

Betting on the future

South African gaming outlook: 2012-2016



South African gaming outlook: 2012-2016

First South African edition

PwC's team of gaming specialists provide an unbiased overview of how the gaming industry in South Africa is expected to develop over the coming years. The publication focuses on the following major industry segments: casino gaming, limited payout machines, sports betting and bingo. It details the key trends observed and challenges facing these industry sectors as well as considering their future prospects.

South African gaming outlook: 2012-2016 provides deep knowledge of the local gaming market and is a powerful tool for understanding critical business issues. To learn more about the challenges and opportunities that lie ahead for the gaming industry in South Africa, please visit www.pwc.co.za/gaming.

About PwC's gaming industry group

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

We understand how developments in the broader hospitality environment are affecting our clients and work with them as a trusted advisor to provide solutions to help improve organisational effectiveness and long-term success. More significantly, we focus on the issues and challenges that are of utmost importance to our clients. These include restructuring, talent management, compliance, regulatory changes, changing gambler requirements and managing capital spend. We have made a substantial commitment to understanding the forces that are impacting these issues and continue to develop and deliver solutions to help our clients achieve their financial, operational and strategic objectives.



South African gaming outlook: 2012-2016

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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 that accounts for a majority of the activity. Thus, our figures for 2011 correspond to the National Gambling Board of South Africa financial year 2012, which covers the 1 April 2011 to 31 March 2012 period.

Quantitative research and analysis was provided by Wilkofsky Gruen Associates Inc., a provider of global research and analysis of the hospitality industry. See www.wilkofskygruen.com for more information.

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Johannesburg
14 November 2012

To our clients and friends in the gaming industry:

Welcome to the first edition of the *South African gaming outlook: 2012-2016*. This publication focuses on segments within the gaming industry with detailed forecasts and analysis. Each segment details the key trends observed as well as key challenges and future prospects.

In 2008, South Africa was affected by the global recession. Growth slowed sharply during the latter part of the year; the economy declined in 2009; and the recovery in 2010-11 was less robust than the growth rates recorded in the mid-2000s.

The gaming 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.

We at PwC continue to stay on top of trends and developments that may impact gaming companies, now and in the future, and look forward to sharing our thoughts further with you. 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 29 of this report.

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

Sincerely,

Nikki Forster
Director
Leader – Gaming
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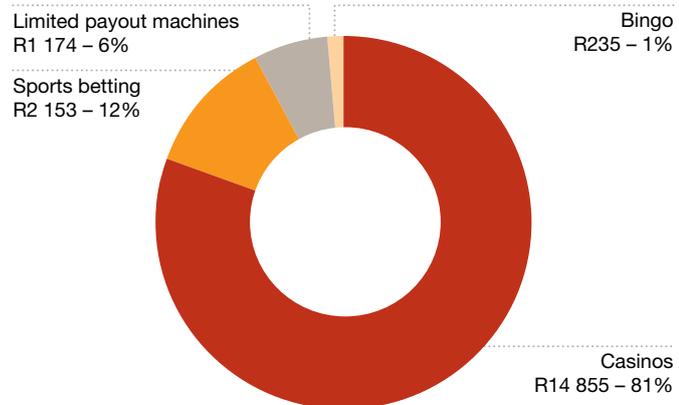
The South African gaming market

The gaming market consists of casino gaming, limited payout machines, sports betting and bingo. This report provides data on turnover (the total amount wagered); gross gaming revenues (the amount wagered minus the amount returned to players as winnings); and gaming taxes and levies, which is the amount levied and collected by provincial licensing authorities from legal gambling. Gross gaming revenues represent net spending by consumers on legal gambling.

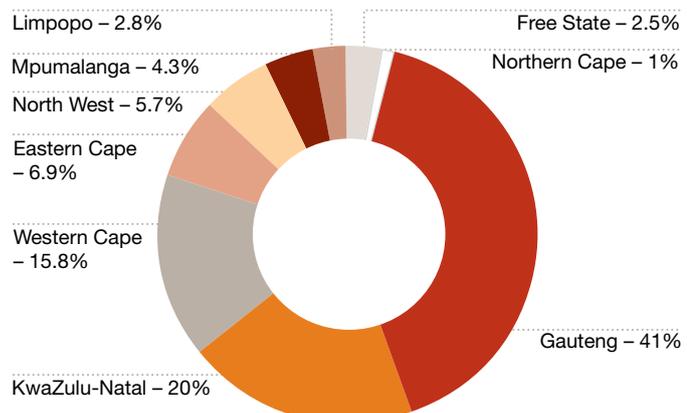
Casino gaming is by far the largest category, generating R14.9 billion in gross gaming revenues in 2011, 80.7% of the total. Sports betting, a popular activity in South Africa, is next at R2.2 billion. Limited payout machines (LPMs) and bingo have been the two fastest-growing components of the market, in both cases more than doubling between 2007 and 2011. LPMs contributed R1.2 billion to the total in 2011, while bingo, currently available only in Gauteng, accounted for R235 million.

Most of the gambling activity occurs in Gauteng, KwaZulu-Natal and the Western Cape, which together comprised nearly 77% of total gross gaming revenues in 2011. Gauteng alone represents 41.1% of the market, principally because of its large casino market.

Total gross gaming revenues by category (R millions) – 2011



Total gross gaming revenue shares by province (%) – 2011



Source: National Gambling Board of South Africa

The gaming 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, and profitability depends on volume.

This is particularly true in the case of casinos. Approximately R20 billion has been invested in casinos in South Africa, but less than 7% of the amount wagered is retained by the casino, with more than 93% of the money played in the casino returned to gamblers as winnings. From that gross margin of less than 7%, casinos must cover their costs, including taxes and levies. Consequently, casinos need high volumes in order to meet their expenses.

