

## **Good afternoon and welcome to the Peermont 1<sup>st</sup> quarter 2008 Results Conference Call**

My name is Anthony Puttergill, Group Chief Executive Officer of Peermont and with me I have Grant Robinson, our Group Financial Director.

We will be talking to our quarterly report for the three months ended 31 March 2008 that was released yesterday to the Bank of New York for distribution through the clearing systems; to investors listed on our mailing list; and on our website.

As in previous reports, we have included an annexure setting out the pro forma unaudited group information for the quarter ended 31 March 2008 to assist investors in comparing our performance to the pro forma numbers previously reported.

Our presentation focuses on these pro forma numbers, which are adjusted to exclude the once-off effects related to the buyout, delisting and re-organisation transactions completed on 24 April 2007.

The highlights of the results include the following:

1. Pro forma total revenues increased by 6,5% to R590,6 million for the quarter from R554,7 million in 2007;
2. Pro forma EBITDA increased by 7,1% to R238,3 million for the quarter, from R222,5 million in 2007. This results in a pro forma LTM EBITDA of R983,7 million;
3. Our pro forma EBITDA margin increased to 40,3% for the quarter as compared to 40,1% for the same quarter in 2007.

As a result of revenue growth, albeit more subdued, as well as slightly improved EBITDA margins for the quarter, our pro forma credit ratios have improved as follows:

1. Net cash pay debt/LTM pro forma EBITDA has improved to 4,8 times, as compared to 6,3 times at the time of issuing the notes in April 2007;
2. Total net debt through the PIK Notes /LTM pro forma EBITDA has improved to 5,8 times, as compared to 7,3 times per the offering memo; and
3. The estimated LTM pro forma EBITDA/pro forma net cash interest expense has improved to 2,4 times, vs. 1,9 times per the offering memo.

We have adjusted the EBITDA figure above to include interest received and we have adjusted the net debt figures above to include:

1. the unamortised costs relating to the notes (which are being written up on an effective interest basis over the life of the loans);
2. The value of the derivative asset directly related to the SSN Debt; and
3. Cash balances on hand.

Our presentation will begin with a discussion of the macro-economic environment in the countries in which we operate, followed by an update of industry developments. I will then take you through certain financial and operating highlights, followed by a review of the financial results by Grant. Finally, I will conclude with a brief discussion of the key initiatives for 2008 and beyond.

In contrast to 2007 GDP growth of 5,1% for South Africa, GDP growth for the first quarter of 2008 was reported at 4,0% real growth quarter on quarter or 2,1% real growth on a seasonally adjusted and annualised basis. The weaker-than-expected quarterly performance has been largely ascribed to softer economic activity in the largest sector of the economy, i.e. the financial intermediation and business services sector, and a steeper decline in value added by the electricity, gas and water sector. While the electricity shortage during the first quarter undoubtedly lowered activity in the mining and manufacturing sectors, their underlying growth fundamentals are expected to remain relatively weak this year against the backdrop of waning global growth and slowing household demand. Domestic demand-driven sectors are expected to continue to perform below average this year as the impact of tighter monetary policy and generally weaker macro financial conditions come into full effect.

There was a 22% decline in mining activity in the first quarter of 2008 as a result of the power shutdowns, which were particularly acute during January. While the power cuts have since subsided, there is still significant uncertainty going forward around the extent of future power cuts and the cost of power, which has been underpriced for far too long. In addition, inflationary pressures continue to gather momentum in South Africa, with CPIX recently touching north of 10% as compared to an average 7,1% increase for 2007, well outside the central bank's targeted range of 3-6%. This has resulted in several interest rate increases during 2007 and 2008, with the prime lending rate currently at 15% and poised for further increases.

By contrast, Botswana shows no visible signs of moderation in economic growth. No figures have been reported for 2008 as yet, but we have not seen evidence of a marked slowdown. However, inflationary pressures are starting to build once again in Botswana, with March 2008 CPI touching 9,8% largely as a result on its dependence on South African imports.

