

## Chairman's and Chief Executive Officer's review

# DEAR STAKEHOLDERS

The 2015 financial year was in many ways a landmark year for the group, with the exit of long time shareholder, SABMiller, allowing a substantial increase in the free float of the company, and presenting the opportunity for an attractive buy-back of some 12% of the group's shares.

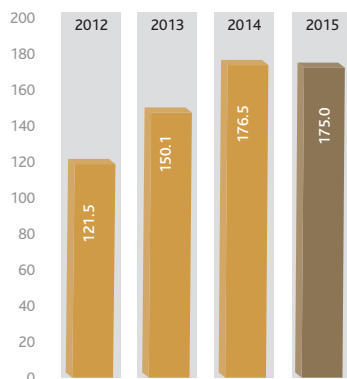
- ❖ Financial ability to withstand macro-economic shocks and still pursue significant attractive investment opportunities
- ❖ Strategic investment of R2.8 billion in the buy-back of shares concluded but disappointment with the cancellation of the acquisition of a 40% stake in the GrandWest and Worcester casinos
- ❖ BBBEE rating has been reaffirmed at level 2 although significant uncertainty exists as to the rating under the new codes
- ❖ Significant product initiatives carried out during the year include the major redevelopment of the Silverstar and Gold Reef City complexes and the focus on the food and beverage operations
- ❖ Employee engagement survey results were pleasing and indicate a healthy work environment
- ❖ Recovery in consumer and business confidence remains the largest growth opportunity for the group



**John Copelyn**  
Chairman

**Marcel von Aulock**  
Chief Executive Officer

Adjusted HEPS (cents)



### Overview

The year ended 31 March 2015 was a very difficult year for the group from a trading perspective. The flat results reflect a disappointing 2% growth in gaming win, exacerbated by a year that saw reduced government spend on travel, the impact of the Ebola pandemic on travel to many of the African markets, particularly Nigeria, and the closure of Southern Sun Maputo for renovations. The growth was slower than the growth achieved in the 2014 financial year and below our expectations, and is indicative of the tough macro-economic environment and particularly, poor consumer sentiment.

However, the 2016 financial year should reflect better growth as a result of the non-recurrence of some of the exceptional factors experienced during the year. After three years of strong growth in

adjusted headline earnings per share, the 2015 financial year saw a marginal 1% decline to 175 cents per share with the dividend declared in respect of the year totalling 89 cents per share, flat with the prior year and in line with the group policy of declaring 50% of adjusted headline earnings per share.

The group should be in a position to continue delivering increased earnings and dividends, both through organic and expansionary activity over the medium term. The rate of growth is, however, largely reliant on the rate of recovery in the South African economy and the distinct caveats that we do not experience another recession and that the various regulatory authorities under which the group operates do not inhibit our ability to trade.

The group has continued to focus on its core growth strategy and pursued avenues to deploy capital at attractive rates of return. This remains a long-term strategy and patience will be required for the full benefits of these investments to be realised, particularly the investment in the upgrade and expansion of the group's casino and hotel assets, as they are ultimately designed to cater for the increased demand that is generated by broader economic growth.

Disappointingly the deal to acquire a 40% stake in the GrandWest and Worcester casinos in the Cape province was cancelled in July 2015 as it became clear that we would be unable to conclude the regulatory process before the deadline for the transaction. Enhancing the group's presence in the Western Cape gaming market remains an opportunity going forward.

Regulatory challenges continue to present risks to the group and we remain vigilant to these. These challenges are as varied as changes in BBBEE rules, corporate and personal taxes, FICA-related rules and more recently visa regulations, which have significantly impacted tourism to South Africa from the global growth markets of India and China. We continue to engage with government to try and ensure the impacts of proposed policy changes are understood and analysed before they are implemented.

### Strategic priorities

The strategic priorities of the Tsogo Sun group remain sustainability and growth. Given the uncertain macro-economic outlook in South Africa in the short to medium term, sustainability is more important than ever, and is achieved through firstly avoiding mistakes that can threaten the survival and health of the business and secondly, identifying external risks and opportunities and developing mitigating strategies to minimise or eliminate the impact of the risks on the organisation and strategies to take advantage of the opportunities. Growth is achieved both organically and inorganically and is measured by the increase in the group's free cash flow generated over time.

### Sustainability

In order to take advantage of commercial opportunities that are presented, a business needs to first and foremost stay in business. Sustainability for Tsogo Sun is about the five major pillars of focus for ensuring the long-term survival and prosperity of the group. We continue to focus on and make good progress in each of these areas.

### Financial strength and durability

Closing net debt to Ebitdar at 2.2 times remains comfortable and the increase in absolute net debt over the prior period to R9.2 billion includes the effect of the R2.8 billion share buy-back concluded at an attractive price of R20.96 per share.

The group's committed debt facilities total R14.3 billion, some R4.8 billion above the current drawdown (including available cash on hand), and have an average tenure of almost five years. Accordingly, the group is adequately funded for ongoing operations and the macro-economic shocks that may occur and can take advantage of significant expansion opportunities.

### Deliver to our beneficiaries

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

During the 2015 financial year the group continued to enjoy a stable and supportive shareholder base in HCI, with a concentrated holding of 47.6% following the share buy-back which also resulted in a broadening of the shareholder base.

HCI continues to show a significant amount of support and enthusiasm for the group's growth strategy and this has played a material part in assisting us to close a number of the important expansion opportunities. In addition, the introduction of the HNA group out of China as the largest buyer in the SABMiller share sale is expected to open new opportunities to the group in the future.

The group has consolidated its CSI and enterprise development activities under the concept of Citizenship. R154 million was spent on CSI initiatives in the key areas of education, sport and environmental awareness, while in enterprise development we have 98 guesthouses registered on our Book-a-Guesthouse programme, all black owned and 92% by women. As a group we have tried to focus on programmes that make a real difference in the communities we operate in, with the initiatives often coming from staff at the unit level.

## Chairman's and Chief Executive Officer's review continued

With more than 22 000 people directly and indirectly employed by the group and R2 billion in direct taxes paid per annum, it is clear that the benefits of the group's activities are enjoyed through a large and diverse stakeholder base. We refer you to the value added statement in the key relationships section on page 24 and the community section on page 37 for further information.

Our 2015 BBBEE rating has been reaffirmed at level 2, the result of a continued dedicated effort, focus on all areas of the business and an operating philosophy that ensures the BBBEE impacts of each decision the business makes are taken into account. There continues to be significant uncertainty as to what the group's BBBEE rating will be under the new codes as a result of the uncommercial nature in which they have been drafted, particularly with regard to the subminimum demotions and the change in scoring scales. The group continues to litigate against attempts by various gambling boards to unilaterally impose the achievement of defined levels of empowerment, as measured against the codes, as a licence condition due to the uncertainty and the extent to which the levels achieved are moved out of the group's control. We remain committed to enhancing the group's BBBEE credentials in every commercially reasonable way, but cannot expose our licences to regulatory risk against uncertain moving targets.

### Product relevance to customer experience

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

We continue to invest significantly in both distribution of physical product and maintenance capital expenditure in our various properties, and believe in operating best-in-class products at each relevant price point. In addition, the group continues to allocate significant human and financial resources to systems, ensuring that the offering at each property is relevant to the market it serves.

The current focus remains on expanding and refreshing our casino properties and addressing legacy issues at some of the older hotels, particularly in bathroom infrastructure. During the 2015 financial year we completed the R560 million expansion and redevelopment of the Silverstar Casino and progressed with the R630 million redevelopment of the Gold Reef City Casino and Theme Park. A number of key hotels underwent renovation, in particular Southern Sun Maputo where we spent US\$30 million renovating existing rooms and adding 110 rooms and conference facilities. The Palazzo

at Montecasino, which is without doubt the most beautiful hotel in Johannesburg, enjoyed a complete rooms refurbishment and the Garden Court De Waal Hotel in Cape Town has been refurbished and relaunched as SunSquare Cape Town.

Operationally, work continues to be done on the refresh of gaming products on our floors and guest facilities and amenities at our hotels. The focus on our food and beverage operations to ensure our delivery is relevant and appealing to our customers and supportive of the gaming and rooms operations is proving successful, with the group reclaiming a reputation for excellence in food and beverage that had not been enjoyed for many years. Most rewardingly the Foundry at Southern Sun Abu Dhabi has been rated as one of the best restaurants in this competitive city, while in South Africa, Level Four at 54 on Bath in Rosebank, the San Deck at the Sandton Sun and Grill Jichana at the Southern Sun Elangeni and Maharani in Durban are all making an impact in their markets.

During the 2015 financial year a large amount of work was completed on ensuring our IT systems remain up to date and are fully supported. Legacy Aristocrat gaming management systems have been replaced with either IGT Advantage or Gamesmart, a process which resulted in a certain amount of operational disruption during the year but is now completed. The redevelopment of the group's website and booking engine continues and is expected to be completed during the 2016 financial year.

### 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 regulation 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 practices.

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

### Human resources

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

The Tsogo Sun Academy, which controls all aspects of the group's employee training and development programmes, is a significant asset to ensure staff are properly equipped for the work environment with R107 million spent during the 2015 financial year on training. We firmly believe that engagement is often as important to derive the best performance from a workforce as are the levels of remuneration. The results of the staff engagement survey carried out during the year were positive and issues identified are in the process of being addressed.

The remuneration report on page 71 to page 76 highlights the group's philosophy towards remuneration and incentivisation, ensuring we retain valuable talent.

### Growth

The value of a business is the present value of the cash flows that can be generated by the assets owned or controlled. Accordingly, the only true measure of growth for our business over time is its growth in free cash flow.

Our free cash flow reduced marginally by 1% to R1.8 billion for the 2015 financial year mainly due to increased finance costs following the share buy-back. The coming year may see limited growth in free cash flow as we incur additional interest on higher net debt levels and complete major maintenance capital expenditure projects, offset by the anticipated growth in cash generated from operations. We are, however, comfortable that these investments, including the share buy-back, will yield acceptable future returns.

### Organic growth

The macro-economic environment remains subdued and this is not expected to materially change in the short to medium term. The gaming win growth of 2% was impacted by a slow performance in both slots and tables. The performance at the majority of the group's properties was stronger than this average may indicate, but was dragged down by particularly weak performances at Hemingways in East London and Goldfields in Welkom due to poor local economic conditions and Gold Reef City and Silverstar suffering construction and systems change-related disruptions. Overall owned occupancies at 61.6% declined by some 2pp and are still well below normal long-term levels of around 68%. The South African government introduced austerity measures in its travel spend and the group experienced a reduction of approximately 100 000 room nights in this segment during the financial year. Southern Sun Maputo was closed for five months during the refurbishment and expansion of the hotel, as was the Garden Court De Waal in Cape Town. Overall owned average room rates increased by 5% and consequently Revpar grew by a limited 2% to R583.

