



# QUARTERLY REPORT

*for the three and nine months ended 30 September 2013*

*Required in terms of the indenture of the original R887 000 000*

*18% Payment-In-Kind Notes due 2015*



**PEERMONT**

HOTELS CASINOS RESORTS

**PEERMONT GLOBAL HOLDINGS II LIMITED**

Registration number 2006/006232/06 • SEDOL: B1WQKJ1 • ISIN Rule 144A: XS0297395286 • ISIN Reg S: XS0296663429 • [www.peermont.com](http://www.peermont.com)

DATE: 27 NOVEMBER 2013



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### INTRODUCTION

On 23 April 2007, Peermont Global Holdings II Limited (“PGH II”), issued R887 000 000 18% Payment-In-Kind (“PIK”) notes due 2015 (“the PIK Notes”). The PIK Notes were issued under an indenture (“the PIK Notes indenture”), dated as of 18 April 2007, by PGH II, a company incorporated under the laws of the Republic of South Africa.

The PIK Notes are PGH II’s senior unsecured obligations and rank equal in right of payment with all of PGH II’s existing and future unsecured indebtedness and effectively junior to all of PGH II’s secured indebtedness, including its senior guarantee of the 7<sup>3</sup>/<sub>4</sub>% Senior Secured Notes due 2014 (“SSNs” or “the notes”), issued by PGH II’s direct wholly owned subsidiary, Peermont Global Limited (“Peermont” or the “issuer”). The guarantee is secured by all of the ordinary shares of Peermont.

In prior years, PGH II purchased for cash a cumulative R200,1 million in aggregate principal amount of its outstanding 18% PIK Notes, at a price of R134,5 million or 67,2% of face value. All purchased notes were cancelled.

As a result of the above PIK Notes buy-backs, Peermont reduced its deeply subordinated shareholder loan from PGH II by repaying an amount of R145,7 million to PGH II, utilising one of the available restricted payment baskets. In addition, a portion of the deeply subordinated shareholders loan owed by Peermont was waived, reducing Peermont’s obligations by a further R56,9 million.

PGH II is a holding company and all of our operations are conducted through our subsidiaries. We have no material assets other than the capital stock of Peermont and receivables in respect of certain deeply subordinated shareholder loans made to Peermont with the proceeds of the PIK Notes, and a deeply subordinated shareholder loan advanced to us by our direct parent company.

A copy of the offering memorandum dated 18 April 2007, prepared in connection with the offering of the PIK Notes is available from us upon request. This quarterly report is being provided to holders of the PIK Notes pursuant to section 4.19 of the PIK Notes indenture.

The PIK Notes bear interest at a rate of 18,0% per annum. Interest on the PIK Notes is payable, at the option of PGH II, on 30 April and 30 October of each year. The PIK Notes will mature on 30 April 2015. PGH II may redeem the PIK Notes, in whole or in part, at any time at face value.

The PIK Notes are listed on the Irish Stock Exchange and traded on its Global Exchange Market.



The PIK Notes have not been and will not be registered under the US Securities Act of 1933, as amended (“the Securities Act”), or any US state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable US state securities laws. Accordingly, the PIK Notes were offered and sold only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and pursuant to offers and sales occurring outside the United States within the meaning of Regulation S under the Securities Act. The PIK Notes indenture is not required to be, nor will it be, qualified under the US Trust Indenture Act of 1939, as amended.

#### **Deeply subordinated shareholder loans**

##### *Deeply subordinated shareholder loan from PGH I to PGH II*

In 2007, Peermont Global Holdings I Limited (“PGH I”) advanced the proceeds of its PIK Equity Loan to the company. This loan was and remains deeply subordinated in favour of the creditors of PGH II. In terms of the deeply subordinated shareholder loan agreement, the loan does not require any amortisation or other payment of interest or principal, nor may the loan holders declare any event of default, place PGH II into liquidation or take any enforcement action prior to the settlement of all senior debt claims and/or claims by the creditors of PGH II.

##### *Deeply subordinated shareholder loans from PGH II to Peermont*

PGH II advanced the proceeds of the deeply subordinated PIK Equity Loan received by it from PGH I, as well as the proceeds of the issue of the PIK Notes in 2007 to its 100% subsidiary, Peermont, in the form of deeply subordinated shareholder loans. In terms of the PGH II deeply subordinated shareholder loans agreement, the loans do not require any amortisation or other payment of interest or principal before 27 April 2037, nor may the loan holders declare any event of default or take any enforcement action prior to that date.

## **PEERMONT GROUP RECAPITALISATION**

On 3 November 2013, the Peermont group announced that it had reached an agreement with its stakeholders to recapitalise the group and to raise R5,3 billion of new Rand-denominated debt. The new capital structure reduces the debt levels of the group and will significantly enhance its long-term sustainability and allows for greater flexibility to pursue further growth opportunities.

The recapitalisation of the group’s consolidated balance sheet will be supported by a R4,1 billion local six-year senior debt finance package, underwritten by Rand Merchant Bank, a division of First Rand Bank Limited, and jointly arranged with ABSA Bank Limited, Investec Bank Limited and The Standard Bank of South Africa Limited. The senior debt will be supplemented by a R1,2 billion six-and-a-half-year Rand-denominated mezzanine debt package provided by certain of the group’s existing creditors.

The new R5,3 billion debt package will be used to refinance existing local and foreign debt, including the Euro-denominated SSNs (which will be redeemed at par) and associated currency hedges due in April 2014. The new debt package significantly lowers debt funding costs and eliminates expensive currency hedging going forward.

The PIK Notes will be replaced with cumulative, redeemable no par value preference shares. Overall debt levels will be further reduced through the replacement by participating investors of the PIK Equity Loan amounting to approximately R3,7 billion, with ordinary shares amounting to approximately 72% of the group’s equity.

The refinancing and the restructuring are subject to conditions precedent customary for transactions of this nature, including finalisation of finance documents and any regulatory approvals required. Closing is expected to occur in March 2014, ahead of the maturity of the SSNs. Redemption of the SSNs, notice of which is expected to be given at the time the conditions precedent are satisfied, will be made in accordance with the indenture under which the SSNs were issued.

## **REPORTING**

The PIK Notes indenture requires that the report issued by the issuer of the notes, Peermont, together with the unconsolidated statement of financial position of PGH II, be distributed to holders of the PIK Notes. The unconsolidated unaudited statement of financial position of PGH II is included as Annexure A and the entire Peermont quarterly report is included as Annexure B.



## ANNEXURE A

### PeerMont Global Holdings II Limited

#### CONDENSED UNAUDITED COMPANY STATEMENT OF FINANCIAL POSITION

at 30 September 2013

	2013 R'm	2012 R'm
<b>Assets</b>		
<b>Total non-current assets</b>	<b>3 348,9</b>	<b>2 983,3</b>
Investment in subsidiary, less impairments	—	—
Amounts due by subsidiary, less impairments	<b>3 348,9</b>	<b>2 983,3</b>
<b>Total assets</b>	<b>3 348,9</b>	<b>2 983,3</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Capital and reserves	<b>(2 351,9)</b>	<b>(1 646,6)</b>
<b>Total non-current liabilities</b>	<b>5 665,9</b>	<b>4 606,7</b>
Interest-bearing long-term borrowings	<b>5 665,5</b>	<b>4 600,9</b>
PIK Notes liability	<b>2 171,7</b>	<b>1 800,8</b>
Deeply subordinated shareholder loan	<b>3 493,8</b>	<b>2 800,1</b>
Deferred taxation liability	<b>0,4</b>	<b>5,8</b>
<b>Total current liabilities</b>	<b>34,9</b>	<b>23,2</b>
Amount due to subsidiary	<b>32,3</b>	<b>19,7</b>
Taxation payable	<b>2,6</b>	<b>3,5</b>
<b>Total equity and liabilities</b>	<b>3 348,9</b>	<b>2 983,3</b>



# QUARTERLY REPORT

*for the three and nine months ended 30 September 2013*

*Required in terms of the indenture of the original €520 000 000*

*7<sup>3</sup>/<sub>4</sub>% Senior Secured Notes due 2014*



**PEERMONT**

HOTELS CASINOS RESORTS

**PEERMONT GLOBAL LIMITED**

Registration number 2006/006340/06 • SEDOL: B1W6GY8 • ISIN Rule 144A: XS0297394479 • ISIN Reg S: XS0296654600 • [www.peermont.com](http://www.peermont.com)

DATE: 27 NOVEMBER 2013



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## DEFINITIONS

ABSA	ABSA Bank Limited
BBBEE	Broad-based Black Economic Empowerment
€ or Euro	European Euro, legal tender of the European Union
EBITDA	Earnings before interest, taxation, depreciation, amortisation and other non-cash items
EBITDAR	Earnings before interest, taxation, depreciation, amortisation, rentals and other non-cash items
Emperors Palace	A division of Peermont, trading as Emperors Palace Hotel Casino Convention Resort
FECs	Forward Exchange Contracts
GGR	Gross gaming revenues
Guarantors	Consist of PGH II, Peermont, PGNW, PGKZN, PGLim, PGMNW&L and PGMKZN
Head office	The head office function of Peermont
IFRS	International Financial Reporting Standards
Investec	Investec Bank Limited
JIBAR	Johannesburg interbank agreed rate
LGB	Limpopo Gambling Board
Maxitrade 85	Maxitrade 85 Security Holding Company Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/025081/07)
Mmabatho Palms	A division of PGNW, trading as Mmabatho Palms Casino Convention Resort
Mondazur	A division of Peermont, trading as Mondazur Resort Estate Hotel
NWGB	North West Gambling Board
P or Pula	Botswana Pula, legal tender of the Republic of Botswana
Peermont, the issuer or the company	Peermont Global Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/006340/06)
Peermont group or the group	Peermont and its subsidiaries
PGB	Peermont Global (Botswana) Limited, a public limited liability company incorporated under the laws of the Republic of Botswana (Registration number 95/414), including all operations based in Botswana, namely the Grand Palm Hotel Casino Convention Resort, Mondior Hotel, Metcourt Inn Hotel, the Gaborone International Convention Centre, all in Gaborone, Metcourt Lodge Hotel and Sedibeng Casino in Francistown and Syringa Casino in Selebi-Phikwe
PGEFS or Frontier	Peermont Global (Eastern Free State) Proprietary Limited, trading as Frontier Inn and Casino, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 1999/011534/07)
PGERH	PGER Holdings Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 1997/015805/07)
PGH I	Peermont Global Holdings I Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/023109/06)
PGH II	Peermont Global Holdings II Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/006232/06)
PGIL	Peermont Global Investments Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 1995/004449/06)
PGKZN or Umfolozi	Peermont Global (KZN) Proprietary Limited, trading as Umfolozi Hotel Casino Convention Resort, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/029290/07)
PGLim or Khoroni	Peermont Global (Limpopo) Proprietary Limited, trading as Khoroni Hotel Casino Convention Resort, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/034446/07)
PGMKZN	Peermont Global Management (KZN) Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/000558/07)