As reported in February, the South African consumer is under far greater pressure in 2008 than in 2007. The effects of sharp oil and food price hikes have recently been exacerbated by the rapid depreciation of the rand. While all consumers have been affected by hikes in food and fuel prices, the majority of our South African customers fall into the middle class category - they own houses and cars and these are the people who have been particularly hard hit by the recent interest rate hikes. In addition, growth in residential house prices has recently entered negative growth territory, resulting in a negative wealth effect. These factors have placed disposable income under considerable pressure, the effects of which can be seen on 2008 revenues. During the first quarter of 2008, group revenue growth slowed to the order of 6,5%.

Growth in gaming revenues in South Africa's largest market, Gauteng, slowed to only 5,6% for the first quarter of 2008. When combined with the opening of the Silverstar casino on the West Rand, which is estimated to have captured an 8,5% market share, it is clear that this cocktail had a negative impact on competing casinos in Gauteng. We believe that both Montecasino and Gold Reef City experienced negative growth for the quarter and somewhat surprisingly, Sun International reported that Carnival City experienced negative growth of 4%. I say surprisingly because Carnival City is located further away from Silverstar than EP. Against this backdrop, Emperors Palace fared relatively well by being the only major competing Gauteng casino to report revenue growth for the quarter, albeit only 2,2%. Some of the factors that assisted Emperors Palace include increased marketing focus on the specific geographic areas affected by the opening of Silverstar, the introduction of live poker in the last quarter of 2007 and the optimisation of our slots/tables mix also in the last quarter of 2007. Whilst we stepped up our Imperium club activity this year, there has been significant volatility in winnings and this did not provide any assistance to EP during the quarter.

Revenue growth from the balance of the group operations was significantly healthier, growing by 16,9% for the first quarter as compared to the 2,2% reported for EP. As a result, revenues from other operations grew to R188,2m for the quarter and now comprise 32% of group revenues. In particular, Botswana delivered an impressive performance, growing revenues for the quarter by 31,8% in local currency terms.

Hotel trends in South Africa are still exhibiting healthy growth. Our results for the quarter reflect growth in hotel and resort revenue of 17,1%, with rooms revenue delivering particularly pleasing growth of 21,4%. At this stage, forward bookings still look very positive and we continue to see opportunities to yield our hotel business effectively.

From an overall group revenue perspective:

1. Within the first quarter, we experienced revenue growth in January and February of approximately 8% and growth of approximately 3% in March;
2. More recently we have seen some improvement in revenue growth. In April we generated revenue growth of around 10% and May, thus far, is showing growth of approximately 8%.

I will now take you briefly through the operating performance of each property for the quarter under review:

**Emperors Palace**, our largest operation, grew total revenues for the quarter by 2,2% to R402,4 million from R393,7 million in 2007.

Gaming revenue for the quarter increased by 1,4% to R341,5 million whilst hotel and resort revenues increased by 7,0% to R60,9 million.

Our slots revenue grew by 4,5%, while our tables revenue declined by 6,7% during the period. This was impacted by greater volatility in our tables play in our salon prive area. Slots revenue was also impacted by a lower than expected hold% on our R500 slot machine. Since the quarter end, our tables revenue has recovered and we are now showing yoy growth for the ytd.

Rooms revenue grew by 19,9% to R27,1 million for the three months compared to the same period in 2007. Average room occupancy levels, reached a record 86,4% for the quarter.

EBITDA for the quarter increased by 1,6% to R157,1 million. The EBITDA margin reduced slightly from 39,3% in the same period last year to 39,0% for the current quarter as a result of the slower revenue growth.

In February, Emperors Palace focused on implementing cost-saving measures, being particularly cautious with replacement of headcount in areas not affecting guest touch-points, which assisted in lifting EBITDA % despite slower revenue growth. Some of the cost saving is however unintentional in that it was caused by vacancies due to skills shortages which persist in SA, particularly in our hotel and resort operations. Clearly these people need to be replaced at some stage and this will have an impact on the cost structure when the positions are filled.