The group's financial results for the 2015 financial year reflect an income growth of 5% with Ebitdar flat on the prior year assisted by the acquisitions implemented in the prior and current year. Operating, finance and taxation costs are strictly monitored and benchmarked across the group, and continued maintenance capital expenditure is vital to maintaining and improving the group's asset base.

In the longer term a recovery in consumer and business confidence, driving growth in leisure spend and corporate travel respectively remains the largest growth opportunity for the group. With our unparalleled asset base, Tsogo Sun stands to benefit significantly from the high levels of operational gearing in the industries in which it operates and should see a significant increase in operating cash flows if organic revenue growth, even marginally above inflationary levels, can be sustainably achieved. We maintain this position and continue to build on this asset base where possible.

### Inorganic growth

Inorganic growth is pursued through a combination of expanding our existing facilities, new developments and acquisitions. The group invested R2.0 billion during the 2015 financial year in acquiring hotel assets and businesses, expanding hotels and casino properties, acquiring non-controlling interests shareholdings in our existing businesses and shareholdings in other businesses. For detail of the transactions refer to page 60.

In addition to the capital invested in the growth strategy, the group managed the exit of SABMiller from its long-term 39.6% shareholding in the group, including a specific repurchase of 133.6 million Tsogo Sun ordinary shares for R2.8 billion in August 2014. The shares were acquired at a price of R20.96 per share representing an 18.6% discount to the final book build price achieved on the sale of the SABMiller investment of R25.75 per share.

The group continues to pursue additional opportunities with the most significant being as follows:

- ❖ the group entered into a transaction with Sun International Limited and Grand Parade Investments Limited for the acquisition of a 40% equity interest in each of SunWest International Proprietary Limited and Worcester Casino Proprietary Limited for an aggregate R2 185 million. The acquisition which was subject to the fulfilment of conditions precedent, including the approvals of the provincial gambling and the competition authorities, was subsequently cancelled as the approvals would not have been obtained before the expiry of the agreements. This opportunity and the opportunity to relocate one of the smaller casinos into the Cape Metropole remain firmly on the group's agenda;

## Chairman's and Chief Executive Officer's review continued

- ❖ the Mpumalanga Gaming Board withdrew the second request for proposal for the fourth casino licence in the province. The group is pursuing a legal challenge in this regard following the submission of a bid proposal in response to the request;
- ❖ we continue to refine the design of the Suncoast Casino and retail expansion and expect to break ground on this development next year. With 50 000m<sup>2</sup> of retail, new restaurants and an expanded and enhanced casino offering we believe this development will add substantial value to the already successful Suncoast property; the group has announced a new 500-room hotel complex in the Cape Town city centre, with the opening scheduled for the third quarter of 2017; and
- ❖ the group is considering creating an entertainment and hospitality focused Real Estate Investment Trust ('REIT'), into which it would transfer its extensive owned hotel, retail and office property portfolio. Evaluation of this opportunity continues and no firm decision has been made in this regard.

South Africa and the rest of the African continent continue to offer good investment opportunities and these are being pursued. These opportunities are evaluated by the group with a strong focus on ensuring that we are capable of operating them successfully, that

they are priced for value and that they do not impinge on our sustainability.

As we have said before, provided the macro-economy does not go into free fall and that regulatory changes are well considered by the relevant authorities, we remain confident of generating significant value for our stakeholders going forward.

### Appreciation

We wish to extend our appreciation to the board, management and the staff of the group for their efforts during the year. More importantly, we wish to extend a word of encouragement to the management and staff of Tsogo Sun to remain focused on delivering the group strategy. Tsogo Sun remains a group with irreplaceable assets and people.



**John Copelyn**  
Chairman

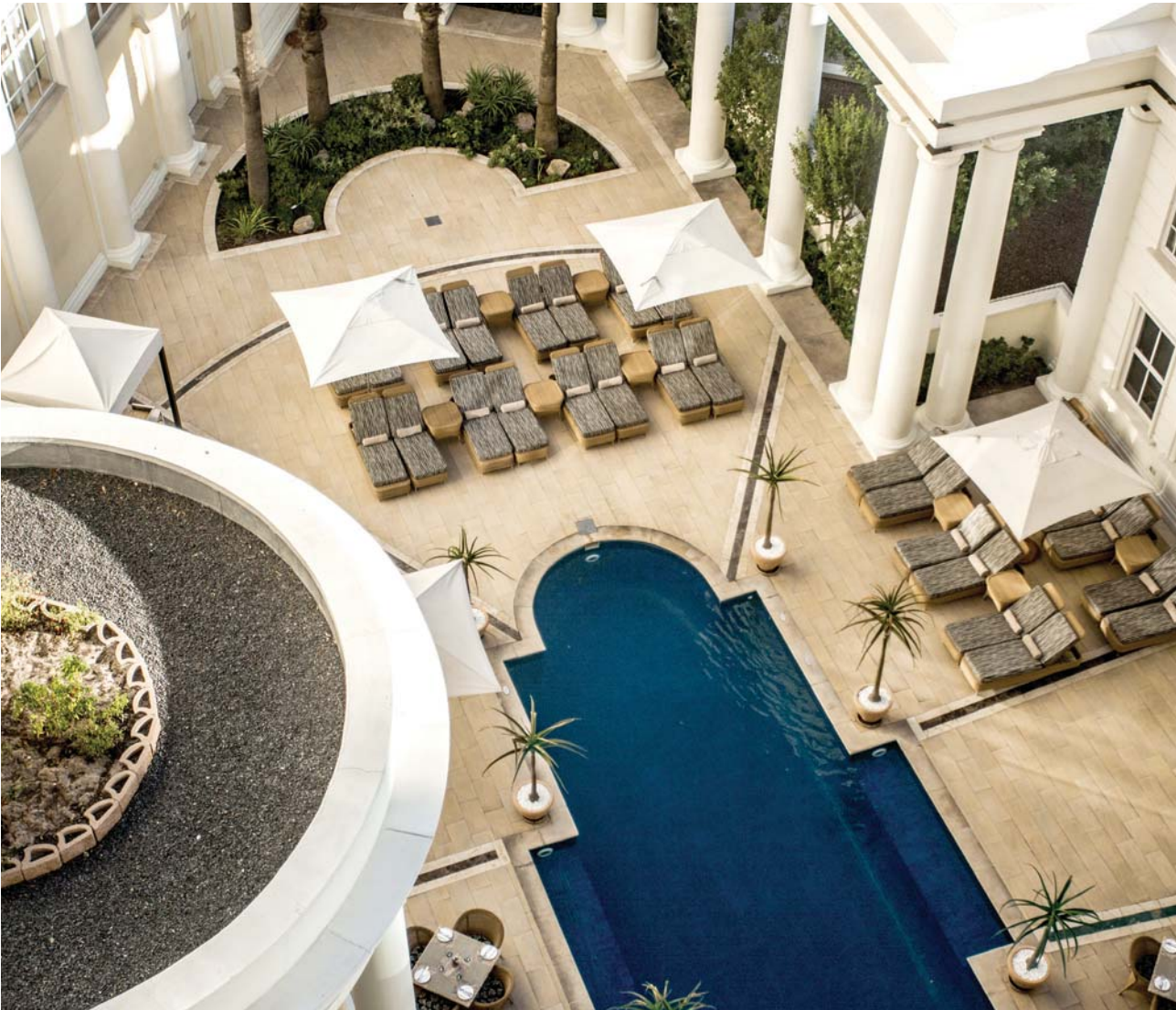
20 August 2015



**Marcel von Aulock**  
Chief Executive Officer

20 August 2015





## Chief Financial Officer's review

We measure our creation of shareholder value through the increase in adjusted headline earnings per share and the generation of free cash, our efficiency through Ebitdar margin and our financial risk through our net debt:Ebitdar ratio and unutilised net facilities. The transactions concluded during the year have resulted in a step change in our gearing levels.

The results for the year ended 31 March 2015 reflected the continued pressure on the consumer due to the macro-economic environment and weak consumer sentiment.



❖ Income R11.3 billion		5%
❖ Adjusted HEPS 175.0 cents		(1%)
❖ Free cash flow R1.8 billion		(1%)
❖ Net debt R9.2 billion		
❖ Net debt:Ebitdar 2.2 times		
❖ Ebitdar R4.2 billion		Unchanged
❖ Ebitdar margin 37.2%		(1.9)pp
❖ Dividends in respect of the year 89.0 cents per share		Unchanged
❖ Investment activities R2.0 billion		
❖ Unutilised net facilities R4.8 billion		

**Rob Huddy**  
Chief Financial Officer

### Overview

This report should be read in conjunction with the summarised consolidated financial statements on page 78 to page 84 and 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 2015.

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

Commentary on inorganic growth is included on page 60 and page 61.

Commentary on net interest-bearing debt and interest rate and currency risk management is included in the financial strength and durability section on page 46.

## Income statement comparison for the year ended

	31 March 2015 Rm	31 March 2014 Rm	% change on 2014
<b>Income</b>	<b>11 343</b>	10 767	5
Gaming win	6 976	6 819	2
Revenue			
Rooms	2 453	2 221	10
Food and beverage	1 203	1 063	13
Other	711	664	7
<b>Ebitdar</b>	<b>4 223</b>	4 214	–
Gaming	3 265	3 266 <sup>(1)</sup>	–
Hotels – South Africa	830	752 <sup>(1)</sup>	10
– Offshore	137	153	(10)
Foreign exchange (losses)/gains	(21)	33	*
Corporate	12	10	*
<b>Ebitdar margin</b>	<b>37.2%</b>	39.1%	(1.9pp)
Long-term incentives	(95)	(150)	37
Property rentals	(210)	(221)	5
Amortisation and depreciation	(733)	(648)	(13)
Exceptional items	(143)	(73)	(96)
Finance costs (net)	(681)	(373)	(83)
Associates and joint ventures	25	–	*
Income tax	(680)	(776)	12
Non-controlling interests	(34)	(96)	65
Attributable earnings	1 672	1 877	(11)
Adjustments	103	61	*
<b>Adjusted headline earnings</b>	<b>1 775</b>	1 938	(8)
Weighted number of shares in issue (m)	1 014	1 098	8
<b>Adjusted HEPS (cents)</b>	<b>175.0</b>	176.5	(1)

<sup>(1)</sup> Restated 2014 comparatives due to the transfer of the StayEasy Century City hotel from the gaming division to the South African hotels division.

