

## **Good afternoon and welcome to the Peermont 3<sup>rd</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 nine months ended 30 September 2012 that was released on Thursday, 29 November 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 9.3% to R730.9 million from R668.6 million in the same quarter of 2011, with gaming revenues up by 9.8% and hotel and resort revenues up by 7.6% for the quarter;
2. Cash costs increased by 8.6% as compared to Q3 2011. This was largely driven by Emperors Palace ("EP") and resulted from the increased levels in business as well as increased marketing and utility costs; and
3. EBITDA for the quarter increased by 10.6% to R275.1 million from R248.7 million in Q3 2011. LTM EBITDA now stands at R1 072.3 million to 30 September 2012, a 9.6% growth over the comparable 12 month period.

For the nine months to September 2012, as compared to the same period in 2011:

1. Total revenues increased by 7.6% to R2 086.2 million; and
2. EBITDA at R769.0 million increased by 7.9%, 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 4.4 times;
2. Total net debt through the PIK Notes/LTM EBITDA is 6.2 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 1.2% in the third quarter of 2012 on a seasonally adjusted and annualised basis, well below GDP growth of 3.2% in the second quarter. GDP growth was lower due to a 3.2% QoQ contraction in mining output, mainly as a result of industrial action. The SA Reserve Bank has forecast GDP growth for the year at 2.5%. CPI on an annualised basis increased slightly to 5.6% in October from 5.5% in September. 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 a healthy 10.7% for the third quarter of 2012, as compared to a 13.4% increase in levies paid by EP during the same three month period.

Emperors Palace produced pleasing quarterly revenue growth of 11.5% for the complex overall. While Botswana revenues declined by 3.5%, the balance of our South African operations generated revenue growth of 9.5%. Revenues were boosted by strong contributions from our Graceland, Frontier and Umfolozi properties. The collective revenues from operations other than Emperors Palace was R274.3 million for the quarter, comprising approximately 38% of group revenues.

Overall hotel trends in South Africa showed positive growth of 14.9% in RevPAR for Q3 of 2012. This has been achieved through a recovery from lower occupancies in the prior year, coupled with a 5.2% increase in average daily room rates. Peermont built on its existing high occupancy rates, achieving occupancies for the quarter of 81.1% in SA and 77.4% for the group as a whole, considerably higher than the 64.8% for the overall South African market. Our hotels generated rooms revenue of R76.5 million, representing an increase of 4.4% as compared to Q3 2011, which was primarily driven by increased occupancies off an already high base and contributed to overall hotel and resort revenue increasing by 7.6% for the quarter.

From an overall monthly group revenue perspective:

1. Within the third quarter all three months showed revenue growth as compared to the prior year. Although July revenue increased by only 1.8%, August and September recorded encouraging results with revenue growth of 17.9% and 8.6% respectively.
2. In October, revenue increased by 6.8% as compared to October 2011.
3. November thus far is showing revenue growth of approximately 7.5% 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 increased by a healthy 11.5% to R456.6 million from R409.6 million in 2011.

Gaming revenue for the quarter increased by 12.0% to R375.5 million. Our share of gaming levies paid increased to approximately 23.1% as compared to 22.5% for Q3 2011.

The average daily number of vehicles through the gate increased by approximately 8.3% as compared to the same quarter in 2011, which continues to be 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 a highly visible marketing effort to attract footfall to the complex as well as improvements to the road network.

Hotel and resort revenues for the quarter increased by 9.3% to R81.1 million. Rooms revenue increased by 10.2% to R36.7 million from R33.3 million in the comparable period due to a further increase in occupancies during the quarter, off an already high base. The overall complex rooms occupancies for the quarter reached a new record level of 90.3%. This is significantly higher than the 82.0% achieved in the comparable quarter to September 2011 and occupancies remain significantly higher than that of other hotels in the O.R Tambo precinct.

Cash costs at Emperors Palace increased by 11.1% to R298.0 million as compared to the third quarter of 2011. This was primarily driven by the growth in business levels in the current quarter with staff and consumables costs increasing by 12.1% and 9.9% respectively. VAT and gaming levies accrued increased by 12.2% and 12.0% respectively, due to the increase in gaming revenues. Despite lower electricity usage, overall utility and property cost increased by 10.9% due to higher regulated tariffs. Promotions and marketing costs increased by R7.2 million or 26.0% as compared to the prior year, resulting from the increased level of gaming promotions run in the current year as well as other marketing initiatives.

The EBITDA margin for the three months increased to 34.8% from 34.5% for Q3:2011.

**As regards our other group operations,** overall revenue grew by 5.9% or R15.3 million and EBITDA grew by 8.2% or R8.8 million as compared to the prior period quarter.

While our Botswana revenues declined by 3.5%, our Graceland, Frontier and Umfolozi operations delivered remarkable performances during the quarter.

Graceland performed well with revenues up by 11.8% and EBITDA up by 25.9%. GGR at Graceland increased by 10.9% while hotel and resort revenue increased by 14.2%, boosted by increased average room rates for the quarter. Cash costs were well controlled and increased by 4.8%, resulting in the EBITDA margin increasing from 28.0% to 31.5%.

Frontier generated revenues of R13.7 million, an increase of 10.5% on the prior period. EBITDA at R3.3 million was 22.2% above the prior period quarter.

Umfolozi had a solid quarter with revenue growth of 9.2% and EBITDA growth of 14.1% as compared to the prior year.

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 R630.3 million for the nine months to September 2011 to R38.0 million in 2012. In 2012 the Rand weakened from R10.43 to R10.64 against the Euro, resulting in a mark-to-market gain of R27.5 million on the derivative instruments utilised to hedge the future coupon payments and the Senior Secured Notes liability recorded at September 2012.

