HD **Interim 2014 Echo Entertainment Group Ltd Earnings Presentation - Final**

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Presentation

OPERATOR: Thank you for standing by and welcome to the Echo Entertainment half year results conference call. (Operator instructions) There will be a presentation followed by a question and answer session (operator instructions). I must advise you this conference is begin recorded today, the 5th of February 2014. I would now like to hand the conference over to your first speaker today, John O'Neill , chairman of Echo Entertainment. Please go ahead Mr O'Neill.

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JOHN O'NEILL , CHAIRMAN, ECHO ENTERTAINMENT **GROUP** : Thank you, good morning, John O'Neill here, chairman of Echo. Thanks for joining us for the half year results. So introductory remarks from me, you would have seen the press releases this morning regarding the half year performance of the **company**, but also the advice that John Redmond has decided to resign and he and his wife will be returning to the USA in the next few months, towards the end of April, beginning of May.

The **board** has decided to appoint Matt Bekier as the CEO designate to succeed John in the beginning of May. It's an orderly transition. Matt is well known, I think, to all of you, has had a long career with firstly TABCORP from about 2005 onwards, CFO role, then on to the demerger, the creation of Echo and has been an executive director and CFO of Echo since its inception. He is, in our view, well equipped to build on the foundations that John Redmond has established.

John, as you know, was a non-executive director of Echo and with many, many years of casino experience and towards the end of 2012 when we announced that Larry Mullin was moving on, John put his hand up and applied for the position of CEO and was ultimately the successful candidate. That was at a particularly challenging period for the **company** which is all on the public record, but John moved from the NED position into the CEO role and provided great stability and leadership and direction through the challenges of 2013 which was principally around the unsolicited proposal process in Sydney, which John was very well equipped to **lead**. Then, more recently, the focus has moved to Brisbane where another contest is underway.

John has also laid foundations for enhanced improvement here at The Start, at Pyrmont, as well as moving ahead with, besides the expression of interest process that's underway in Brisbane, further and much needed improvement of our asset, Jupiters on the **Gold** Coast. John will speak about his reasons for leaving, but they are personal. So it's not our intention to expand on that any further. Will be plenty of opportunities to thank John personally over the next few months, but I certainly on behalf of the **board** thank him most sincerely now. We understand his reasons for leaving and going back to the States.

His leadership of the business has been really just what we needed. We owe him a great debt of gratitude for stepping into the breach at a difficult time and led a very significant transformation of the **operations** and the strategic foundations of the **company** and its assets. The **company** is stable, we are seeing signs of improvement in the underlying business. We are looking forward to building on this momentum as Matt Bekier and his management team implement the programs that they have established under John's leadership. So that's my introductory comments. I'll hand over to John.

JOHN REDMOND , MANAGING DIRECTOR AND CEO, ECHO ENTERTAINMENT **GROUP** : Thank you John very much, I appreciate it. Good morning everyone, welcome of course to Echo's conference call relating to the first half results. I'll touch of course briefly on what John just mentioned, my resigning from the **Company** effective 1 May. Again, for personal reasons, I'**m** not going to take a lot of questions or any questions in that regard. This is a call that should be focused on the **company**'s earnings and not necessarily on my departure.

Matt will be assuming my role. He is, as John said, known to all of you. He has been involved with everything that we've been doing since I've been here, whether it be as a board member for the first part of my couple of years or the last year doing everything we needed to do to set the strategic direction for the company, to implement the various programs that needed to be implemented to drive not only the top line, of course, but to achieve the proper expense structure that sets the foundation for this company's future.

The best days for Echo are ahead of it. I'm very proud of what we've been able to accomplish to date and very comfortable that Matt will be able to continue with the momentum that has been recently achieved with these results that you're seeing. So again, thank you to the board for the opportunity that they gave me and of course this company is in great hands with Matt's leadership going forward; it's great to have and maintain that continuity and maintain that momentum that this company has -- is seeing right now.

So with that, I'll start with the review of the release and I'll just go right to page or slide 4. Again, I know all of you can read, but I'm just going to highlight a couple of points. Normalised NPAT for the first half, AUD71.5 million, up 1.3% on pcp. Of course, the company declared a dividend of AUD0.04 fully franked. Normalised EBITDA, AUD210.3 million, slightly ahead of the pcp. The cost reduction program initiated in 2013 continues to flow through as I'm sure you've noticed when you study these numbers. I think what that also demonstrates is the rigour around what we have done, what we stated we would do to make sure that the -- not only we picked a cost out, but that they stay out. So we've had great success with that.

When you look at normalised revenue across the Group, call it AUD930 million, it's been a solid result when you look at some of the underlying reasons for it being down slightly. So when you look at it, we're down about 7.4% across the Group and a lot of that has to do with hold and some of which is due to volume, of course and slots of course down slightly due to volume. But I think, when you look at the momentum that we are seeing going forward, a lot of these reductions that we saw in the first half, given the momentum we saw in the second part of that half and of course going into the second half of 2014, will help to catch up quickly.

