

## **Good afternoon and welcome to the Peermont 2<sup>nd</sup> quarter 2011 Results Conference Call**

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

We will be discussing our quarterly report for the three and six months ended 30 June 2011 that was released yesterday for distribution through the clearing systems, to investors listed on our mailing list and on our website.

Since our discussion may contain certain forward-looking information, it is qualified by the factors referred to in our quarterly report, our 2010 annual report as well as in the risk factors section of our website.

In summary, for the quarter:

1. Total revenues declined by 0.9% to R648.3 million for the quarter from R654.4 million in the same quarter of 2010, Q2 2010 includes a significant once-off boost to revenues and EBITDA from the 2010 World Cup. Excluding the effect of the World Cup from Q2 2010 results, revenue growth amounted to 2.9%;
2. Cash costs decreased by 3.0% as compared to Q2 2010 as a result of Project 38, a concerted cost-saving project implemented at Emperors Palace ("EP");
3. On an unadjusted basis, EBITDA increased by 2.0% to R246.0 million from R241.1 million in 2010, resulting in an LTM EBITDA of R970.0 million. If the effects of the World Cup is excluded from 2010 results, EBITDA for the three months increased by 9.0%;
4. We are very pleased that the group EBITDA margin increased by 1.1% to 37.9% as compared to 36.8% reported during Q2 2010.

For the six months to June:

1. Total revenues declined by 0.3% to R1 269.7 million for the period from R1 273.1 million in the same period of 2010. Excluding the effects of the World Cup last year, revenue growth amounted to 1.7%; and
2. EBITDA at R463.8 million was flat as compared to the R464.0 million for the six months to June 2010. Excluding the effect of the World Cup, EBITDA increased by 3.4% for the six months. Our EBITDA margin increased slightly to 36.5% from 36.4% in the same six months of 2010.

Our credit ratios, calculated with our usual adjustments, are as follows:

1. Net cash pay debt/LTM EBITDA is 4.9 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.4 times; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.3 times.

As regards the macro-economic environment in SA, GDP for Q2 is expected to be lower than the 3.7% reported for Q1. This trend is expected to continue for the remainder of the year with GDP growth forecasted at 3.3% for the full year. According to the SARB, it is likely that the manufacturing and mining sectors subtracted from growth during Q2. The economy has made a fragile and uneven recovery from the recession and its future growth prospects will be significantly affected by global developments.

Given the slow pace of employment growth, high levels of consumer indebtedness, low levels of bank credit extension as well as the negative wealth effects emanating mainly from the continued weak housing market, the sustainability of the current rate of consumption growth, expected at 4.2% for 2011, is being questioned by the SARB .

Gaming revenues (based on levies paid) in Gauteng, South Africa's largest gaming market, increased by 3.1% in the quarter to 30 June 2011 as compared to a 2.3% decline in levies paid by EP through the same three month period. In the six months to June 2011, the Gauteng gaming market increased by approximately 2.4% as compared to a 2.9% decline in levies paid by EP for the same six months.

Revenues at EP were negatively impacted by extensive roadworks on the network of major roads leading to EP from our core gaming market catchment area. On commencement of these roadworks during March 2011, the effect on the number of visitors to our main casino floor and main floor market share, was almost immediate. These major roadworks on the R21 and N12 are expected to be completed by October this year. Revenues at Emperors Palace declined by 5.9% against the unadjusted Q2 2010 results and by 1.6% excluding the effects of the 2010 World Cup.

Revenue generated from the balance of the group operations was healthier, growing by 8.7% in the second quarter, very similar to the 8.6% reported in Q1. This revenue was boosted by strong contributions from our Umfolozi, Graceland and Mmabatho Palms properties. Revenues from other operations grew to R242.9 million for the quarter, comprising 37.5% of group revenues.

Overall hotel trends in South Africa showed a negative growth of 34.8% in RevPar for Q2 2011, impacted by an oversupply of hotel rooms, the World cup effect last year, as well as a cyclical downturn in demand. Our hotels fared better than the national average with rooms' revenues contracting by 24.3% to R65.1 million and total hotel and resort revenue declining by 11.1% for the quarter.

