



Fifth Review of the **Casino Operator and Licence**

June 2013

FIFTH REVIEW OF THE

June 2013

Casino Operator and Licence



 Victorian Commission for
Gambling and Liquor Regulation



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Letter to the Minister

Mr Edward O'Donohue MLC
Minister for Liquor and Gaming Regulation
Level 26, 121 Exhibition Street
MELBOURNE VIC 3000

Dear Minister

We are pleased to submit the report of the Fifth Review of the Casino Operator and Licence, conducted in accordance with section 25 of the *Casino Control Act 1991 (Vic)*.

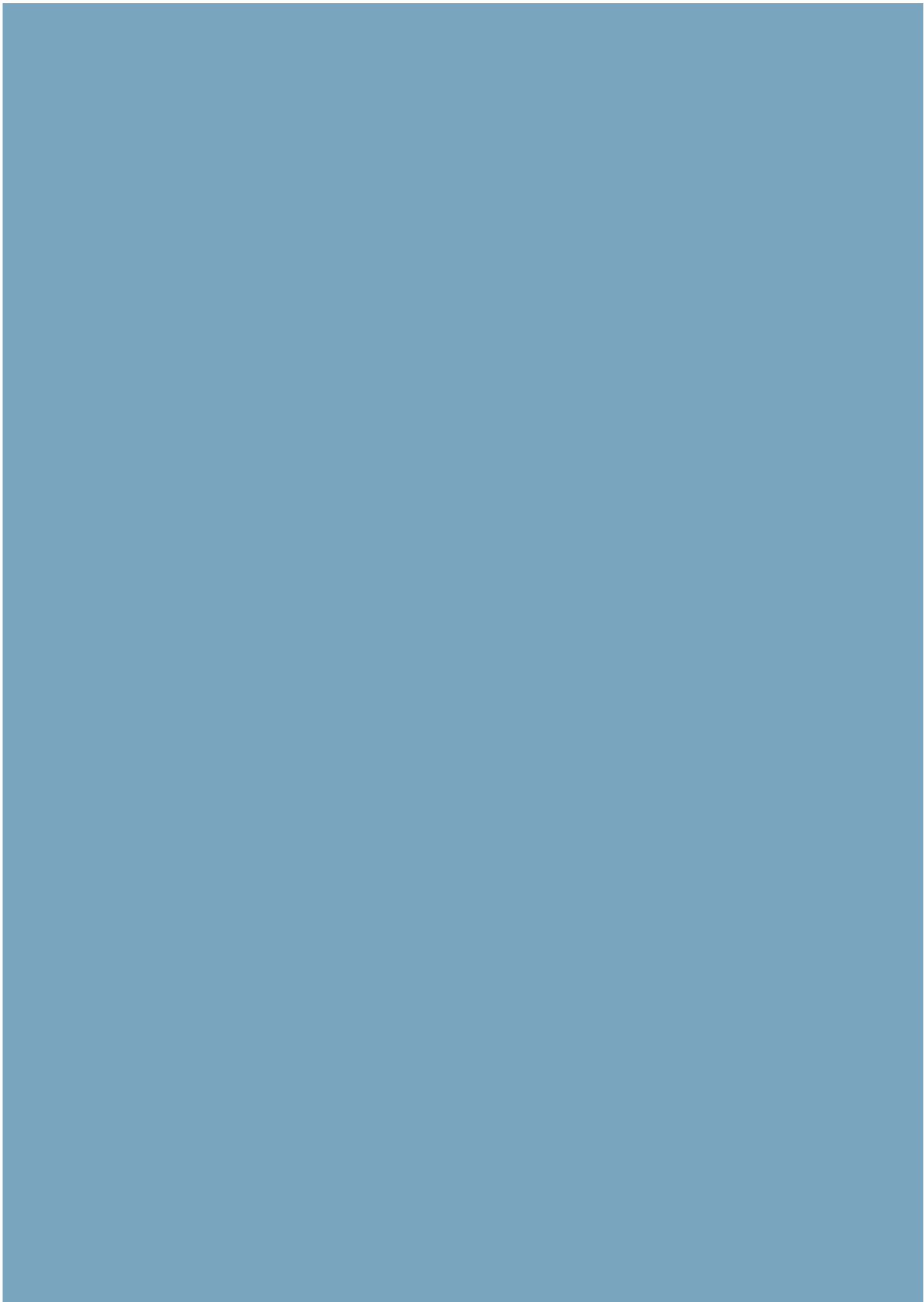
Yours sincerely



Bruce Thompson
Acting Chairman

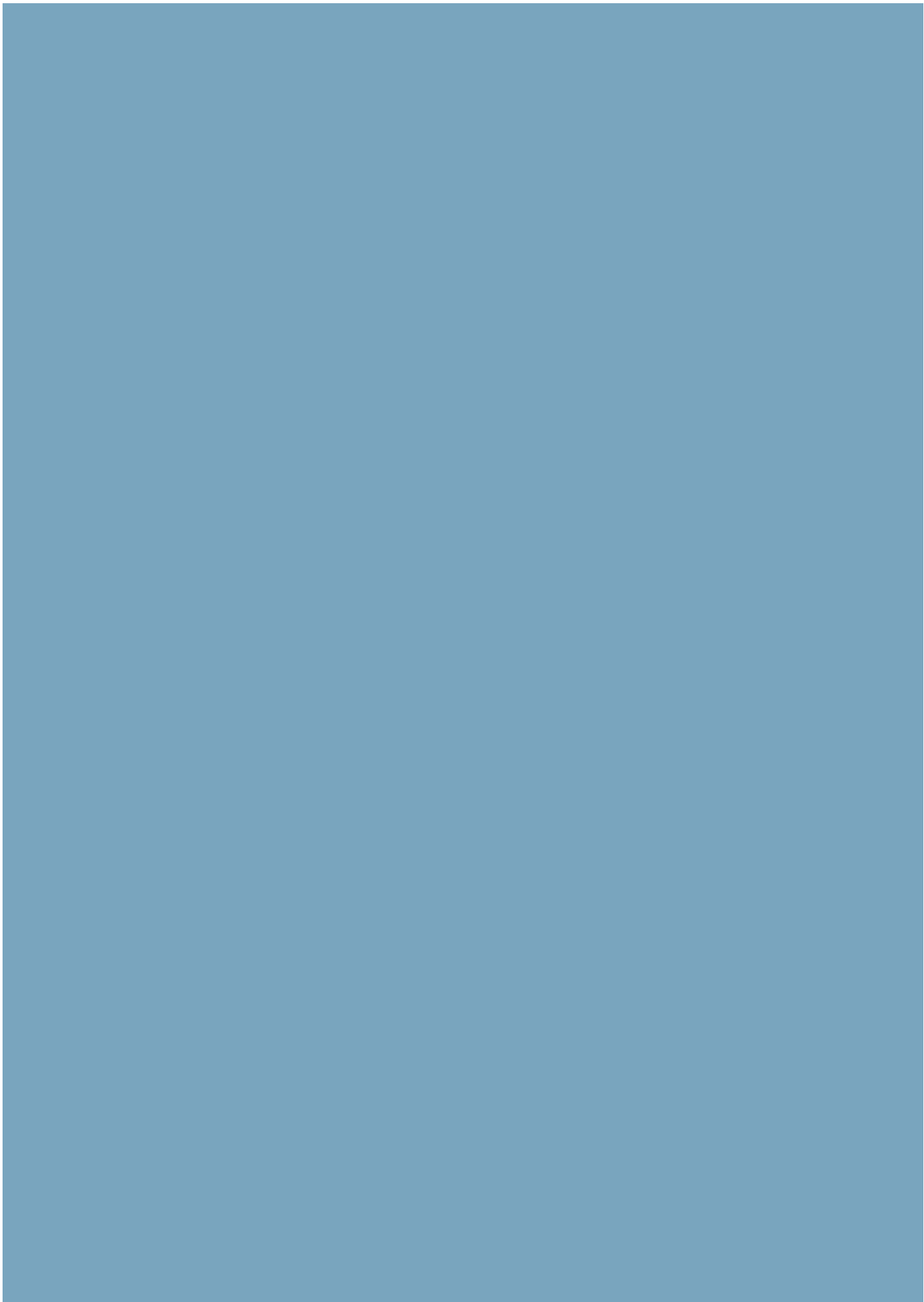


Robert Kerr
Commissioner



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Glossary

AML/CTF Act is the *Anti-Money Laundering and Counter Terrorism Financing Act 2006* (Cth).

ASIC is the Australian Securities and Investments Commission.

Aspers means Aspers Holdings (Jersey) Limited which operates three regional casinos in the United Kingdom and is 50 per cent owned by Crown Limited.

Aspinall's Club is a small London casino wholly owned by Crown Limited. It is one of five licensed casinos in London's West End.

Associate is an individual or company identified as an 'associate' within the meaning of section 4 of the Casino Control Act, required to be approved or investigated by the VCGLR under section 28 of the Casino Control Act.

ASX is the Australian Stock Exchange.

AUSTRAC is the Australian Transaction Reports and Analysis Centre.

Business associate means a person, body or association that has a business association (an intended commercial link) to the casino operator or its Associates.

Casino Agreement means the consolidated Casino Agreement between the VCGA (now VCGLR) and Crown Casino Limited (now called Crown Melbourne Limited).

Casino Control Act means the *Casino Control Act 1991* (Vic).

Casino Management Agreement means the management agreement for the Melbourne Casino between the State of Victoria and Crown Melbourne Limited (as amended and in force), ratified by the Casino Management Agreement Act.

Casino Management Agreement Act means the *Casino (Management Agreement) Act 1993* (Vic).

The **casino operator** or the **licensee** means Crown Melbourne Limited as the sole licensee under the Casino Control Act.

CEO means Chief Executive Officer.

CFO means Chief Financial Officer.

Commission based play arrangement means a premium play arrangement or a junket.

Commission based player means a person who participates in a commission based play arrangement with a casino. See also VIP player.

Consolidated Press Holdings Limited (ACN 008 394 509) is the largest shareholder of Crown Limited, holding 50.01 per cent of Crown Limited's fully paid ordinary shares as at 20 December 2012.

Corporations Act means the *Corporations Act 2001* (Cth).

Crown Entertainment Group Holdings Pty Ltd (ACN 126 028 822) is a non-trading company which holds 100 per cent of the shares in Crown Melbourne Limited. It is a wholly owned subsidiary of Crown Limited.

Crown Group means, for the purposes of this report, all of the Australian and overseas entities wholly or partly owned by Crown Limited, and includes Melco Crown.

Crown Limited (ACN 125 709 953) is the ultimate holding company of Crown Melbourne Limited. Crown Limited also owns and operates Crown Perth and Aspinall's Club.

Crown Melbourne Limited (ACN 006 973 262) is the company that operates the Melbourne Casino as part of the Melbourne Casino Complex under the Melbourne Casino licence. Previously known as **Crown Casino Limited** and **Crown Limited**. In this report, it is also referred to as the casino operator and licensee.

Crown Perth is the casino operated in Perth under a licence granted under the *Casino Control Act 1984* (WA). Crown Perth is owned by Crown Limited, and was formerly known as the Burswood Entertainment Complex.

DICJ is the Gaming Inspection and Coordination Bureau in Macau Special Administrative Region.

EBIT is earnings before interest and tax.

EBITDA is earnings before interest, tax, depreciation and amortisation.

Exclusion order means a written or oral order under section 72, or a written order under section 74, of the Casino Control Act, or an interstate exclusion order, prohibiting a person from entering or remaining in the Melbourne Casino or Melbourne Casino Complex.

The Fourth Casino Review is the fourth review of the casino operator and licence, conducted under section 25 of the Casino Control Act and completed in June 2008.

The Fourth Casino Review Period refers to the five year period covered by the Fourth Review, 1 July 2003 to 30 June 2008.

The Fifth Casino Review is the fifth review of the casino operator and licence, conducted under section 25 of the Casino Control Act and completed in June 2013.

Fully-Automated Table Game is a table game (that is approved by the VCGLR from time to time under section 60 of the Casino Control Act) which comprises multi-terminal stations that access and have connectivity with a base unit that is delivered via the use of a fully automated, animated or electronic system with no part of any mechanical or manual device remaining.

Gambling Regulation Act means the *Gambling Regulation Act 2003 (Vic)*.

Gambling Regulation Regulations means the *Gambling Regulation Regulations 2005 (Vic)*.

Gaming table is a table used for the conduct of table games and includes Fully-Automated Table Games or Semi-Automated Table Games.

Gross gaming revenue is the total of all sums received by the casino operator in any period from the conduct or playing of games in the Melbourne Casino less the total of all sums paid out as winnings during that period.

Hold percentage is the measure of the amount of money retained at a gaming table from the total amount that is dropped into a gaming table's cash box.

ILGA is the New South Wales Independent Liquor and Gaming Authority.

Inspector means a gambling and liquor inspector appointed under section 40 of the VCGLR Act.

Internal Control Statement is the documented system of internal controls and administrative and accounting procedures for the Melbourne Casino approved by the VCGLR for the purposes of section 121 of the Casino Control Act.

Interstate exclusion order means an order made by an interstate Chief Commissioner, or equivalent, that is of a similar nature to an exclusion order made by the Chief Commissioner of Police under Section 74 of the Casino Control Act.

Junket means an arrangement whereby a person is, or a group of people are, introduced to a casino by a junket organiser or promoter who receives a commission based on the turnover of play in a casino attributable to the persons introduced by the organiser or promoter or otherwise calculated by reference to such play.

Liquor Control Reform Act means the *Liquor Control Reform Act 1998 (Vic)*.

Mahogany room is a gaming room at the Melbourne Casino located on level 1, Crown Towers that is reserved for use by commission based players and certain Signature Club members and guests.

Melbourne Casino means the licensed gaming area of the Melbourne Casino Complex. The VCGLR sets the boundaries of the casino under section 17 of the Casino Control Act.

Melbourne Casino Complex means the site at Southbank defined as the 'casino complex' under the Casino Control Act within the area bounded by the Yarra River, Clarendon St, Whiteman St and Queensbridge St. The site is leased by Crown Melbourne Limited and includes retail, hotel and entertainment facilities as well as the Melbourne Casino.

Melbourne Casino licence means the licence to operate the Melbourne Casino granted under the Casino Control Act on 19 November 1993.

Melco Crown means Melco Crown Entertainment Limited, a joint venture between Crown Limited (which owns approximately 33 per cent) and Melco International Development Limited. It is dual listed on the NASDAQ and Hong Kong stock exchanges as Melco Crown Entertainment Limited. It is the owner of casino resorts in Macau, including Altira Macau and City of Dreams. It has entered into a joint venture to operate a third casino, Studio City, which is currently being constructed and has no licence to operate as a casino.

Normalised (revenue) represents results that have been adjusted to exclude the impact of any variance from theoretical win rate on commission based play.

Premium play arrangement means an arrangement where a casino agrees to pay a patron of that casino a commission based on the patron's turnover of play in that casino, or otherwise calculated by reference to such play.

Publishing and Broadcasting Limited (ACN 009 071 167) was the former parent company of the casino operator. It demerged in 2007 into Crown Limited and Consolidated Media Holdings Limited.

PwC is PricewaterhouseCoopers.

Riverside slots is a gaming machine area reserved for certain Signature Club members and guests, located on the main gaming floor of the Melbourne Casino.

Semi-Automated Table Game is a table game which comprises multi-terminal stations that access and have connectivity with a base unit, but which still deliver the game using any mechanical or manual device (including all such semi-automated versions of games identified in clause 27.1 of the Casino Agreement).

Table game means a game that may be played in a casino (other than games to be played on a gaming machine) that is approved from time to time under section 60 of the Casino Control Act.

Teak room is a gaming room reserved for use by VIP players and certain Signature Club members and guests, located on the main gaming floor at the Melbourne Casino.

Theoretical win rate is the expected revenue from Hold Percentages on commission based play over time.

Transaction Documents means the documents setting out the relationship between the State of Victoria, casino operator, the VCGLR and other parties concerning the Melbourne Casino, as defined in the Casino Management Agreement. See Appendix 4.

VCGLR is the Victorian Commission for Gambling and Liquor Regulation.

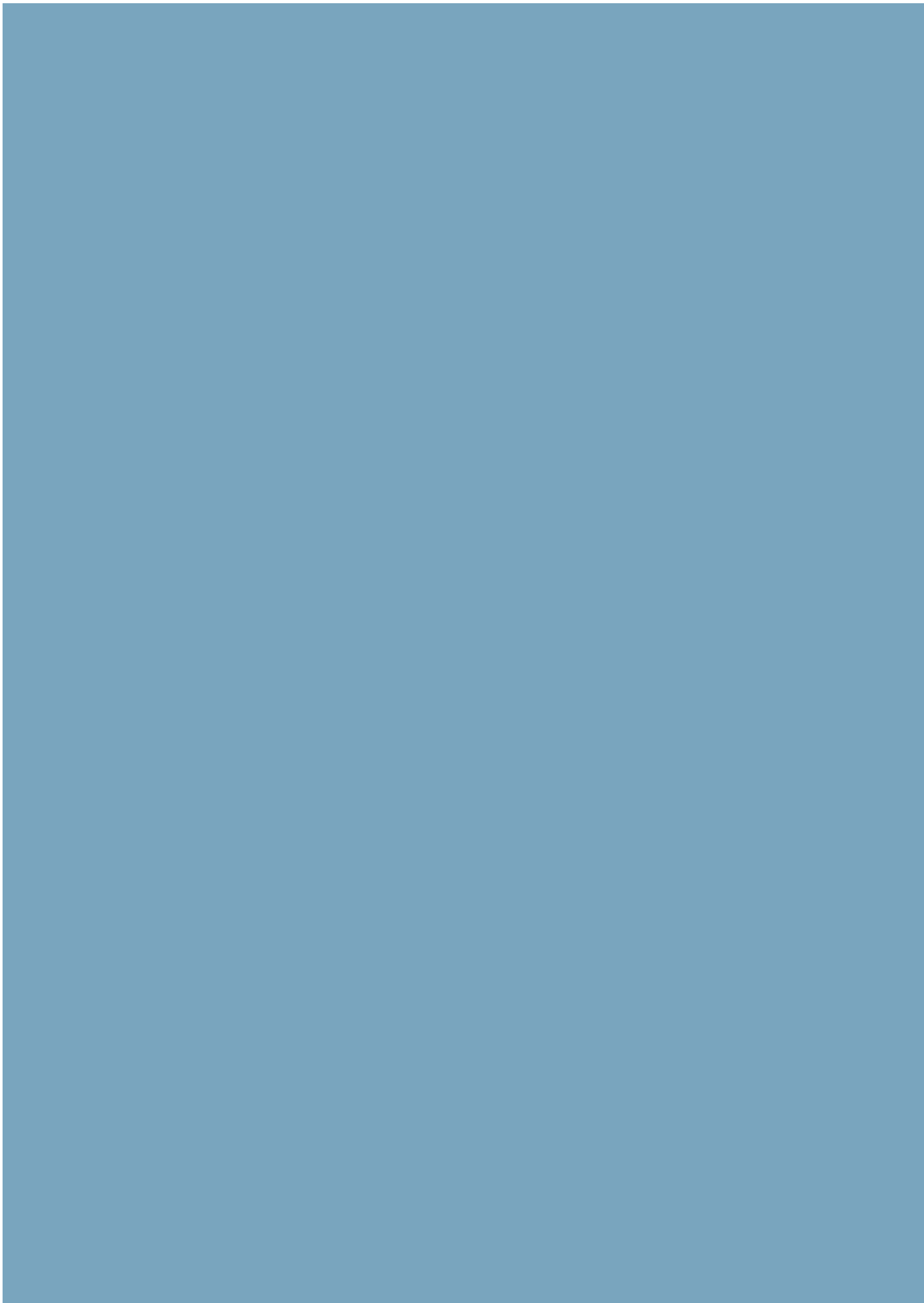
VCGLR Act means the *Victorian Commission for Gambling and Liquor Regulation Act 2011 (Vic)*.

VCGR is the Victorian Commission for Gambling Regulation, a predecessor of the VCGLR prior to February 2012.

VCGA is the Victorian Casino and Gaming Authority, a predecessor of the VCGR and VCGLR.

VIP or **VIP player** means a person who gambles large amounts of money with a casino including, but not limited to, commission based players.

VIP gaming rooms or **VIP gaming areas** are the gaming areas of the Melbourne Casino typically reserved for the use of VIP players or certain members of the Signature Club and guests and includes the Teak Room, Mahogany Room, Riverside Slots and the private salons on levels 29 and 39 of Crown Towers.



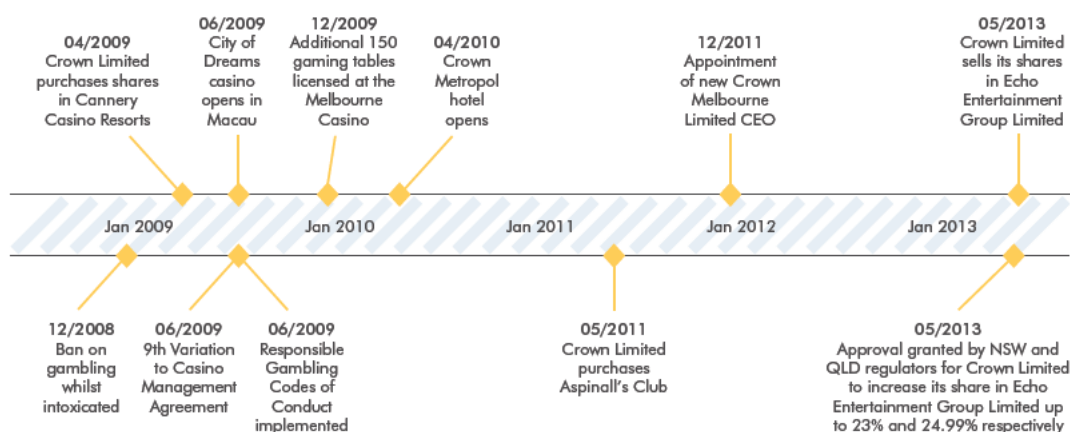
Executive Summary

This is the fifth review of the casino operator and licence. The review is conducted under section 25 of the Casino Control Act which requires investigation of four specific matters concerning the casino operator and its licence. In particular, the VCGLR is required, at least once every five years, to investigate and form an opinion about the casino operator's suitability to hold a casino licence, its compliance with relevant statutory obligations, its compliance with relevant contractual obligations and the public interest in the continuation of the Melbourne Casino licence.

The review focuses on the period 1 July 2008 to 30 June 2013 and has been conducted just before the halfway point of the Melbourne Casino licence period.

The Fifth Casino Review is the first review of the casino operator and licence conducted by the VCGLR. In 2012, the VCGLR replaced the functions of the Director of Liquor Licensing, Responsible Alcohol Victoria and the VCGR to become Victoria's combined liquor and gambling regulator.

Timeline of the Fifth Casino Review period



Source: VCGLR

The VCGLR's opinion under section 25 of the Casino Control Act

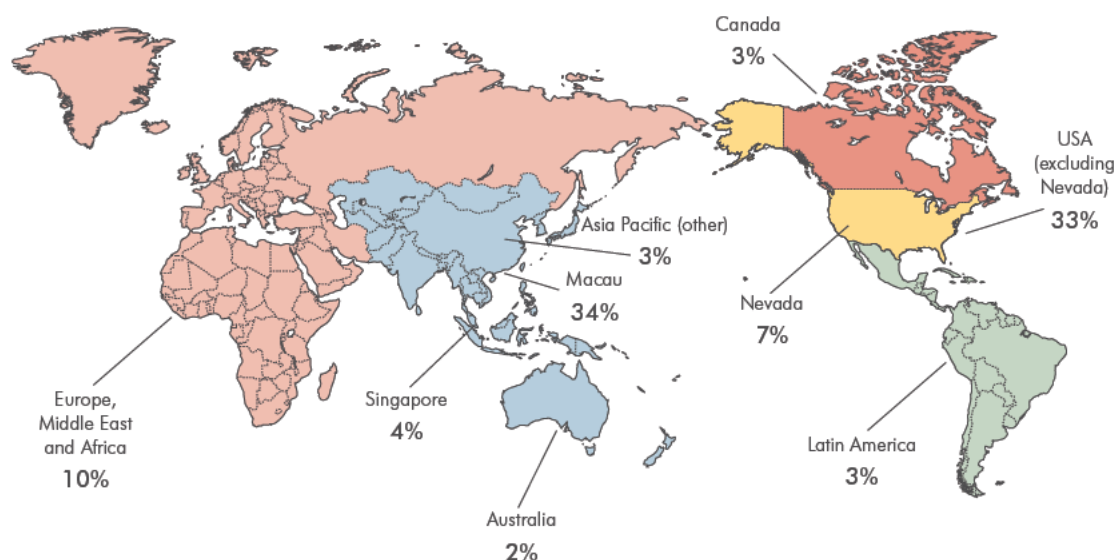
Following the VCGLR's investigations and for the reasons set out in this report, the VCGLR has formed the opinion that:

- the casino operator, Crown Melbourne Limited remains a suitable person to hold a casino licence;
- the casino operator, Crown Melbourne Limited is complying with the *Casino Control Act 1991*, the *Casino (Management Agreement) Act 1993*, the *Gambling Regulation Act 2003* and the regulations made under any of those Acts;
- the casino operator, Crown Melbourne Limited is complying with the transaction documents and any other agreements between the Melbourne casino operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming;
- it is in the public interest that the casino licence should continue in force.

A context of changing markets and risks

Since 2008, the casino market has developed significantly. A shift has occurred in the global casino market from America to Asia, with Macau surpassing Las Vegas as the world's largest destination casino market and the opening up of a significant new casino market in Singapore. By 2015, PwC expects that the Asia-Pacific market will grow to around 43 per cent of the global casino market.

Estimated share of global casino revenue by 2015



Source: PwC, 2011

The Melbourne Casino remains the largest casino in Australia and one of the larger casinos in the world. Crown Melbourne Limited is a major Australian business and part of an expanding global gambling group.

In Victoria, the domestic market for electronic gaming machines and table games is now generally considered to be a mature market. However, the international VIP market is growing and becoming increasingly competitive, both within Asia and Australia, and continues to be driven from China and centred on the Asia-Pacific region.

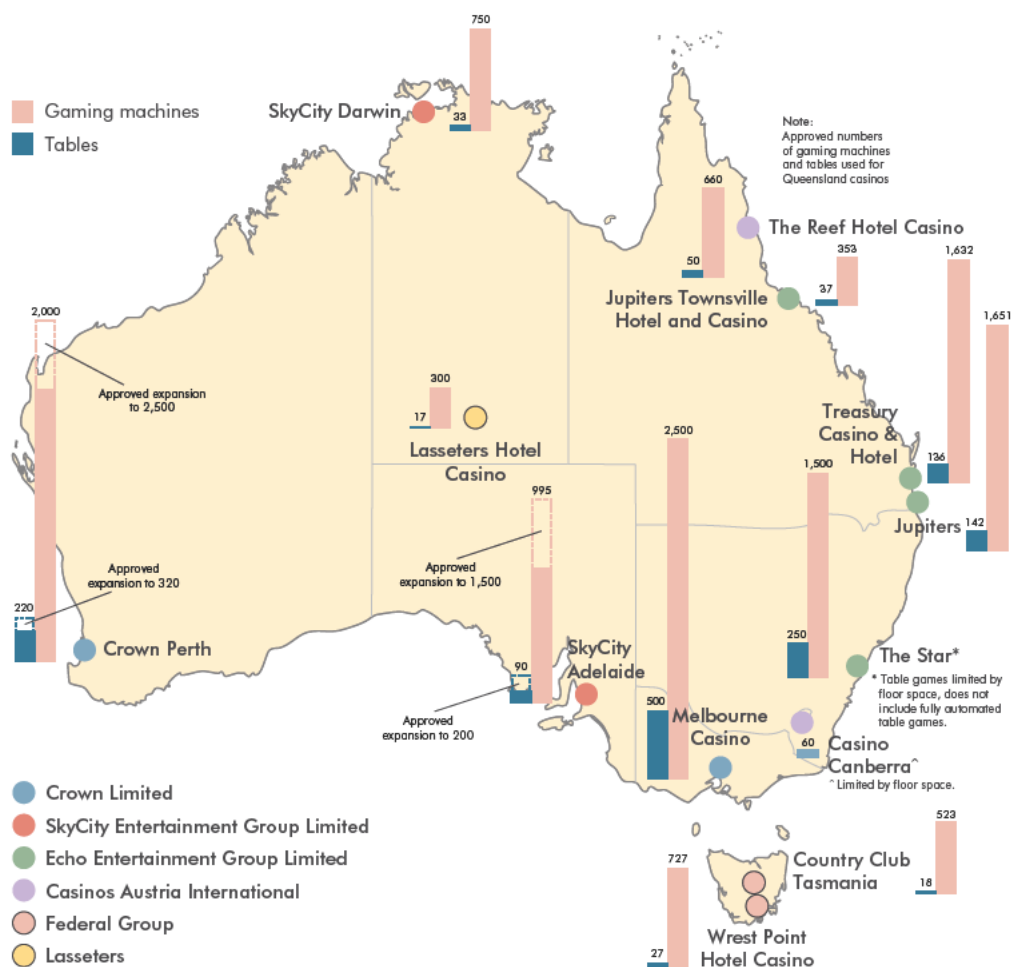
In response, the Crown Group has undertaken a significant refurbishment program in its Melbourne

and Perth properties and has been expanding internationally, through investments in Macau and the Philippines.

It is important that the operation and management of the Melbourne Casino keeps pace with the changing risks and commercial pressures of the international casino market. The VCGLR considers that the management team of the Crown Group is acting to meet those challenges.

Equally, the VCGLR's regulation of the Melbourne Casino and casino operator must continue to evolve to ensure it is attuned to these changing risks and meeting the purposes of Victorian gambling legislation. It is important to note that the

Casinos in Australia – ownership, table games and gaming machine numbers



Source: VCGLR

VCGLR provides extensive day-to-day regulation of casino operations and the casino operator, as well as conducting periodic casino reviews under section 25 of the Casino Control Act.

While the Fifth Casino Review is largely a compliance review, the VCGLR's investigations for the Fifth Casino Review have been shaped by its assessment of the key regulatory risks in its oversight of casino operations and the casino operator. This involves considering the changing international and

local casino environment and regulatory obligations that may not align with the casino operator's commercial incentives. These key risks include:

- The financial and probity risks arising from the Crown Group's significant Australian and international expansion plans;
- The increase in responsible gambling obligations and the potential for these to conflict with commercial obligations; and

- Criminals attempting to engage in illegal activities at the Melbourne Casino.

This report has four parts. Part One is an introduction to the report and provides an overview of the casino industry and the Melbourne Casino. Parts Two, Three and Four of the report deal with each of the elements of section 25(1) of the Casino Control Act.

Suitability

It is a core task of the VCGLR to ensure the suitability of the casino operator and the individual and corporate associates who are in a position to influence its management and operations. The VCGLR also monitors, and from time to time investigates, the business associates of the casino operator and its associates. This task is underpinned by one of the purposes of the Casino Control Act, which is to ensure the management and operation of the Melbourne Casino remain free from criminal influence.

The VCGLR's investigations into suitability involved consideration of corporate structure, probity, financial stability and management ability. PwC were engaged as financial advisers to the VCGLR to assist in this task.

The VCGLR found that the Crown Group has a suitable corporate structure and appropriate management ability. The VCGLR also found that the Crown Group is financially stable, while noting the challenges inherent in its ambitious expansion plans and increasing dependence on VIP players.

The VCGLR's investigations reveal that the casino operator and its associates remain of good repute.

The VCGLR also investigated whether any of the business associates of Crown Melbourne Limited and its associates were not of good repute, or have undesirable or unsatisfactory financial resources. While the VCGLR did not make any adverse findings about any business associates, it makes a number of observations about the Crown Group's expansion plans in the Asia-Pacific region.

The Crown Group's expansion creates opportunities and risks for the Australian casino market, and implications for the regulation of the Melbourne Casino. Crown Limited has continued its expansion in Australia and, through its joint

venture partners, into Asia. While the Crown Group can benefit from business growth overseas and the experience and business contacts with new and emerging casino markets, it is also exposed to potential financial and regulatory risk.

In particular, the VCGLR investigated Crown Limited's approach to managing risk and ensuring compliance with anti-bribery and anti-corruption laws when investing in international markets. While no specific recommendations have been made, the VCGLR remains cautious about Crown Limited's expansion into countries with public sector governance challenges and will be monitoring current and future investments closely, including Melco Crown's investment in the Philippines, and any possible Crown Group investment in Sri Lanka.

The VCGLR is of the view that Crown Melbourne Limited should be adhering to the best practice recommendations of the Institute of Internal Auditors and has made two recommendations for changes to its internal audit processes on this basis.

The VCGLR has made recommendations about Crown Limited's processes and procedures for assessing the independence of its external auditor. While the VCGLR has found no issues with the conduct of its external auditor, the proportion of non-audit fees are particularly high and the VCGLR has recommended that Crown Limited periodically perform a comprehensive assessment of the independence of its external auditor.

Compliance with obligations

The extensive statutory and contractual obligations placed on Crown Melbourne Limited reflect the scale and complexity of the Melbourne Casino.

The VCGLR has scrutinised Crown Melbourne Limited's records, systems and outcomes in relation to its obligations concerning the conduct of casino operations; the status of the Melbourne Casino; its finances and structure; the prevention of criminal activity at the Melbourne Casino; and the welfare of patrons, including minimising the harm of problem gambling.

The VCGLR has found that, overall, Crown Melbourne Limited has a high level of compliance with its statutory and contractual obligations. Several opportunities for improvement have been

identified, and the VCGLR will work with Crown Melbourne Limited in these areas.

Crown Melbourne Limited operates the Melbourne Casino as a successful business. Since 2008, Crown Melbourne Limited has invested significant capital into the Melbourne Casino Complex, including a \$1.2 billion refurbishment of gaming and non-gaming areas. There have been improvements in Crown Melbourne Limited's non-gaming business, including the construction of a new hotel, Crown Metropol, and the addition of new high-quality restaurants. The VCGLR considers that the Melbourne Casino Complex remains competitive and comparable with international casinos of a similar size and nature.

Legislative changes to improve responsible gambling practices at the Melbourne Casino have come into effect since 2008. These include the implementation in 2009 of a Responsible Gambling Code of Conduct. The VCGLR has found that Crown Melbourne Limited has generally been compliant with its obligations in relation to responsible gambling.

However, the VCGLR has found that the board-level oversight and management of responsible gambling issues at the Melbourne Casino are the responsibility of Crown Limited, not Crown Melbourne Limited. While there is a mechanism for the transfer of information and decisions between the two through exception reporting and common directors, there is no formal consideration of responsible gambling issues by the Crown Melbourne Limited Board at its meetings. The VCGLR has recommended that within the next 12 months Crown Melbourne Limited establish a formal mechanism for the Crown Melbourne Limited Board to regularly consider, and deal with, responsible gambling issues and obligations at the Melbourne Casino.

The VCGLR considers that as casino operations become more sophisticated, the processes and tools for assisting patrons to gamble responsibly should develop accordingly. The VCGLR has found that while Crown Melbourne Limited has improved its list of observable signs of distress in its Responsible Gambling Code of Conduct, it relies on observable signs alone, rather than also analysing player data, to initially identify if a person may have a gambling

problem. The VCGLR has made a recommendation that Crown Melbourne Limited trial the use of player data analysis as an initial indicator to identify players who may be having problems with their gambling.

The VCGLR has found that Crown Melbourne Limited treats its obligations in relation to people who breach their exclusion orders seriously. While recognising the difficulty of preventing all excluded persons from entering the Melbourne Casino, the VCGLR is concerned that Crown Melbourne Limited may not be effectively preventing excluded persons from entering VIP gaming areas in the Melbourne Casino.

The VCGLR has made recommendations to Crown Melbourne Limited about implementing a management plan for detecting persons subject to an exclusion order attempting to enter VIP gaming rooms; providing additional support for people who have had their self-exclusion orders revoked; further trials of facial recognition technology to improve the detection of persons subject to an exclusion order; and requesting prospective Signature Club members to disclose whether they have ever been excluded from other gambling premises.

The risk of criminals seeking to launder money through, and conduct criminal business at, casinos remains real. Given the increasing scale and sophistication of money laundering operations, vigilance by casino operators, regulators and law enforcement agencies is required.

The VCGLR has emphasised the need for vigilance by Crown Melbourne Limited in its compliance with AML/CTF Act requirements, and in particular, knowing its customers.

Melbourne Casino Operations

The core business of Crown Melbourne Limited is the provision of gambling through table games and gaming machines. The conduct of those games is a key focus of the VCGLR's compliance and audit activities. This is supported by one of the purposes of the Casino Control Act, which is to ensure casino games are conducted honestly.

No significant issues were found in relation to the conduct of gaming at the Melbourne Casino or with Crown Melbourne Limited's processes and procedures. While there have been occasional

breaches of game rules and internal controls, none of these were significant for the purposes of this review and no further action is required.

In addition to its core gaming operations, the VCGLR also investigated Crown Melbourne Limited's processes and procedures relating to security and surveillance operations at the Melbourne Casino.

While the VCGLR has found that improvements have been made to security processes since 2008, there was a tragic incident involving Melbourne Casino security officers and three patrons who were removed from the Melbourne Casino Complex in July 2011. One of the patrons subsequently died four days after his removal. The VCGLR has been monitoring the criminal and civil proceedings following this incident and will continue to monitor any further legal proceedings, including any possible coronial inquest. As the VCGLR's investigations and processes related to these matters are continuing, the VCGLR has excluded these matters from the formation of its opinion in this review.

The VCGLR has also made a recommendation in relation to the availability of game rules to players. As more variations of popular and well-known games are introduced, Crown Melbourne Limited must ensure its players are well informed and able to make an informed choice regarding game and bet type.

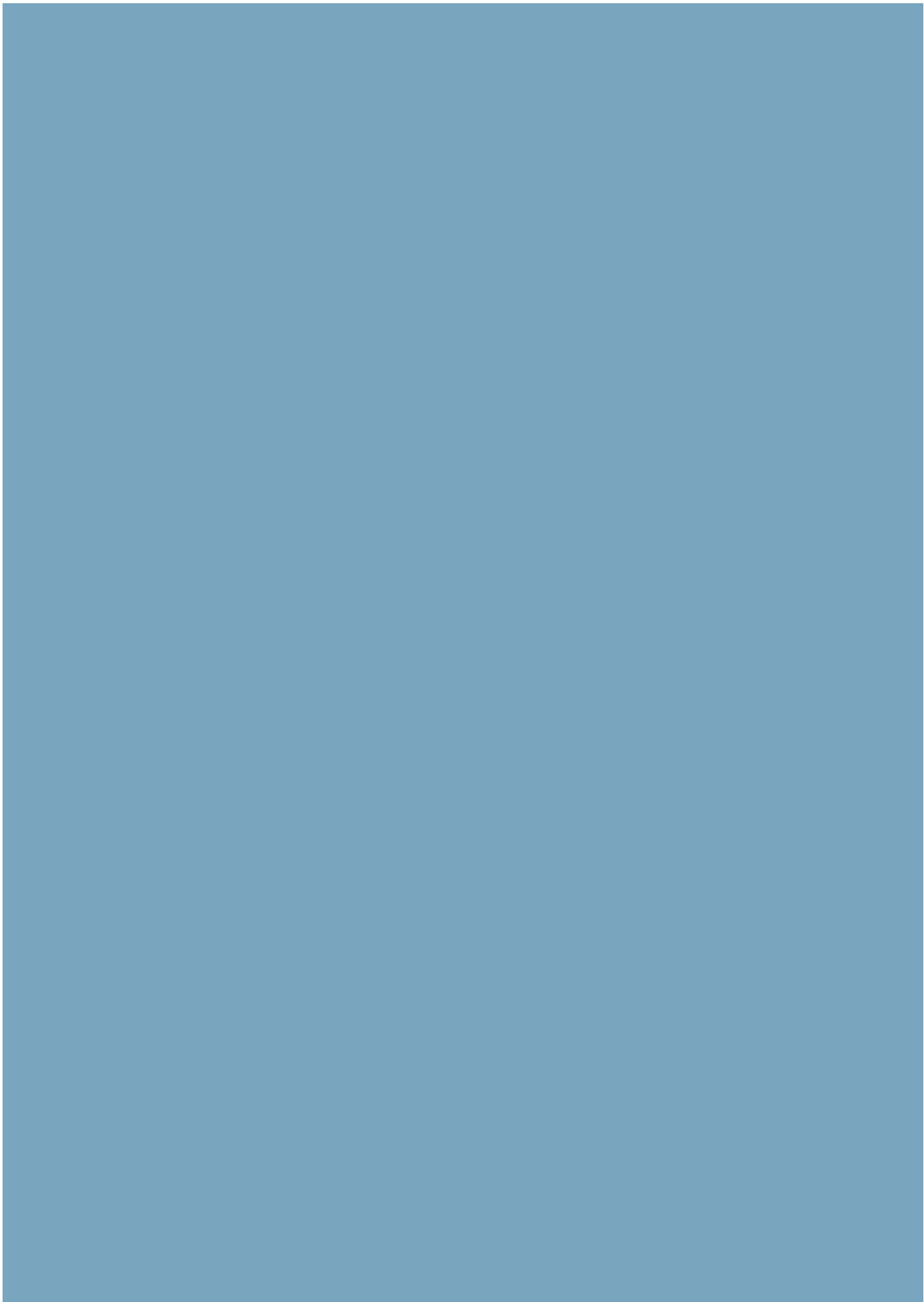
Recommendations

Based on the findings of this review, the VCGLR has directed a number of recommendations to Crown Melbourne Limited.

The VCGLR will be monitoring the casino operator's response to the recommendations closely, and will, where necessary, consider whether it needs to exercise any of its powers under the Casino Control Act.

End note

The VCGLR notes that Crown Melbourne Limited and Crown Limited's cooperation with the review was complete and generally timely. The VCGLR was also grateful for information and assistance afforded by a wide range of international and Australian authorities, especially the Independent Liquor and Gaming Authority of New South Wales.



Summary of Opinions and Recommendations

This page summarises the VCGLR's opinions in relation to section 25(1) of the Casino Control Act and its recommendations. These recommendations should be read in the context of the chapters in which they are found.

Part 2 – Suitability

Based on the investigations conducted by the VCGLR under section 25(1)(a) of the Casino Control Act, the VCGLR has formed the opinion that the casino operator remains a suitable person to continue to hold the casino licence.

The VCGLR has also made the following recommendations:

Recommendation 1

The VCGLR is of the view that Crown Melbourne Limited should be adhering to the best practice recommendations of the Institute of Internal Auditors and as such, recommends that the General Manager, Risk & Assurance report directly to the CEO of Crown Melbourne Limited.

Chapter 2.4 – Management Ability, page 61.

Recommendation 2

To ensure it is adhering with its Charter and the best practice recommendations of the Institute of Internal Auditors, the VCGLR recommends that the Crown Melbourne Limited Audit Committee:

- Conduct a review of the independence of the internal audit function;
- Conduct an independent quality assessment of the internal audit function; and
- Provide the results of each assessment to the VCGLR within 6 months of this report.

Chapter 2.4 – Management Ability, page 61

Recommendation 3

Given the consistently high non-audit fees paid by Crown Limited to its external auditor and in order to fully comply with its Charter, the VCGLR recommends that the Crown Limited Audit & Corporate Governance Committee perform a comprehensive assessment of the independence of its external auditor on a periodic basis and provide the results of each assessment to the Crown Limited Board and the VCGLR. The first assessment should be completed and provided to the VCGLR

within 6 months of this report.

Chapter 2.4 – Management Ability, page 65

Part 3 – Compliance with Obligations

Based on the investigations conducted by the VCGLR under section 25(1)(b) and (c) of the Casino Control Act, the VCGLR has formed the opinion that:

- (b) the casino operator is complying with the Casino Control Act, the Casino Management Agreement Act, the Gambling Regulation Act and the regulations made under any of those Acts;
- (c) in the case of the Melbourne Casino operator, the casino operator is complying with—
 - (i) the Transaction Documents; and
 - (ii) any other agreements between the casino operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming.

The VCGLR has also made the following recommendations:

Recommendation 4

The VCGLR has found that the board-level oversight and management of responsible gambling issues at the Melbourne Casino are the responsibility of Crown Limited, not Crown Melbourne Limited. While there is a mechanism for the transfer of information and decisions between the two through exception reporting and common directors, there is no formal consideration of responsible gambling issues by the Crown Melbourne Limited Board at its meetings.

To strengthen the oversight and implementation of responsible gambling practices at the Melbourne Casino, the VCGLR recommends that within the next 12 months, Crown Melbourne Limited establish a formal mechanism to regularly consider, and deal with, responsible gambling issues and obligations at the Melbourne Casino.

Chapter 3.4 – Responsible Gambling, page 94

Recommendation 5

To assess the effectiveness of the use of player data in relation to intensity, duration and frequency of play as a tool to assist in identifying potential problem gamblers, the VCGLR recommends that:

- Within 18 months, Crown Melbourne Limited trial for a reasonable period the use of player data analysis as an initial indicator to identify players who may be having problems with their gambling;
- The Crown Melbourne Limited Board and Crown Limited's Responsible Gaming Committee consider the effectiveness of the trial; and
- Crown Melbourne Limited provide a copy of the report on the outcome of the trial to the VCGLR within 3 months of the report being considered by Crown Limited's Responsible Gaming Committee and the Crown Melbourne Limited Board.

Chapter 3.4 – Responsible Gambling, page 99

Recommendation 6

The VCGLR is concerned that the casino operator may not be effectively preventing persons subject to exclusion orders from entering the VIP gaming areas in the Melbourne Casino. The VCGLR recommends that as part of a review of its entrance procedures to VIP gaming areas, Crown Melbourne Limited develops and implements a management plan for detecting excluded people attempting to gain entry to the VIP gaming areas. A copy of the plan should be provided to the VCGLR within 12 months of this report.

Chapter 3.5 – Exclusion Orders, page 109

Recommendation 7

To assist in mitigating the risk of people who have self-excluded from other venues developing problems at the Melbourne Casino, and to assist in preventing people subject to interstate exclusion orders from entering the Melbourne Casino, the VCGLR recommends that Crown Melbourne Limited:

- Request prospective Signature Club members to disclose if they are, or ever have been, subject to any type of exclusion order in any Australian jurisdiction, other than at the Melbourne Casino; and

- Consider whether it is appropriate for prospective Signature Club members who disclose they have been subject to an exclusion order to join the Signature Club and if any further actions should be taken.

Chapter 3.5 – Exclusion Orders, page 109

Recommendation 8

In order to strengthen its processes for detecting excluded people attempting to gain entry to the VIP gaming areas of the casino, the VCGLR recommends that:

- Within 12 months of this report Crown Melbourne Limited commences a trial of facial recognition technology to improve the detection of excluded persons attempting to enter, or remaining in, the VIP gaming areas of the Melbourne Casino; and
- The Crown Melbourne Limited Board consider a report on the outcomes of the trial and provide a copy of that report to the VCGLR.

Chapter 3.5 – Exclusion Orders, page 111

Recommendation 9

The VCGLR considers that Crown Melbourne Limited's processes and procedures for dealing with revocations of self-exclusion orders are generally sound. However, to provide additional support for people who have had their self-exclusion orders revoked, the VCGLR recommends that Crown Melbourne Limited:

- Ensure that no advertising or other promotional material is sent to a person who has previously been the subject of a self-exclusion order for an appropriate period;
- Formalise the Responsible Gaming Support Centre's recently commenced process of contacting people around three months after their self-exclusion order has been revoked; and
- Continue to monitor research and, where appropriate, amend its processes to reflect the latest information on managing resumption of gambling after a self-exclusion order has been revoked.

Chapter 3.5 – Exclusion Orders, page 114

Part 4 – Melbourne Casino Operations

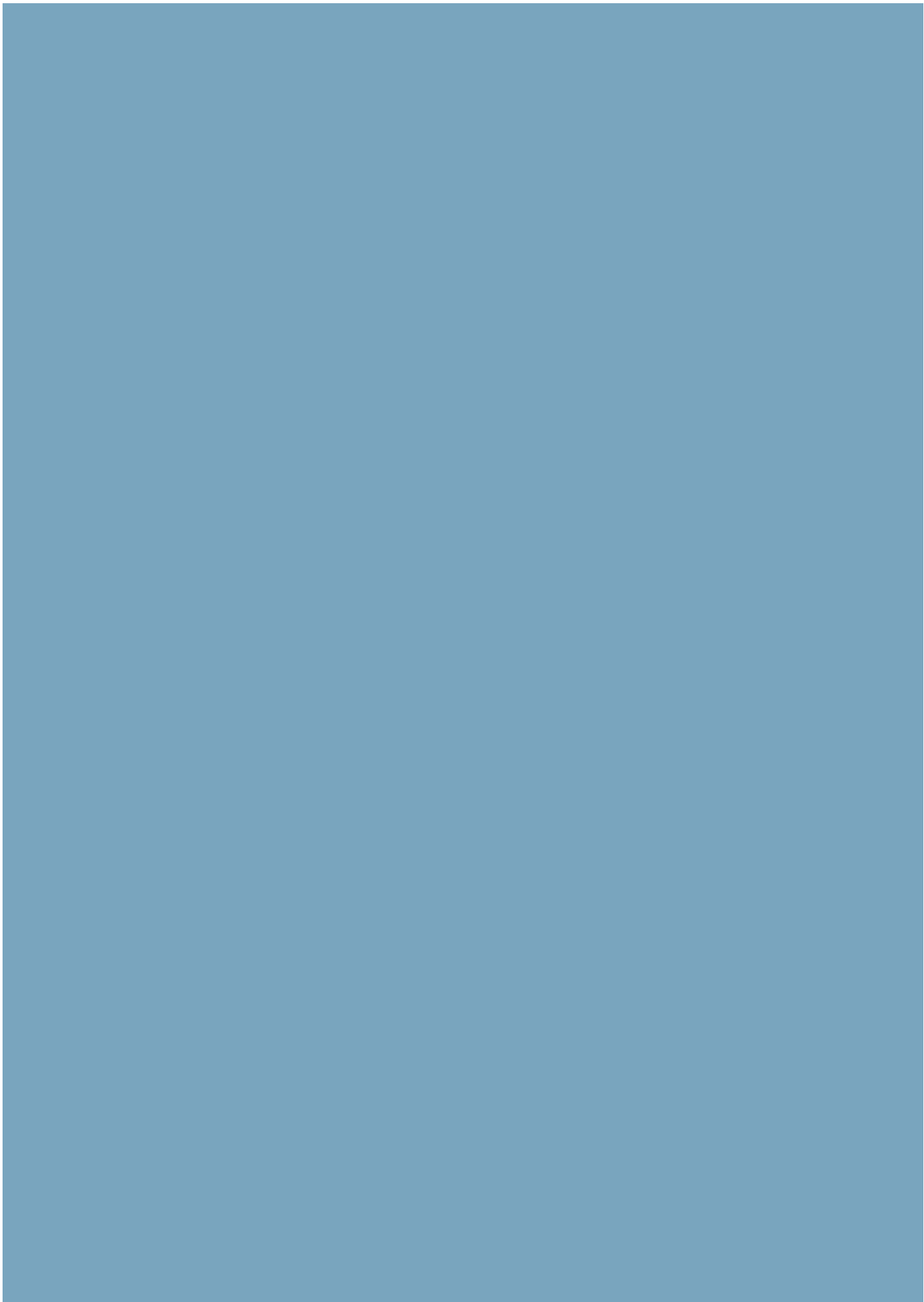
Based on the investigations conducted by the VCGLR under section 25(1)(d) of the Casino Control Act, the VCGLR has formed the opinion that it is in the public interest that the casino licence should continue in force.

The VCGLR has also made the following recommendation:

Recommendation 10

To improve player access to game rules at the Melbourne Casino, Crown Melbourne Limited should increase the availability of game rules and improve the communication of important aspects of variations to well-known casino games at gaming tables. Crown Melbourne Limited should also, if feasible, make the game rules available on the mobile version of its website.

Chapter 4.3 – Management and Supervision of Gaming and Betting, page 146



Part 1 – Introduction

1.1 Scope and conduct of investigations

Victorian Commission for Gambling and Liquor Regulation

The VCGLR is the independent statutory authority that regulates Victoria's liquor and gambling industries. The VCGLR was established by the VCGLR Act and started operating on 6 February 2012. The VCGLR Act transferred the roles and functions of the VCGR, the Director of Liquor Licensing, and the Liquor Licensing Panel, to the VCGLR.

Under the VCGLR Act, the VCGLR also has the power to undertake liquor disciplinary actions, replacing the role of the Victorian Civil and Administrative Tribunal in relation to liquor matters. In addition, the VCGLR assumed the administrative and educative functions of Responsible Alcohol Victoria.

The VCGLR's statutory obligations are set out in several Acts of Parliament. These include regulating:

- The liquor industry in accordance with the Liquor Control Reform Act; and
- Legalised gambling, including casino gambling, in accordance with the Gambling Regulation Act, the Casino Control Act and the Casino (Management Agreement) Act.

The Casino Control Act and casino reviews

This is the fifth review of the casino operator and licence under section 25 of the Casino Control Act, and the first conducted by the VCGLR.

Crown Melbourne Limited is the sole Victorian casino operator and operates the Melbourne Casino at the Melbourne Casino Complex at Southbank under a licence granted to it on 19 November 1993. The Melbourne Casino licence expires on 18 November 2033.

The Casino Control Act is the main statute regulating the Melbourne Casino licence and the casino operator. The key purposes of the Casino Control Act are to establish a system for the licensing, supervision and control of casinos with the purpose of:

1. Ensuring that the management and operation of casinos remains free from criminal influence or exploitation; and
2. Ensuring that gaming in casinos is conducted honestly; and
3. Promoting tourism, employment, and economic development generally in the State.

The objective of the VCGLR under the Casino Control Act is to maintain and administer systems to achieve the first and second purposes above, as well as fostering responsible gambling in casinos in order to:

1. Minimise harm caused by problem gambling; and
2. Accommodate those who gamble without harming themselves or others.

Scope of section 25 investigations

The VCGLR must investigate the casino operator and casino licence at least once every five years under the Casino Control Act. Section 25(2) of the Casino Control Act requires the VCGLR to report its findings and opinion to the Minister, giving reasons for its opinion. It must also take whatever action it considers appropriate in the light of its findings.

Section 25(1) of the Casino Control Act sets out the scope of the periodic investigations the VCGLR must conduct into the casino operator and licence.

Section 25(1) provides:

25 Regular investigations of casino operator's suitability etc.

- (1) Not later than 3 years after the commencement of operations in a casino, and thereafter at intervals not exceeding 5 years, the Commission must investigate and form an opinion as to each of the following matters—
- (a) whether or not the casino operator is a suitable person to continue to hold the casino licence;
- (b) whether or not the casino operator is complying with this Act, the Casino (Management Agreement) Act 1993, the Gambling Regulation Act 2003 and the regulations made under any of those Acts;
- (c) in the case of the Melbourne Casino Operator, whether or not the casino operator is complying with—
- (i) the transaction documents; and
- (ii) any other agreements between the Melbourne Casino Operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming;
- (d) whether or not it is in the public interest that the casino licence should continue in force.

The first element, set out in section 25(1)(a), addresses the suitability of the casino operator and requires an examination of the attributes of the casino operator, its associates and their business associates, such as its honesty, integrity and financial stability. These matters are considered in Part 2 – Suitability.

The second and third elements direct the VCGLR to investigate the extent to which the casino operator is complying with specified statutory and contractual obligations. These elements were added by the *Casino Control (Amendment Act) 2005*. Before 2005, many of the matters under the second and third elements were addressed as part of the general suitability or public interest elements. However, sections 25(1)(b) and (c) broaden the review and make clear that compliance with the specified obligations should be investigated separately and in greater depth. These investigations are set out in Part 3 – Compliance with Obligations.

