TSOGO SUN

Integrated annual report 2018

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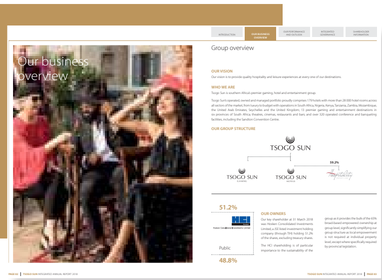

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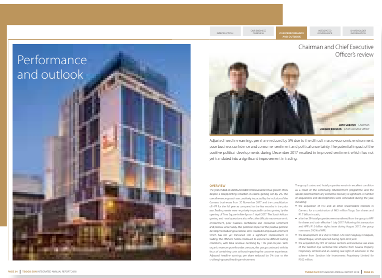

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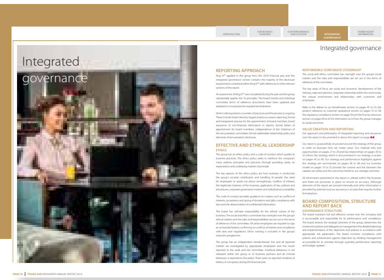

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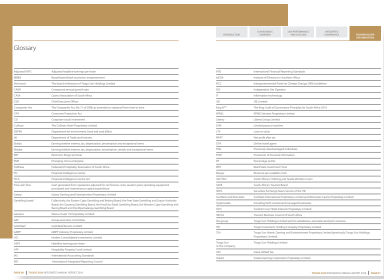

FORWARD LOOKING STATEMENTS

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.

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 IV™* and the international <IR> framework as applicable.

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 2017 to 31 March 2018 except where material transactions have occurred post-year end. The process we utilised in determining and applying materiality is included on page 27 of the report. Non-financial disclosures, except for environmental disclosures, focus on the South African operations, which generate 96% of our income. The scope and boundaries of environmental disclosures are defined on page 49.

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

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Icons for further digital information within the report:

00 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

Our business overview

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.

As at 31 March 2018, Tsogo Sun's operated, owned and managed portfolio, including associates, proudly comprises 179 hotels with more than 28 000 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; 13 premier gaming and entertainment destinations in six provinces of South Africa; 21 Galaxy Bingo sites in six provinces of South Africa; 1 113 Vukani LPM sites with 5 900 machines across all provinces; theatres, cinemas, restaurants and bars; and over 320 operated conference and banqueting facilities, including the Sandton Convention Centre.

OUR GROUP STRUCTURE

OUR OWNERS

Our key shareholder at 31 March 2018 was Hosken Consolidated Investments Limited, a JSE listed investment holding company (through TIH) holding 51.2% 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 65% 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.

WHERE IT ALL BEGAN

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.

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 upmarket 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 Formula1 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 TIH) and the consortium was successful in obtaining five casino licences.

1997 – 1998

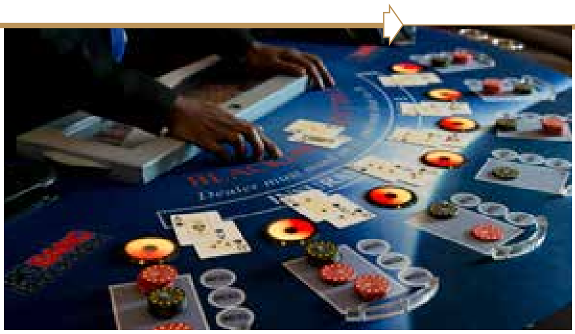
The group opened the Emnotweni Casino which in 1997 was the first casino within the new regulated environment in post-apartheid South Africa.

In the following year the group opened The Ridge Casino.

1999

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

Tsogo Sun through the years



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%. HCI first acquired a 10% interest in TIH during 2002 and has subsequently obtained control of TIH.

2009 – 2011

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

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

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%.

2012 – 2013

The group acquired Accor SA's holding in the Formula1 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.

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 RBH Hotel Group Limited ('RBH'), 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.

2015 – 2016

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. 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

The group acquired Gameco incorporating the Vukani LPM and Galaxy Bingo businesses.

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).

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

	2018	2017	% change
Income (Rm)	**13 975**	13 222	6
Ebitdar (Rm)	**5 271**	5 049	4
Ebitdar margin (%)	**37.7**	38.2	(0.5pp)
Adjusted headline earnings per share (cents)	**197.8**	207.6	(5)
Dividend for the year per share (cents)	**102.0**	104.0	(2)
Free cash flow (Rm)	**1 938**	2 217	(13)
Maintenance capital expenditure (Rm)	**675**	925	

SUSTAINABILITY

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

DELIVER TO OUR BENEFICIARIES

Level 1
BBBEE contributor

65%
black ownership

R8.4 billion
value added to black economic empowered businesses and government

242 beneficiaries supported through Tsogo Sun Entrepreneurs programme

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

FINANCIAL STRENGTH AND DURABILITY

Net debt:Ebitdar
2.4 times

Unutilised net facilities
R4.7 billion

32-month weighted average expiry of debt facilities

53%
of net debt hedged

Strategy and performance highlights

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

PRODUCT RELEVANCE TO CUSTOMER EXPERIENCE

28 000
hotel rooms across all market segments

13
gaming and entertainment destinations

21 Bingo and
1 113 LPM sites

77%
gaming guest satisfaction

88%
hotels guest satisfaction

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

REGULATORY COMPLIANCE

No significant gaming regulation breaches

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

HUMAN RESOURCES

14 000
direct
employees
in South Africa

24 500
combined direct and indirect jobs in South Africa

Training spend
5.2% of payroll

Strategic priorities and growth drivers

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

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 to be completed in December 2018
- Additional licensed positions available at most casinos

③ NEW GAMING OPPORTUNITIES

- Western Cape Metropole/Mpumalanga fourth licence
- Gameco acquisition to provide growth in the EBT and LPM markets

④ CONTINUED INVESTMENT IN SA HOTELS

- Property acquisition in HPF
- Management contracts in South Africa

⑤ EXPANSION IN OFFSHORE HOTELS

- Management contracts in Africa and Europe

Strategic review and impact on priorities

STRATEGIC REVIEW

The group intends to transfer a significant portion of its casino real estate assets to HPF following the two transactions concluded in 2016 and 2017 whereby a significant portion of the group's hotels properties was transferred to HPF. On conclusion of the proposed transaction, HPF will become the property company and is expected to own investment property with a fair market value of approximately R36 billion. The intention is to distribute the group's holding in HPF to the Tsogo Sun shareholders.

In addition to the property company, the group intends to separate the operations into two asset light operating companies:

- Tsogo Sun Gaming will be a gaming-focused operating company with a portfolio of traditional land-based casino operations and growth businesses in alternative gaming operations consisting of Galaxy and Vukani; and
- Southern Sun Hotels will be a hotel management company with a portfolio of over 90 hotels under management spread across the industry spectrum, from deluxe to budget, operating throughout South Africa, sub-Saharan Africa, the Seychelles and the United Arab Emirates. The group intends to unbundle the Southern Sun Hotels operation into a separate JSE listing.

The group anticipates that the separation of Tsogo Sun into these three focused companies will unlock value and provide greater investment choice for shareholders. The proposed unbundling of the hotel and property businesses will then result in the separate listing of the hotel, property and gaming businesses with all three resultant entities remaining subsidiaries of the HCI group. Refer to the proposed post-strategic review business model on pages 12 and 13. Until the unbundling of the hotel and property businesses is completed, it is intended that HPF will remain a subsidiary of Tsogo Sun Gaming.

POTENTIAL IMPACT ON STRATEGIC PRIORITIES

Deliver to our beneficiaries

The HCI shareholding post the intended transactions would be 51% in Tsogo Sun Gaming and Southern Sun Hotels and 44% in HPF and thus it remains important from a BBBEE perspective. Both the gaming and hotel operating companies will be reliant for their BBBEE ratings on HPF qualifying to utilise the HCI BBBEE rating as a subsidiary of HCI due to the quantum of rental they pay to HPF. It is intended that the majority of the existing community, supplier development and environmental programmes would continue within the HCI group and its subsidiaries.

Financial strength and durability

Gearing levels following the intended split of the group into three listed businesses will need to be carefully managed as the gaming and hotel operating companies will have higher levels of operational gearing and will retain limited properties that can be utilised as security, potentially reducing their financial strength and durability. This is mitigated, however, by the sale of the casino real estate assets to HPF at a 35% LTV which will result in reducing the gearing levels in the operating businesses. The HPF gearing is expected to remain relatively low at below 30% LTV.

Product relevance to customer experience

The group will need to continue to invest in the product in order to deliver relevant experiences to our customers. The gaming and hotel customer reward programmes are currently not integrated and thus splitting the operating companies will have little impact. Group branding would, however, be impacted and will need to be relaunched for both operating companies.

Regulatory compliance

The intended transactions should have no impact on regulatory compliance.

Human resources

The intended transactions should not have a material impact on human resources as most employees will naturally fit into either of the operating businesses. In order to retain the efficiencies achieved in the integration of the group over the past few years, some shared services are expected to remain where relevant.

Organic growth

The intended transactions are anticipated to increase focus within the businesses thus maximising returns in each operating business. There is limited commonality between the gaming and hotel operating company customers and thus no significant revenue issues are anticipated. The intended transaction to transfer a significant portion of its casino real estate assets to HPF will result in the loss of capital allowances to the group which will result in additional cash tax of approximately R41 million per annum which will have an adverse impact on profitability.

Inorganic growth

The intended transactions would result in a significant increase in cash distributions from the group due to the distribution of all of HPF's distributable income. This will constrain future growth in both the gaming and hotel operating companies although HPF could acquire properties that they could operate, either through debt or issuing additional shares. Both the gaming and hotel operating companies will in addition have less funding headroom due to the reduced cash flows and the sale to HPF of the assets they would have utilised as security. Effectively the hotel operating company will become mostly asset light in South Africa and may grow through additional management contracts. The gaming operating company retains more assets and profit but it needs to maintain and expand its properties out of its cash flows.

Business model – current

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

CASINO GAMING 14

Core business

Owns, leases and operates gaming and entertainment complexes across South Africa

Key market differentiator

Integrated gaming and entertainment complexes primarily located in urban areas

CENTRAL SERVICES

- Corporate affairs and reporting
- Information technology
- Human resources, development and training
- Legal and secretarial

Gaming / Entertainment Complexes

ALTERNATIVE GAMING 16

Core business

Owns, leases and manages EBT and LPM sites across South Africa

Key market differentiator

Wide geographic distribution of convenient gaming sites

- Licences
- Taxes

- Customer experiences
- Promotions
- Customer rewards

Regulators 59

Customers 55
Individuals

70 **Governance**

20 Regulatory environment 21 Economic environment 21 Industry

External environment

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

18 HOTELS

- Development and facilities management
- Marketing and branding
- Internal audit
- Risk management

Core business

Owns, leases and manages hotels

Key market differentiator

Wide geographic distribution of quality budget to luxury hotel properties

Hotels

- Management services
- Fees

Third-party owners 48

- Customer experiences
- Sales
- Distribution channels
- Tour operators
- Web
- Customer rewards

45 **Investors**

48 **Partners**
Tenants
Suppliers
Landlords

45 **Community**
Corporate social investment

Customers
Corporates
Government
Individuals 55

Outputs

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

Gaming 14, 16
- Slots
- Tables
- EBTs
- LPMs
- Restaurants
- Bars
- Events
- Theatres
- Retail
- Conferencing
- Cinemas
- Theme parks
- Entertainment

Hotels 18
- Accommodation
  - Luxury
  - Full Service
  - Select Service
  - Budget
- Restaurants
- Bars
- Conferencing

Environmental and social impacts

- Energy consumption 49
- Water consumption 50
- Waste 50
- Social impact 47

Outcomes linked to strategic priorities

Deliver to our beneficiaries 45
- Stakeholder engagement
- Flow of economic benefits to
  - Community
  - Socially beneficial organisations
- Returns to investors
- Taxation contribution to economy
- Environmental impact
- Transformation

Financial strength and durability 54
- Resources to pursue opportunities
- Prudent gearing levels
- Adequate funding facilities
- Long-term funding maturities

Product relevance to customer experience 55
- Customer satisfaction
- Customer value
- Brand loyalty
- Product distribution

Regulatory compliance 59
- Licence to trade

Human resources 60
- Job creation
- Employee engagement
- Employee development
- Employee wellness
- Employment equity

Organic growth 65
- Profit
- Improved margins
- Cash flow

Inorganic growth 68
- Capacity increases
- Developments and acquisitions

23 **Technology** 24 **Consumer preferences** 24 **Societal issues** 24 **Environmental issues**

Business model – proposed post-strategic review

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

PROPERTY

Core business
Owns and leases gaming and entertainment complexes and hotels

CASINO GAMING 14

Core business
Owns, leases and operates gaming and entertainment complexes across South Africa

Key market differentiator
Integrated gaming and entertainment complexes primarily located in urban areas

ALTERNATIVE GAMING 16

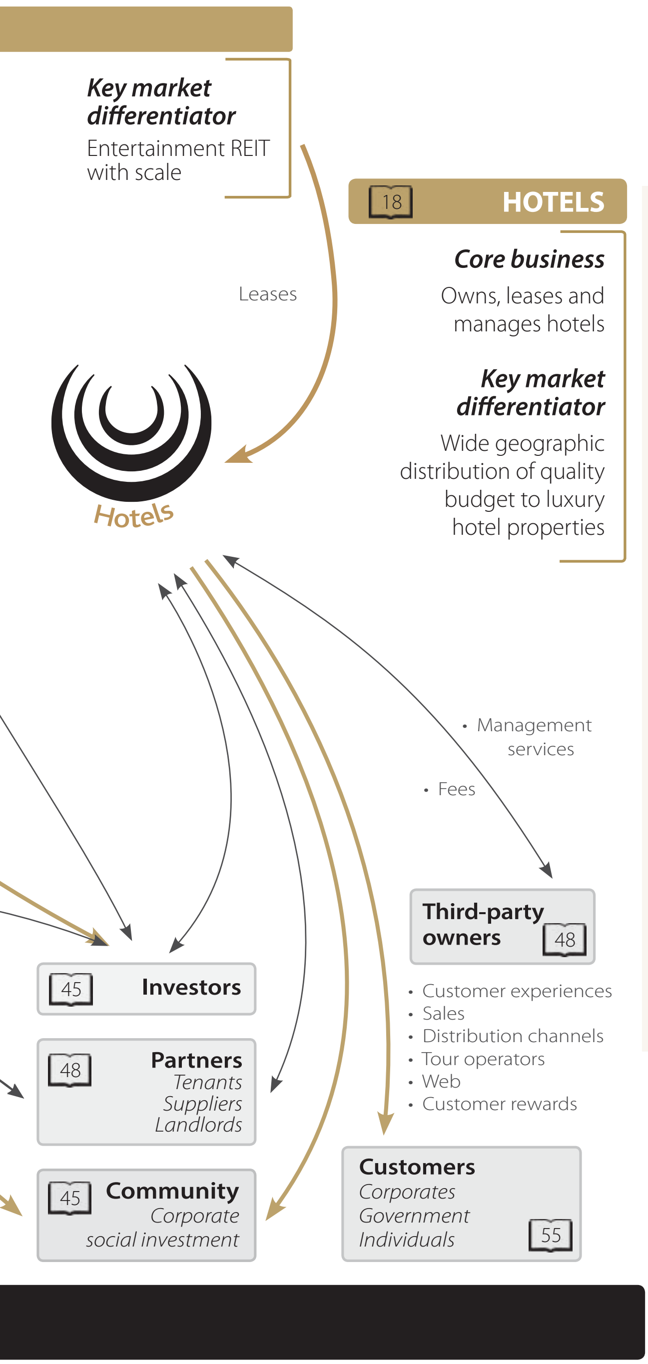
Core business
Owns, leases and manages EBT and LPM sites across South Africa

Key market differentiator
Wide geographic distribution of convenient gaming sites

70 **Governance**

20 Regulatory environment 21 Economic environment 21 Industry

External environment



Outputs

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

Gaming 14, 16
- Slots
- Tables
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- LPMs
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Developments and acquisitions

23 **Technology** 24 **Consumer preferences** 24 **Societal issues** 24 **Environmental issues**

Tsogo Sun casino gaming

FOOTPRINT

	Ownership %	as at 31 March 2018 Tables	Slots	Hotel rooms	Group revenue contribution %	Group Ebitdar contribution %
Montecasino	100	82	1 700	619	19	22
Suncoast	100	57	1 622	165	12	14
Gold Reef City	100	51	1 600	113	11	11
Silverstar	100	30	900	34	5	4
Golden Horse	100	22	450	96	3	3
Emnotweni	100	19	425	224	3	3
The Ridge	100	19	436	175	3	3
Hemingways	65	16	507	108	2	2
Garden Route	100	13	412	43	2	2
Mykonos	100	6	320	–	1	2
The Caledon	100	8	318	95	1	1
Blackrock	100	10	300	80	1	1
Goldfields	100	9	250	–	1	1
Other gaming operations	100				1	(4)
Total 2018		**342**	**9 240**	**1 752**	**65**	**65**
Total 2017		359	9 857	1 752	69	70

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. The only exception is in the Eastern Cape where the gaming legislation requires local provincial-based empowerment ownership where the group has minority shareholders in Hemingways at 35%. In addition the group has a 20% equity interest in the GrandWest and Worcester casinos which are operated by Sun International. The Queens Casino licence expired in December 2017 and the group did not participate in the rebid and has disposed of its 25% associate investment.

The proposed split of the group into three listed businesses will not impact the ownership of the operations, although security of tenure over the properties is critical and is protected through the terms of the leases.

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, the group seeks 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 77% 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 59.

Gauteng

Fourways

MONTECASINO

Johannesburg

Gold Reef City

Krugersdorp

SILVERSTAR

Free State

Welkom

GOLDFIELDS

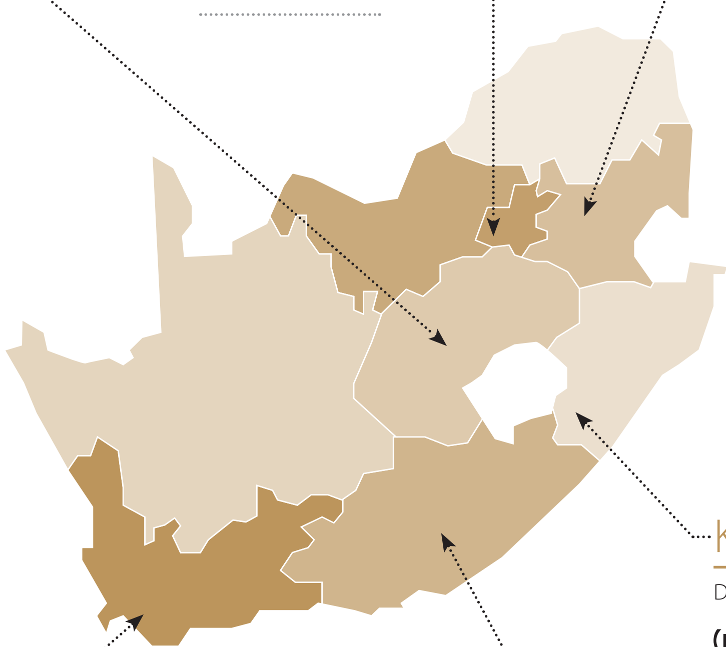
Mpumalanga

Mbombela

EMNOTWENI

eMalahleni

THE RIDGE



KwaZulu-Natal

Durban

SUNCOAST

Pietermaritzburg

GOLDEN HORSE

Newcastle

BLACKROCK

Western Cape

Caledon

The Caledon

Mossel Bay

GARDEN ROUTE

Langebaan

MYKONOS

Eastern Cape

East London

HEMINGWAYS

Tsogo Sun alternative gaming

FOOTPRINT

	Galaxy EBT sites	Galaxy casino site	Galaxy ISO site	Vukani sites	Vukani machines	Group revenue contribution %[1]	Group Ebitdar contribution %[1]
	as at 31 March 2018						
Gauteng	4		–	151	698		
Eastern Cape	6		–	113	963		
Western Cape	–		–	191	891		
KwaZulu-Natal	4[2]		–	228	1 030		
Limpopo	2		–	136	775		
Mpumalanga	2		1	102	546		
North West	2		–	77	498		
Free State	–		–	82	333		
Northern Cape	–	–[3]	–	33	160		
Total 2018	**20**	**–**	**1**	**1 113**	**5 894**	**4**	**5**

[1] *Group revenue and Ebitdar contribution included from 20 November 2017*
[2] *Operating as an ISO (40 LPM) site and paper bingo as at 31 March 2018*
[3] *The acquisition of the Grand Oasis Casino in Kuruman was subject to the approval of the Northern Cape Gambling Board and was not included at 31 March 2018. Approval was received post-year end and the casino acquired on 15 June 2018*

KEY FEATURES

Galaxy Bingo

Galaxy offers bingo through EBTs and paper bingo games and operates the Grand Oasis Casino located in Kuruman, Northern Cape. During each of the 2017 and 2018 financial years four new bingo sites opened with an additional site opening in Tzaneen post-year end during April 2018. As at 31 March 2018 Galaxy operated 2 900 EBTs, 168 slot machines and 200 LPMs under ISO licences. As at 31 March 2018 four bingo sites were operational in KwaZulu-Natal but they could only operate LPMs under ISO licences and paper-based bingo. Post-year end two sites have already been converted to EBTs and the balance will follow during 2018. There are an additional three licences in KwaZulu-Natal that are not yet operational. Numerous court cases that may impact the EBT licences in KwaZulu-Natal, Eastern Cape and North West remain pending.

