

## **Good afternoon and welcome to the Peermont 2<sup>nd</sup> quarter 2012 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 2012 that was released on Wednesday 29 August 2012 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 should be qualified by the factors referred to our quarterly report, 2011 integrated report as well as in the "Risk Factors" section of our website.*

In summary, for the quarter:

1. Total revenues increased by 6.6% to R691.4 million from R648.3 million in the same quarter of 2011;
2. Cash costs increased by 8.9% as compared to Q2 2011 and by 3.1% as compared to Q1:2012. This was largely driven by increased staff, promotions, marketing and maintenance costs at Emperors Palace ("EP"); and
3. EBITDA for the quarter increased by 3.7% to R255.0 million from R246.0 million in Q2 2011. This resulted in a record LTM EBITDA of R1 045.9 million to 30 June 2012, an 8% growth over the comparable 12 month period.

For the six months to June 2012, as compared to the first half of 2011:

1. Total revenues increased by 6.7% to R1 355.3 million; and
2. EBITDA at R494.0 million increased by 6.5%, more or less in line with revenue growth.

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

1. Net cash pay debt/LTM EBITDA is 4.6 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.3 times; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.5 times.

As regards the macroeconomic environment in SA, economic growth registered 3.2% in the second quarter of 2012 on a seasonally adjusted and annualised basis, compared with GDP growth of 2.7% in the first quarter. The growth is mainly attributable to the mining sector with non-mining GDP growth declining to 1.7% in Q2:2012 compared to 3.6% in the previous quarter. The SA Reserve Bank has forecast GDP growth for the year at 2.7%. The unemployment rate stood at 24.9%, which is a slight improvement on the 25.2% reported at March 2012. CPI on an annualised basis decreased to 4.9% in July from 5.5% in June. Inflation is anticipated to average out at 5.6% for the year.

Gaming revenues (based on levies paid) in Gauteng, South Africa's largest gaming market, increased by approximately 3.0% for the second quarter of 2012, as compared to a 4.2% increase in levies paid by EP during the same three month period.

During the quarter, all our operations generated revenue growth as compared to the same period in the prior year. Emperors Palace produced satisfactory revenue growth of 6.6% and the balance of the group operations generated revenue growth of 6.8%. Revenues were boosted by strong contributions from our Frontier, Khoroni and Rio properties. The collective revenues from operations other than Emperors Palace grew to R259.4 million for the quarter, comprising approximately 38% of group revenues.

Overall hotel trends in South Africa showed positive growth of 24.7% in Revpar for Q2 of 2012. This has been achieved through a recovery from lower occupancies in the prior year, coupled with a 7.6% increase in average daily room rates. Peermont built on its existing high occupancy rates, achieving occupancies for the quarter of 76.1% in SA and 74% for the group as a whole, considerably higher than the 60.1% for the overall South African market. As a result our hotels generated rooms revenue of R72.7 million,

representing an increase of 11.7% as compared to Q2 2011, which contributed to overall hotel and resort revenue increasing by 11.6% for the quarter.

From an overall monthly group revenue perspective:

1. Within the second quarter, while April revenues declined by 2.8% as compared to the previous year, we recovered well with revenue increases of 11.0% and 12.3% in May and June respectively.
2. In July, revenue increased by 2.2% as compared to July 2011. This growth was achieved in spite of the fact that there were 4 Saturdays in July 2012 compared to 5 in July 2011.
3. August thus far is shaping up to be a good month showing the best increase in monthly y-o-y revenue growth this year so far, at approximately 17% as compared to the same period last year.

I will now take you briefly through the operating performance points by property:

**Emperors Palace:**

Total revenues for the quarter were satisfactory and increased by 6.6% to R432.0 million from R405.4 million in 2011.

Gaming revenue for the quarter increased by 4.6% to R355.9 million as compared to estimated provincial GGR growth in Gauteng of 3.0% for the second quarter of 2012. As a result, our share of gaming levies paid increased to 23.6% as compared to 23.3% for Q2 2011. During the quarter, we invested significantly in more visible marketing and promotion efforts to improve the footfall to the complex.

As a result, the average daily number of vehicles through the gate increased by approximately 7.3% as compared to the same quarter in 2011, which is very encouraging. The footfall for all three months in the quarter showed an increase when compared to the same months in 2011 and can be attributed to the improvement in the road network as well as a highly visible marketing effort to attract footfall to the complex.

