

Good afternoon and welcome to the Peermont 1st 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 months ended 31 March 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 should be qualified by the factors referred to our quarterly report, 2010 annual report as well as in the risk factors section of our website.

In summary, for the quarter:

1. Total revenues increased by 0.4% to R621.4 million from R618.8 million in the same quarter of 2010, with our properties outside of Gauteng growing revenues by a collective 8,5%;
2. Cash costs, excluding depreciation, continue to be tightly controlled, with overall cash costs increasing by 1.9% as compared to Q1 2010;
3. EBITDA decreased by 2.3% to R217.8 million, from R223.0 million in 2010. This results in an LTM EBITDA of R965.0 million;
4. Our EBITDA margin was 35.0% vs. 36.0% in the same quarter of 2010.

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

1. Net cash pay debt/LTM EBITDA is 4.7 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.1 times; and
3. The estimated LTM EBITDA/historic net cash interest expense is 1.4 times.

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 some financial and operating highlights, followed by a review of the cash flows, treasury activities and capital expenditures in the quarter by Grant. Finally, I will conclude with a brief discussion of the key developments approved for 2011 and beyond.

The SA Reserve Bank has recently adjusted its GDP forecast to 3.6% for 2011, compared with the 2.8% achieved in 2010. According to the SARB, while the growth in household consumption expenditure appears to have been sustained in the first quarter of 2011, there are tentative signs that this momentum may be leveling off in terms of retail sales growth. CPI on an annualised basis increased to 4.2% at April 2011, and averaged an annualized 3.8% for the first quarter. Inflation is expected to reach the upper limit of the target range during 2011 and average 5.1% for the year. The unemployment rate in the first quarter of 2011 stood at 25%, up on the 24% reported at December 2010, while wage settlement increases remain at levels in excess of inflation. There is continued weakness in the housing market, credit demand continues to remain soft and the state of the consumer still remains somewhat apprehensive.

Gaming revenues (based on levies paid) in Gauteng, South Africa's largest gaming market, increased by 1.6% for the first quarter of 2011, as compared to a 3.1% decline in levies paid by Emperors Palace ("EP") over the same three month period. This was solely due to lower hold percentages in the quarter, mainly as a result of a single roulette player winning >R6m early in January this year, as compared to an unusually higher tables hold% during 2010.

Revenue from the balance of the group operations was healthier, growing by 8.6% for the first quarter as compared to a 3.9% decline in overall revenues reported for Emperors Palace for the first quarter. Revenues from other operations grew to R233.8 million for the quarter, comprising nearly 38% of group revenues.

Hotel trends in South Africa showed negative growth of 4.5% in Revpar for Q1 of 2011. Our hotels were marginally better with revenues contracting by 2.9% to R60.4m, which contributed to overall hotel and resort revenue declining by 0.7% for the quarter.

From an overall group revenue perspective:

1. Within the first quarter, we experienced a revenue decline of 3% in January, which was followed by revenue increases of 4% in February and 1% in March, respectively.
2. In April, revenue increased by 9% compared to April 2010, with GGR increasing by a very healthy 12%, largely due to an expected correction in the tables hold percentage at EP. May thus far is showing a decrease of approximately 2% as compared to the same period last year.

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

Emperors Palace: Total revenues for the quarter declined by 3.9% to R387.6 million from R403.5 million in 2010.

Gaming revenue for the quarter decreased by 3.1% to R323.1 million whilst hotel and resort revenues decreased by 8.0% to R64.5 million.

Slots revenue remained virtually flat, whilst our tables revenue declined by 10.9% for the quarter, mainly due to the single player roulette win in January as previously mentioned. This resulted in a reduction in our market share of GGR for the three months to 23.4% as compared to the 24.6% reported for Q1 2010. Slots and tables play volumes increased, however due to abnormally low hold percentages in both slots and tables, this increased activity did not convert into GGR increases. During the first quarter for 2010, Emperors Palace tables experienced an unusually high hold percentage. As mentioned earlier, the low tables hold percentage in the first quarter corrected itself during April.

