



2nd annual edition • November 2013
Gambling Outlook: 2013-2017
(South Africa – Nigeria – Kenya)

Betting on Africa



Gambling Outlook: 2013-2017 (South Africa – Nigeria – Kenya)

Second edition

PwC's team of gambling specialists bring you an unbiased overview of how the gambling industry in South Africa is expected to develop over the coming years. The publication focuses on the following major industry segments: casino gambling, limited payout machines, sports betting, bingo and the National Lottery. It details the key trends we have seen developing and the future challenges and prospects that are facing these industry sectors. For Nigeria and Kenya, we cover only casino gambling.

Gambling Outlook: 2013-2017 provides deep knowledge of the local gambling market and is a powerful tool for understanding critical business issues for this market. To learn more about the challenges and opportunities that lie ahead for the gambling industry in South Africa, please visit www.pwc.co.za/gambling

About PwC's gambling industry group

Every day, PwC plays a significant supporting role in gambling businesses across the world. With our local knowledge of culture, laws and business needs, we help clients elsewhere make the most of changing market scenarios.

We understand how developments in the broader hospitality environment are affecting our clients. This allows us to work with them as a trusted advisor to provide solutions that help improve their organisation's effectiveness and long-term success. More significantly, we focus on the issues and challenges that are most important to our clients. These include restructuring, talent management, compliance, regulatory changes, changing gambler requirements and the management of capital spend. We are committed to understanding the forces that have an impact on these issues, and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.



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Johannesburg
6 November 2013

To our clients and friends in the gambling industry:

Welcome to the second edition of the *Gambling Outlook: 2013-2017*. This publication focuses on segments within the gambling industry, with detailed forecasts and analysis. For each segment, we give details about the key trends we have noted as well as key challenges and future prospects we have identified. We have also incorporated sections on Nigeria and Kenya in this edition.

The gambling industry is often associated with glamour, high rollers, opulent settings and the trappings of wealth. As a business, however, the margins are low, a large portion of the costs are fixed, regulatory compliance is stringent and profitability depends on volume.

Despite a slowing economy, gambling held up very well in South Africa in 2012. Casinos are by far the largest component of the gambling market, with gross gambling revenues at R16.4 billion in 2012.

The overall casino market in Nigeria is limited due to the high cost of licences, which has discouraged companies from entering the market. Consequently, the casino market in Nigeria is only a fraction of the one in South Africa.

In Kenya, gambling laws are much more open than in Nigeria or South Africa. Gambling is considered a leisure activity that generates tax revenue.

We at PwC continue to stay on top of trends and developments that may impact gambling companies, now and in the future, and we look forward to sharing our thoughts with you once again. We appreciate your feedback and ask that you continue to tell us what we can do to make our publications more relevant and useful to you.

If you would like clarification on any matters covered in this publication, or you believe we can be of service to your business in any way, please contact one of our industry specialists listed on page 30 of this report.

Finally, we thank you for your support and wish you an exciting and rewarding year ahead.

Sincerely,

Nikki Forster
Director
Leader – Gambling
PwC Southern Africa

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Gambling Outlook: 2013-2017

Research methodology

The National Gambling Board of South Africa is our source for historical data. Their fiscal year covers the period from 1 April to 31 March. As the fiscal year overlaps the calendar year, for our purposes figures represent the year in which most of the activity took place. Thus, our figures for 2012

correspond to the National Gambling Board's financial year 2013, which covers the period from 1 April 2012 to 31 March 2013. The economic environment looking backwards and forwards, as used in our forecasts for South Africa, is shown below.

Economic and consumer price growth in South Africa (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Nominal GDP	11.9	2.2	15.3	9.7	8.1	7.3	8.5	9.0	9.2	9.1	8.6
Real GDP	3.6	-1.5	3.1	3.5	2.5	2.0	2.9	3.3	3.4	3.3	3.0
Consumer price inflation	11.5	7.1	4.3	5.0	5.6	6.0	6.5	6.5	6.8	6.8	6.5

Sources: Statistics South Africa, PwC LLP, Wilkofsky Gruen Associates

For Nigeria, we have derived and extrapolated figures from selected company information. Here, the fiscal year for company data for 2012 ends on 30 June 2012. Therefore, the company data for the period ended 30 June 2012

is shown as the calendar year 2012 in our report. The economic environment affecting the market looking backwards and forwards, as used in our forecasts for Nigeria, is shown below.

Economic and consumer price growth in Nigeria (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Nominal GDP	15.2	17.6	19.7	16.3	17.3	14.8	15.5	17.0	18.0	17.0	16.5
Real GDP	6.0	7.0	8.0	7.2	7.1	7.2	8.0	8.5	9.0	8.5	8.2
Consumer price inflation	10.9	12.6	13.9	10.9	12.1	9.0	9.5	10.5	11.0	10.5	10.1

Sources: Nigeria National Bureau of Statistics, PwC LLP, Wilkofsky Gruen Associates

Exchange rates used in this report: Nigerian naira

Currency	Exchange rate
US dollar	159.311
South African rand	6.207

For Kenya, figures are derived and extrapolated from casino taxes. In this case, the data are consistent with calendar years. The economic environment affecting the market

looking backwards and forwards, as used in our forecasts for Kenya, is shown below.

Economic and consumer price growth in Kenya (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Nominal GDP	23.9	12.3	7.7	18.6	9.6	7.7	8.5	9.0	9.0	8.7	8.6
Real GDP	1.5	2.7	5.8	5.0	4.3	5.0	6.0	6.5	6.3	6.0	6.0
Consumer price inflation	26.2	9.0	3.8	14.2	9.4	6.0	6.0	6.3	6.5	6.5	6.3

Sources: Kenya National Bureau of Statistics, PwC LLP, Wilkofsky Gruen Associates

Exchange rates used in this report: Kenyan shilling

Currency	Exchange rate
US dollar	86.030
South African rand	11.495



The gambling market

This gambling report covers South Africa, Nigeria and Kenya. For South Africa, we include casino gambling, limited payout machines (LPMs), sports betting, bingo and the national lottery. For Nigeria and Kenya, we include only casino gambling. This report provides data on gross gambling revenues (the amount wagered minus the amount returned to players as winnings); turnover (the total amount wagered by players, including winnings which are wagered again by the players); and gambling taxes and levies, which is the amount levied and collected by provincial licensing authorities from legal gambling. In the case of the National Lottery in South Africa, contributions are made from lottery tickets to the National Lottery Distribution Trust Fund.

Overview

Of the three countries, South Africa has by far the largest overall gambling market as well as the largest land-based casino gambling market. Gross land-based casino gambling revenues totalled R16.4 billion (\$1.7 billion) in South Africa in 2012, compared with only R310 million (\$31 million) in Nigeria and R180 million (\$18 million) in Kenya.

There are 37 licenced operating casinos in South Africa, compared with 13 in Kenya and only three in Nigeria. Beyond the casino count itself, casinos in South Africa generally are larger, having more slot machines and table games than casinos in Kenya and Nigeria. South Africa also has a much larger economy than the other two countries, which leads to more spending per gambling position.

There are also differences in the regulatory climates in each country. Casinos are well regulated and long established in South Africa. In Nigeria, by contrast, casino regulation is relatively recent and there are many unlicensed casinos operating in that country that in part compete with licenced operations.

With respect to online gambling, it is permitted in Kenya but prohibited in Nigeria, except for lotteries. In South Africa it is still illegal, although there is legislation on the books that will allow for legitimisation of online gambling. The National Gambling Amendment Act of 2008 legalised interactive gambling, but that amendment act has not yet been adopted. In 2010, the Gauteng High Court determined that online gambling was illegal, and in 2011 the South African Department of Trade and Industry indicated that until the National Gambling Amendment Act comes into effect, people participating in online or interactive gambling could be prosecuted. The exception is online sports wagering, which is legal in South Africa and growing rapidly.

The non-casino market in South Africa is being fuelled by growth in limited payout machines and the introduction in some provinces of licenced bingo.

Casino gross gambling revenue in South Africa, Nigeria and Kenya (R millions)

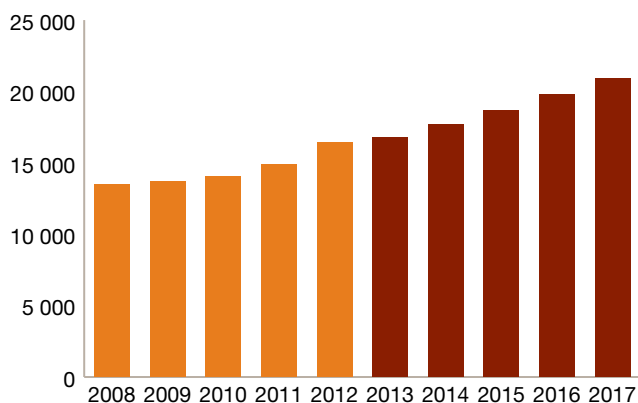
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
South Africa	13 505	13 726	14 043	14 855	16 411	16 800	17 700	18 700	19 800	20 900	
% change	2.6	1.6	2.3	5.8	10.5	2.4	5.4	5.6	5.9	5.6	5.0
Nigeria	185	210	230	260	310	340	390	470	555	650	
% change	23.3	13.5	9.5	13.0	19.2	9.7	14.7	20.5	18.1	17.1	16.0
Kenya	95	110	130	170	180	195	225	260	295	325	
% change	11.8	15.8	18.2	30.8	5.9	8.3	15.4	15.6	13.5	10.2	12.5
Total	13 785	14 046	14 403	15 285	16 901	17 335	18 315	19 430	20 650	21 875	
% change	2.9	1.9	2.5	6.1	10.6	2.6	5.7	6.1	6.3	5.9	5.3

Sources: PwC LLP, Wilkofsky Gruen Associates

South Africa has the most mature market, and we expect it will be the slowest growing with a 5.0% compound annual increase in gross gambling revenue to R20.9 billion (\$2.1 billion) in 2017.

For the three market regions as a whole, casino gross gambling revenues will total an estimated R21.9 billion (\$2.2 billion) in 2017, which will be a 5.3% compound annual increase from R16.9 billion (\$1.7 billion) in 2012.