Hotel and resort revenues for the quarter increased by 16.5% to R76.1 million. Food and beverage revenue increased by 24.5% to R34.1 million in the quarter, largely due to exceptional conferencing revenues generated. Rooms revenue increased by 9.9% to R33.3 million from R30.3 million in the comparable period due to a further increase in occupancies during the quarter. The overall complex rooms occupancies for the quarter at 84.9% were significantly higher than the 75.8% achieved in the quarter to June 2011 and remain significantly higher than that of our competitors in the O.R Tambo precinct.

Cash costs at Emperors Palace increased by 12.3% to R285.8 million as compared to the second quarter of 2011, and by 3.7% as compared to the first quarter of 2012. This was primarily driven by increases in marketing, promotions, employee and maintenance costs. Promotions and marketing costs increased by 10.4% as compared to the second quarter of 2011, as a result of various marketing initiatives aimed at increasing footfall to the complex. Based on the success of these initiatives, we anticipate that our marketing and promotion costs will continue to show similar growth for the remainder of this year. While maintenance costs increased by 44.0% during the quarter, mainly as a result of a planned project undertaken to resurface sections of the parking at the complex at a cost of R2.5 million, this is mainly a timing issue and we expect that growth in maintenance costs for the full year will be much more moderate. Employee costs at Emperors Palace increased by R9.7 million as compared to the second quarter of 2011 mainly due to increased headcount requirements to service the increased levels of banqueting and convention business as well as other staff related costs. While this represents a significant year on year increase, it represents an increase of only 2% as compared to employee costs in the first quarter of 2012.

The EBITDA margin for the three months was 34% as compared to 33% for Q1:2012 and 37.2% for Q2:2011.

**As regards our other group operations,** overall revenue grew by 6.8% or R16.5 million and EBITDA grew by 13.7% or R13.0 million as compared to the prior period quarter.

In particular, our Rio, Frontier and Khoroni operations delivered impressive performances during the quarter.

Our Rio operation performed well with revenues up by 10.4% and EBITDA up by 20.5%. GGR at Rio increased by 9.3% while hotel and resort revenue increased by 19.5%, boosted by increased occupancies and room rates. As regards margins, cash costs at Rio were well contained and increased by 4.9%.

Frontier generated revenues of R14.0 million, an increase of 11.1% on the prior period. EBITDA at R3.8 million was 18.8% above the prior period quarter.

Khoroni continued its consistent trend of strong revenue and EBITDA growth and generated growth of 10.6% and 10.8% in revenue and EBITDA respectively.

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

***Financial income***

Finance income decreased from R294.0 million for the six months to June 2011 to R35.8 million in 2012. The income in 2012 can largely be attributed to the foreign exchange gain on the restatement of the SSN liability of R25.5 million as a result of the strengthening of the Rand against the Euro from R10.44 to R10.38 in the six months to June 2012.

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***

The cost for the six months ended June 2012 reflected a decrease of R378.8 million from the prior period.

The exchange rate movements as explained earlier resulted in a R447.9 million foreign exchange loss on the restatement of the SSN liability for the six months to June 2011, compared to the gain recorded at June 2012 under financial income.

This decrease was offset by increases in interest accrual on other liabilities such as the SSN and the subordinated shareholder loans.

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

***Taxation***

The taxation and deferred taxation charge of R64.9 million results mainly from the increase of the capital gains taxation rate for companies in South Africa from an effective 14.0% to 18.6% as announced by the Minister of Finance during February 2012, offset by deferred taxation credits as a result of estimated taxation losses arising at Peermont and certain of its subsidiaries.

**Cash flows**

Net cash inflows from operating activities for the period were R500.1 million compared to R460.1 million for the period ended 30 June 2011. This translates into a free cash flow to EBITDA ratio of 86% after maintenance capital expenditure. EBITDA generated an additional R30.2 million in cash and cash generated by changes in working capital increased by R8.7 million. These movements account for the bulk of the change in cash generated in the six months to June 2012 as compared to the same period in 2011.

The taxation payments for both reported periods are for certain of our subsidiaries e.g. PGSH, PGMKZN and PGB where taxation flows continue to be incurred.

***Finance expenses paid***

The finance expenses paid relate mostly to the SSN coupon payment of R337.5 million and the Deferred Hedging Loan interest payment of R30.7 million, both paid in April 2012.

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

Capital expenditure for the six months was a net R84.9 million. This was mainly spent on the normal maintenance of existing buildings and the replacement of gaming equipment. Capital expenditure is discussed in more detail later in the call.

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

During the current six months net cash outflows from financing activities amounted to R17.7 million. The amount includes R4.4 million relating to the normal redemption of debt by Head office and PGEFS and R12.3 million relating to the redemption of the non-controlling shareholders' portion of the preference shares in PGB.

