

Global Gaming Outlook

*The casino and online
gaming market to 2015*



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Introduction

About this study



Caesar's Palace, Las Vegas, US

Welcome to PwC's second annual point-of-view study focused on current and future trends and revenue growth in the global casino gaming industry and the online gaming sector over the next five years. In publishing this report, we are reflecting the increasingly globalized nature of the casino gaming market, while also acknowledging the continuing local nature of gaming habits and regulation.

How this point-of-view paper is structured

The industry analysis in this paper is divided into two sections.

The first part—which makes up the majority of the report—covers traditional physical casino gaming. This consists of betting activities conducted within “bricks-and-mortar” casinos, including land-based casinos, riverboats, dockside casinos, tribal casinos, racinos (slots at racetracks), and cruise ships. Spending totals represent gross gaming revenue, which is the house win, or the amount wagered minus the amount returned to players as winnings. Forecasts for gross gaming revenue take into account the key performance indicators and drivers for each region and marketplace.

The second part covers online gaming activities in each region and the evolution of the respective markets. We close the section by describing our vision for each region in 2015.

Taking the industry's pulse

Following the success of last year's first edition of this research report on the global casino gaming and online gaming industries, we have decided to make it an annual contribution. As a result, our second edition, branded the *Global Gaming Outlook*, carries on the tradition of adding to industry thinking, insight, and planning.

When we launched this publication in 2010, we did so with two main objectives in mind. The first was to present our perspectives on the opportunities, challenges, and trends facing participants in the casino gaming market worldwide, and to analyze how these factors will play out over the coming years. The second was to underpin this industry analysis with revenue forecasts for each segment and region of the global gaming market through the coming five years, providing the reader with hard statistical data against which to plan responses to the trends highlighted in this report.

As the information panel on the opposite page explains, our analysis and statistical data on the global and regional casino gaming markets are contained in Section I of this report. In Section II, we give our views on trends and future developments in the online and mobile gaming markets. However, owing to the legal and regulatory uncertainties that surround these activities in many countries across the world, this analysis does not include historical or projected data for online gaming revenues.

Returns on investment

As in last year's study, our financial forecasts in this publication focus solely on revenue. However, we acknowledge the profound cost implications of various industry developments. As new casino gaming facilities—often including

accommodation and other leisure choices—are built in existing and new gaming centers around the world, the investment required from the companies behind these developments is often massive.

While each new casino development may generate new incremental revenues, there is inevitably a risk of cannibalization of revenues from existing casinos in the same city, country, or region. As a result, in this most dynamic of industries, there is always a danger that the additional revenues generated by new developments or marketplaces may not be big enough to justify the investment involved.

Wider implications

Clearly, gaming has wider social and economic implications. As Singapore has demonstrated during the past two years, the profile and tourism revenues generated by casino gaming can bring major benefits to cities and entire regions. This is why governments are so keen to encourage and attract them. The potential for tax revenues is a further attraction—and this consideration represents one of the main drivers behind the growing willingness of national and state governments worldwide to legalize and license online gaming operators.

Yet the fact remains that in many countries there are moral and legal concerns over casino gaming in general, and online gaming in particular. These can often be blended with protectionist instincts and lobbying on the part of the established operators in a particular marketplace, combined with concerns over the difficulty of regulating operators based offshore. Tax structures are a further contentious issue in many jurisdictions. All these pros and cons mean governments face many tough choices when deciding whether to

regulate and/or encourage growth in gaming, and again, online gaming in particular, within and across their borders.

An ever-richer mix

To a large extent, casino gaming will always reflect a local or regional atmosphere. Casinos in Macau, Las Vegas, Singapore or London's Mayfair all have their own unique and widely differing environments and "feel" that represent a key element of their appeal. The proposed major resort development in markets such as Spain and Japan could add still further to this rich global mix. As online gaming gains momentum, it will be interesting to see how much of a competitive impact it has on traditional casinos. Possibly, people who start playing online may want to start playing in a physical environment, especially with poker—a trend witnessed by some casinos in the UK.

Our aim in this publication is to help all stakeholders in the casino gaming industry map out their future plans, wherever in the world they may be based or operating. Whether you are an operator intending to enter a new gaming jurisdiction and wanting to understand its revenue potential; a regulator in a newly formed gaming jurisdiction needing to evaluate the suitability of potential licensees; a manufacturer or supplier searching for perspectives on short- and long-term growth opportunities; or an online social network assessing the future opportunities in online gaming, we hope that you find our *Global Gaming Outlook* both informative and valuable.



Marcel Fenez

Global Leader,
Entertainment & Media

Executive summary

Key trends

Through its long history, casino gaming has always been a unique source of entertainment for its customers, and a focus for government regulation spotlight. As a highly discretionary element of consumer spending, it is also exposed to changes in economic confidence and conditions. Today, all these long-standing attributes are reflected in a range of challenges and opportunities facing both the industry's established players and also those contemplating entering the market.

The most evident of these challenges—at least in markets other than Asia Pacific—is the continuing global economic uncertainty, and the resulting subdued state of consumer spending. While the 9.6 percent surge in total global spending on casino gaming in 2010 appears at first sight to be a very buoyant performance compared to most major industries, this global rise masks a slump of 7.2 percent in 2010 in EMEA (Europe, Middle East, Africa), and of 2.9 percent in Canada. Revenues in the US—currently the world's largest casino market, but set to be overtaken by Asia Pacific in 2013—were virtually flat in 2010, rising by just 0.2 percent, the first increase since 2007.

Asia Pacific: the growth engine

In stark contrast, Asia Pacific—which paused for breath in 2009, rising by only 7.1 percent – leapt forward dramatically in 2010. Spending in that one year alone rose by a stunning 49.7 percent, driven by new capacity in Macau and Singapore, and the latter's emergence as a major new resort destination. The fact that we are projecting a further rise of 37.2 percent in Asian revenues in 2011 underlines the momentum behind the region's growth. The much smaller Latin American market has also stayed in positive territory in terms of growth in 2010, expanding by 5.5 percent, with faster growth expected beginning in 2011 as new casinos enter that market.

Inevitably, the growth surge in Asia Pacific will ultimately level off, as the region's market matures and capacity moves closer to demand. The big question is how many further territories will seek to create or expand their presence in the Asia Pacific casino gaming marketplace, with countries such as Japan, South Korea, Thailand, and Vietnam eyeing the potential boost to tax and tourist dollars demonstrated by Singapore's success. On balance, our forecast is that the growth in Asian casino revenues will start to slow down from 2011-2012, and by 2015 will have dropped to 7.9 percent—still higher than growth in the US and EMEA. However, by 2015 the Asia Pacific current growth surge will have fundamentally reshaped the landscape of the global industry, with Asia Pacific then accounting for 43.4 percent of total global revenues, ahead of the US at just over 40.1 percent (see information panel).

Economic and regulatory challenges—but rising capacity

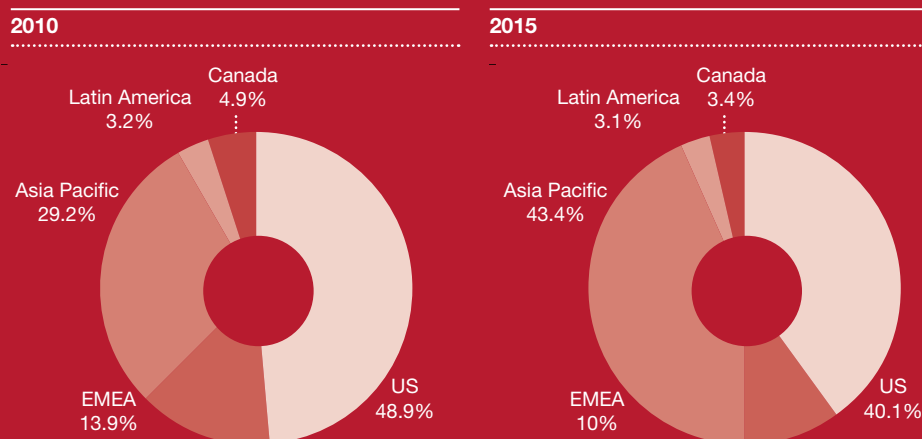
The rise of Asia Pacific will be emphasized by the continuing challenges elsewhere, as economic trends in other regions continue to be the main underlying driver of casino revenues, through their impact on disposable income and job growth. These factors will continue to have an adverse effect in the near term, but will provide a lift to the market during the latter part of the forecast period.

As such considerations play themselves out, Asia Pacific's higher growth outlook and scope to absorb rising capacity reflects three main factors. The first is the role of economic growth in driving disposable incomes and the emergence of a prosperous middle-class. The second is the deep attachment to casino gaming and other forms of gambling in many societies in the region—an attachment

A new global landscape – dominated by Asia

Asia Pacific's five-year compound annual growth rate (CAGR) of 18.3 percent between 2011 and 2015 will create a globally dominant Asian regional marketplace. As the charts below show, Asia Pacific's share of the global market will surge from 29.2 percent in 2010 to 43.4 percent in 2015, representing a geographic shift in revenue origination. This trend reflects the fact that demand in Asian countries currently far outstrips supply—and that, for the next few years at least, operators and countries that offer further high-quality capacity in the region can be fairly certain that they will soon see it absorbed. Asia Pacific's rise confirms that this fact pattern continues.

Breakdown of global gaming market revenues, 2010 versus 2015



that consumers increasingly have the resources to indulge.

The third factor is the growing opportunity to take part in casino gaming, as new centers are established and as new facilities are opened up in existing markets. Most obviously, the prime examples of new territories entering the market include Singapore's dramatic emergence as a casino gaming center, surging from zero in 2009 to revenues totaling more than \$4 billion in 2011 and more than \$7 billion in 2015.

In assessing the outlook for growth across the world, it is important to take into account the likelihood that logistical and regulatory changes may continue to have a major impact. Recent examples of this include the new railway that connects Macau with Guangzhou, which has significantly reduced travel time from mainland China. This has boosted traffic from the People's Republic of China (PRC)—and the expected completion of the Hong Kong-Zhuhai-Macau road bridge in 2015–2016 will provide a further uplift. Less positive external effects can be seen in the restrictions on US visitors that have hurt Canadian casinos near the US border, the near-prohibitive taxation of online gaming stakes in some European countries, and events such as Russia's mass-closure of casinos that devastated the legitimate market in that country.

More generally, the global trend in the current post-downturn environment is toward more investment in capacity by some operators in particular markets and segments, while others are retrenching under the impact of competition and/or sluggish demand. As new casinos are introduced, the competitive landscape will continue to change, and portions of the market will be siphoned off from existing casinos.

In the US, for example, growth in regional casinos continues to cut into the Atlantic City market. In Asia Pacific, the suggested introduction of casinos in Japan—which remains far from certain—would affect the markets in South Korea and Macau. The launch of resort casinos in Singapore has adversely affected the casino market in Australia. Similarly, growth in the casino market in Macau and Singapore may help to dampen growth in Nevada. The launch—if it happens—of a proposed integrated resort in Spain, or a “supercasino” in Ireland, could change the European landscape.

Complex issues going forward

To address the market challenges while sustaining and growing their day-to-day operations, gaming owners and operators must interact with many organizations in both the public and private sectors—ranging from investment banks, analysts and

commercial lending institutions, to governing bodies and licensing agencies that regulate and monitor their operations. Complex issues also confront gaming regulators: how to monitor and safeguard enterprises that provide gaming tax revenues, while also preserving the integrity of the gaming environment and the reputation of all parties involved.

In the emerging area of online gaming services, the regulatory complexities and sensitivities are even greater. The past year has seen only sporadic progress toward wider legislation and regulation of online gaming, with little headway having been made in 2010 or to date in 2011 in markets such as the US. However, our view remains that the currently dominant approach of in-country or in-state regulation and licensing of online gaming will be steadily eroded during the next five years, under the impact of rising demand for cross-border gaming and liquidity for disciplines such as poker. In Europe, where the European Commission is driving progress by taking legal action against national online gaming monopolies, we are likely to see continued local country regulation, but with progress over time toward countries working together on licensing and pooling liquidity across borders, especially for poker.



