

Good afternoon and welcome to the Peermont 3rd 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 nine months ended 30 September 2011 that was released yesterday for distribution through the clearing systems, to investors registered 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. Whilst total revenues increased by 0.7% to R668.6 million for the quarter from R664.0 million in the same quarter of 2010, Q3 2010 includes a significant once-off boost to revenues and EBITDA from the 2010 World Cup. Excluding the effect of the World Cup from Q3 2010 results, revenue growth amounted to 3.5%;
2. Cash costs decreased by 0.2% as compared to last year as a result of Project 38, a concerted cost-saving project implemented at Emperors Palace (P+);
3. On an unadjusted basis, EBITDA increased by 3.6% to R248.7 million from R240.1 million in 2010, resulting in an LTM EBITDA of R978.5 million. If the effect of the World Cup is excluded from 2010 results, EBITDA for the three months increased by 8.1%;
4. We are very pleased that the group EBITDA margin increased to 37.2% as compared to 36.2% reported during Q3 2010.

For the nine months to September:

1. Total revenues increased by 0.1% to R1 938.3 million for the period from R1 937.0 million in the same period of 2010. Excluding the effects of the World Cup, revenue growth amounted to 2.4%; and
2. EBITDA for the nine months increased by 1.2% to R712.4 million for the nine months to September 2011 as compared to the R704.1 million for the nine months to September 2010. Adjusting for the World Cup, EBITDA increased by 5.0% for the nine months. Our EBITDA margin increased to 36.8% from 36.4% in the same nine months of 2010.

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

1. Net cash pay debt/LTM EBITDA is 5.0 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.6 times; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.3 times.

As regards the macro-economic environment in SA, real GDP for Q2 2011 increased by 1.3% on an annualised basis. Widespread industrial action, which continued into the third quarter, contributed to this subdued outcome. Consumption expenditure by households, has to date been the main driver of growth. However, in Q2 2011, growth in consumption expenditure moderated to an annualized rate of 3.8%, compared with an annualized increase of 5.2% in the first quarter. According to the SARB, consumption expenditure is expected to remain constrained to some extent by low rates of credit extension and continued debt deleveraging by households. The ratio of household debt declined further to 75.9% in Q2 2011 from a peak of 82.0% in the first half of 2008.

The yoy change in CPI increased from 4.2% in April 2011, to 5.7% in September, and 6% most recently, still within the official inflation target range of 3-6%. However, it appears there are inflation risks to the upside, particularly given recent Rand weakness.

Gaming revenues (based on levies paid) in Gauteng, South Africa's largest gaming market, increased by 3.6% in the quarter to 30 September 2011 and by approximately 2.8% for the nine months to 30 September 2011.

Revenues at EP continue to be affected by extensive roadworks on the network of major roads leading to the property from our core gaming market catchment area, which intensified during the current quarter. On commencement of these roadworks during March this year, the effect on the number of visitors to our main casino floor and main floor market share was almost immediate. The disruptive effect of these roadworks intensified during the period from August until the middle of September with frequent lane closures and uneven road surfaces. Since October, the negative effect of the ongoing roadworks has diminished, along with a perception of improving road conditions and less disruptive lane closures. Unfortunately the roadworks have not been completed as scheduled. We have been informed that the engineers expect the roadworks on the R21 immediately adjacent to our property to be finished by the end of this year, depending on the weather. The on and off ramps linking the R21 and N12 are being treated as priority and are also expected to open before the end of the year. The N12 road works will continue and the estimated date of completion is April 2012.

During the third quarter, revenues at Emperors Palace declined by 5.7% against the unadjusted Q3 2010 results and by 1.7% excluding the effects of the 2010 World Cup. In addition to the above mentioned roadworks, the decline was largely attributable to a temporary decline in the tables hold percentage for the quarter, which has subsequently normalised in October and November thus far.

Revenue generated from the balance of the group operations was very healthy, growing by 12.9% in the third quarter. This revenue was boosted by strong contributions in particular from our Umfolozi and Mmabatho Palms properties. Revenues from other operations grew to R259.0 million for the quarter, comprising 38.7% of group revenues.

Overall hotel trends in South Africa showed a negative growth of 9.1% in RevPar for Q3 2011, impacted by an oversupply of hotel rooms and the World cup effect last year. Our hotels fared better than the national average with rooms revenues contracting by 7.2% and total hotel and resort revenue increasing by 2.4% for the quarter.

From an overall group revenue perspective:

1. Within the third quarter, revenue declined by 0.9% in July, by 3.1% in August and increased by 6.3% in September. Excluding the effect of the 2010 World Cup, revenue for July increased by 7.4%;
2. In October, revenue increased by 6.0% as compared to October 2010. The first 3 weeks of November thus far is showing an increase of approximately 10% 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 the main feeder roads in the vicinity of EP, which commenced in March 2011 and intensified during the current quarter.