Moving to slide 6 which I think is probably the best explanation of really what's going on, this is where we look at the impact on our EBITDA. Of course normalised EBITDA was relatively flat with prior year. But this year, when you look at the impacts of the win rate and the hold percentage and you adjust for that, that's the true story. So you're really looking at, call it utmost the AUD222 million EBITDA once you give effect for that, hold percentage as we all know, or win rate, smooths itself out over time. So these are things that are aberrations that aren't reflective of true operating performance. So I think this is one of the best indicators of really what happened in the first half, really was a tale of two quarters with the second part of that half starting to see the traction in a lot of the programs we put into place. But again, when you look at this from this particular standpoint on a like-for-like rub, just over 11%.

The next slide, slide 7, covers the progress of our cost optimisation program. Again, very happy with what's going on here. When you look at our OpEx in the first half being around AUD425 million, down AUD20 million, a significant dollar amount and again this is despite the inflation that you normally see year-over-year, as well as the increased operating footprint, of course one of the areas of that being the events centre here at The Star which was not in the first half of prior year. So even with that, we're seeing great results from our cost out program.

Of course I mentioned this at the last call, but one of the things that can never be overstated is the importance of these EBA agreements that were renegotiated or dealt with here at The Star and at Brisbane. They helped bring some stability to that significant part of our cost programs going forward and give all of us a little bit better degree of comfort that the out years truly are the best years moving forward here.

Looking at the next slide, slide 8, just to highlight a couple of issues, again slots you see down slightly at The Star, but really the momentum picked up in the second part of the half, as I mentioned. That gap of course has been closed already in the first part of the second half of this year when I talked about the momentum. Queensland was really impacted by the construction disruption on the Gold Coast, so all the reduction we saw there was, for the most part, solely in the area of non-rated play, which is all that walk-in business that we normally would get. But for the light rail construction that's going on down there at the Gold Coast, which if any of you have been down there and tried to drive a car or take a cab, you can understand just how significant that problem is.

Looking at of course the table game area, when you look at The Star, the reduction you're seeing there is about 40% of that reduction due to the win rate; again, that's in the private gaming area. 60% volume, again in the private gaming area, we know what's causing it, we know where it is and again, we've made significant strides on getting back some of that in the first part of the second half now.

Then of course looking at the VIP side of life, the rebate, you're looking at turns in the first half this year being just under 12, last year just over 13, slightly over 13. We'll talk a little bit more about the VIP rebate when I get to that particular slide.

So I'll move on to the next slide, slide 9, which just talks about the performance at The Star. Again, I think overall the first half was a good half at The Star. You're looking at the OpEx being slightly under AUD250 **million** and that's even -- that, of course, is down almost 3% and that's even after absorbing approximately AUD4 **million** in incremental payroll and whatnot related to the events centre. As I mentioned before, when you look at the main gaming core and PGR table revenue being down, that is, as I stated, primarily the private gaming area and 40% of that is really due to win, 60% volume. But again, we've clawed back a lot of that early on in the -- this month, this past month, so we're very happy with the progress we're making there.

I'**m** going to move on now to slide 10, talk about Queensland specifically. Again, market did well when you factor in where the problems were and again, as I mentioned, primarily at the **Gold** Coast and all in the unrated business which, whether it's tables or slots, it's areas that were impacted by the significant light rail construction going on. And most of that construction is starting to slow down, which is reflected in some of the momentum we started to see in our numbers in the latter part of the half and of course that accelerated into the early part of the second half of FY14, so happy to see that turning around. But again, this market is doing okay.

VIP rebate, slide 11, here again the thing to point out, sometimes it's not so obvious, but we have talked about this normalisation methodology that the **company** uses. We use a five-year rolling average. Using that methodology resulted in the current year using a win rate of 162 with a 13 turn. Last year of course the normalisation approach was a 1-6 hold or win rate and a 14 turn. So you have to adjust for that and I think one of the better ways to evaluate the business is to look at page 27 or slide 27, it gives you a little bit better apples to apples comparison on what's going on there.

Also, to point out, when you see the one dot point dealing with the trade receivables, if you look at page 29, again a little bit better reflection of what happened with the -- what's happening with those receivables. Substantially, all of the delta, if you will, between that number and what you see on page 29 is a lot of the volume that happened, given the Western New Year significant amount of credit extension, all of which has already been collected and cleared. So that that's always a good thing. Again, we had strong momentum in the VIP business in the first part of the year, which slowed down slightly in the second part of the half.

With that, I'll turn it over to Matt to talk about the financials in a little bit more detail.

MATT BEKIER , EXECUTIVE DIRECTOR AND CFO, ECHO ENTERTAINMENT **GROUP** : Great, thank you John. On page number 13, let me just reference a couple of numbers and give you a bit more colour on some of the things that John has already referenced. Revenue normalised down 4.8% to AUD929 **million**. John's talked about the reasons. The only additional point perhaps to make is when it comes to momentum, we saw Q1 in the core business, ex VIP, relatively anaemic. There was a combination of factors but including the fact that probably the loyalty program didn't initially get as much traction as quickly as we thought. But we're pleased with the progress that we're seeing now in Q2. Conversely, the VIP business was very strong in the first quarter and then really was quite disappointing in the second quarter.

