

2012

ANNUAL REPORT & ACCOUNTS



ALDERNEY

GAMBLING CONTROL COMMISSION



Office address: St. Anne's House
Queen Elizabeth II Street
Alderney
Channel Islands
GY9 3TB

Telephone number: +44 (0) 1481 825500

Facsimile number: +44 (0) 1481 823978

General enquiries: Rowie Gaydon (Office Administrator)
info@agcc.gg

Website address: www.gamblingcontrol.org



ALDERNEY

GAMBLING CONTROL COMMISSION

31 May 2013

The Chairman
Policy and Finance Committee
States of Alderney
PO Box 1
Alderney
GY9 3AA

Dear Sir,

I have pleasure in presenting the Report of the Alderney Gambling Control Commission for the period 1 January to 31 December 2012.

Yours sincerely

John Godfrey
Chairman

Members: John Godfrey (Chairman), Isabel Picornell, Jeremy Thompson, Lord Faulkner of Worcester.

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Mission Statement



To ensure and maintain the integrity of the electronic gambling activities regulated by the Commission.

Objectives

The primary objective is to protect and enhance the reputation of Alderney as a first tier regulatory jurisdiction by seeking to ensure that:

- All electronic gambling is conducted honestly and fairly and in compliance with good governance;
- The funding, management and operation of electronic gambling remains free from criminal influence; and
- Electronic gambling is regulated and monitored so as to protect the interests of the young and the vulnerable

and without compromising this primary objective, to work with other agencies in the development of eGambling activities regulated by the Commission.

Chairman's statement

The main changes to our regulations during 2012 improved the protection of player funds. Other issues are referred to elsewhere in this report.

We continue to emphasise the value of establishing relationships with other jurisdictions. Specifically, we continue to develop a network of memoranda of understanding with suitable partners. These memoranda set out the protocols for co-operation, particularly as regards shared licence holders. But the most important issues for us have been outside our jurisdiction and largely outside our control.

Companies licensed in Alderney must find the majority of their customers outside the Channel Islands and are therefore subject to the laws of the countries in which they do business in addition to our requirements. Because of this, we have taken a particular interest in developments within continental Europe and in the United Kingdom, particularly as regards what is called Point of Consumption regulation.

Point of Consumption regulation requires operators to hold a licence in the jurisdiction in which they serve customers in addition to regulation in the jurisdiction where they conduct their business. It is an effective method of raising tax revenues but it brings risks for players. Tax rates that are too high drive customers to unregulated operators who can offer better odds and some of the countries of consumption may not observe high regulatory standards.

Our policy has been to seek to persuade governments that, while we recognise that certain aspects of control are most appropriately exercised within individual jurisdictions, minimum operating standards should be universally recognised and unnecessary duplication should be avoided. Informed opinion both supports this approach and recognises the quality of regulation in Alderney.

For example, other regulators do not generally share our practice of continually monitoring licensees' gaming software changes or of routine annual inspection of licensees.

We will continue to argue that our licensees should not be subject to additional costs and bureaucratic interference that do not add anything of value to the regulatory supervision of their operation.

Finally, I wish to use this report to pay tribute to Ray Birdseye who retired from the Commission in 2012 having served as a Commissioner since its inception in 2000. In addition to his personal qualities, which will be greatly missed, he brought the skill and experience of a former banker and regulator to our proceedings.

We are fortunate to have Lord Faulkner of Worcester as his replacement. Lord Faulkner has considerable knowledge of the gambling industry including membership of the scrutiny committee of the draft Gambling Bill in 2005 and as chairman of the all-party enquiry into sports betting at that time. He has also acted as strategy adviser to major companies in the industry and to this Commission.

I also wish to thank our resourceful and hardworking staff for their continuing loyalty and enthusiasm and the States of Alderney for their confidence and support.

John Godfrey
Chairman

The Commission

The Alderney Gambling Control Commission ('the Commission') is independent and non-political. It includes people with experience of gaming, regulation and licensing. The Commissioners are:



John Godfrey

Chairman of the Commission (seated right)

John Godfrey is a specialist in gambling regulation. He was re-appointed as Chairman of the Commission for a third term of office in 2009. He was consulting accountant to the Gaming Board for Great Britain for almost 30 years and an adviser to the Government of The Bahamas. For much of this time, John was also an expert witness for the Metropolitan Police. John chaired the eGambling Working Group of the International Association of Gaming Regulators from its inception until 2007. He is a director of a manufacturing company based in the UK and is a Governor of The Place centre for contemporary dance. He is also a Trustee of The London Youth Support Trust and of a charity that promotes chamber music.

Isabel Picornell

Commissioner (seated left)

Isabel Picornell lives on Alderney, and is a certified fraud examiner specialising in language evidence. She holds a PhD in forensic linguistics and provides consultancy services to the legal and corporate intelligence industry. Isabel is a Dame of the Order of Isabel la Catolica, knighted for services rendered to Spain. She has a particular interest in compliance and anti-money laundering.

Raymond Birdseye

Commissioner (standing right)

Raymond Birdseye held the position of President of Barclays Bank Corporate Division in North America for a number of years before joining the Board of the Civil Aviation Authority (CAA) as financial regulator for United Kingdom Airline Companies and Air Travel Organisers Licences. Additionally, he was Chairman of the CAA Audit Committee and several other committees. He was re-appointed as a Commissioner for a third term in 2009 and retired from the Commission at the end of 2012.

Jeremy Thompson

Commissioner (standing left)

Jeremy Thompson is a business consultant who joined the Commission in 2010. He lives on Guernsey where he provides consulting services and holds several non-executive director roles for Channel Islands based funds. He has a background of senior management roles within the telecoms, engineering and oil sectors and was one of the first private sector members to attend the Royal College of Defence Studies.

The Commission (continued)

The Commission had a staff complement of 19 people on 31st December, 2012. The Executive consists of André Wilsenach, Michael Ellen and Jorn Starck.



André Wilsenach Executive Director (centre)

André Wilsenach has a long history in gambling regulation. He served on both the national and provincial gambling boards in South Africa. Subsequently, he became the first CEO of a South African company which was established to render electronic monitoring services to the National Gambling Board of South Africa. He was chair of the International Association of Gaming Regulators for 2009 and a member of the International Masters of Gaming Law. André is the Commission's Executive Director.