The average daily number of vehicles through the gate has decreased by approximately 1.3% as compared to the same quarter in 2010. As you may recall, the refurbishment of our entertainment emporium was completed at the end of 2009, which resulted in a significant increase in the number of guest visits to the complex in particular in Q1 2010. The footfall in the quarter generated a positive growth of 2.4% in slots handle and 5.0% in tables drop for the first quarter.

Rooms revenue (adjusted to remove internal revenues) declined by 11.7% to R27.8 million for the three months compared to the same three month period in 2010 due to a decrease in both occupancies and room rates. Average room occupancy levels were 72.3% for the quarter, a decrease from 76.3% in the same period last year, impacted by the additional supply of approximately 720 rooms to the O R Tambo precinct in 2010, as well as softer global and local industry trends in general. However, we are still faring better than our hotel competitors in this regard.

Food and beverage revenue decreased by 8,7% to R26,3 million in the quarter mainly as a result of a significant decrease in the groups and convention business, which has been affected by the reduction in spend by larger corporates, particularly in the banking and telecommunication sectors. While we have done well to retain footfall at our conference centre, we have had to discount rates in order to retain volumes.

Cash costs decreased overall by 2.4% compared to the first quarter of 2010 driven mainly by a decrease in promotions and marketing spend of 18.0%. Property costs increased by 14.8%, driven largely by a 20.7% increase in electricity costs.

EBITDA for the quarter decreased by 6.9% to R126.9 million. The EBITDA margin declined from 33.8% in the same period last year to 32.7% for the current quarter. Subsequent to the quarter end, our Project 38 is beginning to have a positive impact on EP margins.

As regards our other group operations, overall revenue grew by 8.6% or R18.5 million and EBITDA grew by 4.8% or R4.2 million.

In particular, our Botswana and Graceland operations delivered impressive performances during the quarter. We are also encouraged by the fact that all our other operations have shown either flat or positive growth for the quarter, with this trend continuing post the quarter end.

Botswana continued to deliver healthy growth in local currency terms, with revenue growth of 12.8% in Pula to P61.5 million (R64.9 million), as a result of an exceptional increase in gaming revenues of 34% on the prior period to P28.8 million. Hotel revenue growth in Botswana has been negatively affected by the ongoing civil servants' strike, which has reduced the demand for government conferences. EBITDA grew by 11.4% to P20.5 million (R21.7 million).

Graceland revenue increased by 6.9% with EBITDA increasing by 9.1% to R8.4 million. The recently commissioned N17 toll road extension to Secunda has made the property more accessible to Johannesburg.

At our newly upgraded Umfolozi property, revenues increased by 17.7% to R35.9 million, impacted by the additional facilities offered by the property. GGR increased by 14.5% with both slots and tables contributing equally to the increase.

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 you have become accustomed to, I will focus on the lower end of the income statement, cash flows and capital expenditure sections of the quarterly report for clarification thereof.

The depreciation charge has increased by R5.1 million or 8.6% from R59.3 million in 2010 to R64.4 million in 2011. This was largely due to the new and upgraded facilities at our Umfolozi property which were completed in December 2010.

Financial income

Financial income reduced from R320.5 million in the quarter to March 2010 to R184.1 million in the comparable quarter of 2011. In 2010 the Rand strengthened from R10.63 to R9.91 to the Euro, resulting in a foreign exchange gain of R313.3 million on translation of the Senior Secured Notes liability recorded at March 2010.

This can be compared to the R181.9 million gain on the mark-to-market of the derivative instruments utilised to hedge the Senior Secured Notes liability recorded at March 2011, which resulted from the Rand weakening from R8.83 to R9.60 in the quarter.

Financial expenses

This cost for the three months ended March 2011 reflected a decrease of R114.5 million from the prior period. The exchange rate movements explained earlier resulted in a R489.2 million foreign exchange loss on the mark-to-market of the derivative instruments utilised to hedge the SSN liability as at March 2010 as compared to the R345.2 million loss on translation of the SSN liability recorded at March 2011. This and the coupon accrual on the notes of R94.4 million as compared R109.6 million in 2010, all resulted in a decrease in finance expenses of R159.2 million in the quarter.

This was offset by the interest accrual on other liabilities such as the shareholders loans of R156.5 million; the Deferred hedging loan of R15.5 million; and, R9.6 million relating to the interest flows on the Revolving credit facility, Head office and Frontier Inn debt, which increased by a combined R44,9 million.

