



# Phumelela Gaming

## UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017  
AND DIVIDEND DECLARATION



Phumelela Gaming and Leisure Limited  
(Incorporated in the Republic of South Africa) Registration number 1997/016610/06  
Share code: PHM ISIN ZAE 000039269  
("Phumelela" or "the Company")

## OPERATIONAL FEATURES OF THE PERIOD

- A **PLEASING PERFORMANCE** FROM INTERNATIONAL OPERATIONS DESPITE RAND STRENGTH
- FIXED ODDS BETTING PERFORMED **IN LINE WITH EXPECTATIONS**
- TOTE BETTING **REFLECTIVE** OF DETERIORATING LOCAL ECONOMIC CONDITIONS
- INTERBET MADE A **PLEASING CONTRIBUTION**
- **CONTINUED INVESTMENT** IN HORSERACING FACILITIES
- **DIVERSIFICATION** OF INCOME SOURCES **ONGOING**

## FINANCIAL FEATURES OF THE PERIOD

- EARNINGS PER SHARE **UP 4% TO 90,78 CENTS**
- HEADLINE EARNINGS PER SHARE **UP 3% TO 90,19 CENTS**
- HEADLINE EARNINGS PER SHARE IN CONSTANT CURRENCY **UP 26% TO 109,80 CENTS**
- INTERIM DIVIDEND PER SHARE **MAINTAINED AT 34,00 CENTS**
- **SOUND** FINANCIAL POSITION



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	%	Unaudited 6 months 31 Jan 2017 R'000	Unaudited 6 months 31 Jan 2016 R'000	Audited 12 months 31 Jul 2016 R'000
	Change			
Income				
– Local operations	(2)	645 457	659 746	1 226 382
– International operations	37	173 599	126 726	274 415
	4	819 056	786 472	1 500 797
Gross betting income				
– Local operations	(4)	595 547	617 803	1 198 796
Net betting income				
– Local operations	(4)	479 522	497 189	965 551
Other operating income				
– Local operations	13	134 686	119 576	252 603
– International operations	7	141 992	132 200	273 840
Investment income				
– Local operations		6 940	503	4 756
– International operations		641	16	575
Net income	2	763 781	749 484	1 497 325
Operating expenses and overheads				
– Stakes	1	(98 220)	(96 790)	(202 871)
– Local operations	1	(501 702)	(495 217)	(991 104)
– International operations	8	(103 266)	(95 447)	(198 781)
Profit before finance costs, income tax, depreciation and amortisation	(2)	60 593	62 030	104 569
Depreciation and amortisation	23	(35 444)	(28 860)	(61 471)
Profit from operations	(24)	25 149	33 170	43 098
Finance costs				
– Local operations	150	(8 530)	(3 412)	(9 368)
Profit before share of profit of equity accounted investees	(44)	16 619	29 758	33 730
Share of profit of equity accounted investees	29	56 189	43 413	94 694
Profit before fair value adjustment		72 808	73 171	128 424
Fair value adjustment to investment		(341)	2 001	5 578
Profit before income tax expense	(4)	72 467	75 172	134 002
Income tax expense	(56)	(4 472)	(10 199)	(12 912)
Profit for the period	5	67 995	64 973	121 090
<b>Other comprehensive income net of taxation</b>				
Items that may subsequently be reclassified to profit or loss				
– Exchange differences on translating foreign operations	274	393	105	(579)
<b>Total comprehensive income for the period</b>	5	68 388	65 078	120 511
<b>Profit attributable to:</b>				
Ordinary equity holders of the parent	5	67 995	64 973	121 944
Non-controlling interest				(854)
<b>Profit for the period</b>	5	67 995	64 973	121 090
<b>Total comprehensive income attributable to:</b>				
Ordinary equity holders of the parent	5	68 388	65 078	121 365
Non-controlling interest				(854)
<b>Total comprehensive income for the period</b>	5	68 388	65 078	120 511
Earnings per ordinary share (cents)				
– Basic	4	90,78	87,18	163,62
– Diluted	4	86,16	82,66	155,01

## ➤ SUPPLEMENTARY STATEMENT OF COMPREHENSIVE INCOME INFORMATION

		<b>Unaudited 6 months 31 Jan 2017 R'000</b>	Unaudited 6 months 31 Jan 2016 R'000	Audited 12 months 31 Jul 2016 R'000
	%			
	Change			
<b>Reconciliation of headline earnings</b>				
Earnings attributable to equity holders of parent	5	<b>67 995</b>	64 973	121 944
Adjusted for:				
Net (profit)/loss on disposal of property, plant and equipment		<b>(612)</b>	28	916
Tax effect		<b>171</b>	(8)	(256)
Headline earnings	4	<b>67 554</b>	64 993	122 604
Headline earnings per share (cents)	3	<b>90,19</b>	87,21	164,51
Diluted headline earnings per share (cents)	4	<b>85,61</b>	82,69	155,85
Net asset value per share (cents)	10	<b>698,49</b>	636,17	688,33
<b>Reconciliation of headline earnings to adjusted headline earnings</b>				
Headline earnings		<b>67 554</b>	64 993	122 604
Constant currency adjustment		<b>14 682</b>		
Adjusted headline earnings*	27	<b>82 236</b>	64 993	122 604
Adjusted headline earnings per share (cents)**	26	<b>109,80</b>	87,21	164,51
<b>Dividend to shareholders</b>				
<i>Interim dividend</i>				
Dividend per ordinary share (cents)		<b>34,00</b>	34,00	34,00
<i>Final dividend</i>				
Dividend per ordinary share (cents)				70,00
Number of shares in issue		<b>75 772 352</b>	74 525 485	74 535 485
Weighted average number of shares in issue for basic and headline earnings per share calculation		<b>74 898 327</b>	74 525 485	74 528 006
Weighted average number of shares in issue for diluted earnings per share calculation		<b>78 913 559</b>	78 599 551	78 669 669

\* Adjusted headline earnings in constant currencies is the current year local earnings, plus the re-measurement of current year foreign denominated earnings, translated at the prior year average exchange rate for the equivalent period. This has the effect of adjusting current year earnings by eliminating the effect of fluctuations in exchange rates over the period. Comparative figures have not been re-translated for these changes in foreign exchange effects.

\*\* Adjusted headline earnings per share at constant currencies is the adjusted headline earnings in constant currencies as referred to above (see \*) divided by the weighted average number of shares in issue for the period. Comparative figures have not been re-translated for these changes in foreign exchange effects.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>Unaudited as at 31 Jan 2017 R'000</b>	Unaudited as at 31 Jan 2016 R'000	Audited as at 31 Jul 2016 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>	<b>676 856</b>	588 338	635 466
Property, plant and equipment	457 298	452 723	458 914
Goodwill	15 206	12 362	15 206
Intangible assets	52 816	52 127	51 455
Interest in equity accounted investees	68 620	56 396	75 460
Investments	692	692	692
Long-term secured loans	71 044	11 128	24 790
Deferred taxation asset	11 180	2 910	8 949
<b>Current assets</b>	<b>317 282</b>	275 573	308 484
Inventories	2 772	1 864	1 920
Trade and other receivables	173 575	148 771	137 849
Defined benefit funds	8 183	7 075	8 183
Income tax receivable	15 016	10 082	19 233
Assets held for sale	28 283	25 047	28 624
Cash and cash equivalents	89 453	82 734	112 675
<b>Total assets</b>	<b>994 138</b>	863 911	943 950
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>529 264</b>	474 106	513 051
Share capital and premium	1 894	1 863	1 863
Retained earnings	527 419	472 001	511 630
Non-distributable reserves	(49)	242	(442)
<b>Non-current liabilities</b>	<b>123 187</b>	68 226	64 489
Deferred taxation liability	412	4 652	1 531
Finance lease liability		179	63
Borrowings	122 775	63 395	62 895
<b>Current liabilities</b>	<b>341 687</b>	321 579	366 410
Trade and other payables	305 079	278 236	310 095
Bank overdrafts	13 358	21 831	35 005
Short term borrowings	2 400	2 400	2 926
Contingent consideration liability	707	707	707
Income tax payable	5 113		1 683
Betting dividends payable	15 030	18 405	15 994
<b>Total equity and liabilities</b>	<b>994 138</b>	863 911	943 950