\* Variance not meaningful

## Trading performance

Trading during the financial year reflected continued pressure on the consumer due to the macro-economic environment and weak consumer sentiment. Limited organic year-on-year growth was achieved in both casino and hotel revenues. Trading results were impacted by a variety of mergers and acquisitions and development projects including the acquisition of hotel businesses from Liberty, and the acquisition in the prior year of a stake in Southern Sun Ikoyi, offset by the closure of Southern Sun Maputo and Garden Court De Waal for refurbishment and the sale of Garden Court Sandton. In addition, the year saw the impact of the post-election and fiscal austerity consequences on government travel in South Africa, the impact of the Ebola pandemic on hotel occupancies mainly outside South Africa and foreign exchange losses in the current year versus gains in the prior year.

Total income for the year of R11.3 billion ended 5% above the prior year with a 2% growth in gaming win assisted by a 10% growth in hotel rooms revenue and a 13% growth in food and beverage revenue.

Operating expenses including gaming levies and VAT and employee costs but excluding property rentals, exceptional items and long-term incentives increased by 9% on the prior year mainly due to non-organic growth in the business and increased offshore overheads as a result of the weakening of the Rand against both the US Dollar and the Euro offset by savings initiatives

Ebitdar at R4.2 billion for the year was unchanged from the prior year. The overall group Ebitdar margin of 37.2% is 1.9pp down on the prior year.



## Chief Financial Officer's review continued

### Long-term incentives

The long-term incentive expense at R95 million is R55 million below the prior year charge and reflects the effect of the increased Tsogo Sun share price (including dividend adjustments) at 31 March 2015. The share price increased from R27.00 to R27.60 during the 2015 financial year (2015: R24.75 – R27.00). Refer to the remuneration report on page 71 to page 76 for further detail.

### Rentals, amortisation and depreciation

Property rentals at R210 million are 5% down on the prior year mainly due to the acquisition of the Garden Court Kings Beach property and the sale of Garden Court Sandton offset by contractual increases and straight-line lease provision adjustments.

Amortisation and depreciation at R733 million is 13% up on the prior year due mainly to the capital spend during the year, the inclusion of Southern Sun Ikoyi for 12 months and the hotels acquired by Cullinan not in the prior year.

### Exceptional items and adjustments

Exceptional losses for the year of R143 million relate mainly to the IFRS 2 *Share-based Payment* charge on the executive facility amounting to R118 million, pre-opening costs of R19 million during the closure period of the hotels closed for refurbishment, property, plant and equipment and loan impairments of R17 million, a marketing fee income write off of R16 million (refer associates and joint ventures below) and transaction and restructure costs of R11 million offset by the gain recognised on the change in other long-term employee benefits of R38 million. Exceptional losses for the prior year of R73 million relate mainly to property, plant and equipment and loan impairments, fair value adjustment to the value of a previously held interest in an associate and transaction and retrenchments costs on the restructure of various departments in the business offset by a lease termination recovery. Refer to the table on page 81.

### Net finance costs

Net finance costs of R681 million are 83% above the prior year due to the increase in debt and reduction in net cash, to fund the growth strategy and the share buy-back offset by an adjustment to the Cullinan put option of R8 million.

### Share of profits of associates and joint ventures

The share of profit of associates and joint ventures of R25 million improved by R25 million on the prior year mainly due to earnings from the Redefine BDL acquisition and the group's share of a joint venture's marketing fee reversal of R20 million (refer exceptional items and adjustments above).

### Taxation

The effective tax rate for the year at 28.8% is impacted by non-deductible expenditure such as casino building depreciation and non-deductible foreign exchange losses offset by the tax holiday at Southern Sun Ikoyi. The comparative effective tax rate of 28.2% is impacted by similar items.

### Non-controlling interests

Profit attributable to non-controlling interests of R34 million is 65% below the prior year mainly due to the acquisition of the additional 10% of Suncoast, 15% of Garden Route Casino and 49% of the Pivot office development and reduced profits at Southern Sun Ikoyi, Southern Sun Maputo, Cullinan and Hemingways Casino offset by the Southern Sun Ikoyi acquisition in the prior year.

### Earnings

Group adjusted headline earnings for the year ended 31 March 2015 at R1.8 billion are 8% below the prior year. The adjustments include the reversal of the post-tax impacts of the exceptional losses noted above in addition to the reversal of the remeasurement of the Cullinan put option in net finance costs and the joint venture's marketing fee reversal. The number of shares in issue decreased due to the buy-back of 133.6 million ordinary shares on 28 August 2014 and the resultant adjusted headline earnings per share is 1% down on the prior period at 175.0 cents per share.

### Cash flow

	31 March 2015 Rm	31 March 2014 Rm	% change on 2014
Cash generated from operations	3 866	3 764	3
Dividends received	7	3	
Net interest paid	(715)	(376)	
Income tax paid	(537)	(756)	
Operating equipment	(61)	(41)	
Maintenance capital expenditure	(749)	(769)	
<b>Free cash flow</b>	<b>1 811</b>	1 825	(1)
Dividends paid	(947)	(897)	
Investment activities	(2 045)	(1 643)	
Share buy-back	(3 019)	–	
Other	25	53	
Increase in net interest-bearing debt	(4 175)	(662)	

Cash generated from operations for the year improved by 3% on the prior year at R3.9 billion. Free cash for the year decreased by 1% to R1.8 billion due mainly to increased finance costs paid net of reduced taxation payments. Cash flows utilised for investment activities of R2.9 billion, including the acquisition of non-controlling interests, consisted mainly of maintenance capital expenditure and the acquisitions and investments described under the inorganic growth section on page 60.

#### Balance sheet derivative financial instruments

The group entered into a call option over Liberty's 40% shareholding in Cullinan and Liberty has a corresponding put option, both exercisable at the fair values of the shares. A financial liability for the put option of R493 million and a corresponding debit to transactions with non-controlling interests was recognised. The non-current liability, included in derivative financial instruments, has been remeasured to R485 million at the year end with the decrease of R8 million recognised in finance costs.

#### Dividends

A final gross cash dividend of 60.0 cents per share in respect of the company's 2015 year end was declared and the dividend was paid on 15 June 2015. The number of ordinary shares in issue was 957 388 870 (excluding treasury shares). The dividend was subject to a local dividend withholding tax rate of 15% which resulted in a net dividend of 51.0 cents per share to those shareholders who were not exempt from paying dividend tax. The company's tax reference number is 9250039717.

The total dividends declared in respect of the 2015 financial year amounted to 89.0 cents per share which is flat on the 2014 financial year and which equates to 50% of fully diluted adjusted HEPS.

#### Subsequent events

There are no matters or circumstances arising since 31 March 2015, not otherwise dealt with in the financial statements, that would materially affect the operations or results of the group.

#### Looking ahead

Trading is expected to remain under pressure due to the macro-economic environment and weak consumer sentiment.



**RB Huddy**

*Chief Financial Officer*

20 August 2015



## Our strategy in action

# SUSTAINABILITY

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 significant 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 CSI programmes and also through direct and indirect equity ownership and employment.

### Key performance indicators

	2015	2014
Black ownership	<b>79%</b>	56%
Value added contribution to black economically empowered businesses, PDIs and government	<b>R8.1 billion</b>	R7.7 billion
BBBEE level	<b>Level 2</b>	Level 2
CSI outcomes	<b>Tsogo Sun Sports, Arts and Learning Academies support 39 751 learners</b>	Tsogo Sun Sports, Arts and Learning Academies support 35 967 learners

### 2015 performance

#### Shareholders

As mentioned in the group overview on page 5 the nature of the HCl shareholding is of particular importance as it provides the bulk of the 79.3% broad-based empowered ownership at group level. HCl has provided a stable shareholder base for a number of years that has allowed the group to grow and take advantage of opportunities.

The sale by SABMiller of its shares during the year has allowed a more diverse shareholder base.

#### Community

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

#### Community development

During the year, the group's combined social investment in community development amounted to R154 million. Of this, verified spend on BBBEE socio-economic development amounted to R153 million which is the equivalent of 8.97% of net profit after tax and represents 7.97% more than the DTI's target.

While our casinos and hotels provide substantial support towards a wide range of projects and initiatives designed to uplift people in their local communities, Tsogo Sun's national community development takes place through the Tsogo Sun Sports, Arts and Learning Academies, which collectively reach approximately 40 000 learners who participate in our full-year programmes.

Academy	Schools	Teachers	Learners	Adults
Tsogo Sun Sports Academy	123	1 027	23 053	56
– Rugby	30	450	58	27
– Soccer	35	42	1 026	7
– Athletics	1	–	600	2
– Chess	57	535	21 369	20
Tsogo Sun Arts Academy	14	24	520	9
Tsogo Sun Learning Academy	676	472	16 178	1 150
<b>Total</b>	<b>813</b>	<b>1 523</b>	<b>39 751</b>	<b>1 215</b>

#### Tsogo Sun Sports Academy

We share the Departments of Education and Sport's vision to nurture school environments that promote healthy living and responsible attitudes to foster the development of successful young South Africans. The Tsogo Sun Sports Academy uses sport as a medium to deliver life skills, leadership and healthcare training, as well as to reinforce the importance of education to young learners, with the ultimate goal of nurturing children's wellbeing. To achieve this, Tsogo Sun has partnered with relevant local government departments, sporting industry bodies, associated school sports bodies and schools in local communities.

During the year, the Tsogo Sun Sports Academy continued to deliver on previous projects including soccer, rugby and athletics through the support of 1 684 South African children and youths between the ages of 7 and 17. In addition, training and accreditation is also provided to the coaches, trainers, mentors and referees in these programmes.

The Tsogo Sun Moves For Life national chess programme has continued to successfully expand within the foundation phase at schools across South Africa. The programme reaches 21 369 learners and 535 educators across 57 schools, with the objective of improving maths, science and literacy skills through the medium of chess. During the year, a three-year research study commenced with the University of Johannesburg to document the impact of chess in maths education.

# Tsogo Sun Citizenship



❖ Tsogo Sun Sports Academy – Soccer



❖ Environmental education – Miss Earth South Africa



❖ Tsogo Sun Learning Academy – Tutankhamun exhibition



❖ Tsogo Sun Entrepreneurs



❖ Tsogo Sun Moves for Life – Chess



❖ Tsogo Sun Arts Academy



❖ Tsogo Sun Sports Academy – Rugby



❖ Caring across communities

## Sustainable strategy in action

### Deliver to our beneficiaries continued

#### *Tsogo Sun Arts Academy*

Our Arts Academy develops the artistic talent of learners from underprivileged backgrounds to provide them with essential life skills development. The programme enables learners to participate in a curriculum that uses the arts as a catalyst to give young people in our communities a chance to bring about change in their lives. The programmes vary in their offerings across disciplines within the arts, including theatre, drama, singing, poetry, creative arts and literature and make use of the Teatro at Montecasino, the Gold Reef City Lyric Theatre and arts studio at Hemingways Casino to support 520 learners from 14 schools in Diepsloot, Mayfair, Nelspruit and East London.