Casino gross gambling revenue in South Africa (R millions), 2008-2017

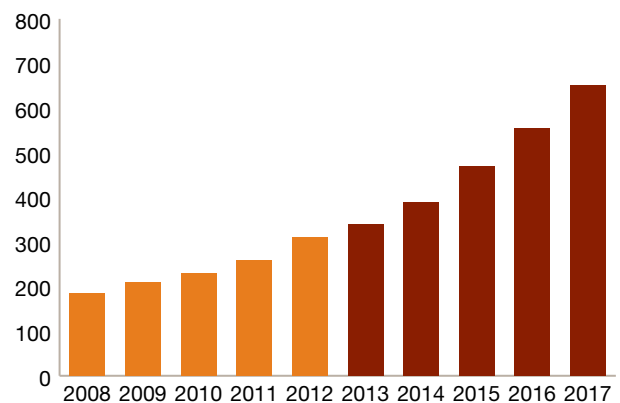


Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In Nigeria, casinos and the lottery are the only legal gambling activities. Sports betting is not permitted. This is not to say that sports betting and online wagering do not exist in the country, though. In Kenya, virtually all forms of gambling are legal, although online gambling is just being introduced.

With respect to casino gambling revenues, strong economic growth in Nigeria and the opening of new hotels that attract business travellers will propel spending. We expect Nigeria to be the fastest-growing country over the next five years with a 16.0% compound annual increase in gross gambling revenue to R650 million (\$66 million) in 2017.

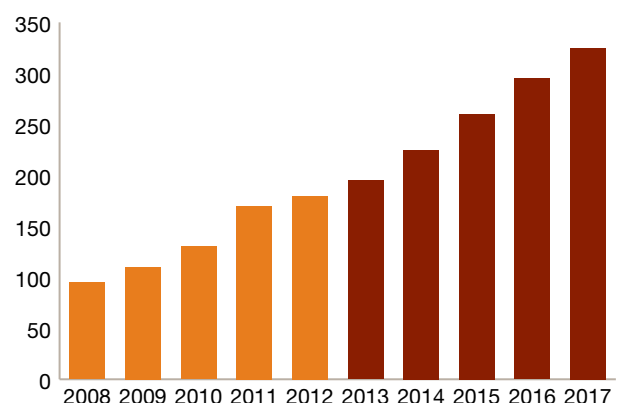
Casino gross gambling revenue in Nigeria (R millions), 2008-2017



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

In Kenya, a pickup in economic growth and continued expansion in tourism – if not impacted by recent terrorist activities – will boost the market. We project that gross gambling revenue will rise to R325 million (\$33 million) in 2017 for a 12.5% compound increase.

Casino gross gambling revenue in Kenya (R millions), 2008-2017



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gambling in South Africa

Gross gambling revenues

Rand value of the gross revenue of an operator – amount wagered less winnings paid to players

Despite a slowing economy, gambling held up very well in South Africa in 2012. Gross gambling revenues posted their largest annual increase over the past five years, with bingo gross gambling revenues rising by 86.0%, sports betting by 19.3% and casino gambling by 10.5%. For LPMs, the payout rate increased in 2012, which cut into gross gambling revenues. Gross gambling revenues for LPMs rose by 25.7%. Overall gross gambling revenues rose by 13.4% in 2012.

Bingo was the fastest-growing category with its 86.0% increase, the result of the introduction of bingo into Mpumalanga. Previously, bingo was permitted only in Gauteng. Bingo is expected to be introduced in KwaZulu-Natal and the North West province in the next few years, which will further propel the market.

Sports betting consists of horse racing and betting on sporting events. Online wagering is permitted. Currently, horse racing is the dominant category, but that is changing as betting shops proliferate and as broadband penetration rises. There are currently more than 400 betting shops and more than 300 sports books. Sun International is entering the sports-betting market, having agreed to acquire PowerBet Gambling, pending approval from the Western Cape Gambling and Racing Board. It is expected that within the next five years, wagering on sporting events will overtake horseracing.

Overall gross gambling revenue for sports betting rose by 19.3% in 2012 to R2.6 billion, the second-largest category behind casinos. Fuelled principally by wagering on sporting events, gross gambling revenues are projected to rise at an 8.3% compound annual rate. In addition to these underlying trends, it is anticipated that sports betting will be boosted by the FIFA World Cup in 2014 and the Rugby World Cup in 2015.

Casinos are by far the largest component of the gambling market with gross gambling revenues at R16.4 billion in 2012, which is 78% of total gross gambling revenue and 71% of the market with the national lottery included. Casino gross gambling rose 10.5% in 2012. In contrast with the bingo, LPM and sports-betting markets that are being driven by an increase in the number of outlets, the casino market has virtually reached its limit with 38 out of a possible 40 casinos already licenced and 37 in operation. Consequently, expansion in the number of outlets will not drive growth for casinos.

Instead, casino operators are investing in their existing facilities in order to boost revenue. This is being done through the expansion of existing casinos by adding more gambling positions and introducing other entertainment offerings at these casinos.

Tsogo Sun has announced a number of projects to expand its various casinos. In Gauteng it is expanding its Silverstar, Gold Reef City and Montecasino properties at a total cost of R750 million. It received approval from the Gauteng Gambling Board for the introduction of an additional 1 500 gambling positions at its Gauteng properties, which will be rolled out over the medium term.

Tsogo Sun is also involved in projects to enhance its Suncoast property in Durban. It commissioned an additional 96 slot machines and is planning to expand the Suncoast casino and entertainment complex by enlarging the casino; adding restaurants, retail space, banqueting and conference facilities; expanding the parking area; and installing an outdoor pool. In addition to Suncoast, Tsogo Sun is redeveloping its Elangeni and Maharani hotel complex in Durban at a cost of R220 million. The redevelopment of the Hemingways casino in East London was largely completed in March 2013, and the expansion of the Emnotweni casino had commenced. The capital cost of these two projects is R600 million.

In 2011, Sun International spent R400 million to refurbish the Wild Coast Sun and R1 billion to upgrade its hotel and casino resort in Port Elizabeth. Sun International is also looking to relocate its Morula Casino in Gauteng to Menlyn, an area in Tshwane in the northern part of Gauteng that is considered to be in a better location. Sun International plans to spend R3 billion on the Menlyn complex that will feature 3,000 slot machines and 100 gambling tables. The plan is being challenged by the City of Tshwane, though, because there are a number of schools and churches located in the vicinity of the planned casino and much local resistance is being experienced.

The casino market slowed in certain provinces, including Gauteng, during the first quarter of 2013 as the economy weakened. However, we expect that improving economic conditions and upgraded facilities will lead to a pickup in growth beginning in 2014, with increases in excess of 5% annually over the 2014-17 period.

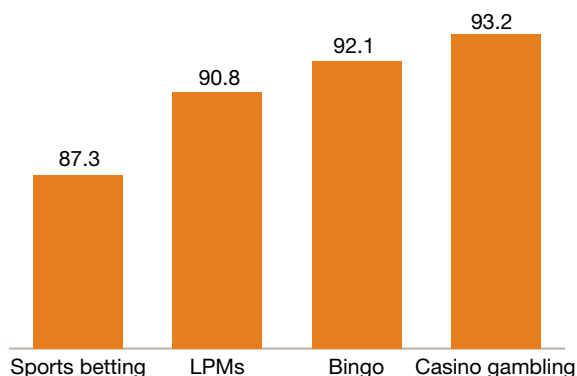
LPMs are principally located in bars, clubs and restaurants. Although growth has been high in percentage terms, the market remains well below its potential as only about 20% of the authorised machines are in place. In the last year or two, however, the LPM market has been attracting new interest. Grand Parade Investments spent R300 million in 2012 to increase the number of LPMs in place by two-thirds.

The company has also started manufacturing machines locally (through a joint venture with a German manufacturer, Merkur), which is expected to significantly reduce equipment costs. In 2013, Grand Parade Investments acquired Hot Slots (Bohwa 1 Gaming) in Gauteng and the licence of Zimie Slots Mpumalanga in Mpumalanga, which will expand its LPM presence.

The LPM industry is also petitioning to increase the maximum wager from R5 to R30 and to raise the maximum payout from R500 to R3 000. These increases, if permitted, will raise the revenue potential per machine. Rollouts of LPMs and a possible boost in revenue per machine will further drive this market.

Casinos on average retained 6.8% of amounts wagered (or turnover) in 2012. For the gambling categories as a whole, the payout rate in 2012 averaged 92.6%. Because pay-out rates are on average more than 90%, gambling operators need high volumes to be profitable. Indeed, one of the reasons why gambling is popular in South Africa and throughout the world is that most of the money wagered is returned to the bettors. While gamblers in the aggregate are destined to lose, individuals have a reasonable chance of coming out ahead.

Gambling payout rates per category, 2012 (%)



Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

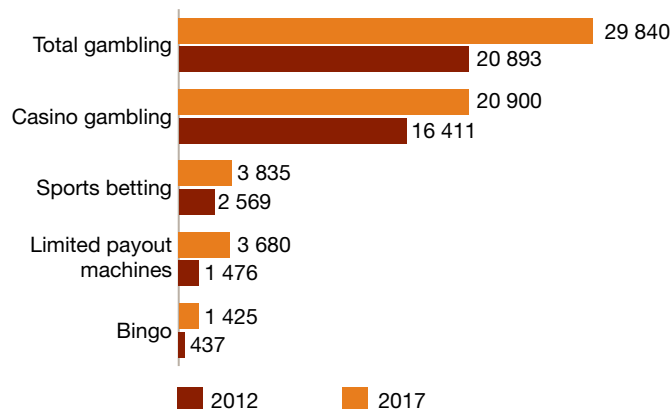
Although payout rates may fluctuate slightly from year to year, annual variations are within a narrow range and generally do not represent a systematic shift in the market. Therefore, we assume that payout rates over the next five years will remain essentially the same as in 2012.

We project that casino gross gambling revenues will rise from R16.4 billion in 2012 to R20.9 billion in 2017, a 5.0% compound annual increase. We expect LPM gross revenues to average 20.0% compounded annually to R3.7 billion in 2017 from R1.5 billion in 2012. Gross gambling revenues from sports betting will increase at a projected 8.3% compound annual rate from R2.6 billion in 2012 to R3.8 billion in 2017. We project gross gambling revenues for bingo to reach R1.4 billion in 2017 from R437 million in 2012, a 26.7% compound annual increase.

Gross gambling revenues as a whole will expand from R20.9 billion in 2012 to R29.8 billion in 2017, a 7.4% compound annual increase.

