This represents the group’s second integrated annual report. The results reflect the devastating impact that Covid-19 and the accompanying lockdown regulations have had and continue to have on the hospitality industry in general and on our group in particular.
During another challenging, volatile year, the group has continued to implement its Covid-19 action plan in order to reduce costs and to preserve cash. This has led to the simplification and streamlining of organisational structures, which has resulted in permanent cost savings that will stand us in good stead in the future.

Quarterly performance review
The quarterly performance of key financial indicators as set out below reflect the seasonality of our business, which is weighted towards the summer season from October to March as well as the impact of Covid-19 and the subsequent adjustment(s) in national lockdown levels, particularly on the first quarter of the year:

<table>
<thead>
<tr>
<th></th>
<th>Q1 Rm</th>
<th>Q2 Rm</th>
<th>Q3 Rm</th>
<th>Q4 Rm</th>
<th>Total Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021 actual</td>
<td>58</td>
<td>261</td>
<td>464</td>
<td>355</td>
<td>1 138</td>
</tr>
<tr>
<td>2020 actual</td>
<td>961</td>
<td>1 113</td>
<td>1 334</td>
<td>1 055</td>
<td>4 463</td>
</tr>
<tr>
<td>Change on 2020</td>
<td>(903)</td>
<td>(852)</td>
<td>(870)</td>
<td>(700)</td>
<td>(3 325)</td>
</tr>
<tr>
<td>Ebitdar</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021 actual</td>
<td>(160)</td>
<td>(46)</td>
<td>47</td>
<td>(18)</td>
<td>(177)</td>
</tr>
<tr>
<td>2020 actual</td>
<td>206</td>
<td>353</td>
<td>481</td>
<td>312</td>
<td>1 352</td>
</tr>
<tr>
<td>Change on 2020</td>
<td>(366)</td>
<td>(399)</td>
<td>(434)</td>
<td>(330)</td>
<td>(1 529)</td>
</tr>
<tr>
<td>Adjusted earnings</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021 actual</td>
<td>(216)</td>
<td>(210)</td>
<td>(92)</td>
<td>(115)</td>
<td>(633)</td>
</tr>
<tr>
<td>2020 actual</td>
<td>(18)</td>
<td>91</td>
<td>142</td>
<td>63</td>
<td>278</td>
</tr>
<tr>
<td>Change on 2020</td>
<td>(198)</td>
<td>(301)</td>
<td>(234)</td>
<td>(178)</td>
<td>(412)</td>
</tr>
</tbody>
</table>

Quarterly review
The first six months of the financial year have undoubtedly been the most challenging and disruptive periods in our 52-year history as the group contended with consequences of the Covid-19 pandemic and the national lockdowns implemented to control its spread. With effect from 27 March 2020, the business was effectively placed into hibernation in order to reduce cash burn as the group’s entire portfolio in South Africa, Africa and the Seychelles was deactivated with the exception of those hotels designated as quarantine facilities or as accommodation for essential service providers and persons awaiting repatriation. By September 2020, as the ban on intra-provincial travel was lifted, the group had only reached 23% of the 288 360 system-wide rooms sold in South Africa in September 2019 (refer to chart on page 22). Encouraging signs of slow recovery were seen in the third quarter, following the move to level 1 of the national lockdown and the lifting of the international travel ban on 11 November 2020, which resulted in the group generating positive Ebitdar for the quarter of R47 million. However, the move to adjusted level 3 of the national lockdown on 20 December 2020, in response to the country’s second wave of Covid-19 infections, the closure of beaches and the alcohol ban that accompanied the lockdown, negatively impacted guests’ willingness to travel and is reflected in the trading for the last quarter. Although the lifting of the international travel ban was a positive step towards reviving the South African tourism sector, the negative publicity around the South African variant of the Covid-19 virus resulted in the country being added to the travel ban “red” list of many of the group’s key source markets, which will result in slower than anticipated recovery in the international and corporate travel markets.

Southern Sun Maputo was the only owned hotel in the offshore portfolio that traded throughout the lockdown period. Southern Sun Ikoyi, Nigeria and Southern Sun Ridgeway, Zambia commenced trading in September 2020, however, trading has been stifled in both regions. In Nigeria, the violent protests in Lagos negatively impacted trading, although the hotel does benefit from a loyal domestic market and Nigerian’s unable to holiday internationally chose Southern Sun Ikoyi as their leisure destination. Zambia is reliant on South African corporate travel and given the restrictions on international travel over the year, trading at Southern Sun Ridgeway remained muted and in response, expenses have been tightly controlled. The balance of the owned offshore portfolio remains closed, with the exception of Paradise Sun, Seychelles which opened on 1 July 2021, and management continues to monitor demand levels for signs or reactivation.
#### Chief Financial Officer’s review continued

#### Summarised income statement review

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 163</td>
<td>4 475</td>
</tr>
<tr>
<td><strong>Ebitdar</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term incentive (LTI) expense</td>
<td>(177)</td>
<td>1 352</td>
</tr>
<tr>
<td>Property and equipment rentals</td>
<td>(14)</td>
<td>(17)</td>
</tr>
<tr>
<td>Property and equipment rentals</td>
<td>22</td>
<td>(84)</td>
</tr>
<tr>
<td>Property and equipment rentals – IFRS 16</td>
<td>(106)</td>
<td>(210)</td>
</tr>
<tr>
<td>Amortisation and depreciation</td>
<td>(407)</td>
<td>(348)</td>
</tr>
<tr>
<td>Amortisation and depreciation – IFRS 16</td>
<td>(329)</td>
<td>(289)</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>(80)</td>
<td>(1 669)</td>
</tr>
<tr>
<td><strong>Loss before interest and taxation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance income</td>
<td>(656)</td>
<td>(766)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(379)</td>
<td>(400)</td>
</tr>
<tr>
<td>Finance costs – IFRS 16</td>
<td>(251)</td>
<td>(299)</td>
</tr>
<tr>
<td>Finance costs – IFRS 16</td>
<td>(128)</td>
<td>(101)</td>
</tr>
<tr>
<td>Share of loss of associates and joint ventures</td>
<td>(128)</td>
<td>(3)</td>
</tr>
<tr>
<td>Income tax</td>
<td>148</td>
<td>(96)</td>
</tr>
<tr>
<td><strong>Loss for the period</strong></td>
<td>(982)</td>
<td>(1 225)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>86</td>
<td>329</td>
</tr>
<tr>
<td><strong>Attributable loss</strong></td>
<td>(896)</td>
<td>(896)</td>
</tr>
</tbody>
</table>

#### South African system-wide portfolio – trend in sale of rooms

![Chart showing trend in sale of rooms](chart-image)

- **Level 1**: Oct, Nov, Dec
- **Level 1/3**: Jan
- **Level 2**: Jan, Feb
- **Level 3**: Jun, Jul, Aug, Sep, Oct, Nov, Dec, Jan

#### Note

1. [Graph note 1]
2. [Graph note 2]
3. [Graph note 3]
4. [Graph note 4]
5. [Graph note 5]
6. [Graph note 6]
7. [Graph note 7]
8. [Graph note 8]
9. [Graph note 9]
10. [Graph note 10]
1 INCOME

Total income for the year of R1.2 billion (2020: R4.5 billion) ended 74% below the prior year, with a 79% decline in hotel rooms’ revenue and a 75% decline in food and beverage revenue. The reduction in property rental income from R279 million to R52 million partially reflects the impact of rental concessions granted by Hospitality to third-party tenants during April and May 2020, together with variable rental credits as a result of losses incurred by these third-party tenants. Seven Hospitality hotel properties previously recognised as investment properties generating rental income were transferred to owner-occupied property, plant and equipment, either a consequence of hotel management being assumed by the company or the acquisition of the operation companies by Hospitality. Other income declined by R41 million to end the year on R249 million and comprised a R50 million decline in external management fee income, offset by contracted Covid-19-related income of R125 million relating to hotels used as quarantine and isolation facilities as well as the Premier Soccer League bio-bubble.