Part I:
Casino gaming

Global overview

According to our projections, global casino gaming revenue across the US, EMEA (Europe, Middle East, and Africa), Asia Pacific, Latin America, and Canada will grow at a 9.2 percent compound annual rate during the next five years, rising from \$117.6 billion in 2010 to \$182.8 billion in 2015.

During this period, spending in the US will rise by 5.0 percent compounded annually, from \$57.5 billion in 2010 to \$73.3 billion in 2015. This growth in the US will be strongly outpaced by Asia Pacific, which will be the fastest-growing region by a wide margin, with a projected 18.3 percent increase compounded annually to \$79.3 billion

in 2015 from \$34.3 billion in 2010. This growth will see Asia Pacific overtake the US in 2013 as the world's largest regional casino gaming market.

In EMEA, revenues will reach \$18.3 billion in 2015 from \$16.3 billion in 2010, an average annual increase of 2.4 percent compounded annually. In the much smaller Latin American market, annual revenue growth will average 8.1 percent compounded annually from \$3.8 billion in 2010, rising to \$5.6 billion in 2015. Canada will advance from \$5.7 billion in 2010 to \$6.2 billion in 2015, a 1.8 percent compound annual rate.

Asia Pacific's higher growth rate throughout the period will see its share of the total global market increase from 29.2 percent in 2010 to 43.4 percent in 2015.

Global casino gaming market by region (US\$ millions)

Region	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2010–15 CAGR
United States	57,470	60,440	59,433	57,368	57,488	59,500	62,315	65,497	69,110	73,320	
% Change	8.4	5.2	-1.7	-3.5	0.2	3.5	4.7	5.1	5.5	6.1	5.0
EMEA	20,783	20,894	19,959	17,567	16,307	16,175	16,250	16,751	17,350	18,343	
% Change	2.8	0.5	-4.5	-12.0	-7.2	-0.8	0.5	3.1	3.6	5.7	2.4
Asia Pacific	13,687	17,714	21,379	22,898	34,280	47,042	58,124	66,961	73,429	79,266	
% Change	16.3	29.4	20.7	7.1	49.7	37.2	23.6	15.2	9.7	7.9	18.3
Latin America	2,584	2,959	3,269	3,601	3,800	4,096	4,370	4,757	5,165	5,614	
% Change	25.6	14.5	10.5	10.2	5.5	7.8	6.7	8.9	8.6	8.7	8.1
Canada	5,354	5,685	5,694	5,874	5,704	5,597	5,621	5,743	5,986	6,230	
% Change	10.7	6.2	0.2	3.2	-2.9	-1.9	0.4	2.2	4.2	4.1	1.8
Total	99,878	107,692	109,734	107,308	117,579	132,410	146,680	159,709	171,040	182,773	
% Change	8.7	7.8	1.9	-2.2	9.6	12.6	10.8	8.9	7.1	6.9	9.2

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

Market overview

The casino gaming market in the US regained some degree of stability in 2010, following two years of decline, but conditions remain uncertain and volatile in many industry centers and sectors. While improved economic conditions helped to halt the decline, many operators still lack the confidence to press ahead with major developments in centers such as Las Vegas. Yet others are investing strongly in new capacity.

US casino gaming revenues as a whole edged up by 0.2 percent in 2010 to \$57.5 billion, leaving revenues

still 4.9 percent below their level in 2007. Growth was generated by an expanding regional casino market, fueled principally by the strong showing of new casinos in Pennsylvania. The gains in the regional casino market offset a 9.6 percent decline in Atlantic City. Revenues in Nevada and tribal casinos were essentially flat in 2010.

Going forward, the introduction of table games at racetrack casinos and slot parlors, combined with their accessibility to large population centers, will continue to fuel the

regional casino market. The regional casino market also will benefit from possible openings of resort casinos in Florida and Massachusetts. As a result of these positive factors, we expect regional casinos to be the fastest-growing category during the next five years. In contrast, we expect Atlantic City to continue to decline, as that market loses patrons to more conveniently located regional casinos. The Nevada and tribal casinos markets will benefit from an improved economy during the latter part of the forecast period.

According to our projections, modest but gradually accelerating growth will see overall US casino gaming revenues regain their 2007 level in 2012. Total revenues will increase to \$73.3 billion in 2015 from \$57.5 billion in 2010, a 5.0 percent compound annual increase over the five-year forecast period. Only Atlantic City will have lower revenues in 2015 than 2010.

Casino gaming market (US\$ millions)

United States	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Nevada	12,783	13,017	11,599	10,393	10,405	10,700	11,135	11,652	12,290	12,955
Atlantic City	5,218	4,920	4,545	3,943	3,565	3,300	3,080	2,945	2,870	2,815
Tribal casinos	24,889	26,143	26,739	26,482	26,503	27,500	28,800	30,200	31,750	33,350
Regional casinos	14,580	16,360	16,550	16,550	17,015	18,000	19,300	20,700	22,200	24,200
Casino gaming total	57,470	60,440	59,433	57,368	57,488	59,500	62,315	65,497	69,110	73,320

Sources: American Gaming Association, National Indian Gaming Commission, Nevada Gaming Commission, New Jersey Casino Control Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Casino gaming market growth (%)

United States	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Nevada	8.4	1.8	-10.9	-10.4	0.1	2.8	4.1	4.6	5.5	5.4	4.5
Atlantic City	4.0	-5.7	-7.6	-13.2	-9.6	-7.4	-6.7	-4.4	-2.5	-1.9	-4.6
Tribal casinos	10.6	5.0	2.3	-1.0	0.1	3.8	4.7	4.9	5.1	5.0	4.7
Regional casinos	6.4	12.2	1.2	0.0	2.8	5.8	7.2	7.3	7.2	9.0	7.3
Casino gaming total	8.4	5.2	-1.7	-3.5	0.2	3.5	4.7	5.1	5.5	6.1	5.0

Sources: American Gaming Association, National Indian Gaming Commission, Nevada Gaming Commission, New Jersey Casino Control Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

Nevada

In its overall revenue mix, Nevada—which includes Las Vegas, as well as smaller centers such as Laughlin and Reno—relies on players from overseas more than other casinos in the US. For this reason, the improved global economic conditions, in tandem with those in the US, contributed to Nevada's improved performance in 2010.

After slumping by a cumulative 20.2 percent between 2007 and 2009, the Nevada market steadied in 2010 with a 0.1 percent increase. Table games rebounded with a 6.1 percent rise, the decline in slot revenues slowed to 2.7 percent, while card games fell 7.5 percent. The momentum generated in 2010 is carrying over in 2011 and we project that the market will increase by 2.8 percent for 2011 as a whole.

However, the recovery does not signal an end to the challenges facing all operators and segments. The steel skeletons of uncompleted developments still scar the Las Vegas skyline, and operators are facing the residual effects of high unemployment in California. Also, the most recently released gaming revenue reports show

that baccarat games account for over 42 percent of table game revenues on the Las Vegas strip, indicating a high reliance on volatile revenues from a small number of high rollers.

However, there are some signs of resurgent confidence in the market. One of the most high profile was Caesar Entertainment's confirmation in August 2011 of plans for the \$550 million Linq project, including a 550-foot observation wheel called "The Las Vegas High Roller", as well as a restaurant-entertainment district.

More generally, having navigated through 2010 in survival mode, many operators are facing debt repayments in 2014–2015, meaning they remain compelled to follow the cost-cutting measures of the last several years. The search for revenues is seeing operators look at new and innovative games to refresh the Nevada offering.

For example, under new regulations that went into effect in 2011, casinos are permitted to provide betting on events and contests other than sports, so long as the events themselves are regulated and no one has prior

information as to the outcome. Beauty pageants, award shows and financial markets are possible candidates for the new betting activity.

The emergence of major resort casinos in Asia Pacific—often (as in Macau) operated by US-based companies—will divert some of the US's overseas-derived business to that region. As the US's major international casino gaming center, Nevada will be disproportionately affected. Consequently, even when the economy returns to healthy growth, we do not expect Nevada to record increases comparable to prior gains achieved during periods of economic expansion. Accordingly, during the 2012–15 period we project annual revenue gains averaging 4.9 percent each year. For the five-year forecast period as a whole, the Nevada market will increase at a 4.5 percent compound annual rate to \$13 billion in 2015 from \$10.4 billion in 2010.

Nevada casino gaming revenue (US\$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Slots	8,306	8,451	7,736	6,823	6,637	6,750	6,920	7,160	7,520	7,900	
% Change	6.9	1.7	-8.5	-11.8	-2.7	1.7	2.5	3.5	5.0	5.1	3.5
Table games	4,316	4,398	3,707	3,424	3,633	3,830	4,100	4,375	4,650	4,930	
% Change	11.2	1.9	-15.7	-7.6	6.1	5.4	7.0	6.7	6.3	6.0	6.3
Card games	161	168	156	146	135	120	115	117	120	125	
% Change	15.0	4.3	-7.1	-6.4	-7.5	-11.1	-4.2	1.7	2.6	4.2	-1.5
Casino total	12,783	13,017	11,599	10,393	10,405	10,700	11,135	11,652	12,290	12,955	
% Change	8.4	1.8	-10.9	-10.4	0.1	2.8	4.1	4.6	5.5	5.4	4.5

Sources: Nevada Gaming Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

Atlantic City

As we highlighted in last year's study, of all the segments of the US casino gaming industry, the Atlantic City market is at the greatest risk from the combined impacts of economic uncertainty and intensifying competitive pressures from regional casinos. These worries are being borne out by our projections, with Atlantic City set to be the only segment of the US market whose revenues will be lower in 2015 than 2010.

This long-term decline is already well under way, with the Atlantic City market having plunged by a cumulative 31.7 percent between 2006 and 2010. The recession contributed to the downturn—revenues fell by 13.2 percent in 2009—but the decline

continued in 2010 as other areas of the industry began to recover, with Atlantic City suffering a further 9.6 percent drop despite the rebound in the economy.

The underlying reason is that Atlantic City attracts most of its patrons from Pennsylvania, New York, Delaware, and Maryland—and the opening of racetrack casinos and regional casinos in those markets has cut into Atlantic City's business. At the same time, the introduction of table games in Pennsylvania and electronic table games and roulette in Yonkers is making those venues more like the Atlantic City casinos, further eroding Atlantic City's appeal. Meanwhile, high gasoline prices are encouraging day

visitors to stay closer to home.

According to our projections, Atlantic City is on track to decline by an additional 7.4 percent in 2011. Thereafter, improved economic conditions should provide a lift to the overall casino market, which will benefit Atlantic City to a degree, limiting its annual declines. Atlantic City remains an appealing destination resort and its resort casinos will continue to attract overnight visitors.

Nevertheless, we do not believe that the improved economy will fully offset Atlantic City's loss of revenues to regional casinos. At best, declines will moderate to low single-digit levels by 2014–15. For the forecast period as a whole, we are projecting a 4.6 percent compound annual decline from \$3.6 billion in 2010 to \$2.8 billion in 2015. This means Atlantic City's revenues in 2015 will be 46.1 percent lower than in 2006.

Atlantic City casino revenue (US\$ millions)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Slots	3,804	3,464	3,133	2,722	2,477	2,300	2,150	2,070	2,025	1,990	
% Change	3.5	-8.9	-9.6	-13.1	-9.0	-7.1	-6.5	-3.7	-2.2	-1.7	-4.3
Table games	1,414	1,456	1,412	1,221	1,088	1,000	930	875	845	825	
% Change	5.2	3.0	-3.0	-13.5	-10.9	-8.1	-7.0	-5.9	-3.4	-2.4	-5.4
Total	5,218	4,920	4,545	3,943	3,565	3,300	3,080	2,945	2,870	2,815	
% Change	4.0	-5.7	-7.6	-13.2	-9.6	-7.4	-6.7	-4.4	-2.5	-1.9	-4.6

Sources: New Jersey Casino Control Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

United States

Tribal casinos

The Indian Gaming Regulatory Act of 1988 permits states that allow gaming activities to authorize tribes to operate casinos on Native American reservations. As of mid-2011, there were 240 federally recognized gaming tribes with a total of 460 gaming operations spread across 28 states.

Through 2006, the opening of new tribal casinos generated double-

digit annual gains. Since then, there have been few new casinos to boost the market. The economy has also weakened since then, and tribal casinos now face more intense competition from regional casinos.