Revenue growth of 4.8% then translates into growth variable contribution of 3%. A couple of comments on that one; the biggest driver of that really is the fact that we've taken back a lot of the promotional allowances, the freebies that we've been giving away in the past, that has basically improved our margin. We've also been able to reduce VIP commission rate a little bit over the last six months.

In terms of gaming taxes, we had a benefit here at The Star where the underlying gaming tax actually came back, but that was offset by the additional levies imposed on us here in New South Wales as well as in Queensland. The cost of AUD425 **million** in the first half, I think that's a real standout; we had previously guided the market to expect sub AUD900 **million** for the full year. That AUD900 **million** essentially now, calculation last time we did the bridge on a conference call, would have demonstrated that we've taken the AUD60 **million** worth of costs relative to 2012 year out. That AUD900 **million** included, when we did the bridge then, AUD8 **million** worth of extra rent in Brisbane, so we need to take that off. But even so, it's fair to say that the AUD425 **million** came in well below where we thought we would be in the first half.

I do want to caution you to not just assume that we're going to run at this run rate for the second half. There's more activity in the second half and we'll be comfortably below AUD880 **million**, but you can't just double those numbers, just be careful of that. But as John said, with that taking the cost out, we've been able to offset the decline in the revenue and actually show a little bit of EBITDA growth, in a way that we believe sits us well for the future.

Interest, underlying interest is AUD36 million for the year -- for the first half and I'll talk about the interest in a minute. Tax, just below 30% tax rate, I think you should assume that we'll always be around about 30% unless there's some adjustments to come through that gives us the NPAT that we reckon.

On page number 14 on the funding, let me -- and the interest rate. A couple of things, the net debt that was showing AUD765 million, up from AUD707 million, the real drivers there are twofold. We have mark to market movements on the USPP, as well as the use of some extra use of cash that we used to buy back -- buy out some of these derivatives that we have mentioned in the past. In December we made an announcement on that. There's also been some minor timing of cash flows and the major driver was the MTM on the USPP. We have undrawn bank facilities of AUD365 million, so taking the AUD150 million current debt out won't be an issue.

In terms of, what's probably most relevant, in terms of the interest costs, in 2013 we showed underlying interest costs for the full year of about AUD79.4 million. Like-for-like, we expect that number to come down to AUD65 million as a result of the buyback of derivatives for this financial year and for next year, will drop down to AUD60 million. That's with the benefit of getting or spending the AUD22 million on the refinancing and taking out the derivatives.

Page number 15 sets out the balance sheet. The only comment I really wanted to make there is around the trade and other receivables. You see that relative to the previous six months they've gone up from AUD84.8 million to AUD106 million. Biggest chunk there is other trade receivables that relate to the B business. Of the AUD106 million, AUD94.7 million relate to these trade receivables. That's slightly cyclical, so 12 months ago that number was AUD114 million. So it's actually come back a little bit. The biggest chunk of that relates to undeposited cheques. So this is players that are in house or who have just recently played and there was AUD47.3 million at balance date, all of that money has been collected, so that's been good.

Then John's reference to the AUD0.04 fully franked dividend that the Board has decided to pay, that's in line with our payout ratio if you see through the one-off expense of the refinancing.

In terms of capital expenditure on page number 16, as you would expect, the profiles coming off post the expansion of Star. The bulk of our capital expenditure and that's the second bullet point on that page, bulk of our capital expenditure this year really related to the growth and investments we're making in electronic gaming in Queensland and we're pleased to see that starting to pay off. The outlook for our CapEx for this year is around about AUD150 million to AUD160 million in line with D&A. That really depends on how quickly we get our approvals through on Gold Coast and start the work there.

Finally, the last page and the last point I wanted to refer to is just the sale of Townsville on page number 17. We made an announcement on that about 10 days ago we entered into an agreement to sell Townsville to Colonial Leisure Group for AUD70 million. We should -- or you should assume that we will book the profit from this transaction either this half, sorry this full year or six months after that. It really depends on how quickly the buyer is able to get through probity and get all the relevant approvals. That determines when we book that profit.

That basically concludes my discussion of the financials and I want to hand back to you, John, to take us through the outlook and the priorities.

JOHN REDMOND : Thanks, Matt, I appreciate that. Just touching base real quick on the strategic priorities. I think it goes without saying that we continue to strive to improve the operational performance at both Star and our Queensland properties. I think there has been a lot of progress made whether it be from a customer service standpoint, whether it be through greater marketing efficiencies. Whether it be through the EBA agreements we talked about before but the foundation has been set from an operational standpoint to now just try to primarily focus on driving the top line to really get the leverage out of the operational foundation that we have created.

At the Gold Coast of course we have made a lot of announcements there recently covering some of the upgrades we want to do. We have also talked about the casino systems that have been put in place throughout Queensland and Gold Coast and Brisbane. But one of the things to stress here is it started in the first half of the year where we started to install a TITO. During that first half we also got good news regarding bill acceptors. We are substantially -- have adjusted all of our bill acceptors and all of our machines to accommodate the new rules which of course allow for denominations up to AUD100. We are probably going to be in a position by well by the end -- at the December we probably had 50% of our machines were TITO and by the end of March/April we will be very close to 100% if not at 100%.

