



 **TSOGO SUN**

Integrated Annual Report 2017

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About this report

Reporting approach

We are pleased to present our integrated annual report to our stakeholders. This report is primarily written for our shareholders but it is also helpful to our other stakeholders interested in our ability to ensure a sustainable business into the future. This report provides a consolidated review of our financial, economic, social and environmental performance on matters material to our strategy and our ability to create and sustain value.

The financial and other information has been prepared in accordance with the requirements of IFRS, the South African Companies Act 2008, the JSE Listings Requirements, King III and the international <IR> framework as applicable. Disclosures in the integrated governance section have been guided by King IV but comply with the reporting requirements of King III.

The group is continuously improving its combined assurance model. Assurance for elements of this integrated annual report has been provided through a combination of external and internal sources which will become more formalised in line with future guidance from the IIRC.

Scope and boundaries

The contents of this document addresses material issues for all our subsidiaries, associates and joint ventures and covers the period from 1 April 2016 to 31 March 2017 except where material transactions have occurred post-year end. The process we utilised in determining and applying materiality is included on page 21 of the report. Non-financial disclosures, except for environmental disclosures, focus on the South African operations, which generate 94% of our income. The scope and boundaries of environmental disclosures are defined on page 43.

Financial statements

The full set of consolidated annual financial statements, including the report from our audit and risk committee and directors' report, are available online or can be requested directly from our Company Secretary at companysecretary@tsogosun.com.

Board approval

The board, assisted by the audit and risk committee, is ultimately responsible for overseeing the preparation, presentation and integrity of the integrated annual report. This was achieved through the setting up of a sub-committee of the audit and risk committee to oversee the reporting process. The directors confirm that they have collectively reviewed the output of the reporting process and the content of the integrated annual report. The directors believe that this integrated annual report addresses the material issues and is a fair presentation of the integrated performance of the group in accordance with the international <IR> framework, and therefore approve the report for release. We welcome any feedback at investors@tsogosun.com.



John Copelyn
Chairman



Jacques Booysen
Chief Executive Officer

Forward looking statements

Certain statements in this document may constitute 'forward looking statements'. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Tsogo Sun Holdings Limited and its subsidiaries to be materially different from the future results, performance or achievements expressed or implied by such forward looking statements. The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. These have not been reviewed or reported on by the group's auditors.



Icons for further digital information within the report:



Further reading relevant within this report.



Find more detailed information on our website relating to Tsogo Sun and our integrated annual report.



Scan the QR code to download the integrated annual report to your smartphone, tablet or e-reader.



Scan the QR code to download the annual financial statements to your smartphone, tablet or e-reader.

Social platforms to link to us via other media:



Like our Facebook page to connect with Tsogo Sun on a regular basis www.facebook.com/TsogoSun



Link to our Twitter account to follow the latest news regarding Tsogo Sun <https://twitter.com/tsogosun>



View Tsogo Sun images on Instagram <https://instagram.com/tsogosun>



Group overview

Our vision

Our vision is to provide quality hospitality and leisure experiences at every one of our destinations.

Who we are

Tsogo Sun is southern Africa’s premier gaming, hotel and entertainment group.

Tsogo Sun’s operated, owned and managed portfolio proudly comprises 151 hotels with more than 24 500 hotel rooms across all sectors of the market, from luxury to budget with operations in South Africa, Nigeria, Kenya, Tanzania, Zambia, Mozambique, the United Arab Emirates, Seychelles and the United Kingdom; 14 premier gaming and entertainment destinations in six provinces of South Africa; theatres, cinemas, restaurants and bars; and over 320 operated conference and banqueting facilities, including the Sandton Convention Centre.

Our group structure



47.6%



Public

52.4%

Our owners

Our key shareholder at 31 March 2017 was Hosken Consolidated Investments Limited, a JSE listed investment holding company (through TIH) holding 47.6% of the shares, excluding treasury shares.

The HCI shareholding is of particular importance to the sustainability of the group as it provides the bulk of the 62% broad-based empowered ownership at group level, significantly simplifying our group structure as local empowerment is

not required at individual property level, except where specifically required by provincial legislation.

Although the nature of our shareholding impacts the way we are managed due to the majority of the board being appointed by the major shareholder, the governance environment is robust and actively encouraged. Refer to the integrated governance section on pages 63 to 78.

Group overview *continued*

TSGO SUN THROUGH THE YEARS

1969

1969

South African Breweries Limited ('SAB Limited') and hotel magnate, Sol Kerzner, partnered to create Southern Sun Hotels ('Southern Sun'), the largest hotel group in the southern hemisphere at the time. Southern Sun commenced operations with six hotels, including the iconic Beverly Hills hotel in Umhlanga Rocks, Durban, and was subsequently involved in the development of many of the most prestigious hotels of the era, including the Cape Sun, Sandton Sun and Sun City.

1983

Sun International Limited was split out of Southern Sun as a separate gaming business and Southern Sun remained focused on hotels.



2011

The group merged with Gold Reef incorporating an additional seven casinos into the group's portfolio – Gold Reef City Casino, Silverstar Casino, Golden Horse Casino, Garden Route Casino, Mykonos Casino, Goldfields Casino and an associate investment in Queens Casino. The group was reverse listed into Gold Reef and subsequently renamed Tsogo Sun Holdings Limited. An additional 16.5% of the shares in the Suncoast casino were acquired from non-controlling interests, increasing the group's holding to 90%.



2009

The group acquired two casino properties owned by Century Casinos Inc., namely Blackrock Casino and The Caledon Casino.

2010

An additional 30% of the shares in the Suncoast casino were acquired from non-controlling interests increasing the group's holding to 73.5%.

2012

The group acquired Accor SA's holding in the Formula 1 hotels and in the following year rebranded the hotels to SUN1. The Tsogo Sun group was rebranded, bringing the two casino businesses and the hotel business under one common identity.

2013

The final 10% of the shares in the Suncoast Casino were acquired from non-controlling interests, bringing the group's holding to 100%. The group acquired 75.5% of Ikoyi Hotels Limited which owns the Southern Sun Ikoyi Hotel in Lagos, Nigeria.

2014

The group acquired an additional 10% interest in Cullinan and Cullinan acquired various hotel assets from Liberty and Southern Sun bringing the number of hotel properties in Cullinan to eight. The group acquired a 25% interest in Redefine BDL Hotel Group Limited, a leading hotel management company in the United Kingdom. The expansion of Silverstar Casino was completed. SABMiller disposed of its stake in the group and Tsogo Sun Holdings Limited bought back 12% of its ordinary shares.

1985

Southern Sun had expanded to 26 hotels. It then acquired the Holiday Inn South Africa hotel group, thereby establishing a countrywide distribution of 49 hotels, in both the up-market and mid-market segments.

1991

Southern Sun was delisted from the JSE and became a wholly owned subsidiary of SAB Limited. Southern Sun entered into a joint venture with Accor SA, the French hotel group, to develop the Formula 1 and Formula Inn range of hotels in South Africa and the first of 23 hotels opened the next year.

1995

Tsogo Sun Holdings Proprietary Limited (as it was then known) ('Tsogo Sun Holdings') was constituted as a bidding consortium between Southern Sun and numerous black empowerment corporates, associations and individuals (via Tsogo Investment Holding Company Proprietary Limited ('TIH')) and the consortium was successful in obtaining five casino licences.

1997 – 1998

The group opened the Emnotweni Casino which in 1997 was the first casino within the new regulated environment in post-apartheid South Africa. In the following year the group opened The Ridge Casino.

2000 – 2002

Montecasino opened during 2000, Hemingways Casino opened during 2001 and the Suncoast Casino and Entertainment World followed in 2002. During 2002, SABMiller (via SABSA Holdings Limited) and TIH concluded a landmark BBBEE transaction which resulted in TIH acquiring control of Tsogo Sun Holdings, including the hotel business, and the dilution of SABMiller's ownership interest to 49%. Hosken Consolidated Investments Limited ('HCI') first acquired a 10% interest in TIH during 2002 and has subsequently obtained a 99% ownership of TIH.

1999

Southern Sun acquired a 50% interest in a consortium with Liberty Group Limited ('Liberty') called The Cullinan Hotel Proprietary Limited ('Cullinan') which owned three hotels.



2015

The group acquired 55% of the Hospitality Property Fund B-linked units in anticipation of acquiring a controlling stake in the fund. The expansion of Gold Reef City Casino was completed. The group acquired 26% of International Hotel Properties Limited, a hotel owning company in the United Kingdom.



2016

The group acquired a 20% interest in the GrandWest and Worcester casinos. The group acquired an additional two hotels and the 40% shareholding Liberty had in Cullinan. The group acquired a controlling stake in Hospitality Property Fund.

2017

Strategy and performance highlights

SUSTAINABILITY

Deliver to our beneficiaries

The nature of the shareholders and those to whom economic benefits flow are an important protection

Financial strength and durability

An appropriate capital structure is important to ensure the business survives through economic cycles

Product relevance to customer experience

To remain relevant a variety of quality experiences must be provided at appropriate price points



24 500

hotel rooms across all market segments

14

gaming and entertainment destinations

76%

of gaming revenue from reward club members

30%

of hotel revenue from reward club members

77%

gaming guest satisfaction

88%

hotels guest satisfaction

Level 1

BBBEE contributor

Black ownership

62%

R8.5 billion

value added to black economic empowered businesses and government

46 398

learners supported through Tsogo Sun academies

Net debt to Ebitdar

2.4 times

Unutilised net facilities

R3.4 billion

36-month weighted average expiry of debt facilities

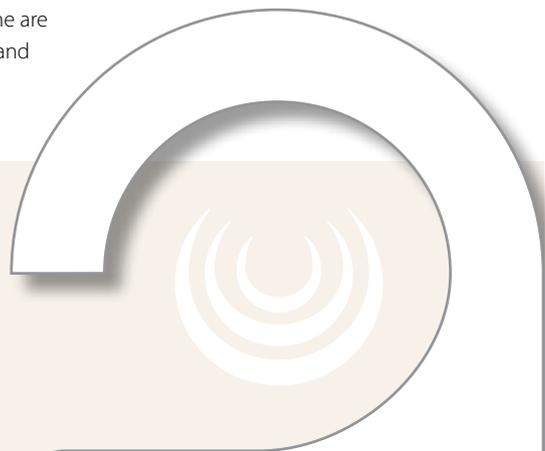
58%

of net debt hedged

How we create long-term sustainable value

The key pillars of our sustainability include meeting the reasonable requirements of our beneficiaries, financial strength and durability, maintaining product relevance to customer experience, regulatory compliance and having adequate skilled human resources. A business has to stay in business to be able to take advantage of the commercial opportunities that are presented to it.

The value of a business is the present value of the future cash flows that can be generated by the assets and other capitals utilised by the business. Growth in cash flows over time are generated through the optimal operation of the group's capitals (organic growth) and building the tangible and intangible asset base of the group through developing and acquiring new businesses (inorganic growth).



Regulatory compliance

The retention of gaming licences through a strict compliance culture is critical



No significant gaming regulation breaches

Human resources

Qualified, trained, talented and empowered people are required to deliver the Tsogo Sun experience



12 800
direct employees
in South Africa

22 700
combined direct and indirect
jobs in South Africa

Training spend
4.3% of payroll



GROWTH

Inorganic

Building the tangible and intangible asset base of the group generates growth in cash flow and thus value

Investment activity expenditure

R2.6 billion

Organic

Optimal operation of the group's capitals generates growth in cash flow and thus value

	2017	2016	% change
Income (Rm)	13 222	12 283	8
Ebitdar (Rm)	5 049	4 543	11
Ebitdar margin (%)	38.2	37.0	1.2pp
Adjusted headline earnings per share (cents)	207.6	196.5	6
Dividend for the year per share (cents)	104.0	98.0	6
Free cash flow (Rm)	2 217	1 953	14
Maintenance capital expenditure (Rm)	925	945	

Strategic priorities and growth drivers



Future growth drivers

- ① **Significant upside potential from economic recovery**
 - Growth in casino win and Revpar as economy improves
 - Focus on costs to protect margins

- ② **Casino expansion should drive additional growth**
 - Suncoast commenced in July 2017
 - Additional licensed positions available at most casinos

- ③ **New gaming opportunities**
 - Western Cape Metropole/Mpumalanga fourth licence
 - Gameco acquisition to provide access to the EBT and LPM markets

- ④ **Continued investment in SA hotels**
 - REIT structure aims to unlock value for the group

- ⑤ **Expansion in offshore hotels**
 - Africa and Europe asset acquisition

Strategic priorities

SUSTAINABILITY

Deliver to our beneficiaries

- Current shareholding and Corporate Social Investment and Enterprise Development programmes are effective

Regulatory compliance

- Day-to-day compliance excellent
- High awareness of potential regulatory risks

Financial strength and durability

- Strong cash flow, judicious use of gearing and adequate facilities
- Own most of our assets

Human resources

- Adequate resources and skills
- Engaged workforce

Product relevance to customer experience

- Adequate maintenance capex
- Strong development skills in-house
- Proactive marketing of products and brands

GROWTH

Organic

- Significant focus on getting more out of our existing businesses
- Continued cost focus
- Systems and values

Inorganic

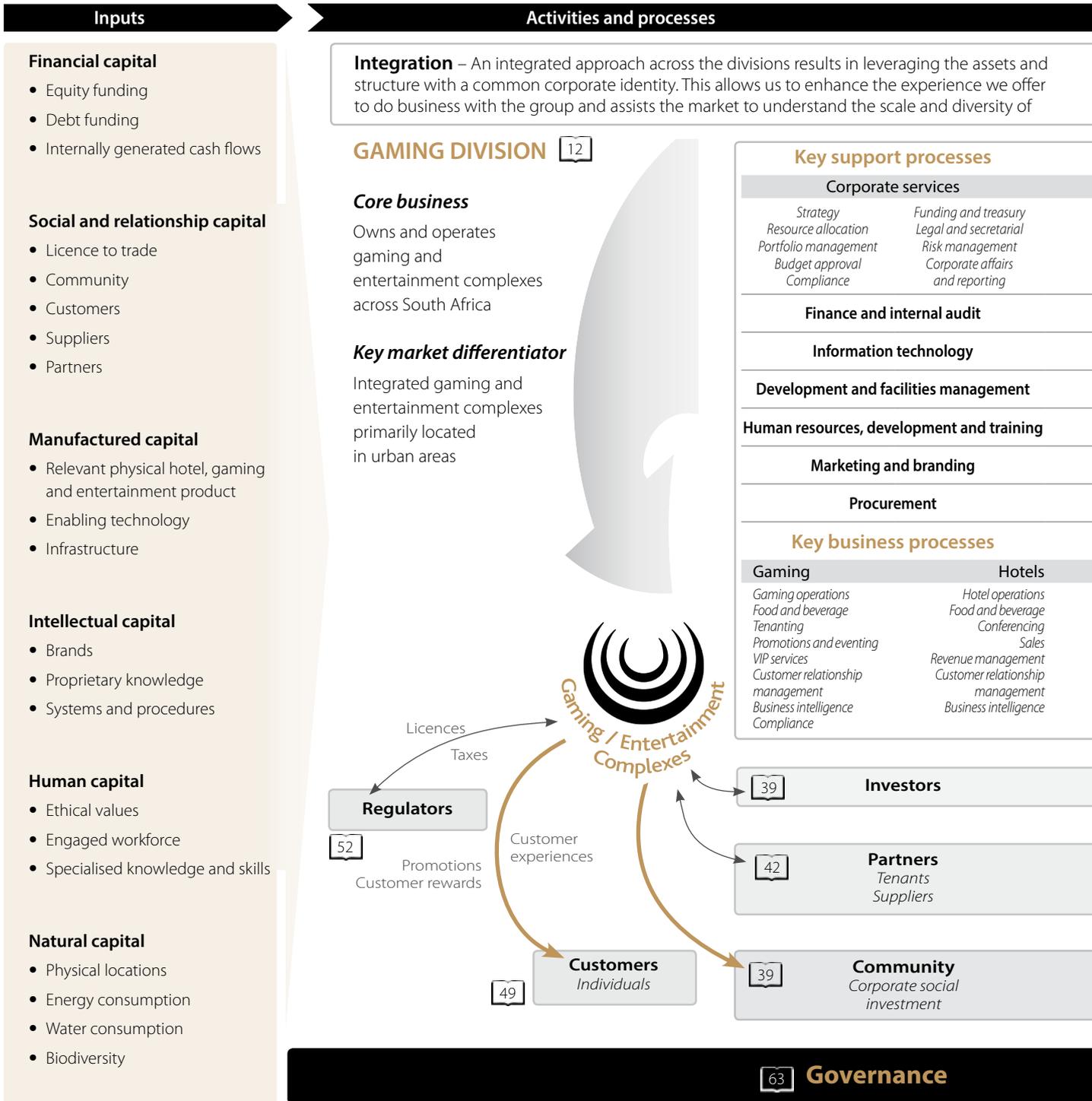
- New projects





Business model

We create value through the operation of quality assets in leading locations in key markets and by investing in and building our portfolio across a range of consumer segments.



Inputs

Financial capital

- Equity funding
- Debt funding
- Internally generated cash flows

Social and relationship capital

- Licence to trade
- Community
- Customers
- Suppliers
- Partners

Manufactured capital

- Relevant physical hotel, gaming and entertainment product
- Enabling technology
- Infrastructure

Intellectual capital

- Brands
- Proprietary knowledge
- Systems and procedures

Human capital

- Ethical values
- Engaged workforce
- Specialised knowledge and skills

Natural capital

- Physical locations
- Energy consumption
- Water consumption
- Biodiversity

Activities and processes

Integration – An integrated approach across the divisions results in leveraging the assets and structure with a common corporate identity. This allows us to enhance the experience we offer to do business with the group and assists the market to understand the scale and diversity of

GAMING DIVISION 12

Core business

Owns and operates gaming and entertainment complexes across South Africa

Key market differentiator

Integrated gaming and entertainment complexes primarily located in urban areas

Key support processes

Corporate services

Strategy	Funding and treasury
Resource allocation	Legal and secretarial
Portfolio management	Risk management
Budget approval	Corporate affairs and reporting
Compliance	

Finance and internal audit

Information technology

Development and facilities management

Human resources, development and training

Marketing and branding

Procurement

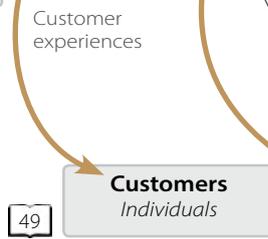
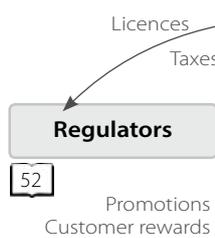
Key business processes

Gaming

Gaming operations
Food and beverage
Tenanting
Promotions and eventing
VIP services
Customer relationship management
Business intelligence
Compliance

Hotels

Hotel operations
Food and beverage
Conferecing
Sales
Revenue management
Customer relationship management
Business intelligence



63 Governance

resources within the group under a unified management our customers across multiple outlets, makes it simpler our operations under a common Tsogo Sun brand.

14 HOTEL DIVISION

Core business

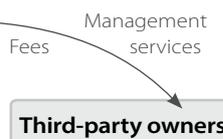
Owens, leases and manages hotels

Key market differentiator

Wide geographic distribution of quality budget to luxury hotel properties



Hotels



Customers
Corporates
Government
Individuals

49

Outputs

Quality hospitality and leisure experiences relevant to our customers at appropriate price points

Gaming

- Slots
- Tables
- Restaurants
- Bars
- Events
- Theatres
- Retail
- Conferencing
- Cinemas
- Theme Parks
- Entertainment

12

Hotels

- Accommodation
- Luxury
- Full Service
- Select Service
- Budget
- Restaurants
- Bars
- Conferencing

14

Environmental and social impacts

- Energy consumption
- Water consumption
- Waste
- Social impact

43

44

44

42

Outcomes linked to strategic priorities

Deliver to our beneficiaries

- Stakeholder engagement
- Flow of economic benefits to
 - Community
 - Socially beneficial organisations
- Returns to investors
- Taxation contribution to economy
- Environmental impact
- Transformation

39

Financial strength and durability

- Resources to pursue opportunities
- Prudent gearing levels
- Adequate funding facilities
- Long-term funding maturities

48

Product relevance to customer experience

- Customer satisfaction
- Customer value
- Brand loyalty
- Product distribution

49

Regulatory compliance

- Licence to trade

52

Human resources

- Job creation
- Employee engagement
- Employee development
- Employee wellness
- Employment equity

53

Organic growth

- Profit
- Improved margins
- Cash flow

57

Inorganic growth

- Capacity increases
- Developments and acquisitions

60

Business model continued

TSOGO SUN GAMING

Footprint

	Ownership %	as at 31 March 2017			Group revenue contribution %	Group Ebitdar contribution %
		Tables	Slots	Hotel rooms		
Montecasino	100	82	1 874	619	20	24
Suncoast	100	67	1 600	165	13	16
Gold Reef City	100	51	1 760	113	11	11
Silverstar	100	30	1 025	34	6	5
Golden Horse	100	22	450	96	3	3
The Ridge	100	18	436	175	3	3
Emnotweni	100	18	425	224	3	3
Garden Route	100	16	412	43	2	2
Hemingways	65	16	507	108	2	2
Mykonos	100	6	320	–	1	1
Blackrock	100	10	300	80	1	1
The Caledon	100	8	318	95	1	1
Goldfields	100	9	250	–	1	1
Queens	25	6	180	–	*	*
Other gaming operations	100				1	(3)
Total 2017		359	9 857	1 752	69	70
Total 2016		352	9 903	1 752	72	76

* Queens Casino is equity accounted

Ebitdar is stated pre-management fees

Other gaming operations consist of the Sandton Convention Centre, head office costs and dividends from the GrandWest and Worcester casinos

Key features

The group's preference is to wholly own its operations thus creating a clearer, simpler operating structure. Empowerment shareholding is achieved at the holding company level, enabling the group empowerment shareholders to participate in all casino operations. Exceptions arise from historical structures and, in the Eastern Cape, where the gaming legislation requires local provincial-based empowerment ownership. Twelve of the 14 gaming operations of the group are wholly owned with minority shareholders in Hemingways (35%), and with Queens Casino being an associate investment of 25%. The Blackrock and Mykonos minorities were acquired during the year. The Queens Casino licence expires in December 2017 and the group has not participated in the rebid. The group acquired a 20% equity interest in the GrandWest and Worcester casinos during the year.

The gaming and entertainment complexes are primarily located in urban areas and are the entertainment hubs for the communities they serve. The businesses are thus embedded within the local communities and their success is inextricably linked to the economic wellbeing of that community.

Along with the creation of local jobs and the payment of taxes, we seek to stimulate local enterprise and support economic development, collaborate with provincial and national government

and others on shared challenges – all essential to our ongoing ability to trade.

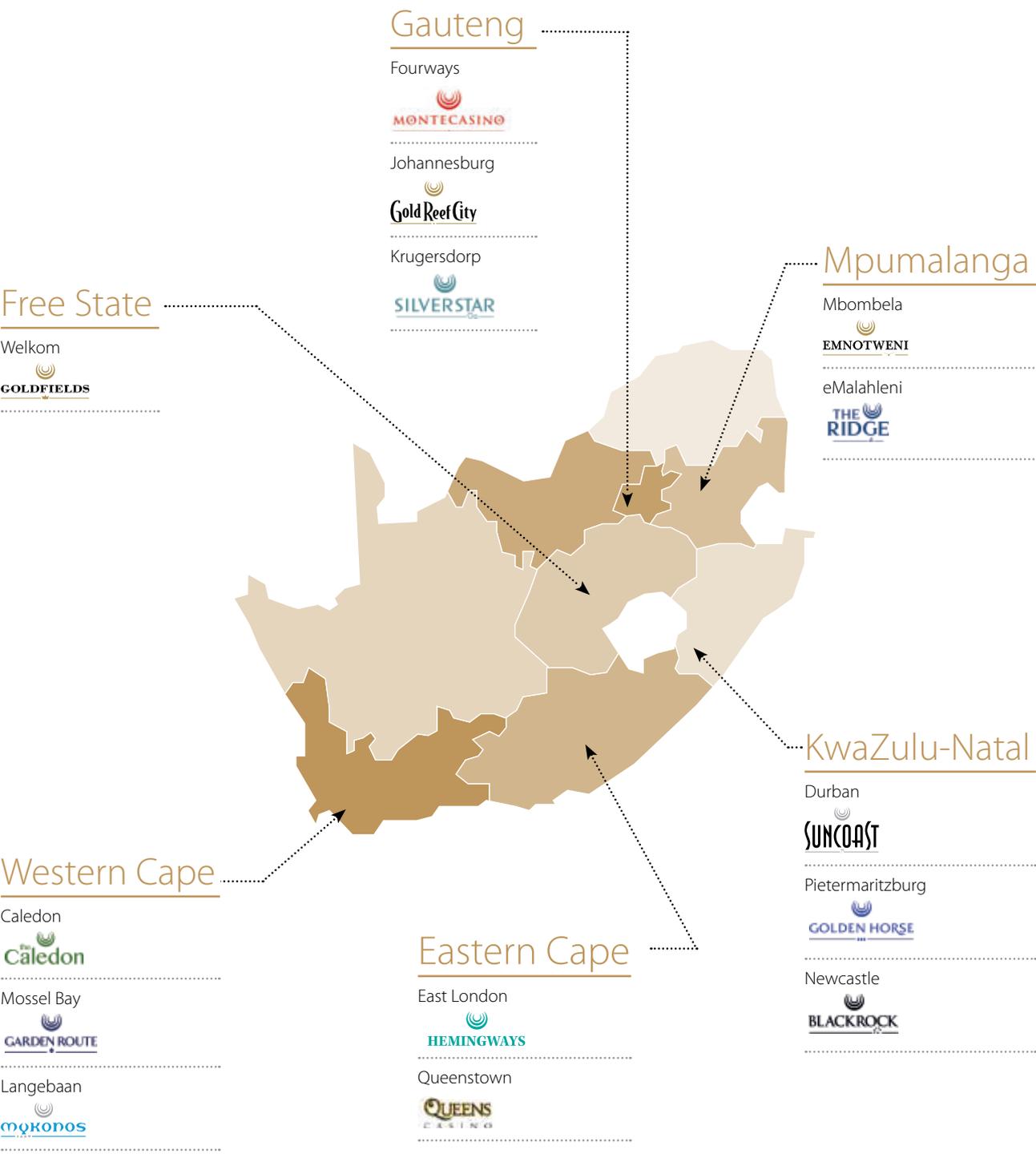
Significant focus is placed on the nature and quality of the facilities and experiences offered at each gaming and entertainment complex. With the vast majority of customers being locally based regular customers, an important component of our operating model is to ensure the properties remain fresh, attractive and interesting to visitors on an ongoing basis.

Management of mutually beneficial relationships with quality restaurant, retail and entertainment tenants is key to retaining footfall at our properties against other leisure offerings.

The customer rewards programme in the gaming division rewards customers with status, benefits and recognition. The rewards programme is important as 76% of gaming revenue is contributed by active reward club members.

Compliance with gaming regulations is critical to the retention of the casino licences and is discussed in the regulatory compliance section on page 52.