## DEFINITIONS (continued)

PGMNW&L	Peermont Global Management (NW&L) Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/029265/07)
PGNW	Peermont Global (North West) Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/028470/07), which includes the divisions of Mmabatho Palms, Rio and Taung
PGSH or Graceland	Peermont Global (Southern Highveld) Proprietary Limited, trading as Graceland Hotel Casino and Country Club, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 1995/004452/07)
PIK	Payment-in-kind
PIK Equity Loan	PIK Equity Loan, due 2106, raised in 2007 by PGH I and onlent to Peermont
PIK Notes	The original R887,0 million 18,0% PIK Notes due 2015, issued by PGH II, listed on the Global Exchange Market of the Irish Stock Exchange
PIK Notes Loan	PIK Notes Loan raised by Peermont from the proceeds of an issue of PIK Notes by PGH II
PKZNST	Peermont (KZN) Staff Trust (formerly Umfolozi Staff Trust) (Registration number IT1026/2008)
PSHST	Peermont Southern Highveld Staff Trust (Registration number IT1979/20)
R or Rand	South African Rand, legal tender of the Republic of South Africa
RCF	Revolving Credit Facility
Rio	A division of PGNW, trading as Rio Hotel Casino Convention Resort
RMB	Rand Merchant Bank, a division of FirstRand Bank Limited
SARS	South African Revenue Service
Securities Act	The U.S. Securities Act of 1933, as amended
Security SPV	Maxitrade 85, a special purpose vehicle
SRs	Symmetrical Recovery Swaps
SSNs or the notes	The original €520 million 7¾% Senior Secured Notes due 2014, issued on 24 April 2007, listed on the Global Exchange Market of the Irish Stock Exchange
Standard Bank	The Standard Bank of South Africa Limited
Taung	A division of PGNW, trading as Taung Hotel Convention Resort
The indenture	An indenture under which the notes were issued and guaranteed
The Offering Memorandum	The Offering Memorandum dated 18 April 2007, prepared in connection with the offering of the notes
The Trustee	BNY Corporate Trustee Services Limited, as trustee
TRESS	Tusk Resorts Employee Share Scheme Trust (Registration number IT4329/01)
Tubatse	Peermont Global (Tubatse) Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 1997/010949/07)
Tusk Resorts	Tusk Resorts Proprietary Limited, a limited liability company incorporated under the laws of the Republic of South Africa (Registration number 2006/019823/07)
US\$	United States Dollar, legal tender of the United States of America
VAT	Value added taxation



## INTRODUCTION

PeerMont is a South African based group of companies which operates in the gaming, hotel and convention businesses in southern Africa. PeerMont holds seven casino licences in South Africa and three in neighbouring Botswana. The group operates a total of 14 properties, nine in South Africa and five in Botswana. Collectively, these 14 properties offer 3 253 slot machines, 148 gaming tables and 1 671 hotel rooms. Our flagship property is Emperors Palace, which is strategically located in the Johannesburg metropolitan area. In addition to Emperors Palace, our property portfolio includes seven other casino resorts, two stand-alone casinos and four stand-alone hotels. Certain of our larger casino resorts also feature convention and other facilities.

## ORGANISATIONAL INFORMATION

The PeerMont group consists predominantly of:

- ◆ PeerMont including Emperors Palace, Mondazur and the head office management and investment divisions;
- ◆ PGNW;
- ◆ PGKZN;
- ◆ PGLim;
- ◆ PGMNW&L;
- ◆ PGMKZN;
- ◆ PGSH;
- ◆ PGB;
- ◆ PGEFS;
- ◆ Tubatse; and
- ◆ Various other dormant or intermediate holding companies.

The business address of PeerMont is PeerMont Place, Block 1 Northdowns Office Park, 17 Georgian Crescent West, Bryanston, Johannesburg, South Africa, and its primary telephone number is +27 (11) 557 0557. We maintain an internet website at [www.peermont.com](http://www.peermont.com). Except for the “Risk Factors” set out below, information on our internet website does not form part of this report.

## PRESENTATION OF FINANCIAL INFORMATION

We have prepared the condensed unaudited consolidated financial statements contained in this quarterly report in accordance with IFRS. We present our financial statements in Rand, the legal currency of the Republic of South Africa. In this quarterly report, unless otherwise indicated, all amounts are expressed in Rand millions.

The accounting policies of PeerMont as set out in the 2012 annual financial statements have been consistently applied.

## RISK FACTORS

The “Risk Factors” set out on the company’s website detail the risk related to our business, the gaming industry, the notes and the risk related to our operations in both South Africa and Botswana are incorporated herein by reference.



## INFORMATION REGARDING FORWARD LOOKING STATEMENTS

The following cautionary statements identify important factors that could cause our actual results to differ materially from those projected in any forward looking statements made in this quarterly report. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward looking. These statements are often, but not always, made through the use of words or phrases such as will likely result, are expected to, will continue, believe, is anticipated, estimated, intends, expects, plans, seeks, projection, objective and outlook.

These statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. Any forward looking statements are qualified in their entirety by reference to the “Risk Factors” placed on the company’s website. Among the key factors that could have a direct impact on our operations, prospects and results are the following:

- ◆ changes in gaming, advertising, smoking, taxation and BBBEE laws and the wider regulatory and legal environment in southern Africa;
- ◆ general economic conditions that impact growth trends in disposable income and discretionary consumer spending;
- ◆ the impact of our indebtedness;
- ◆ our dependence on a single property, Emperors Palace, and the relatively concentrated casino market in Gauteng Province to generate a significant portion of our revenue, profits and cash flows;
- ◆ competition from other entertainment businesses in Gauteng Province and other regions of southern Africa;
- ◆ our ability to maintain our casino licences; and
- ◆ our ability to develop new casino projects.

The list above should be considered in relation to this report and the effect that these could have on the group’s position and results in the future. Because the “Risk Factors” referred to above and in The Offering Memorandum could cause actual results or outcomes to differ materially from those expressed in any forward looking statements made in this quarterly report by us or on our behalf, you should not place undue reliance on any of these forward looking statements. Further, any forward looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors will emerge in the future, and it is not possible for us to predict which factors they will be. In addition, we cannot assess the effect of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward looking statements.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### **Indebtedness**

Please refer to the recent developments section of this report to see details of the recently announced recapitalisation and refinancing of the company and group's equity and debt structures.

### **The notes**

On 23 April 2007, Peermont issued €520 million 7¾% SSNs due 2014. The notes were issued and guaranteed under the indenture, dated as of 23 April 2007, by PGH II as parent Guarantor, and by Peermont, PGNW, PGKZN, PGLim, PGMNW&L and PGMKZN, as Guarantors, Maxitrade 85, the security SPV, BNY Corporate Trustee Services Limited as trustee, The Bank of New York Mellon as registrar, transfer agent and principal paying agent and BNY Fund Services (Ireland) Limited, as Irish paying agent.

A copy of The Offering Memorandum is available from us upon request. This quarterly report is being provided to holders of the notes pursuant to section 4.19 of the indenture.

In 2008, Peermont completed a notes repurchase programme in terms of which it purchased a nominal value of R1 268,3 million (€103,9 million) of the notes in issue for R1 129,2 million (€92,5 million) or 89% of the face value. All purchased notes were cancelled. Following such cancellation, the outstanding principal amount of the notes is €416,1 million.

The notes bear interest at a rate of 7¾% per annum. Interest on the notes is payable on 30 April and 30 October of each year. The notes will mature on 30 April 2014. Peermont may redeem the notes in whole or in part at any time at the redemption price specified in the indenture.

The notes, subject to the first priority rights of the RCF lenders, are guaranteed by the Guarantors, and rank equal in right of payment with all of the issuer's existing and future unsubordinated indebtedness and senior in right of payment to all of the issuer's existing and future indebtedness that is subordinated in right of payment to the notes.

The notes, subject to the first priority rights of the RCF lenders, are effectively senior to all of the issuer's existing and future unsecured indebtedness to the extent of the assets securing the notes and are secured equally and rateably with the SSN foreign exchange providers, by second priority security interests over all of the issuer's capital stock and certain of the assets of the issuer and the Guarantors. The guarantees of the notes by the Guarantors rank behind the rights of the RCF lenders, but equal in right of payment with all of the existing and future unsubordinated indebtedness of the Guarantors, senior in right of payment to all of the existing and future indebtedness of the Guarantors that is subordinated in right of payment to the Guarantors of guarantees of the notes and are effectively senior to all existing and future unsecured indebtedness of the Guarantors to the extent of the assets securing the Guarantors of guarantees of the notes.

The notes are listed on the Irish Stock Exchange and traded on its Global Exchange Market.

The notes have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the notes were offered and sold only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) and pursuant to offers and sales occurring outside the United States within the meaning of Regulation S under the Securities Act. The indenture is not required to be, nor will it be, qualified under the U.S. Trust Indenture Act of 1939, as amended.

The issuer's obligations under its RCF are supported by first ranked security over all the issuer's capital stock and certain of the assets of the issuer and Guarantors

### **The PIK Notes Loan**

On 23 April 2007, PGH II issued R887,0 million 18% PIK Notes. The PIK Notes were issued under an indenture, dated as of 18 April 2007, by PGH II. The proceeds of the PIK Notes were onlent to Peermont in the format of a deeply subordinated shareholder loan.

In prior years, PGH II purchased for cash a cumulative R200,1 million in aggregate principal amount of its outstanding 18% PIK Notes, at a price of R134,5 million or 67,2% of face value. All purchased notes were cancelled.

As a result of the above PIK Note buy-backs, Peermont reduced its deeply subordinated shareholders loan from PGH II by repaying R145,7 million to it. In addition, the gain on the purchase of PIK Notes was pushed down to Peermont, further reducing its deeply subordinated shareholders loan by R56,9 million.

### **The PIK Equity Loan**

On 23 April 2007 PGH I raised R1 086,3 million under an amended and restated PIK Equity Loan agreement dated 10 January 2007.



The proceeds of the PIK Equity Loan were onlent to PGH II, which in turn onlent the amount to Peermont in the format of a deeply subordinated shareholder loan.

#### **Deeply subordinated shareholder loans**

In April 2007 the company received the proceeds of the above mentioned loans raised by PGH I and PGH II in the form of deeply subordinated shareholder loans. The loans are subordinated in favour of all other creditors of Peermont. In terms of the deeply subordinated shareholder loan agreement, the loans do not require any amortisation or other payment of interest or principal before April 2037, nor may the loan holder declare any event of default or take any enforcement action prior to that date.

#### **Going concern basis of accounting**

The group's current liabilities exceed its current assets and the group is in a shareholder deficit position of R2 415,1 million (2012: R1 698,7 million). The shareholder loans of R5 764,0 million (2012: R4 681,3 million) are deeply subordinated in favour of third parties, and are sufficient to cover the accumulated deficits. Technical insolvency is specifically excluded as an event of default in the various group debt agreements.

The Peermont group recently announced an agreement to implement a consensual restructuring of its equity interests and an agreement with a consortium of investors and local banks to refinance the notes. The new senior debt package includes a new RCF of R250 million from the date of the implementation of the refinancing.

Based on the progress that has been made on restructuring the group's equity contribution, the refinancing of the group debt facilities, current cash flow forecasts of Peermont, and that the lender of the deeply subordinated shareholder loans may not declare any event of default or take any enforcement action prior to April 2037, the directors do not foresee any liquidity shortfalls in the foreseeable future and therefore the financial statements have been prepared on a going concern basis.

The term of the group's R550 million RCF was to expire on 27 December 2013. The company has obtained credit approval for the extension of the facility in an amount of R425,0 million until the earlier of the refinance of our debt structure or the maturity of the SSNs on 30 April 2014. The credit-approved and underwritten termsheet for the new local debt package includes a new R250 million RCF facility, effective from the date of implementation of the refinancing.

#### **Financial statements discussed**

For the three and nine month periods ended 30 September 2013 and the prior year comparative periods, we have provided condensed unaudited consolidated financial information which is derived from the condensed unaudited consolidated financial statements of the Peermont group.

The condensed unaudited consolidated financial information is provided for information purposes only and does not purport to present our historical results of operations for the periods presented, nor is it necessarily representative of our results of operations for any future periods.