Gross margins are higher for LPMs, averaging 10.4% during the past five years and 9.8% in 2011. Sports betting has the highest gross margin – 12.2% in 2011 – and an average of 15.9% during the past five years. The gross margin for bingo is closer to that of casinos – 7.0% in 2011 – and an average of 8.3% during the past five years. To put these figures in context, the gross margin for lotteries is approximately 50%.

Indeed, because of their high payout rates, part of the appeal of casinos, LPMs, sports betting and bingo is that there is a reasonable chance a gambler may come out ahead, although over the long run, gamblers in the aggregate lose.



Gambling turnover and nominal GDP growth (%)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gambling turnover	10.6	0.9	1.7	8.0	10.6	5.5	6.5	7.2	6.7	5.7
Nominal GDP	14.1	13.2	6.1	8.8	8.7	8.2	8.6	9.0	9.1	8.7

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

Another important feature of gambling is that it provides a source of revenue for the Government. In fact, a principal motivation to legalise gaming was to generate a revenue stream that can be used for public purposes. The Government generated R1.8 billion in gaming taxes and levies from legal gambling in 2011.

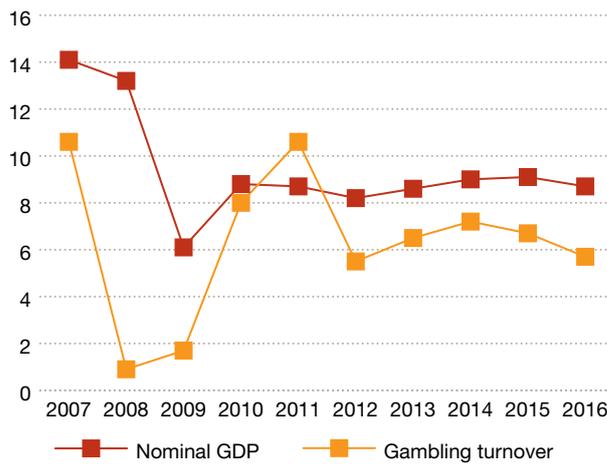
Gambling, like most other industries, is affected by the economy. When incomes are growing slowly or falling, people wager less, but when the economy is expanding, wagering picks up. As the economy began to slow in 2008, gross betting or turnover growth slowed to a virtual halt. Turnover fell in 2009 as the economy weakened further, but recovered strongly in 2010 as the

economy improved and as the FIFA World Cup boosted betting. Turnover growth moderated in 2011, but remained strong as the economy continued to expand. Volatile swings in the economy led to volatile swings in overall turnover during the past five years. We expect a steadier economic profile during the next five years and steadier turnover growth.

Legal gambling is also facing competition from online gambling, which except for sports betting, is illegal in South Africa. South Africa does not have jurisdiction over foreign-based online sites, which makes enforcement difficult. Some foreign sites block access from South Africa, but others do not.

Online gambling could be a potential revenue stream for the Government if legalised and regulated. At present, online gambling represents lost revenue to the Government and could possibly cut into legal gambling. Legalising online gambling has been under consideration for a number of years and proposals have been introduced to license online gambling. While we do not expect legalisation to occur in the near term, we do expect that within the next five years, online gambling will become licensed.

Gambling turnover and nominal GDP growth (%)



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

Turnover is the total amount wagered by players.

Overview

Turnover

Gambling is very popular in South Africa. In 2011 South Africans wagered R257.6 billion, which equates to more than R8 000 per adult (18 and older).

Betting at casinos was virtually flat in 2008 and rose only 1.0% in 2009, reflecting the impact of the weakening economy. In 2010, however, betting rebounded with a 6.3% increase, helped by a pickup in the economy and an increase in tourism related to the FIFA World Cup. In 2011, casino betting increased 7.3%.

Limited payout machine turnover more than doubled between 2007 and 2011. Growth was fuelled by the rollout of new machines. LPMs also benefited in 2010 from the increase in tourism and posted a 24.8% increase in turnover. Turnover expanded by an additional 38.1% in 2011.

Sports betting is affected by major international events. In 2010, wagering associated with the FIFA World Cup, as well as the ICC Cricket World Cup, which was held in the first quarter of 2011 but counted in 2010 figures, contributed to a 23.8% increase in turnover. In 2011, the opening of legal online sports betting outlets led to a surge in turnover, augmented by betting on the Rugby World Cup. Overall turnover jumped by 40.0% in 2011.

Bingo turnover tripled between 2007 and 2011, the fastest-growing category during the past five years. The 39.0% increase in 2011 was the largest increase since 2007.

Overall turnover for all types of gambling rose 10.6% in 2011 following the 8.0% increase in 2010. We project turnover to increase at a 6.3% compound annual rate during the next five years to R349.6 billion in 2016.