Tsogo Sun operated brands



Business model continued

TSOGO SUN HOTELS

Footprint

	Owned/leased		Managed		Total		Group revenue contribution %	Group Ebitdar contribution %
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms		
as at 31 March 2017								
Tsogo Sun operated								
Luxury	3	410	3	695	6	1 105	2	2
Full service	26	5 322	4	854	30	6 176	13	10
Select service	23	4 134	3	643	26	4 777	8	8
Budget	22	1 741	–	–	22	1 741	1	2
South Africa	74	11 607	10	2 192	84	13 799	24	22
Offshore	7	1 052	2	483	9	1 535	5	2
Total 2017	81	12 659	12	2 675	93	15 334	29	24
Total 2016	80	12 375	13	2 887	93	15 262	27	22
Third-party operated								
● HPF owned	12	2 595			12	2 595	2	5
● IHPL owned ⁽¹⁾	9	1 135			9	1 135		
● Redefine BDL managed ⁽¹⁾⁽²⁾			37	5 481	37	5 481		
Total 2017	102	16 389	49	8 156	151	24 545	31	29

⁽¹⁾ Equity accounted and thus not included in revenue and Ebitdar

⁽²⁾ Excludes five hotels (749 rooms) managed on behalf of IHPL already included in IHPL

Key features

Tsogo Sun hotels does not follow the prevalent international trend of operating the business on an ‘asset light’ basis, and in South Africa, the portfolio philosophy remains to control all the components of the business, wherever possible through either majority ownership or secure lease tenures. The components of the hotel business are land, buildings, operations, management and brand.

The group leases assets both in South Africa and offshore where it is not possible to own the land and buildings. In South Africa the group will only manage operations for third parties if they are strategically important (due to partner requirements or location) and where there is no option to own or lease. We will manage operations for third parties offshore as this is a low risk option to enter new markets. We operate hotels as a franchisee where necessary due to brand differentiation requirements but we are not a franchisor of our own brands.

Tsogo Sun hotels’ key differentiator in South Africa is our wide distribution of quality, budget through to luxury, hotel products. In addition to quality product, consistent exceptional guest experience remains the focus at all Tsogo Sun hotels to differentiate in an often commoditised industry.

The majority of Tsogo Sun hotels’ occupancy depends on the business traveller, government and group and convention markets. Relationships with key customers and travel intermediaries, and access to the correct distribution networks, are critical in driving both occupancies and average room rates throughout the hotel division.

The customer rewards programme in the hotel division is important as 30% of hotel revenue is contributed by active reward club members.

Tsogo Sun operated brands

● Luxury



○ Full service



● Select service



● Budget



Business model continued

THE ENVIRONMENT WITHIN WHICH WE OPERATE

Regulatory

The South African regulatory environment continues to become more complex with the ongoing introduction of new legislation rulings, practices and policies. Gaming legislation remains the group's primary compliance focus although this regulatory framework is well entrenched and remains relatively stable.

The main regulatory areas of concern are potential amendments to smoking legislation, regulations regarding the maximum number of casino licences granted nationally, Gauteng provincial gaming taxes, amendments to the Western Cape casino licensing conditions, a Gauteng draft request for proposal for new electronic bingo licences and amendments to the Financial Intelligence Centre Act.

The total ban on smoking in public places has had a significant short-term impact on gaming win in other countries where it has been implemented, although the impact in South Africa may not be as severe due to the strict smoking restrictions that are already in place.

Following the approval by cabinet of the National Gambling Policy in October 2015 the Minister of Trade and Industry published his intention to increase the number of casino licences from 40 to 41 to include an additional licence in the North West province and it was proclaimed in the Government Gazette during June 2016. The additional licence remains subject to legal challenge by CASA.

The Gauteng provincial government published a revision of the casino tax regime for comment in January 2016 where the current fixed rate of 9% would be replaced with a sliding scale with a maximum marginal rate of 15%. CASA submitted an objection to the proposed increase due to, among others, its procedural illegality, gross unfairness and excessive nature. The proposed increase was again published unchanged for public comment in May 2017 and CASA again objected.

The Western Cape Gambling and Racing Board imposed a licence condition on the Western Cape casino licences to achieve a level 4 BBBEE status by 2016. The group remains committed to enhancing our BBBEE credentials in every commercially reasonable way and is currently a level 1 contributor measured against the Revised Codes of Good Practice – tourism sector scorecard. We, however, cannot expose our licences to moving targets due to the uncertainty and

the extent to which the levels to be achieved are moved out of the group's control and are taking the decision on review.

The Gauteng Gambling Board recently issued a draft request for proposal for comment for an additional 14 licences of 300 EBTs each. The maximum number of EBT licences are currently not regulated by the National Gambling Act which may result in the uncontrolled proliferation of licences by the provincial gambling boards which would not be good for the industry.

Amendments to the Financial Intelligence Centre Act may impose more onerous and/or impractical obligations on the group. The FICA amendments include stricter requirements for concluding single transactions and the introduction of the concept of 'prominent influential persons/public officials'.

The gaming industry in South Africa is highly regulated, both at national and provincial level, and thus, unlike the hotel industry, has high barriers to entry. The National Gambling Act sets the broad framework for the licensing and regulation of gambling in South Africa, and each province has its own legislation relating to casinos, gambling and wagering. The National Gambling Act currently limits the number of casino licences that may be granted to 41 for South Africa as a whole. The table below sets out details in respect of the number of casino licences in South Africa which are authorised to be issued, have been issued and are available to be issued:

Province	Authorised			
	to be issued	Issued	Tsogo	Available
Gauteng	7	7	3	–
Eastern Cape	5	4	2	1
Western Cape	5	5 ⁽¹⁾	3	–
Mpumalanga	4	3	2	1
Limpopo	3	3	–	–
Northern Cape	3	3	–	–
Free State	4	4	1	1 ⁽²⁾
North West	5 ⁽³⁾	4	–	1 ⁽³⁾
KwaZulu-Natal	5	5	3	–
Total	41⁽³⁾	38	14	4

⁽¹⁾ The Western Cape provincial government is considering the relocation of an existing Western Cape casino licence to the Cape Metropole

⁽²⁾ One of the existing licences will lapse upon the issue of the one available licence

⁽³⁾ The dti intends to permit the award of an additional licence

The approval of an additional casino licence in the North West province potentially increases the risk of additional licences in other provinces, although assurances that this is a once-off special situation due to the loss of the Morula licence to the North West province due to the change of provincial boundaries have been given by the Minister of Trade and Industry, Mr Rob Davies.

The approval by the Gauteng Gambling Board of Sun International's relocation of its Morula licence to Menlyn in Pretoria potentially increases the likelihood of the relocation of other casino licences.

With the exception of the group's Eastern Cape-based licences, casino licences are issued for an indefinite period, subject to payment to the relevant provincial board of the applicable annual licence fees and continued suitability and compliance with licensing conditions.

Economic environment

Disposable income growth, ongoing urbanisation, significant middle-class growth, developed infrastructure and an operating environment conducive to business have historically been long-term structural drivers of growth in South Africa and have increased the consumer base and spending power of the population. Disposable income in South Africa has grown strongly since 2000 and millions of South Africans have entered higher LSM brackets.

Global economic conditions following the financial crisis remain weak although they appear to be improving but sentiment-driven shocks continue to fuel significant volatility. Global fund flows to emerging markets have improved but South African-specific political, social and economic issues have constrained investment in the country. The Rand has strengthened somewhat which should ease local inflation and allow for a reduction in interest rates to assist the current weak levels of economic growth. Business confidence remains at record low levels, particularly due to considerable political uncertainty, low levels of economic growth and high levels of household debt. Above-inflationary increases in municipal rates, electricity and water, in addition to the costs of mitigating the supply constraints, have had an impact on both businesses and the consumer, although the low levels of economic growth have mitigated the electricity supply shortages.

The underlying operations of the group remain highly geared towards the South African consumer (in gaming) and the corporate market (in hotels). The weakening of the Rand mainly impacts the capital cost of gaming machines and the translation of the income statement of the hotels outside South Africa.

The factors noted above mainly impact the group indirectly due to their impact on the consumer, corporate and government markets and have manifested in significant monthly trading volatility and reduced levels of growth over the past four years.

Industry

Gaming

A gaming industry has existed in South Africa since it was partially legalised in the independent homelands during the 1970s. Following the introduction of the current regulatory framework in South Africa during the late 1990s, the industry has been formalised and operates in line with global best practice. The formalisation of the industry has provided substantial benefits to the country through the collection of taxes and levies, the development of gaming and entertainment complexes, hotels and tourism infrastructure, the creation of employment, CSI initiatives and transformation. Gaming taxes and levies vary by province on either fixed or sliding scales and average 21% of gaming win including VAT on gaming win.

The casino market reflected double-digit growth until 2008 when the impact of the global recession slowed growth. The industry proved to be resilient and although growth slowed to low single digits it never went significantly negative. Growth from 2010 has lagged nominal GDP but is expected to accelerate when economic conditions improve.

The South African formal gaming market is made up of casinos, sports betting, LPMs and EBTs, and generates annual revenues of approximately R28 billion. In addition the national lottery generates revenues of approximately R2 billion.

Casino gaming accounts for approximately 68% of the gaming market and Tsogo Sun has a revenue share of 50% in the six provinces in which it operates and 45% nationally. As a result of their geographic distribution, casinos in South Africa mainly compete with providers of other leisure and entertainment activities for patronage, such as shopping centres, restaurants and sporting and concert venues, rather than with other casinos. They operate in different markets, each with its own catchment area. The table below sets out the group's estimate of its share of the total casino gaming win per province:

	For the year ended 31 March 2017	
	Total casino gaming win Rm	Group share of total casino gaming win %
Gauteng	7 410	54
KwaZulu-Natal	3 434	60
Western Cape	2 890	34 ⁽¹⁾
Eastern Cape	1 186	23
Mpumalanga	731	81
Free State	490	25
Other	1 856	-
Total	17 997	45

⁽¹⁾ The group's effective share of the Western Cape's casino gaming win includes 20% of the SunWest and Worcester casinos

Business model continued

Online gaming remains illegal in South Africa and there is no indication as to when enabling legislation will be implemented. There was no discernible impact from the banning of online gaming and it is not considered a significant risk. However, the group does see it as an opportunity in the event that it were legalised.

Limited payout machines ('LPM') and electronic bingo terminals ('EBT') show double-digit growth and this is expected to continue until the markets mature. LPMs, which are principally located in bars, clubs and restaurants, appear to have had limited impact on casinos as they are targeted at a different segment of gambler. LPMs account for approximately 10% of the gambling market and growth will be driven by the roll out of additional sites and by the optimisation of individual site locations and machine mix within sites. EBTs, however, do appear to have some impact where large bingo sites are located within casino catchment areas as the experience is more similar to a casino main floor experience. EBTs account for approximately 4% of the gambling market and growth will be driven by the roll out of additional sites by province. EBTs are currently not operating in KwaZulu-Natal, the Western Cape, the Free State and the Northern Cape.

Illegal gambling sites are impacting casino revenues and CASA estimates that they cost the government R140 million in lost taxes during 2016. Sports betting and horse racing make up approximately 18% of the gambling market and growth in sports betting is strong. The proliferation of both licensed outlets and illegal sites could negatively impact the gaming industry through negative perceptions created by widespread access to gambling. What remains of concern to the casino industry is if the roll out of licensed EBT outlets is on an uncontrolled basis and if the maximum bet and maximum pay out limits for LPMs were substantially increased.

Hotels

Following the first democratic elections in 1994 the demand for hotel rooms grew rapidly and rooms sold by the group grew by more than 6% per annum between 1994 and 1999. The market responded to the increased demand through the construction of new hotels but demand growth continued to exceed the growth in supply until 2008 with occupancies and average room rates continuing to rise. During 2008, the impact of the global recession constrained demand but construction of new hotels continued until the FIFA World Cup in 2010 as the projects were already in progress. Market occupancies fell from 72% in 2007 to 53% in 2011 due to the combination of constrained demand and increased supply. Demand has subsequently grown, and with little growth in hotel supply, market occupancies have been recovering since 2011 and are now at 65% for 2017.

The fiscal austerity measures implemented by government remain in place although government business is increasing, albeit off a lower base. The visa requirements for the collection of biometric

data and in-person applications which constrained growth during the prior year were amended and visitor numbers from China and India grew substantially as a result. International demand, particularly in Cape Town, remained strong, partially due to the exceptional value offered to international travellers due to the weaker Rand. Occupancies in Cape Town remained high during the year at over 70% and approximately 2 000 rooms will be added to the market during 2017. Trading in the majority of the rest of the country remains weaker, with little additional hotel supply being added to the market. Online booking channels such as Airbnb provide access to non-hotel accommodation which adds additional supply to the market that may otherwise have been provided by additional hotels. We anticipate that demand will continue to grow and that additional supply will again be added to the market when market occupancies approach 70%.

Tsogo Sun hotels has a strong presence throughout South Africa and has a broad portfolio of hotels, particularly in urban centres. Of the approximately 150 000 hotel, bed and breakfast and guesthouse rooms available in South Africa, the formal hotels contributing statistics to STR Global make up approximately 30% of the total market, with 45 577 rooms available as at 31 March 2017. The group's share of the formal market rooms available is approximately 30% for hotels we operate and 36% for hotels we own and the group thus benefits from a significant presence in the South African hospitality industry and is the only hotel group in South Africa with wide distribution across all grading levels.

Trading in the majority of the African cities where Tsogo Sun hotels operate outside South Africa remained remarkably resilient through the economic downturn mainly due to limited supply of good quality hotels. Trading between the 2015 to 2017 financial years was, however, significantly impacted by the Ebola pandemic, security concerns and more recently a weaker market attributable to the negative impact of lower commodity prices. In the medium term it is expected that many African countries will experience strong economic growth which will drive the demand for, and supply of, new hotels but in the short term tough trading conditions are anticipated. The markets are small and the addition of a new hotel has a more significant impact on the market. It remains challenging and expensive to acquire land and build hotels in many countries in Africa which constrains supply.

Technology

The use of technology is important in both the gaming and hotel businesses to deliver relevant experiences to customers and to drive business efficiencies. Key technology areas are casino management, hotel property management and hotel booking and reservation systems to enable the business, customer relationship management to provide relevant benefits and rewards to customers, business intelligence to drive efficiencies and digital platforms to interact with and provide connectivity to customers.

Relevant technology trends are as follows:

- online booking volumes of hotel rooms continue to increase although they remain below international norms in South Africa;
- booking channels such as Airbnb continue to make it easier for smaller operators to access the market;
- free broadband wireless access is pervasive although the user experience with regards to speed and data caps differs widely;
- the increased utilisation of mobile devices makes a mobile-friendly website an imperative in driving revenue and enhancing customer satisfaction;
- innovative products that improve guest service continue to be developed although it is imperative to evaluate which are valued by customers;
- quality business intelligence and customer relationship management is increasingly important in encouraging customer loyalty, particularly due to potential gaming advertising restrictions and the Consumer Protection Act;
- social networking continues to impact marketing channels and requires transparent and timeous responses and active management;
- improving agility by adopting cloud technology and 'solutions as a service'; and
- the importance of data security is increasing due to external threats, increased connectivity and the need to comply with existing and new legislation.

Consumer preferences

In order for gaming and hotel businesses to deliver quality experiences, facilities and services must be relevant to what customers want and are prepared to pay for. Consumer preferences range from the technology preferences noted above to the look and feel of the physical product, the location of buildings, concepts of restaurants and bar offerings, types of entertainment and travel patterns. Public recognition of brands and their associated reputation are important in attracting and retaining customers.

Societal issues

The weak economic environment, along with political factors, continues to fuel disruption and uncertainty which discourages investment and impacts the high unemployment level and low growth rate in South Africa. The impact on labour disruptions in the gaming and hotel businesses in the markets in which the group operates is limited due to the high level of employee engagement and the location of the majority of the properties in urban areas. The group is, however, indirectly impacted through the adverse effect on the economy.

The gaming industry is exposed to anti-gaming sentiment, which increases the risks of excessive taxation and regulation. The reality, however, is that the issues such as problem gambling are well managed and are substantially exceeded by the benefits in the highly regulated industry through significant tax contributions, infrastructure development, creation of employment, wealth distribution to black economic empowered businesses and PDI shareholders and social investment in the communities that are served.

Environmental issues

The gaming and hotel businesses pose limited risks to the environment due to the service nature of the industry. Tsogo Sun operates predominantly in urban areas, which further reduces the biodiversity impact. The main environmental impacts of the group are the consumption of energy and water, the production of waste and travel of guests to our properties.

Although customer choices are not yet significantly impacted by environmental performance, behavioural changes are being driven by social responsibility. The greater challenges to the industry currently are the rising utility costs and uncertainty of the future supply of energy and particularly of water. The current severe drought and water shortages in the Western Cape is a significant challenge, and while the group's hotels are prepared for water supply interruptions through sufficient storage capacity, there is no practical solution in the event of no water availability in the region and this risk must be addressed by provincial or national government.



Business model continued

OUR CAPITALS

The value of a business is the present value of the future cash flows that can be generated by the assets and other capitals utilised by the business.

The capitals that generate these cash flows include physical assets such as property, plant and equipment and employees as well as intangible capitals such as licences, brands, trademarks, technology and systems, supported by adequate financial capital to pursue growth opportunities and underpinned by quality relationships with key stakeholders. Execution of a robust strategy informed by and responding to material risks and opportunities will lead to optimal utilisation of capitals and generation of cash flows and ultimately value.

We have identified our most important capitals below and our strategy in action section provides more insight into our performance and outlook as well as how our capitals are deployed in our strategy and business model to generate and sustain value in the long term.

Capitals	Utilisation of the capitals	Reference
Financial	Our ability to generate cash flows as well as access to well-priced debt and equity funding determines our ability to fund organic and inorganic growth.	CFO's review 34
		Financial strength and durability 48
Social and relationship	Quality relationships with our key stakeholders is vital to the long-term sustainability of Tsogo Sun. Popular misconceptions about the gaming industry within which Tsogo Sun operates can significantly impact the group's reputation and value generation ability. Building trust and credibility with our key stakeholders is key to retaining our social and regulatory licence to operate.	Key relationships 24
		Deliver to our beneficiaries 39
		Regulatory compliance 52
Manufactured	Significant focus is placed on the quality of the facilities and experiences offered at each of Tsogo Sun's sites. To remain relevant a variety of quality experiences must be provided at appropriate price points across all market segments. Our integrated gaming and entertainment complexes are primarily located in urban areas and our hotels have a wide geographic distribution which are key to the group's competitive advantage. Significant spend is continuously invested into developing and maintaining our properties to keep them relevant and fresh.	Gaming and hotel footprints 12-15
		Product relevance to customer experience 49
		Organic and inorganic growth 57
Intellectual	Our Tsogo Sun 'sunburst' brand underpins the quality experiences of our customers and our integrated approach across the divisions in leveraging the assets and resources of the group under a unified management structure with a common corporate identity. We are consistently striving to innovate our physical product, technology, accessibility and brand to remain relevant to our customers. Our intellectual capital is largely driven by our people, processes and systems, market intelligence and specialist business partners.	Product relevance to customer experience 49
Human	People are at the core of delivering the Tsogo Sun experience, both front and back of house. A pool of qualified, trained and talented people is required to deliver these experiences, supported by empowered management and relevant support services. Employee development and engagement remain focus areas to ensure we attract and retain the highest calibre of people to drive our strategy.	Human resources 53
Natural	Our utilisation of natural capital is predominantly driven by our requirement for optimally located properties upon which we have instituted property-specific environmental management systems focused mainly on energy, water, waste management and responsible procurement.	Deliver to our beneficiaries 39

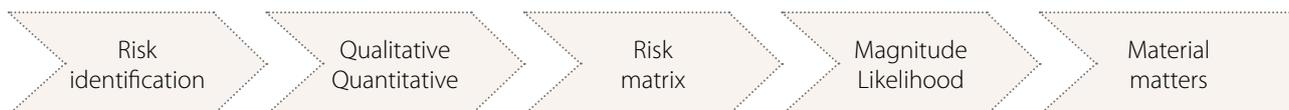
Materiality, material risks and opportunities

Determination of materiality

The matters included in our integrated annual report are principally aimed at providers of financial capital in order to support their financial capital allocation assessments. The interests of the providers of financial capital are, however, largely aligned with other key stakeholders in that they also are focused on the creation of value in the long term.

In determining which matters are material for disclosure in our integrated annual report we have considered whether the matter substantively affects, or has the potential to substantively affect, our strategy, our business model or the forms of capital we utilise and ultimately our ability to create value over time.

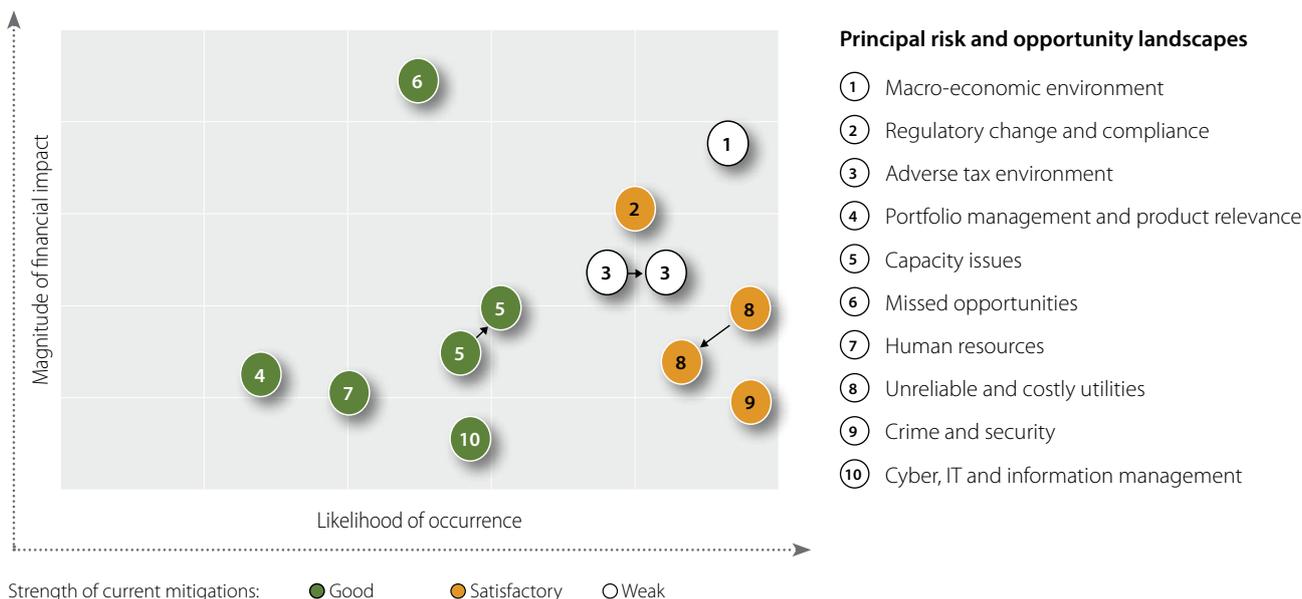
The assessment of the magnitude of the impact and the likelihood of the occurrence of the group's top risks and opportunities included below informed the identification and prioritisation of the material matters for inclusion in the integrated annual report. The matters identified were compared with those being reported on by organisations in the same or similar industries to ensure that relevant matters have not been excluded from the report.



Material risks and opportunities

The risk management process followed in identifying the group's top risks and opportunities is included on page 70. The matrix reflecting the assessment of movement in the magnitude of the impact and the likelihood of the occurrence of the group's top risks and opportunities over the year is noted below. The specific risks and opportunities within each risk landscape (in order of assessed residual risk), their potential impact and the group's risk responses are noted on pages 22 and 23.

Tsogo Sun group risk and opportunity landscapes movement from March 2016 to March 2017



Material risks and opportunities

Principal risk landscapes	Specific risks we face	Potential impact
Macro-economic environment	<ul style="list-style-type: none"> • Growth negatively affected by macro-economic factors • Concentration of operations in South Africa • Increased funding costs due to ratings downgrade • Constrained growth in government travel • Resources cycle in offshore operations 	<ul style="list-style-type: none"> • Lower revenue growth and profitability • Increased funding costs
Regulatory change and compliance	<ul style="list-style-type: none"> • Additional casino licences or relocation of existing casino licences • Policy uncertainty • Smoking legislation • Changes in casino licensing conditions • Changing BBBEE requirements • Increased complexity of compliance, eg POPI, CPA and FICA • Visa regulations • Loss of casino licences 	<ul style="list-style-type: none"> • Lower revenue, higher costs and reduced profitability • Uncertain operating environment resulting in frozen investment spend
Adverse tax environment	<ul style="list-style-type: none"> • Potential increased national and provincial gaming taxes • Possible VAT increases • Increase in personal taxes • Aggressive tax authorities • Increased rates and property taxes 	<ul style="list-style-type: none"> • Reduced profitability • Uncertain operating environment resulting in frozen investment spend • Increased cost of compliance
Portfolio management and product relevance	<ul style="list-style-type: none"> • Product relevance in target markets • Increase in maximum bet and maximum payout limits at limited payout machine sites • Lack of maintenance leading to obsolete product • Customers choose other leisure options • Technology and social trends 	<ul style="list-style-type: none"> • Reduced income and profitability • Obsolete hotel stock • Reduced footfall and customers and thus gaming win • Disruption to operations and reduced profitability
Capacity issues	<ul style="list-style-type: none"> • Fixed cost nature of the business • Impact of Time Square on the Gauteng market • Trading disruption during construction • Casino capacity constraints • Hotels oversupply in certain markets • Ability to manage booking channels including OTAs including Airbnb • Security of tenure on leases and management contracts • Locations of EBTs infringing on casinos 	<ul style="list-style-type: none"> • Lower revenue growth and profitability
Missed opportunities	<ul style="list-style-type: none"> • New gaming opportunities • Investments in expansion not yielding expected returns • Hotels opportunities, local and offshore • Ineffective integration of acquired businesses 	<ul style="list-style-type: none"> • Lower revenue growth and profitability • Missed revenue opportunities • Wasted investment
Human resources	<ul style="list-style-type: none"> • Employment equity challenges at senior levels • Changes in labour legislation • Unrealistic expectations, social pressure and/or unresolved industrial relations issues leading to violent strikes and unrest • Limited pool of qualified, trained and talented staff • Lifestyle diseases, including HIV/Aids, hypertension and diabetes 	<ul style="list-style-type: none"> • Failure to meet BBBEE targets • Reduced customer satisfaction, disruption to operations and reduced profitability • Work stoppages, reduced profitability and reputational impacts
Unreliable and costly utilities	<ul style="list-style-type: none"> • Unreliable water supplies • Unreliable electrical supply • Rise in electricity and water costs 	<ul style="list-style-type: none"> • Disruption to operations and reduced profitability • Machinery breakdown
Crime and security	<ul style="list-style-type: none"> • Casino and hotel robberies/follow home robberies • Major violent incidents • Fraud by employees/from external sources • Illegal casinos 	<ul style="list-style-type: none"> • Lower revenues, increased cost and lower profitability • Reputational risk
Cyber, IT and information management	<ul style="list-style-type: none"> • Hacking and hacktivism • Sub-optimal online transacting • Payment card industry data security standards • POPI legislation • Loss of information 	<ul style="list-style-type: none"> • Reputational risk • Fines and penalties • Reduced income and profitability

Risk responses	Associated strategic priorities
<ul style="list-style-type: none"> • Revised strategic priorities • Review organisational structures • Further focus on cost reduction • Renewed and focused marketing and promotions • Reward programmes 	<ul style="list-style-type: none"> • Financial strength and durability 48 • Organic growth 57
<ul style="list-style-type: none"> • Engage authorities, including gambling boards • Submit comments to law makers through formal comment structures • Robust compliance procedures • Engage law makers through employer and industry bodies • Litigate where required • Comprehensive BBBEE programme 	<ul style="list-style-type: none"> • Deliver to our beneficiaries 39 • Regulatory compliance 52
<ul style="list-style-type: none"> • Lobby government through CASA • Educate legislators regarding gaming impact through direct lobbying • Lodge of appeals on assessments and property valuations • Robust compliance procedures 	<ul style="list-style-type: none"> • Deliver to our beneficiaries 39 • Regulatory compliance 52 • Organic growth 57
<ul style="list-style-type: none"> • Overview of markets • Interaction with local authorities • Investment in facilities and maintenance capex to ensure relevance • Market research to timeously spot trends • Partnerships with other leisure suppliers • Social media interaction 	<ul style="list-style-type: none"> • Product relevance to customer experience 49 • Organic growth 57
<ul style="list-style-type: none"> • Review organisational structures • Further focus on cost containment • Interaction with gambling boards and city officials • Monitoring returns on new businesses 	<ul style="list-style-type: none"> • Organic growth 57
<ul style="list-style-type: none"> • Proper and robust evaluation of all new opportunities • Non-financial due diligence of opportunities • Monitoring returns on new businesses 	<ul style="list-style-type: none"> • Organic growth 57 • Inorganic growth 60
<ul style="list-style-type: none"> • Retention of staff through appropriate remuneration structures • Engage with and empower staff • Fast track and develop talented staff • Performance-driven culture • Focused employment equity strategy • Labour rate parity 	<ul style="list-style-type: none"> • Human resources 53 • Deliver to our beneficiaries 39
<ul style="list-style-type: none"> • Demand-side management programmes to reduce consumption • Water handling/storage capacity for emergency supply • Self-reliance on generators for emergency electricity supply 	<ul style="list-style-type: none"> • Product relevance to customer experience 49 • Organic growth 57
<ul style="list-style-type: none"> • Physical security and surveillance procedures and crime intelligence • Coordination with the South African Police Service • Pressure on gaming boards and government to curtail illegal gambling • Internal control frameworks and internal audit procedures 	<ul style="list-style-type: none"> • Regulatory compliance 52 • Organic growth 57
<ul style="list-style-type: none"> • IT security • Payment card industry standard compliance • Appointment of Information Officer • Review of online transaction opportunities and website rewrite • Increased IT auditing and assurance 	<ul style="list-style-type: none"> • Regulatory compliance 52 • Organic growth 57

Key relationships

We create value through our relationships with our stakeholders. Building trust, mutual respect and credibility with our stakeholders is vital to our long-term sustainability.