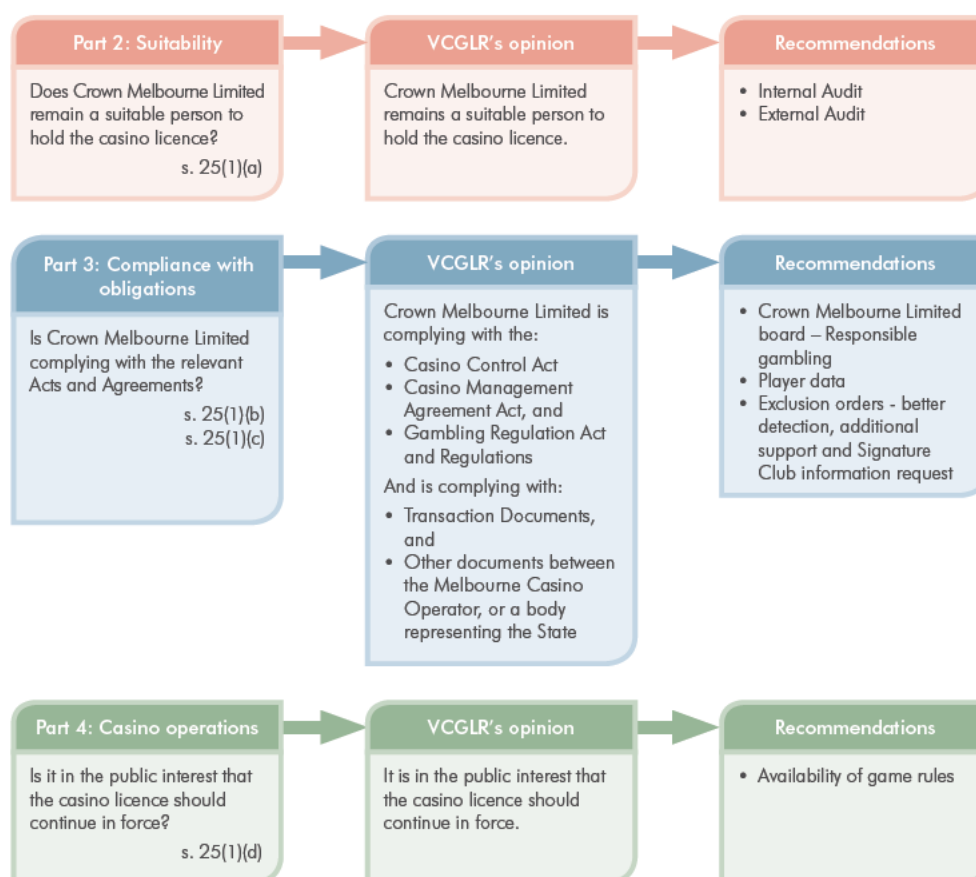
The fourth element concerns the public interest in the casino licence continuing. This element is not a general consideration of the public interest, rather

it addresses the suitability of casino operations, as opposed to the operator itself. This is because the Casino Control Act limits the definition of 'public interest' to the 'creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations'. These investigations are set out in Part 4 – Melbourne Casino Operations.

Legal advice obtained from Senior Counsel confirms the fourth element does not require or allow an investigation of whether it is in the public interest for there to continue to be a casino in Victoria. Other issues that are not within the scope of a casino review under section 25 of the Casino Control Act are:

- Tourism, employment and economic development;
- General social and personal damage that may be attributable to gambling; and
- General gambling policy, including specific government policies about casinos or gambling.

Figure 1: Structure, findings and recommendations of this report



Source: VCGLR

Previous casino reviews

There have been four previous casino reviews under section 25 of the Casino Control Act. They were conducted by the VCGR, and before that, the VCGA.

Casino reviews were conducted on a triennial basis from the start of casino operations in 1994 until 2005, when the Casino Control Act was amended to require casino reviews at least once every five years.

Fourth Casino Review

The Fourth Casino Review was provided to the Minister on 30 June 2008. The key findings of the Fourth Casino Review were:

- Crown Melbourne Limited is a suitable person to hold the casino licence;
- Crown Melbourne Limited is complying with the *Casino Control Act 1991*, the *Casino (Management Agreement) Act 1993*, the *Gambling Regulation Act 2003* and the regulations made under all of those Acts;

Figure 2: Casino Reviews by regulatory body



- Crown Melbourne Limited is complying with-
 - (i) the Transaction Documents; and
 - (ii) any other agreements between it and the State, or a body representing the State, that impose obligations on Crown Melbourne Limited in relation to gaming;
- It is in the public interest that the casino licence should continue in force.

The Fourth Casino Review made a number of recommendations and comments regarding Crown Melbourne Limited and Melbourne Casino operations. These issues, along with matters excluded from the Fourth Casino Review on the basis they were incomplete or ongoing, are addressed in the respective parts of this report.

Matters excluded from the Fifth Casino Review

Some matters have been excluded from the VCGLR's formation of its opinions in the Fifth Casino Review as they involve pending or ongoing investigations, litigation or criminal proceedings, or other matters that have not been concluded.

These matters include:

- An incident involving Melbourne Casino security officers and three patrons who were removed from the Melbourne Casino Complex in July 2011. One of the patrons subsequently died four days after his removal. The VCGLR's investigations and processes related to these matters are continuing and as a result, the VCGLR has excluded these matters from the formation of its opinion in this review. More information on security matters is in Chapter 4.4 – Security and Surveillance.

- Employees of a subsidiary of Melco Crown which operates the Melco Crown Taiwan sales office were contacted by the Taiwan prosecutors office in January 2013 concerning Taiwanese banking laws. The VCGLR understands that no formal charges have been brought against the Melco Crown subsidiary, its officers or employees at this time.
- Proceedings brought in the District Court – Clark County in Nevada against Crown Limited and others alleging that information was fraudulently concealed from lenders on the Las Vegas Fontainebleau project. Crown Limited applied to the Supreme Court of Nevada for the issue of a Writ of Mandamus against the District Court in relation to a ruling not to strike out all of the Plaintiffs' claims against the Crown Limited defendants. That application was denied on 15 May 2013. Those claims of the Plaintiff which have not been struck out will proceed in the District Court.
- Proceedings brought on behalf of One.Tel Limited (in liquidation) and its special purpose liquidator against former directors, including Mr James Packer, concerning the resolution to not proceed with a proposed \$132 million rights issue.
- An incident reported in 2013 in which a VIP player was suspected of colluding with an employee to manipulate a game to increase his winnings at the Melbourne Casino. Investigations into this matter are ongoing. More information on security matters is in Chapter 4.4 – Security and Surveillance.

- At the time of writing, Crown Limited was in discussions concerning a possible investment in Colombo, Sri Lanka. As Crown Limited has advised that no agreement has been reached, that possible investment, and any investigations into potential new business associations that may be created, have not formed part of the deliberations of the Fifth Casino Review.

All pending litigation and criminal proceedings will be monitored and investigated as necessary by the VCGLR. When each matter, and the VCGLR's investigations, are concluded, the VCGLR will consider whether any further action needs to be taken.

Crown Melbourne Limited and Crown Limited's management of litigation and the provision made for potentially material adverse decisions is considered in Chapter 2.4 – Management Ability.

There is also an ongoing issue relating to whether entry fees for poker tournaments should be included in the calculation of gross gaming revenue for the purposes of the Casino Control Act. Crown Melbourne Limited disputes the VCGLR's view on the matter. The issue is ongoing and has therefore not been considered as part of this review. Issues relating to tax are dealt with in Chapter 3.9 – General Compliance with Licence and Agreements.

Conduct of the investigation

The VCGLR started the Fifth Casino Review in accordance with section 25 of the Casino Control Act in June 2012.

A separate team was established within the VCGLR to conduct the investigations, reporting to a steering committee comprising the Chair, Mark Brennan (until December 2012), Commissioner Bruce Thompson (acting Chair from January 2013), Commissioner Robert Kerr (presiding over day-to-day progress) and CEO Jane Brockington.

Methodology and risk focus

The VCGLR used the four elements of section 25(1) of the Casino Control Act to develop an investigation plan for the Fifth Casino Review. Investigations were designed to utilise the VCGLR's ongoing regulation of the casino since 2008 and focus on matters central to the purposes of gambling legislation and the objectives of the VCGLR.

While the review under section 25 of the Casino Control Act is largely a compliance review, the VCGLR's investigations for the Fifth Casino Review have been shaped by its assessment of the key regulatory risks in its oversight of the casino and casino operator. This involved considering the changing international and local casino environment and focusing on the regulatory obligations that may not align with the casino operator's commercial incentives. These key risks include:

- A significant expansion program by the Crown Group both domestically and internationally. There are two implications from this expansion plan:
 - The potential for financial overreach in undertaking refurbishments at the Melbourne Casino and Crown Perth, the construction of a new hotel at Crown Perth, the potential development at Barangaroo in Sydney and any new share acquisitions in Echo Entertainment Group Limited; and
 - Potential financial and probity risks arising from the Crown Group's investments in the Asia-Pacific region, including the risks arising from conducting business in any jurisdiction with public sector governance challenges.
- Over time, there has been an increase in the responsible gambling obligations on the casino operator. While the casino operator has incentives to encourage its patrons to gamble responsibly, at times these may conflict with commercial incentives.
- The attractiveness of casinos to organised crime caused by the variety, frequency and volume of financial transactions conducted. Law enforcement agencies advised the VCGLR that money laundering is an increasingly central and prominent element of organised crime.

The VCGLR examined and analysed its own internal databases, records and intelligence, as well as external databases, reports and websites. Media searches in relation to Crown Melbourne Limited, its associates and their business associates were undertaken and reviewed.

Throughout the investigations, documents and information were obtained from Crown Melbourne Limited, its associates (in particular

Crown Limited) and their business associates. Crown Melbourne Limited and Crown Limited also provided presentations to the VCGLR on key issues. The Melbourne Casino Complex was visited by the VCGLR on numerous occasions, including inspections of VIP gaming areas. Interviews were conducted with a wide range of people in the Crown Group, including directors, senior executives, dealers and service staff.

The VCGLR was generally pleased by the approach of Crown Melbourne Limited, Crown Limited and other members of the Crown Group to its requests. They complied with all requests for access to information, documents, presentations, and access to senior executives and staff, in a generally timely manner. The quality of Crown Melbourne Limited's submission, presentations and responses to the VCGLR's questions was high.

The VCGLR consulted closely with a wide group of relevant stakeholders, including interstate and overseas regulators, law enforcement agencies, other government agencies and community groups. The VCGLR also visited Macau and Singapore as part of its investigations, to consult regulators, attend the International Association of Gaming Regulators conference and investigate leading casino operations, processes and practices. These visits and consultations informed the VCGLR's assessment of the risks to the Melbourne Casino and the casino market in general. A full list of stakeholder consultations is at Appendix 8.

In November 2012, PwC was engaged as the financial adviser to the Fifth Casino Review under the Victorian Government Commercial and Financial Advisory Services Panel. PwC assisted the VCGLR in its consideration of the financial stability and management ability of Crown Melbourne Limited and its associates, as well as the financial aspects of some of the casino operator's contractual obligations to the State of Victoria and the VCGLR.

As investigations were concluding, Crown Melbourne Limited was given a copy of the findings, analysis and recommendations of the Fifth Casino Review to afford procedural fairness to Crown Melbourne Limited and to ensure the factual accuracy of the report. Crown Melbourne Limited was informed that its response may form

part of the report and may ultimately be made public. A copy of the letter from Crown Melbourne Limited is at Appendix 2.

Probity

Anne Dalton & Associates were appointed under the Victorian Government Probity Practitioners Panel as probity advisers to the Fifth Casino Review. A probity plan was settled by Anne Dalton & Associates and adopted by the VCGLR. The probity plan focused on ensuring confidentiality of sensitive information and managing any potential conflicts of interest.

Advice was sought during the review as required. Anne Dalton & Associates periodically reviewed compliance with the probity plan.

A report from Anne Dalton & Associates is at Appendix 3.

Web page and public submission process

In March 2012, a webpage was established on the VCGLR website at www.vcglr.vic.gov.au/casinoreviews where relevant information and documents about the Fifth Casino Review were posted. The website was maintained and updated throughout the Fifth Casino Review.

On 29 August 2012, the public was invited to make submissions to the Fifth Casino Review by 15 October 2012. Details of the submission process were placed on the VCGLR website, put in the VCGLR newsletter (which was distributed to more than 10,000 subscribers), and advertisements were placed in *The Age*, *The Australian* and *The Australian Financial Review*.

In response, the VCGLR received one submission (from Crown Melbourne Limited), a copy of which is available on the Fifth Casino Review webpage.

Roundtable discussion

On 7 February 2013, a round-table conference was conducted with gamblers help professionals and community groups. The round-table was attended by representatives from Gamblers Help Southern, VCOSS and the Vietnamese Women's Association and discussed Crown Melbourne Limited's responsible gambling practices and their experiences with Crown Melbourne Limited on responsible gambling issues.

Responsible gambling issues are further addressed in Chapter 3.4 – Responsible Gambling.

Regulation of the Melbourne Casino

The VCGLR conducts a wide range of day-to-day and periodic activities as part of its ongoing regulation and monitoring of the casino operator and the casino. The VCGLR has broad functions to ensure the casino operator's compliance with the Casino Control Act, the Gambling Regulation Act, the Casino Management Agreement Act, relevant regulations made under those Acts and the suite of commercial agreements concerning the operation of the Melbourne Casino Complex.

Casino inspectors have offices and a constant presence at the Melbourne Casino Complex. Casino inspectors receive and resolve complaints from customers and undertake a detailed and rolling program of audits and inspections at the Melbourne Casino.

VCGLR inspectors are granted extensive powers under the Gambling Regulation Act and the Casino Control Act to investigate compliance with those Acts. The VCGLR has a number of enforcement tools at its disposal, including criminal prosecutions, written warnings, and disciplinary action. The use of these options is dependent on the type and circumstances of the breach. In instances where the breach can be rectified immediately, no action may be taken.

Since 2012, the VCGLR has also regulated the 13 liquor licences granted to Crown Melbourne Limited. This involves regular inspections of Crown Melbourne Limited's compliance with its obligations under the Liquor Control Reform Act.

The casino operator must also regularly report to the VCGLR on financial, governance and commercial information under Schedules 4 and 5 of the Casino Agreement.

Since 2008, thousands of audits have been conducted as part of the VCGLR's compliance program to ensure gambling taxes are correctly calculated and paid, gaming machines are correctly installed and functioning properly on approved software, casino employees are strictly complying with all requirements and the integrity of gaming is maintained.

Under the Casino Control Act, the VCGLR licences the casino, approves its associates and licences certain employees with functions related to gambling. Since 2008, 9 new associated individuals and 3,535 casino special employees were investigated and approved by the VCGLR. The VCGLR also continued ongoing monitoring of the Melbourne Casino, its associates, business associates and special employees. Since 2008, many investigations were carried out and 77 licensed special employees had their licences cancelled or were issued with letters of censure, the majority of whom had already had their employment terminated by Crown Melbourne Limited, and four casino special employee licences were refused. No applications for associates were refused.

A wide range of approvals are required for the ongoing operation of the Melbourne Casino. Since 2008, the VCGLR approved five applications for new casino table games; 16 games variations and side wagers; 98 miscellaneous amendments to table games rules; 59 amendments to the approved system of controls and procedures; 138 changes to the casino layout, including specified areas; and 18 applications for approval for casino boundary changes.

Casino inspectors also enforce exclusion orders by detecting, removing and in some cases prosecuting excluded persons who breach their exclusion orders. Since 2008, 593 people were issued with official warnings and 67 people were prosecuted for breaching exclusion orders.

Significant regulatory events since 2008

Gambling Legislation Amendment (Responsible Gambling and Other Measures) Act 2008

This Act introduced a range of responsible gambling measures in relation to gaming machines. It made changes to the law to enable irresponsible gambling products and practices to be banned; consolidated offence provisions into the Gambling Regulation Act (removing them from the Casino Control Act); consolidated offences in relation to minors; and increased the penalties applying to offences relating to minors. It also established a new objective in the Gambling Regulation Act to ensure that minors are neither encouraged to gamble nor allowed to do so.

The consolidation of provisions relating to minors created uniform offences that prohibit:

- Allowing a minor to gamble;
- Assisting a minor to gamble;
- Gambling by a minor;
- Minors entering a gaming machine area or a casino; and
- Use of false evidence of age.

Responsible Gambling Code of Conduct

The *Gambling Legislation Amendment (Problem Gambling and Other Measures) Act 2007 (Vic)* introduced mandatory Responsible Gambling Codes of Conduct for gambling licence holders in Victoria.

In June 2009, Crown Melbourne Limited's first Responsible Gambling Code of Conduct was approved by the VCGLR. Responsible Gambling Codes of Conduct are designed to provide a minimum set of responsible gambling standards for all licence holders, including the casino operator. The Gambling Regulation Act requires an annual review of the Responsible Gambling Codes of Conduct.

To assist the industry with the implementation of Responsible Gambling Codes of Conduct, the Minister issued a Ministerial Direction which set out the matters that must be addressed in the codes. The Minister also issued Ministerial Guidelines, which provide examples of how some of the specific items detailed in Ministerial Directions can be fulfilled within a code.

The VCGLR must ensure the requirements for Responsible Gambling Codes of Conduct detailed in the Ministerial Direction are satisfied before approving, or amending a Responsible Gambling Code of Conduct.

Crown Melbourne Limited's Responsible Gambling Code of Conduct has been reviewed on three occasions between 2010 and 2012. More details can be found in Chapter 3.4 – Responsible Gambling.

Ninth Deed of Variation to the Casino Management Agreement

The heads of agreement for the Ninth Deed of Variation to the Casino Management Agreement (Ninth Variation) was signed by the State of Victoria and Crown Melbourne Limited in June 2009.

The Ninth Variation allowed for the maximum number of gaming tables available for table games at any one time at the casino to increase from 350 to 400 and allowed Crown Melbourne Limited to operate a further 100 poker tables, making the total number of gaming tables permitted 500.

The Ninth Variation also clarified the status of Semi-Automated and Fully-Automated Table Games as table games, and placed a limit on the number of stations that could be attached to Fully-Automated Tables Games base units.

Some changes to the taxes applying to the casino were also made:

- The tax rate for Crown Melbourne Limited's gaming machines was agreed to be incrementally increased from 21.25 per cent to 31.57 per cent, in addition to the 1 per cent Community Benefit Levy, over six years;
- The Health Benefit Levy of \$3,333 per gaming machine per annum was abolished on 30 June 2012; and
- There was also a staged increase to the super tax base amount for gaming revenue. More details on tax can be found in Chapter 3.9 – General Compliance with Licence and Agreements.

In October 2009, before it was ratified by the Victorian Parliament in December of that year, the VCGR conducted a social and economic impact assessment of the Ninth Deed of Variation to the Casino Management Agreement.

The VCGR's report concluded that it was reasonable for the Victorian Government to enter into the Ninth Deed of Variation to the Casino Management Agreement and the outcome would be financially positive for the State of Victoria and neutral to slightly positive for Crown Melbourne Limited.

The VCGR also concluded the addition of 150 table games was unlikely to have a significant impact on problem gambling.

In the course of making these findings, the VCGR also raised several issues that will be addressed in this report.

In particular the finding in the Fourth Casino Review that *'while the Commission recognises that Crown Melbourne's responsible gambling program is among the best in the world, it nevertheless considers that Crown Melbourne could review the program with a view to more proactively and effectively intervening where anomalies appear in an individuals gambling expenditure patterns. This may identify potential problem gamblers. The Commission expects that Crown Melbourne will review its monitoring systems and implement changes so as to better identify situations where gamblers could be gambling with other people's money.'*

Crown Melbourne Limited's supervision of gaming activities from a harm minimisation perspective is addressed in Chapter 3.4 – Responsible Gambling.

A discussion of identifying people gambling with proceeds of crime and Crown Melbourne Limited's response is detailed in Chapter 3.7 – Law Enforcement Agencies and the Prevention of Criminal Activity at the Melbourne Casino.

Regulation by other agencies

Like many large businesses, Crown Melbourne Limited is also regulated by a range of government regulators and has regular dealings with law enforcement agencies and other agencies. The VCGLR's main regulatory functions are the regulation of gaming and alcohol, while other bodies regulate many other areas of the casino's operations. Due to the nature of casino operations, Crown Melbourne Limited is also subject to some particular regulatory obligations, including obligations to report particular types of transactions to AUSTRAC, the Federal Government body that administers the *Anti-Money Laundering and Counter Terrorism Financing Act 2006*.

As part of this review the VCGLR has consulted Federal, State and international regulators, law enforcement agencies and other government agencies regulating a wide range of the casino's operations. For more information regarding third party consultations with other regulators and law enforcement agencies, please see Chapter 3.6 – Other Regulators of the Melbourne Casino and Chapter 3.7 – Law Enforcement Agencies and the Prevention of Criminal Activity at the Melbourne Casino.

1.2 Regulatory and Commercial History

This chapter sets out the context and background necessary to understand the environment in which the Melbourne Casino operates and how the VCGLR's investigations were conducted.

There has been a significant change in the size and geographical centre of casino gambling in the past five years. While Australian casinos, including the Melbourne Casino, operate with local monopolies on table games in their respective cities, competition for VIP players is global.

This is important in considering why Crown Melbourne Limited and its parent company, Crown Limited, have taken certain strategic decisions and also provides context for the key risks the VCGLR has taken into account in conducting its investigations under section 25(1) of the Casino Control Act.

The casino industry

Size and scale

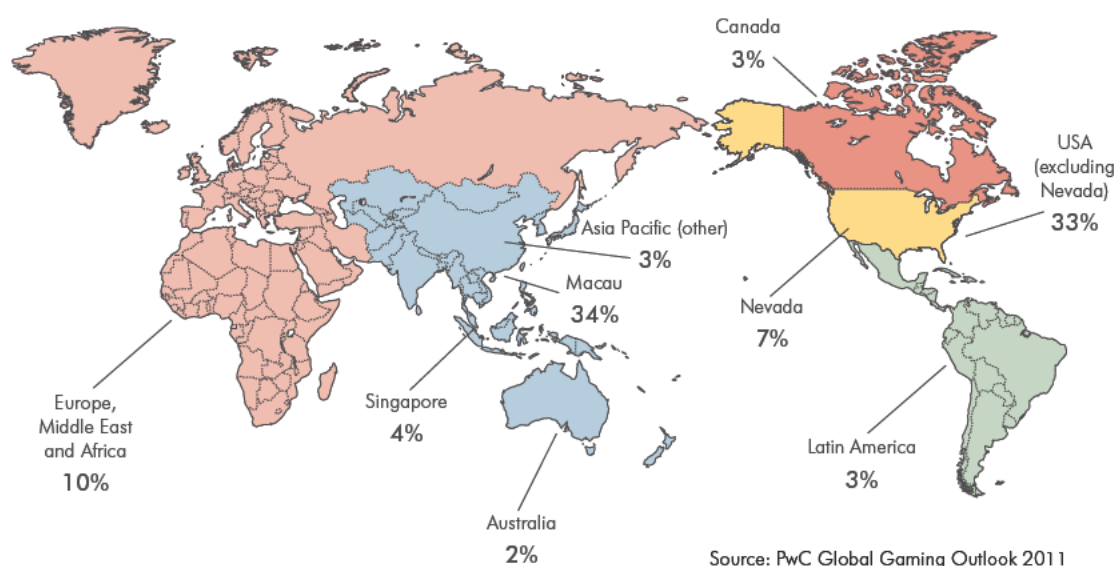
PwC (2011) estimates the global casino industry will be worth US\$183 billion by 2015, up from US\$118 billion in 2010. The Asia-Pacific region is forecast to become the largest casino market in the world, accounting for 43.4 per cent of global casino revenue by 2015.

Through its VIP business, Crown Melbourne Limited competes in the large and competitive international casino marketplace, and in the Asia-Pacific region.

Global revenue growth in the casino market is anticipated to come primarily from Macau and the wider Asia-Pacific region in the immediate future. Growth in the Singapore and Macau gaming markets will be a challenge for Crown Melbourne Limited and the Australian casino industry in general as competition for VIP players continues to intensify.

In its submission to the VCGLR for this review, Crown Melbourne Limited noted that *"Crown (Limited) has seen a considerable increase in competition from developments in Macau and Singapore."*

Figure 3: Estimated share of global casino revenue by 2015



Globally, many casinos are repositioning themselves as ‘integrated resorts’, emphasising the retail, hospitality and entertainment mix offered to patrons as well as gaming. Investment in retail and entertainment offers has been a significant feature of new developments in Singapore and Macau.

While there is no formal definition of an integrated resort, the term broadly refers to the way in which traditional gaming activities of casinos are complemented by alternative offers, typically in the retail, hospitality and tourism sectors. In Singapore, recent casino developments have been accompanied by theme parks, numerous hotels, high-end restaurants and large tourist attractions.

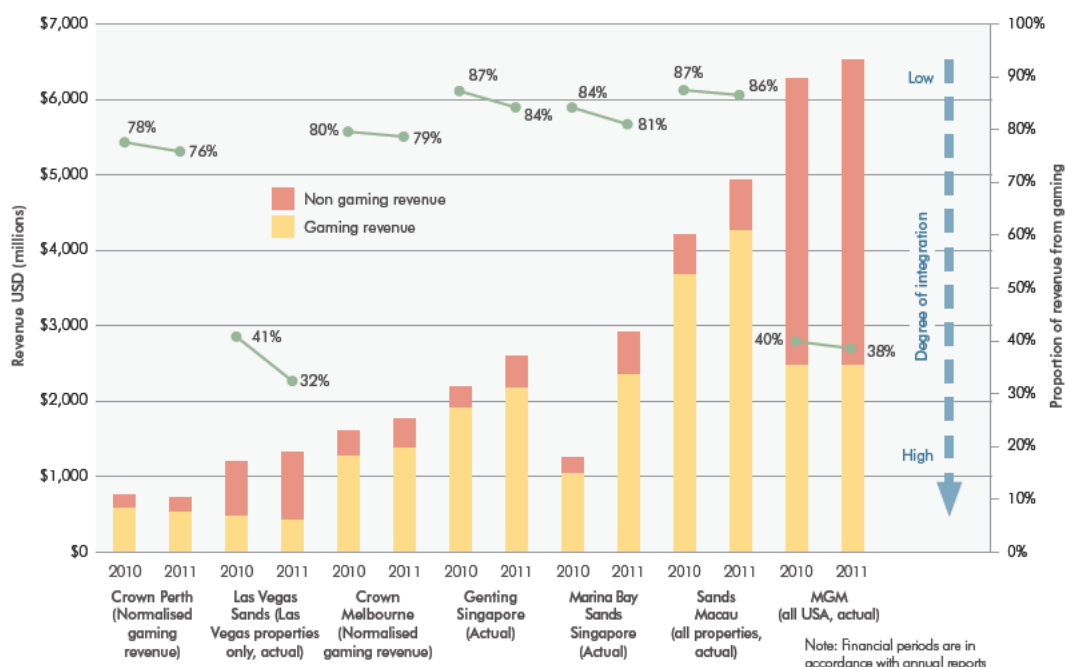
Non-gaming revenue makes up a significant proportion of Crown Melbourne Limited’s revenue. Over time, Crown Limited expects non-gaming activities will account for an increasing proportion of revenue across its operations.

Nevertheless, gaming remains the primary revenue driver for integrated resorts in the Asia-Pacific region.

Revenue streams for Crown Limited and Melco Crown’s casinos are more diversified than many of their competitors in the Asia-Pacific region. However, Crown Limited and Melco Crown rely more heavily on gaming revenue than some other large American casino operators.

There are differences between Las Vegas and the Asia-Pacific region in terms of market characteristics and growth. It is clear that revenue streams in the USA, in particular Las Vegas, are significantly more diversified than in the Asia-Pacific region. This is demonstrated most clearly by the Sands Corporation. Its Macau and Singapore casinos generate between 81-87 per cent of their revenue from gaming, but its Las Vegas gaming revenue makes up only 33-41 per cent of total revenue.

Chart 1: Gaming and non-gaming revenue streams, global comparison



Data sources: Crown Limited 2011, Las Vegas Sands Corp 2011, Genting Singapore 2011, MGM Resorts International 2011, Bloomberg.com accessed 26/10/12, converted to USD at following rate AUD/USD=1.0331 SGD/USD=0.81886 as at 26/10/2012

INFORMATION BOX 1: Macau

Over the past ten years there has been significant growth in the Macau gaming industry and, in terms of revenue, it is now the largest gaming jurisdiction in the world.

Macau has a long history of casino gaming, with the first casino opening in the 1930s. A significant expansion of casino gaming occurred in 1962 when Mr Stanley Ho's STDM was granted a monopoly concession.

Macau was transferred from Portuguese control to China in 1999 and became a Special Administrative Region. In 2002, the new administration decided to open up casino gaming and conducted a competitive bid for three concessions. The three concessions were granted to STDM, Wynn Resorts Limited and

Galaxy Entertainment Group. A further three sub-concessions were granted to Melco Crown, Las Vegas Sands Corporation and MGM.

The Las Vegas Sands Corporation's 'Venetian' opened in 2004. It was followed by Wynn Resorts Limited opening its first casino in 2006 and by Melco Crown in May 2007.

There are now 35 casinos in Macau, operated by 6 companies, with 23 casinos located on the Macau Peninsula and 12 on Taipa Island. New casinos are also being developed on the Cotai strip.

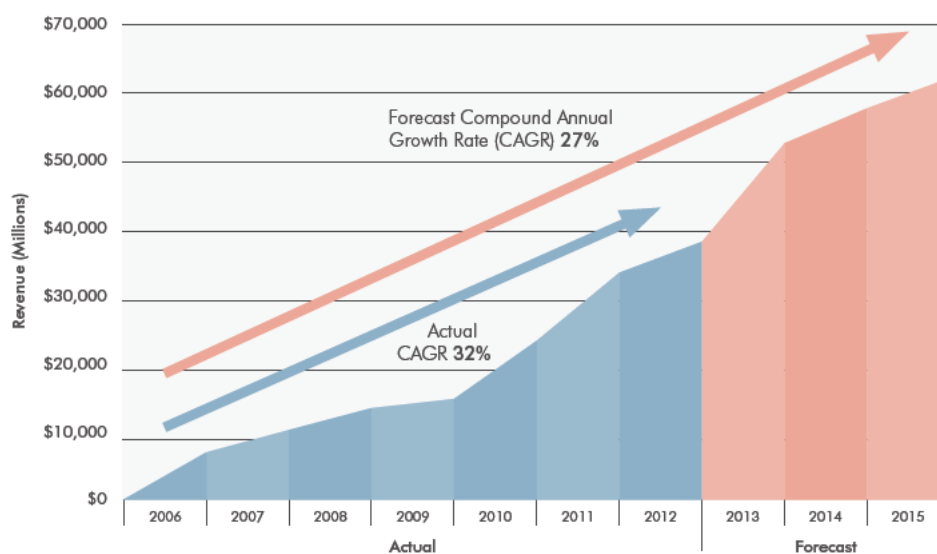
Revenue growth in Macau has been exceptionally strong since 2006, and this is expected to increase, with PwC (2011)

anticipating gaming revenue to increase at a compound annual growth rate of 27 per cent from 2006 to 2015.

The Macau gaming regulator, the DICJ, estimates that in 2010 over 80 per cent of visitors to Macau came from mainland China and Hong Kong. Ernst and Young (2011) estimates that in 2010, 72 per cent of Macau's gaming revenue came from junket play.

Recent evidence suggests that the magnitude of growth in gaming expenditure forecasted by PwC could be conservative, with Macau recording AUD\$3.7 billion in monthly revenue for March 2013, a new monthly record for Macau. However, overall year-on-year growth for 2013 is currently at 14 per cent, trending below the forecast 35 per cent.

Chart 2: Gaming revenue - Macau 2006-15



Source: PwC (2011); DICJ; Currency conversions at following rate MOP/USD=0.1251 as at 4/3/2013, CAGR calculated using data provided in PwC (2011), which converts MOP/USD=0.1252 as at 26 September 2011

VIP and commission based players

Gambling by VIP players at the Melbourne Casino provides a significant proportion of Crown Melbourne Limited's revenue from gaming. VIP players (sometimes colloquially referred to as 'high rollers') are gamblers from Australia or overseas, including but not limited to commission based players, who gamble large amounts of money with casinos, typically in VIP gaming areas. At the Melbourne Casino, these VIP gaming areas include the Teak Room, Mahogany Room and the private gaming suites.

Commission based players are VIP players who participate in either a junket or a premium play arrangement. Under a premium play arrangement, a casino deals directly with the player, who receives a commission based on their gaming which is negotiated before play starts. Three examples of programs that commission based players may enter into under a premium play arrangement are a:

- Rebate and complimentary allowance, based on turnover;
- Complimentary allowance, based on turnover; and
- Rebate, as a proportion of loss, and a complimentary allowance, as a proportion of turnover.

Junket operators are businesses that act as intermediaries between players and casinos. Junket operators allow casinos to access customers through their network and may make arrangements for credit to players and make travel arrangements. Junket operators or their agents also normally

accompany the players to a casino. Under this model, commissions are paid to the junket operator.

Commission based play is a significant growth area for casinos around the world and is a highly competitive market.

Under the Casino Control Act, only people who are not domiciled in Victoria can play on a commission based arrangement at the Melbourne Casino. Commission based players are normally required to provide a specified amount of front-money in order to qualify to play under a commission based arrangement.

Commission based player arrangements are treated differently to normal gaming at the Melbourne Casino, including being exempt from some aspects of Victorian legislation. For example, under the Casino Management Agreement Act, there are different tax rates for commission based play, and under the Tobacco Act, certain specified VIP gaming areas are exempt from smoking bans. Crown Melbourne Limited may also offer international commission based players credit, which it cannot offer Australian residents.

Casinos compete aggressively for commission based players and on rates of commission. It is common for casinos to negotiate on access to credit and bet limits to attract players. It is also common across the industry for casinos to offer incentives to commission based players to gamble at their casino including complimentary accommodation, entertainment, food, beverages and transport.

INFORMATION BOX 2: Singapore

Singapore entered the casino market in 2010 with the opening of its two casinos, Resorts World Sentosa and Marina Bay Sands.

The Singapore casino industry has achieved remarkable growth in the first two years of operation. Singapore is now the world's second biggest casino jurisdiction in terms of revenue,

recently surpassing Nevada.

Resorts World Sentosa is owned and operated by Genting Singapore PLC and has six hotels, a Universal Studios theme park, marine theme park, maritime museum, aquarium, convention centre, restaurants and retail facilities and more than 500 gaming tables and more than 2,300 gaming machines.

Marina Bay Sands is owned and operated by Las Vegas Sands Corporation which also owns the Venetian Las Vegas, the Venetian Macau (one of the world's biggest casinos), and several other major casino assets. Marina Bay Sands operates around 600 gaming tables and 2,500 gaming machines.

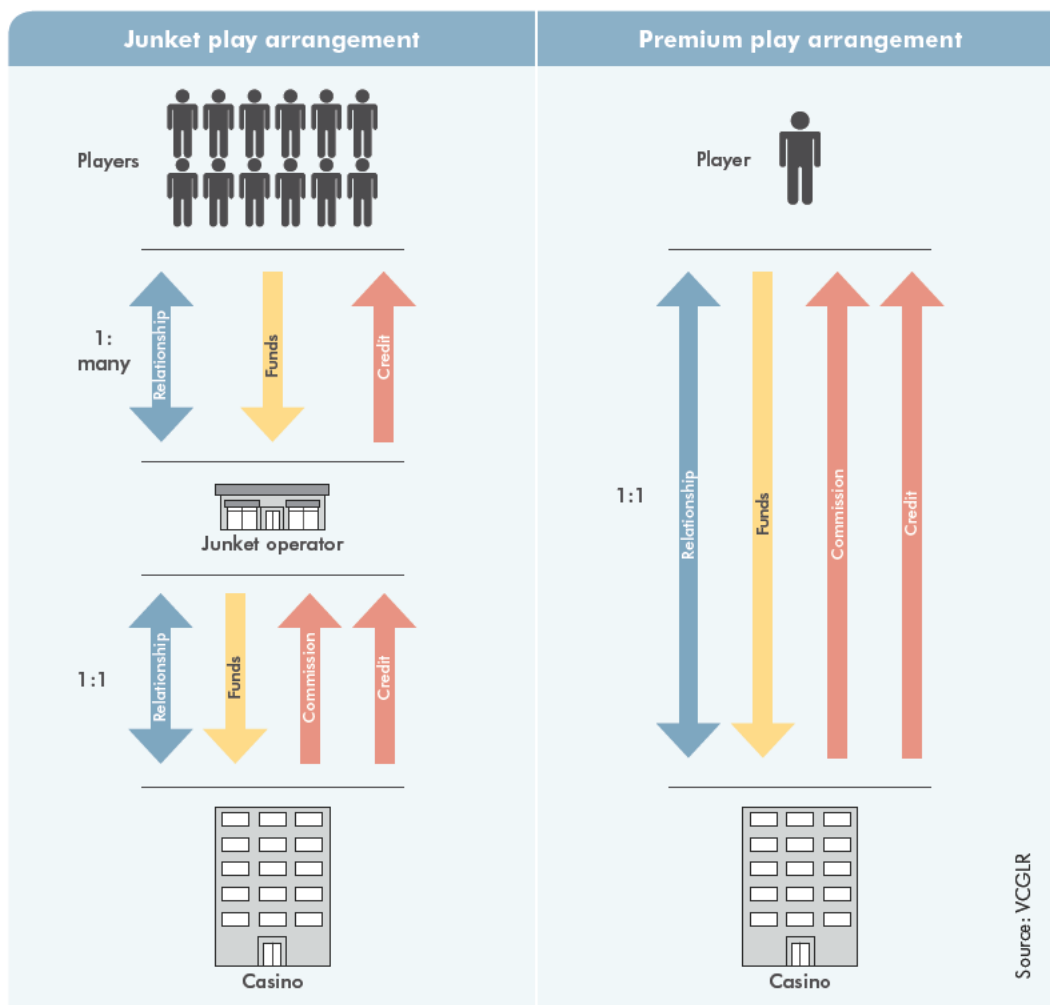
Table 1: Singapore casino total revenue (gaming and non-gaming) vs Crown Melbourne Limited

	2010	2011
Las Vegas Sands (Marina Bay Sands)	\$US 1,263m	\$US 2,922m
Genting Singapore (Resorts World Sentosa)	\$US 2,214m	\$US 2,620m
Crown Melbourne Limited	\$US 1,611m	\$US 1,771m

Source: Crown Limited 2011, Crown Limited 2012, Genting Singapore 2011, the Sands Corp 2011, Bloomberg.com accessed 26/10/12

* converted to USD at following rate AUD/USD=1.0331 SGD/USD=0.81886 as at 26/10/2012

Figure 4: Simplified representation of junket play and premium play arrangements.



Asia-Pacific and emerging markets

Between 2010 and 2015 the Asia-Pacific region is expected to become the world's biggest casino market. Casino market growth is forecast to continue to be primarily driven out of Macau and Singapore. While Singapore and Macau's casino market growth rate is expected to reduce towards 10 per cent by 2015, according to PwC, both markets are expected to continue to increase their market share.

Despite Singapore's rapid growth, Macau is still forecast to be the largest market in the Asia-Pacific region and the world by a significant margin. There is an estimated investment pipeline of around \$25 billion in Macau proposed over the next decade.

The majority of patrons to Macau casinos are Chinese residents and if the economic conditions in China continue to be favourable, Macau's market dominance in the Asia-Pacific region is expected to continue.

Industry forecasts suggest that Australia will retain its position as the third largest market in Asia-Pacific, but between 2010 and 2015, will lose market share despite increasing its year-on-year growth rate. This is a function of the relative size of the Australian industry compared to a significantly larger market segment in Macau.

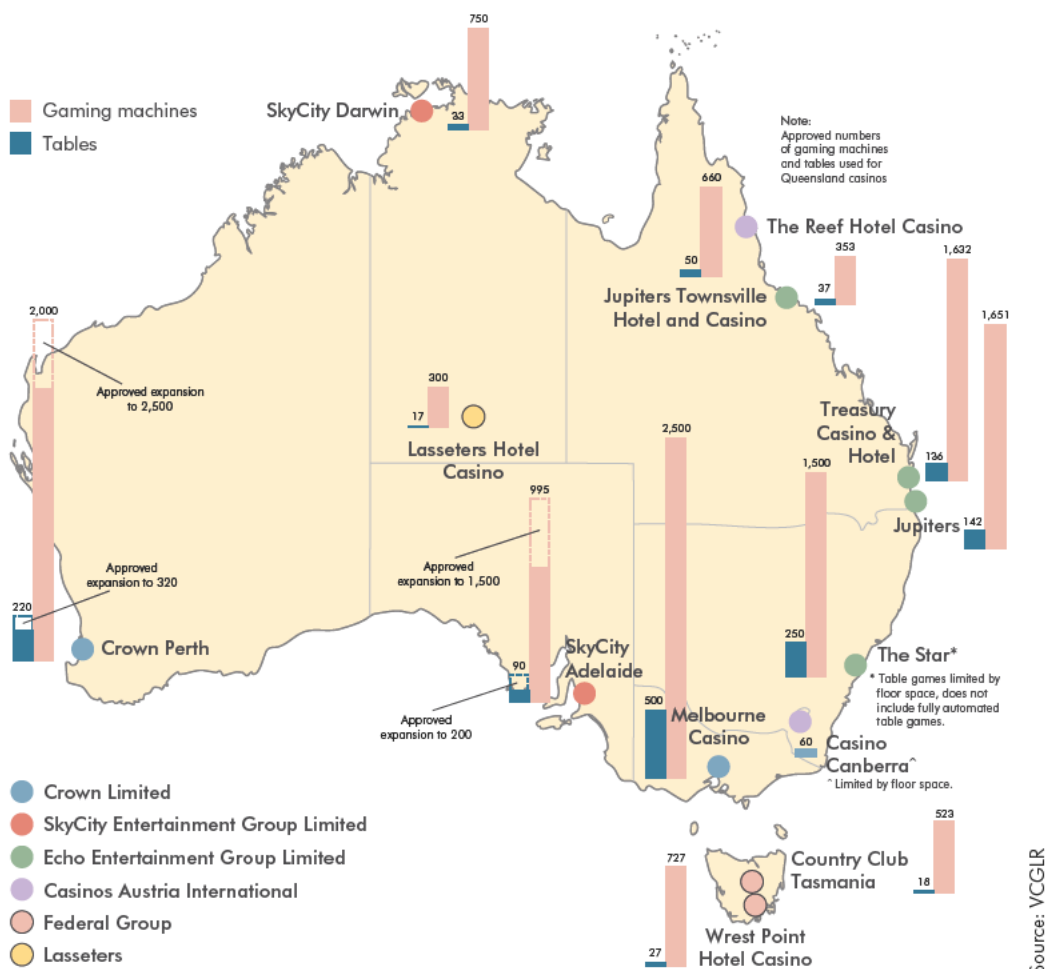
The VCGLR considers there is likely to be increased competition and liberalisation of casino markets in the Asia-Pacific region over the next 5 to 10 years. Growth beyond 2015 may come from the Philippines, Taiwan, Japan, Vietnam and

South Korea as possible changes to the regulatory environment may bring significant investment. The potential liberalisation of those markets may also introduce more competitive pressure, particularly in the Asian commission based play market.

Australian casino industry

Australia is the third biggest casino market in the Asia-Pacific region and is estimated by the Australasian Casino Association (2011) to have generated \$4.4 billion in gross revenue in 2009-10.

Figure 5: Casinos in Australia – ownership, table games and gaming machine numbers



Source: VCGLR

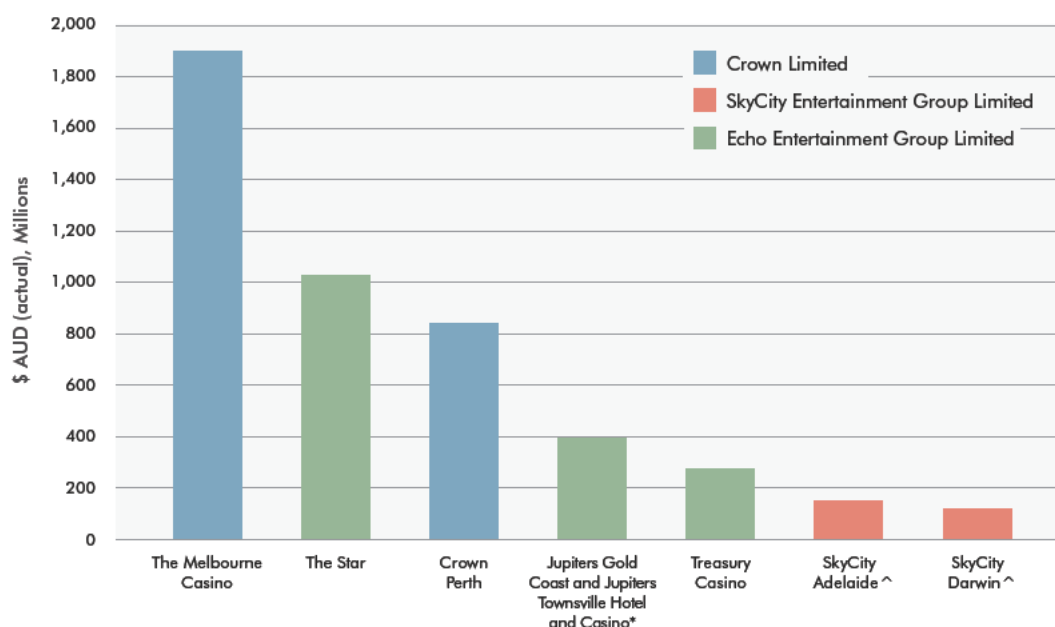
There are 13 casinos in Australia, and six casino operators. In 2009-10, an estimated 48 million visits were made to Australian casinos and 24,714 people were employed in Australian casinos (Australasian Casino Association, 2011).

The first casino to open in Australia was Wrest Point Hotel Casino, Hobart in 1973. By 1986 eight casinos had opened across Australia and a further six opened over the next ten years. Since the closure of the Christmas Island Casino in 1998, there has been no change to the number of casinos operating in Australia (Productivity Commission, 2010).

There are three large casino operators in Australia, Crown Limited, Echo Entertainment Group Limited and SkyCity Entertainment Limited.

- Crown Limited owns and operates two of the three biggest casinos in Australia, the Melbourne Casino and Crown Perth, in terms of total revenue (gaming and non-gaming).
- Crown Limited recorded combined actual revenue of \$2,739.1 million between the two properties in 2011-12 (Crown Limited, 2012).
- Echo Entertainment Group Limited operates four casinos in Australia, The Star casino (New South Wales) Jupiters Gold Coast (Queensland), Treasury (Queensland) and Jupiters Townsville Hotel and Casino (Queensland). Echo Entertainment Group Limited demerged from Tabcorp Holdings in 2011. Echo Entertainment Group Limited recorded combined actual revenue of \$1,689 million between its properties in 2011-12 (Echo Entertainment Group Limited, 2012).
- SkyCity Entertainment Group Limited is a New Zealand based company which owns and operates SkyCity Adelaide and SkyCity Darwin. SkyCity Entertainment Group Limited recorded combined actual revenue of AUD\$322 million between its two properties, excluding commission based play revenue, in 2011-12 (SkyCity Entertainment Group, 2012).

Chart 3 – Casinos in Australia – Total revenue (gaming and non-gaming) 2011-12

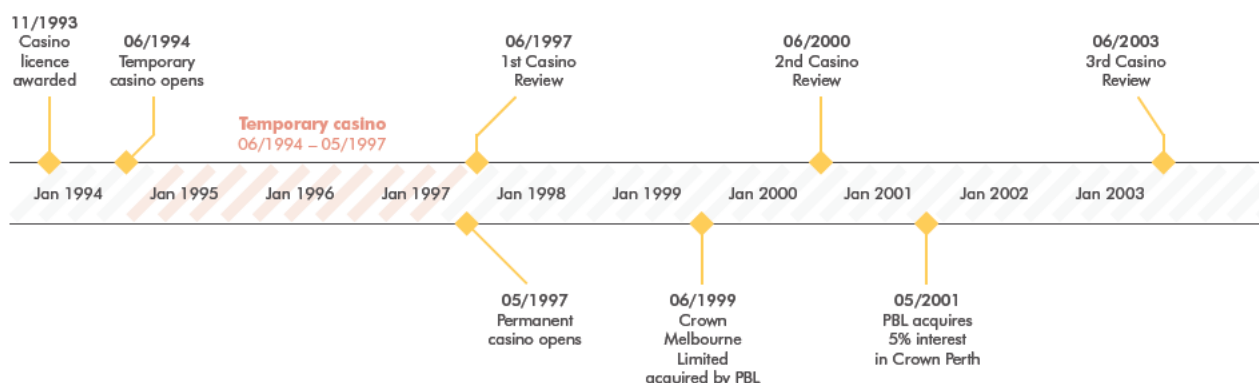


Source: Crown Melbourne Limited, Echo Entertainment Group Limited 2012, SkyCity Entertainment Limited 2012

*Revenue for Echo Entertainment Group Limited's Jupiters properties in Queensland are aggregated in public financial statements.

^SkyCity's revenue excludes commission based play, which was AUD\$35 million in 2011-12

Figure 6: Historical timeline of the Melbourne Casino



The figures in Chart 3 include both the domestic and international market. In the Australian market for commission based players, Crown Melbourne Limited also has the largest market share.

Potential casino developments in Australia

Barangaroo

In September 2012, Crown Limited lodged an unsolicited proposal to the New South Wales Government for a hotel resort and gaming facility at the Barangaroo South site in Sydney (Crown Limited, 2012a).

Crown Limited has an exclusive agreement with Lend Lease, the developers of the Barangaroo site, to develop a concept plan for the site.

The proposal is for a hotel resort with VIP-only gaming accompanied by a 350-room, six-star hotel resort and other amenities such as training facilities and restaurants. The New South Wales Government has publicly stated that the proposal will not include gaming machines. If approved, this would be the second licence to operate VIP gaming in New South Wales.

At the time of writing, the New South Wales Government had not made a decision on the proposal and has stated any licence would not commence until the exclusivity agreement between the New South Wales Government and Echo

Entertainment Group Limited, operator of The Star casino in Sydney, expires on 14 November 2019 (Premier of NSW, 2012).

For more information regarding the possible impact of this proposal on Crown Melbourne Limited's contractual arrangements with the State of Victoria, please refer to Chapter 3.10 – Conditions Relating to Company Structure.

Expansion and redevelopment of Crown Perth

On 1 August 2012, Crown Limited announced it will build a new hotel in Perth to add to the offer at its existing property at Crown Perth (Crown Limited, 2012b).

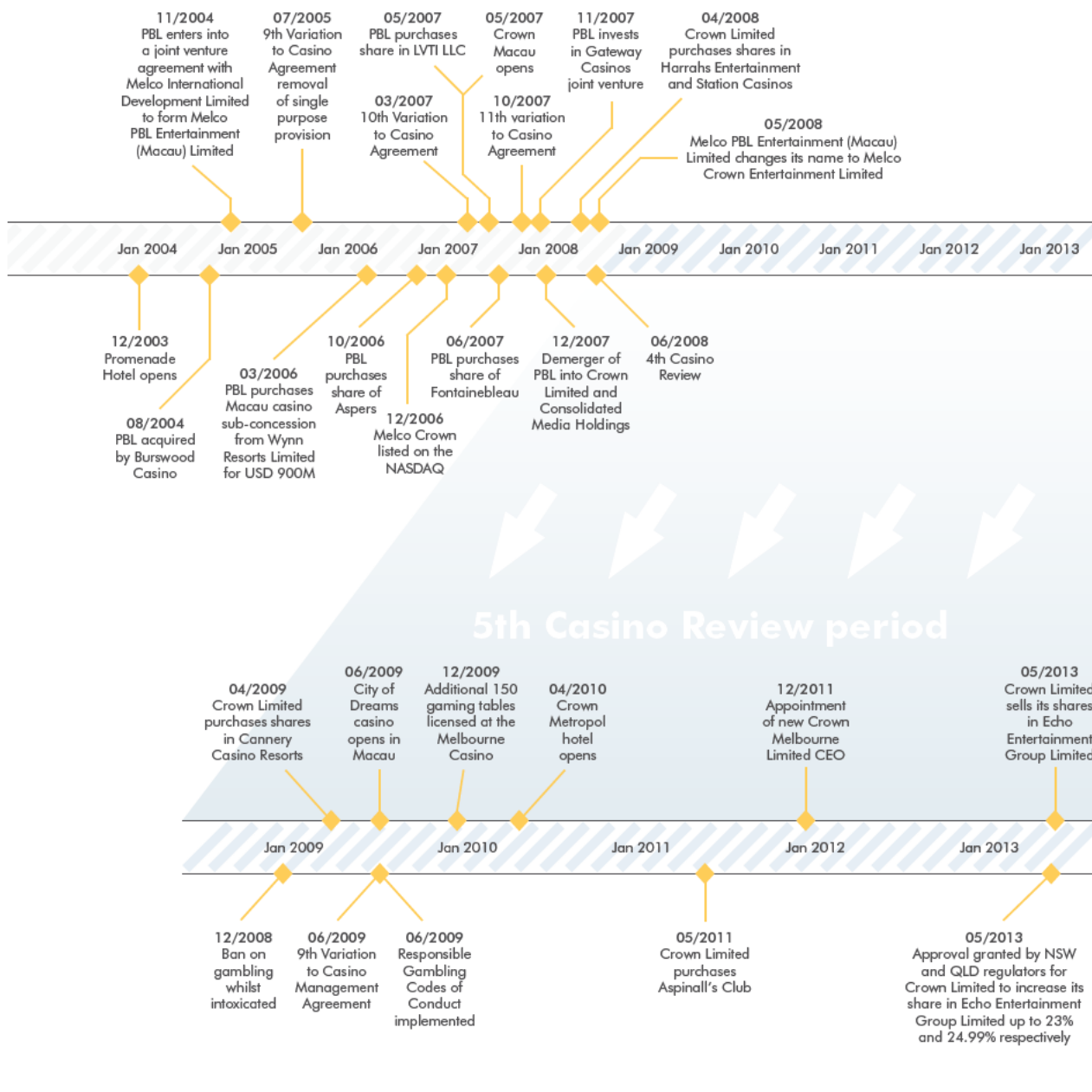
As part of the agreement the Western Australia Government has approved 500 additional gaming machines and 130 more gaming tables.

The new project, to be named Crown Towers Perth, is expected to be a \$568 million investment by Crown Limited. The development will include a 500-room, six-star hotel, and will be the largest hotel in Perth (Burswood Entertainment Complex, 2012).

The Melbourne Casino

Timeline of the Melbourne Casino

There have been significant changes to the ownership and regulatory oversight of the Melbourne Casino since it opened in 1994.



Melbourne Casino operations started at the temporary Melbourne casino on 30 June 1994, before transferring to the permanent Melbourne Casino Complex at Southbank on 8 May 1997.

In June 1999, Publishing and Broadcasting Limited purchased Crown Melbourne Limited (then called Crown Casino Limited).

In 2005, following a review of the commercial agreements between the State of Victoria, the VCGR and the casino operator, the Victorian Government decided to remove the restriction on Crown Melbourne Limited owning and operating other casino businesses. As a result, the *Casino Control (Amendment) Act 2005* was passed and a suite of new agreements were entered into between the VCGR, Crown Melbourne Limited and Publishing and Broadcasting Limited. In addition to removing the single purpose restriction, which prohibited Crown Melbourne Limited from undertaking any business other than the operation of the Melbourne Casino, the Casino Agreement was amended so that:

- Crown Melbourne Limited committed to spend at least \$170 million on the Melbourne Casino Complex over the proceeding five years and to improve the information reported to the VCGR.
- Crown Melbourne Limited and Publishing and Broadcasting Limited committed for a period of five years to:
 - o Locating their corporate headquarters for their Australian gaming business in Melbourne;
 - o Maintaining the Melbourne Casino as the flagship casino in their Australian gambling businesses; and
 - o Endeavour to ensure the Melbourne Casino remains the dominant commission based player casino in Australia.
- The Casino Control Act was amended to require casino reviews to specifically review the casino operator's compliance with relevant gambling legislation and commercial agreements.
- Extend the intervals for reviews under Section 25 from not later than every three years to not later than every five years.

Publishing and Broadcasting Limited demerged in December 2007 into two companies, Crown Limited and Consolidated Media Holdings Limited. After the demerger, the casino operator was renamed Crown Melbourne Limited and became a wholly owned subsidiary of Crown Limited.

An analysis of the corporate structure of Crown Limited can be found in Chapter 2.2 – Corporate Structure.

Features

The 550,000 square-metre footprint of the Melbourne Casino Complex in central Melbourne, as well as the size and variety of the entertainment offered, gives it a highly visible presence.