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	<b>Unaudited 6 months 31 Jan 2017 R'000</b>	Unaudited 6 months 31 Jan 2016 R'000	Audited 12 months 31 Jul 2016 R'000
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(45 422)</b>	(431)	38 594
Cash generated by operations	<b>51 625</b>	67 537	113 046
Movements in working capital	<b>(43 748)</b>	(9 395)	29 949
Cash generated by operating activities	<b>7 877</b>	58 142	142 995
Income tax paid	<b>(175)</b>	(10 965)	(30 306)
Investment income received	<b>7 581</b>	519	5 330
Finance costs paid	<b>(8 530)</b>	(3 412)	(9 368)
Dividends to shareholders	<b>(52 175)</b>	(44 715)	(70 057)
<b>Net cash (outflow)/inflow from investing activities</b>	<b>(15 643)</b>	1 277	(19 549)
Acquisition of property, plant and equipment and intangible assets	<b>(33 282)</b>	(37 585)	(76 443)
Proceeds on disposal of property, plant and equipment and intangible assets	<b>864</b>	633	2 083
Acquisition of a subsidiary			(1 710)
Investment in equity accounted investee and contingent settlements on investments		3	3
Loans advanced	<b>(46 254)</b>	(525)	(14 448)
Dividends received from equity accounted investees	<b>63 029</b>	38 751	70 966
<b>Net cash inflow from financing activities</b>	<b>59 097</b>	13 491	12 743
Finance lease payments	<b>(257)</b>	(309)	(557)
Net borrowings raised	<b>59 354</b>	13 800	13 300
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1 968)</b>	14 337	31 788
Effect of exchange fluctuations on cash and cash equivalents	<b>393</b>	105	(579)
Cash and cash equivalents at beginning of period	<b>77 670</b>	46 461	46 461
<b>Cash and cash equivalents at end of period</b>	<b>76 095</b>	60 903	77 670

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital R'000	Non- distributable reserves R'000	Retained earnings R'000	Equity attributable to ordinary share- holders R'000	Non- con- trolling interest R'000	Total equity R'000
<b>Balance at 31 July 2015</b>	1 863	137	445 743	447 743		447 743
Total comprehensive income for the period		105	64 973	65 078		65 078
– Profit for the period			64 973	64 973		64 973
– Foreign currency translation reserve		105		105		105
Transactions with owners recorded directly in equity						
– Share based payment			6 000	6 000		6 000
– Dividends paid to equity holders			(44 715)	(44 715)		(44 715)
<b>Balance at 31 January 2016</b>	1 863	242	472 001	474 106		474 106
Total comprehensive income for the period		(684)	56 971	56 287	(854)	55 433
– Profit for the period			56 971	56 971	(854)	56 117
– Foreign currency translation reserve		(684)		(684)		(684)
Transactions with owners recorded directly in equity						
– Share based payment			8 000	8 000		8 000
– Purchase of controlling interest in a subsidiary					854	854
– Dividends paid to equity holders			(25 342)	(25 342)		(25 342)
<b>Balance at 31 July 2016</b>	1 863	(442)	511 630	513 051		513 051
Total comprehensive income for the period		<b>393</b>	<b>67 995</b>	<b>68 388</b>		<b>68 388</b>
– Profit for the period			<b>67 995</b>	<b>67 995</b>		<b>67 995</b>
– Foreign currency translation reserve		<b>393</b>		<b>393</b>		<b>393</b>
Transactions with owners recorded directly in equity						
– Shares issued in terms of the share option scheme	<b>31</b>		<b>(31)</b>			
– Dividends paid to equity holders			<b>(52 175)</b>	<b>(52 175)</b>		<b>(52 175)</b>
<b>Balance at 31 January 2017</b>	<b>1 894</b>	<b>(49)</b>	<b>527 419</b>	<b>529 264</b>		<b>529 264</b>

## RESULTS OVERVIEW

The Group result is characterised by a pleasing performance from international revenue sources and real growth from the fixed odds business and from associate company Interbet. Our tote operations disappointed as domestic economic conditions deteriorated.

International operations contributed combined pre-tax income of R91,3 million, an actual increase of 18% at prevailing exchange rates or 38% on a constant currency basis. Phumelela's international operations are expected to provide a foreign currency hedge and a good source of diversified income across multiple geographies.

As detailed in the financial analysis, the strengthening of the South African Rand understated the excellence of the offshore performance in foreign currency. For illustrative purposes, earnings are also presented with supplementary information in constant currency.

Initiatives over many years to diversify locally, internationalise and acquire complementary growth generators is paying dividends in the form of a better spread of earnings, expanded choice for our many customers, and an increased size of the Group from a financial and market value point of view. Diversification has also resulted in associate income from local and international sources becoming an increasingly meaningful contributor to the Group's performance.

What has not changed is the fact that Phumelela is, and will continue to be, the leading racecourse owner, betting operator and racing media provider in South Africa. Horseracing is at the heart of what Phumelela is and the foundation for our successful and expanding international operations.

The economy in South Africa is weak and the political situation unsettled. Recent financial results from the main banking Groups point to stress in the real economy, with consumer purchasing power under strain.

Against this challenging backdrop, it is imperative that Phumelela keeps its betting offerings relevant, fresh, and attainable to all. A digital footprint is essential as the Group embraces changing technology and customer preferences. Our online betting availability is beneficial for customers with finite disposable income but who wish to enjoy a modest wager yet maximise their value for money by eliminating the cost of transport to a betting shop. Nevertheless, having a bricks-and-mortar presence will always be necessary as a majority of our customers still prefer this as it provides a venue for social interaction.

As part of the Group's strategy to minimise the cost base, the tote and fixed odds businesses are optimising their operating models wherever feasible to cohabit for mutual benefit as there is interdependence between tote and fixed odds betting.



Product development in tote and fixed odds is ongoing whilst the footprint continues to grow. The Group now has 80 fixed odds retail shops, up from 75 as at July 2016. The franchise model, in which Phumelela provides the expertise and infrastructure for previously disadvantaged individuals to make a successful career in the betting business, is a small part of the Group but developing well with 8 franchise outlets now operational.

The acquisition of 50% of Supabets is very much in line with the Group's espoused strategy. Supabets is planning to re-introduce horse racing, relying on a managed service supplied by Betting World. In turn, Betting World will introduce Supabets' sports and in-play betting products relying on a managed service supplied by Supabets. Supabets has large size format betting shops, offering a unique and engaging customer experience. Scope for significant synergies between the two businesses have been identified with financial benefits anticipated to flow in the medium to long term. As the investment in Supabets only became effective on 1 March 2017, Supabets shall therefore contribute for the remaining five months of the Group's 2017 financial year.

Phumelela continues to invest to support a quality racing experience for both local and international consumers of our product.

## **GROUP FINANCIAL ANALYSIS**

Income increased at a slower pace in fixed odds but in line with expectation whilst operating profits increased by 15%. The local tote and horseracing operations recorded a decline in income and a 48% rise in loss from operations. Interbet, in which the Group had a 26% stake for the period, increased profits by 23%.

International operations performed strongly with the combined pre-tax profit from Phumelela International and Premier Gateway International ("PGI") increasing by 18% on increased demand for the South African thoroughbred horseracing export product and pari-mutuel betting on the Isle of Man.

Currency effects were pronounced in the period under review.

For the six months ended 31 January 2017, the rand averaged R17,54 to the pound compared to R21,54 in the comparative period, a 19% gain. A net foreign exchange loss of R2,5 million further negatively impacted earnings.

Reported pre-tax profit from Phumelela International and PGI is R91,3 million, up 18% from the R77,5 million in the comparative period and representing an increase in Rand of R13,8 million.