So we are seeing -- and of course before I get to that, we have also installed new product in that market which was sorely needed. The changes that have taken place from a regulatory environment standpoint have been significant, substantial, welcomed and again we will take the opportunity to applaud the Newman Government for helping to move these initiatives forward.

So we are seeing -- we saw great momentum in the second half as a result of those three bill acceptor, TITO and new product. We are seeing even more momentum going forward. So the expected uplift that we all thought would -- was achievable we are seeing that early on and we are hoping that that momentum continues throughout the rest of the year.

The Queen's Wharf development process, I am sure all of you are aware of what is going on. They announced the competitive bid process and expected timeline in December -- December 19th. It is expected to be completed by the end of calendar 2014 with the winning bid selected in early 2015. Again these are timeframes and dates put out by the government and until we hear otherwise those are ones we are assuming. But again we are bound by various confidentiality requirements under the ROI. We -- those are going to continue throughout the process whether it be EOI or RFDP. So we will not and cannot provide much information from now on going forward regarding that project as we comply with those requirements set out of course not only for us but anyone else who registers.

The capital options review as I am sure all of you would know we are constantly have and will continue to evaluate various ways for us to accommodate all of our plans not only in Queensland but here at the Star as we go forward. The bright spot of course is that these are all wonderful, compelling opportunities and we are making some good strides in evaluating how to accommodate all of them.

Again slide 20 when you look at the **Gold** Coast more specifically, the -- we have announced an AUD345 **million** expansion and upgrade of that **property**. We are **firm** believers in the **Gold** Coast market. We think that there is great opportunity here not only with this development but when you look at the potential beyond this development it is rather significant. And there is no reason why this development and future development will put this **property** as really the pre-eminent tourist destination spot here in Australia.

Of course like any construction project anywhere there is a lot of approvals that is required. We are working through those processes as we move forward. It is difficult to predict an exact timeframe as to when we could commence. But we expect to commence some time in FY15.

You are going to see as part of the expansion we would add new and improve the existing and in a combination of that will be a very compelling project here going forward that we think will have returns on the investment that would exceed our cost of capital. And again the longer term vision with all the size of the **site** and the ability to continue to develop out that the Jupiter's **property** there is extremely exciting and a great opportunity for this **company** going forward.

I will give you a little bit of a trading outlook slide 22. I guess the best takeaway here is that every single one of our properties is up on the PCP for the month of January and it is probably -- it may be the only time I can recall it happening in this year. We are excited about what is happening. It kind of validates all the changes we have made, whether it be from a cost standpoint or revenue optimisation standpoint. So we are happy with what is going on there. **Chinese** New Year of course here as one would expect our hotels are **sold** out. You can ask us each hour and the information can change as people understand what goes on with the volatility of that business. But right now as I sit here I am happy and we are excited about this **Chinese** New Year. But again that can change by the hour if not by the minute.

Our cost-op program we as I have mentioned earlier we have a lot of framework around that to make sure that we do not get any creep in our expense. I think you are seeing that in the numbers, you are seeing that in the fact that we have, as Matt stated, updated our guidance in that regard to coming in sub AUD880 **million** as opposed to AUD900 **million** as we previously put out there. So I think that is obviously a significant takeaway for all of you when you ask about whether or not we are able to contain those expenses longer term.

And again we are -- when you look at the Queensland market the modernisation of that whole regulatory environment is extremely encouraging and exciting for us going forward. We have been able to even add more product. We are -- we believe we were being somewhat capacity constrained on the weekends at the **Gold** Coast. So we have added approximately 60 machines towards the end of the half and we are seeing the impact of that early on. And we have also been able to add or squeeze in, in the case of the treasury, more product there. So between the regulatory changes, between being able to add some additional product on the floor, we are very encouraged and excited about Queensland going forward as well.

And with that we will turn it over to the questions.

Questions and Answers

MATT BEKIER : Operator?

OPERATOR: We will now begin the question and answer session. (Operator instructions) Your first question comes from the line of Adam Alexander from Goldman Sachs . Your line is open, please go ahead.

ADAM ALEXANDER, ANALYST, GOLDMAN SACHS : Oh good morning. I have just got a couple of questions the first one on the PGR and you pointed out it is down in both properties 40% due to wins. But just on the 60% that is due to volumes, what is the main driver of that and what is turning that around as we come into the second half? Then my second question is just on VIP volumes, down in both properties despite global VIP in Macao having a pretty strong half. I am just wondering whether from your point of view it is becoming a bit harder to attract VIPs from Macao down to Australia or any other colour around that? Thanks.

JOHN REDMOND : Appreciate it, Adam. You look at the PGR I mean even when you take the **Gold** Coast for instance. We had a whole percentage that was down 400 basis points and if you are going to be down you want to be down of course in the whole percentage as opposed to the volume, because the game statistics work themselves out. So about half the reduction you saw in Queensland was more whole related. Then at the Star as you point out being more volume. We have identified that specifically to a couple of patrons and a couple of issues. In the case of patrons sometimes that could be a timing issue where you had a handful of patrons who might have been in in the first half that you did not see this half. So they came in the first half of 2013 we did not see them in the first half of 2014. Those folks can show up at any time. So when we can identify to situations like that where we can in this case where some of them were international that we have not seen them back. They have been to the **property** on several occasions. We would expect their visitation again going forward.