As at 30 June 2012, Crown Melbourne Limited employed 6,686 people, including full-time, part-time and casual employees, in addition to 2,166 contractors and tenant employees. Crown Melbourne Limited has also graduated more than 4,300 apprentices and trainees from Crown College. Crown Melbourne Limited asserts that it is Victoria's largest, single-site employer (Crown Melbourne Limited, 2012).

In its submission to the Fifth Casino Review, Crown Melbourne Limited cited research that shows the Melbourne Casino is one of Australia's premier tourist attractions. In 2010, a KPMG report estimated Crown Melbourne Limited contributed a value-added \$1.5 billion to the Victorian economy annually, with an estimated 18 million visitors per year (Crown Melbourne Limited, 2012).

Competitive environment

Crown Melbourne Limited operates in a unique competitive environment. Despite holding the only casino licence in Victoria, Crown Melbourne Limited faces competition in aspects of its operations.

Gaming machines

Crown Melbourne Limited's licence provides for the operation of 2,500 gaming machines, while a venue limit of 105 gaming machines exists for gaming venues elsewhere in Victoria.

In this segment of the gaming market, it is in direct competition with Victorian pubs and clubs.

Crown Melbourne Limited asserts that it is a destination venue and that practical issues such as location, time and expense of travel create barriers for Crown Melbourne Limited's business.

However, Crown Melbourne Limited has an ability to offer customers a large range of game types and denominations of gaming machines compared to clubs and pubs. Crown Melbourne Limited also has the ability to offer expanded jackpots, highly-targeted marketed products and feature promotions, and is a first-market-adopter of technology.

In addition, Crown Melbourne Limited can also offer unrestricted gaming machines, where some of the restrictions on play, such as note acceptor limits, spin rates, bet limits and payment of winnings by cheque are removed.

Table games

Crown Melbourne Limited can operate up to 500 gaming tables and is the only venue in Victoria where a person can play and wager on table games other than poker. Of these 500 gaming tables, 400 tables can operate any approved table game, including poker, and a further 100 tables can only be used as poker tables.

Crown Melbourne Limited also has a significant commission based play business, which in the financial year 2011-2012 accounted for close to one third of overall gaming revenue (Crown Limited, 2012). Crown Melbourne Limited estimates its share of worldwide VIP revenue for the financial year 2011-12 was 1.2 per cent.

The distance to Melbourne from China and the two major Asian gaming hubs, Singapore and Macau, presents a challenge for Crown Melbourne Limited. Compared to the size and scale of Macau, the limited number of casinos

in Australia offering commission based play and the local monopoly afforded to casino operators in all states other than Queensland, means that attracting commission based players is not straightforward.

The local market, while still lucrative for Crown Melbourne Limited, is a relatively mature market and as such the commission based player market is increasingly the main source of revenue growth.

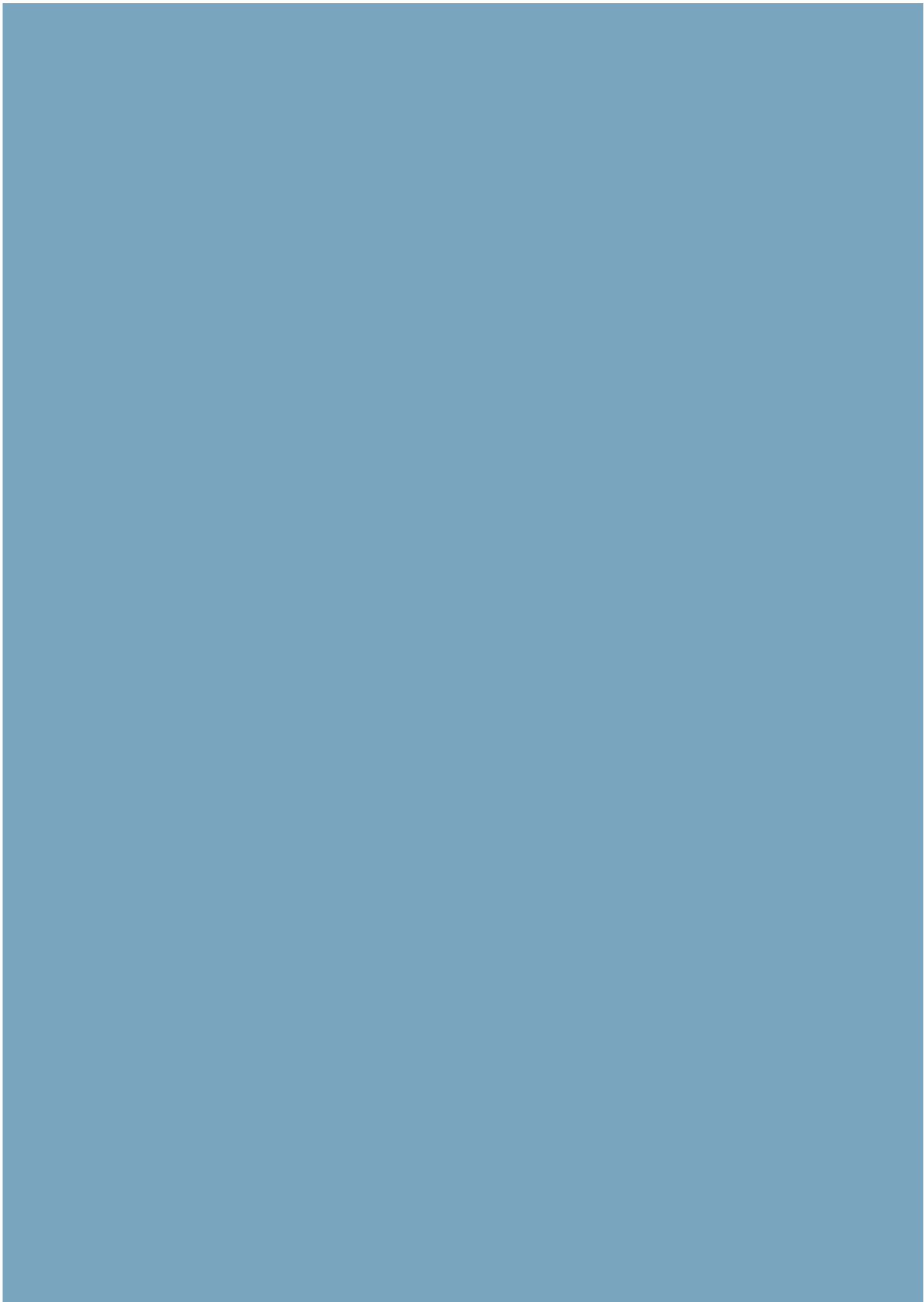
It is on this basis that Crown Melbourne Limited has invested heavily in its VIP gaming salons over the past three years, spending \$200 million on VIP assets. Crown Melbourne Limited's VIP gaming salons recently won the 'Best VIP Salons' award at the International Gaming Awards in London (Crown Melbourne Limited, 2012).

Crown Melbourne Limited believes it has a competitive edge through the quality of its service, premium hotels and gambling facilities, the regulatory reputation of Victoria and the marketability of major events in Melbourne.

Crown Melbourne Limited's commission based play revenue has continued to grow, despite the introduction of new markets such as Singapore. This is likely due to the significant growth experienced in the global casino industry, particularly in Asia.

Retail, restaurants and hotels

There is a wide range of retail shops, restaurants and hotels in the Melbourne Casino Complex. These are in direct competition with local, Australian and international businesses.



Part 2 – Suitability

2.1 What is suitability?

Section 25(1)(a) of the Casino Control Act requires the VCGLR to investigate and form an opinion on whether or not the casino operator is a suitable person to continue to hold the casino licence.

The Casino Control Act has two key purposes that inform the investigation:

- Ensuring that the management and operation of casinos remains free from criminal influence or exploitation; and
- Ensuring that gaming in casinos is conducted honestly.

The expression ‘suitable person’ is not defined in the Casino Control Act. The VCGLR and its predecessors have obtained advice from Senior Counsel that, in light of the objectives of the Casino Control Act, the task of determining suitability for a section 25 casino review is akin to determining suitability for approval of an application for a casino licence.

As a result, the VCGLR’s investigation of suitability under section 25 of the Casino Control Act is based on the matters set out in section 9(2) of the Casino Control Act. Specifically, the VCGLR has undertaken an investigation into whether:

- Crown Melbourne Limited still has a satisfactory ownership and corporate structure. This is dealt with in **Chapter 2.2 – Corporate Structure**.
- Crown Melbourne Limited and its associates are of good repute, and whether they have business associations with any person, body or association who or which is not of good repute, having regard to character, honesty and integrity. This is dealt with in **Chapter 2.3 – Probity**.
- All relevant persons connected with casino operations are still suitable persons to act in their particular capacities and Crown Melbourne Limited continues to have:
 - o Sufficiently experienced staff; and
 - o Sufficient business ability to maintain a successful casino.

This is dealt with in **Chapter 2.4 – Management Ability**.

- Crown Melbourne Limited has adequate financial resources; Crown Melbourne Limited and its associates are of sound and stable financial background; and whether they have business associates with undesirable or unsatisfactory financial resources. This is dealt with in **Chapter 2.5 – Financial Stability**.

At the end of each chapter in this part, the VCGLR outlines its view on each of these four matters and reaches a finding to form the basis for its opinion in Chapter 2.6.

Associates

Under section 4 of the Casino Control Act, an ‘associate’ is a person who holds:

- The position of director, manager or other executive position or secretary in the casino business of the casino operator; or
- A relevant financial interest (such as holding shares) or relevant power (meaning power to participate in executive decisions or to elect a person to a relevant position) and is able to exercise a significant influence over the management or operation of the casino business.

This definition is similar to, but not the same as, the definition of ‘associate’ in the Gambling Regulation Act.

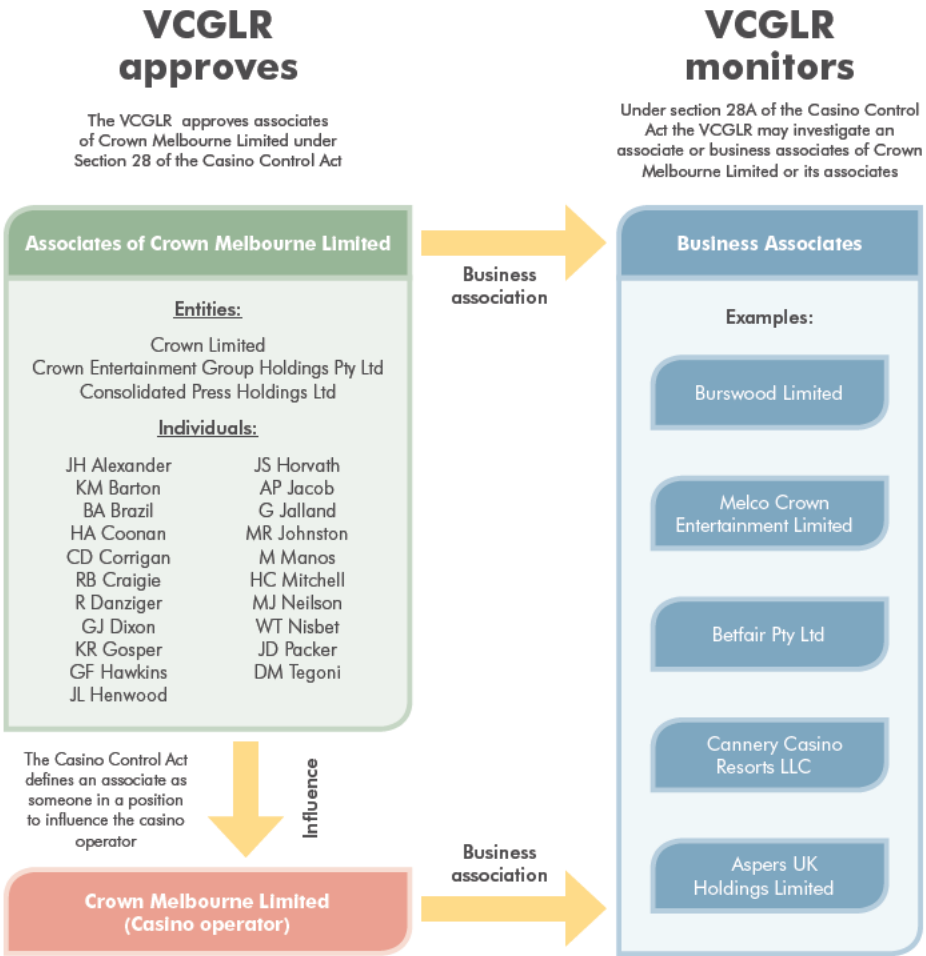
Crown Melbourne Limited currently has 24 associates (21 individuals and 3 entities) approved under section 28 of the Casino Control Act. For a full list of associates, see Appendix 5.

Business associations

There is no definition under the Casino Control Act or Gambling Regulation Act of ‘business associations’. However, Senior Counsel has advised that the phrase has its ordinary meaning, that is, where individuals or entities have intended commercial links to the casino operator or its associates. There is no threshold of the scale or nature of the relationship to determine if it is a ‘business association’; it may include an investment, a contractual relationship or an involvement in the management or operation of another business.

The extent of relevant investigations concerning business associates is explained further in the proceeding chapters on Corporate Structure, Probity, Financial Stability and Management Ability.

Figure 7: Associates and business associates under the Casino Control Act



Source: VCGLR

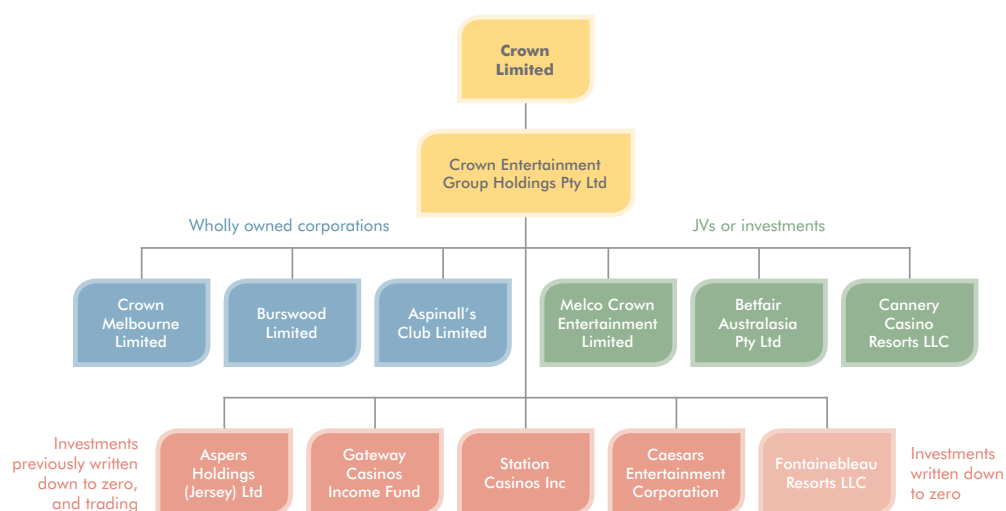
2.2 Corporate Structure

In line with section 9(2)(c) of the Casino Control Act, the VCGLR has considered whether Crown Melbourne Limited has a satisfactory ownership and corporate structure.

Corporate profile of the Crown Group

Crown Melbourne Limited is a wholly owned subsidiary of Crown Limited through a subsidiary company, Crown Entertainment Group Holdings Pty Ltd. Crown Limited is a top 50 company by market capitalisation listed on the ASX.

Figure 8: Abridged corporate structure of the Crown Group of companies



Source: Crown Limited

Consolidated Press Holdings Limited is an investment company ultimately owned by a series of trusts belonging to the Packer family and is (together with its related companies) the majority owner in Crown Limited with 50.01 per cent ownership. The Packer family shares in Crown Limited are held by Consolidated Press Holdings Limited; Bareage Pty Ltd; Samenic Limited; Consolidated Press Investments Pty Ltd; Conpress Holdings Pty Ltd; Cairnton Holdings Pty Ltd and Cavalane Holdings Pty Ltd.

Crown Limited operates casinos or has interests in gambling businesses in seven jurisdictions. It has

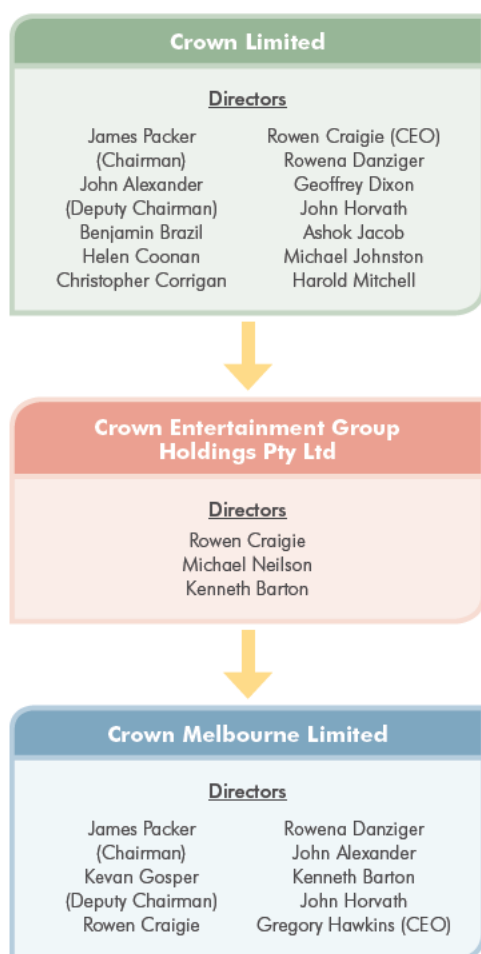
wholly owned subsidiaries that operate casinos in Australia and the United Kingdom:

- The Melbourne Casino;
- Crown Perth; and
- Aspinall's Club, United Kingdom.

Crown Limited also has small shareholdings in several United States casinos.

The Melbourne Casino is the largest of the three wholly owned casinos in the Crown Group, and accounts for 68 per cent of the Crown Group's operating revenue and 64 per cent of operating expenses.

Figure 9: Directors of Crown Melbourne Limited and its parent companies



Crown Limited, through a subsidiary, held a 10 per cent stake in Echo Entertainment Group Limited.

On 24 February 2012, Crown Limited applied to increase its shareholding in Echo Entertainment Group Limited up to 25 per cent. This required the approval of both the New South Wales ILGA and the Queensland Office of Liquor and Gaming Regulation. In May 2013, the:

- ILGA determined that Crown Limited and its relevant subsidiaries, as well as key individuals (considered 'close associates' under New South Wales legislation) were suitable persons to be concerned in or associated with the operation or management of The Star casino. The ILGA approved Crown Limited to increase its shareholding in Echo Entertainment Group Limited up to 23 per cent; and
- The Queensland Office of Liquor and Gaming Regulation approved Crown Limited to increase its voting power in Echo Entertainment Group Limited to no more than 24.99 per cent.

In May 2013, Crown Limited announced that it had sold its shares in Echo Entertainment Group Limited.

Macau and the Asia-Pacific region

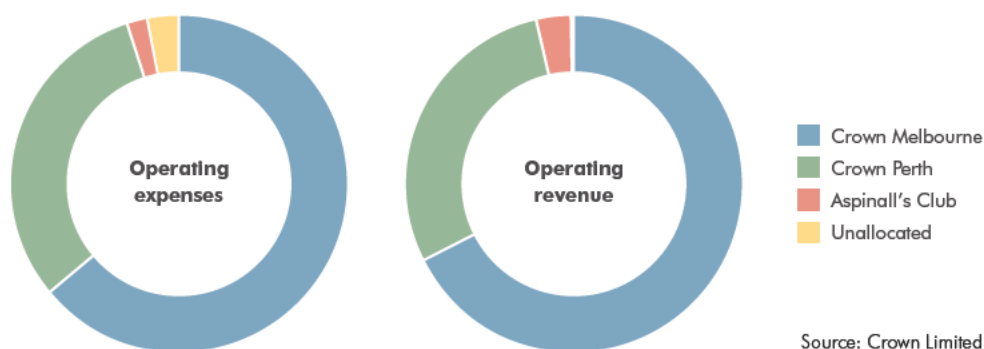
Crown Limited has undertaken expansion in the Asia-Pacific region through its 33.7 per cent shareholding in Melco Crown.

Melco Crown is a joint venture between Crown Limited and Melco International Development Limited and began operating in Macau in 2007. Crown Limited's share in Melco Crown was valued at \$2 billion as at 30 June 2012.

Melco Crown opened the City of Dreams complex in Macau in 2009. This is the joint venture's second casino in Macau, following the opening of Crown Macau in 2007, later renamed Altira. The City of Dreams casino has quickly generated significant revenue for Melco Crown.

A joint venture, of which Melco Crown owns 60%, is currently building the Studio City resort in Macau. However, at the time of writing there is no approval from Macau authorities to operate Studio City as a casino.

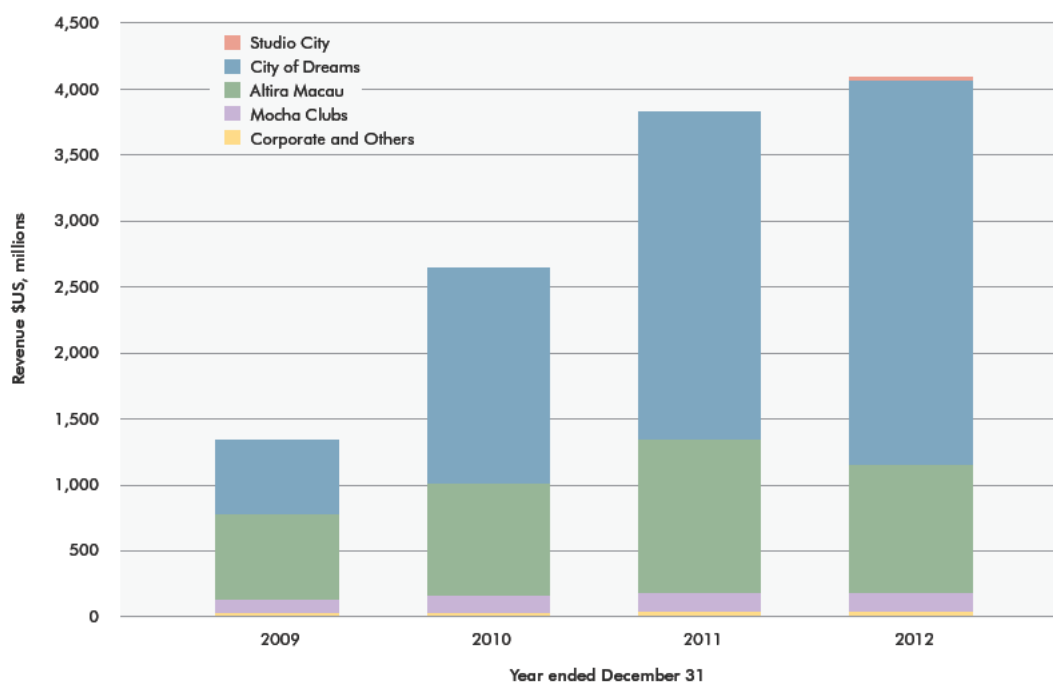
Chart 4: Proportion of 2012 Crown Group operating revenue and expenses by operating segment



In late 2012, Melco Crown, through subsidiaries, has entered into an agreement with a consortium of Philippines companies, led by the SM Group and controlled by Mr Henry Sy, to operate a new casino in Parañaque City, Philippines. More detail is provided in Chapter 2.3 – Probity.

At the time of writing, Crown Limited was in discussions concerning a possible investment in Colombo, Sri Lanka. That possible investment, and any investigations into potential new business associations that may be created, have not formed part of the deliberations of the Fifth Casino Review.

Chart 5: Melco Crown – Macau revenue by venue



Source: Melco Crown 2011, Melco Crown 2012

Corporate structure

Crown Limited's corporate structure is relatively complex and has largely arisen from its acquisition history with interests in Australia, USA, UK and Asia. The structure is further complicated by the use of holding companies to complete acquisitions; the separation of operating entities, including casinos and hospitality; the use of holding companies for the separation of property assets; and the introduction of finance companies holding the debt facilities of the business.

The Australian companies in the Crown Group, including the parent companies of Crown Melbourne Limited, entered into a Deed of Cross Guarantee pursuant to ASIC Class Order 98/418 on 3 June 2008, under which each company guarantees the debts of the others. Crown Melbourne Limited and a number of other Crown Group companies were added to the Deed in February 2011. Crown Melbourne Limited has also agreed to act as guarantor to Crown Limited's debt providers to cover various debt facilities extended to companies owned and operated by Crown Limited.

The practical effect of the Deed of Cross Guarantee is to bind the fortunes of Crown Melbourne Limited to those of the other Australian companies in the Crown Group. While this presents a risk, in that the failure of one of the other companies can negatively impact Crown Melbourne Limited, it also provides a degree of protection in the event there are unexpected costs or liabilities incurred by Crown Melbourne Limited.

The operation of the Deed means Crown Melbourne Limited cannot be considered as a standalone entity for the purpose of assessing its financial stability, structure or management ability. Due to its 'debt guarantor' role, the stability of Crown Melbourne Limited is dependent on the financial security of the other Australian companies in the Crown Group.

VCGLR Findings

The casino operator is wholly owned by Crown Limited, a large company, publicly listed on the ASX. The VCGLR, assisted by its advisors PwC, investigated the ownership of Crown Melbourne Limited and the structure of the Crown Group and is satisfied that, while complex, it does not raise any regulatory issues of concern.

In addition, the Deed of Cross Guarantee was investigated to establish whether there were any risks or threats to the financial stability of Crown Melbourne Limited arising from the corporate structure of the Crown Group. The links with the overseas operations of the Crown Group were also investigated to establish whether there were any obligations arising from Crown Limited's joint venture operations on Crown Melbourne Limited.

The VCGLR's investigations have confirmed that:

- Crown Limited's debt is appropriately ring-fenced to include the Crown Group's wholly owned entities only; and
- No guarantees have been provided by Crown Limited for any Consolidated Press Holdings Limited liabilities.

Based on the investigations conducted and the material provided by the associates, the VCGLR finds that consistent with section 9(2)(c) the casino operator has a satisfactory ownership and corporate structure.

2.3 Probity

Scope of investigation and process

A core aspect of assessing the suitability of the casino operator is investigating the probity of Crown Melbourne Limited, its associates and their business associates. This investigation is a critical part of fulfilling the purpose of the Casino Control Act to ensure the management and operations of the Melbourne Casino remain free from criminal influence or exploitation.

In line with sections 9(2)(a) and (f) of the Casino Control Act, the VCGLR has considered the good repute of the casino operator, its associates and their business associates, having regard to character, honesty and integrity.

The VCGLR has investigated whether the casino operator or its associates remain persons of good repute. As noted in Chapter 2.1, an associate is defined under section 4 of the Casino Control Act and is broadly a person or entity able to significantly influence the operation or management of the casino operator.

It is also necessary to ensure that Crown Melbourne Limited and its associates do not have any business associates not of good repute.

A probity check of associates occurs when Crown Melbourne Limited notifies the VCGLR of potential new associates as required under section 28 of the Casino Control Act. The VCGLR conducts a probity assessment of the proposed associate as part of its investigations into whether or not to approve them.

All new proposed associates are subject to a detailed investigation to establish whether they are of good repute, and whether they have business associates not of good repute, having regard to character, honesty and integrity. This includes investigating each person's financial, criminal, credit, regulatory and litigation history.

The VCGLR monitors associates and business associates on an ongoing basis, often through self-disclosure by Crown Melbourne Limited or reports in the media. In some circumstances, the VCGLR will conduct an investigation under section 28A of the Casino Control Act and take

any action required. Also, under section 30 of the Casino Control Act, the VCGLR reviews certain contracts entered into by the casino operator with business associates.

In conducting probity investigations for the Fifth Casino Review, the VCGLR has focussed on associates and business associates with the most influence or impact on Crown Melbourne Limited or its parent company, Crown Limited.

The Fourth Casino Review identified a number of probity matters that were, at that time, ongoing and therefore excluded from consideration of that report. Since 2008, those matters have all been resolved or are identified in Chapter 1.1 as excluded from the Fifth Casino Review. Further details about the matters that have been resolved since the Fourth Casino Review are at Appendix 6.

Investigations process

In investigating the probity of Crown Melbourne Limited, its associates and their business associates, the VCGLR has had regard to its ongoing monitoring and previous investigations.

The individual associates of Crown Melbourne Limited, who are directors and other officers of Crown Melbourne Limited, Crown Entertainment Group Holdings Pty Ltd, Crown Limited and Consolidated Press Holdings Limited have been subject to numerous probity checks as part of the VCGLR's investigations and many have a significant public profile. Crown Limited is also subject to public disclosure requirements by the ASX. A number of the associates of Crown Melbourne Limited have been subject to probity approvals by gaming regulators in other jurisdictions.

The associates of Crown Melbourne Limited were required to disclose significant amounts of information and to consent to disclosure to the VCGLR by other regulators and law enforcement agencies. The VCGLR considered directorships, investments and other relationships.

The VCGLR also conducted media searches as well as searches of its own internal databases and files.

Consultations with other regulators and law enforcement agencies

The VCGLR conducted numerous consultations with regulators and law enforcement agencies in investigating the good repute of associates and business associates.

Inquiries and checks were conducted with:

- Victoria Police;
- Australian Federal Police;
- ASIC;
- AUSTRAC;
- Australian Crime Commission;
- Western Australia Department of Racing, Gaming and Liquor;
- Tasmania Department of Treasury and Finance, Liquor and Gaming Branch; and
- Overseas regulators, such as the United Kingdom Gambling Commission and Macau DICJ.

In addition, as part of the investigations into Crown Melbourne Limited, its associates and their business associates, the VCGLR cooperated and shared information with the New South Wales ILGA, which conducted a joint investigation with the Queensland Office of Liquor and Gaming Regulation into Crown Limited's application to increase its 10 per cent stake in Echo Entertainment Group Limited. As noted in Chapter 2.2 – Corporate Structure, the ILGA and the Queensland Office of Liquor and Gaming Regulation provided the relevant approvals in May 2013.

As noted in Chapter 1.1, a number of matters have been excluded from the VCGLR's opinion under section 25(1)(a) on the basis that they involve pending or incomplete litigation or other legal processes.

Crown Melbourne Limited

Based on the investigations outlined in this chapter, the VCGLR is satisfied that Crown Melbourne Limited remains of good repute, having regard to character, honesty and integrity.

Controlled contracts

Certain categories of contracts which Crown Melbourne Limited enters into are deemed to be 'controlled contracts' under the Casino Control Act. Sections 30 to 35 of the Casino Control Act set up a process for the VCGLR to review controlled contracts.

The controlled contract regime aims to assist to prevent the casino operator from entering into business associations with suppliers of ill repute or who may lack integrity, and to assist in preventing the possible supply of goods and services that could be used to facilitate illegal activity.

The VCGLR has allocated a risk profile to the types of contracts entered into by Crown Melbourne Limited, where Category A is considered to be the highest risk, Category B to be medium risk and Category C to be low risk.

- Category A – Includes, among other things, contracts for the supply of gaming equipment, which cannot be entered into without the prior written approval of the VCGLR. There are no expenditure limits on the contracts in this category.
- Category B – Includes, among other things, printing, cash transportation and furniture supply contracts. Depending on the type of goods or services being supplied, may have an expenditure limit of \$500,000, under which the contracts are considered to be Category C contracts. Probity and due diligence must be undertaken by Crown Melbourne Limited's Compliance Department and the VCGLR is notified monthly of these type of contracts.
- Category C – Includes contracts for accounting and audit services, advertising, computer software and beverage suppliers. Contracts may be entered into without prior approval of either Crown Melbourne Limited's Compliance Department or the VCGLR and are provided monthly to the VCGLR. Some types of contracts in this category can be upgraded from Category C to Category A or B if they reach the expenditure thresholds.

Only Category A and B contracts are 'controlled contracts' for the purposes of the Casino Control Act.

In 2009, Crown Melbourne Limited reported to the VCGR that it had exceeded the threshold expenditure limit in relation to a catering contract without seeking prior approval. Consequently, in 2010, disciplinary action was taken against Crown Melbourne Limited for breaching section 30 of the Act and a fine was imposed.

Despite this breach, the VCGLR has found no issues with the actual contracts entered into by Crown Melbourne Limited between July 2008 and June 2013.

Associates

Based on the investigations outlined in this chapter, the VCGLR is satisfied that Crown Melbourne Limited's 21 individual associates and three corporate associates remain of good repute, having regard to character, honesty and integrity.

Business Associates

As noted above, the VCGLR monitors business associates on an ongoing basis and from time to time conducts investigations under section 28A of the Casino Control Act.

In 2009, the Macau Court of Final Appeal gaoled a former Macau government official, Ao Man Long, on corruption charges. Some of those charges involved a contractor linked to the construction of certain properties in Macau, including the City of Dreams complex owned by Melco Crown. Melco Crown is a business associate of Crown Limited and of three individual associates of Crown Melbourne Limited (Mr Packer, Mr Craigie and Mr Nisbet).

No charges have ever been brought against Melco Crown, its officers or its employees, in relation to this matter. Further, the VCGLR consulted with other regulators and law enforcement agencies concerning this matter and is satisfied that it does not warrant any further action by the VCGLR at this time.

The VCGLR notes that, as outlined in Chapter 1.1, investigations by Taiwanese prosecutors concerning a Melco-Crown subsidiary are excluded from consideration of this report.

The VCGLR's investigations outlined in this chapter have not identified any business associates of Crown Melbourne Limited or its associates that are not of good repute, having regard to character, honesty and integrity.

However, the VCGLR makes a number of observations about overseas expansion of the Crown Group and the activities of Melco Crown, a key business associate of Crown Limited.

International expansion

Crown Limited has sought to expand internationally through direct investment, such as its ownership of Aspinall's Club, and through its stake in Melco Crown.

In the context of the changing global casino market, the VCGLR understands the commercial imperative of the Crown Group expanding its operations into the Asia-Pacific region. As noted in Chapter 2.5, the Crown Group's financial performance and strength is increasingly dependent on the prosperity of the VIP gambling market, a market that is increasingly centred on the Asia-Pacific market, especially China.

However, as the Crown Group expands its business interests in the region, so must its risk management processes grow to meet the different challenges posed by operating in new markets.

Melco Crown's recent expansion in the Asia-Pacific region highlights certain risks associated with conducting business in countries with heightened public sector governance issues.

Melco Crown, through subsidiaries, has entered into an agreement with a consortium of Philippines companies, led by the SM Group and controlled by Mr Henry Sy, to operate a new casino in Parañaque City, Philippines.

The proposed integrated resort will be constructed by the Belle Group and, once completed, will be fitted out and operated by MCE Leisure (Philippines) Corporation, a wholly owned subsidiary of Melco Crown (Philippines) Resorts Corporation, a company listed on the Philippines Stock Exchange in which Melco Crown owns a 70 per cent interest. The consortium has been granted a provisional licence by the Philippines regulator, the Philippine Amusement and Gaming Corporation. If a full licence is granted, it is understood to be for a period of 21 years, expiring on 11 July 2033.

While the Aquino administration in the Philippines has outlined a major reform agenda focused on eliminating corruption and alleviating poverty, Transparency International, a not-for-profit

Table 2: Relationship of Crown Melbourne Limited associates to Philippines joint venture

Associates of Crown Melbourne Limited	Directors			
	Crown Melbourne Limited	Melco Crown	MCE (Philippines) Resorts Corporation	MCE Leisure (Philippines) Corporation
Mr Packer	✓	✓		
Mr Craigie	✓	✓		
Mr Nisbet		✓	✓	✓

Source: Crown Limited

organisation which conducts research into integrity, ranks the Philippines 105th on its Corruption Perception Index 2012. The Corruption Perception Index attempts to measure the perceived levels of public sector corruption in 176 countries and territories, with 1 being the most positive ranking. By contrast, Australia ranked 7th.

The Federal Government, in the Philippines country profile of its 'Australia in the Asian Century' White Paper, notes under the heading "Towards 2025" that '*if governance and transparency reforms to the Philippines' economy bear fruit over the coming years, more Australian companies will be doing business in the Philippines*'. However, it also notes that the Philippines has '*continuing governance and low public revenue challenges*'.

The Financial Action Task Force, an independent inter-governmental body that develops and promotes policies to protect the global financial system against money laundering and terrorist financing, indicates that deficiencies remain in the financial transaction reporting regime in the Philippines, despite high-level political commitments by the Philippines government to improvements. The Financial Action Task Force has concerns that the casino sector in the Philippines is not subject to anti-money laundering and counter terrorism financing reporting requirements.

At the same time, as the Crown Group's business expands, it increases both the number of jurisdictions that subject it to extra-territorial anti-bribery laws, and jurisdictions in which its businesses

must implement policies to ensure compliance with those laws. Crown Limited is subject to prohibitions on bribing foreign officials under the Federal Criminal Code in Australia. Further, in 2010, the United Kingdom introduced new anti-bribery laws that have broad application to organisations that conduct business in the United Kingdom. These laws, which are likely to apply to Crown Limited due to its ownership of UK businesses, are among the most stringent in the world.

The VCGLR has no evidence that Crown Limited's business associates in the Philippines or elsewhere are not of good repute and no specific issues of concern have been identified by the VCGLR in relation to Melco Crown's investment in the Philippines, or its partners in the consortium. The VCGLR also has no evidence that companies in the Crown Group are not complying with their anti-bribery obligations.

Further, the VCGLR acknowledges that under the Casino Control Act, Crown Melbourne Limited, its associates and their business associates do not require approval to undertake overseas projects. These are matters for local regulators in those jurisdictions.

However, the VCGLR does have an ongoing responsibility to ensure the casino operator and its associates, including individual associates, remain of good repute. The VCGLR is also required to monitor the business associates of Crown Melbourne Limited and its associates to ensure they do not include businesses or persons not of good repute.

The involvement of Melco Crown or other Crown Group companies or their directors in jurisdictions with public governance challenges contains real risks, including for its Australian licences. This requires the Crown Group to have sound processes and procedures in place to assess, manage and monitor that risk.

The VCGLR sought information about the measures the Crown Group took to assess and manage the risk of entering the Philippines project and to meet its obligations under anti-bribery laws. The Crown Group engaged in some due diligence processes concerning the Philippines project and Melco Crown has good quality anti-bribery training materials in place for staff designed to meet its anti-bribery obligations.

Crown Limited advised that it assesses investment opportunities through traditional approaches to strategic development. It does not currently have a specific framework for assessing public sector governance risks. The VCGLR considers it would be better practice if it did so.

Crown Limited has recently advised that it has commenced a project to implement a centralised, formal anti-bribery and anti-corruption compliance process that involves:

- The conduct of formal Bribery and Corruption Risk Assessments;
- The development of a centralised Anti-bribery and Corruption Policy and the endorsement of that Policy by the Crown Limited Board;
- The roll-out of the Policy including training of key staff; and
- On-going monitoring of the Policy together with periodic refresher training.

The United Kingdom Ministry of Justice has issued a publication entitled *'The Bribery Act 2010 – Guidance about procedures which relevant commercial organisations can put into place to prevent persons associated with them from bribing.'* The document sets out six clear principles for complying with anti-bribery laws and provides guidance on how they should be implemented. The six principles are:

- Proportionate procedures – clear, practical procedures to prevent bribery.

- Top level commitment – fostering a culture within senior management that bribery is never acceptable.
- Risk assessment – documented and periodic assessments of the external and internal risks of bribery.
- Due diligence – undertaking a risk based approach in order to mitigate identified bribery risks.
- Communication – all policies and procedures are communicated throughout the organisation.
- Monitoring and review – the organisation monitors and reviews procedures and makes improvements where necessary.

The VCGLR considers the UK Ministry of Justice Guidance represents good practice. The VCGLR notes that the brief details provided by Crown Limited about its proposed policy reflect most of the key principles set down in the UK Ministry of Justice Guidance document. The VCGLR expects that Crown Limited will in future assess all new investments and business opportunities through its new policy, including any possible investment in Sri Lanka, and that this will specifically include assessing public sector governance risks and putting in place appropriate risk mitigation strategies.

The VCGLR also expects that Crown Limited's policy will be the subject of internal and external audit review.

Crown Limited's development of a centralised anti-bribery and anti-corruption policy is an encouraging development and the VCGLR will monitor the development and roll out of this program.

VCGLR Findings

Based on the investigations described in this chapter, the VCGLR considers that Crown Melbourne Limited and its associates are of good repute having regard to character, honesty and integrity. The VCGLR's investigations have not identified any business associates of Crown Melbourne Limited or its associates that are not of good repute, having regard to character, honesty and integrity.

2.4 Management Ability

The ability and experience of the management of the Melbourne Casino is a key part of considering whether Crown Melbourne Limited continues to be a suitable person to hold the casino licence. The VCGLR must have confidence in Crown Melbourne Limited and its parent company meeting the purposes of the Casino Control Act and fulfilling their contractual obligations.

As noted in Chapter 2.1, the VCGLR has based its assessment of management ability on section 9(2) of the Casino Control Act. In particular, it has considered whether:

- Crown Melbourne Limited has the services of persons who have sufficient experience in the management and operation of a casino – section 9(2)(d);
- Crown Melbourne Limited has sufficient business ability to maintain a successful casino – section 9(2)(e); and
- Each director, partner, trustee, executive officer and secretary and any other officer or person determined by the VCGLR to be associated or

connected with the ownership, administration or management of the operations or business of the casino operator is a suitable person to act in that capacity – section 9(2)(g).

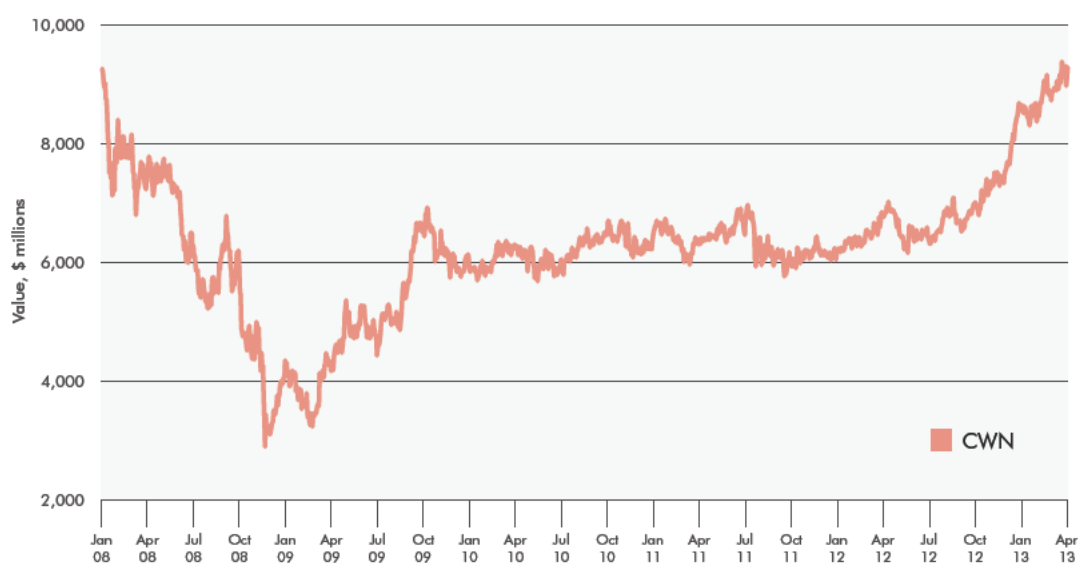
Due to Crown Limited's role in setting the strategic direction and financial strategy for Crown Melbourne Limited, it is necessary to include an assessment of the management ability of Crown Limited as part of the VCGLR's findings in this chapter.

Corporate development and market sentiment

The growth in Macau, the slowdown in the global economy and the fall out from Crown Limited's expansion into North America have been the principal influences on the Crown Group since 2008.

In 2007, following the demerger of Publishing and Broadcasting Limited, Crown Limited embarked on an investment strategy in North America, Canada, and Britain to diversify and develop its asset portfolio. Crown Limited's investments included minority stakes in five North American casino companies – Fontainebleau Resorts, Station

Chart 6: Crown Limited's market capitalisation for the period from January 2008 to April 2013



Source: ASX

Casinos, Caesar's Entertainment Corporation; and Cannery Casino Resorts in the United States; and Gateway Casinos in Canada.

At the peak of the Global Financial Crisis, Crown Limited announced a net loss of \$1,197.9 million for the financial year ended 30 June 2009, after write-downs and other non-recurring items of \$1,440.1 million. The net loss primarily related to the write-down of the carrying values of Crown Limited's North American investments (Crown Limited, 2009).

After the write-downs, Crown Limited was criticised for buying small holdings in a number of companies at the top of the market. It was noted by at least one analyst that, unlike Crown Limited, the companies were heavily burdened with debt and unable to withstand the downturn in the economy in 2008. The CEO of Crown Limited noted in his address to shareholders at the 2009 Annual General Meeting that the investments had been "ill timed".

While the company's international investment strategy, particularly in North America, Canada and the UK was impacted by the 2008 Global Financial Crisis, the strong performance of its Australian casinos and profits from its casinos in Macau meant that Crown Limited has been able to maintain a strong balance sheet and low debt and gearing.

Overall, market sentiment of Crown Limited is positive. As Crown Melbourne Limited is the major contributor to Crown Limited's balance sheet, market sentiment for Crown Limited is a good proxy for assessing the market's view of Crown Melbourne Limited's management.

The global financial crisis and subsequent write-down of its North American assets, significantly impacted the share price of Crown Limited in 2008 and 2009. However, since then Crown Limited's share price has recovered.

Shareholder wealth has also recovered since 2009.

The Crown Limited share price has consistently tracked the ASX 200 index since 2008. Crown Limited's share price was trading above the ASX index at \$12.90, with a market capitalisation of \$9.41 billion, on 30 April 2013.

Crown Limited's interest in Melco Crown was a major contributor to the growth in normalised profit after tax for the Crown Group for the year ended 30 June 2012. Crown Limited's share of Melco Crown's reported result 2011-12 was an equity accounted profit of \$135.8 million. Crown Limited's share of Melco Crown's normalised result for the period was a profit of \$92.1 million, after adjusting for an above theoretical win rate. Normalised net profit after tax for the group for the year ended 30 June 2012 was \$415.0 million (Crown Limited, 2012).

Table 3: Movements in shareholder wealth from 2007-08 to 2011-12

	Year Ended 30 June 2008	Year Ended 30 June 2009	Year Ended 30 June 2010	Year Ended 30 June 2011	Year Ended 30 June 2012
Share price at end of period	\$9.29	\$7.27	\$7.77	\$8.93	\$8.49
Full year dividend	54 cents	37 cents	37 cents	37 cents	37 cents
Basic/diluted earnings per share	54.58 cents per share	33.74 cents per share	38.54 cents per share	44.29 cents per share	69.78 cents per share

Source: Crown Limited

Chart 7: Crown Limited's daily share price in comparison with the ASX 200 index for the period from January 2008 to April 2013



In light of Crown Limited's expansion plans, the company announced a \$400 million Subordinated Notes issue on 13 August 2012 at \$100 per note. The offer was oversubscribed and raised \$532 million, including the participation of its largest shareholder, Consolidated Press Holdings Limited, in respect of \$100 million.

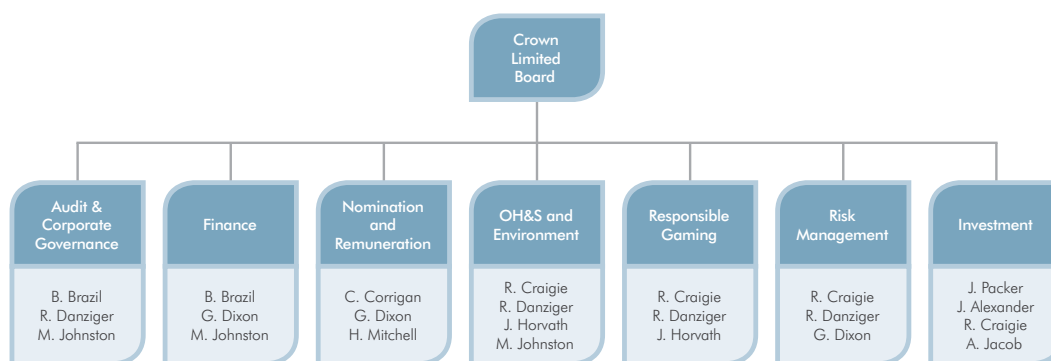
On 7 August 2012, before the Subordinated Notes issue, credit rating agency Moody's Investors Service issued a warning to Crown Limited that its credit rating could come under pressure as it pursues expansion plans in Perth and Sydney. Moody's had previously advised it will consider lowering Crown Limited's rating if its debt to earnings ratio rises above 2.5 to 3 times (Australian Financial Review, 2012).

Crown Limited has maintained a stable group investment grade debt rating (S&P/Moody's/Fitch BBB/Baa2/BBB) from 2008-09 to 2011-12, and no action has been taken by any of the agencies to downgrade Crown Limited's credit rating.

Corporate governance

Commitment to the implementation and maintenance of good corporate governance practices reflects on the suitability of the management team involved in operating the Melbourne Casino. In examining what constitutes good corporate governance, the VCGLR's investigations considered the operation of board committees, compliance with best practice standards and guidelines, management experience and whether Crown Melbourne Limited has a well trained and engaged workforce.

Crown Limited, as the parent company of Crown Melbourne Limited, is largely responsible for setting the corporate strategy and has a significant influence on the governance structure of Crown Melbourne Limited. As such, it is important in making an assessment in this area to look at the corporate governance structure of both companies.

Figure 10: Crown Limited Board and sub-committee structure

Source: Crown Limited

Crown Melbourne Limited maintains a corporate governance framework separate and distinct from its parent Crown Limited. It maintains Board and Audit and Compliance sub-committees independent of its ultimate parent, Crown Limited.

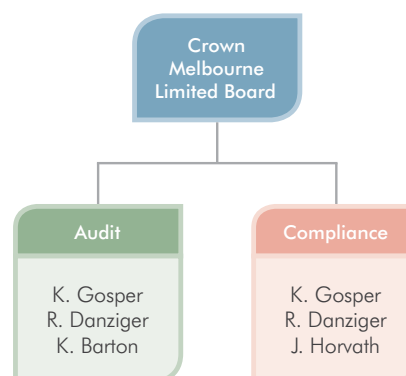
The Crown Melbourne Limited Board committees assist in monitoring the performance of the company and consist of a minimum number of independent board members who are assisted by members of the senior executive team.

For example, Crown Melbourne Limited's CEO, CFO, Executive Manager – Legal & Regulatory Services, the General Manager of Risk & Assurance and external auditor attend the Audit Committee meetings as required. Crown Melbourne Limited's CEO and Executive General Manager – Legal & Regulatory Services also attend the Compliance Committee meetings as required.

In conducting its investigation, the VCGLR sought to measure Crown Melbourne Limited and Crown Limited against commonly held best corporate governance practices.

The ASX Corporate Governance Council Principles and Recommendations (the ASX Principles) (Appendix 7) set out generally accepted governance principles a listed company should adhere to in order to ensure good governance and robust decision-making.

Crown Limited, as a publicly listed company, is required to either adhere to the ASX Principles or report on any areas in which it is not compliant. Crown Melbourne Limited, as a wholly owned subsidiary of Crown Limited, is not required to adhere to the ASX Principles. As its ultimate parent company, Crown Limited sets the strategic goals and general performance requirements of Crown Melbourne Limited, against which its Board and executive team are measured and evaluated. As such, the VCGLR is also interested in the governance structure of Crown Limited.

Figure 11: Crown Melbourne Limited Board and sub-committee structure

Source: Crown Melbourne Limited

To test the governance structure of Crown Limited, the VCGLR reviewed its adherence to the ASX Principles. Whilst not subject to the ASX Principles, Crown Melbourne Limited is of sufficient size that the VCGLR considers it appropriate it aim to adhere to the ASX Principles where practical.

Crown Limited has adhered to the ASX Principles with the exception of the recommendation to have a chairperson who is an independent director.

Crown Melbourne Limited also generally adheres to the ASX Principles. Issues that might otherwise arise by its divergence from some principles, such as the Board of Directors not having a majority of independent directors, are mitigated by the fact that it is a wholly owned subsidiary of Crown Limited, which adheres to all but one of the ASX Principles.

However, one area in which Crown Melbourne Limited is not compliant is that the Board does not have a charter. The Crown Melbourne Limited Board operates in accordance with its Constitution and, while this is a matter for Crown Melbourne Limited to determine, the VCGLR is of the view that a board charter could assist in providing clarity on its role in relation to its parent company.

The Crown Melbourne Limited Board has had a low turnover of directors since 2008, with three new directors appointed to the Board. There have been four changes to the Board of Crown Limited since 2008.

During the Third and Fourth Casino Reviews, the VCGLR's predecessors reported that the Crown Melbourne Limited Board met on average only four times a year which was considered minimal for a company of its size. From 2010, the Board increased the number of meetings to five.

Experienced staff

The VCGLR reviewed the resumes of Crown Melbourne Limited senior executives and executive general managers and considers that their qualifications and experience are commensurate with their positions. The majority of the senior executives and executive general managers are long-term employees and some have held positions in other Crown Group companies, in particular Crown Perth and Melco Crown.

Staff Training and Development

Crown Melbourne Limited has made significant investment in its workforce. In June 2010, it opened Crown College located within the new Crown Metropal Melbourne hotel. The \$10 million purpose-built facility supports and coordinates all learning and development operations at the Melbourne Casino Complex, and oversees the induction of new employees.

Crown Melbourne Limited is registered as a training organisation by the Australian Skills Quality Authority. Crown College trains staff to work at the Melbourne Casino Complex and in Responsible Service of Alcohol and Gaming.

Crown Melbourne Limited's Responsible Service of Gaming training program is also approved by the VCGLR.

Crown Melbourne Limited was awarded Victorian Employer of the Year by Skills Victoria in 2010 and Australian Employer of the Year by Australian Training Awards in the same year.

In May 2009, Crown Melbourne Limited partnered with an external consultant to gauge employee feedback. The survey was designed to capture employee opinions and reactions. The key objectives included assessing employees' attitudes and beliefs about their work activities, opportunities, quality of work life, company procedures and policies, rewards, and people in the organisation. It also aimed to assess employee understanding and support of the business goals and identify drivers of employee engagement.

Crown Melbourne Limited also partnered with an external consultant to understand employee attitudes following the implementation of structural changes in the business, including the 2010 table games department restructure.

The VCGLR viewed the survey results and notes the relatively positive results of both surveys, indicating there were no significant issues with Crown Melbourne Limited's management of its employees. In addition, the VCGLR holds the view that regular feedback processes involving a significant sample of employees represent good practice for such a large organisation.

Audit Committee

The Audit Committee is an independent reporting sub-board committee which assists the Crown Melbourne Limited Board to fulfil its corporate governance responsibilities in relation to financial reporting, corporate control and risk management, and internal and external audit.

The VCGLR considers the functions of the Audit Committee to be important in ensuring that the casino operator is being managed in accordance with best practice and that the company has effective risk control. The VCGLR monitors Crown Melbourne Limited's financial, internal and external audit reports provided in accordance with Schedule Five of the Casino Agreement.

The Audit Committee is governed by a Charter and is required to have a minimum of two members who are independent of the management of the company. The independent non-executive director Committee members are Kevan Gosper and Rowena Danziger.

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment, removal and remuneration of Crown Melbourne Limited's external auditor and may make a recommendation to the Board on the appointment and removal of the head of internal audit. In addition, the Charter requires that the Audit Committee periodically review and ensure the independence of the external auditor and internal audit unit.

As part of its investigation, the VCGLR reviewed the Audit Committee Charter, agendas, minutes and papers to establish whether it is complying with its Charter, and any noted significant issues addressed since 2008.

The Charter requires the Audit Committee to meet at least twice annually. The Committee met at least three times each year since 2008. In addition, the Audit Committee reviews its Charter annually, by persons experienced with the ASX Principles.

In May 2011, Richard Turner retired as chair of the Audit Committee and Kevan Gosper was appointed the new chair.

At the February 2010 meeting, the Audit Committee reviewed whether the Internal Audit unit was adequately resourced given the high number of audits to be completed. The General Manager of Risk & Assurance assured the Committee that the Internal Audit unit was adequately resourced for a company of Crown Melbourne Limited's size.

The VCGLR notes that this kind of assessment is critical for assuring that adequate resources are being applied to the Internal Audit unit.

The Audit Committee is advised of significant debtors arising from commission based play. The management of credit provided to commission based players is an important issue arising from Crown Limited's current focus on attracting and retaining commission based players. The Crown Limited CEO has highlighted the rapid expansion and increasing competitiveness of the international gaming market as a key factor in increasing provision of credit in the casino market worldwide.