## RESULTS OVERVIEW continued

The currency effect from the stronger rand exceeded R15,7 million and therefore an actual increase of 18% translates into 38% on a constant currency basis.

Group income grew by 4% to R819,1 million, of which South African sports betting and media rights income declined by 2% to R645,5 million and international income grew by 37% to R173,6 million.

Combined local and international operating expenses, prize monies and levies increased by 2% to R703,2 million. Local prize monies increased in line with the formula set out in the stakes agreement with the Racing Association.

The 23% increase in the depreciation charge to R35,4 million for the South African operations reflects ongoing investment in modernisation and expansion. Of the R33,3 million in capital expenditure in South African operations, R18,1 million was spent on horseracing infrastructure and tote betting and R15,2 million in fixed odds.

The combined South African operations recorded an operating loss of R14,2 million, up from a loss of R3,5 million. After finance costs of R8,5 million, but before share of profit from associate Interbet, the loss from operations increased to R22,7 million from R6,9 million.

International pre-tax profit, before share of profits from jointly owned PGI, increased by 7% to R39,4 million.

Equity accounted profits benefited from excellent performances by PGI and Interbet, increasing by 29% to R56,2 million.

Group pre-tax profit, before the fair value adjustment of R0,3 million on held-for-sale ASL investment in Mauritius, was flat at R72,8 million. International operations contributed 125% of Group pre-tax profit.

Net attributable income increased by 5% to R68,0 million, assisted by a lower effective tax rate.

Headline earnings increased by 4% to R67,6 million. The effect of currency on translation of foreign income was R15,7 million or R14,7 million net of tax. For illustrative purposes, constant currency headline earnings would therefore have been R82,2 million, which would have represented an increase of 27%.

There was a minimal increase of 0,5% in the weighted average number of shares in issue and a 0,4% increase on a fully diluted basis, reflecting share options exercised.



Earnings per share grew by 4% to 90,78 cents and headline earnings per share grew by 3% to 90,19 cents. Constant currency headline earnings per share grew by 26% to 109,80 cents.

The Group retained a strong financial position with net debt of R49,1 million, representing a debt to equity ratio of only 9%. The Group has sufficient cash flow and borrowing capacity to meet its ongoing operational needs.

Phumelela has a combination of recurring income, in the form of broadcast rights, variable but reasonably consistent transactional income, and incremental income from investment in growth and development of international and local tote, fixed odds and media business.

Cash generated from operating activities declined to R7,9 million after an increase in working capital of R43,7 million, largely a consequence of seasonal factors and the timing of receipt of income due from abroad.

Dividends received from equity accounted investees increased to R63,0 million from R38,8 million.

Dividends paid to shareholders amounted to R52,2 million.

Total assets increased to R994,1 million, which includes property, plant and equipment at a carrying value of R457,3 million, goodwill and intangibles at R68,0 million, and equity accounted investees valued at R68,6 million.

Attributable equity of R529,3 million represents a net asset value per share of 698,49 cents.

Annualised return on opening equity remained stable at 27%, substantially exceeding cost of capital.

## **SOUTH AFRICAN OPERATIONS**

Tote betting decreased by 7% to R1,7 billion, reflective of a tougher consumer environment.

Tote betting on local horseracing nonetheless maintained a 50% share of the total betting turnover with tote betting on international racing also maintained at 18%. Interactive continued to increase its share of bets placed to 31%, in line with Group strategy and market trends.

A highlight of horseracing in the period was the first ever Sun Met at Kenilworth, sponsored by Sun International as the title sponsor and co-sponsored by G.H. Mumm. This prestigious race day carried record prize money with each race running an excellent field of horses. Events such as the Sun Met underscores the fact that horseracing holds appeal both as on-course entertainment for the family and for those viewing and betting locally and, increasingly, overseas.

## RESULTS OVERVIEW continued

Fixed odds betting continued to make good progress, with numbers betting particularly popular. Fixed odds betting amounted to R964 million in the period. Net fixed odds betting income increased by 8% to R139,3 million with both soccer and numbers net betting income growing by 17% each. Consequently, the net betting income margin improved to 14,4% with a healthy margin obtained across all three fixed odds categories, including horseracing. The acquisition of 51% of Afribet Proprietary Limited (renamed Betting World Eastern Cape) has given Phumelela a fixed odds retail presence in 8 betting shops in the Eastern Cape.

### INTERNATIONAL OPERATIONS

International operations contributed combined pre-tax income of R91,3 million, an actual increase of 18% at prevailing exchange rates or 38% on a constant currency basis. Phumelela's international operations are expected to provide a foreign currency hedge and a good source of diversified income across multiple geographies.

PGI, located on the Isle of Man, made a very pleasing contribution during the period. Demand for the export of live broadcast of South African horse races was buoyant. The agreement with Arena Racing Company is now in place.

### SHARE CAPITAL

There has been no change in the authorised share capital of the Company during the period.

Issued share capital increased by 1 236 867 shares, issued from treasury stock to fulfil obligations in respect of shares exercisable per the executive option schemes. At 31 January 2017, issued share capital amounted to 75 772 352 shares, net of 1 329 533 treasury shares. With effect from 6 February 2017, 16 602 230 rights offer shares were issued in part to fund the purchase of Supabets SA Holdings Proprietary Limited ("Supabets"). A further 8 796 443 shares were issued to the seller in terms of the Supabets purchase consideration. As at the date of this financial report, Phumelela had total shares in issue, after deducting treasury shares, of 101 171 025 ordinary shares.

## CONDENSED SEGMENTAL ANALYSIS

The Group stages horseracing events in South Africa, offers betting opportunities on South African and international sports and numbers, and exports televisual horseracing content internationally. Reporting disclosure corresponds to management reporting lines.

		<b>Unaudited 6 months 31 Jan 2017 R'000</b>	Unaudited 6 months 31 Jan 2016 R'000	Audited 12 months 31 Jul 2016 R'000
Local sports betting and media gross income	(2)	<b>645 457</b>	659 746	1 226 382
International ventures gross income	37	<b>173 599</b>	126 726	274 415
<b>Total local and international income</b>	<b>4</b>	<b>819 056</b>	<b>786 472</b>	<b>1 500 797</b>
Local tote and fixed odds net betting and other income	1	<b>621 148</b>	617 268	1 222 910
International other income	8	<b>142 633</b>	132 216	274 415
<b>Total local and international net income</b>	<b>2</b>	<b>763 781</b>	<b>749 484</b>	<b>1 497 325</b>
Local expenses, stakes and levies	2	<b>(635 358)</b>	(620 726)	(1 255 160)
International expenses	8	<b>(103 274)</b>	(95 588)	(199 067)
<b>Total expenses</b>	<b>3</b>	<b>(738 632)</b>	<b>(716 314)</b>	<b>(1 454 227)</b>
Local operating loss	311	<b>(14 210)</b>	(3 458)	(32 250)
Local finance costs	150	<b>(8 530)</b>	(3 412)	(9 368)
<b>Local loss from operations</b>	<b>231</b>	<b>(22 740)</b>	<b>(6 870)</b>	<b>(41 618)</b>
<b>International pre-tax profit</b>	<b>7</b>	<b>39 359</b>	<b>36 628</b>	<b>75 348</b>
International and local equity accounted profits	29	<b>56 189</b>	43 413	94 694
<b>Total Group pre-tax profit before fair value adjustment on ASL investment</b>		<b>72 808</b>	<b>73 171</b>	<b>128 424</b>

## CAPITAL COMMITMENTS

Commitments in respect of capital expenditure approved by directors.

	<b>2017 R'000</b>	2016 R'000
Contracted for	<b>4 364</b>	5 062
Not contracted for	<b>108 222</b>	83 140

Capital commitments will be financed out of cash and cash equivalents on hand or borrowing facilities as and when required.