National lottery gross revenues (ticket sales or turnover less payouts to winners) have been the weakest segment of the market, averaging only 2.9% compound annual growth between 2009 and 2012 compared with 8.7% compound annual growth for gambling. Nevertheless, a majority of the population buys lottery tickets each week.

Gross gambling revenues (R millions), 2012 vs 2017



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Gross gambling and national lottery revenues in South Africa (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Casino gambling	13 505	13 726	14 043	14 855	16 411	16 800	17 700	18 700	19 800	20 900	
% change	2.6	1.6	2.3	5.8	10.5	2.4	5.4	5.6	5.9	5.6	5.0
Limited payout machines	663	740	899	1 174	1 476	1 925	2 390	2 850	3 300	3 680	
% change	29.5	11.6	21.5	30.6	25.7	30.4	24.2	19.2	15.8	11.5	20.0
Sports betting	1 633	1 605	2 003	2 153	2 569	2 700	3 250	3 530	3 640	3 835	
% change	-11.9	-1.7	24.8	7.5	19.3	5.1	20.4	8.6	3.1	5.4	8.3
Bingo	121	197	196	235	437	675	915	1 115	1 270	1 425	
% change	34.4	62.8	-0.5	19.9	86.0	54.5	35.6	21.9	13.9	12.2	26.7
Total gambling	15 922	16 268	17 141	18 417	20 893	22 100	24 255	26 195	28 010	29 840	
% change	1.9	2.2	5.4	7.4	13.4	5.8	9.8	8.0	6.9	6.5	7.4
National lottery*	2 027	2 162	2 195	2 288	2 355	2 400	2 475	2 585	2 690	2 790	
% change	2.1	6.7	1.5	4.2	2.9	1.9	3.1	4.4	4.1	3.7	3.4

*Lotto and Powerball

Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Gambling turnover

Rand value of money wagered includes “recycling”, which refers to amounts that are staked on more than one occasion.

Gambling turnover rose by 9.4%, down from the 10.6% rise in 2011 but still the second-fastest increase during the past five years. Growth was principally fuelled by double-digit gains in limited payout machines, sports betting, and bingo. The casino market was strong as well, with a 6.9% increase.

Bingo was the fastest-growing category, with a 63.2% increase.

Limited payout machines (LPMs) were the next-fastest-growing category, with a 34.4% increase. We project LPM turnover to increase at a 20.0% compound annual rate through 2017.

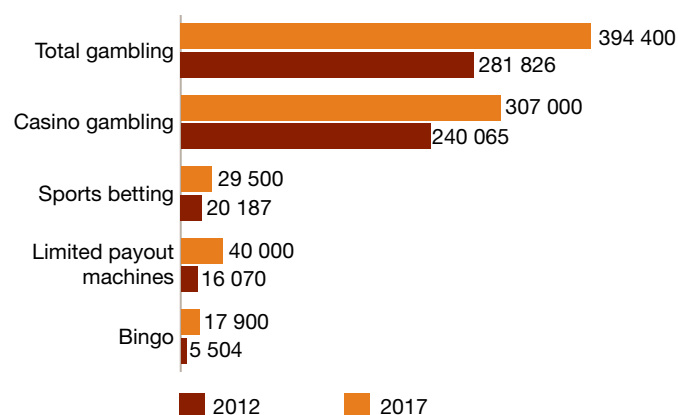
Overall sports betting turnover rose by 14.1% in 2012 to R20.2 billion, the second-largest category behind casinos. Fuelled principally by wagering on sporting events, turnover is projected to rise at a 7.9% compound annual rate.

Casinos are by far the largest component of the market with turnover at R240.1 billion in 2012, 85% of total gambling turnover. The 6.9% increase in casino turnover in 2012 was down from the 7.3% increase in 2011, but it was still the third consecutive year that growth exceeded 6%.

While the casino market started slowing in certain provinces, including Gauteng, during first quarter of 2013 as the economy weakened, we expect that improving economic conditions and upgraded facilities will lead to a pickup in growth beginning in 2014 with increases in excess of 5% annually over the 2014-17 period. Nevertheless, as the market is maturing, we do not expect growth to equal the increases recorded in 2010-12.

National lottery ticket sales, or turnover, rose by 3.0% in 2012, a much slower increase compared with growth in gambling. We expect the national lottery to remain a relatively slow-growing category with turnover rising by only 3.4% on a compound annual basis.

Gambling turnover by type (R millions), 2012 vs 2017



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Gambling and national lottery turnover in South Africa (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Casino gambling	194 917	196 778	209 263	224 563	240 065	247 000	260 000	275 000	291 000	307 000	
% change	0.2	1.0	6.3	7.3	6.9	2.9	5.3	5.8	5.8	5.5	5.0
Limited payout machines	6 245	6 932	8 653	11 953	16 070	20 900	26 000	31 000	36 000	40 000	
% change	29.2	11.0	24.8	38.1	34.4	30.1	24.4	19.2	16.1	11.1	20.0
Sports betting	9 466	10 211	12 643	17 699	20 187	20 800	25 000	27 200	28 000	29 500	
% change	-4.3	7.9	23.8	40.0	14.1	3.0	20.2	8.8	2.9	5.4	7.9
Bingo	1 499	1 905	2 426	3 372	5 504	8 500	11 500	14 000	16 000	17 900	
% change	33.7	27.1	27.3	39.0	63.2	54.4	35.3	21.7	14.3	11.9	26.6
Total gambling	212 127	215 826	232 985	257 587	281 826	297 200	322 500	347 200	371 000	394 400	
% change	0.9	1.7	8.0	10.6	9.4	5.5	8.5	7.7	6.9	6.3	7.0
National lottery*	4 053	4 323	4 390	4 575	4 710	4 800	4 950	5 170	5 380	5 580	
% change	2.0	6.7	1.5	4.2	3.0	1.9	3.1	4.4	4.1	3.7	3.4

*Lotto and Powerball

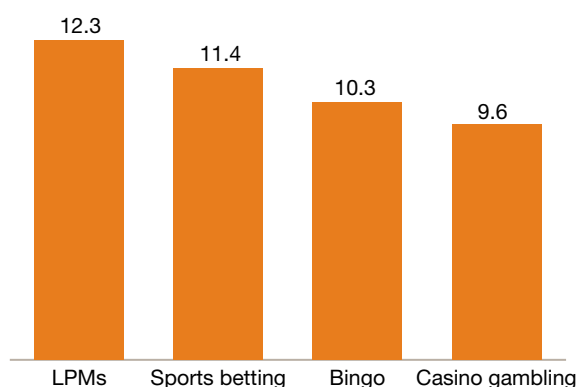
Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Gambling taxes and levies

The amount levied and collected by provincial licensing authorities from legal gambling. Corporate tax and VAT on gambling revenues are excluded from our analysis.

Gambling taxes and levies totalled R2.1 billion in 2012, up 14.3% from 2011, benefiting from the 13.4% increase in gross gambling revenues and a slight increase in tax payment rate. As is the case with payout rates, tax rates also vary by category. The various gambling operations are run by private enterprise, profit-seeking entities and are assessed for taxes at average rates ranging from 9.6% of gross gambling revenues for casinos to 12.3% for LPMs. These taxes and levies are paid to the provincial gambling boards.

Gambling taxes and levies as a share of gross gambling revenues (%), 2012



Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Casinos also pay deemed output VAT to the national treasury on the gross gambling revenues that they have earned. This is a direct cost to the casino operators, and any increase in the VAT rate would reduce a casino's income. The estimated deemed output VAT collected from casinos in 2012 amounted to R2 billion.

Nearly 40% or R836 million of the total 2012 gambling taxes and levies were generated in Gauteng. KwaZulu-Natal and Western Cape each contributed more than R400 million. Combined, these three provinces accounted for more than 80% of gambling taxes and levies in South Africa.

Gambling taxes and levies by province, 2012

	Taxes and levies (R millions)	Share of total (%)
Gauteng	836	39.9
KwaZulu-Natal	493	23.5
Western Cape	402	19.2
Eastern Cape	111	5.3
North West	86	4.1
Mpumalanga	67	3.2
Limpopo	44	2.1
Free State	40	1.9
Northern Cape	17	0.8
Total	2 096	100.0

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

The Western Cape and KwaZulu-Natal have the highest share of taxes and levies as a percentage of gross gambling revenues. This reflects their dominance in the LPM market, which has the highest gambling tax rates.

Taxes/Levies as a % of gross gambling revenues, 2012

	% of gross gambling revenues
Gauteng	9.6
KwaZulu-Natal	12.5
Western Cape	12.6
Eastern Cape	7.8
North West	7.8
Mpumalanga	7.7
Limpopo	7.8
Free State	7.8
Northern Cape	8.0

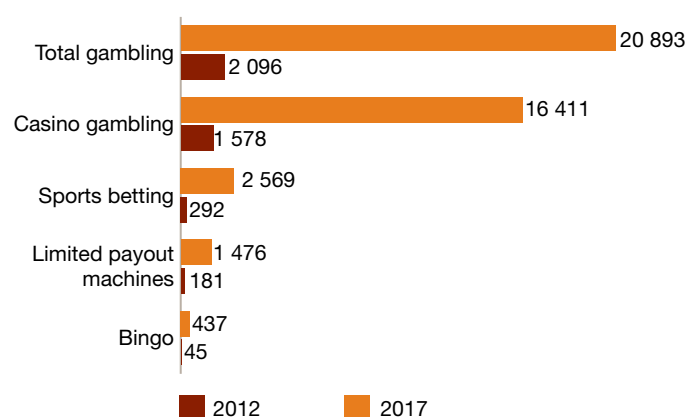
Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

A 1% tax increase on gross gambling revenues for casinos is scheduled to take effect in late 2013, and a 2% tax rate increase for casinos in the Western Cape took effect in September 2013. Casino taxes in the Western Cape are graduated, with higher rates applied to casinos with higher revenues. The 2% tax increase affects all categories.

The full effect of these tax increases will be felt in 2014, when taxes and levies for casinos will have risen by 19.5%.

For the forecast period as a whole, overall taxes and levies will expand by 10.7% compounded annually for gambling, from R2.1 billion in 2012 to R3.5 billion in 2017.