The VCGLR considers that Crown Melbourne Limited has appropriate processes and procedures in place for managing the financial risks of credit and bad debt, but notes the increasing competition in the commission based player market and the importance of managing these matters carefully.

The VCGLR considers that the Audit Committee is complying with its Charter and is fulfilling its corporate governance responsibilities effectively.

Internal Audit

The internal audit function of Crown Melbourne Limited is the responsibility of the Crown Melbourne Limited Risk & Assurance unit. Internal audit activities are closely aligned to corporate control and risk management and are overseen by the Crown Melbourne Limited Board Audit Committee in accordance with its Charter.

The General Manager of Risk & Assurance is responsible for the internal audit function, reports to the Executive General Manager – Legal & Regulatory Services, and has two qualified and experienced audit staff reporting to him – one full-time internal audit manager and one full-time internal auditor.

Crown Melbourne Limited also maintains a dedicated Gaming Audit function staffed by a full time Gaming Audit Manager and part-time assistant; and a Gaming Machines Audit function managed by Revenue Audit. The audit work is subject to periodic review by Internal Audit.

The following documents were assessed in reviewing Crown Melbourne Limited's internal audit function:

- Audit Committee Charter, agendas, minutes and papers;
- Internal audit plans and reports;
- Risk management plans and reports; and
- Crown Melbourne Limited's Executive Management Organisation Chart as at November 2012.

The Crown Melbourne Limited Risk & Assurance unit provides information regarding the effectiveness of Crown Melbourne Limited's internal control systems and systems established to assess, monitor, and manage risk exposures. The unit also reports on key findings, recommendations and outcomes.

A review of the Crown Melbourne Limited Audit Committee papers determined there was direct and regular reporting by the General Manager, Risk & Assurance to the Crown Melbourne Limited Audit Committee, including internal audit and risk management plans and reports.

The Crown Melbourne Limited Internal Audit Plan details internal audit work to be undertaken for a three year period. Risk ratings are assigned to each auditable area consistent with the risk rating of related critical risk exposures or otherwise assessed. The Internal Audit Plan may be modified or adjusted to reflect changes in Crown Melbourne Limited's risk profile or to accommodate executive management requests.

Planned internal audit hours allocated to identifying potential material breaches of gaming/casino legislation and other regulations and other opportunities for fraud represented 58 per cent of total planned hours for the period 2007-08 to 2012-13. Planned internal audit hours have

been consistent since 2008 and Crown Melbourne Limited reported that the yearly number of planned audits and reviews were undertaken in accordance with the planned number of hours allocated in the Internal Audit Plans. Several additional audits and reviews were completed each year. The VCGLR notes that annual internal audit hours have not decreased since the Fourth Casino Review period.

The General Manager, Risk & Assurance reported to the Crown Melbourne Limited Audit Committee on internal audit and risk matters at each meeting. Significant activities of the Crown Melbourne Limited Audit Committee in relation to internal audit and risk matters included:

- The Risk & Assurance unit audited the Responsible Service of Gaming in June 2011. The risk attached was rated 'high' and the overall audit finding satisfactory. The audit involved a review of controls for ensuring compliance with the VCGLR approved Responsible Gambling Code of Conduct. The actions taken to remedy the five issues raised were in effect by 2012.
- A review of controls for determination of international patron domicile that recommended improved verification and record keeping practices. This matter is discussed further in relation to legislative obligations concerning issuing of credit by Crown Melbourne Limited in Chapter 3.4 – Responsible Gambling.

The VCGLR notes the actions taken to remedy the issues raised in the Responsible Service of Gaming audit and the result of the follow-up review in relation to International Patron Domicile – Junket (International Marketing Agent Agreements).

The VCGLR receives a copy of Crown Melbourne Limited's Internal Audit Plan as approved by the Board and periodic internal audit reports as presented to the Crown Melbourne Limited Audit Committee under Schedule Five of the Casino Agreement.

The VCGLR considers that the internal audit planning process appears to be thorough and robust.

However, the Institute of Internal Auditors recommends that to ensure transparency and thwart collusion and conflicts of interest, the Head of Internal Audit should report directly to the most senior executive of the Company (i.e. the CEO of the company) for assistance in establishing direction, support, and administrative interface; and to the organisation's most senior oversight group – the Audit Committee for strategic direction, reinforcement and accountability.

The Internal Audit unit is meeting the best practice requirement of reporting on internal audit matters to the Crown Melbourne Limited Audit Committee.

However, the Crown Melbourne Limited Executive Management Organisational Chart shows that the General Manager, Risk & Assurance reports to the Executive General Manager, Legal & Regulatory Services, and does not directly report to the CEO.

Recommendation 1

The VCGLR is of the view that Crown Melbourne Limited should be adhering to the best practice recommendations of the Institute of Internal Auditors and as such, recommends that the General Manager, Risk & Assurance report directly to the CEO of Crown Melbourne Limited.

In addition to the requirement for internal assessments, the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing requires that to ensure the internal audit function is adhering to best practice, an external assessment of the internal audit function must be conducted by a qualified, independent reviewer from outside the organisation at least once every five years.

The Crown Melbourne Limited Audit Committee minutes and papers did not show that there had been any periodic reviews of the independence of the internal audit function in accordance with the Charter, nor any independent quality assessments of the internal audit function.

Recommendation 2

To ensure it is adhering with its Charter and the best practice recommendations of the Institute of Internal Auditors, the VCGLR recommends that the Crown Melbourne Limited Audit Committee:

- Conduct a review of the independence of the internal audit function;
- Conduct an independent quality assessment of the internal audit function; and
- Provide the results of each assessment to the VCGLR within 6 months of this report.

External Audit

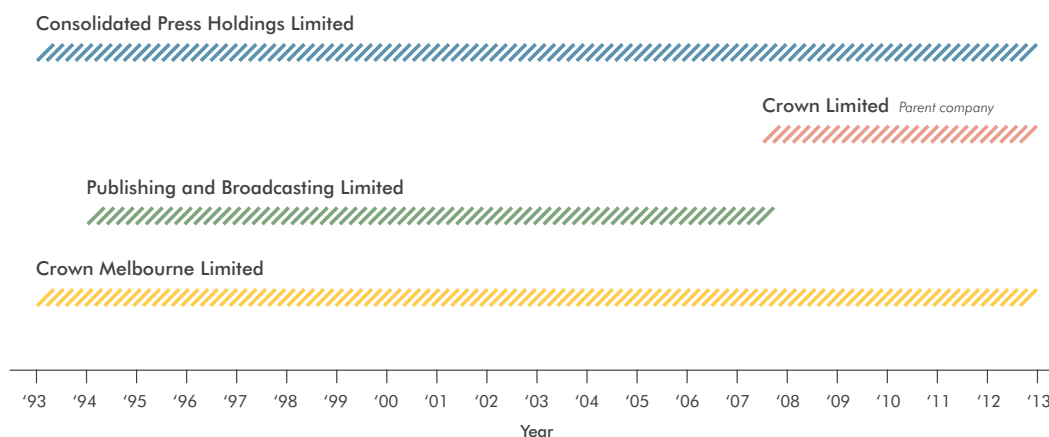
The external audit process provides a report on the financial position of a company and is a key component of the oversight of publicly listed companies. The Independent Auditor's Report provides an opinion on whether the accounts give a true and fair view of the consolidated entity's financial position and its performance.

A robust external audit process and favourable opinion of the financial health of the company accounts complements the VCGLR's ongoing compliance and regulatory processes.

Ernst & Young, Chartered Accountants have been the external auditor to:

- Crown Melbourne Limited since 1993 (formerly Crown Limited and Crown Casino Limited);
- Publishing and Broadcasting Limited (PBL) before its demerger in November 2007 into two separate companies - Crown Limited and Consolidated Media Holdings Limited;
- Crown Limited since November 2007; and
- Consolidated Press Holdings Limited since 1993.

Figure 12: Timeline of Ernst & Young's engagement as external auditor



Source: ASIC

The casino operator, Crown Melbourne Limited, is not a publicly listed company. However, the reporting requirements under Schedule Five of the Casino Agreement require it to provide annual audited accounts to the VCGLR.

In the external auditor's opinion, the financial accounts of Crown Melbourne Limited and Crown

Limited for the period 2007-08 to 2011-12 are in accordance with the Corporations Act. The financial accounts give a true and fair view of the consolidated entity's financial position and its performance; and comply with the Australian Accounting Standards, the Corporations Regulations 2001 and International Financial Reporting Standards.

The VCGLR makes no specific findings about the performance or compliance of Ernst & Young in its work for Crown Melbourne Limited or Crown Limited. However, the VCGLR makes some observations regarding the level of fees for non-audit services and Crown Limited's review of external auditor independence.

Crown Melbourne Limited has had the same key audit partner since 1 July 2004 and Crown Limited since 1 July 2007. Ernst & Young advised in its 30 June 2012 report to the Audit & Corporate Governance Committee that "Audit Partner rotation will occur for Crown Limited for the year ended 30 June 2013, and therefore, will also occur for Crown Melbourne Limited. A replacement audit partner will be approved by the Audit Committee."

Audit Partner rotation requirements for listed entities are provided in section 324DA (1) and (2) of the Corporations Act and section 290.151 of APES 110 Code of Ethics for Professional

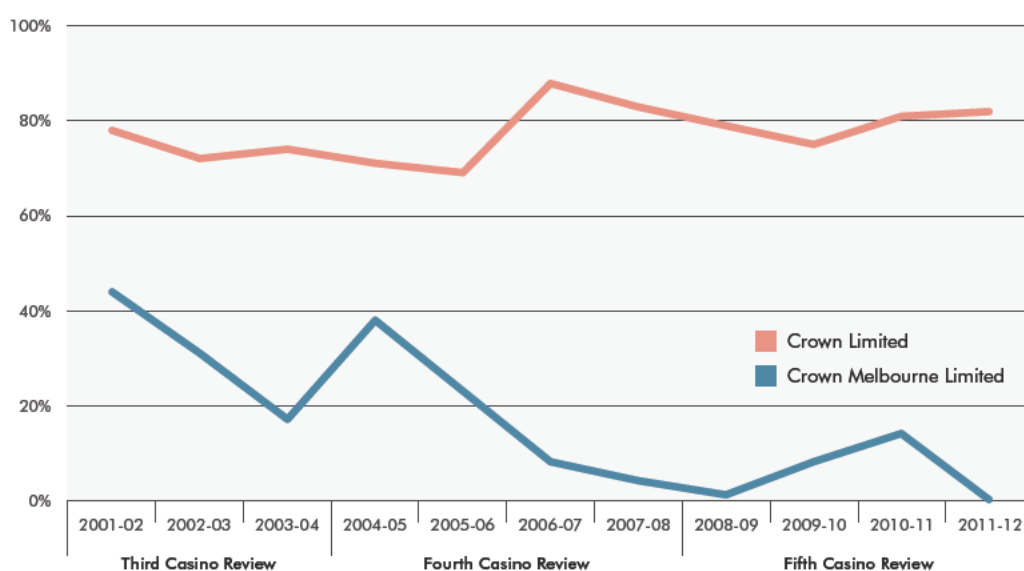
Accountants. An individual who plays a significant role in the audit of a listed company shall not be a key audit partner for more than five straight years or five years in seven with a two year break.

The VCGLR observed that Ernst & Young is complying with the requirement to rotate the key audit partner role for Crown Limited every five years in accordance with the Corporations Act. Whilst the same requirements do not apply to Crown Melbourne Limited, the VCGLR notes that Ernst & Young has had the same key audit partner for eight years for Crown Melbourne Limited.

In addition to its auditing work, Ernst & Young has been engaged to provide non-audit services to Crown Limited and Crown Melbourne Limited.

Average non-audit fees as a proportion of total audit fees since 2008 were 79 per cent for Crown Limited and 8 per cent for Crown Melbourne Limited.

Chart 8: Value of Ernst & Young non-audit services as a percentage of total auditor fees for Crown Limited and Crown Melbourne Limited by financial year



Source: Crown Limited, Crown Melbourne Limited

The provision of non-audit fees raises the possibility that the audit firm will be required to review its non-audit services work (the 'self-review threat'). The self-review threat was addressed in the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (Cth) (CLERP 9) by requiring two things: mandatory disclosure in the annual report of fees paid for non-audit services in certain categories; and a statement from those charged with governance of the company, to be included in the annual report, that it is satisfied that the provision of those services is compatible with auditor independence.

Section 300(11B) of the Corporations Act requires that Directors are satisfied that the non-audit services are compatible with the general standard of independence. A statement with respect to external auditor independence is included in the 2012 Crown Limited Annual Report:

"The Directors are satisfied that the non-audit services are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Board considers that the nature and scope of the services provided do not affect auditor independence."

The VCGLR considers that the fees for non-audit services since 2008 for Crown Limited have been consistently high, which raises concerns for the VCGLR about the processes and procedures Crown Limited has in place to assess the independence of the external auditor in accordance with the Audit & Corporate Governance Committee Charter.

The Crown Limited Board has reported in each of its Annual Reports that the nature and scope of the non-audit service fees provided did not affect auditor independence. In addition, Ernst & Young has reported that it has complied with the independence requirements of the Corporations Act and there have been no contraventions of the auditor independence requirements of the Corporations Act or any applicable code of professional conduct (Auditor's Independence Declaration).

Ernst & Young is complying with section 324DA(1) and (2) of the Corporations Act and section 290.151 of APES 110 Code of Ethics for Professional Accountants in relation to audit partner rotation for Crown Limited.

However, it is the VCGLR's view that these obligations do not abrogate Crown Limited's responsibility to satisfy itself of the independence of its external auditors.

In addition to its statutory requirements, the Crown Limited Audit & Corporate Governance Committee Charter requires it to undertake a periodic review of the independence of the external auditors having regard to any relationships with Crown Limited beyond the external audit function that could impair the external auditor's independence or judgement of Crown Limited.

The VCGLR reviewed the Crown Limited Audit & Corporate Governance Committee minutes to determine whether these requirements had been met. In addition, the VCGLR also requested any papers that had been prepared for the Crown Limited Audit & Corporate Governance Committee on the subject of auditor independence.

The minutes record that the Crown Limited Audit & Corporate Governance Committee discussed the independence of the external auditor in accordance with the Charter at its meetings in February 2011 and August 2011. In both cases, the Committee was satisfied with the independence representations made by Ernst & Young in its annual audit plan and closing report.

In addition, the minutes recorded that in accordance with its Charter, the Crown Limited Audit & Corporate Governance Committee also considered whether the non-audit services provided by the external auditor were compatible with the independence of the external auditor in August 2010, February 2011 and August 2011.

However, no papers were prepared for these meetings analysing the company's relationship with Ernst & Young, or the level and type of non-audit fees paid.

Since January 2008, about 79 per cent of the fees earned by Ernst & Young from Crown Limited was from non-audit work. While the majority of the work conducted by Ernst & Young related to tax advice, the VCGLR considers the self-review threat to be a concern Crown Limited should take seriously.

While the VCGLR is not suggesting there is an actual conflict of interest, it does not appear that the Crown Limited Audit & Corporate Governance Committee is undertaking a full and complete review of the independence of the auditor and the level and nature of non-audit fees as required by its Charter. Given the high level of non-audit fees, the Crown Limited Audit & Governance Committee needs to do more to satisfy itself of the independence of its external auditors.

Recommendation 3

Given the consistently high non-audit fees paid by Crown Limited to its external auditor and in order to fully comply with its Charter, the VCGLR recommends that the Crown Limited Audit & Corporate Governance Committee perform a comprehensive assessment of the independence of its external auditor on a periodic basis and provide the results of each assessment to the Crown Limited Board and the VCGLR. The first assessment should be completed and provided to the VCGLR within 6 months of this report.

Compliance Committee

The main function of the Compliance Committee is to ensure that clause 19.2 of Crown Melbourne Limited's Articles of Association, the duty to maintain the Melbourne Casino licence, is fulfilled. The Committee also has the responsibility to assist the Board to monitor compliance by the company with all other legislative requirements; and deal with compliance or related issues brought before it.

The VCGLR considers the work of the Compliance Committee to be critical in ensuring the processes and procedures used by Crown Melbourne Limited to comply with the many obligations under its legislative and contractual requirements are robust and able to be relied upon.

The Compliance Committee is required to have a minimum of three Board director members in accordance with its Charter, including at least two who are independent of the management of the company. The independent director Committee members are Kevan Gosper, Rowena Danziger and John Horvath.

The Charter requires the Compliance Committee to meet at least three times a year. The Committee met three times each year during the Fifth Casino Review period and regularly reviewed its Charter.

As part of the investigation, the VCGLR reviewed the Compliance Committee Charter, agendas, minutes,

papers and compliance and litigation reports and noted the matters addressed since 2008.

The VCGLR considers that the Compliance Committee is complying with its Charter and appears to be monitoring compliance matters effectively.

Risk Management System

Crown Melbourne Limited has an Enterprise Risk Management System in place for the ongoing management and reporting of risk. Crown Melbourne Limited prepares an annual Risk Management Plan for the effective management of 'material' risk exposures and corporate governance responsibilities.

The VCGLR considers that the systematic and effective management of Crown Melbourne Limited's critical risk exposures is essential to ensuring optimal business performance.

The Risk Management Plan is monitored and reported on by Crown Melbourne Limited's Risk Management Committee, its purpose being:

- To provide assurance to the Board, Executive Management, and other stakeholders that Crown Melbourne Limited's 'material' risk exposures and corporate governance responsibilities have been identified and are being managed effectively in accordance with the ASX Principles;

- To support improved management decision-making through the consolidation and alignment of processes for the identification, evaluation, monitoring and reporting of risk; and
- To assist the determination of Crown Melbourne Limited's insurance strategy.

The Risk Management Plan reflects the company's 'material risk' outlook comprising high and significant rated risks for each year and has been developed from an assessment of Crown Melbourne Limited's risk exposure.

The Audit Committee approves the Risk Management Plan and receives Risk Management Reports on an ongoing basis from the General Manager of Risk & Assurance.

The Crown Melbourne Limited Risk Management Committee Charter supports the achievement of Crown Melbourne Limited's business objectives and corporate governance responsibilities.

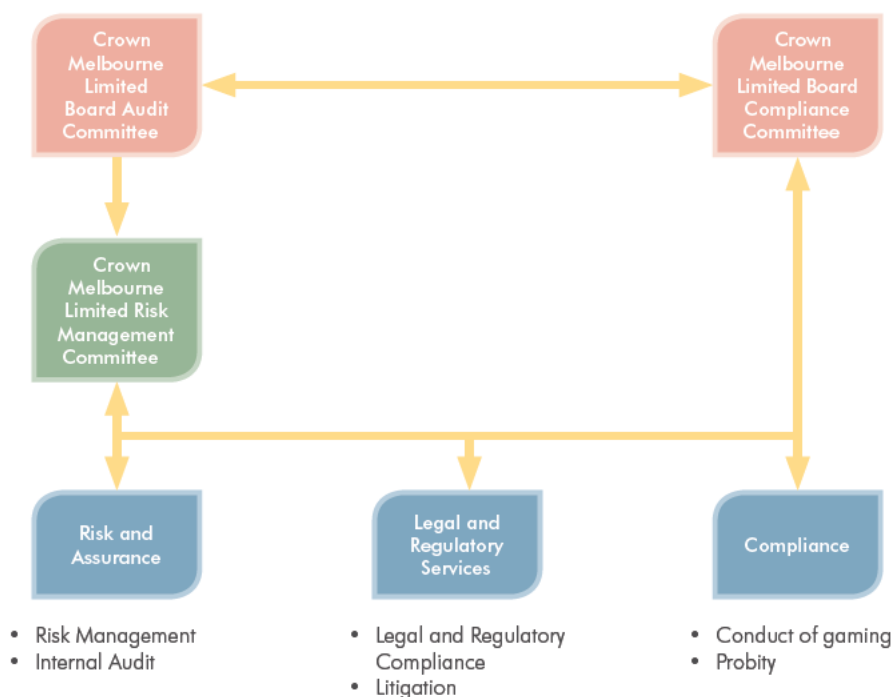
Periodic reviews of Crown Melbourne Limited's risk management systems and processes are conducted by Crown Melbourne Limited's external auditor and insurers.

Crown Melbourne Limited has a Management Assurance Reporting Structure in place.

The Risk and Assurance Department has responsibility for Risk Management and Internal Audit and prepares the Risk Management and Internal Audit Plans and the Legal & Regulatory Services Department oversees the Legal & Regulatory Compliance program. This involves, among other things:

- Casino operations;
- Responsible service of gaming;
- Anti-money laundering / counter terrorism funding;
- Planning and building compliance;

Figure 13: Reporting relationship between Board Committees and departments



Source: Crown Melbourne Limited

- Fire safety and smoking regulations;
- Liquor licensing / responsible service of alcohol; and
- Security.

The Compliance Department is responsible for the:

- Conduct of Gaming which involves:
 - o Liaison with the VCGLR;
 - o Legislative and regulatory compliance;
 - o System of accounting and internal control submission compliance; and
 - o Game rule and procedural compliance.
- Probity which covers:
 - o Employee / contractor criminal record checks;
 - o Special employee licensing;
 - o Controlled contract probity assessments; and
 - o Relationships and cooperation with law enforcement agencies.

Crown Melbourne Limited has established a Whistleblowers/Alertline Committee to oversee employee complaints and information in relation to any illegal, improper or unethical behaviour. Committee members are excluded from attending meetings if the complaint relates to their area of responsibility. In addition, Crown Melbourne Limited also established a Contractor Management Steering Committee to manage risk as a result of significant increases in contractor volumes and pressures associated with the capital works program since 2008.

The VCGLR reviewed Crown Melbourne Limited whistleblower reports since 2008. The Whistleblowers Program was relaunched in 2010-11 as 'Alertline' and periodic internal publication was initiated. The VCGLR observed that a noticeably higher number of reports were received in 2011-12 following the relaunch. However, the VCGLR notes that all reports were investigated by the Whistleblower/Alertline Committee and apparently resolved.

In May 2011, Crown Limited engaged a global provider of fraud risk assessment services to assist the company to identify and treat potential fraud and corruption risks that could impact on Crown Melbourne Limited's operations.

The consultant facilitated a fraud and corruption risk assessment across Crown Melbourne Limited's business operations. Fraud control actions were recommended in order to maintain and strengthen Crown Melbourne Limited's approach to fraud control and help it achieve its objectives by the effective management of its resources that may otherwise be lost to fraud and corruption. The report recommended that Crown Melbourne Limited undertake a fraud risk assessment across the business at least every two years.

As part of its investigation, the VCGLR reviewed Crown Melbourne Limited's Risk Management Plans and Risk Management reports to establish whether it has a well structured and robust methodology for assessing and mitigating risks.

The VCGLR is of the view that Crown Melbourne Limited has established a clearly articulated risk management and assurance framework, setting out the roles of each of the different reporting entities with input into the risk management process. Risk management is a key Crown Melbourne Limited management strategy and is linked closely to the internal audit program.

Litigation

The VCGLR reviewed litigation involving Crown Melbourne Limited and Crown Limited as the nature and number of matters may reflect on management of the Melbourne Casino.

Crown Melbourne Limited disclosed a total of 166 proceedings brought against it since 1 January 2008. In total, 134 of these matters have been either completed or settled and 32 matters are ongoing.

All proceedings disclosed were assessed and, where regulatory or compliance matters were raised and considered to be relevant, were investigated further by the VCGLR.

The number of new, completed and settled proceedings is broadly consistent with the Fourth Casino Review Period.

The VCGLR does not consider the number of proceedings excessive for a company of Crown Melbourne Limited's size and operational complexity and does not reveal any particular systemic issues of concern with Melbourne Casino operations.

There are a small number of legal cases outstanding against Crown Limited. PwC noted in its report to the VCGLR that Crown Limited has made no significant provisions for litigation. These cases are generally immaterial to Crown Limited's financial position and the VCGLR does not consider the non-provision for these claims a matter of financial concern.

VCGLR Findings

Based on the investigations conducted and the material provided by the associates, and consistent with sections 9(2)(d), (g) and (e) of the Casino Control Act, the VCGLR has found that Crown Melbourne Limited:

- Has the services of persons who have sufficient experience in the management and operation of a casino;
- Has sufficient business ability to maintain a successful casino; and
- Each director, partner, trustee, executive officer and secretary and any other officer or person determined by the VCGLR to be associated or connected with the ownership, administration or management of the operations or business of the casino operator is a suitable person to act in that capacity.

2.5 Financial Stability

In undertaking its investigations under section 25(1)(a) of the Casino Control Act, the VCGLR is required to assess the financial stability of the casino operator, its associates, and their business associates in accordance with section 9(2)(b), (d) and (f) of the Casino Control Act.

As noted in Chapter 2.2, as a consequence of the Deed of Cross Guarantee, it is necessary to investigate Crown Limited's financial stability to determine Crown Melbourne Limited's financial stability.

In assessing whether Crown Melbourne Limited and its associates are of sound and stable financial background, the VCGLR reviewed all relevant financial and business material relating to the key associates, individuals and business associates.

Based on the risks discussed in Chapter 1.1, the focus of this chapter is on the risks associated with Crown Limited's expansionary activities in Australia and the Asia-Pacific region.

The VCGLR engaged PwC to assess the financial stability of Crown Melbourne Limited and its associates, with a focus on Crown Limited.

PwC reviewed the financial and business affairs of Crown Melbourne Limited and Crown Limited, and provided an analysis of the financial position and performance of Crown Melbourne Limited as a standalone entity, Crown Limited and the broader Crown Group. As noted above, the implications of the Deed of Cross Guarantee within the Crown Group was a particular focus given its ability to significantly impact on the financial stability of Crown Melbourne Limited.

PwC examined records relevant to assessing the financial stability of Crown Limited, including annual financial reports, strategic plans, Board papers and minutes, ASIC filings, broker reports and ASX disclosures for the years ended 30 June 2010, 30 June 2011, 30 June 2012 and the six month period to December 2012. PwC also met with senior Crown Limited and Crown Melbourne Limited management to discuss particular issues.

PwC reported that:

"Crown Melbourne Limited generates approximately 70 per cent of Crown Limited's annual consolidated EBITDA. Crown Melbourne Limited is therefore a significant source of Crown Limited's financial resources in terms of assets, earnings and cash flow generation. Crown Limited has a strong balance sheet, is supported by an investment grade credit rating from the major ratings agencies and has historically generated sufficient cash flow from operations to support its planned capital expenditure programs. Crown Limited has secured the immediate material funding requirements to support the Board approved capital expenditure program outlined in its current five year plan."

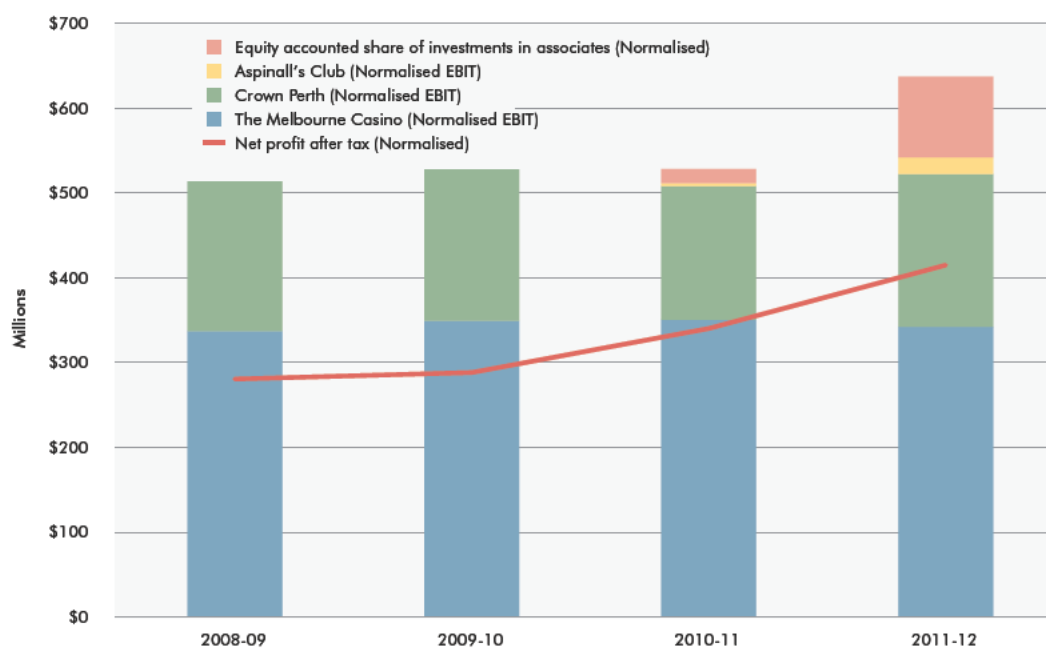
Crown Melbourne Limited contributes the majority of normalised EBIT to the Crown Group and Melco Crown makes a significant and increasing contribution to the results in 2011 and 2012.

Crown Melbourne Limited is in a strong net asset position. The net assets largely reflect business infrastructure (plant, property and equipment) and loans to other group companies (trade and other receivables). Since 2008, Crown Melbourne Limited's limited borrowings and strong earnings have funded the capital expenditure program through annual operating cash flows and loans to other group companies.

Crown Limited's debt levels have increased, and as a result, gearing has increased from about 16 per cent in 2009-10 to about 34 per cent at December 2012. Crown Limited has sought to maintain dividend distributions to shareholders while funding significant capital expenditure projects and pursuing expansionary investments over this period.

However, PwC considers that Crown Limited's use of debt is not excessive. Crown Limited's gearing ratio is broadly comparable to the median gearing ratio of the ASX top 50 and Crown Limited has historically passed all financial performance covenants included in its debt agreements.

Chart 9: Crown Limited – EBIT and equity accounted share of investments in associates and net profit for the period from 2009 to 2012



Source: Crown Limited

Crown Limited has consistently produced free cash flows in excess of \$450 million after tax payments and debt service which is a significant source of strength for the business and has been sufficient to meet capital expenditure requirements. In addition, Crown Melbourne Limited's free cash flow has also enabled it to successfully compete in a highly competitive VIP market which requires significant capital expenditure.

Despite disruption from the significant refurbishments at the Melbourne Casino and Crown Perth, Crown Limited reported EBITDA has increased from \$692.9 million in 2009-10 to \$801.3 million in 2011-12. This has generated a stable base of cash flow.

Key risks to the financial stability of Crown Melbourne Limited

The VCGLR considers that there are some risks that could potentially affect Crown Limited's financial position in the future.

The Melbourne Casino is exposed to overseas volatility in the highly competitive commission based player market and competes directly with casinos globally such as those in Singapore and Macau. In addition, there are a number of other Asian jurisdictions which are developing, or considering developing casinos, that could attract business away from Crown Limited's and Melco Crown's casinos which may negatively impact their revenues and operations in the future.

Crown Melbourne Limited's commission based player business experiences volatility due to the high turnover and large bets associated with commission based players. Over the long-term, the win rate of table games is typically close to the theoretical win rate. However, in the short-term there can be significant variability in the actual financial results from commission based player gaming depending largely on whether patrons win or lose on large bets. As such, financial losses can result from volatility in the commission based player business if there is a negative deviation in the win rate.

Crown Limited's investment in Melco Crown is subject to similar risks. Some of the specific risk factors include:

- Any travel restrictions to Macau imposed by the Chinese Government;
- Further restrictions by the Chinese Government on the movement of money out of China;
- Melco Crown's current sub-concession extends until 2022 and there is no guarantee the sub-concession will be extended beyond this date; and
- Relaxation of gaming laws in other regional economies that would compete with the Macau market.

There is no guarantee that Crown Limited's capital expenditure projects or acquisitions will generate expected returns. Successful implementation will depend upon a range of factors including funding strategies and challenges associated with integrating and adding value to any acquired business or investment.

VCGLR Findings

While the risks to the financial stability of Crown Melbourne Limited and Crown Limited from expansion have been discussed, the VCGLR recognises the importance of expansion to the financial position of the Crown Group specifically and Crown Melbourne Limited generally.

Crown Melbourne Limited's financial performance and strength is increasingly dependent on the prosperity of the VIP market; and given its location in the world, its continued ability to attract participants to this market. Revenue and EBITDA growth is fundamental for Crown Limited to achieve its expansion plans and is highly dependent on the growth of the commission based player market.

The positive growth in revenue and profit at both the Melbourne Casino and Crown Perth arising from the refurbishment program suggests that Crown Limited's capital expenditure program is being effective.

The Deed of Cross Guarantee binds the financial position of Crown Melbourne Limited to the other Crown Group companies and does not include any of Crown Limited's international operations, and presents a low risk to the short to medium term position of Crown Melbourne Limited.

The VCGLR also reviewed the financial stability of the individual associates and did not find any matters of concern.

Based on PwC's assessment, and the VCGLR's investigations, the VCGLR considers that Crown Melbourne Limited has adequate financial resources and that its associates are of sound and stable financial background and do not have business associations with any person, body or association who has undesirable or unsatisfactory financial resources.

2.6 VCGLR opinion and recommendations – Suitability

The VCGLR has conducted a thorough investigation into probity, management ability and financial stability of Crown Melbourne Limited, its associates and their business associates.

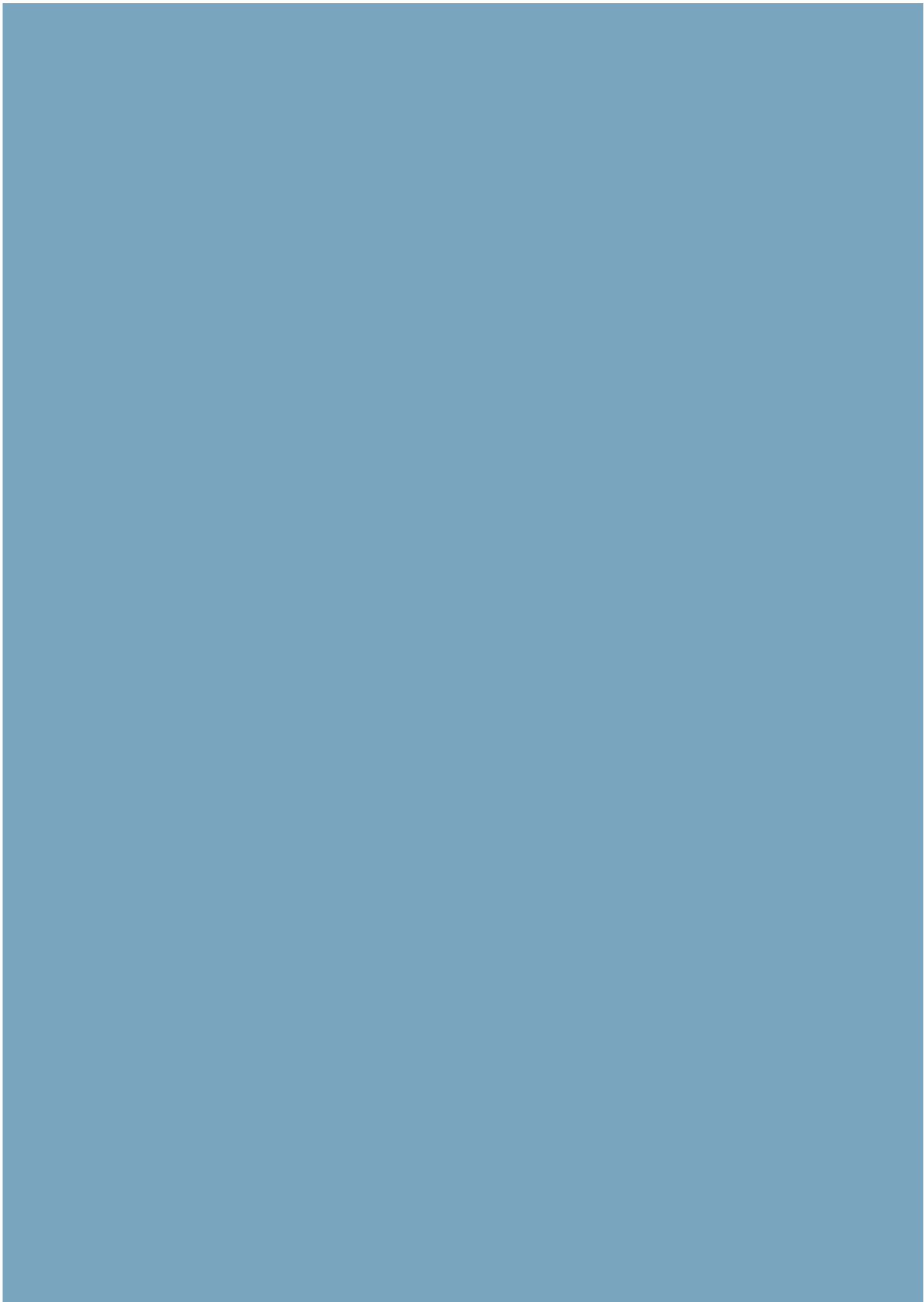
The investigations included consultations with several key law enforcement agencies and regulators, and a report by PwC on the financial stability of Crown Melbourne Limited and its associates.

The VCGLR conducted its assessment of suitability by using the matters in section 9(2) of the Casino Control Act as guidance and has found that:

- Crown Melbourne Limited has a satisfactory ownership and corporate structure.
- Crown Melbourne Limited and its associates are of good repute, and have no business associates not of good repute, having regard to character, honesty and integrity.
- All relevant persons connected with casino operations are suitable persons to act in their particular capacities and Crown Melbourne Limited has:
 - Sufficiently experienced staff; and
 - Sufficient business ability to maintain a successful casino.
- Crown Melbourne Limited has adequate financial resources, Crown Melbourne Limited and its associates are of sound and stable financial background, and have no business associates with undesirable or unsatisfactory financial resources.

Recommendations have been made in relation to the internal audit function and external auditor, while the risks associated with the Crown Group's expansion will be actively monitored by the VCGLR.

Based on the investigations conducted by the VCGLR under section 25(1)(a) of the Casino Control Act, the VCGLR is of the opinion that the casino operator is a suitable person to continue to hold the casino licence.



Part 3 – Compliance with Obligations

3.1 How has Crown Melbourne Limited complied with relevant Legislation and Agreements?

Sections 25(1)(b) and (c) of the Casino Control Act require the VCGLR to form an opinion on:

- (b) whether or not the casino operator is complying with the Casino Control Act, the Casino Management Agreement Act, the Gambling Regulation Act and the regulations made under any of those Acts;
- (c) in the case of the Melbourne Casino operator, whether or not the casino operator is complying with—
 - (i) the Transaction Documents; and
 - (ii) any other agreements between the Melbourne Casino operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming.

The Acts of Parliament and regulations governing the operation of the Melbourne Casino that contain obligations for the casino operator are the:

- Casino Control Act;
- Casino Management Agreement Act;
- Gambling Regulation Act; and
- Gambling Regulation Regulations.

Since the Melbourne Casino licence was issued in 1993, Crown Melbourne Limited, Crown Limited, the State of Victoria, the VCGLR (and its predecessors) and other relevant parties have entered into a suite of agreements (collectively known as the Transaction Documents) regarding the establishment of the Melbourne Casino, the management of the Melbourne Casino's operations and other obligations relevant to the Melbourne Casino. The Transaction Documents have been amended over time to reflect the maturity of the business, the change in casino ownership in 1999 and the demerger of Publishing and Broadcasting Limited in 2007.

A full list of the Transaction Documents, as defined in the Casino Management Agreement Act, is set

out in Appendix 4. Many of the obligations in the Transaction Documents concern the establishment of the Melbourne Casino or matters that have been otherwise concluded. The Transaction Documents with active obligations for the casino operator are the:

- Casino licence (19 November 1993).
- Casino Agreement (incorporating the Eleventh Variation, 22 October 2007).
- Casino Management Agreement (incorporating the Ninth Deed of Variation, 4 June 2009).
- Site Lease (Melbourne Casino Site) and Deed of Variation (10 August 2010).
- Fixed and Floating Charge (19 November 1993) and State Charge Variation Deed (30 June 1999).
- Deed of Undertaking and Guarantee (30 June 1999) (this was subsequently amended by the Deed of Amendment and Release of Guarantee (5 February 2007) and the Deed of Amendment, Accession and Release (22 October 2007)).

Between 1 January 2008 and 30 June 2013, the Supplemental Casino Agreement (22 May 1999) was the only agreement between the State or the VCGLR and Crown Melbourne Limited or Crown Limited that contained any obligations for the casino operator and would meet the test in section 25(1)(c)(ii).

The casino operator has obligations under a number of Transaction Documents to comply with relevant laws and requirements of relevant authorities, beyond those identified in section 25(1)(b). This includes the obligation in clause 20.2(b) of the Casino Management Agreement, which is given statutory force by the Casino Management Agreement Act, to *'properly and diligently manage the Melbourne Casino Complex...in strict accordance and compliance with all applicable laws, regulations and requirements.'*

Clause 25.2 of the Casino Agreement requires Crown Melbourne Limited to notify the VCGLR of any information necessary to ensure the VCGLR is able to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the company.

The information provided under this clause has been used as part of assessing Crown Melbourne Limited against its obligations under the Transaction Documents.

In forming an opinion on the matters in sections 25(1)(b) and (c), the VCGLR has assessed Crown Melbourne Limited's compliance with obligations under each of the Acts and the Regulations, and with each of the relevant Transaction Documents.

The VCGLR has also investigated the casino operator's compliance with other relevant laws, focusing on those most relevant to the objectives of the VCGLR and the Acts identified in section 25(1)(b) of the Casino Control Act. This has mainly been conducted by extensive consultation with other regulators and agencies responsible for enforcing those laws.

Sections 25(1)(b) and (c) pertain only to Crown Melbourne Limited's compliance. However, the nature of the relationship between Crown Melbourne Limited and its parent company Crown Limited, and the fact that Crown Limited is a party to some of the Transaction Documents, requires the VCGLR to investigate Crown Limited's performance against certain obligations.

This mainly involves obligations relating to reporting and audit requirements in Chapter 3.9 – General Compliance with Licence and Agreements and conditions on company structure and activities in Chapter 3.10 – Conditions Relating to Company Structure.

Parts 2 and 4 of this report contain some investigations and findings on obligations arising from the legislation and Transaction Documents. This has been taken into account in the VCGLR forming an opinion in this Part.

This part of the report consists of nine chapters:

- An overview of the regulatory scheme and the investigations into Crown Melbourne Limited's compliance with relevant legislation and the Transaction Documents is at **Chapter 3.2 – Regulation of the Melbourne Casino.**
- An overview of Crown Melbourne Limited's compliance with its legislative obligations is at **Chapter 3.3 – General Compliance with Legislative Obligations and Regulations.**
- Crown Melbourne Limited's compliance with its obligations in relation to responsible gambling is at **Chapter 3.4 – Responsible Gambling.**
- Crown Melbourne Limited's compliance with obligations concerning orders excluding people from the Melbourne Casino and Melbourne Casino Complex is at **Chapter 3.5 – Exclusion Orders.**
- Crown Melbourne Limited's compliance with other laws is at **Chapter 3.6 – Other Regulators of the Melbourne Casino.**
- A discussion of issues relating to general criminal activity at and around the Melbourne Casino and money laundering and proceeds of crime and Crown Melbourne Limited's compliance with its obligations is at **Chapter 3.7 – Law Enforcement Agencies and the Prevention of Criminal Activity at the Melbourne Casino.**
- Crown Melbourne Limited's compliance with its obligations in relation to responsible service of alcohol is at **Chapter 3.8 – Responsible Service of Alcohol.**
- An overview of Crown Melbourne Limited's compliance with its obligations under the Transaction Documents and other relevant agreements is at **Chapter 3.9 – General Compliance with Licence and Agreements.**
- Whether Crown Melbourne Limited has met its obligations relating to the governance of Crown Melbourne Limited, the operation of the Melbourne Casino and Melbourne Casino Complex and the contractual obligations to the State regarding the status of the Melbourne Casino in the larger Crown Group is at **Chapter 3.10 – Conditions Relating to Company Structure.**

3.2 Regulation of the Melbourne Casino

The regulatory arrangements for the Melbourne Casino have changed over time to reflect the lifecycle of the Melbourne Casino and the Melbourne Casino licence, as well as to reflect the change in ownership of the Melbourne Casino.

Each arm of the regulatory scheme serves different purposes:

- The **legislation** sets out how a casino licence is to be issued, the framework under which a casino operates and penalties for breaches of the law. Generally, the legislation sets out what a casino can do; what it cannot do; how revenue is to be distributed between the State, the operator and the players; and how societal issues such as problem gambling are to be addressed.
- The **regulations** set out specific actions the casino operator must take to be compliant with the legislation. These can be also used to clarify specific clauses in the legislation.
- The **contractual arrangements** set out the details of how the commercial relationship between the casino operator and the State is managed and details of how the Melbourne Casino is to be operated. They also set out restrictions that apply to the operation of the licensee and its parent company; the construction and ongoing maintenance of the Melbourne Casino; and the provision of a letter of credit and other forms of financial security by the casino operator to the State to ensure performance. These arrangements are collectively known as the **Transaction Documents**.
- The supervision and control of casino operators. The Casino Control Act regulates a number of important relationships a casino licensee has, including who is an associate and business associate, the powers of the regulator to investigate a casino and requirements for controlled contracts between a casino operator and its suppliers.
- The licensing of casino employees. A casino operator can only employ people who have been approved by the regulator for certain roles within the casino.
- The conduct of casino operations. The Casino Control Act regulates the general operations of a casino, including (among other things) opening times; size and layout; the requirement to have the rules for each game approved by the VCGLR; the supply of gaming machines; the conduct of gaming; the requirement to have a Responsible Gambling Code of Conduct; patron exclusion from a casino; restrictions on ATMs within a casino complex; payment of winnings; and a prohibition on intoxicated people gambling.
- The requirement to have internal controls which set out the processes and procedures by which a casino operator will manage the operations of a casino.

While the Casino Control Act sets out the tax framework, the Casino Management Agreement Act sets out the taxes and fees the Melbourne Casino operator must pay to the State from its gambling revenue.

Casino (Management Agreement) Act 1993

The Casino Management Agreement Act ratifies the terms of the Casino Management Agreement. As such, any amendments to the Casino Management Agreement require an amendment to the Casino Management Agreement Act.

A significant proportion of the Casino Management Agreement governed the development, construction and fit out of the Melbourne Casino and the Melbourne Casino Complex. While the majority of these obligations have already been met, there are some active

Legislation

There are three Acts that govern the operations of the casino:

Casino Control Act 1991

The Casino Control Act regulates the licensing and operation of casinos in Victoria, including:

- The process for issuing a casino licence and the conditions that may be placed on the issue of a licence. There is only one licence issued to operate a casino in Victoria.

obligations relating to the use, governance and ongoing management of the Melbourne Casino Complex and assets.

The Casino Management Agreement Act sets out the process by which the licence may be terminated or surrendered and what happens to the casino site, assets and money owed to the State.

Gambling Regulation Act 2003

The Gambling Regulation Act governs the operation of all other gambling licences in the State, including the Monitoring Licence, Venue Operator Licences and Gaming Machine Entitlements, the Wagering and Betting Licence, the Lotteries Licences and the Keno Licence. It also sets out rules for minor gaming competitions.

The Gambling Regulation Act has only a few provisions specifically relating to the regulation of the Melbourne Casino. It provides for the regulation of gaming machines, prohibits minors entering the casino, prohibits the advertising of gaming machines outside the casino and places restrictions on the casino licensee from being the monitoring licensee.

Regulations

The Gambling Regulation Regulations 2005 contain a number of obligations relating to responsible gambling signage and notifications the casino operator is required to have displayed at all times and player information.

Melbourne Casino Licence

The Melbourne Casino licence was issued on 19 November 1993 and sets out some general operating terms for the Melbourne Casino. This includes the location and boundaries of the Melbourne Casino and the number of gaming tables and gaming machines permitted.

Contractual Agreements

Crown Melbourne Limited, Crown Limited and the State have entered into a number of agreements regarding the management of the Melbourne Casino's operations. The Transaction Documents have been amended over time to reflect the maturity of the business, the change in ownership of the casino in 1999 and the demerger of Publishing and Broadcasting Limited in 2007.

The Casino Agreement (incorporating the Eleventh Variation, 22 October 2007)

An agreement between the VCGLR and Crown Melbourne Limited, which places obligations on Crown Melbourne Limited in relation to its governance arrangements, conditions on company structure, securities for the benefit of the State, reporting and disclosure to the VCGLR, insurance requirements and restrictions on the use of casino assets for financing purposes.

The Casino Management Agreement (incorporating the Ninth Deed of Variation, 4 June 2009)

As noted above, the Casino Management Agreement sets out obligations in relation to the use, governance and ongoing management of the Melbourne Casino Complex and assets, the tax and fees payable to the State, and the process by which the licence may be terminated or surrendered and what happens to the casino site, assets and money owed to the State.

The Site Lease (Melbourne Casino Site) and Deed of Variation (10 August 2010)

The lease sets out the terms of the lease between Crown Melbourne Limited and the State, such as how the site can be used, the rent and the maintenance and insurance of the site.

The Fixed and Floating Charge (19 November 1993) and State Charge Variation Deed (30 June 1999)

A deed entered into by Crown Melbourne Limited for the benefit of the State under which Crown Melbourne Limited charges certain property and assets in favour of the State. This is one of the forms of security the State has to protect its rights in the event of default or insolvency and was varied in 1999 when the Melbourne Casino was acquired by Publishing and Broadcasting Limited.

The Supplemental Casino Agreement (22 May 1999)

An agreement between the VCGLR, Crown Melbourne Limited and Crown Limited entered into when the casino operator was acquired by Publishing and Broadcasting Limited and provides a number of guarantees from the parent company

(now Crown Limited) about how it will ensure compliance with the original agreements between the State, the VCGLR and the casino operator.

The Deed of Undertaking and Guarantee (30 June 1999)

A deed entered into by Crown Limited in favour of the State and the VCGLR that sets out financial, governance and reporting obligations entered into by Publishing and Broadcasting Limited when it acquired the Melbourne Casino in 1999. The Deed of Undertaking and Guarantee also provided for a list of guarantor companies and a letter of credit in favour of the State which can be called upon in the event of a default or insolvency.

The deed was subsequently amended by the Deed of Amendment and Release of Guarantee (5 February 2007) and the Deed of Amendment, Accession and Release (22 October 2007). These amending deeds update the terms of the original deed and recognise the demerger of Publishing and Broadcasting Limited in 2007 which separated the media and gambling businesses into Consolidated Media Holdings Limited and Crown Limited. The amending deeds also provided for new guarantors in place of the former media companies.

Investigation of Crown Melbourne Limited's Compliance

As outlined in Chapter 1.1, the VCGLR regulates Crown Melbourne Limited and its casino operations in several ways. In addition to ongoing monitoring, the VCGLR collects information from the regular and ad hoc reports provided by Crown Melbourne Limited in compliance with the legislation and the Transaction Documents, including but not limited to:

- Reports under Schedules 4 and 5 of the Casino Agreement, including the agenda and minutes of the Audit Committee, reports on the internal and external audit programs, quarterly and annual financial reports, forthcoming financial year budgets and annual capital expenditure; and
- Tax and revenue data.

In addition, the VCGLR regulates and approves:

- Game rules;
- The boundaries of the casino floor areas;
- Controlled contracts; and
- Internal Control Statements.

Compliance with these four obligations is addressed in Chapters 4.2 – Conduct of Gaming and Betting and 4.3 – Management and Supervision of Gaming and Betting. However, they are still taken into account in forming an opinion on compliance with obligations under this Part.

Compliance with the regulatory scheme is a key audit activity of the VCGLR and is an essential component of the ongoing monitoring of the Melbourne Casino. Historically, Crown Melbourne Limited has had a high level of compliance with the regulatory scheme and has a strong commercial incentive to comply. In addition, Crown Limited relies on its compliance reputation when it and its associates are bidding for new licences and expanding into new jurisdictions.

The following chapters assess Crown Melbourne Limited's compliance with the regulatory scheme since 2008.

3.3 General Compliance with Legislation and Regulations

As noted in Chapter 3.2, the legislation governing the casino sets out general frameworks and the broad restrictions and prohibitions on the Melbourne Casino. The Transaction Documents then detail many of Crown Melbourne Limited's specific obligations, such as tax payable.

The VCGLR tested each of Crown Melbourne Limited's obligations under relevant legislation and regulations.

Specific obligations arising from the legislation are addressed in specific chapters:

- Responsible gambling is addressed in Chapter 3.4.
- Breaches relating to minors being in the casino, intoxicated persons gambling and excluded persons being found on the casino premises are addressed in Chapters 3.4 – Responsible Gambling and 3.5 – Exclusion Orders.
- Issues relating to obligations arising from non-gaming legislation are addressed in Chapter 3.6 – Other Regulators of the Melbourne Casino; and
- Obligations arising from the AML/CTF legislation and proceeds of crime are addressed in Chapter 3.7 – Law Enforcement Agencies and the Prevention of Criminal Activity at the Melbourne Casino.

Gambling Regulation Regulations

The Regulations were made in 2005 to provide additional obligations in respect to the operation of gaming machines in Victoria. The Regulations are made under the Gambling Regulation Act and also apply to the Melbourne Casino.

Specifically, the regulations contain a number of obligations relating to responsible gambling signage and notifications the casino operator is required to have displayed at all times and player information. The Regulations include:

- The casino operator must ensure that each gaming machine made available for gaming in the casino displays the time of day.

- At all times when gaming machines are available for gaming in a casino, the casino operator must ensure that player information posters are displayed in the gaming machine area of the casino.
- At all times when a gaming machine is available for gaming in a casino, the casino operator must ensure that a 'player information talker' is displayed on the gaming machine so that it is clearly visible from the front of the machine.
- At all times when a gaming machine is available for gaming in a casino, the casino operator must ensure that one or more player information brochures are available at each cashier area in the gaming machine area of the casino.

VCGLR Findings

The VCGLR has found that since 2008, Crown Melbourne Limited has generally complied with its obligations under the Casino Control Act, Gambling Regulation Act and the Casino Management Agreement Act. Aside from specific instances in the following chapters and in Part 4, where there have been breaches of the legislation, these have generally been of a minor nature and been addressed quickly through rectification by Crown Melbourne Limited or through disciplinary actions.

In addition, Crown Melbourne Limited has generally complied with the Regulations since 2008. While a number of minor breaches were detected by the VCGLR, Crown Melbourne Limited rectified these breaches immediately and no further action was taken as a result.

3.4 Responsible Gambling

Responsible gambling is an important element of the Melbourne Casino's operations. As Crown Melbourne Limited notes in its Responsible Gambling Code of Conduct, gaming is enjoyed by the vast majority of their customers, but some people have difficulties with gambling responsibly and this may cause them, and those around them, harm.

Good responsible gambling practices can ameliorate or prevent some of the harms caused by problem gambling. They also demonstrate good management and show a commitment to patron welfare.

The increasing importance of responsible gambling is reflected by the growing list of obligations within the Casino Control Act and the Gambling Regulation Act, designed to protect gamblers from harm. Many of the responsible gambling measures and requirements are specified under Part 5 of the Casino Control Act, with some, such as provisions relating to minors, are addressed in the Gambling Regulation Act.

As noted in Chapter 1.1, the VCGLR believes that responsible gambling is an area where the potential exists for Crown Melbourne Limited's obligations to conflict with its commercial incentives.

Since 2008, there have been a number of changes to legislation in Victoria in relation to responsible gambling, introducing new obligations on Victorian gambling licensees, including Crown Melbourne Limited. These are detailed in this Chapter along with Crown Melbourne Limited's existing responsible gambling requirements. The most significant change in responsible gambling policy since 2008 is a requirement for Crown Melbourne Limited to implement a Responsible Gambling Code of Conduct.

The VCGLR assessed Crown Melbourne Limited's responsible gambling procedures and practices for compliance with the Casino Control Act and the Gambling Regulation Act. In particular:

- The Casino Control Act provides for prohibitions on gambling while intoxicated; makes the implementation of a Responsible Gambling Code of Conduct a condition of the Melbourne Casino licence; and provides for other responsible gambling measures, such as

restrictions on ATMs and cash facilities.

- The Gambling Regulation Act provides for the Minister to issue a direction which details minimum standards for Responsible Gambling Codes of Conduct, the approval of Responsible Gambling Codes of Conduct by the VCGLR and the prohibition of minors from the casino.