## RESULTS OVERVIEW continued

### INVESTMENTS

50% ownership of Supabets SA Holdings Proprietary Limited was transferred to Phumelela with effect from 1 March 2017. The purchase consideration of R437 million was settled by way of a rights offer in the amount of R284 million, shares issued to the sellers and the rest in cash.

With effect from 1 March 2017, a further 24% equity interest in Interbet was acquired increasing Phumelela's shareholding to 50%.

### MATTERS OF CORPORATE INTEREST AND LITIGATION

In terms of disclosure contained in the annual financial statements for the year ended 31 July 2016 there are no further developments in this regard.

Shareholders are reminded that the outcome of the relevant actions noted under Corporate Interests and Litigation, as described in the annual financial statements, remains uncertain and may have an impact on future earnings.

### REPORTING ENTITY

Phumelela Gaming and Leisure Limited is a company domiciled in South Africa. The condensed consolidated interim financial statements as at 31 January 2017 comprises of the company and its subsidiaries and the Group's interests in equity accounted investees and joint operations.

### BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, and include disclosure as required by IAS 34 Interim Financial Reporting and the Companies Act of South Africa. They do not include all the information required for a complete set of IFRS financial statements. In preparing these interim condensed consolidated financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 July 2016.

Mr B McLoughlin C.A. (S.A.) Chief Financial Officer was responsible for supervising the preparation of the interim condensed consolidated financial statements and preparing the summarised financial statements.

### **SUBSEQUENT EVENTS**

There are no significant subsequent events that have an impact on the financial information at 31 January 2017.

### **RELATED PARTIES**

Other than in the normal course of business, there have been no significant transactions during the period with equity accounted investees, joint operations, and other related parties.

### **SOCIAL RESPONSIBILITY**

The amended B-BBEE Codes of Good Practice have set a challenging bar with the new weightings. Empowerdex has audited the Group as a level 4 with Empowering Supplier status, and the process has allowed the Group to identify areas for improvement.

The Group recognises that it has a responsibility to the broader community to act in a socially responsible manner, for the benefit of all South Africans. Contributions to selected training, sports and community service related projects continue. The Group has adopted appropriate BEE and employment equity, training and procurement policies.

### **DIRECTORS**

Mr P Anastassopoulos was appointed to the Board effective from 8 March 2017. There were no other changes to the composition of the Board.

### **PROSPECTS**

The acquisition of 50% of Supabets opens an exciting new chapter for Phumelela and we have already identified opportunities for the extraction of synergistic benefits and growth with our partners. Supabets will contribute for the remaining five months of the financial year and is anticipated to be earnings per share accretive after allowing for a higher weighted average number of shares in issue. The circular to shareholders, dated 19 August 2016, provides granular detail on the *pro forma* financial effects in this regard.

Also with effect from 1 March 2017, the Group increased its shareholding in Interbet from 26% to 50%. The increased shareholding was funded by bank debt and is also expected to be earnings per share accretive.

## RESULTS OVERVIEW continued

The local tote operations are under pressure in a difficult economic climate but the fixed odds operation is leveraging positively off the Group's investment in facilities and the popularity of the product offering. Cost savings and managerial efficiencies are being implemented.

International operations, comprising the export of live televisual South African horseracing, the import of live televisual international horseracing, and pari-mutuel betting through PGI on the Isle of Man, are doing well. Real growth in foreign currency income is anticipated for the full year.

The Group is targeting growth in earnings per share for the year, the extent of which will be dependent on foreign exchange movements.

Any forward looking statements of forecasts contained in these results have not been reviewed or reported on by the Group auditors.

### CASH DIVIDEND TO SHAREHOLDERS

Notice is hereby given that the Board has declared an interim gross cash dividend from income reserves of 34,00 cents per share (27,20 cents per share net of dividend withholding tax at a rate of 20%) payable to shareholders recorded in the register on Friday, 26 May 2017. The issued share capital at the declaration date is 102 500 558 ordinary shares. Shareholders are advised that the last date to trade "*cum dividend*" will be Tuesday, 23 May 2017. As from commencement of business on Wednesday, 24 May 2017 all trading in Phumelela shares will be "*ex dividend*". Payment will be made on Monday, 29 May 2017. Share certificates may not be dematerialised or rematerialised between Wednesday, 24 May 2017 and Friday, 26 May 2017, both days inclusive. The Company's tax reference number is 9171/393/84/7.

### For and on behalf of the Board

**MP Malungani**

Chairman

**WA du Plessis**

Chief Executive Officer

Turffontein, Johannesburg

21 April 2017





# Phumelela Gaming

## UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL RESULTS

FOR THE SIX MONTHS ENDED 31 JANUARY 2017  
AND DIVIDEND DECLARATION



Phumelela Gaming and Leisure Limited  
(Incorporated in the Republic of South Africa) Registration number 1997/016610/06  
Share code: PHM ISIN ZAE 000039269  
("Phumelela" or "the Company")



Results presentation  
Half year ended  
31 January 2017



Presented by Rian du Plessis, CEO



## Agenda

- Interim scorecard
- Financial features
- Local
- International
- Legal and regulatory
- Growth and development
- Outlook
- Appendix – detailed data

Six months ended  
31 January 2017



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## Interim scorecard

Corporate Social Responsibility	<ul style="list-style-type: none"> <li>Investing in South Africa – R33m</li> <li>Rated at B-BBEE level 4</li> <li>Franchise model – 8 outlets</li> </ul>
Operational	<ul style="list-style-type: none"> <li>Excellent International result enabled by high quality South African horseracing</li> <li>Betting World and Interbet performing well</li> </ul>
Financial	<ul style="list-style-type: none"> <li>Currency headwinds - relative ZAR strength (19% vs. GBP)</li> <li>Constant currency earnings per share up by 26%</li> <li>Sound financial position, 9% debt to equity ratio</li> </ul>
Corporate activity	<ul style="list-style-type: none"> <li>Successful R289m rights offer (Feb 2017)</li> <li>Supabets and Interbet 50% owned (wef March 2017)</li> <li>Complementary earnings diversification ongoing</li> </ul>

Six months ended 31 January 2017



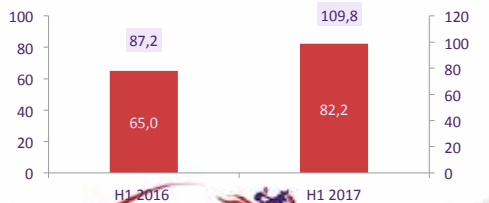
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## Financial features

Income	<ul style="list-style-type: none"> <li>Up 4% to R819m (International growth of 37%)</li> </ul>
Contributions to pre-tax profit of R72,8m	<ul style="list-style-type: none"> <li>Local loss of R22,7m (R6,9m)</li> <li>Phumelela International R39,4m (R36,6m)</li> <li>SA and International equity a/c investments R56,2m (R43,4m)</li> </ul>
Headline and constant currency earnings	<ul style="list-style-type: none"> <li>Headline earnings R67,6m – 4% growth</li> <li>Constant currency earnings R82,2m – 27% growth</li> <li>R14,7m impact on translation of foreign earnings</li> </ul>

■ Earnings - constant currency R million (left axis) EPS cents (right axis)



Six months ended 31 January 2017



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## Local

### Tote and Horseracing operations

- Deteriorating economic conditions in SA
- Tote betting down by 7% to R1,7 billion
- Profits on Tote bets on soccer, fixed odds and LPM's R125m (-2%)
- Loss in horseracing R144m (+11%)
- First ever Sun Met at Kenilworth in Jan 2017

### Fixed Odds

- Net betting income up 8% with Numbers buoyant
- Healthy margin
- 80 retail outlets vs. 75
- Eastern Cape presence through acquisition

### Strategy

- Keeping betting offerings relevant, fresh, and attainable to all
- Mix of stores and online, adapting to customer preferences
- Tote and fixed odds co-locating

