Insurance Renewal Update:

The Insurance Renewal Update paper was taken as read.

Mary Manos advised the Committee that the Directors and Officers Insurance premium was expected to increase to approximately \$2.9 million on renewal.

It was noted that the Committee would be informed of any major departures to renewal terms from those set out in the paper.

It was **RESOLVED** that the insurance program for the Company and its subsidiaries be approved and that Management be authorised to progress the renewal process on appropriate terms.

Other Business:

Emerging Risks:

Mary Manos noted the inclusion of Emerging Risks as a new item on the agenda to provide Management and the Committee with the opportunity to consider and discuss any new risks which may be relevant to the Company.

No new items were identified by any Committee member or Management.

Future Meetings:

The future meeting dates were noted.

Closure:

There being no further business, the meeting was declared closed at 11.55am.

Signed

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Geoff Dixon
Chairperson



AGENDA ITEM 2:
Matters Arising



Risk Management Committee

Memorandum

To: Risk Management Committee
From: Mary Manos
Date: 7 February 2019
Subject: **Matters Arising**

Dear Committee Members

There are no outstanding matters arising from the last Committee meeting.

Kind Regards

Mary Manos
General Counsel and Company Secretary



AGENDA ITEM 3:
VIP Operating Model



Crown Resorts Limited

Memorandum

To: The Board of Directors - Crown Resorts Limited

From: Barry Felstead

Date: 7 February 2019

Subject: **VIP Operating Model – Malaysia and Singapore**

Dear Directors

BACKGROUND

Following the detention of Crown group staff in China, the business made changes to the VIP Operating Model (Model).

At a meeting of the Board of Directors on 27 April 2017, an overview of the new Model was presented to the Board. The Board noted that the new Model comprised:

- a central regional hub in Hong Kong;
- all offices in other Asian countries to be closed;
- detailed protocols were to be developed under which the VIP team were to operate;
- periodic reviews of the protocols with supporting training was to be undertaken; and
- the appointment of a dedicated Compliance Officer in Hong Kong.

With respect to the protocols that were developed and implemented, the **key elements** are as follows:

- no VIP staff are to travel to mainland China for any business related reason;
- staff are to be based in Hong Kong and travelling to various Asian countries on a regular basis for client relationship purposes;
- there is to be no promotion of gambling or any other 'on the ground' activity on visits to other Asian centres which might be characterised as arranging gambling or performing travel agency functions (for which a travel agents licence is required) such as arranging travel to Australia or accommodation in Australia;
- VIP staff are to only deal with junket operators who are licensed by the DICJ in Macau or otherwise vetted by Crown management; and
- the Hong Kong team is to be supported by staff based in Australia.

The dedicated Compliance Officer was employed and is based in Hong Kong. The Compliance Officer reports into the Group General Manager Regulatory and Compliance. From a structural perspective this is important as the Compliance Officer reports into the centralised group compliance function as opposed to operations.

Since the April 2017 Board meeting, the Model has undergone a range of refinements and adjustments responding to the evolving environment in the relevant jurisdictions and consideration of practical issues that have arisen. For each adjustment or refinement, advice was sought on any new or revised protocols that were required.

CURRENT PROPOSAL

Further to the Board meetings on 31 October 2018 and 11 December 2018, a new proposal for a more material adjustment to the Model was discussed whereby we have staff members residing in Malaysia and Singapore, as opposed to Hong Kong (and travelling into Malaysia and Singapore), in order for them to carry out their role of patron relationship activities in a manner that assists with the growth of VIP business and is done in a manner that is appropriate in the circumstances.

To consider this proposed adjustment, management has revisited the legal advice provided for Malaysia and Singapore and obtained further advice from MinterEllison who have engaged a specialist risk advisory firm (Hakluyt) to assist.

The risk associated with those jurisdictions based on the existing Model (including adherence to the protocols outlined above), and legal risk advice, is considered to be LOW.

As a result of the discussion at the recent Board meetings, management has further considered and developed the proposal, taken into account the updated legal and risk advice and notes as follows:

Singapore

The situation remains unchanged for Singapore as at the date of this paper, in that the risk remains LOW.

Malaysia

Risk assessments for Malaysia have been obtained (one pre the Malaysian general election and one post the election (which resulted in a change in government)) which advise that the risk remains LOW. A copy of the advice from MinterEllison dated 6 February 2019 referencing the risk advisory firm's findings and the legal position from local Malaysian lawyers is attached for reference.

We specifically note that Hakluyt's conclusions are as follows:

- "The election of the Mahathir government has not worsened the regulatory environment for foreign IRs [integrated resorts]. *Indeed, the situation is arguably more stable than before the election.* [Emphasis added]
- Provided strong operating procedures are in place to avoid contravening the unwritten rules, there appears little in the way of obstacles to you returning to VIP marketing in Malaysia, although a local presence supplemented by visiting executives may be preferable to establishing a physical office."

REDACTED - PRIVILEGE

REDACTED - PRIVILEGE



REDACTED - PRIVILEGE



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Considering the above advices, even although the risk remains LOW, management proposes to enhance that the Model as suggested with further added controls to reflect a conservative mode of operation as described below:

- all meetings with patrons are to be attended by not less than 2 employees. This control will place a further level of rigour around ensuring that gaming promotion discussions do not take place;
- a script is to be provided to employees with examples of how to respond to a patron if they make gaming related comments, for example, “we will get someone from our Hong Kong or Australian offices to call you regarding gaming matters as we are not in a position to discuss anything related to gaming”;
- details of all meetings and conversations are to be recorded into Sales Force within 24 hours of any meeting to ensure that there is a current record of the activity and discussions that took place. This will also provide a clear record for the Compliance Officer to audit on a regular basis;
- updated training will be provided to the relevant staff members specifically focussing on the script to follow should gaming matters be raised when meeting with patrons in other Asian jurisdictions. This will be refreshed on a regular basis, specifically taking into account any learnings from the regular risk assessments;
- VIP staff bonus plans are to be revised to remove the reference to specific jurisdictional targets and to add a KPO regarding compliance with the protocols. The new bonus plans will be based on overall VIP budget performance, so that there will be no incentive for staff to pursue specific financial targets for the jurisdiction in which they operate; and
- regular risk management monitoring will be done by an external consultancy to ensure that we pick up early warning signs of any change to enforcement policy or any risk of enforcement action being taken against foreign casinos in relation to marketing activities.

OTHER CASINO OPERATORS

Advices from our international staff indicate that various other casino operators have a combination of dedicated offices and staff in both Malaysia and Singapore. In this respect, below is a table detailing the information that we have:

Singapore

	Dedicated office in country	Staff working in country
Caesars	✓	
MGM Grand International	✓	
Cosmo	✓	
Genting	✓	
Las Vegas Sands	✓	
The Star	✓	
Sky City	✓	

	Dedicated office in country	Staff working in country
Wynn	✓	
City of Dreams		✓
Imperial Pacific		✓
Solaire		✓

Malaysia

	Dedicated office in country	Staff working in country
Marina Bay Sands	✓	
Genting Malaysia	✓	
Naga	✓	
City of Dreams		✓
Sky City		✓
The Star		✓
MGM		✓
Cypress		✓
Solaire		✓

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FINANCIAL IMPACT

	Malaysia	Singapore	Total
2018 Turnover (\$b)	5.4	1.4	6.8
2018 Theoretical Direct Contribution (\$m)	24	7	31
2018 Number of Gaming Programs	825	361	1,186

	Malaysia Total	Malaysia excluding Top 2 Customers
2019 Nov YTD Turnover (\$b)	2.5	1.3
2019 Nov YTD Theoretical Direct Contribution (\$m)	10	5

Turnover derived from the Malaysia market in FY18 totalled \$5.4b producing a theoretical direct contribution of \$24m.

Turnover for the first 5 months of FY19 was \$2.5b (\$10m theoretical contribution), however nearly half of this turnover was produced by only 2 customers and most of this was in the first quarter of FY19. The same 2 customers contributed turnover of only \$277m in FY18. If these 2 outlying customers were excluded, turnover for YTD FY19 would have been \$1.3b or \$3.1b annualised.

Under the current operating model, it is likely that future annual turnover volumes would be around \$3b (\$12m contribution) which is significantly lower than last year.

Personal relationships are very important to customers and assist greatly in determining which casino property they choose to visit. We believe we are foregoing a significant profit opportunity by not having face to face non-gaming related discussions with customers in market.

Our proposal is to have 2 employees based in Malaysia. Once established and trained, we believe we could maintain future business volumes at around \$5b per annum (\$20m contribution).

CONCLUSION

Management is of the view that taking into account the specialist risk advisory firm's advice and the local legal advices that have been taken, together with the added controls as described above, the adjusted Model is appropriate to be approved for continuing operations.

Accordingly management seeks the approval of the Board to progress with the adjusted Model in Malaysia and Singapore.

Even although Singapore remains low risk, it is proposed that the added controls referred to for Malaysia will also apply to Singapore, save for the requirement for 2 staff at all patron meetings and the monthly risk assessments controls which in management's opinion are unnecessary for this jurisdiction.

Please also note that we are currently carrying out and considering legal risk assessments in other jurisdictions and we would propose that those jurisdictions are also approved to operate under the adjusted Model, subject to the outcome of those risk assessments. Upon receipt of the risk assessments, management will seek the approval of the Risk Management Committee before implementing any change in those jurisdictions.

Regards

Barry Felstead
Chief Executive Officer – Australian Resorts

Encl

MinterEllison

6 February 2019

BY EMAIL

Mr Joshua Preston
Chief Legal Officer - Australian Resorts
Crown Resorts Limited

Dear Josh

International VIP Business Operations –Malaysia

We have had a further meeting with, and received a further report from, Hakluyt in relation to Malaysia.

Hakluyt's conclusions

1. Hakluyt's conclusions are:
 - *'The election of the Mahathir government has not worsened the regulatory environment for foreign IRs [integrated resorts]. Indeed, the situation is arguably more stable than before the election.*
 - *Provided strong operating procedures are in place to avoid contravening the unwritten rules, there appears little in the way of obstacles to you returning to VIP marketing in Malaysia, although a local presence supplemented by visiting executives may be preferable to establishing a physical office'*

Basis

2. In summary, the basis for Hakluyt's conclusions is as follows:

'Little change in regulation or enforcement so far under Mahathir...

Since Malaysian Prime Minister Mahathir Mohamad's election victory last year, there have been only minor changes to the country's regulatory framework governing gambling. These relate to lotteries and the issuing of sports betting licences.

There have been no changes to the regulatory or administrative approaches to the marketing of integrated resorts (IR) by domestic or foreign operators – and none are considered likely.

...and the government appears disinclined to make significant reforms

The government appears disinclined to make significant reforms to the regulatory environment. This is in part because of a reluctance to discuss issues such as gambling, alcohol and pork unless forced to: gambling is not something bumiputra (ethnic Malays) could profit from. Another reason may be Mahathir's long-standing closeness to Genting and the founding Lim family.

Tax rises show the government's reliance on Genting and gambling more widely

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The 2019 budget, the new government's first, imposed substantial revenue increases on the casino sector, in the form of higher casino licence fees, turnover taxes and gaming machine licence fees.

Genting is known to have deep pockets and is able to meet this increased financial burden comfortably. However, the significant role played by Genting – and the gambling sector more broadly – in the economy and its contribution to Malaysia's public finances only add to the government's preference to avoid the introduction of punitive regulation and, for that matter, public discussion of new marketing curbs. As such, it is unlikely that tighter rules will be introduced on top of the revenue measures – for either Genting or foreign operators.

The politics surrounding gambling, however, remain sensitive...

Nevertheless, the politics surrounding gambling remain highly sensitive, especially given the prominence of concerns about public morality detailed in our last report. And the presence of conservative parties in the governing coalition may increase pressure on the government to respond to public concern as it arises. Mahathir will therefore need to balance the need for revenue from the sector against better represented public antipathy to gambling.

...and issues of Muslim morality could yet become a catalyst for punitive action

It is important, too, not to lose sight of the risk that issues of Muslim morality can swiftly become a source of embarrassment – and economic loss – for hospitality companies, as well as a possible catalyst for punitive government action. If anything, this risk may have increased since the election. And it applies not just to gambling and curbs on promotional activity surrounding it, but also, for example, to cuisine.

In this context, several of our sources cautioned of the potential for knee-jerk reactions by the government should particular industry transgressions suffer an extended public airing.

While specific moves to regulate foreign operators are unlikely...

We heard nothing to suggest that a change in the government's attitude to foreign operators is on the cards, despite the fact that they contribute little, if anything, to public revenues through taxes and licence fees.

...it is advisable to abide by the "unwritten rules" around casino promotion

Still, given the delicate political and fiscal situation facing the government, it is advisable to abide by the "unwritten rules" around casino promotion. Additional emphasis should be placed on ensuring that marketing efforts are discreet and avoid doing anything that could be interpreted as targeting Muslim Malaysians. It is important, too, to exercise caution on the direct promotion of gambling.

Setting up a local operation remains viable...

Despite growing religious conservatism, the balance of our reporting indicates that setting up, or returning to, IR marketing in Malaysia is no less viable under the current government than before, subject to certain caveats. Conducted with due skill, planning and discretion, private marketing using local representatives and executives who fly in and out of the country poses no particular risk.

...although the current environment is not conducive to a physical office

In our June 2018 report we pointed to only low levels of concern in relation to a physical marketing office in Malaysia. Our most recent reporting suggests a subtle shift under the PH government that makes such a presence – as opposed to a more informal local operation supported by travelling executives – less advisable.'

Commentary

3. Hakluyt's commentary on the above matters and the general environment in Malaysia is as follows:

'No indication that the Mahathir government is to change gambling regime

The Pakatan Harapan (PH) government under Prime Minister Mahathir Mohamad is now firmly established following its election victory in May last year. While the coalition administration depends on the support of more conservative parties (including the Islamist Parti Amanah Negara), there has so far been no indication that changes either to the regulatory regime for gambling or rules on enforcement are planned.

The same applies to the promotion of foreign integrated resorts (IRs) in Malaysia. A gaming consultant in Singapore, who has been following recent developments closely, commented: "The new PH government under Mahathir, despite its claims of being more socially conservative, is likely to continue the hands-off approach to foreign IR marketers, so long as they follow the unwritten rules [which we discussed in our June 2018 report]."

A director of Genting Malaysia, similarly, noted: "The new government's outlook on gambling appears largely unchanged from that of the previous administration. The same is true of IR marketing, which to be fair is a relatively new activity in this country. Resorts World [Genting], for its part, has suffered no enforcement setbacks under the new government. Indeed, no attention of any kind has been paid to our marketing, at least not that we've detected."

And a Genting Malaysia manager confirmed: "There is generally no change to the official position on the regulation of casinos or IRs under the new government." The same appears true of enforcement. "Thus far, no local or foreign IR group has been hauled up for operating here. Nor have their advertisements faced a backlash of any kind. And, as far as I can tell, there's no sign that this situation is about to change."

It does not want to take action unless forced to by circumstances...

Several sources offered explanations for why the government is unlikely to take a tougher stance towards IR marketing.

A Malaysian political analyst who follows industry regulation closely made this representative observation: "Gambling in its entirety – whether casinos, 4D number forecast operators [a state-licensed lottery] or lotteries – are of little or no interest to this government or politicians. It is not something bumiputra [ethnic Malays] could profit from, hence the lack of interest from the government or bumiputra business interests in the sector. Issues such as gambling, alcohol and pork are not things anyone in the government is interested in discussing unless they're forced to by circumstances."

A successful author in Kuala Lumpur, who has studied the Malaysian casino industry, said that Mahathir's closeness to Genting and its founding Lim family is another reason why the new government is avoiding IR regulation: "Mahathir is probably the most pragmatic, if authoritarian, prime minister Malaysia has ever had. He is no different now than he was during his first tenure. And he's also known the Lim family for decades: his original relationship with Genting founder Lim Goh Tong dates back to before his first term as prime minister began in 1981. He has known Lim Kok Thay since he was a young adult, too, before he took the reins from his father."

He added: "Mahathir understands the economic and racial dynamic involved with Genting as much as anyone in Malaysian politics, and is far too savvy to put any policy in place that could in any way rebound on Genting Group, even peripherally."

...though some token restrictions have been put in place

Notwithstanding the government's apparent disinterest, gambling remains frowned-upon in Malaysia and has been subject to minor, additional regulatory restrictions.

According to an official at the Malaysian Ministry of Tourism Arts and Culture (MOTAC): "Apart from increased taxation [see below], the government has said it plans to reduce the number of special draws for 4D number forecast operators in 2019. This reduction is aimed at tackling gambling addiction in the middle and working classes."

"In addition, Finance Minister Lim Guan Eng has reiterated that there are no plans to reissue a sports betting licence to Vincent Tan's Ascot Sports Sdn Bhd [a prominent sports betting house operating under government licence] or any other operator."

The government has raised taxes on casinos...

The 2019 budget, the new government's first, imposed substantial revenue increases on the casino sector, in the form of higher casino licence fees, turnover taxes and gaming machine licence fees.

The Genting Malaysia director underlined the industry's significance as a source of tax revenue: "The only change in the new government's thinking on gambling has been to increase taxation on casino and slot machine licensing, in order to increase revenue streams. Given the debt situation, gambling has become more important to this government than others before it."

A retired Malaysian CFO echoed this, observing somewhat dryly that the industry's contribution to Malaysia's public finances made it unlikely that the government would want to introduce much tougher regulation: "The increase in casino taxation has exposed the government's reliance on this revenue. It seems more invested in the health of the sector than ever."

...and Genting is of national significance in revenue terms

The author with knowledge of the industry suggested that overly zealous enforcement of existing regulation was unlikely for the same reason: "Gaming, particularly Genting Resorts Malaysia, is an important part of the economy. The fear is that an attack on the sector – including foreign IR operators' marketing – could ricochet into Genting's casino licence approval and damage the whole country."

He added that the scale of Genting's financial contribution and its role in the economy should not be underestimated. "It [Genting] is riddled with ethnic Malay commercial interests. It is important to tourism and brings in more revenue than any other domestic company. It has the largest cash reserves of any domestic business, and pays all kinds of money out to vested interests, political parties and charities."

"Genting is also one of Malaysia's very few global brands, with highly successful operations overseas. Doing anything that could eventually result in a challenge to the legitimacy of Genting's licence would have profound economic consequences. Its interests are synonymous with those of the country and not to be trifled with."

Muslim sensitivities remain paramount...

Nevertheless, the politics surrounding gambling remain highly sensitive, especially given the prominence of concerns about public morality detailed in our last report. This is likely to be a further reason for not drawing attention to – and promoting – the industry.

The Genting Malaysia director again: "While the government relies on revenue brought in by taxation on gambling, it remains cautious about being seen to promote gambling because of the sensitivities of the Muslim community. The new government didn't win the election with huge support from Malay Muslims and is wary about upsetting them. So, although it would like to encourage gambling and extract more revenue, this desire is offset by the need to placate the Muslims who wish to reduce, or even eliminate, such activity."

...and could yet be a catalyst for punitive government action

Indeed, it is important not to lose sight of the risk that issues of Muslim morality can swiftly become a source of embarrassment – and economic loss – for hospitality companies, as well as a possible catalyst for punitive government action.

If anything, this risk may have increased since the election. And it applies not just to gambling and curbs on promotional activity surrounding it, but also, for example, to cuisine.

The Genting Malaysia director noted: "IR operators who wish to conduct local, mass marketing have to pay attention to more than simply ensuring that they don't promote gambling. They now have to be careful about prominently promoting food that contains pork. The Muslim majority can take offence at this sort of promotion."