2 EBITDAR

All segments of the business were severely affected by the impact of Covid-19 and despite strict cost curtailment measures including the furlough of employees, rent concessions from landlords and discounts from suppliers to reduce cash burn during the year, the lack of revenue resulted in the group incurring Ebitdar losses of R177 million for the year (2020: R1.4 billion profit). Outliers include the SUN1 portfolio which achieved some success in securing Covid-19 isolation business due to their smaller size and affordable price point that allowed corporates to secure entire hotels for isolation and screening purposes. Resort hotels also traded relatively better due to their more leisure-focused offering, benefiting from domestic clientele unable to travel overseas. In addition, the group earned management fees from the Resort and TSG portfolios of R33 million that contributed to the central office costs in Manco. Contribution to Ebitdar losses for FY21 by segment are set out below:

Segmental analysis for the year ended March 2021 (Rm)
3 LTI EXPENSE
The long-term incentive expense in the income statement on the equity-settled share incentive scheme of R14 million declined by R3 million compared to R17 million in 2020. The variance on the prior year is as a result of forfeitures relating to participants who have left the group’s employ during the year. On 13 January 2021, the group awarded 27 million share appreciation rights to 99 employees in terms of the equity-settled share appreciation scheme.

4 PROPERTY AND EQUIPMENT RENTALS AND AMORTISATION AND DEPRECIATION
Property and equipment rental income of R9 million (2020 expense: R97 million) includes IFRS 16 rent concessions of R39 million whereby the group elected to apply the practical expedient method as allowed by IFRS 16 (2020: nil). Excluding the IFRS 16 adjustments, the group incurred cash rent of R166 million in the current year compared to R210 million in the prior year. Amortisation and depreciation at R407 million (2020: R348 million) increased by R59 million from the prior year which includes IFRS 16 adjustments of R78 million (2020: R59 million) as well as depreciation of R27 million (2020: nil) on the seven investment properties in Hospitality that were transferred to owner-occupied property, plant and equipment during the year.

5 EXCEPTIONAL ITEMS
Exceptional losses for the year of R80 million (2020: R1.7 billion) mainly relate to:
• profit on the sale of the group’s 50% investment in United Resorts and Hotels Limited, which owns the Maia Luxury Resort and Spa of R355 million;
• fair value losses on the revaluation of externally managed investment properties in Hospitality of R99 million (2020: R888 million);
• property, plant and equipment impairments of hotels in South Africa and offshore totalling R237 million (2020: R716 million);
• restructuring costs of R36 million (2020: R40 million) that includes retrenchment costs relating to the operational restructure of the group in response to the impact of Covid-19;
• goodwill impairment on the acquisition of associates by Hospitality of R30 million; and
• the impairment of the group’s investments in RBH and IHPL of R15 million in aggregate (2020: R17 million).

The majority of the quantum of the current year impairments are due to management’s downward revision of cash flow forecasts in FY23 to reflect the sustained negative impact of Covid-19 and increased in-country risk assessments that have had a material impact on discount rates applied to the group’s hotels in African territories.

Refer to pages 124 and 126 of the consolidated financial statements for the sensitivity analyses relating to impairments and fair value adjustments.

6 FINANCE COSTS
Net finance costs of R346 million (2020: R360 million) include IFRS 16 adjustments of R128 million (2020: R101 million) and excluding this impact, have declined by R41 million due to reduced offshore debt balances following the sale of Maia as well as the reduction in interest rates.

7 SHARE OF LOSS OF ASSOCIATES AND JOINT VENTURES
The share of loss of associates and joint ventures of R128 million (2020 loss: R3 million) increased by R125 million mainly due to the group’s share of fair value losses on investment properties owned by IHL of R100 million (2020: fair value loss of R41 million). In addition, the group’s share of trading losses (excluding exceptional items) of R25 million declined by R64 million from the prior year profit of R39 million. This performance is directly related to the impact of Covid-19 and the lockdowns instituted in the UK, the most recent of which is in response to the second wave of infections.
8 INCOME TAX

The income tax credit for the year of R148 million (2020 expense: R96 million) includes a net deferred tax expense of R89 million recognised due to Hospitality ceasing to be a REIT and resuming wear and tear claims on its assets. Deferred tax assets amounting to R297 million have been recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

9 NON-CONTROLLING INTERESTS

Losses attributable to non-controlling interests of R86 million (2020 loss: R329 million) relate mainly to losses incurred by Hospitality prior to Tsogo Sun Hotels’ successful acquisition of all the Hospitality shares reducing non-controlling interests from 40.8% to nil as at 31 March 2021. Non-controlling interests absorbed none of the fair value adjustments or impairments recognised in the current year while R362 million of the R888 million fair value adjustment in the prior year was attributed to non-controlling interests.

10 ATTRIBUTABLE LOSS

<table>
<thead>
<tr>
<th></th>
<th>2021 Gross</th>
<th>Net of tax</th>
<th>2020 Gross</th>
<th>Net of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attributable loss</td>
<td>(896)</td>
<td></td>
<td>(896)</td>
<td></td>
</tr>
<tr>
<td>Loss on disposal of property, plant and equipment</td>
<td>1</td>
<td>–</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Fair value adjustment of investment property</td>
<td>99</td>
<td>83</td>
<td>888</td>
<td>888</td>
</tr>
<tr>
<td>Impairment of property, plant and equipment</td>
<td>237</td>
<td>236</td>
<td>716</td>
<td>664</td>
</tr>
<tr>
<td>Impairment relating to RBH (associate)</td>
<td>15</td>
<td>15</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Share of associates’ headline earnings adjustment</td>
<td>100</td>
<td>100</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Impairment of goodwill</td>
<td>30</td>
<td>30</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Gain on disposal of investment in joint venture</td>
<td>(355)</td>
<td>(355)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Non-controlling interest effects of adjustments</td>
<td>4</td>
<td>4</td>
<td>(500)</td>
<td>(500)</td>
</tr>
<tr>
<td><strong>Headline (loss)/earnings</strong></td>
<td></td>
<td>(783)</td>
<td>216</td>
<td></td>
</tr>
<tr>
<td>Restructure costs</td>
<td>36</td>
<td>26</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Pre-opening costs</td>
<td>3</td>
<td>2</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Impairment of inventory</td>
<td>8</td>
<td>8</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Fair value adjustments on RDI REIT plc (RDI) investment</td>
<td>–</td>
<td>–</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Derecognition deferred tax</td>
<td>–</td>
<td>–</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Tax effects of HPF ceasing to be a REIT</td>
<td>105</td>
<td>105</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Share of associates’ exceptional items</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Non-controlling interest effects of adjustments</td>
<td>–</td>
<td>–</td>
<td>(4)</td>
<td>(4)</td>
</tr>
<tr>
<td><strong>Adjusted headline (loss)/earnings</strong></td>
<td></td>
<td>(633)</td>
<td>278</td>
<td></td>
</tr>
</tbody>
</table>

Group adjusted headline losses for the period at R633 million (2020 profit: R278 million) increased by R911 million. The adjustments include the reversal of the post-tax and non-controlling interest impacts of the exceptional losses noted above. The weighted average number of shares in issue increased as a result of the acquisition of all Hospitality shares in issue in exchange for 417 million shares in Tsogo Sun Hotels and the resultant adjusted headline loss per share recorded is 51.4 cents (2020 earnings: 26.2 cents).
Liquidity, funding capacity and covenants
Free cash flow utilised for the year of R446 million (2020 free cash flow generated: R484 million) comprises Ebitdar losses of R177 million, property rent of R106 million, working capital inflows of R144 million, net finance costs (cash excluding IFRS 16) of R218 million, tax paid of R42 million and maintenance capex (including operating equipment) of R47 million. Cash flows from investing activities include expansion capex of R16 million, proceeds from the sale of Maia of R467 million, a net currency translation gain of R175 million which was recognised on the US Dollar-denominated loans and other inflows of R3 million, resulting in the group’s interest-bearing debt net of cash reducing by R183 million to close at R3.1 billion (2020: R3.3 billion).