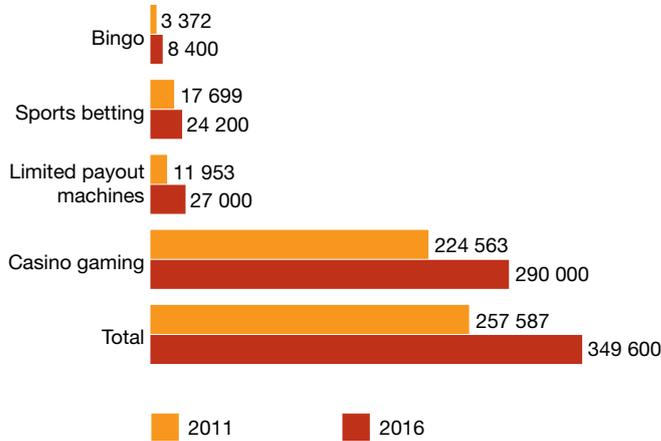
Gaming turnover (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Casino gaming	194 437	194 917	196 778	209 263	224 563	235 000	247 000	260 000	275 000	290 000	
% change	9.3	0.2	1.0	6.3	7.3	4.6	5.1	5.3	5.8	5.5	5.2
Limited payout machines	4 834	6 245	6 932	8 653	11 953	15 500	18 900	21 900	24 500	27 000	
% change	47.2	29.2	11.0	24.8	38.1	29.7	21.9	15.9	11.9	10.2	17.7
Sports betting	9 891	9 466	10 211	12 643	17 699	17 000	18 200	22 000	24 000	24 200	
% change	18.4	(4.3)	7.9	23.8	40.0	(3.9)	7.1	20.9	9.1	0.8	6.5
Bingo	1 121	1 499	1 905	2 426	3 372	4 300	5 300	6 350	7 400	8 400	
% change	85.9	33.7	27.1	27.3	39.0	27.5	23.3	19.8	16.5	13.5	20.0
Total	210 283	212 127	215 826	232 985	257 587	271 800	289 400	310 250	330 900	349 600	
% change	10.6	0.9	1.7	8.0	10.6	5.5	6.5	7.2	6.7	5.7	6.3

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

Gross gaming revenue is the amount wagered minus the amount returned to players as winnings.

Gaming turnover by type (R millions) – 2011 vs 2016



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

Sports betting will benefit from expansion in legal online betting shops, as well as from a generally improving economy. We also project a large increase in 2014 due to the next FIFA World Cup and a further boost in 2015 from the Rugby World Cup. For the forecast period as a whole, sports betting gross gaming revenues will increase at a 7.9% compound annual rate from 2.2 billion in 2011 to R3.2 billion in 2016.

Bingo is a relatively small category, comprising only 1.3% of total gross gaming revenues in 2011. We expect bingo to be introduced in KwaZulu-Natal, Mpumalanga and the North West during the next five years, which will propel the market. We project bingo gross gaming revenues to reach R590 million in 2016 from R235 million in 2011, a 20.2% compound annual increase.

Gross gaming revenues as a whole will expand from R18.4 billion in 2011 to R25.6 billion in 2016, a 6.8% compound annual increase.

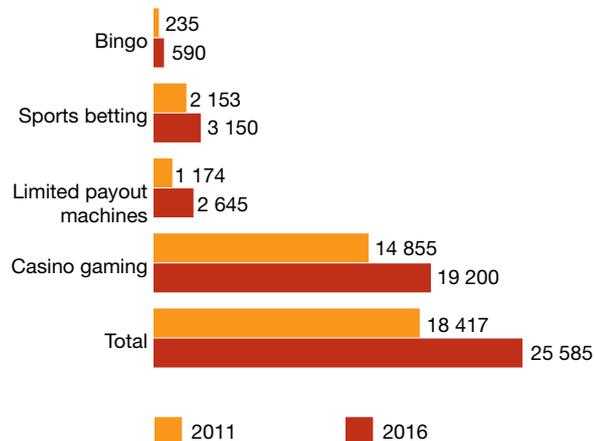
Gross gaming revenues

Overall gross gaming revenues rose 7.4% in 2011, the largest increase since 2007. LPM gross gaming revenue increased 30.6% in 2011, the fastest-growing component of the market. Bingo was next with a 19.9% increase. Sports betting rose 7.5% and casino revenue grew by 5.8%.

We expect casino gross gaming revenues to grow at mid-single-digit rates with increases projected to be somewhat higher during 2014-16 compared with 2012-13, as underlying economic growth improves. Casino gross gaming revenues will rise from R14.9 billion in 2011 to R19.2 billion in 2016, a 5.3% compound annual increase.

Most of the growth in LPM gross gaming revenues in recent years has been due to the proliferation of new machines. As there is still ample room for the licensing of new machines, we expect continued double-digit annual gains averaging 17.6% compounded annually to R2.6 billion in 2016 from R1.2 billion in 2011.

Gross gaming revenues (R millions) – 2011 vs 2016



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

Gross gaming revenues (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Casino gaming	13 163	13 505	13 726	14 043	14 855	15 560	16 350	17 200	18 200	19 200	
% change	12.9	2.6	1.6	2.3	5.8	4.7	5.1	5.2	5.8	5.5	5.3
Limited payout machines	512	663	740	899	1 174	1 520	1 850	2 145	2 400	2 645	
% change	48.4	29.5	11.6	21.5	30.6	29.5	21.7	15.9	11.9	10.2	17.6
Sports betting	1 853	1 633	1 605	2 003	2 153	2 200	2 365	2 860	3 120	3 150	
% change	27.3	(11.9)	(1.7)	24.8	7.5	2.2	7.5	20.9	9.1	1.0	7.9
Bingo	90	121	197	196	235	300	370	440	520	590	
% change	45.2	34.4	62.8	(0.5)	19.9	27.7	23.3	18.9	18.2	13.5	20.2
Total	15 618	15 922	16 268	17 141	18 417	19 580	20 935	22 645	24 240	25 585	
% change	15.5	1.9	2.2	5.4	7.4	6.3	6.9	8.2	7.0	5.5	6.8

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



Gaming taxes and levies is the amount levied and collected by provincial licensing authorities from legal gambling. Corporate tax and VAT on gaming revenues are excluded from our analysis.