This anecdote about Muslim sensitivities, relayed by the Malaysian political analyst, was illustrative: “Recently, Malaysia Airlines came under fire for apparently promoting pork in their in-flight magazine. The company issued an apology, despite it turning out to be beef.”

The airline, he added, has also since announced that the word “pork” will no longer appear in its magazine.

“Any transgressions that promote gambling will not escape the watchdogs”

In this context, several of our sources cautioned of the potential for knee-jerk reactions by the government should particular transgressions by the industry suffer an extended public airing. As the Malaysian political analyst put it: “The government is usually reactive to issues, they get caught on the back foot. But first there has to be something that causes a stir in the public, often starting in the media and spreading to the internet. The government itself doesn’t promote the conflagration; it simply reacts to it. That’s how the entire government operates: reactionary and in the moment.”

The Genting Malaysia director observed: “Activities that are not considered compatible with Islam in Malaysia are well monitored by the numerous Muslim NGOs and Muslim people in general. One can be sure that any marketing transgressions that promote gambling will not escape the watchdogs and will be widely reported.”

The author with knowledge of the industry agreed: “No one in the current coalition wants to draw any attention to gaming that could unsettle the status quo. However, a sudden, publicised focus on high-roller marketing by foreign IRs could stir up the ethnic-Malay rural base, which is conservative and genuinely believes that gambling in any form is a sin. If Malay media ever decided to make an issue about foreign IR marketing, it could expand to the blogosphere and mushroom into a political issue.”

Finally, we turn to issues specific to the foreign IR industry undertaking marketing in Malaysia.

Specific moves against foreign marketing operators are thought unlikely

We heard nothing to suggest that a change in the government’s attitude to foreign operators is on the cards, despite the fact that they contribute little, if anything, to public revenues through taxes and licence fees. This comment from the Genting Malaysia director was typical: “There is no distinction between local and foreign IR marketing. This is best exemplified by Resorts World [Genting], whose marketing usually emphasises the local resort in Genting Highlands, but will also include promotion for Sentosa [Genting casino in Singapore]. There’s no dividing line between local and foreign operators that we’ve encountered.”

The managing director of a Malaysian hotel chain confirmed: “There are no restrictions on foreigners marketing tourism and IR in Malaysia except that the promotion must not be seen to promote gambling and vice. Promoting entertainment, leisure, sports and cuisine are the usual themes and the government does not draw a distinction between local and foreign IR operators.”

Other contacts suggested that any attempt by the government to make a distinction between local and foreign marketing – whether mass or VIP – could result in unwelcome internal scrutiny from conservative politicians.

The political analyst explained: “The government is not going to make much of an effort to distinguish between foreign and local operators in order to avoid any accusations of promoting gambling. Even drawing up rules and properly regulating what is a mostly unregulated sector would be painted by mischievous politicians on the fringe as the government promoting the sector. The government would prefer to let this sleeping dog lie.”

Vigilance over the “unwritten rules” is more important than ever

Still, given the delicate political and fiscal situation facing the government, it is advisable to abide by the “unwritten rules” around casino promotion. Additional emphasis should be placed on ensuring that marketing efforts are discreet and avoid doing anything that could be interpreted as targeting Muslim Malaysians. It is important, too, to exercise caution on the direct promotion of gambling.

The political analyst summarised the current situation succinctly: "The most important thing is not to make a public show of marketing. If you keep it quiet, and provided all laws are followed, appropriate licences acquired, taxes paid and work permits sought, it will be treated much like any other business. The authorities are unlikely to pay much attention."

The Genting director also cautioned on marketing to non-Muslims and gambling promotion: "Foreign IRs shouldn't come to the conclusion that there is no risk. High-roller marketing to non-ethnic Malays must continue to be undertaken cautiously, and the casino component of foreign IRs should not be referred to directly. This is no time to push the envelope."

Other sources likewise noted that a discreet approach to VIP marketing is more important under the new administration.

Said the Singapore gaming consultant: "The MOF's [Ministry of Finance] legal division will not act against foreign and domestic IR operations so long as they keep a low profile and abide by the informal understanding that only ethnic Chinese and other non-bumiputra groups are targeted. Nothing has changed in that regard other than a heightened importance. Visiting, foreign IR marketing executives obviously need to exercise discretion and closely follow the guidance of their local representatives. Openly discussing VIP gaming with potential Malay Muslims is a risk that shouldn't be taken."

And a senior Genting executive who has worked directly with the Lim family for several decades said: "Everybody knows that foreign IRs are marketing here through local reps, with occasional visits from marketing executives from the property itself. But these meetings are kept low profile, generally occurring in people's homes or Chinese restaurants and other establishments that Malays tend not to patronise."

"In this way, the marketing is segmented and discreet and will continue to work well under the PH government."

Setting up local operations remains viable...

The balance of our reporting indicated that setting up, or returning to, IR marketing in Malaysia is no less viable under the current government than before – albeit with the cautions and caveats detailed above.

The managing director of the Malaysian hotel chain had no legal or regulatory concerns: "Foreign representatives have always visited Malaysia to promote industry and trade. There is nothing to stop them from coming to Malaysia to promote an IR, either to the mass market or selectively to people they have targeted. They are allowed to stay as long as they don't break the law."

The Genting director elaborated: "A foreign IR can easily set up a marketing operation as long as this unit is not engaged in trading, business or any form of commercial activity. Its entire operations must be funded by the parent company and it must not derive any income locally."

There remains no formal body for the regulation of foreign IR marketing, and thus no bureaucratic structures through which marketing activities can be formalised.

The political analyst commented: "There is no formal pathway to setting up a marketing operation in Malaysia as there is no regulator to approach. There is no gaming commission or anything close to its equivalent. Most of the laws passed in parliament regarding gambling are from decades gone past, from both a simpler time and a more liberal era. Evolution of the laws and regulations for gambling to keep up with the times has been limited in Malaysia, and the current government has had little interest in discussing anything to do with gambling in any official setting."

It should be stressed, however, that the lack of a formal framework for such marketing activity does not reduce the need to behave discreetly. Said the Genting manager: "There are no laws governing this [marketing] specifically. But it will gather adverse attention if it comes to the public's attention, and that is in nobody's interest."

...but seeking a physical presence is now less advisable

In our June 2018 report we pointed to only low levels of concern in relation to a physical marketing office in Malaysia. Our most recent reporting suggests a subtle shift under the PH government that makes such a presence – as opposed to a more informal local operation supported by executives flying in and out – less advisable.

The gaming consultant, for example, cautioned: "I'd be nervous about setting up a formal office for IR's non-gaming activities. It makes little sense to expose yourself in this way after a change of government, particularly given the change was brought about by concerns over corruption and rectitude. If the Malaysian media got wind of an application, let alone the approval of an application, and made an issue of it, the story could move online, stirring up rural Malays. The government would likely be forced to put the fire out rapidly. In the current political environment, it is in no one's interest for a foreign IR to bring attention to themselves by trying to open an office."

The senior Genting executive who works for the Lim family agreed: "I don't think [the Prime Minister's Office] would appreciate the matter being brought to its attention and might well deny the application, which would increase the exposure of the IR's marketing network. It's just a bad idea. The current government doesn't want to be put in a position where it must look at the foreign IR marketing issue. So long as IRs quietly focus on Chinese and foreign residents there won't be a problem."

Monitoring

4. One further point of significance which emerged from our meeting with Hakluyt is that, unlike China, it is unusual in Malaysia for there to be a major shift in enforcement priorities, or targeted enforcement action, without some forewarning. Hakluyt suggested quarterly monitoring, at least for this calendar year, to stay abreast of any evolution of the risk of action being taken against any foreign casino or local staff.

Malaysian law advice

5. Crown has previously obtained advice from local lawyers that it is an offence for Crown to solicit or invite persons in Malaysia to participate in gaming conducted by Crown. The offence is punishable by a fine or imprisonment of up to 5 years. Further:
 - (a) a company may commit an offence through the conduct of its employees; and
 - (b) directors may be personally liable, even if they do not personally participate in the offence.
6. We recently sought updated advice in the light of last year's election result. The advice was:
 - (a) the change in government is not going to affect the substance of gaming laws;
 - (b) Malaysia is around 65% Muslim, so gaming is going to continue to be restricted, but with no likely loosening or tightening of current controls;
 - (c) the law is focused on domestic gaming, not foreign casinos;
 - (d) nevertheless, it is broadly drafted, such that a court could interpret it to apply to offers of hospitality and marketing of integrated resorts where, in reality, the focus is on attracting patrons to gamble;
 - (e) offering hospitality, entertainment and the like to existing customers is low risk;
 - (f) approaching prospective customers (unless those prospective customers are known to be significant customers of other foreign casinos) is higher risk;
 - (g) providing that marketing activities by foreign casinos remain low key and not directed generally at the Muslim community, they are unlikely to be an enforcement priority for local authorities; and
 - (h) the authorities have 'bigger fish to fry' for enforcement resources, including local and online gaming activities.

Risk/reward balance

7. Interactions with customers in Malaysia (in isolation or coupled with contact with such customers from outside Malaysia) which are directed at inviting or soliciting their custom for gaming at Crown venues are potentially an offence against Malaysian law.
8. The risk of enforcement of the law (through detention of local staff or prosecution of Crown or its directors) appears low, if:
 - (a) activities in Malaysia are generally 'low key' and do not involve media advertising of Crown;
 - (b) interactions 'on the ground' in Malaysia are non-gaming related and are limited to persons who are existing gaming customers of Crown or who are reliably known to be significant customers of other foreign casinos; and
 - (c) regular up-dates are sought from local lawyers and Hakluyt (or another suitable government risk advisor) to pick up and evaluate any early warning signs of any change in enforcement policy or any 'crackdown' on foreign casinos.
9. We understand that it is also proposed that the remuneration packages of local staff members be restructured so that bonuses are not related directly to gaming revenue from local customers.
10. On the above basis, and subject to continued vigilance in relation to compliance with the operating protocols and regular monitoring of the general risk of enforcement action against foreign casinos in Malaysia, it is for Crown to assess whether the potential benefit of local staff resuming work in Malaysia outweighs the residual risk of enforcement action.

Yours faithfully
MinterEllison



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 Partner

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3



AGENDA ITEM 4:
Risk Reporting



Crown Resorts Limited

Material Risk Update: 11 February 2019

EXECUTIVE SUMMARY

Since the last report in November 2018, a number of internal and external events have materialised which have impacted the overall risk profile of the organisation, and particularly its material risk exposures.

The key events that have taken place over the period include:

- The Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) continues to investigate allegations raised by Mr Andrew Wilkie MP in April 2018 regarding plastic picks being used on continuous play machines and multiple loyalty cards issued to patrons with respect of Crown Melbourne. The VCGLR has not indicated its position on these allegations at this stage. The Gaming & Wagering Commission of Western Australia is also considering these matters and their relevance to Crown Perth.
- The VCGLR continues to investigate an electronic gaming machine (**EGM**), which the VCGLR alleges was operating in 'Unrestricted Mode' when inspected by Government Inspectors, without Your Play functionality activated. After an internal investigation, the EGM was confirmed to not be operating in unrestricted mode, however, it had a wiring fault, which meant that when a particular button was held down, it functioned as if it was simulating continuous play. Crown has responded to the VCGLR's Notice requesting the details of this issue. The VCGLR has not indicated its position at this stage.
- As part of its China investigation, the VCGLR made a further request for information which Crown responded to on 5 December 2018. Mr Preston and Mr Murphy met with the VCGLR in December 2018 to discuss the provision of documentation and process moving forward. The VCGLR has indicated that it hopes to be in a position to provide Crown with a draft copy of its report shortly and it will invite Crown to make submissions on the draft prior to being finalised.
- A number of tax related matters are currently in dispute with the ATO, including the Cannery matter and a potential GST refund related to commissions paid to junkets.
- Local table games, Hotel and F&B are marginally below budget, and this is compounded by materially lower win rates in premium gaming, which has led to a forecast adjustment in December 2018 for both Melbourne and Perth.
- Provisions for international gaming bad debts remain relatively consistent with the last reporting period, and overall gross and net debtor balances are reducing.
- One Queensbridge Project remains in pre-planning phase, subject to financing. An application to extend the planning approval deadline is currently being considered by Government.

4.1

Below is a table summarising trends for each material risk.

Please note ‘material’ risks are those that have either a ‘red’/critical rating, or the ‘orange’/high risks that are one rating away from being critical. The Risk Map on page 4 shows a representation of where these material risks are represented.

MATERIAL RISKS	CURRENT TREND
1. Legislative / Regulatory Changes	Unchanged 
2. Volatility of Premium Gaming	Unchanged 
3. Smoking Restrictions	Unchanged 
4. Global Event	Unchanged 
5. Brand Reputation / Image	Unchanged 
6. Material Breaches of Gaming and other Relevant Legislation/ Regulations	Unchanged 
7. Litigation	Unchanged 
8. International Commission Business Bad Debts	Reduced 

Crown Resorts Corporate Risk Map – January 2019

Likelihood	Almost certain			MATERIAL RISKS		
	Likely			Competition – International (13)	International Commission Business Bad Debts (1) Litigation (9)	
	Possible		Pre-Commitment (8) Loss of Key Management (23) Leakage Of Sensitive Information / Intellectual Property (24) Responsible Service of Alcohol (29) Anti-social Behavior (30)	Economy (7) Taxation (11) Development & Construction (14) Occupational Health & Safety (15) Failure/Corruption IT Systems (16) Major Criminal Act (17) Competition – Domestic (18) Fraud (19) Bribery and Corruption (20) Leakage Of Sensitive Information / Intellectual Property (24)	Legislative/Regulatory Changes (2) Smoking Restrictions (3) Brand Reputation / Image (6) Material Breaches of Gaming and Other Relevant Legislation / Regulations (12)	Volatility of Premium Gaming (4) Global Event (10)
	Unlikely		Environmental Management (27) Labour shortage (31)	Acquisition & Investment (5) Treasury (22) Contractual Obligations (25) Financial Reporting & Compliance (26) Responsible Provision of Gambling (28)		
	Rare			Insurance (21)		
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU

1. LEGISLATIVE / REGULATORY CHANGES

Changes to legislation, regulation or Government policy covering the conduct of, and access to, gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crown's affiliate businesses and the value of licences granted. Possible changes include:

- *Increases in tax or additional levies and taxes*
- *Changes to restrictions (where applicable) on the number, type, speed and location of gaming machines*
- *Changes to mandatory minimum "return to player" on gaming machines*
- *Changes to approved table games and approved rules of the games (where applicable)*
- *Changes to restrictions on advertising and marketing, including online advertising (where applicable)*
- *Changes in laws, or changes in interpretation of laws dealing with promotion of gambling in foreign countries*
- *Visa restrictions (where applicable)*
- *Changes to online wagering regulations, affecting product offering (including exchange betting) and product fees (including racing)*
- *Changes to State based regulations that apply to online wagering operators, increasing business complexity*
- *Imposition of a mandatory pre-commitment system*

CROWN MELBOURNE

Anti-Money Laundering / Counter-Terrorism Financing (AML / CTF) Statutory Review

TREND: **Unchanged** ➡

No further development since the November 2018 report.

Black Economy Taskforce - \$10,000 cash transaction limit

TREND: **Unchanged** ➡

No further development since the November 2018 report.

Section 25 Licence and Operator Review

TREND: **Unchanged** ➡

The VCGLR finalised and published its 6th *Review of the Casino Operator and Licence*, pursuant to s 25 of the Casino Control Act, for the period covering 1 July 2013 to 30 June 2018. The VCGLR's Report contains 20 Recommendations, which Crown largely accepted.

Crown is working with the VCGLR to address each of the 20 recommendations. A range of recommendations have deadlines in June 2019.

POTENTIAL IMPACT TO CROWN:

Reputational damage and media coverage of any new issues arising from the resolution of the matters.




CURRENT ACTION PLAN:




Crown is working through the recommendations internally and engaging with the VCGLR on the progress of the recommendations.



Liquor and Gambling Legislation Amendment Bill 2018

TREND: **Unchanged** ➡

No further developments since the November 2018 report.

<u>Environmental Tobacco Smoke (ETS)</u>	TREND: <i>Unchanged</i> 
<p>In June 2018, Crown Melbourne announced to employees working in smoking areas, plans for the implementation of the new health monitoring program to be introduced during FY19.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Changes to operating procedures, changes in rostering and costs to the business.</p> <p>CURRENT ACTION PLAN:</p> <p>Work continues on the introduction of the Health Monitoring (HM) program for those employees working within the declared smoking environments (approx. 2500 employees). HM presentations have been completed through all Health & Safety Committees. Currently working with the rostering Workforce Planners to best plan and coordinate rostering requirements to ensure compliance.</p> <p>Procurement, Legal and IT departments are all involved to ensure compliance with the requirements of the agreed Health Monitoring regime and a likely commencement in February 2019.</p>	
CROWN PERTH	
<u>Outcomes of the VCGLR's 6th Review of the Casino Operator and Licence for Crown Melbourne</u>	TREND: <i>Unchanged</i> 
<p>The Gaming & Wagering Commission of Western Australia (GWC) is closely reviewing the outcomes of the VCGLR's 6th Review of the Casino Operator and Licence for Crown Melbourne to determine the extent to which any recommendations should or could be adopted by Crown Perth. Of particular interest are the recommendations regarding the Responsible Service of Gambling.</p> <p>Crown Perth has provided a submission to the GWC regarding the relevance of the VCGLR recommendations to Crown Perth as well as an overview of Crown Perth's RSG framework. The CLO – Australian Resorts attended the December GWC meeting to present this information.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Potential operating restrictions or requirements as outlined for Crown Melbourne above.</p> <p>CURRENT ACTION PLAN:</p> <p>Formal feedback has not yet been received from the GWC. The GWC's next meeting will be held in February 2019.</p>	
<u>Review of Regulation 43 – Gaming and Wagering Commission Regulations</u>	TREND: <i>Unchanged</i> 
<p>Following its recent review of Regulation 43, the GWC has now issued its amendments to Regulation 43 of the <i>Gaming and Wagering Commission Regulations</i>, which come into effect on 1 March 2019.</p> <p>Changes include a new definition of "gambling advertisement", and inclusion of a definition for "customer loyalty scheme". Further, a guideline entitled "Gambling Advertising and Inducements" has been created and endorsed by the GWC to further clarify the Regulations and provide examples of what the GWC considers to be acceptable advertising.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Further clarification is being sought from the GWC on the application of the changes to Crown Perth due to certain inconsistencies between the guideline and the Regulation, and ambiguity in the drafting of the regulatory changes. However it is expected that these will not have a material impact on Crown Perth's operations.</p> <p>CURRENT ACTION PLAN:</p> <p>Seek clarification from the Regulator on the application of the changes to Crown Perth.</p>	