#### **Staff trusts**

The boards of trustees of TRESS, PKZNST and PSHST, formed for the benefit of staff in the group, are controlled by Peermont. Therefore, IFRS require that these trusts are consolidated into the results of the Peermont group. On consolidation, the group accounting policy recognises the assets vesting under the control of the trustees of the trusts and the resulting trust equity is recognised as a liability. Any distributions/dividends are recognised as a reduction to the liability in the period that these are accrued or paid. The existing trust resources of TRESS, PKZNST and PSHST will be distributed to beneficiaries in due course.

#### **BBBEE shareholding in PGNW**

As a condition of the approval of the acquisition by the group of the interests in Tusk Resorts (and subsequently PGNW), as well as the acquisition by Peermont of the business of PGIL, Peermont was required to sell 10% of the shares in the entity operating the business of Mmabatho Palms, Taung and Rio to local BBBEE partners.

Peermont identified a local BBBEE partner to whom it intends to sell the required 10% of the shares in PGNW and entered into agreements with the party. The NWGB recently approved the final agreement of sale, allowing PGNW to proceed with the transfer of the shares to the new BBBEE shareholder.

#### **Restructure costs**

In the current year the group has incurred costs of approximately R23,8 million for financial and legal advice in connection with the capital restructure process. This brings the total costs incurred to date to approximately R57,1 million. These costs have been deferred, as the intention is to offset these costs against the capital to be raised as part of the capital restructure and debt refinancing processes.



## **Key income statement items**

### **Revenue**

Our revenue consists of gaming revenue, rooms revenue, food and beverage revenue and other revenue. For the year ended 31 December 2012, we generated 77,0% of our total revenue from gaming, 10,1% from rooms, 10,7% from food and beverage and 2,2% from other revenue.

We generate gaming revenue from the slot machines and gaming tables in our casinos. Gaming revenue consists of the net cash amounts received from bets placed by guests less winnings paid to them.

Rooms revenue is generated from room nights sold at our various hotels, which is a function of average room rate and occupancy rate. We define the occupancy rate as room nights sold as a percentage of total room nights available in a given period. The average room rate is calculated based on total rooms revenue divided by the number of room nights sold in a given period.

We generate food and beverage revenue from the sale of food and beverages in our hotel restaurants and through room service, catering services at our convention facilities and revenue from renting banquet rooms and equipment.

Other revenue is generated primarily from rental payments received from our retail outlet tenants, from sales of goods at our own outlets, from ticket receipts for our various entertainment offerings, from childcare facilities, from parking and other entrance fees, as well as from rental received on the 152 Bryanston Drive property.

In line with industry practice in South Africa, we recognise gaming revenue on a cash received basis. We recognise all other revenue on an accrual basis, net of VAT. Gaming revenue includes VAT and other gaming levies on gross gaming revenue. VAT is deducted as an operating cost at an effective rate of 12,28% of gross gaming revenue net of gaming levies paid. Gaming levies on gross gaming revenues are set at variable rates as a percentage of gaming revenue and are also deducted as an operating cost. Gaming levy rates vary across the provinces in which our casinos operate. The gaming levy in Gauteng Province is currently 9% of gaming revenue.

### **Other income**

Other income is primarily non-operational income, which consists of items such as the net profit generated on the disposal of assets in the normal course of business at our properties, insurance claims received, refunds received, prescription income as well as other sundry income.

### **Operating costs**

Our operating costs consist of employee costs; VAT and gaming levies on gross gaming revenues; consumables and services; depreciation and amortisation; promotions and marketing costs; property costs; property and equipment rentals; and other operational costs. These represented 30,2%, 21,5%, 14,5%, 12,1%, 8,9%, 5,2%, 1,4% and 6,2%, of total operating costs, respectively, for the year ended 31 December 2012.

Employee costs consist of salaries, wages and employee benefits for all of our employees, including management.

VAT and gaming levies on gross gaming revenue are as discussed above.

Consumables and services consist primarily of cost of sales of food and beverage; cash handling costs; credit card commissions; security and public safety costs; property cleaning costs; and other service contracts.

Depreciation and amortisation consists of depreciation costs on assets other than land and capital work in progress and the amortisation of intangible assets other than goodwill and intangible assets that have an indefinite life, such as the majority of our casino licences.

Promotions, marketing and sales costs consist primarily of costs associated with all complimentary food, beverage and hotel accommodation given to our gaming guests; advertising costs (which include costs for radio, press and outdoor advertising and the production thereof and prizes given as part of promotions); costs relating to loyalty programmes; costs of public relations events and activities; publishing costs for guest magazines, flyers, posters and other promotional materials; and costs relating to our participation in domestic and international travel fairs and exhibitions.

Property costs consist of utility costs and property taxes.

Property and equipment rentals consist of rental expenses paid under operating leases primarily for our slot machines, office equipment and property leases.

Other operational costs consist primarily of maintenance costs; information technology support and maintenance costs; corporate social investment costs; insurance costs; and training costs.



## Results of operations of the PeerMont group

### General

The following table presents selected condensed unaudited consolidated financial information of the PeerMont group for the periods indicated. Unless otherwise indicated, the financial information has been derived from the condensed unaudited consolidated financial statements included in Annexure A of this report.

	(unaudited) 2013	%	(unaudited) 2012
Income statement data	R'm	change	R'm
for the three months ended 30 September			
<b>Revenue</b>	<b>771,3</b>	5,5	730,9
Gaming	593,3	6,4	557,8
Rooms	79,8	4,3	76,5
Food and beverage	82,8	2,0	81,2
Other	15,4	—	15,4
Other income	2,5	*	0,9
<b>Operating costs</b>	<b>(550,2)</b>	(6,4)	(516,9)
<b>Operating profit before net finance expenses</b>	<b>223,6</b>	4,0	214,9
Finance income	263,3	*	27,7
Finance expenses	(767,8)	(77,6)	(432,2)
<b>Loss before taxation</b>	<b>(280,9)</b>	(48,2)	(189,6)
Taxation	66,3	58,6	41,8
<b>Loss for the period</b>	<b>(214,6)</b>	(45,2)	(147,8)
<b>Attributable to:</b>			
Equity holders of PeerMont	(221,3)		(154,3)
Non-controlling interests	6,7		6,5
	<b>(214,6)</b>		<b>(147,8)</b>
<b>EBITDA<sup>(1)</sup> reconciliation</b>			
Operating profit	223,6		214,9
Add: Depreciation and amortisation	64,6		60,2
<b>EBITDA</b>	<b>288,2</b>	4,8	275,1
Add: Rental charges	7,2		6,8
<b>EBITDAR<sup>(1)</sup></b>	<b>295,4</b>	4,8	281,9
<b>EBITDA margin</b>	<b>37,4%</b>		37,6%
<b>EBITDAR margin</b>	<b>38,3%</b>		38,6%

<sup>(1)</sup> We define EBITDA as earnings before interest, taxation, depreciation, amortisation and other non-cash items. EBITDAR is EBITDA before rental payments. We believe that EBITDA/R serves as a useful supplementary financial indicator to investors since it is commonly reported and widely accepted by analysts and investors in measuring a company's/group's ability to service its long-term debt and other fixed obligations and to fund its continued growth. Further, EBITDA/R is a widely accepted indicator in comparing a company's/group's underlying operating profitability with that of other companies/groups in the same industry. EBITDA/R is not an IFRS measure and you should not consider EBITDA/R as alternative to measures of net profit/loss as indicators of operating performance, as measures of cash flow from operations or as indicators of liquidity under IFRS. Funds depicted by this measure may not be available for our discretionary use (due to covenant restrictions, debt service payments and other commitments). You should note that EBITDA/R is not a uniform or standardised measure and the calculation of EBITDA/R, accordingly, may vary significantly from entity to entity, and by itself our presentation and calculation of EBITDA/R may not be comparable to that of other companies/groups. A reconciliation of EBITDA/R to operating profit for the three months ended 30 September 2013 and 30 September 2012 is provided above.

\* Greater than 100%.



	(unaudited) 2013	%	(unaudited) 2012
Income statement data for the nine months ended 30 September	R'm	change	R'm
<b>Revenue</b>	<b>2 256,8</b>	8,2	2 086,2
Gaming	1 751,5	9,3	1 602,7
Rooms	229,3	5,5	217,3
Food and beverage	229,3	3,6	221,3
Other	46,7	4,0	44,9
Other income	3,8	26,7	3,0
<b>Operating costs</b>	<b>(1 620,9)</b>	<b>(8,0)</b>	<b>(1 500,4)</b>
<b>Operating profit before net finance expenses</b>	<b>639,7</b>	<b>8,6</b>	<b>588,8</b>
Finance income	1 083,4	*	38,0
Finance expenses	(2 533,5)	*	(1 222,4)
<b>Loss before taxation</b>	<b>(810,4)</b>	<b>(36,1)</b>	<b>(595,6)</b>
Taxation	182,8	*	(23,1)
<b>Loss for the period</b>	<b>(627,6)</b>	<b>(1,4)</b>	<b>(618,7)</b>
<b>Attributable to:</b>			
Equity holders of Peermont	(643,7)		(636,4)
Non-controlling interests	16,1		17,7
	<b>(627,6)</b>		<b>(618,7)</b>
<b>EBITDA<sup>(1)</sup> reconciliation</b>			
Operating profit	639,7		588,8
Add: Depreciation and amortisation	197,9		180,2
<b>EBITDA</b>	<b>837,6</b>	<b>8,9</b>	<b>769,0</b>
Add: Rental charges	21,3		18,3
<b>EBITDAR<sup>(1)</sup></b>	<b>858,9</b>	<b>9,1</b>	<b>787,3</b>
<b>EBITDA margin</b>	<b>37,1%</b>		<b>36,9%</b>
<b>EBITDAR margin</b>	<b>38,1%</b>		<b>37,7%</b>

<sup>(1)</sup> We define EBITDA as earnings before interest, taxation, depreciation, amortisation and other non-cash items. EBITDAR is EBITDA before rental payments. We believe that EBITDA/R serves as a useful supplementary financial indicator to investors since it is commonly reported and widely accepted by analysts and investors in measuring a company's/group's ability to service its long-term debt and other fixed obligations and to fund its continued growth. Further, EBITDA/R is a widely accepted indicator in comparing a company's/group's underlying operating profitability with that of other companies/groups in the same industry. EBITDA/R is not an IFRS measure and you should not consider EBITDA/R as alternative to measures of net profit/loss as indicators of operating performance, as measures of cash flow from operations or as indicators of liquidity under IFRS. Funds depicted by this measure may not be available for our discretionary use (due to covenant restrictions, debt service payments and other commitments). You should note that EBITDA/R is not a uniform or standardised measure and the calculation of EBITDA/R, accordingly, may vary significantly from entity to entity, and by itself our presentation and calculation of EBITDA/R may not be comparable to that of other companies/groups. A reconciliation of EBITDA/R to operating profit for the nine months ended 30 September 2013 and 30 September 2012 is provided above.

\* Greater than 100%.





## **Commentary on the results for the period**

### ***The three months ended 30 September 2013 (unaudited) compared to the three months ended 30 September 2012 (unaudited)***

#### **Overview**

Group revenue increased by 5,5% from R730,9 million to R771,3 million. Gaming revenue increased by 6,4% to R593,3 million while hotel and resort revenue increased by 2,8% to R178,0 million.

Cash costs increased by 6,3%, resulting in an increase of 4,8% in EBITDA from R275,1 million to R288,2 million.