In January 2008, we also ceased operating our Monsoon Lagoon venue in its previous form as a nightclub but continue to use it as a general purpose venue for other purposes e.g. boxing weigh-ins, promotions, entertainment events etc. This resulted in a reduction in other revenue and visitor numbers but had no discernible impact on EBITDA. In addition, in March 2008 we in-sourced the Queen of the Nile Buffet restaurant on the casino floor, giving us the ability to offer our winners circle members exceptional value for money buffet meals in off-peak times to draw them to the property.

**Graceland** revenues decreased by 2,3%, from R26,1 million in the prior period as compared to R25,5 million in the first quarter of 2008. This decline can largely be attributed to economic factors but was also influenced by the introduction of a new casino management system, which caused some operational disruption in January and February. In addition, the upgrade and extension of the Main N17 road linking Johannesburg to Secunda got into full swing during the quarter, causing significant disruption to road traffic. Once this road is completed in 2009, it is expected to benefit Graceland by offering better access to visitors from Johannesburg.

Overhead expenses remained relatively constant resulting in EBITDA for the quarter declining by 15,9% from R6,9 million to R5,8 million.

## **Botswana**

The economic performance of Botswana as a whole has continued to improve in 2008 with the opening of the new diamond trading centre, the relocation of diamond sorting operations to Gaborone and relatively robust mining sector output. Overall, our Botswana operations grew revenue for the quarter by 31,8% in pula terms, from 32,4 million pula to 42,7 million pula.

This lifted EBITDA by 67,5% to 13,4 million pula or R15,5 million for the quarter. In particular room occupancy levels and average room rates increased significantly, largely as a result of increased levels of economic activity.

The EBITDA margin improved from 24,7% to 31,4% for the quarter.

**Tusk Rio** posted revenue growth of 8,4% for the quarter to R33,7 million from R31,1 million in the same quarter in 2007, despite a strong performance in the prior period due to resurgent mining activity.

EBITDA increased by 7,0% from R14,3 million in 2007 to R15,3 million in the same quarter in 2008. The 2007 EBITDA was boosted by a credit adjustment to rates and taxes, received in the first quarter of 2007. The normalised EBITDA increase would have been 9,3% without this prior year credit.

## **Tusk Mmabatho**

This unit grew revenues by a healthy 28,7% to R21,1 million for the quarter. The revenue increase was driven by the in-sourcing of the food and beverage operations from January 2008. Excluding the effects of the F&B in-sourcing, revenues increased by 15,2%.

EBITDA of R4,8 million was flat when compared to the same period in 2007. This was largely a function of the start up costs of the F&B function, increased administration and information technology costs.

### **Khoroni**

Our Tusk Venda property was recently renamed and last week was relaunched as Khoroni Hotel Casino and Convention Resort. Khoroni means “meeting place” or alternatively “gateway to the royal homestead”. The renaming and relaunch was well received by local government, who are an important source of business for this property.

Revenue for the quarter grew by 23,2% to R13,8 million from R11,2 million. The increase, as for Mmabatho, was driven by the in-sourcing of the food and beverage function. On a directly comparable basis, revenues grew by 9%.

The revenue growth flowed down to EBITDA of R3,5 million. The EBITDA decreased from R3,7 million in the same quarter in 2007, mainly due to a poor performance by the rooms division, due to a slow start to government business for the year and the start-up costs of the F&B function.

### **Tusk Umfolozi**

The Tusk Umfolozi operation grew revenue by a healthy 11,0% to R29,2 million for the quarter. This was despite the local economy being adversely affected by power shutdowns and reductions, which resulted in the loss of 500 jobs at the Bayside aluminium smelter in nearby Richards Bay.

EBITDA growth was up 15,6% to R11,1 million from R9,6 million for the prior year's quarter.

### **Frontier Inn**

The unit generated revenues of R9,3 million, a growth of 2,2% on the prior year period. Revenue was affected by a decline in tables revenue for the quarter, which was heavily impacted through the poaching of our tables staff and management for the newly opened Silverstar casino, offset by a positive swing in slots revenue growth. The rooms department showed a healthy growth in occupancies and room rates.

EBITDA of R1,5 million was 15,4% greater than the 2007 quarter.

