

## **Good afternoon and welcome to the Peermont 1<sup>st</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 months ended 31 March 2012 that was released on Wednesday evening 30 May 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 annual report as well as in the "Risk Factors" section of our website.*

In summary, for the quarter:

1. Total revenues increased by 6.8% to R663.8 million from R621.4 million in the same quarter of 2011;
2. Cash costs, excluding depreciation, increased by 5.4% as compared to Q1 2011;
3. EBITDA increased by 9.6% to R238.8 million from R217.8 million in 2011. This has resulted in a new record LTM EBITDA of R1 036.7 million to 31 March 2012;
4. Our EBITDA margin was 36.0% vs. 35.0% in the same quarter of 2011, a full one percent higher than the same quarter last year.

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

1. Net cash pay debt/LTM EBITDA is 4.5 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 1.5 times.

As regards the macroeconomic environment in SA, economic growth slowed to 2.7% in the first quarter of 2012 on a seasonally adjusted and annualised basis, compared with a 3.2% rise in the fourth quarter of last year. Consumption expenditure by households, which was the main driver of growth in 2011, has shown some signs of moderation in Q1 2012. The SA Reserve Bank has forecast GDP growth at 2.9% for 2012. The unemployment rate stood at 25.2%, which is up on the 23.9% reported at December 2011. CPI on an annualised basis increased to 6.1% in April, up from 6.0% in March. Inflation is expected to average 6.0% in the second quarter of 2012 and thereafter to follow a gradually declining trend within the target range.

Against this economic backdrop, the growth in gaming revenues in SA, whilst not spectacular, has been reasonably solid. Gaming revenues (based on levies paid) in Gauteng, South Africa's largest gaming market, increased by 7.4% for the first quarter of 2012, as compared to an increase of 7.3% for the 4<sup>th</sup> quarter of 2011.

As regards Peermont's revenue growth, Emperors Palace had a pleasing quarter with revenues increasing by 7.4%. The balance of the group operations generated a positive revenue growth of 5.9%, boosted by strong contributions from our Graceland, Khoroni and Frontier properties and held back somewhat by a weaker contribution from our Botswana operations. The collective revenues from operations other than Emperors Palace grew to R247.5 million for the quarter, comprising approximately 37% of group revenues.

Overall hotel trends in South Africa showed positive growth of 19.4% in Revpar for Q1 of 2012. Our hotels generated rooms revenue of R68.1 million, representing an increase of 12.7% as compared to Q1 2011, which contributed to overall hotel and resort revenue increasing by 11.9% for the quarter.

From an overall group revenue perspective:

1. Within the first quarter, revenue increased by 1.5% in January, 6.5% in February and 11.9% in March, respectively.
2. In April, revenue decreased by 2.8% compared to April 2011. The variance in revenues between March 2012 and April 2012 was largely due to five weekends falling in March 2012 and only four in April 2012, whereas the opposite was true in 2011.
3. May thus far is showing an increase in revenues 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:** Total revenues for the quarter were pleasing and increased by 7.4% to R416.3 million from R387.6 million in 2011. The increase was largely due to solid growth in tables and rooms revenues as well as improved conference business during the current quarter.

Gaming revenue for the quarter increased by 6.7% to R344.7 million, largely due to strong tables revenue growth, mainly in line with market growth. This was further assisted by an increase in the hold percentage as compared to Q1 2011.

The average daily number of vehicles through the gate has increased by approximately 2.7% as compared to the same quarter in 2011. While the footfall for the first two months of the year was slightly less than the prior year, the footfall for March was significantly higher than the previous year.

Gaming revenues (based on levies paid) in Gauteng increased by 7.4% for the first quarter of 2012 as compared to a 4.4% increase in levies paid by Emperors Palace ("EP") during the same three month period. As a result, our share of levies paid declined to 22.7% as compared to 23.4% for Q1 2011. GGR at EP continued to be impacted by the ongoing roadworks in our broader catchment area, which have improved somewhat

(especially now that the roadworks on the R21 directly outside EP have been completed) but still had a negative impact on our revenues. The roadworks started in March 2011, therefore the prior year's market share for the first two months was significantly higher than the current year, while the market share for March 2012 was higher than the prior year. As compared to the same period in 2011, we have seen gains in market share during the period from March 2012 to date, which in our view is both a result of some improvement in the road network as well as a highly visible marketing effort to attract footfall.