Interest-bearing debt net of cash at 31 March 2021 comprises of:

<table>
<thead>
<tr>
<th>Description</th>
<th>2021 Rm</th>
<th>2020 Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td>External debt – Offshore (US$-based)</td>
<td>750</td>
<td>1 430</td>
</tr>
<tr>
<td>External debt (Rand-based)</td>
<td>2 730</td>
<td>2 550</td>
</tr>
<tr>
<td>Prepaid borrowing costs</td>
<td>(4)</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Gross IBD</strong></td>
<td>3 476</td>
<td>3 974</td>
</tr>
<tr>
<td>Cash on hand – SA</td>
<td>(365)</td>
<td>(571)</td>
</tr>
<tr>
<td>Cash on hand – Offshore</td>
<td>(42)</td>
<td>(151)</td>
</tr>
<tr>
<td><strong>Net IBD</strong></td>
<td>3 069</td>
<td>3 252</td>
</tr>
<tr>
<td>Analysed as: – SA</td>
<td>2 363</td>
<td>1 977</td>
</tr>
<tr>
<td>– Offshore</td>
<td>706</td>
<td>1 275</td>
</tr>
<tr>
<td><strong>Facility surplus including cash on hand</strong></td>
<td>1 860</td>
<td>1 662</td>
</tr>
<tr>
<td>Cost of net debt – pre-tax (%)</td>
<td>7.0</td>
<td>8.1</td>
</tr>
<tr>
<td>Cost of net debt – post-tax (%)</td>
<td>5.1</td>
<td>6.1</td>
</tr>
</tbody>
</table>

The group’s liquidity and access to facilities are of paramount importance. The group extended its R600 million facility, of which R100 million was utilised at 31 March 2021, to 30 June 2022. Terms have also been agreed with lenders to refinance the US$25 million Mozambican facilities (R385 million) expiring within the next 12 months for a further five years. The approval from the Mozambican Central Bank, which was outstanding at 31 March 2021 was received on 4 June 2021 and the group is finalising the administrative process to implement the refinancing.
Global Credit Ratings downgraded Hospitality’s long and short-term credit rating to BBB-(ZA)/A3(ZA) respectively. Concurrently, the ratings assigned to the Senior Secured Notes issued by Hospitality have been downgraded to A(ZA)(EL) from A+(ZA)(EL). The outlook on all the ratings has been maintained.

The average maturity profile of our debt is 2.2 years as at 31 March 2021. The debt maturity profile and utilisation of facilities is presented below:

### Debt maturity profile (Rm)

<table>
<thead>
<tr>
<th>Month</th>
<th>Utilised facility</th>
<th>Facility headroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-21</td>
<td>214</td>
<td>190</td>
</tr>
<tr>
<td>Mar-22</td>
<td>148</td>
<td>171</td>
</tr>
<tr>
<td>Mar-22</td>
<td>148</td>
<td>171</td>
</tr>
<tr>
<td>Apr-22</td>
<td>100</td>
<td>155</td>
</tr>
<tr>
<td>Jun-22</td>
<td>100</td>
<td>155</td>
</tr>
<tr>
<td>Aug-21</td>
<td>500</td>
<td>300</td>
</tr>
<tr>
<td>Dec-22</td>
<td>500</td>
<td>300</td>
</tr>
<tr>
<td>Feb-23</td>
<td>600</td>
<td>400</td>
</tr>
<tr>
<td>Mar-23</td>
<td>600</td>
<td>400</td>
</tr>
<tr>
<td>Mar-24</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>Sep-24</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td>Feb-25</td>
<td>190</td>
<td>230</td>
</tr>
<tr>
<td>Dec-25</td>
<td>190</td>
<td>230</td>
</tr>
</tbody>
</table>

### Going concern

The audited consolidated financial statements are prepared on the going-concern basis. Based on the cash flow forecasts, available cash resources and the other measures the group has taken or plans to take as detailed above, management believes that the group has sufficient resources to continue operations as a going concern in a responsible and sustainable manner. As at 31 March 2021, the group has net cash and cash equivalents of R407 million (March 2020: R722 million). The group has R3.5 billion (March 2020: R4.0 billion) of interest-bearing debt (excluding capitalised lease liabilities) and access to R1.5 billion in undrawn facilities to meet its obligations as they become due. The group comfortably met the minimum Ebitda and liquidity thresholds for the June 2021 covenant measurement period.

### Dividends

Given the anticipated extended period of reduced revenue, the directors considered it prudent to retain cash resources in order to ensure that the group is able to navigate this difficult period until trading normalises. Accordingly, the directors have not declared a final cash dividend for the year ended 31 March 2021.

### Events occurring after the balance sheet date

During May 2021, Tsogo Sun Gaming signed a loss agreement with its insurer Tsogosure Insurance Company Limited to settle the combined business interruption insurance claim of Tsogo Sun Gaming and Tsogo Sun Hotels which is limited to R150 million in aggregate. Tsogo Sun Hotels’ share of this claim is expected to be in the region of R27 million while Hospitality continues to engage with the loss adjustors on its standalone business interruption claim which is also limited to R150 million. Any proceeds received in terms of the business interruption claims will contribute to the group’s liquidity. Refer to note 45 of the consolidated annual financial information for further details.

### Appreciation

I would like to thank everyone involved in the year end process and in the preparation of this report. Your dedication and support in meeting our deliverables under the most difficult circumstances is greatly appreciated and speaks to who we are as a company.

Laurelle McDonald
Chief Financial Officer (CFO)

30 July 2021
The environment in which we operate

While these hotels inevitably experience financial distress, the room stock once built does not exit the market, and it can take a substantial period of time for demand to catch up to supply. Given the impact that Covid-19 has had on the industry, it is unlikely that new room stock will be brought to market in the medium term while demand recovers.

Following the first democratic elections in 1994, the demand for hotel rooms grew rapidly and rooms sold by the group grew by an average of more than 6% per annum between 1994 and 1999. The market responded to this demand with the construction of new hotels and until 2008, demand growth continued to exceed the growth in supply with occupancies and average room rates continuing to rise.

During 2008, the impact of the global recession constrained demand but construction of new hotels continued until the 2010 FIFA World Cup™ since these projects were already in progress. Market occupancies fell from 74% in 2007 to 58% in 2011, due to the combination of constrained demand and increased supply. Demand subsequently improved, and with minimal growth in hotel supply, market occupancies showed recovery from 2011 but stagnated and have ranged between 61% and 65% from 2012 to 2020. The devastating impact of the Covid-19 pandemic is best illustrated in the graph below which reflects rooms sold by the group in South Africa since 1994 and the occupancies achieved:

![Graph showing rooms sold versus occupancy (%) from 1994 to 2021.](image)
The chart below shows the group’s overall portfolio share relative to the STR Global statistics for South Africa since the global financial crisis. Given the disruption to the market caused by Covid-19 with many hotels being closed for part or all of the year and a number of participants simply not submitting data to STR Global, the chart has not been updated to include data for 2021 as it is not comparable to prior periods.

Note: Movement in rooms available is a combination of new rooms stock and new sign up to STR Global.
Over this time the overall formal market has grown by some 41% from approximately 38,272 rooms in 2009 to 53,916 rooms in March 2020 immediately prior to the lockdown. This does not include the proliferation of accommodation that does not participate in STR. It can be assumed that nearly all smaller hotels and guest houses would not participate, and it further excludes the proliferation of Airbnb product in the market. Our share, including the exposure we receive through third-party operated hotels in Hospitality, remains around 30% of the formal market.

Despite this large increase in available rooms stock, over a difficult time in the South African economy, occupancies up to 2020 have been higher than they were at the height of the financial crisis in 2010. The advent of the Covid-19 pandemic, coupled with the recent unrest and rioting in several provinces in South Africa will mean a period of significant oversupply.

However, given the historic long-term growth of demand in the industry as the economy grows, we expect the market to rebalance in the medium term.

Trading in the majority of the African cities outside South Africa where Tsogo Sun Hotels operate remained remarkably resilient through the economic recession mainly due to limited supply of good quality hotels. Trading between the 2015 and 2019 financial years was, however, significantly impacted by the Ebola pandemic, security concerns and more recently a weaker market attributable to the negative impact of lower commodity prices and the resultant weakening of local currencies. In the medium term it is expected that many African countries will experience strong economic growth, which will drive the demand for and supply of, new hotels, but in the short term difficult trading conditions will continue as these countries grapple with the impact of Covid-19. The markets are small and the addition of a new hotel has a more significant impact on the market.
Political

Although Tsogo Sun Hotels operates primarily in South Africa, it also has operations in Mozambique, Nigeria, the Seychelles, Tanzania, the United Arab Emirates and Zambia. Political, social, labour and economic conditions in South Africa or regionally could adversely affect our businesses.