#### *Tsogo Sun Learning Academy*

The Tsogo Sun Learning Academy provides peer-driven leadership programmes, early childhood educator support, school visits to the Apartheid Museum, various types of bursaries and learnerships and venues at our properties for events hosted by schools. During the year, Tsogo Sun contributed to more than 670 schools across the country, through ad hoc or fundraising assistance and the group's community academies.

The Olwazini Discovery Science Centre in Pietermaritzburg is Golden Horse Casino's onsite science and computer centre. The science centre attracts more than 15 000 learners per annum from 200 schools and the computer centre facilitates computer literacy courses for over 1 000 learners and adults per year.

The group contributes more than R5 million per annum to the upkeep of the Apartheid Museum, which is situated on the greater Gold Reef City precinct. In addition, the group takes an active role on the board and assists with the operation of the museum. R33 million has been made available for the expansion of the museum during the 2016 financial year.

The group paid an amount of R100 million to the KwaZulu-Natal Gaming and Betting Board to be spent on charitable or social infrastructural developments in the KwaZulu-Natal province which is being utilised for educational purposes.

#### *Caring across communities*

In addition to Tsogo Sun's national programmes, our casinos and hotels are involved in a wide range of caring initiatives and they provide substantial support towards various projects designed to uplift people in their local communities. Our hotels contribute furniture and equipment to non-profit organisations such as the community chest, local rotary clubs, shelters and children's homes. Our casinos contribute financially to numerous welfare organisations in support

of children, the elderly and animals, and the Gold Reef City Theme Park and the Montecasino Bird Park provide free entrance to children from orphanages, shelters and primary school learners who otherwise would not have the opportunity to experience these parks.

#### *Enterprise development*

Tsogo Sun is committed to the development of small businesses in South Africa with a specific focus on skills-based entrepreneurial development and the provision of preferential procurement opportunities to black-owned qualifying small enterprises and emerging micro-enterprises. The group's spend on enterprise development for the year is R122 million or 7.1% of net profit after tax, which is 4.1pp above the DTI's BBBEE target.

The enterprise development projects supported by the group include various black-owned tenants at the group's casinos. Our tenant philosophy is connected to our enterprise development and, through the provision of preferential rental fees and start-up allowances where warranted, in certain instances we provide support to tenants that are black owned or have a majority black shareholding in their businesses. The group also supports a range of black-owned small, medium and micro-enterprises ('SMMEs') throughout the organisation.

#### *Tsogo Sun Entrepreneurs*

Tsogo Sun's national enterprise and supplier development takes place through 'Tsogo Sun Entrepreneurs', a business benefit and development programme that supports various clusters of entrepreneurs within the value chain of the Tsogo Sun group and within the broader tourism industry in South Africa, including:

- ❖ housekeeping and laundry SMMEs;
- ❖ participating SUN1 operators (independent SMMEs);
- ❖ existing qualifying suppliers and micro-enterprises that display the potential to become suppliers to the group; and
- ❖ the Tsogo Sun Book-a-Guesthouse cluster, which supports 98 independently owned and operated B&Bs in six provinces across South Africa.

There are a total of 133 black-owned South African emerging micro-enterprises ('EMEs') supported nationally by the Tsogo Sun Entrepreneurs programme, which provides qualifying small enterprise owners with business development support and benefits including:

- ❖ skills transfer (business development, coaching and mentorship);
- ❖ value-added benefits (endorsement, memberships, marketing and publicity);
- ❖ shared services (extranet, call centre, preferential discounts and business support);

- ❖ business tools (risk assessment and recommendations, software systems and equipment);
- ❖ an integrated supply chain (market access and networking opportunities); and
- ❖ recognition (entrepreneur rewards, certification and awards).

Through the programme, Tsogo Sun has established partnerships with government, corporates, industry bodies, and development specialists to advance our mutual interests in contributing towards the creation of economic growth in South Africa by supporting emerging enterprises. The programme’s key objectives are to support entrepreneurs to develop professionally operated, compliant, sustainable businesses, facilitate job creation (direct and indirect) and contribute towards economic growth in South Africa.

*Tsogo Sun Book-a-Guesthouse*

Tsogo Sun Book-a-Guesthouse, now in its 10th successful year, is endorsed by government and regional tourism agencies. As part of our sustainability in tourism plan, Book-a-Guesthouse harnesses decades of the group’s experience and expertise in the hospitality industry and delivers this to small business owners through the support of our management and staff in the provinces. As the only programme of its kind in South Africa, 92% of the entrepreneurs developed by Book-a-Guesthouse are black South African women.

The guesthouses range between two and 30 rooms. Eighty percent of the entrepreneurs have graduated to the Alumni phase and have undergone training to become mentors to the new entrepreneurs that enter the programme and 21 entrepreneurs were inducted into the programme during the year. A total of 38 guesthouses in the Alumni phase have expanded their operations as a result of the programme, and each guesthouse employs between one and 15 staff and reaches up to 30 people in the value chain. A total of 87 entrepreneurs have successfully completed the UCT Guesthouse Management Course funded by the programme, with 16 having done so during the last year.

**Transformation**

Tsogo Sun has always been a pioneer in transformation and the organisation continues to be a leader in the empowerment of previously disadvantaged people, businesses and communities in South Africa. The group currently holds a level 2 BBBEE contributor status, with 79.3% broad-based black empowerment ownership, measured against the DTI’s generic scorecard, and complies with guidelines outlined in the BBBEE Codes of Good Practice. The group’s

casinos are in addition individually measured against the same scorecard and Tsogo Sun hotels is measured against the tourism scorecard. The formal verification audits are performed annually by Empowerdex (an accredited economic empowerment rating agency), covering the year ended 31 March, with the results being as follows:

	Target score	2015	2014
Ownership	23	<b>23.00</b>	23.00
Management control	10	<b>7.27</b>	6.68
Employment equity	15	<b>11.01</b>	10.86
Skills development	15	<b>12.84</b>	14.20
Preferential procurement	20	<b>18.89</b>	18.76
Enterprise development	15	<b>15.00</b>	15.00
Socio-economic development	5	<b>5.00</b>	5.00
Overall	100+3	<b>93.01</b>	93.50
Rating level		<b>2</b>	2

There has been no change of significance to the group’s overall BBBEE result. Tsogo Sun has once again received the maximum available points for ownership, enterprise development and socio-economic development, which are discussed in the deliver to our beneficiaries section on page 37 to page 41. Employment equity is discussed in the human resources section on page 53, and skills development is discussed in the human resources section on page 52. Preferential procurement once again reflected an improvement and is discussed in the suppliers section on page 42.

Tsogo Sun operates a BBBEE council as one of the group’s governance structures whose purpose is to ensure that the priority of empowerment is consistently managed and monitored. The BBBEE council sets BBBEE strategy and direction for the group. It ensures that the group is compliant with legislation and it monitors group-wide performance measured against the DTI’s generic 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 gaming**

Tsogo Sun acknowledges that gambling can be an issue of concern for some people in communities where we operate. We engage these concerns by educating our employees and customers about responsible gaming and seek to avoid the misuse of gambling. Tsogo Sun contributes to, and actively promotes, the National Responsible Gambling Programme.



## Sustainable strategy in action continued

### Deliver to our beneficiaries continued

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.

#### Industry bodies

Tsogo Sun participates actively in industry bodies such as the TBCSA, the SATB, Fedhasa and the 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 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 330 tenants across Tsogo Sun’s various properties, tenancing is one of the group’s core focus areas to ensure that our consumers have access to the best restaurant and entertainment-related outlets. In addition to the retail tenancing, the group also owns 32 000 m<sup>2</sup> of office space, which it partially self-occupies and rents the balance to third parties.

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

#### Suppliers

The group has developed long-term, mutually beneficial relationships with our suppliers of goods and services. Through these supplier relationships many more indirect jobs are created and wealth is generated in the economy. A growing portion of our procurement is centrally managed which allows for enhanced consistency in standards and pricing and closer relationships with our suppliers.

We ensure that, as far as is practically and commercially possible, our hotels and casinos procure products from vendors who are located in the areas where they are situated.

Tsogo Sun encourages diversity within its commercial associations, particularly through the involvement of previously disadvantaged persons and local businesses where it operates. The group supports black businesses in South Africa through a focused procurement strategy. Verified total procurement spend on black economically empowered businesses amounted to R3.6 billion during the year. The group’s BBEE score for preferential procurement is 18.9 out of 20. 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 is not possible to own the property or the business. The most significant relationship is with Liberty for whom Tsogo Sun manages five hotel properties and with whom Tsogo Sun jointly owns an additional eight hotel properties and from whom the group leases the Sandton Convention Centre. Most of these lease and management contracts have been in place for many years and the group values the long-term relationships that have been built. 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, 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.

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

- ❖ ensure that at all times, we identify, evaluate and comply with local, regional or national environmental laws and regulations applicable to our operations within the areas where we conduct business;
- ❖ continually evaluate and manage our environmental risks, targets and objectives;

- ❖ actively seek to minimise pollution, emissions and effluents emanating from our operations;
- ❖ work towards minimising waste by reducing, reusing and recycling programmes and adopting a 'zero waste' policy;
- ❖ strive to reduce consumption of natural resources by the responsible use of energy, gas and water and the identification and implementation of sustainable energy solutions;
- ❖ manage biodiversity through the protection of flora, fauna and land associated with, or impacted by, our operations;
- ❖ communicate our policies and achievements openly and transparently to our stakeholders;
- ❖ collaborate with our suppliers and business partners to actively reduce the environmental impact of our business activities;
- ❖ continually improve and innovate on our environmental performance standards;
- ❖ report annually on our environmental performance; and
- ❖ provide support for the sustainable development of our communities.

To ensure the objectives of our environmental programme are met, a property-specific environmental management system has been developed at all of our casinos and hotels aimed specifically at energy, water, waste management and responsible procurement.

The environmental programme that was in place for the past four years in partnership with Heritage successfully steered the business towards an awareness of the environment and our need to manage related processes and performance. The programme has now been simplified and integrated into the business where it 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 measurement

The scope and boundaries of measurement were changed during the year to align with HCl's formal disclosure to the Carbon Disclosure Project ('CDP'). Tsogo Sun reports to the CDP as a subsidiary of HCl. Previously consumption was reported for all businesses located at properties owned or leased by the group in South Africa and offshore. The scope has been changed to report scope 1 and scope 2 emissions at 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, which were not previously measured, are now 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. All comparatives have been restated to ensure consistent reporting.