Revenues at tribal casinos have been relatively flat over the past two years, falling by 1.0 percent in 2009—much smaller than the declines in Nevada

and Atlantic City—and then rising only 0.1 percent in 2010. Despite the weakening economy in 2011 and the introduction of table games at regional casinos, tribal casinos are rebounding. We project a 3.8 percent increase for the year.

We then look for an improving economy to lead to stronger gains beginning in 2012. However, competition from regional casinos will continue to dampen tribal casino growth, limiting gains to mid-single-digit advances. Revenues will increase from \$26.5 billion in 2010 to \$33.4 billion in 2015, a 4.7 percent compound annual increase.

United States

Regional casinos

In an overall US casino gaming market that was essentially flat, regional casino revenues rose by 2.8 percent in 2010, making it the best performing sector of the market as a whole.

This strong performance was led by regional casinos located in major population centers. Philadelphia had the largest regional casino in 2010 at more than \$750 million, followed by Yonkers at more than \$580 million. Of the top ten regional casinos in 2010, four were in Pennsylvania.

Table games were introduced in western Pennsylvania in mid-2010 and are now available in the rest of the state. Table games also were introduced in Delaware and West Virginia and electronic table games and roulette were added in Yonkers. The availability of table games along with slot machines makes the regional casinos feel more like destination casinos, benefiting attendance.

In other developments, the Genting Group, the Malaysian-based international casino operator that opened the \$4.8 billion Resorts World Sentosa in 2010, entered the US market. Its first US facility, Resorts World New York, will open this fall at the Aqueduct Race Track with 4,500 video terminals. The Genting Group also is planning a \$3 billion resort casino on the waterfront in downtown Miami, having purchased 13.9 acres from the *Miami Herald* for \$236 million. For the project to move forward, legislation needs to be enacted to permit resort casinos

in Florida. If approval is granted, the Genting Group plans to build the Miami resort within three to five years.

Another development, in June 2011, was Boyd Gaming Corp's acquisition of the Imperial Palace Casino Resort in Biloxi, Mississippi from Mississippi LLC and Key Largo Holdings LLC. This is its second resort property in Mississippi, whose casinos compete with those in Florida and Alabama.

In Illinois, Midwest Gaming in 2010 was approved as suitable for licensure and began construction of a riverboat casino, which is expected to be completed by late 2011. The Video Gaming Act, enacted on July 13, 2009, authorizes up to five video gaming terminals in licensed establishments where liquor is served. These terminals expand gaming activity outside of the riverboat casinos.

In Massachusetts, legislation was introduced in 2011, which would permit three resort casinos. The Mohegan Sun, which operates a resort casino in Connecticut, is looking to enter Massachusetts with a \$600 million casino. Paper City Development also plans to bid for a license to create a \$450 million resort casino. Legislation enabling resort casinos has yet to be enacted.

While Pennsylvania is thriving, Yonkers is growing, and new projects are being planned, regional casinos as a whole face their own challenges. Since they rely almost exclusively on day visitors, regional casinos

are affected by the weak economic conditions and high gasoline prices. In the Midwest, for example, where unemployment is high and the economy is especially weak, regional casinos have struggled. In Illinois, casino revenues fell nearly 4 percent in 2010. However, barring supply disruptions, we do not expect incremental growth in gasoline prices to be significant going forward.

A weak economy in 2011 will partially offset the impact of new casino openings and the expansion of table games in several states, and we project a 5.8 percent increase. A stronger economic expansion during the latter part of the forecast period will benefit the casino market as a whole as will possible openings of resort casinos. We look for regional casinos to grow at rates of 7.2 percent or more during 2012–14 and project a 9.0 percent increase in 2015 on the assumption that the resort casinos in Miami and Florida begin to open that year.

In general, because of their closer proximity to population centers, we expect regional casinos to gain share from Atlantic City and tribal casinos. Regional casino revenues will rise to \$24.2 billion in 2015 from \$17.0 billion in 2010, a 7.3 percent compound annual increase, making this segment the fastest of the four categories.

Europe, Middle East, Africa (EMEA) Market overview

The casino gaming market in EMEA has been the hardest hit of any region by the economic downturn, with revenues slumping by 12.0 percent in 2009, followed by a further 7.2 percent in 2010, the third consecutive decline. Between 2007 and 2010, revenues fell by a cumulative 22 percent. In 2008 EMEA was overtaken by Asia Pacific as the second biggest region.

As well as being hurt by the recession, the EMEA market has been impacted by regulations or restrictions that have curtailed spending in several

countries. Russia, for example, had the largest casino gaming market in EMEA in 2006–07, but because the government closed most of the casinos, Russia now has the smallest market in EMEA.

The pain for EMEA is not yet over, and we are projecting a further 0.8 percent decline in 2011, amid continuing weak economic conditions. We then expect the market to expand as economic conditions improve. A new destination center being proposed in Spain may boost revenues, although the regulations are not yet in place and the timing is uncertain.

We project that EMEA's overall casino gaming revenues will increase at a projected 2.4 percent compound annual rate to \$18.3 billion in 2015 from \$16.3 billion in 2010.

Casino gaming market† (US\$ millions)

EMEA	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Casino gaming	20,783	20,894	19,959	17,567	16,307	16,175	16,250	16,751	17,350	18,343	
% Change	2.8	0.5	-4.5	-12.0	-7.2	-0.8	0.5	3.1	3.6	5.7	2.4

†At September 26, 2011 exchange rates.

Sources: PricewaterhouseCoopers LLP, Willkofsky Gruen Associates

EMEA

Major national markets

Several countries have substantial gaming activity that occurs outside of casinos. In Italy, for example, gaming machines throughout the country generated more than \$5 billion in 2010, but most were located outside of casinos. The casino market itself in Italy is tiny, consisting of just a handful of casinos.

Likewise in the UK, gaming machines generated more than \$3 billion in total revenues in 2010. The casino market, however, totaled only \$1.2 billion. The UK was one of the few countries to post an increase in revenues in 2010, with a 0.6 percent advance, but spending will decline again in 2011.

In terms of casino gaming, France had the largest casino market in 2010 at \$3.8 billion, followed by Germany and South Africa at \$2.0 and \$1.8 billion, respectively. France has declined during the past two years, and we expect a further drop in 2011 with modest increases projected thereafter as the economy improves.

Germany has one of the strongest economies in EMEA, and its market continued to expand during the past three years, albeit at annual rates of less than 1 percent. We look for somewhat faster increases during the latter part of the forecast period as economic conditions strengthen and as private companies enter the market as privatization occurs, by taking on existing licenses.

South Africa had the fastest growing market in 2010 with a 3.5 percent increase. Going forward, casino upgrades and a new casino license will enhance the South African casino market, but compared with the prior decade—when a number of new casinos opened—there will be relatively little growth from new casinos during the forecast period. A new 15 percent tax on winnings of R25,000 (\$3,099) or higher, provisionally scheduled to go into effect in 2012, is expected to have an adverse impact on the market. However, there is currently no detail available on how the proposed tax is to be calculated or collected.

Casino gaming market† (US\$ millions)

EMEA	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Western Europe											
Austria	581	619	629	615	608	604	606	629	656	683	2.4
Belgium	365	385	401	397	392	391	399	412	433	453	2.9
Denmark	245	258	262	258	254	253	255	263	272	282	2.1
Finland	838	877	885	880	876	875	879	906	939	973	2.1
France	3,595	3,825	3,898	3,855	3,798	3,785	3,818	3,920	4,055	4,190	2.0
Germany	1,953	2,000	2,014	2,015	2,027	2,048	2,082	2,142	2,217	2,298	2.5
Greece	933	1,048	1,000	845	710	642	608	615	629	649	-1.8
Ireland	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	—
Italy	118	119	115	111	108	107	107	105	104	103	-0.9
Netherlands	877	920	852	724	665	651	662	676	696	723	1.7
Norway	708	761	768	818	839	856	882	921	959	1,002	3.6
Portugal	55	59	54	45	41	38	38	39	42	45	1.9
Spain	646	654	588	510	478	460	453	466	493	845	12.1
Sweden	186	198	214	207	205	203	205	211	218	225	1.9
Switzerland	1,056	1,128	1,097	1,035	961	940	964	1,078	1,111	1,139	3.5
United Kingdom	1,245	1,260	1,160	1,202	1,209	1,191	1,198	1,237	1,291	1,353	2.3
Western Europe Total	13,401	14,111	13,937	13,517	13,171	13,044	13,156	13,620	14,115	14,963	2.6
Central and Eastern Europe											
Czech Republic	573	527	534	523	488	471	465	468	481	498	0.4
Hungary	449	476	493	466	440	419	410	414	428	442	0.1
Poland	379	503	428	426	417	415	416	424	438	456	1.8
Romania	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	—
Russia	4,536	3,645	2,893	935	31	28	30	34	41	50	10.0
Turkey	-	-	-	-	-	-	-	-	-	-	-
Central and Eastern Europe Total	5,937	5,151	4,348	2,350	1,376	1,333	1,321	1,340	1,388	1,446	1.0
Middle East/Africa											
Israel	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-
Middle East North Africa (MENA)‡	-	-	-	-	-	-	-	-	-	-	-
South Africa	1,445	1,632	1,674	1,700	1,760	1,798	1,773	1,791	1,847	1,934	1.9
Middle East/Africa Total	1,445	1,632	1,674	1,700	1,760	1,798	1,773	1,791	1,847	1,934	1.9
EMEA Total	20,783	20,894	19,959	17,567	16,307	16,175	16,250	16,751	17,350	18,343	2.4

†At September 26, 2011 exchange rates.

‡Comprises Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria and the United Arab Emirates.

Sources: Casinos Austria, European Gaming Organization, Gaming Board for Great Britain, Gaming Board of Hungary, Holland Casino, Lotteri Inspektionen, Ministry of Finance of the Czech Republic, National Gambling Board of South Africa, Netherlands Gaming Control Board, Norwegian Gaming Foundation Authority, Spain Ministry of Interior, Swiss Gaming Commission, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

EMEA

Key developments and trends

The 7.2 percent decline in EMEA casino gaming revenues in 2010 reflected a combination of weak economic conditions and the impact of adverse regulatory developments in some countries. In the Netherlands, for example, casino revenues fell by 27.7 percent between 2007 and 2010, playing a major part in the wider EMEA decline. While the recession contributed to the fall in the Netherlands, the introduction of a smoking ban and an increase in the gambling tax also hurt the market.

Going forward, the industry picture in EMEA will brighten gradually, with a small decline of 0.8 percent in 2011 turning into a rise of 5.7 percent by 2015. Overall EMEA revenues will reach \$18.3 billion in 2015 from \$16.3 billion in 2010, an average annual increase of 2.4 percent compounded annually.

In Russia, a law enacted in 2006 limited casino activity to four zones in the remote areas of Krasnodar, Rostov, Kaliningrad, and Siberia. In the absence of licensed casinos in populated areas, underground casinos have emerged and are operating, allegedly run by organized crime. In 2011, new legislation mandates six-year prison terms with manual labor for operators of illegal casinos. Meanwhile, the legitimate casino market has virtually disappeared.

In the UK, it was expected that the casino market would expand as a result of the *Gambling Act of 2005*. But this growth has not yet taken place, for a variety of reasons—including the smoking ban and changes in machine regulation, both introduced in 2007, and the fact that the new licenses envisaged in the 2005 Act are still in the process of being awarded, with none of the 16 new casinos actually open yet. Looking forward, the Asia-based gaming company, Genting Malaysia Berhad, is investing in the UK, and this could provide a lift to the market. Growth over the period will also be supported by the opening of the eight large and eight small new casinos permitted under the 2005 Act, which we expect will help to generate gains averaging 4.1 percent compounded annually between 2012 and 2015. However, with the economy weakening in the near term, we project a decrease in casino revenue in 2011 and a modest 0.6 percent advance in 2012.

In general, casino gaming markets in EMEA tend to attract customers on a local or national basis. So there would appear to be a major opportunity for a Las Vegas strip-style destination casino resort to attract revenues and tax dollars across borders. For this reason, there has been ongoing speculation about such a development for years, generally focused on Southern European countries because of their relatively warm climate.