All interactions with our stakeholders are based on our values, included on page 54, which guide our behaviour ensuring our stakeholders know what to expect from us. We have taken our stakeholders' views into account in formulating our strategic priorities and report content.

An overview of our key stakeholder groups, their interests and concerns and how we engage with them is provided in the table below.

Stakeholder group	Why it is important for us to engage
Investors and funding institutions	Investors and funding institutions are the providers of capital necessary for our growth and we need transparent communication and to understand potential concerns
Government and regulatory bodies	Government provides us with our licence to trade and the enabling regulatory framework within which to operate and we need to ensure compliance and understand the broader economic, social and environmental issues
Customers	We need to understand our customers' needs, perceptions and behaviours in order to deliver experiences relevant to them, thereby enhancing our brand value and driving revenue
Communities	Engagement assists us to focus our efforts on empowering local communities which contributes to our long-term viability
Employees and unions	Our employees are core to delivering our customer experiences and we need to understand their needs, challenges and aspirations and for them to be aligned with our strategy
Suppliers, tenants and business partners	Our suppliers, tenants and business partners enable us to deliver consistent customer experiences

How we engage with our stakeholders	Our stakeholders' key interests	
<ul style="list-style-type: none"> • JSE news services • Media releases and published results • Integrated annual reports and financial statements • Annual General Meetings • Dedicated analyst and investor presentations • One-on-one meetings • Tsgo Sun website 	<ul style="list-style-type: none"> • Sustainable growth and returns on investment • Dividends • Risks and opportunities of expansion • Transparent executive remuneration • Corporate governance and ethics • Liquidity and gearing 	<p>Financial strength and durability 48</p> <p>Organic growth 57</p> <p>Inorganic growth 60</p>
<ul style="list-style-type: none"> • Establish constructive relationships • Comment on developments in legislation • Participate in forums • Written responses in consultation processes • Presentations and feedback sessions • Regulatory surveillance, reporting and interaction • Membership of industry bodies, eg CASA, Fedhasa, BLSA, etc 	<ul style="list-style-type: none"> • Taxation revenues • Compliance with legislation • Compliance with licence conditions • Job creation • Investment in public and tourism infrastructure • Investment in disadvantaged communities • Advancing transformation • Social impacts • Reduction in energy and water consumption 	<p>Deliver to our beneficiaries 39</p> <p>Regulatory compliance 52</p> <p>Human resources 53</p>
<ul style="list-style-type: none"> • Satisfaction surveys • Rewards programmes • Customer relationship managers • Call centres • Website and active Twitter and Facebook engagement • One-on-one interaction 	<ul style="list-style-type: none"> • Quality product • Consistent quality experience • Simpler and quicker to deal with us • Value offerings • Long-term security of supply • Recognition for loyalty 	<p>Product relevance to customer experience 49</p>
<ul style="list-style-type: none"> • Events and sponsorships • Media channels • Corporate social investment initiatives • National Responsible Gaming Programme 	<ul style="list-style-type: none"> • Investment in disadvantaged communities • Employment opportunities • Sponsorships • Responsible gaming 	<p>Deliver to our beneficiaries 39</p>
<ul style="list-style-type: none"> • Communication from executives • Internal communications and posters • Induction programmes • Ongoing training and education • Employee surveys • Performance management programmes • Anti-fraud, ethics and corruption hotline • Trade union representative meetings • Staff engagement programme 'livingTSGO' 	<ul style="list-style-type: none"> • Job security • Engagement • Performance management • Clear understanding of reward structures • Health and safety performance • Access to HIV counselling and wellness programmes • Career planning and skills development • Preferred employer 	<p>Human resources 53</p>
<ul style="list-style-type: none"> • One-on-one meetings • Tender and procurement processes • Anti-fraud, ethics and corruption hotline • Supplier forums and showcases 	<ul style="list-style-type: none"> • Timely payment and favourable terms • Fair treatment • Broad-based black economic empowerment compliance 	<p>Deliver to our beneficiaries 39</p>

Key relationships continued

In addition to providing exceptional experiences to our customers, the group generates direct and indirect financial benefits for our stakeholders including:

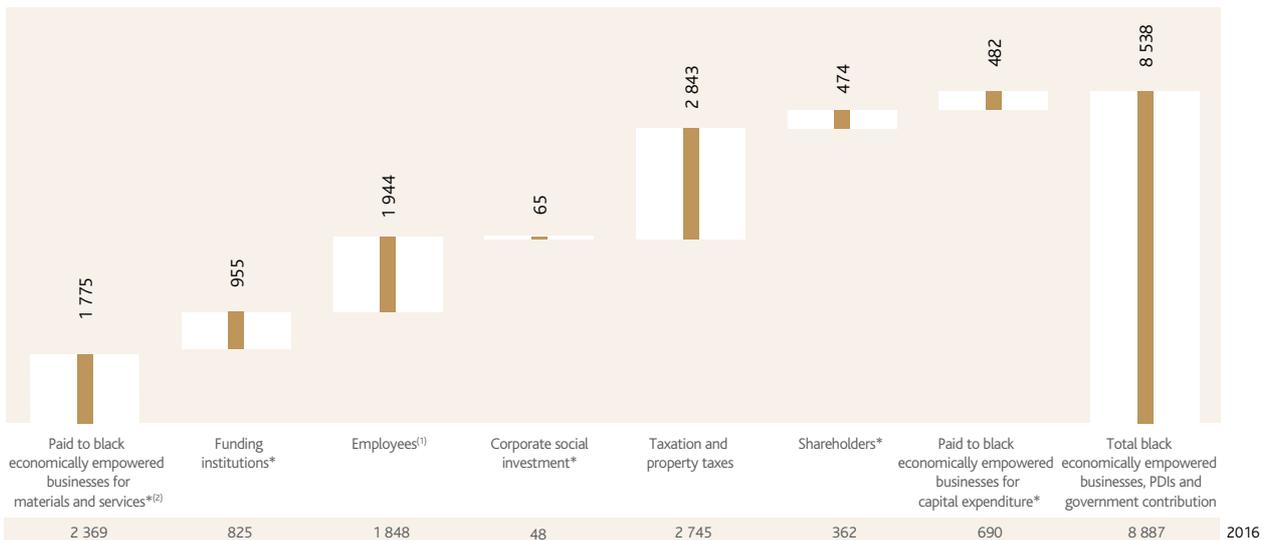
- returns for our shareholders and funding institutions;
- substantial income tax, dividend taxes, gaming levies and VAT, employees' tax and property rates and taxes to national and provincial government;
- corporate social investment within the communities we serve;
- employment within the communities we serve;
- sustainable business for our national and local business partners and suppliers which creates wealth and additional employment; and
- continuous investment to maintain and expand our portfolio of properties.

A substantial portion of the value added wealth generated by the group is spent with/distributed to black economic empowered businesses, PDIs and government. The value added by the group and the contribution to black economic empowered businesses, PDIs and government is as follows:

Value added for the year ended 31 March 2017 (Rm)



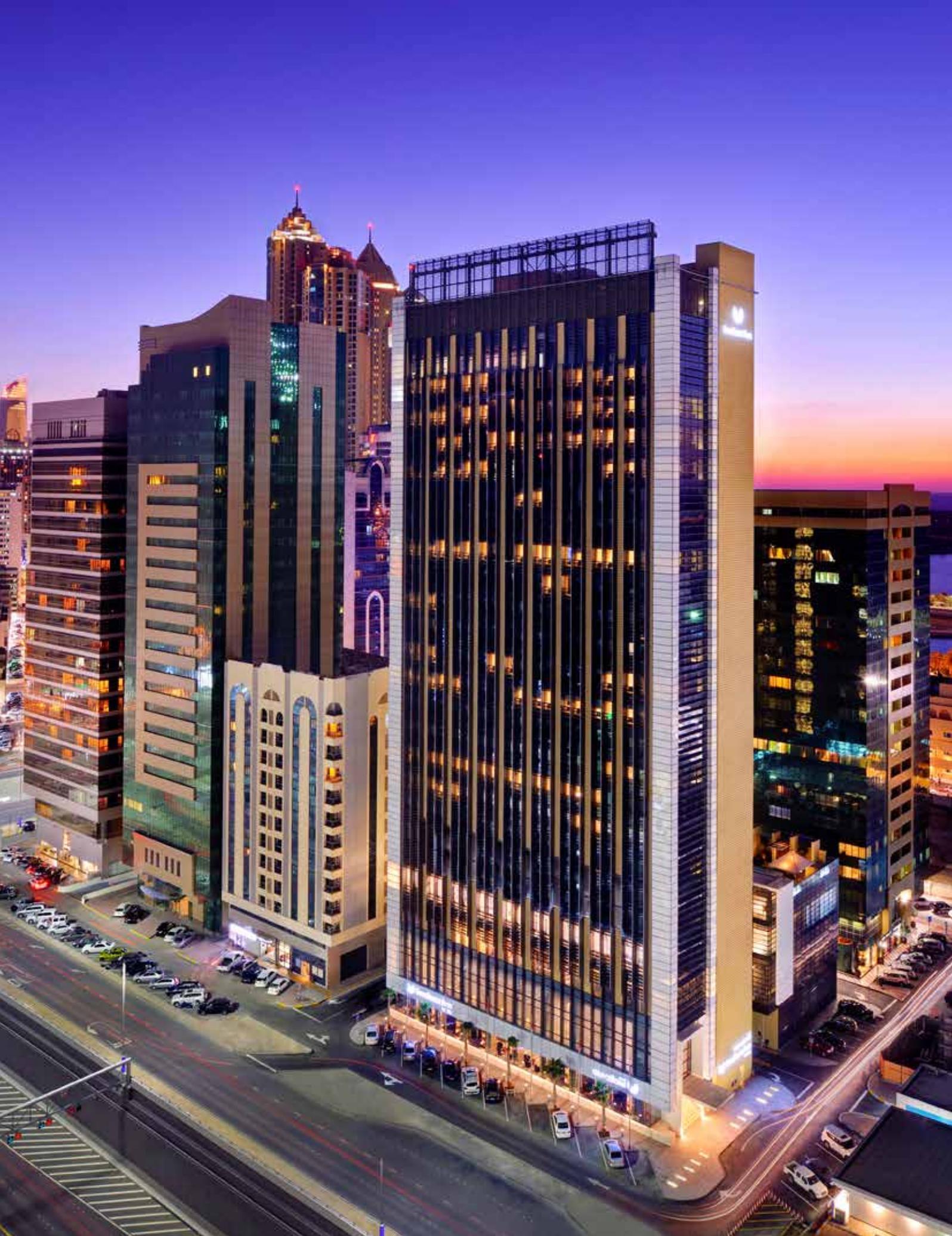
Value added to black economic empowered businesses, PDIs and government for the year ended 31 March 2017 (Rm)



* As per the Department of Trade and Industry tourism sector code

⁽¹⁾ Net pay to employees with employees' tax included in taxation

⁽²⁾ The reduction in the measurement of amounts paid to black economically empowered businesses for materials and services is due to the enhanced recognition for value-adding suppliers no longer being applicable under the revised codes of good practice





Chairman and Chief Executive Officer's review

Overview

The year ended 31 March 2017 delivered overall revenue growth of 8% despite disappointing gaming win growth of 2%. The overall revenue growth rate was positively impacted by the consolidation of Hospitality Property Fund with effect from 1 September 2016 and the acquisition of two hotel businesses from the Liberty Group with effect from 1 October 2016. Trading results for the South African gaming and hotel operations reflect the difficult macro-economic environment and poor business confidence and consumer sentiment. The offshore hotels continued to experience difficult trading conditions, with total revenue declining by 8% year-on-year. Despite the challenging overall trading environment, the group managed to grow adjusted headline earnings per share by 6%. With organic revenue growth under pressure, the group remains vigilant in containing costs without impacting customer experience.

The group's casino and hotel properties are in excellent condition as a result of its continuing refurbishment programme and upside potential from any economic recovery is significant. A number of acquisitions were concluded during the year, including:

- acquiring control of Hospitality Property Fund through an asset for share transaction, resulting in the group owning 50.6% of HPF's shares at year end;
- the acquisition of a 20% stake in the GrandWest and Worcester casinos in the Western Cape for R1.35 billion;
- acquiring the remaining 40% of the issued share capital of Cullinan held by Liberty plus loans for a consideration of R1.03 billion;



John Copelyn
Chairman

The group grew adjusted headline earnings per share by 6% despite the difficult macro-economic environment and poor business confidence and consumer sentiment, partially due to the impact of the continued growth strategy, and remains highly cash generative.



Jacques Booysen
Chief Executive Officer

Chairman and Chief Executive Officer’s review continued

Major acquisitions

F'10

- 30% of Suncoast (R1.0 billion)
- Century Casinos (R438 million)

F'15

- 10% increase in interest in Cullinan and acquisition of hotel assets (R762 million)
- 25% of Redefine BDL (R145 million)
- Buy-back of 12% of Tsogo Sun ordinary shares (R2.8 billion)

F'11

- Gold Reef merger

F'16

- 25.9% of International Hotel Group Limited (R315 million)
- 55% of HPF B-linked units (R252 million)

F'12

- 16.5% of Suncoast (R510 million)
- 52.6% of Hotel Formula1 (R300 million)

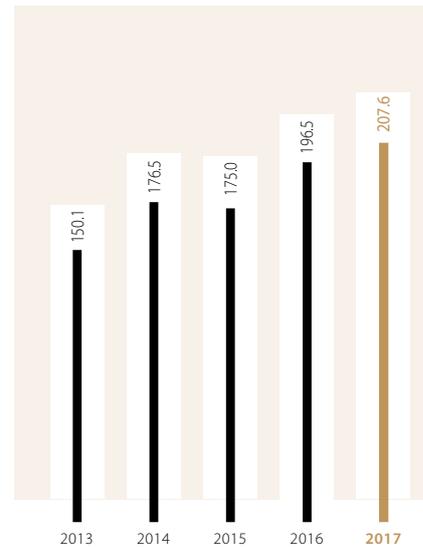
F'17

- 20% of the GrandWest and Worcester casinos (R1.35 billion)
- 40% of Cullinan plus loans (R1.03 billion)
- Acquisition of hotel assets (R310 million)
- 30% of Mykonos (R190 million)
- Control of HPF through an asset for share transaction

F'14

- 10% of Suncoast (R400 million)
- 75.5% of Southern Sun Ikoyi (R695 million)

Adjusted HEPS (cents)



- the acquisition of Garden Court Umhlanga and StayEasy Pietermaritzburg hotel businesses at a cost of R310 million; and
- acquiring a further 29.6% in Mykonos Casino through a R190 million share buy-back, resulting in the group now owning a 100% interest in the business.

Post-year end, an additional transaction was entered into with HPF, resulting in a further 29 hotel properties being transferred from the group to HPF for shares and cash effective 1 July 2017. Following this transaction and HPF’s R1.0 billion rights issue during August 2017, the group now owns 59.6% of HPF. Additional property assets will be injected by the group into HPF as and when commercially appropriate.

The group continues to focus on value-adding projects which currently include the following:

- the expansion of the Suncoast Casino in Durban, including a new privé, dedicated VIP parking and restaurant and entertainment

- expansion. The revised project is scheduled to be completed by December 2018 at an estimated cost of R1.6 billion;
- continuing engagement with the Western Cape Provincial Government regarding the relocation of one of Tsogo Sun’s smaller casinos to the Cape Town Metropole; and
- the proposed acquisition of a 100% interest in Gameco, which will be unbundled from Niveus, a subsidiary of HCI, and which owns Niveus’s South African gambling assets excluding sports betting including:
 - Vukani, the largest route operator of Limited Payout Machines (‘LPM’) in South Africa, with more than 5 000 LPMs at third-party sites; and
 - Galaxy Bingo, offering Electronic Bingo Terminals (‘EBT’) and paper bingo games at its licensed bingo centres in six provinces, and operating the Kuruman Grand Oasis Casino in the Northern Cape,

for a consideration of R4.48 billion which will be settled in Tsogo Sun shares (valued at R28 per share) and cash with a cash limit of R1.76 billion. This transaction is strategically important to the group as, in the short to medium term, growth in the LPM and EBT industries is expected to be stronger than in the casino industry, mainly as a result of the ability to roll out further gaming capacity and new facilities in previously untapped geographical areas.

The industry continues to face regulatory challenges and these are being addressed as far as practical through constructive engagement with the decision makers to enable a stable regulatory environment.

Strategic priorities

The strategic priorities of the Tsogo Sun group remain sustainability and growth. The current uncertain socio-economic outlook in South Africa heightens sustainability risks which we address by avoiding decision making that negatively impacts the long-term health and survival of the business and secondly, by developing appropriate strategies to eliminate or minimise the potential negative impact of identified external risks and taking advantage of opportunities which may arise. Growth is achieved both organically and inorganically and is measured by the increase in the group's free cash flow generated over time.

Sustainability

Tsogo Sun's sustainability is underpinned by five major pillars of focus. We continue to focus on enhancing our performance in each of these areas.

Financial strength and durability

Closing net debt increased to R12.1 billion mainly as a result of the acquisition activities referred to earlier in this review, with a net debt to Ebitdar ratio of 2.4. The group's committed debt facilities total R15.5 billion, some R3.4 billion above the current drawdown (including available cash on hand), and have an average tenure of three years. Accordingly, the group is adequately funded for ongoing operations and macro-economic shocks that may occur and able to take advantage of attractive expansion opportunities.

Debt is expected to increase with the conclusion of the acquisition of Gameco and the expansion of the Suncoast Casino as discussed above. The group is mindful of its higher gearing levels and the ratio of net debt to Ebitdar is not expected to materially exceed 2.8 times.

Deliver to our beneficiaries

Given the perceived social impacts around gaming, it will always be important who enjoys the economic benefit of the group's activities through ownership, employment, taxes and social programmes.

HCI remains a stable and supportive shareholder and is expected to increase its ownership in the group to over 50% post-year end upon the acquisition of Gameco. The ultimate largest shareholder in the group through HCI is SACTWU.

CSI and enterprise development activities continue to be conducted as part of citizenship, with a focus on programmes that make a real difference in the communities we operate in, and enthusiastic support from our employees at all levels. R65 million was spent on CSI initiatives in the key areas of education, sport and environmental awareness, while in supplier and enterprise development the Tsogo Sun Entrepreneurs programme now supports 200 emerging businesses in the tourism sector and other industries throughout the country.

Tsogo Sun is extremely proud of having achieved a level 1 BBBEE rating under the Revised Codes of Good Practice – tourism sector scorecard. The group continues to resist attempts by various gambling boards to unilaterally impose arbitrary requirements with regard to BBBEE compliance due to the fact that achievement of such levels can be impacted by factors beyond the group's control. We remain committed to BBBEE as evidenced by our level 1 rating, but cannot expose our gaming licences to regulatory risk against uncertain moving targets.

Evidence of the large and diverse stakeholder base that benefits from the group's activities can be found with reference to the approximately 23 000 people employed directly and indirectly by the group and the R2.2 billion in direct taxes paid per annum. We refer you to the value added statement in the key relationships section on page 26 and the community section on page 39 for further information.

Product relevance to customer experience

Tsogo Sun continues to reinforce its position as an established household name, in both the corporate and consumer markets in South Africa. The essence of the group's products remain onsite experiences, as, in order for our customers to consume our projects they need to physically visit our properties, be it for accommodation, theatre, entertainment, dining, gaming or hospitality.

Key to remaining our customers' destinations of choice is the group's ongoing focus on maintaining and refurbishing both its casino and hotel offerings. During the past five years, the group has spent R4.0 billion on casino and hotel refurbishments. The effect of this is that, despite the current difficult trading conditions, should the economic outlook improve, the group will not be faced with a major capital expenditure backlog.

Chairman and Chief Executive Officer's review *continued*

Continued focus remains on facilitating ease of business for our customers ranging from hotel bookings to ordering refreshments on the casino floor.

We use the feedback received through our guest experience survey programme to ensure that our operations are always aimed at providing a satisfying customer experience.

Regulatory compliance

The group enforces a culture of compliance at all levels of the organisation, relating to all relevant laws and regulations. Compliance is not limited to intensive gaming regulatory requirements, but also involves having systems and review processes in place to understand and abide by laws in areas as diverse as liquor and fire regulations, health and hygiene standards, labour, competition and consumer protection.

While we respect the important role that the various regulatory bodies play in society, business in general and the affairs of the group specifically, we have been, and are still, forced to challenge arbitrary unjustified decisions and laws and regulations that we believe are misguided or will have unintended adverse consequences for the group and its stakeholders. We will continue to defend our commercial rights while maintaining a cordial and cooperative relationship with various levels of government.

Human resources

Tsogo Sun aims to recruit staff with the best attitudes and skills available and provide an enabling and satisfying work environment.

The Tsogo Sun Academy plays a pivotal role in the training and development of our employees and to this end spent R130 million during the 2017 financial year on training. Training and development programmes are aimed at ensuring that all our employees are properly prepared and equipped for their work environment.

We believe that engagement is as important as levels of remuneration to derive the best performance from our workforce and to assess the levels of engagement an employee engagement survey is planned for the coming year. Our remuneration philosophy is aimed at ensuring that we attract and retain talented employees. The remuneration section on pages 73 to 78 highlights the philosophy towards remuneration and incentivisation.

Growth

The value of a business is the present value of the future cash flows that can be generated by the assets and other capitals utilised by that business. The only true measure of growth for our business therefore is its growth in free cash flow over time.

The 2017 financial year saw our free cash flow increase by 14% to R2.2 billion, mainly as a result of cash generated from operations, offset by increased finance costs due to investment activities.

Organic growth

Gaming win growth was negatively impacted by the macro-economic environment and consumer sentiment. Overall gaming win growth of only 2% was achieved, with 8% growth in tables win and slots win flat on the prior year. In the short to medium term it is expected that gaming revenue growth will continue to be impacted by negative consumer sentiment and the macro-economy.

Overall owned occupancies in the South African hotel division increased by 1.3pp to 63.2%, still well below normal long-term levels of approximately 67%. It is not expected to return to these levels without some positive macro-economic indicators and an improvement in business confidence. Revpar increased by 8% to R615, mainly as a result of a 6% growth in average room rate.

Trading for the group's Africa hotels excluding South Africa remained under pressure with occupancies down 1.5pp on the prior year to 52.4%. These hotels continue to experience weaker markets due mainly to the negative impact of low commodity prices and the subsequent collapse of the local currencies.

The 2017 financial year reflects an income and Ebitdar growth of 8% and 11% respectively, assisted by the acquisitions implemented in the current and prior year. The improvement in the Ebitdar margin to 38.2% was assisted by the dividends received from GrandWest and the acquisition of HPF.

Given the quality of our asset base and the high levels of operational gearing in our industries, organic revenue growth even marginally above inflationary levels should see a significant increase in operating cash flows. In the longer term a recovery in consumer and business sentiment, together with an improvement in the macro-economic environment, remain the factors that present the largest growth opportunity for the group. In the current environment we will continue to focus on driving revenue and containing costs.

Inorganic growth

The group continues to pursue inorganic growth through a combination of acquisitions, new developments and expanding our own facilities, and a total of R2.6 billion was spent on this during the 2017 financial year, excluding the HPF asset for share transaction. For details of the transactions refer to page 60.

Further opportunities are being pursued, with the most significant being the Suncoast expansion, the Western Cape relocation and Gameco acquisition referred to above. In addition the group continues with the construction of a 125 room StayEasy in Maputo, Mozambique, the growth of its property portfolio through the roll out of Monte Circle at Montecasino and it is anticipated that the group will invest additional capital in hotel properties in the United Kingdom through International Hotel Properties Limited.

Further investment opportunities will be evaluated as they arise bearing in mind the higher gearing levels of the group and the potential value that such opportunities present. We remain

confident of generating significant value for our stakeholders in future, provided that the regulatory environment remains stable and that the macro-economy does not collapse.

Appreciation

We wish to extend our appreciation to the board, management and the staff of the group for their contributions during the year. In particular, we thank Marcel von Aulock for his contribution during his 18 year tenure with the group, the last six of which as Chief Executive Officer. Tsogo Sun, with its irreplaceable assets and talented workforce, is perfectly positioned for an upturn in the economy.