#### Emissions measurement

	2015	2014	% change
<b>Total emissions (tCO<sub>2</sub>e)</b>	<b>5 443</b>	4 610	18
<b>Scope 1</b>	<b>5 443</b>	4 610	18
Petrol and diesel (owned company vehicles)	476	477	–
Diesel consumed (owned businesses)	2 419	1 653	46
LPG and natural gas usage (owned businesses)	2 548	2 480	3
<b>Scope 2</b>	<b>209 937</b>	204 974	2
Energy consumed (owned businesses)	209 937	204 974	2
<b>Scope 3</b>	<b>83 452</b>	92 413	(10)
Energy consumed (tenants)	25 810	28 322	(9)
Energy consumed (managed properties)	25 729	33 416	(23)
Laundry services (outsourced)	29 454	28 427	4
Business travel	2 459	2 248	9
<b>Total emissions (tCO<sub>2</sub>e)</b>	<b>298 832</b>	301 997	(1)

Ninety seven 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 increased during the year by 2% to 209 937 tCO<sub>2</sub>e mainly due to the acquisitions of four, previously managed, hotels from Liberty and the casino complex expansions at Emnotweni and Silverstar offset by savings from ongoing energy-saving initiatives and to a lesser extent reduced electricity consumption due to load shedding. 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 3% to 2 548 tCO<sub>2</sub>e due to the acquisitions of four, previously managed, hotels from Liberty, the opening of new owned restaurants

## Sustainable strategy in action continued

### Deliver to our beneficiaries continued

at Gold Reef City, Silverstar and Golden Horse casinos and the conversion of kitchen equipment from electrical supply at Southern Sun Maputo.

#### *Diesel*

Diesel is utilised for back-up electrical generation. Scope 1 emissions from the consumption of diesel increased by 46% to 2 419 tCO<sub>2</sub>e due mainly to running generators to generate electricity during load shedding.

#### *Scope 3 emissions*

The 9% reduction in scope 3 emissions from tenants at group properties is mainly due to the closure of outsourced restaurants during the expansion of casino properties and conversion of some restaurants from outsourced to owned operations. The 23% reduction in scope 3 emissions from properties managed by the group is due mainly to the acquisitions of four previously managed hotels from Liberty offset by the opening of the Southern Sun Abu Dhabi during the year. The group utilises outsourced laundries at the majority of its owned and managed properties and the 4% increase in scope 3 emissions from laundry services is due to volume increases and the opening of Southern Sun Abu Dhabi.

#### *Water*

Although supply interruptions due to poor municipal infrastructure are increasing and medium-term water shortages are possible the group does not have company-specific water risks. The majority of our properties are in urban areas and use potable water provided by local municipalities (90% of consumption). Two resort properties utilise surface water for irrigation, two resort properties are fully reliant on river water, one property primarily utilises ground water due to continuous supply problems from the local municipality and the Gold Reef City Theme Park utilises cleaned mine water for the water rides. Water consumption at the group's owned properties increased during the year by 3% to 2.6 million kilolitres due mainly to the acquisitions of four previously managed hotels from Liberty offset by ongoing conservation and reduction measures at all properties.

#### *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. Towards this end, Tsogo Sun partners with Generation Earth and the Miss Earth SA leadership development programme, both of which instil awareness and provide education about environmental issues among young South Africans.

### Looking ahead

#### *Community development*

The Tsogo Sun community development programmes continue to grow both in reach, as well as in the level of development that they provide. Our focus is to create scaleable and replicable models that can either be done by ourselves or in collaboration with other corporates, civil society or government.

Monitoring and evaluation have become increasingly important to enable us to measure our impact. An internal information system has been introduced to comprehensively track and manage all contributions made by the group, including that of financial, in-kind and volunteering of employees.

We actively monitor the participation, attendance and involvement of learners, educators and community stakeholders. During the year ahead, a tool will be developed to determine the impact on our beneficiaries and how we are positively influencing the lives of the people we support, where we need to apply more attention to achieve our intended results and how these results are addressing the needs of the communities.

We continue to emphasise and enhance the offering of life-readiness and career guidance skills and tools. Skills such as first-aid training, workshops on self-confidence and public speaking, writing skills and leadership will be added to what is already being offered, namely wellbeing, financial literacy and talent development.

The provision of bursaries and community learnerships will be aligned and formalised across the group in the coming year.

The group is introducing a structured strategy to manage the volunteering efforts made by employees across the group.

### Enterprise and supplier development

Tsogo Sun is developing a long-term plan that will be implemented via the Tsogo Sun Entrepreneurs programme over the next five years. The impact on the beneficiaries (the businesses supported by Tsogo Sun Entrepreneurs) will be monitored and evaluated, and adjustments will be made to the model where necessary as the plan unfolds. Presently in phase one of implementation, the plan is designed to enable the group's hotels and casinos to support their local entrepreneurs, in order to address the need for wealth creation and employment in South Africa.

### Transformation

The Revised Broad-Based Black Economic Empowerment ('BBBEE') Codes of Good Practice became effective on 1 May 2015. Alignment of the group's practices with the requirements of the revised codes is being undertaken as far as possible, in order to prepare for the measurement of the group's performance against these codes in 2016.

The revised BBBEE codes present numerous challenges. In an effort to address these, the group has focused attention on internal strategic planning, systems and processes, and on participating in industry forums and working with empowerment specialists to try to proactively resolve issues related to the numerous flaws contained within the revised codes framework and the unintended consequences that these create.

The area of supplier development is complex and requires the development of a coherent plan that connects emerging black-owned enterprises into the procurement pipeline, supports existing black-owned EMEs and qualifying small enterprises ('QSEs') who are suppliers to the group and at the same time ensures that the group's procurement requirements are not compromised. While the supplier development performance measure is purely financial (2% NPAT – combined with 1% NPAT for enterprise development), the work is actually social in nature and requires time to implement effectively.



Supplier development needs to be undertaken in a manner that really makes a change. It is not just about spending money without achieving actual results for the beneficiaries being supported or the businesses they are supplying. This is one of the challenges presented by the revised BBBEE codes: the plan will take time to develop, implement and yield results, yet the Revised Codes require immediate performance against the financial target.

To address this and other areas of concern surrounding the Revised BBBEE Codes, Tsogo Sun's internal strategies have included the establishment of an Enterprise and Supplier Development ('ESD') plan to enable the group to meet the target by supporting, developing and procuring from South African black-owned and black women-owned EMEs and QSEs.

Another area of change is that of preferential procurement, which forms part of ESD in the revised codes. South African companies expect to receive significantly lower BBBEE results under the revised codes. The performance of other companies affects Tsogo Sun's ability to achieve good BBBEE results, as many are suppliers to the group.

In the coming year, the company will continue to focus on managing a growing portion of its procurement centrally to allow for enhanced consistency in standards and pricing and closer relationships with our suppliers. In addition, processes will be aligned, as far as is practical, to meet the requirements of the Revised BBBEE Codes of Good Practice.

The procurement function will work closely with the ESD function within the group to synchronise the two strategies, identify qualifying suppliers and potential suppliers for development, and achieve positive results.

### Environment

The focus during the year will be to ensure that the environmental programme which is part of the in-house Organisational Resilience Management Standard is embedded throughout the business and to ensure that the energy and water consumption management programmes remain in place with the objective of continuously reducing consumption year on year.



## Sustainable strategy in action continued

### Financial strength and durability

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

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

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

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

#### Key performance indicators

	2015	2014
Net debt to Ebitdar	<b>2.2 times</b>	1.1 times
Unutilised net facilities (including available cash on hand)	<b>R4.8 billion</b>	R3.4 billion
Weighted average expiry of debt facilities (excluding permanent revolving credit facilities)	<b>58 months</b>	39 months
Net debt hedged through fixed interest rate swaps	<b>61%</b>	67%

#### 2015 performance

##### Net interest-bearing debt

Interest-bearing debt net of cash at 31 March 2015 totalled R9.2 billion, which is R4.8 billion above the 31 March 2014 balance of R4.4 billion, with R947 million paid in dividends to group and non-controlling shareholders in addition to the investment activities of R5.8 billion during the year.

For more detail on the group's borrowings and cash position refer to notes 28 and 31 on pages 47 and 49 of the annual financial statements.

During the year, an additional R5.7 billion in term loans were negotiated and the tenures on the majority of existing facilities were extended to June 2020 and June 2021. Net debt to Ebitdar as at 31 March 2015 was 2.2 times with unutilised net facilities (including available cash on hand) of R4.8 billion. The weighted average number of months to expiry of the debt facilities (excluding 364-day revolving credit facilities) was 58 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

2015, 61% 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 9.1% (2014: 7.7%).

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 50% in US Dollar, 20% in Euro and 20% in Naira with limited other local currency deposits.

##### Looking ahead

The extent and tenure of the existing funding facilities were impacted by the share buy-back which was concluded during the year and the anticipated acquisition of the 40% equity interest in each of SunWest International Proprietary Limited and Worcester Casino Proprietary Limited which has subsequently been cancelled.

The facility pricing with the group's existing consortium of banks remains competitive, however, the capital structure is being assessed, including the possibility of a REIT, to reduce the cost of funding.

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

	2015	2014
Gaming		
❖ Reward club membership contribution to gaming revenue	72%	71%
❖ Guest satisfaction – gaming	76%	75%
❖ Slot machine average age	5.4 years	5.3 years
Hotels		
❖ Reward club membership contribution to hotel revenue	29%	28%
❖ Guest satisfaction – hotels	87%	87%
❖ Hotel property 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	R749 million	R769 million

### 2015 performance

#### Product relevance

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

The group seeks to respond dynamically to changing trends, refreshing casino and hotel offerings to reflect contemporary tastes and embracing new technologies that will improve customer experience. It is important that our casinos provide an aspirational setting in which customers can feel encouraged to wager. 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 ten-year cycle and the current average age of slot machines is 5.4 years.

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

#### 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, R1 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,

## Sustainable strategy in action continued

### Product relevance to customer experience continued

design concept, budgetary control and project execution during 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.

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

#### *Information technology*

Information technology strategy and governance are driven centrally with divisional teams delivering operational system-specific solutions to meet the business requirements. Both divisions predominantly utilise third-party packaged solutions which have been purpose built for the industry.

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

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.

The replacement of the legacy gaming management systems at the six properties where it was required has been completed.

#### **Tsogo Sun master brand**

Subsequent to the merger of the gaming and hotel division under one market-facing brand in 2012, the group has been diligent in its focus to build the master brand with all relevant stakeholders. To date, Tsogo Sun has achieved strong recognition within both the corporate and consumer markets in South Africa. This has enabled the brand values to permeate the business internally, aligning the group's employees and creating a consistency of culture. In support of the group's purpose to create great experiences for our guests, Tsogo Sun's marketing emphasises:

- ❖ the diversity of our products, from hotels to gaming, theatre, cinemas, dining and conferencing;
- ❖ our delivery of exceptional service at excellent value;
- ❖ our depth of experience and African heritage; and
- ❖ the suitability of our hotels and entertainment complexes for both leisure and business.