### **Head Office & Management Companies**

EBITDA grew by 27,4% from R18,6 million in 2007 to R23,7 million in the first quarter of 2008. The increase was largely due to increased management fees from the operating units and an adjustment made to the management fees charged to Emperors Palace based on the revised group structure, post the transaction.

I will now hand you over to Grant Robinson to deal with:

- the accounting detail of the Quarterly Report;
- factors affecting our results as reported;
- some commentary of the historical results presented;
- details of the cash flows in the three months; and
- details of our capital expenditure for the three months.

Thereafter I will cover new developments.

**I will now hand you over to Grant Robinson**

Good afternoon

Today we will report on the quarter ended 31 March 2008 for Peermont, as compared to the prior year figures for the Old Peermont Global.

The information has been derived exclusively from the income statements of the predecessor and successor companies. This information does not take into account that the two company's accounts were prepared on a different basis.

### **Main factors affecting the reported results**

#### ***Change in holding of Emperors Palace***

The information for the predecessor company only proportionately consolidated the Emperors Palace operation at approximately 83% whereas this operation is fully consolidated in the successor company. The full consolidation of Emperors Palace in the successor group adds significantly to the overall results of the group.

#### ***Group accounting***

The revaluation of buildings at the date of acquisition by Peermont Global (Pty) Ltd and the increase in the rate of depreciation from approximately one to 2,6 percent, has made a significant impact on the overall depreciation charge.

#### ***Foreign exchange effects***

The group is exposed to exchange rate fluctuations on the E520 million SSN issue and the related hedging contracts. IFRS requires that the E520 million SSN liability be restated at spot through the finance charges line at each reporting date. The related FEC derivative instruments are also required to be fair valued at each reporting date.

The group has elected to cash flow hedge account for the movement in value of the coupon FEC's and therefore the resultant movement on these Forward Exchange contracts is taken directly to reserves at each reporting date.

The effect in the current quarter was to record:

- an unrealised cash flow hedge gain of R401,7 million (before taxation) in equity at 31 March 2008.
- A gain of R1 287,4 million on restatement of the FEC covering the E520 million to fair value, and
- A loss of R1 447,7 million on restating the actual E520 million loan to spot at 31 March 2008.

The net effect of the E520 million forex exposure on the income statement for the three months to 31 March 2008 is a net loss of R160,3 million, and an after taxation gain of R285,1 million directly in equity. This results in a net unrealised before tax gain of R241,4 million to the company.

The effects of the volatility caused by the revaluations will all net out over the FEC period as the capital and coupon payments remain fully hedged.

All of these factors, mentioned above have a significant impact on the comparisons made with in the quarterly reports as provided.

### **Commentary on the results**

We believe that the information provided in the report is fairly self explanatory. As Anthony has dealt with the pro forma results, which we believe will give investors and analysts a more comparable picture of the group's true performance, I will not specifically address the items set out in the quarterly report. We are happy to take questions on this section later in the conference call.

I will focus on the cash flows and capital expenditure sections of the quarterly report for clarification thereof.

### **Cash flows**

The cash flow information presented covers the cash flows for Peermont for the quarter ended 31 March 2008 and those of Old Peermont Global for the comparative period.

### ***Cash flows generated from operating activities***

Net cash inflow from operating activities for the quarter was R224,3 million compared to R197,7 million in the predecessor company in 2007. The effect of the increased holding in Emperors Palace for three months and organic growth contributed to the increase.

### ***Financial income***

This consists mainly of the cash received on the cash deposits at financial institutions. The increased cash holdings in the successor company have resulted in the increased interest income.

### ***Financial expenses***

This cost for the quarter is made up predominantly of the interest costs incurred on debt in the Botswana and Frontier companies.

The finance expenses incurred in quarter ended 31 March 2007 consist of interest paid to lenders in the Emperors Palace, Frontier, Botswana and Head Office management operations.

All interest relating to the notes and shareholders loans has been eliminated as non cash flow at the balance sheet date.

### ***Taxation paid***

The taxation payments for both reported periods are for certain of the subsidiaries, not affected by new debt raised for the buyout, e.g. Graceland, Botswana and Frontier, where taxation cash flows will continue to be incurred.