The group is based in and derives the vast majority of its income from operations in South Africa. As such, the political conditions in South Africa have a significant influence on our business. South Africa faces many challenges in improving levels of social and economic development among its people. To the extent these challenges are not overcome, there may be a negative impact on the South African economy and, in turn, the group’s results of operations.

This has more recently become apparent with the social unrest, rioting and opportunistic looting that unfolded in a number of provinces during the month of July 2021. The impact of this devastation will be seen in the short term, including the impact thereof on the country’s economy; international travellers, potentially making them reluctant to travel to South Africa and domestic travel, which is likely to reduce.

There has also been regional political instability in some of the countries surrounding South Africa. The potential for resulting political instability in the region could negatively affect the South African economy and political environment, which, in turn, could have a material adverse effect on the group’s operations, profitability, cash flows and financial condition.

Technological

The group’s businesses demand the use of technology and systems for property management, brand assurance and compliance, procurement, reservation systems, surveillance, operation of our customer reward programme, booking of hotel accommodation by current and future customers, search engine optimisation and guest amenities. The development and maintenance of these technologies require ongoing investment by the group.

Technology trends most relevant to our industry being:

- Availability of robust broadband
- Advanced and secure mobile functionality for transacting and communication (customers and operational staff)
- Integrated tools to ensure customers are rewarded equitably based on spend/value
- Improving staff productivity and reducing costs
- More cost-effective IT business models
- Protecting the personal information of our guests, employees, suppliers and associates
The environment in which we operate continued

**Economic**

Demand for our hotels is linked to the performance of the general economy and is sensitive to business, government and personal discretionary spending levels. Decreased global or regional demand for our products and services can be especially pronounced during periods of economic contraction or low levels of economic growth, and the recovery in the hotel industry may lag behind overall economic improvement.

The group's reliance on the corporate and government markets as core components of its customer base makes it particularly sensitive to economic conditions that cause declines in travel by those groups. Declines in demand for our services due to general economic conditions could negatively impact our business by decreasing the income and profitability.

The group has a high concentration of hotels in particular urban centres. While this strategy helps to ensure that we can service a large number of travellers in these key markets, from budget to luxury, it also increases our sensitivity to adverse conditions affecting travel to such areas. Any events or developments that reduce the demand for our services in these core urban centres could negatively impact our business. We are currently experiencing this with the ban on non-business-related inter-provincial travel to contain the spread of Covid-19.

In addition, many of the expenses associated with the hotel business, including personnel costs, interest, rent, property taxes, insurance and utilities, are relatively fixed. During a period of overall economic weakness, any failure by the group to meaningfully reduce these costs as demand for our rooms decreases may have a material adverse effect on our operations, profitability, cash flows and financial condition.

**Socio-cultural**

The group must continually refresh its product offering to cater to consumer preferences. In order for the group to compete effectively with other consumer options for leisure and entertainment activities, as well as other hotel and leisure providers, our operations must deliver a quality experience at a price that our customers are willing to pay. The experience must also cater to various changing consumer preferences in the market. Consumer preferences range from technological preferences (such as the increased utilisation of mobile devices and social media) to the look and feel of the physical product, the location of buildings, concepts of restaurants and bar offerings and types of entertainment and travel patterns.
Environmental

Our business has a low environmental impact due to the service nature of the hotel industry. The fact that we operate predominantly in urban areas, further reduces the biodiversity impact. The main environmental impacts of the group are the consumption of energy and water, the production of waste and travel of guests to our properties.

Although customer choices are not yet significantly impacted by environmental policies, behavioural changes are being driven by social responsibility. The environmental focus areas are the reduction of consumption through innovative physical property and behavioural changes and the responsible management of the supply chain and waste.

The greater challenges to the hotel industry currently are the rising utility costs and uncertainty surrounding the supply of energy and, particularly, the future supply of water. Administered costs have seen a sustained above-inflation increase over the past number of years. These include property rates, and the cost of heat, light and power. While we have undertaken numerous steps to reduce our electricity and water consumption by employing efficient operating methodologies, the price per unit of these utilities has increased dramatically and is worsened by the requirement to fund generating capacity (diesel generators) during load shedding. Municipalities have come under increasing pressure to raise independent funding and this has led to substantially higher property rates being imposed on the group’s portfolio.

Regulatory

As a multinational business, Tsogo Sun Hotels is subject to a wide range of legislation, which is monitored on an ongoing basis. Any breach of compliance with this legislation could result in fines or sanctions that affect our profitability and may have adverse reputational consequences.

B-BBEE

Under the laws, codes and regulations promulgated by the South African government to promote B-BBEE, the government awards procurement contracts, quotas, licences, permits and other rights based on numerous factors, including the B-BBEE status of applicants. We are committed to complying with these requirements, which are designed to redress historical social and economic inequalities and ensure socio-economic stability in South Africa. A company’s B-BBEE status is an important factor considered by government and other public bodies in awarding contracts and may influence relationships with customers or suppliers as it contributes to their B-BBEE status. Given that government travellers comprise a core segment of our revenues, our B-BBEE contributor status is important in securing this business.

Health and safety legislation

Current legislation in South Africa imposes significant health and safety regulations on the group’s operations which will continue in the post Covid-19 environment. Health and safety is ingrained in our culture and we have a high standard of compliance in this area.

Consumer privacy and data protection legislation

The group is subject to regulation General Data Protection Regulation (GDPR) and Protection of Personal Information Act 4 of 2013 (POPIA) regarding the use of customers’ personal and credit card data and the protection of such data from cyber-theft. The group receives and processes large amounts of sensitive personal customer data (including name, address, bank details and credit card details) as part of its business and as a result must comply with strict data protection and privacy laws in the jurisdictions where we operate.

South Africa has a stable tax environment and the tax administration system is advanced and transparent in many aspects. Other jurisdictions of operation, including Zambia, Mozambique, Nigeria and the Seychelles have differing tax legislation by which the group must additionally abide.
Our key stakeholders

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

We have taken our stakeholders’ views into account in formulating our strategic priorities and report content.

During the Covid-19 pandemic, the group has continued to focus on the protection of the livelihoods of our many stakeholders and amidst the changing circumstances, we continue to remain in close communication with our lenders, employees, trading partners, suppliers, tenants and landlords in order to arrive at mutually sustainable operating solutions to the challenges presented by these extraordinarily difficult times.