John Copelyn
Chairman

20 September 2017



Jacques Booysen
Chief Executive Officer

20 September 2017



Chief Financial Officer’s review

We measure our creation of shareholder value through the increase in adjusted headline earnings per share and the generation of free cash, our efficiency through Ebitdar margin and our financial risk through our net debt:Ebitdar ratio and unutilised net facilities.

The group achieved income of over R13 billion and Ebitdar of over R5 billion for the year ended 31 March 2017 for the first time and grew adjusted headline earnings per share by 6% in the period despite continued pressure on the consumer due to the weak macro-economic environment and consumer sentiment.

Overview

This report should be read in conjunction with the consolidated financial statements available separately on our website which set out the financial position, results and cash flows for the group for the financial year ended 31 March 2017.



Commentary on the organic growth during the year is included in the segmental operational performance on pages 57 to 59.

Commentary on inorganic growth is included on pages 60 to 61.

Commentary on net interest-bearing debt and interest rate and currency risk management is included in the financial strength and durability section on page 48.



Rob Huddy
Chief Financial Officer

Income R13.2 billion	↑	8%
Ebitdar R5.0 billion	↑	11%
Ebitdar margin 38.2%	↑	1.2pp
Adjusted HEPS 207.6 cents	↑	6%
Dividends in respect of the year 104.0 cents per share	↑	6%
Free cash flow R2.2 billion	↑	14%
Net debt R12.1 billion		
Net debt: Ebitdar 2.4 times		
Investment activities R2.6 billion		
Unutilised net facilities R3.4 billion		

Income statement comparison for the year ended

	31 March 2017 Rm	31 March 2016 Rm	% change on 2016
Income	13 222	12 283	8
Gaming win	7 483	7 361	2
Revenue			
Rooms	3 078	2 784	11
Food and beverage	1 434	1 353	6
Property rental income	445	133	*
Other	782	652	20
Ebitdar	5 049	4 543	11
Gaming	3 540	3 429	3
Hotels – South Africa	1 359	920	48
– Offshore	146	192	(24)
Foreign exchange losses	(38)	(23)	(65)
Corporate	42	25	*
Ebitdar margin	38.2%	37.0%	1.2pp
Long-term incentives	(49)	(46)	(7)
Property rentals	(242)	(219)	(11)
Amortisation and depreciation	(846)	(812)	(4)
Exceptional items	787	(41)	*
Finance costs (net)	(1 023)	(857)	(19)
Associates and joint ventures	38	29	31
Income tax	(665)	(777)	14
Non-controlling interests	(542)	(18)	*
Attributable earnings	2 507	1 802	39
Adjustments	(520)	79	*
Adjusted earnings	1 987	1 881	6
Weighted number of shares in issue (m)	957	957	–
Adjusted HEPS (cents)	207.6	196.5	6

* Variance not meaningful

Trading performance

The group achieved income of over R13 billion and Ebitdar of over R5 billion for the year ended 31 March 2017 for the first time and grew adjusted headline earnings per share by 6% in the period despite continued pressure on the consumer due to the weak macro-economic environment and consumer sentiment. Year-on-year growth was achieved in both the casino and hotel segments with the hotel trading results in particular being further positively impacted by various expansionary projects, including the acquisition of two hotel businesses from Liberty and through the acquisition of HPF, offset to some extent by a weak trading performance in Africa, particularly in Nigeria.

Total income for the year of R13.2 billion ended 8% above the prior year with a 2% growth in gaming win, assisted by an 11% growth

in rooms revenue, a 6% growth in food and beverage revenue and strong growth in property rental income and dividends received.

Operating expenses including gaming levies and VAT and employee costs, but excluding exceptional items and long-term incentives, increased by 6% on the prior year mainly due to non-organic growth in the business as a result of acquisitions and expansions and foreign exchange losses, offset by savings initiatives. Excluding the non-organic growth and foreign exchange losses, operating expenses increased by only 3%.

Ebitdar at R5.0 billion for the year was 11% up on the prior year despite the R38 million forex loss in the offshore division. The overall group Ebitdar margin of 38.2% is 1.2pp up on the prior year.

Chief Financial Officer's review *continued*

Long-term incentives

The long-term incentive charge on the cash-settled incentive scheme of R49 million is R3 million above the prior year and values the liability (including dividend adjustments) by reference to the company's share price which is adjusted for management's best estimate of the appreciation units expected to vest and future performance of the group.

Rentals, amortisation and depreciation

Property rentals at R242 million are 11% up on the prior year mainly due to the acquisition of the Holiday Inn Sandton and Crowne Plaza Rosebank hotel businesses in March 2016, with this rental eliminating on consolidation of HPF from 1 September 2016.

Amortisation and depreciation at R846 million is 4% up on the prior year due mainly to the capital spend during the current and the prior year.

Exceptional items and adjustments

Exceptional gains for the year of R787 million relate to fair value gains on the revaluation of investment properties of R757 million related to the non-Tsogo leased hotels in HPF, the release of a fair value reserve for the available-for-sale HPF investment of R46 million, profit on sale of investment properties of R36 million related to the Inn on the Square disposed of by HPF and gains on bargain purchases of R82 million, offset by property, plant and equipment disposals and impairments and loan impairments of R94 million, including an impairment of the Southern Sun Ikoyi of R75 million due to tough local economic environments as mentioned above and interest rate swap fair value adjustments of R6 million and transaction and restructure costs of R34 million.

Exceptional losses for the prior year of R41 million comprises the pre-opening costs of R12 million during the period hotels were closed for refurbishment, capital asset disposals and impairments and loan impairments of R26 million and transaction and restructure costs of R28 million, offset by the fair value gain of investment properties of R25 million.

Net finance costs

Net finance costs of R1.0 billion are 19% above the prior year due to the increase in debt net of cash to fund the growth strategy and includes the effective interest of R48 million on the SunWest and Worcester acquisition in line with IAS 39 *Financial Instruments: Recognition and Measurement*, offset by a credit in respect of the Cullinan put option of R35 million (2016: R7 million charge).

Share of profits of associates and joint ventures

The share of profit of associates and joint ventures of R38 million improved by R9 million on the prior year mainly due to earnings, including the group's share of exceptional gains of R9 million, from International Hotel Properties Limited and Redefine BDL, the group's European hotel investments.

Taxation

The effective tax rate for the year of 18.1% is impacted by the non-taxable fair value gains on investment property and the gains on bargain purchases referred to above, tax exempt dividend income, pre-tax profits attributable to the HPF non-controlling interests due to its REIT tax status, deductible foreign exchange losses on local country currency movements in the African operations that reverse on consolidation and offshore tax rate differentials, offset by non-deductible expenditure such as casino building depreciation and the effective interest on the SunWest and Worcester acquisition. The effective tax rate for the prior year at 30.3% was impacted by the increase in the Capital Gains Tax ('CGT') inclusion rate on deferred tax of R54 million and non-deductible expenditure such as casino building depreciation, offset by foreign exchange losses on the US Dollar denominated loans in the local currencies.

Non-controlling interests

Profit attributable to non-controlling interests of R542 million is R524 million above the prior year mainly due to the HPF non-controlling interests' share of profits, offset by reduced local currency profits at Southern Sun Ikoyi and Southern Sun Maputo due to foreign exchange losses.

Earnings

Group adjusted headline earnings for the year at R2.0 billion ended 6% up on the prior year. The adjustments include the reversal of the post-tax impacts of the exceptional gains and losses noted above, in addition to the reversal of the remeasurement of the Cullinan put option included in net finance costs and the exceptional gains in the share of profit of associates and joint ventures, net of non-controlling interests. The adjustments in the prior year include the reversal of the post-tax impacts of the exceptional losses noted above in addition to the reversal of the remeasurement of the Cullinan put option in finance costs and the CGT inclusion rate deferred tax adjustment referred to above, net of non-controlling interests.

The number of shares in issue is unchanged from the prior year and the resultant adjusted headline earnings per share is 6% up on the prior year at 207.6 cents per share.

Cash flow

	31 March 2017 Rm	31 March 2016 Rm	% change on 2016
Cash generated from operations	4 776	4 376	9
Dividends received	134	51	
Net interest paid	(1 076)	(801)	
Income tax paid	(627)	(657)	
Operating equipment	(65)	(71)	
Maintenance capital expenditure	(925)	(945)	
Free cash flow	2 217	1 953	14
Dividends paid to shareholders	(975)	(878)	
Dividends paid to non-controlling shareholders	(113)	–	
Pre-acquisition dividend	(133)	–	
Disposal proceeds	145	28	
Investment activities	(2 590)	(962)	
Other	1	28	
Increase in net interest-bearing debt	(1 448)	169	
Opening net interest-bearing debt	(9 248)	(9 211)	
Acquired with acquisitions	(1 536)	3	
Accrued interest, prepaid borrowing costs and currency moves	119	(209)	
Closing net interest-bearing debt	(12 113)	(9 248)	

Cash generated from operations for the year improved by 9% on the prior year to R4.8 billion. Net finance costs increased by 34% due to the increase in net debt, taxation paid reduced by 5% mainly due to refunds received from SARS, dividends paid to non-controlling shareholders relate to HPF and the R133 million HPF pre-acquisition dividend paid in September was out of cash acquired with the subsidiary. Dividends received increased by R83 million due mainly to the acquisition of the stake in the GrandWest and Worcester casinos. Cash flows utilised for investment activities of R2.6 billion (net of R189 million cash acquired from HPF) consisted mainly of expansion capital expenditure and the acquisitions and investments described under the inorganic growth section on page 60.

Balance sheet derivative financial instruments

During the 2015 year the group entered into a call option over Liberty's 40% shareholding in Cullinan and Liberty had a corresponding put option, both exercisable at the fair value of the shares. A financial liability for the put option and a corresponding debit to transactions with non-controlling interest was recognised on initial recognition. At the end of each reporting period the liability was remeasured and the increase or decrease recognised in the income statement. The group acquired Liberty's 40% shareholding in Cullinan in December 2016. A fair value gain was recognised on the settlement of the derivative of R35 million which has been included in finance costs and the original put option of R493 million was reversed to retained earnings.

Dividends

A final gross cash dividend of 70.0 cents per share in respect of the company's 2017 year end was declared and the dividend was paid on 19 June 2017. The number of ordinary shares in issue was 957 373 089 (excluding treasury shares). The total dividends declared in respect of the 2017 financial year amounted to 104.0 cents per share which is 6% up on the 2016 financial year and which equates to 50% of fully diluted adjusted HEPS.

Subsequent events

There are no matters or circumstances arising since 31 March 2017, not otherwise dealt with in the financial statements, other than the progress noted on the HPF and Niveus transactions on page 61, that would materially affect the operations or results of the group.

Looking ahead

Given the weak state of the South African economy and many of the commodity focused countries in which the group operates, trading is expected to remain under pressure. Growth will depend on how these economies perform going forward, including the impact of changes in commodity prices, and the level of policy certainty that the government is able to achieve. Nevertheless, the group remains highly cash generative and is confident in achieving attractive returns from the growth strategy once the macro-economic environment improves.



RB Huddy

Chief Financial Officer

20 September 2017



Sustainability strategy in action

The key pillars of our sustainability include meeting the reasonable requirements of our beneficiaries, financial strength and durability, maintained product relevance to customer experience, regulatory compliance and adequately skilled human resources. In summary, a business has to stay in business to be able to take advantage of the commercial opportunities that are presented to it. Good businesses fail when they are fragile, inflexible, unethical and/or poorly managed.

Deliver to our beneficiaries

The nature of the shareholders of the group is important in a highly visible and regulated industry such as gaming. Popular misconceptions about the industry make it a target for attacks through excessive taxation and regulation. While the group spends money and time on engaging with stakeholders to ensure that the true facts around issues such as problem gaming are presented, the strongest protection for the business is to ensure that a significant portion of the economic benefits of ownership flow to community, charitable or socially beneficial organisations. This is achieved through meaningful citizenship programmes and also through direct and indirect equity ownership and employment.

Key performance indicators

	2017	2016
Black ownership	62%	62%
Value added contribution to black economic empowered businesses, PDIs and government	R8.5 billion	R8.9 billion
BBBEE level	Level 1	Level 2
CSI outcomes	Tsogo Sun Sports, Arts and Learning Academies support 46 398 learners	Tsogo Sun Sports, Arts and Learning Academies support 43 945 learners
ESD outcomes	Tsogo Sun Entrepreneurs programme supports 200 beneficiaries	Tsogo Sun Entrepreneurs programme supports 180 beneficiaries

2017 performance

Shareholders

As mentioned in the group overview on page 3 the nature of the HCI shareholding is of particular importance as it provides the bulk of the 62% broad-based empowered ownership at group level. HCI has provided a stable shareholder base for a number of years that has allowed the group to grow and take advantage of opportunities. The balance of the shareholding is diverse with significant liquidity.

Community

Tsogo Sun is committed to the upliftment and development of local communities. We are further committed to leveraging our resources, experience and geographic spread within the hospitality and entertainment industry to provide the foundation for initiatives that achieve lasting results in the communities where we are present. A portion of our profits is spent annually on social investment and, through Tsogo Sun Citizenship, we are able to deliver effective social initiatives that seek to create shared value with the broader society. Tsogo Sun Citizenship comprises three areas, being community development, entrepreneurial development and the natural environment.

Community development

During the year, the group's combined social investment in community development amounted to R65 million, all of which is verified spend on BBBEE socio-economic development. This is the equivalent of 2.6% of net profit after tax and represents 1.6pp more than the tourism sector code target.

While our casinos and hotels provide support towards a wide range of projects and initiatives designed to uplift people in their local communities, Tsogo Sun's national community development takes place through the Tsogo Sun Learning, Sports and Arts Academies, which collectively reach 46 398 learners who participate in our full-year programmes.

Sustainability strategy in action *continued*

Deliver to our beneficiaries *continued*

Academy	Schools	Teachers and community coaches	Learners	Adult education
Tsogo Sun Learning Academy	127	103	16 084	1 245
Tsogo Sun Sports Academy	78	1 009	3 166	–
Tsogo Sun Arts Academy	20	7	210	–
Tsogo Sun Moves for Life	56	632	26 938	–
Total	281	1 751	46 398	1 245

Our national community development programmes focus on education and training for disadvantaged children and youth, which reach 46 398 learners. This includes the Tsogo Sun Moves for Life national chess programme, which reaches 26 938 learners and 632 educators across 56 schools with the objective of improving maths, science and literacy skills through the medium of chess, within the school foundation phase.

Through education, the group provides assistance to disadvantaged young people by helping them to achieve their academic potential. Our support helps them to choose subjects wisely, prepare for tertiary education and learn skills to prepare them for the working world. It also provides general skills for 'life after school' to equip them with essential skills required for creating successful futures for themselves.

The group delivers effective peer-driven youth development in partnership with Columba Youth Leadership, an organisation that instils a sense of purpose, determination and 21st century skills into large numbers of young South African leaders to ensure that they are self-motivated, work-ready and highly employable. The provision of bursaries to high potential students, support to early childhood development educators and school visits to the Apartheid Museum also form an important part of Tsogo Sun's commitment to education.

Sport and arts are supported as mediums to deliver many of the essentials for successful formal education in schools with the ultimate goal of nurturing children's wellbeing. Youth between the ages of 7 and 17 are supported through training programmes and the provision of opportunities for competitive participation. Accreditation of facilitators, coaches, mentors and referees in Tsogo Sun supported education programmes is also provided as a means of ensuring the quality of our citizenship delivery.

In line with the group's education focus, we invest in Amandla EduFootball Safe Hubs in various areas across the country. Safe Hubs provide safe spaces that combine sports and learning to empower South African youth, and ultimately serve to change lives by nurturing young dreams.

Enterprise and supplier development

Tsogo Sun is committed to the development of small, medium and micro-enterprises ('SMMEs') as a solution to creating employment and as a contributor towards the growth of the South African economy. We deliver enterprise and supplier development through our national programme, 'Tsogo Sun Entrepreneurs', which comprehensively supports emerging businesses in the tourism sector and other industries throughout the country.

The group's combined spend on enterprise and supplier development for the year is R93 million, R14 million of which was spent on enterprise development beneficiaries and R79 million of which was spent on supplier development beneficiaries, representing a total of 3.7% of net profit after tax, which is 0.2 pp above the tourism sector code target.

The group has developed a plan for enterprise and supplier development that connects emerging black-owned enterprises into the procurement pipeline, supports existing black-owned Exempt Micro Enterprises ('EMEs') and Qualifying Small Enterprises ('QSEs') who are suppliers to the group through Tsogo Sun Entrepreneurs, and at the same time ensures that our procurement requirements are met.

As part of this plan, we support 200 businesses who are enrolled in the Tsogo Sun Entrepreneurs full year development programme, which delivers business foundation skills, coaching and mentorship. As the only programme of its kind in South Africa, 82% of the entrepreneurs developed by Tsogo Sun Entrepreneurs are black South African women.

A total of 47 businesses in the Alumni phase have expanded their operations as a result of the programme. Each employs between 1 and 50 staff and reaches up to 30 people in the value chain. A total of 146 entrepreneurs have successfully completed the UCT Business Management Course funded by the programme. The Tsogo Sun Entrepreneurs strategy is designed to connect to Tsogo Sun's supply chain, creating a pipeline of promising suppliers to the group.

The Tsogo Sun enterprise and supplier development plan has been successfully implemented over the last two years and has involved the introduction of a monitoring and evaluation tool and a system for the selection of entrepreneurs for development which is managed centrally in order to ensure that the beneficiaries are a correct fit for the programme.

Supplier showcases have been held at Tsogo Sun properties across the country, serving as mini-indabas for promising suppliers to the group and as channels for the registration and enrolment of new entrepreneurs into the development portion of the programme. These showcases enable the group's hotels and casinos to continue their focus on supporting local small businesses and suppliers in order to address the need for access to new markets, wealth creation and employment.

Tsogo Sun Volunteers

Our sense of community at Tsogo Sun can be seen in the many causes that we support and the time and effort that our people contribute towards volunteering to assist those less fortunate. By leveraging our resources, experience and geographic presence through the

Tsogo Sun Volunteers, we help to improve social, economic and environmental conditions within our local communities.

Transformation

Tsogo Sun is a pioneer in transformation and a leader in the empowerment of previously disadvantaged people, businesses and communities in South Africa. The group currently holds a level 1 BBBEE contributor status, measured against the dti's Revised Codes of Good Practice – tourism sector scorecard, and complies with the related guidelines. The group's casinos and hotels are in addition individually measured against the same scorecard. The formal verification audits are performed annually by Empowerdex (an accredited economic empowerment rating agency), with the results for the year ended 31 March being as follows:

	Target score on Revised Codes – tourism	2017	2016
Ownership	27	27.0	27.0
Management and control	19	10.4	10.0
Skills development	20	18.8	16.0
Enterprise and supplier development	40	37.3	35.3
Socio-economic development	5	8.0	8.0
Overall	111	101.5	96.3
Rating level		1	2

The group is proud to be a level 1 BBBEE contributor with 135% procurement recognition status for 2017 and we have worked hard to implement our empowerment strategy in order to achieve this result. The group received 101.5 out of a total available 111 points on the tourism sector scorecard. Tsogo Sun's black ownership is verified at 62.1% and black women ownership is 34.4%.

Tsogo Sun operates a BBBEE council as one of the group's governance structures whose purpose is to ensure that the priority of empowerment is consistently managed and monitored. The BBBEE council sets BBBEE strategy and direction for the group. It ensures that the group is compliant with legislation and it monitors group-wide performance measured against the scorecard. It sets internal targets and oversees the annual ratings process for the group. The bi-annual BBBEE council meetings are chaired by the group Human Resources Director and are attended by the group's senior leadership, including the Chief Executive Officer and Chief Financial Officer.

Responsible gambling

Tsogo Sun acknowledges that gambling can be an issue of concern for some people with a predisposition to addictive behaviour in communities where we operate. We engage these concerns by educating our employees and customers about responsible gaming

and seek to avoid the misuse of gambling. Tsogo Sun contributes to, and actively promotes, the National Responsible Gambling Programme.

To ensure an environment of responsible gambling, close attention is paid to the exclusion of:

- Under aged persons from gambling areas in accordance with legislation;
- visibly intoxicated people from gambling according to legislation;
- problem gamblers from gambling areas – by executing Tsogo Sun's self-exclusion policies;
- money lenders from gambling areas; and
- criminal elements and persons prone to bad behaviour.

The group monitors and manages the number of complaints and code violations.

Industry bodies

Tsogo Sun participates actively in industry bodies such as the TBCSA, the SATB, Fedhasa and CASA through the provision of time, effort and intellectual contributions from management. It also forms close relationships with national and regional gaming and tourism associations.

Sustainability strategy in action *continued*

Deliver to our beneficiaries *continued*

Tenants

The delivery of quality office, hospitality, gaming, dining and entertainment experiences is important to retaining footfall at our properties and satisfying our customers' diverse requirements. The delivery of these experiences is through a combination of owned and outsourced businesses to provide our customers with a range of differentiated products and services.

With a total of 403 tenants across Tsogo Sun's various properties, tenancing is one of the group's core focus areas to ensure that our customers have access to the best office, retail, restaurant and entertainment-related offerings.

The group's property and tenancing department manages this important element of our business together with the real estate department to ensure that our buildings are appropriately tenanted, maintained, refurbished, upgraded and renovated on an ongoing basis so that our offerings remain fresh and current. Our philosophy with regard to selecting tenancing partners is centred on owner-run outlets that will deliver the required experiences at appropriate prices.

Suppliers

The group has developed long-term, mutually beneficial relationships with our suppliers of goods and services. Through these supplier relationships many more indirect jobs are created and wealth is generated in the economy. A growing portion of our procurement is centrally managed which allows for enhanced consistency in standards and pricing and closer relationships with our suppliers. We ensure that, as far as is practically and commercially possible, our hotels and casinos procure products from vendors who are located in the areas where they are situated.

Tsogo Sun encourages diversity within its commercial associations, particularly through the involvement of previously disadvantaged persons and local businesses where it operates. The group supports black businesses in South Africa through a focused procurement strategy. Verified total procurement spend on black economically empowered businesses amounted to R3.6 billion during the year. The group's BBEE score for preferential procurement, which is measured within the Enterprise and Supplier Development element is 20.3 out of 25. Procurement from black women-owned businesses and further opportunities to establish and support enterprise and supplier development initiatives through procurement are focus areas of the group.

An additional procurement consideration is the environmental performance of our suppliers, which is taken into account as part of our procurement criteria during the supplier selection process.

Third-party owners

The group leases hotel properties and manages hotel businesses on behalf of third-party owners where it does not own the property or the business. The most significant leasing relationship is with Hospitality Property Fund ('HPF') from which the group leased 10 hotel properties from September 2016. The most significant management relationship is with Liberty for whom Tsogo Sun manages three hotel properties and from whom the group leases the Sandton Convention Centre. The relationships are mutually beneficial with financial returns and access to additional properties for Tsogo Sun and enhanced returns to the owners through our skills and distribution.

Environment

While our main business activities pose limited risk to the environment due to the service nature of the industry, environmental management practices have been integrated as part of our operations. Tsogo Sun has made the commitment to reduce the impact that the business has on the environment and to encourage guests to embrace greener behaviour for the wellbeing of the environment. The group reports to the Carbon Disclosure Project and Water Disclosure Project as a subsidiary of HCI.

Our efforts to manage our business sustainably serves the interests of our company and the community and in achieving this our stated policy and commitment is to:

- ensure that at all times, we identify, evaluate and comply with local, regional or national environmental laws and regulations applicable to our operations within the areas where we conduct business;
- continually evaluate and manage our environmental risks, targets and objectives;
- actively seek to minimise pollution, emissions and effluents emanating from our operations;
- work towards minimising waste by reducing, reusing and recycling programmes and adopting a 'zero waste' policy;
- strive to reduce consumption of natural resources by the responsible use of energy, gas and water and the identification and implementation of sustainable energy solutions;
- manage biodiversity through the protection of flora, fauna and land associated with, or impacted by, our operations;
- communicate our policies and achievements openly and transparently to our stakeholders;
- collaborate with our suppliers and business partners to actively reduce the environmental impact of our business activities;
- continually improve and innovate on our environmental performance standards;
- report annually on our environmental performance; and
- provide support for the sustainable development of our communities.

To ensure the objectives of our environmental programme are met, a property-specific environmental management system has been developed at all of our casinos and hotels aimed specifically at energy, water, waste management and responsible procurement. The system is managed holistically as part of the in-house Organisational Resilience Management Standard audit process and is verified by the German quality body, DQS-UL Group.

Scope and boundaries of emissions measurement

The scope and boundaries of measurement are consistent with the prior year. Scope 1 and scope 2 emissions are reported for all owned

businesses located at properties, owned or leased by the group, in South Africa and offshore, excluding emissions relating to tenants. Tenant emissions at owned or leased properties, emissions at properties not owned but managed by the group, emissions from outside laundry services provided to the group and business travel emissions are reported in scope 3. Fugitive emissions, mainly from refrigerants, have not been measured as they are not significant and there are no other emissions that are considered material. Comparatives have been restated to ensure consistent reporting. The restatements are not significant at 0.04% of consumption.

Emissions measurement

	2017	2016 Restated	2016 Reported	% change on 2016 Restated
Total emissions (tCO ₂ e)	5 010	5 794	5 735	(14)
Scope 1	5 010	5 794	5 735	(14)
Petrol and diesel (owned company vehicles)	446	547	572	(18)
Diesel consumed (owned businesses)	1 767	2 707	2 677	(35)
LPG and natural gas usage (owned businesses)	2 797	2 540	2 486	10
Scope 2	216 516	216 186	216 416	–
Energy consumed (owned businesses)	216 516	216 186	216 416	–
Scope 3	103 458	80 554	80 272	28
Energy consumed (tenants)	48 488	24 503	24 268	98
Energy consumed (managed properties)	24 147	25 106	25 104	(4)
Laundry services (outsourced)	28 752	28 650	28 650	–
Business travel	2 071	2 295	2 250	(10)
Total emissions (tCO₂e)	324 984	302 534	302 423	7

Ninety eight percent of scope 1 and 2 emissions arise through the consumption of electricity and thus demand-side management of electrical consumption remains the area of focus for the group in reducing emissions. Ninety seven percent of the scope 3 emissions arising from tenants at group properties and at properties managed by the group also arise from the consumption of electricity.

Electricity

Scope 2 emissions from electricity consumption at the group's owned properties were flat on the prior year at 216 516 tCO₂e despite two additional hotels being acquired in October 2016 and an increased electricity consumption due to reduced load shedding due to savings from ongoing energy-saving initiatives. The installation of energy-efficient equipment continues where practical, although much has been done since 2006, and the majority of the consumption reductions are as a result of consumption measurement and behavioural change initiatives at the units.

LPG and natural gas

LPG and natural gas are primarily used for cooking with limited space heating and water heating at three properties. Scope 1 emissions

from the consumption of LPG and natural gas increased by 10% to 2 797 tCO₂e due mainly to owned outlets at Gold Reef City opened for a full year, two additional hotels being acquired in October 2016 and hotels that were closed for refurbishment during the prior year.