Empowerment shareholding is at a site level which provides access to the licences and the group holds interests of between 29% and 100% in each site and runs the operations of all sites.

The bingo sites and the associated food and beverage outlets operate mainly in leased premises in shopping centres where visibility and convenient access are important.

The majority of the EBTs are leased, due mainly to uncertainties in the initial period of the industry, and these will be replaced with owned machines where appropriate.

Vukani

Vukani offers LPM gaming services and manages almost 5 900 LPMs at in excess of 1 100 third-party sites throughout all the provinces of the country. The sites are located in pubs, bars, clubs, hotels, taverns and bookmakers and the group provides the sites with access to LPMs with a full support structure. The sites are monitored by a national central electronic monitoring system to maintain a well-regulated gaming industry for site owners and their customers.

Growth is achieved through the roll out of additional sites and the optimisation of existing sites in terms of location and product mix. There are significant barriers to entry, including the stringent requirements and time delays in obtaining the necessary licences and a limited number of licences are available for each province.

North West

Galaxy
- Brits
- Moruleng

Vukani
- 498 LPMs

Gauteng

Galaxy
- East Rand Mall
- Greenstone
- River Square
- The Marco Polo

Vukani
- 698 LPMs

Limpopo

Galaxy
- Bochum
- Musina
- Tzaneen[1]

Vukani
- 775 LPMs

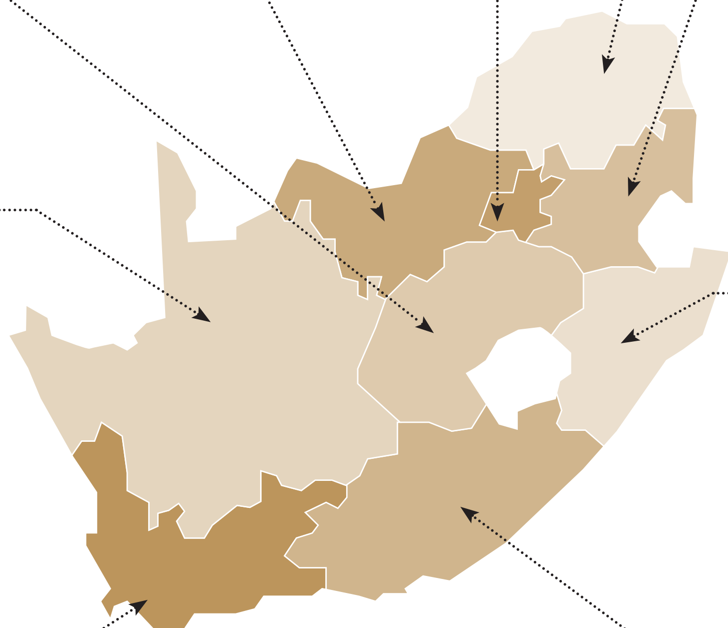
Free State

Vukani
- 333 machines

Mpumalanga

Galaxy
- Hazyview
- Nelspruit[2]
- Tonga

Vukani
- 546 LPMs



Northern Cape

Galaxy
- Grand Oasis Casino[5]

Vukani
- 160 LPMs

KwaZulu-Natal

Galaxy
- Amanzimtoti[3][4]
- Gateway[3]
- Pavilion[3]
- South Coast Mall[3][4]

Vukani
- 1 030 LPMs

Western Cape

Vukani
- 891 LPMs

Eastern Cape

Galaxy
- Butterworth
- Gonubie
- King William's Town
- Ngcobo
- Port Elizabeth
- Uitenhage

Vukani
- 963 LPMs

(1) *Opened in April 2018, post-31 March 2018*
(2) *Operating as an ISO (40 LPM site)*
(3) *Operating as an ISO (40 LPM site) with paper bingo as at 31 March 2018*
(4) *Electronic bingo rolled out post-31 March 2018*
(5) *Not included as at 31 March 2018. Included from 15 June 2018*

Tsogo Sun hotels

Luxury brands

MAIA · BEVERLY HILLS · SANDTON SUN · PALAZZO · InterContinental · SUNCOAST TOWERS · 54 ON BATH

Full service brands

Southern Sun Hotels · Southern Sun Resorts · Crowne Plaza · Holiday Inn

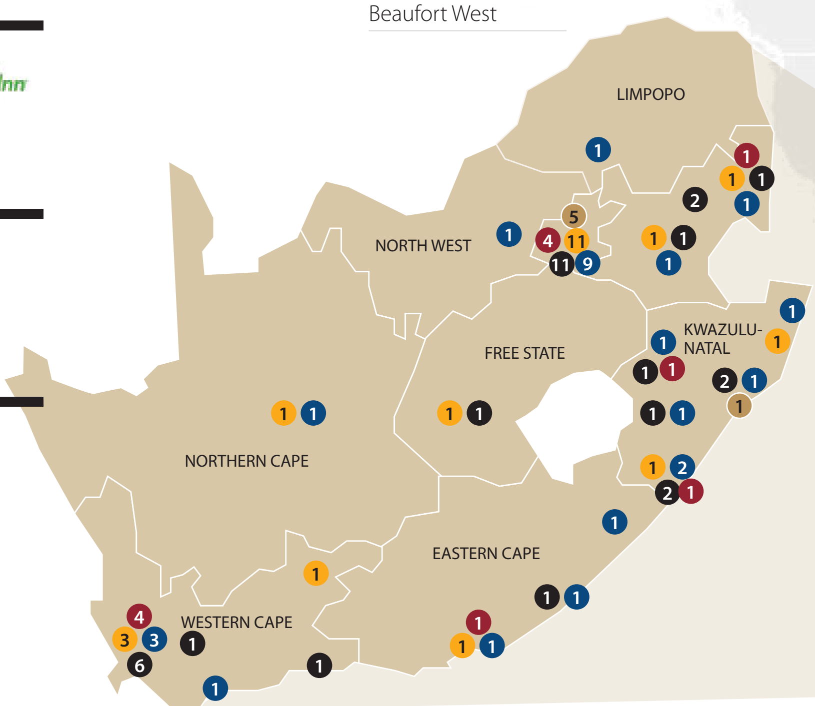
Select service brands

Sun Square · Garden Court · StayEasy

Budget brands

SUN1

Northern Cape	Western Cape	Eastern Cape
Kimberley	Cape Town	East London
	Caledon	Mthatha
	Hermanus	Port Elizabeth
	Mossel Bay	
	Plettenberg Bay	
	Beaufort West	



KEY FEATURES

The proposed split of the group into three listed businesses would result in Tsogo Sun hotels following the prevalent international trend of operating the business on an 'asset light' basis. In South Africa the portfolio philosophy would change to control the components of the business through secure lease tenures rather than majority ownership of the properties. The components of the hotel business are land, buildings, operations, management and brand.

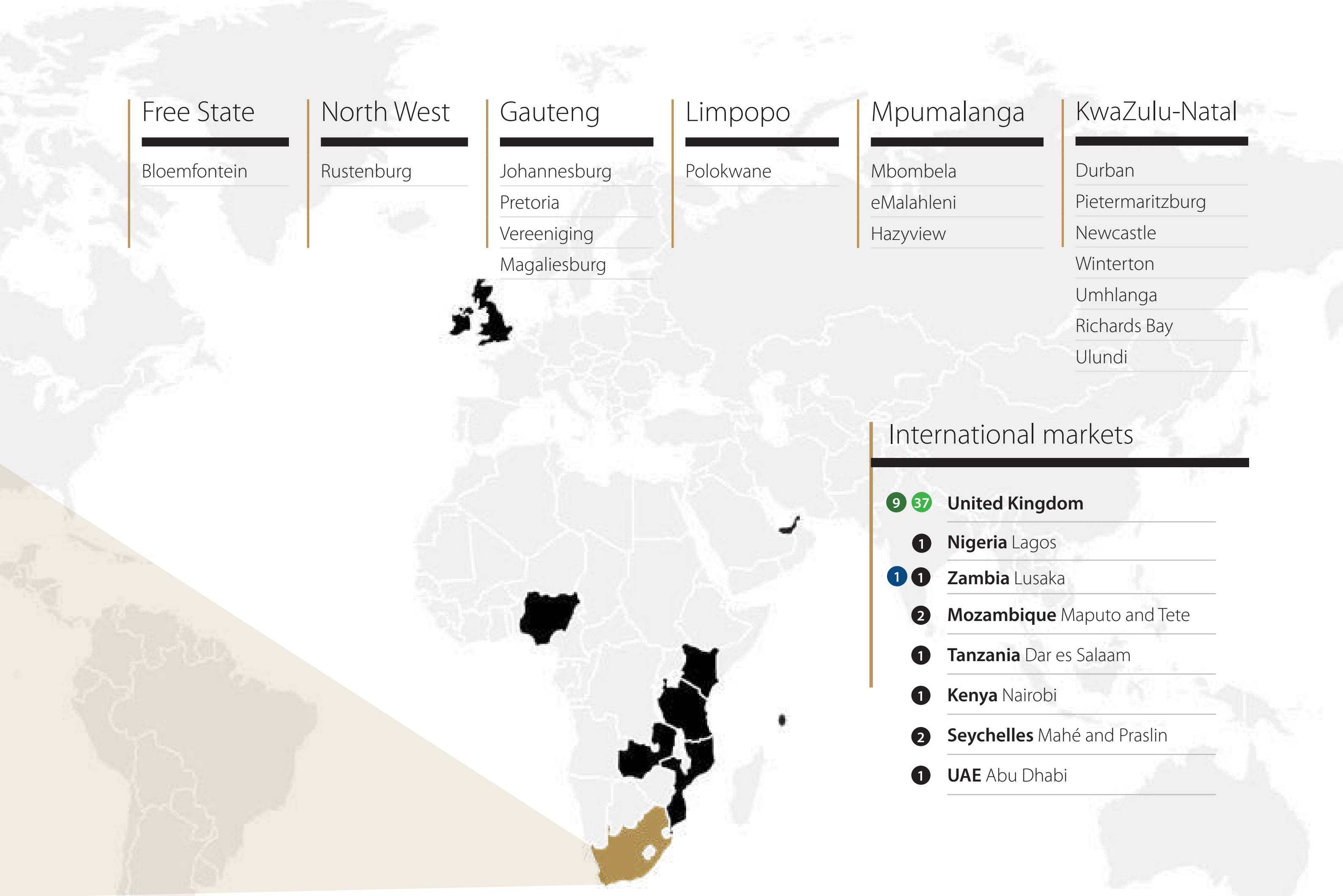
In South Africa the group will only manage operations for third parties if they are strategically important (due to partner requirements or location) and where there is no option to own or lease. We will manage operations for third parties offshore as this is a low-risk option to enter new markets. We 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 33% of hotel revenue is contributed by active reward club members.



Free State
Bloemfontein

North West
Rustenburg

Gauteng
Johannesburg
Pretoria
Vereeniging
Magaliesburg

Limpopo
Polokwane

Mpumalanga
Mbombela
eMalahleni
Hazyview

KwaZulu-Natal
Durban
Pietermaritzburg
Newcastle
Winterton
Umhlanga
Richards Bay
Ulundi

International markets

- 9 37 **United Kingdom**
- 1 **Nigeria** Lagos
- 1 1 **Zambia** Lusaka
- 2 **Mozambique** Maputo and Tete
- 1 **Tanzania** Dar es Salaam
- 1 **Kenya** Nairobi
- 2 **Seychelles** Mahé and Praslin
- 1 **UAE** Abu Dhabi

FOOTPRINT

as at 31 March 2018

	Owned/leased		Managed		Total		Group revenue contribution	Group Ebitdar contribution
Tsogo Sun operated	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms	%	%
Luxury	3	410	3	695	6	1 105	1	1
Full service	27	5 524	4	854	31	6 378	13	10
Select service	25	4 563	2	516	27	5 079	8	8
Budget	22	1 741	–	–	22	1 741	1	2
South Africa	77	12 238	9	2 065	86	14 303	24	21
Offshore	7	1 038	3	523	10	1 561	4	2
Total 2018	**84**	**13 276**	**12**	**2 588**	**96**	**15 864**	**28**	**23**
Total 2017	81	12 659	12	2 675	93	15 334	29	24
Third-party operated								
HPF owned	12	2 635			12	2 635	3	7
IHPL owned[1]	9	1 135			9	1 135		
RBH managed[1][2]			62	8 635	62	8 635		
Total 2018	**105**	**17 046**	**74**	**11 223**	**179**	**28 269**	**31**	**30**
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*

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

During May 2018 the Minister of Health published a draft amendment bill prohibiting smoking in public places. 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.

During May 2018 the Gauteng Department of Economic Development published a revision of the casino tax regime for comment 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.

Various gaming boards are attempting to impose the achievement of a prescribed contributor status as licence condition. The group remains committed to enhancing its 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. The group, however, cannot expose its 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 will continue to challenge the decisions.

During 2018 the Gauteng Gambling Board issued a draft request for proposal for comment for an additional 14 licences of 300 EBTs each. The maximum number of EBT licences is 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 EBT industry.

Amendments to the Financial Intelligence Centre Act have imposed more onerous obligations on the group. The FICA amendments include stricter requirements for concluding single transactions and the group will achieve full implementation of the regulator's framework by the March 2019 deadline.

During February 2018 the Western Cape Provincial Treasury published a draft bill and regulations to permit the relocation of two outlying casinos to within the metropole. The group will continue to pursue the opportunity.

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	3	–
Mpumalanga	4	3	2	1
Limpopo	3	3	–	–
Northern Cape	3	3	–	–
Free State	4	4	1	1[1]
North West	5[2]	4	–	1[2]
KwaZulu-Natal	5	5	3	–
Total	**41[2]**	**38**	**14**	**4**

[1] *One of the existing licences will lapse upon the issue of the one available licence*
[2] *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) was 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.

The National Gambling Act currently limits the number of LPM licences that the provincial gambling boards may issue but does not currently limit the number of EBT licences.

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 have improved with economic growth across both the developed and emerging markets. Global fund flows to emerging markets have been significant but South African-specific political, social and economic issues have constrained investment in the country. The Rand strengthened during the year, particularly following the favourable political developments during December 2017, which eased local inflation. In recent months the Rand has weakened again which may result in an increase in interest rates which would not assist the current weak levels of economic growth. Business confidence during the year prior to December 2017, was at record low levels, particularly due to considerable political uncertainty, low levels of economic growth and high levels of household debt. Although sentiment improved following December 2017, there does not as yet appear to have been a recovery in consumer spending which remains at low levels. 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.

The underlying operations of the group remain highly geared towards the South African consumer (in gaming) and the corporate market (in hotels). The strengthening 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 five 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 was 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 including roads, the creation of employment, CSI initiatives and transformation.

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 R3 billion.

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. Gaming taxes and levies vary by province on either fixed or sliding scales and average 22% of gaming win including VAT on gaming win.

Casino gaming accounts for approximately 65% of the gaming market and Tsogo Sun has a revenue share of 47% in the six provinces in which it operates and 43% 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. Casinos 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 2018	
	Total casino gaming win Rm	Group share of total casino gaming win %
Gauteng	7 937	49
KwaZulu-Natal	3 497	58
Western Cape	2 923	35[1]
Eastern Cape	1 181	22
Mpumalanga	731	80
Free State	480	26
Other	1 847	–
Total	**18 596**	**43**

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

Limited payout machines ('LPMs') continue to show double-digit growth and above inflationary growth is expected to continue until the markets mature. LPMs, which are principally located in bars, clubs, hotels, taverns and bookmakers, appear to have had a limited impact on casinos as they are targeted at a different segment of gambler. LPMs account for approximately 11% 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.

Electronic bingo terminals ('EBTs') have shown strong double-digit growth as new licences were issued and sites were rolled out and this is expected to continue until the markets mature. EBTs 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 5% of the gambling market and growth will be driven by the roll out of additional sites by province. EBTs are currently not operating in the Western Cape, the Free State and the Northern Cape and have only recently commenced trading in KwaZulu-Natal.

Sports betting and horse racing make up approximately 19% of the gambling market and growth in sports betting is strong. The growth in sports betting is driven by the betting on the lottery and other number games, which are subject to challenge from the National Lottery.

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 enforcement of the ban on online gaming and it is not considered a significant risk. However, the group does see it as an opportunity in the event that it is legalised.

Illegal land-based gambling sites are impacting casino, EBT and LPM revenues and impact government through reduced taxes and society through lost employment opportunities, reduced CSI initiatives, reduced economic growth and impaired consumer protection. Closing down illegal operators remains a significant challenge and more effort is required from the dti, SARS, law enforcement agencies and banking institutions in stopping illegal gambling transactions and raiding and closing down illegal land-based sites.

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 both the casino and EBT industry is if the roll out of licensed EBT outlets is on an uncontrolled basis and if the maximum bet and maximum payout 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 2010 FIFA World Cup™ 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 but have stagnated at around 64% from 2016 to 2018.

The fiscal austerity measures implemented by government remain in place, although government business is increasing, albeit off a lower base and at sub-optimal average room rates. The visa requirements for the collection of biometric data and in-person applications, which constrained growth in prior years, has largely been resolved but the unabridged birth certificate issue remains for guests travelling with minors.

International demand, particularly in Cape Town, remained strong until December 2017 but has subsequently been adversely impacted by the water situation in Cape Town and this is expected to adversely impact the market in the short term. In addition, five new hotels opened in Cape Town during the year which will place additional pressure on the market. The value offered to international travellers was adversely impacted by the strengthening of the Rand during the year. 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 45 486 rooms available as at 31 March 2018. The group's share of the formal market rooms available is approximately 28% for hotels the group operates and 33% for hotels the group owns, including HPF, 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 and 2018 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 and the resultant weakening of the local currencies. 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.

Technology remains a key business enabler for the group and technology operating models continue to evolve and require ongoing evaluation and investment. The key areas of priority include the ways in which we work and interact with customers (including touch points and adding value to their journey), making resources more productive, and deploying relevant technology more rapidly. Significant emphasis will continue to be placed on analytics, business intelligence and digital platforms.

The technology trends most relevant to our industry include:

- availability of robust broadband will remain critical and will require ongoing investment. In due course there will be the ability to make hotel rooms 'smart' without the expense of installing additional networks or controllers (e.g. smart thermostat to remotely control the temperature in a room, switching off lights and other energy consuming devices), and mobile operators will be able to provide their services over our Wi-Fi network in both hotels and casinos;
- the 'mobile everywhere' reality which requires both customers and staff to have real-time access to applications, dashboards and significant volumes of data, including the ability to:
  - track status, preferences, benefits and customer value ensuring they are rewarded equitably;
  - transact with minimal face-to-face human interaction;
  - service customers anywhere and customers to conduct their own self-service at any location, whether onsite or offsite;
  - migrate 'gaming wallets' from a smart card to a smart mobile device utilising technologies such as Bluetooth and NFC;
- the reintroduction of guest facing hotel kiosks in an effort to either reduce staff or allow the staff to focus on delivering value in other areas;
- workforce management and planning solutions are coming of age and are being rolled out quite extensively. These are primarily used for scheduling and rostering and make use of big data/ artificial intelligence to predict business levels and plan accordingly. Businesses are actively exploring technology solutions to integrate their existing technologies to reduce human input and automate processes;

- 'agile' deployment of technology which includes the demand to speed up deployment, keep up with the pace of change across all business functions, and provide more regular software updates and upgrades;
- deriving quality analytics from high volumes of data and utilising machine learning and artificial intelligence to optimise business opportunities;
- harvesting social media for real-time feedback in order to identify and rectify issues timeously; and
- adoption of 'cloud' services.

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 previously 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. Recent political developments have been positive but the run up to the 2019 elections may result in further disruption and compromise.

The gaming industry is exposed to anti-gaming sentiment, which increases the risks of excessive taxation and regulation. The reality, however, is that 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. These benefits are, however, not provided by illegal land-based or online gambling sites and more effective policing and prosecution is required to achieve the benefits. In addition, the illegal sites are not regulated and the issues of problem gambling and the proliferation of gambling is not controlled.

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 environmental focus areas are the reduction of consumption through innovative physical property and behavioural changes and the responsible management of the supply chain and waste.

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 reverse osmosis plants, boreholes, water treatment plants and 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.