Gaming taxes and levies

Gaming taxes and levies totalled R1.8 billion in 2011, up 9.8% from 2010. Casino gaming accounted for 76.7% of the total, which was less than its 80.7% share of gross gaming revenue.

Taxes and levies for casinos are slightly lower on a percentage basis than for LPMs, sports betting and bingo, reflecting efforts to promote the market as it contributes more to the economy in terms of employment, investment and government revenues than other categories of legal gambling.

The taxes and levies referred to in this report are not corporate income taxes or VAT, but provincial taxes and levies on gambling activity. In 2011, these taxes averaged:

Category	% of GGR	% of turnover
Casinos	9.5	0.6
LPMs	11.9	1.2
Sports betting	12.0	1.5
Bingo	12.3	0.9

Over and above provincial gaming levies and taxes, gaming operators also pay corporate tax of 28% and VAT (value-added tax) is levied on gross gaming revenues. For casino operations, VAT is an expense as it is an amount deducted from the net winnings retained by

the casino and is not passed on to the gambler. Therefore, if the VAT rate goes up, the casino's margin will be impacted. The estimated VAT output paid by casino operators in 2011 on the 2011 gross gaming revenue of R14.9 billion is R1.8 billion.

The expected imposition of a 1% tax on casino gross gaming revenues to be introduced in 2013 will lead to a 16.9% increase in taxes and levies for casinos in 2013 and a 16.1% overall increase in taxes and levies when compared to 2012.

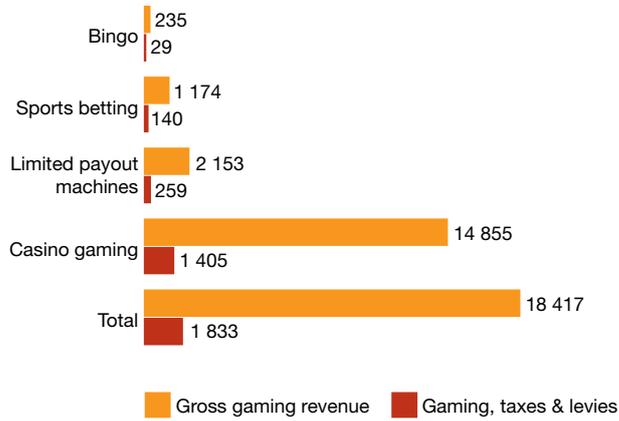
Overall gaming taxes and levies will increase at an 8.6% compound annual rate to R2.8 billion in 2016.

Gaming taxes and levies (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Casino gaming	1 242	1 251	1 263	1 318	1 405	1 480	1 730	1 820	1 925	2 030	
% change	16.5	0.7	1.0	4.4	6.6	5.3	16.9	5.2	5.8	5.5	7.6
Limited payout machines	54	73	83	105	140	183	223	258	289	319	
% change	58.8	35.2	13.7	26.5	33.3	30.7	21.9	15.7	12.0	10.4	17.9
Sports betting	213	201	207	223	259	250	265	320	350	350	
% change	10.9	(5.6)	3.0	7.7	16.1	-3.5	6.0	20.8	9.4	0.0	6.2
Bingo	11	15	22	23	29	39	48	57	67	76	
% change	37.5	36.4	46.7	4.5	26.1	34.5	23.1	18.8	17.5	13.4	21.3
Total	1 520	1 540	1 575	1 669	1 833	1 952	2 266	2 455	2 631	2 775	
% change	16.9	1.3	2.3	6.0	9.8	6.5	16.1	8.3	7.2	5.5	8.6

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

Gaming, taxes & levies vs gross gaming revenue (R millions) – 2011



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



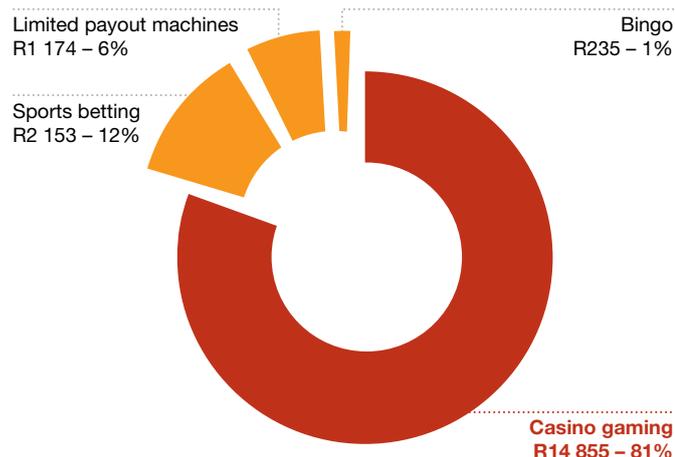
Casino gaming

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

Casino gaming 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 with R6.3 billion generated 42.7% of total casino gross gaming revenues in South Africa in 2011. KwaZulu-Natal and the Western Cape were next at R2.7 billion and R2.3 billion, respectively. These three provinces accounted for 76.1% of total casino gross gaming revenues. The Eastern Cape

Gross gaming revenue by type (R millions) – 2011



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

was the only other province to generate R1 billion in gross gaming revenues, with North West approaching that threshold at R975 million.