CROWN ASPINALLS	
<u>Brexit – EU Settlement Scheme</u> <p>The Home Office announced that EU citizens will be required to apply to the EU Settlement Scheme to continue living in the UK after 30 June 2021. The Scheme will be fully open from 30 March 2019 with the deadline for applications being 30 June 2021 (or 31 December 2020 if the UK leaves the EU without a deal). Successful applicants, will received a settled or pre-settled status. The proposed application fee of £65 has been withdrawn by the Home Office and it is now free to apply.</p> <p>Application is not required for Irish citizens or those who have indefinite leave to remain (ILR).</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>This impacts 34% of Crown Aspinalls' current labour force who are EU citizens residing in the UK.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls is currently developing a plan to assist all affected employees which is expected to be communicated by the end of February 2019. Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 
<u>Gambling Commission – Personal Functional Licence Online Application</u> <p>On 4 December 2018, the Gambling Commission released an online personal functional licence application service (for casino employees) with the aim to provide applicants an efficient, streamlined and improved service. Additionally, a text and email alert system has been introduced to keep applicants informed on the progress of their applications from submission through to when the licence is issued.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>There is no material impact to Crown as it is only applicable to persons renewing their licence. Licence 'maintenance' occurs every 5 years.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 
<u>Gambling Commission – New National Strategy to reduce Gambling Harms</u> <p>The Gambling Commission is developing a new national strategy to reduce gambling harms as the current National Responsible Gambling Strategy comes to an end in March 2019. The Gambling Commission will consult with Government, public health, the charitable sector and gambling businesses in order to make real progress to reduce gambling harms.</p> <p>The Commission is conducting a formal consultation under Section 24 of the <i>Gambling Act 2005</i> on proposed amendments to the Licence Conditions and Codes of Practice (LCCP) requirement on gambling businesses to contribute to research, prevention and treatment, and associated arrangements needed to deliver the strategy. An amendment to the LCCP is proposed to specify that licensees' contributions under this provision are made to one or more organisations that are approved by the Commission. This is intended to give clarity to gambling businesses on how they can ensure they are compliant.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>There is an impact to Crown Aspinall's Operator Licence with the addition of changes to the LCCP, however, this is not currently viewed as a material change as Crown London already contributes 0.1% of GGY to GambleAware (a recognised charity of the Gambling Commission) for research, education and treatment.</p> <p>CURRENT ACTION PLAN:</p> <p>The National Casino Forum (NCF) will make a submission during consultation on behalf of the land based casino industry. Consultation closes 15 February 2019 with the new strategy to come into effect 1 April 2019. Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 

BETFAIR	
<u>Implementation of NCPF measures</u>	TREND: <i>Unchanged</i> 
<p>In late November 2018, the National Consumer Protection Framework for Online Wagering (NCPF) was formally announced. The NCPF consists of 10 agreed consumer protection measures.</p> <p>The States/Territories have commenced amending legislation/regulations/codes, and issuing Ministerial Orders, to implement the NCPF measures. For example, in Victoria, a Ministerial Order will be made by the Minister for Consumer Affairs, Gaming and Liquor Regulation pursuant to section 4.8A.2 of the <i>Gambling Regulation Act 2003</i> (Vic).</p> <p>It is noted that:</p> <ul style="list-style-type: none"> new inducement laws are being introduced in each State/Territory. On and from 26 May 2019, Betfair will not be able to offer or provide to a person a 'benefit, consideration or reward' in return for the person: <ul style="list-style-type: none"> opening a betting account with Betfair; or referring another person to open a betting account with Betfair. <p>(Note: these new inducement laws may commence earlier in Western Australia, with 1 March 2019 being a possible commencement date.);</p> new requirements in relation to 'deposit limits' and 'account closure' will come into operation on 26 May 2019. Prior to this date, Betfair will need to make amendments to its website so that: <ul style="list-style-type: none"> certain information about the benefits of having a deposit limit is shown to a customer before he/she can 'opt out' of having a deposit limit; customers are prompted on an annual basis to review their existing deposit limits (such prompts will appear when the customer 'logs in' to their account); and a customer can request to close his/her account by clicking on a button when logged in; new requirements in relation to 'activity statements' will come into operation in May 2020; and it is expected that the National Self-Exclusion Register will commence operation in May 2020. The Australian Communications and Media Authority will be responsible for maintaining the Register. <p>POTENTIAL IMPACT TO CROWN:</p> <p>A failure to comply with the new legal requirements mentioned above would lead to fines and potentially licence suspension/cancellation. In addition, a failure to comply could result in negative publicity for Betfair and Crown.</p> <p>CURRENT ACTION PLAN:</p> <p>Betfair's Head of Legal has briefed Betfair's Marketing Team on the new inducement laws, and will ensure that Betfair is fully compliant.</p> <p>Betfair will be entering into a 'Statement of Work' with Paddy Power Betfair Plc (PPBF), which will require PPBF to make the necessary amendments to Betfair's websites before 26 May 2019.</p>	
CROWN RESORTS LIMITED	
<u>Crown Sydney Development</u>	TREND: <i>Unchanged</i> 
<p>We continue to be engaged with the NSW regulator to develop the casino regulatory framework to support the business operationally (casino manuals, SOPs, internal controls).</p> <p>This will include working with The Star Group and takes into account the Casino Modernisation Report that was prepared and published in February 2016. We are engaging with the NSW regulator and police representatives on security/relationship matters.</p>	

2. VOLATILITY OF PREMIUM GAMING

Deviations from theoretical win rates applicable to Crown's international commission business have the potential to impact the performance of Crown's affiliate businesses. Changes to the terms and conditions of international commission business play (ie maximum bet limit) increase Crown's exposure

AUSTRALIAN BUSINESSES

Premium Gaming Volumes

TREND: **Unchanged** ➡

As previously reported, Premium Gaming volumes must be maintained to mitigate the risk of prolonged negative deviations from theoretical win rates. VIP program play turnover for both Perth and Melbourne increased 13% on the previous corresponding period, but with substantially underperforming win rates for Melbourne.

Year on year variations in turnover volumes are recorded as follows:

CROWN MELBOURNE	June 2017	December 2017	June 2018	December 2018
YTD International and Interstate Turnover (\$b)	25.2	19.5	43.8	15.4 (Budget 18.5)
Win Rate (%)	1.59	1.21	1.29	0.99 (Budget 1.40)

CROWN PERTH	June 2017	December 2017	June 2018	December 2018
YTD International and Interstate Turnover (\$b)	8.1	3.2	7.6	2.5 (Budget 3.7)
Win Rate (%)	1.83	1.91	1.32	2.16 (Budget 1.40)

POTENTIAL IMPACT TO CROWN:

Increased deviation between theoretical and actual win rates has the potential to impact overall business performance. Turnover for Melbourne is 17% under budget (or \$3.1b), and win rate is currently 30% below budget, making an overall \$10.6M negative impact YTD. Conversely, turnover for Perth was 33% under budget (or \$1.2b), but win rate was 54% over budget, netting the overall impact.

CURRENT ACTION PLAN:

Management is to continue to monitor trends, and action as appropriate.

CROWN ASPINALLS

TREND: **Unchanged** ➡

No further development since the November 2018 report.

BETFAIR

TREND: -

Not applicable.

CROWN RESORTS LIMITED

TREND: -

See above.

4.1

3. SMOKING RESTRICTIONS

Loss of government approved smoking exemptions granted to affiliate businesses operating in jurisdictions where smoking restrictions apply, has the potential to adversely impact performance. There is also potential for smoking bans to be imposed in jurisdictions where smoking is currently unrestricted.

CROWN MELBOURNE

Environmental Tobacco Smoke (ETS)

TREND: *Unchanged* ➡

In June 2018, Crown Melbourne announced to employees working in smoking areas, plans for the implementation of the new health monitoring program to be introduced during FY19.

POTENTIAL IMPACT TO CROWN:

Changes to operating procedures, changes in rostering and costs to the business.

CURRENT ACTION PLAN:

Crown will be introducing annual Health Monitoring for all employees who regularly work in the Declared Smoking Areas of Mahogany Room, Teak Room and the private salons.

An external provider, Jobfit Pty Ltd, will commence assessments on 5 February 2019. Initially, clinics from February to August will be for Table Game employees only, with the remainder of the business to be scheduled through August to December.

Employee communication was sent out on 29 January 2019.

CROWN PERTH

TREND: *Unchanged* ➡

No further development since the November 2018 report.

CROWN ASPINALLS

TREND: *Unchanged* ➡

No further development since the November 2018 report.

BETFAIR

TREND: -

Not applicable.

CROWN RESORTS LIMITED


TREND: -

See above.

4.1

4. GLOBAL EVENT	
<i>Global geopolitical event and hostilities, Act of terrorism, natural disaster, pandemic etc. impacting operation of and/or visitation to one or more of Crown's affiliate businesses has the potential to adversely affect performance.</i>	
AUSTRALIAN BUSINESSES	TREND: <i>Unchanged</i> ➡
In Melbourne, Victoria Police Executive Command has advised that the PSO proposal for Crown Melbourne has been raised with the Police Minister by the Chief Commissioner of Police as part of a broader proposal for PSO's and currently rests with her for consideration and decision.	
CROWN ASPINALLS	TREND: <i>Unchanged</i> ➡
No further development since the November 2018 report.	
BETFAIR	TREND: <i>Unchanged</i> ➡
No further development since the November 2018 report.	
CROWN RESORTS LIMITED	TREND: <i>Unchanged</i> ➡
No further development since the November 2018 report.	

5. BRAND REPUTATION / IMAGE	
<p><i>Negative publicity / image of Crown and/or its affiliate businesses which may adversely impact Crown's reputation and/or performance and potentially jeopardise gaming licences, including: inappropriate associations, inappropriate conduct, breach of confidentiality and/or adverse media attention.</i></p>	
CROWN MELBOURNE	
<p><u>LEGALLY PRIVILEGED - April and May 2018 Allegations by Mr Andrew Wilkie MP</u></p> <p>Andrew Wilkie MP raised allegations as to the appropriateness of Crown Melbourne issued plastic picks being provided to patrons to hold EGM buttons down for continuous play and multiple loyalty cards issued to patrons.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Fines if any conduct is in breach of the regulatory framework and reputational damage.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Melbourne had ceased issuing picks to patrons some months prior to Mr Wilkie raising the allegations. Crown will continue to fully cooperate with any request from authorities to investigate the matter. At this point, no determination has been provided by the VCGLR.</p>	<p>TREND: <i>Unchanged</i> ➡</p>
CROWN PERTH	
No further development since the November 2018 report.	
CROWN ASPINALLS	<p>TREND: <i>NEW</i> ⬆</p>
<p><u>Trademark Infringement – Grosvenor Rentals</u></p> <p>On 13 December 2018, a letter was sent to Grosvenor Rentals advising of their unauthorised use of Crown's Spray Device being passed off as Grosvenor's own trademark. Grosvenor Rentals Ltd is a UK food and beverage and equipment service. Grosvenor agreed to cease use of all infringing content or other materials, destroy all collateral and other materials containing the Crown Spray Device and not use or seek to register a trade mark incorporating the Crown Spray Device. Grosvenor immediately replaced all online references bearing the Crown Spray Device.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>The potential impact to Crown Aspinall's (and the wider Crown Group) is the association and misuse of the Crown Spray brand, however, Grosvenor has seemingly remedied the situation as requested.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls will continue to monitor and report</p>	
BETFAIR	<p>TREND: <i>Unchanged</i> ➡</p>
No further development since the November 2018 report.	

CROWN RESORTS LIMITED	TREND: NEW 
<p><u>PRIVILEGED and CONFIDENTIAL:</u> Escalation of Fair Work claim</p> <p>On 1 January 2016, physical contact was made between an MSS Security Officer and Mr James Packer. On 22 January 2016, the security officer lodged a WorkCover claim for physical and psychological injuries, which was accepted by MSS and its insurer. At the time, the VCGLR investigated the incident and stated that they were satisfied that Crown had followed processes and procedures and that from their perspective the matter was finalised.</p> <p>On 4 February 2019, Crown received a serious injury application (SI) alleging that Crown and James Packer are entities against which the security officer potentially has a claim. The SI seeks the grant of a SI certificate which is a precursor and compulsory step prior to the issue of common law proceedings.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Media coverage and reputational damage.</p> <p>CURRENT ACTION PLAN:</p> <p>At this early stage, the matter is not within the court system and there has not been any media attention. Crown has referred the matter to MinterEllison who acted in relation to the previous Fair Work General Protections claim.</p>	

6. MATERIAL BREACHES OF GAMING AND OTHER RELEVANT LEGISLATION/REGULATIONS

Crown and its affiliate businesses operate in a highly regulated industry. Systemic and/or serious breaches (including gaming, money laundering, liquor and promotion of gaming) may adversely impact Crown's reputation and performance via the imposition of financial and non-financial penalties including the potential loss of operating licences, prosecution and arrest/detention of employees and contractors.

CROWN MELBOURNE

EGM Continuous Play

TREND: *Unchanged*



On 27 September 2018, the VCGLR served Crown Melbourne with a Notice pursuant to s 26 of the Casino Control Act 1991 (Vic) to answer questions and provide data concerning EGM C8308, which the VCGLR allege was identified by Gaming Inspectors as operating in 'Unrestricted Mode', without Your Play functionality activated. Crown investigated the EGM with its Approved Testing Facility (ATF) (BMM) and the EGM's manufacturer (IGT). It was identified that the EGM was not operating in unrestricted mode, however, had a wiring fault, which meant that when a particular button was held down, it functioned as if it was simulating continuous play. Section 62AB of the *Casino Control Act 1991* (Vic) provides (2) *A casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player (whether by pushing a play button, touching the screen or otherwise).*

POTENTIAL IMPACT TO CROWN:

It is possible that the VCGLR may take disciplinary action against Crown under s 62AB, however, no response has yet been received.

CURRENT ACTION PLAN:

Crown Melbourne responded to the Notice detailing the EGM hardware fault and the findings of the manufacturer. As a result of this issue, a range of audits and reviews of similar machines were undertaken and enhanced checking processes have been implemented.

CROWN PERTH

IGT Advantage System Jackpots

TREND: *Unchanged*



As previously reported, in May 2018 there was an IGT Advantage System outage following a system upgrade. A subsequent investigation identified that a number of patrons were not correctly awarded IGT Advantage System jackpots due to software faults. As a result, the Lucky Number Jackpot and Carded Lucky Rewards were temporarily suspended from use and Crown has since paid jackpots to identified patrons affected by the faults. It is important to note that this issue does not impact on the Return to Player.

Crown has since implemented, with the Regulator's approval, a system upgrade to correct the software faults, and the Lucky Number Jackpot is now operational. Carded Lucky Rewards remains suspended from use, pending Regulatory approval.

POTENTIAL IMPACT TO CROWN:

If further issues are identified with the operations of the IGT Advantage System or its associated jackpots, this may require further system upgrades or in more extreme circumstances cessation of the operations of various jackpots and increased Regulator scrutiny.

CURRENT ACTION PLAN:

- Crown is conducting its own internal review of the operation of jackpots using the IGT Advantage System, in conjunction with IGT and an external specialist. This is in progress.
- Crown will work with the Regulator to assist with the independent review of the IGT Advantage System by the Authorised Testing Facility, at the appropriate time.
- Crown will be seeking Regulatory approval to restore the operation of the Carded Lucky Rewards jackpot.

CROWN ASPINALLS

TREND: *Unchanged*



No further development since the November 2018 report.

BETFAIR

TREND: *Unchanged*



No further development since the November 2018 report.

CROWN RESORTS LIMITED

TREND: *Unchanged*



See above.

4.1

7. LITIGATION

Crown is exposed to potential material litigation by: employees, customers, regulators, as well as:

- *shareholders, including potential class action as a result of not properly correcting the market regarding consensus forecast performance*
- *other third parties, particularly gaming related litigation.*

To the extent that material litigation is not covered by insurance, an adverse outcome or cost of responding to potential or actual litigation may have an adverse impact on the performance of Crown.

AUSTRALIAN BUSINESSES

TREND: **Unchanged**



Significant legal matters (which have previously been presented to the respective Crown Melbourne and Crown Perth Boards) have been reported to the Crown Resorts Board throughout the reporting period via litigation updates in the CEO's Report.

CROWN ASPINALLS

Employee Grievance – Alleged Discrimination Claim

TREND: **NEW**



An employee returning from maternity leave claimed discrimination by Crown Aspinall's when they did not receive a promotion to a senior position despite a senior position not being available or advertised. Another employee covering their maternity leave was appointed a full time role, despite being similarly titled, was a different role that encompassed differing responsibilities. An internal grievance process followed and found no grounds for discrimination and that due process was followed within the company's rights and obligations. The employee was dissatisfied with the grievance outcome and requested the right to access their personal information under the *General Data Protection Regulations 2018* that was subsequently supplied by Crown Aspinall's. The employee did not pursue the matter further, which was concluded with the signing of a separation letter - the matter is now deemed closed.

POTENTIAL IMPACT TO CROWN:

The potential impact to Crown Aspinall's was reputational damage due to a discrimination suit in addition to fines if found in breach of the *UK Equality Act 2010*.

CURRENT ACTION PLAN:

Crown Aspinalls will continue to monitor and report.

BETFAIR

TREND: **Unchanged**



No further development since the November 2018 report.





CROWN RESORTS LIMITED

Significant legal matters (which have previously been presented to the respective Crown Melbourne and Crown Perth Boards) have been reported to the Crown Resorts Board throughout the reporting period via litigation updates.


PRIVILEGED and CONFIDENTIAL: Escalation of Fair Work claim

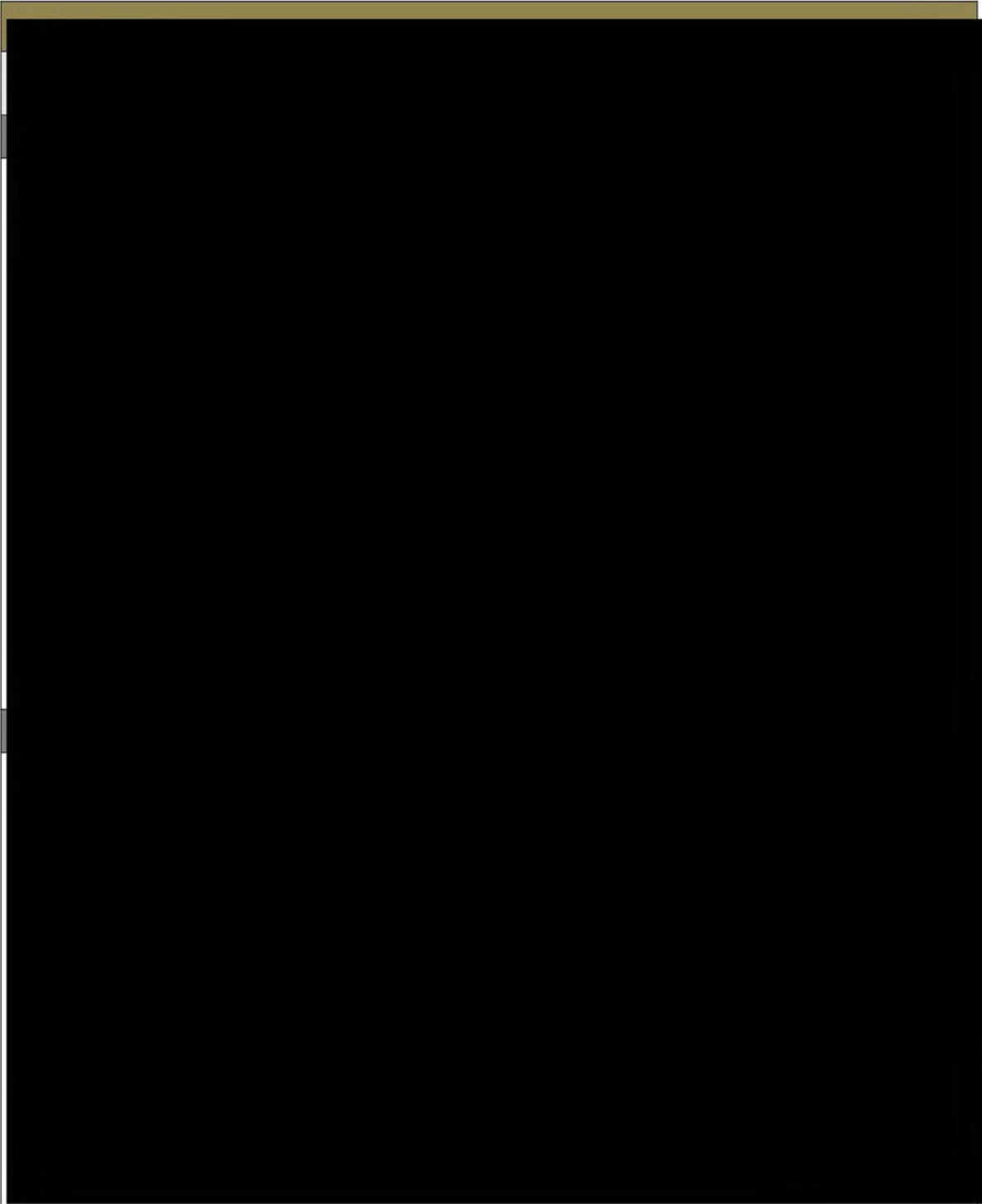
Please refer to the commentary included under "Brand Reputation / Image" on page 12 of this Report for further information in relation to this matter.