This can be compared to the gain of R624.4 million 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***

The cost for the nine months ended September 2012 reflected a decrease of R687.8 million from the prior period.

The exchange rate movements as explained earlier resulted in a R76.5 million foreign exchange loss on the restatement of the SSN liability for the nine months to September 2012, compared to the loss of R867.6 million recorded at September 2011.

This decrease was offset by an increase in the interest accrual on other liabilities such as the SSNs 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 R23.1 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 R782.6 million compared to R712.3 million for the period ended 30 September 2011. This translates into a free cash flow to EBITDA ratio of 81.7% after replacement capital expenditure. EBITDA generated an additional R56.6 million and cash generated by changes in working capital increased by R16.6 million. These movements account for the bulk of the change in cash generated in the nine months to September 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***

Replacement capital expenditure for the nine months was a net R139.8 million. This was mainly spent on the normal refurbishment and/or replacement of existing property, plant and equipment. Capital expenditure is discussed in more detail later in the call.

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

During the current nine months net cash outflows from financing activities amounted to R21.1 million. The amount includes R6.7 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 September 2012 the group held cash balances of R184.4 million. Details of R118.6 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 replacement capital expenditures in the nine months ended 30 September 2012 and 2011 were R139.8 million and R89.0 million respectively, representing approximately 6.7% and 4.6% of total revenue for those periods.

Our replacement capital expenditure during the year to date consisted of approximately R58.8 million spent on slots replacement throughout the group; R27.5 million on the new gaming system, P5.5 million (R6.1 million) relating to refurbishment at the Metcourt Hotel in Francistown; and, the balance on normal replacement capital expenditure. In 2011 our replacement capital expenditure consisted of approximately R55.3 million spent on slots replacement; P5.6 million (R6.0 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 nine months to September 2012. Our net expansion capital expenditure in the nine months ended September 2011 was R2.2 million relating to the expansion of the slots gaming floor at Khoroni.

### **Available capital resources**

At 30 September 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. Cash included in the reported balance of R184.4 million but not available to the group consists of approximately R49.0 million required for operational and cash floats, R40.7 million reserved for community development infrastructure at Emperors Palace and R28.9 million held on behalf of trust beneficiaries. After adjustment for the above, capacity of R490.9 million under the RCF and cash of R65.8 million was available for group requirements at 30 September 2012.

The RCF is available until 27 December 2013.

### **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.

### **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, as regards the issue of the **Fourth Gaborone Casino Licence** for the Masa Casino in Gaborone, the hearing at the High Court in Lobatse for the interdict to prevent Masa Casino from opening was concluded on 17 August and judgement was delivered on 13 September 2012. The Judge ruled in favour of the review applicants and ruled that the casino could not be opened until the review application had been heard. This is expected to occur in the first quarter of 2013.

We are pleased to report that the **Bally gaming system** has been successfully installed at our Botswana properties in September 2012. Our Graceland and Emperors Palace properties are scheduled to follow in the first quarter of 2013 with the balance of the group operations following later during the year.

There are no further developments regarding the **Thaba Moshate Hotel Casino and Convention Resort** in Burgersfort. Peermont is still monitoring the pending land claim as well as the ongoing litigation by a property developer relating to a number of properties including the property earmarked for the casino development.

Peermont is in the process of negotiating an extension of the agreement of sale of the previous head office premises at **152 Bryanston Drive** to accommodate the rezoning requirements. If the transaction is finally implemented, the proceeds will be used, inter alia, to settle the outstanding mortgage liability of approximately R28.4 million at 30 September 2012.

With regards to our **Capital Structure Review**, as you know, the Board and its advisors have been engaging with key stakeholders and their advisors regarding de-gearing and restructuring of the group's balance sheet. This engagement continues, including through direct discussions with key stakeholders. There can be no assurance that these efforts will lead to a definitive agreement and/or successful completion of any transaction involving the group's capital structure.

As regards regulatory matters, there have been no further developments regarding the proposed changes to **smoking legislation**.

As regards the **DTI's codes on B-BBEE**, certain draft changes have been published, which if implemented in their current form, could have a negative impact on the Group's current B-BBEE rating levels. Given that certain of the group's casinos are required by the respective provincial gambling boards to attain a level 2 rating by 2015, these changes could have an impact on the group. CASA, together with various other industry bodies intend making representations regarding these proposed changes to the DTI.

As regards our expectations for the fourth quarter, we caution that it will be difficult to sustain the rate of EBITDA growth experienced for the first 9 months of the year into the 4<sup>th</sup> quarter, unless the rate of revenue growth ends up exceeding current levels of around 7% for the quarter thus far. This is because we anticipate a quarterly increase in marketing, HR and utility costs, particularly at EP, at a rate in excess of this for the reasons mentioned earlier. It will also be practically very difficult to further lift hotel occupancy levels at EP from the record levels currently being experienced, without adding further hotel rooms capacity in due course. That being said, we are comfortable with the healthy levels of footfall and occupancy that most of our South African businesses now enjoy, which now gives us the base and the opportunity to yield our revenues more effectively in the new year, particularly as regards our hotel business.

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

1. Total revenues increased by 9.3% to R730.9 million from R668.6 million in the same quarter of 2011, with gaming revenues up by 9.8% and hotel and resort revenues up by 7.6% for the quarter;
2. Cash costs increased by 8.6% as compared to Q3 2011. This was largely driven by Emperors Palace ("EP") and resulted from the increased levels in business as well as increased marketing and utility costs; and
3. EBITDA for the quarter increased by 10.6% to R275.1 million from R248.7 million in Q3 2011. LTM EBITDA now stands at R1 072.3 million to 30 September 2012, a 9.6% 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.