Emperors Palace achieved overall revenue growth of 5,0% from R456,6 million to R479,4 million. Gaming revenue at Emperors Palace increased by 6,2% for the quarter, mostly driven by growth in tables revenues despite flat gaming revenues in the Gauteng gaming market. The moderate growth in revenue at Emperors Palace combined with an increase in cash costs of 6,0%, translated into a 4,4% increase in Emperors Palace EBITDA from R158,9 million to R165,9 million. The balance of our operations generated revenue growth of 6,4% and EBITDA growth of 5,2% driven by our Botswana, Mmabatho Palms and Frontier properties.

#### **Revenue**

Group revenue increased by 5,5% from R730,9 million for the three months ended 30 September 2012 to R771,3 million for the three months ended 30 September 2013. Emperors Palace revenues increased by 5,0%, building on a strong third quarter in the prior year. Our Botswana operations grew revenue by 7,4% in Pula terms and our Mmabatho Palms and Frontier properties also performed well with revenue growth of 14,0% and 11,7% respectively.

Gaming revenues increased by 6,4% from R557,8 million in the quarter ended 30 September 2012 to R593,3 million in the third quarter of 2013.

Hotel and resort revenues increased by 2,8% as compared to the corresponding three months in the prior year. Rooms revenue increased by 4,3% to R79,8 million and food and beverage revenues increased by 2,0% to R82,8 million. The largest portion of this growth was contributed by the Mmabatho Palms resort. The overall performance for the group was negatively affected by relatively flat hotel and resort revenues for the quarter at Emperors Palace driven by a decline in conferencing business. The overall room occupancies for the group for the three months were 76,6%, in line with the 76,9% for the same period in the prior year.

#### **Operating costs**

Operating costs for the three months ended 30 September 2013 were R550,2 million, an increase of R33,3 million or 6,4% from R516,9 million for the three months ended 30 September 2012. Cash costs increased by 6,3% as compared to the same period in 2012.

The depreciation and amortisation charge for the quarter ended 30 September 2013 was R64,6 million, an increase of R4,4 million or 7,3% from R60,2 million for the three months ended 30 September 2012. The increased charge relates mainly to equipment and computer software capitalised in conjunction with the implementation of the new gaming system at certain of our properties in the current year.

#### **Operating profit before net finance expenses**

The resulting operating profit was R223,6 million, a 4,0% improvement on the prior period profit of R214,9 million.

#### **EBITDA**

As a result of the 5,5% increase in revenue and the 6,3% increase in cash costs, EBITDA increased by 4,8% from R275,1 million to R288,2 million for the quarter to September 2013. The group EBITDA margin was maintained at 37,4% for the current quarter as compared to 37,6% for the third quarter of 2012.





### **Finance income**

Finance income for the three months ended 30 September 2013 was R263,3 million, an increase of R235,6 million from the prior period. The variance to the prior period arose mainly due to the higher unrealised gain of R252,1 million on the SRSs to hedge the SSN liability and related coupon payments as compared to the gain of R23,8 million for the prior year period.

### **Finance expenses**

Finance expenses at R767,8 million reflected an increase of R335,6 million from the prior period charge of R432,2 million. The variance to the prior year was mainly due to the higher foreign exchange loss on the restatement of the SSN liability of R274,1 million as compared to the loss of R102,0 million recorded in the prior year, in addition to increased interest payable on the SSNs and the deeply subordinated shareholder loans.

### **Taxation**

The taxation and deferred taxation credit of R66,3 million relates mainly to the effect of deferred taxation credits as a result of estimated taxation losses arising at Peermont and certain of its subsidiaries.

### **Loss for the period**

The resulting loss after taxation amounted to R214,6 million as compared to the prior period loss of R147,8 million.

### **Operations**

#### ***Emperors Palace***

Revenue at Emperors Palace increased by 5,0% to R479,4 million as compared to R456,6 million in the same period of the prior year.

GGR increased by 6,2% to R398,7 million. This growth is in contrast with the overall Gauteng market, based on actual gaming levies paid on weekly gaming revenues, which reported flat gaming revenues for the quarter. As a result, our market share increased to approximately 24,4% in the third quarter of 2013 as compared to 23,1% in the third quarter of 2012.

Hotel and resort revenues for the quarter remained relatively flat on the prior year period at R80,7 million. Rooms revenue remained level at R36,6 million as occupancies declined while average room rates for the period increased. The overall complex rooms occupancies were still high at 83,7%, decreasing from 90,3% in the quarter to September 2012. The performance for the quarter was mainly driven by the conferencing business due to relatively subdued demand for larger conferences and events.

Cash costs increased by 6,0% to R315,9 million for the quarter. Employee costs increased by 5,0% and VAT and gaming levies increased by 7,0%. Consumables and services costs increased by 8,0%, resulting mainly from inflationary increases. Promotions and marketing costs were reduced by R1,5 million or 4,3% as compared to the prior year.

EBITDA at Emperors Palace increased by 4,4% to R165,9 million. The EBITDA margin for the quarter was at 34,6% as compared to 34,8% for the prior year quarter.

#### ***Botswana***

The Botswana revenue in Pula terms increased by 7,4% from P62,0 million (R68,9 million) for the three months ended 30 September 2012 to P66,6 million (R77,8 million) for the same period in 2013. Gaming revenues increased by 25,3% in Pula terms as compared to the prior period, largely due to the resumption of growth in both tables and slots revenues. This was brought about by a relationship management programme at the Grand Palm casino which focuses on motivating top-end players to return to the casino by personalising their gaming experience. In recent months, gaming revenue has been boosted significantly by certain regular players returning to the salon privé at the Grand Palm.

Hotel and resort revenue decreased by 3,4% to P37,4 million (R43,8 million) as both rooms and food and beverage revenues for the quarter remained under pressure as a result of the increase in supply of rooms in the Gaborone market, escalating further with the opening of the 104 room Town Lodge hotel in August 2013.





Cash costs increased by 6,5% as compared to the same quarter in 2012. Cash costs for the quarter were affected by an increase in VAT and gaming levies due to the 25,3% growth in gaming revenues, as well as an increase in promotions and marketing costs to fund the efforts to retain existing clients and pursue new business in the increasingly competitive Gaborone market. The balance of cash costs increased by less than 1% for the quarter.

EBITDA increased in Pula terms by 6,8% to P18,9 million (R22,1 million) from P17,7 million (R19,7 million) for the prior year quarter. The EBITDA margin decreased slightly to 28,4% (2012: 28,6%).

#### **Graceland**

Revenues at Graceland increased by 1,6% from R44,7 million to R45,4 million. Hotel and resort revenue increased by 8,3% as a result of an increase in rooms revenues due to increased occupancy and average room rates. This was, however, diluted by a decline in GGR to R32,3 million from R32,6 million earned in the third quarter of 2012. Slots revenue, which accounts for well over 80% of the gaming revenue at Graceland, declined marginally due to a decrease in activity for the quarter.

Cash costs increased by 7,5% as compared to the same quarter in the prior period. The costs were affected by the growth in rooms revenue and increased cost of sales percentages on food and beverage sales due to stock write-offs required after high levels of staff turnover in the stores department. As a result, EBITDA declined by 11,3% from R14,1 million to R12,5 million and EBITDA margin decreased from 31,5% to 27,5%.

#### **Umfolozi**

Revenues increased to R43,3 million from R42,9 million in the third quarter of 2012. GGR increased by 1,3% to R39,4 million driven by growth in tables revenue which was largely offset by a decline in slots revenue for the quarter. Although there was growth in overall slots activity, the overall hold percentage was lower due to an increase in the contribution from the privé slots with lower hold percentages. Hotel and resort revenues remained flat at R3,9 million as the resort increased complimentary stays offered to gaming guests with the implementation of the Bally system in September, causing average room rates to decrease.

The increase in cash costs was limited to 4,0%, however, EBITDA at R14,8 million was 3,9% below the prior period quarter. The EBITDA margin decreased to 34,2% as compared to 35,9% for the same period in 2012.

#### **Rio**

Revenue at Rio for the third quarter of 2013 increased by 3,2% to R44,8 million as compared to R43,4 million for the same period in 2012. The performance for the quarter was negatively affected by the depressed mining and agricultural sectors in Klerksdorp and surrounding areas. While GGR increased by 4,1% to R38,0 million, mostly due to growth slots revenue, hotel and resort revenue decreased to R6,8 million from R6,9 million for the same period. Although occupancies for the quarter increased, this positive impact was largely offset by a decrease in average room rates achieved while food and beverage revenue grew moderately for the quarter.

Cash costs at R28,3 million increased by 2,2% from R27,7 million in the comparable prior year period. EBITDA at R16,3 million was 3,8% above the comparable period and the EBITDA margin increased to 36,4% (2012: 36,2%).

#### **Mmabatho Palms**

The resort generated total revenue of R31,8 million for the quarter, representing growth of 14,0% as compared to the same period in 2012. GGR increased by 5,4% to R19,4 million while hotel and resort revenues increased by a remarkable 30,5% to R12,4 million for the quarter.

The growth in hotel and resort revenue is equally attributable to rooms and food and beverage revenues. The resort has experienced an increase in government business in the quarter, however revenue growth remains vulnerable to challenging trading conditions in the area.

Cash costs increased by 10,1% to R23,9 million as a result of the increased business levels. EBITDA grew by 27,4% from R6,2 million to R7,9 million and the EBITDA margin increased to 24,8% (2012: 22,2%).





### **Khoroni**

Khoroni generated revenues of R26,2 million, an increase of 5,2% as compared to prior year revenues of R24,9 million. GGR for the quarter was flat on the prior year at R18,5 million. In contrast, hotel and resort revenue increased by 20,3% to R7,7 million, driven by increased government spending.

Cash costs increased by 10,0% from R17,0 million to R18,7 million. The increase as compared to the same quarter in 2012 is mainly attributable to salary increases, increased spend on promotions and marketing and staff training expenses. EBITDA at R7,5 million was 5,1% or R0,4 million below the prior year quarter. The EBITDA margin decreased to 28,6% (2012: 31,7%).

### **Frontier**

Revenue at Frontier increased by 11,7% from R13,7 million to R15,3 million. GGR grew by 10,3% to R12,8 million, mainly as a result of growth in slots revenue boosted by the introduction of new slot machines on the floor and gaming promotions at the casino during the period. Hotel and resort revenue increased by 19,0%, driven by growth in food and beverage revenues boosted by entertainment events hosted at the resort.

Cash costs increased by 12,5%, driven by costs associated with the increase in revenue, as well as increased property costs due to a 25% increase in the average cost of electricity. EBITDA at R3,6 million was 9,1% above the prior period quarter. The EBITDA margin decreased from 24,1% to 23,5%.

### **Head office and management companies**

Head office revenue increased by 6,8% from R50,2 million to R53,6 million. The head office revenues mainly consist of the management, administration and incentive fees received from the operating units. The current quarter includes rental income of R1,1 million relating to the 152 Bryanston Drive property.

Head office EBITDA increased by 12,4% from R33,9 million in 2012 to R38,1 million in the current quarter. The high growth in EBITDA is a result of the reversal of an accrual for rates and taxes in August 2013 to the amount of R1,2 million. On a comparable basis EBITDA increased by 8,8%.

## ***The nine months ended 30 September 2013 (unaudited) compared to the nine months ended 30 September 2012 (unaudited)***

### **Overview**

Group revenue for the period increased by 8,2% from R2 086,2 million to R2 256,8 million. Gaming revenue increased by 9,3% to R1 751,5 million. Hotel and resort revenue increased by 4,5% to R505,3 million.

Cash costs increased by 7,8% from R1 320,2 million to R1 423,0 million for the nine months to September 2013.

EBITDA increased by 8,9% from R769,0 million to R873,6 million in 2013.