### ***Cash flows from investing activities***

Capital expenditure for the three months was a net R31,1 million, predominantly on new hotels being erected, building maintenance of existing buildings and replacement of gaming equipment. This is discussed in more detail later in the presentation.

### ***Cash flows from financing activities***

During the quarter the net long term debt repayments of R2,1 million were made by the Botswana and Frontier operations. The interest-bearing long-term debt raised was where the Botswana subsidiary had utilised excess cash on hand to reduce borrowings, and required to draw down on the facility to meet current cash flows. The debt repayment was to a local financial institution in terms of the Frontier borrowing arrangements.

### ***Dividends paid***

Dividends paid in the prior year period consisted of the minority share of a dividend paid by the Botswana operating company.

### ***Cash and cash equivalents***

At 31 March 2008 the Peermont Group had R665,2 million in cash resources available to buy back notes, service debt, fund working capital requirements and new projects.

**Capital expenditures**

Our net capital expenditures in the quarter ended 31 March 2008 and 2007 were R31,1 million and R24,6 million, respectively, representing approximately 5,2% and 4,9% of total revenue for those periods.

Our net maintenance capital expenditures in the three months ended 31 March 2008 and 31 March 2007 were R4,5 million and R24,6 million, representing approximately 0,8% and 4,9% of total revenue, respectively. Our maintenance capital expenditures for the both quarters reported reflected ordinary course maintenance and replacement of gaming equipment, primarily slot machines, hotel furniture, fittings and equipment.

Our expansion capital expenditures in the quarter ended 31 March 2008 were R26,6 million, representing approximately 4,4% of total revenue for the period. This consisted of R17,9 million spent by Emperors Palace on the construction of the new Metcourt Hotel; payment by Botswana of R3,0 million for costs accrued for the Sedibeng and Syringa casinos; R5,3 million incurred on the construction of the Metcourt Hotel at Rio in Klerksdorp; and R0,4 million on the relocation of the Tusk Umfolozi casino to Richards Bay.

**Contingent liabilities**

We previously reported that an issue had arisen regarding the taxability of a profit of R33,8 million made by one of our subsidiaries on realisation of a foreign exchange option exercised in 2005. We obtained legal opinion on the matter at the time and, based on this advice, treated the gain as non-taxable. The South African Revenue Service questioned the interpretation of the law and we have referred the matter to our taxation advisors. No progress has been made in resolving the matter during the quarter. Should SARS be successful in their challenge, the estimated exposure to the group is approximately R9,8 million.

## **Notes Buyback**

Subsequent to the period end, the company completed a notes repurchase programme in terms of which the company purchased €103,9 million of notes from the holders.

The notes buyback was effected using a public tender process which resulted in €86,9 million of notes being acquired and a further €17 million was acquired in the open market. Both of the transactions occurred at a price of 89% of the issue price of the notes. All purchased notes were cancelled. Following the repurchase, the principal of the notes remaining outstanding is €416,1 million.

The debt repurchase programme was financed by realising €92,5 million of the value that had arisen in the existing FEC's entered into to hedge the notes foreign exchange exposure. Approximately 77,7% of the existing FECs were realised.

The unwound FECs were replaced by entering into credit contingent cross currency swaps. Approximately 27,8% of the total foreign exchange exposure arising from the notes is now hedged using the original vanilla FECs and the balance of approximately 72,2% of the exposure is hedged using credit contingent cross currency swaps.

Annexure D has been included with this report to give investors an understanding of the future expected cash flows from our revised hedging arrangements.

## **Standard and Poors Rating**

We are pleased to advise that S&P have recently reconfirmed the company's rating for 2008 as B/Stable/-.

**At this point, I'm handing you back to Anthony to take us through the final section dealing with new developments**

Thank you Grant. I will now update you on recent developments.

The construction of the new 248 room Metcourt hotel at Emperors Palace is still progressing well, with the brickwork expected to be complete by next month. The hotel is expected to open in the first quarter of 2009 and is still within the budgeted cost of R170 million, despite higher than expected building costs.

As regards the Rio expansion project, we have commenced construction and are progressing on schedule. The total cost of this project is budgeted at R70 million. The new hotel and ancillary facilities are scheduled to open during the first quarter of 2009.