From an overall group revenue perspective:

1. Within the second quarter, we experienced revenue growth of 8.5% in April boosted by a strong recovery in the tables hold % at EP. Revenue remained flat in May and decreased by 10.1% in June on an unadjusted basis. Excluding the effect of the 2010 World Cup, revenue for June increased by 0.3%;

2. In July, revenue decreased by 1.4% as compared to July 2010. Excluding the effect of the 2010 World Cup from the July 2010 revenues, July revenue increased by 6.8%. The first 3 weeks of August thus far is showing a decrease of approximately 7% as compared to the same period last year.

I will now take you briefly through the operating performance points for the quarter:

**Emperors Palace:**

As mentioned earlier, revenues at EP were negatively impacted by the extensive roadworks on major roads leading to EP, which commenced in March 2011.

Gaming revenue for the quarter decreased slightly, by 1.2% to R340.1 million. Our slots revenue decreased by 1.5%, while our tables revenue decreased by 0.7% when compared to the same quarter in the prior year. This resulted in a reduction in our market share of GGR for the three months to 23.3%. Year to date our market share is estimated at 23.4% in line with the first quarter.

The average daily number of vehicles through the gate has decreased by approximately 8% as compared to the same quarter in 2010, heavily affected by the major roadworks on the R21 and N12 leading from our core gaming market catchment area to EP.

Hotel and resort revenues for the quarter decreased by 24.5% to R65.4 million. The prior period quarter includes revenues generated during the World Cup, which together with the addition of significant room stock in Gauteng during last year, has resulted in a decrease in occupancies and room rates, resulting in rooms revenues (adjusted to remove internal revenue) decreasing by 38.3% as compared to the Q2 2010. Average complex occupancy levels were 75.8%, a decrease from 81.3% in the same period last year. However, we are still faring better than our hotel competitors in this regard.

Food and beverage revenues declined by 2.1% to R27.4 million in the quarter mainly as a result of a decrease in groups and convention business, which continues to be affected by the reduction in spend by larger corporates.

A programme implemented by management to cut costs has resulted in cash costs decreasing at EP by 10.7% as compared to the prior period quarter, driven mainly by a decrease of 10.4% in promotions and marketing as well as many other smaller savings. These savings were partially offset by an 18.4% increase in property costs, driven mainly by a 21.7% increase in electricity costs, still less than the actual increase in electricity tariff due to the effects of our energy efficiency programme.

Despite the reduction in revenues, EBITDA increased by 3.4% on an unadjusted basis to R150.9 million. Excluding the effect of the World Cup, EBITDA increased by 11.4%. The EBITDA margin for the three months increased from 33.9% as at 30 June 2010 to 37.2% as at 30 June 2011. The margin increased directly as a result of the implementation of Project 38, which we announced at our annual results presentation earlier this year.

**As regards our other group operations,** overall revenue grew by 8.7% or R19.5 million and EBITDA remained in line with the prior period quarter.

In particular, our Graceland and Umfolozi operations delivered impressive performances during the quarter.

Our Graceland operation performed well and revenues increased by 14.0% as compared to the prior period quarter. EBITDA increased by 19.0% as compared to Q2 2010, despite Q2 2010 including World Cup related revenue and EBITDA. The recently commissioned N17 toll road extension to Secunda has made the property more accessible from Johannesburg.

Our upgraded Umfolozi property continues to be well received and is attracting visitors from a wider catchment area than before. As a result of this successful upgrade, revenues increased by 33.8% to R38.4 million. EBITDA at R13.0 million was 56.6% above the prior period quarter. The improved performance was as a result of the new hotel and conference facilities as well as the reactivation of the full gaming floor.

I will now hand you over to Grant Robinson to deal with details of the cash flows, treasury activities and capital expenditures in the quarter. Thereafter, I will cover new developments.

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

Good afternoon

As usual, I will focus on the lower end of the income statement, cash flows and capital expenditure sections of the quarterly report.

### ***Financial income***

Finance income decreased from R542.9 million for the six months to June 2010 to R294.0 million in 2011. In 2010 the Rand strengthened from R10.63 to R9.39 to the Euro, resulting in a foreign exchange gain of R530.0 million on the translation of the Senior Secured Notes liability recorded at June 2010.