Gaming revenue for the quarter decreased by 5.3% to R335.4 million. Our slots revenue decreased slightly by 0.9%, while our tables revenue decreased by 16.2% when compared to the same quarter in the prior year. Although tables drop for the quarter shows a small increase of 1.5% when compared to Q3 2010, the decrease in hold percentage from a higher than usual 26.1% in Q3 2010 to 21.6% in the current quarter has negatively impacted on the win. This resulted in a reduction in our market share of GGR for the three months to 22.5%. The tables hold percentage has normalised during October and November thus far. During the seven weeks from October . mid November 2011, market share improved to 23.7%. Since the quarter end, Emperors Palace has showed gaming revenue growth of 4% in October and 15% for November thus far.

The average daily number of vehicles through the gate for the quarter decreased by approximately 6% 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. The impact of the roadworks has been less severe post the quarter end. During October the number of vehicles entering our gates declined by approximately

4%, while during November thus far, we have noted an increase of approximately 1% in the number of vehicles entering our gates.

Hotel and resort revenues at EP for the quarter decreased by 7.6% to R74.2 million. The prior period quarter includes revenues generated during the World Cup, which together with the addition of significant room stock in Gauteng last year, has resulted in rooms revenues (adjusted to remove internal revenue) decreasing by 24.0% as compared to the Q3 2010. Average complex occupancy levels were a superb 82.0%, an increase from 77.5% in the same period last year, and we are faring better than our hotel competitors in this regard.

Food and beverage revenues at EP increased by 17.4% to R33.1 million in the quarter, mainly as a result of the banqueting department having a fantastic quarter when compared to the same quarter in the prior year.

A programme implemented by management to cut costs has resulted in cash costs decreasing at EP by 6.6% as compared to the prior period quarter, driven mainly by a decrease in promotions and marketing as well as energy and many other smaller savings.

EBITDA decreased by 4.1% on an unadjusted basis to R141.3 million. Excluding the effect of the World Cup, EBITDA increased by 2.6% for the quarter. The EBITDA margin for the three months increased from 33.9% as at 30 September 2010 to 34.5% as at 30 September 2011.

As regards our other group operations, overall revenue grew by 12.9% or R29.5 million and EBITDA grew by 15.7% or R14.6 million as compared to Q3 2010, with all our properties generating a positive growth in both revenue and EBITDA for the quarter.

In particular, our Umfolozi, Mmabatho Palms and Frontier operations delivered impressive performances during the quarter.

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 27.2% to R39.3 million. EBITDA at R13.5 million was 31.1% 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.

Revenues at Mmabatho Palms grew by 17.4%, with EBITDA increasing by 24.4% as compared to Q3 2010.

Revenues at Frontier grew by 18.1%, with EBITDA increasing by 50.0% as compared to Q3 2010.

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 increased from R501.0 million for the nine months to September 2010 to R630.3 million in 2011. In 2010 the Rand strengthened from R10.63 to R9.51 to the Euro, resulting in a foreign exchange gain of R483.6 million on the translation of the Senior Secured Notes liability recorded at September 2010.

This can be compared to the R624.4 million gain on the mark-to-market of the derivative instruments utilised to hedge the SSN liability and coupon payments recorded at September 2011, which resulted from the weakening of the Rand against the Euro from R8.83 to R10.84 in the nine months.

Financial expenses

This cost for the nine months ended September 2011 reflected an increase of R441.3 million from the prior period.

The exchange rate movements explained earlier resulted in a net decrease of R109.6 million in finance costs related to the foreign currency exposure between 2011 and 2010. The net decrease arises from a R867.6 million foreign exchange loss on translation of the SSN liability recorded at September 2011, compared to the R977.2 million loss on the mark-to-market of the derivative instruments utilised to hedge the SSN liability as at September 2010.

Other finance costs for the nine months include interest accruals on other liabilities such as the deeply subordinated shareholders loans of R494.9 million; the Deferred Hedging Loan of R46.8 million; and, R29.2 million relating to interest charges on the Revolving credit facility, Head office and Frontier debt.

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 Loan 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 and PIK Notes Loan to 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 nine months was R712.3 million compared to R699.6 million in the comparative period in 2010. This translates into a free cash flow to EBITDA ratio of approximately 87%.

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 nine months was a net R91.2 million. This was spent on the normal maintenance of existing buildings and the replacement of gaming equipment. The prior period capital expenditure cash flows of R160.4 million include payments of R87.7 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 R11.0 million were made. These relate to the normal redemption of debt by PGNW, Head office and PGEFS. R10.9 million of preference shares issued by PGB were redeemed in the quarter. The prior year included the repayment of corporate notes issued 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 September 2011 the group had a net cash on hand of R53.4 million, consisting of R93.4 million cash utilisation of the RCF, offset by cash held of R146.8 million. Details of R118.4 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 nine months ended 30 September 2011 and 2010 were R91.2 million and R160.4 million respectively, representing approximately 4.7% and 8.3% of total revenue for those periods.