Diesel

Diesel is utilised for back-up electrical generation. Scope 1 emissions from the consumption of diesel decreased by 35% to 1 767 tCO₂e due to reduced load shedding and supply interruptions during the year.

Scope 3 emissions

The 98% increase in scope 3 emissions from tenants at group properties is mainly due to the acquisition of 12 additional hotels through the HPF acquisition in September 2016. The 4% reduction in scope 3 emissions from properties managed by the group is due mainly to the two previously managed hotels being acquired in October 2016. The group utilises outsourced laundries at the majority of its owned and managed properties and the scope 3 emissions from laundry services were flat on the prior year.

Sustainability strategy in action *continued*

Deliver to our beneficiaries *continued*

Water

Although supply interruptions due to poor municipal infrastructure continue to increase and medium-term water shortages are probable, the group does not have company-specific water risks. The group is, however, subject to the general impacts of climate change, as evidenced by the current severe water shortages in the Western Cape. Contingency plans such as reverse osmosis of brackish water are being investigated, but realistically a solution must be provided on an industrial scale by government, as there is little point in the hotels having access to potable water if the region does not. The majority of our properties are in urban areas and use potable water provided by local municipalities (90% of consumption). Two resort properties utilise surface water for irrigation, two resort properties are fully reliant on river water, one property primarily utilises ground water due to continuous supply problems from the local municipality and the Gold Reef City Theme Park utilises cleaned mine water for the water rides. Water consumption at the group's owned properties decreased during the year by 3% to 2.7 million kilolitres mainly due to ongoing conservation and reduction measures at all properties, offset by two additional hotels being acquired in October 2016.

Waste management

Recycling initiatives are in place at many properties although the efforts differ depending on the infrastructure available to support recycling. Waste management information is being collated throughout the group and there are plans to standardise recycling systems and volume monitoring methods across our properties.

Biodiversity

The majority of our properties are in urban areas and are thus not in close proximity to sensitive environments. There are four resort properties in rural environments where management of biodiversity is more important and no new facilities were developed at these properties during the year. Where applicable, the properties have programmes in place to replace alien vegetation with indigenous plants.

Environmental education

As part of our commitment to the upliftment and development of communities through Tsogo Sun Citizenship, we strive to create awareness in local communities to encourage a responsible attitude towards the use of electricity and water and the management of waste. We also champion opportunities to educate people about reducing their impact on the environment through tree planting, food security and conserving our natural heritage.

Tsogo Sun partners with Generation Earth and the Miss Earth SA leadership development programme, both of which provide education about environmental issues among young South Africans. Through these partnerships, about 20 000 school children have

been educated on environmental responsibility, 1 500 trees have been planted and hundreds of environmental youth ambassadors are enabled to travel to all corners of South Africa, delivering the message for a sustainable future.

Through environmental education, the group plays an active role in influencing stakeholders such as communities, employees and customers to take responsibility for their impact on the environment and positively change their behaviour through campaigns such as '#WasteStopsWithMe' and by holding national empowerment and citizenship seminars that address, among other topics related to the green economy, the subject of climate change.

Looking ahead

Community development

Tsogo Sun's community development programmes are growing in impact and reach, with a focus on education for disadvantaged young people, preparing them for the world of work. The aim is to create scalable and sustainable programme models that can be replicated more widely in collaboration with other corporates, civil society and government. Collectively working towards improving the employability and entrepreneurial skills of young people from disadvantaged communities will contribute to individual empowerment where it is needed, and economic growth in the longer term.

Emphasis is being placed on initiatives such as career guidance and other education programmes, creating a pipeline of development for learners from Grades 9 to 12. This commences with an online evaluation exercise in Grade 9 that identifies individual interests, skills and aptitudes to match personality types, highlights the most suitable career opportunities and guides learners to better align subject choices with their potential career choices. Career guidance, tertiary education options and application, life skills and job readiness preparation, continue through to Grade 12.

In line with global practice, the group is paying particular attention to the depth of the impact that the community programmes deliver to beneficiaries. This results in working with a smaller number of beneficiaries in the programmes and providing more relevant support to ensure opportunities to gain a foothold in the employment or entrepreneurial sectors.

Monitoring and evaluation is increasingly important to enable the measurement of meaningful change and to replicate successful models. Our internal information system continues to be enhanced to provide comprehensive tracking and management of all financial, in-kind and employee volunteering contributions made across the group.

We are also actively monitoring the participation, attendance and involvement of learners, educators and community stakeholders through our impact assessment tool to determine:

- The impact on our beneficiaries;
- How we are positively influencing the lives of the people we support;
- Where we need to apply more emphasis to achieve intended results; and
- How these results are addressing the needs of the communities.

We will continue to enhance the offering of the career guidance programme, ensuring that young people are given the tools to make the right choices for their future success through a range of development and support initiatives. Plans are being evaluated to create a wider scope of opportunities for young people post-Grade 12 to study further, to obtain entry-level employment within the group or elsewhere, or to become successful entrepreneurs, with the aim of providing a lasting legacy of economic empowerment and financial independence. The formalisation of employment options, bursaries and community learnerships across the group will continue in the coming year.

Enterprise and supplier development

The Tsogo Sun enterprise and supplier development plan will continue into its third year of the five-year implementation. The monitoring and evaluation tool will be refined to enable the group to continue to accurately measure the plan's impact on the businesses supported by Tsogo Sun Entrepreneurs. The group's system for the selection of entrepreneurs for development will continue to be managed centrally in order to ensure that the beneficiaries receiving development are a correct fit for the programme.

Supplier showcases will continue to be held at Tsogo Sun properties across the country, serving as mini-indabas for promising suppliers to the group and as channels for the registration and enrolment of new entrepreneurs into the development portion of the programme.

These showcases enable the group's hotels and casinos to continue their focus on supporting local small businesses and suppliers in order to address the need for access to new markets, wealth creation and employment.

Transformation

The group has met its target of achieving level 1 BBBEE contributor status and the future intention is to maintain this performance in the year ahead. We intend to do this through continued focus on our empowerment priorities which include all five of the elements of the BBBEE scorecard.

From an operational point of view, this will involve paying close attention to maintaining the diversity of our workforce and developing their skills and those of potential new employees, ensuring that our supplier mix is appropriately spread, developing small businesses and investing in our communities.

Third-party owners

Post-year end the group sold an additional 29 hotel properties to HPF and has leased them from HPF from July 2017. This has increased the number of hotels that the group leases from HPF to 39.

Environment

The focus during the year will be to ensure that the energy and water consumption management programmes remain in place with the objective of continuously reducing consumption year on year, excluding the impact of increased capacity or additional operations. Through environmental education, the group will continue to influence stakeholders such as communities, employees and customers, to take responsibility for their impact on the environment and positively change their behaviour by holding citizenship seminars that address among other topics related to the green economy, the subject of climate change.



Sustainability strategy in action continued

TSOGO SUN CITIZENSHIP

EDUCATION AND LEARNING

The provision of bursaries to high potential students, support to early childhood development educators and school visits to the Apartheid Museum form an important part of Tsogo Sun's commitment to education.



COLUMBA LEADERSHIP

Tsogo Sun delivers effective peer-driven youth development in partnership with Columba Youth Leadership which instils a sense of purpose, determination and 21st century skills into large numbers of young South African leaders to ensure that they are self-motivated, work-ready and highly employable.

TSOGO SUN VOLUNTEERS

By leveraging our group's resources, experience and geographic presence through the Tsogo Sun Volunteers programme, which mobilises our workforce to contribute to the many causes that we support, Tsogo Sun helps to improve social, economic and environmental conditions within our local communities.





CHESS

The Tsogo Sun Moves For Life chess programme reaches 26 938 learners and 632 educators across 56 schools with the objective of improving maths, science and literacy skills through the medium of chess, within the foundation phase at schools across South Africa.

AMANDLA EDUFOOTBALL SAFE HUBS

Tsogo Sun invests in the development and operation of Amandla EduFootball Safe Hubs, which provide safe spaces that combine sports and learning to empower and educate South African youth and change lives by nurturing young dreams.



TSOGO SUN ENTREPRENEURS

200 small businesses are enrolled in the Tsogo Sun Entrepreneurs full year development programme, which delivers business foundation skills, coaching and mentorship. The Tsogo Sun Entrepreneurs programme connects to Tsogo Sun's supply chain, creating a pipeline of promising suppliers to the group. The Tsogo Sun Entrepreneur of the Year for 2016 – 2017 is Nqobile Nkosi, owner of NQ Jewellery, Soweto's first manufacturing jewellery designer.



TSOGO SUN ENVIRONMENT

Through Tsogo Sun Environment, nearly 20 000 school children have been educated on environmental responsibility and the green economy, more than 1 500 trees have been planted and hundreds of environmental youth ambassadors are enabled to travel to all corners of South Africa, delivering the message for a sustainable future. A recent focus has been the 'Waste Stops With Me' campaign which involves beach, park, school and inner city clean-ups with the Tsogo Sun Volunteers.

Sustainability strategy in action continued

Financial strength and durability

The group is highly cash generative but it is important to ensure that the capital structure of the group is appropriate so that the business survives through economic cycles.

The group believes that the relative resilience of its financial performance throughout the global economic downturn can be attributed, in part, to the general stability of its gaming income. Demand for the type of gaming-related services the group offers is sensitive to decreases in discretionary consumer spending but, because of its relatively high disposable income levels, the group's core customer base has largely maintained its spending on gaming activities through the adverse macro-economic conditions of recent years. In addition, the group's gaming business is largely unaffected by seasonality. The group believes that these factors are a significant strength of its business that alleviates the volatility usually inherent in operating in other industries.

Macro-economic conditions will vary in cycles. This is particularly relevant in the hotel industry, which is regularly in a state of under or over-supply. In order to be able to withstand the impacts of these cycles, the group aims to ensure that debt is used prudently, with careful monitoring of the net debt to Ebitdar ratio.

In addition, the group ensures availability of sufficient credit facilities with long-term maturities, providing additional liquidity in the event of a deterioration in economic conditions.

Key performance indicators

	2017	2016
Net debt to Ebitdar	2.4 times	2.0 times
Unutilised net facilities (including available cash on hand)	R3.4 billion	R4.8 billion
Weighted average expiry of debt facilities (excluding permanent revolving credit facilities)	36 months	49 months
Net debt hedged through fixed interest rate swaps	58%	57%

2017 performance

Net interest-bearing debt

Interest-bearing debt net of cash at 31 March 2017 totalled R12.1 billion, which is R2.9 billion above the 31 March 2016 balance of R9.2 billion, with R1.2 billion paid in dividends to group shareholders in addition to the investment activities of R2.6 billion during the year. The increase is mainly due to the consolidation of the HPF debt net of cash of R1.5 billion, together with additional funding for the group's expansion programme.

For more detail on the group's borrowings and cash position refer to notes 29 and 32 on pages 44 and 45 of the annual financial statements.



During the year the majority of the US Dollar facilities were renegotiated to five-year term bullet facilities to increase flexibility and mitigate the foreign currency liquidity constraints in Nigeria and Mozambique. Additional facilities amounting to US Dollar 17 million were negotiated for the construction of StayEasy Maputo. The tenures on the majority of existing Rand facilities are to June 2020 and June 2021. Net debt to Ebitdar as at 31 March 2017 was 2.4 times with unutilised net facilities (including available cash on hand) of R3.4 billion. The weighted average number of months to expiry of the debt facilities (excluding 364-day revolving credit facilities) was 36 months.

Interest rate and currency risk management

The group has hedged a significant proportion of debt facilities to maturity to lock in the current historically low interest rate environment. In order to limit income statement volatility, the group does not normally enter into speculative hedges. As at 31 March 2017, 58% of net debt was hedged through fixed interest rate swaps and other fixed rate instruments. The weighted average effective interest rate for the year was 9.4% (2016: 9.1%). The interest rate is higher than the prior year due mainly to the repo rate increases.

Debt at year end is either Rand or US Dollar denominated, dependent on the nature of the cash flows in the underlying operations, with offshore cash held approximately 43% in US Dollar, 10% in Euro, 21% in Nigerian Naira and 21% in Mozambican Metical with limited other local currency deposits.

Looking ahead

The facility pricing with the group's existing consortium of banks remains competitively priced. An additional R3.5 billion in bank facilities were finalised post-year end in order to refinance a term loan of R1.5 billion due in July 2017 and to fund future acquisitions. The HPF bank facilities were also replaced post-year end which will reduce the cost of funding and provide additional funding headroom. HPF raised R1.0 billion through a rights issue post-year end.

In the event of an increase in the level of debt, further future dated interest rate swaps will be concluded. In the case of a significant spike in interest rates the group would be protected until March 2021 and could restrict investment to ensure debt levels would not cause financial distress.

Product relevance to customer experience

Tsogo Sun sells experiences including hospitality, gaming, dining and entertainment. To provide the variety and quality of experiences demanded by the group's various clientèle at the appropriate price points, the group needs to constantly monitor and invest in:

- physical product that caters to the customer – including hotel operating equipment, major and minor refurbishments to both hotel and entertainment complexes, gaming equipment, tenant allowances and mind and mood infrastructure to enhance customer experience;
- technology that works for the customer and makes the product work – including gaming management systems to ensure

optimal gaming floor utilisation, guest facing and back-of-house hospitality systems for in-house facilities and reservations, channel and customer relationship management;

- accessibility that allows the customer to utilise the group's products with minimal barriers to entry – including physical facilities as simple as sufficient parking, accessibility for mobility impaired guests, easy access to reservation systems and personnel for both trade and individual buyers and easy access to information on the group's products; and
- branding which is critical to the way in which the group is viewed by its current and prospective customers.

Key performance indicators

	2017	2016
Gaming		
• Rewards club membership contribution to gaming revenue	76%	75%
• Guest satisfaction – gaming	77%	77%
• Slot machine average age	5.4 years	5.1 years
Hotels		
• Rewards club membership contribution to hotel revenue	30%	33%
• Guest satisfaction – hotels	88%	87%
• Hotel property brand audits	No material deviations from brand standards	No material deviations from brand standards
Hygiene audits	No significant issues noted	No significant issues noted
Maintenance capital spend	R925 million	R945 million

2017 performance

Product relevance

In order for the group to deliver the hospitality, gaming, dining and entertainment experiences that our customers desire, it is important that our physical product and service delivery are relevant to our customers at appropriate price points, are consistent in standard and delivery, provide the variety of experiences that will encourage repeat visits and make it easy for our customers to do business with the group. Consumer expectations range from technology preferences to the look and feel of the physical product, the location of buildings, concepts for restaurants and bar offerings, types of entertainment and travel patterns.

The group seeks to respond dynamically to changing trends, refreshing casino and hotel offerings to reflect contemporary tastes and embracing new technologies that will improve customer experience. Therefore, we have committed to investing significantly in the regular maintenance and refurbishment of our properties in order to keep the experiences attractive and relevant to our customers. Slot machines are replaced on an approximate seven to 10-year cycle and the current average age of slot machines is 5.4 years.

Many of these machines, however, have been upgraded or have had game changes to ensure they remain relevant. Physical standards at hotel properties are evaluated through hotel property audits. We believe that our properties offer a superior experience to those of our peers and of other leisure activities. In order to preserve our market position and to attract existing and new customers to our gaming and hotel operations, we intend to continue our disciplined programme of investment to continually refresh the offerings and décor of our facilities. There were no material deviations from the relevant brand standards during the period under review.

Product development

Development of the casino and hotel real estate is a critical component of the group's business and its plans for organic growth. On average over the past five years, approximately R1.3 billion has been invested annually in the expansion, refurbishment and maintenance of the group's existing casinos and hotels, excluding the acquisition of new properties. The ability to develop and maintain relevant physical products is a key competency required in the business and the location selection, construction and ongoing property maintenance are the core skills required. Key personnel are employed on a permanent basis to deliver these core skills that safeguard and mentor this knowledge.

Sustainability strategy in action *continued*

Product relevance to customer experience *continued*

These skills are augmented by a network of experienced professionals that have worked with the business for a number of years but who are regularly supplemented with new professional firms with the objective of introducing change and fresh ideas to established methods, concepts and systems.

Information technology

Information technology strategy and governance are driven centrally with divisional teams delivering operational system-specific solutions to meet the business requirements. Both divisions predominantly utilise third-party packaged solutions which have been purpose built for the industry. The management process to oversee governance and to achieve more coordinated and efficient IT service delivery to both operating divisions has matured. Due to continuous and responsible IT investment over the past few years there are no legacy system issues.

It remains our strategy to leverage off specialist application software providers and not to invest heavily in our own internally developed systems. We believe suppliers are, in general, better positioned to carry out research and development and keep pace with industry changes and the rapid evolution of technology. However, we position ourselves to actively influence application development direction through direct participation and collaborative design with our suppliers. This approach optimises our technology investment and reduces redundancy.

During the 2017 financial year the group launched the new hotel internet booking engine which provided an enhanced user experience and has significantly improved booking conversions. Campaigns and special deals are being promoted through Facebook and Twitter which are cost-effective channels and the group continues to add more sophisticated features to the digital platform. Increasing regulatory reporting requirements required the continued development of relevant system enhancements to support them. The group deployed numerous tools to protect ourselves from increasingly sophisticated cyber attacks (including malware, hacking, phishing, spam, virus protection, data protection, etc). Significant effort was invested in optimising systems uptime and protecting sensitive data and the group regularly obtains external assurance to verify that appropriate steps are taken and we are reasonably well protected. This will require continued focus as the dynamics change continuously.

Our priority opportunities in the medium term revolve around a new model and solution for the hotel property management systems, a more integrated group-wide approach to customer relationship management, a more coordinated enterprise-wide digital approach including improved online engagement with loyalty and prospective customers and driving direct bookings online and at the best rate and improving the resilience of our IT infrastructure (availability, protection, security).

Our core technology differentiator remains the manner in which we utilise and integrate the relevant features of our systems to streamline and optimise our operations, enhance the customer experience and ensure Tsogo Sun is the easiest place to do business.

Tsogo Sun brand portfolio management

The group continues to grow the master brand through focused communication and brand execution with the messaging across all the brands consistently supporting the group brand essence of 'creating great experiences' for our guests.

The clear brand portfolio allows for consistent decision-making in operations and has remained unchanged with new hotel product being opened under the StayEasy and SunSquare brands and the Sun1 brand being refreshed to increase its appeal to its intended target audience.

In a shift from predominantly traditional marketing campaigns to digital marketing channels the product brands' corporate identities were updated to allow the visual language to translate effectively onto electronic platforms. This included the style of photography, the choice of messaging and the crafting of a distinct user experience journey. Utilising the digital channels has resulted in faster response times to market, higher return on investment and successful and award-winning campaigns.

The management of the brand portfolio includes brand standards that support each brand's delivery. A set of group hallmarks have been introduced and are being rolled out across all the brands. The purpose of the group hallmarks and the supporting hallmark behaviours is to provide a benchmark for service delivery at each property while at the same time providing a golden thread for guest experiences across the portfolio.

The sunburst remains the symbol of the group and serves proudly as our mark on our real estate across our footprint. It instils pride in our employees and trust in our stakeholders.

Customer satisfaction

The group has historically relied on post-visit surveys to ascertain service levels and guest satisfaction. Online reviews and social media interactions have added a level of complexity. There is more data available in more dynamic formats and our guests are expecting faster responses.

The management of post-visit surveys continues, as the data gathered via this platform allows the business to gain deeper insights into the organisation. However, online reputation management via social media and third-party review sites has enhanced our ability to track guest satisfaction.

The group recognises the importance of managing its online reputation and the tracking of online review data was enhanced during the year through online dashboard enhancements which allow operators to view their guest satisfaction across all platforms with the ability to manage them from the site. This allows for more accurate results, as it includes multiple listening posts, and faster turnaround times.

The post-visit surveys continue to consistently provide feedback from approximately 10 000 guests per month. The overall satisfaction score for Hotels averaged 88% (2016: 87%) for the year. The overall satisfaction score for Gaming averaged 77%, flat on the prior year.

The overall satisfaction score for online third-party review sites for Hotels, which was measured for the first time during the year, was 83%.

The guest satisfaction correlates with the high levels of engagement across the various platforms:

- tsogosun.com – 1 million+ visits per month (2016: 750 000+)
- Facebook – 1.65 million (2016: 1.35 million)
- Twitter – 78 400 followers (2016: 61 000)
- Instagram – 25 200 followers (2016: 16 300)

Tsogo Sun gaming – rewards programme segmental analysis

Tsogo Sun gaming had 325 489 active gaming cardholders during the year. The contribution to total gaming revenue for the year from active members of the reward programme was 76%.

Segment	2017 % active customers	2017 contribution %	2016 % active customers	2016 contribution %
Black	8	51	8	50
Platinum	14	15	14	16
Gold	78	10	78	9
	100	76	100	75

Tsogo Sun hotels – rewards programme segmental analysis

Tsogo Sun hotels had 105 979 active reward cardholders during the year. The contribution to total hotel revenue for the year from active members of the reward programme was 30%.

Segment	2017 % active customers	2017 contribution %*	2016 % active customers	2016 contribution %*
Black	5	9	5	9
Platinum	14	8	13	10
Gold	81	13	82	14
	100	30	100	33

* Systemwide

Customer safety

Tsogo Sun recognises that the health, safety and wellbeing of customers and employees is of paramount importance. Life safety equipment and procedures are maintained at high levels of quality and compliance at all our facilities. Compliance with best practice in life safety, health, hygiene and fire protection is a non-negotiable element of our management systems.

Each property undergoes rigorous safety inspections as part of the Organisational Resilience Management Standard audit process, and deviations from the agreed standards and incidents and events are reported and resolved.

All Tsogo Sun hotel, casino and restaurant properties, including outsourced restaurants, undergo an independent audit every second or third month, which covers food safety practices and compliance to the group standard, as well as legislated elements. Temperature control, personal hygiene, good manufacturing practices, product traceability and storage, cleaning programmes and pest control are included. Audits are strictly unannounced and include surface swabs, hand swabs and food samples, which are selected at random during the audits and assessed for microbiological quality. No significant issues were noted.

Customer rewards programmes

Tsogo Sun's hotel and casino rewards programme is designed to encourage relationships of mutual value with customers by giving benefits and rewards to cardholders. It provides the group with detailed information about trends across its customer base that enables Tsogo Sun to improve our offering in response to changing consumer behaviour and to meet the demands of top-tier active reward club members more effectively. While our gaming management systems do not allow for full portability of rewards and benefits, the rewards programme provides patrons with consistent card status levels, rewards and benefits across the group.

Looking ahead

Customer reward programmes

In addition to planned rewards specific communication, integration of the rewards programme into all marketing communication will increase awareness of the programme structure, benefits and processes and reinforce the value offering.

Data mining and analysis of customer interactions and data will form the basis of the strategy to create and maintain relationships with members, assisting with retention and assisting revenue growth. Targeted and individual offers, rewards and incentives will be used to encourage repeat stays/visits and incremental spend. To improve data analytics as well as the delivery of more appropriate individual rewards, Gaming analysis will move from 'theoretical' to 'actual' win.

Technology will continue to play a key role in achieving the focus with successful implementation of Microsoft CRM in Gaming as well as the introduction of remote pin retrieval, bonus Sunrands and eVouchers in Hotels.

Sustainability strategy in action continued

Regulatory compliance

Gaming licences are extremely valuable assets to the group. These are issued for an indefinite period (with the exception of the Eastern Cape-based licences) and are maintained through a strict compliance culture including compliance with all laws and regulations to which the group is subject.

This strict culture of compliance is applied to all aspects of the group's business including areas as diverse as hospitality hygiene, liquor licences, fire and life safety regulations, corruption, insider trading and competition law.

Despite the significant cost involved, the group treats compliance as a necessary investment and not an unavoidable cost, and recognises that compliance yields benefits such as an enhanced financial and operational internal control environment.

Key performance indicators

	2017	2016
Significant gaming regulation breaches	Nil	Nil
Fines imposed for other regulatory breaches	Nil	Nil
Fines imposed for breaches of law	Nil	Nil

2017 performance

Regulatory compliance

The South African trading environment is highly regulated and compliance with the regulations is critical to our licence to trade. The broader trading environment is becoming increasingly complex and is governed by legislation and policies, much of it relatively new, relating to competition, customer protection, privacy, environmental, health and safety, money laundering and labour issues. A number of statutes provide for monitoring and enforcement by regulatory bodies. The audit and risk committee is updated with all material changes to legislation and regulations twice a year and the board is updated quarterly.

The casino operations are regulated by the provincial gambling boards and, from an oversight perspective, by the National Gambling Board. The standards of regulation within the industry are in line with global best practice. Gaming regulation compliance, which is of particular importance in retaining casino licences, is achieved through the implementation of internal control procedures and compliance policies, compliance committees, an anonymous tip-off system, interventions with regulators and law enforcement agencies, centralised specialist understanding of the interpretation and application of legislation, internal and external compliance audits and by creating a compliance culture through training. Compliance with the terms of a licence is monitored by the relevant provincial gambling board on an ongoing basis and certain provinces may conduct quarterly, bi-annual and annual inspections.

During the year, the group participated in the public consultation process in respect of proposed legislative and policy amendments

which may have a regulatory compliance impact on the group's casino and hotel operations. The most significant contributions with regard to gaming were made in respect of the National Gambling and Liquor Policies, proposed amendments to the National Gambling Act and Policies, various provincial gambling acts and regulations and, in particular the 41st licence, the roll out of additional bingo sites, liquor legislation and the FICA, which may cause more onerous regulatory obligations on casinos. The Minister of Finance has proclaimed the commencement of certain provisions of the FICA with effect from July 2017, with further provisions coming into operation in October 2017. The group is currently participating in various consultation processes with the Financial Intelligence Centre regarding a transitional period for the implementation of the amendments to the Act, as well as recently proposed amendments to the Regulations. Furthermore, the group has commenced a project to align its current processes and policies to comply with new and additional requirements.

Tsogo Sun ensures that the group complies with all applicable legislation in all countries in which it operates and, where possible, builds constructive relationships with the regulatory bodies. There were no significant breaches of any legislation and no significant fines imposed during the year.

There were no reported incidents regarding breaches of customer privacy or losses of customer data.

Looking ahead

Material areas of regulation will continue to be incorporated into the combined assurance framework to ensure that all relevant legislation and regulations continue to be applied and adhered to.

Human resources

People are at the core of delivering a Tsogo Sun experience, both front and back-of-house.

At the guest level, Tsogo Sun does not sell a system or manufacture a physical product for resale. Every aspect of the business, from the gamer's experience at the roulette wheel to the dining experience in the restaurants, to the check in and check out at the front desk, requires an interaction with people of the group. A pool of qualified, trained and talented people is required to deliver these experiences, supported by empowered management and relevant support services.

At the corporate level, the group is reliant on executives and managers who can identify and manage both risks and opportunities and implement appropriate responses. These individuals, both senior and junior, need to apply long-term thinking and avoid quick and unsustainable fixes.

In order to attract and retain the appropriate talent pool, the group needs to ensure that all aspects of the employee's experience, including but not limited to, remuneration and incentivisation, is properly structured.