Hotel and resort revenues increased by 11.0% as compared to the prior period. Rooms revenue (adjusted to remove internal revenues) increased by 12.6% to R31.3 million for the three months compared to the same three month period in 2011 due to an increase in both occupancies and room rates. Average room occupancy levels were 79.3% for the quarter, an increase from 72.3% in the same period last year, significantly higher than that of our competitors in the O.R Tambo precinct.

Food and beverage revenue increased by 9.5% to R28.8 million in the quarter mainly as a result of a significant increase in the groups and convention business.

Cash costs were well contained and increased by 5.8% compared to the first quarter of 2011. There was a 14.8% decrease in electricity consumption as compared to the same quarter of the prior year, showing the positive effects that our energy efficiency projects had during the current quarter. However, this saving in consumption was more than offset by the increased electricity tariffs with effect 1 July last year. Going forward, we should caution that the benefits of Project 38 were felt in our cost base as from April 2011 and these benefits will therefore already be in the comparative base as from the second quarter. It will therefore be much more challenging to contain year on year cost increases to the extent we have so successfully done during the past 12 months. To maintain our margins going forward it will be necessary to generate revenue growth in excess of inflation.

As a result of the 7.4% increase in revenue and 5.8% increase in cash costs, EBITDA for the quarter at EP increased by 10.7% to R140.5 million. The EBITDA margin increased from 32.7% in the same period last year to 33.7% for the current quarter.

**As regards our other group operations,** overall revenue grew by 5.9% or R13.7 million and EBITDA grew by 8.1% or R7.4 million.

In particular, our Frontier, Graceland and Khoroni operations delivered good performances during the quarter.

Revenue at Frontier increased by 24.3% and EBITDA increased by 78.9%, boosted by a strong gaming result for the quarter.

Graceland revenue increased by 8.5% with EBITDA increasing by 26.2% to R10.6 million. On the revenue side, GGR increased by 9.9% as compared to the prior period. As regards margins, cash costs were well controlled and only increased by 3.3%. Property utility costs decreased by 9.5% as compared to the prior period due to the energy savings initiatives implemented at the property.

Khoroni continued its consistent trend of strong revenue and EBITDA growth, and generated growth of 16.4% and 30.9% in revenue and EBITDA, respectively.

Our Botswana operations had a disappointing quarter in local currency terms with revenue decreasing by 2.0% and EBITDA decreasing by 13.2%. While the rooms, F&B and slots revenue growth was in line with or ahead of expectations, our tables result for the quarter was disappointing. The decline was due to a reduction in the privé tables win, largely as a result of some of our former customers emigrating back to China from Botswana.

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 recent developments.

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

Good afternoon

### ***Financial income***

Financial income reduced from R184.1 million in the quarter to March 2011 to R91.1 million in the comparable quarter of 2012. In 2012 the Rand strengthened from R10.44 to R10.25 to the Euro, resulting in a foreign exchange gain of R88.1 million on translation of the Senior Secured Notes liability recorded at March 2012.

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 2012 reflected a decrease of R211.3 million from the prior period. The exchange rate movements explained earlier resulted in a R97.1 million foreign exchange loss on the mark-to-market of the derivative instruments utilised to hedge the SSN liability as at March 2012 as compared to the R345.2 million loss on translation of the SSN liability recorded at March 2011.

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

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

### ***Taxation charge***

The taxation charge relates mainly to deferred taxation charge of R147.7 million resulting from the increase in 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. This is partially offset by deferred taxation credits as a result of estimated taxation losses at Peermont and its subsidiaries.

## **Cash flows**

Net cash inflow from operating activities for the three months was R252.7 million compared to R199.2 million in the comparative period in 2011. This translates into a cash conversion to EBITDA ratio of over 100%. EBITDA generated an additional R21 million in cash. An increased utilisation of cash in working capital of R17 million in the first quarter of 2011, mainly related to an increase in accounts receivable, which contrasted to cash generated by an increase in accounts payable in the current quarter of approximately R10 million. These movements account for the bulk of the change in cash generated.

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

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

Net capital expenditure for the three months was R30.7 million, consisting of R12.3 million spent on equipment and software purchased in preparation for the new gaming system and the balance on normal maintenance expenditure.

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

During the current period net cash outflows from financing activities amounted to R16.4 million. This consisted of R2.2 million on 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 our Botswana operation.

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

At 31 March 2012 the group had a net positive cash balance of R155.7 million, consisting of R14.7 million cash utilisation of the RCF, offset by cash held of R170.4 million. Details of cash of R124.2 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 2012 and 2011 were R30.7 million and R9.9 million respectively, representing approximately 4.6% and 1.6% of total revenue for those periods.