Michael Ellen Director, Licensing and Strategy (right)

Michael Ellen is a qualified chartered accountant with extensive experience in the financial services industry both in the UK and internationally. Michael joined the Commission in 2005 as a senior inspector, was promoted to Chief Inspector in 2006 and became the Director, Licensing and Strategy in March 2011.

Jorn Starck Director, Compliance (left)

Jorn Starck, has a long standing senior management background in the gambling industry, specifically in the areas of sports betting and customer services. Jorn joined the Commission in December 2007 becoming Director, Compliance in March 2011.



The Commission (continued)

THE WORK OF THE COMMISSION

The operational responsibilities of the Commission are divided into two broad areas of activity: licensing (which includes investigations) and compliance activities.

LICENSING – this involves the investigation of any new applicants to determine that they are fit and proper to be issued with a licence or certificate, as well as the maintenance of all required records regarding licensees and certificate holders. As part of an initial investigation, all aspects of an organisation and their key personnel are subject to rigorous and thorough probity reviews.

COMPLIANCE – this includes the approval of licensees' gambling equipment and internal controls and operating procedures, the ongoing review of routine financial and operational reports, the monitoring of operational and game changes and a comprehensive programme of annual inspections of licensees' operations.



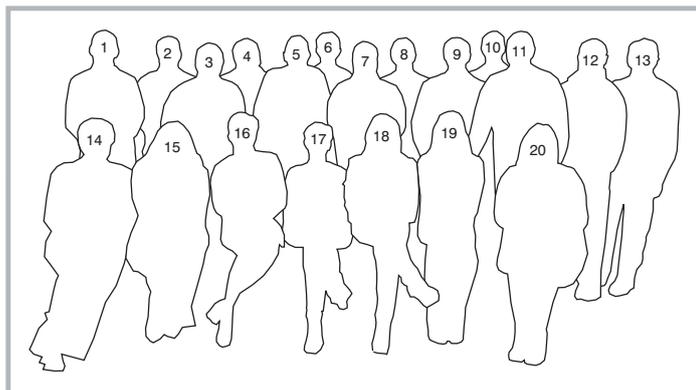
The Commission staff workshop, December 2012, with facilitator George Sauvage.

Back row left to right (1-13)

(1) Antony Rebanks, (2) Paresh Rughani,
 (3) Mark Archbold, (4) Neil Howard,
 (5) George Sauvage (Facilitator), (6) Michael Ellen,
 (7) Bruce Florance, (8) Jorn Starck,
 (9) André Wilsenach, (10) Philip Taylor, (11) Darin Oliver,
 (12) Konstantinos Despotakis (13) Ian Haywood

Front row left to right (14-20)

(14) Nicky Burland, (15) Paula Moore,
 (16) Rowie Gaydon, (17) Lisa Sanders,
 (18) Kelly Spencer, (19) Ceri Macfarlane,
 (20) Christie Crawford



The Commission (continued)



The licensing directorate is split into two sections, investigations and licensing.

Investigations, which is staffed by Michael Ellen and Darin Oliver, supported by members of the compliance team when appropriate, as well as external experts in due diligence, undertakes the work necessary to enable the Commissioners to determine whether an applicant is fit and proper.

Licensing, which is headed by Michael Ellen and staffed by Kelly Spencer, Christie Crawford and Ceri Macfarlane, handles the administration of all incoming applications as well as a range of administrative functions. The team attends in large part to the personal suitability appraisals undertaken by the Commission and maintains the Commission's records of licensees, associates and approved sites. In addition the team handles complaints made by customers of licensees.

The **Compliance** team headed by Jorn Starck oversees licensee compliance with the jurisdiction's laws, regulations and guidelines, assisting applicants into compliant operating structures, approving their documented operational procedures and then subsequently assessing the correct implementation of these procedures in routine annual physical inspection of the licensee's operations.

The Compliance team also ensures that all licensees meet and maintain the required technical standards. The team deals with the assessment of operating systems and changes to those systems - both hardware and software. This involves analysis, test scoping, liaison with external test laboratories and subsequent annual on-site review of operating systems.

The team consists of:

- **Mark Archbold**, Deputy Director, who has experience in casino and sportsbook operations in Australia;
- **Konstantinos Despotakis**, Deputy Director, who has a senior management background in the betting and gaming industry.
- **Neil Howard**, Deputy Director, who has a background in eGambling software development and appraisal systems and network design;
- **Bruce Florance**, Deputy Director, who has experience in land based casino operations in Australia.
- **Paresh Rughani**, Deputy Director, who has a background in data centre operations and worldwide lottery system implementations;
- **Ian Haywood**, Assistant Director, who has systems networking experience;
- **Antony Rebanks**, Senior Officer, who has progressed from the trainee scheme;
- **Lisa Sanders**, Senior Officer, providing administrative support.