Emperors Palace revenues increased by 9,4% and EBITDA increased by 12,6%, boosted by an exceptional first quarter of 2013. Revenue generated by the balance of the group increased by 6,2% and EBITDA increased by 3,8%. All of our operating units showed growth in revenue for the year to date.

### **Revenue**

Group revenue increased by 8,2% from R2 086,2 million to R2 256,8 million for the current year to date. In particular our Emperors Palace, Botswana and Frontier properties performed well with revenue growth of 9,4%, 9,0% and 8,3% respectively.

Gaming revenues increased by 9,3% from R1 602,7 million to R1 751,5 million in the current year. This was positively influenced by gaming activity during and after the African Cup of Nations football tournament in the first quarter of 2013.

Hotel and resort revenues increased by 4,5% as compared to the corresponding nine months in the prior year. Rooms revenues increased by 5,5% to R229,3 million, mainly as a result of increased average room rates achieved in the current year. Our overall room occupancies for the nine months were 73,6% as compared to 73,8% in the prior year. Year-to-date food and beverage revenues increased by 3,6% to R229,3 million.





### **Operating costs**

Operating costs for the nine months ended 30 September 2013 were R1 620,9 million, an increase of R120,5 million or 8,0%, from R1 500,4 million for the prior year.

Depreciation and amortisation for the nine months ended 30 September 2013 amounted to R197,9 million, increasing by R17,7 million or 9,8% from the nine months ended 30 September 2012. The increased charge relates mainly to equipment and computer software capitalised in conjunction with the implementation of the new gaming system at certain of our properties in the current year.

### **Operating profit before net finance expenses**

The resulting operating profit for the nine months at R639,7 million was R50,9 million or 8,6% above the prior period's R588,8 million.

### **EBITDA**

EBITDA increased by 8,9% to R837,6 million from R769,0 million in the nine months to September 2012. The group EBITDA margin increased to 37,1% from 36,9% in September 2012.

### **Finance income**

Finance income was R1 083,4 million, an increase of R1 045,4 million from the prior period. The variance to the prior period was mainly due to a higher foreign exchange gain of R1 061,1 million on the SRSs to hedge the SSN liability and related coupon payments as compared to the gain of R27,5 million for the prior year period.

### **Finance expenses**

Finance expenses at R2 533,5 million reflected an increase of R1 311,1 million from the prior period charge of R1 222,4 million. This increase is mainly as a result of the foreign exchange loss on the restatement of the SSN liability at R1 040,4 million for the nine months to September 2013 as compared to a gain of R76,5 million recorded for the same period in the prior year, in addition to increased interest payable on the SSNs and the deeply subordinated shareholder loans.

### **Taxation**

The taxation and deferred taxation credit of R182,8 million relates mainly to the effect of deferred taxation credits as a result of estimated taxation losses arising at Peermont and certain of its subsidiaries. As previously reported, the deferred taxation charge in the prior year was a result of the increase in the taxation rate applied to capital gains in South Africa from an effective 14,0% to 18,7% as announced by the Minister of Finance in February 2012.

### **Loss for the period**

The resulting loss after taxation amounted to R627,6 million as compared to the prior period loss of R618,7 million.

### **Operations**

#### ***Emperors Palace***

Revenue at Emperors Palace increased by 9,4% to from R1 304,9 million to R1 427,2 million.

CGR increased by 11,0% to R1 195,0 million. Our market share, based on actual gaming levies paid by casinos in Gauteng on weekly gaming revenues, increased from approximately 23,1% in the first nine months of 2012 to 24,6% in 2013. As previously reported, the gaming performance was boosted by certain foreign tables players visiting the casino during and after the African Cup of Nations football tournament which was hosted in South Africa in the first quarter of 2013.

Hotel and resort revenue growth for the nine months was diluted by the relatively subdued demand for larger conferences and events and increased by R3,4 million to R232,2 million as compared to the prior year. Rooms revenue increased by 4,6% to R106,0 million from R101,3 million in the prior period, mainly attributable to an increase in average room rates. The overall complex occupancies for the nine months to September 2013 were 82,3%, slightly below the 84,9% reported in the prior year comparable period. The increase in rooms revenue for the quarter was offset by a decline in food and beverage revenue resulting from the decline in conferencing business.





Cash costs increased by 7,9% to R927,4 million in the current period. VAT and gaming levies increased by 11,0% and management fees increased by 9,0%, both due to the increase in gaming revenues. Staff costs increased by 7,2% due to salary increases, reduced staff vacancies and increased human resources accruals. The increase in utility and property costs was limited to 2,1% for the period mainly due to electricity savings. Promotions and marketing costs were reduced by 3,2% or R3,4 million as compared to the prior year.

EBITDA at Emperors Palace increased by 12,6% to R502,6 million. The EBITDA margin for the nine months ended September 2013 increased to 35,2% from 34,2% for the comparable prior year period.

#### ***Botswana***

Revenue in Pula terms increased by 4,4% from P184,3 million (R203,9 million) for the nine months ended 30 September 2012 to P192,4 million (R222,3 million) for the same period in 2013. Revenues in Rand terms increased by 9,0%. Gaming revenues increased by 14,4% compared to the prior period, mainly attributable to an increase of tables activity and improved hold percentages as certain regular players returned to the salon privé at the Grand Palm. Hotel and resort revenue continues to be affected by the increase in supply of rooms in Gaborone. The year to date revenue declined by 1,8% to P111,6 million (R129,0 million), mostly driven by a decrease in rooms revenue resulting from a decline in occupancy from 68,4% to 65,2%.

Cash costs increased by 7,1% as compared to the same period in 2012. Cash costs for the period were negatively affected by property rental costs increasing by P2,1 million (R2,7 million) to P7,7 million (R8,9 million), mainly as a result of additional performance rental provided for in respect of the Gaborone International Convention Centre. On a comparable basis cash costs increased by 5,7%.

EBITDA declined in Pula terms by 3,2% to P53,9 million (R62,2 million) for the nine months ended September 2013, from P55,7 million (R61,6 million) for the prior year period. The EBITDA margin decreased to 28,0% (2012: 30,2%).

#### ***Graceland***

Graceland revenues increased by 7,0% from R123,5 million to R132,5 million. GGR increased by 5,1% to R96,4 million from R91,7 million, driven by growth in tables activity as well as improved hold percentages on both tables and slots. Hotel and resort revenues increased by 12,6% as compared to the prior period, boosted by good growth in corporate business which led to increased occupancies as well as food and beverage sales.

Cash costs increased by 8,3% compared to the same period in 2012. The increases in variable costs were diluted by a low increase of 3,2% in employee costs and a 4,1% reduction in promotions and marketing costs. Cost of sales on food and beverage revenue was negatively affected by stock write-offs required after high levels of staff turnover in the stores department.

EBITDA increased by 4,4% from R36,6 million to R38,2 million and the EBITDA margin decreased from 29,6% for the first nine months in 2012 to 28,9% for the same nine months in 2013.

#### ***Umfolazi***

Revenues increased by 5,5% to R125,6 million as compared to the same period in the prior year. GGR increased by 4,7% to R114,0 million from R108,9 million in 2012. Hotel and resort revenues increased by 13,7% to R11,6 million in the current year, boosted by growth in food and beverage revenue generated by the banqueting business.

Cash costs increased by 5,6% to R83,0 million as compared to the prior year.

EBITDA at R42,9 million was 5,7% above the prior period. This resulted in the EBITDA margin remaining relatively flat at 34,2% (2012: 34,1%).

#### ***Rio***

Rio generated revenue of R124,7 million for the nine months ended 30 September 2013, a small increase as compared to the prior year period. The results for the year to date were negatively affected by the depressed mining





and agricultural sectors in Klerksdorp and surrounding areas. GGR remained flat at R107,3 million for the nine months as growth in tables revenue was offset by a decline in slots activity. Hotel and resort revenue increased by 5,5%, mainly driven by growth in food and beverage revenue, particularly in the levels of banqueting business.

Cash costs were well controlled and increased by 1,9% as compared to the prior year.

EBITDA decreased by 1,1% from R45,0 million in 2012 to R44,5 million in 2013. The EBITDA margin decreased to 35,7% from 36,3% in 2012.

#### ***Mmabatho Palms***

The resort generated revenue of R83,8 million for the nine months, an increase of 7,4% on the same period in 2012. GGR increased by 5,3% to R54,1 million from R51,4 million in the comparable period in 2012. Hotel and resort revenues increased by 11,7% as compared to the prior year.

The prior year results include revenue and expenses derived from the Mmabatho staff complex which was accounted for on a jointly controlled basis until December 2012 when the option to acquire 50,0% of the shares in the company owning the staff complex was sold. On a comparable basis, hotel and resort revenues increased by 19,3% and overall revenue increased by 9,8%, mostly due to the positive performance in the third quarter.

Cash costs increased by 7,4% to R66,6 million in the current period. On a comparable basis cash costs increased by 8,8%, a relatively low increase considering the growth in revenue.

As a result, EBITDA increased by 7,5% from R16,0 million to R17,2 million in the year to date. The EBITDA margin was in line with the prior year period at 20,5%. On a comparable basis EBITDA increased by 13,9%.

#### ***Khoroni***

Khoroni grew revenue by a modest 3,0% from R72,3 million to R74,5 million for the nine months to September 2013. While GGR decreased by 1,3% due to a decline in slots activity, hotel and resort revenues increased by 16,2% as compared to the prior year period, driven by improved hotel occupancy and room rates.

Cash costs increased by 7,0% to R53,7 million compared to the prior year period. EBITDA at R20,8 million was 6,7% below the R22,3 million for the same period in 2012, resulting in a decrease in the EBITDA margin to 27,9% (2012: 30,8%).

#### ***Frontier***

Frontier generated revenues of R44,4 million, an increase of 8,3% on the prior period. GGR increased by 7,7%, largely attributable to increased slots activity and improved hold percentages on slots and tables. Hotel and resort revenue increased by 11,5% as compared to the prior year period, as a result of growth in food and beverage revenue generated through conferences, functions and events hosted at the property.

Cash costs increased by 10,0%, largely as a result of increased cost of sales relating to food and beverage revenue and an increase in employee costs as a result of increased headcount to improve service delivery and prepare for the roll-out of the new gaming system.

EBITDA at R10,5 million was flat on the comparable nine months in the prior year. The EBITDA margin decreased to 23,6% (2012: 25,6%).

#### ***Head office and management companies***

Head office revenue increased by 8,4%, from R141,4 million to R153,3 million. The head office revenues mainly consist of the management, administration and incentive fees received from the operating units. The current year period also includes rental income of R3,2 million relating to the 152 Bryanston Drive property.

Head office EBITDA increased by 9,2% from R91,9 million in 2012 to R100,4 million in 2013.



## Liquidity and capital resources

Historically, our liquidity requirements have arisen primarily from the need to fund our capital expenditure and our acquisitions. Our principal source of liquidity has been our cash flows from operating activities and borrowings under our credit facilities. Our liquidity requirements will arise primarily to meet our debt service obligations in respect of the notes and to fund capital expenditures and working capital requirements. Our principal sources of liquidity are expected to be cash flows from operations; future borrowings permitted by the indenture; and amounts available under our RCF.

We may from time to time seek to repurchase amounts of the notes through cash purchases and/or exchanges for equity, in open-market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. We may fund these requirements with funds realised from our hedging arrangements, operating cash flows and, subject to the satisfaction of the required conditions to borrowing, drawings under our RCF or additional debt.

As detailed in this report, the group's intended capital restructure and debt refinancing was announced on 3 November 2013. The resulting transactions will facilitate meeting the liquidity requirements relating to the maturity of the SSNs and the renewal of the RCF.