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 Financial strength and durability	40 54
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 Deliver to our beneficiaries Regulatory compliance	30 45 59
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 Product relevance to customer experience Organic and inorganic growth	14, 16, 18 55 65, 68
Intellectual	Our Tsogo Sun brands underpin the quality experiences of our customers. We are consistently striving to innovate our physical product, technology, accessibility and brands 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	55
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	60
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	45

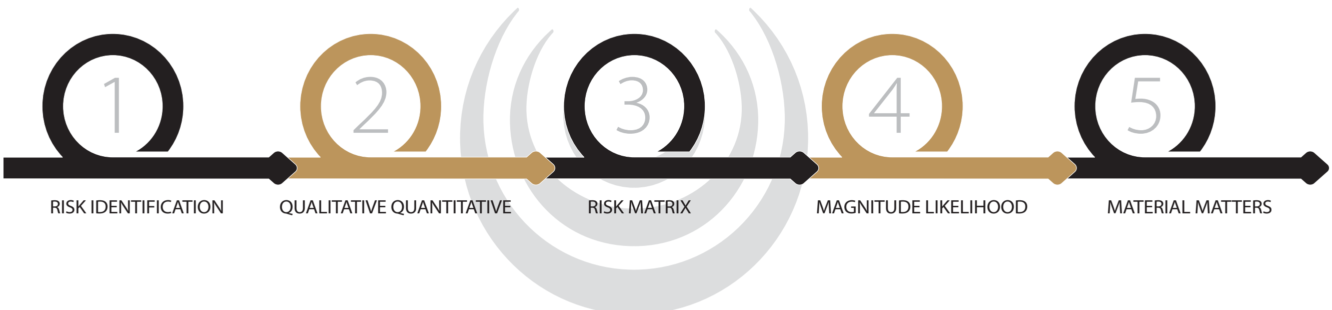
Materiality, material risks and opportunities

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.

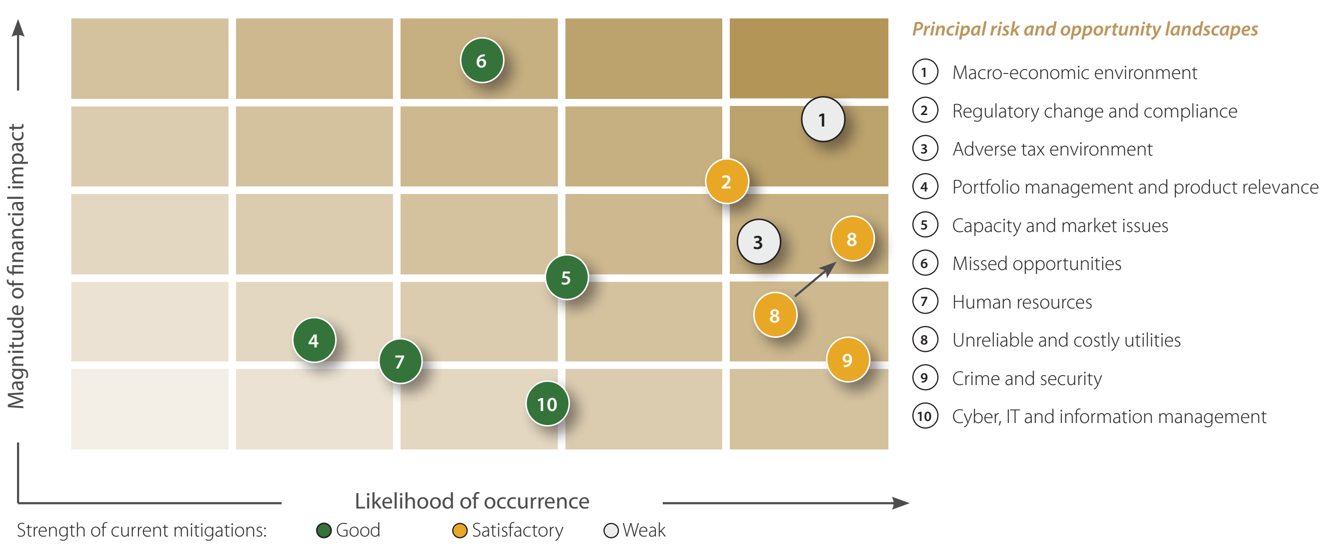


MATERIAL RISKS AND OPPORTUNITIES

The risk management process followed in identifying the group's top risks and opportunities is included on page 79. 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 28 and 29.

TSOGO SUN GROUP RISK AND OPPORTUNITY LANDSCAPES MOVEMENT

from March 2017 to March 2018



Materiality, material risks and opportunities continued

Principal risk landscapes	Specific risks we face	Potential impact
Macro-economic environment	• 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	• Lower revenue growth and profitability • Increased funding costs
Regulatory change and compliance	• Additional casino licences or relocation of existing casino licences • Policy uncertainty • Smoking legislation • Changes in casino licensing conditions • Bingo legislative issues and legal challenges • Changing BBBEE requirements • Increased complexity of compliance, e.g. POPI, CPA and FICA • Visa regulations • Loss of casino licences	• Lower revenue, higher costs and reduced profitability • Uncertain operating environment resulting in frozen investment spend
Adverse tax environment	• Potential increased national and provincial gaming taxes • Possible additional VAT increases • Increase in personal taxes • Aggressive tax authorities • Increased rates and property taxes	• Reduced profitability • Uncertain operating environment resulting in frozen investment spend • Increased cost of compliance
Portfolio management and product relevance	• 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	• Reduced income and profitability • Obsolete hotel stock • Reduced footfall and customers and thus gaming win • Disruption to operations and reduced profitability
Capacity and market issues	• Fixed cost nature of the business • Impact of Time Square on the Gauteng market • Trading disruption during construction • Casino capacity constraints • Security of tenure on leases and management contracts • Ability to manage booking channels including OTAs and Airbnb • Hotels oversupply in certain markets • Locations of EBTs infringing on casinos	• Lower revenue growth and profitability
Missed opportunities	• New gaming opportunities • Investments in expansion not yielding expected returns • Hotels opportunities, local and offshore • Ineffective integration of acquired businesses	• Lower revenue growth and profitability • Missed revenue opportunities • Wasted investment
Human resources	• 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	• 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	• Unreliable water supplies • Unreliable electrical supply • Rise in electricity and water costs	• Disruption to operations and reduced profitability • Machinery breakdown
Crime and security	• Casino and hotel robberies/follow home robberies • Major violent incidents • Fraud by employees/from external sources • Illegal gambling	• Lower revenues, increased cost and lower profitability • Reputational risk
Cyber, IT and information management	• Hacking and hacktivism • Sub-optimal online transacting • Payment card industry data security standards • POPI legislation • Loss of information	• Reputational risk • Fines and penalties • Reduced income and profitability

Risk responses	Associated strategic priorities
• Revised strategic priorities • Review organisational structures • Further focus on cost reduction • Renewed and focused marketing and promotions • Reward programmes	• Financial strength and durability 54 • Organic growth 65
• 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	• Deliver to our beneficiaries 45 • Regulatory compliance 59
• Lobby government through CASA • Educate legislators regarding gaming impact through direct lobbying • Lodge of appeals on assessments and property valuations • Robust compliance procedures	• Deliver to our beneficiaries 45 • Regulatory compliance 59 • Organic growth 65
• 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	• Product relevance to customer experience 55 • Organic growth 65
• Review organisational structures • Further focus on cost containment • Interaction with gambling boards and city officials • Monitoring returns on new businesses	• Organic growth 65
• Proper and robust evaluation of all new opportunities • Non-financial due diligence of opportunities • Monitoring returns on new businesses	• Organic growth 65 • Inorganic growth 68
• 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	• Human resources 60 • Deliver to our beneficiaries 45
• Demand-side management programmes to reduce consumption • Water handling/storage capacity for emergency supply • Self-reliance on generators for emergency electricity supply	• Product relevance to customer experience 55 • Organic growth 65
• 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	• Regulatory compliance 59 • Organic growth 65
• IT security • Payment card industry standard compliance • Appointment of Information Officer • Review of online transaction opportunities and website rewrite • Increased IT auditing and assurance	• Regulatory compliance 59 • Organic growth 65

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 61, 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	Associated strategic priorities	
• 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 • Tsogo Sun website	• Sustainable growth and returns on investment • Dividends • Risks and opportunities of expansion • Transparent executive remuneration • Corporate governance and ethics • Liquidity and gearing	Financial strength and durability Organic growth Inorganic growth	54 65 68
• 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, e.g. CASA, Fedhasa, BLSA, etc.	• 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	Deliver to our beneficiaries Regulatory compliance Human resources	45 59 60
• Satisfaction surveys • Rewards programmes • Customer relationship managers • Call centres • Website and active Twitter and Facebook engagement • One-on-one interaction	• Quality product • Consistent quality experience • Simpler and quicker to deal with us • Value offerings • Long-term security of supply • Recognition for loyalty	Product relevance to customer experience	55
• Events and sponsorships • Media channels • Corporate social investment initiatives • National Responsible Gambling Programme	• Investment in disadvantaged communities • Employment opportunities • Sponsorships • Responsible gaming	Deliver to our beneficiaries	45
• 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 'livingTSOGO'	• 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	Human resources	60
• One-on-one meetings • Tender and procurement processes • Anti-fraud, ethics and corruption hotline • Supplier forums and showcases	• Timely payment and favourable terms • Fair treatment • BBBEE compliance	Deliver to our beneficiaries	45

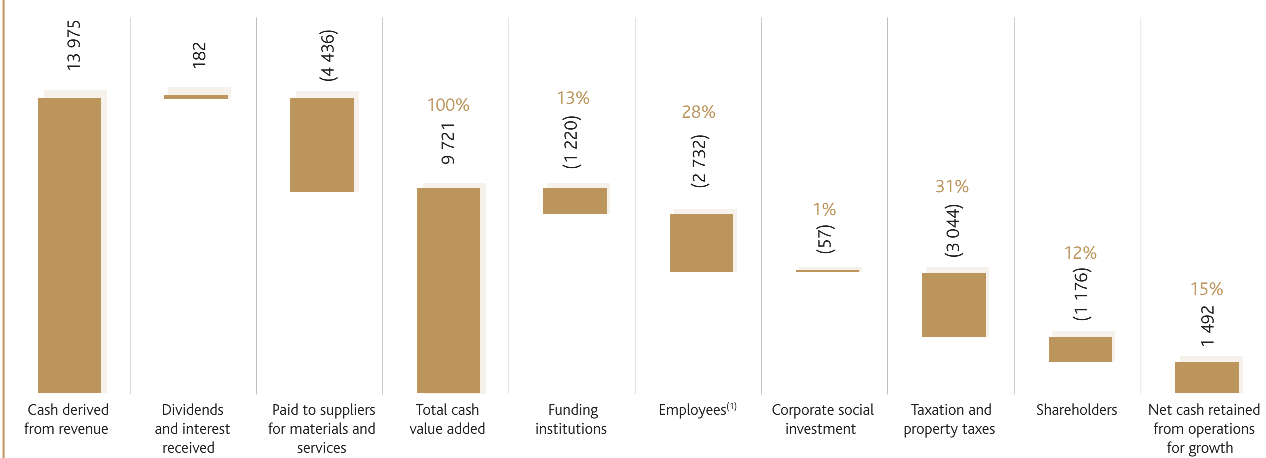
Key relationships continued

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.

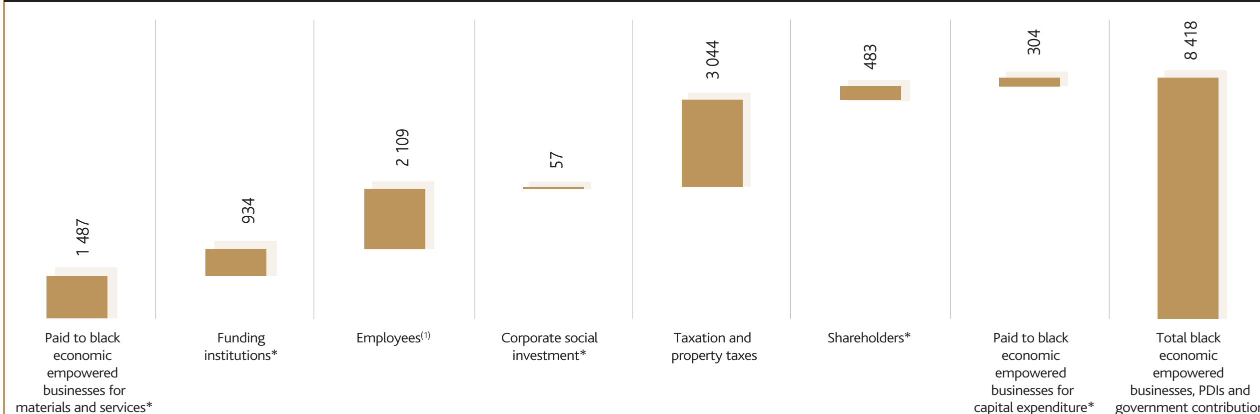
A substantial portion of the value added wealth generated by the group is spent with/distributed to black economic empowered businesses, PDIs and government. The value added by the group and the contribution to black economic empowered businesses, PDIs and government is as follows:

Value added for the year ended 31 March 2018 (Rm)



Cash derived from revenue	Dividends and interest received	Paid to suppliers for materials and services	Total cash value added	Funding institutions	Employees[1]	Corporate social investment	Taxation and property taxes	Shareholders	Net cash retained from operations for growth	
13 222	177	(3 590)	9 809 100%	(1 119) 11%	(2 575) 26%	(65) 1%	(2 843) 29%	(1 221) 12%	1 986 20%	2017

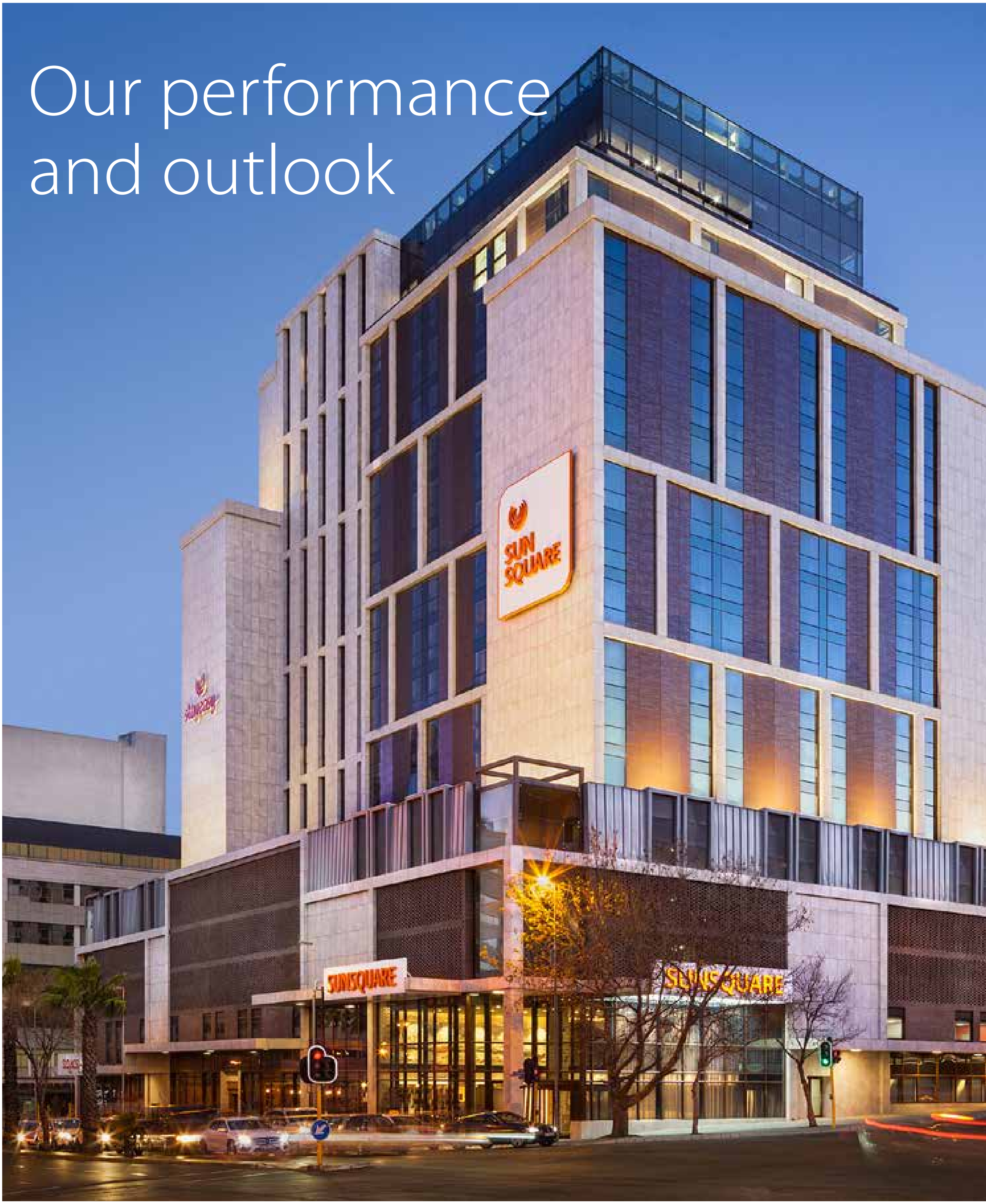
Value added to black economic empowered businesses, PDIs and government for the year ended 31 March 2018 (Rm)



Paid to black economic empowered businesses for materials and services*	Funding institutions*	Employees[1]	Corporate social investment*	Taxation and property taxes	Shareholders*	Paid to black economic empowered businesses for capital expenditure*	Total black economic empowered businesses, PDIs and government contribution	
1 775	955	1 944	65	2 843	474	482	8 538	2017

** As per the Department of Trade and Industry tourism sector code*
[1] Net pay to employees with employees' tax included in taxation

Our performance and outlook



Chairman and Chief Executive Officer's review

John Copelyn – Chairman
Jacques Booysen – Chief Executive Officer

Adjusted headline earnings per share reduced by 5% due to the difficult macro-economic environment, poor business confidence and consumer sentiment and political uncertainty. The potential impact of the positive political developments during December 2017 resulted in improved sentiment which has not yet translated into a significant improvement in trading.

OVERVIEW

The year ended 31 March 2018 delivered overall revenue growth of 6% despite a disappointing reduction in casino gaming win by 2%. The overall revenue growth was positively impacted by the inclusion of the Gameco businesses from 20 November 2017 and the consolidation of HPF for the full year as compared to the five months in the prior year. Trading results were negatively impacted in casino gaming by the opening of Time Square in Menlyn on 1 April 2017. The South African gaming and hotel operations also reflect the difficult macro-economic environment, poor business confidence and consumer sentiment and political uncertainty. The potential impact of the positive political developments during December 2017 resulted in improved sentiment which has not yet translated into a significant improvement in trading. The offshore hotels continued to experience difficult trading conditions, with total revenue declining by 11% year-on-year. With organic revenue growth under pressure, the group continued with its focus of containing costs without impacting the customer experience. Adjusted headline earnings per share reduced by 5% due to the challenging overall trading environment.

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

- the acquisition of HCI and all other shareholders' interests in Gameco for a combination of 98.5 million Tsogo Sun shares and R1.7 billion in cash;
- a further 29 hotel properties were 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 59.2% of HPF;
- the development of a US$16 million 125 room StayEasy in Maputo, Mozambique, which opened during April 2018; and
- the acquisition by HPF of various sections and exclusive use areas of the Sandton Eye sectional title scheme from Savana Property Proprietary Limited and an existing real right of extension in the scheme from Sandton Isle Investments Proprietary Limited for R302 million.

MAJOR ACQUISITIONS

F'10
- 30% of Suncoast (R1.0 billion)
- Century Casinos (R438 million)

F'11
- Gold Reef merger

F'12
- 16.5% of Suncoast (R510 million)
- 52.6% of Hotel Formula1 (R300 million)

F'14
- 10% of Suncoast (R400 million)
- 75.5% of Southern Sun Ikoyi (R695 million)

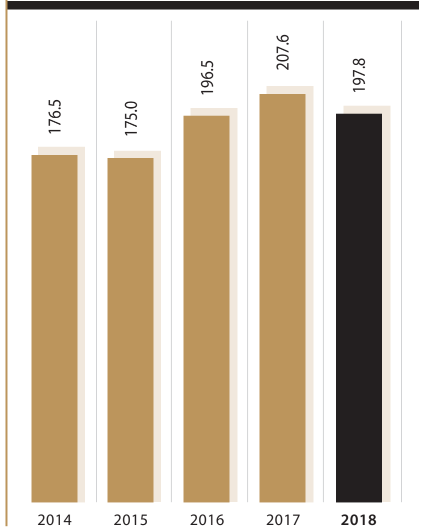
F'15
- 10% increase in interest in Cullinan and acquisition of hotel assets (R762 million)
- 25% of RBH (R145 million)
- Buy-back of 12% of Tsogo Sun ordinary shares (R2.8 billion)

F'16
- 25.9% of IHPL (R315 million)
- 55% of HPF B-linked units (R252 million)

F'17
- 20% of the GrandWest and Worcester casinos (R1.3 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'18
- Acquisition of Gameco (R3.7 billion)

Adjusted HEPS (cents)



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

- the continued construction on the R1.6 billion expansion and refurbishment of the Suncoast Casino and Entertainment World. The project includes past spend with the Salon Privé opened in August 2018 and the remainder of the project scheduled to open in December 2018; and
- continuing engagement with the Western Cape provincial government regarding the relocation of smaller casinos to the Cape Town metropole.