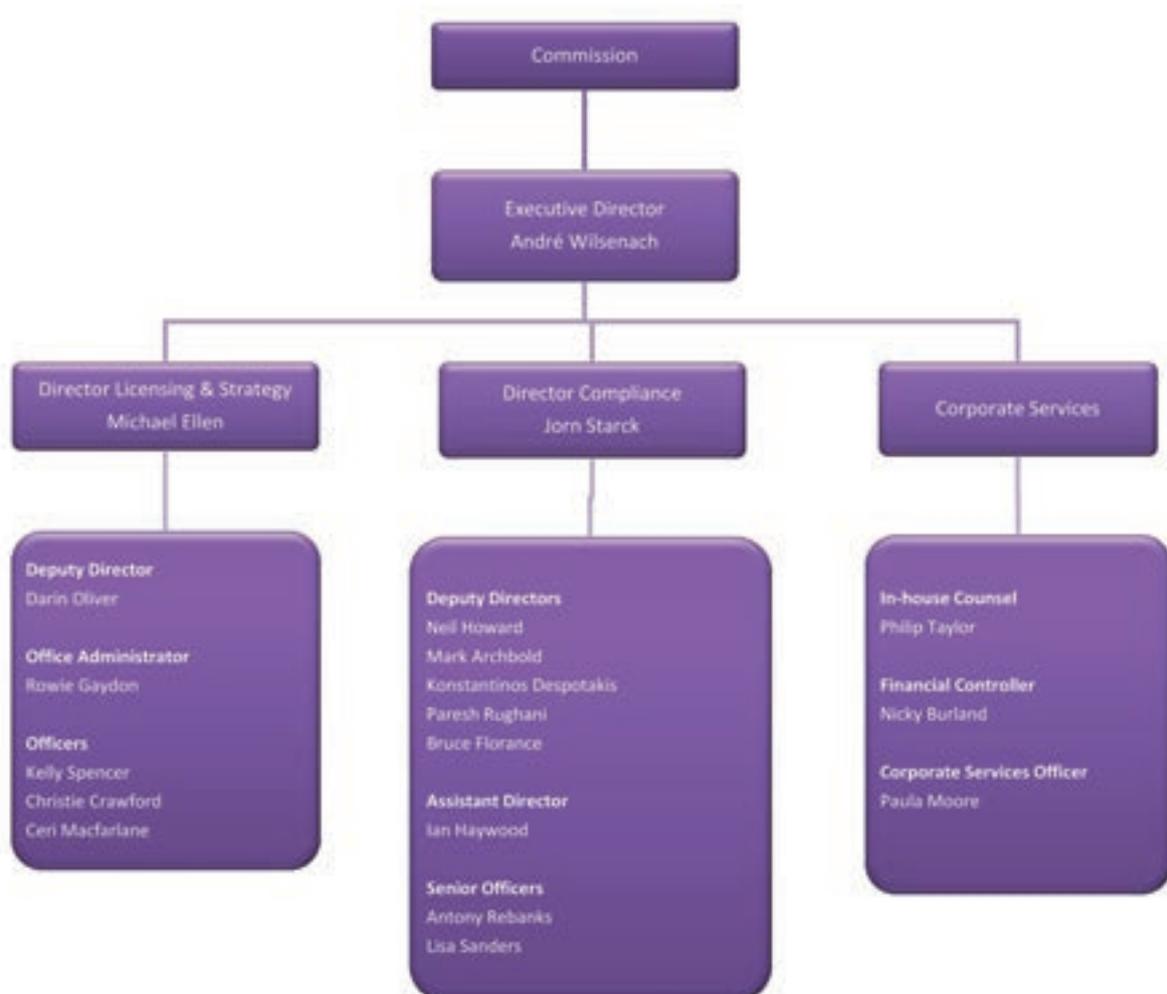
The Commission (continued)

RELATIONSHIP MANAGEMENT

Each licensee is assigned a designated relationship manager who is the licensee's prime point of contact for all Commission issues, including regulatory approval of internal processes and associated documentation, technical approval, inspections and general guidance on all matters relating to their licensing. This structure helps to foster an effective working relationship between each licensee and the inspectorate. Every licensee can draw on the guidance and support of someone who understands their corporate structure and business model, their technical requirements and the industry's commercial imperatives.

The above two directorates are supported by a corporate services team consisting of:

- **Philip Taylor**, in-house legal counsel, who is an English qualified solicitor with experience in the fields of white collar crime and information rights;
- **Nicky Burland**, financial controller, who has experience in financial and human resource management;
- **Rowie Gaydon**, office administrator, who has experience in administration within the hospitality and retail industries;
- **Paula Moore**, corporate services officer, who has administrative experience in the financial services sector.



Approach to Regulation

The Commission's key objective is to provide a regulatory environment which offers robust, enlightened, active regulation while also being responsive to the needs of a changing industry. In this way the Commission aims to protect players, to ensure the continuing high reputation of Alderney as a jurisdiction and to establish a regulatory environment which attracts operators who seek a comprehensive and tightly controlled regime.

The dynamic nature of the eGambling industry means that the Commission frequently needs to review regulations and legislation. Where changes to the regulations or the legislative framework are required, the Commission will advise the States of Alderney's Policy and Finance Committee on the introduction or amendment of legislation.

REGULATORY CHANGES

2012 saw one amendment made to the Alderney eGambling Regulations, 2009.

The Alderney eGambling (Amendment) Regulations, 2012 were made on 24th July, 2012 for two very important purposes. The first was to impose an obligation on licensees to identify and report attempts to influence events upon which gambling may take place. This was relevant in the context of the 2012 Olympics but is not limited to sporting contests and covers all forms of event based wagering. The second purpose was to introduce a requirement for Category 1 eGambling licensees to segregate player funds. This follows on from recommendations contained within the Dean Report, an independent review of the Commission's effectiveness which was completed in March, 2012.

WORKING WITH A GLOBAL INDUSTRY

The Commission is aware that developments in eGambling legislation elsewhere in the world may impact on the ability of Alderney licensees to access those markets and so expand and develop their businesses. The Commission is therefore in discussion with regulators in various countries so as to be kept fully informed on relevant legislative developments and also makes use of specialist consultants to keep the Commission informed of relevant legislative proposals.

During the year the Executive Director worked towards developing more formalised working relationships with other regulators, and successfully concluded agreements with those in Ontario and Singapore.



Executive Director, André Wilsenach signing a Memorandum of Understanding with Lau Peet Meng, Chief Executive of the Casino Regulatory Authority of Singapore.

The Commission has also sought active working relationships with regulators in EU jurisdictions that regulate eGambling; in order to facilitate Alderney licensees' entry into regulated EU jurisdictions. It remains the case that there is not as yet an EU-wide consensus on a regulatory approach to eGambling, such agreements need to be negotiated and agreed on an individual jurisdictional basis and may therefore take some time to come to fruition.

During the past year the European Commission published its Communication on remote gambling to the European Parliament. The report deals with the protection of consumers, preventing fraud and money laundering, safeguarding the integrity of sports and enhancing supervision, administrative cooperation and efficient enforcement in member states. In the area of ensuring efficient enforcement, the European Commission included, as one of its main actions, to strengthen dialogue with Third Countries such as Alderney, the Isle of Man and others but does not say how it intends to do so.



Approach to Regulation (continued)

In facilitating regulatory cooperation between member states, the European Commission agreed to establish a Regulatory Expert Group consisting of representatives from the gambling regulatory authorities within Member States. The first of these meetings took place during the year under review. From discussions with representatives of the DG MARKET division of the European Commission it became evident that regulators from Third Countries will not have representation at these meetings unless invited as experts.