4.1

<u>PRIVILEGED and CONFIDENTIAL: Class Action</u>	TREND: <i>Unchanged</i> 
<p>On 4 December 2017, Maurice Blackburn commenced a class action proceeding against Crown in the Federal Court of Australia. The proceeding was filed on behalf of persons who acquired an interest in Crown shares between 6 February 2015 and 16 October 2016. Crown is defending the proceeding and has filed its defence.</p> <p>Insurers have confirmed indemnity (coverage) against our D&O policy, subject to the terms of the policy (including strict confidentiality).</p> <p>The proceeding has been fixed for trial (on a six week estimate) commencing 4 May 2020 with mediation to be held not later than 20 June 2019.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>ATO Dispute: Cannery</u>	TREND: <i>Unchanged</i> 
<p>On 15 February 2016, Crown was issued with amended assessments and a notice of penalty by the Australian Taxation Office (ATO) for a total of approximately \$362 million which comprises primary tax, interest and penalties. The amended assessments are in respect of income tax paid for the financial years ending 30 June 2009 to 30 June 2014 (inclusive) and relate to the tax treatment of some of the financing for Crown's investment in Cannery Casino Resorts and other investments in North America. Following completion of the objection process, Crown commenced proceedings in the Federal Court in relation to this matter.</p> <p>In August 2018, Crown was issued with additional amended and penalty assessments in relation to the years of income ended 30 June 2014 to 30 June 2016 for approximately \$34 million which comprises primary tax, interest and penalties. Crown has objected to the additional assessments.</p> <p>Crown considers that it has paid the correct amount of tax.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>ATO Dispute: GST and Junkets</u>	TREND: <i>Unchanged</i> 
<p>Crown claimed a refund of GST (related to commissions paid and loss rebates paid to junkets on behalf of players) previously paid to the ATO for an amount of approximately \$103.5 million.</p> <p>On 8 October 2018, Crown commenced proceedings in the New South Wales Federal Court in order to preserve its position in relation to the matter.</p> <p>Any refund received in Victoria and Western Australia from the ATO of over payment of GST by Crown in respect gaming revenue is to the benefit of the respective Governments (in the case of Western Australia only until December 2014).</p> <p>Crown has not recognised any potential financial benefit from the successful resolution of these matters.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>Crown Sydney: Sight Lines Dispute</u>	TREND: <i>Reduced</i> 

4.1

<p>On 9 August 2018, Crown commenced proceedings against the Barangaroo Delivery Authority (BDA) in the NSW Supreme Court regarding the potential adverse impact of the development of Central Barangaroo on the sight lines from Crown Sydney and Lendlease’s residential towers to the Harbour Bridge and Opera House.</p> <p>In December 2018, the NSW Supreme Court found that the BDA had breached its contracts and had not negotiated in good faith with Crown and Lendlease. BDA is now planning to appeal that decision.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<p><u>Washington State Decision</u></p> <p>There has been no material update on this matter since the last report .</p>	<p>TREND: <i>Unchanged</i> </p>



4.1

BETFAIR	TREND: -
CROWN RESORTS LIMITED	TREND: -

4.1



Crown Resorts Limited

Material Risk Update: 11 February 2019

EXECUTIVE SUMMARY

Since the last report in November 2018, a number of internal and external events have materialised which have impacted the overall risk profile of the organisation, and particularly its material risk exposures.

The key events that have taken place over the period include:

- The Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) continues to investigate allegations raised by Mr Andrew Wilkie MP in April 2018 regarding plastic picks being used on continuous play machines and multiple loyalty cards issued to patrons with respect of Crown Melbourne. The VCGLR has not indicated its position on these allegations at this stage. The Gaming & Wagering Commission of Western Australia is also considering these matters and their relevance to Crown Perth.
- The VCGLR continues to investigate an electronic gaming machine (**EGM**), which the VCGLR alleges was operating in 'Unrestricted Mode' when inspected by Government Inspectors, without Your Play functionality activated. After an internal investigation, the EGM was confirmed to not be operating in unrestricted mode, however, it had a wiring fault, which meant that when a particular button was held down, it functioned as if it was simulating continuous play. Crown has responded to the VCGLR's Notice requesting the details of this issue. The VCGLR has not indicated its position at this stage.
- As part of its China investigation, the VCGLR made a further request for information which Crown responded to on 5 December 2018. Mr Preston and Mr Murphy met with the VCGLR in December 2018 to discuss the provision of documentation and process moving forward. The VCGLR has indicated that it hopes to be in a position to provide Crown with a draft copy of its report shortly and it will invite Crown to make submissions on the draft prior to being finalised.
- A number of tax related matters are currently in dispute with the ATO, including the Cannery matter and a potential GST refund related to commissions paid to junkets.
- Local table games, Hotel and F&B are marginally below budget, and this is compounded by materially lower win rates in premium gaming, which has led to a forecast adjustment in December 2018 for both Melbourne and Perth.
- Provisions for international gaming bad debts remain relatively consistent with the last reporting period, and overall gross and net debtor balances are reducing.
- One Queensbridge Project remains in pre-planning phase, subject to financing. An application to extend the planning approval deadline is currently being considered by Government.

4.1

Below is a table summarising trends for each material risk.

Please note ‘material’ risks are those that have either a ‘red’/critical rating, or the ‘orange’/high risks that are one rating away from being critical. The Risk Map on page 4 shows a representation of where these material risks are represented.

MATERIAL RISKS	CURRENT TREND
1. Legislative / Regulatory Changes	Unchanged 
2. Volatility of Premium Gaming	Unchanged 
3. Smoking Restrictions	Unchanged 
4. Global Event	Unchanged 
5. Brand Reputation / Image	Unchanged 
6. Material Breaches of Gaming and other Relevant Legislation/ Regulations	Unchanged 
7. Litigation	Unchanged 
8. International Commission Business Bad Debts	Reduced 

Crown Resorts Corporate Risk Map – January 2019

Likelihood	Almost certain			MATERIAL RISKS		
	Likely			Competition – International (13)	International Commission Business Bad Debts (1) Litigation (9)	
	Possible		Pre-Commitment (8) Loss of Key Management (23) Leakage Of Sensitive Information / Intellectual Property (24) Responsible Service of Alcohol (29) Anti-social Behavior (30)	Economy (7) Taxation (11) Development & Construction (14) Occupational Health & Safety (15) Failure/Corruption IT Systems (16) Major Criminal Act (17) Competition – Domestic (18) Fraud (19) Bribery and Corruption (20) Leakage Of Sensitive Information / Intellectual Property (24)	Legislative/Regulatory Changes (2) Smoking Restrictions (3) Brand Reputation / Image (6) Material Breaches of Gaming and Other Relevant Legislation / Regulations (12)	Volatility of Premium Gaming (4) Global Event (10)
	Unlikely		Environmental Management (27) Labour shortage (31)	Acquisition & Investment (5) Treasury (22) Contractual Obligations (25) Financial Reporting & Compliance (26) Responsible Provision of Gambling (28)		
	Rare			Insurance (21)		
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU

1. LEGISLATIVE / REGULATORY CHANGES

Changes to legislation, regulation or Government policy covering the conduct of, and access to, gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crown's affiliate businesses and the value of licences granted. Possible changes include:

- *Increases in tax or additional levies and taxes*
- *Changes to restrictions (where applicable) on the number, type, speed and location of gaming machines*
- *Changes to mandatory minimum "return to player" on gaming machines*
- *Changes to approved table games and approved rules of the games (where applicable)*
- *Changes to restrictions on advertising and marketing, including online advertising (where applicable)*
- *Changes in laws, or changes in interpretation of laws dealing with promotion of gambling in foreign countries*
- *Visa restrictions (where applicable)*
- *Changes to online wagering regulations, affecting product offering (including exchange betting) and product fees (including racing)*
- *Changes to State based regulations that apply to online wagering operators, increasing business complexity*
- *Imposition of a mandatory pre-commitment system*

CROWN MELBOURNE

Anti-Money Laundering / Counter-Terrorism Financing (AML / CTF) Statutory Review

TREND: **Unchanged** ➡

No further development since the November 2018 report.

Black Economy Taskforce - \$10,000 cash transaction limit

TREND: **Unchanged** ➡

No further development since the November 2018 report.

Section 25 Licence and Operator Review

TREND: **Unchanged** ➡

The VCGLR finalised and published its 6th *Review of the Casino Operator and Licence*, pursuant to s 25 of the Casino Control Act, for the period covering 1 July 2013 to 30 June 2018. The VCGLR's Report contains 20 Recommendations, which Crown largely accepted.

Crown is working with the VCGLR to address each of the 20 recommendations. A range of recommendations have deadlines in June 2019.

POTENTIAL IMPACT TO CROWN:

Reputational damage and media coverage of any new issues arising from the resolution of the matters.

CURRENT ACTION PLAN:

Crown is working through the recommendations internally and engaging with the VCGLR on the progress of the recommendations.




Liquor and Gambling Legislation Amendment Bill 2018



TREND: **Unchanged** ➡

No further developments since the November 2018 report.

4.1

<u>Environmental Tobacco Smoke (ETS)</u>	TREND: <i>Unchanged</i> ➡
<p>In June 2018, Crown Melbourne announced to employees working in smoking areas, plans for the implementation of the new health monitoring program to be introduced during FY19.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Changes to operating procedures, changes in rostering and costs to the business.</p> <p>CURRENT ACTION PLAN:</p> <p>Work continues on the introduction of the Health Monitoring (HM) program for those employees working within the declared smoking environments (approx. 2500 employees). HM presentations have been completed through all Health & Safety Committees. Currently working with the rostering Workforce Planners to best plan and coordinate rostering requirements to ensure compliance.</p> <p>Procurement, Legal and IT departments are all involved to ensure compliance with the requirements of the agreed Health Monitoring regime and a likely commencement in February 2019.</p>	
CROWN PERTH	
<u>Outcomes of the VCGLR's 6th Review of the Casino Operator and Licence for Crown Melbourne</u>	TREND: <i>Unchanged</i> ➡
<p>The Gaming & Wagering Commission of Western Australia (GWC) is closely reviewing the outcomes of the VCGLR's 6th Review of the Casino Operator and Licence for Crown Melbourne to determine the extent to which any recommendations should or could be adopted by Crown Perth. Of particular interest are the recommendations regarding the Responsible Service of Gambling.</p> <p>Crown Perth has provided a submission to the GWC regarding the relevance of the VCGLR recommendations to Crown Perth as well as an overview of Crown Perth's RSG framework. The CLO – Australian Resorts attended the December GWC meeting to present this information.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Potential operating restrictions or requirements as outlined for Crown Melbourne above.</p> <p>CURRENT ACTION PLAN:</p> <p>Formal feedback has not yet been received from the GWC. The GWC's next meeting will be held in February 2019.</p>	
<u>Review of Regulation 43 – Gaming and Wagering Commission Regulations</u>	TREND: <i>Unchanged</i> ➡
<p>Following its recent review of Regulation 43, the GWC has now issued its amendments to Regulation 43 of the <i>Gaming and Wagering Commission Regulations</i>, which come into effect on 1 March 2019.</p> <p>Changes include a new definition of "gambling advertisement", and inclusion of a definition for "customer loyalty scheme". Further, a guideline entitled "Gambling Advertising and Inducements" has been created and endorsed by the GWC to further clarify the Regulations and provide examples of what the GWC considers to be acceptable advertising.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Further clarification is being sought from the GWC on the application of the changes to Crown Perth due to certain inconsistencies between the guideline and the Regulation, and ambiguity in the drafting of the regulatory changes. However it is expected that these will not have a material impact on Crown Perth's operations.</p> <p>CURRENT ACTION PLAN:</p> <p>Seek clarification from the Regulator on the application of the changes to Crown Perth.</p>	

CROWN ASPINALLS	
Brexit – EU Settlement Scheme <p>The Home Office announced that EU citizens will be required to apply to the EU Settlement Scheme to continue living in the UK after 30 June 2021. The Scheme will be fully open from 30 March 2019 with the deadline for applications being 30 June 2021 (or 31 December 2020 if the UK leaves the EU without a deal). Successful applicants, will received a settled or pre-settled status. The proposed application fee of £65 has been withdrawn by the Home Office and it is now free to apply.</p> <p>Application is not required for Irish citizens or those who have indefinite leave to remain (ILR).</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>This impacts 34% of Crown Aspinalls' current labour force who are EU citizens residing in the UK.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls is currently developing a plan to assist all affected employees which is expected to be communicated by the end of February 2019. Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 
Gambling Commission - Personal Functional Licence Online Application <p>On 4 December 2018, the Gambling Commission released an online personal functional licence application service (for casino employees) with the aim to provide applicants an efficient, streamlined and improved service. Additionally, a text and email alert system has been introduced to keep applicants informed on the progress of their applications from submission through to when the licence is issued.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>There is no material impact to Crown as it is only applicable to persons renewing their licence. Licence 'maintenance' occurs every 5 years.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 
Gambling Commission - New National Strategy to reduce Gambling Harms <p>The Gambling Commission is developing a new national strategy to reduce gambling harms as the current National Responsible Gambling Strategy comes to an end in March 2019. The Gambling Commission will consult with Government, public health, the charitable sector and gambling businesses in order to make real progress to reduce gambling harms.</p> <p>The Commission is conducting a formal consultation under Section 24 of the <i>Gambling Act 2005</i> on proposed amendments to the Licence Conditions and Codes of Practice (LCCP) requirement on gambling businesses to contribute to research, prevention and treatment, and associated arrangements needed to deliver the strategy. An amendment to the LCCP is proposed to specify that licensees' contributions under this provision are made to one or more organisations that are approved by the Commission. This is intended to give clarity to gambling businesses on how they can ensure they are compliant.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>There is an impact to Crown Aspinall's Operator Licence with the addition of changes to the LCCP, however, this is not currently viewed as a material change as Crown London already contributes 0.1% of GGY to GambleAware (a recognised charity of the Gambling Commission) for research, education and treatment.</p> <p>CURRENT ACTION PLAN:</p> <p>The National Casino Forum (NCF) will make a submission during consultation on behalf of the land based casino industry. Consultation closes 15 February 2019 with the new strategy to come into effect 1 April 2019. Crown Aspinalls will continue to monitor and report.</p>	TREND: NEW 

BETFAIR	
Implementation of NCPF measures	TREND: Unchanged 
<p>In late November 2018, the National Consumer Protection Framework for Online Wagering (NCPF) was formally announced. The NCPF consists of 10 agreed consumer protection measures.</p> <p>The States/Territories have commenced amending legislation/regulations/codes, and issuing Ministerial Orders, to implement the NCPF measures. For example, in Victoria, a Ministerial Order will be made by the Minister for Consumer Affairs, Gaming and Liquor Regulation pursuant to section 4.8A.2 of the <i>Gambling Regulation Act 2003</i> (Vic).</p> <p>It is noted that:</p> <ul style="list-style-type: none"> new inducement laws are being introduced in each State/Territory. On and from 26 May 2019, Betfair will not be able to offer or provide to a person a 'benefit, consideration or reward' in return for the person: <ul style="list-style-type: none"> opening a betting account with Betfair; or referring another person to open a betting account with Betfair. <p>(Note: these new inducement laws may commence earlier in Western Australia, with 1 March 2019 being a possible commencement date.);</p> new requirements in relation to 'deposit limits' and 'account closure' will come into operation on 26 May 2019. Prior to this date, Betfair will need to make amendments to its website so that: <ul style="list-style-type: none"> certain information about the benefits of having a deposit limit is shown to a customer before he/she can 'opt out' of having a deposit limit; customers are prompted on an annual basis to review their existing deposit limits (such prompts will appear when the customer 'logs in' to their account); and a customer can request to close his/her account by clicking on a button when logged in; new requirements in relation to 'activity statements' will come into operation in May 2020; and it is expected that the National Self-Exclusion Register will commence operation in May 2020. The Australian Communications and Media Authority will be responsible for maintaining the Register. <p>POTENTIAL IMPACT TO CROWN:</p> <p>A failure to comply with the new legal requirements mentioned above would lead to fines and potentially licence suspension/cancellation. In addition, a failure to comply could result in negative publicity for Betfair and Crown.</p> <p>CURRENT ACTION PLAN:</p> <p>Betfair's Head of Legal has briefed Betfair's Marketing Team on the new inducement laws, and will ensure that Betfair is fully compliant.</p> <p>Betfair will be entering into a 'Statement of Work' with Paddy Power Betfair Plc (PPBF), which will require PPBF to make the necessary amendments to Betfair's websites before 26 May 2019.</p>	
CROWN RESORTS LIMITED	
Crown Sydney Development	TREND: Unchanged 
<p>We continue to be engaged with the NSW regulator to develop the casino regulatory framework to support the business operationally (casino manuals, SOPs, internal controls).</p> <p>This will include working with The Star Group and takes into account the Casino Modernisation Report that was prepared and published in February 2016. We are engaging with the NSW regulator and police representatives on security/relationship matters.</p>	

2. VOLATILITY OF PREMIUM GAMING

Deviations from theoretical win rates applicable to Crown's international commission business have the potential to impact the performance of Crown's affiliate businesses. Changes to the terms and conditions of international commission business play (ie maximum bet limit) increase Crown's exposure

AUSTRALIAN BUSINESSES

Premium Gaming Volumes

TREND: **Unchanged** ➡

As previously reported, Premium Gaming volumes must be maintained to mitigate the risk of prolonged negative deviations from theoretical win rates. VIP program play turnover for both Perth and Melbourne increased 13% on the previous corresponding period, but with substantially underperforming win rates for Melbourne.

Year on year variations in turnover volumes are recorded as follows:

CROWN MELBOURNE	June 2017	December 2017	June 2018	December 2018
YTD International and Interstate Turnover (\$b)	25.2	19.5	43.8	15.4 (Budget 18.5)
Win Rate (%)	1.59	1.21	1.29	0.99 (Budget 1.40)

CROWN PERTH	June 2017	December 2017	June 2018	December 2018
YTD International and Interstate Turnover (\$b)	8.1	3.2	7.6	2.5 (Budget 3.7)
Win Rate (%)	1.83	1.91	1.32	2.16 (Budget 1.40)

POTENTIAL IMPACT TO CROWN:

Increased deviation between theoretical and actual win rates has the potential to impact overall business performance. Turnover for Melbourne is 17% under budget (or \$3.1b), and win rate is currently 30% below budget, making an overall \$10.6M negative impact YTD. Conversely, turnover for Perth was 33% under budget (or \$1.2b), but win rate was 54% over budget, netting the overall impact.

CURRENT ACTION PLAN:

Management is to continue to monitor trends, and action as appropriate.

CROWN ASPINALLS

TREND: **Unchanged** ➡

No further development since the November 2018 report.

BETFAIR

TREND: -

Not applicable.

CROWN RESORTS LIMITED

TREND: -

See above.

4.1

3. SMOKING RESTRICTIONS

Loss of government approved smoking exemptions granted to affiliate businesses operating in jurisdictions where smoking restrictions apply, has the potential to adversely impact performance. There is also potential for smoking bans to be imposed in jurisdictions where smoking is currently unrestricted.