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

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>Why it is important for us to engage</th>
<th>How we engage with our stakeholders</th>
<th>Our stakeholders’ key interests</th>
<th>Associated strategic priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors and funding institutions</td>
<td>Investors and funding institutions are the providers of capital necessary for our growth and we need transparent communication and to understand potential concerns</td>
<td>• JSE news services&lt;br&gt;• Media releases and published results&lt;br&gt;• Integrated annual reports and financial statements&lt;br&gt;• Annual general meetings&lt;br&gt;• Dedicated analyst and investor presentations&lt;br&gt;• One-on-one meetings&lt;br&gt;• Tsogo Sun Hotels’ website</td>
<td>• Sustainable growth and returns on investment&lt;br&gt;• Covenant requirements&lt;br&gt;• Dividends&lt;br&gt;• Risks and opportunities of expansion&lt;br&gt;• Transparent executive remuneration&lt;br&gt;• Corporate governance and ethics&lt;br&gt;• Liquidity and gearing&lt;br&gt;• Security of tenure over properties&lt;br&gt;• Independence of the board</td>
<td><strong>FINANCIAL STRENGTH AND DURABILITY</strong>&lt;br&gt;Page 51</td>
</tr>
<tr>
<td>Government and regulatory bodies</td>
<td>Government provides us with our licence to trade and the enabling regulatory framework within which to operate and we need to ensure compliance and understand the broader economic, social and environmental issues</td>
<td>• Establish constructive relationships&lt;br&gt;• Comment on developments in legislation&lt;br&gt;• Participate in forums&lt;br&gt;• Written responses in consultation processes&lt;br&gt;• Presentations and feedback sessions&lt;br&gt;• Regulatory surveillance, reporting and interaction&lt;br&gt;• Membership of industry bodies, eg the Tourism Business Council of South Africa (TBCSA), the South African Tourism Board (SATB) and the Federated Hospitality Association of Southern Africa (Fedhasa)</td>
<td>• Taxation revenues&lt;br&gt;• Compliance with legislation&lt;br&gt;• Job creation&lt;br&gt;• Investment in public and tourism infrastructure&lt;br&gt;• Investment in disadvantaged communities&lt;br&gt;• Advancing transformation&lt;br&gt;• Social impacts&lt;br&gt;• Reduction in energy and water consumption</td>
<td><strong>DELIVER TO OUR BENEFICIARIES</strong>&lt;br&gt;Page 45&lt;br&gt;<strong>REGULATORY COMPLIANCE</strong>&lt;br&gt;Page 56</td>
</tr>
<tr>
<td>Stakeholder group</td>
<td>Why it is important for us to engage</td>
<td>How we engage with our stakeholders</td>
<td>Our stakeholders’ key interests</td>
<td>Associated strategic priorities</td>
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<td>--------------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
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<td>---------------------------------</td>
</tr>
</tbody>
</table>
| Guests                   | We need to understand our guests’ needs, perceptions and behaviours in order to deliver experiences relevant to them, thereby enhancing our brand value and driving revenue | • Satisfaction surveys  
• Rewards programme  
• Customer relationship managers  
• Call centres  
• Website and social media engagement | • Quality product  
• Consistent quality experience  
• Simpler and quicker to deal with us  
• Value offerings  
• Long-term security of supply  
• Recognition for loyalty | ![PRODUCT RELEVANCE TO CUSTOMER EXPERIENCE](Page 53) |
| Communities              | Engagement assists us to focus our efforts on empowering local communities which contributes to our long-term viability | • Events and sponsorships  
• Website and social media engagement  
• Corporate social investment initiatives  
• Employee volunteering | • Investment in disadvantaged communities  
• Employment opportunities  
• Sponsorships | ![DELIVER TO OUR BENEFICIARIES](Page 45) |
| Employees                | Our employees are core to delivering our guest experiences and we need to understand their needs, challenges and aspirations and for them to be aligned with our strategy | • Communication from executives  
• Internal communications and posters  
• Induction programmes  
• Ongoing training and education  
• Employee surveys  
• Performance management programmes  
• Anti-fraud, ethics and corruption hotline  
• Trade union representative meetings  
• Employee engagement programme livingTSOGO | • Job security  
• Engagement  
• Performance management  
• Clear understanding of reward structures  
• Health and safety performance  
• Access to HIV counselling and wellness programmes  
• Career planning and skills development | ![SKILLED HUMAN RESOURCES](Page 57) |
| Suppliers, tenants and business partners | Our suppliers, tenants and business partners enable us to deliver consistent guest experiences | • One-on-one meetings  
• Tender and procurement processes  
• Anti-fraud, ethics and corruption hotline  
• Supplier forums and showcases | • Timely payment and favourable terms  
• Fair treatment  
• B-BBEE compliance | ![DELIVER TO OUR BENEFICIARIES](Page 45) |

Interactions with our stakeholders are based on our strategic objectives, included on page 9, which guide our behaviour ensuring our stakeholders know what to expect from us.
In addition to providing exceptional experiences to our customers, the group generates direct and indirect financial benefits for our stakeholders including:

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

A substantial portion of the wealth generated by the group is spent with/distributed to black economically empowered businesses, previously disadvantaged individuals and government, the value of which for the year ended March 2021 is set out below:

### Value added to black economically empowered businesses, previously disadvantaged individuals and government for the year ended 2021 (Rm)

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>271</th>
<th>1 019</th>
<th>11</th>
<th>407</th>
<th>109</th>
<th>127</th>
<th>2 075</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid to black economically empowered businesses for materials and services*</td>
<td>388</td>
<td>2 711</td>
<td>1 019</td>
<td>11</td>
<td>407</td>
<td>109</td>
<td>127</td>
<td>2 075</td>
</tr>
<tr>
<td>Funding institutions*</td>
<td>1 081</td>
<td>2 711</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees (1)</td>
<td></td>
<td>2 711</td>
<td>1 019</td>
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<td></td>
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<td></td>
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<tr>
<td>Corporate Social Investment*</td>
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<tr>
<td>Taxation and property taxes</td>
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<tr>
<td>Shareholders*</td>
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<tr>
<td>Paid to black economically empowered businesses for capital expenditure*</td>
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<tr>
<td>Total black economically empowered businesses, PDI's and government contribution</td>
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* As per the Department of Trade and Industry tourism sector code.

(1) Net pay to Employees with employees’ tax included in taxation.

### Value added for the year ended 31 March 2021 (Rm)

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
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</thead>
<tbody>
<tr>
<td>Cash derived from revenue</td>
<td>4 475</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Dividends and interest received</td>
<td>22</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid to suppliers for materials and services</td>
<td>(1 549)</td>
<td></td>
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<tr>
<td>Total value added</td>
<td>2 948</td>
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<tr>
<td>Funding institutions</td>
<td>(208)</td>
<td></td>
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<tr>
<td>Employees (1)</td>
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<tr>
<td>Corporate Social Investment</td>
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<tr>
<td>Taxation and property taxes</td>
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<tr>
<td>Shareholders</td>
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<tr>
<td>Net cash</td>
<td>624</td>
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<td></td>
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</tr>
</tbody>
</table>

(1) Net pay to Employees with employees’ tax included in taxation.
Our material risks and opportunities

The matters included in our integrated annual report are principally aimed at providers of financial capital in order to support their financial capital allocation assessments.

However, the interests of the providers of financial capital are largely aligned with other key stakeholders because they are also focused on the creation of value over the long term.

Determination of materiality

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

The assessment of the magnitude of the impact and the likelihood of the occurrence of the group’s top risks and opportunities informed the identification and prioritisation of the material matters for inclusion in the integrated annual report.

The identified matters were compared with those being reported by organisations in the same or similar industries to ensure that relevant matters were not excluded from the report.
Our material risks and opportunities continued

Material risks and opportunities
We evaluated and prioritised our material risks and opportunities, which are depicted in the heatmap below. The specific risks and opportunities within each risk landscape (in order of assessed residual risk), their potential impact and the group’s risk responses are noted on pages 39 to 43.

Tsogo Sun Hotels’ risk and opportunity landscape

For a detailed understanding of how we manage risk, please refer to page 71 of the governance report.
## Principal risk landscapes

### MACRO-ECONOMIC ENVIRONMENT

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
<th>Associated strategic priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Our operations are concentrated in South Africa and are affected by the cyclical nature of the hospitality industry.</td>
<td>- Revise strategic priorities&lt;br&gt;- Review organisational structures&lt;br&gt;- Innovative and relevant marketing and promotions&lt;br&gt;- Reward programmes&lt;br&gt;- Extensive expense management and staff furlough to limit cash burn&lt;br&gt;- Covenant re-negotiations with lenders</td>
<td>Strength of risk response: Uncontrollable&lt;br&gt;Magnitude of impact: Severe&lt;br&gt;Likelihood of occurrence: Almost certain&lt;br&gt;Risk rating: Extreme&lt;br&gt;Strategic objective: <strong>FINANCIAL STRENGTH AND DURABILITY</strong>&lt;br&gt;<strong>ORGANIC GROWTH</strong></td>
</tr>
<tr>
<td>- The perceived inability of government to improve the current depressed macroeconomic situation and the constrained growth in the government sector may lead to increased costs of funding, which leads to reduced income and lower profitability.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- The Covid-19 national lockdown has had a devastating impact on the local macroeconomic environment. The closure of borders and persistent travel restrictions to curb infection rates have had a severe, negative impact on our revenues and profitability.</td>
<td></td>
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<tr>
<td>- Constrained growth in corporate, international and conferencing markets will negatively impact trading.</td>
<td></td>
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<tr>
<td>- Potential covenant breaches.</td>
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</tbody>
</table>