In order to ensure some form of participation in the Regulatory Expert Group, it was decided to meet with the Rapporteur in the European Parliament to express our views on the benefits of cooperation between regulators regardless of jurisdiction. In doing so, this Commission cooperated closely with the regulators in the Isle of Man supported by their respective Brussels offices.

Early indications are that the Rapporteur and at least one of the Shadow Rapporteurs in the European Parliament are sympathetic to the case for involving Third Countries in the Regulatory Expert Group. This is essentially based on the experience that Third Countries such as Alderney, Isle of Man and others could bring to the Expert Group.

Similarly to its position with European regulators, the Commission has also sought active working relationships with regulators in North American jurisdictions that are approaching the regulation of eGambling, in order to facilitate Alderney licensees' entry into those jurisdictions. Following U.S. presidential elections in late 2012, it became clear that a federal approach to eGambling licensing and standards was not deliverable in the short term. However considerable intra-state activity has resulted from this position and the Commission maintains close contact with the emerging eGambling jurisdictions.

REGULATORY AND LEGISLATIVE COOPERATION

The Commission liaises with other international regulatory bodies and often acts as an advisor to regulators and law-making entities in other jurisdictions. In the past year, the Commission has worked with the British Gambling Commission as well as gaming regulatory bodies around the world in connection with probity, due diligence investigations and international best practice. The Commission also works closely with non-gaming regulators such as the Guernsey Financial Services Commission and Guernsey's Financial Intelligence Service. Accordingly the Commission has entered into a Memorandum of Understanding with the Guernsey Financial Services Commission.

Alderney has proven experience in establishing and maintaining a robust, business-friendly online gaming jurisdiction and plays an active role in international regulatory bodies such as the Gaming Regulators European Forum and the International Association of Gaming Regulators. The Commission also shares this expertise with others through participation in the major industry conferences.

In January the Executive Director was invited to give evidence to the House of Commons Culture, Media and Sport Committee in London in respect of plans to regulate remote gambling at the point of consumption and setting out Alderney's position if the "White List" were to be withdrawn.

Approach to Regulation (continued)



During the course of the year, members of the Commission participated in various regulatory and industry conferences:

- In January Members of the Commission and its staff attended the International Gaming Expo in London and the In-house Counsel spoke at the combating cybercrime conference.
- In February the Director of Licensing attended the Gaming Executive Summit in Panama.
- In April the Director of Licensing spoke at the Global iGaming Summit and Expo in San Francisco.
- In May the In-house Counsel attended a financial crime symposium held by the Law Society of England and Wales.
- In June the Executive Director attended the Gaming Regulators European Forum in Portugal and was a speaker at the North American Gaming Regulators Association in Austin, Texas. The In-house Counsel attended the Westminster e-Forum held to discuss gambling matters.
- In July The Director of Licensing met with the Nevada Gaming Commission in Las Vegas and the Executive Director was a moderator at the World Gaming Executive Summit in Barcelona. The In-house Counsel attended a workshop dealing with disciplinary tribunals in London.
- In September the Executive Director and the Director of Licensing attended the US Online Gaming Law Conference in Las Vegas.
- In October the Executive Director was a speaker at the International Masters of Gaming Law Autumn Conference in London. The Executive Director also participated as a speaker at The International Association of Gaming Regulators conference and The International Association of Gaming Advisers conference in Singapore. The Executive Director and the Director of Licensing attended and spoke at the European iGaming Expo in Barcelona; the Director of Licensing was also a speaker at this event. The Director of Licensing attended the Global Gaming Expo (G2E) in Las Vegas.
- In November the Executive Director was a speaker at a seminar organised by the Swedish Gaming Authority which was aimed at developing a regulatory regime for on-line gambling.

During 2012, the Commissioners had a number of meetings with representatives of active licensees. These meetings allow licensees to discuss matters of mutual concern with the Commission, and to share valuable information relating to a rapidly changing industry.

Anti-Money Laundering/Combating The Financing of Terrorism



The Commission takes seriously all issues relating to anti money laundering and combating the financing of terrorism. The Commission is keen to ensure that internationally agreed standards are maintained and that the anti money laundering / combating the financing of terrorism (“AML/CFT”) framework for egambling remains harmonised with other sectors in the Bailiwick.

The Commission follows closely the guidance of the Financial Action Task Force (“FATF”), an inter-governmental body whose purpose is the development and promotion of national and

international policies to combat money laundering and terrorist financing. In order to meet FATF objectives, organisations are required to maintain comprehensive statistics regarding the effectiveness and efficiency of systems for combating money laundering and terrorist financing. The Commission particularly notes and takes record of suspicious transaction reports by the Commission or its licensees, the details of onsite inspections, as well as any formal requests for assistance relating to AML/CFT issues. During the year 38 suspicious transaction reports were submitted by Alderney licensees, with 6 being submitted by the Commission itself.

Anti-Money Laundering/Combating The Financing of Terrorism (continued)



The Commission continues to be involved in a number of initiatives aimed at raising awareness of these issues with licensees and the public. During 2012 these included briefing and training sessions for staff and licensees, as well as consultation with other regulatory bodies. The Commission is represented at meetings of the Bailiwick's AML/CFT Strategy Committee.

All active licensees are inspected within one year of the approved start of their live operations, and then annually thereafter. All inspections incorporate a careful examination of a licensee's AML/CFT procedures using a dedicated AML/CFT inspection template to ensure that they are robust. Each inspection is preceded by a mystery shopping exercise testing the site from the perspective of a player. An inspection will include reviews of player registration, payment systems, player due diligence and other controls used to prevent money laundering and to combat terrorist financing.

Licensing & Compliance Activity



It is a vital part of the Commission's licensing regime that holders of eGambling licences and associate certificates, as well as key individuals, are approved as being fit and proper. All applicants – organisations, their owners and key personnel - are therefore carefully and rigorously scrutinised to confirm that the individual or organisation applying for approval is likely to operate effectively and within both the spirit and the letter of the Commission's regulations.

After an application has been received, an initial information meeting will discuss in some detail the background to the application, the nature of the proposed eGambling activities and how the eGambling will be conducted. The discussion will also incorporate issues such as the financing, the individuals involved, and the software being used. This is to ensure that the Commission has a full and clear understanding of the proposition and addresses

early on any contentious or problematic areas. The Licensing Directorate will then investigate each corporate and individual applicant looking at their business history and relevant experience, associated principals and business associates. The Commission may outsource certain elements of the investigation to suitable third parties where geographical or language constraints make it difficult to obtain the necessary confirmation of an applicant's fitness and propriety.