Casinos by province and operator

	Tsogo Sun	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

Casino gross gaming revenues by province – 2011

	Gross gaming revenues (R millions)	Share of total (%)
Gauteng	6 341	42.7
KwaZulu-Natal	2 703	18.2
Western Cape	2 259	15.2
Eastern Cape	1 002	6.7
North West	975	6.6
Mpumalanga	659	4.4
Free State	394	2.7
Limpopo	345	2.3
Northern Cape	177	1.2
Total	14 855	100

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

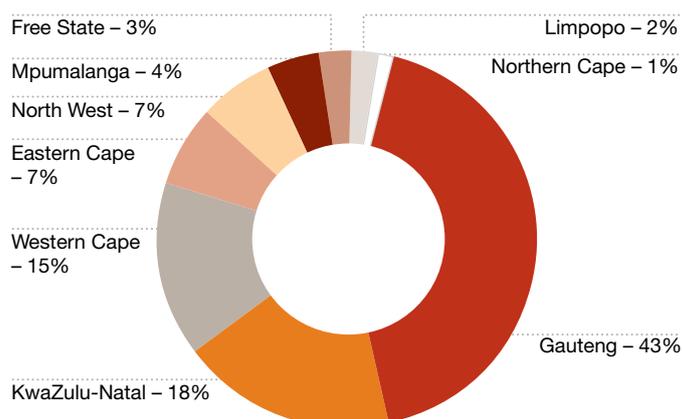
A proposal to introduce machines with high payouts at racetracks, bingo halls and other non-casino venues is being challenged by the Casino Association of South Africa (CASA), the trade association representing 35 casinos. CASA argues that machines offering high stakes and high payouts will attract high rollers away from casinos. Introducing new machines would also appear to be in conflict with the Gambling Review Commission's general policy of restricting gambling opportunities. As such machines would likely be available in shopping malls and other convenient locations, CASA argues there could be a social cost of increased problem gambling.

Casino gross gaming revenues in 2011 recorded the largest gain since 2007. With the expectation of slower economic growth in the near term, we expect turnover and gross gaming revenues to grow at somewhat slower rates during the next five years. Turnover will increase at a 5.2% compound annual rate to R290 billion in 2016 from R224.6 billion in 2011. Casino gross gaming revenues will rise at a 5.3% compound annual rate to R19.2 billion in 2016 from R14.9 billion in 2011.

Casino taxes and levies totalled R1.4 billion in 2011. We expect that the new tax will lead to a 16.9% increase in 2013 taxes and levies in 2013.

For the forecast period as a whole, casino taxes and levies will rise at a projected 7.6% compound annual rate to R2 billion in 2016.

Share of total casino gross gaming revenues by province (%) – 2011



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

A proposal included in the 2011 National Budget called for a 15% tax on gambling winnings above R25 000. This was scheduled to go into effect in 2012. Winnings above that amount would have been subject to a withholding tax. The Government subsequently abandoned this proposal as it was feared that, in addition to the administrative burden, the withholding tax would discourage high rollers — people who bet large sums

— from betting at licensed casinos. High rollers represent an important component of the casino market.

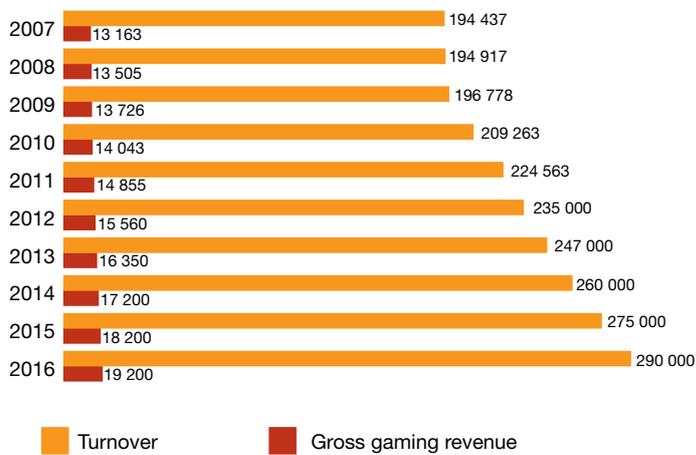
In its place, an additional 1% tax on gross gaming revenues is scheduled to be introduced in April 2013. Such a tax will put pressure on casino margins, which could have an adverse impact on investment.

Casino gaming (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Turnover	194 437	194 917	196 778	209 263	224 563	235 000	247 000	260 000	275 000	290 000	
% change	9.3	0.2	1.0	6.3	7.3	4.6	5.1	5.3	5.8	5.5	5.2
Gross gaming revenue	13 163	13 505	13 726	14 043	14 855	15 560	16 350	17 200	18 200	19 200	
% change	12.9	2.6	1.6	2.3	5.8	4.7	5.1	5.2	5.8	5.5	5.3
Taxes and levies	1 242	1 251	1 263	1 318	1 405	1 480	1 730	1 820	1 925	2 030	
% change	16.5	0.7	1.0	4.4	6.6	5.3	16.9	5.2	5.8	5.5	7.6

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

Turnover vs gross gaming revenues (R millions)



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



Limited payout machines

Limited payout machines are monitored by the Central Electronic Monitoring System (CEMS) and are licensed to route operators who manage and operate LPMs in conjunction with site operators. A total of 50 000 LPMs are authorised to be rolled out nationally in two phases of 25 000 each. However, installations have proceeded at a much slower rate than originally anticipated. As of mid-2012, there were only about 7 500 LPMs installed, less than a third of the first 25 000 allocation. There is no current timetable as to when the first phase will be completed.

