

## **Good afternoon and welcome to the Peermont Third Quarter 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 2009 that was released yesterday. Our discussion may include certain forward-looking information, which investors should not rely upon.

During our last conference call on the first of September, we expected our third quarter results to be very similar to the second quarter's results and that has in fact proven to be the case. However, thus far the fourth quarter is showing signs of an improved performance as compared to the fourth quarter of 2008.

In summary, for the third quarter:

1. Total revenues decreased by 4.1% to R606.8 million for the quarter from R632.8 million in the same quarter of 2008;
2. Operating cost growth for the quarter, excluding depreciation and amortisation, was limited to 4.3%, well below inflation;
3. As a result of the 4.1% revenue decrease, coupled with a 4.3% increase in operating costs, our EBITDA decreased by 15,5% to R220.9 million from R261.4 million in 2008. This results in an LTM EBITDA of R945.2 million; and
4. Although our EBITDA margin decreased to 36.4% from 41.3% in the same quarter of 2008, costs were well contained.

For the nine months to September:

1. Total revenues decreased by 1.1% to R1 852.2 million for the period from R1 872.7 million in the same period of 2008;
2. EBITDA decreased by 10.1% to R687.0 million from R764.6 million in 2008, and
3. Our EBITDA margin decreased from 40.8% to 37.1% at 30 September 2009, with operating cost growth (excluding depreciation) being limited to 5.7%.

Our pro forma credit ratios have changed as follows:

1. Net cash pay debt/LTM EBITDA has decreased to 4.9 times, from the 4.6 times that was reported for the quarter to 30 June 2009. The 4.9 times is still favourable when compared to the 6.4 times at the time of issuing the notes in April 2007;
2. Total net debt through the PIK Notes/LTM EBITDA has decreased to 6.3 times from the 5.9 times reported at December 2008. This still shows an improvement from the 7.5 times at the time the notes were issued; and
3. The estimated LTM EBITDA/historic net cash interest expense has remained at 1.5 times.

As in the past, 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 net derivative liability directly related to the SSN debt; and
3. Cash balances on hand.

As usual our call will begin with a brief discussion of the macro-economic environment in SA, followed by an update of industry developments. I will then take you through certain financial and operating highlights, followed by a review of the capex and liquidity position by Grant. Finally, I will conclude with a brief discussion of the key developments approved for 2009 and beyond.

South Africa's economy grew by an annualised 0.9% on a seasonally adjusted basis in the third quarter of 2009, compared with restated declines of 2.8% reported for Q2 and 7.4% for Q1 2009. The banks report that the South African consumer continues to deleverage and approximately 484 000 jobs were lost this quarter according to Stats SA, bringing the total number of jobs lost this year to approximately 959 000. Although the South African Reserve Bank has cut interest rates by 500 bps this year, consumers are still reluctant to spend freely. At this point, no further interest rate cuts are expected, especially since the most recent inflation figures reported on Wednesday, revealed that inflation has been reduced to 5,9% for the month of September, within the target range of 3-6% for the first time since March 2007.

Year on year growth in gaming revenues, as estimated based on levies paid in Gauteng, South Africa's largest provincial gaming market, declined by 3.6% in the quarter to 30 September 2009, when compared to the same period in 2008. Gross gaming revenues based on levies paid at Emperors Palace showed a decline of 8.0% in the same quarter. For the nine months to September 2009, the Gauteng gaming market decreased by approximately 0.5% and Emperors Palace's gaming revenues declined by 5.7%. For the first nine months of the year we estimate our market share in Gauteng to be at 24% as compared to 25% in 2008. During the third quarter, our slots market share improved by 0,4% as compared to the second quarter, while our tables drop figures also showed an improvement on the 2<sup>nd</sup> quarter. However, the win % in our salon privé was unusually low during the quarter and thus tables market share declined by more than the growth in slots market share during the quarter.

Subsequent to the third quarter, this tables win % has corrected, resulting in increased tables market share, which has seen our ytd overall casino market share increase to 24,2% by 8 November 2009 (as compared to 24,5% for the corresponding ytd period in 2008).

Revenue growth from the balance of the group operations was healthier during the third quarter, growing by 6.6% for the third quarter in total. Revenues from other operations grew to R226.1 million for the quarter, comprising 37.3% of group revenues.

The hotel market in South Africa showed negative growth of 14.3% in Revpar for the third quarter of 2009. Our results for the quarter reflect growth in hotel and resort revenue of 3.7%, with rooms revenue delivering growth of 8.5%. This performance has been helped by additional rooms capacity at Rio and Emperors Palace as from March 2009.