Gambling, taxes & levies vs gross gambling revenues (R millions), 2012



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

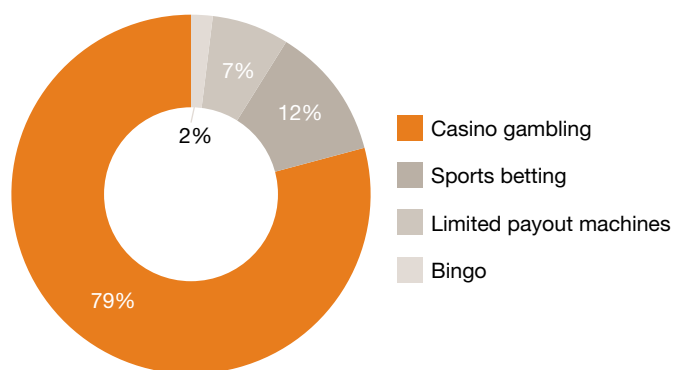
Gambling taxes and levies in South Africa (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Casino gambling	1 251	1 263	1 318	1 405	1 578	1 740	2 080	2 200	2 330	2 450	
% change	0.7	1.0	4.4	6.6	12.3	10.3	19.5	5.8	5.9	5.2	9.2
Limited payout machines	73	83	105	140	181	240	300	355	415	460	
% change	35.2	13.7	26.5	33.3	29.3	32.6	25.0	18.3	16.9	10.8	20.5
Sports betting	201	207	223	259	292	300	360	390	400	430	
% change	-5.6	3.0	7.7	16.1	12.7	2.7	20.0	8.3	2.6	7.5	8.0
Bingo	15	22	23	29	45	68	92	110	128	143	
% change	36.4	46.7	4.5	26.1	55.2	51.1	35.3	19.6	16.4	11.7	26.0
Total gambling	1 540	1 575	1 669	1 833	2 096	2 348	2 832	3 055	3 273	3 483	
% change	1.3	2.3	6.0	9.8	14.3	12.0	20.6	7.9	7.1	6.4	10.7

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Casino gambling

Gross gambling revenue by type (R millions) - 2012



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The National Gambling Act permits 40 licenced casinos in South Africa. A total of 38 are currently licenced, of which 37 are in operation. Tsogo Sun Group, Sun International and Peermont Global Group are the leading casino companies in South Africa, together accounting for 35 of the 38 licenced casinos.

Casino gambling is concentrated in Gauteng, KwaZulu-Natal and the Western Cape provinces. Gauteng has seven casinos and KwaZulu-Natal and the Western Cape both have five, in each case the maximum permitted. No other province has more than four casinos.

Gauteng was the leading province in gross gambling revenues earned by casinos at R7.2 billion in 2012, 44.1% of the total. KwaZulu-Natal and the Western Cape were next at R3 billion and R2.4 billion, respectively. These three provinces accounted for 76.6% of total gross gambling revenues for casinos. The Eastern Cape and North West were the only other provinces to generate R1 billion plus in gross gambling revenues.

Gross gambling revenues earned by casinos by province, 2012

	Gross gambling revenues (R millions)	Share of total (%)
Gauteng	7 230	44.0
KwaZulu-Natal	2 968	18.0
Western Cape	2 395	14.6
Eastern Cape	1 109	6.8
North West	1 017	6.2
Mpumalanga	709	4.3
Free State	419	2.6
Limpopo	373	2.3
Northern Cape	191	1.2
Total	16 411	100.0

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Casino group licenced casinos by province

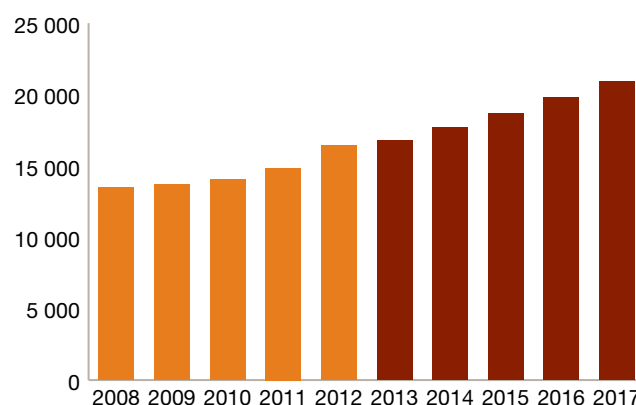
	Tsogo Sun Group	Sun International	Peermont Global	London Clubs International	Northern Cape Casino Consultants	Leitlho	Total
Gauteng	3	2	1	1			7
KwaZulu-Natal	3	1	1				5
Western Cape	3	2					5
Eastern Cape	2	2					4
North West		2	2				4
Free State	1	2	1				4
Mpumalanga	2		1				3
Limpopo		1	2				3
Northern Cape		1			1	1	3
Total	14	13	8	1	1	1	38

Source: Casino Association of South Africa

In addition to the 1% rise in the tax on gross gambling revenues that will affect all casinos, the casinos in the Western Cape now face a local tax increase of 2% that came into effect in September 2013. As a result of the increase in rates, we project that taxes and levies will grow at a 9.2% compound annual rate over the next five years, a much faster increase than projected for gross gambling revenues earned by casinos. Taxes and levies will total an estimated R2.5 billion in 2017, up from R1.6 billion in 2012. The deemed output VAT on gross gambling revenue is forecast to be R2.6 billion in 2017. This, together with gambling taxes and levies, is expected to account for 24.4% of gross gambling revenue in 2017, up from the 21.8% in 2012.

Gross gambling revenues for casinos will rise at a projected 5.0% compound annual rate to R20.9 billion in 2017 from R16.4 billion in 2012.

Casino gross gambling revenue (R millions) 2008-2017



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

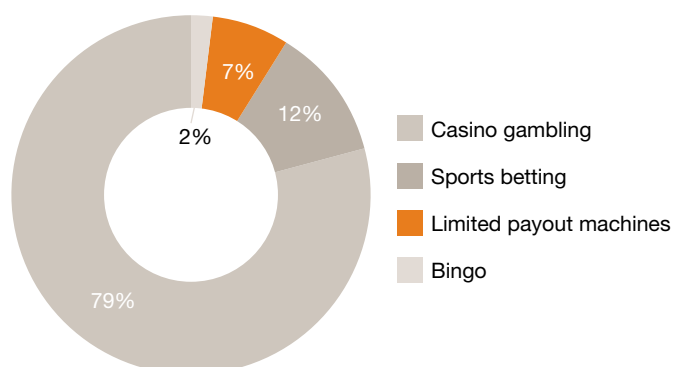
Casino gambling in South Africa (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	13 505	13 726	14 043	14 855	16 411	16 800	17 700	18 700	19 800	20 900	
% change	2.6	1.6	2.3	5.8	10.5	2.4	5.4	5.6	5.9	5.6	5.0
Taxes and levies	1 251	1 263	1 318	1 405	1 578	1 730	2 080	2 200	2 330	2 450	
% change	0.7	1.0	4.4	6.6	12.3	9.6	20.2	5.8	5.9	5.2	9.2

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Limited payout machines

Gross gambling revenue by type (R millions), 2012



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Limited payout machines are monitored by the Central Electronic Monitoring System (CEMS) and are licenced to route operators who manage and operate LPMs in conjunction with site operators. The rollout of LPMs has been slower than expected. Consequently, the number of machines in place represents only about 20% of those authorised or currently licenced. In Gauteng, for example, Hot Slots is licenced to operate 1,000 LPMs, but only 343 were in place in early August 2013.

In contrast with the casino market, where Gauteng dominates, that province ranked third in LPM gross gambling revenues at R242 million in 2012, representing only 16.4% of the total. The Western Cape had the largest LPM market in 2012 at R481 million, with KwaZulu-Natal next at R339 million. The Eastern Cape at R161 million, Limpopo at R119 million, and Mpumalanga at R101 million were the other provinces above R100 million.

LPMs have not yet been introduced in the Northern Cape and are not yet significant in the North West and Free State.

LPM gross gambling revenues by province, 2012

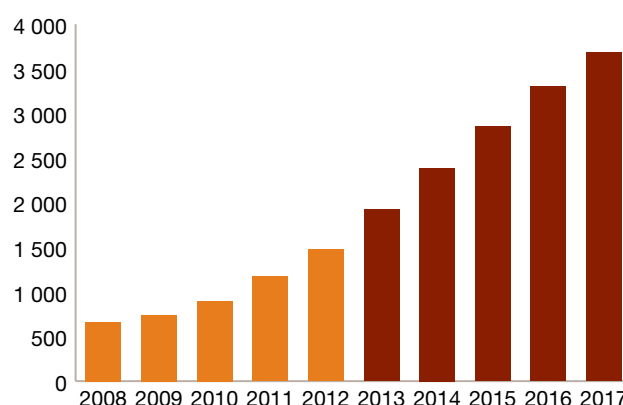
	Gross gambling revenues (R millions)	Share of total (%)
Western Cape	481	32.6
KwaZulu-Natal	339	23.0
Gauteng	242	16.4
Eastern Cape	161	10.9
Limpopo	119	8.1
Mpumalanga	101	6.8
North West	15	1.0
Free State	18	1.2
Total	1 476	100.0

Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

As LPM machines continue to be installed in new locations and with the possibility of increases in the maximum bet and maximum payout, there is still ample room for growth in this sector of the market. We project that LPM gross gambling revenue will expand at a 20% compound annual rate to R3.7 billion in 2017 from R1.5 billion in 2012.

Taxes and levies will increase from R181 million in 2012 to a projected R460 million in 2017, a 20.5% compound annual increase.