This can be compared to the R290.6 million gain on the mark-to-market of the derivative instruments utilised to hedge the SSN liability and coupon payments recorded at June 2011, which resulted from the weakening of the Rand against the Euro from R8.83 to R9.82 in the six months.

### ***Financial expenses***

This cost for the six months ended June 2011 reflected an increase of R128.7 million from the prior period.

The exchange rate movements as explained earlier resulted in a net decrease of R384.0 million in finance costs related to the foreign currency exposure between 2011 and 2010. The net decrease arises from a R831.9 million foreign exchange loss on the mark-to-market of the derivative instruments utilised to hedge the SSN liability as at June 2010, compared to the R447.9 million loss on translation of the SSN liability recorded at June 2011.

Other finance costs for the six months include interest accruals on other liabilities such as the shareholders loans of R323.6 million; the Deferred Hedging Loan of R31.1 million; and, R20.3 million relating to interest charges on the Revolving credit facility, Head office and Frontier Inn debt. These increased by a combined R93.8 million.

These costs were further increased by the effects of the reversal in 2010 of the written up costs, discount and potential early settlement premium associated with the SSNs and PIK Notes of R372.6 million and R62.2 million, respectively. The reversal of the costs in 2010 arose from the decision to extend the expected refinancing date of the SSNs to April 2014.

All interest relating to the shareholders loans has been eliminated as non-cash flow at the reporting date.

### ***Taxation credit***

The taxation credit consists mainly of the deferred taxation benefit generated from the effect of the operating loss after net finance expenses.

### **Cash flows**

Net cash inflow from operating activities for the six months was R460.1 million compared to R441.4 million in the comparative period in 2010. This translates into a free cash flow to EBITDA ratio of approximately 88%.

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

A previously accrued and long outstanding taxation liability of R7.2 million due by Tusk Resorts to SARS was settled during 2010, giving rise to the decrease in taxation cash flows in 2011.

### ***Finance expenses paid***

The finance expenses paid relate mostly to the SSN coupon payment of R337.1 million and the Deferred Hedging Loan interest payment of R31.4 million, both paid in April 2011.

### ***Cash flows used in investing activities***

Capital expenditure for the six months was a net R50.2 million. This was spent on the normal maintenance of existing buildings and the replacement of gaming equipment. The prior period cash flows of R71.0 million include payments of R27.8 million on the construction of the facilities at Umfolozi. Capital expenditure is discussed in more detail later in the call.

### ***Cash flows used in financing activities***

During the current period, net long-term debt repayments of R7.2 million were made. These relate to the normal redemption of debt by PGNW, Head office and PGEFS. The prior year included the repayment of the corporate notes by PGB of P25 million.

Dividends relate to the minority portion of the Botswana and Graceland company dividends paid.

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

At 30 June 2011 the group had a net cash RCF utilisation of R132.5 million, consisting of R298.7 million cash utilisation of the RCF, offset by cash held of R166.2 million. Details of R122.4 million included in the reported cash balance, but not available to the group for third party cash flows, are detailed later in the call.

### **Capital expenditures**

Our net capital expenditures in the six months ended 30 June 2011 and 2010 were R50.2 million and R71.3 million respectively, representing approximately 4.0% and 5.6% of total revenue for those periods.

Our net maintenance capital expenditures in the six months ended 30 June 2011 and 2010 were R50.2 million and R41.1 million, representing approximately 4.0% and 3.2% of total revenue, respectively. Our maintenance capital expenditures for both periods reported reflected ordinary course maintenance and replacement of gaming equipment, primarily slot machines, hotel furniture, fittings and equipment. Our maintenance capital expenditures for the year to date consisted of R30.0 million spent on slots replacement

throughout the group; R5.9 million on the refurbishment of the third floor of the Walmont Hotel in Gaborone; and, the balance on normal maintenance expenditure.

There was no expansion capital expenditure incurred in the six months to June 2011. Our net expansion capital expenditures in the first six months of 2010 totalled R30.2 million. The main component of this was R27.8 million relating to the upgrade and expansion of our Umfolozi property.