One contender, the much-delayed Gran Scala project in Spain, is having difficulty in obtaining credit and the project remains in limbo. In early 2011, however, the Las Vegas Sands Corporation proposed a \$21 billion project to build a Las Vegas style casino strip with 20,000 hotel rooms, and convention and retail space, but this proposal remains at a very early stage. Cataluña and other regions are vying to be the site for the proposed casino strip. In Ireland, it has been reported that Caesars Entertainment has advised the sponsors of a proposed supercasino in County Tipperary.

In Switzerland, the government granted two additional licenses in 2011 for land-based casinos in the cities of Zurich and Neuchâtel. The former is expected to become the country's largest casino, with annual gaming revenues far in excess of \$100 million.

In South Africa, the National Gambling Act permits 40 licensed casinos. Currently, there are 37 operating casinos, which leaves little room for further expansion. Nevertheless, we do expect new investment in the casino market. The Limpopo Gambling Board awarded a casino license to the Peermont Global Group. Peermont also upgraded the Umfolozi Hotel and Convention Resort. Sun International plans to upgrade the Boardwalk Casino in Port Elizabeth and Tsogo Sun Gaming plans to upgrade the Hemingways Casino in East London, having been awarded a new 15-year license by the Eastern Cape Gambling Board. These upgrades combined with an expanding economy will provide a lift to the casino market.

Asia Pacific Market overview

Asia Pacific will be the fastest-growing region for casino gaming spending over the coming five years. Having overtaken EMEA as the second-biggest region in 2008, Asia Pacific will surpass the US in 2013 as the biggest region, and will end the forecast period accounting for 43.4 percent of the total global market.

Casino gaming revenues in Asia Pacific surged by a remarkable 49.7 percent in 2010, boosted by a 57.8 percent increase in Macau and the

rapid emergence of casino gaming in Singapore. Except for a small market in Vietnam, and the 1.2 percent increase in Australia, the four other countries in this region had spending declines in 2010.

Going forward, Macau and Singapore will continue to fuel growth in Asia Pacific during the next few years, while other countries in the region may look to encourage growth in casino gaming to gain tourism and tax dollars. By 2015, the Asia Pacific market will reach \$79.3 billion from \$34.3 billion in 2010, an 18.3 percent compound annual increase.

Casino gaming market† (US\$ millions)

Asia Pacific	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011-15 CAGR
Casino gaming	13,687	17,714	21,379	22,898	34,280	47,042	58,124	66,961	73,429	79,266	
% Change	16.3	29.4	20.7	7.1	49.7	37.2	23.6	15.2	9.7	7.9	18.3

†At September 26, 2011 exchange rates.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Asia Pacific

Major national and territory markets

The jewel in the crown of Asia Pacific's casino gaming industry is Macau, the largest single destination market in the world at \$23.4 billion in 2010, more than twice the revenue of Nevada in the US. Fueled by new casinos, revenues in Macau will more than double during the next five years to \$62.2 billion, representing 34 percent of total global casino revenues in 2015.

Australia was a distant second at \$3.4 billion in 2010 with Singapore at \$2.8 billion and South Korea at \$2.6 billion. The revenue figures for Australia do not include gaming machines (pokies) in hotels, pubs, and clubs. Australia is facing increased competition in luring "high rollers" now that Singapore has

become an established market.

This competition is intensifying, as Singapore has already become a major casino destination in just its first year of operation, with revenues projected to grow significantly in 2011, due to the build-out of facilities, increased tourist visitors, and the impact of a full year of operation. Revenues will reach nearly \$7.2 billion by 2015, which is impressive, given that only two licenses have been issued. Total market growth forward will be subject to regulatory constrictions. While Singapore's total market revenue achievement is put into perspective by the fact that Macau's revenues will exceed \$62.2 billion by that same time,

it is fair to note that on a property-by-property basis, Singapore casinos have returned higher margins overall.

South Korea is a well-established casino gaming center, and is expected to benefit from a new gaming center. It could be adversely affected however, by competition from Japan if—as currently proposed—casinos open in that country during the latter part of the forecast period. Declines projected for 2014–15 will leave South Korea lower in 2015 than in 2010, the only country in Asia Pacific where that will be the case.

The Philippines already has a vibrant casino gaming market, and new casinos in that country will propel spending at a 16.9 percent compound annual rate to \$1.2 billion in 2015, making that country a major gaming area as well.

Casino gaming market† (US\$ millions)

Asia Pacific	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Australia	2,801	3,125	3,316	3,388	3,429	3,429	3,439	3,478	3,576	3,698	1.5
Hong Kong	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	—
India	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	—
Indonesia	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	—
Japan	—	—	—	—	—	—	—	—	327	784	—
Macau	7,049	10,335	13,541	14,860	23,447	34,608	44,862	52,553	57,680	62,167	21.5
Malaysia	847	885	933	980	948	940	942	964	1,012	1,059	2.2
New Zealand	383	364	373	373	365	350	353	369	388	408	2.3
Pakistan	—	—	—	—	—	—	—	—	—	—	—
Philippines	515	565	602	593	558	618	719	941	1,102	1,217	16.9
Singapore	—	—	—	—	2,827	4,396	5,090	5,784	6,516	7,172	20.5
South Korea	2,044	2,388	2,555	2,639	2,637	2,628	2,641	2,770	2,706	2,620	-0.1
Taiwan	—	—	—	—	—	—	—	—	—	—	—
Thailand	—	—	—	—	—	—	—	—	—	—	—
Vietnam	48	52	59	65	69	73	78	102	122	141	15.4
Total	13,687	17,714	21,379	22,898	34,280	47,042	58,124	66,961	73,429	79,266	18.3

†At September 26, 2011 exchange rates.

Sources: Australian Productivity Commission, Macau Gaming Inspection and Coordination Bureau, New Zealand Department of Internal Affairs, Philippine Amusement and Gaming Corporation, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Asia Pacific

Key developments and trends

The next five years will see Asia Pacific emerge as the world's leading region for casino gaming. For Asia Pacific as a whole, casino gaming revenues will expand from \$34.3 billion in 2010 to \$79.3 billion in 2015, an 18.3 percent compound annual increase.

Macau will remain the largest casino gaming center in Asia Pacific, growing at a CAGR of 21.5 percent through 2015, outpacing Singapore's growth rate of 20.5 percent compounded annually. The global recession had only a mild impact on Macau in 2009, with growth slowing to 9.7 percent from 31.0 percent in 2008. In 2010, revenues surged by a 57.8 percent increase as global economic conditions improved and as foreign tourism rebounded.

Revenues in Macau in 2011 will grow by an estimated 47.6 percent, boosted by increased traffic from the PRC mainland and by new hotels. A new railway that connects Macau with Guangzhou significantly reduces travel time from the mainland, and the Hong Kong-Zhuhai-Macau road bridge currently under construction is expected to be completed in 2015–2016. More convenient access from the mainland is leading to an increase in the number of day visitors and contributing to revenue growth.

Growth is being fueled by new capacity. Galaxy Macau was opened in Cotai in May 2011 with 450 gaming tables, approximately 1,100 electronic gaming machines and 2,200 hotel rooms. Meanwhile, Sands China, which halted construction in 2008 because of the drop in credit availability, is now scheduled to open phase I of Sands Cotai Central in 2012 and phase II in early 2013. Sands Cotai Central will have approximately 300,000 square feet of gaming space

and 5,800 rooms, including hotels from Starwood, Shangri-La, Hilton Worldwide, and Intercontinental Hotels Group.

The structure for legal casinos is beginning to fall into place in Japan. If regulatory approval is given, the likelihood is that integrated casino resorts would be built in three regions yet to be determined, the Cabinet Office would oversee casino operations, and a regulatory body would be established to approve licenses. The casinos would fund the cost of industry regulation. An entry fee would be levied to pay for economic development and to assist in rebuilding areas destroyed by the earthquake and tsunami.

If the proposed opening of casinos in Japan takes place, it would have a ripple effect on the region. Japan could be expected to attract visitors from South Korea, which could divert them from going to Macau. Singapore also represents a new significant market that will offer an alternative to Macau, and while the strong Chinese economy will continue to boost Macau, we expect fewer visitors from other countries as major resort casinos become more available in Asia Pacific. As a result, we project that revenue growth in Macau will drop to single-digit levels in 2014–15, but will still average 21.5 percent compound annual growth for the forecast period as a whole.

In Singapore, Resorts World Sentosa and the Marina Bay Sands opened in 2010. With a full year's operation for both of the new resorts in Singapore, we expect revenues to reach \$4.4 billion in 2011 and grow to \$7.2 billion by 2015 as Singapore becomes a major destination in Asia.

Increased competition from Singapore and Macau is adversely affecting the Australian market as growth slowed to 1.2 percent in 2010 from 2.2 percent in 2009. Australia's casinos are finding it harder to attract high spenders from other countries, as there are now more resort casinos in Asia Pacific. We expect the market to be flat in 2011 and to grow by only 0.3 percent in 2012. We then look for growth to pick up reflecting improving economic conditions. We do not expect a return to the double-digit and high single-digit gains that characterized 2006–08.

One significant factor in the profitability of operators in Asia Pacific is the widespread use of “junket operators”. In Macau, these businesses organize and help to arrange currency for “high roller” gamblers and visitors from other territories such as mainland China. While their use is commonplace in Macau, they are not currently operating in Singapore, nor permitted to operate in Australia, and have to be licensed in the US. There are stringent rules applied to register as a junket operator in Singapore, and at this stage there are no approved junket operators in this market. If junket operators are permitted in Singapore, then they could boost market growth. In some jurisdictions, there are concerns over the legality of some junket operators' activities.

In South Korea, except for Kangwon Land in the Gangwon province, casinos are only open to foreigners. In 2010, 1.7 million tourists from Japan visited casinos in South Korea. If and when casinos open in Japan, many of the Japanese gaming tourists will stay at home, cutting into the South Korean casino market. To counter that potential loss, the Minister of Culture, Sports, and Tourism announced that



casinos will be open to local citizens. The government also announced its intention to build several integrated casino resorts to better compete for foreign tourists.

In New Zealand, the government is looking to gambling as a way to attract tourists and help rebuild the country following its earthquake in February 2011. SkyCity Entertainment is building a new convention center and casino.

In the Philippines, casino gaming revenues fell 5.9 percent in 2010, but are rebounding in 2011, and we project a 10.8 percent increase for the year as a whole. Belle Corp's planned complex in Manila Bay is expected to open in 2013, although the project has experienced a number of delays. The Philippine Amusement and Gaming Corporation (PAGCOR) is the monopoly provider with the exception of the Cagayan Special Economic

Zone, which issues its own casino licenses. Casinos in the Cagayan region are only open to foreigners.

The casino gaming market in Malaysia is expected to pass the \$1 billion level in 2014, but it is being impacted by competition from Singapore, and growth will be modest. Gentings Highlands is the major casino operator in Malaysia.

In Vietnam, the MGM Grand Ho Tram, the first Las Vegas-style resort, is scheduled to open in 2013 on the Ho Tram Strip. A more modest resort casino opened in 2010 in Da Nang. Flights from Guangzhou in the PRC bring tourists to the casino. Casinos in Vietnam are only open to people with foreign visas.

Latin America

Market overview

Latin America has the smallest regional casino gaming market by a wide margin. However, it registered the second-fastest growth of any region in 2010, when revenues rose by 5.5 percent in 2010, down from the 10.2 percent increase in 2009. The rise

in 2009 was driven by a large increase in the number of operating casinos in Chile, which led to a large increase in that country

Latin America will also be the second fastest-growing region—well behind Asia Pacific—over the next five years. Revenues will expand at high single-digit rates averaging 8.1 percent compounded annually, rising to \$5.6 billion in 2015 from \$3.8 billion in 2010.

Casino gaming market† (US\$ millions)

Latin America	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Casino gaming	2,584	2,959	3,269	3,601	3,800	4,096	4,370	4,757	5,165	5,614	
% Change	25.6	14.5	10.5	10.2	5.5	7.8	6.7	8.9	8.6	8.7	8.1

†At September 26, 2011 exchange rates.

Sources: PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Latin America

Major national markets

Casinos in Venezuela generated total revenues of \$3 million during the year. Brazil—Latin America's biggest economy—has bingo, lotteries, and betting parlors, but prohibits casinos and slot machines.