The industry continues to face regulatory challenges, including potential amendments to smoking legislation and Gauteng provincial gaming taxes, and these are being addressed as far as practical through constructive engagement with the decision-makers to enable a stable regulatory environment.

STRATEGIC PRIORITIES DURING THE YEAR

The strategic priorities of the Tsogo Sun group during the year remained 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 in which we continue to focus on enhancing our performance.

Financial strength and durability

Closing net debt increased to R12.5 billion mainly as a result of the acquisition activities referred to earlier in this review, with a net debt:Ebitdar ratio of 2.4. The group's committed debt facilities total R17.3 billion, some R4.7 billion above the current drawdown (including available cash on hand), and have an average tenure of 32 months. 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.

The proposed split of the business between a property company, a gaming operating company and a hotel operating company will impact the financial strength and durability of the group as the two operating companies will have higher levels of operational gearing and will retain limited properties that can be utilised as security. The proposed disposal of the casino precinct properties to HPF at an LTV of 35% will mitigate the risk as the majority of the debt will be in the entity with more stable cash flows and significant properties that can be used as security.

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 increased its ownership in the group to 51.2% during the year upon the acquisition by the group 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 in which we operate. In total, R57 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 242 emerging businesses in the tourism sector and other industries throughout the country.

Tsogo Sun is extremely proud of having retained 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 24 500 people employed directly and indirectly by the group and the R2.4 billion in direct taxes paid per annum. We refer you to the value added statement in the key relationships section on page 32 and the community section on page 45 for further information.

Product relevance to customer experience

The group continues to reinforce its position with established brands 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 gaming and hotel offerings. During the past five years, the group has spent R4.1 billion on casino and hotel refurbishments. The effect of this is that, despite the current difficult trading conditions, when the economic outlook improves, the group will not be faced with a major capital expenditure backlog.

Continued focus remains on facilitating ease of business for our customers ranging from hotel bookings to ordering refreshments on the gaming 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, while often well intended, 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 R183 million during the 2018 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 employee engagement, a survey was completed during the year. The results were very encouraging with an improvement in virtually all categories on the previous survey in 2014. Our remuneration philosophy is aimed at ensuring that we attract and retain talented employees. The remuneration section on pages 81 to 88 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.

Organic growth

Casino gaming win growth was negatively impacted by the macro-economic environment and consumer sentiment. Casino gaming win reduced by 2%, with a 4% reduction in tables win and a 1% reduction in slots win. 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 0.4pp to 63.6%, 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 1% on the prior year to R621, mainly as a result of no growth in average room rate on the prior year.

Trading for the group's owned hotels excluding South Africa remained under pressure with occupancies down 1.3pp on the prior year to 51.1% and average room rates 10% down in Rand terms, mainly due to the strengthening of the Rand. 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 2018 financial year reflects an income and Ebitdar growth of 6% and 4% respectively, assisted by the acquisitions implemented in the current and prior year. Excluding the impact of the Gameco acquisition, total income grew by 1% and Ebitdar was flat on the prior year. The Ebitdar margin weakened by 0.5pp to 37.7% due mainly to the weak organic income growth.

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 2018 financial year, excluding the HPF asset for share transaction. For details of the transactions refer to page 68.

The acquisition of Gameco during the year 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.

Further opportunities are being pursued, with the most significant being the Suncoast expansion and the Western Cape relocation. In addition the group continues with the growth of its property portfolio through the roll out of Monte Circle office buildings at Montecasino.

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.

STRATEGIC REVIEW

The group intends to transfer a significant portion of its casino real estate assets to HPF following the two transactions concluded in 2016 and 2017 whereby a significant portion of the group's hotel properties were transferred to HPF. On conclusion of the proposed transaction, HPF will be the property company and is expected to own investment property with a fair market value of approximately R36 billion. The intention is to distribute the group's holding in HPF to the Tsogo Sun shareholders.

In addition to the property company the group intends to separate the operations into two asset light operating companies:

- Tsogo Sun Gaming will be a gaming-focused operating company with a portfolio of traditional land-based casino operations and growth businesses in alternative gaming operations consisting of Galaxy and Vukani; and
- Southern Sun Hotels will be a hotel management company with a portfolio of over 90 hotels under management spread across the industry spectrum, from deluxe to budget, operating throughout South Africa, sub-Saharan Africa, the Seychelles and the United Arab Emirates. The group intends to unbundle the Southern Sun Hotels operation into a separate JSE listing.

The group anticipates that the separation of Tsogo Sun into these three focused companies will unlock value and provide greater investment choice for shareholders. The proposed unbundling of the hotel and property businesses will then result in the separate listing of the hotel, property and gaming businesses with all three resultant entities remaining subsidiaries of the HCI group.

GOVERNANCE

Our reporting on our application of the King IV™ principles has been integrated into our report. The board has a collective commitment to leading ethically, acting in good faith and in the best interests of the business. The board's responsibility for the governance of ethics includes the approval of the ethics policy and oversight of its implementation through the social and ethics committee.

APPRECIATION

We wish to extend our appreciation to the board, management and the staff of the group for their contributions during the year. Tsogo Sun, with its irreplaceable assets and talented workforce, is perfectly positioned for an upturn in the economy.

John Copelyn
Chairman

15 August 2018

Jacques Booysen
Chief Executive Officer

15 August 2018

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.

Trading for the year ended 31 March 2018 was impacted by the continued pressure on the consumer due to the macro-economic environment, extremely weak sentiment and political uncertainty.

Rob Huddy – Chief Financial Officer

Income R14.0 billion	↑	6%
Ebitdar R5.3 billion	↑	4%
Ebitdar margin 37.7%	↓	0.5pp
Adjusted HEPS 197.8 cents	↓	5%
Dividends in respect of the year 102.0 cents per share	↓	2%
Free cash flow R1.9 billion	↓	13%
Net debt R12.5 billion		
Net debt:Ebitdar 2.4 times		
Investment activities R2.6 billion		
Unutilised net facilities R4.7 billion		

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 2018.

Commentary on the organic growth during the year is included in the segmental operational performance on pages 65 to 67.

Commentary on inorganic growth is included on pages 68 and 69.

Commentary on net interest-bearing debt and interest rate and currency risk management is included in the financial strength and durability section on page 54.

INCOME STATEMENT COMPARISON FOR THE YEAR ENDED

	31 March 2018 Rm	31 March 2017 Rm	% change on 2017
Income	**13 975**	13 222	6
Gaming win	**7 940**	7 483	6
Revenue			
Rooms	**3 160**	3 078	3
Food and beverage	**1 561**	1 434	9
Property rental income	**549**	445	*
Other	**765**	782	(2)
Ebitdar	**5 271**	5 049	4
Casino Gaming	**3 408**	3 540	(4)
Alternative Gaming	**238**	–	*
Hotels – South Africa	**1 470**	1 359	8
– Offshore	**119**	146	(18)
Foreign exchange losses	**1**	(38)	*
Corporate	**35**	42	*
Ebitdar margin	**37.7%**	38.2%	(0.5pp)
Long-term incentives	**24**	(49)	*
Property rentals	**(282)**	(242)	(16)
Amortisation and depreciation	**(912)**	(846)	(8)
Exceptional items	**(439)**	787	*
Finance costs (net)	**(1 157)**	(1 023)	(13)
Associates and joint ventures	**63**	38	66
Income tax	**(410)**	(665)	38
Non-controlling interests	**(187)**	(542)	*
Attributable earnings	**1 971**	2 507	(21)
Adjustments	**(5)**	(520)	*
Adjusted earnings	**1 966**	1 987	(1)
Weighted average number of shares in issue (m)	**994**	957	(4)
Adjusted HEPS (cents)	**197.8**	207.6	(5)

* *Variance not meaningful*

Trading performance

Trading for the year ended 31 March 2018 was impacted by the continued pressure on the consumer due to the macro-economic environment, extremely weak sentiment and political uncertainty. The trading results were assisted by the acquisition of Gameco comprising the Galaxy Bingo and Vukani Slots businesses on 20 November 2017 and the acquisition of HPF and two hotel businesses from Liberty in the prior year and negatively impacted casino gaming by the opening of the Time Square Casino in Menlyn. The potential impact of the positive political developments have resulted in improved sentiment which has not yet translated into a significant improvement in trading, although trading in the second half was better than in the first half of the year. In the low revenue growth environment continued cost control remained a significant focus during the year.

Total income for the year of R14.0 billion ended 6% above the prior year with a 6% growth in net gaming win and assisted by a 9% growth in food and beverage revenue and strong growth in property rental income. The net gaming win growth is assisted by the acquisition of Gameco during the year.

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, offset by savings initiatives. Excluding the non-organic growth and foreign exchange gains/losses, operating expenses increased by only 1% due to tight overhead control. Non-organic represents all new business operations commencing during the current and prior year.

Ebitdar at R5.3 billion for the year was 4% up on the prior year. Excluding the impact of the Gameco acquisition total income grew by 1% and Ebitdar was flat on the prior year. The overall group Ebitdar margin of 37.7% is 0.5pp down on the prior year.

Long-term incentives

The long-term incentive credit on the cash-settled incentive scheme of R24 million 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. A share price of R25.50 was used to value the liability at 31 March 2018.

Rentals, amortisation and depreciation

Property rentals at R282 million are 16% up on the prior year mainly due to the opening of the SunSquare and StayEasy Cape Town City Bowl hotels on 1 September 2017, offset by the renegotiation of the Southern Sun Nairobi lease.

Amortisation and depreciation at R912 million is 8% up on the prior year due mainly to the capital spend during the current and prior years.

Exceptional items and adjustments

Exceptional losses for the year of R439 million relate to fair value losses on the revaluation of investment properties of R191 million, mainly related to the non-Tsogo leased hotels in HPF, goodwill and intangible asset impairments of R112 million, pre-opening costs of R19 million, transaction costs of R33 million, restructure costs of R38 million and plant and equipment disposals and impairments of R70 million, mainly related to the Suncoast expansion, interest rate swap fair value adjustments of R2 million and fair value losses on non-current assets held for sale of R1 million, offset by previously impaired loans recovered net of impairments of R27 million.

Exceptional gains for the prior 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, interest rate swap fair value adjustments of R6 million and transaction and restructure costs of R34 million.

Net finance costs

Net finance costs of R1.2 billion are 13% above the prior year due to the increase in debt to fund the growth strategy.

Share of profits of associates and joint ventures

The share of profits of associates and joint ventures of R63 million improved by R25 million on the prior year mainly due to earnings, including the group's share of exceptional gains of R15 million, from International Hotel Properties Limited and RBH Hotel Group Limited, the group's European hotel investments.

Taxation

The effective tax rate, which excludes the group's share of profit of associates and joint ventures, for the year of 16.4% is impacted by the release of deferred tax liabilities of R307 million on the disposal of assets to HPF, tax exempt dividend income, pre-tax profits attributable to the HPF non-controlling interests due to its real estate investment trust ('REIT') tax status, offset by the non-deductible fair value losses on investment property referred to above and non-deductible expenditure such as casino building depreciation.

The effective tax rate for the prior 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, the release of deferred tax liabilities of R56 million on the disposal of assets to HPF, 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.

Non-controlling interests

Profit attributable to non-controlling interests of R187 million is R355 million below the prior year mainly due to HPF non-controlling interests' share of profits and the fair value losses on investment properties in the current year and gains in the prior year, offset by increased local currency profits at Southern Sun Ikoyi and Southern Sun Maputo due to foreign exchange losses in the prior year not repeated in the current year.

Earnings

Group adjusted headline earnings for the year at R2.0 billion ended 1% below the prior year. The adjustments include the reversal of the post-tax impacts of the exceptional gains or losses noted above, in addition to the release of the deferred tax liabilities of R307 million noted in taxation above and the exceptional gains in the share of profit of associates and joint ventures, net of tax and non-controlling interests. The adjustments in the prior year include the reversal of the post-tax impacts of the exceptional gains or losses noted above, in addition to the reversal of the remeasurement of the Cullinan put option included in net finance costs, the release of deferred tax liabilities of R56 million noted in taxation above and the exceptional gains in the share of profit of associates and joint ventures, net of tax and non-controlling interests.

The number of shares in issue increased during the year on the acquisition of Gameco with the weighted average increasing by 4% and the resultant adjusted headline earnings per share is 5% down on the prior year at 197.8 cents per share.

CASH FLOW

	31 March 2018 Rm	31 March 2017 Rm	% change on 2017
Cash generated from operations	**4 394**	4 771	(8)
Dividends received	**110**	134	
Net interest paid	**(1 148)**	(1 076)	
Income tax paid	**(688)**	(627)	
Operating equipment	**(55)**	(65)	
Maintenance capital expenditure	**(675)**	(925)	
Free cash flow	**1 938**	2 212	(12)
Dividends paid to shareholders	**(1 015)**	(975)	
Pre-acquisition dividend paid	**–**	(133)	
Dividends paid to non-controlling shareholders	**(161)**	(113)	
Disposal proceeds	**9**	145	
Investment activities	**(2 576)**	(2 590)	
Treasury share settlement	**86**	–	
Cash proceeds of rights issue	**995**	–	
Other	**(8)**	6	
Increase in net interest-bearing debt	**(732)**	(1 448)	
Opening net interest-bearing debt	**(12 113)**	(9 248)	
Acquired with acquisitions	**191**	(1 536)	
Accrued interest, prepaid borrowing costs and currency moves	**117**	119	
Closing net interest-bearing debt	**(12 537)**	(12 113)	

Cash generated from operations for the year reduced by 8% on the prior year to R4.4 billion. Net finance costs increased by 7% due to the increase in net debt, taxation paid increased by 10% mainly due to refunds received from SARS in the prior year, dividends paid to shareholders and non-controlling interests increased by 8%. The prior year included an HPF pre-acquisition dividend paid of R133 million. Cash flows utilised for investment activities of R2.6 billion (net of the R1.0 billion rights issue in HPF) consisted mainly of replacement capital expenditure and the acquisitions and investments described under the inorganic growth section on page 68.

DIVIDENDS

The board of directors declared a final gross cash dividend from income reserves in respect of the year ended 31 March 2018 of 70.0 cents per share. The number of ordinary shares in issue at the date of this declaration is 1 059 189 290 (excluding treasury shares of 88 468 494). The total dividends declared in respect of the 2018 financial year amounted to 102.0 cents per share which is 2% down on the 2017 financial year and which equates to 52% of fully diluted adjusted HEPS.

SUBSEQUENT EVENTS

There are no matters or circumstances arising since 31 March 2018, not otherwise dealt with in the financial statements, other than the progress noted on the HPF transactions on page 69, 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

15 August 2018

Sustainability strategy in action

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

	2018	2017
Black ownership	**65%**	62%
Value added contribution to black economic empowered businesses, PDIs and government	**R8.4 billion**	R8.5 billion
BBBEE level	**Level 1**	Level 1
CSI outcomes	**Tsogo Sun sports, arts and learning academies support 42 010 learners**	Tsogo Sun sports, arts and learning academies support 46 398 learners
ESD outcomes	**Tsogo Sun Entrepreneurs programme supports 242 beneficiaries**	Tsogo Sun Entrepreneurs programme supports 200 beneficiaries

2018 PERFORMANCE

Shareholders

As mentioned in the group overview on page 03 the nature of the HCI shareholding is of particular importance as it provides the bulk of the 65% 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 continues to be committed to uplifting and developing communities in need, spending a portion of our profits annually on social investment through Tsogo Sun Citizenship in three primary areas – community development, entrepreneurial development, and the natural environment. We effectively harness our resources, geographic spread, and extensive experience to deliver initiatives that create a lasting and positive impact on the communities where we are located.

Community development

During the year, the group's combined social investment in community development amounted to R57 million, all of which is verified spend on BBBEE socio-economic development. This is the equivalent of 2.9% of net profit after tax and represents 1.9pp more than the tourism sector code target.

The group's hotel and casino properties continue to uphold their mandate to provide significant support and involvement to their local communities, in line with corporate policy, reaching 42 010 learners throughout the year-long initiatives.

In direct response to alarming unemployment levels among young people in South Africa, Tsogo Sun has strengthened its focus on education, particularly in the area of career guidance and preparation for employment for high school learners from impoverished backgrounds. In 2017 Tsogo Sun introduced an online platform to facilitate this for grades 9 to 12, starting with online evaluations that match interests, skills and aptitudes with personality types to establish

DELIVER TO OUR BENEFICIARIES continued

the most suitable career opportunities for each learner. This assists with learner subject choices in line with their potential career choices. In grade 10, learners attend workshops on topics such as financial literacy and tertiary education options. Grade 11 and 12 learners receive assistance with applications for higher education and job-readiness training.

Tsogo Sun's focus on education also includes peer-driven initiatives through Columba Leadership, which have been sponsored by the group since 2013. Columba is a high impact programme for high schools in economically disadvantaged communities that encourages youth to be self-motivated, work-ready and employable. Principals, educators and grades 10 to 12 learners work together to assess their schools' challenges and implement solutions, become engaged in social change projects, and develop critical skills for life and work.

The Moves for Life chess programme operates nationally in 49 schools with more than 18 000 participating learners from local communities. It entails weekly classes during school hours and is aimed at unlocking cognitive potential in children through the structured implementation of chess education, where aspects of the game are linked with mathematics, science and life skills concepts, and the learning is made fun and exciting.

Also delivering value to local communities is the 'Safe-Hub' programme, sponsored by Tsogo Sun in areas around South Africa and run by AMANDLA EduFootball, which provides children from grade R to matric access to a safe environment for facilitated sports, arts, life skills lessons, and personal development. The Safe-Hub also features the PlayMaker Learnership, a one-year accredited programme for young people committed to changing their communities and being positive rolemodels. The learnership includes an NQF level 4 in sports administration qualification, as well as training to implement the EduFootball programme, and valuable work experience.

Other educational initiatives within the group include Olwazini Discovery and Computer Centre, a science and cultural centre geared at making education fun and promoting learning of science, technology and mathematics, and the Apartheid Museum, the leading museum in the world dealing with 20th century South Africa, and more particularly, the apartheid years.

Learners are frequently hosted at both these facilities to improve their knowledge and understanding. Tsogo Sun properties are also involved in the provision of bursaries and learnerships across schools nationally and through the Suncoast Bursary programme; Hemingways Casino's sponsorship of the ITEC mathematics, science and technology programme that contributes towards improved competence in the subjects among learners in the Eastern Cape; and through Cape Town properties, involvement and support of the Mellon Educate education development programme to benefit more than 100 000 disadvantaged learners over 10 years through the Building Blitz initiative.

Over and above these efforts to improve access and efficacy in education, at our many destinations around the country, Tsogo Sun supports its local communities in the areas of further education, health and welfare through the provision of clothing, food, linen, furniture, fittings and equipment, donations, prize letters, collections and in-kind contributions. Throughout the year, the group supports local community organisations, charities, old-age homes, orphanages, shelters, hospices and local schools, and when disasters occur.

Enterprise and supplier development

Tsogo Sun develops emerging enterprises 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 all industries, with a particular focus on those in the tourism sector.

The group's combined spend on enterprise and supplier development for the year is R101 million, R21.1 million of which was spent on enterprise development beneficiaries and R79.4 million of which was spent on supplier development beneficiaries, representing a total of 5.1% of net profit after tax, which is 1.6pp above the tourism sector code target.

The group's enterprise and supplier development plan 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 the Tsogo Sun Entrepreneurs programme, and at the same time ensures that our procurement requirements are met.

As part of this plan, we support 242 businesses who are enrolled in the Tsogo Sun Entrepreneurs full year development programme, which provides business mentorship, leadership coaching, a University of Cape Town ('UCT') accredited business course, business foundation skills and various other benefits to the beneficiaries. As the only programme of its kind in South Africa, 80% of the entrepreneurs developed by Tsogo Sun Entrepreneurs are black South African women.

A total of 53 businesses in the Alumni phase have expanded their operations as a result of the programme. Each employs between one and 50 staff and reaches up to 30 people in the value chain. A total of 200 entrepreneurs have successfully completed the UCT Business Management Course funded by the programme.

Tsogo Sun volunteers

Tsogo Sun staff continue to demonstrate compassion for those who are less advantaged in their communities in tangible ways, reaching out to meet real need with thousands of volunteer hours, donations and resources contributed to upliftment initiatives annually. Campaigns supported across the group include Mandela Day, Reach for a Dream, Casual Day, Slipper Day, Tekkie Tax Day, the CANSA Shavathon and PinkDrive breast cancer education and awareness.