As at 31st December, 2012, there were 57 registered licensees, consisting of twenty holders of Category 1 licences only, fourteen holders of Category 2 licences only and twenty three holders of Category 1 and 2 licences. In addition there were ten Foreign Gambling Associate Certificates ("FGAC") in issue. Fifteen new licensees and additionally four new FGACs were registered in the year.



Licensing & Compliance Activity (continued)

Details of the licences and certificates¹ issued are as follows:

1. Postcode Lottery Alderney Limited (1 & 2)
2. BGO Entertainment Limited (1 & 2)
3. Table Top Entertainment Limited (1 & 2)
4. Ledonford Gaming Services Limited (1)
5. IGT (Alderney 5) Limited (1)
6. Metro Play Limited (1)
7. Elec Games Alderney Limited (1 & 2)
8. Eurasia Sports (1)
9. Jumpman Gaming Limited (1 & 2)
10. Gala (Alderney) Limited (1 & 2)
11. Relax Gaming Network Limited (2)
12. Sportech Alderney Limited (2)*
13. Daub Alderney Limited(2)*
14. SHFL Entertainment (Alderney) Limited (2)
15. Eyecon Alderney Limited(2)
16. Oddsmatrix Software Limited (FGAC)
17. Bally Technologies (Gibraltar) Limited(FGAC)
18. MyLotto24 Limited(FGAC)
19. Evolution Gaming Malta Limited (FGAC)

* these were granted to existing eGambling licensees or certificate holders

During 2012, 10 licensees allowed their licence(s) to lapse.

Core Services Associate certificates were issued to the following:

1. Astra Games Limited
2. Leapfrog Software Systems Limited
3. Casino Technology AB
4. Galewind Software Corporation
5. O.M.I AB
6. Wagermill Limited
7. Quickspin AB
8. MX Digital LLC
9. Big Time Gaming Pty Limited
10. Stronggate Limited
11. Scientific Games (Gibraltar) Limited

Four holders of Core Services Associate Certificates allowed their certificates to lapse. This brought the number of Core Services Associate Certificates in issue at the end of the year to thirty four.

A complete list of holders of eGambling licences and associate certificates at the end of 2012 is set out at Appendix A.

Alongside licence applications, the Commission also approved forty one key individual applications. Key individuals are those who are deemed to be "in a position to control or exercise significant influence over the business operations conducted under an eGambling licence, whether or not within the corporate entity exercising the licence". In order to be approved, key individuals are subject to a rigorous probity investigation involving the examination of professional and personal histories, financial records, as well as appropriate checks through financial intelligence records.

¹ Details in parenthesis are as follows:-

(1) Category 1 eGambling licence

(2) Category 2 eGambling licence

(1+2) Categories 1 and 2 eGambling licences

(FGAC) Foreign Gambling Associate Certificate



Licensing & Compliance Activity (continued)

HOSTING CERTIFICATES

Holders of eGambling licences are required to house their gambling equipment in approved premises. Where gambling equipment is housed in the Bailiwick of Guernsey, it must be accommodated by a company which holds a hosting certificate. The first hosting certificates were issued in 2006 to Cable & Wireless, Itex and Newtel (now trading as JT (Guernsey) Limited). Currently nine hosting certificates have been issued.

1. Cable & Wireless Guernsey
2. JT (Guernsey) Limited
3. Itex (Guernsey) Limited
4. E-Commerce Park N.V
5. Continent8 Technologies PLC
6. TeletyGroup France S.A
7. 2E2 Guernsey Limited
8. BM IT Limited
9. Conet E-Commerce Services N.V

Under the 2009 Regulations, foreign hosting premises used by an Alderney licensee must be approved, although they need not hold a hosting certificate. The Commission believes that this regulatory structure more adequately serves the operational needs of an increasingly multi-jurisdictional gaming industry.

TEMPORARY LICENCES

A temporary licence allows a company to run eGambling operations from Alderney for a strictly limited period of time: no more than 30 days continuously or for an aggregate of 60 days in any six month period. This type of licence is designed to serve the needs of operators requiring short term use of Alderney based gambling equipment, whether for disaster recovery periods or perhaps for a period of transition from one location to another. One temporary licence was granted in 2012. Four temporary licences were in place at the end of 2012.

FURTHER APPROVAL

Following the Commission's approval of a licence, the licensee will then be required to obtain full approval of their gambling equipment and their internal control system (ICS). All gambling equipment – including random number generators and all relevant software

and hardware - will be rigorously tested by an independent testing house to ensure compliance with Commission's published technical standards. Twelve initial gambling equipment approvals were made in 2012

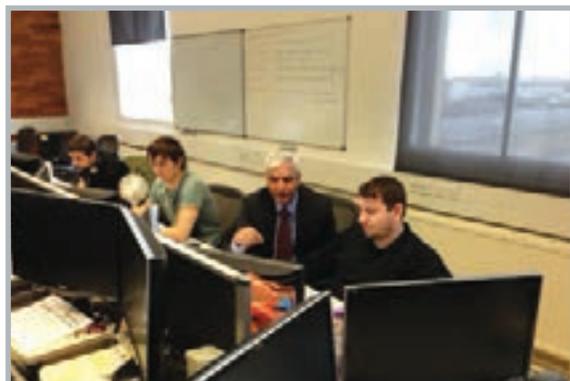
An ICS is a system of administrative controls and procedures used by a licensee when operating eGambling. Each ICS should be designed to provide:

- administrative control;
- accounting and financial control;
- controls over the operation of customer accounts and player funds;
- safeguards in relation to the security of the licensees systems;
- comprehensive and appropriate anti-money laundering procedures;
- procedures for identifying fraudulent, problem or underage gambling.

Fourteen initial ICS approvals were made in 2012.

INSPECTIONS

It is an important element of the regulatory regime that active licensees are inspected on a regular basis to ensure that they are operating in full compliance with the Commission's regulations and guidelines, and that they adhere to the procedures set out in their internal control systems. Licensees can generally expect to be inspected once a year; however, an inspection can be instigated at any time where the Commission has concerns regarding a licensee's ownership or operations.