### COVID-19 PANDEMIC IMPACT

<table>
<thead>
<tr>
<th>Specific risks we face</th>
<th>Risk responses</th>
<th>Associated strategic priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Travellers’ fears of exposure to contagious diseases, such as Covid-19, could reduce the number of people willing to fly or travel in future, particularly if new significant disease outbreaks occur or threaten to occur. Inter-provincial and international travel are vital to our business and the current travel restrictions have meant that occupancy levels remain extremely low.</td>
<td>- Phased reopening of hotels to actively manage the oversupply of hotel stock in the market&lt;br&gt;- Operate all hotels on a skeletal staff structure and reduce cost base to limit cash burn&lt;br&gt;- Implement enhanced health and safety procedures to assist in alleviating our guests’ fears about travel and staying at our hotels</td>
<td>Strength of risk response: Uncontrollable&lt;br&gt;Magnitude of impact: Severe&lt;br&gt;Likelihood of occurrence: Almost certain&lt;br&gt;Risk rating: Extreme&lt;br&gt;Strategic objective: <strong>FINANCIAL STRENGTH AND DURABILITY</strong></td>
</tr>
<tr>
<td>- With a number of our hotels located in urban city centres, where there is a perceived increased risk of infection, many customers may choose not to travel to these hotspots, further negatively impacting trading.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### 3 PORTFOLIO MANAGEMENT AND PRODUCT RELEVANCE

#### Specific risks we face
- Ensuring our products remain relevant to consumers in these uncertain times may require additional investment in customer experience (CX) intelligence through research and further refurbishment capex. As such, the group may be required to assume development risk to enhance or protect the value of its portfolio base.
- The negative country perception of “no longer the place to visit” is expected to have a negative impact on the portfolio relevance. This has been exacerbated by the negative PR around the South African variant of the Covid-19 virus as well as the civil unrest in KwaZulu-Natal and Gauteng.
- Changes to the way we do business
- Degeneration in key nodes (Durban, Pretoria, Eastgate)
- Loss of brand affinity

#### Risk responses
- Overview of markets
- Interaction with local authorities
- Investment in facilities and maintenance capex to ensure relevance
- CX research to inform response
- Engagement with municipalities
- Active corporate citizenship
- Employee volunteering in our communities

#### Associated strategic priorities
- Strength of risk response: Satisfactory
- Magnitude of impact: Severe
- Likelihood of occurrence: Likely
- Risk rating: Extreme
- Strategic objective

### 4 REGULATORY CHANGE AND COMPLIANCE

#### Specific risks we face
- As a multinational business, Tsogo Sun Hotels is subject to a wide range of legislation, which is monitored on an ongoing basis. Any breach of compliance with legislation could result in fines or sanctions that affect our profitability and may have adverse reputational consequences.
- Policy uncertainty
- More aggressive regulatory authorities
- Changing B-BBEE requirements
- Degradation of formal skill sets
- Increased complexity of compliance, eg POPIA, CPA and FICA
- Changing regulations in accordance with lockdown level fluctuations

#### Risk responses
- Submit comments to law makers through formal comment structures
- Robust compliance procedures
- Comprehensive B-BBEE strategy

#### Associated strategic priorities
- Strength of risk response: Satisfactory
- Magnitude of impact: Major
- Likelihood of occurrence: Likely
- Risk rating: Extreme
- Strategic objective

---

Refer to page 56 for details relating to the group’s regulatory compliance.
### 5. CAPACITY AND MARKET ISSUES

#### Specific risks we face
- The group’s hotel properties are subject to leases or management contracts without guaranteed renewal or successful renegotiation
- In the absence of renewal options exercisable by the group, there can be no guarantee that all or any of the group’s leases and management contracts will be renewed upon their expiry. There can also be no guarantee that the terms of any leases or management contracts that are renewed will be as favourable to the group as the terms currently in place

#### Risk responses
- Continuous engagement with hotel owners to secure contract renewals on attractive contractual terms
- Strong Manco with experienced management team and central resources
- Attractive management fee structure

#### Associated strategic priorities
- Strength of risk response: Satisfactory
- Magnitude of impact: Major
- Likelihood of occurrence: Likely
- Risk rating: High
- Strategic objective: ORGANIC GROWTH, FINANCIAL STRENGTH AND DURABILITY

---

### 6. ADVERSE TAX ENVIRONMENT

#### Specific risks we face
- Aggressive tax authorities particularly in other African countries
- Increase in taxes (incl VAT)
- Increased rates and property taxes

#### Risk responses
- Lodge of appeals on assessments and property valuations
- Robust compliance procedures

#### Associated strategic priorities
- Strength of risk response: Satisfactory
- Magnitude of impact: Major
- Likelihood of occurrence: Likely
- Risk rating: High
- Strategic objective: DELIVER TO OUR BENEFICIARIES, REGULATORY COMPLIANCE, ORGANIC GROWTH
## CRIME, SAFETY AND SECURITY

### Specific risks we face
- The occurrence of major violent incidents like the civil unrest in KwaZulu-Natal and Gauteng during mid-July 2021 can cause major infrastructure damage and limit our ability to trade. In addition, the impact of the violence on confidence for travellers is pronounced and is detrimental to South Africa’s reputation as an attractive tourist destination.
- The possibility of hotel robberies and/or follow-home robberies.
- Fraud by employees/from external sources.

### Risk responses
- Physical security and surveillance procedures and crime intelligence.
- Coordination with the South African Police Service.
- Internal control frameworks and internal audit procedures.

### Associated strategic priorities
- Strength of risk response: Satisfactory.
- Magnitude of impact: Significant.
- Likelihood of occurrence: Almost certain.
- Risk rating: High.

### Strategic objective
- Regulated Compliance
- Organic Growth

---

## HUMAN RESOURCES

### Specific risks we face
- The group’s business is labour intensive and, therefore, its success largely depends on its ability to attract, train, motivate and retain a sufficient number of qualified and skilled employees to run its operations.
- If the group cannot attract and retain a sufficient number of qualified employees, its ability to effectively compete with its peers and its operations, profitability, cash flows and financial condition could be materially affected.
- Changes in labour legislation.
- Unrealistic expectations, social pressure and/or unresolved IR issues leading to violent strikes and unrest.

### Risk responses
- Retention of employees through appropriate remuneration structures and employee benefits.
- Employee engagement through livingTSOGO.
- Employee training and development with a focus on fast-tracking those with high performance potential.
- Performance-driven culture.
- Focused employment equity strategy.
- Labour rate parity.

### Associated strategic priorities
- Strength of risk response: Satisfactory.
- Magnitude of impact: Significant.
- Likelihood of occurrence: Possible.
- Risk rating: High.

### Strategic objective
- Deliver to Our Beneficiaries
- Skilled Human Resources
## UNRELIABLE AND COSTLY UTILITIES

### Specific risks we face

- Service delivery, limited infrastructure investment and funding challenges at South Africa’s municipalities have compounded their capacity to supply water and electricity to ratepayers.
- Inconsistent water supply and unreliable electricity provision affect the operational capability of hotels to provide consistent services to guests.
- Municipalities and utility providers also increase rates, property taxes, water and electricity to fund their own shortfalls, placing an additional cost burden on the returns to shareholders.

### Risk responses

- Electricity Efficient Demand Side Management Programme to reduce consumption.
- Water handling/storage capacity for emergency supply.
- Self-reliance on generators for emergency electricity supply.

### Associated strategic priorities

- **Strength of risk response:** Satisfactory
- **Magnitude of impact:** Moderate
- **Likelihood of occurrence:** Almost certain
- **Risk rating:** High

### Strategic objective

- **Product relevance to customer experience**
- **Organic growth**

## CYBER, IT AND INFORMATION MANAGEMENT

### Specific risks we face

- Our operations, including online booking and hotel management systems, partially depend on our IT systems.
- The performance and reliability of these systems and the group’s technology are critical to its reputation and ability to attract, retain and service customers.
- Any disruption in the group’s ability to provide the use of its reservation system to customers, including as a result of software or hardware issues related to the reservation system, could result in customer dissatisfaction and harm our reputation and business.

### Risk responses

- Improved IT security and cyber awareness campaign.
- Payment card industry standard compliance.
- Increased IT auditing and assurance (internal and external).
- Backup IT systems for business critical systems generally in different geographies and restores tested bi-annually for core solutions.
- Continuous maintenance of hardware and databases to ensure warranties remain in order.
- Failovers and manual procedures to support any possible information technology downtime limits impact on the guest and reputation.