CROWN MELBOURNE

Environmental Tobacco Smoke (ETS)

TREND: *Unchanged* ➡

In June 2018, Crown Melbourne announced to employees working in smoking areas, plans for the implementation of the new health monitoring program to be introduced during FY19.

POTENTIAL IMPACT TO CROWN:

Changes to operating procedures, changes in rostering and costs to the business.

CURRENT ACTION PLAN:

Crown will be introducing annual Health Monitoring for all employees who regularly work in the Declared Smoking Areas of Mahogany Room, Teak Room and the private salons.

An external provider, Jobfit Pty Ltd, will commence assessments on 5 February 2019. Initially, clinics from February to August will be for Table Game employees only, with the remainder of the business to be scheduled through August to December.

Employee communication was sent out on 29 January 2019.

CROWN PERTH

TREND: *Unchanged* ➡

No further development since the November 2018 report.

CROWN ASPINALLS

TREND: *Unchanged* ➡

No further development since the November 2018 report.

BETFAIR

TREND: -

Not applicable.

CROWN RESORTS LIMITED


TREND: -

See above.

4.1

4. GLOBAL EVENT	
<i>Global geopolitical event and hostilities, Act of terrorism, natural disaster, pandemic etc. impacting operation of and/or visitation to one or more of Crown's affiliate businesses has the potential to adversely affect performance.</i>	
AUSTRALIAN BUSINESSES	TREND: Unchanged ➡
In Melbourne, Victoria Police Executive Command has advised that the PSO proposal for Crown Melbourne has been raised with the Police Minister by the Chief Commissioner of Police as part of a broader proposal for PSO's and currently rests with her for consideration and decision.	
CROWN ASPINALLS	TREND: Unchanged ➡
No further development since the November 2018 report.	
BETFAIR	TREND: Unchanged ➡
No further development since the November 2018 report.	
CROWN RESORTS LIMITED	TREND: Unchanged ➡
No further development since the November 2018 report.	

5. BRAND REPUTATION / IMAGE	
<p><i>Negative publicity / image of Crown and/or its affiliate businesses which may adversely impact Crown's reputation and/or performance and potentially jeopardise gaming licences, including: inappropriate associations, inappropriate conduct, breach of confidentiality and/or adverse media attention.</i></p>	
CROWN MELBOURNE	
<p><u>LEGALLY PRIVILEGED - April and May 2018 Allegations by Mr Andrew Wilkie MP</u></p> <p>Andrew Wilkie MP raised allegations as to the appropriateness of Crown Melbourne issued plastic picks being provided to patrons to hold EGM buttons down for continuous play and multiple loyalty cards issued to patrons.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Fines if any conduct is in breach of the regulatory framework and reputational damage.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Melbourne had ceased issuing picks to patrons some months prior to Mr Wilkie raising the allegations. Crown will continue to fully cooperate with any request from authorities to investigate the matter. At this point, no determination has been provided by the VCGLR.</p>	<p>TREND: <i>Unchanged</i> ➡</p>
CROWN PERTH	
No further development since the November 2018 report.	
CROWN ASPINALLS	<p>TREND: <i>NEW</i> ⬆</p>
<p><u>Trademark Infringement – Grosvenor Rentals</u></p> <p>On 13 December 2018, a letter was sent to Grosvenor Rentals advising of their unauthorised use of Crown's Spray Device being passed off as Grosvenor's own trademark. Grosvenor Rentals Ltd is a UK food and beverage and equipment service. Grosvenor agreed to cease use of all infringing content or other materials, destroy all collateral and other materials containing the Crown Spray Device and not use or seek to register a trade mark incorporating the Crown Spray Device. Grosvenor immediately replaced all online references bearing the Crown Spray Device.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>The potential impact to Crown Aspinall's (and the wider Crown Group) is the association and misuse of the Crown Spray brand, however, Grosvenor has seemingly remedied the situation as requested.</p> <p>CURRENT ACTION PLAN:</p> <p>Crown Aspinalls will continue to monitor and report</p>	
BETFAIR	<p>TREND: <i>Unchanged</i> ➡</p>
No further development since the November 2018 report.	

CROWN RESORTS LIMITED	TREND: NEW 
<p><u>PRIVILEGED and CONFIDENTIAL:</u> Escalation of Fair Work claim</p> <p>On 1 January 2016, physical contact was made between an MSS Security Officer and Mr James Packer. On 22 January 2016, the security officer lodged a WorkCover claim for physical and psychological injuries, which was accepted by MSS and its insurer. At the time, the VCGLR investigated the incident and stated that they were satisfied that Crown had followed processes and procedures and that from their perspective the matter was finalised.</p> <p>On 4 February 2019, Crown received a serious injury application (SI) alleging that Crown and James Packer are entities against which the security officer potentially has a claim. The SI seeks the grant of a SI certificate which is a precursor and compulsory step prior to the issue of common law proceedings.</p> <p>POTENTIAL IMPACT TO CROWN:</p> <p>Media coverage and reputational damage.</p> <p>CURRENT ACTION PLAN:</p> <p>At this early stage, the matter is not within the court system and there has not been any media attention. Crown has referred the matter to MinterEllison who acted in relation to the previous Fair Work General Protections claim.</p>	

6. MATERIAL BREACHES OF GAMING AND OTHER RELEVANT LEGISLATION/REGULATIONS

Crown and its affiliate businesses operate in a highly regulated industry. Systemic and/or serious breaches (including gaming, money laundering, liquor and promotion of gaming) may adversely impact Crown's reputation and performance via the imposition of financial and non-financial penalties including the potential loss of operating licences, prosecution and arrest/detention of employees and contractors.

CROWN MELBOURNE

EGM Continuous Play

TREND: *Unchanged*



On 27 September 2018, the VCGLR served Crown Melbourne with a Notice pursuant to s 26 of the Casino Control Act 1991 (Vic) to answer questions and provide data concerning EGM C8308, which the VCGLR allege was identified by Gaming Inspectors as operating in 'Unrestricted Mode', without Your Play functionality activated. Crown investigated the EGM with its Approved Testing Facility (ATF) (BMM) and the EGM's manufacturer (IGT). It was identified that the EGM was not operating in unrestricted mode, however, had a wiring fault, which meant that when a particular button was held down, it functioned as if it was simulating continuous play. Section 62AB of the *Casino Control Act 1991* (Vic) provides (2) *A casino operator must not allow a game to be played on a gaming machine unless each spin can be initiated only by a distinct and separate activation of the machine by the player (whether by pushing a play button, touching the screen or otherwise).*

POTENTIAL IMPACT TO CROWN:

It is possible that the VCGLR may take disciplinary action against Crown under s 62AB, however, no response has yet been received.

CURRENT ACTION PLAN:

Crown Melbourne responded to the Notice detailing the EGM hardware fault and the findings of the manufacturer. As a result of this issue, a range of audits and reviews of similar machines were undertaken and enhanced checking processes have been implemented.

CROWN PERTH

IGT Advantage System Jackpots

TREND: *Unchanged*



As previously reported, in May 2018 there was an IGT Advantage System outage following a system upgrade. A subsequent investigation identified that a number of patrons were not correctly awarded IGT Advantage System jackpots due to software faults. As a result, the Lucky Number Jackpot and Carded Lucky Rewards were temporarily suspended from use and Crown has since paid jackpots to identified patrons affected by the faults. It is important to note that this issue does not impact on the Return to Player.

Crown has since implemented, with the Regulator's approval, a system upgrade to correct the software faults, and the Lucky Number Jackpot is now operational. Carded Lucky Rewards remains suspended from use, pending Regulatory approval.

POTENTIAL IMPACT TO CROWN:

If further issues are identified with the operations of the IGT Advantage System or its associated jackpots, this may require further system upgrades or in more extreme circumstances cessation of the operations of various jackpots and increased Regulator scrutiny.

CURRENT ACTION PLAN:

- Crown is conducting its own internal review of the operation of jackpots using the IGT Advantage System, in conjunction with IGT and an external specialist. This is in progress.
- Crown will work with the Regulator to assist with the independent review of the IGT Advantage System by the Authorised Testing Facility, at the appropriate time.
- Crown will be seeking Regulatory approval to restore the operation of the Carded Lucky Rewards jackpot.

CROWN ASPINALLS

TREND: *Unchanged*



No further development since the November 2018 report.

BETFAIR

TREND: *Unchanged*



No further development since the November 2018 report.

CROWN RESORTS LIMITED

TREND: *Unchanged*



See above.

4.1

7. LITIGATION

Crown is exposed to potential material litigation by: employees, customers, regulators, as well as:

- *shareholders, including potential class action as a result of not properly correcting the market regarding consensus forecast performance*
- *other third parties, particularly gaming related litigation.*

To the extent that material litigation is not covered by insurance, an adverse outcome or cost of responding to potential or actual litigation may have an adverse impact on the performance of Crown.

AUSTRALIAN BUSINESSES

TREND: **Unchanged**



Significant legal matters (which have previously been presented to the respective Crown Melbourne and Crown Perth Boards) have been reported to the Crown Resorts Board throughout the reporting period via litigation updates in the CEO's Report.

CROWN ASPINALLS

Employee Grievance – Alleged Discrimination Claim

TREND: **NEW**



An employee returning from maternity leave claimed discrimination by Crown Aspinall's when they did not receive a promotion to a senior position despite a senior position not being available or advertised. Another employee covering their maternity leave was appointed a full time role, despite being similarly titled, was a different role that encompassed differing responsibilities. An internal grievance process followed and found no grounds for discrimination and that due process was followed within the company's rights and obligations. The employee was dissatisfied with the grievance outcome and requested the right to access their personal information under the *General Data Protection Regulations 2018* that was subsequently supplied by Crown Aspinall's. The employee did not pursue the matter further, which was concluded with the signing of a separation letter - the matter is now deemed closed.

POTENTIAL IMPACT TO CROWN:

The potential impact to Crown Aspinall's was reputational damage due to a discrimination suit in addition to fines if found in breach of the *UK Equality Act 2010*.

CURRENT ACTION PLAN:

Crown Aspinalls will continue to monitor and report.

BETFAIR

TREND: **Unchanged**



No further development since the November 2018 report.





CROWN RESORTS LIMITED

Significant legal matters (which have previously been presented to the respective Crown Melbourne and Crown Perth Boards) have been reported to the Crown Resorts Board throughout the reporting period via litigation updates.

PRIVILEGED and CONFIDENTIAL: Escalation of Fair Work claim

Please refer to the commentary included under "Brand Reputation / Image" on page 12 of this Report for further information in relation to this matter.

4.1

<u>PRIVILEGED and CONFIDENTIAL: Class Action</u>	TREND: Unchanged 
<p>On 4 December 2017, Maurice Blackburn commenced a class action proceeding against Crown in the Federal Court of Australia. The proceeding was filed on behalf of persons who acquired an interest in Crown shares between 6 February 2015 and 16 October 2016. Crown is defending the proceeding and has filed its defence.</p> <p>Insurers have confirmed indemnity (coverage) against our D&O policy, subject to the terms of the policy (including strict confidentiality).</p> <p>The proceeding has been fixed for trial (on a six week estimate) commencing 4 May 2020 with mediation to be held not later than 20 June 2019.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>ATO Dispute: Cannery</u>	TREND: Unchanged 
<p>On 15 February 2016, Crown was issued with amended assessments and a notice of penalty by the Australian Taxation Office (ATO) for a total of approximately \$362 million which comprises primary tax, interest and penalties. The amended assessments are in respect of income tax paid for the financial years ending 30 June 2009 to 30 June 2014 (inclusive) and relate to the tax treatment of some of the financing for Crown's investment in Cannery Casino Resorts and other investments in North America. Following completion of the objection process, Crown commenced proceedings in the Federal Court in relation to this matter.</p> <p>In August 2018, Crown was issued with additional amended and penalty assessments in relation to the years of income ended 30 June 2014 to 30 June 2016 for approximately \$34 million which comprises primary tax, interest and penalties. Crown has objected to the additional assessments.</p> <p>Crown considers that it has paid the correct amount of tax.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>ATO Dispute: GST and Junkets</u>	TREND: Unchanged 
<p>Crown claimed a refund of GST (related to commissions paid and loss rebates paid to junkets on behalf of players) previously paid to the ATO for an amount of approximately \$103.5 million.</p> <p>On 8 October 2018, Crown commenced proceedings in the New South Wales Federal Court in order to preserve its position in relation to the matter.</p> <p>Any refund received in Victoria and Western Australia from the ATO of over payment of GST by Crown in respect gaming revenue is to the benefit of the respective Governments (in the case of Western Australia only until December 2014).</p> <p>Crown has not recognised any potential financial benefit from the successful resolution of these matters.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<u>Crown Sydney: Sight Lines Dispute</u>	TREND: Reduced 

4.1

<p>On 9 August 2018, Crown commenced proceedings against the Barangaroo Delivery Authority (BDA) in the NSW Supreme Court regarding the potential adverse impact of the development of Central Barangaroo on the sight lines from Crown Sydney and Lendlease’s residential towers to the Harbour Bridge and Opera House.</p> <p>In December 2018, the NSW Supreme Court found that the BDA had breached its contracts and had not negotiated in good faith with Crown and Lendlease. BDA is now planning to appeal that decision.</p> <p>A detailed legal update has been reported to the Crown Resorts Board throughout the reporting period.</p> <p>POTENTIAL IMPACT TO CROWN</p> <p>Financial costs and reputational damage.</p> <p>CURRENT ACTION PLAN</p> <p>Consultation with external lawyers and active monitoring.</p>	
<p><u>Washington State Decision</u></p> <p>There has been no material update on this matter since the last report .</p>	<p><i>TREND: Unchanged</i> ➡</p>

<div></div>	
BETFAIR	TREND: -
CROWN RESORTS LIMITED	TREND: -

4.1



Crown Resorts Limited

Risk Appetite Dashboard: 11 February 2019

Dear Committee Members

BACKGROUND

At its meeting on 15 November 2018, the Committee considered a proposed formal Risk Appetite for adoption by the Board. Upon recommendation by the Committee, the Risk Appetite was adopted by the Crown Resorts Board on 11 December 2018.

REPORTING AGAINST THE RISK APPETITE

A report against the Risk Appetite will now be included as a standing item at each meeting of the Committee as set out in Annexure A.

Risk Appetite trigger events will be reported at scheduled meetings of the Committee, with special Committee meetings or Board meetings to be called as required depending on the magnitude of the trigger event.

Committee members will note that the main event during the reporting period, which meets the reportable event thresholds, has been the adjustment to the Crown Perth forecast under the 'financial' risk category.

Crown Perth is forecasting Theoretical EBITDA for F19 to be \$14.7m below budget due to further deterioration in the Perth economy, with a particular impact on local Table Games (forecasted to be down \$10.5m) and soft results in Program Play (down \$5m). The budget assumed the WA economy to remain subdued but with no further deterioration, however the reality year to date has seen key economic indicators in WA continue to decline.

Management will continue to monitor this category and report or escalate this as appropriate.

Kind Regards

Anne Siegers
Group General Manager – Risk and Audit

4.2

ANNEXURE A
RISK APPETITE DASHBOARD

Category	Quantitative Metrics – RMC Reporting Triggers		New reportable Events	Ref ¹
Financial	Outside normal trading EBITDA losses (per event), and/or adverse to the current (normalised) forecast	>\$10M	Yes	✓
Brand / Reputation	Internal event creating a sustained share price loss	>5%	No	✓
	Sustained negative national or international media coverage	Any event	No	-
Regulatory/ Legal	Significant breaches that may have a financial or reputational impact	Any event	No	-
	Material legal action or class action	Any event	No	✓
	Significant breach or event that has the potential to damage the relationship	Any event	No	-
	Material RSG issues including adverse media	Any event	No	-
	Integrity of liquor licences	Any loss of licence and/or points	No	-
People	Significant notifiable incidents under the Workplace Health and Safety Act	Any event	No	-
	Sustained staff turnover and/or unplanned absences above average	Any event	No	-
	Loss or potential loss of key management personnel	Any event	No	-
	Imminent industrial action	Any event	No	-
Customer/ Patrons	Negative event affecting segment of patrons (e.g. VIP, F&B, Hotel)	Over 20% or 20,000 patrons of segment type, or \$100M revenue	No	-
Infrastructure	Security incident that threatens people or property	Any event	No	-
	Loss of other core IT infrastructure or multiple key systems	>24hrs	No	-
	External or internal security breaches resulting in unauthorised access to, or loss of, customer data likely to result in serious harm	Any event	No	-
	Loss of critical physical infrastructure	>24hrs	No	-
	Unplanned loss of gaming floor in one property	>10% for up to 24 hrs	No	-
	Unplanned loss of non-gaming front of house facilities in one property	> 1 hotel or 50% F&B > 24hrs	No	-
Strategy / Business Sustainability	Critical event requiring mobilisation of resources and CMT/EMT activation	Any event	No	-
	Key strategic project delayed by 12 months or more	Any event	No	-
	Change in ownership share of related or third party entity	Any Event	No	-

¹ Please refer to the Report Against Material Risks at Agenda Item 4.1 for detailed commentary in relation to this category.



Crown Resorts Limited

Risk Profile Review: February 2019

Dear Committee Members,

As foreshadowed, following a recent review of the Crown Melbourne and Crown Perth Risk Profiles, an out of cycle review of the Crown Resorts Risk Profile has also been undertaken with the aim of aligning the Risk Profiles for Australian Resorts which will enable an analytical comparison of risks and risk ratings to be undertaken across the business.

The process included consolidating a number of existing risks as well as the identification of new risks.

As a result of that process, it is proposed that the Crown Resorts Risk Profile be consolidated, as set out below:

Ref	<u>Proposed</u> Risk Title	Ref	<u>Current</u> Risk Title(s)
1	Legislative/regulatory changes	2 8 3	Legislative/regulatory changes Pre-commitment Smoking restrictions
2	Volatility of gaming revenue	4	Volatility of premium gambling
3	Act of terrorism on Crown property	10	Global Event
4	Major brand damage	6 20 31	Brand reputation/Image Bribery & corruption Anti-social behaviour (protest, etc.)
5	Litigation	9	Litigation
6	VIP bad debts	1	International commission business bad debts
7	Material breaches of gaming and other relevant legislation/regulation	12 11 26	Material breaches of gambling and other relevant legislation/regulation Taxation Financial reporting & compliance
8	Data misuse	24	Leakage of sensitive information / IP
9	<i>Breakdown in relationships with key government, legislative or regulatory bodies¹ (NEW)</i>	-	-

¹ Crown operates in many jurisdictions, and has to engage with a large number of government, legislative and regulatory bodies. A breakdown in these relationships could lead to targeted reviews, investigations, or actions by these bodies that could materially affect Crown's operations and reputation.

10	External disruptors out of our control	13 18 7 10	Competition - International Competition - Domestic Economy Global Event (ex GFC, China trade restrictions, etc.)
11	System business disruption	16	Failure/Corruption of IT systems
12	Major criminal activities	17 19	Major criminal act Fraud
13	Responsible provision of gambling	28	Responsible provision of gambling
14	Responsible business mode	29 27	Responsible provision of alcohol Environmental management
14	Loss of key management	23	Loss of key management
15	Harm to persons on property	30	Anti-social behaviour (physical)
16	Poor people and safety management practices	15 31	Occupational health & safety Labour shortage
17	Sub-optimal investment decisions	5 14 22 21	Acquisition & investment Development & construction Treasury Insurance
18	Breakdown in strategic partnership with third party providers	25	Contractual obligations
19	<i>Physical business disruption² (NEW)</i>	-	-
20	<i>Industrial Action³ (NEW)</i>	-	-

Risk Ratings

Having regard to the above revised Risk Profile, it is proposed that the following risk rating amendments be considered by the Committee:

Number	Risk	Risk Rating	Commentary
4	<i>Major brand damage</i>	<u>Likelihood:</u> Current: Possible <i>Proposed: Likely</i> <u>Consequence:</u> Unchanged	Having regard to the recent media focus on Crown an increased likelihood may be more appropriate. This also aligns with the Crown Melbourne 'major brand damage' risk rating.
6	<i>VIP bad debts</i>	<u>Likelihood:</u> Current: Likely <i>Proposed: Possible</i> <u>Consequence:</u> Unchanged	As the provisioning level has stabilised, a reduction in the may be more appropriate. The risk will remain a 'material high risk' and continue to be reported on at each Committee meeting.