Six months ended  
31 January 2017



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## International

A strong performance on increased demand for live South African horseracing and Tote betting on the Isle of Man  
Combined pre-tax income of R91,3m, up 18% (38% in constant currency)  
125% of Group pre-tax income

### Phumelela International

- Agreement with Arena Racing
- Gross income of R173,6m, up 37%
- Other income of R142,6m, up 8%
- Pre-tax profit of R39,4m, up 7%
- Currency R17,50/£ vs. R21,54/£ (19% down)

### Premier Gateway International

- Pleasing contribution
- Additional commingling and betting opportunities

### Strategy

- Growth across multiple geographies
- Greece added as a new horseracing market
- Africa offers potential, especially in Tote soccer

Six months ended  
31 January 2017



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## Legal and regulatory

Corporate interests & litigation	<ul style="list-style-type: none"> <li>▪ Refer to results announcement and AFS for F2016</li> <li>▪ Good progress, awaiting several judgements</li> </ul>
Tellytrack	<ul style="list-style-type: none"> <li>▪ Civil and criminal lawsuits have been filed and will be filed against all bookmakers who are unlawfully displaying Tellytrack</li> <li>▪ 293 bookmakers now licensed to display Tellytrack</li> </ul>
National Gambling Policy	<ul style="list-style-type: none"> <li>▪ Draft National Gambling Amendments Act favourably addresses a number of Phumelela concerns</li> <li>▪ Constructively engaging with government in respect of proposals to remove a right to offer Tote bets on sports other than horseracing and numbers bets</li> </ul>

Six months ended 31 January 2017



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## Growth and development

Supabets acquisition in line with espoused strategy	<ul style="list-style-type: none"> <li>▪ 50% ownership of Supabets</li> <li>▪ Supabets to re-introduce horse racing, relying on a managed service supplied by Betting World</li> <li>▪ Betting World to introduce Supabets' sports and in-play betting products relying on a managed service supplied by Supabets</li> <li>▪ Joint venture "Hyper Stores" between Supabets and Betting World</li> </ul>
Opportunity to increase exposure to Interbet	<ul style="list-style-type: none"> <li>▪ Increased to 50% shareholding wef 1 March 2017</li> <li>▪ Funded by borrowings</li> <li>▪ Exploring possible synergies with Tabonline</li> <li>▪ Pleasing performance with good prospects</li> </ul>

Six months ended 31 January 2017



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## Outlook

Tote	<ul style="list-style-type: none"> <li>Remains under pressure in a difficult economic climate</li> <li>New bets imminent</li> <li>Further co-locations (SupaTote, Betting World)</li> </ul>
Fixed Odds	<ul style="list-style-type: none"> <li>New bets imminent</li> <li>Joint ventures</li> </ul>
International	<ul style="list-style-type: none"> <li>Real growth in foreign income anticipated</li> </ul>
Group	<ul style="list-style-type: none"> <li>Targeting growth in HEPS, the extent of which will be dependent on foreign exchange movements</li> </ul>

Six months ended  
31 January 2017



**Results presentation  
Half year ended  
31 January 2017**

**Thank you for your  
interest**



**Phumelela Gaming**





## Appendix

Group, Local Tote, Local Fixed Odds  
and International data



Rights issue and acquisitions	
Shares in issue post rights issue	<ul style="list-style-type: none"> <li>At 31 January 2017, a net 75 772 352 shares in issue</li> <li>As at 21 April 2017, a net 101 171 025 shares in issue</li> <li>33,5% additional shares to service</li> </ul>
50% interest in Supabets	<ul style="list-style-type: none"> <li>50% ownership of Supabets SA Holdings (Pty) Ltd was transferred to Phumelela wef from 1 March 2017</li> <li>R437 million investment paid for by rights offer proceeds of R284 million, shares issued to the sellers and cash</li> <li>Circular dated 19 August 2016 detailed pro forma financial effects</li> <li>EPS and HEPS accretive post transaction and funding thereof</li> <li>5 month contribution for F2017</li> </ul>
A further 24% interest in Interbet	<ul style="list-style-type: none"> <li>50% shareholding wef 1 March 2017</li> <li>Funded from borrowings</li> <li>Anticipated to be EPS and HEPS accretive on current performance</li> <li>5 month additional contribution for F2017</li> </ul>

Six months ended  
31 January 2017



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## Group result

R'000	H12017	H12016	% chg
<b>Income</b>			
Income from local operations	645 457	659 746	(2%)
Income from international operations	173 599	126 726	37%
Total income	819 056	786 472	4%
PBITDA	60 593	62 030	(2%)
Equity accounted profit	56 189	43 413	29%
Attributable profit	67 995	64 973	5%
Headline earnings	67 554	64 993	4%
Adjusted headline earnings*	82 236	64 993	27%
HEPS – cents	90,19	87,21	3%
Adjusted HEPS – cents*	109,80	87,21	26%
Ordinary dividend - cents	34,00	34,00	
<b>Financial position</b>			
Total assets	994 138	863 911	15%
Net investment	32 418	36 949	(12%)
Net (debt)/cash	(49 080)	(5 071)	868%
Net asset value per share – cents	698,49	636,17	10%

\* Restated in constant currencies

Six months ended  
31 January 2017



## Group income

R'000	H12017	H12016	% chg
Income	819 056	786 472	4%
Net betting income	479 522	497 189	(4%)
Other income	276 678	251 776	10%
Investment income	7 581	519	
Net income	763 781	749 484	2%
Stakes (prize monies)	98 220	96 790	1%
Intellectual property rights fees	55 514	49 638	12%
Operating expenses	549 454	541 026	2%
PBITDA	60 593	62 030	(2%)
Depreciation & amortisation	35 444	28 860	23%
PBIT	25 149	33 170	(24%)
Interest expense	8 530	3 412	150%
Pre-tax profit *	16 278	31 759	(49%)
Equity accounted profit	56 189	43 413	29%
Group profit before tax	72 467	75 172	(4%)

\* Includes R0.3m loss (PY R2m profit) on remeasurement of ASL (Mauritius) investment

Six months ended  
31 January 2017





## Segment detail

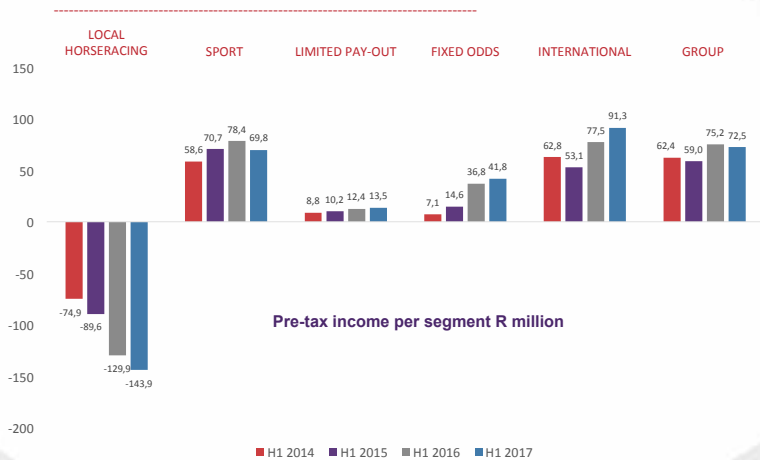
R'000	H12017	H12016	% chg
Local sports betting & media gross income	645 457	659 746	(2%)
International ventures gross income	173 599	126 726	37%
<b>Total local &amp; international income</b>	<b>819 056</b>	<b>786 472</b>	<b>4%</b>
Local tote & fixed odds net betting & other income	621 148	617 268	1%
International other income	142 633	132 216	8%
<b>Total local &amp; international net income</b>	<b>763 781</b>	<b>749 484</b>	<b>2%</b>
Local expenses, stakes & levies	(635 358)	(620 726)	2%
International expenses	(103 274)	(95 588)	8%
<b>Total expenses</b>	<b>(738 632)</b>	<b>(716 314)</b>	<b>3%</b>
Local operating loss	(14 210)	(3 458)	311%
Local finance costs	(8 530)	(3 412)	150%
<b>Local loss from operations</b>	<b>(22 740)</b>	<b>(6 870)</b>	<b>231%</b>
Local equity accounted profits	4 230	2 589	63%
<b>Local pre-tax loss</b>	<b>(18 510)</b>	<b>(4 281)</b>	<b>332%</b>
International operating profit	39 359	36 628	7%
International equity accounted profit	51 959	40 824	27%
<b>International pre-tax profit</b>	<b>91 318</b>	<b>77 452</b>	<b>18%</b>
<b>Total Group pre-tax profit</b>	<b>72 808</b>	<b>73 171</b>	<b>(0.5%)</b>