Our net maintenance capital expenditures in the nine months ended 30 September 2011 and 2010 were R89.0 million and R66.0 million, representing approximately 4.6% and 3.4% 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 R55.3 million spent on slots replacement throughout the group; R6.0 million on the refurbishment of the third floor of the Walmont Hotel in Gaborone; and, the balance on normal maintenance expenditure.

Expansion capital expenditure incurred in the nine months to September 2011 was R2.2 million spent on the expansion of the slots gaming floor at Khoroni. Our expansion capital expenditures in the first nine months of 2010 totalled R94.4 million. The main component of this was R87.7 million relating to the upgrade and expansion of our Umfolozi property.

Available capital resources

The RCF lenders have agreed to increase the facility available to the company from R550 million to R620 million. The board has approved the increase in the facility and authorised management to negotiate the terms of and to enter into the required agreements to increase the facility. We expect the facility to be available to the company in the new year. This will increase the head room available to the company.

At 30 September 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 R93.4 million was drawn in cash. This was offset by cash held of R146.8 million. Cash included in the reported balance but not available for the group consists of approximately R49.0 million required for operational floats, R35.4 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 R425.5 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.

Moody's ratings

On 1 September 2011, Moody'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 outlook was changed from ~~B3~~ stable+ to ~~B3~~ with a negative outlook+.

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 has not yet commenced trading as expected during the last quarter of 2011. If and when it eventually opens, this casino 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 was heard in September 2011 and judgement is expected early in December 2011.

As previously reported, the Gauteng government announced that the Gauteng Department of Finance, in collaboration with the Department of Economic Development, has started with a process that will lead to a review of the rate of taxation on gambling revenue in the province. We have heard nothing further in this regard and 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 commenced discussions with representatives of the National Treasury and explained our concerns. While it seems likely that this tax may be imposed in one form or another as from April 2012, we do not yet believe that the treasury officials are fully clear regarding the practicalities involved.

The group has recently announced an exciting partnership with Bally Technologies from Las Vegas, which will result in the roll-out of a new enterprise-wide gaming system throughout the group's 10 existing casino operations in South Africa and Botswana. The group has chosen to implement a range of Bally products and systems to enhance our player experience, ensure system stability, obtain group-wide synergies and upgrade our service offering to an even higher level. The roll-out is planned to begin in the first quarter of 2012. The overall cost to the group is expected to be approximately R78 million which will be funded out of normal maintenance capital expenditure budgets.

As regards the development of the Thaba Moshate Hotel Casino and Convention Resort in Burgersfort, we are progressing with 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 previously announced, the Peermont board has undertaken a review of the group's capital structure to ensure that it is appropriately capitalised going forward. The board is of the view that the current capital structure hampers the group's ability to achieve its business strategy through growth and the board recognises the challenges faced by many companies with debt maturing in the next two to three years in refinancing its debt. As a result, the board, through its capital structure sub-committee, is again in discussions with certain of its key stakeholders with a view to optimising the group's capital structure to take into account the levels of debt that the business can sustain, current market conditions, the availability of new funding and the group's requirements to maintain level 2 BBBEE contributor status as required by the Gambling Board requirements.

In its discussions with the key stakeholders, the board has communicated that the goals of any restructuring and refinancing transaction should be to: reduce the costs of both senior debt and the PIK debt at the PGH I and PGH II levels; create further cash flow headroom to take advantage of selected growth opportunities and optimise value; create a sustainable capital structure that will deleverage over time; create value in the equity to align the interests of the debt and equity providers; create sustainable BBBEE shareholding levels; and allow for appropriate management compensation arrangements to incentivise management to create further equity value.

There is support in principle from these key stakeholders for a framework regarding a restructuring of the PIK debt at the PGH I and PGH II levels and a refinancing of the SSNs, either concurrently with the restructuring or shortly thereafter, although the scope and terms of the each of the key elements are yet to be fully agreed. We have urged these stakeholders to expedite the process of reaching agreement on all the key elements.

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

1. Whilst total revenues increased by 0.7% to R668.6 million for the quarter from R664.0 million in the same quarter of 2010, Q3 2010 includes a significant once-off boost to revenues and EBITDA from the 2010 World Cup. Excluding the effect of the World Cup from Q3 2010 results, revenue growth amounted to 3.5%;
2. Cash costs decreased by 0.2% as compared to Q3 2010 as a result of a concerted cost-saving project implemented at Emperors Palace;
3. On an unadjusted basis, EBITDA increased by 3.6% to R248.7 million from R240.1 million in 2010, resulting in an LTM EBITDA of R978.5 million. If the effect of the World Cup is excluded from 2010 results, EBITDA for the three months increased by 8.1%;
4. We are very pleased that the group EBITDA margin increased to 37.2% as compared to 36.2% reported during Q3 2010.