The Board recently approved abnormal maintenance capital expenditure for Tusk Mmabatho. Whilst the timing of commencement of this project has not yet been finally decided, we are likely to spend R17,6 million on upgrading 64 rooms, upgrading and revitalising the restaurant, a minor upgrade of the casino and certain public facilities. It is possible that some of this expenditure may be deferred to 2009.

In light of the significant competitive pressures in Gauteng, we are progressing with a research project focusing on extracting the best use of our existing entertainment, dining and gaming space at Emperors Palace. The project is focusing on improving the tenant mix at our Emporium, providing new entertainment attractions and a wider choice of dining facilities for patrons to attract more visitors to the complex.

The Khoroni refurbishment is on going with approximately R3,5 million to be spent on upgrading the conference areas, board room and certain public facilities.

The PGB board recently approved capital expenditure of approximately P21,8 million to refurbish the casino, the 5<sup>th</sup> floor of the Walmont hotel and upgrade the Livingstones restaurant at the Grand Palm complex. Work will commence in the second quarter of 2008 and be completed by the last quarter of the year.

As regards the planned relocation of the Tusk Umfolozi Casino at Empangeni to Richards Bay, we have verbally agreed with the local council to pay an additional R12,9 million to secure additional bulk rights for our property. The EIA process is ongoing and the total budget for the project was increased to R232,9 million. Construction is expected to commence toward the end of the last quarter of 2008 and the resort is planned to open in the first quarter of 2010.

The Limpopo Gambling Board has not yet issued a new RFP for the Burgersfort licence. We continue to prepare ourselves to make a new bid for this licence once the RFP is issued.

As regards Mthatha, Peermont is currently reviewing this project given the significant delays caused by legal action from a competing bidder against the ECGBB and land claims on the site which we had intended to develop. These delays have led to a significant escalation in building costs, placing pressure on the economic viability of this project in its current form. In the interim we have requested the ECGBB to release our guarantee of R210 million for the construction of this project. The acquisition of the Head office building is ongoing. We will be required to pay approximately R38 million for the building once the transfer is finalised.

The group's standby power upgrade process is ongoing and is expected to be completed within the approved budget of R12,5 million for SA and P4,2 million for Botswana.

As regards the illegal casinos operating in the North West province, some positive action was taken by the police and assets forfeiture unit in shutting down illegal operations and confiscating property. This good work was largely undone in court through the state's prosecution efforts being inadequate to resist an urgent application by the operators of these establishments for a review and reversal of the police actions. The state intends to appeal the judgement.

As regards interactive gambling, The National Assembly recently passed the National Gambling Act Amendment Bill dealing with Internet Gambling without further changes and it now goes to the President for signature. Implementation of the provisions of the Bill is not expected soon: a) the tax provisions in respect of Internet Gambling still have to be provided by Treasury by means of separate legislation (a so-called “money bill”) and b) the applicable regulations require development and promulgation by the Minister. By all accounts this is not expected soon.

As regards the recent spate of xenophobic violence in the country, the situation seems to have been contained by the police and security forces. While we received two cancellations of group bookings from overseas at Emperors Palace as a result of this violence, we were able to replace the business locally. However, should this violence flare up again in an uncontrolled and extended manner, it will affect the rate of growth of our hotel and resort operations. In the face of these horrific attacks, it has been heart-warming to see many South Africans open up and provide care and support to the victims of these acts. Most South Africans condemn these acts and I believe that is why these limited incidents have not managed to trigger a significantly bigger ripple effect beyond the areas immediately affected.

I would like to end off by recapping the highlights of our performance for the quarter as follows:

1. Pro forma total revenues increased by 6,5% to R590,6 million for the quarter from R554,7 million in 2007;
2. Pro forma EBITDA increased by 7,1% to R238,3 million for the quarter, from R222,5 million in 2007. This results in a pro forma LTM EBITDA of R983,7 million;
3. Our pro forma EBITDA margin increased to 40,3% for the quarter as compared to 40,1% for the same quarter in 2007.

That brings me to the end of our presentation and I will now open the line for questions.