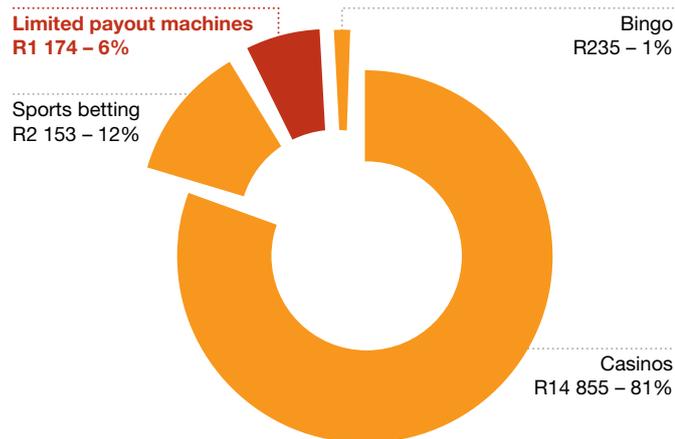
Route Gaming Solutions supplies the monitoring technology for CEMS, which is operated by Zonke Monitoring Systems. Vukani Gaming, Grand Parade Investment, Safika Group and Goldruch are among the LPM operators. LPMs are now available in every province at more than 1 200 sites.

LPMs are limited to five per location with a maximum bet of R5 per game and a maximum win of R500. LPMs are typically located in liquor stores and similar establishments. The average LPM generates annual gross gaming revenues of approximately R150 000.

Only a fraction of the authorised LPMs are in place, which means there is still ample room for growth. Growth will depend on the pace at which new licences are issued and new sites open up. At the same time, the possible launch of high-stakes machines could cut into the LPM market.

In contrast with the casino market, Gauteng ranked only third in LPM gross gaming revenues at R157 million in 2011,

Gross gaming revenue by type (R millions) – 2011



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

representing only 13.4% of the total. The Western Cape had the largest LPM market in 2011 at R423 million, with KwaZulu-Natal next at R274 million. The Eastern Cape at R137 million was the only other province to generate revenue of more than R100 million.

LPMs have not yet been introduced in the Northern Cape and were introduced in the North West and Free State in the third quarter of 2011.

LPM gross gaming revenues by province – 2011

Province	Gross gaming revenues (R millions)	Share of total (%)
Western Cape	423	36.0
KwaZulu-Natal	274	23.3
Gauteng	157	13.4
Eastern Cape	137	11.7
Limpopo	89	7.6
Mpumalanga	86	7.3
North West	5	0.4
Free State	3	0.3
Northern Cape	-	-
Total	1 174	100

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

Limited payout machines (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Turnover	4 834	6 245	6 932	8 653	11 953	15 500	18 900	21 900	24 500	27 000	
% change	47.2	29.2	11.0	24.8	38.1	29.7	21.9	15.9	11.9	10.2	17.7
Gross gaming revenue	512	663	740	899	1 174	1 520	1 850	2 145	2 400	2 645	
% change	48.4	29.5	11.6	21.5	30.6	29.5	21.7	15.9	11.9	10.2	17.6
Taxes and levies	54	73	83	105	140	183	223	258	289	319	
% change	58.8	35.2	13.7	26.5	33.3	30.7	21.9	15.7	12.0	10.4	17.9

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

With the number of LPM machines still well below their authorised level, there is substantial upside in the market. We project LPM turnover to expand at a 17.7% compound annual rate to R27 billion in 2016 from R12 billion in 2011.

Gross gaming revenues will reach R2.6 billion in 2016, up 17.6% compounded annually from R1.2 billion in 2011.

LPMs generated R140 million in taxes and levies in 2011. We project this amount to rise to R319 million by 2016, a 17.9% compound annual increase.



Sports betting

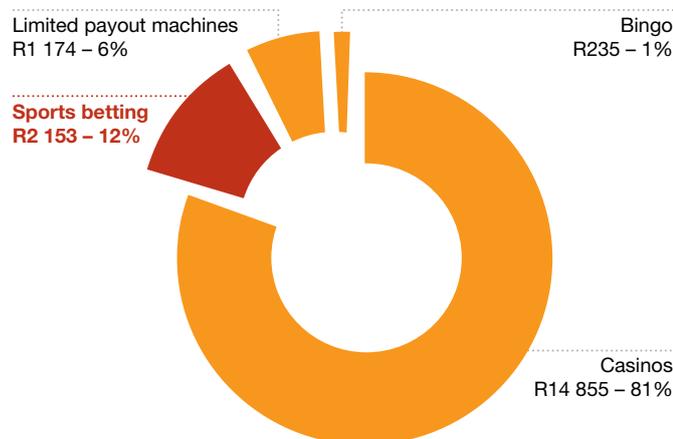
Sports betting includes bookmaking and pari-mutuel wagering on horseracing and other sports events. Wagering totalled R17.7 billion in 2011, generating gross gaming revenues of R2.2 billion.

Horseracing is the dominant component of the market with R1.7 billion in gross gaming revenues in 2011, 78% of the total. Horseracing is controlled by two companies, Phumelela Gaming and Leisure and Gold Circle. Phumelela Gaming 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 has been the faster-growing category in gross gaming revenues, rising by 35.8% in 2011 compared with the 1.5% increase for horseracing. Titan Bet, Bet 365, and 888 Sports are the leading books in South Africa. GreatOdds, South Africa's largest online sports book owned by UK-based Sportingbet, has been renamed Sportingbet South Africa. NetBet, the local operator of Sportingbet South Africa, is licensed by the Western Cape Gambling and Racing Board.

Online sports betting is permitted in South Africa and Ladbrokes and Intralot are among the licensed sites, both of which began serving South Africa in 2011. JustBet.co.za is another online site, which was licensed in 2011. The proliferation of online sports betting is propelling the market.