Six months ended  
31 January 2017



## Proactive strategy to innovate and diversify income streams

### Local operations



Traditional  
business

Diversified business

Six months ended  
31 January 2017

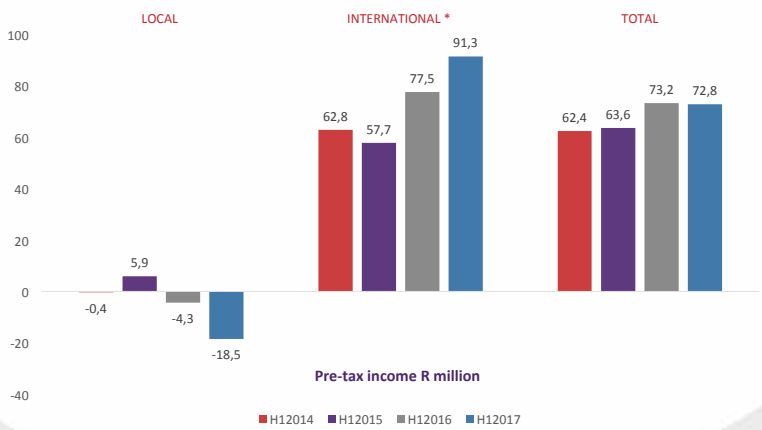








## International 125% of adjusted group PBT

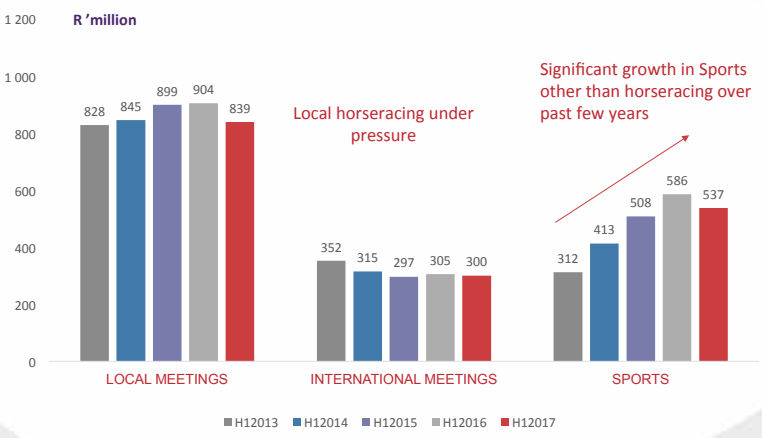


\* Excluding R0.3m loss (PY R2m profit) re-measurement on listed ASL (Mauritius) investment

Six months ended 31 January 2017



## Local Tote betting handle mix – money wagered H1 2013–H1 2017



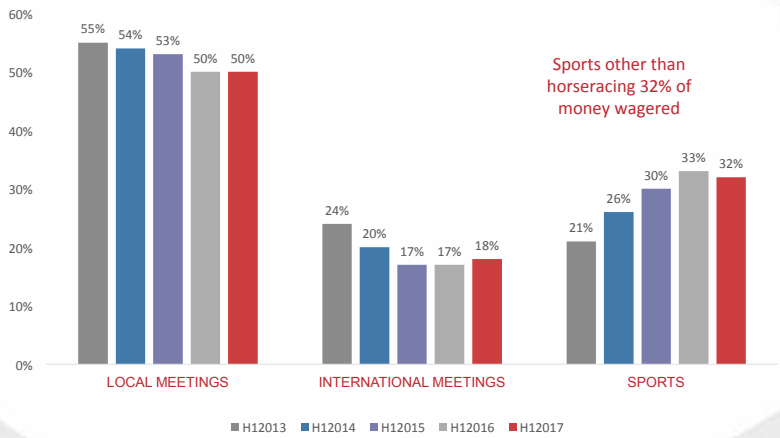
Six months ended 31 January 2017







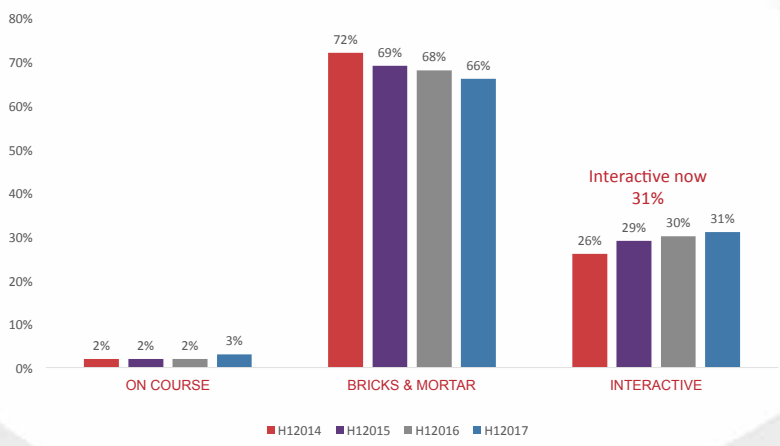
## Local Tote betting handle mix – percentage share of money wagered H1 2013–H1 2017



Six months ended 31 January 2017



## Local Tote betting handle – placement of bets



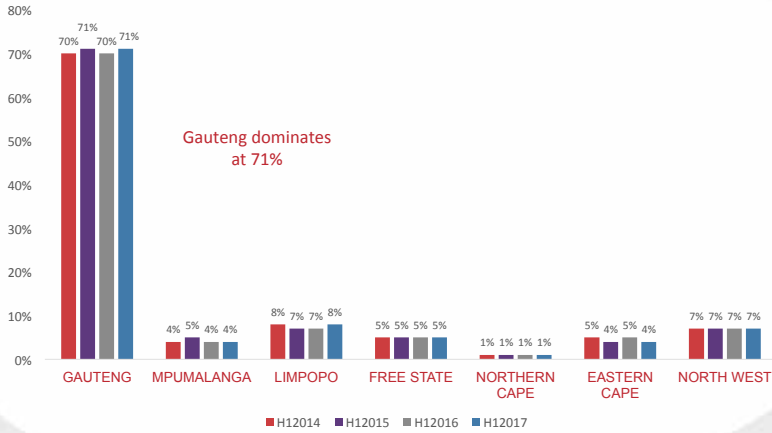
Six months ended 31 January 2017







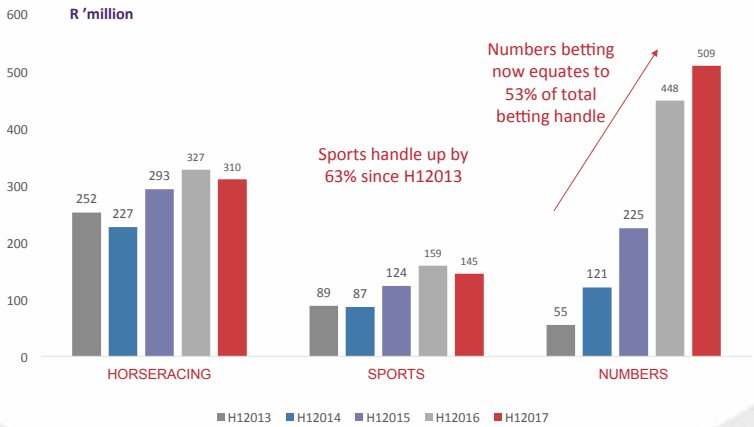
## Local Tote betting handle by province