From an overall group revenue perspective in the third quarter, our revenue declined by 4.7% in July, 6.6% in August and grew by 0.7% in September.

During October, on an aggregated mixed currency basis, revenue increased by 11% compared to October 2008, with growth at Emperors Palace of 11% in line with the growth for the rest of the group at 11%. The growth at Emperors Palace during October was as a result both of significantly higher tables win %, being a natural correction of the lower win % in the 3<sup>rd</sup> quarter, together with higher footfall levels during the month.

November thus far, on the same aggregated mixed currency basis, is also showing an increase of approximately 11% as compared to the same period last year, with growth at Emperors Palace of 13% slightly higher than the ROG at 7%. The growth at Emperors Palace this month is mainly due to higher tables win % than November 2008, which if you recall was the month in which we lost R11m in Baccarat to a single player.

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

**Emperors Palace** showed a decline in total revenues for the quarter of 9.5% to R380.7 million from R420.6 million in 2008.

Gaming revenue for the quarter decreased by 11.6% to R316.7 million whilst rooms revenues increased by 16.1% to R33.2 million.

Our slots revenue declined by 9.9%, while our tables revenue declined by 16.4% for the period. As mentioned earlier, this was as a result of unusually low tables win %'s in our salon privé, which corrected subsequently.

Tracked play for the quarter increased to 72.2% compared to 53.8% in the 2008 period as a result of fully converting to smart-card based coinless gaming during March 2009. Although Emperors reported an improvement in the average daily number of vehicles through the gate, this was however offset by a lower average spend per visit during the quarter, mainly impacted by the lower win percentages in our salon privé.

Rooms revenue grew by 16.1% to R33.2 million for the three months compared to the same period in 2008. Our new Peermont Metcourt Hotel contributed R8.7 million of this increase, indicating a decline of R4.1 million in revenues from the previously existing rooms capacity. Average room occupancy levels were 75.1% for the quarter, as compared to a 90.4% in the same period last year, impacted by the additional supply from the 4<sup>th</sup> hotel that was opened from 1 March 2009 and the general decline in hotel occupancies being experienced in the country. Subsequent to the third quarter, our hotel occupancies at Emperors Palace have increased to 82% for October and 86% for November thus far, while our food and beverage revenues continue to remain under pressure as a result of lower levels of conference business, banquets, events and meetings.

Even though cost control was very tight, EBITDA for the quarter decreased at Emperors Palace by 26.0% to R122.4 million. The EBITDA margin declined from 39.3% in the same period last year to 32.2% for the current quarter.

Costs have continued to be tightly controlled and increased by only 3.1% for the quarter when compared to the same period in 2008.

Our integrated Celebration Colossus Campaign resulted in marketing costs increasing by 17.9% to R42.1 million for the quarter as compared to R35.9 million in the prior period. This was the biggest ever Casino marketing campaign in Gauteng. This increased expenditure was planned for the third quarter running up to the opening of the revitalised Entertainment Emporium. Year to date marketing costs have increased by

only 6.3%. Payroll costs increased by 4.3% at Emperors Palace as compared to the same quarter in 2008.

**As regards our other group operations,** overall revenue grew by 6.6% or R13.9 million and EBITDA increased by 2.6% or R2.5 million.

Stronger performances at our Botswana and Khoroni operations offset weaker performances during the quarter at our Mmabatho and Frontier Inn properties.

Mmabatho Palms had a poor quarter with revenues down 0.8% to R23.7 million and EBITDA down 14.8% to R5.2 million. The decline in revenues is largely attributable to a 17% decline in hotel and resort revenues which were negatively affected by the refurbishment programme in the period. An average of 40 rooms (27% of rooms stock) were unavailable due to renovation that occurred during the quarter. The refurbishment and upgrade at the unit is largely complete and the resort is well prepared for the new year. Included in operating costs for the quarter were costs for the relaunch of the property amounting to R0.5 million.

By contrast, our Botswana and Khoroni operations delivered notable performances during the quarter, Botswana enjoying a 16.3% increase in revenue and a 14.8% increase in EBITDA (in pula terms), while revenue and EBITDA at Khoroni increased by 14.0% and 11.8% 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

## **Commentary on the results**

As with previous results conference calls, I will focus on the lower end of the income statement, cash flows and capital expenditure sections of the quarterly report.

### ***Depreciation***

The depreciation charge for the nine months increased by R31.2 million or 23.4%, from R133.5 million in 2008 to R164.7 million in 2009. This is partly due to the depreciation of the new assets and the effect of the upgrades and refurbishments made at our older existing properties such as Mmabatho Palms and Khoroni in recent years. This was also affected by an understatement of the charge at Emperors Palace in the first three quarters of 2008 which was corrected in December 2008.