Key performance indicators

	2017	2016
Management and control (revised codes) score/employment equity (2007 codes) score	10.4/19	10.0/19
Training spend as a % of payroll	4.3%	4.5%
Staff resignations	9.8%	10.1%

2017 performance

Human capital management

We believe that the sustainable growth of our group depends as much on our people as it does on our operational expertise. Our employment policies are designed to empower and develop employees, and create an environment in which each employee can perform and grow to his or her fullest potential. We also strive to attract and retain the highest calibre staff while at the same time redressing historical imbalances, where they may exist.

Job creation and employee stability

The group contributes approximately 12 800 direct jobs and 22 700 combined direct and indirect jobs (including contract staff employed by third-party service providers) where our operations are situated in South Africa.

Staff resignations decreased to 9.8% (2016: 10.1%) and remains acceptable for the hospitality industry and is testimony to the favourable employee engagement and values-based leadership approach across the group.

Employee development

Training spend for the year at R130 million, which at 5.1% of payroll, has increased from the prior year. The group spent R117 million on training and development initiatives provided to black people during the year, which is 4.5% of payroll. In accordance with the BBBEE revised codes – tourism sector scorecard targets, the spend is measured against the national Black Economically Active Population targets. For this reason, the group's verified spend on

BBBEE training and development amounted to R110 million, which is the equivalent of 4.3% of payroll. The group's BBBEE score for skills development is 18.9 out of 20 within the scorecard framework. In the year the group employed 1 361 people on learnerships and provided 1 308 unemployed people with learnership opportunities. Of the unemployed people on learnerships, the group employed 491 people after they had completed their training.

Through its integrated academy, during the year Tsogo Sun continued with the roll out of the new learning strategy, based on international best practice. This has resulted in a steady supply and promotion of talented individuals within the organisation and a focus on the basic skills of our frontline staff. The new strategy has also resulted in a reduction of inefficient training time off the job and an increase in on-the-job learning. In addition, management development has become more targeted, focused and customised, resulting in increased efficiencies to the business. A renewed focus on just-in-time learning based on specific business needs has also increased efficiencies and the quality of learning and development throughout the business. Tsogo Sun continues to demonstrate its commitment to investing in the education, training and development of its employees through the activities of the Tsogo Sun Academy.

Employee engagement

The group operates under a single engagement programme reflecting the values, culture and behaviours common to the business. livingTSOGO is simple and straightforward – from the concept of attaching values to our company name to the values themselves. Employees participate in the components designed to

Sustainability strategy in action continued

Human resources continued

bring them to life including livingTSOGO World which incorporates the group's induction programme and livingTSOGO Moments which provides recognition and rewards.

An employee from the Suncoast Casino was recognised for the second year running as the livingTSOGO ambassador in terms of the employee rewards programme.



Employee wellness

Tsogo Sun is committed to the wellness of our employees and provides services to them through employee clinics in Tsogo Sun gaming, an employee assistance helpline, wellness days and executive medicals. During the year, a total of 58 300 primary healthcare consultations were provided at employee clinics located at our casino complexes and this has contributed positively to the

management of absenteeism within the group. Meals are also provided to our employees in canteens at our hotels and casinos.

As part of the wellness programme, HIV/Aids has been a focus area for many years through awareness campaigns, voluntary testing, counselling and clinical management, which has positively contributed to a lower prevalence rate than anticipated.

Health and safety

The gaming and hospitality industries are safe environments relative to many other industries. Tsogo Sun properties undergo rigorous safety inspections as part of the Organisational Resilience Management Standard audit process, and deviations from the agreed standards, as well as incidents and events, are reported and resolved.

No employee fatalities as a result of health and safety incidents occurred at any of our properties. The group maintained an average lost-time injury frequency rate of 1.6. This equates to the number of injuries which rendered an employee unfit for duty for one shift or longer per 200 000 hours worked.

Employment equity

The principles of empowerment and diversity are entrenched into the ethos of Tsogo Sun. The table below reflects our employment equity and includes South Africa only. It excludes the approximately 9 900 contract staff employed by third-party service providers and 1 608 staff employed outside South Africa:

Employees	South African male				South African female				Foreign nationals		Total
	African	Indian	Coloured	White	African	Indian	Coloured	White	Male	Female	
Permanent	3 226	500	367	573	3 441	382	461	570	77	32	9 629
Executives and management	409	172	94	387	341	107	92	320	34	10	1 966
Supervisors and skilled employees	1 324	202	152	131	1 287	183	209	204	29	18	3 739
Other employees	1 493	126	121	55	1 813	92	160	46	14	4	3 924
Operational support	1 197	25	61	18	1 736	33	86	31	26	12	3 225
Executives and management	–	–	–	1	–	–	–	2	1	–	4
Supervisors and skilled employees	521	12	17	9	730	24	30	20	10	5	1 378
Other employees	676	13	44	8	1 006	9	56	9	15	7	1 843
Total 2017	4 423	525	428	591	5 177	415	547	601	103	44	12 854
Total 2016	4 407	527	435	621	4 983	424	569	617	111	53	12 747

Permanent employees work full time or on a flexible roster basis according to business levels and are guaranteed a minimum number of hours work per month. Operational support staff generally work on a flexible roster basis according to business levels and have no guaranteed hours.

There have been no significant changes to the group's headcount since last year and the percentage of female employees increased slightly to 53% of the workforce in 2017.

We ensure that our workforce reflects our focused employment equity philosophy. In this regard, in accordance with our verified management and control results, presently black representation at senior management level is 23.9%, at middle management level it is 53.8% and at junior management level it is 77.3%. The representation of black employees throughout the group is currently 90.2%.

The main challenges in employment equity remain in the areas of executive, senior management and black disabled employees. The Tsogo Sun Academy assists in facilitating and fast tracking the development of our employees' skills, enabling our development pipeline.

Unions

Tsogo Sun recognises the right to freedom of association of employees and we recognise that collective bargaining forms an integral part of labour relations. Of the 10 699 employees in South Africa who are eligible to join a union 2 004 (19%) are union members. Union membership has been consistently decreasing with 2 402 employees union members in the prior year.

We endeavour to maintain transparent and constructive relations with our employees and to encourage a culture of engagement within the business. In addition, the consistent approach we have applied to determining annual increases over many years, including during times of economic downturn, has resulted in a low level of industrial action over the past decade.

Looking ahead

Employee development

International best practice dictates that in order to create a productive learning culture, line management needs to be properly equipped to progressively develop employees in their charge, and to ensure basic front line services are provided to the guest. This objective will receive significant attention in the coming year, together with the embracing of technology in order to increase the reach of learning and development within the group. Furthermore, a focus will be placed on growing learners within the organisation and equipping them with skills in order to get faster and maximum benefit from interventions provided by the Academy.

Employee engagement

The focus during the year will be on integration of the values into business operations and continually recognising and celebrating employees whose behaviour embodies our values, with livingTSOGO Moments. A livingTSOGO engagement survey is planned for the year.





Growth strategy in action

The value of a business is the present value of the future cash flows that can be generated by the assets and other capitals utilised by the business. Accordingly, the only true measure of growth for our business over time is the growth in cash flow.

Growth in cash flow over time is generated through the optimal operation of the group's capitals (organic growth) and building the tangible and intangible asset base of the group through developing and acquiring new businesses (inorganic growth). It is only with sustainable and growing cash flows that a business can hope to create value for the organisation, its stakeholders and society and thereby achieve a multitude of additional benefits such as increased levels of employment and meaningful social contributions.

Organic growth

Both hotels and gaming have high levels of operational gearing due to substantial levels of fixed operating costs. The major driver of long-term organic growth will arise from maximising the revenue generated from the group's asset base in all macro-economic circumstances.

Operational overheads must be reviewed and measured for efficiency and to ensure each Rand spent is either in support of the objective of sustainability or growth.

Key performance indicators

	2017	2016
Organic income growth	2%	6%
Organic Ebitdar growth	1%	5%
Free cash flow	R2.2 billion	R2.0 billion
Maintenance capital expenditure	R925 million	R945 million
Adjusted HEPS growth	6%	12%

2017 performance

Segmental operating performance

Year ended 31 March	Income		Ebitdar		Ebitdar margin	
	2017 Rm	2016 Rm	2017 Rm	2016 Rm	2017 %	2016 %
Montecasino	2 694	2 674	1 196	1 194	44.4	44.7
Suncoast	1 732	1 701	810	791	46.8	46.5
Gold Reef City	1 450	1 380	549	525	37.9	38.1
Silverstar	735	735	248	254	33.7	34.6
Golden Horse	392	369	176	163	44.8	44.2
Emnotweni	383	384	145	152	37.9	39.5
The Ridge	382	391	147	160	38.6	40.9
Hemingways	306	318	95	113	31.2	35.4
Garden Route	225	218	96	92	42.8	42.3
The Caledon	175	163	54	43	30.6	26.2
Blackrock	170	168	65	63	37.9	37.7
Mykonos	162	156	72	68	44.5	44.0
Goldfields	133	134	41	44	31.0	32.4
Other gaming operations	195	109	(154)	(233)		
Total gaming operations	9 134	8 900	3 540	3 429	38.8	38.5
South African hotels division ⁽¹⁾	3 509	2 744	1 359	920	38.7	33.5
Offshore hotels division	635	691	108	169	17.0	24.5
Pre-foreign exchange losses			146	192	23.0	27.8
Foreign exchange losses			(38)	(23)		
Corporate ⁽¹⁾	(56)	(52)	42	25		
Group	13 222	12 283	5 049	4 543	38.2	37.0

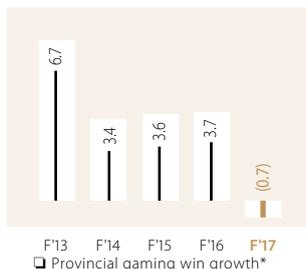
All casino units are reported pre-internal gaming management fees

⁽¹⁾ Includes R55 million (2015: R53 million) intergroup management fees

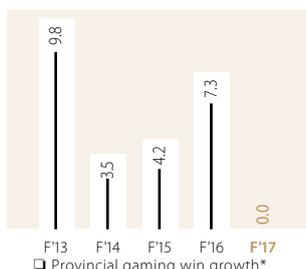
Growth strategy in action continued

Organic growth continued

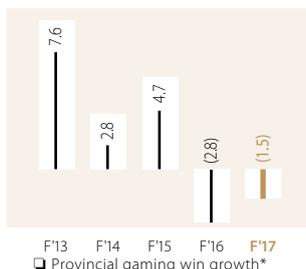
Gauteng



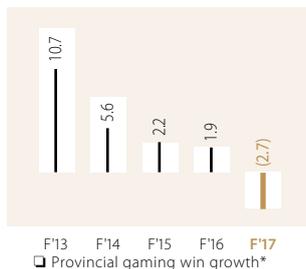
KwaZulu-Natal



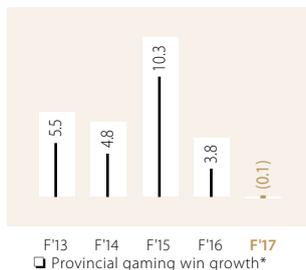
Mpumalanga



Eastern Cape



Western Cape



* Based on gambling board statistics

Tsogo Sun gaming

Gaming win for the year grew by a disappointing 2% on the prior year with slots win flat and 8% growth in tables win. The high-end privé market continued to perform well, albeit with volatility in win percentages from month to month and the main floor business remaining under pressure.

	31 March 2017 Rm	31 March 2016 Rm	% change on 2016
Gaming win	7 483	7 361	2
Tables	1 891	1 750	8
Slots	5 592	5 611	-
Win % – tables	21.8	21.5	0.3pp
Hold % – slots	5.0	5.0	-

Gauteng recorded a reduction in provincial gaming win of 0.7% for the year. Gaming win growth of 1.5% was achieved at Montecasino and 6.4% at Gold Reef City with a reduction at Silverstar of 0.1%. Gold Reef City continues to be positively impacted by the refurbishment and expansion work which was completed in October 2015. Silverstar growth was again disappointing but was impacted by the loss of particular high end play that did not recur during the year.

KwaZulu-Natal provincial gaming win was flat on the prior year. Gaming win growth of 1.8% was achieved at Suncoast Casino and Entertainment World and 6.0% at Golden Horse Casino in Pietermaritzburg, primarily on the back of refurbishment work undertaken at that unit, with a reduction of 0.4% at Blackrock Casino in Newcastle.

Mpumalanga recorded a reduction in provincial gaming win of 1.5% for the year. Gaming win reduced by 2.8% at Emnotweni Casino in Nelspruit and 2.8% at The Ridge Casino in Emalahleni impacted by significant economic disruptions to the local manufacturing industry in that area.

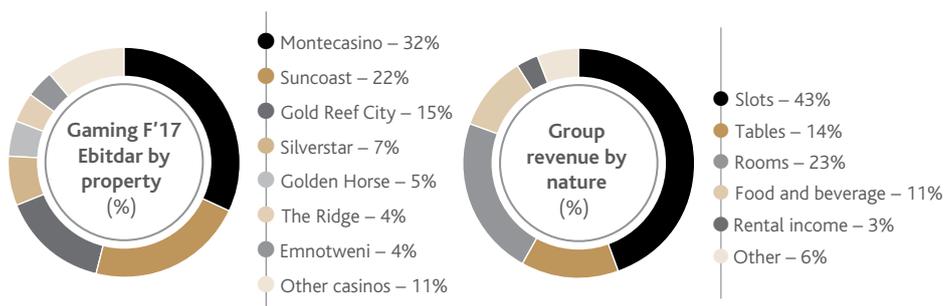
The Eastern Cape provincial gaming win reduced by 2.7% for the year. Hemingways gaming win reduced by 7.4% on the prior year, impacted by the poor economic conditions in the East London area.

The Western Cape provincial gaming win reduced by 0.1% for the year. The Caledon Casino, Hotel and Spa, Garden Route Casino in Mossel Bay and Mykonos Casino in Langebaan reported growth of 8.7%, 2.5% and 5.4% respectively.

Goldfields Casino in Welkom in the Free State experienced difficult conditions with a reduction in gaming win of 2.0% on the prior year.

Other Gaming division operations consisting of the Sandton Convention Centre and head office costs reflected a net cost of R154 million, a decrease of R79 million on the prior year due mainly to the dividends received from SunWest of R70 million, representing three quarterly dividends.

Overall revenue for the Gaming division increased 3% on the prior year to R9.1 billion. Ebitdar increased 3% on the prior year to R3.5 billion at a margin of 38.8%, 0.3pp above the prior year with particularly good control on overheads mitigating the slow growth in gaming win.



Tsogo Sun hotels

The hotel industry in South Africa continues to experience a recovery from the dual impact of depressed demand and oversupply. Overall industry occupancies have improved to 65.2% (2016: 63.8%) for the year.

Trading for the group's South African hotels for the year recorded a system-wide revenue per available room ('Revpar') growth of 6% on the prior year due mainly to an increase in average room rates by 5% to R1 067, with occupancies above the prior period at 64.3% (2016: 63.5%).

Overall revenue for the South African hotels division increased 28% on the prior year to R3.5 billion assisted by the inclusion of the Holiday Inn Sandton and Crowne Plaza Rosebank hotel businesses from March 2016, the Garden Court Umhlanga and the StayEasy Pietermaritzburg from October 2016, the consolidation of HPF from September 2016 and the closure of the Riverside Sun and Sabi River Sun hotels for refurbishment during the prior year. Ebitdar increased by 48% on the prior year to R1.4 billion at a margin of 38.7% (2016: 33.5%). Of the Ebitdar growth 36% is due to the HPF and related Majormatic acquisition.

The offshore division of hotels achieved total revenue of R635 million which was 8% down on the prior year, impacted by tough local economic environments due mainly to the reduction in commodity prices impacting the local economies negatively. This was further adversely impacted by the strengthening of the Rand against both the US Dollar and the Euro. Ebitdar (pre-foreign exchange losses) decreased by 24% to R146 million. Foreign exchange losses of R38 million (2016: R23 million) were incurred on the translation of offshore monetary items, principally between local country currencies and the US Dollar.

Combined South African and offshore hotel trading statistics, reflecting the Tsogo Sun group-owned hotels and excluding hotels managed on behalf of third parties and those in HPF managed by third parties, are as follows:

	31 March 2017	31 March 2016
Occupancy (%)	63.3	62.5
Average room rate (R)	1 063	1 035
Revpar (R)	672	646
Rooms available ('000)	4 578	4 307
Rooms sold ('000)	2 895	2 691
Rooms revenue (Rm)	3 078	2 784

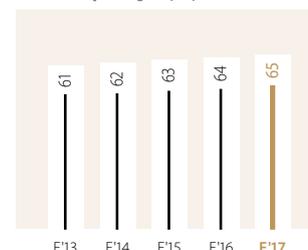
Maintenance capital expenditure

The group invested R925 million on maintenance capex group-wide, including gaming equipment replacements and major hotel and casino refurbishments, ensuring our assets remain best in class.

Looking ahead

The underlying operations of the group remain highly geared towards the South African consumer (in gaming) and the corporate market (in hotels). The high level of operational gearing still presents significant growth potential to the group should these sectors of the South African economy improve.

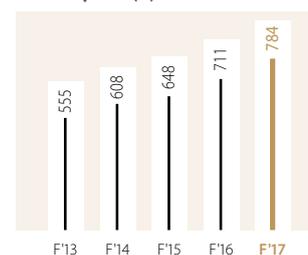
SA occupancy* (%)



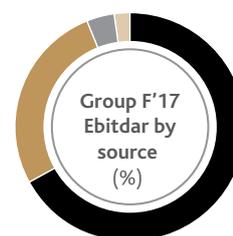
SA average rate* (R)



SA Revpar* (R)



* South African hotel industry based on STR Global statistics



- Gaming – 67%
- Hotels SA – 27%
- Gaming hotels – 4%
- Hotels offshore – 2%

Growth strategy in action *continued*

Inorganic growth

Inorganic growth will be a combination of capacity increases in existing businesses, greenfield developments in new markets and acquisitions within the group's core competence. In all situations, a discipline around due diligence and feasibility is critical to ensuring the success of growth projects.

The propensity for growth projects to absorb both financial and human resources must be carefully evaluated within the group's capacity tolerances as these can impact some of the pillars of sustainability.

Key performance indicators

	2017 Rm	2016 Rm
Investment activity expenditure	2 590	962

2017 performance

In terms of our growth strategy the group has continued to invest significant resources during the year, including:

- the acquisition from Sun International Limited and Grand Parade Investments Limited of a 20% equity interest in each of SunWest and Worcester for an aggregate R1.3 billion effective 1 April 2016. This has given the group an enhanced exposure to the Cape Town casino market through a passive investment with an attractive dividend yield. We continue to push for the opportunity to relocate one of the smaller Cape-based casinos into an untapped area in the metropole, despite significant delays by the province on this matter;
- the acquisition of two previously managed hotels from Liberty by Cullinan, being the Garden Court Umhlanga and the StayEasy Pietermaritzburg for R310 million effective 1 October 2016, bringing the number of hotels and rooms in Cullinan to 10 and 2 263 respectively. This was followed by the acquisition of the 40% shareholding Liberty had in Cullinan, including all shareholders' loans owing to Liberty for R1.0 billion effective 1 December 2016;
- the acquisition of a 50.6% controlling stake in HPF through conversion of the 78 million HPF B-linked units to a single class of share and the injection of 10 owned hotels on an asset for share basis;
- the acquisition of the 29.6% minority stake in the Mykonos Casino through a share buy-back effective 12 December 2016 for R190 million and additional undeveloped land for future expansion for R30 million; and

- construction commenced and was then interrupted on the expansion of the Suncoast Casino and Entertainment World. The scheme has been redesigned and the cost of the expansion has been decreased to R1.6 billion including past spend with construction recommencing in mid-June 2017 with eighteen months to completion. R1.3 billion is still to be spent on the project.

Investment activity expenditure

	31 March 2017 Rm	31 March 2016 Rm
SunWest and Worcester casinos	1 272	–
Suncoast expansion	112	47
Cape Town land	110	–
SunSquare and StayEasy		
Cape Town FF&E	53	–
Gold Reef City redevelopment	34	256
SUN1 expansions	25	20
Monte Circle and Monte Place	16	27
Silverstar redevelopment	3	28
Southern Sun Maputo expansion	1	15
Emnotweni expansion	–	2
Other	–	–
Expansion capex	1 626	395
Cullinan minorities	459	–
Acquisition of Liberty hotels	310	–
Mykonos minorities	190	–
Blackrock minorities	5	–
International Hotel Group	–	315
Hospitality Property Fund		
B-linked units	–	252
Majomatic/Extrabold	–	15
Acquisitions and minorities	964	582
Loans and investments	–	(15)
Investment activity expenditure	2 590	962

Looking ahead

The group remains highly cash generative and continues to pursue significant opportunities to invest capital in its growth strategy.

Our medium-term growth strategy focuses on opportunities that are expected to yield greater return on investment and effort at lower levels of risk.

In gaming, the focus remains on capacity increases in our existing properties, particularly in specific markets where changing demographics are driving growth. With only one of the known national licences that is not allocated an attractive proposition, we remain acquisitive for existing licences, but only at the right price. African expansion would only become attractive as regional economies develop a more robust middle market and enable regulatory environments. Expansion outside South Africa remains unattractive due to the additional risk of operating in diverse regulatory environments and the limited economies of scale that can be achieved.

In hotels, we remain opportunistic in South Africa and will acquire properties if they are well located, align with our business model and are realistically priced. Although occupancies are improving they are not yet at long-term averages and there should not be significant hotel stock being added to the market at this stage of the cycle. We would, however, actively seek opportunities to land bank, build or lease in superior locations or nodes that are expected to grow more strongly in the future. In other jurisdictions we continue to

evaluate opportunities to manage, lease or own hotel properties in markets where we believe we have a competitive advantage and will mostly focus on the territories we already operate in.

The group continues to implement a variety of projects and acquisitions including:

- post-year end the group sold an additional 29 hotels to HPF and has leased them from HPF from July 2017. As the hotels are owner occupied for group purposes there is no impact apart from non-controlling interests;
- the acquisition of HCI's and all other shareholders' interests in Gameco for a combination of Tsogo Sun shares and cash. Niveus and Tsogo Sun shareholder approval has been received but the transaction remains subject to a number of conditions precedent;
- the potential to bid for the relocation of one of the smaller casinos in the Western Cape to the Cape Metropole remains an opportunity for the group should the provincial authorities allow such a process;
- development has commenced on a 125 room StayEasy in Maputo, Mozambique, which is expected to cost US Dollar 16 million and be completed by late 2018;
- the acquisition of additional hotel properties by International Hotel Properties Limited, which currently owns nine hotels in the United Kingdom, is anticipated in the future and the group may apply additional capital in this regard; and
- the opening of a new 503 room SunSquare and StayEasy branded leased hotel in the Cape Town city bowl during August 2017.





Reporting approach

Although King IV will only apply to the group from the 2018 financial year this integrated governance section contains the majority of the disclosure requirements contained within King IV. All of the disclosures required under King III have been retained to ensure the reporting continues to comply with King III for this report.

The King III gap analysis, to review the company's application of the various principles of King III, was updated during the year. A copy of the full gap analysis is available on the company's website. The principles required by King III where application is 'applied differently' are as follows:

The board should elect a Chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of Chairman of the board.

The board exercised its prerogative to appoint John Copelyn as the Chairman. As a compensating control, a lead independent director was appointed.

The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent.

The major shareholder exercised its prerogative to appoint the directors representing their interests. The majority of the directors are non-executive with three of the non-executive directors being independent.

Directors should be appointed through a formal process.

Directors are nominated by the board and appointed at the Annual General Meeting. Formal letters of appointment including the required roles and responsibilities are, however, not issued.

An assessment of King IV has been completed and the group substantially applies the 16 principles. Work is required on a number of practices with new requirements prior to the completion of the 2018 integrated report. These include the monitoring of ethics, board succession planning, assurance of non-financial information in reports, technology and information governance, formal stakeholder relationship management and elements of remuneration disclosure.

audit and risk committee. Unethical behaviour is not tolerated within the group or its business partners and all criminal behaviour is reported to the police.

Effective and ethical leadership

Ethics

The group has an ethics policy and a code of conduct which guides its business practices. The ethics policy seeks to reinforce the company's many policies, principles and practices through providing clarity on expectations and underlying matters of principle. The key aspects of the ethics policy are how business is conducted, the group's societal contribution and handling of people, the need for employees to speak out about wrong doings, conflicts of interest, the legitimate interests of the business, application of law, policies and procedures, corporate governance matters and individual accountability. The code of conduct provides guidance on matters such as conflicts of interests, acceptance and giving of donations and gifts, compliance with laws and the dissemination of confidential information.

Responsible corporate citizenship

The social and ethics committee has oversight over the group's social matters and the roles and responsibilities are set out in the terms of reference of the committee. The key areas of focus are social and economic development of the industry, state and partners, corporate citizenship within the community, the natural environment and relationships with customers and employees. Refer to the deliver to our beneficiaries section on pages 39 to 47, the product relevance to customer experience section on pages 49 to 51, the regulatory compliance section on page 52 and the human resources section on pages 53 to 55 for information as to how the group manages its social outcomes.

The board has ultimate responsibility for the ethical culture of the business. The social and ethics committee has oversight over the group's ethical matters and the roles and responsibilities are set out in the terms of reference of the committee. All senior employees are required to sign an annual declaration confirming no conflict of interests and compliance with laws and regulations. The group has an independent whistle-blower line and all reported matters are investigated by appropriate employees and the results reported to the

Value creation and reporting

Our approach and philosophy of integrated reporting and assurance over the report is documented in about this report on page 1. Our report is purposefully structured around the strategy of the group in order to illustrate how we create value. Our material risks and opportunities on pages 21 to 23 and key relationships on pages 24 to 26 inform the strategy which is documented in our strategy in action on pages 39 to 61. Our strategy and performance highlights against the strategy are summarised on pages 6 to 8 and our business model on pages 10 to 20 provides the context and link between the capitals we utilise and the outcomes linked to our strategic priorities. Although elements of the report are assured internally and other information is provided by external sources assurance is an area that requires further formalisation.