***Cash and cash equivalents***

At 30 June 2012 the group had drawn R195.2 million drawn against the RCF, offset by cash balances held of R160.2 million. Details of R122.7 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 2012 and 2011 were R83.9 million and R50.2 million respectively, representing approximately 6.2% and 4.0% of total revenue for those periods.

Our maintenance capital expenditure during the year to date consisted of approximately R33.1 million spent on slots replacement throughout the group; R17.2 million on equipment in preparation for the new gaming system, P2.6 million (R2.9 million) relating to refurbishment at the Metcourt Hotel in Francistown; and, the balance on normal maintenance expenditure. In 2011 our maintenance capital expenditure consisted of approximately R30.0 million spent on slots replacement; P5.6 million (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 material expansion capital expenditure incurred in the six months to June 2012 or June 2011.

### **Available capital resources**

At 30 June 2012, of the R550.0 million available under our RCF, R59.1 million of the facility had been utilised to provide guarantees to various gambling boards and financial institutions, and an additional R195.2 million was drawn in cash. This was offset by cash balances held of R160.2 million. Cash included in the reported balances but not available to the group consists of approximately R49.0 million required for operational and cash floats, R40.0 million reserved for community development infrastructure at Emperors Palace and R33.7 million held on behalf of trust beneficiaries. After adjustment for the above, headroom of R333.2 million was available for group requirements at 30 June 2012.

All of the required conditions precedent to the extension of the company's R550.0 million RCF facility to 27 December 2013 have been concluded.

### **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 rating**

S&P's rating services announced in June 2012 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 stable outlook" to "B- with a negative outlook". The recovery rating on 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** for the Masa Casino in Gaborone was granted in principle by the Botswana Casino Control Board on 6 June 2012. PGB challenged the issue of the licence and filed affidavits for a review application. Sun International and the Gaborone Hotel approached the Court for an urgent interdict to prevent Masa Casino from opening until such time as the review application had been heard. The interdict hearing at the High Court in Lobatse was concluded on 16 and 17 August and judgement is expected on 13 September 2012.

The **Bally gaming system** remains the chosen gaming system for the group. Bally is developing the software and adapting it for southern African application and is seeking approval from the various regulatory authorities. The roll-out is currently planned to begin at our Botswana properties in September 2012 and at some of our South African properties in the first quarter of 2013.

As regards the development of the **Thaba Moshate Hotel Casino and Convention Resort** in Burgersfort there have been no further developments, save that the rezoning of the land has been approved by the local municipality. Peermont is still monitoring developments regarding the land claim pending as well as the ongoing litigation by a property developer relating to a number of properties including the property earmarked for the casino development.

The conditions precedent to the agreement for the sale of the previous head office premises at **152 Bryanston Drive** were not fulfilled. This was due to changes to the property required by the tenant and which affected the zoning of the property. Peermont is currently negotiating an extension of the property sale agreement to accommodate the required rezoning requirements, which if successfully concluded, will extend the transaction timetable. If the transaction is finally implemented, the proceeds will be used, inter alia, to settle the outstanding mortgage liability of approximately R29.3 million at 30 June 2012.

With regards to our **Capital Structure Review**, the Board, together with its advisors, has continued to engage with key stakeholders and their advisors regarding its proposal to

de-gear and improve the group's balance sheet. There can be no assurances that the Board's current proposal, or any other proposal, will lead to a definitive agreement and/or successful completion of any transaction involving the company's capital structure.

Turning now to an update as regards regulatory matters, I will first deal with the proposed changes to **smoking legislation**. CASA has submitted its comments on the proposed draft smoking regulations published by the Department of Health, which if implemented in their present form, could have a negative impact on casino operations. The Department of Health has begun the process of consultation and CASA has been invited to attend a consultative meeting with the Department.

As regards the restrictive changes made to the **gambling advertising regulations**, following the initiation of legal proceedings by CASA, the Minister of Trade and Industry has now withdrawn the regulations in question, until further notice. This means that, at present, we can continue with our planned advertising and marketing activities as we have previously done.

Finally, we are also pleased to report that we have been advised by the KZNGBB that our **Umfolozzi casino** has finally been awarded its permanent casino licence.

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

1. Total revenues increased by 6.6% to R691.4 million from R648.3 million in the same quarter of 2011;
2. Cash costs increased by 8.9% as compared to Q2 2011 and by 3.1% as compared to Q1:2012. This was largely driven by increased staff, promotions, marketing and maintenance costs at Emperors Palace ("EP"); and
3. EBITDA for the quarter increased by 3.7% to R255.0 million from R246.0 million in Q2 2011. This resulted in a record LTM EBITDA of R1 045.9 million to 30 June 2012, an 8% growth over the comparable 12 month period.

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