² The addition of this risk is to differentiate from IT/System disruption risk that covers cyber events, to acknowledge that our business model is highly reliant of its physical assets.

³ This risk is a material risk for both the Perth and Melbourne properties, and did not have a clear equivalent in the Crown Resorts profile.

Number	Risk	Risk Rating	Commentary
8	<i>Data misuse</i>	<u>Likelihood:</u> Unchanged <u>Consequence:</u> Current: Moderate Proposed: Major	This amendment would align the risk rating with that of Crown Melbourne and Crown Perth.
17	<i>Sub-optimal investment decision</i>	<u>Likelihood:</u> Current: Possible to Rare Proposed: Rare <u>Consequence:</u> Current: Moderate Proposed: Severe	Considering the types of investment made at the Crown Resorts level, which are almost all over \$20M, a consequence of 'severe' may be more appropriate, however a likelihood of 'rare' would be more appropriate as we do not have anything new in the pipeline (other than the completion of Crown Sydney).

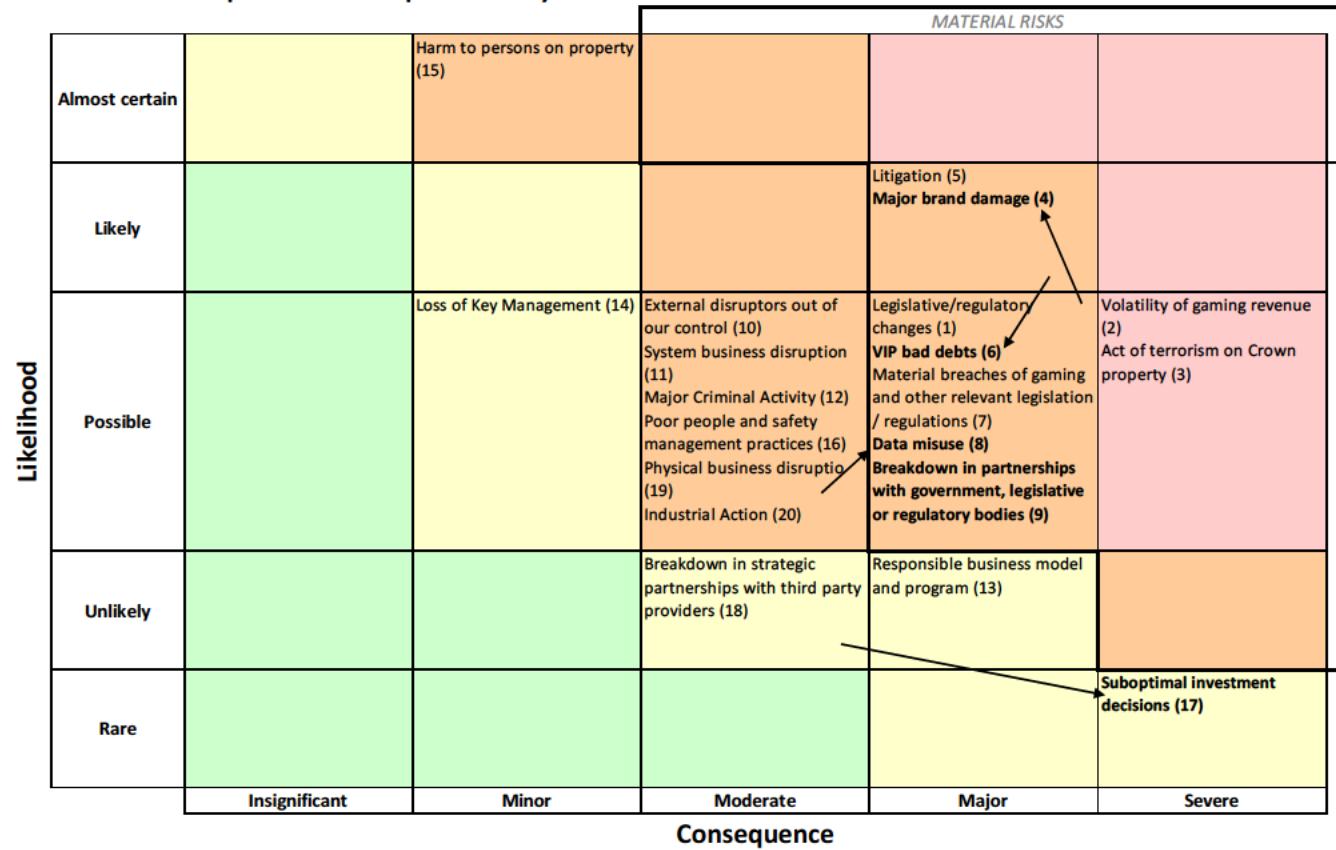
Risk Map

An indicative revised Risk Map for Crown Resorts reflecting the proposed changes noted above is attached.

Next Steps

Subject to any feedback from the Committee in relation to the proposed revised risk profile, it is proposed that, consistent with past practice, management undertake a formal review of the current risk definitions, risk ratings and other associated documented controls and present these to the Committee at its next meeting for review and adoption.

Crown Resorts Corporate Risk Map – February 2019



Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU



Risk Management Committee

Memorandum

To: Risk Management Committee

From: Anne Siegers

Date: 7 February 2019

Subject: **Emerging Risks**

Dear Committee Members

Other than the newly identified risks noted at Agenda Item 4.3, no emerging risks have been identified by Management for consideration by the Committee.

Kind Regards

Anne Siegers



AGENDA ITEM 5:
Compliance Report



Crown Resorts Limited

Compliance Report: February 2019

COMPLIANCE FRAMEWORK OVERVIEW

As previously reported, a high level review of the governance frameworks identified the opportunity to operate a group compliance framework.

The implementation of a compliance framework at Crown Melbourne, based largely on the framework currently at Crown Perth, continues to progress. The framework will assist in ensuring consistency in compliance practices across the two properties and also aims to increase awareness and accountability of compliance obligations.

The framework is consistent with ISO 19600:2015 "Compliance Management Systems – Guidelines".

Current Status

The status of the implementation of the compliance framework at Crown Melbourne is as follows.

Business units who have been integrated to the business wide compliance framework to date include:

- | | |
|--|--------------------------------------|
| ▪ AML/CTF | ▪ Hotels |
| ▪ Cage | ▪ Procurement |
| ▪ F&B (3 distinct sections) | ▪ Property Services |
| ▪ Finance | ▪ Responsible Gaming |
| ▪ Gaming Machines | ▪ Security |
| ▪ Gaming Machines Product | ▪ Surveillance |
| ▪ Regulatory and Compliance | ▪ Table Games |
| ▪ VIP International | ▪ Human Resources |
| ▪ IT | ▪ Gaming Machines Technical |
| ▪ Marketing (Gaming and Non-Gaming) (integrated in the reporting period) | (integrated in the reporting period) |

These departments are completing monthly compliance surveys which are reported to the Crown Melbourne Compliance Committee.

Annual Compliance Plans for the above mentioned departments have also been drafted, with most having been finalised and signed off by the Compliance Officers and relevant Executive General Managers/General Managers. The outstanding Annual Compliance Plans are expected to be finalised in the coming weeks.

In addition to the above, a department wide Privacy Survey has been established in CURA (the new system based recording and reporting tool used to support the framework) which will be issued to all departments in November 2018, in line with Perth.

The Health & Safety CrownSafe compliance survey continues to be developed.

Crown Melbourne Compliance Committee meetings commenced are held monthly. At these meetings, compliance matters reported via compliance surveys are discussed, as well as general compliance, regulatory and policy matters.

Next Steps

During the next reporting period, it is expected that Annual Compliance Plans and compliance surveys will be finalised for the following departments:

- Events and Conferencing
- Legal
- Projects
- Showroom

In addition, the Requirements Register (which prioritises all regulatory and legislative requirements from a compliance perspective) is being reviewed in conjunction with the Risk and Audit Department and will be presented to this Committee in an upcoming meeting.

Compliance surveys and Annual Compliance Plans for all departments will continue to evolve over time in response to incidents, legislative and regulatory changes and changing business practices.

Once all compliance surveys have been established in CURA, a process to phase out Compliance Alerter will commence. This will involve including, where relevant, additional surveys or tasks within CURA.

Compliance Matters

All material compliance matters identified during the reporting period have been included in the Report Against Material High Risks included at Agenda Item 4.

Once the roll-out of the Compliance Framework is complete, the appropriate compliance reporting regime for this Committee will be determined.



AGENDA ITEM 6:
Insurance Renewal Update



Risk Management Committee

Memorandum

To: Risk Management Committee

From: Mary Manos

Date: 7 February 2019

Subject: Summary of Insurance Renewal

Dear Committee Members

At the last meeting of the Committee, a Preliminary Renewal Report was provided to the Committee in relation to the renewal of the Crown Group insurance policies, which were due to be renewed on 30 November 2018.

Attached is a summary of each Group Policy placed for the period 30 November 2018 to 30 November 2019 for the Committee's review.

The final placement was in line with the update provided to the Committee.

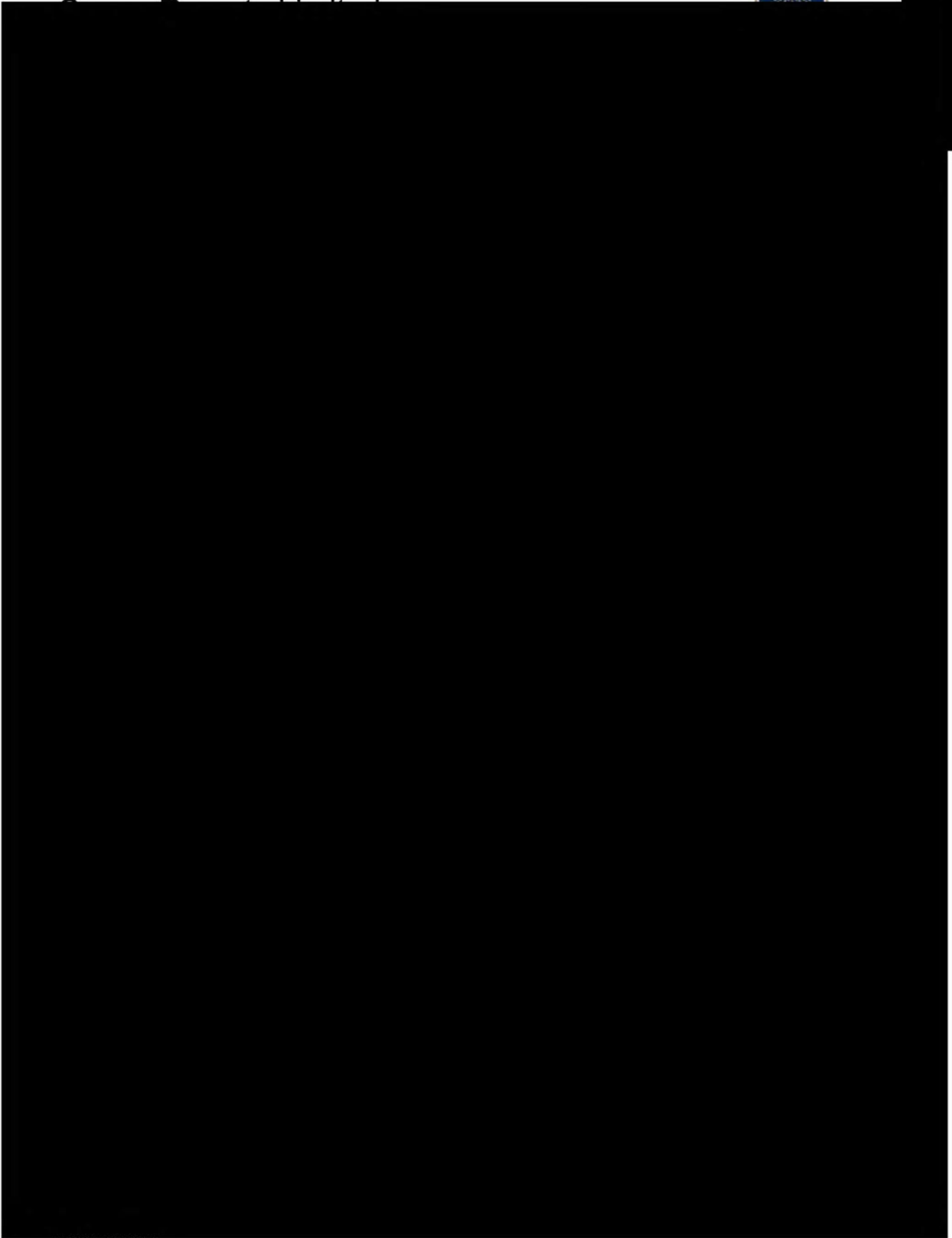
Changes from the previous program have been noted, in particular changes in limits of liability and changes in insurer.

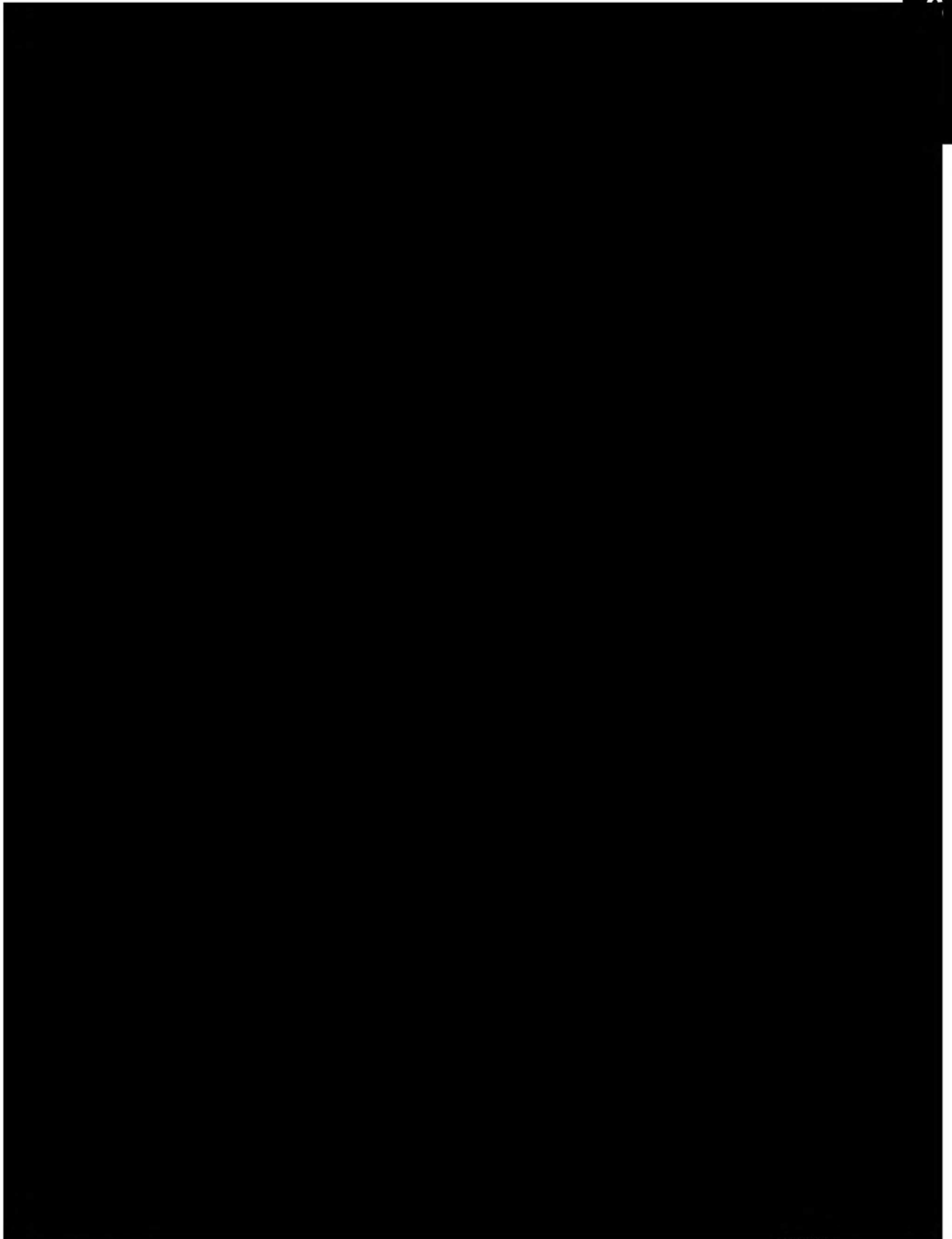
Suggested resolution

It was RESOLVED that the 2019 Crown Group Insurance Program Summary be noted.