## Cash flows

The following table sets out our condensed unaudited consolidated cash flows for the periods ended 30 September 2013 and 2012:

	(unaudited) 2013	(unaudited) 2012
	R'm	R'm
<b>Cash flow data</b>		
for the nine months ended 30 September		
Cash inflows from operating activities	<b>833,8</b>	782,6
Finance income received	<b>22,2</b>	9,9
Finance expenses paid	<b>(419,3)</b>	(387,4)
Taxation paid	<b>(18,4)</b>	(17,3)
Net cash inflows from operating activities	<b>418,3</b>	387,8
Cash outflows from investing activities	<b>(203,6)</b>	(140,8)
Cash outflows from financing activities	<b>(20,6)</b>	(21,1)
Net increase in cash and cash equivalents	<b>194,1</b>	225,9

### *Cash inflows from operating activities*

Cash inflows from operating activities for the period were R833,8 million compared to R782,6 million for the period ended 30 September 2012.

#### *Finance income received*

This consists mainly of interest received on cash deposits at financial institutions which has increased in comparison to the prior period. The increase is attributable to increased net cash balances on hand.

#### *Finance expenses paid*

This is made up of hedged interest paid on the SSNs of R362,5 million (2012: R337,5 million), interest paid on the deferred hedging loan of R30,0 million (2012: R30,7 million), as well as interest on other borrowings by head office and PGEFS.

#### *Taxation paid*

The group made certain taxation payments in the ordinary course of business and certain of the subsidiaries, such as PGSH, PGB and PGMKZN will continue to incur taxation cash flows.





### ***Cash outflows from investing activities***

The net cash outflow from investing activities for the nine months was R203,6 million. This includes net replacement capital expenditure of R191,5 million and expansion capital expenditure of R12,1 million, the details of which are presented later in this report under the heading “Capital expenditures”.

### ***Cash outflows from financing activities***

Net cash outflows used in financing activities for the period amounted to R20,6 million. This includes R11,3 million relating to the redemption of the non-controlling shareholder’s portion of the preference shares in PGB as well as the normal redemption of debt by head office and PGEFS.

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

At 30 September 2013 the group was in a net positive cash position of R250,5 million. There was no cash utilisation of the RCF on the reporting date. Details of R55,6 million cash not available to the group for third party flows are presented later in the report.

### ***Capital expenditures***

Our net capital expenditures in the nine months ended 30 September 2013 and 2012, were R203,6 million and R139,8 million respectively. Cash used for capital expenditures consists primarily of (a) cash used for the replacement of gaming equipment and hotel furniture, fittings and equipment and property refurbishment as well as other assets used for the maintenance of our properties, plant and equipment net of proceeds received from the sale of property, plant and equipment (“replacement capital expenditure”); and (b) cash used to expand (other than by way of acquisitions) our business capacity to increase revenue and profitability (“expansion capital expenditure”). Expansion capital expenditure includes the purchase of additional gaming equipment, expansion of existing properties and the development of new properties.

Our net replacement capital expenditures in the nine months ended 30 September 2013 and 2012 were R191,5 million and R139,8 million, representing approximately 8,5% and 6,7% of total revenue, respectively. We expect the 2013 replacement capital expenditure to normalise at approximately 6,7% of revenue by year end. This expenditure consisted of approximately R52,9 million spent on slots replacement throughout the group; R74,9 million on computer software and equipment on installation of the new gaming system; P4,8 million (R5,5 million) relating to refurbishment at the Walmont hotel at the Grand Palm and the Metcourt hotel in Francistown and the balance on normal replacement capital expenditure. In 2012 our replacement capital expenditure consisted of approximately R58,8 million spent on slots replacement throughout the group; R27,5 million on equipment in preparation for 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.

Our expansion capital expenditure for the nine months ended 30 September 2013 was R12,1 million, including R7,8 million on the restaurant and bar at Rio; R3,3 million spent on the Club Floor Lounge at Emperors Palace; and P0,8 million (R1,0 million) on the Chinese restaurant and spa at the Grand Palm resort. There was no material expansion capital expenditure incurred in the nine months to September 2012.

### ***Available capital resources***

Our principal source of funds is provided by cash flows from operations; amounts raised as specific project debt allowed per the indenture; and amounts available under our RCF. The RCF of R550,0 million is available until 27 December 2013.

At 30 September 2013, of the R550,0 million available under our RCF for working capital and general corporate purposes, R59,0 million of the facility had been utilised to provide guarantees to various gambling boards and financial institutions. Cash held of R55,6 million included in the reported balance of R250,5 million but not available to the group consists of approximately R30,0 million required for operational and cash floats and R25,6 million held on behalf of trust beneficiaries. After adjustment for the above, capacity of R491,0 million under the RCF and cash of R194,9 million was available for group requirements at 30 September 2013.



Although we believe that our expected cash flow from operations, together with available facilities, will be sufficient to meet our needs for the foreseeable future, we cannot assure you that our business will generate sufficient cash flow from operations to meet these needs or that future debt or equity financing will be available to us in an amount sufficient to enable us to fund our working capital or other liquidity needs, including making payments under the notes or our other debt when these become due.

If our working capital requirements exceed our projections, or if our operating cash flow is lower than expected, we may be required to seek additional financing, which may not be available on commercially reasonable terms, if at all. Our ability to arrange financing generally and our cost of capital depends on numerous factors, including general economic conditions; the availability of credit from banks, other financial institutions and in the capital markets; restrictions in instruments governing our indebtedness; and our general financial performance. Our inability to obtain the funding necessary for our working capital requirements could adversely affect our ability to service our debt obligations and adequately fund our operations. See “Risk Factors” set out in this report and on the company’s website. Our business may be adversely affected as a result of our substantial indebtedness, which requires the use of a significant portion of our cash flow to service our debt obligations and may limit access to additional capital. Our ability to generate sufficient cash in the future depends on many factors, some of which are beyond our control.

### **Scheduled repayments of our current obligations**

Set out below is a summary of amounts due and committed under our contractual cash obligations at 30 September 2013:

	Less than			After	Total
	1 year R'm	1 – 3 years R'm	3 – 5 years R'm	5 years R'm	
Second priority SSNs <sup>(1)(3)</sup>	5 791,5	—	—	—	5 791,5
Deferred hedging loan <sup>(3)</sup>	25,5	—	400,0	—	425,5
Deeply subordinated shareholder loans	—	—	—	5 764,0	5 764,0
PIK Equity Loan <sup>(2)(3)</sup>	—	—	—	3 527,6	3 527,6
PIK Notes Loan <sup>(2)(3)</sup>	—	—	—	2 236,4	2 236,4
Bank borrowings <sup>(4)</sup>	29,6	4,9	—	—	34,5
	5 846,6	4,9	400,0	5 764,0	12 015,5
Operating lease commitments	13,1	22,7	22,8	207,6	266,2
<b>Total</b>	<b>5 859,7</b>	<b>27,6</b>	<b>422,8</b>	<b>5 971,6</b>	<b>12 281,7</b>

<sup>(1)</sup> The amount reflected is €416,1 million disclosed at the current spot rate, less unamortised issue costs and discounts, plus accrued interest, the capital of which is due in April 2014.

<sup>(2)</sup> The amount reflected includes the capital owing and accrued and capitalised interest on subordinated long-term shareholder funding from PGH II. In terms of the deeply subordinated shareholder loan agreement, the deeply subordinated shareholder loans do not require any amortisation or other payment of interest or principal before 27 April 2037, nor may the loan holder declare any event of default or take any enforcement action prior to that date.

<sup>(3)</sup> The group has recently announced a refinance/restructure of the deeply subordinated shareholder loans (not due before 2037), the SSNs (contractually due 2014) and the deferred hedging loan (contractually due 2017) which is planned to take place in the first four months of 2014. See “Update on recapitalisation” presented later in this report.

<sup>(4)</sup> Bank borrowings comprise secured loan facilities from financial institutions in South Africa. This does not reflect amounts outstanding under, or that may in future be borrowed under, the RCF.



## **Pension plans**

We provide defined contribution funds for the benefit of employees, the assets of which are held in separate funds. Our contributions to defined contribution funds are charged to our income statement during the year in which these are incurred.

## **Off-balance sheet arrangements**

We have no off-balance sheet arrangements.

## **Contingent liabilities**

### *Taxation*

As previously reported, SARS has challenged the taxation effect of a R33,8 million gain made by PGERH on the realisation of a foreign currency option contract in 2005. The company obtained two Senior Counsel opinions at the time of submitting the taxation return and consequently treated the gain as non-taxable. SARS assessed the company for taxation and interest. PGERH sought to resolve the matter through an alternate dispute resolution mechanism, but this was unsuccessful. The group's legal advisors remain in contact with SARS officials in an attempt to resolve this long-outstanding dispute. Should the SARS interpretation prove to be correct, the group may be exposed to an additional taxation liability of approximately R9,8 million and any interest and/or penalties assessed by SARS.

### *Restructure advisors*

The terms of the mandates agreed with financial advisors retained by the company, in relation to a review of the group debt and equity structures, provide that a combined success fee of approximately R34,6 million will be payable if a definitive restructuring and/or refinancing transaction is concluded.

## **Legal proceedings**

We are party to various claims and legal actions in the ordinary course of our business. We believe that such claims and actions, either individually or in aggregate, will not have a material adverse effect on our business, financial condition or results of operations.

## **Events subsequent to quarter end**

Please refer to the recent developments section of this report to see details of the recently announced recapitalisation and refinancing of the company and group's equity and debt structures.

No other material events and circumstances have occurred subsequent to the quarter end up to the date of this report.

## **Market risk**

### *Foreign currency risk*

Our condensed unaudited consolidated financial results are affected by currency transactions and translation effects resulting from fluctuations in the exchange rates between the Rand and other currencies, principally the Euro, Pula and US\$.

In connection with the issuance of the notes, we entered into SRSs to hedge the Rand equivalent of the current principal amount of €416,1 million, and interest due under the notes to the maturity of the notes at April 2014.

Currency translation effects occur due to the fact that our Botswana company earned all of its revenue in Pula and also prepared its financial statements in this currency. For group consolidation purposes these financial statements are translated to Rand, the group's reporting currency. In 2012 we earned 9,7% of our revenue and incurred approximately 10,7% of our total costs in Pula. We do not hedge this exposure.



From time to time, we incur costs in Euro or US\$ that principally relate to purchases of imported gaming equipment. We enter into FECs from time to time to cover foreign exchange payment obligations in respect of these purchases.

The table below indicates the exchange rates used in the period covered in this report:

	Average for 3 months		Average for 9 months		Closing spot rate	
	2013	2012	2013	2012	2013	2012
Euro/Rand	<b>13,24</b>	10,33	<b>12,48</b>	10,30	<b>13,62</b>	10,64
Pula/Rand	<b>1,19</b>	1,10	<b>1,16</b>	1,11	<b>1,20</b>	1,10

#### **Interest rate risk**

We have a policy of managing our exposure to changes in floating interest rates on our borrowings.

The notes interest is fixed at 7¾% until April 2014 and the related foreign currency risk is fully hedged. The deeply subordinated shareholder loans bear interest at fixed rates. The interest rate of the PIK Equity Loan with a balance of R3 527,6 million (2012: R2 826,8 million) at period end is fixed at 21,5% NACS. The interest rate of the PIK Notes Loan with a balance of R2 236,4 million (2012: R1 854,5 million) is fixed at 18,0% NACS. The deferred hedging loan bears interest at a rate of JIBAR plus 9,75%, which is reset at each coupon payment date.