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	**2018**	2017
Ownership	27	**27.0**	27.0
Management and control	19	**11.3**	10.4
Skills development	20	**19.3**	18.8
Enterprise and supplier development	40	**41.1**	37.3
Socio-economic development	5	**8.0**	8.0
Overall	111	**106.7**	101.5
Rating level		**1**	1

The group is proud to be a level 1 BBBEE contributor with 135% procurement recognition status for 2018 and we have worked hard to implement our empowerment strategy in order to achieve this result. The group received 106.7 out of a total available 111 points on the tourism sector scorecard. Tsogo Sun's black ownership is verified at 64.9% and black women ownership is 34.6%.

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 groupwide 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 gambling 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:

- underaged 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.

DELIVER TO OUR BENEFICIARIES continued

Industry bodies

Tsogo Sun actively participates in business and industry bodies such as the TBCSA, the SATB, the NBI, Business Against Crime, 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.

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 407 tenants across Tsogo Sun's various properties, tenanting 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 tenanting 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 tenanting 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 operations 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 economic empowered businesses amounted to R3.4 billion during the year. The group's BBBEE score for preferential procurement, which is measured within the enterprise and supplier development element is 24.1 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 HPF from which the group leased ten hotel properties from September 2016 and an additional 29 hotel properties from July 2017. 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 serve the interests of our company and the community and in achieving this our stated policy and commitment are 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 and the restatements are mainly as a result of a change from DEFRA to IPCC conversion factors. The restatements are not significant at 0.07% of consumption.

Emissions measurement

Total emissions (tCO_2e)	2018	2017 Restated	2017 Reported	% change on 2017 Restated	% change on like-for-like portfolio
Scope 1	**5 529**	5 198	5 010	6	(8)
Petrol and diesel (owned company vehicles)	**1 157**	499	446	132	4
Diesel consumed (owned businesses)	**1 278**	1 871	1 767	(32)	(32)
LPG and natural gas usage (owned businesses)	**3 094**	2 828	2 797	9	5
Scope 2	**217 394**	216 516	216 516	–	(4)
Energy consumed (owned businesses)	**217 394**	216 516	216 516	–	(4)
Scope 3	**118 766**	103 504	103 458	15	(1)
Energy consumed (tenants)	**64 578**	48 571	48 488	33	(6)
Energy consumed (managed properties)	**21 510**	24 151	24 147	(11)	(2)
Laundry services (outsourced)	**30 684**	28 752	28 752	7	7
Business travel	**1 994**	2 030	2 071	(2)	(4)
Total emissions (tCO_2e)	**341 689**	325 218	324 984	5	(3)

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-eight 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 217 394tCO_2e despite the inclusion of Gameco from November 2017, the opening of the SunSquare and StayEasy Cape Town City Bowl hotels in September 2017 and the acquisition of two additional hotels in October 2016. Excluding the inorganic growth, the emissions reduced 4% on the prior year 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 9% to 3 094tCO_2e due mainly to the opening of the SunSquare and StayEasy Cape Town City Bowl hotels in September 2017 and the acquisition of two additional hotels in October 2016. Excluding the inorganic growth the emissions increased by 5% on the prior year mainly due to additional outlets using gas.

DELIVER TO OUR BENEFICIARIES continued

Petrol and diesel – vehicles

Scope 1 emissions from the consumption of petrol and diesel in company-owned vehicles increased by 132% to 1 157tCO_2e due to the acquisition of the Gameco businesses where travel to the distributed sites is significant.

Diesel – stationary

Diesel is utilised for back-up electrical generation. Scope 1 emissions from the consumption of diesel decreased by 32% to 1 278tCO_2e due to reduced load shedding and supply interruptions during the year.

Scope 3 emissions

The 33% 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. Excluding the inorganic growth the emissions decreased by 6% on the prior year. The 11% 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. Excluding the inorganic reduction, the emissions decreased by 2% on the prior year. The group utilises outsourced laundries at the majority of its owned and managed properties and the scope 3 emissions from laundry services were 7% up on the prior year.

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, subjected to the general impacts of climate change, as evidenced by the current severe water shortages in the Western Cape. Contingency plans for the hotels in Cape Town, such as reverse osmosis of brackish water and boreholes with water treatment plants, were made during the year, 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 the group's 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 6% to 2.5 million kilolitres mainly due to ongoing conservation and reduction measures at all properties, offset by the opening of the Sun Square and StayEasy Cape Town City Bowl hotels in September 2017 and the acquisition of two additional hotels 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 23 000 school children have been educated on environmental responsibility, 1 550 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.

The emphasis on career guidance and development to ensure a pipeline of development for high school learners is continuing, with significant acknowledgement of the positive impact by educators and learners.

Tsogo Sun properties are increasing their involvement and support of mentoring and job shadowing programmes in local schools, constantly seeking ways to close the gaps in career development and job readiness, and enabling a successful future.

Consistent monitoring and evaluation is essential to enable meaningful change to be accurately assessed and replicated. Comprehensive tracking and management of financial, in-kind, and employee volunteering contributions made across the group is maintained, and the participation, attendance and involvement of learners, educators and community stakeholders is monitored to evaluate the impact on our beneficiaries, how we are influencing their lives, and where more emphasis is needed for improved results.

Tsogo Sun is committed to ensuring significant depth of impact that our programmes provide to communities, engaging learners and other beneficiaries in flagship programmes and customising support to ensure opportunities are created that will have a lasting effect.

Enterprise and supplier development

The Tsogo Sun enterprise and supplier development plan will continue into its fourth 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 evaluation 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 for the second consecutive year and the future intention is to maintain this performance in the year ahead. We intend to do this through continued focus on all areas of empowerment, but specifically where we have not yet exceeded the tourism charter scorecard target – such as employment equity and skills development.

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.

Environment

The focus during the year will continue to be to ensure that the energy and water consumption management programmes remain in place with the objective of 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.

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, which has strengthened during the year in response to the need for quality education to be provided throughout the country, but particularly in impoverished areas.

Columba Leadership

Tsogo Sun delivers effective peer-driven youth development in partnership with Columba Youth Leadership.

The programme instils a sense of purpose, determination and 21st century problem-solving skills in participating students at high schools situated in economically disadvantaged communities with the aim of assisting them to become work ready and employable in today's world.

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 at grass roots level through participation in diverse projects that range from child welfare to clean-ups within our local communities.

Tsogo Sun Entrepreneurs

Tsogo Sun supports 242 businesses through the Tsogo Sun Entrepreneurs programme, which provides business mentorship, leadership coaching, University of Cape Town-accredited business courses and various other benefits to the beneficiaries to help them build sustainable enterprises. The 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 2017 – 2018 is Hezron Louw, co-owner of Sumting Fresh, a gourmet street food company with a mobile 'bustaurant' and a restaurant in Norwood, Gauteng.

Tsogo Sun Environment

Through Tsogo Sun Environment, thousands of school children have been educated on environmental responsibility and the green economy, more than 1 550 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 continuing focus is the 'Waste Stops With Me' campaign which involves beach, park, school and inner city clean-ups with the Tsogo Sun Volunteers.

Chess

The Moves For Life chess programme funded by Tsogo Sun operates nationally in 49 schools and reaches more than 18 000 participating learners who attend weekly chess classes during school hours.

Aspects of the game of chess are linked with mathematics, science and life skills concepts that unlock the cognitive potential of learners in the school foundation phase.

AMANDLA EduFootball Safe-Hub

The Safe-Hub programme, which is sponsored by Tsogo Sun in areas around South Africa and run by AMANDLA EduFootball, provides children from grade R to matric with access to a safe environment for facilitated sports, arts, life skills lessons, and personal development.

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 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 oversupply. 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: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

	2018	2017
Net debt:Ebitdar	**2.4 times**	2.4 times
Unutilised net facilities (including available cash on hand)	**R4.7 billion**	R3.4 billion
Weighted average expiry of debt facilities (excluding permanent revolving credit facilities)	**32 months**	36 months
Net debt hedged through fixed interest rate swaps	**53%**	58%

2018 PERFORMANCE

Net interest-bearing debt

Interest-bearing debt net of cash at 31 March 2018 totalled R12.5 billion, which is R424 million above the 31 March 2017 balance of R12.1 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 acquisition of Gameco during the year, together with additional funding for the group's expansion programme.

For more detail on the group's borrowings and cash position refer to notes 28 and 32 on pages 45 and 48 of the annual financial statements.

During the year an additional R3.5 billion in bank facilities were negotiated 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 which will reduce the cost of funding and provide additional funding headroom. HPF also raised R1.0 billion through a rights issue. The tenures on the majority of existing Rand facilities are to June 2020 and June 2021. Net debt:Ebitdar as at 31 March 2018 was 2.4 times with unutilised net facilities (including available cash on hand) of R4.7 billion. The weighted average number of months to expiry of the debt facilities (excluding 364-day revolving credit facilities) was 32 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 2018, 53% 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% (2017: 9.4%).

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 33% in US Dollar, 19% in Euro and 32% in Nigerian Naira with limited other local currency deposits.

LOOKING AHEAD

The facility pricing with the group's existing consortium of banks remains competitively priced. The group continues with the negotiations for a revised funding package for the proposed disposal of the casino properties to HPF and the proposed split of the remaining business between a gaming opco and a hotel opco. Gearing levels following the proposed split of the group into three listed businesses will need to be carefully managed as the two opcos will have higher levels of operational gearing and will retain limited properties that can be utilised as security. This will reduce the financial strength and durability of the operating companies.

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

	2018	2017
Gaming		
• Rewards club membership contribution to gaming revenue	**77%**	76%
• Guest satisfaction – gaming	**77%**	77%
• Slot machine average age	**5.5 years**	5.4 years
Hotels		
• Rewards club membership contribution to hotel revenue	**33%**	30%
• Guest satisfaction – hotels	**88%**	88%
• 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	**R675 million**	R925 million

2018 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 gaming 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 5.5 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.

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, governance process and all decision-making forms part of a coordinated and integrated process across relevant business functions. All strategies and decisions are developed in a collaborative manner with the business and are based on the demands of the industry within which we operate. In most areas we continue to utilise third-party packaged solutions which are industry-specific, but have also developed numerous in-house applications and integrations to differentiate our service offerings. 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. Due to continuous and responsible IT investment over the past few years there are no legacy system issues. Our systems remain current and are all fully supported by relevant vendors and/or in-house staff.

During the 2018 financial year a cloud property management system and booking engine were trialled within the SUN1 portfolio. This solution enables far more integrated and simplified management and lends itself very well to their limited onsite staff complement. The results are encouraging and the solution will be deployed to all SUN1 hotels. The digital platform continues to enable better customer engagement, relationship management and business management. The broadband Wi-Fi operating model and voice routing strategy have been remodelled to take advantage of cost-saving opportunities.

The group continued to make strides in the centralisation of other systems. Centrally hosting systems, either on premise or in the cloud, remains our preferred strategy and progress continues. Cloud opportunities within the casino management environment remain limited due to the high level of industry regulation. The hotels environment has seen some progress with existing vendors, but they are finding migrating to a cloud model challenging, and the commercial model is not yet viable. The group will increase the adoption of cloud solutions as and when these make sense.

The group remains active with all major vendors to ensure they remain relevant to our needs and those of our guests, and to protect our investment. We directly engage with these key suppliers, defining new requirements and determining priorities.

The processing and protection of all sensitive and personally identifiable information is a global priority, plus we will be challenged by threats posed by the cyber underworld. Our environment requires major emphasis on information security, privacy, security, data protection, resilience, reliability and compliance with all relevant regulations. While we have made significant progress in this area to match international standards and local requirements, focus on this will remain an ongoing priority.

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 balance of brand portfolio communication continues with the brand essence of 'creating great experiences' being the golden thread that has become synonymous with brand delivery within the Tsogo Sun family of brands.

The introduction of three service hallmarks that underpin brand delivery has enabled memorable experiences to support our product allowing for greater product differentiation. The service hallmarks are: be consistent, be present and have respect, and they align the organisation. The clear brand portfolio enables ease of decision-making in operations, particularly when considering the introduction of new brands.

The incorporation of the increasing digital mix into all marketing campaigns results in a greater return on investment and the messages across channels are becoming more integrated, resulting in seamless, targeted communication to the customer.

The investment in the sunburst symbol continues to pay off with high recognition and recall from the group's stakeholders.

Customer satisfaction

The dynamic environment in which the group operates has resulted in a shift in the way in which brand reputation is managed. The group has welcomed the increase in customer interaction on digital platforms and has formalised a way of monitoring and managing online conversations.

The management of post-visit surveys continues and the data gathered via this platform has allowed the business to gain deeper insights into understanding customer preferences and behaviour. Analysing the data has provided the business with valuable information around the hotel booking engine and how customers transact, our food and beverage delivery, the group's rewards programme and customer behaviour pertaining to Wi-Fi.

The post-visit surveys continue to consistently provide feedback from approximately 10 000 guests per month. Low scoring statements are identified as burning issues and specialist project groups address them as a business priority. The overall satisfaction score for hotels averaged 88% (2017: 88%) and 77% (2017: 77%) for gaming. Overall satisfaction score for online third-party review sites for hotels was 85% (2017: 85%), and for gaming 83% (2017: 84%).

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

- tsogosun.com – 1.1 million+ visits per month (2017: 1 million+);
- Facebook – 1.87 million followers (2017: 1.65 million);
- Twitter – 94 800 followers (2017: 78 400); and
- Instagram – 28 500 followers (2017: 25 200).

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.

During the year the focus areas were on the growth in rewards membership, database hygiene, data profiling for the hotel rewards programme, bonus SunRands and e-vouchers for tactical, revenue-driving promotions and the targeted use of custom audience matches via digital media platforms.

Tsogo Sun gaming – rewards programme segmental analysis

Tsogo Sun gaming had 421 792 active gaming cardholders during the year. The contribution to total gaming revenue for the year from active members of the reward programme was 77%.

Segment	**2018 % active customers**	**2018 contribution %**	2017 % active customers	2017 contribution %
Black	**8**	**53**	8	51
Platinum	**12**	**15**	14	15
Gold	**80**	**9**	78	10
	100	**77**	100	76

Tsogo Sun hotels – rewards programme segmental analysis

Tsogo Sun hotels had 130 387 active reward cardholders during the year. The contribution to total hotel revenue for the year from active members of the reward programme was 33%.

Segment	**2018 % active customers**	**2018 contribution %***	2017 % active customers	2017 contribution %*
Black	**6**	**10**	5	9
Platinum	**14**	**9**	14	8
Gold	**80**	**14**	81	13
	100	**33**	100	30

** Systemwide*

PRODUCT RELEVANCE TO CUSTOMER EXPERIENCE continued

Customer safety

Tsogo Sun recognises that the health, safety and wellbeing of customers and employees are 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 micro-biological quality. No significant issues were noted.

LOOKING AHEAD

Customer rewards programmes

Database growth, repeat visits and incremental spend will be a core focus with the medium-term goal of rewards attaining a contribution of 40% to total hotels room revenue. Data profiling will also remain a priority to improve our understanding of customer behaviour and purchasing patterns. Key operational initiatives will play a role in maximising the programme for members, including rewards ambassadors and the identification and acknowledgment of key clients. Significance will continue to be placed on the protection of data and incorporation of local and international legislation and standards.

Information technology

During the 2019 financial year a broader range of new technology options will be trialled, including:

- enhancing service delivery at the slot machine through interactive on-machine communication with players;
- enrolling players at the slot machine, resulting in improved carded player tracking and rewards;
- enabling players to utilise electronic host functionality on their mobile devices;
- enabling the unlocking of PIN codes at the slot machine;
- purchasing more attractive and modern cash dispensers;
- deploying broadband Wi-Fi at our six larger casino properties covering the casino floor and key public areas;
- delivering dashboards to staff on their mobile devices on the floor, enabling more effective management and an improved guest experience;
- deploying on-premise kiosks at certain hotels to facilitate guest registration, check-in and collection of a room key. Further roll out will depend on utilisation;
- improving the website guest experience and booking conversion rate, including the provision of live chat services and interactive messaging;
- deploying an online ticket booking system for the Gold Reef City Theme Park; and
- enhancing the online booking experience for Movies@ customers.

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

	2018	2017
Significant gaming regulation breaches	**Nil**	Nil
Fines imposed for other regulatory breaches	**Nil**	Nil
Fines imposed for breaches of law	**Nil**	Nil

2018 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, BBBEE 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 gaming 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. With the exception of licences issued in the Eastern Cape which are issued for a limited period, gaming licences have been issued for an indefinite period, subject to annual renewal by way of the payment of annual licensing fees, and subject to the absence of any disqualifying circumstances.

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 gaming and hotel operations. The most significant contributions were made in respect of the pending proposed amendments to the National Gambling Act and Policies, the implementation of national registers for excluded persons and gaming equipment, various provincial gambling acts, regulations, provincial gambling board rules, the 41st casino licence, the roll out of additional bingo sites, liquor legislation and the FICA, which may cause more onerous regulatory obligations on gaming. The Minister of Finance proclaimed the commencement of certain provisions of the FICA during 2017 and the group is currently participating in various consultation processes with the FICA and provincial gaming boards regarding a transitional period for the implementation of the amendments to the Act, as well as recent amendments to the regulations. Final implementation is envisaged by March 2019 although the group will align its current processes and policies by October 2018.

Provincial gambling boards have in the recent past started to focus on the monitoring and enforcement of CSI contributions by gaming licencees. BBBEE performance is also stringently monitored and the gaming licencees continuously engage with provincial gambling boards on its performances in this regard.

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.

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

	2018	2017
Management and control (revised codes) score	**10.3/19**	10.4/19
Verified training spend as a % of payroll	**5.2%**	4.3%
Staff resignations	**10.2%**	9.8%

2018 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 15 600 direct jobs and 24 500 combined direct and indirect jobs (including contract staff employed by third-party service providers) where our operations are situated in South Africa.

Staff resignations increased slightly to 10.2% (2017: 9.8%) 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 is R183 million, which at 6.6% of payroll, has increased from the prior year. The group spent R166 million on training and development initiatives provided to black people during the year, which is 6.0% 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 R145 million, which is the equivalent of 5.2% of payroll. The group's BBBEE score for skills development is 19.3 out of 20 within the scorecard framework. In the year the group employed 2 121 people on learnerships and provided 1 201 unemployed people with learnership opportunities. Of the unemployed people on learnerships, the group employed 231 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.

With the focus on youth employment, Tsogo Sun has continued to support work integrated learning in the industry ensuring relevant work experience is gained for future employment.

Employee engagement

The group operates under a single engagement programme called livingTSOGO, which reflects the values, culture and behaviours common to the business. Employees participate in the components designed to bring them to life including livingTSOGO World which incorporates the group's induction programme and livingTSOGO Moments which provides recognition and rewards.

Malungisa Meli from Hemingways Casino won the 2017 livingTSOGO Ambassador Award from a selection of five regional champions. A survey was undertaken in August 2017 that measured, in the opinion of employees, whether the group is living up to our values of teamwork, service, opportunity, growth and ownership. In total, 9 550 employees participated in the survey, which is a 9% increase in participation on the last survey undertaken in 2014 and the results reflected an improvement in 17 of the 18 categories surveyed.

Employee wellness

Tsogo Sun has always sought to find ways to help our employees to manage their health. This past year has seen an increase in the provision of company hosted health programmes, ranging from increased chronic health management, running groups, exercise classes and weight loss programmes. These are in addition to the formal structures in place to support our healthy workforce such as employee clinics in Tsogo Sun gaming, an employee assistance helpline, wellness days and executive medicals. During the year, a total of 57 143 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. Healthy meal options are also provided to our employees in canteens at our hotels and casinos.

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 1.73. 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 8 900 contract staff employed by third-party service providers and 1 510 staff employed outside South Africa.

	South African male				South African female				Foreign nationals		
Employees	African	Indian	Coloured	White	African	Indian	Coloured	White	Male	Female	Total
Permanent	**3 637**	**506**	**469**	**595**	**4 268**	**411**	**543**	**579**	**81**	**35**	**11 124**
Executives and management	472	183	113	397	470	125	122	335	30	10	2 257
Supervisory and skilled	1 626	203	202	139	1 668	189	250	207	36	17	4 537
Other employees	1 539	120	154	59	2 130	97	171	37	15	8	4 330
Operational support	**1 675**	**32**	**61**	**17**	**2 437**	**40**	**116**	**25**	**55**	**22**	**4 480**
Executives and management	0	0	0	0	0	0	0	1	1	0	2
Supervisory and skilled	498	12	16	9	711	24	36	16	14	4	1 340
Other employees	1 177	20	45	8	1 726	16	80	8	40	18	3 138
Total 2018	**5 312**	**538**	**530**	**612**	**6 705**	**451**	**659**	**604**	**136**	**57**	**15 604**
Total 2017	**4 423**	**525**	**428**	**591**	**5 177**	**415**	**547**	**601**	**103**	**44**	**12 854**

HUMAN RESOURCES continued

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 was an increase in the group's headcount because of the employment of an additional 1 301 operational support staff who were previously employed through temporary employment services and 1 636 employees of Vukani and Galaxy. The overall percentage of female employees increased slightly to 53.4% of the workforce in 2018.

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 31.4%, at middle management level it is 54.3% and at junior management level it is 78.2%. The representation of black employees throughout the group is currently 91.0%.