And we are excited and encouraged by some of what we have been able to claw back in terms of that volume and win rate early in the second half of FY14. So there is nothing that I would look at there and say that there is a problem. I mean I think the momentum we are seeing in volume and the recovery in our whole percentage everything is happening as one would expect.

With regard to VIP volumes, that business as we all know is extremely volatile and the year-over-year increases that we have seen obviously our base of business is getting much bigger. And to maintain those significant increases year-over-year is more of a challenge. It is not one that we do not strive for but it is more of a challenge as the base gets bigger. I think we -- there is a -- you saw a turndown in business or a reduction of business in Singapore as well. But I think we are all encouraged by what is going on in Macao. I think the worldwide volumes are still there. There is -- we are not hearing or seeing the business not wanting to come to Australia.

We think there is still a very strong demand to come to Australia. I think we will understand that a lot more after **Chinese** New Year this year. Of course it falls earlier in the half this year than it did last year. And sometimes when you see it fall earlier people delay a trip when that falls earlier in the year as opposed to later in the second half. So again I think the best time to look at the VIP volumes is going to be after the second half where you can get a little bit more colour on **Chinese** New Year, Thai New Year et cetera because they are such significant contributors to what goes on there.

ADAM ALEXANDER: Great, thanks, John.

OPERATOR: Your next question comes from the line of Michael Goldsmith from Citibank. Your line is open, please go ahead.

MICHAEL GOLDSMITH, ANALYST, CITIBANK: Hi guys, just a question around mass gaming revenue. Is it visitation levels that are down or is it the number of repeat visits or is it average spend per visit that it is really driving the declines we are seeing in EGMs and the main gaming floor?

JOHN REDMOND : Well I think when you look at the visitation for instance, just to give you a little bit of colour on that. In the first half of FY13 there was 48,000 new member sign-ups. When you look at the first half of 2014 there was 20,000. So there is a reduction in visitation as measured by new member sign-ups of 28,000. When you look at the aggregate, theoretical win potential with the 48,000 people that showed up in FY13 it was approximately AUD3.5 **million**. When you look at the aggregate win potential of the 20,000 people who signed up in FY14 it was approximately AUD4.3 **million**. So as you could see that the quality of the guest that we are attracting is much more significant and the programs we have put in place is not to necessarily bribe people to join or to come but to give them a valid reason to be a member of our clubs.

So the visitation that we saw in the past that was driven by those types of programs that had a significant expense associated with them but not necessarily the benefit of a good customer, those are gone. But we are seeing an uptick across all of our categories in terms of unique patrons and a higher quality patrons. So that again is by design and we are happy with what is going on there. The -- if you look at the EGM side of it, the electronic gaming side of it, in all cases now when you get past January the **company** is ahead of the PCP and we are encouraged by that. That we are doing well and I think the programs are starting to get traction and kick in as the awareness kicks in. And that is what we were saying is that we started to see a momentum acceleration in the second quarter and that continued into January and of course early February.

MICHAEL GOLDSMITH: With that, John, I mean do you have any concern around the cost cuts that you have done around the employee line and advertising? I mean do you expect that is going to have any impact on revenue growth in coming periods?

JOHN REDMOND : No not at all, I mean we have not taken out any employees that are, what we have said, front-facing that have a negative impact on customer service. I mean I think when you look at our revenue volumes as they started to accelerate to the second half we can see that. A lot of what was taken out was -- and we have explained this of course since early on but a lot of what was taken out are people that do not touch a guest. So we have either gotten more efficient at our guest service or we have dealt with -- and of course one of the ways you get more efficient at your guest service is being able to empower people to make a decision. Not necessarily have layers and layers of management because it takes too long to make decisions. So it is the upper levels if you will that have been streamlined to allow us to provide that better guest service on the floor.

MICHAEL GOLDSMITH: Okay my last question, John, on the FY13 conference call you mentioned that you still expect the Star EBITDA to get back to its original target around AUD340 **million**. It looks like we will not reach that this year but how much of an improvement do we need to see in this [growing] business to really get us to that level in coming periods?

JOHN REDMOND : Well it is interesting the first half of the -- call it the first quarter was down and we really started to see the business start to pick up as we expected with the awareness campaign that we embarked on with our absolute rewards program. So as that awareness became greater we started to see that acceleration in play that one would expect. So here at the Star albeit we had a low hold in the PGR, we are starting to see the EGM side pick-up and we are starting to see a recovery in our volumes in the PGR and of course a recovery in the whole percentage. So everything points in the right direction at the Star.

The AUD340 **million** has always been a stretch target, I still think it is. Whether it is achievable this year or next we will have to wait and see based on luck factors and everything else that play into that. But the foundation has been set from a cost standpoint at the Star and the rest of the **company** to achieve **company**-wide results that are acceptable to all. And what we are focused now on is driving that top line to try to get to a number that is much closer to that AUD340 **million** that all of you mention.

MICHAEL GOLDSMITH: All right, well thanks, guys, I'll pass the phone to other questions. Good luck, John.

JOHN REDMOND : Thanks, Michael.

OPERATOR: Thank you, your next question comes from the line of Matt Ryan from JP Morgan . Your line is open, please go ahead.