The VCGLR also examined whether Crown Melbourne Limited has conducted its responsible gambling activities in a manner that has regard to best operating practices in casinos of a similar size and nature, in accordance with its obligations under the Casino Agreement. The VCGLR discussed responsible gambling practices with a number of regulators, reviewed relevant research and examined the responsible gambling practices of a number of Australian and international casinos.

In doing so, the VCGLR recognises that responsible gambling practices in most jurisdictions are primarily determined by specific regulatory requirements. Further, responsible gambling practices and obligations must be understood in the context of the wider regulatory framework of a particular jurisdiction. It is not the task of the regulator to compare the relative merits of regulation in different jurisdictions. The VCGLR took this into account in selecting practices and casinos of a 'similar size and nature' for comparison.

Investigations

In reviewing Crown Melbourne Limited's compliance with responsible gambling legislation, the VCGLR conducted investigations into Crown Melbourne Limited's responsible gambling practices. In addition to the VCGLR's own information, the VCGLR sought information from Crown Melbourne Limited, through:

- Crown Melbourne Limited's submission to the VCGLR;
- Responses to specific questions from the VCGLR about its responsible gambling practices;
- Data from Crown Melbourne Limited relating to its responsible gambling procedures and responsible gambling surveys undertaken by Crown Melbourne Limited;

- A presentation in relation to responsible gambling and a tour of the Responsible Gaming Support Centre;
- Interviews with the Chair of Crown Limited's Responsible Gaming Committee, Professor John Horvath, and Crown Melbourne Limited staff in relation to responsible gambling; and
- The agendas and minutes of relevant Crown Melbourne Limited and Crown Limited committees and the annual reviews conducted by Crown Melbourne Limited of its Responsible Gambling Code of Conduct.

In addition to information from Crown Melbourne Limited and Crown Limited, the VCGLR consulted with a number of responsible gambling experts and sourced information from third parties, including:

- A third party round-table which included members of the Gamblers Help Southern, Vietnamese Women's Association and Victorian Council of Social Services;
- Research material from the Victorian Responsible Gambling Foundation;
- Responsible gambling initiatives at other casinos; and
- International gambling regulators.

The consultations and research provided the VCGLR with a broad view of how Crown Melbourne Limited treats responsible gambling as a corporate responsibility, how it is implemented on a day to day basis and how its activities are viewed by the community.

What is responsible gambling?

The Victorian Responsible Gambling Foundation defines responsible gambling as *'gambling in a way that is controlled, is within the gambler's financial means and does not interfere with the gambler's life or the lives of those around them.'*

This definition informed the way the VCGLR conducted its investigations and the way the issues were approached. In particular, the definition provided context when considering the processes and procedures Crown Melbourne Limited uses to meet its responsible gambling obligations.

The VCGLR notes that research on responsible gambling issues in casinos is underdeveloped when

compared to other forms of gambling. A clear example of this is the lack of research into the use of Fully-Automated and Semi-Automated Table Games.

Nevertheless, the VCGLR believes the relative lack of research should not necessarily be an obstacle to the development of harm minimisation initiatives by casinos to assist people who have problems with gambling.

Changes in responsible gambling policy since the Fourth Casino Review

Since 2008, there have been a number of changes to legislation in relation to responsible gambling.

Responsible Gambling Code of Conduct

As noted in Chapter 1.1, the introduction of a Responsible Gambling Code of Conduct was a significant change in the regulation of Crown Melbourne Limited.

As a condition of its licence, Crown Melbourne Limited must implement an approved Responsible Gambling Code of Conduct under section 69 of the Casino Control Act. Its Responsible Gambling Code of Conduct must comply with the requirements set out in Division 2 of Part 6 of the Gambling Regulation Act. These requirements apply to all licensees in Victoria, including pubs and clubs.

The requirements for Responsible Gambling Codes of Conduct were introduced in 2008 and came into force on 1 June 2009.

The VCGR approved Crown Melbourne Limited's first Responsible Gambling Code of Conduct in May 2009, which was implemented by Crown Melbourne Limited from 1 June 2009.

On 29 September 2009, the Minister gave a Direction to the VCGR in relation to Responsible Gambling Codes of Conduct. The Direction detailed a number of standards and requirements for Responsible Gambling Codes of Conduct and guidelines for approval by the VCGR.

Since that time, the VCGLR has approved three amendments to Crown Melbourne Limited's Responsible Gambling Code of Conduct.

Prior to mandatory Responsible Gambling Codes of Conduct, Crown Melbourne Limited was part of the Victorian Gaming Machine Industry Accord and was

a signatory to the Victorian Gaming Machine Industry Code of Practice. This was a voluntary responsible gambling code and was in effect replaced by mandatory Responsible Gambling Codes of Conduct.

ATM and cash facility restrictions

Since 2008, there have been three amendments to the Casino Control Act that have restricted access to ATMs or cash facilities in the casino.

Table 4: Legislative amendments relating to ATM and cash facility restrictions

Relevant commencement date	Act names	ATM provisions
19 June 2002	<i>Gaming Legislation (Amendment) Act 2002</i> <ul style="list-style-type: none"> Amended the Casino Control Act by adding s 81AA 	Cash facilities (including ATMs) that allow a person to withdraw more than \$200 cannot be within 50 metres of any entrance to the casino.
1 January 2010	<i>Gambling Legislation Amendment (Problem Gambling and Other Measures) Act 2007</i> <ul style="list-style-type: none"> Amended the Casino Control Act by adding s 81AAA 	ATMs that allow a person to withdraw more than \$400 in 24 hours cannot be within 50 metres of any entrance to the casino.
1 July 2012	<i>Gambling Regulation Amendment (Licensing) Act 2009</i> <ul style="list-style-type: none"> Amended the Casino Control Act by amending s 81AAA 	ATMs cannot be located within 50 metres of any entrance to the casino.
1 July 2012	<i>Gambling Legislation Amendment (Transition) Act 2012</i> <ul style="list-style-type: none"> Amended the <i>Gambling Regulation Amendment (Licensing) Act 2009</i> before commencement 	Restrictions expanded so that alternative cash facilities cannot be located within 50 metres of any entrance to the casino.

Gambling whilst intoxicated

On 1 December 2008 it became an offence for Crown Melbourne Limited to knowingly allow an intoxicated person to gamble in the Melbourne Casino. See Chapter 3.8 – Responsible Service of Alcohol for more information on this obligation.

Crown Melbourne Limited's approach to responsible gambling

Crown Melbourne Limited has implemented a

number of measures to meet its obligations in relation to responsible gambling.

Crown Limited Responsible Gaming Committee

The Crown Limited Responsible Gaming Committee began meeting in 2010. The Committee receives responsible gambling updates from Crown Melbourne Limited and Crown Perth and environmental scans as standing items.

INFORMATION BOX 3:

Kakavas v Crown Melbourne Limited

In 2007, Mr Harry Kakavas issued proceedings in the Supreme Court of Victoria against Crown Melbourne Limited and others seeking compensation for gambling losses incurred by him at the Melbourne Casino. Mr Kakavas alleged that Crown Melbourne Limited had engaged in unconscionable conduct contrary to the *Trade Practices Act 1974 (Cth)*.

Mr Kakavas gambled regularly at the Melbourne Casino in 2005 and 2006 as a commission based player. Over that period, Mr Kakavas lost approximately \$20.5 million.

Mr Kakavas' central allegation in the proceedings was that he was a pathological gambler, and as a result, suffered from an impaired ability to control how much and how often he gambled. Mr Kakavas alleged that Crown Melbourne Limited knew of his pathological gambling condition and acted unconscionably in seeking to induce Mr Kakavas to gamble at the Melbourne Casino.

On 8 December 2009, the Supreme Court of Victoria dismissed Mr Kakavas' claims and gave judgement for Crown Melbourne Limited on its counterclaim for \$1 million in unpaid debts.

Mr Kakavas appealed the decision to the Court of Appeal of Victoria, which dismissed his appeal on 21 May 2012. On 14 December 2012, the High Court of Australia granted Mr Kakavas leave to appeal. The High Court heard the appeal in April 2013, and on 5 June 2013 unanimously dismissed Mr Kakavas' appeal.

The matters which were the subject of the proceedings brought by Mr Kakavas occurred prior to the Fifth Casino Review. As proceedings remained on foot in 2008, the matter was excluded from the deliberations of the Fourth Casino Review. As the proceedings are now concluded, the issues raised can now be addressed in the Fifth Casino Review report.

Justice Harper of the Supreme Court noted in his 2009 judgment that in 2006 the VCGLR's predecessor, the VCGR, imposed a fine of \$15,000 on Crown Melbourne Limited in relation to an incident which occurred on 18 March 2006 when Mr Kakavas was advanced gaming chips without payment being tendered. This action breached section 64(1)(c) of the Casino Control Act. Justice Harper accepted in his judgment that the casino operator had not condoned this conduct. In determining the penalty to impose on the casino operator, the VCGR took into account the fact that:

- The advances were repaid almost immediately;
- The breach was detected and reported by a Crown Melbourne Limited employee; and
- The Crown Melbourne Limited staff member responsible was disciplined.

Whilst Mr Kakavas' claims against Crown Melbourne Limited were dismissed, the trial judge made a number of findings of fact that were critical of operations at the Melbourne Casino prior to 2007. In particular, Justice Harper of the Supreme Court found that Crown

Melbourne Limited's processes in 2004 for managing revocation of exclusion orders and withdrawals of licence were poor and undermined its claims to be a leader in responsible gambling.

As part of the Fifth Casino Review, the VCGLR investigated these processes, in particular, the operation of the relevant committees of Crown Melbourne Limited. These investigations are set out in Chapter 3.5 – Exclusion Orders.

The Supreme Court also found that Crown Melbourne Limited was 'seriously careless' in failing to rediscover in 2004 that Mr Kakavas was subject to an exclusion order issued by Star City casino at the direction of the NSW Commissioner of Police. As a result of that exclusion order, the Supreme Court and Court of Appeal made findings that Mr Kakavas had breached certain provisions of the Casino Control Act. The Court of Appeal also found that Crown Melbourne Limited had breached section 76(2) of the Casino Control Act by failing to include Mr Kakavas on its daily list of excluded persons.

The VCGLR's predecessor, the VCGR, obtained legal advice from Senior Counsel on the Supreme Court's judgment and whether the VCGR could take any action against, or seek to recover any money from, Mr Kakavas or Crown Melbourne Limited. The VCGR formed the view that it could not. As part of the Fifth Casino Review, the operation of interstate exclusion orders was investigated and the VCGLR's findings are set out in Chapter 3.5 – Exclusion Orders.

In accordance with its Charter, the Committee:

- Monitors and reviews the operation and effectiveness of responsible gambling programs;
- Recommends responsible gambling policies and procedures;
- Promotes improved responsible gambling practices; and
- Promotes awareness of responsible gambling.

The Crown Limited Responsible Gaming Committee is chaired by Professor John Horvath, who was the Australian Government Chief Medical Officer from 2003-2009. The Committee met six times during the 2011-12 financial year and five times during the 2010-11 financial year.

Crown Melbourne Limited does not have a responsible gambling board committee.

Three directors of Crown Melbourne Limited are also members of the Crown Limited Responsible Gaming Committee in their capacity as directors of Crown Limited. All directors of Crown Melbourne Limited (except three) are also directors of Crown Limited and as such, receive reports from the Crown Limited Responsible Gaming Committee. Crown Melbourne Limited noted that the Responsible Gaming Committee will report to the Crown Melbourne Limited Board on an exception basis, but advised that to date no reports have been required.

The Crown Limited Responsible Gaming Committee oversees responsible gambling initiatives at all wholly owned operations, in particular Crown Melbourne Limited and Crown Perth. Its initiatives include:

- 'Play Safe Limits' – Crown Melbourne Limited's voluntary pre-commitment scheme;
- Access to counselling on-site from responsible gaming professionals;
- Chaplaincy support; and
- Crown Melbourne Limited's self-exclusion program.

Responsible Gambling Code of Conduct

Crown Melbourne Limited's Responsible Gambling Code of Conduct addresses a wide range of responsible gambling initiatives and issues in accordance with the Ministerial Directions and

guidelines. In the responsible gambling message in its Responsible Gambling Code of Conduct, Crown Melbourne Limited commits to providing responsible gambling services through education, information and assistance to gamblers.

Crown Melbourne Limited's performance management system measures staff performance through face-to-face feedback, discussions about conduct, coaching and counselling. Crown Melbourne Limited conducts a formal review for all staff twice a year. As part of this review, Crown Melbourne Limited evaluates its staff's adherence to their Responsible Gambling Code of Conduct. Crown Melbourne Limited has advised the VCGLR that since 1 January 2008, the performance management system has raised no issues in relation to staff adherence to the Responsible Gambling Code of Conduct.

Crown Melbourne Limited's Code provides staff with a number of observable signs of distress that they must use to assess if a person may have a problem with their gambling. Crown Melbourne Limited's Code defines observable signs of distress as '*seen or reported behaviours or patterns of behaviour which are potential indicators that a person may be experiencing problems with their gambling.*'

Recently Crown Melbourne Limited sought and gained approval from the VCGLR to make amendments to its Responsible Gambling Code of Conduct. Of particular note, Crown Melbourne Limited increased the number of observable signs of distress (see Table 5).

Crown Melbourne Limited states that the observable signs of distress used in its Responsible Gambling Code of Conduct are based on established research into problem gambling and were designed by researchers to assist venue staff in detecting problem gamblers in gaming venues:

- *Identifying Problem Gamblers in Gambling Venues: Final Report* (Delfabbro et al. 2007); and
- *Current Issues Related to Identifying the Problem Gambler in the Gambling Venue* (Australian Gaming Council, 2002).

Crown Melbourne Limited's Responsible Gambling Code of Conduct and general responsible gambling intervention framework relies heavily on staff identifying observable signs of distress. Crown

INFORMATION BOX 4:

Problem gambling research – identifying problem gamblers

Identifying Problem Gamblers in Gambling Venues: Final Report (Delfabbro et al. 2007) and *Current Issues Related to Identifying the Problem Gambler in the Gambling Venue* (Australian Gambling Council 2002) are both used by Crown Melbourne Limited to assist staff in identifying observable signs of distress at the Melbourne Casino.

Identifying Problem Gamblers in Gambling Venues: Final Report (Delfabbro et al. 2007) was commissioned by Gambling Research Australia

and the Victorian Department of Justice and involved a collaboration of researchers, headed by Associate Professor Paul Delfabbro.

The report summarised and reviewed existing research into identifying problem gamblers in gaming venues, and provided a series of indicators that would be useful in identifying potential problem gamblers in gaming venues.

52 different indicators were highlighted, summarised below in four groups:

Frequency, duration and intensity

12 indicators in this category that relate to the way patrons are gambling.

Impaired control, raising funds and chasing behaviour

14 indicators that focus on behavioural impairment, such as patrons who find it difficult to stop gambling and patrons who try to find money to continue gambling.

Social behaviours and emotional responses

19 indicators that relate to how patrons interact with venue staff and other patrons.

Irrational behaviours and other indicators

7 indicators that relate to patron behaviour in general and other sundry indicators.

Current Issues Related to Identifying the Problem Gambler in the Gambling Venue (Australian Gambling Council 2002) was conducted by the Australian Gambling Council. It asked for the opinions of ten prominent psychologists and practitioners in the field of problem gambling and obtained their views on problem gambling.

The Australian Gambling Council identified a number of indicators, categorised by how often they were mentioned by interviewees, as useful tools to be incorporated into staff training:

Mentioned often

Repeated visits to ATMs, borrowing money or attempts to cash cheques, disorderly behaviour/signs of agitation, family members seeking out or enquiring about the individual, length of playing sessions.

Mentioned less often

Number of sessions per week, alcohol intoxication, unattended children.

Mentioned in passing

First in last out, comments about losing or family problems related to gambling, rushing when leaving a machine, staying after friends leave, playing two or more machines, requests credit.

The report concluded that staff at gaming venues should be made aware of behaviour by people who may have a gambling problem through training; gaming venues should outline and separate the roles and responsibilities for each employee in relation to responsible gambling; and trained, senior staff should provide customer care where appropriate.

Melbourne Limited believes that its approach is based on an accepted and researched premise that observable signs are the best indicators of potential problem gambling behaviours.

To ensure its employees can make an assessment, it has developed a Senior Manager Responsible Service of Gaming training session for managers and senior floor staff as an additional measure to the mandatory Responsible Service of Gaming course that all gaming staff must complete.

If a patron displays observable signs of distress, Crown Melbourne Limited staff are instructed to contact a Responsible Gaming Liaison Officer or the Responsible Gaming Support Centre.

Table 5: Changes to the list of observable signs of distress in Crown Melbourne Limited’s Responsible Gambling Code of Conduct

List of observable signs of distress PRIOR to amendment	List of observable signs of distress FOLLOWING amendment
<ul style="list-style-type: none"> • Either gambling every day or finding it difficult to stop gambling • Gambling for extended periods without a break • Avoiding contact while gambling • Communicating very little with anyone else • Barely reacting to events going on around them • Displaying aggressive, antisocial or emotional behaviour while gambling • Making requests to borrow money from staff or other customers or continuing to gamble with the proceeds of large wins 	<ul style="list-style-type: none"> • Self disclosure of a problem with gambling or problems related to gambling • Request to self-exclude • Distorted and irrational attitudes about gambling • Barely reacting to surrounding events • Intolerance to losing, displayed as bad temper or distress • Significant variation in mood during a gambling session • Children left unattended whilst parent/guardian gambles • Regular complaints to staff about losing or blaming the venue/staff for their losses • Requests to borrow money for gambling • Showing a pattern of gambling for long periods without a break • Progressive reduction of self-care e.g. appearing unkempt or fatigued • Requests for assistance from family and/or friends concerned about an individual’s gambling behaviour

Source: VCGLR, Crown Melbourne Limited

INFORMATION BOX 5: Signature Club

Crown Melbourne Limited's player rewards program and customer loyalty scheme is known as the Signature Club.

The Signature Club is a marketing and analytical tool used by Crown Melbourne Limited. It permits members to earn and redeem 'loyalty points' through gaming and across selected facilities and venues within the Melbourne Casino Complex. Membership also allows members to access a

range of other rewards (known as Privileges) depending on the tier level of the individual member. These Privileges may include access to VIP gaming areas, free parking, discounted hotel rates, food and beverage offers and other ancillary benefits.

There are currently five primary tier levels of membership. A member will progress to a higher tier upon earning defined levels of membership.

A member will revert to another tier level if they do not maintain the appropriate points level during the course of the relevant tier period. In between some of the tier levels are sub-tier levels which may give certain members additional benefits.

Signature Club members may also set a loss or time limit in relation to electronic gaming machines and Fully-Automated Table Games.

Figure 14: Crown Melbourne Limited Signature Club

How it works	Signature Club membership categories	
<p>Spending at complex: gaming, retail or other (points)</p> <p>Loyalty points</p>	BLACK	<ul style="list-style-type: none"> • Mahogany Room • Teak Room • VIP gaming machines • Riverside Slots • Other benefits
	PLATINUM	<ul style="list-style-type: none"> • Mahogany Room (limited) • Teak Room • VIP gaming machines • Riverside Slots • Other benefits
	GOLD	<ul style="list-style-type: none"> • Teak Room • VIP gaming machines • Riverside Slots • Other benefits
	SILVER	<ul style="list-style-type: none"> • Riverside Slots • Other benefits
	BRONZE	<ul style="list-style-type: none"> • Other benefits

Source: Crown Melbourne Limited

Responsible Gaming Support Centre

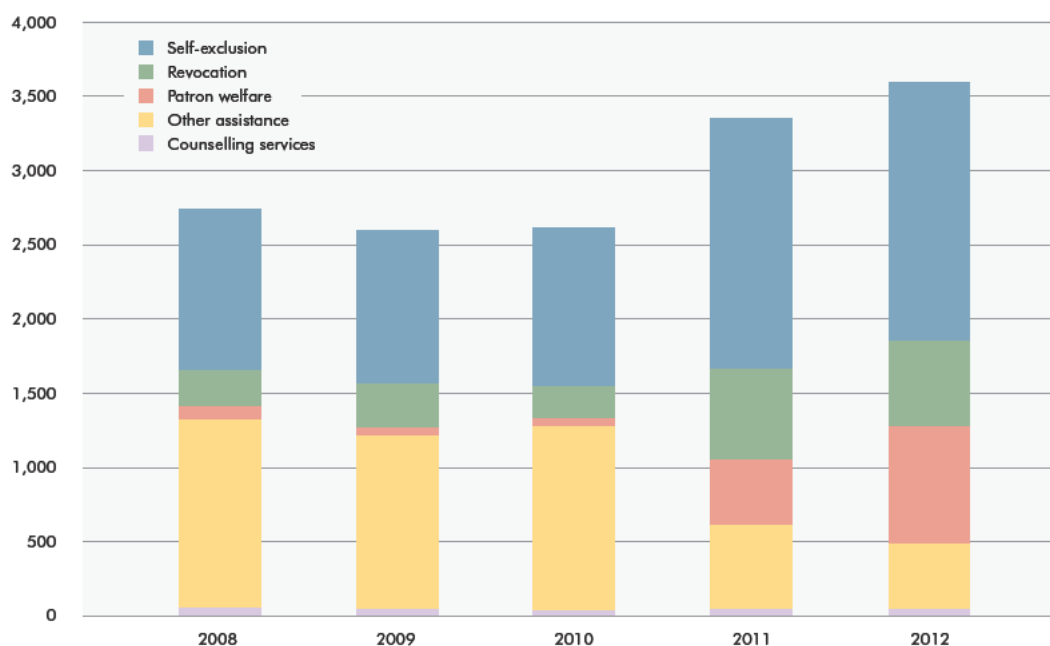
The Responsible Gaming Support Centre is a dedicated facility, which implements Crown Melbourne Limited's responsible gambling initiatives. Staffed by Responsible Gaming Liaison Officers, psychologists and a chaplain, the Responsible Gaming Support Centre supports patrons, including their families and friends, who are experiencing problems with their gambling.

In addition to responsible gambling counselling, the Responsible Gaming Support Centre also manages Crown Melbourne Limited's self-exclusion program and assists patrons when they wish to increase or remove their play safe limits.

The Responsible Gaming Support Centre is located one floor away from the main gaming floor of the casino. Crown Melbourne Limited believes that the discreet location and appearance of the Responsible Gaming Support Centre ensures privacy for patrons.

There has been an increase in the number of interactions made by the Responsible Gaming Support Centre with patrons since 2008. In its presentation to the VCGLR, Crown Melbourne Limited stated that the increase in the number of patron welfare consultations in 2011 and 2012 is due to a classification change in Crown Melbourne Limited's data, as well as an increase in staff awareness.

Chart 10: Responsible Gaming Support Centre consultations



Source: Crown Melbourne Limited

Since 2008, Crown Melbourne Limited asserts that it has spent more than \$25 million on responsible gambling measures and services. In 2011-12, Crown Melbourne Limited allocated more than \$1 million to the Responsible Gaming Support Centre. This is budgeted to continue over the coming years.

Crown Melbourne Limited's Play Safe Limits

Crown Melbourne Limited's Play Safe Limits program, introduced in June 2003, allows members of Crown Melbourne Limited's player loyalty program, the Signature Club, to voluntarily set limits on time or spend for each session before playing gaming machines. The facility is not available for table games, other than for Fully-Automated Table Games.

Any member of the Signature Club may set a spending or time limit on their play and can set their spend limit to any amount of money on a daily and annual basis.

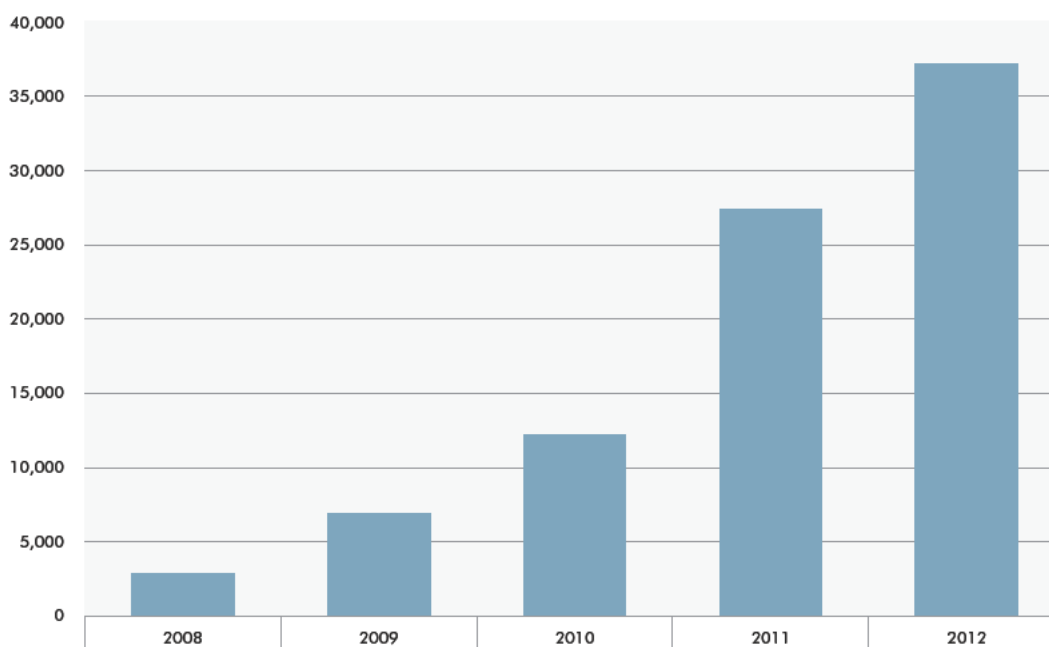
Certain areas in the Melbourne Casino are designated 'specified areas' by the VCGLR under the Gambling Regulation Act. Gaming machines in specified areas are permitted to operate without

some restrictions on play that are imposed on all other gaming machines in Victoria, such as note acceptor limits, spin rates, bet limits and payment of winnings by cheque. Patrons who want to play gaming machines in unrestricted mode in these specified areas are required to set either a time or spending limit on their play.

Once a patron reaches their time or spend limit, the gaming machine emits an audible tone and displays a written message, explaining that the patron can no longer accrue membership points for the Signature Club.

Crown Melbourne Limited's 'Play Safe Limits' scheme has had a significant increase in participants in recent years.

Chart 11: Signature Club members using Play Safe Limits (as at 1 January each year)



Source: Crown Melbourne Limited

Reasons for this increase are unclear as Crown Melbourne Limited does not know or record the reasons why patrons set limits on time or play. Crown Melbourne Limited does not believe it was due to an increase in the usage of gaming machines in specified areas, but may be due to an increased public awareness of pre-commitment due to mooted reforms in Federal and State parliaments and an increase in staff awareness.

Crown Melbourne Limited does not intervene when a patron reaches their spending or time limit.

Crown Melbourne Limited stated that it focuses on observable signs of distress and does not believe that reaching a spending or time limit necessarily requires an intervention, but acknowledges that it may provide an opportunity for one, and that the Play Safe Limits provide an opportunity for patrons to approach Crown Melbourne Limited staff for assistance, if required.

In accordance with section 3.5.37 of the Gambling Regulation Act, if a patron wishes to keep playing after they reach either their spend or time limit, they must do so outside of the loyalty scheme.

Under the Gambling Regulation Act, a loyalty scheme is defined as *'any system that monitors a gambler's gaming machine expenditure.'* This means that Crown Melbourne Limited is unable to monitor a patron's spending once they reach their limit.

Pursuant to Chapter 3 of the Gambling Regulation Act, Crown Melbourne Limited must provide members of the Signature Club who play gaming machines Player Activity Statements. The Gambling Regulation Regulations set out detailed requirements for the information provided in Player Activity Statements.

Responsible service of gaming training

Ensuring proper training of staff in responsible service of gaming is an important element of Crown Melbourne Limited's responsible gambling activities. Training in assessing customers and identifying observable signs of distress enables frontline staff to refer patrons to a Responsible Gaming Liaison Officer.

Under section 58A of the Casino Control Act, a person who is employed by a casino operator and who performs any of the functions of a special employee in relation to gaming machines, must complete an approved Responsible Service of Gaming Course, and a refresher course every three years.

Crown Melbourne Limited's Responsible Service of Gaming Course and Responsible Service of Gaming Refresher Course have been approved by the VCGLR.

Crown Melbourne Limited requires all gaming staff to complete a Responsible Service of Gaming course when they commence employment and a refresher course every two years.

Provision of credit

Section 68 of the Casino Control Act prohibits the provision of credit to all players other than commission based players not ordinarily resident in Australia.

The prohibition on the provision of credit to Australian patrons is a responsible gambling measure aimed at ensuring people cannot gain access to borrowed funds at the Melbourne Casino to gamble.

Crown Melbourne Limited verifies the identity of its international patrons to ensure they are able to participate in a commission based play arrangement and to ensure that they are able to provide credit.

Player data and responsible gambling

Data about players is regularly gathered by Crown Melbourne Limited and is used in a number of ways, depending on the nature of the relationship with its patrons. In particular, spending by members of Crown Melbourne Limited's loyalty scheme the Signature Club is recorded for membership benefits and related promotions.

Crown Melbourne Limited automatically records the following data from Signature Club members who use their membership card:

- Time and date of play;

- Gaming machine expenditure for session (net win or loss), estimate of table game expenditure;
- Time the card is inserted in the machine;
- Type of game play (gaming machines or table games); and
- Other spending, such as meals, hospitality and retail spending.

When a Signature Club member is signed up, information about the member is gathered, such as name, address and occupation. Crown Melbourne Limited also requires prospective members to provide appropriate identification.

Crown Melbourne Limited does not request prospective Signature Club members to provide information relating to any exclusion orders that apply to them in other jurisdictions.

The collection of player data through the Signature Club relies on players using their membership card while gambling. If a patron is playing a gaming machine with a membership card, accurate data about their gambling session can be recorded. If a player uses their membership card on a gaming table, individual player turnover and expenditure data is estimated based on an average turnover per hour basis. However, Crown Melbourne Limited does not know the proportion of Signature Club members who use their cards when gambling and has advised the VCGLR it does not have working assumptions regarding the proportion of active Signature Club members who use their card.

Crown Melbourne Limited also gathers player information in other ways such as through third party complaints.

When third parties, for example family and friends, make complaints about a patron's gambling, Crown Melbourne Limited provides advice to the complainant about help services and notes the incident on the Responsible Gaming Contact Register.

Use of data by the Responsible Gaming Support Centre

Player data, such as frequency of visits, can be used as part of the consultation with patrons by Responsible Gaming Liaison Officers or psychologists who have full access to Crown Melbourne Limited's player database.

Player data is not used by the Responsible Gaming Support Centre to initiate contact with gamblers.

Crown Melbourne Limited states that its system for identifying problem gamblers relies on the use of observable signs of distress and that it uses this alone, rather than player data, to initially identify if a person may have a gambling problem. Once a person has been identified, Responsible Gaming Liaison Officers may look at the person's game play history for relevant data.

Payment of winnings by cheque

The Casino Control Act requires Crown Melbourne Limited to pay winnings in excess of \$2,000 on gaming machines by cheque. Crown Melbourne Limited must also, upon request, pay winnings from gaming machines by cheque.

Crown Melbourne Limited must not give, or allow another person to give, a person cash or gaming tokens in exchange for a cheque drawn on an account of Crown Melbourne Limited that would enable that person to play a gaming machine in the Melbourne Casino.

Regulations (talkers, brochures and posters)

The Gambling Regulation Regulations require that talkers (which are small signs with responsible gambling messages attached to gaming machines), brochures and posters must be displayed in the Melbourne Casino at all times.

Minors

An essential element of responsible gambling practices is that minors should not be able to access the Melbourne Casino.

The *Gambling Legislation Amendment (Responsible Gambling and Other Measures) Act 2008* introduced prohibitions on minors gambling in the casino. Section 10.7.6(3) of the Gambling Regulation Act makes the casino operator guilty of an offence if a minor enters the casino. Under section 10.7.7(2) of the same Act, it is also an offence for a minor to enter the casino. This Act also removed the provisions concerning minors from the Casino Control Act as well as the obligation on Crown Melbourne Limited to notify the VCGLR when minors are detected entering the Melbourne Casino.

Under section 10.7.12 of the Gambling Regulation Act, it is a defence to a prosecution for the presence of minors in a gaming venue, including the Melbourne Casino, if a minor, who is above the age of 14, produces acceptable proof of age, known commonly as fake identification.

VCGLR findings

The VCGLR has found that Crown Melbourne Limited generally has robust and detailed systems and processes for dealing with responsible gambling issues and that since 2008, it has generally complied with its obligations under the legislation.

However, the VCGLR makes the following observations and recommendations to address issues identified with the systems and processes and their implementation.

Responsible Gaming Committee

The VCGLR reviewed the Crown Limited Responsible Gaming Committee's papers, minutes, agendas, and reported items, and met with its Chair, Professor John Horvath.

The VCGLR also reviewed Crown Melbourne Limited's Board meeting minutes and agendas.

The VCGLR believes that the sharing of information between different areas of Crown Limited's operations in relation to responsible gambling is positive.

Despite three members of the Crown Melbourne Limited Board sitting on the Crown Limited Responsible Gaming Committee, there is no formal link between the Crown Melbourne Limited Board and the Crown Limited Responsible Gaming Committee. Responsible gambling issues are not standing items at Crown Melbourne Limited Board meetings and there are no regular update reports from the Crown Limited Responsible Gaming Committee.

This is concerning because the responsible gambling obligations under the Casino Control Act and the Gambling Regulation Act are imposed on Crown Melbourne Limited, not Crown Limited.

As previously noted, at times there may be tension between responsible gambling initiatives and commercial incentives. Without clear lines of accountability between Crown Limited's Responsible Gaming Committee and the Crown Melbourne Limited Board there is a risk that Responsible Gaming Committee actions might not be fully implemented at an operational level.

In discussions with the Chair of the Responsible Gaming Committee, it was noted that it is the intention of the Responsible Gaming Committee and its members to ensure that its work is followed through at an operational level across Crown Limited's casinos. However, without a formal connection to the Crown Melbourne Limited Board, the VCGLR believes the Responsible Gaming Committee relies too heavily on informal practices to ensure this takes place.

Recommendation 4

The VCGLR has found that the board-level oversight and management of responsible gambling issues at the Melbourne Casino are the responsibility of Crown Limited, not Crown Melbourne Limited. While there is a mechanism for the transfer of information and decisions between the two through exception reporting and common directors, there is no formal consideration of responsible gambling issues by the Crown Melbourne Limited Board at its meetings.

To strengthen the oversight and implementation of responsible gambling practices at the Melbourne Casino, the VCGLR recommends that within the next 12 months, Crown Melbourne Limited establish a formal mechanism to regularly consider, and deal with, responsible gambling issues and obligations at the Melbourne Casino.

Responsible Gambling Code of Conduct

Since its introduction in June 2009, Crown Melbourne Limited has complied with the legislative obligation to ensure it implements an approved Responsible Gambling Code of Conduct.

The VCGLR must report to the Minister each year on all Responsible Gambling Codes of Conduct in force in Victoria. The VCGLR must report on:

- The effectiveness of Responsible Gambling Codes of Conduct;
- The level of compliance with Responsible Gambling Codes of Conduct;
- Whether any disciplinary action was taken because of repeated breaches of Responsible Gambling Codes of Conduct; and
- Whether any programs were conducted by the VCGLR to assist with compliance to, and the effectiveness of, Responsible Gambling Codes of Conduct.

The VCGLR has conducted reviews in 2010, 2011 and 2012. The next report is due in September 2013.

The reports to the Minister have all found Crown Melbourne Limited's Responsible Gambling Code of Conduct to be compliant with legislative provisions and ministerial directions.

For the review completed in September 2012, the VCGLR reviewed the results of staff and customer surveys undertaken by Crown Melbourne Limited; written requests for feedback from six gambler's

help agencies; and meetings and consultations with Crown Melbourne Limited management.

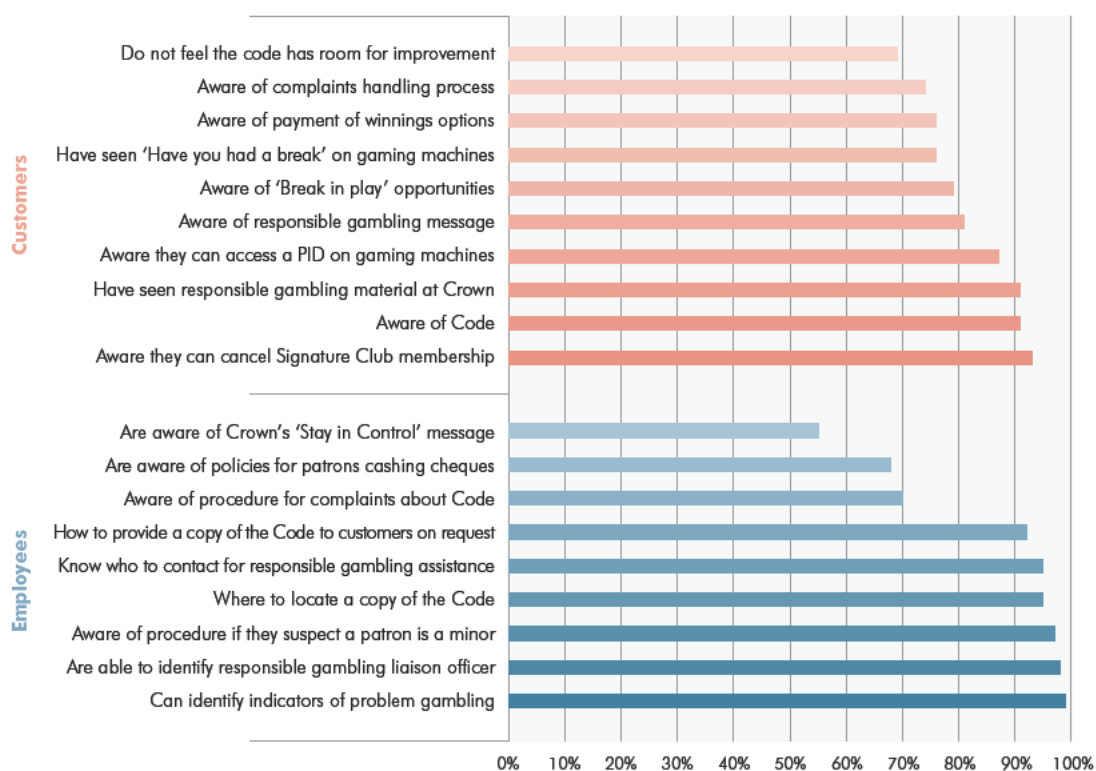
The results (Chart 12) show high levels of awareness about Crown Melbourne Limited's Responsible Gambling Code of Conduct, from both staff and customers.

Overall, Crown Melbourne Limited staff demonstrated a strong awareness of procedures and requirements of Crown Melbourne Limited's Responsible Gambling Code of Conduct. However, staff awareness of procedures for dealing with complaints about Responsible Gambling Codes of Conduct, cashing cheques and Crown Melbourne Limited's 'stay in control' message was noticeably lower. The VCGLR will be monitoring these areas to ensure Crown Melbourne Limited remains compliant with responsible gambling legislation.

The VCGLR considers the new list of observable signs of distress in Crown Melbourne Limited's Responsible Gambling Code of Conduct to be an improvement on the previous tools used by Crown Melbourne Limited staff. They assist staff because they reflect problem gambling research, are more specific than their predecessors and are more relevant to Crown Melbourne Limited's operations.

The VCGLR performed interviews with Crown Melbourne Limited staff, including members of Crown Melbourne Limited's Responsible Gaming Support Centre and found a high level of awareness of the obligations under the Responsible Gambling Code of Conduct.

Chart 12: Customer and staff surveys in relation to Crown Melbourne Limited's Responsible Gambling Code of Conduct



Source: Crown Melbourne Limited

The VCGLR also received feedback at its community roundtable discussion that Crown Melbourne Limited takes its responsible gambling obligations seriously. The VCGLR reviewed data from the Responsible Gaming Support Centre and reviewed Crown Limited's Responsible Gaming Committee papers. As a result of these investigations as well as its ongoing monitoring and annual Responsible Gambling Code of Conduct reviews, the VCGLR considers that Crown Melbourne Limited's Responsible Gambling Code of Conduct is generally well-lived through the organisation.

Use of data

As noted above, Crown Melbourne Limited relies on the use of observable signs of distress alone to initially identify if a person may have a gambling problem.

The VCGLR considers that player data analysis is a valuable way of supplementing Crown Melbourne Limited's existing responsible gambling practices by identifying observable signs of at-risk behaviour based on frequency, duration and intensity of play, and identifying significant changes in expenditure patterns.

The use of player data to assist Crown Melbourne Limited in identifying potential problem gamblers has also been raised by the VCGR in previous reviews of the Melbourne Casino.

The Fourth Casino Review found that Crown Melbourne Limited may be able to identify potential problem gamblers by more proactively and effectively intervening where anomalies appear in an individual's gambling expenditure patterns.

In addition, the VCGR commented in the Social and Economic Impact Assessment of the Ninth Variation to the Casino Management Agreement that Crown Melbourne Limited must remain vigilant to the possibility of table game players having problems and be more proactive and effective in intervening where anomalies appear in an individual's gaming expenditure patterns.

Since the Fourth Casino Review and the Social and Economic Impact Assessment, Crown Melbourne Limited has strengthened its Responsible Gambling Code of Conduct by adding to the list of observable signs of distress, but has not made significant changes to the way player data is used.

Professor Paul Delfabbro of the University of Adelaide and others in their 2007 report *'Identifying Problem gamblers in Gambling Venues: Final Report'*, point to the following observable signs that could be identified through the examination of player data:

- Gambling every day of the week;
- Very fast play (gaming machines only);
- Bets more than \$2.50 per spin most of the time (gaming machines only);
- Spends more than \$300 in one session of gambling; and
- Significant changes in expenditure patterns, for example sudden increases in spending.

Delfabbro et al (2007) noted that to improve the ability of staff to identify patrons within venues *'[e]xpenditure and machine usage data might be more effectively tracked within venues so as to obtain objective information concerning player expenditure and time on machines.'*

The VCGLR notes that the research was conducted into pubs and clubs in South Australia and did not

include the Adelaide casino. However, the use of player data in this manner would be consistent with, and improve the implementation of, Crown Melbourne Limited's Responsible Gambling Code of Conduct, and would strengthen its ability to identify observable signs of distress that may indicate a patron has a gambling problem.

The VCGLR acknowledges that if a patron's frequency, intensity and duration of play reflects Delfabbro et al's list of observable signs, they are not necessarily a problem gambler. These indicators can only be used to identify situations where there is a heightened risk that a person could be experiencing problems with their gambling.

In relation to the use of player data for responsible gambling purposes, Crown Melbourne Limited has advised the VCGLR that:

"In the absence of information relating to a person's assets, income and financial commitment, together with information relating to their time obligations and commitments (e.g. work, study, home), it is impossible to be definitive on the appropriateness of a person's expenditure, (both time and money) on gaming and therefore make a judgement on whether their gambling is a problem for them, in terms of producing harm. Data on their play history alone will not be sufficient to make such an assessment."

The VCGLR does not consider that analysis of player data in isolation is a definitive indicator of whether a person is either a problem gambler, or at risk of becoming a problem gambler. Equally, the VCGLR does not believe that many other observable signs of at-risk behaviour when viewed in isolation are definitive indicators of problem gambling.

It is the VCGLR's view that player data analysis may be a useful initial indicator to identify whether a person may be demonstrating at-risk behaviour and whether further monitoring for other observable signs of distress is required. The VCGLR believes that player data already collected by Crown Melbourne Limited as part of a Signature Club members game playing history, contains valuable information on patterns of behaviour, and may enable, from time to time, earlier intervention than would be possible without the use of player data analysis.

Crown Melbourne Limited has many intervention options following the identification of at-risk behaviour using player data. One may be to check the player database for other observable signs of distress – for example, receipt of requests for assistance from concerned family or friends – have been recorded. Another may be to advise relevant staff of a potential issue and monitor for the presence of other observable signs of distress such as significant variation in mood during a gambling session.

Crown Melbourne Limited is best placed to make this assessment on a case-by-case basis.

The VCGLR notes that the Crown Limited Responsible Gaming Committee considered the paper *Intelligent Design: How to model gambler risk assessment by using loyalty tracking data* (Schellinck and Schrans, 2011), which discusses how loyalty data could be used to assist in identifying problem or at-risk gamblers.

While recognising that there are several drawbacks to exclusively using loyalty data to identify problem or at-risk gamblers, Schellinck and Schrans (2011) argue that the use of loyalty tracking systems in conjunction with observable signs are an effective way to screen for problem or at-risk gamblers.

Schellinck and Schrans (2011) observed there were practical difficulties in observing gamblers. For example, staff may have breaks in continuity of observation, they may change shift or move to another area of the casino, and that while staff may be cognisant of the observable signs, they have many other functions to perform at the same time.

The VCGLR notes that Crown Melbourne Limited and Crown Limited consider that the program described in the paper has not been peer reviewed and is in limited use. Neither Crown Melbourne Limited nor Crown Limited endorse the paper.

Crown Melbourne Limited and Crown Limited also note that Dr Tony Schellinck is an owner and CEO of Focal Research Consultants Limited and Ms Tracey Schrans is a Principal and President of Focal Research Consultants Limited. Focal Research Consultants Limited is the owner of

player tracking software iCare, which is in use in Saskatchewan, Canada.

While the VCGLR notes the concerns raised by Crown Melbourne Limited and Crown Limited, research by Schellinck and Schrans is regularly referenced by academics in the responsible gambling field, including in Delfabbro, et al (2007), and was used by Crown Melbourne Limited to develop its Responsible Gambling Code of Conduct.

The VCGLR notes that at least one comparable casino operator, SkyCity Entertainment Group Limited, is using data as an initial indicator of at-risk behaviour (Information Box 6).

A number of gambling regulators consider player data analysis to be a useful harm minimisation tool. The VCGLR has discussed the use of player tracking software and the use of player data with other regulators, particularly in relation to the Playscan software used by Svenska Spel in Sweden and SkyCity Auckland's approved Problem Gambler Identification Policy.

Crown Melbourne Limited advised the VCGLR that it is concerned that if players perceive their data is being used as a trigger for intervention, it is more likely they will choose to play anonymously.

While it is possible that this may occur for some players, for those who continue to use their membership card Crown Melbourne Limited will record player data. The VCGLR notes that there are a large number of Signature Club members and a significant proportion of Crown Melbourne Limited's gaming revenue comes from a proportionately small number of rated players in the higher tiers of the Signature Club. In order for these gamblers to accrue membership credits, and thus to maintain their membership status, they must continue to use their membership card.

The VCGLR considers that by using player data analysis as an initial indicator to identify whether a person may be demonstrating at-risk behaviour, including the frequency, duration and intensity of play, Crown Melbourne Limited's ability to identify potential problem gamblers may be improved.

INFORMATION BOX 6:

Host Responsibility Programme Problem Gambler Identification Policy – SkyCity Auckland

Under its Responsible Gambling Programme, SkyCity Auckland has an approved Problem Gambler Identification Policy, which lists the indicators SkyCity Auckland uses to identify potential problem gamblers.

SkyCity Auckland's Problem Gambler Identification Policy also categorises observable signs as strong or general indicators. Intensity and frequency of play are listed as general indicators, because, SkyCity Auckland explains, *"not all customers who exhibit high expenditure levels and frequent visitation are necessarily problem gamblers."*

SkyCity Auckland recognises that frequency and duration of play are more likely to be observed in problem gamblers and may indicate a gambler is at risk. It also notes that *"most studies of problem gambling have found that problem gamblers spend significantly more, and gamble*

significantly more frequently than other players."

Specifically in terms of frequency and intensity of play, SkyCity Auckland identifies gamblers who have:

- High levels of expenditure on gaming machines, more than \$300 per session and very high visitation frequency more than five times per week over one month;
- High levels of expenditure on gaming machines, more than \$500 per session and high visitation frequency more than two times per week over one month;
- High visitation frequency and very high levels of expenditure on all forms of gambling, over a period of time;
- Very few breaks in play; and
- Increasing periods of play and expenditure over a period of time.

SkyCity Auckland also notes that people who play gaming machines are less likely to interact with staff than table game players and that electronic data gathered from gaming machines is highly accurate.

SkyCity Auckland is required to review player data if a referral is made based upon behavioural observable signs of distress.

At present, SkyCity Auckland does not use algorithms to scan player data for observable signs, rather it regularly reviews player data and has some alerts relating to the specific observable signs listed in its Problem Gambler Identification Policy.

At the time of writing, the Host Responsibility Plan and the Problem Gambler Identification Plan are being reviewed by the New Zealand Gambling Commission.

Recommendation 5

To assess the effectiveness of the use of player data in relation to intensity, duration and frequency of play as a tool to assist in identifying potential problem gamblers, the VCGLR recommends that:

- Within 18 months, Crown Melbourne Limited trial for a reasonable period the use of player data analysis as an initial indicator to identify players who may be having problems with their gambling;
- The Crown Melbourne Limited Board and Crown Limited's Responsible Gaming Committee consider the effectiveness of the trial; and
- Crown Melbourne Limited provide a copy of the report on the outcome of the trial to the VCGLR within 3 months of the report being considered by Crown Limited's Responsible Gaming Committee and the Crown Melbourne Limited Board.

Compliance with other responsible gambling measures

Provision of credit

The VCGLR has not detected any breaches by Crown Melbourne Limited of section 68 of the Casino Control Act in the period 2008 to 2013.

As noted in Information Box 3, Crown Melbourne Limited was fined \$15,000 for a breach of section 64(1)(c) of the Casino Control Act that occurred in March 2006. Given the circumstances of that breach, the VCGLR considered no further actions were required. There have been no breaches relating to the provision of credit between July 2008 and June 2013.

In June 2011, Crown Melbourne Limited conducted an audit of controls for determination of international patron domicile to ensure the legitimacy of commission based players. The audit recommended that hard copies of additional domicile records be retained until the player management system was upgraded to facilitate scanning of documents.

A subsequent audit by Crown Melbourne Limited was completed in February 2012 and noted that compliance with the guidelines for the determination of international patron domicile was again unable to be fully verified. A follow-up audit reported that the recommendation that hard copies be retained has been fully implemented and a recent follow-up review noted no exceptions. Crown Melbourne Limited advised that the recommendation will continue to be subject to further reviews as appropriate.

The VCGLR notes the actions taken to remedy the issues raised in the audit and the result of the follow-up review in relation to International Patron Domicile – Junket (International Marketing Agent Agreements).

Responsible Service of Gaming training

The VCGLR is satisfied that Crown Melbourne Limited is meeting its obligations for staff training requirements.

Player activity statements

The VCGLR is satisfied that Crown Melbourne Limited is compliant with provisions under the Gambling Regulation Act in relation to Player Activity Statements.

ATM restrictions

The VCGLR conducts audits on the location of ATMs in the Melbourne Casino Complex.

The VCGLR has not detected any breaches of the legislation between 2008 and 2013.

Payment of winnings by cheque

Crown Melbourne Limited reported to the VCGLR in respect of the Responsible Gambling Code of Conduct review that awareness of rules about the payment of winnings by cheque has declined from 85 percent in 2010-11 to 68 percent in 2011-12 amongst Crown Melbourne Limited staff.

There has also been a decreased awareness of the options for payments of winnings by patrons from 89 percent in 2010-11 to 76 percent in 2011-12.

Despite this, the VCGLR has not detected any breaches of this provision.

The VCGLR notes these issues and that Crown Melbourne Limited must ensure the payment of winnings by cheque is well understood by staff.

Regulations (talkers, brochures and posters)

VCGLR inspectors have, on occasion, identified that talkers, brochures or posters were not available in accordance with the Gambling Regulation Regulations. This has often been due to them falling down or being removed by patrons. In every instance Crown Melbourne Limited staff rectified the situation after being notified by VCGLR inspectors.

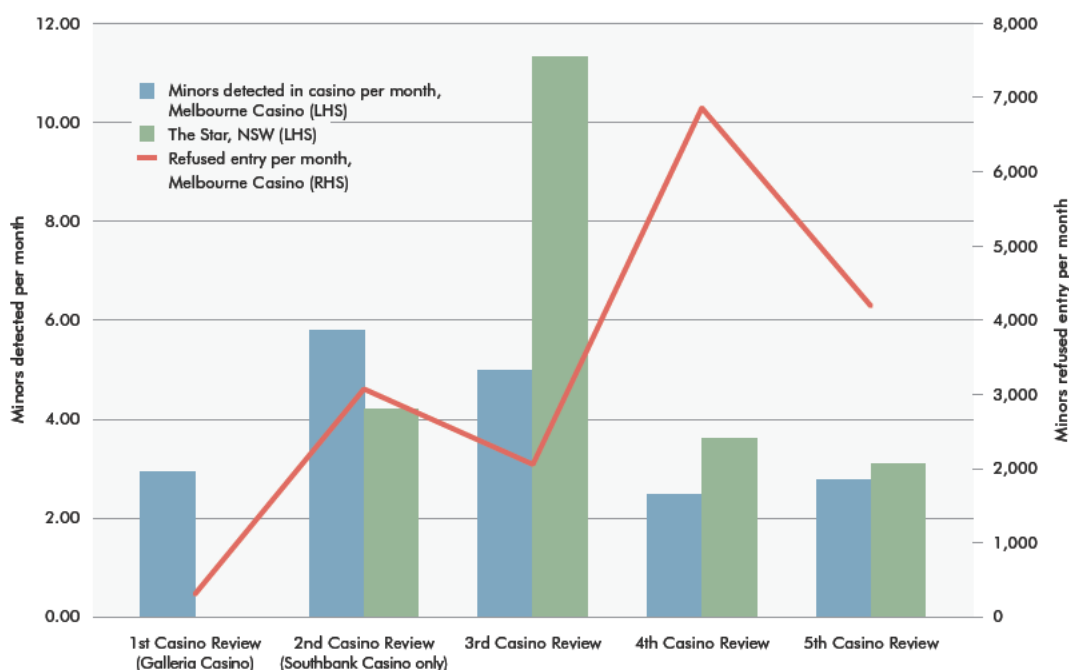
Despite these occasional minor breaches, the VCGLR is of the view that Crown Melbourne Limited has been generally compliant with these provisions.

Minors

Crown Melbourne Limited's method for preventing minors entering the casino is using security staff at the entrances to check identification for any person they suspect may be a minor.

The Fourth Casino Review reported that an average of 6,859 minors attempted and were refused entry per month. An average of 2.47 minors were detected in the casino per month between 2003 and 2008. During that period, the Melbourne Casino averaged approximately 15 million visitors per year.

Chart 13: Number of minors detected at the Melbourne Casino and The Star casino since 1993



Source: Crown Melbourne Limited; VCGR; VCGA; ILGA (New South Wales).
The VCGLR notes that the review periods in Victoria and New South Wales do not correlate.

Since 2008, there has been an average of 2.78 minors detected in the casino per month and 4,194 minors refused entry per month. The average number of visitors has increased during that period to approximately 18 million visitors per year from 15 million visitors per year.

Crown Melbourne Limited's security staff and surveillance area monitor for minors attempting to enter the casino. Crown Melbourne Limited's food and beverage staff also monitor for minors.

There is an increased risk of minors entering the casino at busy times, particularly on weekends. The VCGLR considers that Crown Melbourne Limited has developed procedures, and adequate flexibility, to appropriately manage this risk.

More information relating to Crown Melbourne Limited's security and surveillance procedures can be found in Chapter 4.4 – Security and Surveillance.

The VCGLR notes that Crown Melbourne Limited is preventing fewer minors from entering the Melbourne Casino, and has detected more minors in the Melbourne Casino than in the Fourth Casino Review period. The VCGLR considers the number of minors detected in the Melbourne Casino

since 2008 is not unreasonable given the number of visitors to the Melbourne Casino Complex annually. The VCGLR notes that this compares favourably to The Star casino in Sydney, which has fewer visitors per annum than the Melbourne Casino Complex.

The VCGLR consulted Victoria Police regarding minors entering the Melbourne Casino. Victoria Police is generally satisfied with Crown Melbourne Limited's security processes to prevent minors from entering the Melbourne Casino.

VCGLR inspectors patrol the gaming floor to ensure that minors are not present. If a minor is detected, they are removed from the Melbourne Casino. Since 2008, the VCGLR has brought four disciplinary actions against Crown Melbourne Limited for the detection of minors in the casino.

In January 2013 VCGLR inspectors detected three minors in the Melbourne Casino. The VCGLR has investigated this matter and is determining the appropriate action to be taken.