Integrated governance continued

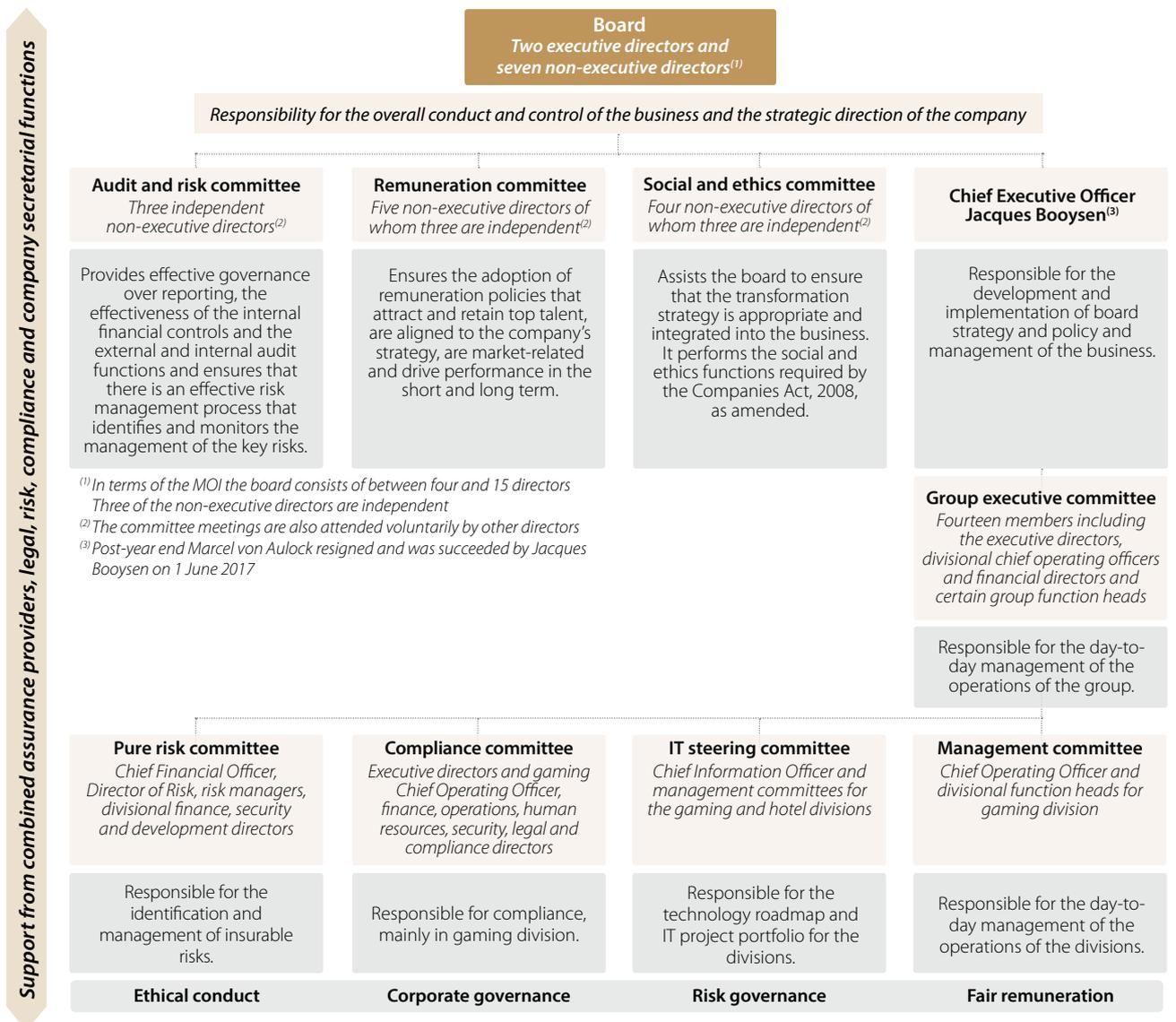
Board composition, structure and report back

Governance structure

The board maintains full and effective control over the company and is accountable and responsible for its performance and compliance. The board reviews the strategic priorities of the group, determines the investment policies and delegates to management the detailed planning and implementation of the objectives and policies in accordance with appropriate risk parameters. The board monitors compliance with policies and achievement against objectives by holding management accountable for its activities through quarterly performance reporting and budget updates.

The board charter codifies the board's composition, appointment, authorities, responsibilities and processes and sets out the fiduciary duties of the directors of the company. It provides the board with a mandate to exercise leadership, determine the group's vision and strategy and monitors operational performance.

The board governs through clearly mandated board committees. Each committee has specific written terms of reference approved by the board and adopted by the committee. All committee chairmen report orally on the proceedings of their committees at the board meetings. The board is satisfied that it has fulfilled its responsibilities in accordance with the board charter during the year.



During the year there were five board meetings. The divisional chief operating officers and the group Human Resources Director attend board meetings, enabling the board to explore specific issues and developments in greater detail. Individual directors' attendance at the board and board committee meetings and at the AGM is set out in the table below:

	Board	Audit and risk committee	Remuneration committee	Social and ethics committee	AGM
Executive directors					
Marcel von Aulock	5/5				✓
Rob Huddy	5/5				✓
Non-executive directors					
Chairman					
John Copelyn	5/5		2/2		✓
Lead independent					
Busi Mabuza	4/4	2/2	1/1	1/1	
Rex Tomlinson	1/1	1/1	1/1	1/1	
Independent					
Mac Gani	4/4	2/2	1/1	1/1	✓
Busi Mabuza	1/1	1/1			
Jabu Ngcobo	5/5	3/3	2/2	2/2	
Non-independent					
Marcel Golding	3/5				
Elias Mphande	5/5				✓
Yunis Shaik	5/5		2/2	2/2	

Board composition

The composition of the board and of the audit and risk, remuneration and the social and ethics committees is determined by the major shareholder. The board exercised its prerogative to appoint John Copelyn as the Chairman. As a compensating control, a lead independent director was appointed. The lead independent director is Busi Mabuza who serves on all of the committees of the board, and is therefore well placed to influence the governance of the company and meet her obligations. No independent director has served for more than nine years and the average length of service of independent directors is less than four years. One-third of the non-executive directors retire by rotation each year in line with the memorandum of incorporation. Evaluation of the board is entrenched in the board charter and terms of reference and is carried out annually. Refer to board effectiveness on page 69.

The remuneration committee reviews and assesses board composition on behalf of the board and recommends the appointment of new directors. The committee adopted a board diversity policy during the year. All board appointments are made on merit, in the context of the skills, experience, independence and knowledge, which the board as a whole requires to be effective. Factors that are taken into consideration are differences in the skills,

regional and industry experience, background, race and gender. The board considers that there is an appropriate balance of skills, experience, independence and knowledge among the independent directors. No specific targets have been set in relation to the board diversity policy but while 67% of the board members are black the board recognises that it does not have an adequate representation of female members at 11%.

The roles of the Chairman and the Chief Executive Officer are separate, with responsibilities divided between them to ensure a balance of power and authority. The Chairman is responsible for providing overall leadership of the board and ensuring that the board performs effectively. The Chief Executive Officer is responsible for the execution of the strategic direction, which is approved by the board, through the delegation of authority.

The Chief Executive Officer's employment contract includes a three-month notice period unless varied by agreement and there are no specific contractual conditions related to termination. The Chief Executive Officer has no other external professional commitments. On the resignation of Marcel von Aulock post-year end on 1 June 2017 he was succeeded by Jacques Booysen who had been with the group for a period of 10 years. Succession planning is not formalised but executive director appointments have historically been internal.

Integrated governance continued

Board composition, structure and report back continued

Board profile

Executive directors

1. J BOOYSEN (57)

CA(SA)

Executive Director – Chief Executive Officer

Date appointed: 1 June 2017

Jacques was a partner at PricewaterhouseCoopers Inc. prior to working at the Gauteng Gambling Board for 12 years, where he held the position of Chief Executive Officer. He joined Tsogo Sun in 2007 and served in the roles of Director – New Business Development, Director – Gaming Operations, Financial Director – Gaming and Managing Director – Gaming prior to his appointment as the Chief Executive Officer on 1 July 2017.

2. RB HUDDY (48)

CA(SA)

Executive Director – Chief Financial Officer

Date appointed: 31 October 2011

Rob Huddy served his articles at PwC and joined Tsogo Sun in 1997. He held various management positions prior to being appointed Financial Director – Hotels Offshore in 2006 and Financial Director – Hotels South Africa in 2009. On 30 September 2011 he assumed the role of Chief Financial Officer.



1 2

Non-executive directors

3. JA COPELYN (67)

BA (Hons), BProc

Non-executive Chairman and member of the remuneration committee

Date appointed: 13 August 2003⁽¹⁾

John Copelyn joined HCI as Chief Executive Officer in 1997. He was previously General Secretary of the Southern African Clothing and Textile Workers Union from 1974 before becoming a member of parliament in 1994. He currently holds various directorships and is Non-executive Chairman of e.tv.

4. MA GOLDING (57)

BA (Hons)

Non-executive Director

Date appointed: 30 April 2004⁽¹⁾

Marcel Golding runs a family investment office. Prior to this he was Chairman of HCI and Chief Executive Officer of e.tv. He was a member of parliament and Deputy General Secretary of the National Union of Mineworkers. He is Chairman of KVV Holdings.



3 4

⁽¹⁾ Date appointed to the holding company board pre-reverse listing into Gold Reef on 14 February 2011

5. VE MPHANDE (59)

Elec Eng (Dip)

Non-executive Director

Date appointed: 3 February 2005⁽¹⁾

Elias Mphande has served as the National Organising Secretary of the Southern African Clothing and Textile Workers Union, Marketing Director of Viamax Fleet Solutions, Chief Executive Officer of AUTA and the Vukani Group and Chairman of Golden Arrow Bus Services. He was appointed to the HCl board in 2010 as a non-executive director and as non-executive Chairman in 2015 and serves on the board of Vukani Gaming Corporation and e.tv.

6. Y SHAIK (59)

BA (Law), BProc

Non-executive Director, member of the social and ethics committee and Chairman of the remuneration committee

Date appointed: 15 June 2011

Yunis Shaik is an admitted attorney of the High Court of South Africa. He is a former Deputy General Secretary of the Southern African Clothing and Textile Workers Union and a director of Workers' College. He has served as a Senior Commissioner to the KwaZulu-Natal CCMA. He was appointed to the board of HCl in 2005 as lead independent non-executive director of HCl in 2010 and as an executive director of HCl in 2014.

Independent non-executive directors

7. BA MABUZA (53)

BA (MBA)

Lead Independent Non-executive Director, member of the audit and risk committee, the social and ethics committee and remuneration committee

Date appointed: 1 June 2014

Busi Mabuza has held various positions in the financial services and energy sectors and is currently a non-executive director at Development Bank of Southern Africa, Industrial Development Corporation and Nehawu Investment Holdings.

8. MSI GANI (64)

CA(SA)

Independent Non-executive Director, Chairman of the audit and risk committee and the social and ethics committee and member of the remuneration committee

Date appointed: 11 August 2016

Mac Gani is a Chartered Accountant with over 30 years' experience in the accounting and audit profession. He was a founding partner of MSGM Masuku Jeena Inc., a partner of Saboor Gani & Co and a partner of PwC until 2013. He is a non-executive director on a number of boards including HCl and Basil Read Holdings Limited and is on the investigating committee of the Independent Regulatory Board of Auditors.

9. JG NGCOBO (66)

Independent Non-executive Director, member of the audit and risk committee, the social and ethics committee and remuneration committee

Date appointed: 24 February 2011

Jabu Ngcobo held the positions of General Secretary of the Southern African Clothing and Textile Workers Union from 1994 to 1999 and the Regional Secretary for Africa of the International Textile Garment and Leather Workers Federation from 1999 to 2006. He was appointed to the board of HCl in 2004 and serves as a director of HCl Coal and Niveus.



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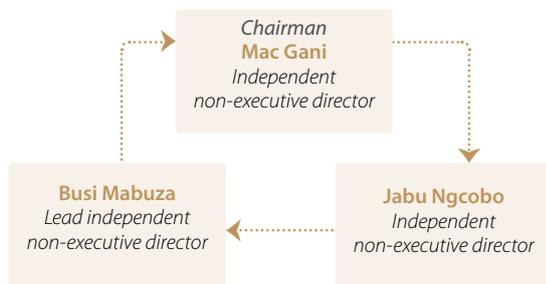
Integrated governance continued

Board composition, structure and report back continued

Sub-committee structure and report back

The board remains accountable for all matters where it has delegated responsibility to its sub-committees. All committees are satisfied that they fulfilled their responsibilities in accordance with their terms of reference during the year.

Audit and risk committee



Key objective:

The provision of effective governance over the appropriateness of the group's financial and integrated reporting including the adequacy of related disclosures, the performance of both the internal audit function and the external auditor, and the management of the group's systems of internal control, business risks and related compliance activities.

The committee met three times during the year. The Chief Executive Officer, the Chief Financial Officer, the group's Director of Risk, the Chief Information Officer and directors from the majority shareholder attend the meetings as permanent invitees, along with external audit and the outsourced internal audit. Other directors and members of management attend as required.

The work of the audit and risk committee during the year focused on:

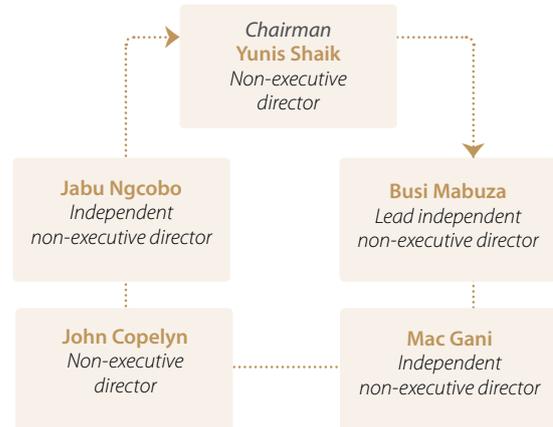
- review of the risk landscapes to which the group is exposed in relation to the group's risk tolerance and risk appetite levels and evaluation of the appropriateness of management's responses to the risks;
- review of insurance, treasury and taxation matters;
- review of operational risk management including fraud and theft, whistle-blowing systems and organisational resilience;
- oversight of the implementation of the combined assurance framework and plan;
- review of IT risks in relation to core operational systems, systems projects and security initiatives;

- review of material legal, legislation and regulatory developments;
- review of prospective accounting standard changes;
- review of the impact of the adoption of King IV;
- evaluation of the financial reporting procedures;
- review of and recommendation to the board for approval of the preliminary and annual results announcements and the annual financial statements and integrated annual report;
- approval of the external audit and internal audit plans;
- evaluation of the independence and effectiveness of, and the fees and terms of engagement of the external auditors;
- evaluation of the effectiveness of the chief audit executive and the outsourced internal audit function; and
- assessment of the internal control environment, particularly in relation to the group's system on internal financial controls.



Refer to the report of the audit and risk committee on page 3 of the consolidated financial statements for the year ended 31 March 2017.

Remuneration committee



Key objective:

The committee is empowered by the board to assess and approve the broad remuneration strategy for the group, the operation of the company's short-term and long-term incentives for executives and senior management across the group, and sets short-term and long-term remuneration for the executive directors and members of the executive committee.

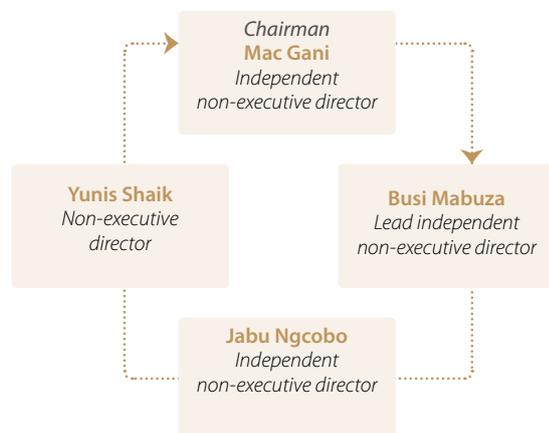
The committee met twice during the year. The Chief Executive Officer and the group's Human Resources Director attend the meetings as permanent invitees, except when issues relating to their own compensation are discussed.

The scope of the remuneration committee's work during the year included the following matters:

- monitoring executive appointments, terminations and retirements;
- determining the general policy on remuneration to ensure fair, competitive and responsible reward;
- determining the specific remuneration packages for the executive directors and other senior executives and management;
- approving the rules, criteria, targets and allocations for performance-related pay schemes; and
- proposing non-executive director remuneration.

Further details of the group's remuneration policy and the work of the remuneration committee can be found in the remuneration section on pages 73 to 78.

Social and ethics committee



Key objective:

The purpose of the committee is to regularly monitor the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice and, in particular, to monitor the group's compliance with the applicable requirements of Regulation 43 of the South African Companies Act in relation to matters pertaining to social and economic development, good corporate citizenship, environment, occupational health and public safety, labour and employment and the group's code of ethics and sustainable business practice.

The committee met twice during the year. The Chief Executive Officer, the Chief Financial Officer, the group's Director of Risk, the group's Human Resources Director and directors from the majority

shareholders attend the meetings as permanent invitees, along with other directors and members of management who attend as required.

The work of the social and ethics committee during the year focused on:

- progress in the alignment of the group's practices to the requirements of the revised BBBEE codes;
- disputes with government or regulators;
- compliance with regulations;
- preferential procurement, socio-economic development and enterprise development;
- environmental management and certification;
- customer satisfaction, loyalty and health and safety and consumer protection; and
- job creation, employee health and safety, employee development and management diversity and employment equity.

The matters considered during the year are included in the deliver to our beneficiaries section on pages 39 to 47, the product relevance to customer experience section on pages 49 to 51, the regulatory compliance section on page 52 and the human resources section on pages 53 to 55.

The main area of focus during the year was on the group's achievement of a level 2 BBBEE contributor status against the revised codes for 2016 and continued efforts to improve on this result for 2017. The committee also discussed matters of dispute with various regulatory bodies. The committee is satisfied with the group's progress in the different areas and there were no significant matters of concern raised during the year.

Board effectiveness

A self-evaluation by the board was carried out during the year through an externally facilitated formal process. No significant matters were noted apart from the lack of female representation noted above.

The board is satisfied with the competence of the Chief Financial Officer as set out in the report of the audit and risk committee on page 3 of the consolidated financial statements for the year ended 31 March 2017.

The Company Secretary ensures that board procedures and relevant regulations are fully adhered to. The Company Secretary is not a director of the company. The directors have unlimited access to the advice and services of the Company Secretary. The board is satisfied that the Company Secretary is competent and has the appropriate qualifications and experience required by the group. The Company Secretary also acts as secretary for the committees of the board.

Integrated governance continued

Board composition, structure and report back continued

Group executive committee

The board delegates responsibility for determining and implementing the group's strategy and managing the group to the Chief Executive Officer who is supported by the GEC. The committee meets monthly, participates in the determination of the strategy,

coordinates operational execution of the strategy, ensures effective internal controls are functioning and that there is an effective risk management process in operation throughout the group. The members of the GEC at 19 September 2017 were:



⁽¹⁾ Appointed as a director 1 June 2017 and as Chief Executive Officer in 1 July 2017

⁽²⁾ Appointed 1 July 2017

Governance functional areas

Our philosophy of integrated governance is reflected in the extent to which the report back on our governance functional areas is integrated into the underlying elements of our integrated annual report. Oversight of these functional areas is maintained by the board and its sub-committees as follows:

Functional areas	Committee oversight	Report back
Risk	Audit and risk	Risk management and assurance process – page 71 Our materiality, material risks and opportunities – pages 21 to 23
Technology and information	Audit and risk	Technology and information governance – page 72 Product relevance to customer experience – page 50
Regulatory compliance	Audit and risk Social and ethics	Regulatory compliance – page 52
Assurance	Audit and risk	About this report – page 1 Risk management and assurance process – page 71
Stakeholder relationships	Social and ethics	Key relationships – pages 24 to 26
Remuneration	Remuneration	Remuneration – pages 73 to 78

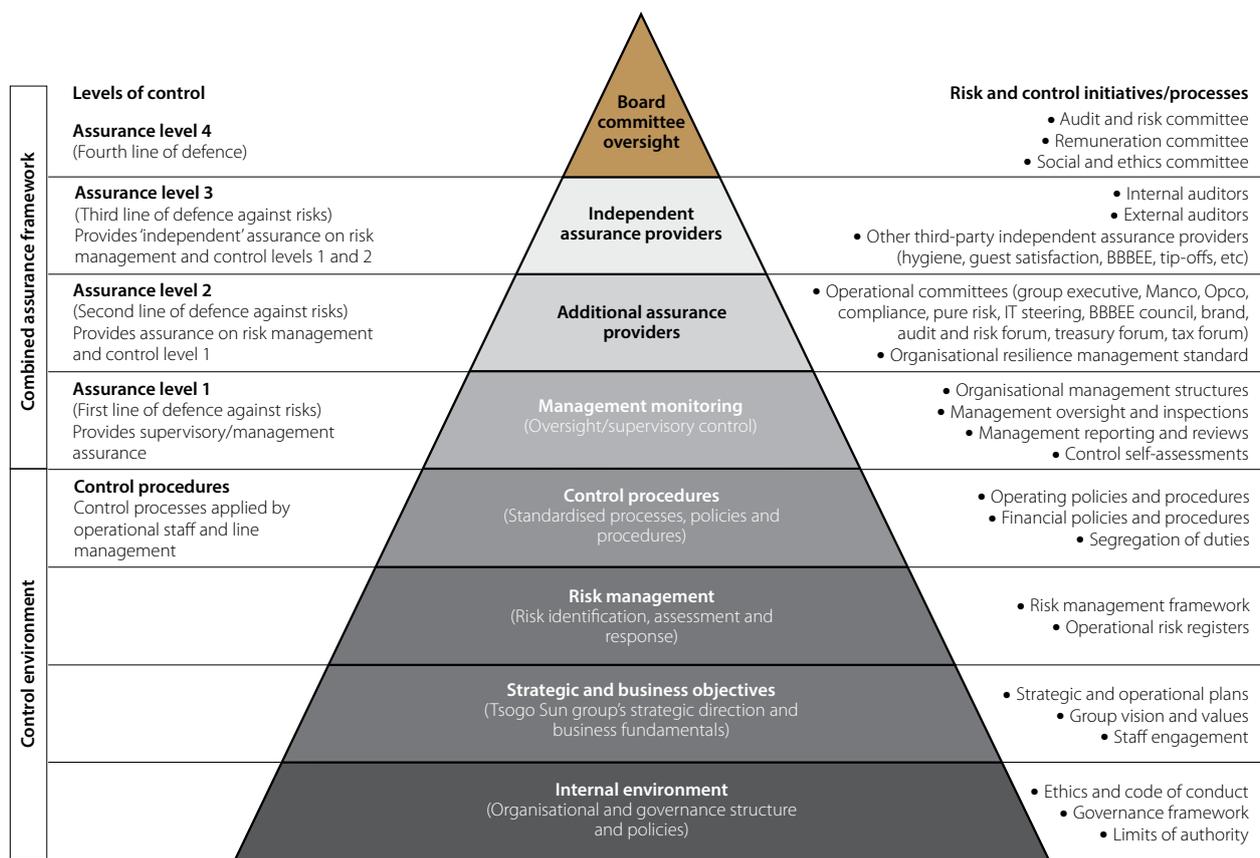
Risk management and assurance process

The Tsogo Sun board recognises that the management of business risk is crucial to our continued growth and success and this can only be achieved if all three elements of risk – namely threat, uncertainty and opportunity – are recognised and managed in an integrated fashion.

The audit and risk committee is mandated by the board to establish, coordinate and drive the risk process throughout the group. It has overseen the establishment of a comprehensive risk management system to identify and manage significant risks in the operational divisions, business units and subsidiaries. Internal financial and other controls ensure a focus on critical risk areas, are closely monitored and are subject to management oversight and internal audit reviews.

The systems of internal control are designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance as to the integrity and reliability of the financial statements, the compliance with statutory laws and regulations, and to safeguard and maintain accountability of the group's assets. The board and executive management acknowledge that an integrated approach to the total process of assurance improves the assurance coverage and quality in addition to being more cost-effective and the combined assurance framework is as follows:

Tsogo Sun combined assurance framework



In addition to the risk management processes embedded within the group, the group executive committee identifies, quantifies and evaluates the group's risks annually utilising a facilitated risk assessment workshop. The severity of risks is measured in qualitative as well as quantitative terms, guided by the board's risk tolerance and risk appetite measures. The scope of the risk assessment includes risks that impact shareholder value or that may lead to a significant loss, or loss of opportunity. Appropriate risk responses to each individual risk are designed, implemented and monitored.

The risk profiles, with the risk responses, are reviewed by the audit and risk committee at least once every six months. In addition to the group risk assessment, risk matrices are prepared and presented to the audit and risk committee for each operational division. This methodology ensures that identified risks and opportunities are prioritised according to the potential impact on the group and cost-effective responses are designed and implemented to counter the effects of risks and take advantage of opportunities.

Integrated governance continued

For key areas of focus refer to our materiality, material risks and opportunities – pages 21 to 23. There were no unforeseen or unexpected risks outside the tolerance levels.

An independent assurance of the effectiveness of the risk management is carried out on a periodic basis and was last completed during the 2016 financial year. There were no significant matters noted.

Technology and information governance

The board is accountable for IT governance. An IT governance charter has been adopted and approved by the board and takes into account the requirements of King III, globally accepted standards and good practice, together with the performance and sustainability objectives of the group. This charter outlines the decision-making rights and accountability framework for IT. The Chief Information Officer reports directly to the Chief Executive Officer and has responsibility for the ownership and execution of IT governance.

The key IT risks are integrated into the enterprise-wide risk governance and management process. Independent IT assurance reviews are conducted to ensure governance and policies are adhered to, laws are complied with and data is secure and protected.

The IT governance charter will be updated during the year to meet the requirements of King IV.

Regulatory compliance

The group operates in a highly regulated industry in gaming and the regulatory environment in South Africa is complex. The group invests in a strict culture of compliance. Refer to regulatory compliance on page 52.

Assurance

The objectives of assurance are to assess whether the internal control environment is effective, there is sufficient integrity in the information used for internal decision making and to support the integrity of external reports.

Refer to risk management and assurance on page 71 for the group's combined assurance framework. The combined assurance framework has been applied to both internal and external reporting in the risk management, control environment, compliance and

financial reporting functional areas. Although there is internal review of all external reporting, non-financial information contained in external reports is currently not independently assured. Based on the internal review process during the preparation and review of the integrated report the board is satisfied with the integrity of the information contained within the report.

The directors are responsible for the group's systems of internal control. The systems of internal control are designed to manage rather than eliminate risk, and provide reasonable but not absolute assurance as to the integrity and reliability of the financial statements, the compliance with statutory laws and regulations, and to safeguard and maintain accountability of the group's assets. The directors have satisfied themselves, based on the combined assurance framework, that adequate systems of internal control are in place to mitigate significant risks identified to an acceptable level.

Internal audit is outsourced and reports to the Chief Audit Executive and independently to the audit and risk committee. Internal audit forms part of the combined assurance framework. Internal audit is subject to internal quality reviews annually and independent quality reviews every five years. The last review was carried out during the 2014 financial year. They are also subject to professional ethics and independence standards. The audit and risk committee approves the approach, scope of the internal audit plan and scoring on an annual basis. The internal audit focus over the past two years has been on efficiencies and developing and rolling out the combined assurance framework and model. The audit and risk committee is satisfied with the effectiveness of the internal audit function.

Planned areas of future assurance focus include the continued development of the combined assurance process and assessment of the business case for the assurance of externally reported non-financial information.

Stakeholder relationships

Stakeholder relationships are monitored by the social and ethics committee where matters relating to regulators, customers, communities, employees and unions are reported on, on a bi-annual basis. There is no formal stakeholder relationship management programme but interactions with stakeholders are ongoing. Refer to the key relationships on pages 24 to 26.