#### **Critical accounting policies and use of estimates**

The preparation of our financial statements requires management to make estimates and judgements that affect the reported amount of assets, liabilities and net profit. Management re-evaluates its estimates on an ongoing basis. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the value of such assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Details of accounting policies, which were consistently applied, and significant estimates made were set out in our audited annual financial statements for the year ended 31 December 2012. Please refer to these for more detail.

#### **New accounting interpretations issued and not yet effective**

Management has evaluated the effect of all new standards, amendments and interpretations that have been issued prior to the date of this report, which would be effective for the group's accounting period on or after 1 October 2013. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the group's results.

#### **New and ongoing developments**

##### **Update on recapitalisation**

On 3 November 2013, the group announced that it had reached an agreement with its stakeholders to recapitalise the group and to raise R5,3 billion of new Rand-denominated debt. The new capital structure reduces the debt levels of the group and will significantly enhance its long-term sustainability and allows for greater flexibility to pursue further growth opportunities.

The recapitalisation of the group's consolidated balance sheet will be supported by a R4,1 billion local six-year senior debt finance package, underwritten by RMB and jointly arranged with ABSA, Investec and Standard Bank. The senior debt will be supplemented by a R1,2 billion six-and-a-half-year Rand-denominated mezzanine debt package provided by certain of the group's existing creditors.

The new R5,3 billion debt package will be used to refinance existing local and foreign debt, including the Euro-denominated SSNs (which will be redeemed at par) and associated currency hedges due in April 2014. The new debt package significantly lowers debt funding costs and eliminates expensive currency hedging going forward.

The PGH II PIK Notes will be replaced with cumulative, redeemable no par value preference shares at PGH II level. Overall debt levels will be further reduced through the replacement by participating investors of the PIK Equity Loan amounting to approximately R3,7 billion, with ordinary shares amounting to approximately 72% of the group's equity.





The refinancing and the restructuring are subject to conditions precedent customary for transactions of this nature, including finalisation of finance documents and any regulatory approvals required. Closing is expected to occur in March 2014, ahead of the maturity of the SSNs. Redemption of the SSNs, notice of which is expected to be given at the time the conditions precedent are satisfied, will be made in accordance with the indenture under which the SSNs were issued.

#### ***Thaba Moshate Hotel Casino and Convention Resort***

The long-awaited construction of the Thaba Moshate resort commenced in September 2013 and is expected to be completed in 2015. To date Peermont has invested approximately R26,9 million in this project, including R21,5 million in respect of land and infrastructure costs. The overall construction cost is currently estimated at R325 million. The High Court application brought by a property developer regarding the original township establishment process, which was reported on previously, has now been dismissed by the Court. In addition, the Peermont Board has obtained a satisfactory Senior Counsel opinion regarding the land claim pending on this property.

#### ***Gaming system upgrade***

The roll-out of the Bally gaming system throughout the group's casinos is in its final stages. As previously reported, the system has already been successfully installed at our Botswana, Graceland, Emperors Palace, Khoroni, Umfolozi and Rio properties. Frontier installed the system in November. The roll-out phase is planned to reach completion with the implementation of the system at Mmabatho Palms early in 2014. The overall cost to the group is expected to amount to approximately R111 million. Approximately R31 million was funded out of 2011 and 2012 replacement capital expenditure budgets. Approximately R78 million of the balance of R80 million is expected to be funded from the 2013 replacement capital expenditure budget and the remaining R2 million from the 2014 budget.

#### ***152 Bryanston Drive offices***

The sale of these premises is subject to municipal approval of the rezoning of the property, expected in the second quarter of 2014. The net proceeds of R48 million plus escalation of 6% since 1 July 2012 will be used, inter alia, to settle the outstanding mortgage liability of approximately R24,8 million as at 30 September 2013.

#### ***Taung leasehold property***

PGNW has entered into an agreement to dispose of the Taung leasehold property and related assets to an unrelated party for a consideration of R5,0 million. The purchase consideration has been received, however, the agreement remains subject to certain conditions precedent, most significantly the transfer of the property lease to the purchaser.



## ANNEXURE A

# CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF **Peermont Global Limited and its subsidiaries**

for the three and nine months ended 30 September 2013

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## PeerMont Global Limited and its subsidiaries

### GROUP INCOME STATEMENT

for the three months ended 30 September

	Note	2013 R'm	2012 R'm
<b>Revenue</b>		<b>771,3</b>	730,9
Gaming		593,3	557,8
Rooms		79,8	76,5
Food and beverage		82,8	81,2
Other		15,4	15,4
Other income	1	2,5	0,9
		<b>773,8</b>	731,8
<b>Operating costs</b>		<b>(550,2)</b>	(516,9)
Employee costs		(163,2)	(153,2)
VAT and gaming levies on gross gaming revenue		(118,9)	(111,4)
Promotions and marketing		(44,6)	(44,3)
Depreciation and amortisation		(64,6)	(60,2)
Property and equipment rentals		(7,2)	(6,8)
Property costs		(34,4)	(33,5)
Consumables and services		(82,1)	(75,1)
Other operational costs		(35,2)	(32,4)
<b>Operating profit before net finance expenses</b>		<b>223,6</b>	214,9
<b>Net finance expenses</b>		<b>(504,5)</b>	(404,5)
Finance income	2	263,3	27,7
Finance expenses	2	(767,8)	(432,2)
<b>Loss before taxation</b>		<b>(280,9)</b>	(189,6)
Taxation		66,3	41,8
<b>Loss for the period</b>		<b>(214,6)</b>	(147,8)
<b>Attributable to:</b>			
Equity holders of PeerMont		(221,3)	(154,3)
Non-controlling interests		6,7	6,5
		<b>(214,6)</b>	(147,8)

### GROUP STATEMENT OF COMPREHENSIVE INCOME

for the three months ended 30 September

	2013 R'm	2012 R'm
<b>Loss for the period</b>	<b>(214,6)</b>	(147,8)
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Exchange differences on translating foreign operations	2,2	0,4
<b>Total comprehensive income for the period</b>	<b>(212,4)</b>	(147,4)
<b>Attributable to:</b>		
Equity holders of PeerMont	(220,0)	(154,1)
Non-controlling interests	7,6	6,7
	<b>(212,4)</b>	(147,4)



## PeerMont Global Limited and its subsidiaries

### GROUP INCOME STATEMENT

for the nine months ended 30 September

	Note	2013 R'm	2012 R'm
<b>Revenue</b>		<b>2 256,8</b>	2 086,2
Gaming		1 751,5	1 602,7
Rooms		229,3	217,3
Food and beverage		229,3	221,3
Other		46,7	44,9
Other income	1	3,8	3,0
		<b>2 260,6</b>	2 089,2
<b>Operating costs</b>		<b>(1 620,9)</b>	(1 500,4)
Employee costs		(489,2)	(454,2)
VAT and gaming levies on gross gaming revenue		(349,6)	(319,5)
Promotions and marketing		(132,1)	(132,5)
Depreciation and amortisation		(197,9)	(180,2)
Property and equipment rentals		(21,3)	(18,3)
Property costs		(85,8)	(83,4)
Consumables and services		(234,9)	(215,0)
Other operational costs		(110,1)	(97,3)
<b>Operating profit before net finance expenses</b>		<b>639,7</b>	588,8
<b>Net finance expenses</b>		<b>(1 450,1)</b>	(1 184,4)
Finance income	2	1 083,4	38,0
Finance expenses	2	(2 533,5)	(1 222,4)
<b>Loss before taxation</b>		<b>(810,4)</b>	(595,6)
Taxation		182,8	(23,1)
<b>Loss for the period</b>		<b>(627,6)</b>	(618,7)
<b>Attributable to:</b>			
Equity holders of PeerMont		(643,7)	(636,4)
Non-controlling interests		16,1	17,7
		<b>(627,6)</b>	(618,7)

### GROUP STATEMENT OF COMPREHENSIVE INCOME

for the nine months ended 30 September

	2013 R'm	2012 R'm
<b>Loss for the period</b>	<b>(627,6)</b>	(618,7)
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Exchange differences on translating foreign operations	10,0	(2,5)
<b>Total comprehensive income for the period</b>	<b>(617,6)</b>	(621,2)
<b>Attributable to:</b>		
Equity holders of PeerMont	(637,7)	(637,9)
Non-controlling interests	20,1	16,7
	<b>(617,6)</b>	(621,2)





## PeerMont Global Limited and its subsidiaries

### GROUP STATEMENT OF FINANCIAL POSITION

at 30 September

	Note	2013 R'm	2012 R'm
<b>Assets</b>			
<b>Total non-current assets</b>		<b>8 763,1</b>	8 782,5
Property, plant and equipment	3	4 133,4	4 178,1
Intangible assets	4	4 612,4	4 583,2
Investments		3,7	4,9
Loans and receivables		0,4	0,3
Derivative instruments		—	8,7
Deferred taxation assets		13,2	7,3
<b>Total current assets</b>		<b>1 633,5</b>	429,0
Non-current asset held for sale*		41,0	36,6
Inventories		58,5	54,4
Trade and other receivables		141,8	108,6
Amounts due by related parties		49,8	33,2
Loans and receivables		0,6	1,0
Current portion of derivative instruments		1 086,8	10,1
Taxation receivable		4,5	0,7
Cash and cash equivalents		250,5	184,4
<b>Total assets</b>		<b>10 396,6</b>	9 211,5
<b>Equity and liabilities</b>			
<b>Equity</b>			
Capital and reserves		(2 415,1)	(1 698,7)
Non-controlling interests		109,4	94,1
<b>Total equity</b>		<b>(2 305,7)</b>	(1 604,6)
<b>Total non-current liabilities</b>			
Interest-bearing long-term borrowings*	5	6 168,9	9 380,4
Amounts due to related parties		24,2	26,9
Deferred taxation liabilities		258,8	514,5
<b>Total current liabilities</b>		<b>6 250,4</b>	894,3
Trade and other payables		388,5	342,3
Current portion of derivative instruments		—	337,1
Current portion of interest-bearing long-term borrowings*	5	5 846,6	199,4
Amounts due to related parties		14,4	11,1
Taxation payable		0,9	4,4
<b>Total equity and liabilities</b>		<b>10 396,6</b>	9 211,5

\* Certain prior period amounts have been reclassified to improve comparability.