Paresh Rughani on an inspection visit.



Licensing & Compliance Activity (continued)

The inspection team will closely examine a broad range of the licensee's operations, including

- corporate structures, staffing and staff training;
- financial reporting;
- player registration, verification and associated banking procedures;
- anti money laundering / combating financing of terrorism procedures;
- game fairness and player protection;
- security policies and procedures;
- operation of approved games and gambling equipment.

Following an inspection, a full report is prepared which will address any issues arising which need attention. Where serious issues arise, a further inspection or a formal sanction may be required.

During 2012, the regulatory and technical teams carried out thirty six inspections. In the main, these demonstrated a high level of regulatory compliance by licensees and reaffirmed the importance of active operational controls.

SPECIAL INVESTIGATIONS

The Commission has the power to conduct a special investigation into a licensee at any time. This may be deemed necessary to confirm or review a licensee's operation, or where there are concerns regarding operational issues. While some of these may be conducted by visiting the licensee's premises, they can also be carried out remotely. The findings from a special investigation may lead to a speedy resolution of any underlying causes for concern, or in some instances the issuance of further sanctions. Five special investigations were instigated in 2012.

SANCTIONS

The Commission has a range of sanctions at its disposal including financial penalties and, for the most serious regulatory breach, suspension or revocation of a licence or certificate. The Commission can also issue a "proposal to rectify" which can then be followed by a "direction to rectify" – in other words, instructions that the regulatory breach must be

rectified within a specified time. During the year the Commission issued seven rectification proposals and two directions to rectify, both of which were complied with speedily and efficiently.

Where a breach of the regulations continues or becomes more serious, a regulatory hearing may be called as an opportunity for the licence or certificate holder to make representations and present their case to the Commission. There were no regulatory hearings held during 2012.

SEGREGATION OF PLAYER FUNDS

The implementation of the Alderney eGambling (Amendment) Regulations, 2012 will impact upon financial reporting when it takes full effect in 2013. As a result the reporting requirements have been revised to reflect the information necessary to monitor compliance.

The amendment to the Regulations requires Category 1 eGambling licensees to segregate funds standing to the credit of customers in a separate bank account held solely for that purpose. In certain circumstances the licensee may be required to provide a binding guarantee from their parent company.

FINANCIAL MONITORING

All licensees are required by the regulations to ensure that they meet, on a continuous basis, the following three prudential ratios:

- Cash must always exceed player balances;
- Current assets must always exceed current liabilities;
- Total assets must always exceed total liabilities (excluding capital) by at least 25%.

These requirements seek to ensure that operators have sufficient resources to pay out players' funds at any time. The Commission must be satisfied that acceptable arrangements to satisfy these requirements are in place before the licensee can gain approval for full activation of their operations.



Licensing & Compliance Activity (continued)

Licensees are required to submit monthly and quarterly financial reports and regular operational reports covering matters such as player activity, suspicious transactions, significant player deposits or losses. These are closely reviewed by the Commission, with any potentially contentious issues being flagged for further consideration. Licensees are also required to carry out a fully independent financial audit each year and to submit their audited accounts to the Commission.

In 2013 the Commission proposes to introduce a single new solvency ratio, following the 2012 regulatory change requiring the segregation of player funds. This change has removed the main original reason for the three prudential ratios, which will be replaced by a single ratio requiring each licensee to hold liquid capital exceeding three months' overheads.

THE ALDERNEY GAMBLING LICENSEES' FORUM

The Alderney Gambling Licensees' Forum (AGLF) exists to allow Alderney licensees and the Commission to discuss matters of mutual interest. Topics discussed include legal and regulatory developments in Alderney and elsewhere, technological issues and wider gambling matters.

Malcolm Graham, CEO of PKR Limited and the current chairman of the AGLF, has said: "The AGLF is a useful opportunity for licensees and the Commission to meet and discuss issues affecting the industry as a whole. It allows licensees to communicate with the Commission and vice versa. The Commission continues to build on its previous activity regarding agreements with other regulators and the forum allows licensees to be updated as well as giving licensees the chance to offer their comments and thoughts. The forum is a valuable feature in Alderney's eGambling regime."

The AGLF met twice during 2012 to discuss the United Kingdom's review of remote gambling, player fund protection, the actions of the Commission in the EU and USA, Regulating Affiliates, the Economic Impact Study by KPMG and the Problem Gaming Study by the Responsible Gambling Council in Canada.



Malcolm Graham, Chairman of the AGLF.

TRAINING AND INFORMATION SESSIONS

In December 2012 a training and information session dedicated to AML/ CFT matters was held for licensees. This was the fifth such session organised by the Commission and is now becoming a regular fixture in the Commission's calendar. Representatives from newly operational licensees were required to attend; representatives from all other licensees could attend on a voluntary basis. The meeting was attended by 61 delegates from 32 licensees. The Commission welcomes the importance licensees place upon this subject.

Delegates received an information briefing from the British Gambling Commission's Sports Betting Integrity Unit as well as sessions conducted by the Commission's Director, Compliance on the inspection process and In-house Counsel on the reporting of suspicious transactions. These sessions were followed by a specialist training seminar on recent developments in AML/CFT, issues relating to social networking and crime together with a focus on PEPs (politically exposed people).



Licensing & Compliance Activity (continued)

REGULATORY ACTIVITY – COMPLAINTS

The Commission has in place a complaints procedure to address player issues that have not been satisfactorily resolved by a licensee. During 2012, 933 complaints were received and dealt with by the Commission, a decrease on the previous year reflecting the high number of complaints received the previous year related to a former licensee. Complaints arose for various reasons, including:

- claims of unfair, “fixed” or “biased” gaming;
- bet disputes;
- ID requirement concerns;
- technical malfunctions;
- poor customer service;
- unfair game rules, terms and conditions or bonus requirements;
- unfair account closures;
- cash withdrawal issues;
- voided bets.

Six complaint rulings were escalated on appeal to the Executive Director and there was one further appeal to a Commission hearing. In each of these cases the original ruling was upheld.

The Commission aims to work closely with licensees on resolving issues related to customer complaints, and also liaises with relevant industry bodies. During the year Commission staff attended the annual conference of GamCare, a UK based charity providing support, information and advice to problem gamblers, and also attended a GamCare training session.