Limited payout machines gross gambling revenue (R millions), 2008 – 2017

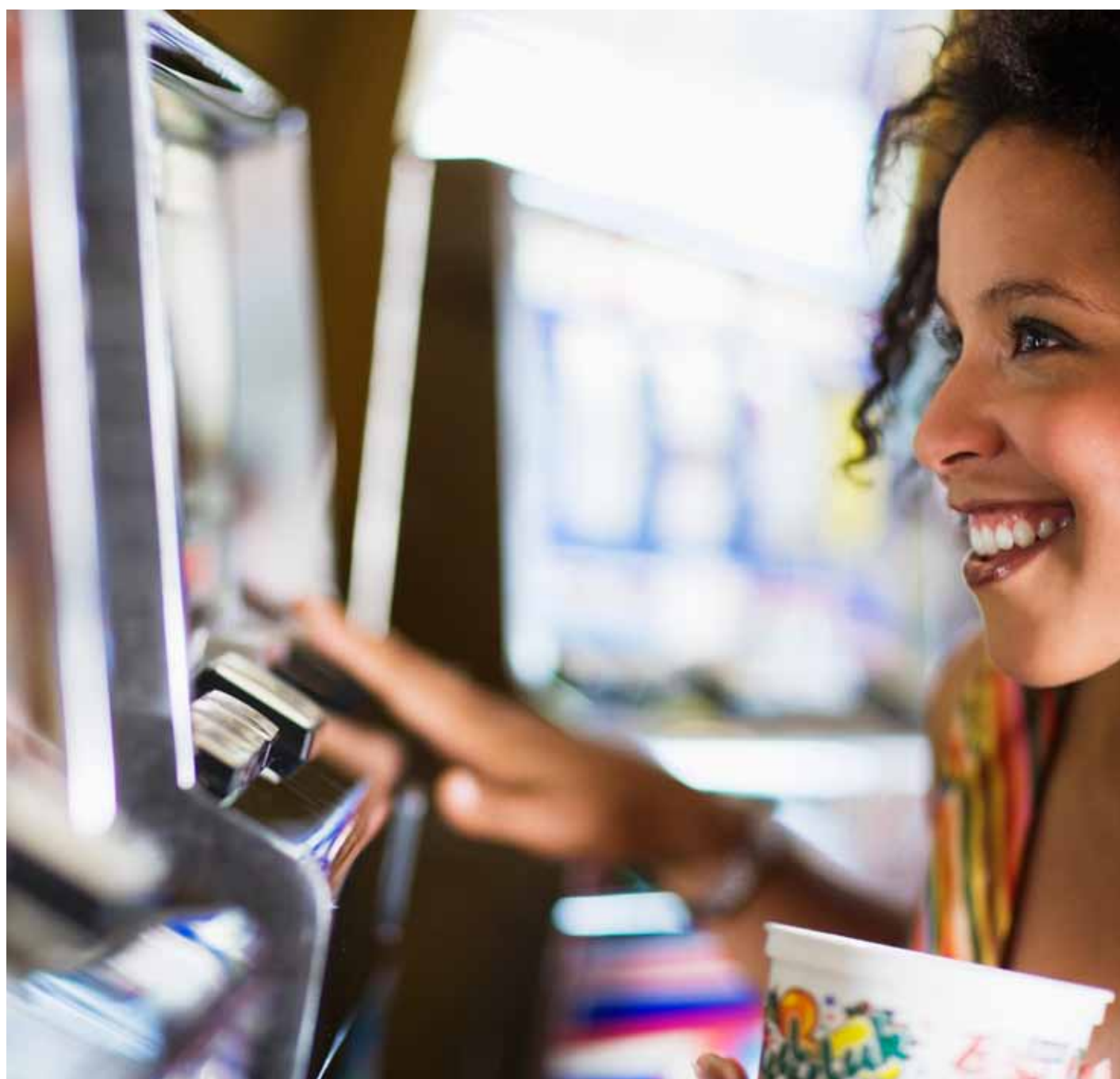


Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Limited payout machines (R millions)

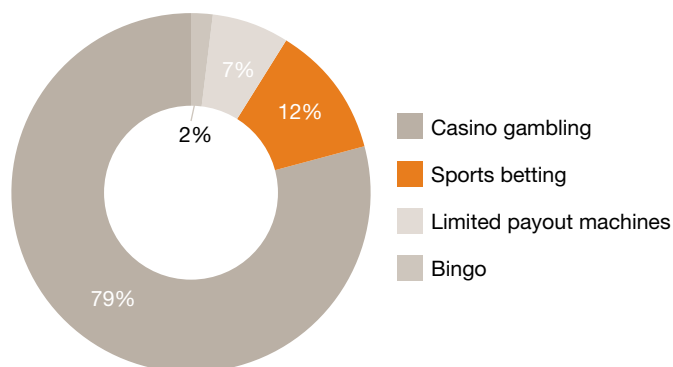
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	663	740	899	1 174	1 476	1 925	2 390	2 850	3 300	3 680	
% change	29.5	11.6	21.5	30.6	25.7	30.4	24.2	19.2	15.8	11.5	20.0
Taxes and levies	73	83	105	140	181	240	300	355	415	460	
% change	35.2	13.7	26.5	33.3	29.3	32.6	25.0	18.3	16.9	10.8	20.5

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates



Sports betting

Gross gambling revenue by type (R millions), 2012



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Sports betting includes bookmaking and pari-mutuel wagering on horseracing and other sports events. This is the only category where online wagering is permitted.

Horseracing is the dominant component of the market at R1.8 billion gross gambling revenues in 2012, more than twice the R819 million for sports events. Horseracing is controlled by two companies, Phumelela Gambling and Leisure, and Gold Circle. Phumelela Gambling and Leisure operates in the Free State, Northern Cape, Eastern Cape and Gauteng, while Gold Circle controls wagering in KwaZulu-Natal and the Western Cape.

Sports betting, however, has been the faster-growing category in gross gambling revenues, rising by 71.3% in 2012 compared with the 4.5% increase for horseracing. Between 2008 and 2012, gross gambling revenues for sports events rose by 566%, compared with the 16% increase for horseracing over the same period. The proliferation of sports-betting shops and online wagering is driving this component of the market. Live betting on ABSA Premiership matches is proving to be a great attraction as well. It is expected that sports betting will surpass horseracing within the next five years.

Sports gross gambling revenues by category (R millions), 2008-2012

	2008	2009	2010	2011	2012
Horseracing	1 510	1 411	1 651	1 675	1 750
% change		-6.6	17.0	1.5	4.5
Sports betting	123	194	352	478	819
% change		57.7	81.4	35.8	71.3
Total	1 633	1 605	2 003	2 153	2 569
% change		-1.7	24.8	7.5	19.3

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Gauteng overtook KwaZulu-Natal to become the leading horseracing province, with R641 million in gross gambling revenues. KwaZulu-Natal was next at R549 million. Together, the two provinces generated 68.0% of total gross gambling revenues for horseracing. The Western Cape at R203 million and the Eastern Cape at R148 million were the only other provinces in 2012 above R100 million.

Gross gambling revenues for horseracing by province, 2012

	Gross gambling revenues (R millions)	Share of total (%)
Gauteng	641	36.6
KwaZulu-Natal	549	31.4
Western Cape	203	11.6
Eastern Cape	148	8.5
Free State	62	3.5
North West	55	3.1
Limpopo	42	2.4
Mpumalanga	33	1.9
Northern Cape	17	1.0
Total	1 750	100.0

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

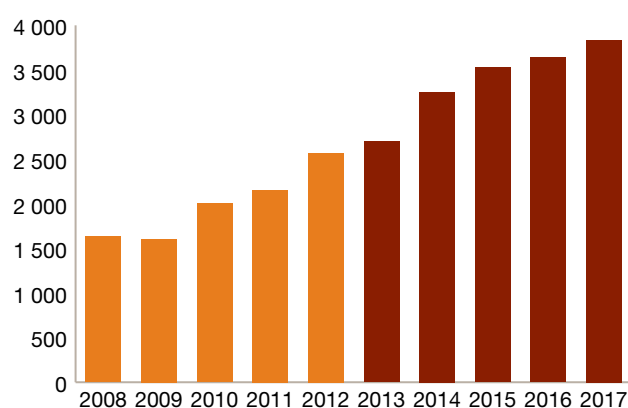
Sports betting (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	1 633	1 605	2 003	2 153	2 569	2 700	3 250	3 530	3 640	3 835	
% change	-11.9	-1.7	24.8	7.5	19.3	5.1	20.4	8.6	3.1	5.4	8.3
Taxes and levies	201	207	223	259	292	300	360	390	400	430	
% change	-5.6	3.0	7.7	16.1	12.7	2.7	20.0	8.3	2.6	7.5	8.0

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

The market will be buoyed by continued large gains in betting on sports events, but a mature horseracing segment will hold down overall growth. We project that overall turnover will increase at a 7.9% compound annual rate to R29.5 billion by 2017 from R20.2 billion in 2012. Gross gambling revenues will total an estimated R3.8 billion in 2017 from R2.6 billion in 2012, an 8.3% compound annual increase. Taxes and levies will rise from R292 million in 2012 to a projected R430 million by 2017, an 8.0% compound annual increase.

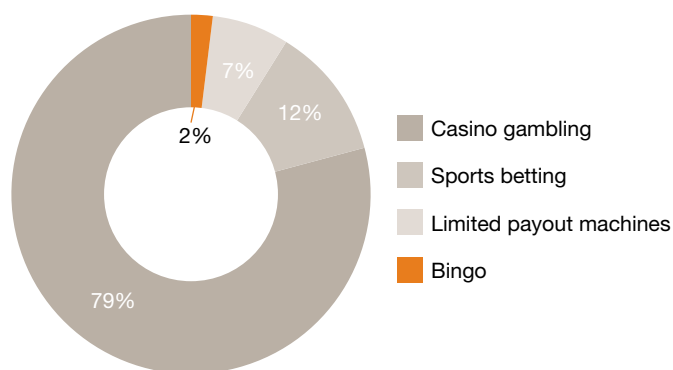
Sports betting gross gambling revenue (R millions) 2008-2017



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Bingo

Gross gambling revenue by type (R millions), 2012



Sources: National Gambling Board of South Africa, National Lottery Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Bingo is a small category that is available only in Gauteng and, more recently, Mpumalanga. The introduction of licenced bingo in Mpumalanga in 2012 propelled the market.

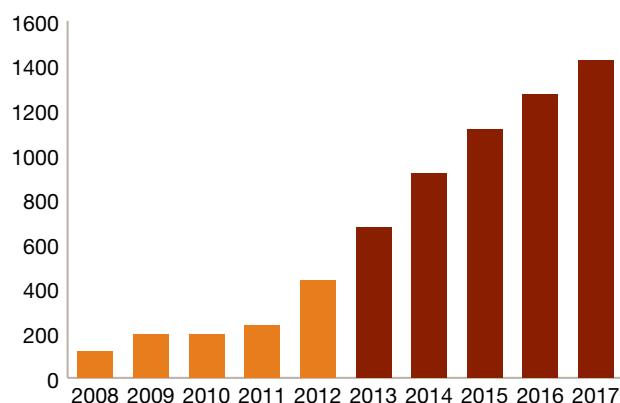
Applications for bingo licences have been submitted and accepted in KwaZulu-Natal and the North West Province. We expect bingo to be introduced in those provinces within the next five years.

We expect bingo to continue to be the fastest-growing category during the next five years as it expands into other provinces.

Gross gambling revenues will rise from R437 million in 2012 to a projected R1.4 billion in 2017, a 26.7% compound annual increase.