### Associated strategic priorities

- **Strength of risk response:** Satisfactory
- **Magnitude of impact:** Moderate
- **Likelihood of occurrence:** Possible
- **Risk rating:** High

### Strategic objective

- **Organic growth**
- **Regulatory compliance**
## THE KEY PILLARS OF OUR SUSTAINABILITY INCLUDE:

- Delivering to our beneficiaries
- Financial strength and durability
- Maintained product relevance to customer experience
- Regulatory compliance
- Adequately skilled human resources

## Sustainability strategy in action

<table>
<thead>
<tr>
<th>Key pillars</th>
<th>Material risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSI outcomes 104 education, health and welfare organisations supported</td>
<td>DELIVERING TO OUR BENEFICIARIES • Regulatory change and compliance • Macroeconomic environment</td>
</tr>
<tr>
<td>Unutilised facilities R1.5 billion</td>
<td>FINANCIAL STRENGTH AND DURABILITY • Macroeconomic climate • Regulatory change and compliance • Local authority capability • Capacity • Missed opportunities • Crime, security, safety and health • Credit risk</td>
</tr>
<tr>
<td>Guest satisfaction 87%</td>
<td>MAINTAINED PRODUCT RELEVANCE TO CUSTOMER EXPERIENCE • Macroeconomic climate • Regulatory change and compliance • Local authority capability • Capacity • Missed opportunities • Crime, security, safety and health • Cyber, IT and information management</td>
</tr>
<tr>
<td>Fines imposed for breaches of law Nil</td>
<td>REGULATORY COMPLIANCE • Regulatory change and compliance • Capacity • Cyber, IT and information management • Crime, security, safety and health</td>
</tr>
<tr>
<td>Verified training spend 2.2% as a percentage of leviable amount</td>
<td>ADEQUATELY SKILLED HUMAN RESOURCES • Regulatory change and compliance • Human resources • Crime, security, safety and health • Cyber, IT and information management</td>
</tr>
</tbody>
</table>
Shareholders

The nature of the HCI shareholding provides the bulk of our 52.1% broad-based empowered ownership. The decline in black ownership from 74.8% in 2020 is due to HCI’s effective interest in the group reducing to 40.6% (2020: 49.4%) as a consequence of the increase in the company’s issued share capital following its acquisition of 100% interest in Hospitality. HCI has provided a stable shareholder base for several years, which has allowed the group to grow and leverage opportunities. The balance of the shareholding is diverse with adequate liquidity.

Refer to the group overview on page 3 for more information.

Community development

We support our local communities in education, health and welfare through in-kind contributions (such as venues, accommodation, food, linen, furniture and equipment). Over the past year, we supported 104 non-profit organisations, with our social investment amounting to R5 million in value. This represents 14.1 percentage points (pp) more than the tourism sector code target.

Enterprise and supplier development

Through the Tsogo Sun Entrepreneurs’ programme, we develop emerging enterprises with the potential to form part of our procurement pipeline. The programme provides a range of business benefits to 153 enterprises in various industries across South Africa. Some success stories of the businesses supported are documented in a series of short films entitled The Legacy Series, broadcast on etv, eNCA and the Tsogo Sun Entrepreneurs’ YouTube channel.

The value of our investment in enterprise and supplier development for the year was R1.9 million, which represents 2.2 pp more than the tourism sector code target. R377 072 was allocated to enterprise development beneficiaries and R1.5 million to supplier development beneficiaries.

<table>
<thead>
<tr>
<th>Key performance indicators</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black ownership</td>
<td>52%</td>
<td>75%</td>
</tr>
<tr>
<td>Value added contribution to black economic empowered businesses, previously disadvantaged individuals and government</td>
<td>R1 349 million</td>
<td>R3 075 million</td>
</tr>
<tr>
<td>B-BBEE level</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>CSI outcomes: education, health and welfare organisations supported</td>
<td>104</td>
<td>253</td>
</tr>
<tr>
<td>Enterprise and supplier development outcomes: SSMEs supported</td>
<td>153</td>
<td>162</td>
</tr>
</tbody>
</table>

Community

The group is committed to supporting communities in need and we contribute a portion of our profits annually to charitable organisations, entrepreneurial development and natural environment conservation. While we continue effectively harnessing our resources and experience to participate in initiatives aiming to positively impact the communities in which we operate, in March 2020, we had to suspend a significant portion of our community investment activities due to the impact of the Covid-19 lockdown on the business.

2021 performance

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Our strategy in action continued
Sustainability strategy in action continued

Tsogo Sun Volunteers
Through the Tsogo Sun Volunteers’ programme, employees participate in diverse community projects that range from assisting welfare shelters to organising beach clean-ups. During the year, Tsogo Sun Volunteers supported Mandela Day, Reach for a Dream Slipper Day, Casual Day, the CANSA Shavathon and several Covid-19 relief outreach efforts in the areas where our hotels are situated.

Transformation
Tsogo Sun Hotels is committed to transformation and actively contributes to broad-based black empowerment through practices that facilitate positive change – from maintaining the diversity of our workforce to supporting emerging enterprises through our entrepreneurs’ programme. The group is a level 3 B-BBEE contributor, measured against the Department of Trade, Industry and Competition’s (DTIC) revised codes of good practice – tourism sector scorecard, and complies with the related guidelines.

An accredited economic empowerment rating agency performs the formal verification audits annually. The consolidated group results for the year ended 31 March were as follows:

<table>
<thead>
<tr>
<th>B-BBEE results</th>
<th>Target – tourism sector scorecard</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>27</td>
<td>27.0</td>
<td>27.0</td>
<td>27.0</td>
</tr>
<tr>
<td>Management and control</td>
<td>19</td>
<td>13.3</td>
<td>12.8</td>
<td>12.2</td>
</tr>
<tr>
<td>Skills development</td>
<td>20</td>
<td>9.8</td>
<td>17.2</td>
<td>18.4</td>
</tr>
<tr>
<td>Enterprise and supplier development</td>
<td>40</td>
<td>32.1</td>
<td>35.7</td>
<td>38.1</td>
</tr>
<tr>
<td>Socio-economic development</td>
<td>5</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Overall</td>
<td>111</td>
<td>90.2</td>
<td>100.7</td>
<td>103.7</td>
</tr>
<tr>
<td>Rating level</td>
<td></td>
<td>Level 3</td>
<td>Level 1</td>
<td>Level 1</td>
</tr>
</tbody>
</table>

The group’s B-BBEE contributor status lowered to level 3 with 110% procurement recognition status (2020: level 1 with 135% recognition status) due to the Covid-19 national lockdown, the deactivation of the group’s hotels and trade restrictions. The most significant decline in this year’s score relates to skills development, which decreased because the vast majority of employees were on furlough during hard lockdown and therefore minimal training could be undertaken. We received 90.2 out of 111 available points on the tourism sector scorecard. Our black ownership is 52.1% and black women ownership is 28.3%.

Industry bodies
Tsogo Sun Hotels actively participates in business and industry bodies such as the Tourism Business Council of South Africa (TBCSA), the South African Tourism Board (SATB) and the Federated Hospitality Association of Southern Africa (Fedhasa). Our participation includes contributing management’s time, effort and intellect. The group also forms relationships with national and regional tourism associations.

Tenants
Delivering quality hospitality, dining and conferencing experiences is important to staying relevant in our market and satisfying our customers’ diverse requirements. With 110 tenants across Tsogo Sun Hotels’ properties, tenanting is a core focus area to ensure our guests have access to the best office, retail, restaurant and entertainment-related offerings. We arranged revised terms with some of the group’s tenants in response to the Covid-19 regulations. These terms continue being assessed and adjusted in line with lockdown level fluctuations.

Suppliers
The group develops long-term, mutually beneficial relationships with suppliers of goods and services. Through these supplier relationships, many indirect jobs are created and wealth is generated in the economy.

A growing portion of our procurement is centrally managed. This allows for enhanced consistency in standards and pricing, and closer relationships with our suppliers. We ensure that, as far as practically and commercially possible, our operations procure products from local vendors.