Gross gaming revenue by type (R millions) – 2011



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

Sports gross gaming revenues by category (R millions)

	2008	2009	2010	2011
Horseracing	1 510	1 411	1 651	1 675
% change		(6.6)	17.0	1.5
Sports betting	123	194	352	478
% change		57.7	81.4	35.8
Total	1 633	1 605	2 003	2 153
% change		(1.7)	24.8	7.5

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

Horseracing gross gaming revenues by province – 2011

	Gross gaming revenues (R millions)	Share of total (%)
KwaZulu-Natal	648	38.7
Gauteng	547	32.7
Western Cape	150	8.9
Eastern Cape	135	8.0
Limpopo	56	3.3
North West	53	3.2
Free State	47	2.8
Mpumalanga	31	1.9
Northern Cape	8	0.5
Total	1 675	100

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

Horseracing is available in all provinces, but most of the gross gaming revenues are generated in KwaZulu-Natal at R648 million in 2011 and Gauteng at R547 million. Together, the two provinces generated 71.4% of total horseracing gross gaming revenues. The Western Cape at R150 million and the Eastern Cape at R135 million were the only other provinces in 2011 to generate revenues of more than R100 million.

The sports betting market (online and non-online) is dominated by Gauteng, which comprised 60.2% of total sports betting gross gaming revenues in 2011 at R288 million. The Western Cape and KwaZulu-Natal were well behind at R75 million and R61 million, respectively. Licensed sports betting is not available in the Eastern Cape.

Sports shown on television generate the most activity. Soccer is the leading sports betting category, while cricket and rugby, particularly Super Rugby, also generate substantial wagering.

Betting on the 2010 FIFA World Cup and the ICC Cricket World Cup in early 2011 (included in 2010 figures) boosted gross gaming revenues by 24.8% to more than R2 billion. In 2011, the launch of online sports betting outlets and wagering associated with the Rugby World Cup contributed to a 7.5% increase in gross gaming revenues.

The economy is a major driver of betting in general, including sports betting. Improving economic conditions during the latter part of the forecast period will have a positive impact on sports betting. The proliferation of online betting will further propel the market.

Also affecting the market are major events that attract interest, such as the FIFA World Cup. We expect the FIFA World Cup in 2014 to lead to a 20.9% increase in gross gaming revenue that year with a further 9.1% advance in 2015 related to the Rugby World Cup.

For the forecast period as a whole, turnover will increase at a 6.5% compound annual rate to reach R24.2 billion by 2016.

Gross gaming revenues will total an estimated R3.2 billion in 2016, a 7.9% compound annual increase from 2011.

Sports betting generated R259 million in taxes and levies in 2011, a figure we expect will expand to R350 million by 2016, a 6.2% compound annual increase.

Sports betting gross gaming revenues by province – 2011

	Gross gaming revenues (R millions)	Share of total (%)
Gauteng	288	60.2
Western Cape	75	15.7
KwaZulu-Natal	61	12.8
Limpopo	21	4.4
Mpumalanga	13	2.7
North West	10	2.1
Free State	8	1.7
Northern Cape	2	0.4
Eastern Cape	-	-
Total	478	100

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

Sports betting (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Turnover	9 891	9 466	10 211	12 643	17 699	17 000	18 200	22 000	24 000	24 200	
% change	18.4	(4.3)	7.9	23.8	40.0	(3.9)	7.1	20.9	9.1	0.8	6.5
Gross gaming revenue	1 853	1 633	1 605	2 003	2 153	2 200	2 365	2 860	3 120	3 150	
% change	27.3	(11.9)	(1.7)	24.8	7.5	2.2	7.5	20.9	9.1	1.0	7.9
Taxes and levies	213	201	207	223	259	250	265	320	350	350	
% change	10.9	(5.6)	3.0	7.7	16.1	(3.5)	6.0	20.8	9.4	0.0	6.2

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



Bingo

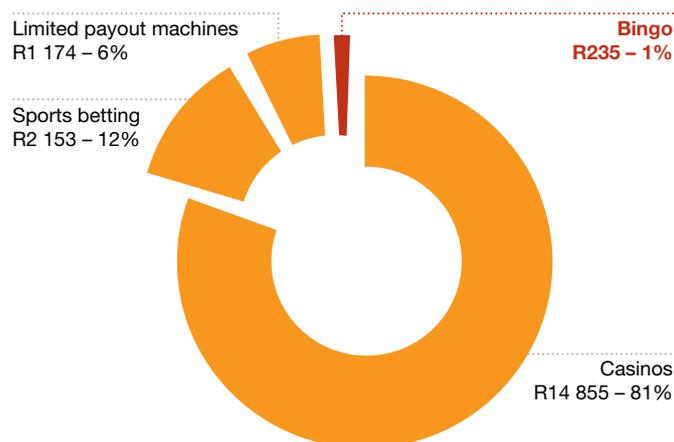
Bingo is a small category that is available only in Gauteng. This market was stagnating during the first half of the previous decade, but began to accelerate in 2006. Galaxy Bingo, Viva Bingo, and Silk Gaming and Leisure are the principal bingo operators in Gauteng.

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

We expect bingo to be the fastest-growing category during the next five years with a projected 20.0% compound annual increase in turnover to R8.4 billion by 2016 from R3.4 billion in 2011.

Gross gaming revenues will rise from R235 million in 2011 to a projected R590 million in 2016, a 20.2% compound annual increase.

Gross gaming revenue by type (R millions) – 2011



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

Taxes and levies generated by bingo rose 26.1% in 2011 to R29 million. We expect this to more than double to R76 million by 2016, a 21.3% compound annual increase.