## PeerMont Global Limited and its subsidiaries

### GROUP STATEMENT OF CHANGES IN EQUITY

for the nine months ended 30 September

	Share capital R'm	Share premium R'm	Translation reserve R'm	Accumulated loss R'm	Capital and reserves R'm	Non-controlling interests R'm	Total equity R'm
Balance at 1 January 2012	0,2	381,0	(4,0)	(1 439,3)	(1 062,1)	93,6	(968,5)
Total comprehensive income for the period							
Loss for the period	—	—	—	(636,4)	(636,4)	17,7	(618,7)
Other comprehensive income	—	—	(1,5)	—	(1,5)	(1,0)	(2,5)
Transactions with owners accounted directly in equity							
Redemption of PGB preference shares	—	—	—	—	—	(12,3)	(12,3)
Preference share dividends paid to PGB non-controlling interest	—	—	—	—	—	(0,5)	(0,5)
Acquisition of non-controlling interest	—	—	—	1,3	1,3	(2,3)	(1,0)
Dividends paid	—	—	—	—	—	(1,1)	(1,1)
<b>Balance at 30 September 2012</b>	<b>0,2</b>	<b>381,0</b>	<b>(5,5)</b>	<b>(2 074,4)</b>	<b>(1 698,7)</b>	<b>94,1</b>	<b>(1 604,6)</b>
Balance at 1 January 2013	0,2	381,0	(4,6)	(2 153,5)	(1 776,9)	101,7	(1 675,2)
Total comprehensive income for the period							
Loss for the period	—	—	—	(643,7)	(643,7)	16,1	(627,6)
Other comprehensive income	—	—	6,0	—	6,0	4,0	10,0
Transactions with owners accounted directly in equity							
Redemption of PGB preference shares	—	—	—	—	—	(11,3)	(11,3)
Adjustment to non-controlling interest	—	—	—	(0,5)	(0,5)	0,5	—
Dividends paid	—	—	—	—	—	(1,6)	(1,6)
<b>Balance at 30 September 2013</b>	<b>0,2</b>	<b>381,0</b>	<b>1,4</b>	<b>(2 797,7)</b>	<b>(2 415,1)</b>	<b>109,4</b>	<b>(2 305,7)</b>

### GROUP STATEMENT OF CASH FLOWS

for the nine months ended 30 September

	2013 R'm	2012 R'm
<b>Cash inflows from operating activities</b>	<b>833,8</b>	782,6
Finance income received	22,2	9,9
Finance expenses paid	(419,3)	(387,4)
Taxation paid	(18,4)	(17,3)
<b>Net cash inflows from operating activities</b>	<b>418,3</b>	387,8
<b>Cash outflows from investing activities</b>	<b>(203,6)</b>	(140,8)
Replacement of property, plant and equipment to maintain operations	(172,9)	(138,9)
Replacement of intangible assets to maintain operations	(19,1)	(1,6)
Proceeds on disposal of property, plant and equipment	0,5	0,7
Acquisition of property, plant and equipment to expand operations	(12,1)	—
Acquisition of non-controlling interest	—	(1,0)
<b>Cash outflows from financing activities</b>	<b>(20,6)</b>	(21,1)
Redemption of PGB preference shares – non-controlling interest	(11,3)	(12,3)
Interest-bearing long-term borrowings repaid	(6,4)	(6,7)
Decrease in non-current amounts due to related parties	(2,9)	(2,5)
Dividends paid to non-controlling interests	(0,2)	(0,1)
Enterprise development loans receivable repaid	0,2	0,5
<b>Net increase in cash and cash equivalents</b>	<b>194,1</b>	225,9
Cash and cash equivalents at the beginning of the period	54,4	(41,3)
Effect of exchange rate fluctuations on cash held	2,0	(0,2)
<b>Cash and cash equivalents at the end of the period</b>	<b>250,5</b>	184,4





## PeerMont Global Limited and its subsidiaries

### NOTES TO THE GROUP FINANCIAL STATEMENTS

for the period ended 30 September

	Three months ended 30 September		Nine months ended 30 September	
	2013 R'm	2012 R'm	2013 R'm	2012 R'm
<b>1. Other income</b>				
Insurance claims received	1,7	0,3	2,2	0,3
Prescription income	0,7	—	1,0	—
Refunds received	0,3	0,7	0,6	2,3
(Loss)/profit on disposal of property, plant and equipment	(0,2)	(0,1)	*	0,4
	<b>2,5</b>	<b>0,9</b>	<b>3,8</b>	<b>3,0</b>
<b>2. Net finance expenses</b>				
Foreign exchange gains on SRSs to hedge SSN liability and related coupon payments	252,1	23,8	1 061,1	27,5
Interest received	11,0	3,7	20,7	9,8
Foreign exchange gains – realised	0,1	0,1	1,4	0,4
Interest accrued on preference shares	0,1	0,1	0,2	0,3
<b>Finance income</b>	<b>263,3</b>	<b>27,7</b>	<b>1 083,4</b>	<b>38,0</b>
Foreign exchange loss on restatement of SSN liability	(274,1)	(102,0)	(1 040,4)	(76,5)
Interest payable – deeply subordinated PIK Equity Loan	(229,2)	(117,9)	(574,9)	(346,1)
Interest paid/payable – SSNs	(134,7)	(104,4)	(380,5)	(311,3)
Interest payable – deeply subordinated PIK Notes Loan	(101,5)	(84,1)	(292,3)	(243,9)
Interest paid/payable – deferred hedging loan	(15,2)	(15,6)	(45,1)	(46,4)
Other interest paid	(13,1)	(8,2)	(27,1)	(26,0)
Foreign exchange loss on SSN coupon payment	—	—	(172,1)	(172,2)
Preference dividends paid to non-controlling interest	—	—	(1,1)	—
<b>Finance expenses</b>	<b>(767,8)</b>	<b>(432,2)</b>	<b>(2 533,5)</b>	<b>(1 222,4)</b>

\* Less than R50 000.



## PeerMont Global Limited and its subsidiaries

### NOTES TO THE GROUP FINANCIAL STATEMENTS

for the period ended 30 September (continued)

#### 3. Property, plant and equipment

	Cost R'm	Accumulated depreciation R'm	Carrying value R'm
<b>30 September 2013</b>			
Land	199,3	—	199,3
Freehold buildings	3 928,6	(630,1)	3 298,5
Leasehold buildings and improvements	227,8	(39,8)	188,0
Furniture, fittings and equipment	1 076,1	(682,4)	393,7
Capital work in progress	53,9	—	53,9
	<b>5 485,7</b>	<b>(1 352,3)</b>	<b>4 133,4</b>
<b>30 September 2012</b>			
Land	194,3	—	194,3
Freehold buildings	3 916,2	(526,9)	3 389,3
Leasehold buildings and improvements	204,8	(29,1)	175,7
Furniture, fittings and equipment	942,8	(552,7)	390,1
Capital work in progress	28,7	—	28,7
	<b>5 286,8</b>	<b>(1 108,7)</b>	<b>4 178,1</b>
		<b>2013 R'm</b>	<b>2012 R'm</b>
Land and freehold buildings comprise the following properties:			
– Stand 64, Jones Road and Erf 569, Jet Park Extension 28, Gauteng		<b>2 803,2</b>	2 883,9
– Portion 1 of the farm Graceland 593 IS; remainder of the farm Graceland 593 IS (excluding Portions 1 and 2); Portion 42 (a portion of Portion 37) of the Farm Driehoek 275; remaining extent of Erf 8438 Secunda Extension 16; and Erf 5869 Secunda Extension 16, Mpumalanga		<b>260,2</b>	267,5
– Erven 995 and 996, Meiringspark Extension 8, Klerksdorp and Portion 605 (portion of Portion 604) of the farm Townlands, Klerksdorp, North West		<b>156,9</b>	159,2
– Portion 1 of Erf 113, Kuleka, Empangeni, KwaZulu-Natal		<b>82,7</b>	80,9
– Erf 20, Thohoyandou – D, Venda, Limpopo		<b>61,2</b>	63,0
– Portion 152 of the farm Pretoriuskloof, Johan Blignaut Drive, Bethlehem, Free State		<b>54,9</b>	56,5
– Erf 101 San Lameer, Registration Division ET, KwaZulu-Natal		<b>38,0</b>	38,8
– Erven 8311 to 8320 of Burgersfort Extension 46, Limpopo		<b>21,5</b>	21,5
– Lot 16145 and 16147, Francistown, Botswana		<b>19,2</b>	12,3
		<b>3 497,8</b>	3 583,6





## PeerMont Global Limited and its subsidiaries

### NOTES TO THE GROUP FINANCIAL STATEMENTS

for the period ended 30 September (continued)

#### 4. Intangible assets

	Cost R'm	Accumulated amortisation R'm	Carrying value R'm
<b>30 September 2013</b>			
Goodwill	1 385,3	(2,8)	1 382,5
Casino licences	2 797,8	(2,6)	2 795,2
Management contracts	382,4	—	382,4
Trademarks	20,0	—	20,0
Computer software	61,2	(28,9)	32,3
Franchise costs	6,5	(6,5)	—
	<b>4 653,2</b>	<b>(40,8)</b>	<b>4 612,4</b>
<b>30 September 2012</b>			
Goodwill	1 385,3	(2,8)	1 382,5
Casino licences	2 797,6	(2,4)	2 795,2
Management contracts	382,4	—	382,4
Trademarks	20,0	—	20,0
Computer software	22,5	(19,8)	2,7
Franchise costs	6,1	(5,7)	0,4
Right of use of buildings	7,1	(7,1)	—
	<b>4 621,0</b>	<b>(37,8)</b>	<b>4 583,2</b>



## PeerMont Global Limited and its subsidiaries

### NOTES TO THE GROUP FINANCIAL STATEMENTS

for the period ended 30 September (continued)

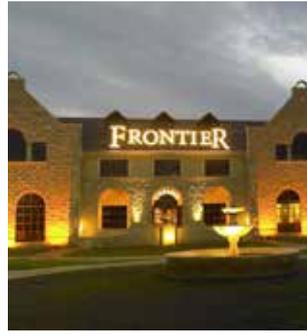
	2013 R'm	2012 R'm
<b>5. Interest-bearing long-term borrowings</b>		
<i>South African – secured</i>		
Deferred hedging loan	425,5	426,6
Nedbank property loan	24,8	28,4
ABSA term loan – PGEFS	9,7	14,5
<i>South African – unsecured</i>		
Deeply subordinated shareholder loans	5 764,0	4 681,3
<i>Foreign – secured</i>		
SSNs	5 791,5	4 429,0
<b>Total interest-bearing long-term borrowings</b>	<b>12 015,5</b>	<b>9 579,8</b>
Less: current portion included in current liabilities	<b>(5 846,6)</b>	<b>(199,4)</b>
– Nedbank property loan related to non-current asset held for sale	<b>(24,8)</b>	<b>(28,4)</b>
– Current portions of other borrowings	<b>(5 821,8)</b>	<b>(171,0)</b>
	<b>6 168,9</b>	<b>9 380,4</b>

### 6. Segment analysis

	Three months ended 30 September				Nine months ended 30 September			
	Revenue	Revenue	EBITDA	EBITDA	Revenue	Revenue	EBITDA	EBITDA
	2013 R'm	2012 R'm	2013 R'm	2012 R'm	2013 R'm	2012 R'm	2013 R'm	2012 R'm
Emperors Palace	479,4	456,6	165,9	158,9	1 427,2	1 304,9	502,6	446,3
Botswana <sup>‡</sup>	77,8	68,9	22,1	19,7	222,3	203,9	62,2	61,6
Head office	53,6	50,2	38,1	33,9	153,3	141,4	100,4	91,9
Graceland	45,4	44,7	12,5	14,1	132,2	123,5	38,2	36,6
Rio	44,8	43,4	16,3	15,7	124,7	123,8	44,5	45,0
Umfolozi	43,3	42,9	14,8	15,4	125,6	119,1	42,9	40,6
Mmabatho Palms	31,8	27,9	7,9	6,2	83,8	78,0	17,2	16,0
Khoroni	26,2	24,9	7,5	7,9	74,5	72,3	20,8	22,3
Frontier	15,3	13,7	3,6	3,3	44,4	41,0	10,5	10,5
Other	6,1	6,9	(0,5)	*	18,6	18,0	(1,7)	(1,8)
Inter-company	(52,4)	(49,2)	—	—	(149,8)	(139,7)	—	—
<b>PeerMont group total</b>	<b>771,3</b>	<b>730,9</b>	<b>288,2</b>	<b>275,1</b>	<b>2 256,8</b>	<b>2 086,2</b>	<b>837,6</b>	<b>769,0</b>

<sup>‡</sup> Average exchange rate (Rand/Pula) R1,19:P1 (2012: R1,10:P1) for the three months and R1,16:P1 (2012: R1,11:P1) for the nine months applied to the revenue and EBITDA figures.

\* Less than R50 000.



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