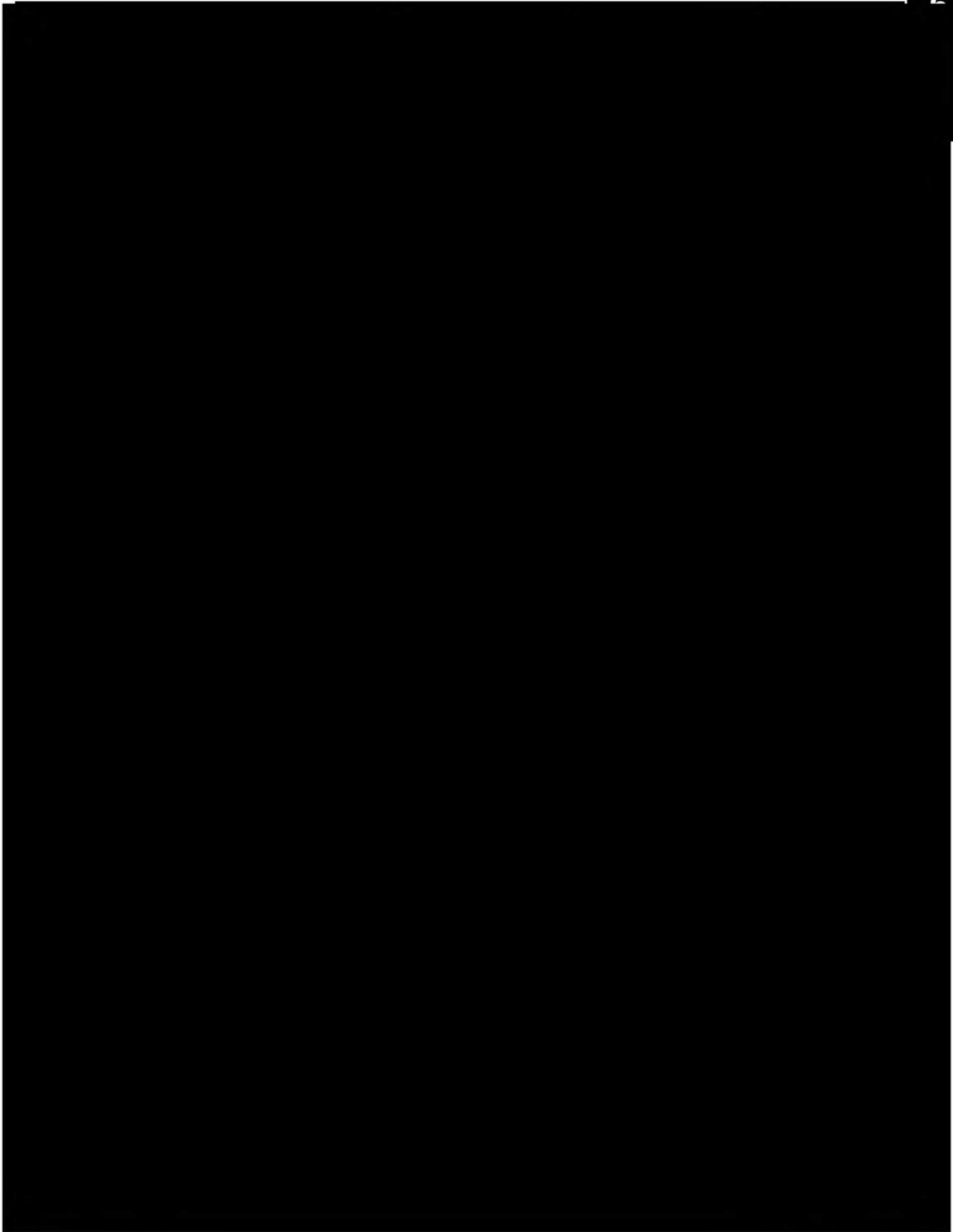
Kind Regards

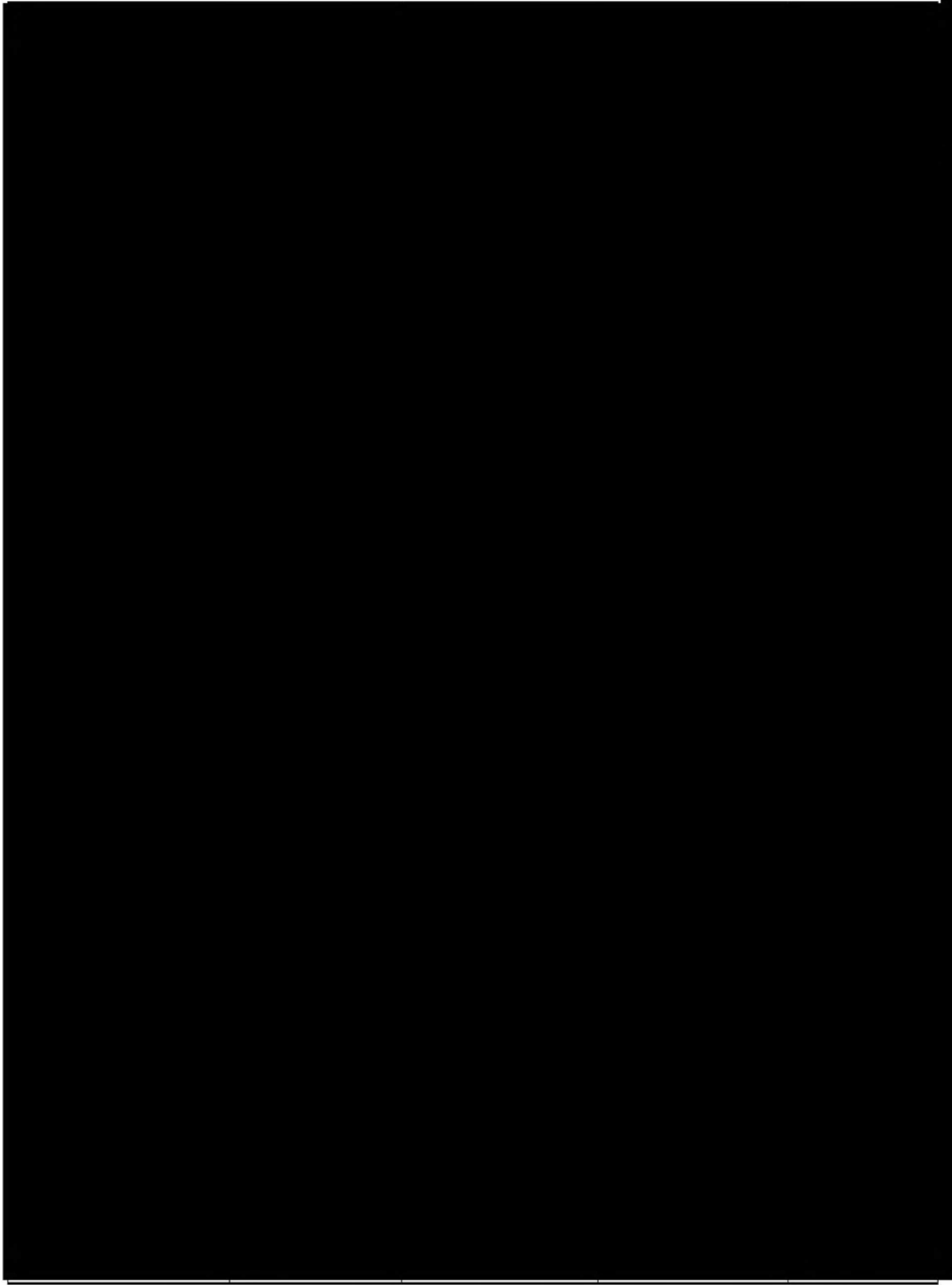
Mary Manos
Company Secretary

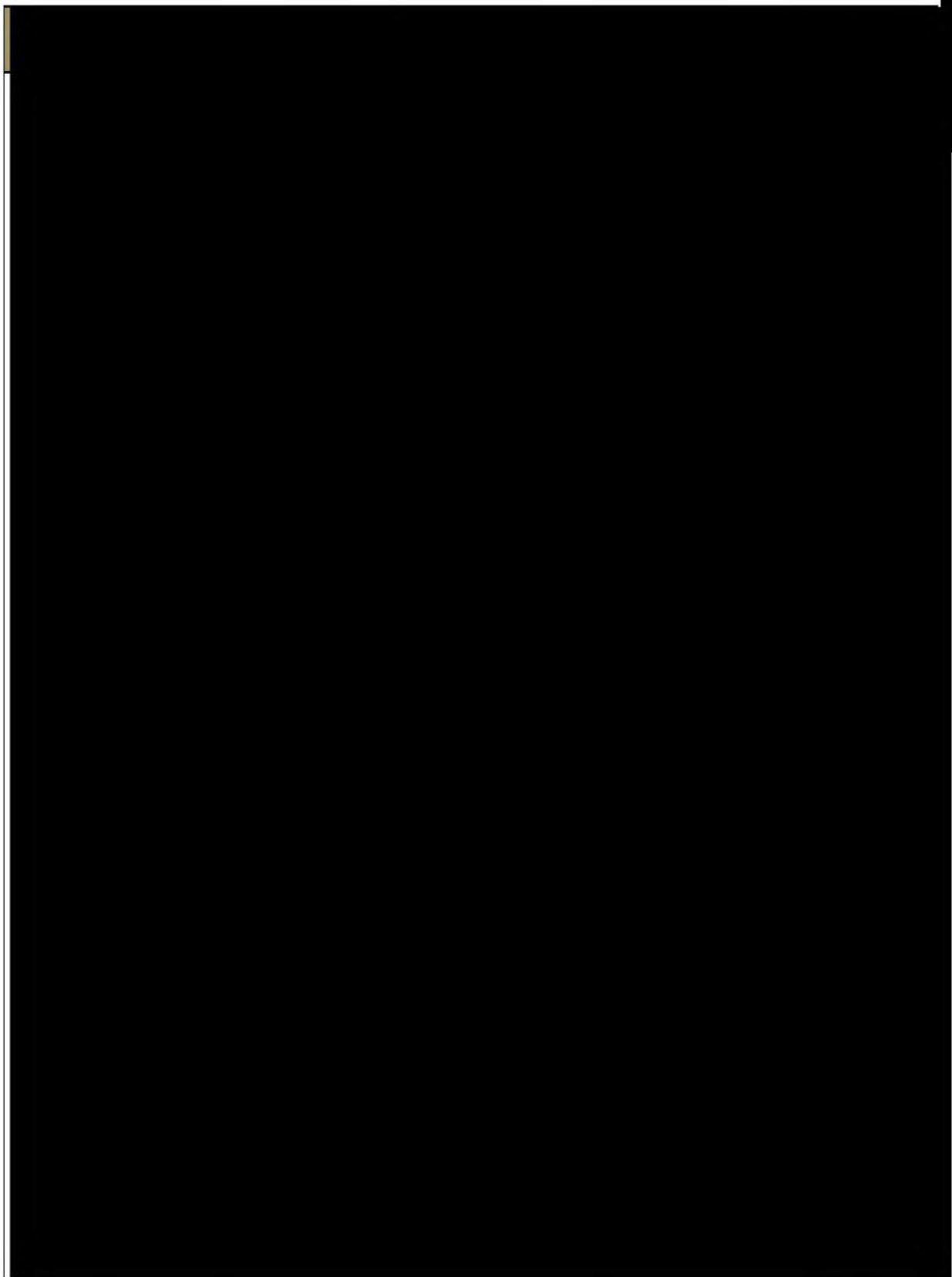


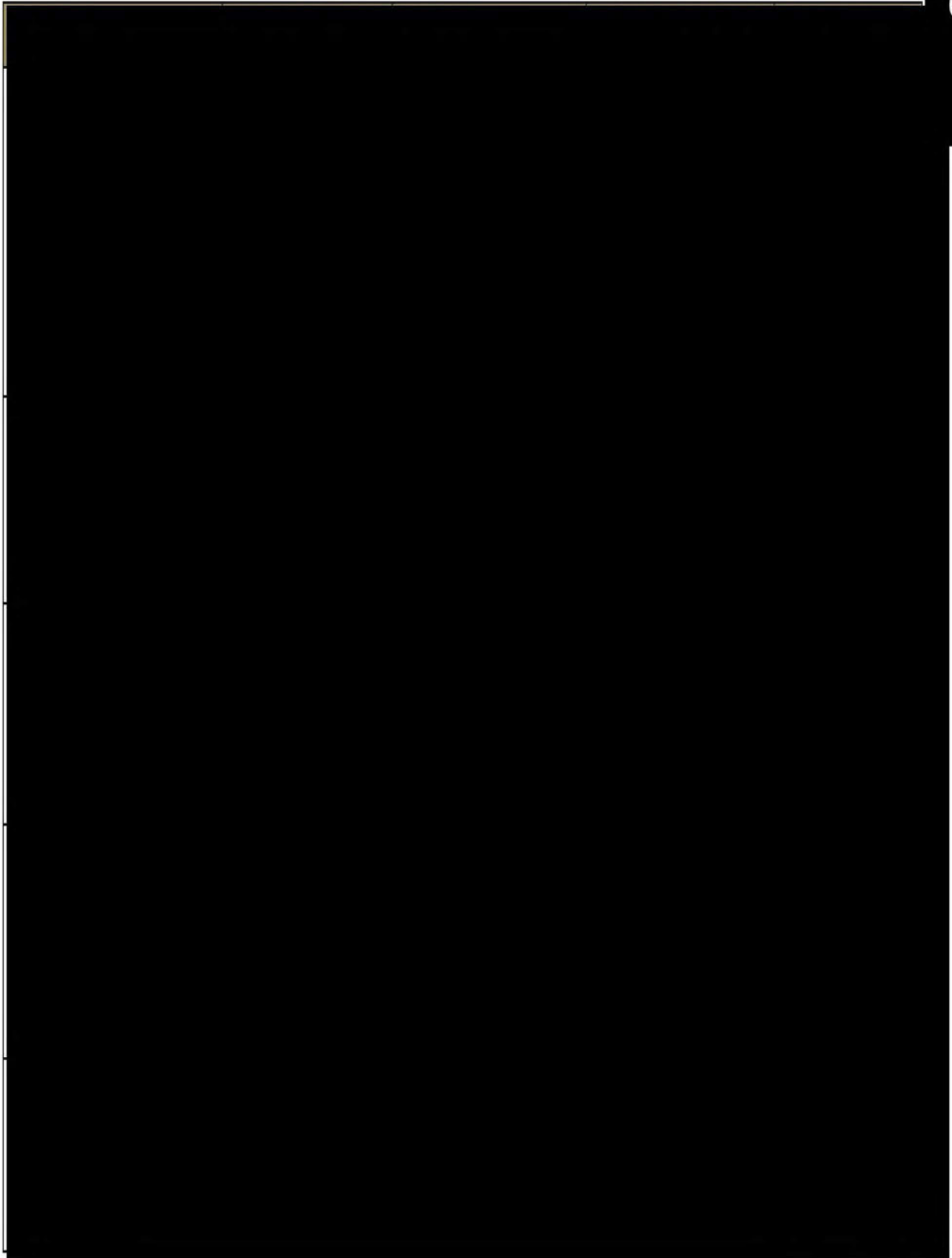


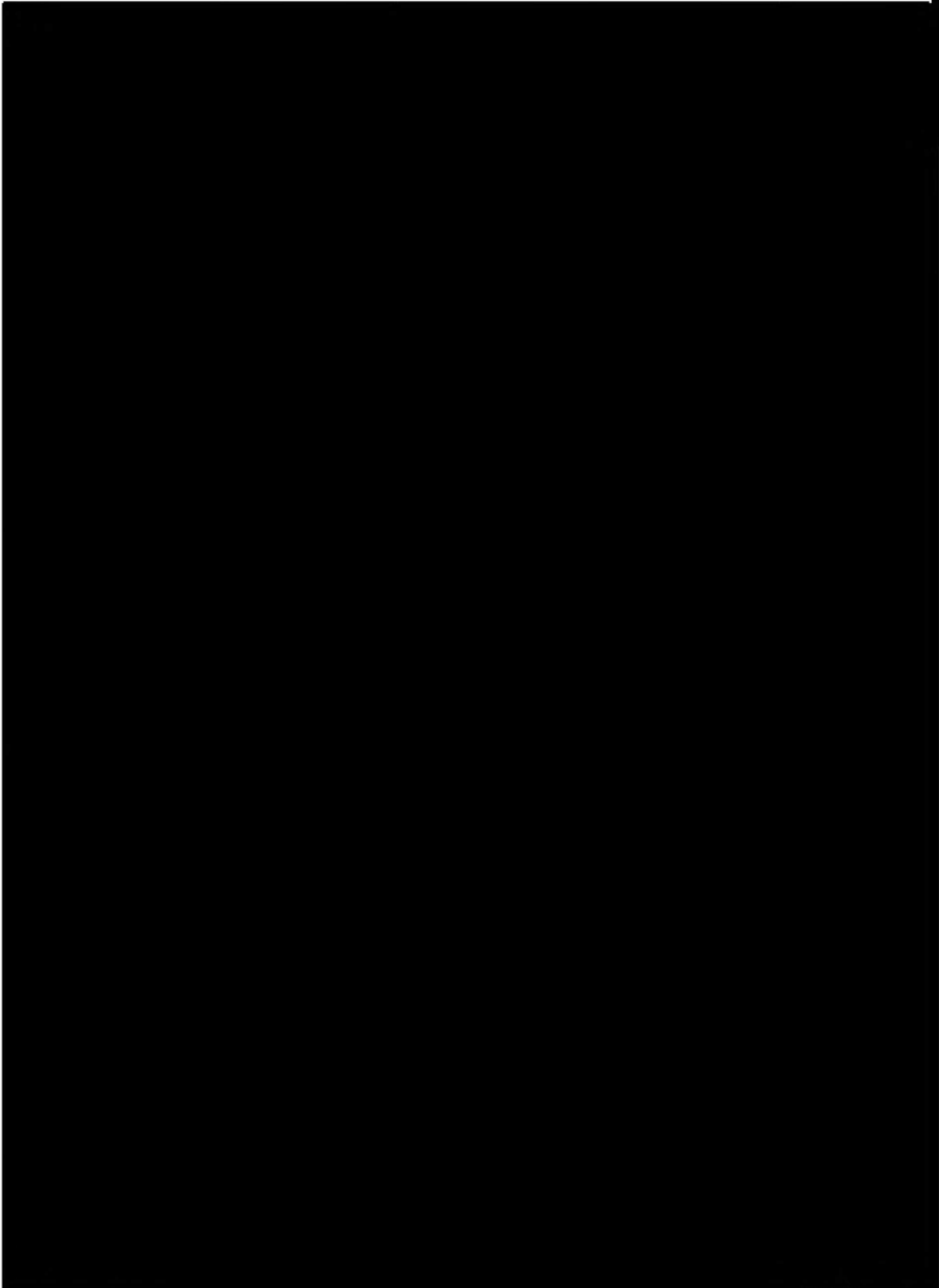
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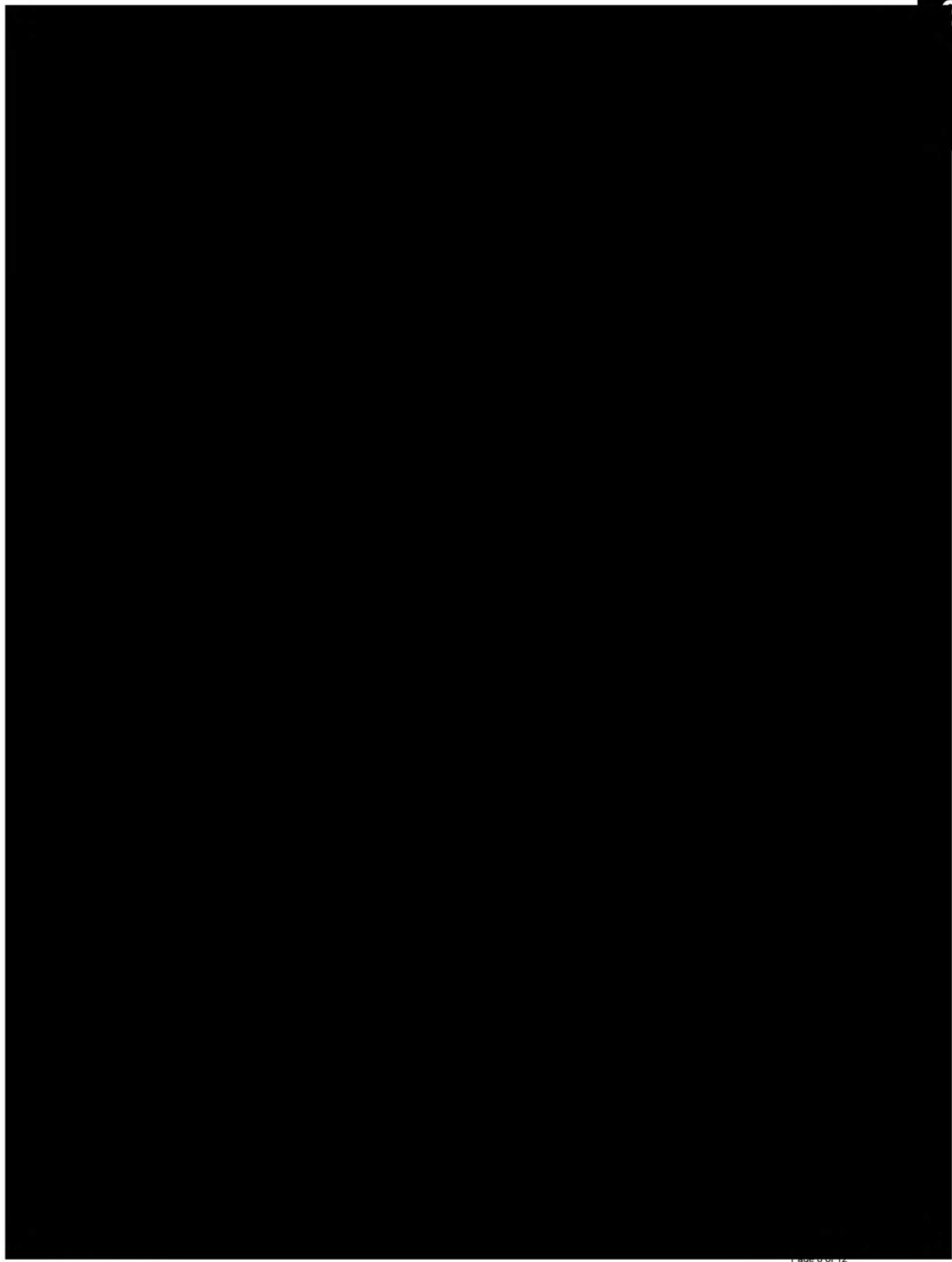