Bingo (R millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2012-16 CAGR (%)
Turnover	1 121	1 499	1 905	2 426	3 372	4 300	5 300	6 350	7 400	8 400	
% change	85.9	33.7	27.1	27.3	39.0	27.5	23.3	19.8	16.5	13.5	20.0
Gross gaming revenue	90	121	197	196	235	300	370	440	520	590	
% change	45.2	34.4	62.8	(0.5)	19.9	27.7	23.3	18.9	18.2	13.5	20.2
Taxes and levies	11	15	22	23	29	39	48	57	67	76	
% change	37.5	36.4	46.7	4.5	26.1	34.5	23.1	18.8	17.5	13.4	21.3

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

Online gaming

The National Gambling Amendment Act provided for the legalisation and regulation of online casino gaming, but under current laws, online gaming has not yet been legalised. As recently as 2009, South Africa had planned on issuing 10 online casino gaming licences. In 2010, however, the Northern Gauteng High Court denied an application by Piggs Peak Casino to offer licensed online gaming in South Africa. The Court determined that even though the site is located in Swaziland, gambling occurs through Internet connections located in South Africa, which means that laws that currently prohibit online gambling taking place in South Africa apply.

Casino Enterprises, which owns and operates Piggs Peak Casino, took the judgement to the Supreme Court on appeal. The Supreme Court denied the appeal as the Government has not yet enacted gambling laws that provide for foreign-based online operators to be licensed in South Africa. Following the ruling, Piggs Peak Casino blocked access to people with a South African IP address.

The Financial Surveillance Department of the Reserve Bank of South Africa directed banks to notify their customers that it is illegal to use credit cards for online casino gaming or to purchase foreign-issued lottery tickets online.

While Piggs Peak Casino no longer accepts bets from South Africa, a number of foreign sites are still accessible. The South African Government does not have the authority to prevent access to foreign sites, but under current law, people convicted of online gaming face a fine of up to R10 million and up to 10 years in prison. As of this writing, no one has been prosecuted for online gaming.

In early 2012, the Gambling Review Commission recommended regulating online gaming because it is occurring and difficult and costly to prevent and because online gaming can generate tax revenues that are currently being lost.

The Trade and Oversight Committee of the National Assembly petitioned the Department of Trade and Industry to develop legislation to regulate online gaming and recommended regulating casino games, online slots, sports betting, totes and bingo. The committee did not recommend regulating online poker and peer-to-peer betting because of the potential for money laundering.

Another concern is that patrons of unauthorised online casinos are being cheated. Some online casinos promise jackpots to lure players, but do not deliver. The current line of thinking appears to be to license just a few operators and subject them to strict regulation. People placing bets through authorised sites will be protected. It is also suggested that the rollout of licensed online casino gaming proceed at a controlled pace so as to assess its impact on society.

While online casino wagering is still illegal in South Africa, it is legal to develop online gaming software as long as the software is to be used in other countries.

In contrast with online casino gaming, online sports betting through betting outlets in South Africa is permitted because accessing the outlet by phone or via the Internet is not materially different to accessing the outlet in person. The option is simply an alternative communications channel. Additionally, while bookmakers facilitate the placing of bets, they do not operate the events themselves. The sporting events and their outcomes are independent of the betting activity.

It is also legal to offer online sports betting even if the licensee has no physical sports betting outlet, again because licensees do not operate the events themselves. A number of companies have applied for licences to operate sports betting sites in South Africa. Intralot was granted a licence in early 2012 by the Western Cape Gambling and Racing Board and began operations in mid-2012 through JustBet.co.za to offer fixed-odds sports betting. Ladbrokes is another online betting site available in South Africa.

Critical legal issues for the gaming market

A lack of legal clarity and regulation makes it difficult to determine the future growth of the online gaming industry in South Africa.

Gaming is a matter of concurrent jurisdiction between national and provincial structures. South Africa's gaming policy is determined through the National Gambling Policy Council, while provinces issue licences to operators. Regulatory uncertainty is caused by a lack of uniformity in the regulation of the industry by national and provincial authorities and ineffective coordination between provinces.

Standards for the industry are seen as necessary, but require empowering provisions in legislation to be effective.

Gaming is currently regulated by the National Gambling Act 7 of 2004 and respective provincial gambling acts. The National Gambling Act prohibits the offering and advertising of – and engaging in – online gaming activities, regardless of whether the service is registered in another jurisdiction.

Following the international trend to regulate the lucrative online gaming industry, Parliament passed the National Gambling Amendment Act in 2008 to provide for the licensing and regulation of interactive gambling activities. The Act defines an interactive game as:

“A gambling game played or available to be played through the mechanism of an electronic agent accessed over the Internet other than a game that can be accessed for play only in licensed premises, and only if the licensee of any such premises is authorised to make such game available for play.”

The amended Act provides for the licensing of interactive gaming activities and the imposition of obligations on interactive gaming and standards for gaming websites. The Act proposes the licensing of operators offering online gambling. It introduces control measures to prevent underage gambling (the submission of an affidavit) and states that all computer servers will have to be located in South Africa. It calls for all players to register their personal details in order to play. The Act also regulates the advertising of gaming activities. Licences to operate legal online casinos cannot be granted until the Act is promulgated.

The Department of Trade and Industry's Interactive Gaming Regulations Bill calls for, among other things, interactive gaming service providers to comply with the Financial Intelligence Centre Act and to allow regulators access to their servers to verify and monitor players' records. Interactive gaming is extended to include gaming that occurs on other related forms of telecommunications (such as mobile devices).



Conclusion

The gaming 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.

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

The outlook for the industry remains positive and the further rollout of limited payout and bingo machines and the possible introduction of online gaming will further contribute to the expected growth in revenues. Casino operators are also expanding or upgrading their properties to offer a better experience to gamblers and non-gamblers seeking out quality entertainment.

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
ICC	International Cricket Council
LPM	Limited payout machine
VAT	Value-added tax

PwC South Africa

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