### ***Finance income***

This consists mainly of the gains on the hedging instruments or the underlying Senior Secured Notes liability as well as the cash received on the cash deposits at financial institutions.

This interest on cash balances is lower than the comparable nine months due to declining interest rates and lower cash balances.

The R9.6 million gain realised in the second quarter on the repurchase of certain of the PIK Notes was pushed down by PGH II to Peermont and its subsidiaries.

In the first nine months of the year, the movement in the R/€ exchange rate resulted in a foreign exchange gain of R793.1 million on the €416.1 million Senior Secured Notes Liability. In the same period of 2008 a gain of R891.9 million was realised on the revaluation of the derivative instruments hedging the Senior Secured Notes.

### ***Finance expenses***

The cost for the three months ended September 2009, consists of a R86.6 million loss on the restatement of the SSN liability; a R29.4 million loss on the restatement of the fair value of the hedging instruments; the coupon accrual on the senior secured notes of R115.5 million; the coupon accrual on the shareholders loans of R121.8 million; and, finance costs of R4.5 million relating to the interest flows on debt in the Head Office, Botswana and Frontier companies.

The finance expenses for the nine months ended September 2009 consists of a R784.2 million loss on the restatement of the fair value of the hedging instruments; the coupon accrual on the notes of R367.0 million; the coupon accrual on the shareholders loans of R353.8 million; and, other finance costs of R17.2 million relating to the interest flows on debt in the Head Office, Botswana and Frontier companies.

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

The effects of the volatility caused by the revaluations of our derivative instruments and Euro loan exposure are still expected to net out over the FEC/CCS period as the capital and coupon payments remain fully hedged.

### ***Taxation***

The taxation credit for both reported periods results from deferred taxation credits at Peermont, PGNW and Khoroni.

## **Cash flows**

The cash flow information presented covers the cash flows for Peermont for the nine months ended 30 September 2009 and the comparative period.

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

Net cash inflow from operating activities for the nine months was R673.6 million compared to R764.9 million in the comparative period in 2008. The cash conversion ratio to EBITDA, taking into account changes in working capital, taxation paid and maintenance capex was approximately 74%. This lower percentage is due mainly to the abnormal maintenance refurbishment capex of R79.1 million incurred in the period.

### ***Finance expenses***

The majority of the finance cost cash flows were in respect of the April coupon payment on the Senior Secured Notes of R333.3 million.

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

Net Capital expenditure for the nine months was R204.5 million, predominantly on payments of R38.9 million for the acquisition of the head office building; R56.8 million on the upgrade of the Emperors Palace Emporium; R18.5 million on the recently completed new hotels at Emperors Palace and Rio; R14.5 million on the refurbishment of the Mmabatho Palms property; R7.8 million on the refurbishment of the Metcourt Laurel hotel at Emperors Palace; R3.4 million on the acquisition of land in Francistown in Botswana; R3.7 million spent by Rio on upgrading its salon privé and the balance on maintenance of existing buildings and replacement of gaming equipment.

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

During the current nine months, net long-term debt of R4.4 million was raised by the Group. This included the net drawdown of a loan of R38.9 million that was raised for the purchase of the previously leased head office building; offset by scheduled debt repayments by the Botswana and Frontier operations; and, the repayment of R11.6 million of the PIK Notes Loan to fund the buyback of the PIK Notes.

### ***Dividends paid***

Dividends in both periods relate to the minority portion of the Botswana Company dividends paid.

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

At 30 September 2009 the group had R541.2 million in cash resources available to service debt, working capital requirements and new projects. This included approximately R40.0 million required for floats and approximately R37.4 million held on behalf of the beneficiaries of the group's consolidated trusts.

### ***Capital expenditures***

Our net capital expenditures in the nine months ended 30 September 2009 and 2008 were R204.5 million and R223.6 million, respectively.

### ***Maintenance capital expenditure***

Our net maintenance capital expenditures in the nine months ended 30 September 2009 and 2008 were R138.1 million and R74.5 million, representing approximately 7.5% and 4.0% of total revenue, respectively.

The largest components of the maintenance capex in the current nine months were R56.8 million spent on the upgrade of the Emperors Palace Emporium; R14.5 million on the refurbishment of Mmabatho Palms; and R7.8 million spent on the refurbishment of the Metcourt Laurel hotel at Emperors Palace.