The VCGLR expects that Crown Melbourne Limited will continue to place an emphasis on ensuring minors do not enter the casino and that it remains vigilant on this issue.

Figure 15: VCGR prosecutions of Crown Melbourne Limited for offences under Part 7 of the Gambling Regulation Act

VCGR Decision Date	VCGR Decision Date	VCGR Decision Date	VCGR Decision Date
24 November 2009	2 February 2010	8 June 2010	22 November 2011
Details On 18 October 2008 a 16 year old minor entered the Melbourne Casino in company of his father and friends.	Details On 15 July 2008, 14 August 2008 and 5 September 2008 minors entered the Melbourne Casino.	Details On 24 May 2009 a minor in a pram entered the Melbourne Casino.	Details On 17 January 2011 two minors entered the Melbourne Casino.
Result CML fined \$2,500	Result CML fined \$2,500	Result CML fined \$2,500	Result CML fined \$5,000

Source: VCGLR

3.5 Exclusions Orders

The Casino Control Act provides for legally enforceable orders that may be issued to a person prohibiting them from entering the Melbourne Casino or the Melbourne Casino Complex. These orders support the purposes in the Casino Control Act to ensure the management and operation of casinos remains free from criminal influence and that gaming in casinos is conducted honestly. Self-exclusion orders, in particular, also support the harm minimisation objectives of the VCGLR under the Casino Control Act and the Gambling Regulation Act.

Exclusion orders have been part of the Casino Control Act since introduction, with amendments providing for voluntary exclusion orders introduced in 1994.

There are three key types of exclusion orders:

- **Voluntary orders** – Section 72(2A) of the Casino Control Act allows either the VCGLR or the casino operator to issue a written order, on the voluntary application of a person, prohibiting them from entering or remaining in the casino. These orders are known as ‘self-exclusion orders’.
- **Compulsory exclusion orders** – Section 72(1) of the Casino Control Act allows either the VCGLR or the casino operator to issue a written order prohibiting a person from entering or remaining in the casino. These may also be given orally, but oral orders lapse after 14 days.
- **Chief Commissioner exclusion orders** – The Chief Commissioner of Police may issue an exclusion order under section 74 of the Casino Control Act prohibiting a person from entering or remaining in the Melbourne Casino or Melbourne Casino Complex. The Casino Control Act also recognises exclusion orders issued by interstate Police Commissioners as ‘interstate exclusion orders’.

In addition, Crown Melbourne Limited retains the right to withdraw a person’s common law licence to enter the casino. This is known as a withdrawal of licence. Withdrawals of licence are not exclusion orders but are supported by section 70 of the Casino Control Act, which provides that a person (other than a police officer or a VCGLR inspector)

remains in a casino only by the licence of the casino operator.

There are no time limits on any exclusion orders (other than oral orders) made under the Casino Control Act.

Under section 77 of the Casino Control Act, it is an offence for a person to breach an exclusion order, including an interstate exclusion order.

Self-Exclusion orders

Self-exclusion orders provide people who believe they may have a problem with their gambling with a tool to help them control their gambling. Typically, they are seen as a harm-minimisation tool rather than a form of intervention. The VCGLR considers the effective use of self-exclusion orders to be an important aspect of Crown Melbourne Limited’s responsible gambling practices.

There are more than 3,500 people who have self-excluded from the Melbourne Casino.

On-site Responsible Gaming Liaison Officers employed by Crown Melbourne Limited administer the process for voluntary exclusions at the Melbourne Casino. A patron may visit the Responsible Gaming Support Centre or ask for assistance from venue staff, who will direct them to the Responsible Gaming Support Centre.

After an application to self-exclude is successful, a patron is provided with a self-exclusion kit that contains information to assist the patron in managing their gambling.

Revocation of self-exclusion orders

Under section 75 of the Casino Control Act, an exclusion order is in force until it is revoked by the person that issued the order. This is an important part of the exclusion process, particularly in relation to self-exclusions. As the Productivity Commission (2010, p 10.11) noted, a self-exclusion program that does not allow a person to revoke:

“would be too rigid, recognising that, just as people may make impulsive gambling decisions, they may also make impulsive decisions about self-exclusion that are unnecessarily restrictive.”

Table 6: Key attributes of all types of exclusion orders and Withdrawals of Licence

Attributes by type of exclusion	Chief Commissioner exclusion	Commission exclusion order (issued by VCGLR)	Casino exclusion order (issued by CML)	Self-exclusion order	WOL
Casino Control Act	✓	✓	✓	✓	
Common law					✓
Criminal penalty for breach	✓	✓	✓	✓	
Not permitted to enter the Melbourne Casino	✓	✓	✓	✓	✓
Not permitted to enter the Melbourne Casino Complex	✓				✓
Can be given orally for 14 days		✓	✓		
VCGLR may revoke		✓	✓	✓	
Crown Melbourne Limited may revoke			✓	✓	✓

Source: VCGLR

In its submission to the VCGLR for the Fifth Casino Review, Crown Melbourne Limited stated that its Self-Exclusion Revocation Committee deals with applications for revocation individually.

Crown Melbourne Limited will consider an application to revoke an exclusion order no earlier than 12 months after it was issued, or after the last detected breach of that order.

A person seeking to revoke a self-exclusion order must provide documentation from an accredited psychologist, psychiatrist, counsellor or medical practitioner, supporting their application.

The relevant professional must provide their qualifications, information relating to length of treatment from the professional, frequency of treatment, results of problem gambling screening tests and in the professional's opinion, whether

or not the person is capable of managing their gambling.

This information is then provided to the Self-Exclusion Revocation Committee, which decides whether an exclusion order should be revoked.

Applicants must also attend a Gambling Resumption Information Program session at the Responsible Gaming Support Centre, where they speak with either a Responsible Gaming Liaison Officer, Responsible Gaming Psychologist or a Responsible Gaming Operations Manager prior to having access to the gaming floor.

Since 2008, Crown Melbourne Limited revoked more than 160 self-exclusions. All of these revocations were dealt with by the Self-Exclusion Revocation Committee.

Compulsory exclusions orders

Under section 72 of the Casino Control Act, Crown Melbourne Limited and the VCGLR may make compulsory exclusion orders. In practice, the VCGLR rarely uses its power to issue an exclusion order.

As at 31 January 2013, 108 people had been excluded from the Melbourne Casino on a compulsory basis. These orders only prevent a person from entering the Melbourne Casino, they do not exclude the person from the Melbourne Casino Complex.

Compulsory exclusion orders do not expire. However, they can be revoked by application to Crown Melbourne Limited (if the order was issued by Crown Melbourne Limited) or to the VCGLR. Crown Melbourne Limited's Persons of Interest Committee considers applications for revocations.

Chief Commissioner exclusion orders

Section 74 of the Casino Control Act allows the Chief Commissioner of Police to prohibit a person from entering or remaining in the Melbourne Casino or the Melbourne Casino Complex.

As of 31 January 2013, 47 people were subject to a Chief Commissioner exclusion order, all of whom are excluded from the Melbourne Casino Complex. The VCGLR notes that it is not necessarily the case that these people frequent, or have ever visited, the Melbourne Casino.

The criteria considered by the Chief Commissioner for excluding someone from the Melbourne Casino Complex are:

- **Criminal history** – if the person has a criminal history and there is other evidence or intelligence in relation to criminality that suggests the person warrants exclusion.
- **Disruption** – if the person is suspected of using the facilities of the casino for an unlawful purpose such as, but not limited to, cheating, money laundering, criminal association, or supply or use of prohibited drugs.
- **Integrity of gaming** – if the person is suspected or convicted of an offence that would significantly impact on the integrity of gaming operations.

- **Enforcement** – if the person is the subject of a court order or other judicial process not to enter or attend licensed premises or casino.
- **Interstate exclusion order** – if the person is subject to a Chief Commissioner exclusion order in another state or territory.

Victoria Police advises Crown Melbourne Limited, the VCGLR, all interstate police forces, the Australian Crime Commission, and the Australian Federal Police, of Chief Commissioner exclusion orders.

Victoria Police also places exclusions on the Law Enforcement Assistance Program 'LEAP' database, which allows operational police access to this information.

A list of all Chief Commissioner exclusions is maintained and updated by the Information Collection and Liaison Unit of Victoria Police.

In 2008, amendments were made to the revocation procedure for Chief Commissioner exclusion orders in the Casino Control Act. An application to have an order revoked can be made by a person who is subject to an exclusion order. The revocation procedure requires the court to consider the nature of the information relied upon to enforce the order and provides the court with a number of options for hearing the matter in a way that can protect information sensitive to a police investigation.

Chief Commissioner exclusion orders and interstate exclusion orders cannot be revoked by the VCGLR or Crown Melbourne Limited.

Withdrawal of licence

Crown Melbourne Limited has the common law ability to remove a person's licence to enter the Melbourne Casino Complex. Crown Melbourne Limited typically issues withdrawals of licence for antisocial behaviour, nuisance or theft and the withdrawal is made at the sole discretion of Crown Melbourne Limited.

People whose licence to enter or remain in the Melbourne Casino Complex has been withdrawn may apply to Crown Melbourne Limited to have their licence reinstated. Crown Melbourne Limited's Persons of Interest Committee considers applications for revocations.

Advertising to excluded persons

Section 78A of the Casino Control Act prohibits Crown Melbourne Limited from providing any direct advertising or promotional material to excluded persons.

After an exclusion order is made, Crown Melbourne Limited's Signature Club accounts are issued with 'stop codes' to prevent direct advertising material being sent to an excluded person. If no Signature Club membership exists, an account will be created for the purpose of preventing mail being sent to that person.

The Crown Melbourne Limited Gaming Audit manager conducts regular audits to ensure persons subject to an exclusion order are not sent advertising material.

Forfeiture of winnings

Under the Casino Control Act, a person who is the subject of an exclusion order and is detected breaching their order, must forfeit all winnings to the State. After a person is caught breaching their exclusion order, the VCGLR ensures their winnings are forfeited.

Daily List

Section 76 of the Casino Control Act requires Crown Melbourne Limited to prepare a list of names of all people who are subject to exclusion orders, including interstate exclusion orders, of which they are aware. The list must be given to VCGLR inspectors each day. The VCGLR inspectors have access to this list electronically on an ongoing basis.

Detecting excluded persons

Crown Melbourne Limited's process for detection of people breaching their exclusion orders relies on security and surveillance staff, as well as all other employees on the gaming floor, being able to recognise an excluded person, essentially from memory. Using this process, Crown Melbourne Limited detected 2,772 excluded persons in the casino from 2008 to 2011.

After a person is detected breaching their exclusion order, the Casino Control Act requires the casino operator to notify a VCGLR inspector. A VCGLR inspector must either remove the person, or cause them to be removed, from the Melbourne Casino.

If a person breaching a Chief Commissioner exclusion order, or an interstate exclusion order, is detected, Crown Melbourne Limited staff must notify Victoria Police, who then remove the excluded person from the Melbourne Casino Complex.

Since 2008, Crown Melbourne Limited has made changes to the way it presents information relating to excluded patrons to its staff. For example, Crown Melbourne Limited has upgraded the image quality in its Surveillance Department and processes for identifying recidivists. Crown Melbourne Limited believes this has improved its staff's ability to detect excluded persons.

Crown Melbourne Limited's security officers at entrances are assisted by surveillance staff through security cameras, as well as Responsible Gaming Liaison Officers and gaming floor employees, to monitor the floor for excluded persons, from time to time.

In busy areas of the casino, where there are many entrance points and high volumes of foot-traffic, it can be difficult for the security control room monitoring those entrances to assist in preventing excluded persons from entering the Melbourne Casino.

Crown Melbourne Limited concedes there is a limit to the effectiveness of their procedures for detecting excluded persons, especially in situations where people deliberately disguise their identity or use fake identification.

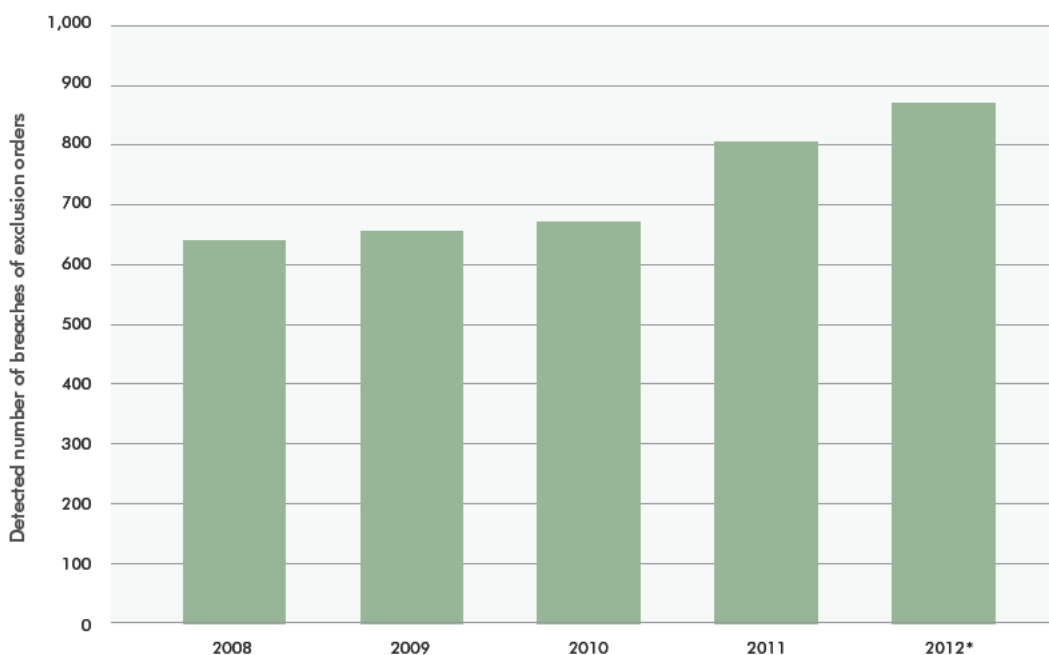
VCGLR Findings

The VCGLR has found that Crown Melbourne Limited is generally complying with its obligations in relation to exclusion orders. However, it makes several observations in relation to the effectiveness of its processes and procedures and its compliance with specific aspects of the legislation.

Effectiveness of processes and procedures for detecting persons breaching their exclusion orders

Between 2008 and 2011, there were 2,772 persons subject to exclusion orders detected in the casino. The number of excluded persons detected on the general gaming floor is consistent with previous casino reviews.

Chart 14: Detected breaches of exclusion orders since 2008



Source: Crown Melbourne Limited *2012 data was estimated by Crown Melbourne Limited as 40 per cent of detections of combined breaches of exclusion orders and Withdrawals of Licence.

The VCGLR is satisfied these numbers indicate that Crown Melbourne Limited is relatively successful at detecting people breaching their exclusion orders and that it treats breaches as a serious matter.

The VCGLR notes that Crown Melbourne Limited estimates that 18 million people visit the Melbourne Casino Complex each year.

There is a limit to the effectiveness of Crown Melbourne Limited's manual procedures for

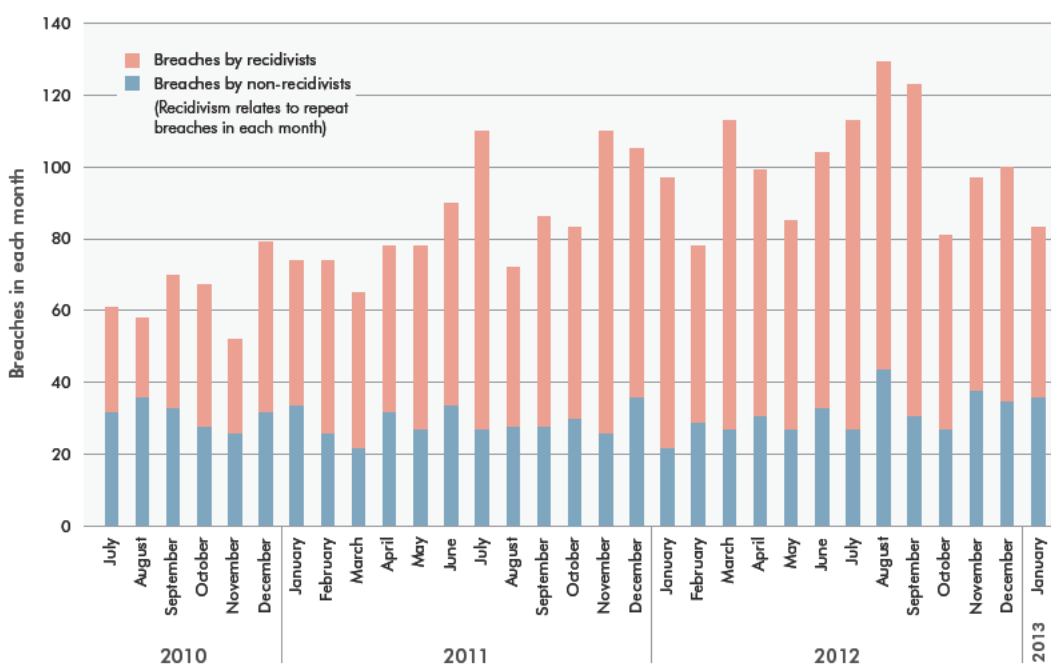
detecting excluded persons, and the VCGLR accepts that people will, in some instances go to some length to disguise their appearance.

In high volume areas, there are practical difficulties that limit Crown Melbourne Limited's ability to prevent excluded persons from entering the Melbourne Casino. Accordingly, the VCGLR considers that the detection of people breaching their exclusion orders maintains the legislative objective of stopping excluded persons remaining in the casino.

As the Productivity Commission (2010) notes, even if many breaches are undetected, a self-exclusion program may be effective because they allow gamblers to make a public commitment to stop gambling and some gamblers will want to avoid the potential embarrassment of being caught breaching their self-exclusion.

As noted in the Fourth Casino Review, there is a strong element of recidivism in the breaches of self-exclusion orders.

Chart 15: Detected breaches of self-exclusion orders from July 2010 to January 2013



Source: Crown Melbourne Limited

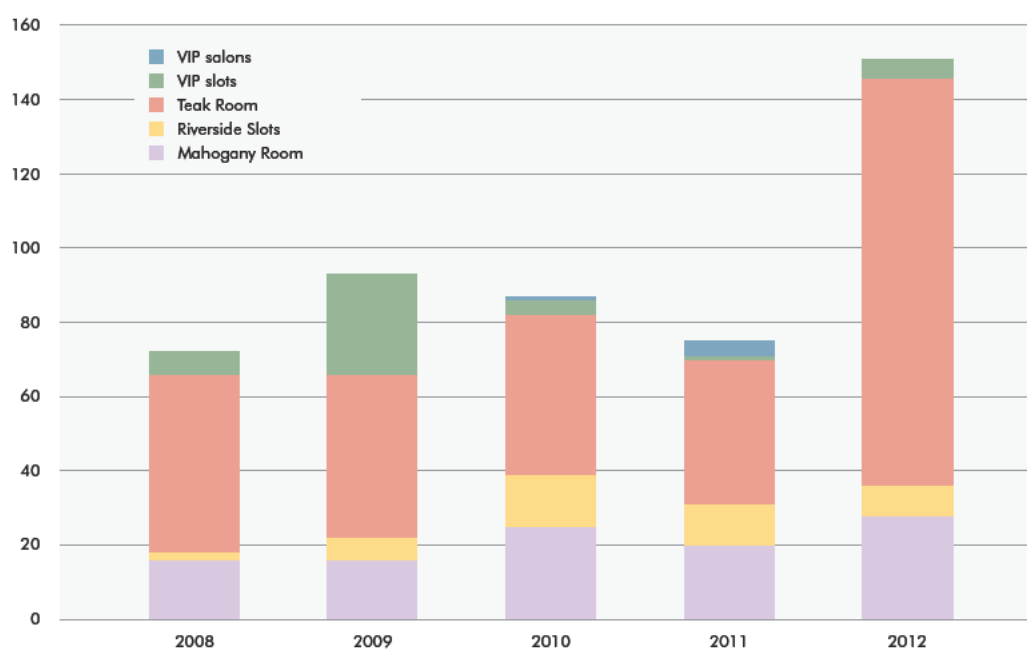
Between July 2010 and January 2013, the proportion of detected breaches by people who breached more than once in a month (recidivist breaches), accounted for 65 per cent of total detected breaches in each month, with recidivists breaching an average of 3.22 times per month.

The VCGLR is concerned that the high number of people detected breaching their exclusion orders in, or at the entrance to, VIP gaming areas of the casino indicates that the casino operator may not be effectively preventing excluded persons from entering those areas.

Data provided by Crown Melbourne Limited shows a sharp spike in the numbers of excluded persons detected in 2012. The VCGLR notes that this was likely due to a reclassification of what constitutes the Teak Room for the purposes of security reporting and many of these breaches were not in the Teak Room, but its surrounds.

The VIP gaming areas have controlled entrances and it is unclear from the information provided by Crown Melbourne Limited how many of the breaches were detected at the entrances as opposed to in the actual gaming areas.

Chart 16: Excluded persons detected in, or at the entrances to, VIP gaming areas of the casino



Source: Crown Melbourne Limited

Crown Melbourne Limited's procedures are that members should be asked to show identification or a Signature Club membership card, when entering VIP gaming areas. In private gaming salons, patrons will be accompanied by Crown Melbourne Limited staff. Crown Melbourne Limited allows members of the Signature Club to be accompanied by a guest in VIP gaming areas of the Melbourne Casino. Staff are able to exercise some discretion about the number of guests that can be brought in per patron.

Crown Melbourne Limited's policies on guests providing identification and signing in differs based on the particular VIP gaming room. Before entering the Mahogany Room, Crown Melbourne Limited requires guests to provide identification and to be signed in. However, before entering the Teak Room, Crown Melbourne Limited does not require guests to be signed in. Crown Melbourne Limited advises that the reason for the difference is that guests entering the Teak Room are already on the gaming floor and have passed an entrance manned by

security officers. However, security officers at the entrances to the main gaming floor do not always require people to produce identification.

The VCGLR notes that in The Star casino in Sydney, patrons are required to swipe their membership card before entering VIP gaming areas. Staff at the doors of these rooms are able to see an image of the patron on their monitor before allowing them to enter. Guests of members at The Star are also required to sign in before entering VIP gaming areas.

Reasons for the high number of detected breaches in, or at the entrance to, VIP gaming rooms are unclear. Excluded persons could be entering as guests of Signature Club members, being stopped at the entrances, or it is also possible that excluded persons are presenting Signature Club cards at the entrance to VIP gaming areas, but staff either are not checking these cards to see if the cards are valid or the card is being used by a person who is not a member of the Signature Club.

A robust process for ensuring excluded persons do not access VIP gaming areas is important given the increased risk to self-excluded persons arising from the ability to bet with large amounts of money in those areas.

Recommendation 6

The VCGLR is concerned that the casino operator may not be effectively preventing persons subject to exclusion orders from entering the VIP gaming areas in the Melbourne Casino. The VCGLR recommends that as part of a review of its entrance procedures to VIP areas, Crown Melbourne Limited develops and implements a management plan for detecting excluded people attempting to gain entry to the VIP gaming areas. A copy of the plan should be provided to the VCGLR within 12 months of this report.

Prospective Signature Club members are required to fill out a membership application form that asks for personal details such as their name, address, contact information and occupation. Crown Melbourne Limited requires each Signature Club member to show appropriate identification.

It is not an offence for a person who is subject to a self-exclusion order in a gaming venue in Victoria or in another state, to become a member of the Signature Club. However, the VCGLR considers that allowing this to occur may undermine good responsible gambling practices.

The VCGLR considers that prospective Signature Club members should be asked by Crown Melbourne Limited if they are, or ever have been, subject to any type of exclusion order in Victoria or in another jurisdiction.

Requesting prospective Signature Club members to declare if they are subject to an exclusion order may have two positive outcomes; it may assist Crown Melbourne Limited to identify people who have had or who currently have problems with their gambling, and it may assist them in identifying people who are subject to an interstate exclusion order under the definition of the Casino Control Act and are therefore banned from entering the Melbourne Casino.

Recommendation 7

To assist in mitigating the risk of people who have self-excluded from other venues developing problems at the Melbourne Casino, and to assist in preventing people subject to interstate exclusion orders from entering the Melbourne Casino, the VCGLR recommends that Crown Melbourne Limited:

- Request prospective Signature Club members to disclose if they are, or ever have been, subject to any type of exclusion order in any Australian jurisdiction, other than at the Melbourne Casino; and
- Consider whether it is appropriate for prospective Signature Club members who disclose they have been subject to an exclusion order to join the Signature Club and if any further actions should be taken.

INFORMATION BOX 7: Facial recognition technology

Facial recognition technology compares CCTV footage to an image database to identify people of interest. For casinos, this may assist in enforcing exclusion orders. Most facial recognition technology works as shown in Figure 16.

Facial recognition technology could potentially provide casino operators with a valuable tool that would help them detect and remove persons breaching their exclusion orders.

However, the accuracy and reliability of facial recognition technology remains a concern. Grother et al (2010) showed the most accurate algorithms have a 92 per cent chance of successful identification. This success rate increases to 97 per cent with the assistance of trained examiners.

Accuracy improves in controlled recording environments. Brian Martin of MorphoTrust explained to the US Senate Judiciary Committee that if the face is not directly looking at the camera, the image is distorted by shadows or the resolution is poor, the accuracy is significantly reduced to about a 50 per cent success rate. (Martin, 2012)

Trials of facial recognition software have been undertaken at The Star casino in Sydney.

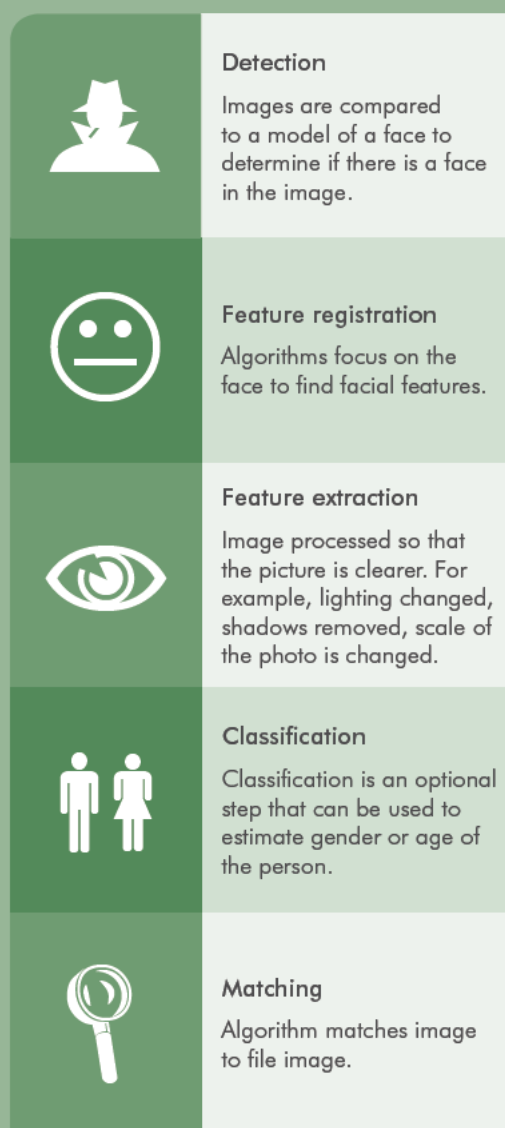
The New South Wales ILGA review of The Star casino in December 2011 considered the use of facial recognition technology to assist in detecting excluded people.

The ILGA considered The Star casino's trial of facial recognition in 2009, which found that there was an unacceptably high number of false readings in a controlled environment at a staff entry.

The ILGA also considered the view of Justice Jacobsen on facial recognition technology in *Foroughi v Star City Pty Ltd* [2007] FCA 1505. In his judgement, Justice Jacobsen accepted that facial recognition technology was unsuitable at that time for use in casinos.

The ILGA found that facial recognition technology is not ready for use in casinos and recommended that the next statutory review, due before December 2016, should again consider the usefulness of facial recognition technology.

Figure 16: Facial recognition technology



Source: (Martin, 2012)

Review of procedures and alternative methods

As noted previously, there is a limit to the effectiveness of Crown Melbourne Limited's processes and procedures for detecting excluded persons because of the high number of patrons.

As part of its investigations, the VCGLR has considered whether there are viable alternatives to the current processes and procedures used by Crown Melbourne Limited. Facial recognition technology is seen as a potentially feasible option available to Crown Melbourne Limited.

Crown Melbourne Limited has tested facial recognition technology and found it difficult to recognise and identify people entering in anything other than single file. The general gaming areas of the casino have many entry points and high volumes of patrons.

However, unlike the general gaming area of the casino, the VIP areas have few, often only one, point of entry and have less traffic.

In discussions with the VCGLR, Crown Melbourne Limited indicated that facial recognition technology had been the subject of a limited trial in an area of the casino with a more controlled entrance with relatively positive results. However, the VCGLR was unable to view results as they had not been finalised.

The VCGLR considers that Crown Melbourne Limited should be increasingly using technology to assist in the provision of responsible gambling and is encouraged by its trialling of facial recognition software.

The VCGLR believes that facial recognition technology could be a powerful tool, and when it is suitable for a casino environment has the potential to significantly improve detection of excluded persons.

The VCGLR considers that such technology could be particularly useful in VIP gaming areas, where there is controlled access, and in recent times a high number of persons breaching their exclusion orders detected.

Recommendation 8

In order to strengthen its processes for detecting excluded people attempting to gain entry to the VIP gaming areas of the casino, the VCGLR recommends that:

- Within 12 months of this report Crown Melbourne Limited commences a trial of facial recognition technology to improve the detection of excluded persons attempting to enter, or remaining in, the VIP gaming areas of the Melbourne Casino; and
- The Crown Melbourne Limited Board consider a report on the outcomes of the trial and provide a copy of that report to the VCGLR.

Self-exclusion revocations

The VCGLR is satisfied that Crown Melbourne Limited's self-exclusion revocation procedures are adhered to and are robust.

Between January 2011 and December 2012, 69 per cent of the 111 revocation applications made to the Self-Exclusion Revocation Committee over this period were approved.

The VCGLR notes there is no distinct pattern to the proportion of revocation applications granted by Crown Melbourne Limited over time, indicating that each application is assessed on a case-by-case basis.

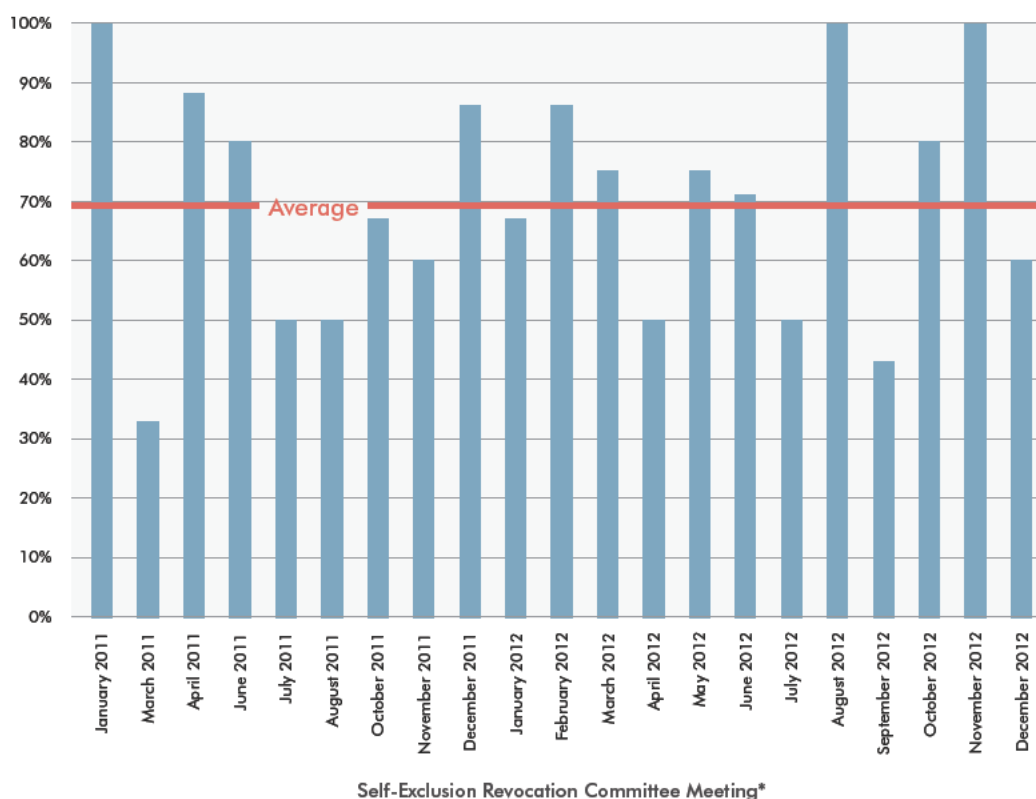
In 2009, the Supreme Court found in *Kakavas* that Crown Melbourne Limited's management of

revocations of exclusion orders and withdrawals of licence in 2004 did not bfit its claim to be a world leader in responsible gambling. Justice Harper criticised Crown Melbourne Limited for having a *'multitude of committees with apparently ill-defined but overlapping responsibilities'*.

Specifically, Justice Harper was critical of Crown Melbourne Limited for not keeping proper records for the Self-Exclusion Revocation Committee, Security and Surveillance Committee and Persons of Interest Committee and noted that their memberships were *'perhaps uncertain'*.

The VCGLR has reviewed Crown Melbourne Limited's management of revocations of exclusion orders and withdrawals of licence. As part of

Chart 17: Revocation applications granted by Crown Melbourne Limited as a proportion of total applications



*Self-exclusion Revocation Committee does not meet each month

Source: Crown Melbourne Limited

its investigations, the VCGLR inspected Crown Melbourne Limited's corporate policies and the guiding principles, agendas, minutes and other supporting documentation of the Self-Exclusion Revocation Committee and Persons of Interest Committees. The VCGLR also notes that Crown Melbourne Limited's Security and Compliance Committee ceased operation in 2011. Its functions have been absorbed by other committees, including the Persons of Interest Committee.

The VCGLR is satisfied that the records of the Self-Exclusion Revocation Committee and Persons of Interest Committee clearly set-out the matters considered when the committee makes its decisions, the membership of each committee is clearly identified and that there is a clear division of responsibilities between these committees.

The VCGLR considers that, since 2004, Crown Melbourne Limited has improved the operation of these committees and that there are now proper decision making processes concerning revocation of exclusion orders and withdrawals of licence.

Based on these improvements, the VCGLR considers that the revocation procedure is well managed by Crown Melbourne Limited. Nevertheless, the VCGLR is concerned with the risk of self-excluded gamblers relapsing.

After Crown Melbourne Limited revokes a self-exclusion order, they treat the person like any other patron. Crown Melbourne Limited asserts that to do otherwise would undermine the decision to revoke the exclusion order.

There is limited research into relapse of people with gambling problems who have been the subject of a self-exclusion order.

A recent study in Victoria with more than 7,000 participants, found that nearly two-thirds of the incidence of problem gambling was from people who had relapsed. While the study is a good analysis of relapse rates, it does not differentiate between those who have been through a treatment process and those that have not.

The Victorian Gambling Study: A longitudinal study of gambling and public health – Wave Two Findings (Abbott et al., 2011) was a follow-up

study to the 2009 Victorian Government research *A Study of Gambling in Victoria - Problem Gambling from a Public Health Perspective* (Hare, 2009).

The study in the *Wave Two Findings* involved 5,000 people and set out to estimate the number of new cases of problem gambling and pathways for transitions in and out of problem gambling, as well as the related risk factors and vulnerabilities.

The *Wave Two Findings* detected a strong rate of problem gambling relapse among participants.

About one-third of the incidence rate ('incidence' is the number of new cases in a population in a given time period) represents problem gamblers without a previous history of problem gambling, while about two-thirds of the incidence rate were problem gamblers with a previous history of problem gambling.

The *Wave Two Findings* indicate there is a risk of previously identified problem gamblers relapsing. Crown Melbourne Limited believe that, in the context of self-exclusion revocations, this risk is mitigated because gamblers must have participated in a form of treatment to be eligible for revocation of their self-exclusion order.

As shown in Chart 17, the Self-Exclusion Revocation Committee does not always accept applications for revocation, even though all applications presented to the Committee have satisfied Crown Melbourne Limited's revocation process. This demonstrates that a strong element of judgment is required. To be clear, the VCGLR believes this judgement overlay is a positive feature of Crown Melbourne Limited's revocation procedure.

However, it does reinforce that the assessment of revocations for self-exclusion orders is not a precise science. Despite a robust process for revocation, there is a risk that Crown Melbourne Limited may revoke an order based on strong evidence, only for the person to relapse into problem gambling behaviour after the order is removed. It is noted that Crown Melbourne Limited requires the opinion of a health professional that a person is capable of managing their gambling before a revocation can be granted.

On one application, Crown Melbourne Limited's Self-Exclusion Revocation Committee noted that, despite an exclusion order being removed, the patron would be monitored to see if behavioural changes are demonstrated.

While there is a good body of evidence that suggests self-exclusion orders can be effective harm-minimisation measures while they are in force,

the VCGLR is not aware of research that analyses the risk of problem gamblers relapsing after they recommence gambling following treatment.

Given there is a level of uncertainty in this area, the VCGLR believes that Crown Melbourne Limited should strengthen its processes for interacting with a person following the revocation of an exclusion order.

Recommendation 9

The VCGLR considers that Crown Melbourne Limited's processes and procedures for dealing with revocations of self-exclusion orders are generally sound. However, to provide additional support for people who have had their self-exclusion orders revoked, the VCGLR recommends that Crown Melbourne Limited:

- Ensure that no advertising or other promotional material is sent to a person who has previously been the subject of a self-exclusion order for an appropriate period;
- Formalise the Responsible Gaming Support Centre's recently commenced process of contacting people around three months after their self-exclusion order has been revoked; and
- Continue to monitor research and, where appropriate, amend its processes to reflect the latest information on managing resumption of gambling after a self-exclusion order has been revoked.

Interstate exclusion orders

As previously noted, under section 77(3) of the Casino Control Act a person subject to an interstate exclusion order is prohibited from entering or remaining in a casino.

The Casino Control Act defines an interstate exclusion order as an order made by an Interstate Chief Commissioner, or equivalent, that is of a similar nature to an exclusion order made under Section 74 of the Casino Control Act.

Table 7: Provisions for Chief Commissioner exclusions in each Australian state and territory

Attribute	NSW	Qld	Tas	SA	WA	ACT	NT	Vic
Chief Commissioner issues order				✓	✓	✓		✓
Chief Commissioner directs casino operator or regulator to make order	✓	✓	✓				✓	
Required to notify Victoria Police and other police forces	✓							✓

Source: VCGLR

However, there are differences in the way exclusion orders are made in different jurisdictions. In some states and territories, such as Victoria, exclusion orders are made by the Chief Commissioner. In other states, such as New South Wales, the Chief Commissioner directs the casino operator to issue an exclusion order.

Under the Casino Control Act, once Victoria Police is informed of an interstate exclusion order, they must notify Crown Melbourne Limited and the VCGLR.

In most other jurisdictions, there is no requirement for the Chief Commissioner or equivalent to notify other police forces that an exclusion order has been made by them, or at their direction.

There is also no obligation in other states for police forces to advise excluded persons that a Chief Commissioner exclusion in that state means that they are subject to an interstate exclusion order in Victoria.

As a result, an information gap appears to exist for some interstate exclusion orders. This means at present, Crown Melbourne Limited does not receive information relating to all interstate exclusion orders.

Victoria Police has set up a working group involving interstate police forces and gaming regulators to review the operation of Chief Commissioner exclusion orders and information sharing between interstate police forces. The VCGLR will work with Victoria Police to assist in this matter.

Advertising, forfeiture and daily list

The VCGLR has not detected any instances of excluded persons, known to Crown Melbourne Limited, being provided with direct advertising or promotional material between July 2008 and June 2013.

Nor has it detected any breaches of obligations concerning forfeiture of winnings or the provision of the daily list of excluded persons.

3.6 Other regulators of the Melbourne Casino

The VCGLR regulates gaming and liquor in Victoria. However, the size and scope of the casino and its operations means the casino is also subject to regulation and oversight by other government regulators.

Clause 48.1 of the Casino Agreement requires Crown Melbourne Limited to comply with all laws which relate to the operation of the casino and comply with all mandatory requirements of Public Authorities, which include government regulators and law enforcement agencies.

Clause 20.2 of the Casino Management Agreement requires Crown Melbourne Limited to properly and diligently manage the Melbourne Casino Complex in strict accordance and compliance with all applicable laws, regulations and requirements.

As a consequence, in assessing Crown Melbourne Limited's compliance with its legislative and contractual obligations, the VCGLR consulted key regulators that enforce a range of Victorian and Commonwealth legislation. They included:

- ASIC;
- WorkSafe Victoria;
- City of Melbourne;
- Metropolitan Fire Brigade; and
- Victorian Building Commission.

Information from the consultations was also taken into account in forming a view on the suitability of Crown Melbourne Limited, its associates and their business associates in Chapter 2.3 – Probity.

In the discussions with other regulators, the VCGLR focused on the interactions the agencies have with Crown Melbourne Limited, their views on Crown Melbourne Limited's general and specific compliance with laws, the activities the agencies undertake in relation to regulating Crown Melbourne Limited and general views on the operations of the Melbourne Casino.

ASIC

ASIC is the corporate regulator charged with the administration of the Corporations Act.

The VCGLR consulted with ASIC about the compliance of Crown Melbourne Limited and other companies in the Crown Group. ASIC raised no issues of concern.

A more detailed discussion of audit issues is in Chapter 2.4 – Management Ability.

WorkSafe Victoria

WorkSafe is the Victorian regulator responsible for the oversight of workplace safety laws and regulations. It is responsible for a number of Victorian Acts, including the:

- *Occupational Health and Safety Act 2004*;
- *Accident Compensation Act 1985*;
- *Accident Compensation (WorkCover Insurance) Act 1993*; and
- *Equipment (Public Safety) Act 1994*.

As a sizeable, public venue with a large workforce, Crown Melbourne Limited's compliance with workplace laws is important.

On 17 April 2013, the VCGLR met with WorkSafe to discuss Crown Melbourne Limited's compliance with the workplace safety laws and WorkSafe's interactions with the company.

It was noted by WorkSafe that Crown Limited is an approved self-insurer under Part V of the *Accident Compensation Act 1985 (Vic)*. Part V of the *Accident Compensation Act 1985 (Vic)* sets out the requirements of self-insurance in Victoria, including the 'fit and proper' standards that must be met by an employer in order to be approved as a self-insurer. The standards include the requirement placed on employers to ensure safe working conditions at their workplaces, as evidenced by an effective occupational health and safety management system.

Self-insurers, including Crown Limited, are required to 'self' audit their occupational health and safety management system, claims management and occupational rehabilitation systems each year, the results of which are provided to WorkSafe Victoria for review. Injury, incident and workers compensation claims information is also reviewed by WorkSafe Victoria as part of its ongoing monitoring of self-insurer performance.

WorkSafe Victoria has discussed performance issues with Crown Limited on several occasions since 2008, mainly relating to the steady increase in the number of workers' compensation claims recorded over the period. To address the issues, Crown Limited has made changes to its claims management personnel, processes and practices, as well as implementing initiatives designed to better manage workplace risks and prevent injuries.

WorkSafe continues to closely monitor Crown's claims, injury and incident performance.

City of Melbourne

The City of Melbourne has regulatory oversight of the *Food Act 1984* and the *Tobacco Act 1987*. The City of Melbourne indicated Crown Melbourne Limited's average compliance rate is very good and that a significant majority of premises within the venue have achieved an excellent rating during routine inspections relating to food safety and hygiene.

The City of Melbourne confirmed there have been no major areas of concern in relation to ongoing issues of offences under the *Food Act 1984* or the *Tobacco Act 1987* and that Crown Melbourne Limited has been generally compliant.

Metropolitan Fire Brigade

The Metropolitan Fire Brigade operate a Building Inspection and Compliance Unit that is tasked with ensuring the safety of the public within

buildings located within the Metropolitan Fire District. The function of the unit is to ensure the compliance of fire safety standards under Part 12 of the *Building Regulations 2006*. The Regulations set out the requirements of Building Owners to ensure the maintenance of all essential safety measures within their property, including those in relation to fire safety.

The Metropolitan Fire Brigade confirmed there are no current issues of concern at the Melbourne Casino Complex, and any safety issues identified during previous inspections have been addressed appropriately by Crown Melbourne Limited.

Building Commission

The Minister's powers under the Casino Control Act in relation to building related matters have been delegated to the Building Commission. The Building Commission has responsibility for issuing building permits under the *Building Act 1993* as well as regulating essential safety measures as defined in the *Building Regulations Act 2006*.

The Building Commission confirmed that Crown Melbourne Limited has been generally compliant and there have been no major issues of concern since 2008.

On 29 November 2012, the Planning Minister announced that a new Victorian Building Authority will be established to oversee building industry regulation. The functions of the Building Commission, Plumbing Industry Commission and the Architects Registration Board will be absorbed into the new authority.

VCGLR Findings

Based on the discussions with other regulators, the VCGLR is satisfied that there are no significant issues with Crown Melbourne Limited's compliance with key legislation regulating the operation of the Melbourne Casino.

3.7 Law enforcement agencies and the prevention of criminal activity at the Melbourne Casino

The purposes of the Casino Control Act recognise the real and ongoing risk of criminal exploitation and activity at, or involving, casinos. Specifically, the Casino Control Act aims to ensure that the management and operation of the Melbourne Casino, as well as the whole Melbourne Casino Complex, remains free from criminal influence and exploitation, and that gaming is conducted honestly.

In addition to the oversight provided by the VCGLR, other agencies have functions that support these purposes of the Casino Control Act. Victoria Police has specific powers under the Casino Control Act to issue Chief Commissioner exclusion orders, the purpose of which is to ensure the Melbourne Casino Complex remains free from criminal influence or exploitation. Victoria Police also has general responsibility for investigating crimes involving, or occurring at, the Melbourne Casino and its surrounds.

Casinos also have other obligations that reflect the particular risks of criminal activity. For example, the Casino Control Act sets out specific offences relating to attempts to cheat the casino and makes it an offence for the casino operator to permit any indecent, violent or quarrelsome conduct within the casino. Casinos in Australia are also subject to the reporting requirements of Commonwealth anti-money laundering legislation, administered by AUSTRAC.

As part of its investigations, the VCGLR has consulted a range of law enforcement agencies:

- Victoria Police, including:
 - Local police who deal with daily issues at the casino;
 - Safe Streets Taskforce – a taskforce that deals with public order issues in the central business district which operates on Friday and Saturday nights with a focus on the Melbourne Casino Complex;
 - Divisional Licensing Unit – a dedicated licensing unit that regulates licensed venues in the central business district;
 - Intelligence Collection and Liaison Unit – a new intelligence unit that deals with Chief Commissioner exclusions and is the conduit for intelligence generated by the Melbourne Casino as well as dealing with requests for information by Victoria Police from the Melbourne Casino; and
 - Taskforce RAZON – a taskforce that regulates late night venues, including the Melbourne Casino, and compliance with the Liquor Control Reform Act.
- Australian Federal Police – a Commonwealth agency responsible for policing the crimes under Commonwealth legislation, including drug crime, terrorism, proceeds of crime and bribery of foreign officials.
- Australian Crime Commission – a Commonwealth statutory authority with special powers to combat serious and organised crime.
- AUSTRAC – a Commonwealth statutory authority established to protect the integrity of Australia’s financial system and contribute to the administration of justice through its expertise in countering money laundering and the financing of terrorism.
- Australian Customs and Border Protection Service – a Commonwealth agency responsible for managing the security and integrity of Australia’s borders. This includes a role in relation to administering the requirements of the AML/CTF Act at the border, such as the requirement on travellers to report physical money carried into or out of Australia in excess of \$10,000. This requirement also applies to travellers who are casino VIP players travelling either on commercial or privately chartered aircraft as part of casino operations.

Cooperation with law enforcement agencies

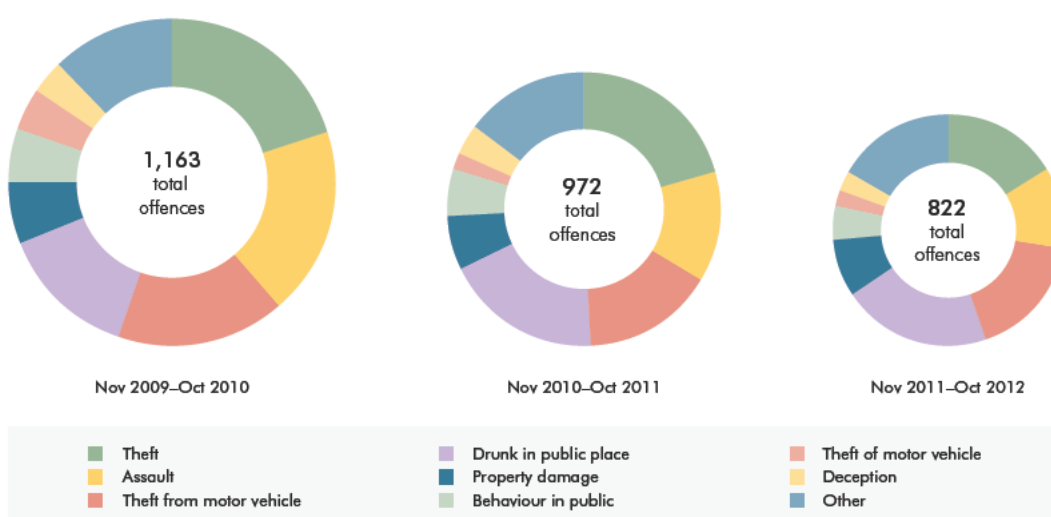
The law enforcement agencies consulted by the VCGLR that have direct dealings with the Melbourne Casino stated that they considered Crown Melbourne Limited is cooperative and professional in its dealings with them and has provided all necessary assistance.

Criminal activity at the casino

A number of the law enforcement agencies consulted by the VCGLR noted that the nature and size of the Melbourne Casino makes it an attractive venue for some criminals and a potential target for certain criminal activity. These risks are faced by most, if not all, casinos and are not unique to the Melbourne Casino.

Victoria Police data shows a steady decrease in the number of general crimes, including assaults and theft, reported at the Melbourne Casino Complex since 2009. However, offences for being found 'drunk in a public place' have remained steady (these offences relate to the entire Melbourne Casino Complex).

Chart 18: Criminal offences at the Melbourne Casino Complex – November 2009 to October 2012



Source: Victoria Police

Property and violent crime are present at most licensed venues and places where large numbers of people gather. The Melbourne Casino Complex is one of the most visited sites in Victoria, with about 50,000 people visiting every day. Overall Victoria Police considers general crime levels at and around the Melbourne Casino to be reasonable given the patron volume. Victoria Police also expressed that it is satisfied with the way in which Crown Melbourne Limited deals with criminal activity in and around the Melbourne

Casino and indicated it has a good working relationship with senior Crown Melbourne Limited security staff.

The VCGLR notes that in 2012, there were allegations in the media concerning possible illegal prostitution activities potentially involving use of hotel rooms at the Melbourne Casino Complex. The VCGLR has consulted with Victoria Police on this matter. The VCGLR does not consider that this matter raises any issues for the Fifth Casino Review.

Loan sharking

In discussions with law enforcement agencies, community groups and Crown Melbourne Limited staff, loan sharking was identified as a concern at the Melbourne Casino.

Loan sharking is when a person lends money in exchange for its repayment at an excessive interest rate, and may involve intimidating or illegal methods to obtain repayment. Although there is no specific offence for loan sharking, the conduct of a loan shark may breach other laws.

Loan sharks can be predatory as they may target problem gamblers who borrow money to gamble. The targeting of problem gamblers is a concern raised by community groups who identified issues about loan sharking and the fear of victims to report the matter to law enforcement agencies due to threats. Law enforcement agencies indicated to the VCGLR that indebtedness to loan sharks can be a pathway to involvement in organised crime. For example, people may be recruited to become involved in drug smuggling or prostitution to pay off their debts to loan sharks.

Crown Melbourne Limited has corporate policies in place to deal with loan sharking, which include issuing withdrawals of licence to persons suspected of loan sharking, asking the person to leave or reporting the person to police.

Since 2011, Crown Melbourne Limited has issued three withdrawals of licence against persons suspected of loan sharking in the casino.

The VCGLR considers loan sharking, and in particular its impact on individuals, to be a risk to responsible gambling and the integrity of gaming at the Melbourne Casino. The VCGLR is encouraged that Crown Melbourne Limited has taken action in recent years against suspected loan sharks. The VCGLR expects Crown Melbourne Limited to continue to monitor this type of activity closely and take action as appropriate.

Money Laundering and proceeds of crime

In providing gambling services, casinos also undertake various financial activities. They set up accounts to receive funds, transfer money, and in some cases, provide credit and cheque cashing facilities. It is the variety, frequency and volume

of the transactions that make casinos attractive to organised crime. Criminals seek access to financial systems to launder illicit funds and to facilitate or disguise criminal activity.

Money laundering is the way criminals conceal or disguise the proceeds of their crimes and money launderers have traditionally used banks and financial institutions as conduits to hide illegal profits. While these methods are still used, criminal organisations are also attracted to other sectors that use or receive large amounts of cash such as casinos.

The Financial Action Task Force stated in March 2009 that global casino activity, due to its competitive growth and the cash nature of the business, is vulnerable to criminal exploitation.

The law enforcement agencies the VCGLR spoke with made clear that money laundering is an increasingly central and prominent element of organised crime. Money laundering operations are becoming more globally integrated and sophisticated, dealing with large sums of money. Law enforcement agencies also stated that they consider junket arrangements at casinos hold particular risk for money laundering.

The AML/CTF Act was introduced in 2006 to prevent and detect money laundering by providing law enforcement agencies with information about possible criminal activity. Commencement of the Act was phased in between 2006 and 2008. The AML/CTF Act imposes a number of reporting obligations on reporting entities, such as casinos. Reporting entities determine the way in which they meet their obligations based on their assessment of the risk of whether providing a designated service to a customer may facilitate money laundering.

AUSTRAC is Australia's anti-money laundering and counter terrorism financing regulator and specialist financial intelligence unit. In its regulatory role, AUSTRAC oversees compliance with the obligations of the AML/CTF Act and *Financial Transactions Reports Act 1988* (Cth) by businesses across diverse industry sectors. The regulatory activities have two key goals:

- Assist reporting entities to strengthen their AML/CTF programs so their services are not used by criminals for money laundering or terrorist financing purposes; and

- Improve the quantity and quality of transaction reports received by AUSTRAC to assist the financial intelligence unit and, through it, AUSTRAC's partner agencies.

As Australia's financial intelligence unit, AUSTRAC receives and analyses financial information. The resulting financial intelligence is disseminated to revenue, law enforcement, national security, human services, regulatory and other partner agencies in Australia and overseas.

AUSTRAC recently completed an assessment of Crown Melbourne Limited and its compliance with the AML/CTF Act. AUSTRAC issued a number of requirements to Crown Melbourne Limited, all of which have now been implemented.

As noted in Chapter 1.1, the VCGLR views money laundering as a key risk for the Melbourne Casino, particularly in relation to junket programs. Continued vigilance by Crown Melbourne Limited with the requirements and spirit of the AML/CTF Act is critical to ameliorating this risk.

The AML/CTF Act and Rules emphasise the importance of Crown Melbourne Limited knowing its customers. Since 2008, there have been some irregularities with Crown Melbourne Limited's record keeping in relation to VIP players, including retaining proper evidence of where players live. While these specific problems have been rectified, the VCGLR reiterates the need for careful attention by Crown Melbourne Limited. Further discussion of Crown Melbourne Limited's internal audit concerning international patron domicile can be found in Chapter 3.4 – Responsible Gambling.

Further, Part 15.10 of the AML/CTF Rules requires enhanced customer due diligence and appropriate risk controls in place when suspicious transactions are identified. In these areas, Crown Melbourne Limited should also consider further investigation of the source of funds of the patron and whether it should continue their relationship with that patron.

Gambling with stolen funds

Casinos also face a heightened risk of dealing with proceeds of crime, whether or not there is an attempt to launder that money through the casino. Casinos, like other licensed gambling venues, may be a destination for people who

gamble with illegally obtained funds, for example, money stolen from employers to fund a compulsive gambling habit.

Under section 2.6.3 of the Gambling Regulation Act, money stolen and paid away in bets is recoverable from gambling venues. Over the last 10 years, there have been a number of high profile incidents involving people that have used stolen funds from their employers or clients to gamble at the Melbourne Casino, including in VIP gaming areas.