Our net maintenance capital expenditures in the three months ended 31 March 2012 and 2011 were R30.6 million and R9.8 million, representing approximately 4.6% and 1.6% of total revenue, respectively. Our maintenance capital expenditures for the current period consisted of R12.3 million spent on equipment and software purchased in preparation for the new gaming system; P0.9 million (R1.0 million) on refurbishment of the third floor of the Walmont hotel in Botswana; and the balance on other normal maintenance expenditure. Our maintenance capital expenditures for the prior period reflected ordinary course maintenance and replacement of gaming equipment, primarily slot machines, hotel furniture, fittings and equipment.

Total maintenance capital expenditure for the 2012 year is expected to be in the region of approximately R160 million and expansion capital expenditure for the upgrading and improvements at our Francistown property is expected to be approximately R20 million.

### **Available capital resources**

At 31 March 2012, of the R550.0 million available under our RCF for working capital and general corporate purposes, R59.1 million of the facility had been utilised to provide guarantees to various gambling boards, suppliers and financial institutions, and an additional R14.7 million was drawn in cash. This was offset by cash held of R170.4 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, R36.0 million held on behalf of trust beneficiaries and R39.2 million reserved for community infrastructure development in terms of bid commitments at Emperors Palace. After adjusting for the above, R522.4 million was available for group requirements at 31 March 2012.

The company's R550 million RCF expires on 30 April 2013. An extension of this facility to 31 December 2013, on the same terms and conditions, has been approved by the credit committee of the RCF provider. Extension agreements are still to be concluded.

### **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 recent developments**

Thank you Grant. I will now update you on recent developments.

The applicant for the fourth Gaborone Casino Licence, Workman Holdings, has re-advertised its intention to apply for a new licence and this application is in the process of being assessed by the Botswana Casino Control Board. Peermont has objected to the new application and is monitoring developments.

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 of the various regulatory authorities. The roll out is currently planned to begin at our Botswana properties in the last quarter of 2012 and our South African properties in the first quarter of 2013. The overall cost to the group is expected to be approximately R78.0 million which will be funded out of normal capital expenditure budgets.

We have entered into an agreement to dispose of the previous head office premises at 152 Bryanston Drive for a consideration of R48 million. The agreement is subject to meeting certain conditions precedent, including a full due diligence investigation of the premises. If the transaction is finally implemented, the proceeds will be used, inter alia, to settle the outstanding mortgage liability of approximately R30 million at 31 March 2012.

There have been no new developments in the process to review the rate of gambling taxation in the Gauteng province. As regards other industry developments, there has been a proposed change to the smoking laws, which if implemented, will result in a total smoking ban in all public places, including hotels, casinos and restaurants. As you may be aware, smoking is currently permitted in designated areas within casinos, hotels and restaurants. Appropriate representations will be made to the legislators by the gaming and hospitality industry bodies in South Africa. Furthermore, recent changes to the advertising regulations will prevent casinos from advertising during the daytime. As a result CASA is currently considering legal action to challenge these regulations.

As regards the development of the Thaba Moshate Hotel Casino and Convention Resort in Burgersfort, Peermont is currently dealing with the land claim pending on the property earmarked for the development of the casino and other facilities. The matter has been referred to the Land Claims Court and we are awaiting a proposal from the Land Claims Commissioner on a possible resolution of the claim. In addition, the township establishment and zoning of the property is being questioned by a property developer in a High Court application. The litigation includes a large number of properties and Peermont is one of the three respondents in the matter. The applicant in this litigation brought an urgent application to halt any development pending the finalisation of the urgent application, but the urgent application was dismissed by the High Court. Developments are being monitored and will be actioned as appropriate.

With regards to our Capital Structure Review, the capital restructuring sub-committee of the Board has submitted its report to the Board on the status of negotiations on the restructuring process with certain key stakeholders. The Board intends to take the process forward and has recently prepared a proposal for consideration by key stakeholders and their advisors. The Board and its advisors will continue to engage key stakeholders and their advisors to find an equitable solution to de-gear and improve the group's balance sheet on an expedited basis. 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.

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

1. Total revenues increased by 6.8% to R663.8 million from R621.4 million in the same quarter of 2011;
2. Cash costs, excluding depreciation, increased by 5.4% as compared to Q1 2011;
3. EBITDA increased by 9.6% to R238.8 million, from R217.8 million in 2011. This has resulted in a new record LTM EBITDA of R1 036.7 million;
4. Our EBITDA margin was 36.0% vs. 35.0% in the same quarter of 2011.

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