Taxes and levies generated by bingo totalled R45 million in 2012, a figure we expect will rise to R143 million by 2017 to give a 26.0% compound annual increase.

Bingo gross gambling revenue (R millions) 2008 - 2017



Sources: National Gambling Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Bingo (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	121	197	196	235	437	675	915	1 115	1 270	1 425	
% change	34.4	62.8	-0.5	19.9	86.0	54.5	35.6	21.9	13.9	12.2	26.7
Taxes and levies	15	22	23	29	45	68	92	110	128	143	
% change	36.4	46.7	4.5	26.1	55.2	51.1	35.3	19.6	16.4	11.7	26.0

Sources: National Gambling Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

National lottery

The national lottery was established in 2000 and by 2012 had generated R4.7 billion in Lotto and Powerball ticket sales. Lotto is the more popular category, but Powerball with its high payouts has been the faster-growing in recent years. The National Lottery is operated on behalf of the government by an appointed licensee for a term of seven years. The tender process for the next term, expected to commence in mid-2015, began recently.

The national lottery is different from other gambling categories in that it is operated with the goal of generating funds for charitable, sports, arts and other worthy causes rather than as an entity focused on maximising returns for shareholders, employees and other stakeholders. A percentage of revenue, agreed between the operator and the government as part of the licence terms, is paid to the National Lottery Distribution Trust Fund (NLDTF).

The national lottery has been the slowest-growing segment in recent years.

We anticipate slow growth in ticket sales in 2013, reflecting the slowing economy, with sales growing faster beginning in 2014 as economic conditions improve. Even with a pickup in growth, though, we expect the national lottery to remain the slowest-growing category.

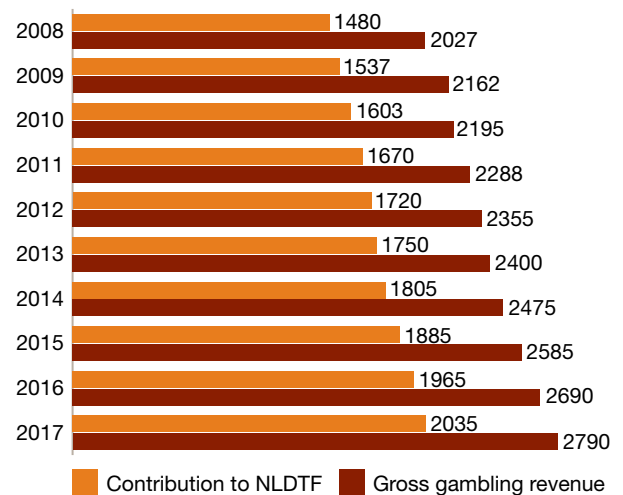
We expect that gross gambling revenues will rise from R2.4 billion in 2012 to a projected R2.8 billion in 2017, a 3.4% compound annual increase that will be slightly faster than the 2.4% average gain since 2009.

Contributions are made from revenue to the NLDTF, which allocates funding to arts, culture, national heritage, charities, child welfare, and religious, medical, sports and recreation entities. Eligible organisations seeking funding must apply to the NLDTF. Over the past five years the national lottery allocated a cumulative R8 billion to the NLDTF.

As the national lottery is operated by the government with the specific purpose of distributing funds to needy causes, a significant portion of gross revenue (73.0% in 2012) goes to the NLDTF.

Assuming no significant change occurs in the licence terms regarding the NLDTF contribution when the new operator takes over, contributions to the NLDTF should increase from R1.7 billion in 2012 to a projected R2 billion in 2017. Cumulatively, the NLDTF will receive an estimated R9.4 billion from the national lottery during the 2013 to 2017 period.

Gross gambling revenue vs contribution to NLDTF (R millions), 2008-2017



Sources: National Lotteries Board of South Africa, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

National lottery (R millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Turnover	4 053	4 323	4 390	4 575	4 710	4 800	4 950	5 170	5 380	5 580	
% change	2.0	6.7	1.5	4.2	3.0	1.9	3.1	4.4	4.1	3.7	3.4
Gross gambling revenue	2 027	2 162	2 195	2 288	2 355	2 400	2 475	2 585	2 690	2 790	
% change	2.1	6.7	1.5	4.2	2.9	1.9	3.1	4.4	4.1	3.7	3.4
Contribution to NLDTF	1 480	1 537	1 603	1 670	1 720	1 750	1 805	1 885	1 965	2 035	
% change	5.7	3.9	4.3	4.2	3.0	1.7	3.1	4.4	4.2	3.6	3.4

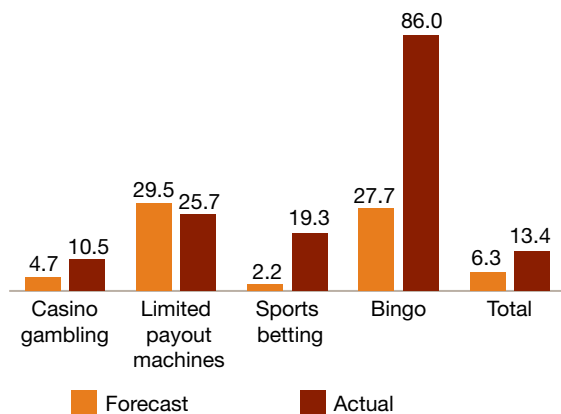
Sources: National Lotteries Board of South Africa, PwC LLP, Wilkofsky Gruen Associates

Looking back: 2012

In our previous Gambling outlook, released in November 2012, we forecast a growth of 6.3% in overall gross gambling revenues for South Africa in 2012. This turned out to be less than half the actual 13.4% growth, despite the weakening economy. The only category where actual growth was less than the projected increase was limited payout machines, where the 25.7% gain in 2012 was slightly below the 29.5% forecast.

Upgraded and refurbished casinos contributed to the 10.5% rise in casino gambling revenue in 2012, compared with the 4.7% gain anticipated last year.

Gross gambling revenue by type (% growth)



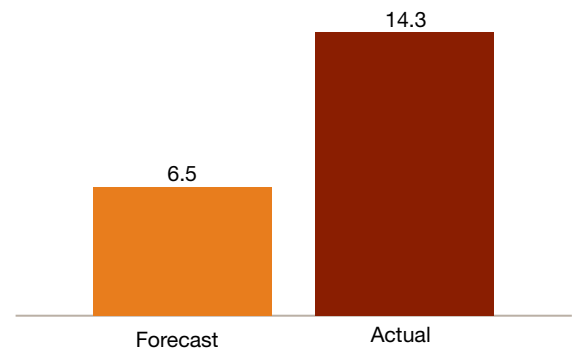
Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

The expansion in sports-betting outlets and growth in online sports wagering led to a 19.3% rise in gross gambling revenue for sports betting, well above the 2.2% projected gain.

While we anticipated a healthy 27.7% rise in gross gambling revenue for bingo, the opening of bingo in Mpumalanga and more outlets in Gauteng boosted this category by 86.0%.

The large increase in gross gambling revenues led to much faster growth in taxes and levies. The 14.3% increase in 2012 was also more than twice the 6.5% projected rise.

Gambling taxes and levies (% growth)



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Casino gambling in Nigeria

There are only three licensed casinos in Nigeria – the Nicon Hilton in Abuja (the first licensed casino), Le Meridien Eko Hotel & Casino in Lagos and the Sun International Federal Palace Hotel & Casino, which opened in 2009, also in Lagos. Casinos are permitted to operate up to 15 hours per 24-hour period.

Le Meridien Eko Hotel & Casino is relatively small with only 15 table games and no slot machines. The Nicon Hilton is the leader in table games with 90 tables, and it has 40 slot machines. The Sun International Federal Palace Hotel & Casino is primarily a destination for people playing slot machines, as it has approximately 180 slots but only eight table games. While the casinos each have their own specialty, the overall casino market in Nigeria is limited. A factor limiting the number of casinos in Nigeria is the high cost of licences, which has discouraged companies from entering the market. Consequently, the casino market in Nigeria is only a fraction of that in South Africa.

There are also a number of unlicensed casinos operating illegally. In 2012, Lagos shut four unlicensed casinos. Unlicensed casinos compete with licenced casinos and limit the size of the legitimate market.

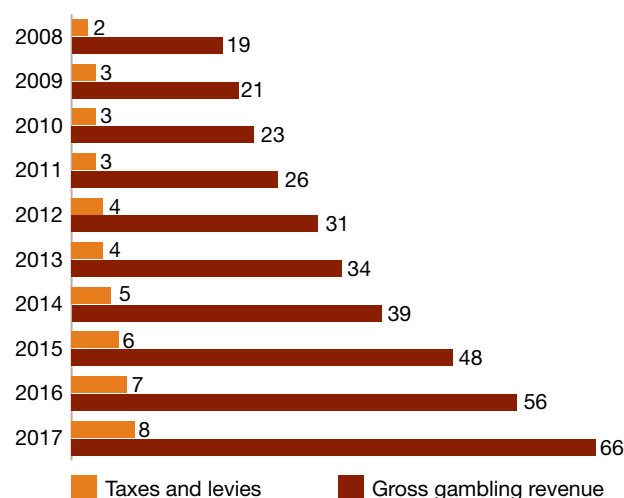
The first online casino, Nairagames.com, opened in 2013 offering roulette (wheel of wealth) only. Sports betting is not legal in Nigeria, although there are online sports-betting sites available. Nigeria has a lottery that was launched in 2004, and the first domestic online lottery opened in 2005. Except for casinos and the lottery, gambling is not legal in Nigeria.

Nigeria has a strong economy driven by oil and natural gas. Nigeria attracts business travellers, some of who visit casinos. A number of hotels have opened in recent years, and several more are being constructed. A significant increase in hotel rooms will attract more business travellers, which we expect may have a positive impact on casinos.

Gross gambling revenues earned by casinos have grown at double-digit rates in four of the past five years, including a 19.2% increase in 2012 to \$31 million. The market appears to be slowing in 2013, and we look for growth to drop to a still-healthy 9.7%. We then expect a return to double-digit growth in 2014. For the forecast period as a whole, gross gambling revenues will expand at a projected 16.3% compound annual rate to \$66 million in 2017.

Taxes and levies will rise to an estimated \$8 million in 2017 from \$4 million in 2012, growing by 14.9% on a compound annual basis.