Crown Melbourne Limited manages this risk primarily through customer due diligence and generating suspicious transaction reports in accordance with the AML/CTF Act. This obligation did not exist during the Fourth Casino Review Period. However, with increasing improvements in technology, the VCGLR expects Crown Melbourne Limited to keep abreast of technology that assists it with knowing its customers.

The VCGLR's predecessors have previously reported on Crown Melbourne Limited's processes and procedures relating to fraudulently obtained funds and made a number of observations and recommendations.

In the Fourth Casino Review, the VCGR set out an expectation that Crown Melbourne Limited would review its monitoring systems to better identify situations where patrons could be gambling with other people's money.

In its Social and Economic Impact Assessment report as part of the Ninth Deed of Variation to the Casino Management Agreement, the VCGR commented that Crown Melbourne Limited, with additional gaming tables, had an increased responsibility to monitor the gambling behaviour of its patrons to identify irregularities in behaviour and to take appropriate action.

The VCGLR notes that there have been no proceedings brought against Crown Melbourne Limited under section 2.6.3 of the Gambling Regulation Act involving matters that occurred after 2008. The introduction of Crown Melbourne Limited's systems to comply with its obligations under the AML/CTF Act may have also improved its identification of gamblers who may be using stolen money.

However, the VCGLR notes the risk remains and reiterates the importance of Crown Melbourne Limited utilising player data as part of its responsible gambling program. In particular, Crown Melbourne Limited should be alert to situations where a person has disclosed an occupation that would not normally provide a basis for gambling with large sums of money on a regular basis. This is particularly so for its high spending Signature Club members.

VCGLR Findings

The VCGLR is of the view that since 2008 Crown Melbourne Limited has managed the issues arising from criminal activity at the Melbourne Casino well. It has worked constructively with law enforcement agencies and is generally meeting its obligations under the AML/CTF Act.

However, given the increasing scale and sophistication of money laundering operations, the VCGLR emphasises the need for vigilance by Crown Melbourne Limited in its compliance with the AML/CTF Act requirements, and in particular, knowing its customers.

3.8 Responsible service of alcohol

The Liquor Control Reform Act regulates the supply and consumption of liquor in Victoria.

As noted in Part 1, the VCGR and Responsible Alcohol Victoria merged in February 2012 to form the VCGLR. The VCGLR is responsible for licensing the supply of liquor under the Liquor Control Reform Act, and has further responsibility to ensure that alcohol is sold and promoted in a way that encourages responsible and appropriate drinking. The VCGLR and Victoria Police share responsibility for enforcing compliance with the Liquor Control Reform Act.

Figure 17: Transition of responsibility for regulating liquor between agencies since 2008



Source: VCGLR

VCGLR role

In addition to its licensing function, the VCGLR also has the power to undertake liquor disciplinary actions, replacing the role of the Victorian Civil and Administrative Tribunal in relation to liquor matters. The VCGLR has also assumed the administrative and educative functions of Responsible Alcohol Victoria.

VCGLR inspectors are granted extensive powers under the Liquor Control Reform Act to investigate compliance with the Act. The VCGLR has different enforcement tools available to it, including criminal prosecution, disciplinary action, enforceable undertakings, infringement notices, written warnings and risk management discussions. The use of these options is dependent on the type and circumstances of the breach.

Prior to 2012, the VCGLR's predecessors conducted periodic inspections at the Melbourne Casino Complex to ensure compliance with the Liquor Control Reform Act, as well as targeted operations for high-risk events. Since February 2012, VCGLR inspectors regulating liquor have a permanent presence at the Melbourne Casino (Gaming inspectors from the VCGLR and its

predecessor bodies have had a permanent presence at the Melbourne Casino since it opened in 1994).

Victoria Police role

Victoria Police shares responsibility under the Liquor Control Reform Act for ensuring compliance with that Act. Victoria Police has further powers under the Liquor Control Reform Act to ban people from licensed premises and designated areas for up to 72 hours for offences including drunkenness, physical assault, destroying or damaging property and failure to leave licensed premises. Victoria Police can also seek a court order to ban repeat offenders from designated entertainment precincts.

As noted previously, Victoria Police has a number of units that respond to incidents at the Melbourne Casino Complex, including liquor related incidents. These units include:

- Local police who deal with daily issues at the casino;
- Safe Streets Taskforce – a taskforce that deals with public order issues in the central business district which operates on Friday and Saturday

nights with a focus on the Melbourne Casino Complex;

- Divisional Licensing Unit – a dedicated licensing unit that regulates licensed venues in the central business district;
- Taskforce RAZON – a taskforce that regulates late night venues, including the Melbourne Casino, compliance with the Liquor Control Reform Act.

Compliance history

There are 23 liquor licences in force within the Melbourne Casino Complex. Crown Melbourne Limited holds 13 of these licences and other tenants in the Melbourne Casino Complex hold the remaining 10.

There is a broad spectrum of licensed venues in the Melbourne Casino Complex, ranging from high-end restaurants and cafes, to bars, nightclubs, and the gaming floor.

Since 2008, issues with the responsible service of alcohol at the Melbourne Casino Complex have been identified by Victoria Police and the VCGLR's predecessor, Responsible Alcohol Victoria.

The central location of the Melbourne Casino Complex and its round-the-clock opening hours meant it was a popular late-night destination for patrons, some of whom were already intoxicated. This was particularly noticeable during major sporting events and public holidays. By 2009 Victoria Police was concerned that Crown Melbourne Limited security staff were not adequately ensuring that intoxicated patrons were refused entry to the Melbourne Casino Complex.

Several incidents occurred in 2009 which increased the focus on responsible service of alcohol at the Melbourne Casino Complex, including:

- At the Brownlow Medal Count in September 2009, held at the Palladium Ballroom in the Melbourne Casino Complex, behaviour during the event received considerable media coverage.
- During the Spring Racing Carnival in 2009, Crown Melbourne Limited received a fine for supplying liquor to intoxicated persons and

allowing drunk and disorderly conduct on a licensed premises.

In February 2010, the Director of Liquor Licensing determined it was appropriate to enter into an enforceable undertaking with Crown Melbourne Limited for two years.

An enforceable undertaking is one of several enforcement options available to the VCGLR under the Liquor Control Reform Act. It is an undertaking by a licensee to abide by certain conditions agreed to with the VCGLR and is recorded on a public register. Enforceable undertakings can be an effective way to improve licensee conduct without the need for formal proceedings. A breach of an enforceable undertaking provides grounds for the VCGLR to consider disciplinary action against a licensee.

Under the enforceable undertaking, Crown Melbourne Limited agreed to initiate a variety of measures to ensure compliance with its licence, including:

- A ban on 'shooters' and cocktails at the Sports Bar and Tangerine Bar during major sporting events.
- Approval from the Director Liquor Licensing before supplying or promoting drinks which contain more than two standard measures of spirits.
- Prior to functions which are to be recorded for television transmission and held in the Palladium or River Room, Crown Melbourne Limited was required to outline its Responsible Service of Alcohol Policy to the Director of Liquor Licensing.
- During functions, water and non-alcoholic drinks were made readily available at all times and guests were asked before drinks are topped up.

During 2010, senior members of Victoria Police and Crown Melbourne Limited began monthly meetings to discuss how to improve security at the Melbourne Casino Complex. This resulted in more security staff being placed at external entry points to the Melbourne Casino Complex. The number of Responsible Service of Alcohol Officers was also increased during major sporting events and public holidays.

During the period of the enforceable undertaking, Crown Melbourne Limited was inspected by Victoria Police and Responsible Alcohol Victoria inspectors on many occasions, particularly during large sporting events. A minor breach was detected and Crown Melbourne Limited was issued with a written warning by Responsible Alcohol Victoria. There were no other breaches of the enforceable undertaking detected during this period and no other enforcement action was taken.

As noted in Chapter 1.1, Crown Melbourne Limited has undertaken a significant capital expenditure program to refurbish and redevelop the Melbourne Casino Complex, particularly in the West End of the Melbourne Casino. Crown Melbourne Limited believes this has contributed to improved patron behaviour.

During the period of the enforceable undertaking, Crown Melbourne Limited also started a significant restructure and review of its security procedures. For further information relating to this please see Chapter 4.4 – Security and Surveillance.

Victoria Police considers that these measures have reduced the number of intoxicated patrons gaining entry to the Melbourne Casino Complex. There has also been a decrease in the number of reported assaults at the Melbourne Casino Complex since 2009.

After the completion of the enforceable undertaking in 2012, the Director of Liquor Licensing was satisfied that Crown Melbourne Limited had improved its responsible service of alcohol, particularly in relation to the management of major sporting events.

In 2012, Victoria Police was concerned about an increase in the number of assaults at *Fusion* nightclub within the Melbourne Casino Complex. Victoria Police and Crown Melbourne Limited agreed to a variation of licence conditions for *Fusion*. The licence was amended to include:

- A ban on the supply of a mixed spirit drink or spirit liquor, when served in a small shot glass, after 1.00 am.
- A ban on the supply of more than one standard measure of spirit liquor (that is, no doubles), except for cocktails and ready-to-

drink beverages.

- Liquor can only be supplied in plastic, polycarbonate or full-tempered glass containers or cans. Bottled beer, ready-to-drink beverages, 200ml bottles of champagne or wine may also be supplied. All private functions that end at 10pm are exempt.
- From midnight, three Responsible Service of Alcohol trained Officers will be present in the vicinity of the bar areas of *Fusion* and Co. nightclubs. When Co. is not open, one Responsible Service of Alcohol Officer will be present at *Fusion* for the first 300 patrons and two Responsible Service of Alcohol Officers will be present at *Fusion* for when it has more than 300 patrons.

No breaches of these conditions were detected.

In May 2013, following a review of the additional conditions on the *Fusion* liquor licence, Victoria Police agreed to support Crown Melbourne Limited's application to the VCGLR for removal of those conditions. In supporting this application, Victoria Police noted that Crown Melbourne Limited will continue to manage *Fusion* 'using risk management strategies as and when required via its RSA Steering Committee comprising Crown Management.' On 5 June 2013, the VCGLR removed the additional conditions from the *Fusion* liquor licence.

Staff training

Under the *Liquor Control Reform Act 1998*, staff selling, offering or serving liquor on a late-night general licence must complete a Responsible Service of Alcohol course. They must also complete a refresher course every three years. The VCGLR notes that Crown Melbourne Limited provides its staff with a refresher course every two years.

Crown Melbourne Limited is required to maintain an up-to-date training register, which contains specific details of the staff members Responsible Service of Alcohol training.

The VCGLR notes that Crown Melbourne Limited also provides gaming staff with the Responsible Service of Alcohol course as part of their training, which is not a legislative requirement.

Gambling whilst intoxicated

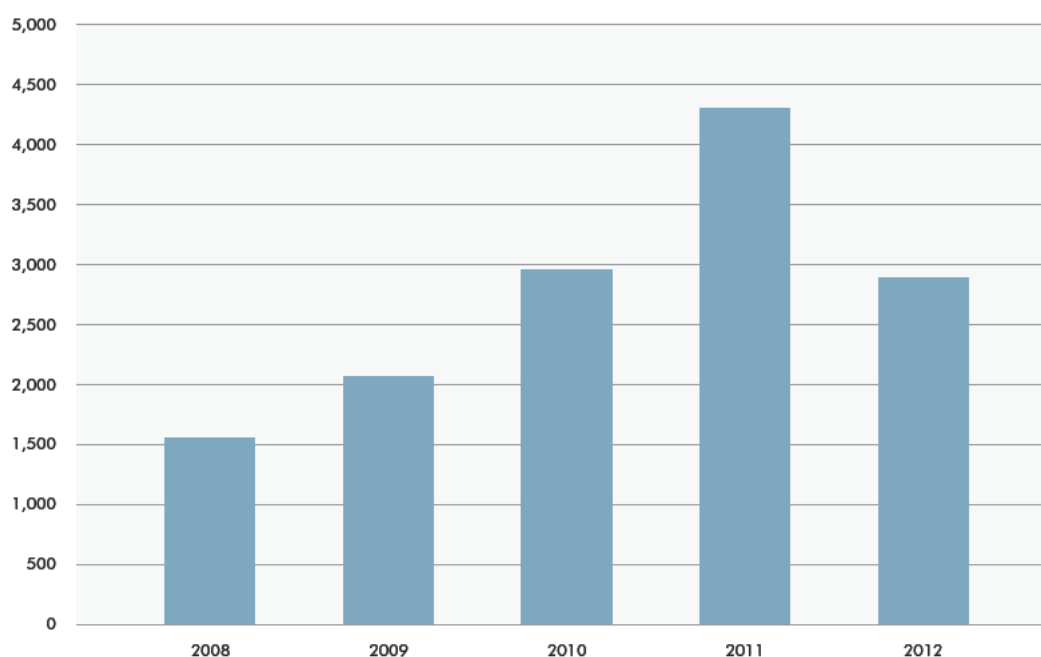
Since 1 December 2008, it has been an offence for the casino operator to knowingly allow an intoxicated person to gamble or bet in the casino.

Since then, Crown Melbourne Limited has detected and removed 13,741 intoxicated persons from around gaming tables.

Crown Melbourne Limited increased its focus since 2009 on detecting and removing intoxicated patrons. As a result, the number of intoxicated people detected around gaming tables steadily rose between 2008 and 2011, peaking at 4,295 in 2011.

On two occasions in December 2012, the VCGLR inspectors conducted targeted operations on intoxicated persons gambling. See Information Box 8 for details.

Chart 19: Intoxicated persons detected at or around gaming tables



Source: Crown Melbourne Limited. Data for 2012 provided as at 12 December 2012.

INFORMATION BOX 8:

Targeted Operation – Gambling whilst intoxicated

The VCGLR carried out two targeted operations on intoxicated persons gambling at the Melbourne Casino.

The operations sought to identify and monitor intoxicated persons gambling at the casino, to test the strength of Crown Melbourne Limited's processes and response to intoxicated patrons.

Teams of inspectors were assigned areas of the casino to patrol on two Friday nights in December 2012. Crown Melbourne Limited was not advised of the operations before they started.

On the first occasion no intoxicated persons were detected gambling in the

Melbourne Casino.

During the second operation, VCGLR inspectors observed a number of people who appeared to be gambling whilst intoxicated. On all occasions, Crown Melbourne Limited staff removed them before notification or intervention from VCGLR inspectors was necessary.

VCGLR Findings

Responsible Serving of Alcohol

Victoria Police and the VCGLR consider that there has been a significant improvement in responsible service of alcohol practices and patron behaviour at the Melbourne Casino Complex since 2009.

As with any licensed venue, there is a need for continual monitoring. The VCGLR and Victoria Police will work with Crown Melbourne Limited to ensure that Crown Melbourne Limited continues to comply with the Liquor Control Reform Act.

Training

Responsible Alcohol Victoria and VCGLR inspections since 2008 have found Crown Melbourne Limited compliant with their Responsible Service of Alcohol training requirements.

Gambling whilst intoxicated

The VCGLR considers that preventing gambling whilst intoxicated is an important element of ensuring responsible gambling at the Melbourne Casino. However, the VCGLR recognises that despite the best efforts by Crown Melbourne Limited, there will be instances where people

gamble at the casino whilst intoxicated.

When this occurs, the VCGLR expects Crown Melbourne Limited to identify and remove these patrons quickly.

Given the large number of patrons that attend the Melbourne Casino Complex, the VCGLR does not consider the numbers of intoxicated persons detected at gaming tables to be of concern. As discussed earlier, the VCGLR and Victoria Police consider that Crown Melbourne Limited has improved its responsible service of alcohol and security procedures. Accordingly, it is unlikely the higher detection rates indicate increased levels of intoxication in the Melbourne Casino Complex generally.

The VCGLR interviewed a number of Crown Melbourne Limited gaming staff in relation to their responsibilities in terms of intoxicated gamblers. Crown Melbourne Limited staff that the VCGLR interviewed had a detailed knowledge of their obligations under the Casino Control Act and the Liquor Control Reform Act. The VCGLR found that staff generally felt comfortable in reporting instances of intoxicated players to their managers, and felt that their managers took appropriate action.

3.9 General compliance with licence and agreements

The VCGLR investigated Crown Melbourne Limited's compliance with its obligations under each of the Transaction Documents and other relevant agreements.

In general, Crown Melbourne Limited was found to be in compliance with its obligations under the Transaction Documents. Some of the more significant obligations are dealt with in this and the following chapters.

International class casino complex

Clause 20.1 of the Casino Management Agreement Act requires Crown Melbourne Limited to keep the Melbourne Casino Complex fully let, ensure that each business operating in the Melbourne Casino Complex is kept open for business and carried on in a manner compatible with and complementary to the use of the Melbourne Casino Complex as a high-quality, international-class casino complex.

In addition, it is required to keep a mix of retail of a type and nature necessary to attract customers and tourists and consistent with the use of the casino as a high quality, international class casino complex.

The Melbourne Casino is recognised as one of the top tourist destinations in Victoria, with about 18 million visitors annually. The Melbourne Casino Complex features exclusive retail outlets and dining facilities, with three restaurants awarded hats in The Age Good Food Guide in 2013. Since 2008, the Melbourne Casino and Complex has won several awards:

- The Melbourne Casino was named Australia's top tourist attraction by Euro Monitor International.
- Crown Metropal was the winner of the Victorian 2011 Luxury Accommodation Award and 2011 Commercial Architecture Award.
- VIP gaming salons were judged the best in the world at the International Gaming Awards 2012 in London.
- Crown Towers was named as the best Large Luxury Hotel by the Australian Gourmet Traveller

Travel Awards, the Hotel Management Awards and the Victorian Hotel Club Annual Awards.

Crown Melbourne Limited stated that the redevelopment of the Melbourne Casino Complex since 2009 has aimed to enhance the retail and dining aspects of the Melbourne Casino Complex, with an emphasis on upgrading older restaurants and bars which were located solely within the complex, with new premises facing out to the promenade. A new hotel has been constructed as part of the \$1.2 billion upgrade.

In October 2012, the VCGLR consulted with casino regulators in Singapore and Macau. These consultations included inspections at key casino properties in Singapore and Macau (including those of Melco Crown) in order to compare them with the Melbourne Casino. The VCGLR also undertook inspections at Crown Perth and The Star casino in Sydney.

In comparing casinos, it is important to note that the location, size and nature of casinos is often dependent upon the regulatory framework in a particular jurisdiction. Further, the operations of casinos, from retail mix to design of the gaming areas, will vary to suit local markets.

Taking these matters into consideration, the facilities and services offered at the Melbourne Casino Complex compare favourably with other casinos of a similar size and nature, both in Australia and internationally.

While the influence of the large, US-based casino operators Las Vegas Sands, MGM and Wynn is apparent in the scale and nature of the entertainment options at the largest resorts in Macau and Singapore, the Melbourne Casino's retail and dining options are comparable. Crown Melbourne Limited's services that cater to the international VIP market, such as private gaming suites, hotel suites, spa services, high-end restaurants and luxury brand retail stores are of a high standard and compare well to facilities in Singapore and Macau.

The VCGLR considers on the basis of its investigations that Crown Melbourne Limited has met this obligation between 2008 and 2013.

Casino operating practices

Clause 28 of the Casino Agreement requires Crown Melbourne Limited to conduct its operations in a manner that has regard to the best operating practices in casinos of a similar size and nature to the Melbourne Casino.

In assessing Crown Melbourne Limited's operations, representatives of the VCGLR have visited comparable casinos in Sydney, Perth, Macau and Singapore, which compete with Crown Melbourne Limited. The VCGLR has also spoken with Australian and international gambling regulators and researchers.

Crown Melbourne Limited made a number of presentations to the VCGLR, which provided a detailed analysis of how Crown Melbourne Limited conducts its operations. Specifically the VCGLR received presentations from the:

- Table Games Division;
- Gaming Machines Division;
- VIP Gaming Division;
- Security Division;
- Surveillance Division; and
- Responsible Gaming Support Centre

The VCGLR conducted interviews with Crown Melbourne Limited staff and managers across Crown Melbourne Limited's operational divisions. The VCGLR also reviewed Crown Melbourne Limited's board papers and board committee papers.

The VCGLR's investigations reveal that consideration of the operating practices of comparable casinos is a normal part of operations across Crown Melbourne Limited's business. This reflects the fact that Crown Melbourne Limited is part of an expanding international gaming business and operates in the internationally competitive commission based player market.

The VCGLR considers that Crown Melbourne Limited generally meets this obligation. However, the VCGLR has made some observations in relation to consideration of operating practices of other casinos in Chapter 3.4 – Responsible Gambling and in relation to surveillance in Chapter 4.4 – Security and Surveillance.

Restrictions on table games and gaming machines

The Melbourne Casino licence and the Casino Agreement restrict Crown Melbourne Limited to the operation of 400 gaming tables operating any approved table game, a further 100 poker-only tables and 2,500 gaming machines.

The VCGLR monitors the number of gaming tables and gaming machines in operation at any given time at Crown Melbourne Limited. No breaches of this obligation were detected during the period 2008 to 2013.

Taxation and other charges

State taxation on the Melbourne Casino is set out in the Casino Management Agreement. Taxation is based on 'gross gaming revenue', which is defined as the total of all money (whether collected or not) from the conduct or playing of games, less all money paid out in winnings. Crown Melbourne Limited remits the taxes outlined in Table 7 to the VCGLR.

As part of the Ninth Deed of Variation Agreement, the tax rate for Crown Melbourne Limited's gaming machines incrementally increases from 21.25 per cent to 31.57 per cent (plus the 1 per cent Community Benefit Levy) over six years:

- From 1/07/2012 to 30/06/2013 the tax will be 28.13 per cent;
- From 1/07/2013 to 30/06/2014 the tax will be 29.85 per cent; and
- From 1/07/2014 onwards the tax will be 31.57 per cent.

In addition, the Health Benefit Levy of \$3,333 per gaming machine per annum was abolished on 30 June 2012, and there was also a staged increase to the super tax base amount for gaming revenue.

In 2011-12, Crown Melbourne Limited paid \$195.3 million in gambling taxes to the State.

The VCGLR receives a daily record of gambling revenue and tax from the casino operator and audits this information for accuracy on an ongoing basis.

Noting the taxation matter excluded from this review in Chapter 1.1, there have been no issues with the payment or calculation of tax by Crown Melbourne Limited between 2008 and 2013.

Table 8: Taxation and other charges

Tax type	Rate
Gaming machines	28.13 per cent of gross gaming revenue
Table games	21.25 per cent of gross gaming revenue
Commission based play	9 per cent of gross gaming revenue, with a minimum of \$10 million to be paid in each year
Super tax	An additional tax on gross gaming revenue when it exceeds certain base amounts for: <ul style="list-style-type: none"> • commission based play (current base is \$255.2 million); and • general gaming (current base is \$839.3 million). <p>The base amounts are adjusted by CPI annually.</p> <p>The total amount of super tax paid in 2011-12 was \$27.8 million.</p>
Community Benefit Levy	1 per cent of gross gaming revenue on both commission based play and general gaming revenues.

Source: VCGLR

State charges and guarantees

The Transaction Documents require Crown Melbourne Limited and Crown Limited to provide guarantees over the operation of the casino in the form of fixed and floating charges, security deeds in favour of the State and guarantees from other Crown Group companies:

- The Casino Agreement requires Crown Melbourne Limited to ensure there is a first ranked unlimited fixed and floating charge over all of the casino assets.
- The Casino Agreement and Deed of Undertaking and Guarantee require Crown Limited to provide a letter of credit of \$185 million.
- The Deed of Undertaking and Guarantee requires Crown Group companies to act as guarantors for Crown Melbourne Limited in the event it is unable to meet its obligations to the State. In addition, the guarantor companies must represent at least 90 per cent of Crown Limited's EBITDA.

All State charges and guarantees are in place and up to date and no breaches of these obligations have been detected between 2008 and 2013.

Insurance

Under the Casino Agreement, Crown Melbourne Limited is required to:

- Have insurance appropriate for a business of its size and nature;
- Ensure that the rights of the State and the Minister are cited on the insurance policies;
- Make available to the VCGLR the insurance policies; and
- Report on all claims made against the insurance policies.

The VCGLR has inspected Crown Melbourne Limited's insurance policies and the reports provided and confirmed the obligations have been met.

Obligations in relation to the casino site and complex

In 1993, Crown Melbourne Limited entered into a 99 year lease of the Melbourne Casino Complex site with the State. For years one to forty inclusive, the annual rent is payable at \$1 per annum and for the following fifty-nine years calculated at the then market rate.

As noted in its Annual Report, Crown Melbourne Limited has not accounted for the annual lease expenditure for years forty-one to ninety-nine due to the uncertainty of these amounts. The VCGLR has discussed the issue with financial advisers PwC and is satisfied that there is sufficient uncertainty regarding the value of the lease after year 40 of the lease, particularly given the Melbourne Casino licence is only for 40 years.

The lease requires Crown Melbourne Limited to maintain the site, ensure the Melbourne Casino Complex and site are clean and the surrounding landscaping is maintained in good order.

The Department of Treasury and Finance is responsible for the management of the obligations under the lease. The VCGLR consulted the Department of Treasury and Finance and no issues were raised.

As part of the Ninth Variation to the Casino Agreement, Crown Melbourne Limited was required to spend \$170 million over five years on the Melbourne Casino Complex starting 8 July 2005. Since that date, Crown Melbourne Limited has spent \$1.2 billion on the redevelopment of the Melbourne Casino Complex and has met the obligation.

The VCGLR considers Crown Melbourne Limited to have met its obligations under the lease between 2008 and 2013.

Melbourne Casino licence

The licence sets out the term of the licence, the maximum number of gaming machines and gaming tables allowed in the Melbourne Casino and that gambling may only be conducted on the Melbourne Casino site.

As noted earlier, the VCGLR monitors the number of gaming machines and gaming tables in operation at any one time. In addition, the VCGLR must approve any changes to the casino boundaries.

The VCGLR considers that Crown Melbourne Limited has met the terms of the Casino licence between 2008 and 2013.

VCGLR Findings

Based on its investigations and noting the matters set out in the preceding chapters, the VCGLR has found Crown Melbourne Limited to be complying with its obligations under the Transaction Documents and other relevant agreements.

3.10 Conditions relating to company structure

Clause 22.1 of the Casino Agreement places conditions on the operations and company structure of Crown Melbourne Limited. The Supplemental Casino Agreement binds Crown Limited to ensuring it and companies in the Crown Group in Australia comply with these obligations.

Governance

Clause 22.1 of the Casino Agreement sets out obligations to keep certain functions of Crown Melbourne Limited in Melbourne. The Supplemental Casino Agreement, entered into after the acquisition of the then Crown Limited by Publishing and Broadcasting Limited, binds the holding company of Crown Melbourne Limited to the same obligations.

The key obligations are:

- At least one company secretary must reside in Victoria;
- The majority of senior executives must reside in Victoria;
- Crown Melbourne Limited must conduct 75 per cent of executive and board meetings in each calendar year in Melbourne; and
- Both Crown Melbourne Limited and Crown Limited must ensure that total liabilities do not exceed 60 per cent of total assets without the permission of the VCGLR.

Neither Crown Melbourne Limited or Crown Limited applied for permission to exceed the 60 per cent threshold between 2008 and 2013.

Compliance with the obligations was confirmed through a review of Crown Melbourne Limited's and Crown Limited's Board and executive meeting papers, internal VCGLR compliance activities and PwC's examination of the financial records of both companies.

Flagship casino, commission based players, headquarters and beneficial to Victoria clauses

In 2005, following a review of the commercial agreements between the State of Victoria, the VCGR and the casino operator, the Government decided to remove the restriction on Crown Casino Limited from owning and operating other casino businesses.

As a result, a suite of new agreements were entered into by the VCGR, Crown Casino Limited and Publishing and Broadcasting Limited, and the *Casino Control (Amendment) Act 2005* was passed.

As part of the agreement, Crown Casino Limited and Publishing and Broadcasting Limited committed for a period of at least five years to:

- Use their best endeavours to ensure that the operation by Crown Limited of another casino business in Australia is beneficial for Crown Melbourne Limited;
- Melbourne being the headquarters for their Australian gaming businesses;
- The Melbourne Casino being the flagship casino in their Australian gambling businesses; and
- Endeavour to ensure the Melbourne Casino remains the dominant commission based player casino in Australia.

Opt-out clause

Crown Melbourne Limited is able to opt out of these obligations by giving one month's notice to the VCGLR.

The first opportunity for Crown Melbourne Limited to opt out was in 2010, which was the fifth anniversary of the Ninth Deed of Variation to the Casino Management Agreement. Crown Melbourne Limited is provided with the opportunity to opt out every four years, accordingly the next opt out-date is in 2014.

Crown Limited did not exercise its option in 2010 and as a result, the clauses remain in force. Crown Limited asserted to the VCGLR that it currently has no plans to opt out of these obligations.

There are four specific obligations affected by the opt-out clause.

Other Casino Businesses

Clause 22.1(r) of the Casino Agreement mandates that if any company in the Crown Group acquires another casino in Australia. Crown Melbourne Limited will use its best endeavours to ensure the operation of that business is beneficial for Crown Melbourne Limited.

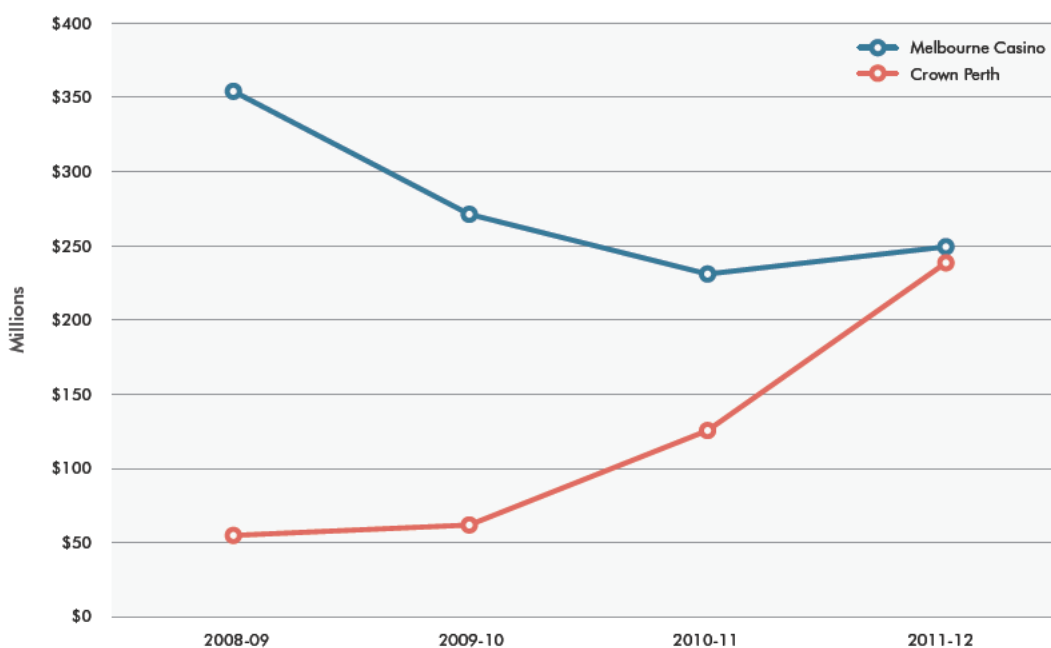
In addition, the Casino Agreement requires Crown Melbourne Limited to use its best endeavours to ensure it promotes tourism, employment and economic development generally in the State of Victoria and that the operations of the other business are not detrimental to Crown Melbourne Limited's interests.

Crown Limited wholly owns Crown Perth, which it acquired in 2004, and has undertaken a significant capital expenditure program at the property. Crown Perth competes against the Melbourne Casino for commission based players and for tourists generally.

The VCGLR considers there is no evidence the acquisition of Crown Perth has been detrimental to the Melbourne Casino.

Growth rates for gambling turnover and commission based players at the Melbourne Casino, have not changed significantly since the acquisition of Crown Perth. Crown Melbourne Limited has maintained higher profit levels than Crown Perth and capital expenditure on the Melbourne Casino has been significant and greater than Crown Perth.

Chart 20: Comparison of capital expenditure at the Melbourne Casino and Crown Perth since 2008-09



Source: Crown Limited

Crown Limited believes the acquisition and redevelopment of Crown Perth builds the 'Crown brand' in Asia and this is ultimately beneficial for Crown Melbourne Limited because it attracts more international customers.

While it is difficult to assess whether the acquisition of Crown Perth has been directly beneficial to the operation of the Melbourne Casino or that it has promoted tourism, employment and economic development generally in the State of Victoria, it is again noted there appears to have been no detrimental effect on the Melbourne Casino.

Crown Limited's proposed gaming development at Barangaroo in Sydney has not been specifically evaluated as part of the assessment of Crown Melbourne Limited's compliance with clause 22.1(r) as it is still at the proposal stage. The potential impacts of the Barangaroo project on Crown Melbourne Limited's compliance with clause 22.1(ra) is discussed in the VCGLR Findings section of this Chapter.

Headquarters of Crown Limited

Clause 22.1(ra)(i) states that Crown Melbourne Limited must ensure that Crown Limited locates the headquarters of its gaming business in Melbourne.

Crown Limited had its corporate headquarters at the Melbourne Casino during the timeframe of the review. The CEO of Crown Limited, Mr Rowen Craigie, asserts there are no plans to move Crown Limited's headquarters outside of Victoria.

Dominant Commission Based Player Casino

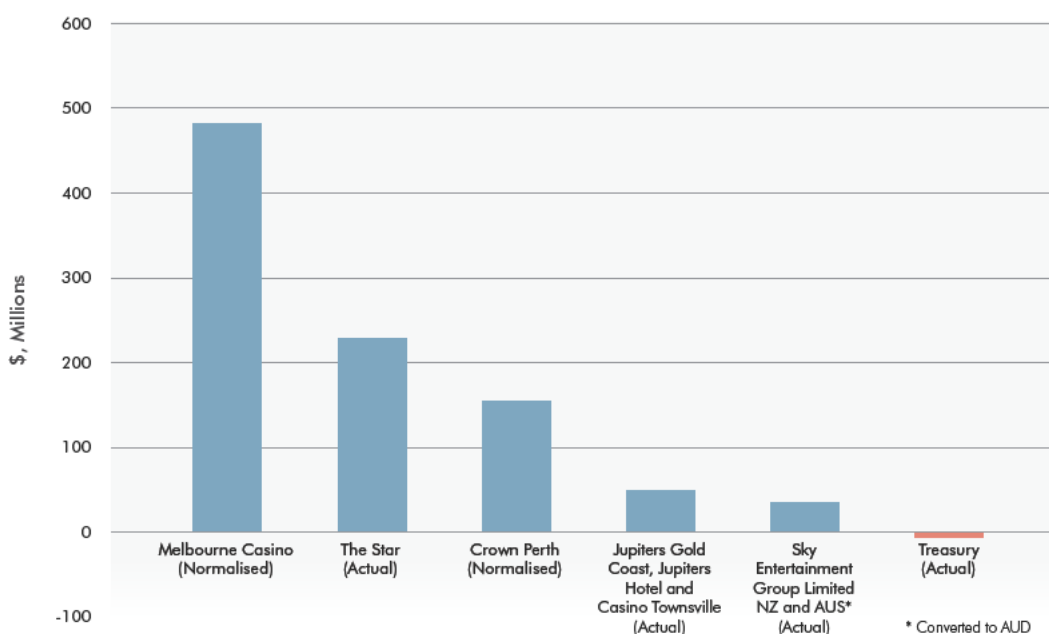
Clause 22.1(ra)(ii) states that Crown Melbourne

Limited will endeavour to maintain the Melbourne Casino as the dominant commission based player casino in Australia.

While many Australian casinos offer some form of commission based play, three Australian casinos attract the majority of commission based players, the Melbourne Casino, Crown Perth and The Star casino in Sydney. While commission based players are becoming of increasing importance to Crown Melbourne Limited's growth, PwC estimates the Australian segment of the global commission based player market is 2.5 per cent, reflecting the relative size of the Australian market compared with other destination gambling locations in Macau and Singapore.

Crown Melbourne Limited has the highest commission based player revenue in Australia, nearly doubling its nearest rival The Star casino in Sydney in 2011-12. The Melbourne Casino has consistently outperformed other Australian casinos in commission based player revenue throughout the period from 2008-13.

Chart 21: Revenue from commission based players by casino – 2011-12



Source: Crown Limited, Echo Entertainment Group Limited, SkyCity Entertainment Group Limited

Flagship Casino

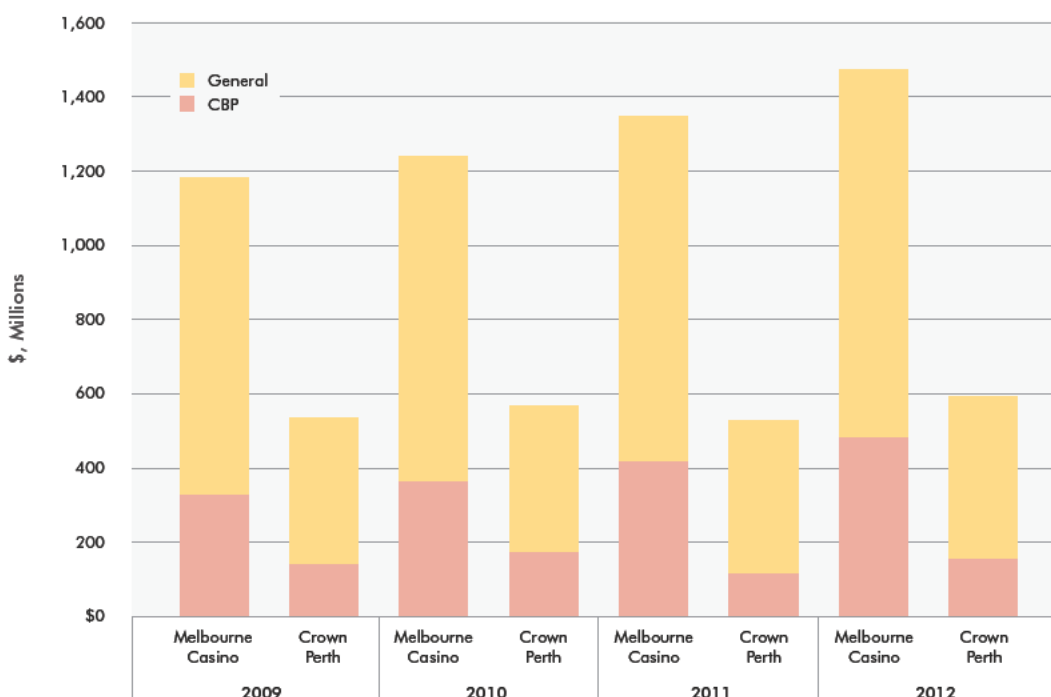
Clause 22.1 (ra)(iii) requires Crown Melbourne Limited to ensure Crown Limited maintains the Melbourne Casino as the flagship casino of its gaming business in Australia.

While the term 'flagship' is undefined in the Casino Agreement, the VCGLR has taken it to have the common meaning of 'the best and/or

most important one in a group'. For the purposes of comparing casinos, the VCGLR has taken it to mean the leading casino in terms of relative size and revenue generated compared to other Australian properties in the Crown Group.

The Crown Group in Australia operates the Melbourne Casino and Crown Perth. As noted previously, the majority of the Crown Group's revenue and profit are derived from the Melbourne Casino.

Chart 22: Comparison of gaming revenue (normalised) – the Melbourne Casino and Crown Perth



Source: Crown Limited

At this point in time, Crown Melbourne Limited also remains the largest casino in the Australian Crown Group in terms of gaming tables, gaming machines and hotel rooms.

Crown Melbourne Limited has spent \$1.2 billion in capital expenditure on the Melbourne Casino to refurbish and refresh the property. The upgrade included the construction of a third hotel at the site, expanding the number of rooms to 1,600 across three hotels and an extension to the Crown Conference Centre. As noted in Chart 20, capital expenditure on the Melbourne Casino has surpassed expenditure on Crown Perth since 2008.

Table 9: Comparison of gaming tables, gaming machines and hotel rooms – the Melbourne Casino and Crown Perth

	Melbourne Casino	Crown Perth
Gaming tables	500	220 (with a further 100 tables to be phased in by 2017)
Gaming machines	2,500	2,000 (with a further 500 to be phased in by 2018)
Hotel rooms	1,603	686

VCGLR Findings

The VCGLR considers that Crown Melbourne Limited has met all of its obligations in relation to clause 22.1(r) and 22.1(ra) of the Casino Agreement.

While Crown Melbourne Limited has met its obligations in regards to clause 22.1(ra), the VCGLR is monitoring the expansion of the Crown Group in Australia and makes some observations regarding future compliance with the clause given the potential for Crown Melbourne Limited to opt out of its obligations in July 2014 and July 2018.

Flagship casino

Despite the ongoing upgrades and the recent increase to the number of gaming tables at Crown Perth, the Melbourne Casino remains the largest and most profitable casino in Australia in the Crown Group.

However, in the longer term there is a potential risk that Crown Limited will divert resources away from Melbourne if other properties are seen to be more profitable.

Crown Limited is undertaking a significant expansion program in the Australian market and, through joint venture partners, in the Asia-Pacific.

While Crown Perth is an increasingly important

part of the Crown Group, the relative isolation of the casino and smaller local market places limitations on the level of likely growth the casino will experience in the short to medium term. However, Crown Limited is constructing a new 6-star hotel in Perth at a cost of \$600-700 million with an aim of attracting the Asian family-holiday market.

Crown Limited is also considering constructing a new hotel and VIP gaming facility at Barangaroo, which is located in central Sydney.

While only at the second stage of an approval process being undertaken by the New South Wales Government, the current proposal is for a VIP only gaming facility, occupying a small space compared to Crown Limited's other properties and with no gaming machines. The New South Wales Government has indicated any new gaming facility at Barangaroo will not start before 2019.

However, it is unclear at this stage what the final scope of the casino will be, as approval for the Barangaroo project has not been given.

Given the success and profitability of the Melbourne Casino and the scale, nature and timing of the proposed Barangaroo project, it is considered unlikely that during the next review period, there will be any significant downgrading of the importance of the Melbourne Casino to Crown Limited.

Dominant Commission Based Player Casino

There are potential implications of Crown Limited's expansion on competition in the commission based player market in Australia.

Increases in the number of casinos operating in the Asian market will drive competition for commission based players. Intensification of competitive pressures are likely to have an effect on the size of commissions and on credit offered by casinos to commission based players, which carries increased credit risk. These factors all have the potential to reduce Crown Melbourne Limited's profitability, working capital and cash flow.

A new VIP gaming facility in Sydney has the potential to replace the Melbourne Casino as the dominant commission based player casino in the Crown Group.

If approved, the Barangaroo facility will be the second venue offering casino games in Sydney. This will split Sydney's VIP casino market and may limit the share of the Sydney VIP market Crown Limited can capture. Crown Limited asserted to the VCGLR that it does not believe that the Barangaroo project will threaten either the obligations regarding Crown Melbourne Limited being the flagship casino of the Crown Group in Australia or the dominant commission based casino in Australia.

The VCGLR accepts that, if the Barangaroo project proceeds, competitive pressures within the Sydney

commission based player market mitigate some of the risk of Crown Melbourne Limited losing primacy in the commission based player market in Australia. However, as the Melbourne Casino is currently the pre-eminent commission based player casino in Australia, the new casino at Barangaroo will be directly competing with it for the most significant players.

Crown Limited believes the operation of three Crown-branded Australian casinos would increase its ability to cater to the demands of commission based players, and as a result, its ability to attract more commission based players at each property.

The success of Macau, Singapore and Las Vegas with high densities of casinos, provides some evidence to support Crown Limited's view. The VCGLR considers that the nature, size and timing of the current Barangaroo proposal mean that it is unlikely that it will threaten the Melbourne Casino's position as the dominant commission based player casino in Australia in the next review period. However, it is too early to make a judgment of the Barangaroo project's impact beyond that time.

The VCGLR also notes that if the proposed expansion of Crown Limited's operations proceeds, Crown Melbourne Limited will represent a smaller percentage of Crown Limited's overall revenue, which reduces risk at a group level. Given the implications of the Deed of Cross Guarantee, this would result in a net benefit to the Melbourne Casino.

3.11 VCGLR opinion and recommendations – Compliance with Obligations

Through its investigations, the VCGLR has found that Crown Melbourne Limited has generally robust and sound systems for ensuring compliance with its obligations under relevant legislation, regulations and the Transaction Documents.

Crown Melbourne Limited has, other than in the areas identified, been compliant with its extensive legislative and contractual obligations. Where breaches were identified, the VCGLR is satisfied that the appropriate action has been taken, or has made recommendations to Crown Melbourne Limited for improvement.

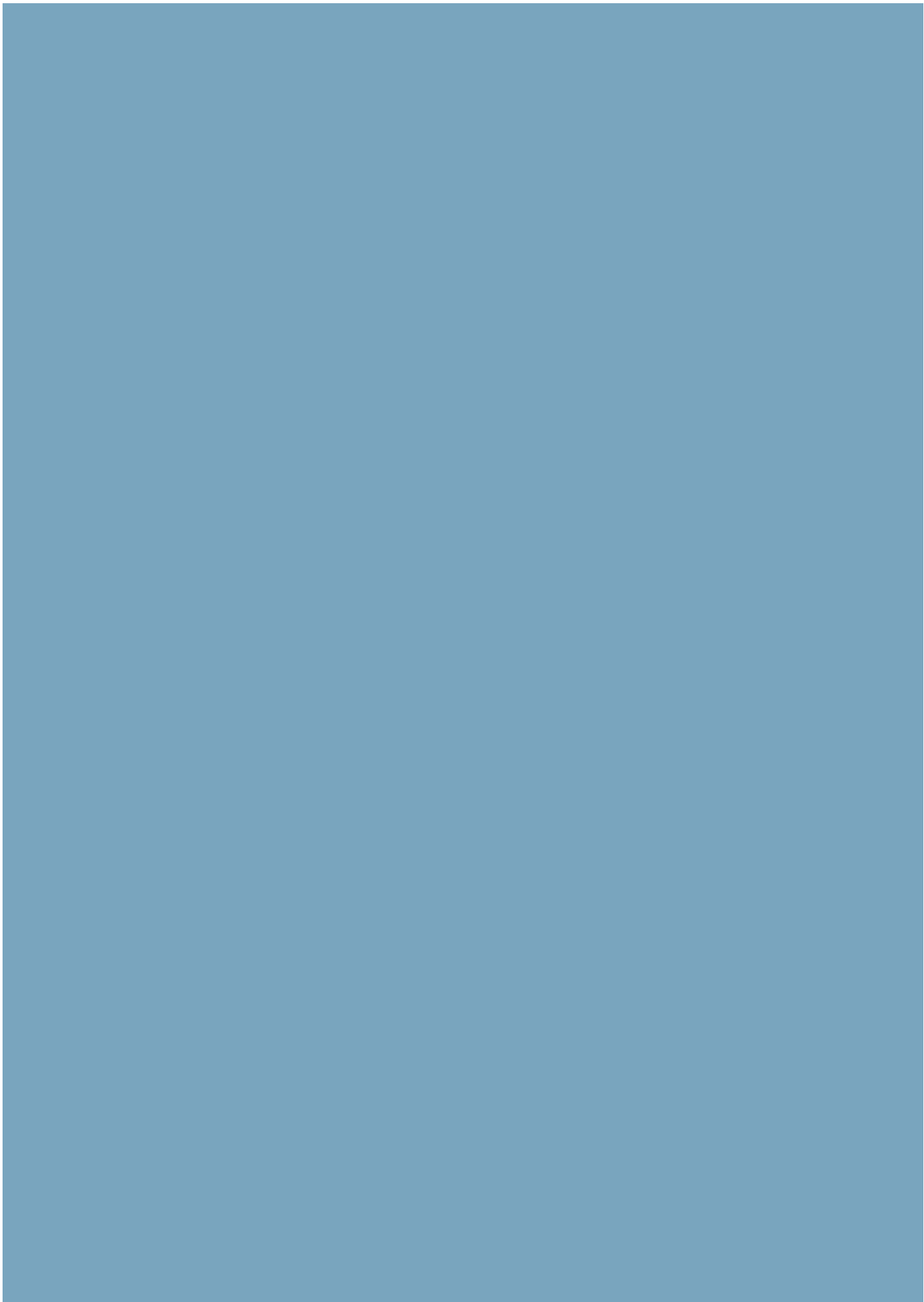
Specifically, the VCGLR has made a number of recommendations concerning Crown Melbourne Limited's responsible gambling governance and practices, as well as in relation to its obligations concerning exclusion orders.

The VCGLR has also noted the real risks of money laundering and use of proceeds of crime at casinos and reiterated the importance of Crown Melbourne Limited knowing its customers and

strictly complying with its obligations under anti-money laundering legislation.

Based on the investigations conducted by the VCGLR under section 25(1)(b) and (c) of the Casino Control Act, the VCGLR is of the opinion that:

- (b) the casino operator is complying with the Casino Control Act, the Casino Management Agreement Act, the Gambling Regulation Act and the regulations made under any of those Acts;
- (c) in the case of the Melbourne Casino operator, the casino operator is complying with—
 - (i) the Transaction Documents; and
 - (ii) any other agreements between the Melbourne Casino operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming.



Part 4 – Melbourne Casino Operations

4.1 Is it in the public interest that the casino licence continues in force?

Section 25(1)(d) of the Casino Control Act requires the VCGLR to form an opinion on whether or not it is in the public interest that the casino licence should continue in force.

Under section 3 of the Casino Control Act, public interest is defined as:

“[the] public interest...having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations”

Further, casino ‘operations’ are defined under section 3 as:

- (a) the conduct of gaming and approved betting competitions in the casino;
- (b) the management and supervision of the conduct of gaming and approved betting competitions in the casino;
- (c) money counting in, and in relation to, the casino;
- (d) accounting procedures in, and in relation to, the casino;
- (e) the use of storage areas in the casino;
- (f) other matters affecting or arising out of, activities in the casino.

As noted in Senior Counsel’s advice to the VCGLR, the definition of the phrase ‘public interest’ is:

“...quite restricted compared to what it might have been thought to encompass without the enforced statutory guidance. It is limited to certain aspects of ‘casino operations’ rather than a broader approach to the question of the ‘public interest’.”

In essence, the test under section 25(1)(d) can be seen as addressing the suitability of casino operations, as opposed to the suitability of the casino operator itself.

Casino operations includes compliance with rules of the games as approved by the VCGLR, the approval of equipment, policies for providing credit and cheque cashing facilities, and the internal controls approved by the VCGLR.

The consideration of whether or not it is in the public interest that the casino licence should continue in force does not include an examination of the conditions of the licence, whether there should be more than one licence, or whether or not there should be a licence at all. These are policy matters for the Victorian Government and are not dealt with in this report.

This part of the report consists of three chapters:

- An overview of the VCGLR’s role in the conduct of gaming and betting in the casino is at **Chapter 4.2 – Conduct of Gaming and Betting**;
- Crown Melbourne Limited’s management and supervision of gaming and betting, including the internal controls Crown Melbourne Limited has in place to detect breaches of the regulatory scheme and other laws, is at **Chapter 4.3 – Management and Supervision of Gaming and Betting**; and
- An overview of security and surveillance of the casino floor and complex is at **Chapter 4.4 – Security and Surveillance**.

4.2 Conduct of Gaming and Betting

The principal business of the Melbourne Casino is the provision of gambling products, primarily gaming machines and table games.

One of the key purposes of the Casino Control Act is to ensure that gambling is conducted honestly and free from criminal influence or exploitation.

The VCGLR regulates the conduct of gaming and betting in an active manner primarily through the approval of games, equipment and internal control documents setting out how Crown Melbourne Limited conducts the business; as well as through inspection and audit activities.

As noted in Chapter 1.1 – Scope and Conduct of Investigations, the VCGLR also licenses certain employees of Crown Melbourne Limited involved in the conduct of gaming and betting.

Internal Control Statements and Standard Operating Procedures

Section 121 of the Casino Control Act requires the VCGLR to approve a system of internal controls and administrative procedures for the operation of the Melbourne Casino.

Section 122 sets out 23 specific areas in which there must be an approved system of internal controls under section 121. They include a wide range of matters: procedures for accounting; conduct of approved games; storage of cash and chips; transfer of money; storage and security of gaming equipment; establishment of deposit accounts; security personnel within the Melbourne Casino; use of keys; management of suppliers; and conduct of junket arrangements.

The Internal Control Statements are a series of documents setting out a system of internal controls and administrative and accounting procedures for the Melbourne Casino, pursuant to section 121.

The Internal Control Statements contain the core principles and minimum standards and controls supported by a risk assessment of the activities involved. Crown Melbourne Limited's Standard Operating Procedures document the specific processes and procedures undertaken by Crown Melbourne Limited to implement an Internal Control Statement. The VCGLR reviews the Standard Operating Procedures to ensure they appropriately support the relevant Internal Control Statement but does not approve the Standard Operating Procedures.

As previously noted, the VCGLR has a permanent presence at the Melbourne Casino and conducts regular audits and ongoing monitoring of Crown Melbourne Limited's operations.

If breaches or compliance issues are detected, the VCGLR can undertake enforcement action. This then informs ongoing reviews of approvals to ensure that, in particular, systems and procedures adequately meet required outcomes.

Rules and approval of games

Section 60 of the Casino Control Act provides that only games that have been approved by the VCGLR can be operated by the casino operator. In addition the rules and amendments to the rules of each game must also be approved by the VCGLR, published by the casino operator on its website and made available for inspection at the Melbourne Casino.

While table games are approved under the Casino Control Act, gaming machines are approved under the Gambling Regulation Act. Crown Melbourne Limited operates 30 types of table games, with 54 variations approved for use.

4.3 Management and Supervision of Gaming and Betting

In undertaking its investigations, the VCGLR reviewed its ongoing compliance activities since 2008 and has investigated management and supervision structures in Crown Melbourne Limited's gaming departments, interviewed staff, received detailed presentations from key Crown Melbourne Limited gaming staff, conducted walk-throughs of the gaming floor and examined Crown Melbourne Limited's internal process documents. The VCGLR has also had regard to Crown Melbourne Limited's reputational and commercial incentives to ensure gaming is conducted in accordance with game rules.

Table games restructure

In 2010, Crown Melbourne Limited reviewed the structure of its Table Games Department. As part of this process, Crown Melbourne Limited observed supervisory models in Macau, Singapore, Sydney, Las Vegas and Atlantic City and engaged external consultants to assist with the review.

Crown Melbourne Limited found:

- The structure of the department was based on the original operating model of the casino;
- That the department could operate more efficiently; and

- There were opportunities to improve the customer experience.

Following this, Crown Melbourne Limited decided to consolidate parts of the Table Games Department by removing a tier of management, which resulted in 84 fewer employees. The restructure was completed in March 2012.

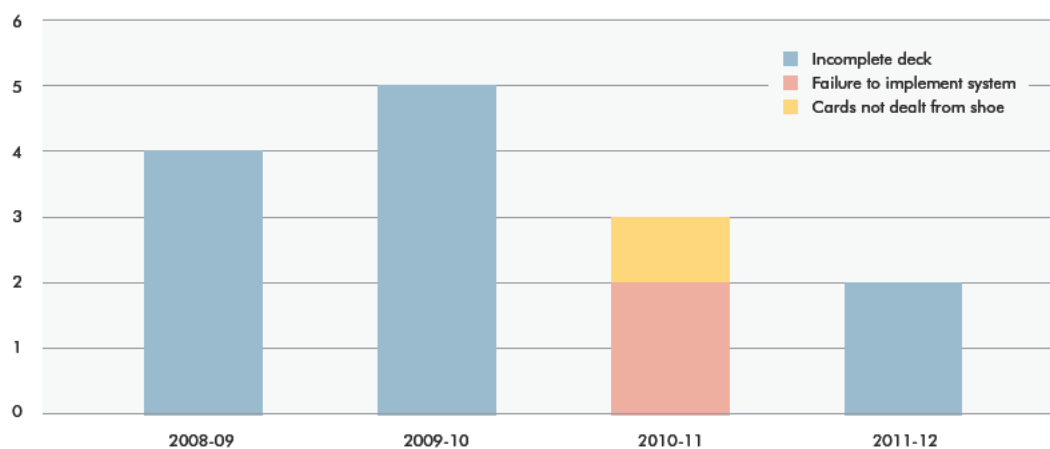
Crown Melbourne Limited believes the restructure of the Table Games Department has given floor staff more responsibility, which has improved staff accountability. Crown Melbourne Limited believes it now manages and supervises games in a more efficient manner.