MATT RYAN, ANALYST, JP MORGAN : Hi, guys, I am just curious about your comment about the **Gold** Coast investment and expecting to exceed your cost of capital which I would assume you would say that. So I guess what I am looking for is something a little bit more specific and maybe if you could break up what actually is being attributed to what you classify as maybe maintenance CapEx and catch-up versus maybe some expansion CapEx?

JOHN REDMOND : Well I think when you look at the **Gold** Coast, I think everyone would agree and understand that there has been an under-investment there. I mean I look at our rooms for instance and it has been in the neighbourhood of 17 years since we invested in the rooms. Arguably the only thing that we have maintained the appropriate level investment at there has been in our gaming product, which obviously makes sense. And we're continuing to do that and there is -- as I mentioned earlier -- a significant investment going in there now with the TITO/bill acceptors and new product. But in order to maintain the longer term trajectory of earnings that we need to as a **company**, you have to maintain these properties at a level that continues to attract and retain customers. So that **property**, similar to the Star has never had a significant investment, for instance, in its private gaming area and, as a result, it's hard to remain competitive.

The rest of the product -- you can see the decline in the non-gaming revenue. There's not a whole lot there to attract people in terms of variety or quality when you look at it from a reinvestment standpoint. So it's something that needs to take place. Then we also realised, as a **company**, that there's significant potential and opportunity there with the very high end of the business. So whether it be the private gaming rooms that we haven't invested in properly or the International Rebate Business that wants to go there, the **Gold**

Coast has tremendous appeal and attraction, but it's hard to get it there because we lack the product, frankly.

So by addressing the highest end of the business -- which you can see what the investment we're looking at -- there's a new six star tower -- that's going to address all the shortcomings between the tower and between fixing the deferred maintenance of that there to make that, really, a brand new **property** that will be second to none, and set that **property** up for future success. So we're excited by that. I think if you were -- tried to slice that number up between what is deferred and what is growth, I think you're probably looking in the neighbourhood of about AUD100 **million** roughly. It relates to deferred maintenance improvement, and the balance relates to growth. Again, those are just ball **park** numbers.

MATT RYAN: Okay. Thanks. Then I just had a follow up question on the PGR business, just trying to understand your comments around maybe a few patrons not visiting the **property**. I think if you look at the decline that you saw and apply the 60% of volume that you're talking about, you get to somewhere around a AUD15.5 **million** decline because of volume, which would be about 14%. So how many players are you actually talking about which would have contributed to that, relative to maybe just general softness in the business or movement in market share to other properties?

JOHN REDMOND : Well, the way I look at that volume -- you're probably in the neighbourhood because how whole percentages work -- and you can't really do strictly apples to apples because if you have a very low hold, for instance, people are winning, and therefore they're not buying in at the levels that they would typically **buy** in at. You're probably looking at somewhere about -- by my estimates -- about AUD10 **million** due to volume, and the rest due to hold.

When you look at the volume side of it, there's some customers that you won't see again because -- for a multitude of reasons. It could be they're excluded or barred, or financial. Then there is customers that we know, it's a timing issue. Now, when you look at the situation where they're excluded or barred or passed away, or all the different issues you can point to -- we'll call it a permanent difference, as opposed to timing -- I mean that's just the nature of this business, right. That happens at the highest end, where customers drop off and you find new customers.

So we're pushing aggressively to backfill, if you will, the customers to drop off. That's just something that all gaming companies need to do because people aren't significant customers forever. There's always reasons for them dropping off. So you always have to be in a position to have programs to identify new, if you will, to replace the old. So that's what we're doing, and that's why I made the comment about what we are seeing early on in January, for early part of February, is encouraging with regards to those -- that issue of finding new customers.

MATT RYAN: Maybe just a quick last one, maybe, for Matt. So I think in the PCP you had some reclassification of PGR from VIP into the PGR business. I'**m** just wondering we're completely like-for-like on a comparison now.

MATT BEKIER : We are.

MATT RYAN: Okay. Thanks.

OPERATOR: The next question comes from the line of Mark Bryan from Merrill Lynch . Your line is open. Please go ahead.

MARK BRYAN , ANALYST, MERRILL LYNCH : Yes, thanks. Morning, John. Morning, Matt. Just wanted to dig in, if we can, to a little bit more of the seasonality of the business -- H2 on H1 -- and understand a bit more about your outlook commentary. It sounds like January and February started well, and you've obviously got the cost-outs as well. But there's an awful lot of caveats in your comments. If we look at the last two years' EBITDA has been down H2 and H1 obviously. I'**m** just wondering, Matt, if you can actually hold EBITDA H2 and H1 as we head into the rest of the year.

MATT BEKIER : Look, we don't think -- given our business mix -- that we have any real cyclicality across the two halves. The mix changes, and I'd (inaudible) -- the second half we're more reliant on our IB doing well than we are in the first half because we've got both **Chinese** New Year and Thai New Year, whereas in the first half we've got Christmas in it, which is more relevant to the core business. So we don't actually -- the way we look at it, the budget, we don't have a huge difference between the two halves.