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 11 489 employees in the South African operations who are eligible to join a union, 2 445 (21%) are union members.

Union membership has increased compared to the same period in the previous year from 2 004 to the current 2 445. This is largely due to new unions recruiting the operational support staff ('OSS') who previously fell outside of the bargaining unit as defined in the collective bargaining arrangements that the company has with the older and more established unions.

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

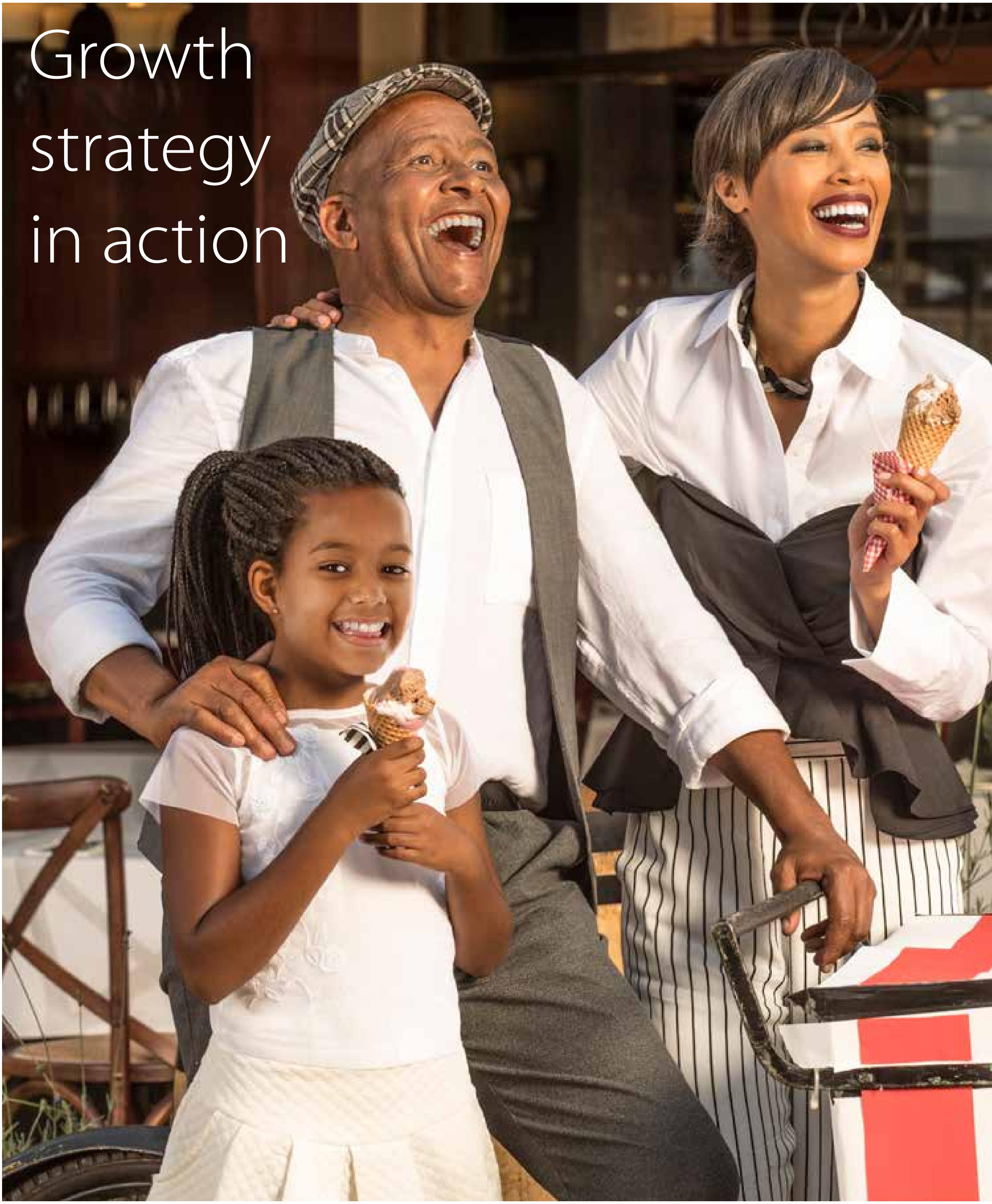
International best practice dictates that, in order to create a productive learning culture, line management needs to be properly equipped to progressively develop employees in their charge, and to ensure basic frontline services are provided to the guest. This objective will receive significant attention in the coming year, providing tools and support to managers to support learning and development in the workplace and increasing the use of technology in order to further extend the reach of learning and development within the group. Furthermore, 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

An online resource platform will be introduced to assist with the integration of the engagement survey results and to align them to strategic plans. Post-survey support and engagement meetings with the executives across the group are under way in order to address the outcomes of the survey and respond appropriately.

Monthly recognition of employees through livingTSOGO Moments is ongoing.

Growth strategy in action



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

	2018	2017
Organic income (reduction)/growth	**(1%)**	2%
Organic Ebitdar (reduction)/growth	**(3%)**	1%
Free cash flow	**R1.9 billion**	R2.2 billion
Maintenance capital expenditure	**R675 million**	R925 million
Adjusted HEPS (reduction)/growth	**(5%)**	6%

2018 PERFORMANCE

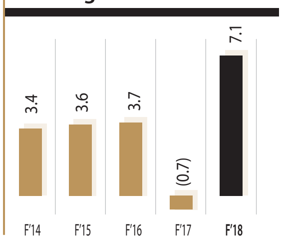
Segmental operating performance

	Income		Ebitdar[1]		Ebitdar margin	
Year ended 31 March	**2018 Rm**	2017 Rm	**2018 Rm**	2017 Rm	**2018 %**	2017 %
Casino gaming						
Montecasino	**2 625**	2 694	**1 135**	1 196	**43.3**	44.4
Suncoast	**1 681**	1 732	**752**	810	**44.7**	46.8
Gold Reef City	**1 497**	1 450	**569**	549	**38.0**	37.9
Silverstar	**686**	735	**212**	248	**30.9**	33.7
Golden Horse	**397**	392	**177**	176	**44.6**	44.8
Emnotweni	**381**	383	**136**	145	**35.7**	37.9
The Ridge	**381**	382	**145**	147	**38.0**	38.6
Hemingways	**314**	306	**97**	95	**30.8**	31.2
Garden Route	**235**	225	**99**	96	**41.9**	42.8
Mykonos	**183**	162	**86**	72	**47.2**	44.5
The Caledon	**177**	175	**49**	54	**28.0**	30.6
Blackrock	**160**	170	**54**	65	**33.6**	37.9
Goldfields	**135**	133	**38**	41	**28.5**	31.0
Alternative gaming[2]						
Galaxy	**263**	n/a	**69**	n/a	**26.2**	n/a
Vukani	**362**	n/a	**169**	n/a	**46.7**	n/a
Other gaming operations	**184**	195	**(141)**	(154)		
Total gaming operations	**9 661**	9 134	**3 646**	3 540	**37.7**	38.8
South African hotels division[3]	**3 799**	3 509	**1 470**	1 359	**38.7**	38.7
Offshore hotels division	**565**	635	**120**	108	**21.2**	17.0
Pre-foreign exchange gains/(losses)			***119***	*146*	***21.1***	*23.0*
Foreign exchange gains/(losses)			***1***	*(38)*		
Corporate[1]	**(50)**	(56)	**35**	42		
Group	**13 975**	13 222	**5 271**	5 049	**37.7**	38.2

(1) *All casino units are reported pre-internal gaming management fees*
(2) *Gaming division includes Galaxy and Vukani (Gameco) with effect from 20 November 2017*
(3) *Includes R50 million (2017: R55 million) intergroup management fees*

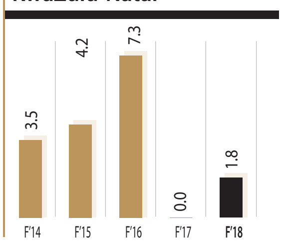
ORGANIC GROWTH continued

Gauteng



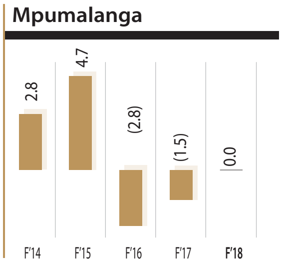
◆ *Provincial gaming win growth**

KwaZulu-Natal



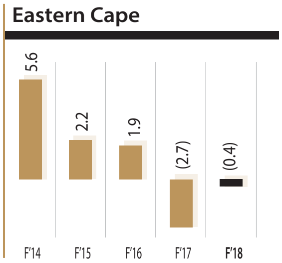
◆ *Provincial gaming win growth**

Mpumalanga



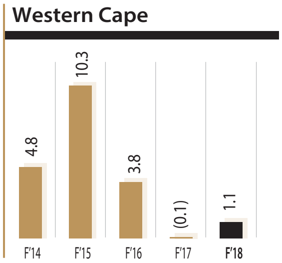
◆ *Provincial gaming win growth**

Eastern Cape



◆ *Provincial gaming win growth**

Western Cape



◆ *Provincial gaming win growth**

** Based on gambling board statistics*

Tsogo Sun casino gaming

Net casino gaming win for the year reduced by 2% on the prior year with slots win down 1% and tables win down 4% and was negatively impacted by the opening of Time Square and a strong performance in the first quarter of the prior year in Gauteng, mainly at Montecasino.

	31 March 2018 Rm	31 March 2017 Rm	% change on 2017
Casino gaming win	**7 357**	7 483	(2)
Tables	**1 822**	1 891	(4)
Slots	**5 535**	5 592	(1)
Win % – tables	**20.9**	21.8	(0.9pp)
Hold % – slots	**5.0**	5.0	–

Gauteng recorded growth in provincial gaming win of 7.1% for the year. Gaming win growth of 2.9% was achieved at Gold Reef City with a reduction at Montecasino of 4.5% and at Silverstar of 8.3%. Provincial gaming win was positively impacted during the current year by the opening of the Time Square Casino in Menlyn on 1 April 2017, although the impact on the group's casinos, mainly at Montecasino and Silverstar, is significantly below expectation. Montecasino was, in addition, also impacted by very strong tables win in the first quarter of the prior year.

KwaZulu-Natal provincial gaming win grew by 1.8% for the year. Gaming win reduced by 2.3% at Suncoast Casino and Entertainment World and 8.8% at Blackrock Casino in Newcastle, impacted by disruptions to the local manufacturing industry in that area, but grew by 1.1% at Golden Horse Casino in Pietermaritzburg.

Mpumalanga provincial gaming win was flat on the prior year. Gaming win growth of 0.2% was achieved at Emnotweni Casino in Nelspruit with a reduction at The Ridge Casino in eMalahleni of 0.9% impacted by economic disruptions to the local manufacturing industry in that area.

Eastern Cape provincial gaming win reduced by 0.4% on the prior year. Hemingways gaming win increased by 0.6% on the prior year.

The Western Cape reported growth in provincial gaming win of 1.1% for the year. The Garden Route Casino in Mossel Bay and Mykonos Casino in Langebaan reported growth of 4.1% and 10.2% respectively with the Caledon Casino, Hotel and Spa reducing by 2.7% on the prior year.

Goldfields Casino in Welkom in the Free State experienced difficult trading conditions but grew gaming win by 2.1% on the prior year.

Other gaming division operations consisting of the Sandton Convention Centre, head office costs and dividend income reflected a net cost of R141 million, a decrease of R13 million on the prior year mainly due to four quarterly dividends received from SunWest in the current year where only three quarterly dividends were received in the prior year.

Overall income for the casino gaming division decreased 1% on the prior year to R9.0 billion. Ebitdar decreased 4% on the prior year to R3.4 billion at a margin of 37.7%, 1.1pp below the prior year with particularly good control on overheads mitigating the reduction in net gaming win.

Overall income for the Galaxy and Vukani (Gameco) gaming businesses from 20 November 2017 was R263 million and R362 million respectively. Ebitdar was R69 million and R169 million respectively at a margin of 26.2% and 46.7% respectively.

Tsogo Sun hotels

Overall hotel industry occupancies in South Africa have reduced to 64.2% (2017: 65.2%) for the year. Occupancies in Cape Town have weakened, particularly during the last quarter as a result of the impact of the water crisis.

Trading for the group's South African hotels for the year recorded systemwide Revpar flat on the prior year due to flat average room rates at R1 066, with occupancies slightly up on the prior year at 64.7% (2017: 64.3%).

Overall revenue for the South African hotels division increased 8% on the prior year to R3.8 billion assisted by the inclusion of Garden Court Umhlanga and StayEasy Pietermaritzburg from October 2016, the consolidation of HPF from September 2016 and the opening of the SunSquare and StayEasy City Bowl hotels on 1 September 2017. Ebitdar increased by 8% on the prior year to R1.5 billion at a margin of 38.7% (2017: 38.7%).

The offshore division of hotels achieved total revenue of R565 million which was 11% 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 the US Dollar. Ebitdar (pre-foreign exchange gains/losses) decreased by 18% to R119 million. Foreign exchange gains of R1 million (2017: R38 million loss) 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 2018	31 March 2017
Occupancy (%)	**63.5**	63.3
Average room rate (R)	**1 045**	1 063
Revpar (R)	**664**	672
Rooms available ('000)	**4 763**	4 578
Rooms sold ('000)	**3 024**	2 895
Rooms revenue (Rm)	**3 160**	3 078

The decrease in average room rate is impacted by US Dollar average rate weakness and effect of the Rand strength on the offshore portfolio.

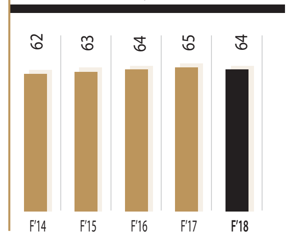
Maintenance capital expenditure

The group invested R675 million on maintenance capex groupwide, including gaming equipment replacements and major hotel and casino refurbishments, ensuring our assets remain best in class.

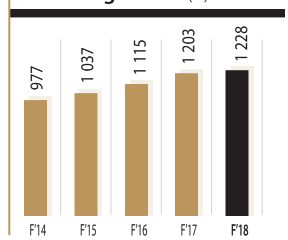
LOOKING AHEAD

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 for the group should these sectors of the South African economy improve.

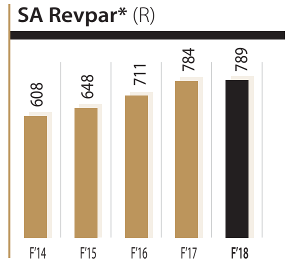
SA occupancy* (%)



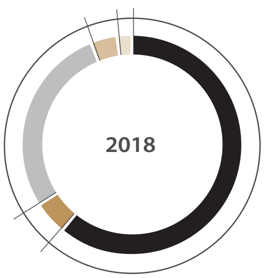
SA average rate* (R)



SA Revpar* (R)

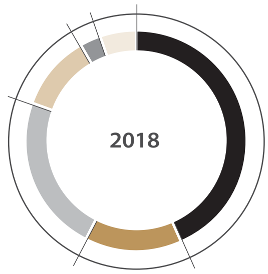


** South African hotel industry based on STR Global statistics*



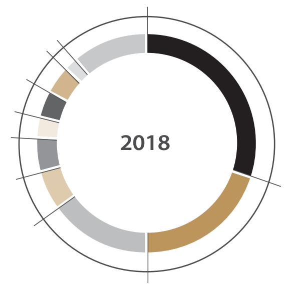
Group F'18
Ebitdar by source (%)

- Casino gaming – **61%**
- Alternative gaming – **5%**
- SA hotels – **28%**
- Gaming hotels – **4%**
- Hotels offshore – **2%**



Group F'18
revenue by nature (%)

- Slots – **43%**
- Tables – **14%**
- Rooms – **23%**
- Food and beverage – **11%**
- Rental income – **3%**
- Other – **5%**



Gaming F'18
Ebitdar by property (%)

- Montecasino – **30%**
- Suncoast – **20%**
- Gold Reef City – **15%**
- Silverstar – **6%**
- Golden Horse – **5%**
- Emnotweni – **3%**
- The Ridge – **4%**
- Vukani – **4%**
- Galaxy – **2%**
- Other casinos – **11%**

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 competencies. 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

	2018 Rm	2017 Rm
Investment activity expenditure	**2 576**	2 590

2018 PERFORMANCE

In terms of the group's continued growth strategy R3.3 billion was spent during the year, including:

- the acquisition of HCI and all other shareholders' interests in Gameco for a combination of 98.5 million Tsogo Sun shares and R1.7 billion in cash;
- the continued construction on the R1.6 billion expansion and refurbishment of the Suncoast Casino and Entertainment World. The project includes past spend with the Salon Privé scheduled to open in July 2018 and the remainder of the project scheduled to open in December 2018. In total, R291 million was spent during the year;
- the acquisition by HPF of various sections and exclusive use areas of the Sandton Eye sectional title scheme from Savana Property Proprietary Limited and an existing real right of extension in the scheme from Sandton Isle Investments Proprietary Limited for R302 million;
- the development of a US$16 million 125 room StayEasy in Maputo, Mozambique, which opened during April 2018. In total, R145 million was spent during the year; and
- the opening of a new 504 room SunSquare and StayEasy branded leased hotel in the Cape Town City Bowl during August 2017. The spend on furniture and fittings was R34 million during the year.

INVESTMENT ACTIVITY EXPENDITURE

	31 March 2018 Rm	31 March 2017 Rm
Sandton Eye (Radisson Gautrain)	**271**	–
StayEasy Maputo	**145**	–
Mykonos land	**30**	–
Galaxy Bingo	**24**	–
SunWest and Worcester casinos	**–**	1 272
Suncoast expansion	**291**	112
Cape Town land	**–**	110
SunSquare and StayEasy City Bowl FF&E	**34**	53
Gold Reef City redevelopment	**19**	34
SUN1 expansions	**–**	25
Monte Circle and Monte Place	**26**	16
Other	**3**	4
Expansion capex	**843**	1 626
Acquisition of Gameco	**1 733**	–
Cullinan minorities	**–**	459
Acquisition of Liberty hotels	**–**	310
Mykonos minorities	**–**	190
Blackrock minorities	**–**	5
Acquisitions and minorities	**1 733**	964
Investment activity expenditure	**2 576**	2 590

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 casino gaming, the focus remains on capacity increases in our existing properties, particularly in specific markets where changing demographics are driving growth. Once the Suncoast expansion is complete in December 2018, apart from the relocation of a casino licence into the Metropole, no further expansions of the physical properties are planned, and the focus will shift to adding additional licensed slot machines and tables as demand increases. With only one of the national licences that is not allocated being potentially 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 alternative gaming we will continue to roll out additional LPM sites in Vukani where there is demand and in Galaxy will roll out electronic bingo in KwaZulu-Natal in the four sites operating as ISO sites with paper bingo at year end. Galaxy has an additional three bingo licences in KwaZulu-Natal that have not yet been rolled out and these will be activated when practically and commercially feasible. In addition no bingo licences have yet been awarded in the Western Cape, Northern Cape and Free State and applications will be made in these provinces when legislation permits. Where there is demand, applications will be made to expand the existing bingo sites and increase the number of machines.

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. Following the proposed split of the group into three listed businesses, acquisitions would most likely be by HPF with the hotel opco securing a lease contract over the hotel where appropriate. 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 in which we already operate.

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

- the internal restructuring and negotiations with HPF for the acquisition by HPF of certain of the casino precinct properties currently owned by the group in consideration for the issue by HPF of new shares in HPF, and the unbundling of the group's entire interest in HPF as announced on SENS on 2 March 2018 and updated on SENS on 18 April 2018 and 9 July 2018;
- the potential to bid for the relocation 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. The Western Cape Provincial Treasury published a draft bill and regulations intended to permit the relocation of outlying casinos to within the metropole; and
- 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.

Integrated governance

Integrated governance

REPORTING APPROACH

King IV™ applied to the group from the 2018 financial year and this integrated governance section contains the majority of the disclosure requirements contained within King IV™ with references to other relevant sections of the report.

An assessment of King IV™ was completed during the year and the group substantially applies the 16 principles. The board charter and individual committee terms of reference documents have been updated and adopted to incorporate the required amendments.

Work is still required on a number of practices and this process is ongoing. These include board diversity targets, board and executive succession planning, formal and transparent process for the appointment of board members, board assurance of non-financial information in reports, formal letters of appointment for board members, independence of the Chairman of the remuneration committee and a formal stakeholder relationship policy.

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 wrongdoings, 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.

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 conflicts of interest and compliance with laws and regulations. Board members are required to disclose conflicts of interest at each meeting. Ethics training is included in the group's induction programme.

The group has an independent whistle-blower line and all reported matters are investigated by appropriate employees and the results reported to the 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. There was one incident of bribery or corruption during the financial year which was reported.

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 45 to 53, the product relevance to customer experience section on pages 55 to 58, the regulatory compliance section on page 59 and the human resources section on pages 60 to 62 for information as to how the group manages its social outcomes.