Remuneration

Remuneration philosophy

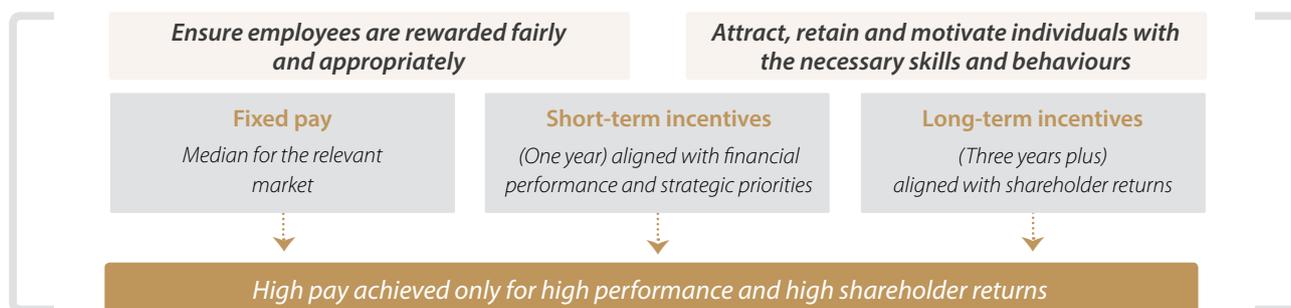
Key tenets of our remuneration philosophy are that we act fairly and responsibly in our approach to employee remuneration and benefits at all times, ensuring our actions are sustainable, that they underscore our objective of being an employer of choice, and are aligned with the strategic and operational requirements of the business.

The objective of the group's remuneration policy is to ensure that we attract and retain employees of the right calibre and skills and motivate them to achieve exceptional performance aligned with our strategic priorities. We aim to reward employees fairly and equitably through both financial rewards and non-financial benefits such as performance recognition, development and career opportunities. We believe our employees and their representative trade unions, where relevant, value the consistency and predictability of how the terms and conditions of employment are determined, both in times of economic growth and in difficult economic conditions.

Remuneration policy

Total rewards are set at levels that are competitive within the gaming, entertainment and hospitality sectors and the group utilises market surveys to ensure that the components of the remuneration structure are appropriate. The fixed and variable element mix of the remuneration structure differ depending on the employee grade.

The remuneration committee considers each element of remuneration relative to the market and takes into account the performance of the group and the individual executive in determining both quantum and design. The remuneration committee also considers the total remuneration (fixed pay plus short-term and long-term incentives) that may be earned at various levels of performance.



The group seeks to ensure an appropriate balance between fixed and performance-related elements of remuneration, and those aspects of the package linked to short-term financial performance and to those linked to longer-term shareholder value creation. The combination of the components ensures that high pay is achieved only for high performance and high shareholder returns. Senior executives have a larger proportion of their potential total remuneration subject to the achievement of performance-based targets. For additional information on the key components of remuneration refer to pages 74 and 75.

Short-term incentives reflect a balance between annual financial performance and other specific strategic priorities over which the participant has influence in order to ensure that achievement of short-term financial performance is not at the expense of future opportunities. Performance is measured at Ebitda and adjusted earnings against budget to ensure that both trading and profit post the financing cost of capital allocation decisions are considered. Between 15% and 40% of the potential award is based on the achievement of non-financial strategic priorities dependent on the employee grade. Where relevant and if the information is publicly available, an additional 25% of the potential award is linked to the relative performance of a business unit against a regional or national market set.

Long-term incentives are either cash-settled, resulting in income statement volatility but no dilutionary impact to shareholders, or, in the case of nominated senior executives, structured as an interest-free facility for the purpose of acquiring shares in the company. The value for the executives arising from the facility is derived from the shares acquired in the market and there will not be a cash cost to the group, as per the existing share appreciation scheme, nor a dilutionary impact to shareholders.

There were no significant changes in the remuneration policy during the year. For the 2018 financial year divisional short-term incentive targets were set and measurement will be against Ebitdar rather than Ebitda due to the transfer of the majority of the hotel properties to HPF.

The results of the non-binding advisory endorsement of the company's remuneration policy at the annual general meeting on 19 October 2016 was 85.4% in favour of the policy. In the event that the remuneration policy or remuneration implementation report, or both are voted against by more than 25% of the votes at the annual general meeting of the company, the group will engage with dissenting shareholders within 30 days of the annual general meeting.

Integrated governance continued

KEY ELEMENTS OF REMUNERATION	Fixed pay			
	Base salaries	Non-executive directors' fees	Retirement benefits	Other benefits
Purpose and link to strategy	Provides a fixed level of earnings appropriate to the requirements of the role	Remunerates non-executive directors for their responsibilities and time commitment	Provides the basis for retirement savings	Provides benefits appropriate to the market and the role
Application dependent on employee type and level	All employees	Non-executive directors	All employees entitled to benefits are required to belong to an approved pension/provident fund	All employees entitled to benefits are eligible for membership of an approved medical scheme and other benefits
Operation and performance measures	<p>Base salaries Base salaries are subject to annual review. Tsogo Sun's policy is to be competitive at the median level with reference to market practice in companies comparable in terms of size, market sector, business complexity and international scope. However, base salaries of individuals and incumbents in key roles are aligned with the upper quartile level of the market. Group performance, individual performance and changes in responsibilities are also taken into consideration when determining increases to base salaries</p>	<p>Non-executive directors' fees The fees for the non-executive directors have been recommended by the remuneration committee to the board for its approval, taking into account fees payable to non-executive directors of comparable companies and the importance attached to the attraction and retention of high-calibre individuals as non-executive directors. Levels of fees are also set by reference to the responsibilities assumed by the non-executive directors in chairing the board and in chairing or participating in its committees and are approved by special resolution of the shareholders</p>	<p>Retirement fund membership Retirement funding for management, who are remunerated on a total package basis, is included in their total cost of employment. For staff, retirement funding consists of employer and employee contributions dependent on fund membership. The group offers a pension fund (Tsogo Sun Group Pension Fund) and two provident funds (Alexander Forbes Retirement Fund (Provident Section) and Gold Reef Resorts Provident Fund). Other approved funds include union-negotiated funds and funds to which members have historically belonged</p>	<p>Healthcare The majority of employees with medical cover belong to the Tsogo Sun Group Medical Scheme, a restricted membership scheme administered by Discovery Health. The scheme offers hospital, chronic illness and day-to-day cover for 4 957 principal members (10 839 beneficiaries)</p> <p>Risk and insured benefits Arising through membership of the group's pension and provident funds, competitive death, disability and funeral benefits are made available to employees</p> <p>Long-service awards Full-time employees of the organisation receive long-service awards calculated based on the tenure of the employee linked to their guaranteed package. Employees receive an award for every 10 years of continued service with the group</p>

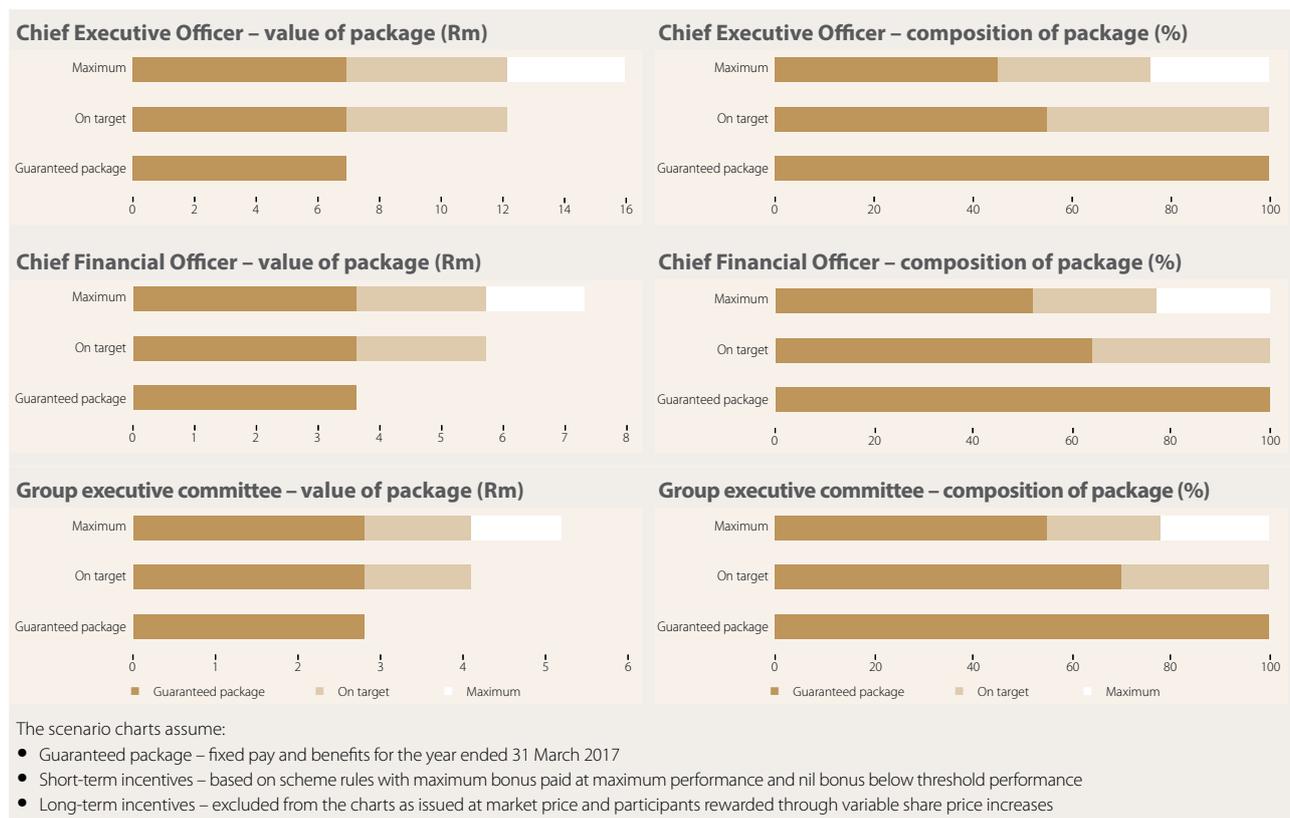
Short-term incentives	Long-term incentives											
Annual bonus plan	Executive facility and share appreciation plan											
<p>Rewards the achievement of annual financial performance balanced with other specific strategic priorities and ensures that above-market pay cannot be achieved unless challenging performance targets are met. The non-financial element ensures that the achievement of short-term financial performance is not at the expense of future opportunities</p>	<p>Long-term incentives are utilised to reward long-term sustainable group performance improvement, retain senior management expertise and ensure that executives and key talent share a significant level of personal risk and reward with the company's shareholders to align executive pay and long-term value creation for shareholders</p>											
<p>All executives and senior management and selected middle management</p>	<p>Senior executives</p>	<p>Executives and selected managers (252 participants)</p>										
<p>Annual cash incentive Potential bonus earnings are reviewed periodically by the remuneration committee with minimum and maximum bonus percentages of total package set for each broadband level for the achievement of 'threshold', 'on-target' and 'stretch target' performance. Financial 'threshold' target is set at 90% of target with a payout of 0%, 'stretch target' is set at 115% of target with a payout of 100%, with interpolation between the points. Targets are based on the annual budget approved by the board</p> <p>Bonus awards are based on individual ratings achieved against the targets set for financial performance, relative growth against the market, where relevant, and personal performance against non-financial strategic priorities. The remuneration committee approves the scheme's targets and hurdles annually</p>	<p>Executive facility A R200 million facility was made available in 2014 to senior executives for the sole purpose of acquiring shares in the company at R25.75 per share. The shares were acquired on 12 August 2014</p> <p>The board determined the allocation of the facility as follows:</p> <table border="0"> <tr> <td>MN von Aulock</td> <td>R86 million</td> </tr> <tr> <td>J Booysen</td> <td>R47 million</td> </tr> <tr> <td>RB Huddy</td> <td>R27 million</td> </tr> <tr> <td>FV Dlamini</td> <td>R20 million</td> </tr> <tr> <td>GD Tyrrell</td> <td>R20 million</td> </tr> </table> <p>The facility is interest-free and has no fixed repayment date but must be repaid if the shares are sold or if the executive leaves the employ of the company. The executives are subject to fringe benefits tax on the facility. It has been agreed with MN von Aulock that his shares be disposed of in an orderly manner and the loan repaid by December 2017</p> <p>The executives are not eligible for any new allocations under the existing share appreciation scheme until the loan is repaid in full. Allocations of appreciation units made prior to the provision of the facility remain unaffected</p>	MN von Aulock	R86 million	J Booysen	R47 million	RB Huddy	R27 million	FV Dlamini	R20 million	GD Tyrrell	R20 million	<p>Share appreciation plan Tsogo Sun has in operation a phantom share scheme with cash settlement designed to align the interests of participants with those of the company's shareholders. The essential elements of the scheme are that the plan is essentially a 'phantom' version of a share scheme where each appreciation unit is in effect linked to an underlying share in Tsogo Sun</p> <p>Annual allocations of appreciation units at market price are made to executives and selected managers. They are available to be settled on the third anniversaries of their allocation, but must be exercised by the sixth anniversary, or they will lapse. On settlement, the value accruing to participants will be the full appreciation of Tsogo Sun's share price over the allocation price plus dividends declared and paid post-grant date, which value will be settled in cash</p> <p>Vesting and encashments during the 2017 financial year resulted in a charge of R63 million, as many appreciation units were encashed at higher share prices during the year, with a R1 change in the Tsogo Sun share price impacting the charge by R23 million</p>
MN von Aulock	R86 million											
J Booysen	R47 million											
RB Huddy	R27 million											
FV Dlamini	R20 million											
GD Tyrrell	R20 million											

Integrated governance continued

Remuneration implementation report

Composition of total remuneration package – executive directors and senior executives

The charts below provide an indication of the remuneration outcomes for the year ended 31 March 2017 for the executive directors and the GEC (excluding the executive directors) showing potential total remuneration of maximum, on target and minimum performance levels:



Long-term incentive liability – cash-settled

The following table reflects the liability for long-term incentives and summarises details of the bonus units awarded to participants per financial year, the units vested at the end of the period and expiry dates of each allocation for the Tsogo Sun Share Appreciation Bonus Plan:

Grant date	Appreciation units granted and still outstanding		Strike price R	Appreciation units vested and still outstanding		Expiry date	Liability ⁽¹⁾ 2017 Rm	Liability 2016 Rm
	2017	2016		2017	2016			
1 April 2011	–	2 838 644	15.06	–	2 838 644	31 March 2017	–	50
1 April 2012	2 198 145	5 445 352	17.66	2 198 145	5 445 352	31 March 2018	32	77
1 April 2013	5 533 403	7 324 946	24.56	5 533 403	7 324 946	31 March 2019	39	49
1 April 2014	7 814 913	8 203 713	25.72	7 814 913	–	31 March 2020	40	26
1 April 2015	6 650 450	7 112 025	26.54	–	–	31 March 2021	15	7
1 April 2016	8 643 804	–	22.82	–	–	31 March 2022	18	–
Other	647 403	2 313 767		277 759	–		4	25
Liability at 31 March							148	234
Gold Reef Share Appreciation Bonus Plan							–	3
Total long-term incentive liabilities as at 31 March							148	237
Share price utilised to value the liability at 31 March							R28.00	R28.60

⁽¹⁾ Executive directors and senior executives have R38 million in vested and unvested appreciation units at 31 March 2017

Short-term incentive

The following table reflects the achievement against the short-term incentive targets for the executive directors and the GEC (excluding the executive directors):

	Financial and relative performance %	Non-financial strategic priorities %	Total 2017 achievement⁽¹⁾ %
Executive directors	24	87	35
Group executive committee	26	83	37

	Financial and relative performance %	Non-financial strategic priorities %	Total 2016 achievement ⁽²⁾ %
Executive directors	51	83	56
Group executive committee	48	80	56

⁽¹⁾ To be paid during the 2018 financial year

⁽²⁾ Paid during the 2017 financial year. Refer to page 78

Non-executive directors

Non-executive directors receive fees for services on board and board committees. Non-executive directors do not receive short-term incentives and do not participate in any long-term incentive scheme. Increases are presented to the shareholders at the company's annual general meeting and reflect the market dynamics and the increasingly heavy demands being made on the individuals. Proposed non-executive directors' fees, for shareholder approval, appear in the table below:

	Actual 2016/2017 R'000	Proposed 2017/2018 R'000
Chairman of the board	965	1 028
Lead independent non-executive director and member of all board committees	570	607
Chairman of the audit and risk and social and ethics committees	570	607
Chairman of the remuneration committee	426	454
Non-executive director and member of a board committee	351	374
Non-executive director	277	295

Director and senior management remuneration

Non-executive directors' fees

	2017 Directors' fees R'000	2016 Directors' fees R'000
Fees and services		
Paid by subsidiaries		
JA Copelyn	920	868
BA Mabuza	390	315
MSI Gani ⁽¹⁾	276	–
MJA Golding	264	310
VE Mphande	264	249
RG Tomlinson ⁽²⁾	401	501
JG Ngcobo	335	315
Y Shaik	407	381
	3 257	2 939

⁽¹⁾ Appointed 11 August 2016

⁽²⁾ Resigned 11 August 2016

Integrated governance continued

Director and senior management remuneration continued

Executive directors' remuneration for the year ended 31 March

	Basic remuneration R'000	Benefits R'000	Short-term incentives ⁽¹⁾ R'000	Long-term incentives ⁽⁴⁾ R'000	2017 Total R'000
Paid by subsidiaries					
MN von Aulock ⁽³⁾	6 476	572	5 237	13 175	25 460
RB Huddy	3 213	500	2 277	8 202	14 192
	9 689	1 072	7 514	21 377	39 652

	Basic remuneration R'000	Benefits R'000	Short-term incentives ⁽²⁾ R'000	Long-term incentives R'000	2016 Total R'000
Paid by subsidiaries					
MN von Aulock	5 497	1 120	2 253	6 179	15 049
RB Huddy	2 849	637	1 161	2 404	7 051
	8 346	1 757	3 414	8 583	22 100

⁽¹⁾ Short-term incentives paid relate to the achievement against target for 2016. Refer to detail on page 77

⁽²⁾ Short-term incentives paid relate to the achievement against target for 2015

⁽³⁾ Resigned 1 June 2017

⁽⁴⁾ The executive directors have R9 million in vested appreciation units at 31 March 2017. The appreciation units were allocated prior to 12 August 2014

Other key management and prescribed officers

	Basic remuneration R'000	Benefits R'000	Short-term incentives ⁽¹⁾ R'000	Long-term incentives ⁽⁴⁾ R'000	2017 Total R'000
Paid by subsidiaries					
J Booysen ⁽³⁾	3 849	711	2 509	15 479	22 548
RF Weilers	3 986	–	2 041	823	6 850
	7 835	711	4 550	16 302	29 398

	Basic remuneration R'000	Benefits R'000	Short-term incentives ⁽²⁾ R'000	Long-term incentives R'000	2016 Total R'000
Paid by subsidiaries					
J Booysen	3 342	951	1 013	1 166	6 472
RF Weilers	3 720	–	718	5 150	9 588
	7 062	951	1 731	6 316	16 060

⁽¹⁾ Short-term incentives paid relate to the achievement against target for 2016. Refer to detail on page 77. Included in group executive committee

⁽²⁾ Short-term incentives paid relate to the achievement against target for 2015

⁽³⁾ Appointed Chief Executive Officer 1 June 2017

⁽⁴⁾ The key management and prescribed officers have R6 million in vested and unvested appreciation units at 31 March 2017. The appreciation units for J Booysen were allocated prior to 12 August 2014

Glossary

Adjusted HEPS	Adjusted headline earnings per share
BBBEE	Broad-based black economic empowerment
the board	The board of directors of Tsogo Sun Holdings Limited
CAGR	Compound annual growth rate
CASA	Casino Association of South Africa
Companies Act	the Companies Act, No 71 of 2008, as amended or replaced from time to time
CPA	Consumer Protection Act
CSI	Corporate Social Investment
Cullinan	The Cullinan Hotel Proprietary Limited
dti	Department of Trade and Industry
Ebitda	Earnings before interest, tax, depreciation, amortisation and exceptional items
Ebitdar	Earnings before interest, tax, depreciation, amortisation, rentals and exceptional items
EBT	Electronic Bingo Terminal
EME	Emerging micro-enterprise
Fedhasa	Federated Hospitality Association of South Africa
FICA	Financial Intelligence Centre Act
Free cash flow	Cash generated from operations adjusted for net finance costs, taxation paid, operating equipment purchased and maintenance capital expenditure
Gambling board	Collectively, the Eastern Cape Gambling and Betting Board, the Free State Gambling and Liquor Authority Board, the Gauteng Gambling Board, the KwaZulu-Natal Gambling Board, the Western Cape Gambling and Racing Board and the Mpumalanga Gambling Board
GEC	Group executive committee
Gold Reef	Gold Reef Resorts Limited
HCI	Hosken Consolidated Investments Limited
HEPS	Headline earnings per share
HPF	Hospitality Property Fund Limited
IAS	International Accounting Standards
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards
IT	Information technology
JSE	JSE Limited
King III	The King Code of Governance Principles for South Africa 2009
Liberty	Liberty Group Limited
LPM	Limited Payout Machine
NPAT	Net profit after tax
OTA	Online travel agent
PDIs	Previously disadvantaged individuals
POPI	Protection of Personal Information Act
PP	Percentage points
REIT	Real Estate Investment Trust
Revpar	Revenue per available room
SACTWU	South African Clothing and Textile Workers Union
SATB	South African Tourism Board
SENS	Securities Exchange News Service of the JSE
SunWest and Worcester	SunWest International Proprietary Limited and Worcester Casino Proprietary Limited
Systemwide	Including both owned and managed businesses
SSHI	Southern Sun Hotel Interests Proprietary Limited
TBCSA	Tourism Business Council of South Africa
the group	Tsogo Sun Holdings Limited and its subsidiaries, associates and joint ventures
TIH	Tsogo Investment Holding Company Proprietary Limited
TSH	Tsogo Sun Hotels, Gaming and Entertainment Proprietary Limited (previously Tsogo Sun Holdings Proprietary Limited)
Tsogo Sun or the company	Tsogo Sun Holdings Limited
VAT	Value Added Tax

Corporate information

Company Secretary and registered office

GD Tyrrell

(Registration number: 1989/002108/06)
 Palazzo Towers East
 Montecasino Boulevard
 Fourways, 2055
 (Private Bag X200, Bryanston, 2021)

Sponsor

Deutsche Securities (SA) Proprietary Limited

(A non-bank member of the Deutsche Bank Group)
 (Registration number: 1995/011798/07)
 3 Exchange Square, 87 Maude Street
 Sandton, 2196
 (Private Bag X9933, Sandton, 2146)

Attorneys

Tabacks Attorneys

(Registration number: 2000/024541/21)
 13 Eton Road
 Parktown, 2193
 (PO Box 3334, Houghton, 2041)

Nortons Inc.

(Registration number: 2009/006902/21)
 135 Daisy Street
 Sandton, 2196
 (PO Box 41162, Craighall, 2024)

Auditors

PricewaterhouseCoopers Inc.

Registered Accountants and Auditors
 (Registration number: 1998/012055/21)
 2 Eglin Road
 Sunninghill, 2157
 (Private Bag X36, Sunninghill, 2157)

Transfer secretaries

Link Market Services South Africa Proprietary Limited

(Registration number: 2000/007239/07)
 13th Floor, Rennie House
 19 Ameshoff Street
 Braamfontein
 Johannesburg, 2001
 (PO Box 4844, Johannesburg, 2000)

Commercial bankers

Nedbank Limited

(Registration number: 1966/010630/06)
 1st Floor, Corporate Park
 Nedcor Sandton
 135 Rivonia Road
 Sandown, 2196
 (PO Box 1144, Johannesburg, 2000)

Rand Merchant Bank

A division of FirstRand Bank Limited
 (Registration number: 1929/001225/06)
 1 Merchant Place
 cnr Fredman Drive and Rivonia Road
 Sandton, 2196
 (PO Box 786273, Sandton, 2146)

Absa Group Limited

(Registration number: 1986/003934/06)
 3rd Floor
 Absa Towers East
 170 Main Street
 Johannesburg, 2001
 (PO Box 7735, Johannesburg, 2000)

Investor relations

Brunswick South Africa Limited

(Registration number: 1995/011507/10)
 23 Fricker Road
 Illovo Boulevard
 Illovo, 2196

Shareholders' diary

Annual general meeting
 Next financial year end

19 October 2017
 31 March 2018

Reports

Announcements

Interim results for six months to September
 Preliminary announcement of annual results
 Annual financial statements published

November 2017
 May 2018
 July 2018

Dividends

Ordinary – interim
 Ordinary – final

Declared
 November
 May

Paid
 December
 June

Six-year financial review

		2017	2016	2015	2014	2013	2012	CAGR
Trading								
Income		13 222	12 283	11 343	10 767	9 910	9 031	8
Gaming win	Rm	7 483	7 361	6 976	6 819	6 525	6 111	4
Rooms	Rm	3 078	2 784	2 453	2 221	1 914	1 615	14
Food and beverage	Rm	1 434	1 353	1 203	1 063	869	752	14
Property rental income	Rm	445	133	124	120	126	115	31
Other revenue	Rm	782	652	587	544	476	438	12
Ebitdar	Rm	5 049	4 543	4 223	4 214	3 886	3 501	8
Ebitdar margin	%	38.2%	37.0%	37.2%	39.1%	39.2%	38.8%	
Cash flow and borrowings								
Free cash flow	Rm	2 217	1 953	1 811	1 825	1 932	1 725	
Net debt	Rm	12 113	9 248	9 211	4 439	3 580	4 184	
Net debt:Ebitdar	times	2.4	2.0	2.2	1.1	0.9	1.2	
Investment								
Investment activities	Rm	2 590	962	2 045	1 643	639	1 031	
Share buy-back	Rm	–	–	3 019	–	–	–	
Maintenance capex	Rm	925	945	749	769	579	436	
Shareholders' ratios								
Adjusted headline earnings per share	cents	207.6	196.5	175.0	176.5	150.1	121.5	11
Dividends per share ⁽²⁾	cents	104.0	98.0	89.0	89.0	75.0	60.0	12
Dividend payout ratio	%	50	50	51	50	50	49	
Stock exchange statistics								
Share price at 31 March	R	27.64	23.64	27.60	25.42	24.75	17.75	
Share price during period – highest	R	32.18	29.26	30.39	28.75	25.35	19.08	
Share price during period – lowest	R	22.77	19.85	25.00	23.75	17.40	15.20	
Shares traded as a percentage of shares in issue ⁽¹⁾	%	28.0	35.2	102.5	4.5	4.0	4.4	
Number of shares in issue ⁽¹⁾	million	957	957	957	1 098	1 098	1 097	
Market capitalisation	Rm	26 463	22 633	26 424	27 916	27 176	19 474	
Closing price/earnings ratio	times	13.3	12.0	15.8	14.4	16.5	14.6	
Closing earnings yield	%	7.5	8.3	6.3	6.9	6.1	6.8	
Closing dividend yield	%	3.7	4.1	3.2	3.5	3.0	3.4	

⁽¹⁾ Excluding treasury shares

⁽²⁾ Dividends per share declared in relation to the financial period it relates to