Six months ended 31 January 2017



## Fixed Odds betting handle mix – money wagered H1 2013–H1 2017



Six months ended 31 January 2017



## Notes

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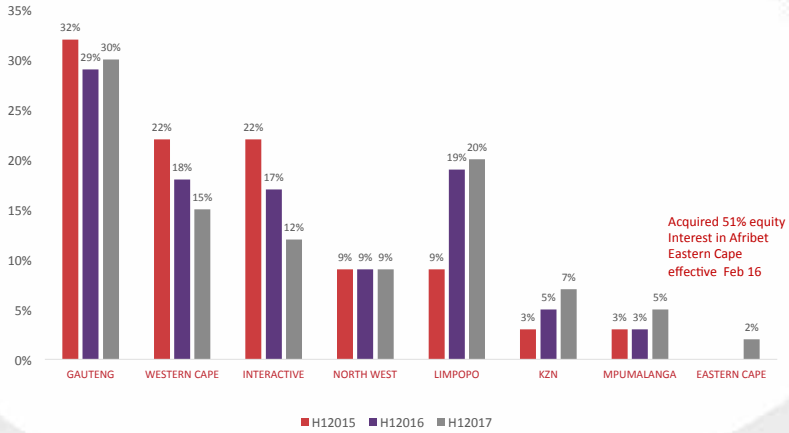
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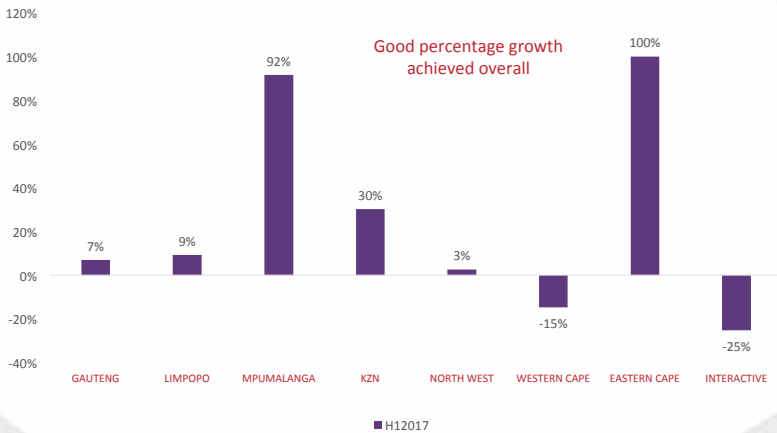
## Fixed Odds betting handle by province – percentage share



Six months ended 31 January 2017



## Fixed Odds handle by province – percentage change on previous comparative period

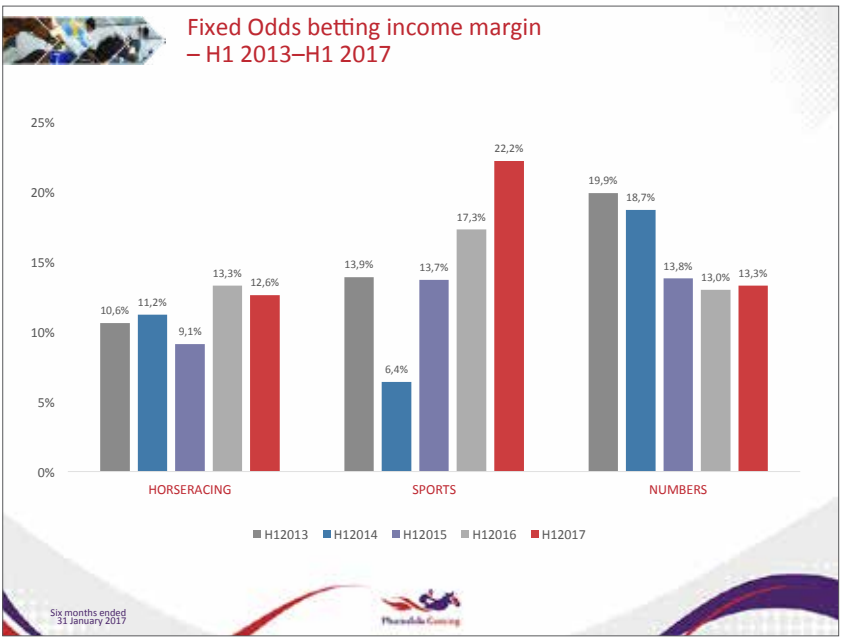
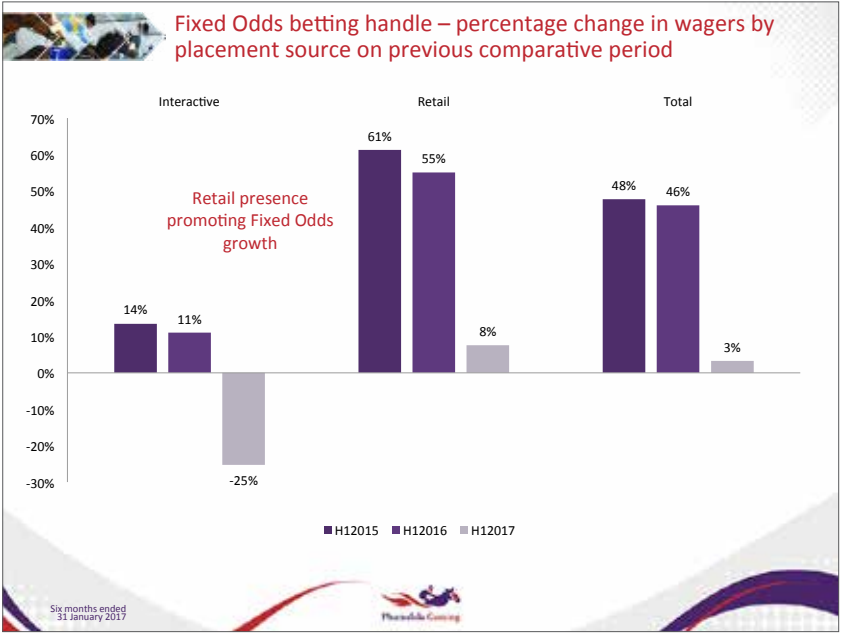


Six months ended 31 January 2017





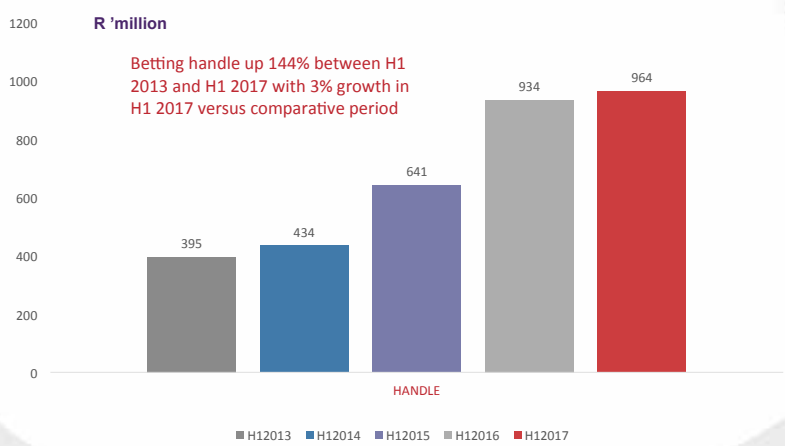








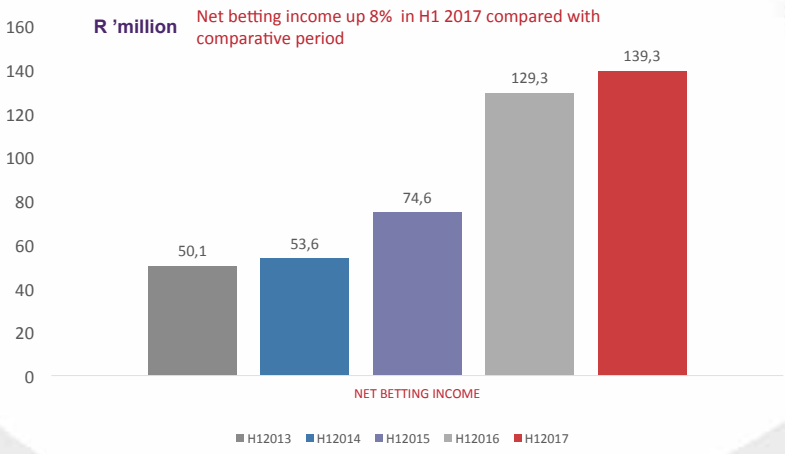
### Fixed Odds betting handle – H1 2013–H1 2017