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 27 to 29 and key relationships on pages 30 to 32 inform the strategy which is documented in our strategy in action on pages 45 to 69. Our strategy and performance highlights against the strategy are summarised on pages 06 to 08 and our business model on pages 10 to 25 provide the context and link between the capitals we utilise and the outcomes linked to our strategic priorities.

All information presented in the report is utilised within the business and there are processes in place to ensure its accuracy. Although elements of the report are assured internally and other information is provided by external sources assurance is an area that requires further formalisation.

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.

BOARD COMPOSITION, STRUCTURE AND REPORT BACK continued

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 retains accountability and is satisfied that it has fulfilled its responsibilities in accordance with the board charter during the year.

Support from combined assurance providers, legal, risk, compliance and company secretarial functions

Board
Two executive directors and seven non-executive directors[1]

Responsibility for the overall conduct and control of the business and the strategic direction of the company

Audit and risk committee
Three independent non-executive directors[2]

Provides effective governance over reporting, the effectiveness of the internal financial controls and the external and internal audit functions and ensures that there is an effective risk management process that identifies and monitors the management of the key risks.

Remuneration committee
Five non-executive directors of whom three are independent[2]

Ensures the adoption of remuneration policies that attract and retain top talent, are aligned to the company's strategy, are market-related and drive performance in the short and long term.

Social and ethics committee
Four non-executive directors of whom three are independent[2]

Assists the board to ensure that the transformation strategy is appropriate and integrated into the business. It performs the social and ethics functions required by the Companies Act, 2008, as amended.

Chief Executive Officer Jacques Booysen[3]

Responsible for the development and implementation of board strategy and policy and management of the business.

Group executive committee
Fourteen members including the executive directors, divisional chief operating officers and financial directors and certain group function heads

Responsible for the day-to-day management of the operations of the group.

Pure risk committee
Chief Financial Officer, Director of Risk, risk managers, divisional finance, security and development directors

Responsible for the identification and management of insurable risks.

Compliance committee
Executive directors and gaming Chief Operating Officer, finance, operations, human resources, security, legal and compliance directors

Responsible for compliance, mainly in gaming division.

IT steering committee
Chief Information Officer and management committees for the gaming and hotel divisions

Responsible for the technology roadmap and IT project portfolio for the divisions.

Management committee
Chief Operating Officer and divisional function heads for gaming division

Responsible for the day-to-day management of the operations of the divisions.

Ethical conduct | **Corporate governance** | **Risk governance** | **Fair remuneration**

[1] In terms of the MOI the board consists of between four and 15 directors. Three of the non-executive directors are independent
[2] The committee meetings are also attended voluntarily by other directors
[3] Marcel von Aulock resigned and was succeeded by Jacques Booysen on 1 June 2017

During the year there were six board meetings and one independent board meeting relating to the Gameco transaction. 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 Annual General Meeting ('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[1]	2/2				✔
Jacques Booysen[1]	4/4				✔
Rob Huddy	6/6				
Non-executive directors					
Chairman					
John Copelyn	6/6		2/2		✔
Lead independent					
Busi Mabuza	6/6	3/3	2/2	2/2	✔
Independent					
Mac Gani	6/6	3/3	2/2	2/2	✔
Marcel Golding	5/6				
Jabu Ngcobo	6/6	3/3	2/2	2/2	
Non-independent					
Elias Mphande	6/6				
Yunis Shaik	4/6		1/2	1/2	

[1] *Marcel von Aulock was replaced as a director by Jacques Booysen on 1 June 2017*

BOARD COMPOSITION

The composition of the board and of the audit and risk, remuneration and the social and ethics committees is determined by the majority 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. The only independent director who has served for more than nine years is Marcel Golding who has served for 14 years and the average length of service of independent directors is seven years. The board considers a director independent where they have had no other executive role within the group for a period of three years. One-third of the non-executive directors retire by rotation each year in line with the memorandum of incorporation ('MOI'). Self-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 77.

The remuneration committee reviews and assesses board composition on behalf of the board and recommends the appointment of new directors. All board appointments are made on merit, in the context of skills, experience, independence and knowledge, which the board as a whole requires to be effective. Factors that are taken into consideration are differences in 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. The board has approved a diversity policy incorporating race and gender. 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 CEO 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 CEO is responsible for the execution of the strategic direction, which is approved by the board, through the delegation of authority.

The CEO's employment contract includes a three-month notice period unless varied by agreement and there are no specific contractual conditions related to termination. The CEO has no other external professional commitments. Succession planning is not formalised but executive director appointments have historically been internal.

BOARD COMPOSITION, STRUCTURE AND REPORT BACK continued

BOARD PROFILE

EXECUTIVE DIRECTORS

J BOOYSEN (58)
CA(SA)
Executive Director – Chief Executive Officer
Date appointed: 1 June 2017

Jacques Booysen 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.

RB HUDDY (49)
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.

NON-EXECUTIVE DIRECTORS

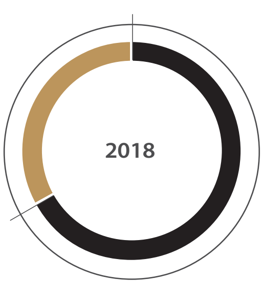
JA COPELYN (68) R
BA (Hons), BProc
Non-executive Chairman
Date appointed: 13 August 2003[(1)]

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.

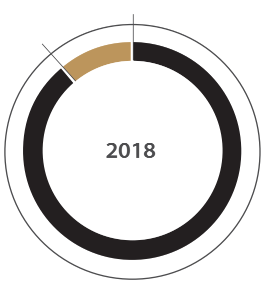
He currently holds various directorships in companies within the HCI group.

VE MPHANDE (60)
Elec Eng (Dip)
Non-executive Director
Date appointed: 3 February 2005[(1)]

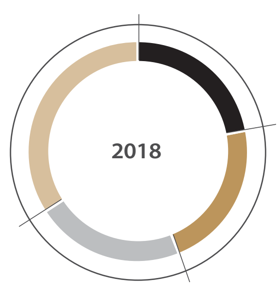
Elias Mphande has served as the National Organising Secretary of the Southern African Clothing and Textile Workers Union, Marketing Director of Viamax Fleet Solutions, Chief Executive Officer of AUTA and the Vukani Group and Chairman of Golden Arrow Bus Services. He was appointed to the HCI board in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



Race diversity (%)
- Black – 67%
- White – 33%



Gender diversity (%)
- Male – 89%
- Female – 11%



Board tenure (%)
- 1 – 3 years – 22%
- 4 – 6 years – 22%
- 7 – 9 years – 22%
- 10+ years – 34%

NON-EXECUTIVE DIRECTORS

Y SHAIK (60) S R

BA (Law), BProc

Non-executive Director

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 is an executive director of HCI.

Non-executive committee key

- A **Audit and risk committee** – Chairman: Mac Gani
- S **Social and ethics committee** – Chairman: Mac Gani
- R **Remuneration committee** – Chairman: Yunis Shaik

INDEPENDENT NON-EXECUTIVE DIRECTORS

JG NGCOBO (67) A S R

Independent Non-executive Director

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 HCI in 2004 and serves as a director of HCI Coal and Niveus.

BA MABUZA (54) A S R

BA (MBA)

Lead Independent Non-executive Director

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, Nehawu Investment Holdings and the non-executive chairperson of the Industrial Development Corporation.

MSI GANI (65) A S R

CA(SA)

Independent Non-executive Director

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 HCI, HPF and Basil Read Holdings Limited and is on the investigating committee of the Independent Regulatory Board of Auditors.

MJA GOLDING (58)

BA (Hons)

Independent 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.

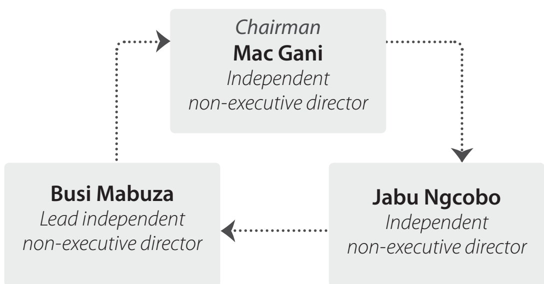
[1] *Date appointed to the holding company board pre-reverse listing into Gold Reef on 14 February 2011*

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 and the board are satisfied that the committees 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.

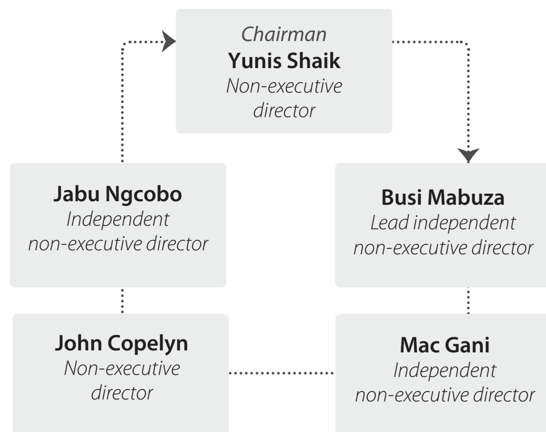
The committee met three times during the year. The Chief Executive Officer, the Chief Financial Officer, the group's Director of Risk, the Chief Information Officer and directors from the majority shareholder attend the meetings as permanent invitees, along with external audit and the outsourced internal 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, information management and security initiatives and governance and regulatory compliance;
- review of material legal, legislation and regulatory developments;
- review of prospective accounting standard changes;
- review of the impact of the application 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 as well as the fees and terms of engagement of the external auditors, including the suitability of the firm and designated partner;
- 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 03 of the consolidated financial statements for the year ended 31 March 2018.

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.

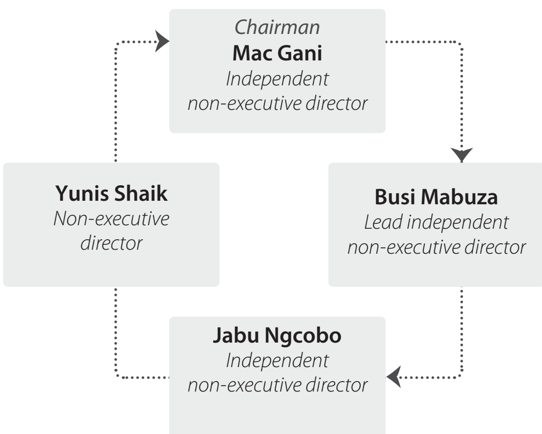
The committee met twice during the year. The Chief Executive Officer and the group's Human Resources Director attend the meetings as permanent invitees, except when issues relating to their own compensation are discussed.

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;
- evaluation of the performance of the Chief Executive Officer;
- 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 81 to 88.

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;
- bribery and corruption;
- responsible tourism and responsible gaming;
- preferential procurement, socio-economic development and enterprise and supplier development;
- environmental management and certification;
- customer satisfaction, loyalty, health and safety and consumer protection; and
- job creation, employee health and safety, employee development, management diversity, employment equity and employee engagement.

The matters considered during the year are included in the deliver to our beneficiaries section on pages 45 to 53, the product relevance to customer experience section on pages 55 to 58, the regulatory compliance section on page 59 and the human resources section on pages 60 to 62.

The main area of focus during the year was on the group's achievement of a level 1 BBBEE contributor status against the revised codes for 2018 and continued efforts to improve on this result in the future. 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 formal self-evaluation of the performance of the board has been carried out during the 2017 financial year. No significant matters were noted apart from the lack of female representation. A formal self-evaluation of the performance of the board, its committees and the directors retiring by rotation will be carried out during August 2018 with the assistance of the IoDSA, using its online assessment system.

The board is satisfied with the performance of the Chief Executive Officer and with the competence of the Chief Financial Officer as set out in the report of the audit and risk committee on page 03 of the consolidated financial statements for the year ended 31 March 2018.

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.

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 15 August 2018 were:

Jacques Booysen CA(SA) (58)
Chief Executive Officer

Jaco Boshoff CA(SA) (46)
Financial Director – hotels

Noeleen Bruton BCom DipM (50)
Marketing Director

Vusi Dlamini BA LLB MBL (52)
Group Human Resources Director

Chris du Toit CA(SA) (48)
Chief Operating Officer – alternative gaming

Rob Huddy CA(SA) (49)
Chief Financial Officer

Glenn Joseph BCom (43)
Chief Operating Officer – gaming

Zibusiso Kganyago BCom (51)
Director of Development

Greg Lunga CA(SA) (46)
Financial Director – gaming

Laurelle McDonald CA(SA) (36)
Corporate Finance and Treasury Manager

Ravi Nadasen MBA (43)
Chief Operating Officer – hotels

Henry Parrymore BCom (56)
Chief Information Officer

Graham Tyrrell BA LLB (54)
Group Legal Director and Company Secretary

Richard Weilers NHDHM (66)
Managing Director – hotels offshore

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 79 Our materiality, material risks and opportunities – pages 27 to 29
Technology and information	Audit and risk	Technology and information governance – page 80 Product relevance to customer experience – page 55
Regulatory compliance	Audit and risk Social and ethics	Regulatory compliance – page 59
Assurance	Audit and risk	About this report – page 01 Risk management and assurance process – page 79
Stakeholder relationships	Social and ethics	Key relationships – pages 30 to 32
Remuneration	Remuneration	Remuneration – pages 81 to 88

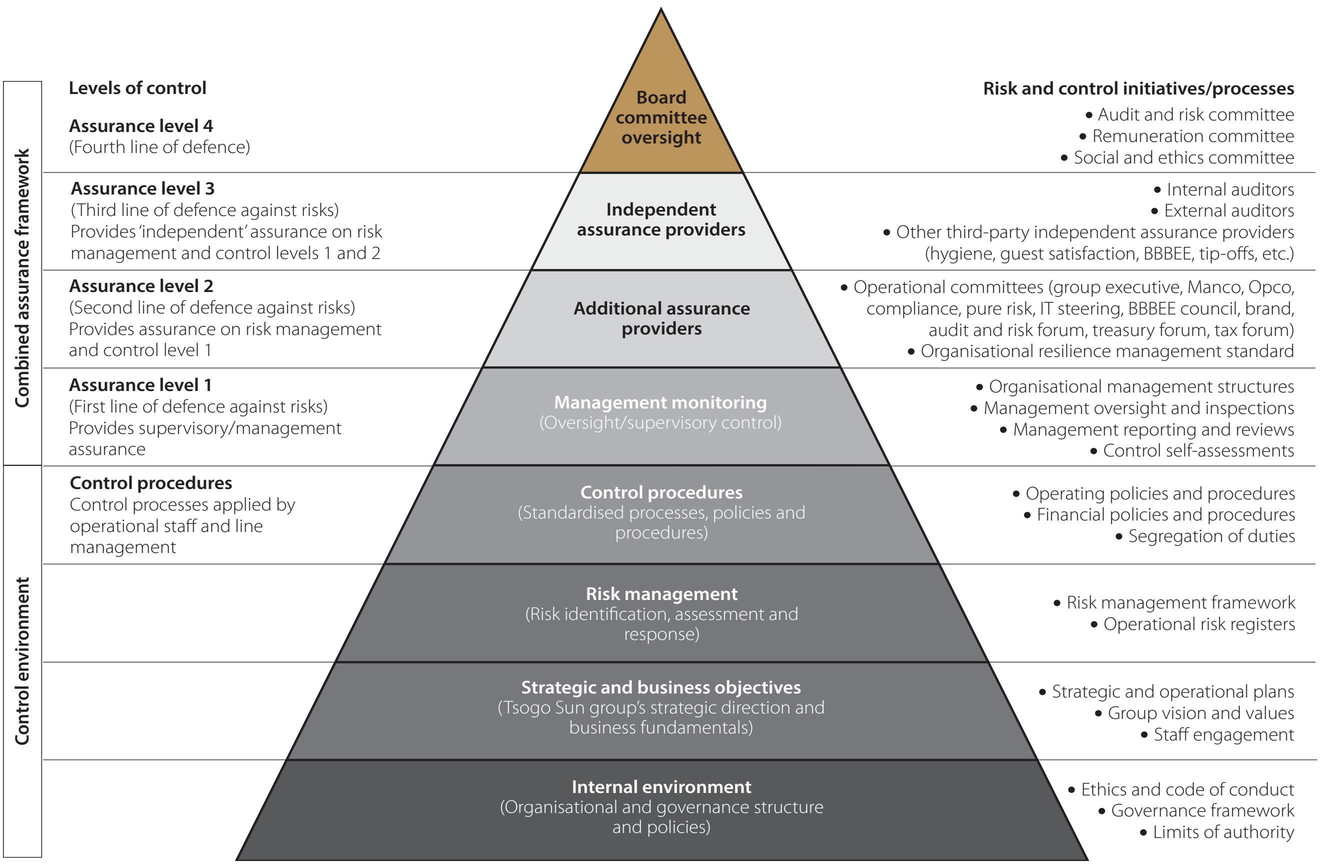
RISK MANAGEMENT AND ASSURANCE PROCESS

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 (e.g. zero tolerance for regulatory risks) 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.

GOVERNANCE FUNCTIONAL AREAS continued

For key areas of focus refer to our materiality, material risks and opportunities – pages 27 to 29. 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.

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.

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 annual 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. The outsourced function was provided until 31 March 2018 by KPMG who were replaced by a new service provider GRIPP Advisory, which is a subsidiary of HCI. GRIPP Advisory will provide internal audit services to the HCI group. 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 three 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.

TECHNOLOGY AND INFORMATION GOVERNANCE

The board is accountable for IT governance. The IT governance charter was updated and approved by the board during the year and takes into account the requirements of King IV™, globally accepted standards and good practice, together with the performance and sustainability objectives of the group.

Areas of focus during the year were:

- maturing our processes in support of the King IV™ framework;
- ensuring all parties in the value chain apply good governance principles;
- improving our management of IT information assets including the adoption of new technologies to enhance data protection and encryption, network security, application and environmental controls;
- aligning business continuity and disaster recovery plans;
- ongoing management of IT risks;
- monitoring our social media risk strategy; and
- enhancing cybersecurity strategy and organisational awareness.

In the coming year the group will prioritise the following:

- strengthening relationships with key business functions and third-party service providers;
- evaluating emerging trends and potentially disruptive technologies;
- keeping technology platforms relevant to our customer base;
- managing the costs of our technology platform;
- completing a data classification exercise to assist with compliance objectives;
- improving our capability to deal with cybersecurity threats and minimise our risks; and
- upgrading operating systems, databases and applications.

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 annually to ensure governance and policies are adhered to, laws are complied with and data is secure and protected. No major incidents occurred during the year which required remedial action and the board is satisfied with the effectiveness of technology and information governance.

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 59.

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. While the board has mandated the social and ethics committee to develop a formal stakeholder relationship management policy, it is satisfied that the current interactions with stakeholders are effective. Refer to the key relationships on pages 30 to 32.

REMUNERATION POLICY AND IMPLEMENTATION REPORT

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. The remuneration committee is satisfied that the remuneration policy has achieved its objectives.

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.

REMUNERATION POLICY

Ensure employees are rewarded fairly and appropriately

Attract, retain and motivate individuals with the necessary skills and behaviours

Fixed pay
Median for the relevant market

Short-term incentives
(One year) aligned with financial performance and strategic priorities

Long-term incentives
(Three years plus) aligned with shareholder returns

High pay achieved only for high performance and high shareholder returns

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 82 and 83.

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 Ebitdar 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.

A significant change in the remuneration policy during the year was that for the 2018 financial year divisional short-term incentive targets were set and measurement was 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 and implementation report at the Annual General Meeting on 19 October 2017 were 83.6% and 84.3% in favour respectively. 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.