Technical Activity

One of the ways by which the Commission seeks to ensure that all eGambling is conducted fairly is by requiring full approval of each licensee's gambling equipment, both hardware and software. The licensee's gambling equipment including random number generators and all relevant software and hardware will be rigorously tested by an independent testing house to ensure operational worth and game fairness.

Following such approval, the Commission then aims to control any significant subsequent changes using an automated change control system which allows licensees to enter and upload relevant information using a secure online portal. This system stores detailed information on licensees' approved games and is easier for licensees to use. The greater clarity of the information processed also ensures a significant increase in operational efficiency. Two thousand and twenty two new games and game approvals were processed in 2012.

TESTING HOUSES

Testing of licensee games and gaming activity is contracted out to independent specialist testing houses. The Commission does not formally licence or certificate testing houses but has developed ongoing relationships with a range of organisations approved as appropriate for Commission use, following close examination of their ownership and industry reputation as well as their technical capabilities and operational history. The number of testing houses approved for Commission use increased slightly during 2012 and now stands at thirteen.

Financial Statements



STATEMENT OF THE COMMISSION'S RESPONSIBILITIES

The Commission acknowledges that it is responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that period. In preparing those financial statements the Commission is required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue in business.

The Commission is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission. The Commission is also responsible for safeguarding its assets and hence for taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The following persons served on the Commission during the year under review:

- Mr John Godfrey (Chairman);
- Mr Raymond Birdseye;
- Dr Isabel Picornell;
- Mr Jeremy Thompson



Independent auditor's report to the Commission

We have audited the financial statements of Alderney Gambling Control Commission (the "Commission") for the year ended 31 December 2012 which comprise the income statement, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

This report is made solely to the Commissioners, as a body, in accordance with the terms of our engagement letter dated 27 October 2012. Our audit work has been undertaken so that we might state to the Commission those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the commission and the auditor

As explained more fully in the Statement of Commission's Responsibilities set out on page 21, the Commissioners are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commissioners; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial

statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2012 and of its surplus for the year then ended;
- are in accordance with the United Kingdom Accounting Standards.

Matters on which we report by exception

We have nothing to report in respect of the following matters, in our opinion:

- the Commission has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

KPMG Channel Islands Limited
Chartered Accountants

22 March 2013

Disclaimer

- i) The maintenance and integrity of the Alderney Gambling Control Commission's website is the responsibility of the Commissioners; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements or audit report since they were initially presented on the website.
- ii) Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Balance Sheet as at 31st December 2012

	Note	2012 £	2011 £
Fixed assets			
Computer, office equipment & furniture		90,230	25,004
Leasehold		396,767	312,746
Web hosting		59,982	61,271
	2	546,982	399,021
Current assets			
Cash at bank and in hand	3	2,475,258	2,625,063
Prepayments		15,214	32,574
		2,490,472	2,657,636
Creditors: amounts falling due within one year	4	(1,063,369)	(1,095,574)
		1,427,103	1,562,062
Net current assets		1,427,103	1,562,062
Total assets less current liabilities		1,974,085	1,961,083
Capital and reserves			
Retained surplus brought forward		1,961,083	2,107,740
Net surplus/deficit for the year		13,002	(146,657)
Retained surplus		1,974,085	1,961,083

The financial statements on pages 21 to 28 were approved by the Alderney Gambling Control Commission on 21 March 2013 and signed on its behalf by:



Mr John Godfrey
Chairman



Income Statement for year ending 31st December 2012

	Note	2012 £	2011 £
Income			
Licence fees		4,835,650	4,545,650
Fees charged to applicants and licensees		394,476	416,994
Bank interest		20,751	20,474
		<u>5,250,877</u>	<u>4,983,118</u>
Expenditure			
Staff costs	6	1,617,880	1,387,206
Commissioners' fees	5	106,854	103,241
Premises, furniture and equipment		74,732	66,795
Web hosting		82,000	77,003
Consultancy		176,996	86,769
Conferences and general travel		152,315	123,261
Postage, stationery and telephone		44,581	38,856
Administrative expenses		87,169	218,251
Depreciation	2	94,469	136,359
		<u>2,436,996</u>	<u>2,237,741</u>
Distributions in year	7	<u>2,800,879</u>	<u>2,892,034</u>
Net surplus/deficit		<u><u>13,002</u></u>	<u><u>(146,657)</u></u>

Notes to the Financial Statements

Year Ended 31st December 2012



1. Basis of Accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. The income in the financial statements is collected by the Commission on behalf of the States of Alderney. After deduction of the expenses incurred and working capital required to fund the Commission the surplus is distributed to the States of Alderney.

Depreciation

Depreciation is calculated using the straight line method at the following rates:

- Office furniture 25% per annum
- Computers and related equipment (including change control) 33% per annum
- St Anne's House refurbishment 10% per annum

Licence fees

Under the terms of The Alderney eGambling Ordinance, 2009, licences granted by the Commission are valid for an indefinite period. A non refundable licence fee is payable on issue of the licence and in advance of each anniversary of the issue of the licence. The licence fees are recognised in the Revenue account in the period in which they are received.

Cash flow statement

Under Financial Reporting Standard no. 1 the Commission is exempt from the requirements to prepare a cash flow statement on the grounds of its size.

Expenses

Expenses are accounted for on an accruals basis.

Leasehold

The Commission entered into a ten year lease on the office property in Alderney, commencing in April 2008.

The rental amounts for 2012 charged to the Revenue account and included in premises, furniture and equipment expenditure were £43,537 (2011 - £38,175).

The Commission is committed under the lease to make payments of £36,000 per year plus any RPIX increase, subject to review in the fifth year, until the end of the lease. The rental is charged on a straight line basis over the lease term.

Capital commitment

At the end of 2011 the Commission entered into a contract to extend the office space at the leasehold premises. The total cost for the extension works was £193,167. The rental payments were also increased in line with the increase in floor space now available at the leasehold premises.