Argentina is the largest market in Latin America, with revenues of \$2.3 billion in 2010, accounting for 61.1 percent of the region's total casino gaming revenues. Mexico is next at \$639 million, followed by Columbia at \$526 million and Chile at \$310 million.

Casino gaming market† (US\$ millions)

Latin America	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Argentina	1,796	1,981	2,105	2,198	2,322	2,501	2,632	2,894	3,179	3,501	8.6
Brazil	—	—	—	—	—	—	—	—	—	—	—
Chile	22	24	26	234	310	478	581	649	707	765	19.8
Colombia	481	521	532	529	526	525	529	548	574	601	2.7
Mexico	284	432	605	638	639	589	624	662	701	743	3.1
Venezuela	1	1	1	2	3	3	4	4	4	4	5.9
Total	2,584	2,959	3,269	3,601	3,800	4,096	4,370	4,757	5,165	5,614	8.1

†At September 26, 2011 exchange rates.

Sources: Superintendencia de Casinos de Juego, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates

Latin America

Key developments and trends

For Latin America as a whole, growth in per capita income over the next five years will help to drive increased expenditure on entertainment, including casino gaming. As a result, we project casino gaming revenue in the countries we track in the region to increase to \$5.6 billion in 2015 from \$3.8 billion in 2010, an 8.1 percent compound annual increase.

Argentina, with 45 casinos, is the leading casino gaming market in Latin America. There are no national licenses, and all casinos are licensed at the provincial level. Revenue growth has dropped to mid-single-digit levels during the past three years from double-digit gains in 2006–07, but we expect a return to double-digit growth during the latter part of the forecast period as economic conditions improve. Spending will expand at an 8.6 percent compound annual rate to \$3.5 billion in 2015.

In Mexico, there are approximately 300 licensed casinos, not including an estimated 60 casinos that are operating without a license. The issuing of new licenses propelled the market in 2007 and 2008. More licenses are expected to be issued, which will lead to continued expansion in the underlying market. In 2011, however, the industry was hit by adverse events, including the death in August of over 50 people caused by armed men who set fire to one casino in northern Mexico, and a number of closures by the authorities. As a result of the closures, casino revenues are projected to decline by 7.8 percent in 2011. The market will begin to rebound in 2012 and will rise to \$743 million by 2015, a 3.1 percent compound annual increase from 2010.

Colombia has more than 20 casinos in eight cities. The market has declined during the past two years under the impact of the slowdown, and we expect a further drop in 2011 before growth resumes as the economic conditions improve. We project a 2.7 percent compound annual increase to \$601 million in 2015.

In Chile new regulations allowed the number of casinos to jump from eight in 2008 to 25 in 2009, resulting in a large increase in revenues in that year. Seven of the 25 were existing casinos supervised by municipalities, and 18 were new licenses regulated by the new supervisory body, the Superintendencia de Casinos de Juego. The new licenses were awarded to private and experienced gaming companies, and of the 18 non-municipal regulated casinos, three are yet to be opened. Revenues in 2010 rose by 32.5 percent, reflecting full-year operations for the new casinos. New openings will lead to a further 54.2 percent increase in 2011 followed by a 21.5 percent advance in 2012. We expect growth to drop to single-digit levels in 2014–15. For the forecast period as a whole, growth in Chile will average 19.8 percent compounded annually to \$765 million by 2015.

In Venezuela, the opening of new casinos boosted revenues from \$1 million in 2006–08 to \$3 million in 2010. In addition to two new casinos on Margarita Island, casinos including Casino El Dorado, Fiesta Casino Guayana, and Maruma Hotel & Casino are now open. We do not expect more new licenses and project that the industry will remain stable during the next five years, rising to \$4 million in 2012 and remaining at that level through 2015.

Canada

Market overview

Canada has a buoyant casino gaming market, which has been hit by the downturn later than its counterpart in the US.

Revenues in Canada fell by 2.9 percent in 2010 as the weak economy and new competition from regional casinos in the US near the Canadian border cut into casino gaming.

We expect the market to fall by an additional 1.9 percent in 2011, stabilize in 2012, and then expand

in 2013–15 as economic conditions improve. Revenues will reach \$6.2 billion in 2015 from \$5.7 billion in 2010, a 1.8 percent compound annual increase.

Casino gaming market† (US\$ millions)

Canada	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2011–15 CAGR
Casino gaming	5,354	5,685	5,694	5,874	5,704	5,597	5,621	5,743	5,986	6,230	
% Change	10.7	6.2	0.2	3.2	-2.9	-1.9	0.4	2.2	4.2	4.1	1.8

†At September 26, 2011 exchange rates.

Sources: Canadian Gaming Association, PricewaterhouseCoopers LLP, Wilkofsky Gruen Associates



Canada

Key developments and trends

While casino gaming spending in both the US and EMEA declined in 2008 and 2009, Canada took longer to be hit by the economic downturn, with spending falling in 2010 and 2011. The reason was that new casinos that opened in prior years—such as Tsuu T'ina First Nation Casino in Calgary, and a renovated Caesars Windsor—sustained spending growth through to 2009.

Excluding First Nations casinos, the ownership of provincial casinos in Canada is a mix of government and private ownership, depending on the province in which the casino operates.

In 2010, casinos in Ontario experienced revenue declines as new casinos near the Canadian border, in Michigan and New York, reduced the number of Americans traveling to Ontario to gamble. The imposition of tighter restrictions on US citizens entering Canada, which were put in place in 2009, also reduced traffic from the US. This trend was exacerbated by the strengthening of the Canadian

dollar and the continued economic challenges faced by US consumers. As a result, casinos in other provinces fared better than Ontario in 2010.

Casinos in Canada will benefit from improving economic conditions during the latter part of the forecast period, helping revenues to rise at rates above 4 percent in 2014 and 2015.



Part II: Online gaming

The elephant in the room

In any discussion of the casino industry and its future prospects anywhere in the world, there is always an “elephant in the room.” Online gaming is happening across the world, whether regional, national, and state regulators and lawmakers like it or not. The fog of uncertainty that surrounds the size, scope, and often the legal basis of online gaming makes it hard to assess its current and future impacts, or to plan strategies around it.

In this section, we will examine the forces and trends affecting the regulation, use and growth of online gaming, and its potential impacts on the traditional “bricks-and-mortar” casino gaming industry. We will then go on to look at the wider dynamics of the gaming industry as a whole, examining the parallel shift toward Asia Pacific and toward electronic delivery of gaming services—with the ultimate challenge being the industry’s ability to keep providing a compelling, energizing experience that the target consumers will value above the expanding array of other entertainment choices available to them.

Regulation calls the shots

Across the world, the legitimate existence, growth and competitive dynamics of the online gaming market are primarily shaped by the prevailing regulation, which varies widely between countries and even between different states or regions within countries. The regulations in force also differ markedly between the various forms of online and mobile gaming, which can be broadly categorized into six disciplines: poker; casino gaming; betting on horse races; betting on other sports, such as soccer and baseball; online bingo; and, online lotteries.

Given the pervasive nature of Internet-based services and their seamless ability to cross borders, the legal and regulatory position of online gaming, even within a particular jurisdiction, is often unclear and open to different interpretations. The rigor 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 gaming. 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.

Multiple ambiguities...

One prime example of this is the U.S. Federal Wire Act of 1961, which outlaws the placing of sports bets over the telephone, and which is now surrounded by multiple ambiguities. Historically, the law has been interpreted by some authorities—including the Department of Justice—to mean that all forms of online gambling are illegal. However, US District Courts have ruled to the contrary, while the US Fifth Circuit Court of Appeals has ruled that the Wire Act applies only to sports betting and not other types of online gambling. And the Supreme Court has yet to rule on the meaning of the Federal Wire Act as it relates to online gaming. There is also ambiguity about whether tribal casinos can operate online sites, with some tribal casinos leading the campaign to legalize online poker in the US.

...leading to raids, confusion, or a “blind eye”

Similar ambiguities exist across the world, leaving consumers uncertain whether what they are doing is actually legal, and providers listening nervously for a knock on the door from the authorities. On April 15, 2011, that knock came, when the US Department of Justice seized the domains and bank accounts of PokerStars, Full Tilt, and Absolute Poker. Even after

the raids, US consumers continued to comprise half or more of the world's poker market—with private offshore operators, unafraid of the US authorities, continuing to take bets while public companies stay away for fear of indictment.

In contrast to the US Department of Justice, the law enforcement authorities in some other parts of the world are turning a blind eye to unlawful online gaming. In Asia Pacific, online gaming is outlawed in the PRC and India, but there has been little attempt to tackle the usage by people in these countries of gaming sites based in the Philippines, where it is legal. It is unclear whether the bulk of the money being bet online is going through Macau, direct through offshore sites, or through illegal

bookmakers: the only certainty is that there is a lot of it.

Even in jurisdictions where online gaming is legalized and regulated, there are “grey areas” of doubt and uncertainty. In Europe, online gaming is legal in many countries, but often as a monopoly offering from a single government-approved provider—an approach that is being challenged by the European Commission under European Union law on fair competition. In France, Internet service providers (ISPs) are opposing the government's attempts to block access to gaming sites based in countries such as Costa Rica. In the Czech Republic, the requirement for online gaming users to subscribe in person at a shop means “pure” Internet providers are technically illegal—yet they operate and promote themselves openly.

With governments now facing severe fiscal constraints and eager to replenish their coffers, their attention has been caught by the potential of legalized and licensed online gaming services as a valuable source of tax revenues. There is also a strong argument that, since consumers will engage in illegal online gaming anyway, it is better to license and tax it than to allow the revenues to go to unlicensed operators.

Protecting consumers while boosting the tax take

Today's widespread legal uncertainty springs largely from the slow and halting response of legislators and regulators across the world when online gaming first emerged in the early 2000s. This approach reflected a view in many countries that online gaming simply could not be regulated effectively. Aside from a handful of territories such as the UK, which legalized many forms of online gaming in the 2005 Gambling Act, most national and state governments across the world were initially wary of legalizing online gaming within their territories. However, with the onset of the global financial crisis and its resulting negative impact on public sector finances, there has been a significant change in attitude.

With governments now facing severe fiscal constraints and eager to replenish their coffers, their attention has been caught by the potential of legalized and licensed online gaming services as a valuable source of tax revenues. There is also a strong argument that, since consumers will engage in illegal online gaming anyway, it is better to license and tax it than to allow the revenues to go to unlicensed operators. Also, far more effective technologies are now available than a few years ago to maintain online security and verify the location and age of people taking part in online gaming. These developments are all encouraging different national and state governments to introduce their own licensing regimes. Yet, the cross-border nature of online gaming means attempts to regulate purely within borders may prove ultimately unsustainable.

What is clear is that the elephant in the room is not going to go away. Governments and regulators have an absolute need to create certainty and consumer protection around online gaming, while ensuring this activity is fairly taxed. This may take years, but it must eventually happen.

Regulating within borders: an interim step

The twin requirements to protect consumers and generate dollars from online gaming have seen many governments across the world adopt a regulatory approach, focused on controlling and taxing it within their own borders. Under this strategy, a particular territory—whether at the state or national level—seeks to license, regulate, and tax online gaming between providers and players within their frontiers, without allowing cross-border activity.

This involves the regulatory authorities introducing a regime that legalizes the provision of specific types of online gaming services in their own territory, so long as these are provided by operators licensed within the country, or state, and only to people resident there. Companies that are licensed locally are also required to pay tax locally on their revenues. The move toward this type of regulation has been prevalent to date, both in Europe (on a national basis) and the US (at both the state and national level).

However, like the efforts in the early 2000s by some ISPs to create ring-fenced areas of the Internet for their subscribers, we believe this is an interim stage of development that will ultimately be superseded by a more open and collaborative approach. By its nature, one of the main benefits of Internet delivery in terms of both efficiency and effectiveness lies in the economies of scale from operating cross-border. This is especially the case for online poker, where the critical mass of players and money that comes from pooling liquidity across, for example US state borders, is a prerequisite for a viable business model and exciting user experience.

Given these pressures, our view is that the regulatory trend will increasingly shift toward the licensing of inter-country and interstate online gaming services, where liquidity is pooled and tax shared on an agreed basis between different tax authorities. The European Commission is pushing actively in this direction through its actions against in-country monopolies, while in the US the indecision with states and the federal government is impeding progress. Also, it seems unlikely that countries and states will fully harmonize what forms of online gaming are permitted across their borders; however, poker and sports betting look to be the best candidates for an open and shared approach.