Breaches and disciplinary action

Breaches of game rules by the casino operator are a serious matter. It is important the public has confidence in the integrity of gaming at the casino.

Disciplinary action for breaches of game rules are dealt with under section 60(3) of the Casino Control Act. If gaming tables and operations are not operated in accordance with the approved Internal Control Statement, the casino operator may be in breach of section 121(4) of the Casino Control Act.

Chart 23: Number of disciplinary actions for breaches of game rules taken against Crown Melbourne Limited



Note: The chart records the year in which the disciplinary action was taken, which is not necessarily the year in which the breach occurred.

Source: VCGLR

Since July 2008, the VCGLR has taken 14 disciplinary actions against Crown Melbourne Limited in relation to the conduct of gaming and betting.

Patron complaints

Crown Melbourne Limited's Responsible Gambling Code of Conduct sets out the process for customer complaints at the casino. To register a complaint, customers may contact Crown Melbourne Limited by telephone, send a fax, letter or email or make a complaint in person.

Complaints are recorded and investigated. Crown Melbourne Limited's Responsible Gambling Code of Conduct specifies that complaints should be acknowledged within 48 hours and a resolution sought within 10 working days.

The average number of complaints per quarter is

196, or about two complaints a day.

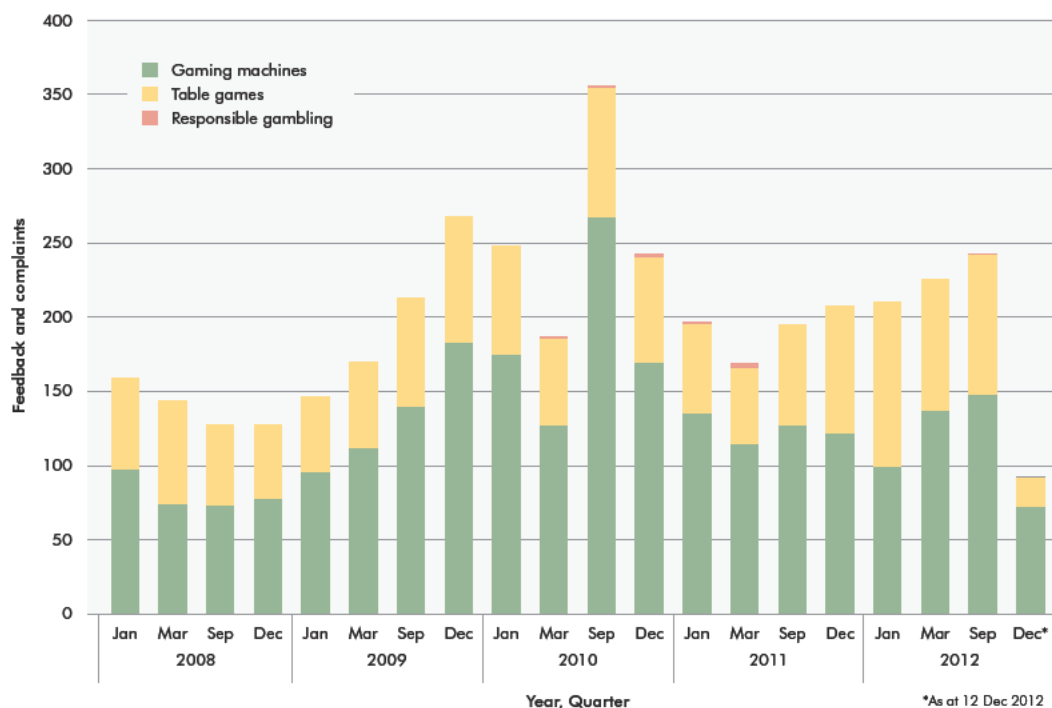
The number of complaints to the VCGLR has been relatively steady since 2008 and similar to previous review periods.

Player Information

Under section 60 of the Casino Control Act, Crown Melbourne Limited is required to place the approved rules for games on its website and make them available for inspection in the Melbourne Casino.

Under section 66 of the Casino Control Act, Crown Melbourne Limited is required to display a notice approved by the VCGLR informing patrons where a copy game rules may be inspected. It is also required to display the mode of payment of winning wagers and the odds of winning each wager. The VCGLR may also direct the Melbourne Casino to display further information to assist patrons.

Chart 24: Quarterly number of patron complaints from 1 January 2008 in relation to gaming machines, table games and responsible gaming



Source: Crown Melbourne Limited

Table 10: Annual number of patron complaints to the VCGLR since 2008

Year	2008	2009	2010	2011	2012
Complaints to VCGR/VCGLR	40	44	41	54	50

Source: VCGLR

VCGLR Findings

Table games restructure

The VCGLR notes that following the table games restructure, there are fewer staff on the gaming floor supervising the conduct of gaming. Given the increase in use of Semi-Automated Table Games and Fully-Automated Table Games, which have lower levels of supervision compared to traditional table games, there has been a reduction in the overall level of supervision of gaming at the casino since 2008.

A key finding of the VCGR's Social and Economic Impact Assessment in October 2009 into the Ninth Deed of Variation to the Casino Management Agreement, was that the replacement of gaming tables or Semi-Automated Table Games with Fully-Automated Table Games raised issues from a harm minimisation perspective:

"Whilst the VCGR acknowledges that there are opportunities for [Crown Melbourne Limited's] staff to observe patrons playing fully automated table games, there is little doubt that the removal of a licensed staff member from a semi automated table game will reduce the opportunities to observe patrons and to provide harm minimisation measures. While this aspect may be a cause of concern, the presence of staff trained in the responsible service of gambling in the Pit area, and the availability of responsible gambling liaison officers ameliorates this concern."

The VCGLR considers that lower levels of supervision have the potential to dilute the effectiveness of Crown Melbourne Limited's management and supervision of gaming. The VCGLR has not detected any relevant breaches of Crown Melbourne Limited's obligations nor

has it found specific evidence of any failures in gaming supervision. However, the table games restructure has only been recently completed. The VCGLR will continue to monitor Crown Melbourne Limited's compliance with its obligations closely to ensure that gaming management and supervision is adequate and the relevant provisions of the Internal Control Statement remain appropriate.

Breaches and disciplinary action

The VCGLR has observed that breaches of game rules are generally incidental and due to dealer or player error. If a breach is suspected, typically Crown Melbourne Limited surveillance staff are able to review footage to determine the correct outcome quickly.

In situations where there is a dispute between patrons and Crown Melbourne Limited staff that cannot be resolved by Crown Melbourne Limited staff, VCGLR inspectors review the incident and attempt to resolve the issue on the spot.

The VCGLR considers the number of disciplinary actions taken against Crown Melbourne Limited since 2008 to be of a generally acceptable level, given the nature of the business and the significant number of patrons and games played.

Patron complaints

Crown Melbourne Limited estimates that about 50,000 people visited the casino each day in 2011-12. In this context the VCGLR considers the number of patron complaints to both Crown Melbourne Limited and the VCGLR is relatively low.

Complaints by patrons to VCGLR inspectors largely concern the conduct of a particular table game. These complaints are normally resolved by VCGLR inspectors on the spot.

Player information

No significant breaches by Crown Melbourne Limited of the player information requirements were detected between July 2008 and June 2013.

The VCGLR conducted two walk-throughs of the casino gaming floor to determine the availability of game rules. Signage at the Signature Club desks and the cashier areas indicate that the rules are available on request. However, when the game rules were requested from a number of Signature Club desks during the walk-throughs, the rules were unavailable and the VCGLR was referred to the gaming tables.

Crown Melbourne Limited noted that it is impractical to keep a copy of the rules at each desk and the staff are trained to refer the issue to managers so that a copy of the correct set of rules can be provided. Crown Melbourne Limited has undertaken to conduct further training on this issue.

It is also noted by the VCGLR that while the game rules are on the Crown Melbourne Limited website as required, they are not available on the mobile version of the site. The VCGLR is of the view that it

is this version of the website that most players would be accessing while on the Melbourne Casino floor and that making the rules available on this version of the site would be in the interests of players.

In addition to this issue, the VCGLR has some concerns about how important variations to well-known table games are communicated to players at gaming tables. For example, the game Blackjack Plus is a game approved by the VCGLR under section 60 of the Casino Control Act. It is a variation on the well-known table game Blackjack which would be generally known to patrons of casinos.

However, Blackjack Plus contains an important variation in that the dealer does not 'bust' when the dealer's hand totals 22. The player information detailing this variation is in small print and difficult to see at gaming tables. The VCGLR believes this is potentially confusing for patrons unfamiliar with Blackjack Plus.

The VCGLR will consider whether further direction is required in relation to player information for these matters at the Melbourne Casino.

Recommendation 10

To improve player access to game rules at the Melbourne Casino, Crown Melbourne Limited should increase the availability of game rules and improve the communication of important aspects of variations to well-known casino games at gaming tables. Crown Melbourne Limited should also, if feasible, make the game rules available on the mobile version of its website.

4.4 Security and Surveillance

Crown Melbourne Limited's security and surveillance functions are important components in the management and supervision of gaming and the supervision of the activities in the Melbourne Casino Complex. They play a particularly important role in protecting casino patrons, staff and assets.

The effective operation of the casino operator's security and surveillance areas are essential to meeting the Casino Control Act's purposes of ensuring gaming is conducted honestly and is free from criminal influence and exploitation.

Security and surveillance are elements of casino operations, as defined in section 3 of the Casino Control Act, and are therefore relevant to an investigation under section 25(1)(d) of the Casino Control Act.

The VCGLR also has responsibilities under section 121 of the Casino Control Act in relation to approving internal controls for:

- Procedures for the use and maintenance of security and surveillance facilities, including catwalk systems and closed circuit television systems; and
- Procedures governing the utilisation of security personnel within a casino.

Security and surveillance are the key departments involved in achieving compliance with Crown Melbourne Limited's obligations concerning excluded patrons and minors attempting to enter the Melbourne Casino. Further, these areas are involved in detecting and deterring a range of criminal offences under gambling legislation, including indecent, violent or quarrelsome behaviour, use of devices or other items to cheat, and forgery of casino chips.

Crown Melbourne Limited separates its security and surveillance functions, both physically and in its reporting structures:

- Security is primarily focussed on protecting patrons, staff and property; and
- Surveillance is primarily focused on protecting Crown Melbourne Limited's assets, monitoring employees, ensuring gamblers are not cheating and ensuring the games are being played in accordance with the rules.

Security

Security at the Melbourne Casino takes the form of trained security staff who patrol the Melbourne Casino Complex and staff the entrances as well as a network of security cameras. Crown Melbourne Limited directly employs security staff and also engages contractors.

Crown Melbourne Limited employs the services of two external security companies, which allows it to utilise flexible staffing numbers to meet demand at busy times. Contracted security staff receive the same training as full-time security employees at Crown Melbourne Limited's security training centre. The nightclubs within the Melbourne Casino Complex utilise a separate security firm, contracted by Crown Melbourne Limited, that specialises in nightclub security.

The Melbourne Casino has a security control room that allows operators to monitor cameras at the entrances and other areas of the Melbourne Casino Complex and communicate with security staff on the Melbourne Casino Complex floor. Security staff are placed at all public entrances to the Melbourne Casino Complex as well as roving security and a mobile vehicle patrol.

All individuals conducting security or crowd control activities in Victoria must be licensed under the *Private Security Act 2004* (Vic). The Licensing and Regulation Division of Victoria Police is responsible for the processing of applications for private security licences, and monitoring the compliance of licence holders through audits and inspections. The unit also approves training modules under the qualification framework as well as undertaking disciplinary action against licence holders for breaches against the *Private Security Act 2004* (Vic).

The VCGLR also licences security officers at the Melbourne Casino as they are considered special employees under section 38 of the Casino Control Act.

Since 2008, Crown Melbourne Limited has received a relatively steady number of complaints about security staff over that period. Over the same period, 6 Crown Melbourne Limited security staff have had criminal charges laid against

them for incidents at the Melbourne Casino and there have been 7 litigious matters involving allegations of assault by Crown Melbourne Limited security staff.

In 2010, Crown Melbourne Limited engaged security consultants to advise on restructuring its security operations. Since 2008, Crown Melbourne Limited has increased the number of operations managers, built its own training facility, improved monitoring of security incidents (including audio recording of certain incidents) and revised a range of other systems. The head of security advised that Crown Melbourne Limited has engaged a security expert to assist it in rolling out increased communication training for security staff focused on avoiding confrontation, avoiding force and the use of minimum force.

Crown Melbourne Limited has also made a number of changes to equipment used, including upgraded radios, defibrillators and identity scanners in nightclubs. Crown Melbourne Limited believes that these measures have resulted in less complaints and injuries to staff and patrons.

The number of patrons removed from the Melbourne Casino Complex by security officers has decreased by around 40 per cent since a peak in 2010.

Surveillance

Crown Melbourne Limited's surveillance department has a mandate to:

- Protect revenue through the detection of fraudulent and illegal activities; and
- Provide a safe environment for Crown Melbourne Limited's staff and customers.

The internal controls approved by the VCGLR require the Melbourne Casino to have tiered supervision levels. Minimum staffing levels are set out in Crown Melbourne Limited's Standard Operating Procedures.

Crown Melbourne Limited presented to the VCGLR on its current surveillance systems, as well as what it believed were the key developments and technological advances in surveillance.

Some key developments have occurred at the Melbourne Casino to improve its surveillance operations, including updates to technology

and a restructuring of roles. Crown Melbourne Limited indicated it regularly reviews and evaluates new technologies.

The surveillance department has some liaison with other casinos to share knowledge and keep abreast of trends and risks in the industry.

VCGLR Findings

The VCGLR is of the opinion that Crown Melbourne Limited's management and supervision of the conduct of gaming and approved betting competitions in the casino is appropriate. However, it makes a number of observations about the management of security and surveillance at the Melbourne Casino.

Security

As part of its investigations the VCGLR consulted Victoria Police about Crown Melbourne Limited's security practices. Victoria Police considers that Crown Melbourne Limited has generally improved its security operations through changes and improvements to its security processes and by increasing external security at peak times.

The VCGLR has investigated the number of patrons removed by security officers, complaints about security officers and injuries to security officers, to assess the impact of these measures. As noted, there have been a number of incidents at the Melbourne Casino since 2008, including incidents that have resulted in criminal charges against Crown Melbourne Limited security officers. The VCGLR has the power to revoke a special employee's licence if they are found guilty of a criminal offence or are otherwise unsuitable to hold a licence.

The VCGLR notes the improvements made by Crown Melbourne Limited and the significant reduction of forced removals from the Melbourne Casino since 2010. However, the VCGLR has concerns about an incident involving a patron who was removed, along with two friends, from the Melbourne Casino Complex in July 2011 and died four days after his removal.

Victoria Police investigated this incident and charged six security officers employed or contracted by Crown Melbourne Limited, two of the security officers were charged with

manslaughter while the remaining officers were charged with other offences against the person. The VCGLR subsequently suspended their special employee licences.

On 16 November 2012, following a trial in the Victorian Supreme Court, two security officers were acquitted of manslaughter and a third of assault charges relating to this incident. Two of these staff members have had their special employee licences reinstated.

On 7 May 2013, three security officers at the Melbourne Casino were found guilty of false imprisonment relating to this incident. One of those security officers was also found guilty of assault and intentionally causing injury, and one was also found guilty of intentionally causing injury. The VCGLR will determine the appropriate action to be taken concerning their special employee licences, which are currently suspended.

The VCGLR has been monitoring these criminal proceedings and will continue to monitor ongoing civil proceedings and any further legal proceedings, including any possible coronial inquest. As the VCGLR's investigations related to these matters are continuing, the VCGLR has excluded these matters from the formation of its opinion in this review

As part of its investigations, the VCGLR will also consult Victoria Police and consider whether any changes are required to the internal control procedures for the Melbourne Casino.

For the purposes of the review and noting the issues above, the VCGLR considers Crown Melbourne Limited's security arrangements comply with its obligations under relevant gambling legislation.

Surveillance

Crown Melbourne Limited has supplied estimates of patron numbers to the VCGLR which indicates a reduction in the number of patrons visiting the casino. However, during the same period there has been an increase in the number of patrons in the members and VIP gaming rooms. This has coincided with a restructure of the table games supervision structure which has an increased emphasis on staff responsibility for ensuring the

integrity of the games.

However, the VCGLR notes that the reduction in floor staff overseeing table games has the potential to increase pressure or workload on surveillance staff. Crown Melbourne Limited asserts that the restructure has not increased risks to the integrity of gaming and that there remains adequate numbers of staff on the floor and in surveillance.

The VCGLR acknowledges that there are commercial incentives for Crown Melbourne Limited to ensure that there is adequate supervision of its gaming functions to ensure the games are played honestly.

The VCGLR has reviewed the operations of the surveillance department and observes that Crown Melbourne Limited has made changes to the structure of the surveillance team. However, the VCGLR notes that since 2008, Crown Melbourne Limited has not increased the number of surveillance staff. Crown Melbourne Limited asserts that the restructure has modernised its approach to surveillance and improved its effectiveness.

The VCGLR observes that some comparable casinos in Sydney, Macau and Singapore have larger numbers of surveillance staff on duty in their surveillance control rooms. For example, a comparable casino in Singapore utilises approximately double the number of surveillance staff on quiet and busy shifts compared to Crown Melbourne Limited's surveillance operation. Similarly, The Star casino in Sydney and a comparable casino in Macau visited by the VCGLR both utilise more surveillance staff than the Melbourne Casino.

The VCGLR recognises that staff levels are not the only factor in successful surveillance operations. Nor is a direct comparison with other casinos always an accurate measure. However, Crown Melbourne Limited is required under the Casino Agreement to conduct its operations in a manner that has regard to the best operating practices of casinos of a similar size and nature.

The VCGLR will continue to monitor the resourcing and effectiveness of the Melbourne Casino surveillance operation and, if necessary, consider amendments to the Internal Control Statement governing surveillance at the Melbourne Casino.

4.5 VCGLR Opinion and Recommendations – Melbourne Casino Operations

The VCGLR has conducted its investigations into the conduct of gaming, under section 25(1)(d) guided by the definition in section 3 of the Casino Control Act, being *'[the] public interest...having regard to the creation and maintenance of public confidence and trust in the credibility, integrity and stability of casino operations'*.

Specifically, the investigations focused on gaming operations based on the definition of casino 'operations' under section 3 of the Casino Control Act:

- (a) *The conduct of gaming and approved betting competitions in the casino;*
- (b) *The management and supervision of the conduct of gaming and approved betting competitions in the casino;*
- (c) *Money counting in, and in relation to, the casino;*
- (d) *Accounting procedures in, and in relation to, the casino;*
- (e) *The use of storage areas in the casino;*
- (f) *Other matters affecting or arising out of, activities in the casino.*

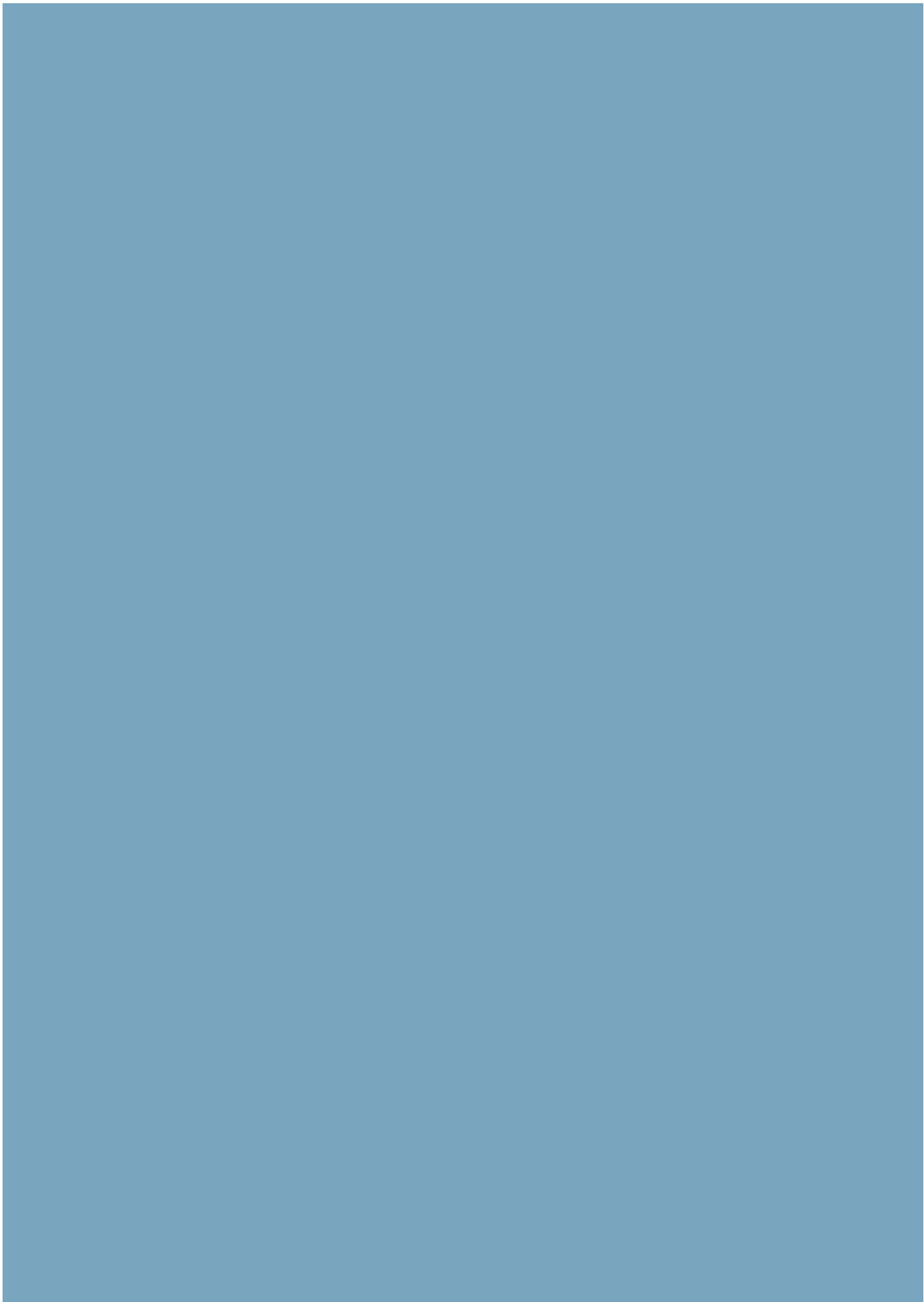
While the investigations have revealed instances where Crown Melbourne Limited has been in breach of the legislation or Transaction Documents, these were detected and rectified at the time and the VCGLR has determined no further action is required.

In addition, noting the matters excluded from consideration in this review, the VCGLR has found no systemic or procedural issues affecting Crown Melbourne Limited's conduct, management or supervision of gaming in the Melbourne Casino.

The VCGLR has made one recommendation regarding the availability of game rules and the communication at gaming tables of important aspects of variations to well-known casino games.

It has also made some observations about the number of surveillance staff utilised at the Melbourne Casino.

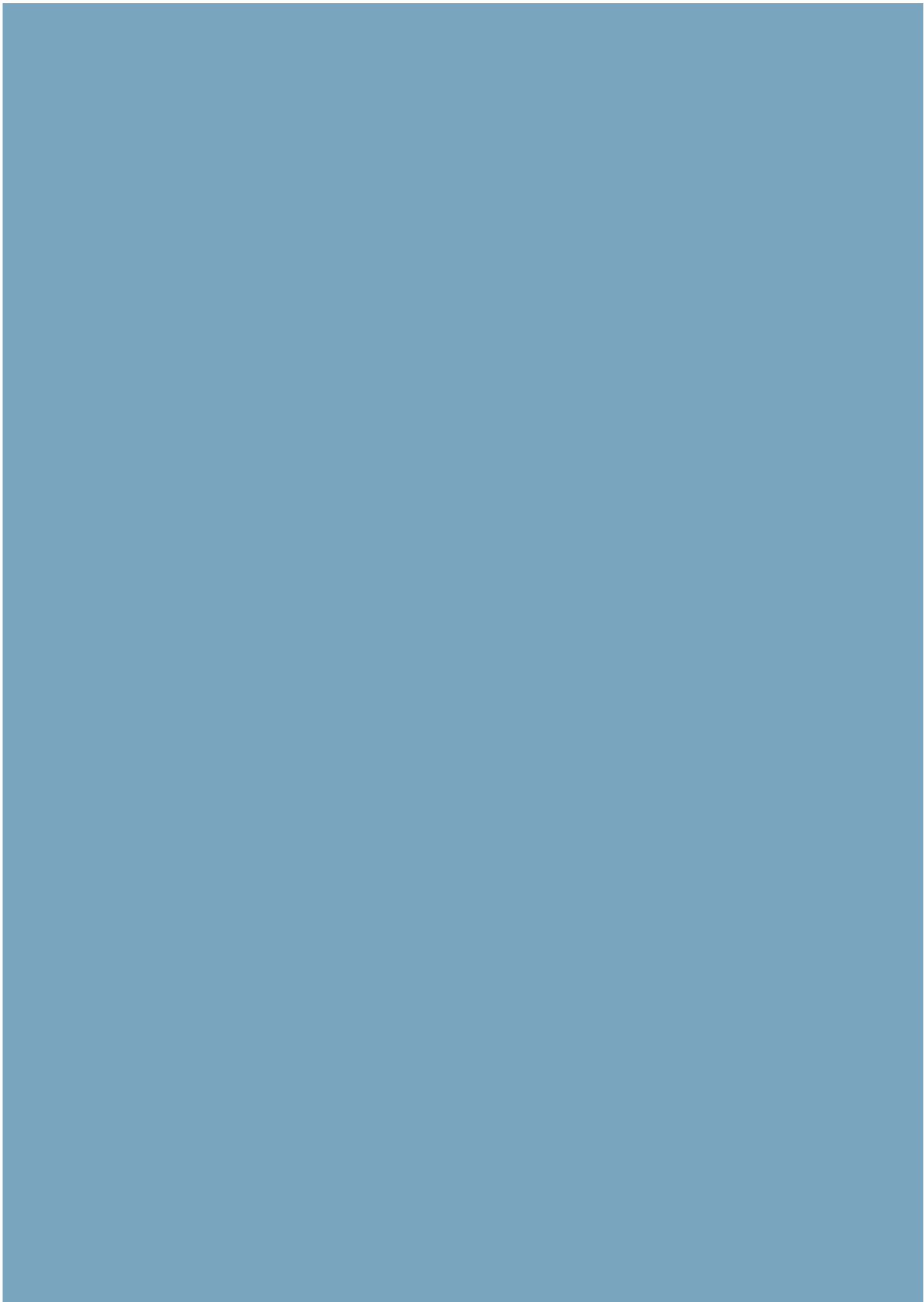
Based on the investigations conducted by the VCGLR under section 25(1)(d) of the Casino Control Act, the VCGLR it is of the opinion that it is in the public interest that the casino licence should continue in force.



VCGLR Opinion

Following the VCGLR's investigations and for the reasons set out in this report, the VCGLR has formed the opinion that:

- a. The casino operator, Crown Melbourne Limited, remains a suitable person to hold a casino licence;
- b. The casino operator, Crown Melbourne Limited, is complying with the *Casino Control Act 1991*, the *Casino (Management Agreement) Act 1993*, the *Gambling Regulation Act 2003* and the regulations made under any of those Acts;
- c. The casino operator, Crown Melbourne Limited is complying with:
 - i. the transaction documents; and
 - ii. any other agreements between the Melbourne Casino Operator and the State, or a body representing the State, that impose obligations on the casino operator in relation to gaming.
- d. It is in the public interest that the casino licence should continue in force.



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Appendix 2: Letter from Crown Melbourne Limited



25 June 2013

By email and mail

Mr Robert Kerr
 Commissioner
 Victorian Commission for Gambling and Liquor Regulation
 49 Elizabeth Street
 RICHMOND VIC 3121

Dear Mr Kerr,

Fifth Review of the Casino Operator and Casino Licence

Thank you for your letter dated 19 June 2013, enclosing the Commission's Report (**Report**) on the Fifth Review (**Review**) of Crown Melbourne Limited's (**Crown's**) operation and the casino licence.

This response is provided on behalf of Crown Melbourne Limited and Crown Limited (**Response**).

OVERALL CONCLUSION

Crown is pleased that the Commission has found that Crown:

- remains a suitable person to hold a casino licence; and
- is compliant with relevant casino legislation, agreements and documents; and
- has concluded that it is in the public interest that the casino licence remains in force.

POSITIVE FINDINGS

It is pleasing to note that the Commission has made the positive findings set out below.

Suitability of Operator

The Commission found that Crown and its associates remain of good repute [Executive Summary].

Strong Responsible Gaming Credentials

The Commission also found that Crown has robust and detailed systems and processes for dealing with responsible gambling issues [Chapter 3.4], Crown treats its obligations seriously in relation to

detecting persons breaching their exclusion orders [Executive Summary] and Crown's self-exclusion revocation procedures are adhered to and are robust [Chapter 3.5].

The Commission noted that Crown's customers demonstrate high levels of awareness of Crown's Responsible Gambling Code of Conduct (Code) and staff also have a strong awareness of the procedures and requirements of Crown's Code [Chapter 3.4].

Good Relationship with Law Enforcement Agencies/Decrease in Reported Crime

The Commission received feedback from law enforcement agencies, that they consider Crown to be cooperative and professional in its dealings with them and has provided all necessary assistance [Chapter 3.7]. There has been a significant improvement in responsible service of alcohol practices and patron behaviour at Crown Melbourne since 2009 [Chapter 3.8]. The Commission further noted that Victoria Police data shows a steady decrease in the number of general crimes reported at the Melbourne Casino Complex during the Review period [Chapter 3.7].

Strong Compliance Culture

The Commission has recognised that Crown has extensive statutory and contractual obligations placed on it reflecting the scale and complexity of the Melbourne Casino [Executive Summary]. Further, that Crown has a high level of compliance with its statutory and contractual obligations [Executive Summary] and that its internal audit planning processes are thorough and robust [Chapter 2.4].

The Commission has acknowledged that Crown's staff have a detailed knowledge of their obligations under the *Casino Control Act* and the *Liquor Control Reform Act* [Chapter 3.8] and that Crown has established a clearly articulated risk management and assurance framework, setting out the roles of each of the different reporting entities with input into the risk management process [Chapter 2.4]. Specifically, Crown's management of minors attempting entry compares favourably to The Star casino in Sydney, which the Commission acknowledges has fewer visitors per annum than the Melbourne Casino [Chapter 3.4].

Successful Business in a Competitive Industry

The Commission concluded that the Melbourne Casino is operated as a successful business and that the Melbourne Casino is meeting the challenges of keeping pace with the changing risks and commercial pressures of the international casino market [Executive Summary]. The facilities and services offered at the Melbourne Casino compare favourably with other casinos of a similar size and nature both in Australia and internationally [Chapter 3.9].

CROWN'S RESPONSES TO THE COMMISSION'S RECOMMENDATIONS

Crown provides its responses to the specific Recommendations made by the Commission as follows:

Recommendation 1

The VCGLR is of the view that Crown Melbourne Limited should be adhering to the best practice recommendations of the Institute of Internal Auditors and as such, recommends that the General Manager, Risk and Assurance report directly to the CEO of Crown Melbourne Limited.

Accepted.

Crown will ensure that the General Manager, Risk & Assurance reports directly to the CEO of Crown Melbourne.

Recommendation 2

To ensure it is adhering with its Charter and the best practice recommendations of the Institute of Internal Auditors, the VCGLR recommends that the Crown Melbourne Limited Audit Committee:

- *Conduct a review of the independence of the internal audit function;*
- *Conduct an independent quality assessment of the internal audit function; and*
- *Provide the results of each assessment to the VCGLR within 6 months of this report.*

Accepted.

Crown will adopt the Recommendations suggested and will provide the results of each assessment to the Commission as recommended.

Recommendation 3

Given the consistently high non-audit fees paid by Crown Limited to its external auditor and in order to fully comply with its Charter, the VCGLR recommends that the Crown Limited Audit & Corporate Governance Committee perform a comprehensive assessment of the independence of its external auditor on a periodic basis and provide the results of each assessment to the Crown Limited Board and the VCGLR. The first assessment should be completed and provided to the VCGLR within 6 months of this Report.

Accepted. See comments below.

Crown considers that Crown Limited already periodically considers and assesses the independence of its external auditor as part of Crown Limited's statutory reporting process as well as its audit planning process. Nonetheless, Crown Limited will adopt the Commission's Recommendation and perform a comprehensive assessment of the independence of its external auditor on a periodic basis and provide the results to the Crown Limited Board and the Commission.

Recommendation 4

The VCGLR has found that the board-level oversight and management of responsible gambling issues at the Melbourne Casino are the responsibility of Crown Limited, not Crown Melbourne Limited. While there is a mechanism for the transfer of information and decisions between the two through exception reporting and common directors, there is no formal consideration of responsible gambling issues by the Crown Melbourne Limited Board at its meetings.

To strengthen the oversight and implementation of responsible gambling practices at the Melbourne Casino, the VCGLR recommends that within the next 12 months, Crown Melbourne Limited establish a formal mechanism to regularly consider, and deal with, responsible gambling issues and obligations at the Melbourne Casino.

Accepted. See comments below.

As the Commission has confirmed, the Crown Limited Responsible Gaming Committee oversees responsible gaming initiatives at all wholly owned operations, in particular Crown Melbourne and Crown Perth. It should be noted that all three directors that sit on this Committee are common directors of both Crown Limited and Crown Melbourne. Further, all independent non-executive directors of Crown Melbourne (except one) also sit on the Crown Limited Board and as such, receive reports from the Crown Limited Responsible Gaming Committee. In addition, the Crown Limited Responsible Gaming Committee reports to the Crown Melbourne Limited Board by exception and there have been no relevant exceptions or matters of concern to report since the Committee's inception.

Accordingly, a connection and mechanism for the Crown Melbourne Limited Board to regularly consider, and deal with, responsible gaming issues and obligations at the Melbourne Casino clearly already exists and has existed for some time.

Nonetheless, Crown will adopt the Recommendation of the Commission and will add 'Responsible Gaming' as a regular agenda item to the meetings of the Crown Melbourne Limited Board.

Recommendation 5

To assess the effectiveness of the use of player data in relation to intensity, duration and frequency of play as a tool to assist in identifying potential problem gamblers, the VCGLR recommends that:

- *Within 18 months, Crown Melbourne Limited trial for a reasonable period the use of player data analysis as an initial indicator to identify players who may be having problems with their gambling; and*
- *The Crown Melbourne Limited Board and Crown Limited's Responsible Gaming Committee consider the effectiveness of the trial; and*
- *Crown Melbourne Limited provide a copy of the report on the outcome of the trial to the VCGLR within 3 months of the report being considered by the Responsible Gaming Committee and the Crown Melbourne Limited Board.*

Accepted. See comments below.

Crown maintains its view, as expressed to the Commission during the review process, that player data alone cannot identify problem gamblers. Problem gamblers can only be diagnosed by an assessment undertaken by people with appropriate professional qualifications.

Crown does, however, support the use of player data in combination with other problem gambling diagnostic tools. For example player data may be used in conjunction with a display of observable signs of problem gambling to assist Crown Melbourne staff to identify a player who may be experiencing problems with their gambling behaviour and thus prompting them to interact appropriately with the player. Crown has been doing this for some time and will continue to use player data in conjunction with observable signs as part of Crown's holistic approach to interacting with individuals who may be experiencing difficulties with their gambling behaviours.

Notwithstanding that, Crown will commence a trial, as recommended by the Commission, which will use player data (focused on duration and frequency of play) as an initial trigger for intervention with a player to assist in identifying situations where a player is displaying observable signs of problem gambling. Crown will report the findings of the report to the Commission as recommended.

Recommendation 6

The VCGLR is concerned that the casino operator may not be effectively preventing persons subject to exclusion orders from entering the VIP gaming areas in the Melbourne Casino. The VCGLR recommends that as part of a review of its entrance procedures to VIP gaming areas, Crown Melbourne Limited develops and implements a management plan for detecting excluded people attempting to gain entry to the VIP gaming areas. A copy of the plan should be provided to the VCGLR within 12 months of this report.

Accepted. See comments below.

It is important to note that the reported number of detected breaches of exclusion orders referred to in the body of the Commission's report includes those breaches detected by Crown at the entry to VIP areas, thus demonstrating Crown's processes at entry have been successful in preventing entry to those areas by excluded persons. It is also important to note that the reference to "breaches" of exclusion orders are references to breaches by the excluded person, not by Crown.

Despite Crown's ongoing diligence in this area, it is committed to continuously improve its processes and procedures to assist in the detection of excluded persons such that they do not enter VIP gaming areas and, on this basis, Crown will implement and report back to the Commission on a management plan as recommended.

Recommendation 7

To assist in mitigating the risk of people who have self-excluded from other venues developing problems at the Melbourne Casino, and to assist in preventing people subject to interstate exclusion orders from entering the Melbourne Casino, the VCGLR recommends that Crown Melbourne Limited:

- *Request prospective Signature Club members to disclose if they are, or ever have been, subject to any type of exclusion order in any Australian jurisdiction, other than at the Melbourne Casino;*
- *Considers whether it is appropriate for prospective Signature Club members who disclose they have been subject to an exclusion order to join the Signature Club and if any further actions should be taken.*

Accepted.

Crown will comply with this Recommendation and amend its loyalty program application form accordingly.

Recommendation 8

In order to strengthen its processes for detecting excluded people attempting to gain entry to the VIP gaming areas of the casino, the VCGLR recommends that:

- *Within 12 months of this report Crown Melbourne Limited commences a trial of facial recognition technology to improve the detection of excluded persons attempting to enter, or remaining in, the VIP areas of the Melbourne Casino; and*
- *The Crown Melbourne Limited Board consider a report on the outcomes of the trial and provide a copy of that report to the VCGLR.*

Accepted. See comments below.

As the Commission is aware, Crown is already voluntarily conducting a trial of facial recognition technology. Based on its experience, Crown highlighted to the Commission the current limitations with that technology and capability.

Notwithstanding the technology's known limitations, Crown will adopt the Recommendation suggested and will provide the results of the trial to the Commission as requested.

Recommendation 9

The VCGLR considers that Crown Melbourne Limited's processes and procedures for dealing with the revocations of self exclusion orders are generally sound. However, to provide additional support for people who have had their self exclusion orders revoked, the VCGLR recommends that Crown Melbourne Limited:

- *Ensure that no advertising or other promotional material is sent to a person who has previously been the subject of a self-exclusion order for an appropriate period.*

- *Formalises the Responsible Gaming Support Centre's recently commenced process of contacting people around three months after their self exclusion order has been revoked.*
- *Continue to monitor research and, where appropriate, amend its processes to reflect the latest information on managing resumption of gambling after a self exclusion order has been revoked.*

Accepted.

Recommendation 10

To improve player access to game rules at the Melbourne Casino, Crown Melbourne Limited should increase the availability of game rules and improve the communication of important aspects of variations to well-known casino games at gaming tables. Crown Melbourne Limited should also, if feasible, make the game rules available on the mobile version of its website.

Accepted. See comments below.

Crown already has game rules available on its mobile site via the link to its internet page, from the Cage and Signature Club desks and they are available from Table Games staff on request. Crown will ensure appropriate availability of game rules at the Melbourne casino.

CROWN MELBOURNE'S TOURISM, EMPLOYMENT AND ECONOMIC CONTRIBUTIONS

As part of its Response, Crown wishes to take the opportunity to provide some context to the Commission's Report.

Crown has been operating in Melbourne for almost 20 years and now offers over 1,600 hotel rooms, suites and luxury villas, world class restaurants and bars, convention and meeting facilities and high end retail as well as some of the world's best VIP gaming areas.

This is valuable tourism infrastructure for the city of Melbourne and state of Victoria, attracting 18 million visitors each year.

Crown is in the process of investing almost \$1.5 billion of capital expenditure on the Crown Melbourne facilities to ensure that Crown can continue to successfully compete with the integrated resort offerings in Singapore, Macau and Las Vegas for the booming Asian tourist market.

The Melbourne Casino complex provides employment for more than 8,800 people, making it the largest single-site employer in Victoria. Crown also operates a \$10 million dedicated on-site training facility, Crown College, which has trained over 10,000 employees in the last 13 years. Crown has graduated over 4,300 apprentices and trainees.

In addition to the substantial tourism and employment benefits, Crown Melbourne pays significant taxes to all levels of government. Analysis by KPMG estimates that Crown Melbourne contributes annually approximately \$2.1 billion (value added) to the Victorian economy.

Mr Robert Kerr
Victorian Commission for Gambling and Liquor Regulation

Page 8
25 June 2013

In line with Crown's commitment to continuous improvement, Crown will, as it has always done, continue to review any areas of its business that may benefit from further improvement to ensure that Crown remains a world class operation.

Crown understands that the Commission's Report and this letter as Crown's Response to the Report, will be sent to the Minister pursuant to s 25(2) of the *Casino Control Act 1991* (Vic).

Crown thanks the Commission for the opportunity to respond to the Report.

Yours sincerely



Greg Hawkins
Chief Executive Officer
Crown Melbourne Limited

Appendix 3: Final report of probity advisor to the Fifth Casino Review

Anne Dalton & Associates

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LABURNUM VIC 3130
ABN 87 097 262 596

Mr Scott Widmer
Director, Casino Review
Victorian Commission for Gambling and Liquor Regulation
49 Elizabeth Street, Richmond,
Victoria 3121

17 June 2013

Dear Mr Widmer

Final Report of Probity Advisor for Review of Licence to Crown Casino under the Casino Control Act 1991

The purpose of this report is to provide a summary of the tasks we have undertaken in relation to reviewing the process of the Review of Licence to Crown Casino under the Casino Control Act 1991¹ (the Review) and to express an opinion as to the adherence to the probity principles in the conduct of the Review.

1 Background

- 1.1 We were engaged in August 2012 as probity advisors to provide ongoing probity advice concerning the Review, including in relation to adherence to the Probity Plan. The Probity Plan detailed the arrangements by which the Commission was to manage the integrity and probity process of the Review.
- 1.2 We provided a progress report dated 8 March 2013. We incorporate by reference the matters detailed in that report. In that report we set out the nature of our engagement, the tasks we had performed to date and our conclusion that "*through the tasks undertaken, nothing has come to our attention to indicate that the Review has not complied with the probity principles in all material respects.*"
- 1.3 Since the provision of that progress report we have undertaken the following tasks:
 - Review of the Final Report, including the draft as provided to Crown Limited

¹ Fifth Review.

Anne Dalton & Associates
A member of the Victorian Government Probity Practitioners Panel

Mr S Widmer

VCGLR Licence Review matter

17 June 2013

and Crown Melbourne for comment, the response from Crown Limited and Crown Melbourne and the (updated) Final Report following consideration of the comments/submissions from Crown Limited and Crown Melbourne; and

- Review of the Probity Issues Register.

1.4 The above tasks were undertaken by attending at your premises on 14 June 2013.

2 Probity Plan and probity principles

2.1 In undertaking the above tasks, we were mindful of, and reviewed the relevant documentation and procedures against the Probity Plan in place for the Review. The Probity Plan incorporates the probity principles.

2.2 In relation to the Probity Plan, the matters of relevance to our reviews are extracted below as follows:

"The purpose of this Probity Plan is to detail the type of probity issues that may arise and the actions to be taken throughout the process undertaken by the Commission in reference to the Review to ensure:

- (a) *Confidence is preserved in the Review processes;*
- (b) *Review decisions and processes are defensible;*
- (c) *The Review is conducted with integrity;*
- (d) *The Review is conducted objectively and consistently;*
- (e) *Confidential information is kept secure;*
- (f) *All actual, potential or perceived conflicts of interest are addressed and effectively managed;*
- (g) *Accountability is maintained; and*
- (h) *The risk of legal challenges arising out of the Review because of a probity issue is minimized.*

This Probity Plan applies to the entire Review process including information gathering, investigation and the Commission's ultimate decision on each of the matters set out in s 25(1) of the CCA."

2.3 Other provisions in the Probity Plan provide details in respect of the protection of confidential information and the identification and management of conflicts of interest.

3 Observations with respect to matters we have reviewed

Mr S Widmer

VCGLR Licence Review matter

17 June 2013

- 3.1 As set out in the progress report of 8 March 2013 and as confirmed in this report, we have reviewed the conduct of the Review against the probity principles as described in the Probity Plan.
- 3.2 With respect to the Review itself that is being conducted by VCGLR we are to consider *under the Probity Plan whether it was conducted with integrity and objectively and consistently* ((c) and (d) above). In order to do so, we perused the Final Report. We note that it is clearly an *evidence based* review/investigation. We note also that Crown Ltd and Crown Melbourne were given an opportunity to review and make submissions on the Report, which they did. In our view the Review process was conducted in a manner as required by the Probity Plan².
- 3.3 In relation to the *identification and management of conflicts of interest*, we note some further minor notifications have been received from PWC with respect to potential conflicts arising from their engagement. No probity issues arise from those notifications.
- 3.4 In respect of *securing confidential material*, we note that no new³ incident has been notified with respect to any breach or issue arising with respect to confidential material.

4 Opinion and Conclusion

- 4.1 Taking all of the above into account, on the basis of the material we have reviewed, nothing has come to our attention to indicate that the Review has not complied with the probity principles as set out in the Probity Plan.
- 4.2 On the basis of the above, we do not have any probity concerns arising from the Review process.

Please contact Anne Dalton if you require clarification or expansion on any matter in this Report.

Yours faithfully



Anne Dalton
Probity Practitioner
Anne Dalton & Associates
anne@daltonandassoc.com

² Which in turn incorporates the legislative requirements.

³ Since our report of 8 March 2013.

Appendix 4: Transaction Documents

Transaction Documents with Active Obligations

- Casino Licence (19 November 1993)
- Casino Management Agreement (incorporating the Ninth Deed of Variation – 4 June 2009)
- Casino Agreement (incorporating the Eleventh Variation Agreement – 22 October 2007)
- Site Lease (Melbourne Casino Site) and Deed of Variation (10 August 2010)
- Deed of Undertaking and Guarantee (30 June 1999)
 - Deed of Amendment and Release of Guarantee (5 February 2007)
 - Deed of Amendment, Accession and Release (22 October 2007)
- Fixed and Floating Charge (19 November 1993)
 - State Charge Variation Deed (30 June 1999)
 - Second State Charge Variation Deed (22 October 2007)

Transaction Documents with Non-Active Obligations

- Bank Guarantees
- Contractor's Deed (8 December 1994)
- Master Security Agreement – Original (21 September 1993)
- Master Security Agreement – Replacement (30 July 1997)
- Master Security Agreement – Discharge (2 June 1999)
- Site Lease Supplemental Agreement (1993)
- Sponsor's Guarantee (20 September 1993)
- Supplemental Sponsors' Agreement (21 September 1993)
- Supplemental Development Agreement (21 September 1993)
- Supplemental Operations Agreement (21 September 1993)
- Temporary Casino Leases
- Temporary Casino Leases Supplemental Agreements

Appendix 5: Associates of Crown Melbourne Limited

Crown Melbourne Limited currently has 24 associates (21 individuals and 3 entities) approved under the Casino Control Act.

The following companies:

Name	Relationship to Crown Melbourne Limited
Crown Limited	Ultimate holding company of Crown Melbourne Limited
Crown Entertainment Group Holdings Pty Ltd	Parent company of Crown Melbourne Limited and a wholly owned subsidiary of Crown Limited
Consolidated Press Holdings Limited	Largest shareholder in Crown Limited , with a 50.01 per cent holding as at 20 December 2012

The following individuals:

Name	Title
James Douglas Packer	Executive Chairman of Crown Limited , Director of Consolidated Press Holdings Limited and Director of Crown Melbourne Limited
Rowen Craigie	CEO and Managing Director of Crown Limited and Director of Crown Entertainment Group Holdings Pty Ltd
John Henry Alexander	Executive Deputy Chairman of Crown Limited and Director of Crown Melbourne Limited
Kenneth McRae Barton	CFO of Crown Limited and Director of Crown Entertainment Group Holdings Pty Ltd and Crown Melbourne Limited
Benjamin Alexander Brazil	Independent, Non-Executive Director of Crown Limited
Helen Anne Coonan	Independent, Non-Executive Director of Crown Limited
Christopher Darcy Corrigan	Independent, Non-Executive Director of Crown Limited
Rowena Danziger	Independent, Non-Executive Director of Crown Limited and Director of Crown Melbourne Limited
Geoffrey James Dixon	Independent, Non-Executive Director of Crown Limited
Kevan Richard Gosper	Director of Crown Melbourne Limited
Gregory Francis Hawkins	CEO and Managing Director of Crown Melbourne Limited
Justine Lisa Henwood	CFO of Crown Melbourne Limited

Name	Title
John Stephen Horvath	Independent, Non-Executive Director of Crown Limited and Director of Crown Melbourne Limited
Ashok Peter Jacob	Non-Independent, Non-Executive Director of Crown Limited and Director of Consolidated Press Holdings Limited
Guy Jalland	Secretary of Consolidated Press Holdings Limited
Michael Roy Johnston	Non-Independent, Non-Executive Director of Crown Limited and Director of Consolidated Press Holdings Limited
Mary Manos	Secretary of Crown Limited
Harold Charles Mitchell	Independent, Non-Executive Director of Crown Limited
Michael James Neilson	Secretary of Crown Limited , Director and Secretary of Crown Entertainment Group Holdings Pty Ltd and Secretary of Crown Melbourne Limited
William Todd Nisbet	Executive Vice President, Strategy and Development of Crown Limited
Debra Marisa Tegoni	Secretary and Executive General Manager, Legal and Regulatory Services of Crown Melbourne Limited

Appendix 6: Matters resolved since the Fourth Casino Review

The report of the Fourth Casino Review was delivered by the VCGR to the Minister on 30 June 2008. As identified in that report, some litigation, investigations and other matters remained incomplete at that time and were therefore excluded from the formation of the VCGR's opinion under section 25(1) of the Casino Control Act.

A number of those matters were resolved as follows:

Associates

Mr Christopher Darcy Corrigan

On 26 May 2006, the casino operator sought the VCGR's approval for Mr Corrigan to become an associate under section 28 of the Casino Control Act. Mr Corrigan was appointed as a director of Crown Limited in July 2007 and remains a current associate under the Act. The investigations referred to in the Fourth Casino Review were concluded in 2011 and no further action was required.

Mr Geoffrey James Dixon

On 16 February 2007, the casino operator sought the VCGR's approval for Mr Dixon to become an associate under section 28 of the Casino Control Act. Mr Dixon was appointed as a director of Crown Limited in July 2007 and remains a current associate under the Act. The investigations referred to in the Fourth Casino Review were concluded in 2011 and no further action was required.

Business associations

The investigations undertaken for the Fifth Casino Review in relation to business associates of the casino operator or its associates are discussed further in Chapter 2.3 – Probity.

Befair Australasia Pty Ltd

In 2004, PBL acquired a 50 per cent equity interest in Befair Australasia Pty Ltd, a joint venture company with UK based The Sporting Exchange Limited. Following the demerger of PBL in 2007, Crown Limited retained the holding in Befair Australasia Pty Ltd. Befair Australasia Pty Ltd is, under the Casino Control Act, a business associate of Crown Limited.

The investigations did not reveal evidence that Befair Australasia Pty Ltd was not of good repute nor had undesirable or unsatisfactory financial resources.

Aspers Holdings (Jersey) Limited

Crown Limited holds a 50 per cent equity interest in Aspers Holdings (Jersey) Limited, a UK-based casino operator. In 2009, Crown Limited wrote down the carrying value of its equity investment in Aspers to nil.

The investigations did not reveal evidence that Aspers Holdings (Jersey) Limited was not of good repute nor had undesirable or unsatisfactory financial resources.

LVTI LLC

In 2008, Crown Limited wrote off its 37.5% investment in joint venture company LVTI LLC (LVTI) following LVTI's decision not to exercise its option to acquire a 27 acre site in Las Vegas.

The investigations did not reveal evidence that LVTI was not of good repute nor had undesirable or unsatisfactory financial resources.

New World Gaming Partners

In 2007, New World Gaming Partners Ltd, a joint venture between wholly owned subsidiaries of PBL and Macquarie Bank Limited, acquired Gateway Casinos Income Fund. In 2009, Crown wrote down the carrying value of the equity and debt components of its investment in Gateway to nil.

The investigations did not reveal evidence that New Worlds Gaming Partners Ltd was not of good repute nor had undesirable or unsatisfactory financial resources.

Fontainebleau Resorts LLC

In 2007, Crown Limited acquired a 19.6 per cent interest in Fontainebleau Resorts LLC (Fontainebleau). In 2009, Crown Limited wrote down the carrying value of its investment in Fontainebleau to nil.

The investigations did not reveal evidence that Fontainebleau Resorts LLC was not of good repute nor had undesirable or unsatisfactory financial resources.

As noted in Chapter 1.1, there is ongoing litigation concerning this project that has been excluded from the VCGLR's considerations for the Fifth Casino Review.

Appendix 7: ASX Corporate Governance Council Principles and Recommendations

ASX Corporate Governance Council Principles and Recommendations	
Principle 1: Lay solid foundations for management and oversight	
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.
1.2	Companies should disclose the process for evaluating the performance of senior executives.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.
Principle 2: Structure the Board to add value	
2.1	A majority of the Board should be independent directors.
2.2	The chair should be an independent director.
2.3	The roles of chairperson and CEO should not be exercised by the same individual.
2.4	The Board should establish a Nomination Committee.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.

ASX Corporate Governance Council Principles and Recommendations

Principle 3: Promote ethical and responsible decision-making

- 3.1 Companies should establish a Code of Conduct and disclose the code or a summary of the code as to:
 - 3.1.1 The practices necessary to maintain confidence in the company's integrity.
 - 3.1.2 The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.
 - 3.1.3 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- 3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.
- 3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
- 3.4 Companies should disclose in each annual report the proportion of women in the whole organisation, women in senior executive positions and women on the Board.
- 3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3.

Principle 4 – Safeguard integrity in financial Reporting

- 4.1 The Board should establish an Audit Committee.
- 4.2 The Audit Committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the Board; and has at least three members.
- 4.3 The Audit Committee should have a formal charter.
- 4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.

ASX Corporate Governance Council Principles and Recommendations

Principle 5 – Make timely and balanced disclosure

- 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- 5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.

Principle 6 – Respect the rights of shareholders

- 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
- 6.2 Companies should provide the information indicated in the Guide to Reporting on Principle 6.

Principle 7 – Recognise and manage risk

- 7.1 Companies should establish policies for the oversight and management and management of material business risks and disclose a summary of those policies.
- 7.2 The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
- 7.3 The Board should disclose whether it has received assurance from the CEO (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.
- 7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.

Principle 8 – Recognise and manage risk

- 8.1 The Board should establish a Remuneration Committee.
- 8.2 The Remuneration Committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; and has at least three members.
- 8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
- 8.4 Companies should provide the information indicated in the Guide to reporting on Principle 8.

Appendix 8: List of stakeholder consultations

- ASIC
- AUSTRAC
- Australian Crime Commission
- Australian Customs and Border Protection Service
- Australian Federal Police
- Building Commission (Vic)
- Casino Regulatory Authority - Singapore
- City of Melbourne - Melbourne Council
- Coroners Court of Victoria
- Department of Health
- Department of Human Services
- Department of Justice – Gambling Policy and Research
- Department of Justice – Liquor Policy
- Department of Justice – Victorian Responsible Gambling Foundation
- Western Australia Department of Racing Gaming and Liquor
- Department of Treasury and Finance
- Emergency Services Telecommunications Authority
- Gambler’s Help Southern
- Gambling Commission – United Kingdom
- Gaming Authority (Netherlands)
- New South Wales ILGA
- Macau Gaming Inspection and Coordination Bureau (DICJ)
- Metropolitan Fire Brigade (Vic)
- New Zealand Department of Internal Affairs (Gambling Commission NZ)
- PricewaterhouseCoopers
- South Australia Liquor and Gaming Commission
- Professor Paul Delfabbro, University of Adelaide
- Salvation Army
- Swedish Gambling Authority
- Swinburne University of Technology
- Tasmania Treasury – Tasmanian Gaming Commission
- Tourism Victoria
- United Voice
- United States Federal Bureau of Investigation
- Victoria Police
- Victoria Police – Divisional Licensing Unit
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