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

Taxation credit

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

Cash flows

Net cash inflow from operating activities for the three months was R199.2 million compared to R175.2 million in the comparative period in 2010. This translates into a cash conversion to EBITDA ratio of approximately 92%.

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 and Botswana where taxation cash flows continue to be incurred.

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

Cash flows from investing activities

Capital expenditure for the three months was R9.9 million. This was spent on the normal maintenance of existing buildings and the replacement of gaming equipment. The prior year quarter cash flows of R22.0 million included payments of R9.0 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 R3.6 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 paid consisted of the minority portion of the Botswana and Graceland company dividends paid.

Cash and cash equivalents

At 31 March 2011 the group had a net positive cash balance of R34.6 million, consisting of R205.5 million cash utilisation of the RCF, offset by cash held of R240.1 million. Details of cash of R118.9 million included in the quarter end balance, but not available to the group for third party flows, are detailed later in the call.

Capital expenditures

Our net capital expenditures in the three months ended 31 March 2011 and 2010 were R9.9 million and R22.1 million respectively, representing approximately 1.6% and 3.6% of total revenue for those periods.

Our net maintenance capital expenditures in the three months ended 31 March 2011 and 2010 were R9.9 million and R13.1 million, representing approximately 1.6% and 2.1% of total revenue, respectively. Our maintenance capital expenditures for 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 three months ended 31 March 2010 totalled R9.0 million, relating to the upgrade and expansion of our Umfolozi property.

Total maintenance capital expenditure for the 2011 year is expected to be in the region of approximately R150 million and expansion capital expenditure is expected to be approximately R12 million.

Available capital resources

At 31 March 2011, of the R550.0 million available under our 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 R205.5 million was drawn in cash. This was offset by cash held of R240.1 million. Cash included in the quarter end balances but not available to the group consists of approximately R49.0 million required for operational and cash floats, R35.9 million held on behalf of trust beneficiaries and R34.0 million reserved for community infrastructure development in terms of bid commitments at Emperors Palace. After adjusting for the above, R406.2 million was available for group requirements at 31 March 2011.

Contingent liabilities

There have been no new 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.

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.

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 second half of 2011. This will dilute the GGR of existing casinos already operating in the Gaborone area.

On 28 September 2010 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. PGB has also applied for an interdict to prevent the new casino from commencing operations until the review of the awarding of the licence has been completed. The applications are still pending.

With regards to the Peermont Gaborone Casino Licence, the Casino Control Board of Botswana recently approved an extension of the licence of The Grand Palm Casino for a further period of 10 years to 29 April 2021.

As reported previously, it is anticipated that the Limpopo Government will promulgate revised 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 occurred to date.

We are concerned regarding the impact of the proposed 15% withholding tax to be imposed on gambling winnings by individuals in excess of R25 000, and as an industry, 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 commencing from April 2012.

As regards the Casinos of Mauritius, we have engaged with the Transaction advisor appointed by the Government of Mauritius with a view to recommencing negotiations with the SIC. We are still waiting for a definitive decision from the Government in this regard.

As regards the development of the Thaba Moshate Hotel Casino and Convention Resort in Burgersfort, Peermont is currently dealing with the rezoning of the land, attempting to progress the land claim relating to the area in which the site is located and negotiating with the LGB in respect of the casino licence conditions.

With regards to our Capital Structure Review, no agreement has yet been reached between the stakeholders regarding an appropriate capital structure for the company. While all stakeholders agree that a consensual restructuring is in the best interests of the company, it is very difficult to give a definitive date for the completion of this exercise since there is no hard “trigger” compelling the company or any of the parties to restructure at this point in time.

A number of the abovementioned growth opportunities will only be undertaken if the capital structure review is successful and sufficient capital is available.

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

1. Total revenues increased by 0.4% to R621.4 million from R618.8 million in the same quarter of 2010, with our properties outside of Gauteng growing revenues by a collective 8,5%;
2. Cash costs, excluding depreciation, continue to be tightly controlled, with overall cash costs increasing by 1.9% as compared to Q1 2010;
3. EBITDA decreased by 2.3% to R217.8 million, from R223.0 million in 2010. This results in an LTM EBITDA of R965.0 million;

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