The balance of our maintenance capital expenditures reflected ordinary course maintenance and replacement of gaming equipment, primarily slot machines, and hotel furniture, fittings and equipment.

### ***Expansion capital expenditure***

Our expansion capital expenditures in the nine months ended 30 September 2009 totalled R66.4 million. The largest components of this were R38.9 million on the acquisition of the previously leased head office building; R12.3 million spent by Emperors Palace on the construction of the new Peermont Metcourt Hotel; R9.9 million spent by Rio on the construction of its new Peermont Metcourt Hotel and the revamp of its salon privé; R3.4 million spent by Botswana on the acquisition of land adjacent to the Metcourt Lodge in Francistown; and, R1.9 million incurred by Emperors Palace on minor gaming expansion activities.

Our expansion capital expenditures in the first nine months of 2008 were R149.1 million. This consisted of R97.3 million spent by Emperors Palace on the construction of the new Peermont Metcourt Hotel; R44.2 million incurred on the construction of the Peermont Metcourt Hotel at Rio in Klerksdorp; payment by Botswana of R5.0 million for costs accrued in 2007 for the Sedibeng and Syringa casinos; and, R2.0 million on the relocation of the Tusk Umfolozi casino to Richards Bay.

### **Available capital resources**

We have utilised R91.6 million of our Revolving Credit Facility for the issue of guarantees to the local gambling boards, suppliers and certain financial institutions. This leaves us with R308.4 million of the facility available for other group needs.

The agreements to extend our R400 million Revolving Credit Facility from April 2010 to April 2013 were signed in August. These agreements remain subject to certain conditions precedent including minor changes to the indenture and security agreements. Our legal advisors are still in the process of effecting the necessary changes in consultation with all the parties.

**Contingent liabilities**

No new developments on the SARS claim for taxation on the PGERH foreign currency option gain recorded in prior years have taken place. PGERH is now considering the remaining legal options available to it, including taking the matter to court. Should PGERH not be successful in its appeal to the courts, the estimated exposure to the group is approximately R9.8 million plus interest, which has currently not been provided for.

**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.

### **Casinos of Mauritius**

We had previously announced that Peermont had been named by the Mauritian State Investment Corporation as the preferred bidder for a 51% controlling shareholding in the Casinos of Mauritius and 100% of the shares in the management company responsible for Casinos of Mauritius. The Casinos of Mauritius comprise 5 casinos with a combined offering of 543 slot machines and 85 gaming tables.

During August 2009, the transaction was referred to the board of the Mauritius SIC for approval, following negotiation of the detailed transaction terms. The board of the SIC in turn referred the transaction to the government for approval. We have been informed that the government is currently reviewing the entire structure of the gaming industry in Mauritius and accordingly we expect that this may lead to further changes in the transaction terms negotiated with the SIC. Although we remain hopeful, at this stage we cannot state with any degree of certainty whether, when and if this transaction will be concluded or not.

### **Other new developments**

Our redevelopment of the Entertainment Emporium Emperors Palace is now nearing completion for opening on 1 December. The closure of several food, beverage and family entertainment outlets and the disruption caused by building works while under redevelopment did impact visitor numbers and is likely to continue to do so until the redevelopment process is complete. We are very excited about the new offering.

Following feedback from the KwaZulu-Natal Gambling Board we reassessed the extent and mix of proposed new facilities at the Tusk Umfolozi Casino site in Empangeni. A presentation was made to the KZNGB and our revised development proposal was well received. The revised facilities comprise in the main of a 44 key Peermont Metcourt hotel, a 200 seater conference centre, a dedicated Salon Privé, a 600 seater multi-purpose events and entertainment dome, a sports bar, corporate team building facilities and an upgrade of the existing restaurant, kitchen and casino interiors.

A formal application for the approval of these facilities has been submitted to the KZNGB and approval is awaited. Construction is expected to begin in the first quarter of 2010, with the resort planned to open in the first half of 2011 at a total revised cost of some R110 million.

Our Mmabatho refurbishment will thankfully be complete by the end of this month after causing significant disruption to the property in all front of house casino, F&B and hotel areas. The improvements to the public areas, casino and the main elements of the rooms refurbishment was completed in September.

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

1. Total revenues decreased by 4.1% to R606.8 million for the quarter from R632.8 million in the same quarter of 2008;
2. EBITDA decreased by 15,5% to R220.9 million from R261.4 million in 2008. This results in an LTM EBITDA of R945.2 million; and
3. Although our EBITDA margin decreased to 36.4% from 41.3% in the same quarter of 2008, operating cost growth, excluding depreciation and amortisation, was limited to 4.3%.

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