Regulatory trends in the US

There is a popular misconception that all forms of online gaming are outlawed in the US. This is not the case. In fact, the prohibition is on interstate gaming, and the legal position within states varies widely between the five disciplines of casino, horse betting, other sports betting, poker, and lottery.

The US's UIGEA: targeting the payments processors

In October 2006, the US *Unlawful Internet Gambling Enforcement Act* (UIGEA) made it illegal for banks and other institutions to transfer funds to offshore gaming sites, causing visits to offshore gaming Web sites by US citizens to plunge.

However, it was not actually individuals using offshore gaming sites who were liable under the Act, but the credit card companies and online payment companies processing their deposits or withdrawals for use on the sites.

The law made it illegal to process payments for such transactions, but it contains no sanctions against players gambling online, unless they are connected in some way with the casino, or the money exchange company. In fact, to date no player has ever been prosecuted in the US for online gaming.

For example, online betting on horse racing is legal in several states at the intrastate level (but not across state borders). Federal legislation to legalize and regulate online poker has been discussed for many years, and is expected to reach the statute book within the foreseeable future.

While there is no federal US legislation that explicitly addresses the legality of online gaming, there are two main Acts that impact it. The Federal Wire Act of 1961 (commonly known as the Wire Act) makes the placing of sports bets over the telephone illegal. Given its age, it is hardly surprising that the Wire Act does not explicitly refer to online gaming. Also, as discussed earlier, this legislation is open to multiple interpretations, with the effect of increasing the general uncertainty.

The other key piece of legislation is the *Unlawful Internet Gambling Enforcement Act* (UIGEA) of 2006 (see information panel), which makes it illegal for banks and other institutions to transfer funds to offshore gaming sites in support of illegal online gaming. Crucially, UIGEA—which eventually came fully into force in June 2010—does not define illegal online gaming, and the Act does not apply to online gaming that is conducted within the boundaries of a state or a tribe.

The UIGEA's specific targeting of sites based outside the US puts it at odds with the World Trade Organization

(WTO), which ruled in 2005 that because the US permits online horse betting for operators authorized by state governments, it cannot discriminate against foreign online gaming operators. The US UIGEA law was challenged on these grounds at the WTO by Antigua and Barbuda, and then by the EU. The WTO ruled in favor of Antigua and Barbuda and the EU, but the compensation provided by the US involved sectors other than gaming.

The impact of varying interpretations of the Wire Act was highlighted on Friday, April 15, 2011, when the US Department of Justice used it as the basis for legal action against a number of online poker sites. Known in the online gaming world as Black Friday, this was the day when a federal grand jury in New York indicted PokerStars, Full Tilt Poker, and Absolute Poker / Ultimate Bet (collectively these latter two are known as "Absolute Poker") for processing payments that were alleged to involve bank fraud, money laundering, and illegal gambling.

At the same time, the Department of Justice filed a civil suit for the forfeiture of the Internet domain names used by the indicted companies, and funds held by bettors in those accounts were frozen. Online gaming activity from the US fell sharply, and international online gaming sites suffered declines in traffic. The government subsequently reached an agreement to allow the companies to use their Web sites to enable US players to withdraw their funds held in accounts with them. The companies were also permitted to use their domain names to offer poker to non-US citizens, with an independent monitor verifying their compliance.

The interconnected nature of the global online gaming market was underlined by events elsewhere. In Europe, the share prices of the indicted companies' main rivals, including

Party Poker, soared in response, and European online poker providers intensified their marketing to pick up players worried by the US action. Significantly, Party Poker was one of the sites that took the approach of banning US players when UIGEA was passed in 2006. At that time Party Poker was the US's biggest online poker provider in terms of customers—and Black Friday appeared to vindicate the painful decision it took to shed its US customer base.

Given the shockwaves from events such as Black Friday, it is not surprising that pressure in the US for clarification of the legal position of online gaming is continuing. In September 2011, the American Gaming Association stepped up its campaign for legalization and regulation of online poker, by launching an online video entitled *Online Poker: The Wild West*. It accompanied the video with a statement urging Congress to approve legislation allowing states to license and regulate online poker, “so the millions of Americans who play online poker can do so safely with responsible, law-abiding operators.”

For state governments and gaming companies alike, the prospect of regulated online gaming being freely available as a legal and taxable activity is a major attraction. Last year, we expected to see significant progress at both state and federal level toward legalization of interstate poker during 2011. Progress has been more limited than anticipated, for three main reasons. The first is the contrasting and sometimes conflicting agendas at the state level, where the desire to retain tax revenues within state boundaries can conflict with the need to build critical mass and liquidity across state borders. The second is the embedded opposition in many quarters to online gaming as a social evil. The third is the difficulty of getting legislation onto the books at the federal level.

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The Black Friday swoop and subsequent settlements are widely seen as having “cleared the decks” for legalization and regulation.

In 2010, Senator Harry Reid drafted a proposal into a tax bill to allow casino companies to set up their own online poker sites, exempt from UIGEA, for their customers to use. In January 2011, Senate Republicans John Kyl and Spencer Bachus—both of whom oppose the expansion of online gambling on moral grounds—were instrumental in blocking the measure.

However, there have been growing indications that the logjam may be broken fairly soon, with new proposed regulation now on the table. In April 2011, Senator Kyl publicly softened his stance against online poker. Two months later, Rep. Joe Barton introduced a bill to legalize and license online poker, with the provision that licensees prove they can prevent minors from playing and that the games are fair and do not create opportunities for money laundering. Individual states would have the opportunity to either opt out or prohibit online poker. In August 2011,

Senator Reid expressed confidence that online poker regulation “will get done.” Meanwhile, the Black Friday swoop and subsequent settlements are widely seen as having “cleared the decks” for legalization and regulation.

In comparison with the wrangling at the federal level, there has been somewhat more progress at the state level, with a number of initiatives to legalize online gaming proposed. The District of Columbia, for example, legalized online gaming within its jurisdiction in April 2011. But true to the entire online gaming debate, it was recently announced that a new hearing for online gaming in DC has been called. Concern was expressed that the online gaming bill, which was attached to a supplementary budget bill, was approved without proper consideration. More updates on this particular issue are expected before year end. In Nevada, Assembly Bill 258 passed the legislature and was signed by the governor and

made effective on June 10, 2011. AB 258 requires the Nevada Gaming Commission to establish certain provisions authorizing the licensing and operation of interactive gaming under certain circumstances, which are: the passage of federal legislation authorizing interactive gaming, or the United States Department of Justice notifying the Nevada Gaming Commission or the State Gaming Control Board that interactive gaming is permissible under federal law. Through the passage of AB 258, it is clear that Nevada is taking preemptive steps to prepare for the eventuality of online gaming.

Bills have also been introduced in Massachusetts and California to legalize online gaming, and Iowa and Florida are considering similar legislation. In New Jersey, the legislature approved online gaming within the state, but Governor Christie vetoed the bill. In November, there will be a referendum in New Jersey that will amend the state constitution and permit sports betting.

The chances of these moves helping to trigger genuine and coordinated progress at the state and federal level have been boosted by the gaming industry managing to find a more united voice in 2011. In May, the American Gaming Association made its clearest call to date for the legalization of Internet poker, and commercial as well as Tribal casinos continue to vocally consider the revenue opportunities that online gaming may provide. In August 2011, the California Online Poker Association—whose members include the Morongo and San Manuel bands of mission Indians—began airing radio and TV advertisements urging lawmakers to act on association-sponsored legislation to legalize online poker.

Overall, the message on the regulation of online gaming—especially poker—in the US is “watch this space.” We expect to have much more to report in next year’s study.

Regulatory trends in EMEA

Most of the legal online gaming in the world occurs in the EMEA region, which includes the world’s largest legal online gaming market—the UK. A growing number of countries within the European Union (EU) are moving to set up regulatory regimes for online gaming, especially poker and betting on horse racing and/or other sports.

However, governments are generally finding that this takes much longer and is more complex than they expected. One of the key reasons is that national regimes in the EU need to be consistent with EU law, which requires unrestricted movement of services across the Member States. In this context, the past year has seen a regulatory clarification, with the European Commission mounting legal action to force several Member States to open up their new—and often closely protected—online gaming markets to operators based EU-wide.

This drive by the European Commission to open up national online gaming markets effectively counteracts a 2010 ruling by the European Court of Justice (ECJ), which said EU countries could ban online gaming sites, operating from offshore. This ruling, backing an approach known as “cross-border blocking,” said it was permissible to ban cross-border online

gaming activities if the purpose was to combat fraud or protect consumers.

However, member countries that thought this would allow them to regulate online gaming by approving a single state monopoly provider and banning foreign operators are now finding themselves the target of action from the European Commission. Currently, about nine countries are in this position. As a result, the European Commission is becoming a driving force toward cross-border online gaming and pooling of liquidity—creating a degree of pressure that is missing in markets such as the US, where the political and fiscal complexities of the federal/state relationship are acting as a drag on regulatory reform.

A related issue is the potential for cooperation between different national regulators to recognize each other’s licensing regimes—as in the UK’s “white list”—or even to support pooling of liquidity to grow their respective markets. The French and Italian regulators have reportedly been discussing some form of cooperation, but it is not yet clear what the basis of it might be.

In terms of regulatory developments in specific countries, the UK remains the largest online gaming market globally, having legalized it in 2005. UK citizens can legally place bets on Web sites licensed in territories that are

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The main current regulatory development in the UK is around taxation. Currently, operators licensed in the UK pay a gross profits tax (GPT) of 15 percent, while operators based offshore pay tax where they are licensed with regards to the UK, so those based in jurisdictions such as Gibraltar and Malta pay much less than 15 percent. The UK government has announced that it is looking at changing the licensing regime so that companies offering online gaming will need to be licensed in the UK, and will pay tax on revenues from UK consumers at 15 percent GPT, or whatever the prevailing rate is at the time.

Despite the UK’s early lead, Italy is soon expected to overtake the UK as the largest legal online market. Online wagering in Italy was legalized in 2007, online skill games (primarily tournament poker) were permitted in 2008, and cash poker and online casinos began to be licensed in 2011. We expect cash poker and online casinos to quickly dominate the online market in Italy, overtaking online sports betting, which will however still be significant.

In contrast with the UK, Italy has introduced a new licensing system that says online sites must be licensed within Italy—and uses filters to block Italians from accessing sites not licensed within the country. Current online operators of skill games, lotteries, or fixed odds games must upgrade their licenses to offer cash poker or online casinos, or may apply for a new license. In late 2010, the European Commission ruled that the Italian restrictions on foreign operators were not consistent with EU rules on free access, and that Italy can only license and regulate gaming activity as long as foreign companies are not at a disadvantage in obtaining a license.

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As we highlighted earlier, Italy is just one of several EU countries to have had their online gaming rules challenged. In Greece, the European Commission rejected the 2011 legislation regarding online gambling, principally because of the requirement that all international gambling operations be incorporated in Greece and that they have a financial guarantee from a Greek bank. The law also required that all transactions be processed by Greek banks. It is expected that these issues will be resolved and that online gambling will become available in Greece in 2012.

In Germany, online gaming was banned in 2008, but new legislation was introduced to reinstate it. The current draft, however, appears to be inconsistent with EU law in favoring local sites and making it difficult to access foreign sites. In July 2011, the European Commission said the law—which Germany wants to adopt in January—must take account of the legal requirement for greater openness. At this point, online gaming is still illegal in Germany.

An equally contentious issue in the German regulatory landscape is how online gaming will be taxed. There are two main approaches to taxing online gaming activities: a tax on stakes, levied directly on consumers when placing bets, which tends to discourage consumers from participating; and a gross profit tax (GPT) levied on operators’ winnings. Most countries are opting for the GPT option, as being more likely to boost growth in the regulated market and thereby help the tax take.

However, in Germany, 16 of the 17 local states that control gaming voted for a stake tax of 16.7 percent, raising fears that most users will continue to use the “grey market” of unlicensed offshore operators. These concerns reflect the experience of France, which also opted for a high stake tax when introducing licenses for online gaming in 2010, and found that take-up of regulated services was much lower than expected. The French regulator has said publicly that the tax regime does not work well. In general, levying GPT on operators appears to be the more sustainable approach.