If you go back in history -- over what happened over the last two years -- two years ago we were, in January, in the middle of the suit debacle and discussion with the New South Wales Government, the inquiry. We had done a lot of pre-opening activity in H1 of that year, of 2012, that inflated revenue, arguably, in H1 and attracted a lot of business to the **property** in H1. As soon as that was all open we pulled the pre-opening expenses out and then H2, as a result, was a lot softer.

Last year, in H2, we pulled out a lot of the excess marketing -- a lot of the promotional items were pulled out and we revamped the loyalty system. So I think we understand what happened in the last two years. But we don't really believe that, structurally, we should have big cyclicality in our business today.

MARK BRYAN : Thank you. Just a general theme question, I guess. It's been in the business for a while now that -- obviously, I'm thinking Star here -- that non-gaming's been growing faster than gaming or -- obviously, gaming's in decline. You had a number of initiatives a year -- even, perhaps, a year and a half ago -- to try and improve that cross sale. Why do you think that's not working, and how do you anticipate trying to change that, going forward?

JOHN REDMOND : What, you think cross sale is not working?

MARK BRYAN : Yes. So, obviously, non-gaming is performing well in Star, as you've alluded to, and that's been the theme now for a good -- almost two years really in the business -- but you're not getting those non-gaming customers into gaming. You set up a number of initiatives to try and improve that, but that doesn't seem to be flowing through as yet.

JOHN REDMOND : Well, I think we started to see that in the second half. A couple of reasons, 1) when you look at the improvement in the non-gaming, if you will, some of it -- in the case, let's say, of the event centre -- there's something that is in the current year that wasn't in the prior. So we have a facility that we're driving probably somewhere around AUD1 million a month with revenue or business for the pretty strong margin.

We estimate that we're probably looking at about 200,000 people, incrementally, a year attending functions there, so the potential for driving more business -- albeit -- it could even be non-rated -- they walk through the property, they drop a couple of dollars, whether it be on a table or a machine, or buy an extra drink. I mean that's all that extra spend you can get out of those folks.

I think when you look at some of the improvement you're seeing in the non-gaming it's hotel related. That's why, by design and strategy, we had -- arguably, we had policies in place that was tending to over-comp some of our customers. So we have pulled that over-comping out, which has allowed us to free up those rooms to be able to sell more cash business. So if you had someone staying in the room for free that wasn't playing on a table or slot, you -- we obviously weren't seeing that. So now we've pull all that out of the market, if you will, replaced it with cash business, which is why you're seeing the improvement on a room side.

As part of our Absolute Rewards Program you're looking at -- well, what's baked into the tier structure is the ability for a guest to get free room nights across all of our properties, and the number of room nights you get is greater, of course, given the higher tier status that you're in. We continue to look at that, to evolve that. We recently even added more room nights because of the upside potential we're starting to see and the acceptance level that our guests are showing by virtue of how they're redeeming those rooms, so some of it was a difference in strategy. That made a lot of sense, and that's why you're seeing the improvement in the non-gaming and the accelerated improvement in our gaming, because of the mix of people in the hotel.

MARK BRYAN : Thank you.

JOHN REDMOND : One or two more questions, operator?

OPERATOR: Yes. Your next line comes from the line of Sasha Krien from CLSA. Your line is open. Please go ahead.

SASHA KRIEN, ANALYST, CLSA: Good morning, John. Good morning, Matt.

JOHN REDMOND : Morning.

SASHA KRIEN: Just two questions from me please, just in relation to VIP. I think, Matt, you mentioned that you might have pulled back the commissions a bit in the VIP business in the half. Can you give us a feel for what those commission rates are this year versus last year, and do you actually need to lift those rates again, given the decline in volumes that we saw and, perhaps, also given some of the increase in competition for VIPs in the region?

Then, secondly, on EGMs, you used to provide us with a chart which gave us the Star's market share relative to the Sydney market, the broader market. I think it was about 8% or just over that in the first half 2013. Perhaps if you can give us a feel for where you are now relative to the broader market? Thanks.

MATT BEKIER : On the IB commissions we're looking at 0.85% versus 0.88% 12 months ago, but it's come back a little bit. Obviously, on the big turnover number that's a relevant shift. It's more of a result after types of businesses, the types of junkets, who brings the business, under what regime rather than us having pulled the number back. We know these programs -- the programs are pretty transparent and competitive. We know we're being competitive, but I don't think that we have pulled them back too much or that we're out of the market. So it's just -- the commission's just one of the results of where the business mix has fallen this year.

In terms of the market share we have, in the past, provided these numbers, and I think we'll provide those again in future. We have dropped about -- for the quarter -- about a quarter of a per cent of market share in slots for the -- the last statistic that we have available is for the first quarter of the half. As John referenced, we had a soft first quarter in the core business, and we expect that we've done a lot better in the second quarter than that. It's a good pick up. We should put those market share numbers back in.

SASHA KRIEN: Just a quick follow up on that. In terms of the free play, which you've now ended, when do you actually cycle the end of that free play you were giving to players?

MATT BEKIER : Now.

SASHA KRIEN: Okay.

MATT BEKIER : So this quarter here was still a little bit inflated. We took it back 12 months ago pretty drastically. Then the fourth quarter of last year was pretty clean.

SASHA KRIEN: Okay. Thank you.