Gross gambling revenue vs taxes & levies (US\$ millions), 2008-2017



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casino gambling in Nigeria (US\$ millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	19	21	23	26	31	34	39	48	56	66	
% change		23.3	13.5	9.5	13.0	19.2	9.7	14.7	20.5	18.1	17.1
Taxes and levies	2	3	3	3	4	4	5	6	7	8	
% change		0.0	50.0	0.0	0.0	33.3	0.0	25.0	20.0	16.7	14.3

Sources: PwC LLP, Wilkofsky Gruen Associates

Casino gambling in Kenya

Gambling laws are much more open in Kenya than in Nigeria or South Africa. Gambling is considered a leisure activity that generates tax revenue. As such, it is promoted by the government and regulated by the Betting Control and Licensing Board, which was established in 1966.

Virtually all forms of gambling are permitted in Kenya, including online gambling and even mobile gambling. The first online gambling site, BetKenya.com, was launched in early 2013. Users attempting to access an unregulated site will automatically be directed to BetKenya.com. Sports betting is also permitted, and a mobile phone lottery is available as well.

There are 13 licenced casinos in Kenya, most of which are associated with hotel resorts. There are also stand-alone casinos located near airports. Six of the casinos are located in Nairobi, five in Mombasa and one each in Ukunda and Malindi.

Casinos attract tourists and business travellers who visit Kenya for business conferences. Casinos are promoted as a central part of the hotel package. Growth in tourism has fuelled the casino gambling market in recent years.

The market was stunned by a gun battle at a casino in Mombasa in early 2013 that left seven people dead, with a separatist group claiming responsibility. A massacre in a shopping mall in Nairobi in September 2013 highlighted the potential unrest. It is not clear whether these events will affect tourism, but they do not help.

Gross gambling revenues doubled between 2007 and 2011. Growth slowed to 5.9% in 2012 as the economy moderated, but a pickup in economic growth in 2013 will lead to a return to double-digit growth.

The government has announced plans to impose a 20% withholding tax on gambling winnings. In other countries, such taxes have often had a dampening effect on wagering, and we expect that the same will occur in Kenya as well.

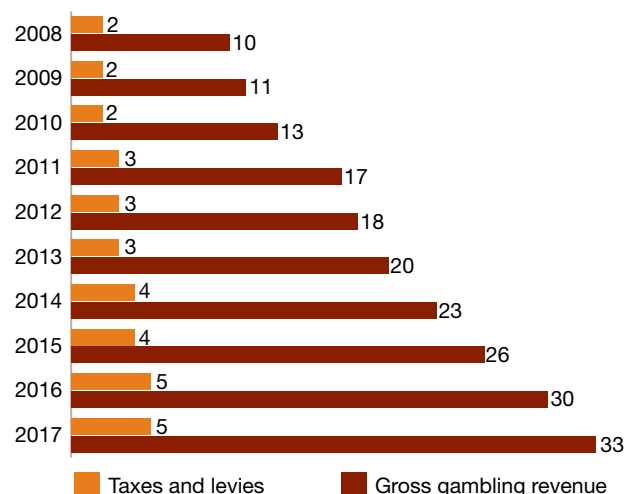
Consequently, even though we expect robust growth in the market in the coming years, we do not expect that increases will match the gains recorded over the past five years.

In terms of gambling positions, Kenya has more options than Nigeria as there are nearly 800 slot machines and nearly 140 table games at the various licenced casinos in Kenya, compared with fewer than 200 slots and fewer than 120 table games in Nigeria. Nevertheless, Kenya has a much smaller economy than Nigeria and also a smaller casino gambling market.

Gross gambling revenues totalled \$18 million in Kenya in 2012, compared with \$31 million in Nigeria. Fuelled by a rebounding economy and continued growth in tourism, we project that gross gambling revenue earned by casinos in Kenya will rise to \$33 million in 2017, a 12.9% compound annual increase.

Casino taxes and levies will total an estimated \$5 million in 2017, up 10.8% on a compound annual basis from \$3 million in 2012.

Gross gambling revenue vs taxes & levies (US\$ millions), 2008-2017



Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casino gambling in Kenya (US\$ millions)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2013-17 CAGR
Gross gambling revenue	10	11	13	17	18	20	23	26	30	33	
% change	11.8	15.8	18.2	30.8	5.9	8.3	15.4	15.6	13.5	10.2	12.5
Taxes and levies	2	2	2	3	3	3	4	4	5	5	
% change	100.0	0.0	0.0	50.0	0.0	0.0	33.3	0.0	25.0	0.0	10.8

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



South Africa National Responsible Gambling

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Industry regulator

The National Gambling Board (NGB), an agency of the Department of Trade and Industry, was established in terms of the National Gambling Act, Act No 33 of 1996. The Act makes provision for the oversight of matters relating to casinos, gambling, betting and wagering, and promotes uniform norms and standards in relation to gambling throughout South Africa¹.

The State of Gambling in SA...

South Africa's National Responsible Gambling Programme (NRGP) is the global pacesetter for effectively promoting a responsible attitude to gambling despite the fact that other countries, including Britain, New Zealand and Canada, spend more on their programmes. The NRGP is acknowledged internationally to be exceptionally cost-effective and among the most comprehensive in the world.

In 2012, the NRGP commissioned Toronto-based global reputation research consultancy GlobeScan Inc to compile a comparative strategy report. This was done in accordance with the NRGP's obligation to evaluate the effectiveness of its own work. According to Globescan Inc, much of the NRGP's success in South Africa is due to sound and coherent planning at its inception, the collaborative nature of all stakeholder relationships instead of the hostility between the gambling industry and Responsible Gambling that exists in some other countries, and the success of the NRGP's public awareness campaign.

The jurisdictions covered were Australia, Canada, Ireland, New Zealand, Norway, Sweden, the UK and the USA.

The NRGP has managed, better than similar programmes in many first-world countries, to strike the right balance between the various parties' interests. It has succeeded in getting media buy-in and market reputation. It has convinced the industry to cooperate. And it has discouraged interference from government and bureaucracy – something which, in other markets, has led to effective responsible gambling policy being seized by vested interests.²

1 Source: <http://www.ngb.org.za/about-ngb.aspx>

2 Source: <http://www.responsiblegambling.co.za/media/user/documents/Comparative%20Strategy%20Report%20March%202013.pdf>

<http://www.responsiblegambling.co.za/content/?42>

National responsible gambling

The NRGP is managed by the SA Responsible Gambling Foundation (SARGF), an independent not-for-profit organisation which consists of a Board of Directors who represent regulators and the industry. It reports regularly on its activities to the provincial and national authorities charged with the regulation of gambling.

The NRGP's activities include research and monitoring, treatment and counselling, public education and awareness, and industry training. It is the only programme of its kind in the world that is jointly controlled by a public/private sector partnership which involves government regulators and the gambling industry.

The NRGP is funded by voluntary contributions from private sector entities in the gambling industry that include the casino, horse racing, bingo and limited payout machine (LPM) sectors. It has been agreed that these contributions should equal 0.1% of gross gambling revenues. In addition, the NRGP receives public grants for special projects.

The NGB uses the National Responsible Gambling Programme to oversee the following initiatives:

- Treatment and counselling
- Training for regulators and industry employees
- Research
- Public awareness and prevention
- National Schools Programme (a lifeskills programme for schools, Grades 7 – 12).

The SARGF delivers programmes of public awareness, training, treatment and research, as well as a curriculum for schools. The programmes focus on:

- Making people aware of the dangers of gambling and how to avoid them;
- Ensuring that free confidential and expert help is available to problem gamblers and their families;
- Increasing our understanding of excessive and compulsive gambling and associated problems in South Africa; and
- Ensuring that children are taught about gambling as part of the life skills curriculum that addresses gambling issues.

The Foundation also undertakes special projects when asked by provincial governments or gambling boards, which generate additional income.

People with a gambling problem or those who are close to someone with a gambling problem can get sympathetic and well informed advice from a qualified counsellor through the toll-free counselling line at any time. All problem gamblers who seek help through the counselling line and are referred for treatment are followed up on in the context of an Integrated Care Programme.

It is commonly agreed that we know too little about the causes of problem gambling. This means we also know little about the best means of preventing it through regulation and consumer education, and about successfully treating it. The Foundation supports high-quality research which focuses on the particular circumstances in South Africa and especially among its less advantaged communities. Research projects include regular studies of how many people take part in different forms of gambling and how much problem gambling there is in South Africa.

Social Responsibility

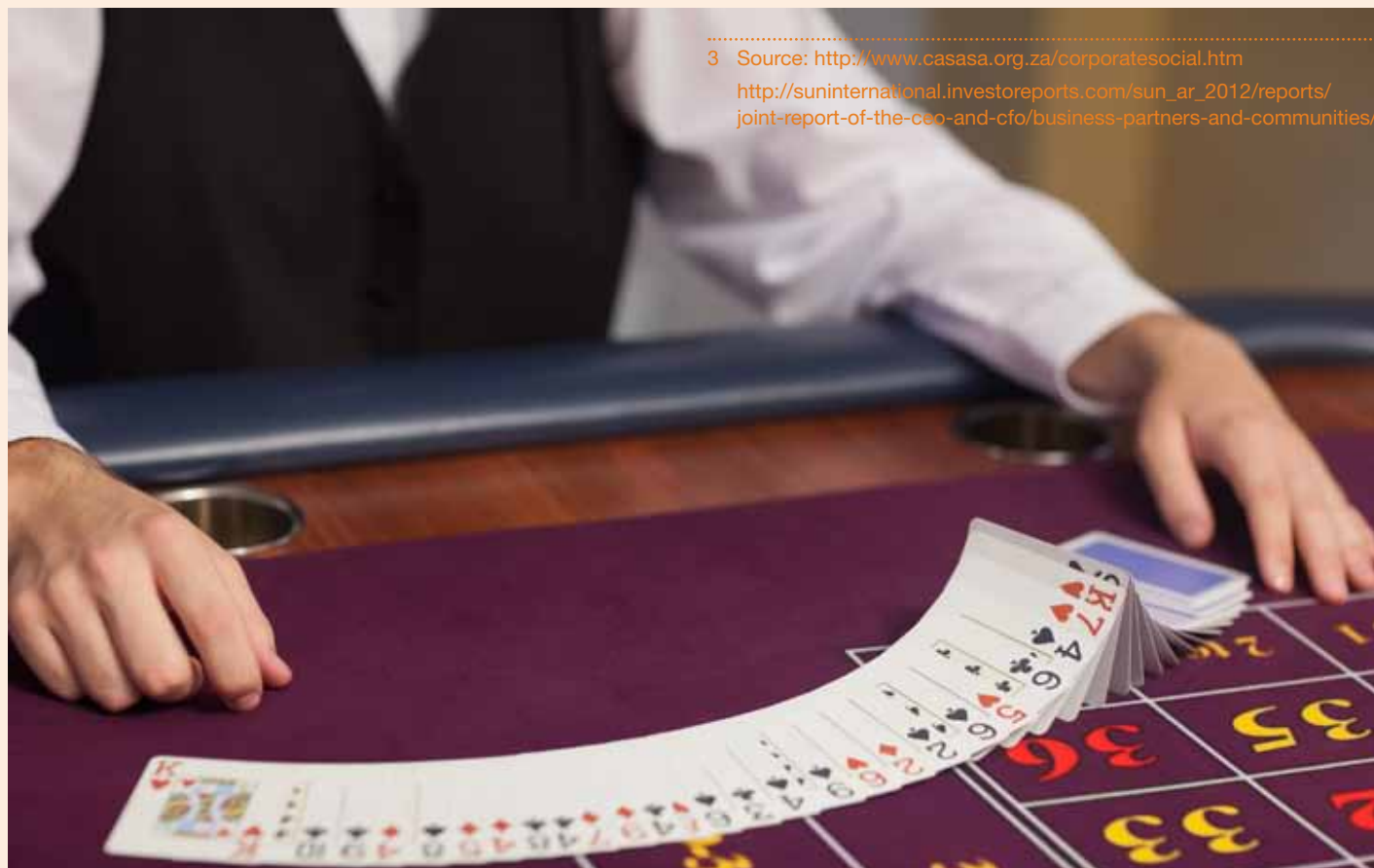
The various players in the industry have committed themselves to using their resources, experience and geographical footprint within the gaming, hospitality and entertainment industry to create a platform for initiatives that achieve lasting results.