The group's retail marketing spend is predominantly directed towards its hotel offerings (mainly billboards, radio and print), albeit with a focus on supporting the Tsogo Sun master brand at all times. This is complemented by dedicated Tsogo Sun group exposure, which includes targeted partnerships and sponsorships and a dedicated group television campaign. Marketing spend in the casino business is largely focused on prize promotions, such as cars and cash. By having a centralised marketing department and plan, marketing spend at individual units can be redirected, and in some cases rationalised, to focus on marketing initiatives that are beneficial across the group's entire portfolio. In recent years this has enabled efficiencies to be made in the group's marketing efforts, reducing cost and improving brand alignment.

A clear brand portfolio strategy supported by structured brand management principles, which include the consistent application of Tsogo Sun's 'Sunburst' across properties as well as the use of a common endorsement, has become essential in ensuring that each of the brands in the group are aligned with the Tsogo Sun master brand's brand values. In this way each product brand contributes to the growth of the Tsogo Sun master brand.

#### **Customer satisfaction**

Understanding our guests makes it possible to offer them products and services that they want. Tracking levels of guest satisfaction is important to us as it allows us to interrogate feedback with the intention of delivering consistent experiences across the group. This is integral to our success and sustainability. The group purpose to 'create great experiences' drives engagement as satisfied guests are directly correlated to great experiences, which in turn creates loyalty to our brands and properties.

Consistency of brand delivery is made possible by each brand operating according to a set of brand operating standards. These standards are audited annually at hotels and on an ad hoc basis at casinos. The audits are complemented by data obtained from feedback received from approximately 10 000 guests per month across the business via the eGuestSurv post-stay survey, as well as from third-party sites such as TripAdvisor.

The guest satisfaction for Tsogo Sun hotels averaged at 87% this year which is equal to the result last year. The high guest satisfaction score at Tsogo Sun hotels is a result of enhanced awareness of our guests' needs and our ability to respond to them efficiently and effectively. The eGuestSurv tool has also been successfully entrenched into the casinos with an annual overall average of 76% guest satisfaction.

#### **Customer reward 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.

Last year the new rewards programme replaced the Frequent Guest programme in hotels; and the Club Festival and Strike it Rich programmes in casinos. 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.

Key components of the programme include:

- ❖ the programme has three status levels – gold (entry level), platinum (mid-level) and black (top level);
- ❖ the higher the status level, the higher the value of the base benefits offered;
- ❖ the status level for hotel cardholders is determined by revenue rather than nights stayed and cardholders are offered rewards

based on their spend at our properties and the frequency of their visits;

- ❖ cardholders earn points for playing slots and tables and hotel cardholders earn SunRands for qualifying revenue in hotels;
- ❖ all cardholders receive accommodation discounts (5% at selected service hotels and 10% at full service hotels);
- ❖ there are no restrictions for the redemption of SunRands and no minimum amount or day of the week restrictions;
- ❖ hotel cardholders can redeem SunRands for food and beverage, even when they are not staying in the hotel;
- ❖ hotel cardholders qualify for 1G free Wi-Fi per day;
- ❖ all cardholders qualify for restaurant discounts between 7.5% and 20%, depending on their status level;
- ❖ all cardholders qualify for entertainment discounts at Tsogo Sun entertainment venues; and
- ❖ hotel cardholders qualify for food and beverage and movies at discounts at all casino properties.

*Tsogo Sun gaming – rewards programme segmental analysis*

Tsogo Sun gaming had 310 475 active gaming cardholders during the year. The contribution to total gaming revenue for the year from active members of the reward programme is as follows:

Segment	2015 % active customers	2015 contribution %	2014 % active customers	2014 contribution %
Black	8	46	7	45
Platinum	15	15	11	14
Gold	77	11	82	12
	100	72	100	71

*Tsogo Sun hotels – rewards programme segmental analysis*

Launched in the last quarter of the previous year, the Tsogo Sun hotels’ rewards programme has shown tremendous growth in the number of members, with 24 506 new members who have signed up. Tsogo Sun hotels had 87 666 active reward programme members during the 2015 financial year. The contribution to total hotel revenue for the year from active members of the reward programme is as follows:

Segment	2015 % active customers	2015 contribution %*	2014 % active customers	2014 contribution %*
Black	5	7	4	7
Platinum	16	7	13	9
Gold	79	15	83	12
	100	29	100	28

\* Systemwide



## Sustainable strategy in action continued

### Product relevance to customer experience continued

#### Customer safety

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

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

All Tsogo Sun hotel, casino and restaurant properties, including outsourced restaurants, undergo an independent audit every second or third month, which covers food safety practices and compliance to the group standard, as well as legislated elements. Temperature

control, personal hygiene, good manufacturing practices, product traceability and storage, cleaning programmes and pest control are included. Audits are strictly unannounced and include surface swabs, hand swabs and food samples, which are selected at random during the audits and assessed for microbiological quality. No significant issues were noted.

#### Looking ahead

##### Customer reward programmes

The focus for the next year will be on using the programme to influence behaviour and ultimately hotel and casino revenue. Using SunRands in hotels and FreePlay in casinos, as well as a variety of entertainment and dining offers, customers will continue to be encouraged to increase their spend and frequency of visits to our hotels and casinos.



## 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

	2015	2014
Gaming regulation breaches	Nil	Nil
Fines imposed for other regulatory breaches	Nil	Nil
Fines imposed for breaches of law	Nil	Nil

### 2015 performance

#### Regulatory compliance

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

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

During the year, the group participated in the public consultation process in respect of proposed legislative and policy amendments which may have a regulatory compliance impact on the group's casino and hotel operations. The most significant contributions with regard to gaming were made in respect of proposed amendments to various provincial gambling acts and regulations and the Financial Intelligence Centre Act. With the exception of the review of the Financial Intelligence Centre Act, which may cause more onerous regulatory obligations on casinos and which is still under consideration, the group's participation resulted in favourable outcomes.

The group also participated in industry comments through the CASA to government on the proposed National Gambling Policy and National Liquor Policy, which may in future have an impact on operations.

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

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

#### Looking ahead

Material areas of regulation are being included in the combined assurance framework which will be completed during the year to ensure that all relevant legislation and regulations continue to be applied and adhered to.

## Sustainable strategy in action continued

### 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

	2015	2014
Employment equity score	11.0/15	10.9/15
Training spend as a % of payroll	4.2%	4.1%
Staff resignations	11.2%	8.7%

### 2015 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 regardless of ethnic background or gender. We also strive to attract and retain the highest calibre staff while at the same time redressing historical imbalances, where they may exist.

#### Job creation and employee stability

The group contributes approximately 12 800 direct jobs and approximately 20 800 combined direct and indirect jobs (including contract staff employed by third-party service providers) within the communities in which our operations are situated in South Africa.

Staff resignations at 11.2% remain low for the hospitality industry and are testimony to the favourable employee engagement and values-based leadership process within the group.

#### Employee development

Training spend for the year at R107 million, which is at 4.2% of payroll, has increased from the prior year. The group spent R95.1 million on training and development initiatives provided to its black staff during the year, which is 3.4% of payroll in accordance with the DTI's BBBEE targets. The group's BBBEE score for skills development is 12.8 out of 15 and decreased from the prior year due to reduced training of disabled people during the year.

All training and development activities within the organisation have been integrated through the new Tsogo Sun Academy in order to enhance their impact and results, further demonstrating our commitment to investing in the education, training and development

of our employees which we recognise as being critical for our long-term sustainability and growth.

During the year, Tsogo Sun applied for, and was re-awarded accreditation as an official training provider for both gaming and hospitality qualifications and the Academy's recent focus has been on integrating training to maximise resources and expertise across the group. Following business needs analyses and talent searches, specific interventions have been identified, developed and implemented to build the skills, knowledge and ability of employees. These include formal qualifications, business school programmes, and customised and in-house courses. Annual celebrations of learning across the business have seen more than 500 employees receive certificates. Learnerships, work integrated learning and unemployed graduate programmes have also supported government initiatives.

The Tsogo Sun Academy is now fully integrated, providing a development and skills training service to gaming, hotels and corporate office, but at the same time providing specialist gaming, hotel, and food and beverage and other functional skills training where required by the business. This integration strategy has borne fruit during the year with a more focused and efficient approach to learning and development, specifically linked to identified business needs and challenges. A new e-learning portal was launched during the year, making learning more accessible to all staff and resulting in more 'just in time' learning, linked to immediate business needs.

Satellite academy facilities are now fully functional in Gauteng, Western Cape and KwaZulu-Natal, providing integrated learning and development opportunities and skills transfer across the country.

#### Employee engagement

Further to the implementation of a single engagement programme for the group, reflecting the values, culture and behaviours common to the business, an engagement survey was undertaken

during the year. The purpose of the engagement survey was to establish the efficacy of the livingTSOGO values. 7 561 employees submitted completed questionnaires. The overall outcome of the survey was positive and well received.



livingTSOGO is simple and straightforward – from the concept of attaching values to our company name to the values themselves. Employees participate enthusiastically in the different components designed to bring them to life. The components include: livingTSOGO World which incorporates the group’s induction programme and livingTSOGO Moments which includes recognition and rewards.

**Employee wellness**

Tsogo Sun is committed to the wellness of our employees and provides services to them through employee clinics in Tsogo Sun gaming, an employee assistance helpline, wellness days and executive medicals. During the year, a total of 48 000 primary healthcare consultations were provided at our employee clinics located at our casino complexes and this has contributed positively to the management of absenteeism within the group. Meals are also provided to our employees in canteens at our hotels and casinos.