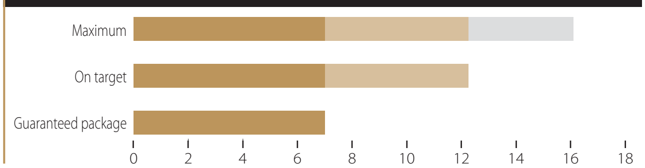
KEY ELEMENTS OF REMUNERATION	Fixed pay			
	Base salaries	Non-executive directors' fees	Retirement benefits	Other benefits
Purpose and link to strategy	Provides a fixed level of earnings appropriate to the requirements of the role	Remunerates non-executive directors for their responsibilities and time 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	**Base salaries** Base salaries are subject to annual review using an inflationary adjustment for executives and management and higher increases for lower levels of staff to address the remuneration gap. 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	**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. The increases are subject to an inflationary adjustment	**Retirement fund membership** Retirement funding for management, who are remunerated on a total package basis, is non-contributory and 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 three provident funds (Alexander Forbes Retirement Fund (Provident Section), Gold Reef Resorts (Provident Fund) and Vukani Super Fund Provident Fund. Other approved funds include union-negotiated funds and funds to which members have historically belonged	**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 5 057 principal members (11 145 beneficiaries) *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 *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

	Short-term incentives	Long-term incentives	
	Annual bonus plan	**Executive facility and share appreciation plan**	
	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	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	
	All executives and senior management and selected middle management	Senior executives	Executives and selected managers (252 participants)
	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 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	**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 The board determined the allocation of the facility as follows: MN von Aulock R86 million J Booysen R47 million RB Huddy R27 million FV Dlamini R20 million GD Tyrrell R20 million 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. MN von Aulock disposed of his shares in an orderly manner during the year and repaid the loan in December 2017 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	**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 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 Vesting and encashments during the 2018 financial year resulted in a charge of R33 million, with a R1 change in the Tsogo Sun share price impacting the charge by R23 million

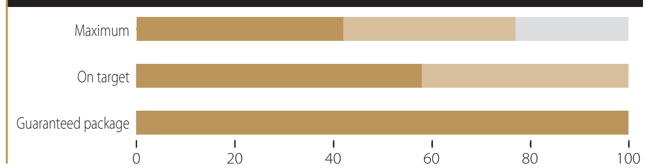
Composition of total remuneration package – executive directors and senior executives

The charts below provide an indication of the remuneration outcomes for the year ended 31 March 2018 for the executive directors and the GEC (excluding the executive directors) showing potential total remuneration of maximum, on target and minimum performance levels:

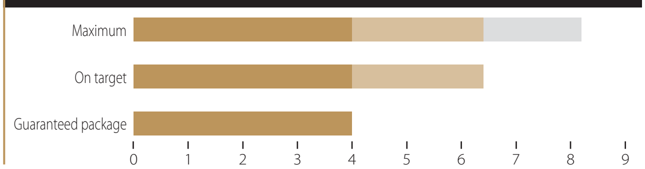
Chief Executive Officer – value of package (Rm)



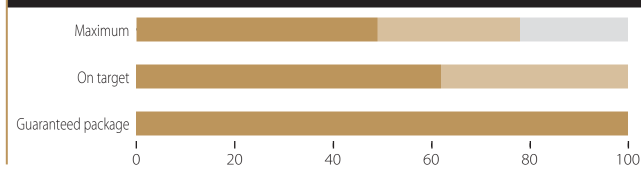
Chief Executive Officer – composition of package (%)



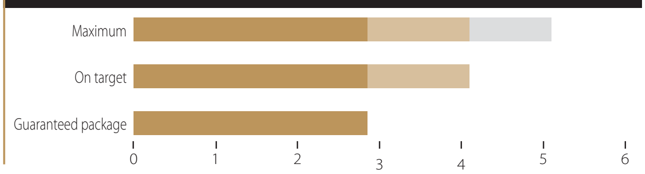
Chief Financial Officer – value of package (Rm)



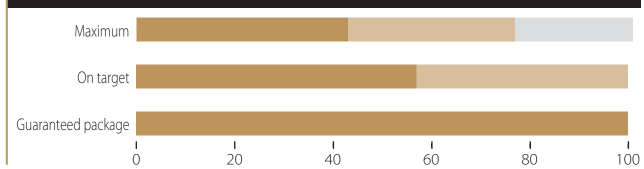
Chief Financial Officer – composition of package (%)



Group executive committee – value of package (Rm)



Group executive committee – composition of package (%)



The scenario charts assume:

- Guaranteed package – fixed pay and benefits for the year ended 31 March 2018
- Short-term incentives – based on scheme rules with maximum bonus paid at maximum performance and nil bonus below threshold performance
- Long-term incentives – excluded from the charts as issued at market price and participants rewarded through variable share price increases

REMUNERATION IMPLEMENTATION REPORT

Non-executive directors' fees

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 until the 2019 AGM, appear in the table below:

	Actual 2017/2018 R'000	**Proposed 2018/2019 R'000**
Chairman of the board	1 028	**1 090**
Lead independent non-executive director and member of all board committees	607	**645**
Chairman of the audit and risk and social and ethics committees	607	**645**
Chairman of the remuneration committee	454	**485**
Non-executive director and member of a board committee	374	**400**
Non-executive director	295	**315**

Non-executive directors' fees continued

Fees and services	2018 Directors' fees R'000	2017 Directors' fees R'000
Paid by subsidiaries		
JA Copelyn	**981**	920
BA Mabuza[(3)]	**579**	390
MSI Gani[(1)]	**579**	276
MJA Golding	**282**	264
VE Mphande	**282**	264
RG Tomlinson[(2)]	**–**	401
JG Ngcobo	**357**	335
Y Shaik	**433**	407
	3 493	3 257

[(1)] *Appointed 11 August 2016*
[(2)] *Resigned 11 August 2016*
[(3)] *Appointed as Lead Independent Non-executive Director 11 August 2016*

Executive Directors and executive management's remuneration

The remuneration disclosure is based on the IoDSA guidance issued in November 2017 on remuneration disclosure in accordance with King IV™ and presents the remuneration for executive management consisting of the executive directors and heads of divisions.

Executive directors' remuneration for the year ended 31 March

	2018				2017		
	MN von Aulock[(1)] R'000	J Booysen[(2)] R'000	RB Huddy R'000	Total R'000	MN von Aulock R'000	RB Huddy R'000	Total R'000
Salary	**1 723**	**4 933**	**3 546**	**10 202**	6 476	3 213	9 689
Pension fund contributions	**93**	**254**	**386**	**733**	350	350	700
Other benefits	**60**	**318**	**863[(5)]**	**1 241**	222	150	372
Current year STI accrued	**–**	**2 562**	**1 315**	**3 877**	3 456	1 630	5 086
Fair value of cash-based LTI	**–**	**–**	**–**	**–**	–	–	–
Ad hoc payment[(4)]	**28 887**	**–**	**–**	**28 887**	–	–	–
Total single figure of remuneration	**30 763**	**8 067**	**6 110**	**44 940**	10 504	5 343	15 847
Current year STI accrued not yet settled	**–**	**(2 562)**	**(1 315)**	**(3 877)**	(3 456)	(1 630)	(5 086)
Prior year STI accrual settled	**3 456**	**–**	**1 630**	**5 086**	5 237	2 277	7 514
Settlement of cash-based LTI on award date	**12 357**	**–**	**–**	**12 357**	13 175	8 202	21 377
Total cash equivalent value of remuneration	**46 576**	**5 505**	**6 425**	**58 506**	25 460	14 192	39 652
Fair value of cash-based LTI on award date	**–**	**–**	**–**	**–**	–	–	–
Financial statement remuneration[(3)]	**46 576**	**5 505**	**6 425**	**58 506**	25 460	14 192	39 652

[(1)] *Resigned 1 June 2017*
[(2)] *Appointed as an executive director 1 June 2017*
[(3)] *As per 2018 consolidated financial statements page 58 in accordance with IFRS*
[(4)] Ad hoc *loss of office settlement approved by the board*
[(5)] *Long service award paid during the year*

Executive Directors and executive management's remuneration continued
Other key management and prescribed officers for the year ended 31 March

	2018 J Booysen[1] R'000	2018 G Joseph R'000	2018 R Nadasen R'000	2018 RF Weilers R'000	2018 Total R'000	2017 J Booysen R'000	2017 RF Weilers R'000	2017 Total R'000
Salary	**1 054**	**2 024**	**1 648**	**4 090**	**8 816**	3 849	3 986	7 835
Pension fund contributions	**95**	**260**	**228**	**–**	**583**	350	–	350
Other benefits	**327**	**439**	**199**	**–**	**965**	361	–	361
Current year STI accrued	**–**	**1 055**	**1 063**	**1 625**	**3 743**	1 693	1 543	3 236
Fair value of cash-based LTI on award date	**–**	**1 639**	**1 238**	**–**	**2 877**	–	726	726
Total single figure of remuneration	**1 476**	**5 417**	**4 376**	**5 715**	**16 984**	6 253	6 255	12 508
Current year STI accrued not yet settled	**–**	**(1 055)**	**(1 063)**	**(1 625)**	**(3 743)**	(1 693)	(1 543)	(3 236)
Prior year STI accrual settled	**1 693**	**–**	**–**	**1 543**	**3 236**	2 509	2 041	4 550
Settlement of cash-based LTI	**–**	**–**	**–**	**–**	**–**	15 479	823	16 302
Total cash equivalent value of remuneration	**3 169**	**4 362**	**3 313**	**5 633**	**16 477**	22 548	7 576	30 124
Fair value of cash-based LTI on award date	**–**	**(1 639)**	**(1 238)**	**–**	**(2 877)**	–	(726)	(726)
Financial statement remuneration[2]	**3 169**	**2 723**	**2 075**	**5 633**	**13 600**	22 548	6 850	29 398

[1] *Appointed as an executive director 1 June 2017*
[2] *As per 2018 consolidated financial statements pages 58 and 59*

Short-term incentive

The following table reflects the percentage 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 2018 achievement[1] %
Executive directors	**13**	**86**	**26**
Group executive committee	**18**	**85**	**33**

	Financial and relative performance %	Non-financial strategic priorities %	Total 2017 achievement[2] %
Executive directors	24	87	35
Group executive committee	26	83	37

[1] *To be paid during the 2019 financial year*
[2] *Paid during the 2018 financial year*

The financial performance is measured at 50% Ebitdar and 50% adjusted earnings against the target approved by the remuneration committee. The target is set as the budget approved by the board, adjusted for the percentage variance between the final forecast that forms the base for the budget and the final results for the year. The target is adjusted for material structural changes during the year to ensure the target remains fair. Any adjustments to the targets are approved by the remuneration committee. The only significant adjustment made during the 2018 financial year was for the Gameco transaction which was not budgeted and would not have been equitable to include the earnings in the actual results. The financial performance score against the adjusted target for the 2018 financial year was 12% for Ebitdar and 14% for adjusted earnings at a group level.

The relative growth performance is measured against the market in the hotel division where there is a relevant competitor set. There are no relevant competitor sets in the gaming division. For employees in the hotel division the relative growth score in aggregate for the 2018 financial year was 24%.

Short-term incentive continued

Where there is a relevant competitor set, relative growth contributes 25% of the score with financial performance contributing 75%, and where there is no relevant competitor set, only the financial performance is applied. The relative weighting of the financial and relative growth scores and the relative weighting of the divisions resulted in an average score for the financial and relative growth component of 13% for the executive directors and 18% for the GEC for the 2018 financial year.

The non-financial strategic objectives are set annually per employee aligned to the strategic objectives of the group. The objectives vary depending on the role the employee has within the organisation and would include elements such as growth, customer satisfaction, regulatory compliance, leadership, internal controls and cost control. An evaluation of the performance against the objectives is completed at the end of the year and a bell curve is applied to the scores. The average score for the executive directors and GEC for the 2018 financial year was 85%.

The weighting of the financial and relative growth performance and the non-financial strategic objective performance varies by employee grade. For the CEO, the financial and relative growth performance contributes 85% of the total achievement, with 80% for the CFO and other A2 level employees and 75% for the B level employees. The financial and relative growth performance contribution reduces per grade with the lowest level of employees on the scheme at 60%.

The weighted total achievement for the 2018 financial year was 26% of entitlement for the executive directors and 33% of entitlement for the GEC. The maximum bonus entitlement varies per grade from 105% of total package for the CEO, 90% for the CFO and other A2 employees, 75% for the B level employees and down to 35% for the lowest level of employees on the scheme.

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 2018	Appreciation units granted and still outstanding 2017	Strike price R	Appreciation units vested and still outstanding 2018	Appreciation units vested and still outstanding 2017	Expiry date	Liability 2018 Rm	Liability 2017 Rm
All scheme participants								
1 April 2012	**–**	2 198 145	17.66	**–**	2 198 145	31 March 2018	**–**	32
1 April 2013	**4 450 589**	5 533 403	24.56	**4 450 589**	5 533 403	31 March 2019	**25**	39
1 April 2014	**6 279 865**	7 814 913	25.72	**6 279 865**	7 814 913	31 March 2020	**23**	40
1 April 2015	**6 122 937**	6 650 450	26.54	**6 122 937**	–	31 March 2021	**12**	15
1 April 2016	**7 975 525**	8 643 804	22.82	**–**	–	31 March 2022	**25**	18
1 April 2017	**7 473 372**	7 794 807	28.00	**–**	–	31 March 2023	**–**	–
Other	**1 017 784**	1 082 822		**349 652**			**2**	4
Liability at 31 March							**87**	148
Share price utilised to value the liability at 31 March							**R25.50**	R28.00

Long-term incentive liability – cash-settled continued

	Grant date	Appreciation units granted and still outstanding 2018	2017	Strike price[6] R	Appreciation units vested and still outstanding 2018	2017	Fair value of award on grant date[5] R'000	Expiry date	Liability 2018 R'000	Liability 2017 R'000
Executive directors										
MN von Aulock[1]	01/04/2013	–	447 883	24.56	–	447 883	2 405	01/04/2019	–	3 158
	01/04/2014	–	524 883	25.72	–	524 883	3 218	01/04/2020	–	2 672
J Booysen[2]	01/04/2013	**264 658**	*	24.56	**264 658**	*	1 421	01/04/2019	**900**	*
	01/04/2014	**291 602**	*	25.72	**291 602**	*	1 788	01/04/2020	**420**	*
RB Huddy	01/04/2013	**264 658**	264 658	24.56	**264 658**	264 658	1 421	01/04/2019	**900**	1 866
	01/04/2014	**184 681**	184 681	25.72	**184 681**	184 681	1 132	01/04/2020	**266**	940
									2 486	8 636
Other key management and prescribed officers										
J Booysen[2]	01/04/2013	*	264 658	24.56	*	264 658	1 421	01/04/2019	*	1 866
	01/04/2014	*	184 681	25.72	*	184 681	1 132	01/04/2020	*	1 484
G Joseph[3]	01/04/2014	**97 201**	*	25.72	**97 201**	*	596	01/04/2020	**140**	*
	01/04/2015	**94 198**	*	26.54	**94 198**	*	599	01/04/2021	–	*
	01/04/2016	**131 464**	*	22.82	–	*	871	01/04/2022	**334**	*
	01/04/2017	**125 000**	*	28.00	–	*	971	01/04/2023	–	*
	01/10/2017	**120 949**	*	20.67	–	*	668	01/10/2023	**445**	*
R Nadasen[4]	01/10/2012	**32 978**	*	19.71	–	*	166	01/10/2018	–	*
	01/04/2013	**81 433**	*	24.56	**81 433**	*	437	01/04/2019	**277**	*
	01/04/2014	**97 201**	*	25.72	**97 201**	*	642	01/04/2020	**140**	*
	01/04/2015	**94 198**	*	26.54	**94 198**	*	599	01/04/2021	–	*
	01/04/2016	**131 464**	*	22.82	–	*	871	01/04/2022	**334**	*
	01/04/2017	**125 000**	*	28.00	–	*	971	01/04/2023	–	*
	01/10/2017	**48 380**	*	20.67	–	*	267	01/10/2023	**178**	*
RF Weilers	01/04/2013	**122 150**	122 150	24.56	**122 150**	122 150	656	01/04/2019	**415**	861
	01/04/2014	**97 201**	97 201	25.72	**97 201**	97 201	596	01/04/2020	**140**	495
	01/04/2015	**94 198**	94 198	26.54	**94 198**	–	599	01/04/2021	–	318
	01/04/2016	–	109 553	22.82	–	–	726	01/04/2022	**278**	678
									2 681	5 702

(1) Resigned 1 June 2017
(2) Appointed as an executive director 1 June 2017
(3) Appointed as Chief Operating Officer – Gaming 1 July 2017
(4) Appointed as Chief Operating Officer – Hotels 1 July 2017
(5) Calculated utilising a Black-Scholes model at grant date as there are no performance conditions
(6) The appreciation units are granted at the seven-day VWAP prior to the grant date and vest over three years
** Not considered an executive director or other key management and prescribed officer during the period*

Long-term incentive – executive facility

The fair value of the executive scheme was expensed in accordance with IFRS during the 2015 financial year and detail is included in the remuneration report on page 76 of the 2015 integrated annual report. Details of the scheme are included on page 83.

Corporate information

COMPANY SECRETARY AND REGISTERED OFFICE

GD Tyrrell
Tsogo Sun Holdings Limited
(Registration number: 1989/002108/06)
Palazzo Towers East
Montecasino Boulevard
Fourways, 2055
(Private Bag X200, Bryanston, 2021)

SPONSOR

Investec Bank Limited*
(Registration number: 1969/004763/06)
100 Grayston Drive, Sandown
Sandton, 2196
(PO Box 785700, Sandton, 2146)

* *Previously Deutsche Securities (SA) Proprietary Limited – Investec Bank Limited appointed with effect from 1 June 2018*

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)
4 Lisbon Lane, Waterfall City
Jukskei View, 2090
(Private Bag X36, Sunninghill, 2157)

TRANSFER SECRETARIES

Link Market Services South Africa Proprietary Limited
(Registration number: 2000/007239/07)
13th Floor
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)

Shareholders' diary

Annual General Meeting	18 October 2018
Next financial year end	31 March 2019

REPORTS

Announcements	
Interim results for six months to September	November 2018
Preliminary announcement of annual results	May 2019
Annual financial statements published	July 2019

Dividends	**Declared**	**Paid**
Ordinary – interim	November	December
Ordinary – final	May	June

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
CEO	Chief Executive Officer
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
DEFRA	Department for environment, food and rural affairs
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
FIC	Financial Intelligence Centre
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
Galaxy	Galaxy Gaming and Entertainment Proprietary Limited
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
Gameco	Niveus Invest 19 Proprietary Limited
GEC	Group executive committee
Gold Reef	Gold Reef Resorts Limited
GRIPP	GRIPP Advisory Proprietary Limited
HCI	Hosken Consolidated Investments Limited
HEPS	Headline earnings per share
HPF	Hospitality Property Fund Limited
IAS	International Accounting Standards
IHPL	International Hotel Properties Limited
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards

IoDSA	Institute of Directors in Southern Africa
IPCC	Intergovernmental Panel on Climate Change 2006 Guidelines
<IR>	Integrated reporting
ISO	Independent Site Operator
IT	Information technology
JSE	JSE Limited
King IV™	The King Code of Governance Principles for South Africa 2016
KPMG	KPMG Services Proprietary Limited
Liberty	Liberty Group Limited
LPM	Limited payout machine
LTV	Loan to value
NPAT	Net profit after tax
OTA	Online travel agent
PDIs	Previously disadvantaged individuals
POPI	Protection of Personal Information
PP	Percentage points
RBH	RBH Hotel Group Limited
REIT	Real Estate Investment Trust
Revpar	Revenue per available room
SACTWU	South African Clothing and Textile Workers Union
SARS	South African Revenue Service
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
Vukani	Vukani Gaming Corporation Proprietary Limited

Seven-year financial review

		2018	2017	2016	2015	2014	2013	2012	CAGR
Trading									
Income		**13 975**	13 222	11 343	11 343	10 767	9 910	9 031	8
Gaming win	Rm	**7 940**	7 483	7 361	6 976	6 819	6 525	6 111	4
Rooms	Rm	**3 160**	3 078	2 784	2 453	2 221	1 914	1 615	12
Food and beverage	Rm	**1 561**	1 434	1 353	1 203	1 063	869	752	13
Property rental income	Rm	**549**	445	133	124	120	126	115	30
Other revenue	Rm	**765**	782	652	587	544	476	438	10
Ebitdar	Rm	**5 271**	5 049	4 543	4 223	4 214	3 886	3 501	7
Ebitdar margin	%	**37.7**	38.2	37.0	37.2	39.1	39.2	38.8	
Cash flow and borrowings									
Free cash flow	Rm	**1 938**	2 221	1 953	1 811	1 825	1 932	1 725	
Net debt	Rm	**12 537**	12 113	9 248	9 211	4 439	3 580	4 184	
Net debt:Ebitdar	times	**2.4**	2.4	2.0	2.2	1.1	0.9	1.2	
Investment									
Investment activities	Rm	**2 576**	2 590	962	2 045	1 643	639	1 031	
Share buy-back	Rm	**–**	–	–	3 019	–	–	–	
Maintenance capex	Rm	**675**	925	969	749	769	579	436	
Shareholders' ratios									
Adjusted headline earnings per share	cents	**197.8**	207.6	196.5	175.0	176.5	150.1	121.5	9
Dividends per share[2]	cents	**102.0**	104.0	98.0	89.0	89.0	75.0	60.0	9
Dividend payout ratio	%	**52**	50	50	51	50	50	49	
Stock exchange statistics									
Share price at 31 March	R	**23.33**	27.64	23.64	27.60	25.42	24.75	17.75	
Share price during period – highest	R	**27.85**	32.18	29.26	30.39	28.75	25.35	19.08	
Share price during period – lowest	R	**20.00**	22.77	19.85	25.00	23.75	17.40	15.20	
Shares traded as a percentage of shares in issue[1]	%	**48.8**	28.0	35.2	102.5	4.5	4.0	4.4	
Number of shares in issue[1]	million	**1 059**	957	957	957	1 098	1 098	1 097	
Market capitalisation	Rm	**24 706**	26 463	22 633	26 424	27 916	27 176	19 474	
Closing price/earnings ratio	times	**11.8**	13.3	12.0	15.8	14.4	16.5	14.6	
Closing earnings yield	%	**8.5**	7.5	8.3	6.3	6.9	6.1	6.8	
Closing dividend yield	%	**4.4**	3.8	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*

Bastion