Notes to the Financial Statements

Year Ended 31st December 2012 (continued)

2. Fixed assets

	Computer equipment	Office furniture	Leasehold	Web Hosting	Total
	£	£	£	£	£
Cost					
At 1 January 2012	124,058	42,092	498,536	203,448	868,134
Additions	43,801	48,455	142,019	8,154	242,428
At 31 December 2012	167,859	90,547	640,555	211,602	1,110,562
Depreciation					
At 1 January 2012	103,794	37,352	185,790	142,177	469,113
Charge for year	16,865	10,164	57,999	9,440	94,468
At 31 December 2012	120,659	47,516	243,789	151,617	563,581
Net book value					
At 31st December 2012	47,199	43,031	396,767	59,985	546,982
At 31st December 2011	20,264	4,740	312,746	61,271	399,021

Notes to the Financial Statements

Year Ended 31st December 2012 (continued)



3. Cash at bank and in hand	2012	2011
	£	£
Cash at bank:		
Business reserve account	402,660	489,998
Applicant and Licensee deposit account	990,123	883,395
Treasury accounts	1,000,017	1,000,017
Current account	82,362	251,524
Petty cash	96	129
	<hr/>	<hr/>
	<u>2,475,258</u>	<u>2,625,063</u>
	<hr/>	<hr/>
4. Creditors: amounts falling due within one year	2012	2011
	£	£
Refundable deposits	691,846	678,294
Creditors and accruals	371,178	417,280
	<hr/>	<hr/>
	<u>1,063,369</u>	<u>1,095,574</u>
	<hr/>	<hr/>

Refundable deposits are held against the costs of investigating applicants and inspecting licensees and may be refunded in whole or in part.

5. Commissioners' fees

In accordance with the Gambling (Alderney) Law 1999, as amended, the States of Alderney ultimately meets the fees and expenses of the Commissioners, including the Chairman.

6. Pension scheme and life assurance

A defined contributions pension scheme, together with life assurance cover, is provided for employees. The scheme is administered by Anthony Le Blanc and Partners Limited in Alderney and was started in May 2002. The scheme requires employees to contribute 6% of gross salary to the scheme and the Commission contributes a minimum 7.5% of gross salary to the scheme on the employees' behalf. The annual pension contribution of £129,005 (2011 - £112,491) is included in staff costs. At the year end there were no prepaid or outstanding contributions (2011 - £nil).



Notes to the Financial Statements Year Ended 31st December 2012 (continued)



7. Distributions to the States of Alderney

During 2012 the States of Alderney directed distributions from the retained surplus in the amount of £2,800,879 (2011 - £2,892,034).

8. Guernsey Income Tax

The Commission is not subject to Guernsey Income Tax.

Appendix A

eGambling licensees (Category 1, 2, or both) and Foreign Gambling Associate Certificates as at December 31st 2012

Amaya (Alderney) Ltd	2	Marathon Alderney Ltd	1 & 2
Aragon Technologies Ltd	2	Metro Play Ltd	1
Arkin Sports & Leisure Ltd	1 & 2	Microgaming Software Systems Ltd	FGAC
Aydogan Tourism & Leisure Ltd	1 & 2	Monte Carlo Ltd	1 & 2
Bally Technologies (Gibraltar) Ltd	FGAC	MyLotto24 Ltd	FGAC
BGO Entertainment Ltd	1 & 2	Net Entertainment Alderney Ltd	2
Blue Square Gaming (Alderney) Ltd	1 & 2	Netplay TV Group Ltd	1
Bonne Terre Ltd	1 & 2	OddsMatrix Software Ltd	FGAC
Boylesports (Alderney) Ltd	1	Orinic Limited	1
Bubble Group BV	FGAC	Parlay Games Ltd	1 & 2
Daub Alderney Ltd	1 & 2	Pinnacle Sports Europe Ltd	1
Elec Games Alderney Ltd	2	PKR Ltd	1 & 2
ElectraWorks (Alderney) Ltd	1 & 2	Play n Go Alderney Ltd	2
Entwine Technology PTE Ltd	FGAC	Playtech Software (Alderney) Ltd	2
Eurasia Sports Ltd	1	Postcode Lottery Alderney Ltd	1 & 2
Evolution Gaming Malta Ltd	FGAC	PT Network Management Ltd	FGAC
Eyecon Alderney Ltd	2	QSB Gaming Ltd	1 & 2
FairplayGames Ltd	1	Ragnarok Corporation N.V	FGAC
GameAccount Alderney Ltd	1 & 2	Relax Gaming Network Ltd	2
GameDuell GmbH	FGAC	Samvo International Ltd	1 & 2
Genting Alderney Ltd	1	SE Asia Gaming Ltd	1
Global Betting Exchange Alderney Ltd	1 & 2	SHFL Entertainment Alderney Ltd	2
Global Sports Trading Services Ltd	1	Small Screen Casinos Ltd	1 & 2
GP (Alderney) Ltd	1	Sportech Alderney Ltd	1
Greentube Alderney Ltd	2	SPS Betting (Alderney) Ltd	1
IGT (Alderney 2) Ltd	1	Table Top Entertainment Ltd	1 & 2
IGT (Alderney 4) Ltd	2	Totepool Alderney Ltd	2
IGT (Alderney 5) Ltd	1	Totesport Alderney Ltd	1
IGT (Alderney 7) Ltd	1	Triplebet Ltd	1 & 2
Intellectual Property & Software Ltd	1 & 2	VF 2011 Ltd	1
Interactive Sports (CI) Ltd	2	Virgin Games Alderney Ltd	1
Jumpman Gaming Ltd	1 & 2	Virtue Fusion (Alderney) Ltd	1 & 2
Kambi Sports Solutions (Alderney) Ltd	2	WMS Alderney 2 Ltd	1 & 2
Ledonford Gaming Services Ltd	1		

Appendix B

Statistics



	2012	2011	2010	2009	2008	2007
Number of licensees	57	51	51	44	42	34
New licences issued	15	12	7	14	13+1	14
Number of licence applications refused	0	1	0	0	0	0
ICS initial approvals	14	15	8	10	10	10
Inspections	36	34	27	22	20	13
Special investigations	5	1	2	2	3	10
Sanctions	14	28	12	1	1	10
Revocations	0	3	0	0	0	0
STRs copied	38	35	64	16	9	3
STRs submitted	6	2	2	1	0	0
Training events	1	1	1	1	3	1

St. Anne's House, Queen Elizabeth II Street,
Alderney, Channel Islands, GY9 3TB
Tel: +44 (0) 1481 825500
Fax: +44 (0) 1481 823978
Email: info@agcc.gg
Web: www.gamblingcontrol.org