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

**Health and safety**

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

No employee fatalities as a result of health and safety incidents occurred at any of our properties. The group maintained an average lost-time injury frequency rate of 0.03. 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 includes South Africa only and excludes the approximately 8 000 contract staff employed by third-party service providers and 1 389 staff employed outside South Africa:

Employees	South African male				South African female				Foreign nationals		Total
	African	Indian	Coloured	White	African	Indian	Coloured	White	Male	Female	
<b>Permanent</b>	<b>3 023</b>	<b>500</b>	<b>380</b>	<b>603</b>	<b>3 067</b>	<b>360</b>	<b>444</b>	<b>611</b>	<b>60</b>	<b>31</b>	<b>9 079</b>
Executives	4	4	–	32	2	–	2	1	2	1	48
Management	379	187	91	367	296	107	87	329	29	16	1 888
Supervisors and skilled	1 215	191	167	149	1 119	165	209	234	17	11	3 477
Other employees	1 425	118	122	55	1 650	88	146	47	12	3	3 666
<b>Operational support</b>	<b>1 401</b>	<b>48</b>	<b>86</b>	<b>35</b>	<b>1 921</b>	<b>55</b>	<b>134</b>	<b>65</b>	<b>10</b>	<b>13</b>	<b>3 768</b>
Executives	–	–	–	1	–	–	–	–	–	–	1
Management	–	1	1	6	–	–	2	6	2	3	21
Supervisors and skilled	620	26	28	20	852	37	55	42	4	6	1 690
Other employees	781	21	57	8	1 069	18	77	17	4	4	2 056
<b>Total 2015</b>	<b>4 424</b>	<b>548</b>	<b>466</b>	<b>638</b>	<b>4 988</b>	<b>415</b>	<b>578</b>	<b>676</b>	<b>70</b>	<b>44</b>	<b>12 847</b>
<b>Total 2014</b>	<b>4 538</b>	<b>567</b>	<b>451</b>	<b>697</b>	<b>4 925</b>	<b>440</b>	<b>551</b>	<b>683</b>	<b>75</b>	<b>45</b>	<b>12 972</b>

## Sustainable strategy in action continued

### 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 per month. Operational support staff work on a flexible roster basis according to business levels and have no guaranteed hours.

While there has been no change of significance to the group's headcount since last year, the percentage of female employees continues to increase, representing 52.2% of the workforce in 2015 (2014: 51.2%).

We ensure that our workforce reflects our focused employment equity philosophy. In this regard, in accordance with our verified employment equity results, presently black representation at senior management level is 33.3%, at middle management level it is 60.5% and at junior management level it is 85.6%. The representation of black employees throughout the group is currently 89.2%, which is slightly below the updated economically active population ('EAP') percentage of 89.4%.

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. The group has recognition agreements with five unions in South Africa and 2 468 (27%) of our permanent employees are union members. There has been a 4pp reduction in union membership from the 2 912 members in the prior year.

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

#### Looking ahead

##### Employee development

With the fully integrated Tsogo Sun Academy now up and running, continued focus will be placed on the 'back to basics' approach to learning and development for line staff, as well as ensuring a steady pipeline of management talent throughout the business, with the ultimate objective of creating a differentiating factor of superior guest experiences at all of our properties. Specifically, a gaming skills training facility is planned for the Academy. Initially, this will concentrate primarily on the labour-intensive area of casino tables. This facility will also provide a centralised service for recruitment and assessment of gaming staff throughout the group.

The Tsogo Sun Academy strategy of building a productive learning culture will be accelerated, focusing on three key performance areas, namely learning opportunity, learning capability, and the creation of an optimal learning environment throughout the business.

##### Employee engagement

The findings of the employee engagement survey conducted during the year were communicated throughout the business and action plans have been formulated to address issues arising out of the survey. The focus during the year will be on implementation of the action plans arising out of the survey as well as on the employee rewards programme which recognises employee behaviour in line with the values.





## Growth strategy in action

# 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 owned or controlled. Accordingly, the only true measure of growth for our business over time is the growth in cash flow.

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.

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.



## Growth strategy in action

### 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.

Capital expenditure is an important component of both maintaining and improving the group's facilities and thereby ensuring revenue sustainability and growth.

#### Key performance indicators

	2015	2014
Organic income growth	2%	6%
Organic Ebitdar growth	(3%)	6%
Free cash flow	R1.8 billion	R1.8 billion
Maintenance capital expenditure	R749 million	R769 million
Adjusted HEPS growth	(1%)	18%

### 2015 performance

#### Segmental operating performance

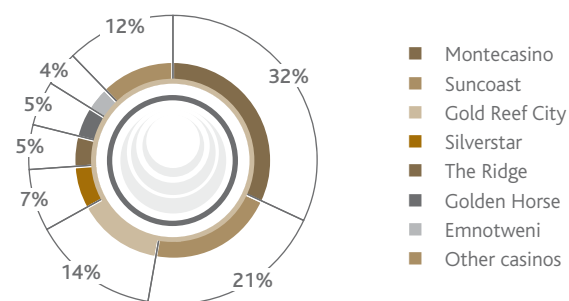
Year ended 31 March	Income		Ebitdar		Ebitdar margin	
	2015 Rm	2014 <sup>(2)</sup> Rm	2015 Rm	2014 <sup>(2)</sup> Rm	2015 %	2014 <sup>(2)</sup> %
Montecasino	2 510	2 415	1 133	1 088	45.1	45.1
Suncoast	1 581	1 517	732	717	46.3	47.2
Gold Reef City	1 270	1 298	479	514	37.7	39.6
Silverstar	676	648	248	263	36.7	40.6
The Ridge	415	400	188	186	45.2	46.5
Emnotweni	367	328	154	144	42.0	44.0
Golden Horse	334	318	148	146	44.3	46.1
Hemingways	310	336	109	138	35.1	41.1
Garden Route	188	179	79	78	42.0	43.7
Blackrock	152	139	58	54	38.1	38.8
The Caledon	149	135	38	35	25.5	25.7
Mykonos	145	132	64	57	44.1	43.1
Goldfields	138	142	51	57	37.1	40.3
Other gaming operations <sup>(2)</sup>	100	92	(216)	(211)		
Total gaming operations	8 335	8 079	3 265	3 266	39.2	40.4
South African hotels division <sup>(1)(2)</sup>	2 506	2 184	830	752	33.1	34.4
Offshore hotels division	552	550	116	186	21.0	33.8
Pre-foreign exchange losses/gains			137	153	24.8	27.8
Foreign exchange (losses)/gains			(21)	33		
Corporate <sup>(1)</sup>	(50)	(46)	12	10		
Group	11 343	10 767	4 223	4 214	37.2	39.1

All casino units are reported pre-internal gaming management fees

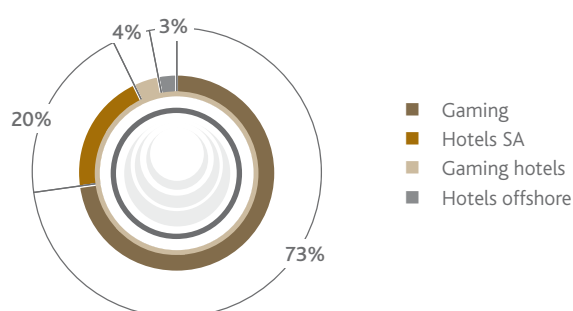
<sup>(1)</sup> Includes R50 million (2014: R48 million) intergroup management fees

<sup>(2)</sup> The StayEasy Century City hotel, previously included in other gaming operations, was transferred to the South African hotels division during the year and generated income of R35 million and Ebitdar of R16 million. (The 2014 comparatives have been restated comprising income of R31 million and Ebitdar of R15 million being reallocated between segments.)

Gaming F'15 Ebitdar by property (%)



Group F'15 Ebitdar by source (%)

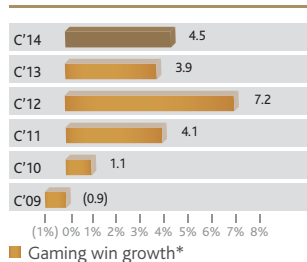




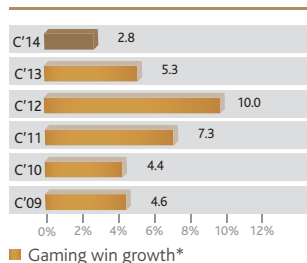
# Growth strategy in action continued

## Organic growth continued

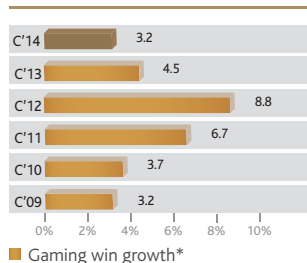
### Gauteng



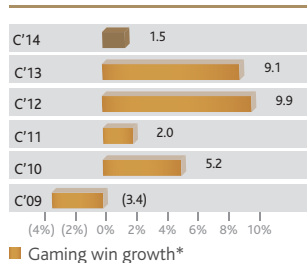
### KwaZulu-Natal



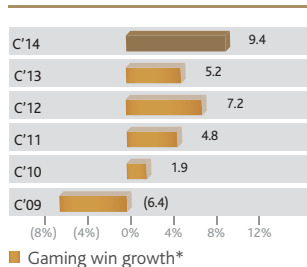
### Mpumalanga



### Eastern Cape



### Western Cape



\*Based on gambling board statistics (calendar year)

### Tsogo Sun gaming

Gaming win for the year in both slots and tables grew by a disappointing 2% on the prior year.

	31 March 2015 Rm	31 March 2014 Rm	% change on 2014
Gaming win	6 976	6 819	2
Tables	1 573	1 542	2
Slots	5 403	5 277	2
Win % – tables	21.8	22.0	(0.2pp)
Hold % – slots	5.2	5.2	–

Gauteng recorded provincial growth in gaming win of 3.6% for the year. Gaming win growth of 4.3% was achieved at Montecasino and 1.7% at Silverstar with Gold Reef City 4.6% down on the prior year. Silverstar and Gold Reef City were adversely impacted by the disruptions as a result of the expansion and refurbishment programmes and the gaming system changes.

KwaZulu-Natal provincial gaming win grew by 4.2% for the year. Gaming win growth of 4.2% was achieved at Suncoast Casino and Entertainment World, 6.3% at Blackrock Casino and 0.6% at Golden Horse Casino.

Mpumalanga reported growth in provincial gaming win of 4.7% for the year. Gaming win growth of 3.5% was achieved at The Ridge Casino in Emalahleni and 9.2% at Emnotweni Casino in Nelspruit following the expansion and redevelopment during the prior year.

The Eastern Cape provincial gaming win grew by 2.2% for the year. Hemingways gaming win was 7.5% down on the prior year due to the poor economic conditions in East London.

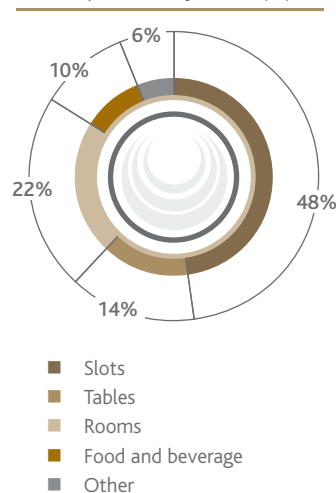
The Western Cape reported growth in provincial gaming win of 10.3% for the year. The Caledon Casino, Hotel and Spa, Mykonos Casino in Langebaan and Garden Route Casino in Mossel Bay reported growth of 8.7%, 10.6% and 4.2% respectively.

The Goldfields Casino in Welkom in the Free State experienced difficult conditions with gaming win 2.1% down on the prior year.