OPERATOR: Your next question comes from the line of Larry Gandler from Credit Suisse . Your line is open. Please go ahead.

LARRY GANDLER, ANALYST, CREDIT SUISSE : You guys have alluded to a new capital program at Star in terms of, I think, some financial guidance over the next few years.

I'**m** just wondering if that's being scoped out. Obviously, with the performance of the PGR, it may be more necessary. So can you describe where you're at with that new capital program and what we should expect?

JOHN REDMOND : I think it's an area we've been talking about now, at least since I've been here, and what the message we've been saying, which really hasn't changed, is that we think we're comfortable with the spend being, on average, about what our annual depreciation is, which is about AUD100 **million**. So we think within that envelope, if you will, we can do the PGR improvements that we believe we need to do, as well as some of the additional non-gaming we need to add into the **property**. So that, over the medium term, is probably what you're looking at on average.

LARRY GANDLER: Okay. No specific projects have been slated yet that you can describe -- conceptual at this stage.

JOHN REDMOND : Look, there's just two projects that we are spending -- well, several projects we're spending time on, but two that are probably going to happen sooner rather than later, would be a buffet project we mentioned, and a room renovation. So those two projects -- I can foresee those projects are potentially, again, subject to the various approvals and everything else one needs to achieve, maybe getting started in the back half -- the second half of 2014. But that could be pushing into 2015 subject to the approval process.

LARRY GANDLER: Okay, great. Thanks. That's all I've got.

JOHN REDMOND : Thanks, Larry.

OPERATOR: Your next question comes from the line of Philip Wensley from Paradise Investment Management. Your line is open. Please go ahead.

PHILIP WENSLEY, ANALYST, PARADISE INVESTMENT MANAGEMENT: Yes. Hi, guys. I've been given the comments from John just about being pleased with the momentum of the re-vamped loyalty program, and given that revenue's actually down, I'**m** just wondering if you can give us some other operating metrics to justify that statement please.

JOHN REDMOND : Well, I think what I was mentioning is that you're looking at a program that basically was implemented in June of 2013. So when you look at what happened between June of 2013 and December, that's really what I'**m** referencing. So as we've been mentioning throughout the call it was really a tale of two quarters. I mean the first quarter being in our core business being much softer than the second quarter, and the second quarter starting to reflect that awareness. As a result, the momentum and the pick-up in play.

So that's where we get excited by what can happen, given that awareness that's starting to take place with our customer base. We're seeing, for instance -- when you look at some of those metrics we're seeing an increase in unique active members. We're seeing an increase in the use of discounts. So, again, the various tiers provide discounts that are higher at the higher tier levels. When you look at, say, the use of those discounts by our customers in June and compare that to the use of those customers -- by our customers in December, they've accelerated in a very meaningful way, and it's moving, of course, in the same direction as our revenue, so that's why we're getting excited by that.

Part of the program has a shopping component. We've seen a tremendous acceleration in the use of our shopping, and also includes discounts on rooms as well as comp rooms, which I referenced in a previous question. We've seen a tremendous acceleration in the use of those discounts, as well as the comp rooms as well. Most encouragingly, we're seeing cross-**property** utilisation of those room of comps and discounts but, primarily, room comps, meaning that a typical Star Sydney customer goes to the **Gold** Coast, or vice versa, or a Brisbane customer uses their comp room night at **Gold** Coast.

So something -- we've had months -- recent months -- where -- at the **Gold** Coast, for instance -- over 50% of their comp room nights are driven by patrons that are coming from outside of the traditional **Gold** Coast market of, say AUD40,000. So to see that cross-**property** utilisation is what we were hoping to achieve. We're starting to see that, and the fact that it's picking up demonstrates the awareness. I mean, arguably, we probably could have done a better job early on when we rolled out these programs. But credit to the team that we realised that we needed to enhance that awareness. We've done that, and that's why I think we're starting to see that accelerate.

PHILIP WENSLEY: Okay. Thank you.

JOHN REDMOND : Thank you.

OPERATOR: Your last question comes from the line of Sam Theodore from UBS . Your line is open. Please go ahead.

SAM THEODORE, ANALYST, UBS : Thank you, guys. Just one quick one for Matt, just looking at the slide of the receivables ageing at the end, in the appendices. There obviously seems to have been a quite significant improvement relative to June. Just wondering if you could just talk us through that.

MATT BEKIER : Look, one comment on that slide is that the receivables also doesn't show the provisions that we've taken against that. One big thing that's happened -- I do share -- I mean I do think that the book is well provided for and conservative, but one of the things that we did between June and December was there was a lot of -- quite a few old dated debt that we had over the -- had to provide for, and we just wrote those off to clean up the books. We continue to pursue these debtors and make some progress, but from an accounting point of view they've been written off.

SAM THEODORE: Okay.

MATT BEKIER : So it looks, probably, a little better than we think, but it is a good story.

SAM THEODORE: That's all. Thank you.

JOHN REDMOND : Thanks, Sam. Thanks, operator. Appreciate everyone's time. We'll talk to everyone later. Thank you.

MATT BEKIER : Thank you.

OPERATOR: That does conclude our conference for today. Thank you for your participating. You may all disconnect.

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