Alongside the taxation challenges, France is another market in which access to foreign sites is a contentious issue. The French government is looking to block access to foreign sites that are not licensed in France, particularly sites located in Costa Rica. ISPs are resisting these efforts.

In the Netherlands, the government has now approved online gaming and is planning to establish a regulatory body to govern it. As a result, regulated and legal online gaming is expected to be available from 2013. Regulation of the online sector may have an impact on the way the physical sector is structured. This is because, once competition is allowed in the online segment, it is likely to have an effect on the current monopoly in the land-based segment, which is not sustainable under EU law.

In Spain, a new law passed in May 2011 means online gaming is now regulated in the country for the first time. The legislation regulates gaming services offered to Spanish citizens,

and imposes gaming duties and levies on Spanish gaming activities on a national basis. Taxes are also levied on overseas wagers for gaming activities offered by Spanish-based operators. Gaming duties are calculated on gross gaming revenue—wagers minus prizes—or on gross wagers, depending on the type of game, at rates ranging mainly from 15 percent to 25 percent. Both Spanish-based operators and those based elsewhere in the European Economic Area (EEA: EU plus Iceland, Norway, and Liechtenstein) are allowed to apply for general and specific licenses, under a licensing process (Spain-wide lotteries are however defined as a reserved activity) that is expected to close before the end of 2011, although it cannot be ruled out that such process might be postponed, considering the political environment (particularly due to November 2011 elections). Big online operators as well as local off-line operators are expected to apply.

Other countries in Europe are at various stages in a general move toward permitting and regulating online gaming. In Switzerland, online gambling is still banned, but a revision of the country's Gambling Act is currently under way to legalize online gambling and allow for a small number of online licenses within the next two to three years.

Denmark is another market where progress has been slowed by debates over the tax regime. A recent ECJ ruling supports the proposed tax rate for online gaming in Denmark, so the new legislative framework is expected to come into place on January 1, 2012. Belgium is also considering licensing and regulating private online gaming operators. Online gaming is therefore expected to be available legally in both Denmark and Belgium in 2012. In Finland, RAY is the monopoly provider of both land-based and online gaming, which was introduced in 2010. The government is looking to restrict access



to foreign online gaming sites and to block banks from processing financial transactions with foreign sites. In Sweden, online gaming is currently operated through Svenska Spel, the national monopoly.

The regulatory approaches to online gaming in Central and Eastern Europe vary widely. Russia prohibited online gaming in 2006. In Hungary, Szerencsejatek Zrt, the state-run monopoly, is the sole operator of online gaming, but this situation may change as the Gambling Commission is moving to license private operators and allow competition from foreign operators, although the system would favor domestic companies. In Poland, new laws were enacted in 2011, which forbid online gambling except for online sports books that are hosted in Poland, use a Polish domain name, and process transactions through Polish banks.

In the Czech Republic, the Ministry of Finance is currently working on a new law that would regulate online gaming. Currently, the practical reality is that only Czech Republic-

based companies are able to provide online gaming, as customers have to register in a shop before they can use these services. This means “pure” Internet players are in theory operating illegally. However, the Czech government makes little effort to enforce this restriction, as reflected by the prominent football team sponsorships and banner adverts for online gaming operators. Interestingly, a public debate on gaming is soon set to begin in the Czech Republic. This may be driven by the highly political situation at the lottery company Sazka, which has been facing financial difficulties, and has historically provided a lot of charity funding.

In South Africa, the National Gambling Amendment Act of 2008 provided for the legalization and regulation of online casino gaming. As recently as 2009, South Africa had planned on issuing ten online casino gaming licenses. In 2010, a ruling by Northern Gauteng High Court found that even if an online site operates through a server located in another country,



access occurs through Internet connections located in South Africa. Consequently, the online gaming activity is deemed to occur in South Africa, so the laws that currently prohibit online gaming taking place in South Africa apply. The ruling was appealed in August 2011, and on October 3, the Appeal Court rejected the appeal and upheld the original decision. As a result, the Piggs Peak Casino in Swaziland, which was offering online gaming to South Africa, is now complying with the law. Sports bets can be placed online in South Africa through licensed operators, and online lottery sales are also allowed. While it is currently not permissible to visit an online casino, the Minister of Trade and Industry has indicated that hearings into the recommendation of the Gambling Review Report will be held before the end of 2011, and the report finalized. The report favors regulating online gaming, but much debate is once again anticipated. In the meanwhile, operators have been warned that online gambling is illegal.

Regulatory trends in Asia Pacific

Although widespread, online gaming is illegal in nearly all countries in Asia Pacific, and there has been little change to regulation in the region in 2010 or 2011. The culture of legal gambling in the region is very much focused on destination resorts such as Macau, and now Singapore. And while a great deal of gaming takes place online “under the radar,” the authorities in countries such as the PRC and India do not appear to be overly concerned about it.

Looking across the region, the Philippines is the only country where online and mobile gaming is permitted. In the Philippines, online gaming was legalized in 2000, with PAGCOR as the sole operator. PAGCOR operates an online casino as well as online poker games in partnership with Philweb. Online gaming also takes place in the Cagayan province, which operates under the jurisdiction of the Cagayan Export Zone. Like land-based gambling in that area, online gambling is open only to foreigners. Online sports betting is permitted.

In Australia, the Interactive Gambling Act of 2001 prohibited the opening of new online casinos. At the time of writing, this Act is currently under review by the government, but there is no expectation that online gaming will be legalised. Online sports betting through licensed services is permitted.

In India, new information technology rules were approved in 2011 that, in effect, make online gaming illegal by preventing Internet users from displaying or transmitting any information relating to, or encouraging, gambling. In New Zealand, online lottery sales were introduced in 2011, but online casinos remain illegal.

Regulatory trends in Canada

Until 2009, online gaming sites were not permitted to operate in Canada, although Canadians did place bets with offshore sites. In 2010, British Columbia opened an online casino, and subsequently introduced online poker in early 2011. Loto-Quebec shares the online poker network with British Columbia and that network is available in Quebec. The British Columbia Lottery Corporation, which operates online gaming in British Columbia, is now looking to introduce mobile gaming as well.

Ontario has announced it will offer online casinos and online poker, most likely in 2012, and Quebec and Nova Scotia are also expected to launch online services. There are no restrictions to online gaming in the Kahnawake Mohawk Territory. The Kahnawake Gaming Commission issues online gaming licenses and online gaming sites are hosted in that territory.

Regulatory trends in Latin America

Argentina and Chile are the only countries in Latin America with legal online gaming markets. Online gaming was legalized and licensed in Argentina in 2010. Online poker is popular in Argentina as is online bingo and online sports betting. Bwin has a license from Provincia de Misiones and 888 operates in partnership with Tower Torneos. In Chile, there are more than 50 online casinos with new entries expected. Poker is the most popular online gaming activity.

Emerging change drivers

As we have described, the global online gaming market as it currently exists is made up of fragmented pockets of legal and illegal spending, whose size it is often impossible to track or measure accurately. This situation is unsustainable, and further change is both inevitable and already under way. Last year, we highlighted four key change drivers that we believe will shape the industry over the coming years. These are still valid, and we revisit them here in the light of recent developments. We will then set out our view of what the online gaming markets in the US, EMEA, Asia Pacific, Latin America, and Canada will look like in five years' time.

1. Harnessing cross-border liquidity

The trend toward national or state-based regulation of online gaming seen to date both in EMEA (especially Western Europe) and the US will continue to evolve. In the US, there are already tensions between the geographical basis of the intrastate regulation that states are trying to set up, and the inherently location-independent nature of Internet services. In Europe, while the creation of ring-fenced national markets for services such as poker may be practicable in larger countries, these will come under growing pressure to interconnect and share liquidity once countries with smaller populations start to implement legalized and licensed online gaming. Ongoing legal action from the European Commission to allow citizens to access cross-border services from elsewhere in the EU will intensify this pressure.

In both the EU and the US, the key issue for providers is the critical mass of the number of available players

within each jurisdiction, and whether this is sufficient to sustain a viable and growing market. In Italy, with a population of 60 million, or even in California with 37 million, even the most demanding poker player should be able to find enough people to play against. In smaller territories there is a distinct possibility that there will not be enough players within the local jurisdiction to sustain the growth of regulated services.

Given these dynamics, the best long-term solution to support growth in revenues and tax receipts is to allow cross-border gaming and liquidity flows between different territories. This has already happened with lotteries such as the EuroMillions lottery in 11 European countries, and the “Powerball” multistate lottery in the US. While this does not sit easily with the current state-level approach to regulating online gaming, the cross-border flows of liquidity, revenues, and profit could create significant operational, financial, and taxation challenges, both for operators and governments.

2. Setting realistic taxation levels

The opportunity to generate tax revenues is clearly a key attraction for governments to legalize and license online gaming services. However, in setting the levels of taxation both of operators and customers, they need to be keenly aware of the need to balance tax receipts and market growth. As we have already pointed out, gross profit tax on operators appears to be a more viable approach than a stake tax levied on individual players. In France, despite the legalization of the online poker market and the entry of several well-established operators, the levels of taxation have contributed to disappointing levels of profitability. Given the current proposals in Germany, there is a risk that the same will happen there.

There is a widespread view that some governments may be deliberately using high taxation as a form of prohibition to make products and services less attractive, as they do in the tobacco market. Whatever the intention, the effect is to limit the growth in the legalized market and restrict the tax receipts. If and when the online gaming market becomes truly cross-border, high taxation in some jurisdictions could see liquidity migrate, stunting the market's development in the higher-tax territories—and seeing those governments miss out on the fiscal benefits.

3. Varying approaches to different online gaming disciplines

The variety of approaches being adopted to the different forms of gambling will shape both the regulation and growth of various forms of online gaming in different markets. For example, poker's status as a skill-based game deeply embedded in American cultural life and history means that US society regards it as the most socially acceptable of the various online gaming services with mass appeal. Partly for this reason, we believe that online poker providers will be allowed to operate on an interstate basis in the US within the next few years. This regulatory change will represent a watershed for legalized cross-border online gaming, marking the start of a new era.

Online betting on horse racing—already thriving at the state level—will also grow strongly, albeit at a gentler pace than poker. US lotteries will continue to spread across state borders, fueled by advances such as nationwide online sales of tickets, more sweepstakes, and online scratch cards. In contrast, given their complete absence of skill, online table games have little chance of being legalized in the US in the foreseeable future.

One segment where different territories are likely to diverge most strongly is sports betting. Already, European markets such as the UK have buoyant markets in online betting on major sports including soccer and cricket. However, in the US, the concerns felt by sports bodies such as the NFL means betting on sports results is unlikely to make much headway in the online environment.

4. Combining online gaming and social networking

Going forward, social networking will be an important driver of activity and growth in online gaming worldwide. An early sign of this potential was the explosion in gaming on the Second Life social networking and virtual reality site, which for a while played host to hundreds of virtual casinos, lottery games, and other forms of gambling, using in-game currency that could be exchanged for real money. While the site banned virtual gambling in 2007 to avoid regulatory action, it had already highlighted the potential for combining online gaming and social networking.

Social networking's role in driving online gaming services could be especially significant because of its high levels of mobile usage. Skill-based games and “fantasy” sports leagues—where fans select teams of players from different teams and then collect points based on those individuals' performances—could be especially attractive on social networking platforms. A significant development in 2011 was Chilipoker's launch of Chiliconnect, a social media interface enabling players to share the results of their online poker games on social networks. Users can boast about how much they have just won and make side bets with their friends.

The global online gaming market in 2015

Region by region

Throughout the forecast period, we believe that regulation will continue to evolve in many parts of the world, as governments seek to reap tax revenues from online gaming while protecting their consumers. By 2013–2014, we believe there will be growing momentum behind moves in both the US and the EU to pool online gaming liquidity and align regulation across borders, especially in skill-based games such as poker. These trends will take much longer to emerge in Asia Pacific and Latin America.