The various players' purpose is to conduct business profitably while at the same time fulfilling their obligation to improve the well-being of the communities in which they operate.

The various CSI programmes are based on the four fundamental principles of education; health and welfare; sports, arts and culture; and community development and other projects.

The players within the industry have implemented many initiatives, including the Montecasino Bird Garden (to attract tourists and act as a wildlife education venue and a sanctuary for conservation purposes); the South African Apartheid Museum (which runs a weekly school visiting programme to give learners the opportunity to experience the SA Apartheid Museum); SA Guide Dogs (who train dogs to improve the mobility, independence and dignity of blind and partially sighted people); the Duke of Edinburgh Golf Tournament, held under the Tsogo Sun Gaming banner (which raises money for International Golf for Youth Limited, which supports youth projects internationally); the Peermont Education Trust (which offers full scholarships to young people from underprivileged backgrounds, who have demonstrated potential and ability to succeed in their chosen fields of study); the IPAD Learning Programme Roll-Out; various public infrastructure projects; and Reach for a Dream (a contribution from Sun International enables 100 children suffering from life-threatening diseases to fulfill their dreams). ³

3 Source: <http://www.casasa.org.za/corporatesocial.htm>
http://suninternational.investoreports.com/sun_ar_2012/reports/joint-report-of-the-ceo-and-cfo/business-partners-and-communities/



The online gambling debate

Marthie Crafford
Partner, PwC Advisory

The debate

Even though online gambling is not yet legalised in South Africa, online gambling is happening across the world, whether lawmakers like it or not.² Being always online has changed the way we do everything, including how people gamble. This change has not taken place without outcries from the gambling industry as well as governments.⁴ The uncertainty that surrounds the size, scope and legal basis of online gambling makes it hard to assess its current and future impacts and planned strategies around it.² What is important to both the gambling industry and regulators around the world is that, increasingly, gamblers need to have safe access to online gambling.⁴

Equally important is being able to provide a compelling, energising experience that the target consumers will value above the expanding array of other entertainment choices available to them.² The American Gaming Association released a study recently that highlights the need for federal legislation to end the state of ‘ambiguity’ regarding internet gambling.⁸

Opposition to the online gambling industry is not going to change. However, developing technological advancements in key areas make for fair and honest gambling, monitoring and confronting gambling’s social implications and securing financial transactions through secure applications. This will work toward addressing the criticism and assisting the players to feel more secure when gambling online.⁴

The legal and regulatory position

Given the pervasive nature of internet-based services and their seamless ability to cross borders, the legal and regulatory position of online gambling, even within a particular jurisdiction, is often unclear and open to different interpretations. The rigour with which regulators and governments apply the rules in practice also differs. This creates uncertainty for consumers and market participants alike, and even for shareholders in companies that offer online gambling. These uncertainties are partly due to the fact that much of the applicable legislation predates the internet, so its application to online services is inevitably open to debate and challenge.²

In South Africa, the National Gambling Amendment Act of 2008 provided for the legalisation and regulation of online gambling. In our Gaming Outlook of 2012, we reported that as recently as 2009, South Africa had planned on issuing ten online casino gambling licenses. In 2010, a ruling by the Northern Gauteng High Court in response to an application by Piggs Peak Casino in Swaziland found that even if an online site operates through a server located in another country, access occurs through Internet connections located in South Africa.²

Consequently, the online gambling activity is deemed to occur in South Africa, so the laws that currently prohibit online gambling taking place in South Africa apply. The ruling was appealed in August 2011, and on 3 October 2011 the Appeal Court rejected the appeal and upheld the original decision. As a result, the Piggs Peak Casino in Swaziland, which was offering online gambling to South Africa, is now complying with the law.²

The R30 million acquisition of Powerbet Gaming (Pty) Ltd, as announced in Sun International’s third-quarter trading update, is close to completion. The last remaining condition for the acquisition is the approval of the transaction by the Western Cape Gambling and Racing Board. The entry into sports betting demonstrates the exponential growth of the online sports betting industry in South Africa and its current and potential impact.⁹

Protecting consumers while boosting the tax take globally

Today’s widespread legal uncertainty springs largely from the slow and halting response of legislators and regulators across the world when online gambling first emerged in the early 2000s. This approach reflected a view in many countries that online gambling simply could not be regulated effectively.²

However, with the global financial crisis and its resulting negative impact on public sector finances there has been a significant change in attitude. With governments all over the world now facing severe fiscal constraints and eager to replenish their coffers, their attention has been caught by the potential of legalised and licensed online gambling services as a valuable source of tax revenues.²

There is also a strong argument that, since consumers will engage in illegal online gambling anyway, it is better to licence and tax it than to allow the revenues to go to unlicensed operators. Also, far more effective technologies are now available to maintain online security and verify the location and age of people taking part in online gambling. These developments are all encouraging different national and state governments to introduce their own licensing regimes. Yet, the cross-border nature of online gambling means attempts to regulate purely within borders may ultimately prove unsustainable. Governments and regulators have an absolute need to create certainty and consumer protection around online gambling, while ensuring this activity is fairly taxed. This may take years, but it must eventually happen.²

Some other risks to consider in the online gambling environment

The internet industry, by its nature, is subject to a range of various fraud attacks that would equally apply to the online gambling environment³⁺⁶:

- Online gambling typically requires no face-to-face customer contact, which increases the risk of identity fraud.⁶
- Users could be automatically subscribed to online games and charges could be deducted from their accounts without their knowledge.⁶
- The increased use of credit cards makes it hard for fraud platforms to track the flow of money from deposit to withdrawal and increases the risk of cross-platform fraudulent transactions made from mobile devices, tablets or PCs.⁶
- Online gambling is prone to money laundering due to the virtuality and international nature of the products and the cash flows, the complexity of the payment processing, the vast number of legal and illegal players on the market, unharmonised laws and legal uncertainty, high payout percentages, and tax-free winnings in many jurisdictions. These factors lead to a very low risk of detection as well as low costs of money laundering.⁵⁺⁶

Online gambling investigations

Investigations by the South African Police Service (SAPS) and also by PwC have revealed that operators would host the gambling servers in territories such as Russia and the United States, where legislation permits online gambling and where South African legislation has no jurisdiction to prosecute such activities. This puts certain limitations on the investigation of such activities⁶:

- Gambling platforms are often hosted separately from servers where online 'tokens' are purchased and funds are transferred. This complicates efforts to link the actual fund transfers to the gambling activities.
- Gambling activities are often hosted from Internet Café 'fronts', using leased equipment, which hampers investigative efforts in connecting the 'operators' to the premises and/or the equipment in use.
- Gambling activities are often hosted on servers without any storage capacity as they are being run from a remote or virtual environment, resulting in minimal information available for investigation.

The SAPS estimates that approximately five illegal online casinos operate within each province of South Africa.⁷

Measures that can be taken by casino operators to prepare for the legalisation of online gambling

Online strategies

Determine the right go-to market and make the right decision through a strategic review of new legal requirements, new taxes, fees and technological set-up costs for IT platforms and customer service systems.¹

Testing online gambling functionality

Do detailed testing (including security and compliance testing) before launching any online gambling functionality.¹

Due diligences

Before working with a new online partner (whether it be in the form of an acquisition of the partner or software from a supplier), first get a level of comfort as to the competence of the partner.¹

Regulatory environment

Ensure compliance with new online gambling and regulatory standards in order to establish transparency and encourage consumer confidence.¹

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Conclusion

The gambling industry is vibrant and exciting, while at the same time facing the challenge of a changing regulatory environment and the impact of reduced consumer spending during an economic downturn.

South Africa has the most mature market, and we expect it will be the slowest growing with a 5.0% compound annual increase in gross gambling revenue to R20.9 billion (\$2.1 billion) in 2017.

The industry in South Africa continues to contribute significant tax revenues to provincial and national government. It has furthermore created jobs and contributes to social and infrastructure spending in the areas in which it operates.

The outlook for the industry in South Africa remains positive, and the further rollout of limited payout and bingo machines and the possible introduction of online gambling will further contribute to an expected growth in revenues.



Glossary of abbreviations

CAGR	Compound annual growth rate
CASA	Casino Association of South Africa
CEMS	Central Electronic Monitoring System
EMEA	Europe, the Middle East and Africa
FIFA	Fédération Internationale de Football Association
GGR	Gross gambling revenue
LPM	Limited payout machine
NGB	National Gambling Board of South Africa
NLDTF	National Lottery Distribution Trust Fund
VAT	Value-added tax

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