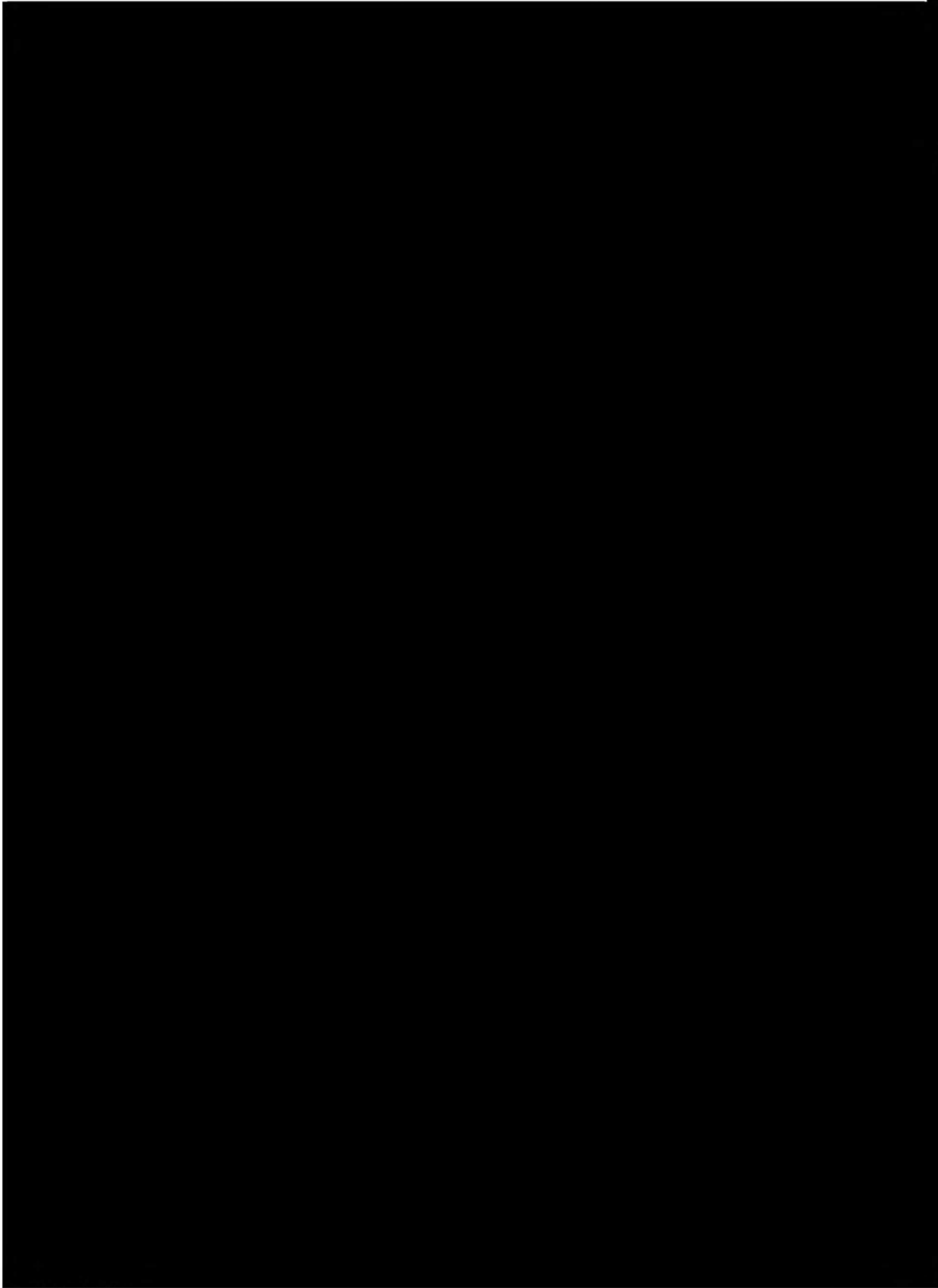


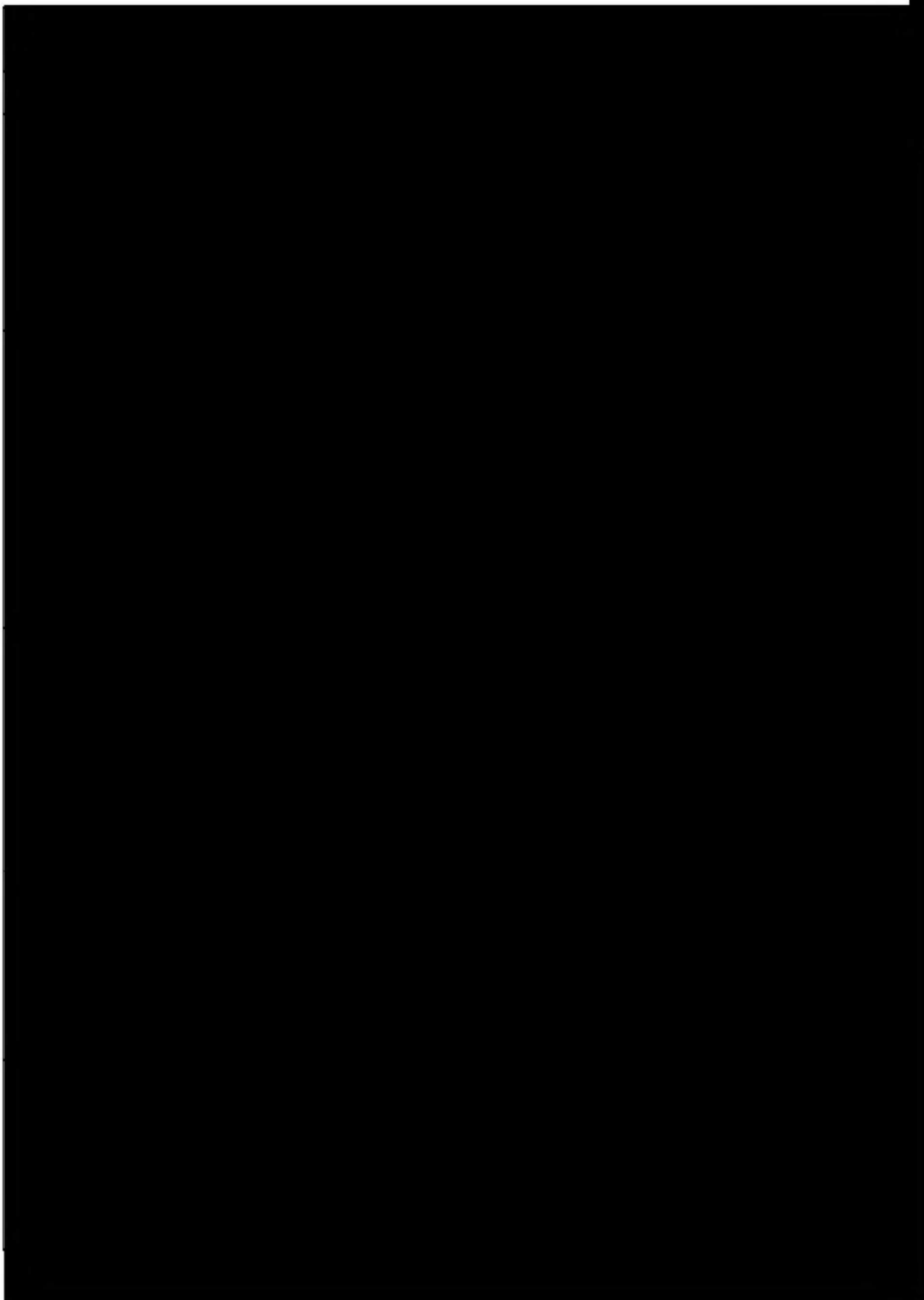


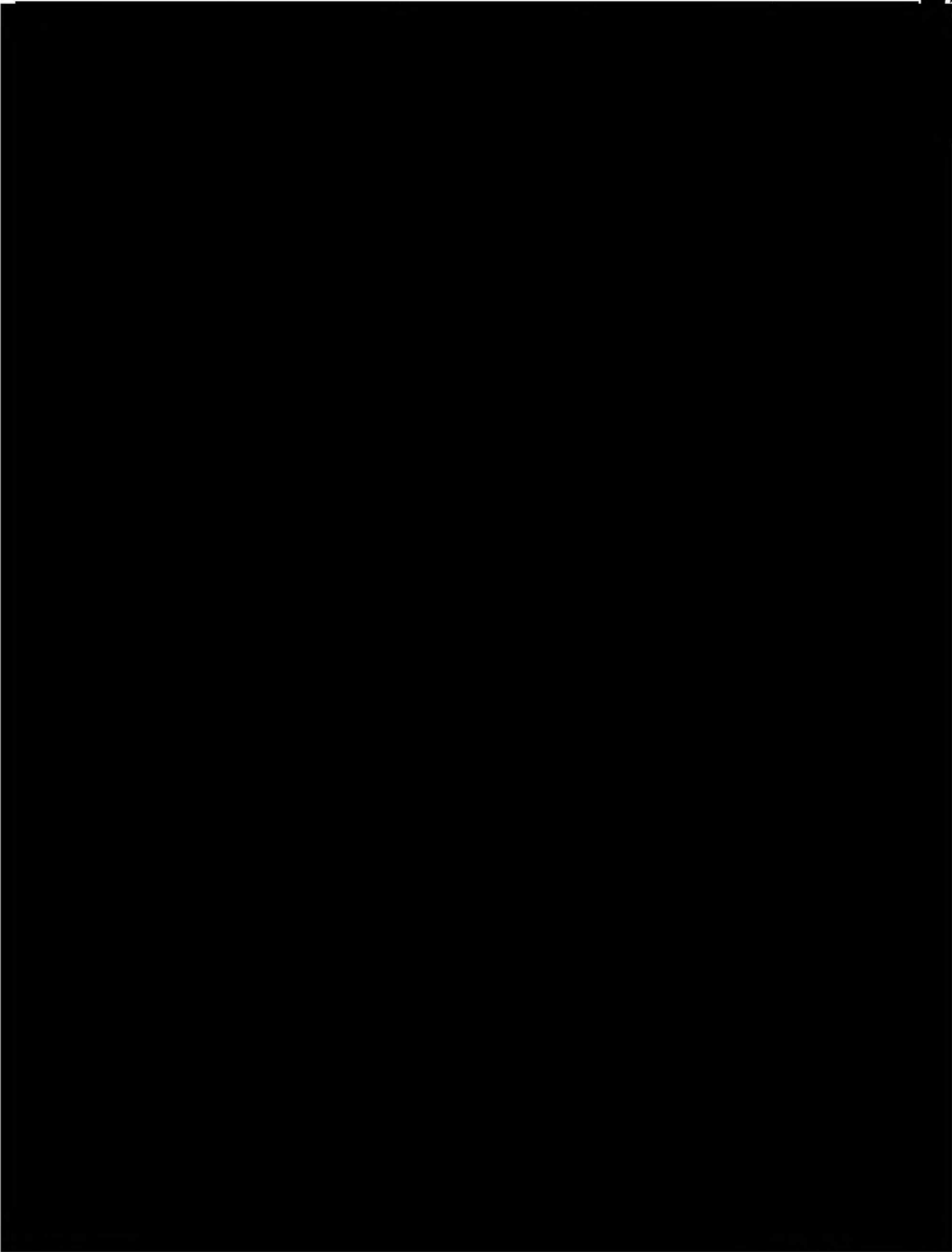


3









Period of Cover: 30 November 2018 – 30 November 2019 unless otherwise stated.

Insured: Means Crown Resorts Limited and/or subsidiary companies and/or associated and/or related companies and/or trusts and/or other entities (for whose insurance Crown Limited are or become responsible), joint ventures (now existing or hereinafter acquired, formed, taken over or incorporated) and all other parties named or described in the records of Crown Resorts Limited as being included herein and other entities named or described in the Policy

Other Named Insureds include: Crown Melbourne Limited, Burswood Group of Companies, Burswood Property Trust trading as Burswood Entertainment Complex, Burswood Resort (Management) Ltd, Burswood Nominees Limited, Burswood Hotel Pty Ltd, BML Trust, Burswood Property Holdings Pty Ltd, Burswood Catering & Entertainment Pty Ltd., Riverbank Investments Pty Ltd, HI (Burswood) Pty Ltd, HG (Victoria Park) Pty Ltd, The Victorian Commission for Gambling Regulation, The Minister for Finance and the State of Victoria, The Minister for Planning, Minister's Agents and Officers and Melbourne City Council (in respect of Car park Air Rights Lease), Melbourne Cricket Club, Melbourne Cricket Ground Trust, The Roads Corporation (VicRoads), Victoria Racing Club Limited, Racing Victoria and Bank of America National Association (Australian Branch), Melbourne Aviation Precinct Pty Ltd as Trustee of the Melbourne Aviation Precinct Trust, Australian Pacific Airports (Melbourne) Pty Ltd (Aircraft only) and Melbourne Jet Base Pty Ltd.

Insurer ratings All S&P ratings unless otherwise indicated.



AGENDA ITEM 7:
Other Business



Risk Management Committee

Memorandum

To: Risk Management Committee

From: Mary Manos

Date: 7 February 2019

Subject: Review of Committee Charter

7.1

Dear Committee Members

Article 5 of the Committee's Charter requires that the Charter be reviewed on an annual basis.

Management has conducted a formal review of the Charter and has recommended including the establishment and periodic review of the Crown Resorts Risk Appetite as a formal responsibility of the Committee having regard to the formal Risk Appetite which was approved by the Board in December.

A number of other non-substantive changes have also been suggested for approval.

A copy of the updated Committee Charter is attached.

Proposed Resolution

Having reviewed the Charter, it was **RESOLVED** that the Committee recommend the attached updated Charter for approval by the Board.

Kind Regards

Mary Manos
General Counsel and Company Secretary



Crown Resorts Limited

Risk Management Committee Charter

Crown Resorts Limited ACN 125 709 953
A public company limited by shares

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1. Introduction and background

The role of the Risk Management Committee ~~(the Committee)~~ is to assist the Crown Resorts Limited ~~(the Company)~~ Board ~~(the Board)~~ in overseeing the ~~organisation's Company's~~ risk management and compliance frameworks.

2. Composition of the Committee

2.1. Structure

The Committee will be comprised of a minimum of three directors to be nominated by the Board. A majority of members are to be independent, non-executive directors.

The Chairperson of the Committee will be nominated by the Board. If the Chairperson of the Committee is not present at a Committee meeting, the members present must elect one of themselves to Chair the meeting.

Unless otherwise nominated by the Board, Crown Resorts Limited's Company Secretary will act as secretary of the Committee.

The appointment of a Committee member will cease if that person ceases to be a director of the Company or as otherwise determined by the Board.

2.2. Compensation

The Chairperson and individual members of the Committee may be entitled ~~to~~ fees additional to the directors' fees to which they are entitled, as may be determined from time to time by the Board.

2.3. Expertise

Members will have ~~the~~ skills and experience required to enable them to fulfill their duties and responsibilities as members of the Committee.

3. Duties, responsibilities and powers

3.1. Risk management

The Committee will review and assess the adequacy of the ~~Crown Group's Company's~~ risk management framework. This will include:

(a) establishing and periodically reviewing the ~~Crown Company's~~ Risk Management Policy;

~~(b)~~ establishing and periodically reviewing the Company's Risk Appetite;

~~(b)(c)~~ reviewing the ~~Crown Company's~~ risk profile at least annually;

~~(c)(d)~~ monitoring of insurance coverage for the ~~Crown~~-Group; and

~~(d)(e)~~ ensuring that ~~M~~management has implemented effective processes in relation to:

(i) the identification of areas of significant business risk or exposure;

- (ii) the implementation of appropriate risk management and internal control processes to mitigate those risks; and
- (iii) the assessment of the adequacy and effectiveness of the risk management and internal control processes established to mitigate those risks.

3.2. Compliance, systems and controls

The Committee will review and assess the adequacy of the ~~Crown the~~ Group's compliance framework. This will include:

- (a) monitoring compliance with ~~Crown Company~~ policies, relevant laws and regulatory requirements and reporting material non-compliance matters to the Board; and
- (b) ensuring that ~~the~~ management has implemented effective processes in relation to:
 - (i) the implementation of appropriate internal control processes to ensure compliance with ~~Crown Company~~ policies, relevant laws and regulatory requirements; and
 - (ii) the assessment of the adequacy and effectiveness of internal control processes for compliance with ~~Crown Company~~ policies, relevant laws and regulatory requirements.

3.3. Engage external consultants

The Committee has the full authority of the Board to:

- (a) communicate and consult with external and internal ~~persons and organisations~~ stakeholders concerning ~~the Company's~~ risk management and compliance practices ~~at the Crown Group~~; and
- (b) appoint independent experts to provide advice on ~~the Company's~~ risk management and compliance practices ~~at the Crown Group~~.

3.4. Board reporting

The Committee will update the Board ~~from time to time~~ as required and make relevant recommendations in relation to matters arising for consideration by the Committee.

4. Proceedings

4.1. Meeting frequency

The Committee will meet at least four times annually and additionally as required.

4.2. Committee papers

Relevant documents to be considered at Committee meetings will be compiled and distributed by the Company Secretary to all Committee members as well as, where relevant, to any invitees.

4.3. Attendance at Committee meetings

The Committee may extend an invitation, which may be a standing invitation, to any person to attend all or part of a scheduled Committee meeting. Only Committee members shall be eligible to vote.

4.4. Quorum

A quorum for a meeting of the Committee is two members.

4.5. Minutes

Minutes of proceedings and resolutions of meetings of the Committee and resolutions passed by members of the Committee without a meeting, are to be approved by the Committee (or in the case of written resolutions, tabled) at its next meeting.

Minutes of a meeting must be signed by the chair of the meeting within a reasonable time after the meeting at which the minutes are approved.

A resolution may be made if a document containing the relevant resolution is assented to by all Committee members eligible and willing to participate in the making of the resolution.

The resolution will be taken to have been passed when the document is last assented to by a Committee member. Where a Committee member has assented by means other than writing, that Committee member must sign the document containing the relevant resolution within a reasonable time after having provided their assent.

5. Amendment and review

The Committee must review this Charter on an annual basis to ensure it remains consistent with its objectives, the Constitution and existing regulatory requirements and recommendations. Any proposed changes must be referred to the Board for approval.

Crown Resorts Limited

~~June 2018~~[February 2019]



Risk Management Committee

Memorandum

To: Risk Management Committee
From: Mary Manos
Date: 7 February 2019
Subject: Future Meetings

7.2

Dear Committee Members

The 2019 meetings of this Committee have been scheduled as follows:

Meeting Date	Time
Wednesday, 29 May	10.00am
Monday, 12 August	12.00pm
Wednesday, 4 December	10.00am

The meetings will be held in the Chairman's Office, Level 3, Crown Towers.

Kind regards

Mary Manos
General Counsel and Company Secretary