Here is a summary of what we think the online gaming industry will look like in each region in 2015:

United States

The expected federal legalization of interstate online poker games has taken longer than hoped, with a degree of political “foot-dragging” seen in the past year. However, with Black Friday having cleared the decks and opposition to online poker appearing to soften, we believe the logjam has now been broken. This could lead to legalization of interstate online poker from around 2013—a move that will serve to legitimize the online gaming market in general, boost usage, and act as a catalyst for developments in other online gaming disciplines. As different states’ regulatory regimes for poker start to integrate and standardize, online betting on horse racing will also start to expand beyond the states where it is currently legal. Together, these trends will encourage new onshore and offshore entrants, including the US’s major “bricks-and-mortar” casino operators, which are already readying their plans for the online market.

As noted above, social networking sites will be a key distribution platform for online gaming services, resulting in collaborative partnerships between gaming brands and social networks to capitalize on this opportunity. Lotteries will also expand their reach and scale through growing interstate collaboration and online pooling, combined with new online offerings. However, online table games will remain outlawed throughout the forecast period, and sports betting will continue to be dominated by the sports leagues themselves.

EMEA

Development of the legalized and licensed online gaming market in EMEA will continue to be led by Western Europe and South Africa, with progress elsewhere restricted by cultural factors in the Middle East, and in Central and Eastern Europe by a combination of legal concerns and relatively small national marketplaces. As smaller EU nations begin to introduce their own in-country licensing and tax regimes, particularly for poker, operators will want to build critical mass to make money from new services.

Combined with the action from the European Commission to open up national markets, these trends will intensify the pressure for interstate liquidity pooling, stimulating bilateral and multilateral agreements between countries and greater regulatory involvement in consumer protection and gaming regulation at the EU level. However, the requirement for each operator, active in a country, to submit to local licensing and taxation will remain. Online games of chance will remain largely unlicensed and excluded from the regulatory regime, as in the US, but the EU market will differ in that online sports betting on sports such as soccer will become increasingly prevalent across borders. Following the example of the successful EuroMillions lottery, online access to inter-country lotteries will also grow.

Asia Pacific

The fact that online gaming is currently illegal in almost all countries in Asia Pacific except the Philippines means that widespread development of legal, licensed services across the

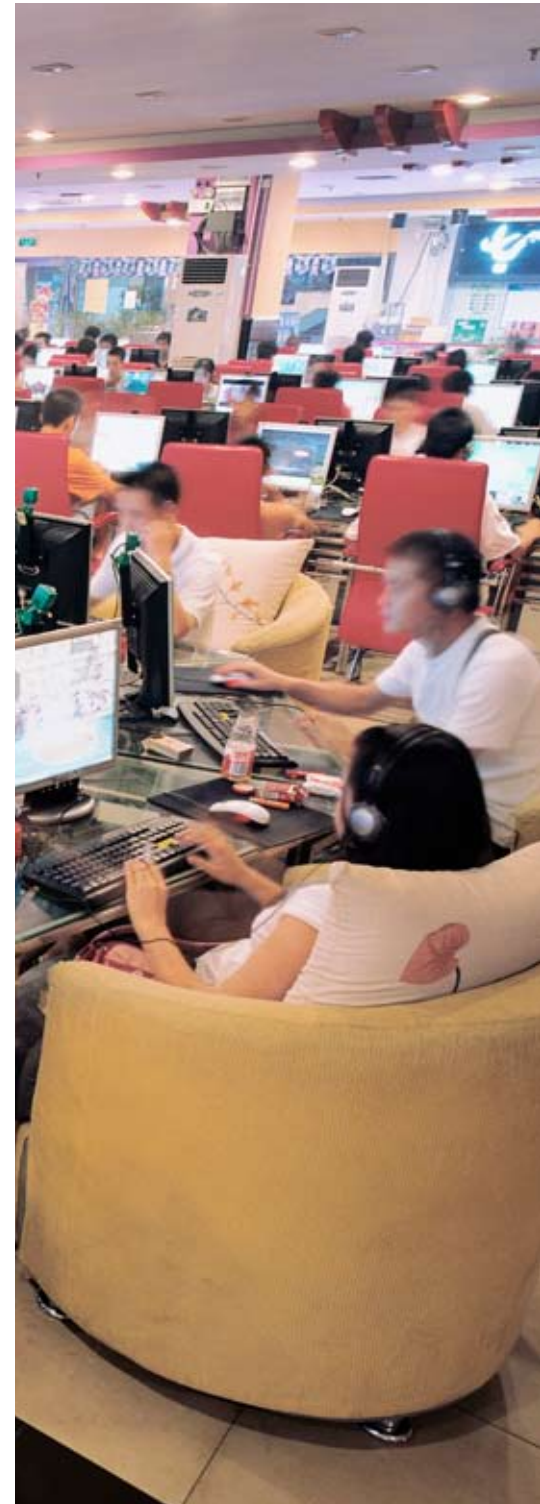
region is still some way off. While the illegal online gaming market is clearly buoyant, the licensed market will still be fairly small in 2015, with many governments focusing more on enforcing existing regulations than creating new ones, and on building up their own bricks-and-mortar casino gaming destination resorts. The legal market will largely be limited to the existing markets in the Philippines, and a handful of state-level markets in India.

Latin America

The legal online games market in Latin America will still be at an embryonic stage in 2015, led by Chile and Argentina. In many countries, the restrictions on growth imposed by national regulation will be compounded by low (but rising) penetration of fixed and mobile broadband services. The market in individual countries will be shaped by local cultural factors, such as Chileans' love for poker and Argentinians' liking for bingo.

Canada

Canada will remain somewhat ahead of the US in joining up state-level regulations into a coherent national regime, with interstate collaboration expanding more quickly than south of the border. The growth resulting from these trends will attract new onshore and offshore providers into the Canadian market, which will be seen to some extent as a test bed for offerings and models that may later be applied in the US, when regulations allow. Alongside indigenous Canadian operators, the entrants to the Canadian online gaming market are likely to include bricks-and-mortar casino companies from the US.



Conclusion

Going East – and going digital

Leading the way in E&M's migration to Asia Pacific

The financial balance of power in the global casino gaming industry will have undergone a fundamental eastward shift by 2015, with Asia Pacific overtaking the US as the biggest regional market in terms of revenues. This seismic change will be accompanied by dramatic evolution in several aspects of the industry, as online gaming becomes an increasingly regulated mainstream activity, and as usage and revenues take off in many markets.

To put these shifts in spending and behavior in context, it is useful to compare the outlook for casino gaming with other segments of the Entertainment & Media (E&M) industry. The projections in our *Global Entertainment and Media Outlook: 2011–2015*¹ indicate that spending on E&M—both overall and specifically by consumers/end-users—will grow much faster in Asia Pacific than in EMEA and North America in the next five years. However, despite being outpaced in growth terms, those two long-established markets will still be significantly larger than Asia Pacific in 2015.

In contrast, the gaming sector will be much more advanced in the eastward migration of spending, with Asia Pacific already well ahead of EMEA today, and set to overtake the US as the biggest market in 2013. By way of comparison, our projections in this study show that Asia Pacific will

account for 43.4 percent of global spending on casino gaming in 2015. But the *Global E&M Outlook* forecasts that of total consumer/end-user spending on E&M in 2015, only 26 percent will be in Asia Pacific—albeit rising strongly. So casino gaming is spearheading the wider migration of entertainment spending to Asia Pacific.

Markets in the West will harness digital revenues

Clearly, one reason for this faster eastward shift in revenues is that our casino gaming forecasts are essentially looking at off-line, non-digital revenues. Drawing again from the latest *Global E&M Outlook*, we find that the proportion of overall E&M spending going into digital media and experiences will continue to rise throughout the forecast period, increasing from 26.0 percent of spending in 2010 to 33.9 percent by 2015.

In the gaming industry, the pace and scale of the migration to online spending is clearly much more difficult to call, given the fragmented regulatory landscape for online gaming, the varying speeds at which regulation is changing in different jurisdictions, and the current uncertainty in many countries over the boundaries between legal and illegal services. For these reasons, we have not attempted to provide hard revenue forecasts for online gaming.

However, given that the move toward regulation of online gaming is more advanced in the US and—more particularly—EMEA than in Asia Pacific, it seems likely that the eastward shift in spending on the physical casino experience may be offset in those Western markets by rising spending on online gaming. Meanwhile, the market in Asia Pacific will remain dominated by the region's hugely successful destination resorts, with little incentive to drive development of regulated online gaming, which will remain largely a “gray market” and underground activity.

Online gaming: complementary —not cannibalistic

The prospect of ongoing growth in online gaming revenues raises the question of whether these will be additional to existing off-line revenues, or will cannibalize them. Our expectation is that much online spending will be incremental to the physical gaming industry rather than substitutional—a tendency that will be helped by the ongoing drive by physical gaming locations to enhance their offer by building more attractive casino facilities with better accommodation and a wider range of leisure choices. In doing so, they are further differentiating the experience of physical gaming from its online counterpart.

It is currently not possible to reach an accurate assessment of how big online gaming revenues will grow, as services become increasingly cross-border and mainstream. Experience to date suggests they will mainly be complementary to bricks-and-mortar revenues. For example, after Black Friday in the US, a flood of people moved from online poker to card clubs—suggesting online gaming may even play a role in positively attracting former non-players to try out the physical gaming experience. In our view, the impact of rising online gaming spending may well be felt more keenly among alternative leisure choices such as video-on-demand than among physical casinos.

New powerhouses will emerge

With online gaming being complementary to bricks-and-mortar revenues, this means there will be more than enough room in the market, both for online and physical gaming services, provided they each provide a compelling experience in their own way. The continued opportunities for physical casinos will be underscored by the rise of new gaming destinations to challenge the established centers, as more governments seek to capitalize on gaming's potential to generate tax revenues and tourism dollars.

A dramatic demonstration of what is achievable is the rapid expansion of Singapore in the past two years. There is clear scope in Europe for a major new resort destination of the type being proposed in Spain. In Asia Pacific, several countries—Japan included—have the opportunity to emulate at least some of the success generated by Singapore.

Economic factors

Alongside these changing competitive dynamics, the key imponderable factor is the global economic cycle. Currently, there are widespread fears in the US and Europe of a double-dip recession. In line with this, the indicators in markets such as Las Vegas remain largely positive, but still mixed, suggesting that recovery is ongoing but fragile. Nobody is forgetting that in 2009 the economic downturn caused casino gaming spending in EMEA to slump by 12 percent, and to decline by 3.5 percent in the US. In the same year, growth in Asia Pacific bottomed out at a positive 7.1 percent.

A renewed onset of economic difficulties could trigger a similarly negative impact on confidence and spending in some markets, especially given the plans for deep cuts in public spending in many countries. If a double-dip recession in Europe and the US were to come about, the impact could well be to see the balance of global spending shift more rapidly to Asia Pacific by 2015—and possibly accelerate the migration to online gaming services in the West. The *Global E&M Outlook* confirms that one impact of the downturn has been to speed up the move to digital media in other entertainment segments.

Evolving consumer behavior: the biggest challenge

Across all segments and formats, the ultimate determinant of the casino gaming industry's future growth through 2015 will be its ability to continue to engage and excite its target consumers. This means producing offerings and experiences that people

will spend their time and money on, amid the explosion in entertainment choices available to them.

Gaming's intense balance of risk and reward gives it a special appeal for many people. To turn this sentiment into profits, operators need to ensure they keep pace with consumers' changing tastes, needs, and lifestyle behaviors. The rise of online gaming in markets such as the UK and Italy, and Singapore's rapid emergence as a gaming destination, are cases in point.

The main challenge facing the industry during the next five years is knowing who its consumers are, understanding their changing needs and behaviors, and staying close to them, thereby ensuring the experience they provide is sufficiently compelling to override other potential choices. This need applies in all segments and countries, and at all levels of spending, from occasional online gamblers to avid social networkers to casino-loving high rollers.

As we have seen, the regulated bricks-and-mortar casino gaming industry is leading the wider eastward migration of entertainment revenues. The lack of hard information on overall online gaming revenues makes it difficult to assess whether it is leading the migration to digital as well. The ongoing advance in regulation, along with the online gaming revenue opportunity, is clearly growing rapidly in many markets.

Simply stated, the next five years will see rapid and pervasive change in every segment of the casino gaming industry. Now is the time for all participants to plan for this change—and to stake out the right positioning in the new landscape of 2015.

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