Other gaming operations consisting of the Sandton Convention Centre and head office costs reflected a net Ebitdar loss of R216 million, R5 million adverse to the prior year. The StayEasy Century City hotel, previously included in other gaming operations, was transferred to the South African hotels division during the year. The 2014 comparatives in the segment analysis included on page 57 have been restated accordingly.

Overall revenue for the gaming division increased 3% on the prior year to R8.3 billion. Ebitdar was unchanged on the prior year at R3.3 billion at a margin of 39.2%, 1.2pp below the prior year due to the slow growth in gaming win and the opening of additional profitable lower margin businesses.

Group revenue by nature (%)



**Tsogo Sun hotels**

The hotel industry in South Africa, excluding the government segment, continues to experience a recovery from the dual impact of depressed demand and oversupply. Overall industry occupancies have improved marginally to 62.5% (2014: 62.0%) for the year. As a result of the strong sales and distribution channels and the superior product and service quality available within the group, Tsogo Sun hotels continues to achieve an occupancy and rate premium in the segments in which the group operates, albeit at a reduced level as a result of the high exposure of the group to government travel.

Trading for the group’s South African hotels for the year recorded a systemwide revenue per available room (‘Revpar’) growth of 4% on the prior year due mainly to an increase in average room rates by 6% to R953, with occupancies below the prior year at 62.8% (2014: 63.9%) impacted by the post-election and fiscal austerity impacts on government travel. Overall revenue for the South African hotel division increased 15% on the prior year to R2.5 billion assisted by the inclusion of the additional Cullinan hotels offset by the sale of Garden Court Sandton in December 2013 and the closure of Garden Court De Waal for four months during the year for refurbishment. Ebitdar improved 10% to R830 million at a margin of 33.1% (2014: 34.4%).

The offshore division of hotels achieved total revenue of R552 million, unchanged on the prior year due to the closure of Southern Sun Maputo for five months during the year for refurbishment and particularly the impact of the Ebola pandemic on trading and the uncertain political environment in certain countries. This was offset by the acquisition of Southern Sun Ikoyi on 29 June 2013, giving a full 12 months trading in 2015, and the weakening of the Rand against both the US Dollar and the Euro. Ebitdar (pre-foreign exchange losses or gains) decreased by 10% to R137 million. Foreign exchange losses of R21 million (2014: R33 million gain) were incurred on the translation of offshore monetary items.

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

	<b>31 March 2015</b>	31 March 2014
Occupancy (%)	<b>61.6</b>	63.6
Average room rate (R)	<b>945</b>	897
Revpar (R)	<b>583</b>	570
Rooms available (‘000)	<b>4 209</b>	3 892
Rooms sold (‘000)	<b>2 595</b>	2 476
Rooms revenue (Rm)	<b>2 453</b>	2 221

The increase in average room rate is positively impacted by the inclusion of Southern Sun Ikoyi from 29 June 2013 and the effect of the Rand weakness on the offshore portfolio.

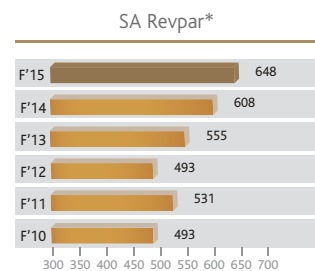
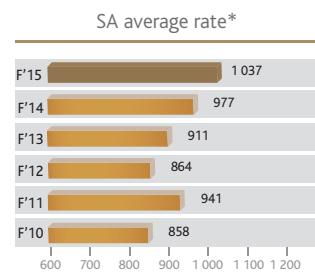
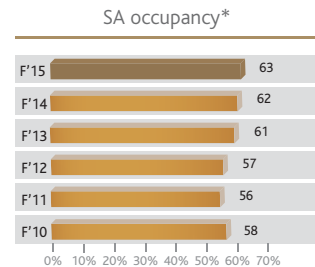
**Maintenance capital expenditure**

The group invested R749 million on maintenance capex group-wide, including gaming system replacements and major hotel 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) with both sectors still experiencing difficult economic conditions and increased administered costs. The high level of operational gearing still presents significant growth potential for the group should these sectors of the South African economy improve.

Trading is expected to remain under pressure due to the ongoing macro-economic conditions and weak consumer sentiment. Nevertheless, the group remains highly cash generative and is confident in achieving attractive returns from the growth strategy once the macro-economic environment improves.



\*South African hotel industry based on STR Global statistics

## Growth strategy in action continued

### Inorganic growth

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

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

#### Key performance indicators

	2015	2014
Investment activity expenditure	<b>R2 045 million</b>	R1 643 million

#### 2015 performance

Tsogo Sun has continued to allocate capital in terms of its stated growth strategy and accordingly has invested R2.0 billion during the year as follows:

- ❖ concluded agreements with Liberty Group Limited ('Liberty') for a 10% increase in the group's equity interest in The Cullinan Hotel Proprietary Limited ('Cullinan') to 60% and the acquisition by Cullinan of various hotel businesses from Liberty. The net investment by the group is R762 million and the effective date of the transaction was 30 April 2014;
- ❖ acquired a 25% interest in Redefine BDL Hotel Group Limited for R145 million, a leading independent hotel management company in the United Kingdom with approximately 60 hotels under management, with effect from 1 May 2014;
- ❖ acquired the remaining 49% interest in Tsogo Sun One Monte Proprietary Limited, the Pivot office development, for R144 million with effect from 19 May 2014;
- ❖ completed the R206 million expansion of Emnotweni Casino, which included the construction of an expanded casino floor, additional gaming positions, additional covered parking, a conference and eventing area and restaurants. R18 million was spent during the year;
- ❖ completed the US\$30 million expansion of Southern Sun Maputo, including the addition of 111 rooms and conference facilities, the expansion of the existing restaurant, lobby and back-of-house facilities and the refurbishment of the existing 158 rooms. The hotel was closed from April 2014 and the refurbishment was completed during August 2014. R207 million was spent during the year;

- ❖ completed the R560 million expansion and redevelopment of Silverstar Casino, which includes additional dining options, an outdoor events area, cinemas, 10-pin bowling alley, laser tag games, an expanded and enhanced casino floor and parking. R321 million was spent during the year and the project was completed during October 2014;
- ❖ acquired the remaining 15% minority shareholding in the Garden Route Casino for R51 million during October 2014;
- ❖ acquired the Garden Court Polokwane land and buildings for R80 million with effect from 31 March 2015;
- ❖ continued the R630 million refurbishment and expansion of Gold Reef City Casino and Theme Park which will include an increased casino offering, cinemas and additional restaurants at the casino and additional food and beverage outlets and improved access systems at the Theme Park with an improved linkage to the casino complex and an expansion of the Apartheid Museum. R142 million was spent during the year; and
- ❖ commenced the planning phase for the expansion of the Suncoast Casino and Entertainment World following receipt of the requisite regulatory approvals. The expansion includes a destination retail mall, additional restaurants and entertainment offerings, a multipurpose venue, resort style roof-top swimming pools, additional parking, an expansion of the casino floor to incorporate an additional 900 gaming machines and 16 gaming tables. Construction is expected to commence in 2016 with three years to completion. R141 million was paid during the year including the R100 million to the KwaZulu-Natal Gaming and Betting Board to be spent on charitable or social infrastructural developments in the KwaZulu-Natal province.

In addition to the capital invested in the growth strategy, the group managed the exit of SABMiller from its long-term 39.6% shareholding in the group, including a specific repurchase of 133.6 million Tsogo Sun ordinary shares for R2.8 billion on 28 August 2014. The shares were acquired at a price of R20.96 per share representing an 18.6% discount to the final book build price achieved on the sale of the SABMiller investment of R25.75 per share.

The group opened the 353-room Southern Sun Abu Dhabi under management contract in the United Arab Emirates on 30 April 2014 and concluded a management agreement for a 150-room hotel in Tete Mozambique to be opened in the first quarter of 2016.

### Investment activity expenditure

	31 March 2015 Rm	31 March 2014 Rm
Silverstar redevelopment	321	160
Southern Sun Maputo expansion	207	111
Gold Reef City redevelopment	142	22
Suncoast redevelopment	141	8
Emnotweni expansion	18	154
SUN1 expansions	16	–
Hemingways expansion	6	50
Blackrock expansion	3	33
Mpumalanga fourth licence bid	1	5
Other	6	13
<b>Expansion capex</b>	<b>861</b>	<b>556</b>
Liberty hotels	762	–
Redefine BDL hotels	145	–
Pivot office minorities	144	–
Garden Court Polokwane	80	–
Garden Route minorities	51	–
Southern Sun Ikoyi equity <sup>(1)</sup>	–	505
Suncoast minorities	1	406
Southern Sun Hyde Park	–	67
Monte Circle and Signature Square land	–	45
Cinemas	–	20
Garden Route Hotel	–	6
Other	–	14
<b>Acquisitions and minorities</b>	<b>1 183</b>	<b>1 063</b>
<b>Loans and investments</b>	<b>1</b>	<b>24</b>
<b>Investment activity expenditure</b>	<b>2 045</b>	<b>1 643</b>

<sup>(1)</sup>The total investment in Southern Sun Ikoyi is R702 million including take on debt of R197 million included in acquired with acquisitions in the increase in net interest-bearing debt in the cash flow

### Looking ahead

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

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

In gaming, the focus remains on capacity increases in our existing properties, particularly in specific markets where changing demographics are driving growth. With only one of the national licences that is not allocated an attractive proposition, we remain acquisitive for existing licences, but only at the right price. African

expansion would only become attractive as regional economies develop a more robust middle market and enable regulatory environments. Expansion outside South Africa remains unattractive due to the additional risk of operating in diverse regulatory environments and the limited economies of scale that can be achieved.

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

The transaction entered into with Sun International Limited and Grand Parade Investments Limited for the acquisition of a 40% equity interest in each of SunWest International Proprietary Limited and Worcester Casino Proprietary Limited for an aggregate R2 185 million has been cancelled. The revised implementation date of 31 August 2015 could not be achieved.

The Mpumalanga Gaming Board withdrew the second request for proposal for the fourth casino licence. The group is pursuing a legal challenge in this regard, following the submission of a bid proposal in response to the request.

The group has announced a new 500-room hotel complex in the Cape Town city centre, with the opening scheduled for the third quarter of 2017.

The group is considering creating an entertainment and hospitality-focused Real Estate Investment Trust ('REIT'), into which it would transfer its extensive owned hotel, retail and office property portfolio. Evaluation of this opportunity continues and no firm decision has been made in this regard.

The ability to continue to pursue these and other opportunities in line with the group's investment strategy will depend on the final outcome and impact of the variety of potential regulatory changes considered by government and will require the successful interaction with various regulatory bodies including gaming boards, city councils, provincial authorities and national departments. The group continues to constructively engage with the various spheres of government in this regard.