### **Available capital resources**

At 30 June 2011, of the R550 million available under the RCF for working capital and general corporate purposes, R59.5 million of the facility had been utilised to provide guarantees to various gambling boards, suppliers and financial institutions, and an additional R298.7 million was drawn in cash. This was offset by cash held of R166.2 million. Cash included in the reported balance but not available for the group consists of approximately R49.0 million required for operational floats, R39.4 million held on behalf of trust beneficiaries and R34.0 million reserved for community development infrastructure at Emperors Palace. After adjustment for the above, capacity of R235.6 million was available for group requirements.

### **Contingent liabilities**

There have been no developments regarding the SARS claim for taxation on the PGERH foreign currency option gain recorded in prior years. Should SARS be successful in their challenge, the estimated exposure to the group is approximately R9.8 million plus interest, which has currently not been provided for.

### **S&P ratings**

During June 2011, S&P's rating services announced that it had reviewed Peermont's corporate credit rating and the rating on the company's senior secured notes and that the rating was changed from "B with a negative outlook" to "B- with a stable outlook". The recovery rating on the senior secured debt remained unchanged at "3".

**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 more recent developments.

Firstly, the Fourth Gaborone Casino Licence with the right to operate 160 slot machines and 10 tables in the central Gaborone area is expected to commence trading during the last quarter of 2011. This will dilute the GGR of existing casinos already operating in the Gaborone area. Last year our Botswana subsidiary filed papers with the High Court of Botswana to review and set aside the decision of the Botswana Casino Control Board to award the licence. The application is set to be heard in September 2011.

As reported previously, it is anticipated that the Limpopo Government will promulgate the Limpopo gaming levies regulations which increase the gaming levy in the province from 5.26% of GGR per month to 8.0% of GGR per month. This is expected to increase the annual gaming levies payable by our Khoroni property by approximately R1.8 million per annum. This change has not yet been implemented.

The Gauteng government recently announced that the Gauteng Department of Finance in collaboration with the Department of Economic Development, has started with the process that will lead to a review of the rate of taxation on gambling revenue in the province. CASA will provide input at the appropriate stage of the review process. We have no indication thus far as to the quantum of any possible revision.

Following the announcement by the Minister of Finance as regards the proposed 15% withholding tax to be imposed on gambling winnings by individuals in excess of R25 000, CASA has commenced discussions with representatives of the National Treasury and explained our concerns. However, it seems clear this tax is likely to be imposed in one form or another as from April 2012 and we are engaging with treasury officials as to the practicalities involved.

As regards the development of the Thaba Moshate Hotel Casino and Convention Resort in Burgersfort, we are continuing to progress the rezoning of the land, as well as the land claim relating to the area in which the site is located. We are also currently negotiating with the Limpopo Gambling Board in respect of the casino licence conditions to be imposed.

As regards the Casinos of Mauritius, in July 2011 we were advised by the SIC that the tender process for the Casinos of Mauritius has, in consultation with its shareholders, officially been called off by the Board of the SIC, pending expected further changes in the regulatory regime affecting the gaming industry in Mauritius.

Discussions are still ongoing between our major stakeholders regarding the previously announced review of Peermont's capital structure. These discussions have been focused on the junior part of the structure, i.e. the deeply subordinated shareholder loans, and may lead to a restructuring of these loans. In connection with any such restructuring, we may also seek to refinance all or part of the SSN's, either concurrently with the restructuring or shortly thereafter. In this regard we have begun investigating the feasibility of a partial or full refinancing of our senior debt.

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

1. While total revenues declined by 0.9% to R648.3 million for the quarter from R654.4 million in the same quarter of 2010, Q2 2010 includes a significant once-off boost to revenues and EBITDA from the 2010 World Cup. Excluding the effect of the World Cup from Q2 2010 results, revenue growth amounted to 2.9%;
2. Cash costs decreased by 3.0% as compared to Q2 2010;
3. On an unadjusted basis, EBITDA increased by 2.0% to R246.0 million from R241.1 million in 2010, resulting in an LTM EBITDA of R970.0 million. If the effect of the World Cup is excluded from 2010 results, EBITDA for the three months increased by 9.0%;
4. We are very pleased that the group EBITDA margin increased by over 1% to 37.9% as compared to 36.8% reported during Q2 2010.