Six months ended 31 January 2017



### Fixed Odds net betting income – H1 2013–H1 2017



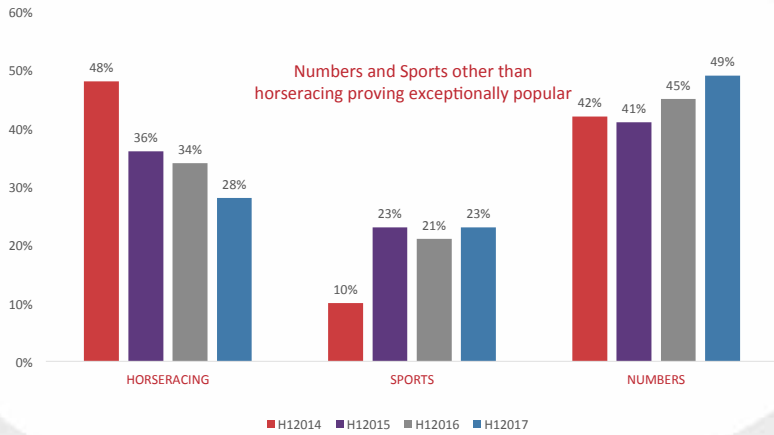
Six months ended 31 January 2017







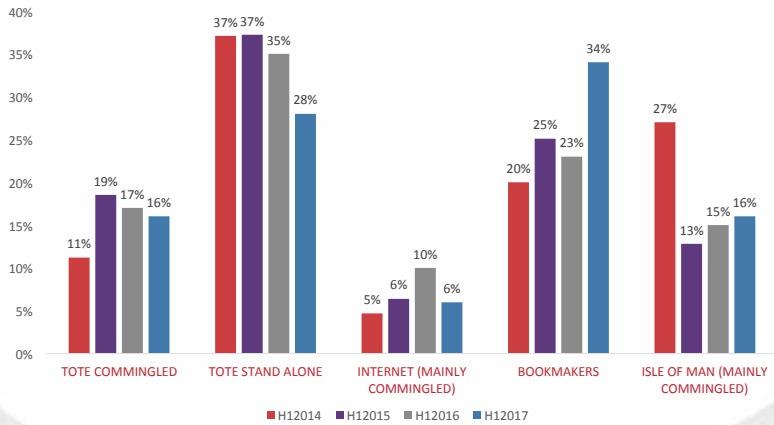
## Fixed Odds – net betting income mix



Six months ended 31 January 2017



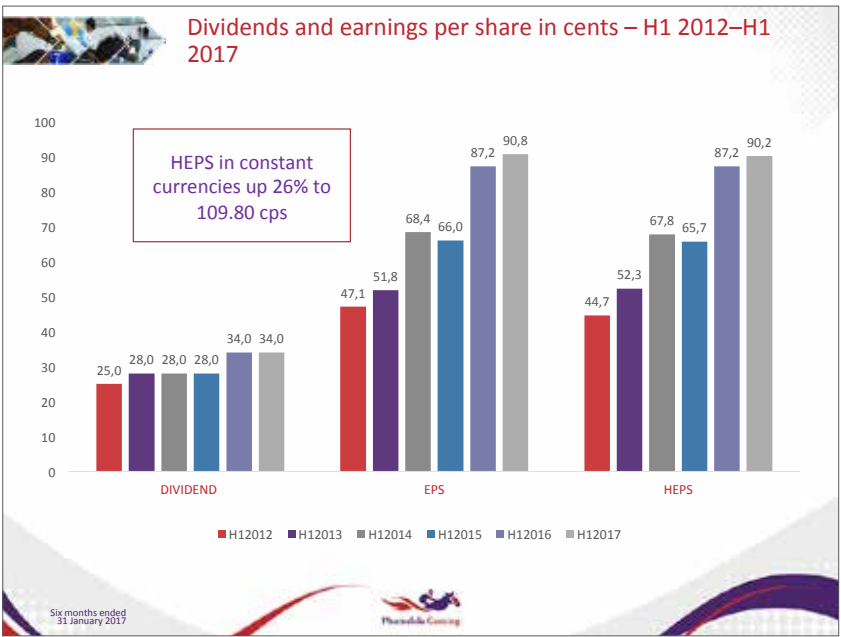
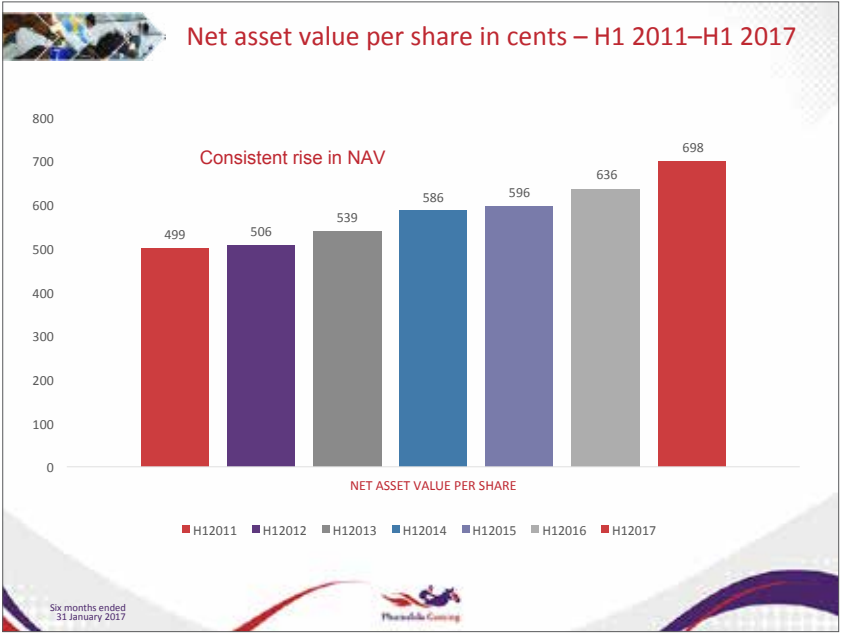
## International income by percentage mix



Six months ended 31 January 2017













<b>Directors:</b>	MP Malungani (Chairman), WA du Plessis* (Group Chief Executive), AW Heide* (Finance Director and COO), P Anastassopoulos, R Cooper, BP Finch, MJ Jooste, B Kantor, SKC Khampepe, NJ Mboweni (Mrs), VJ Moodley*, Dr E Nkosi, ML Ramafalo*, JA Stuart*, CJH van Niekerk, JB Walters (*Executive)
<b>Company Secretary:</b>	F Moloji (Mrs)
<b>Sponsor:</b>	Investec Bank Limited
<b>Registered Office:</b>	Turffontein Racecourse, 14 Turf Club Street, Turffontein
<b>Transfer Secretaries:</b>	Computershare Investor Services Proprietary Limited
<b>Share code:</b>	PHM
<b>ISIN:</b>	ZAE000039269
<b>Sponsor:</b>	Investec Bank Limited
<b>Website:</b>	<b><a href="http://www.phumelela.com">www.phumelela.com</a></b>



**Phumelela Gaming**

for more information on our business please go to:

**[www.phumelela.com](http://www.phumelela.com)**