The group encourages diversity in its commercial associations, particularly through involving black-empowered and local businesses, from whom we intentionally procure through a focused procurement strategy. Verified total procurement spend on black economic empowered businesses amounted to R698 million during the year (2020: R1.5 billion). The group’s B-BBEE score for preferential procurement, measured in the enterprise and supplier development element, is 15.2 out of 25. Our focus areas are procurement from black women-owned businesses and further opportunities to establish and support enterprise and supplier development initiatives through procurement.

An additional procurement consideration is our suppliers’ environmental performance, which is part of our procurement criteria during the supplier selection process.
During level 5 lockdown, the group negotiated reduced or extended payment terms with major suppliers, particularly those providing fixed-cost services such as security and lift maintenance. As hotels began operating and trading restrictions eased, many of these arrangements ceased. However, management continues to negotiate early settlement discounts or delaying spend where possible and arrangements are adjusted in accordance with lockdown level fluctuations.

**Third-party owners**

The group leases hotel properties and manages hotel businesses on behalf of third-party owners where it does not own the property or the business. Our significant management relationship is with Tsogo Sun Gaming for which we manage 17 hotels in various casino precincts. The relationships are mutually beneficial with financial returns, access to additional properties for Tsogo Sun Hotels and enhanced returns to the owners through our management skill and distribution.

The group sought and received rental concessions from landlords during lockdown and subsequent low demand periods. While terms varied, concessions mainly involved discounts in rent due for the financial year. From 1 April 2021, many affected leases reverted to their agreed payment terms. The reduced lease payments are not expected to affect lease payments after 30 June 2021. There is no substantive change to other terms and conditions of the leases.

Refer to note 31 of the consolidated annual financial statements.

**Environment**

The group has a low environmental impact due to the service nature of the hotel industry. However, we are subject to the general impacts of climate change and make every effort to manage our hotels with due care and consideration for the environment.

Using natural resources, minimising carbon emissions and conscientiously disposing of waste is important for our long-term sustainability. We integrate environmental management practices into our core business strategy. Our environmental steering committee assesses and manages climate-related risks and opportunities to ensure the group’s conduct meets present needs while minimising the cost to future generations.

The group’s environmental policy is revised annually and published on tsogosun.com with our stated commitment being to:

- ensure that, at all times, we identify, evaluate and comply with local, regional and national environmental laws and regulations applicable to our operations where we conduct business;
- continuously 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, and adopting a zero-waste policy;
- strive to reduce consumption of natural resources by using energy, gas and water responsibly, and identifying and implementing sustainable energy solutions;
- manage biodiversity through protecting 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;
- continuously improve and innovate our environmental performance standards;
- annually report on our environmental performance; and
- provide support for the sustainable development of our communities.

To ensure we meet the objectives of our environmental policy, a property-specific environmental management system is in place at our hotels. The system focuses on energy, water, waste management and responsible procurement. It is holistically managed as part of the in-house Organisational Resilience Management Standard audit process, and is verified by the German quality body, DQS-UL Group. The group reports to the CDP and Water Disclosure Project as an HCI subsidiary.

**Environmental impact overview**

Total emissions and water consumption reduced by 52% and 62% respectively since the previous year due to the deactivation of the group’s entire portfolio in response to the Covid-19 pandemic and lockdown at the end of March 2020.

This reduction was despite the inclusion of three Sandton Consortium hotels (Sandton Sun, Sandton InterContinental Towers and Garden Court Sandton City) for the full 12 months, and six Hospitality-owned properties previously managed by external parties.
We saw an increase in electricity consumption and water use due to the phased reopening of hotels as lockdown levels eased in the latter part of the year. However, several hotels remained closed for the full year.

**Scope and boundaries of emissions measurement**

We report on scope 1 and 2 emissions for all businesses at properties owned or leased by the group in South Africa and offshore, excluding tenant emissions. We report tenant emissions, emissions at managed properties, emissions from outside laundry services and business travel emissions in scope 3. Fugitive emissions, mainly from refrigerants, are not significant and there are no other emissions considered material.

**Emissions measurement**

<table>
<thead>
<tr>
<th>Emissions measurement</th>
<th>2021</th>
<th>2020</th>
<th>% change on portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total emissions (tCO₂e)</strong></td>
<td>74 194</td>
<td>156 161</td>
<td>(52)</td>
</tr>
<tr>
<td><strong>Scope 1</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Petrol and diesel (owned company vehicles)</td>
<td>93</td>
<td>230</td>
<td>(60)</td>
</tr>
<tr>
<td>Diesel consumed (owned businesses)</td>
<td>574</td>
<td>1 546</td>
<td>(63)</td>
</tr>
<tr>
<td>Liquefied petroleum gas (LPG) and natural gas usage (owned businesses)</td>
<td>686</td>
<td>2 179</td>
<td>(69)</td>
</tr>
<tr>
<td><strong>Scope 2</strong></td>
<td>41 509</td>
<td>83 187</td>
<td>(50)</td>
</tr>
<tr>
<td>Energy consumed (owned businesses)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Scope 3</strong></td>
<td>31 332</td>
<td>69 019</td>
<td>(55)</td>
</tr>
<tr>
<td>Energy consumed (tenants)</td>
<td>18 116</td>
<td>37 883</td>
<td>(52)</td>
</tr>
<tr>
<td>Energy consumed (managed properties)</td>
<td>7 490</td>
<td>14 229</td>
<td>(47)</td>
</tr>
<tr>
<td>Laundry services (outsourced)</td>
<td>5 717</td>
<td>16 273</td>
<td>(65)</td>
</tr>
<tr>
<td>Business travel</td>
<td>9</td>
<td>634</td>
<td>(99)</td>
</tr>
<tr>
<td><strong>Total emissions (tCO₂e)</strong></td>
<td>41 509</td>
<td>83 187</td>
<td>(50)</td>
</tr>
</tbody>
</table>

Of our scope 1 and 2 emissions, 97% is from electricity consumption. Therefore, demand-side management of electricity consumption remains a focus area in reducing emissions. Of our scope 3 emissions, 98% is from tenants’ electricity consumption.

We primarily use LPG gas for cooking and natural gas in limited cases for general heating and water heating. We use diesel for back-up electricity generation.

**Electricity**

Scope 2 emissions at owned properties were 50% down on the prior year at 41 509 tCO₂e due to the impact of Covid-19 and the deactivation of the group’s hotels. Savings from ongoing energy-saving initiatives, the ability to deactivate major plants at the hotels, continuous energy management programmes, consumption measurement and behavioural change initiatives maximised efficiencies and further reduced our electricity consumption. Installing and using energy-efficient equipment continues where practical.

**LPG and natural gas**

Scope 1 emissions from LPG and natural gas consumption decreased by 69% to 686 tCO₂e due to the impact of Covid-19.

**Petrol and diesel – vehicles**

Scope 1 emissions from petrol and diesel consumption of company-owned vehicles decreased by 60% to 93 tCO₂e.

**Diesel – stationary**

Scope 1 emissions from diesel consumption decreased by 63% to 574 tCO₂e due to the impact of Covid-19, countered by increased load shedding and supply interruptions during the year.

**Scope 3 emissions**

The 52% decrease in scope 3 emissions from tenants at group properties is mainly due to the impact of Covid-19 combined with ongoing savings initiatives. The reduction in scope 3 emissions from group-managed properties was 47%. Scope 3 emissions from outsourced laundry services (used at most hotels) were 65% down on the prior year’s consumption.

**Water**

Although supply interruptions due to poor municipal infrastructure continue increasing and medium-term water shortages are probable, the group does not have material company-specific water risks. Most of the group’s properties are in urban areas and use potable water from local municipalities (82% of consumption). Two resort properties use surface water for irrigation and two resort properties fully rely on river water.
Water consumption at owned properties decreased during the year by 62% to 525,000 kl due to the impact of the Covid-19 lockdown and deactivation of hotels. The ongoing conservation and reduction measures at all properties further contributed to the reduction when some hotels were reopened during the year.

**Waste management**

The group’s efforts to divert waste from landfill are in process at most properties through employee training and partnering with waste contractors committed to zero waste to landfill practices.

Covid-19 negatively impacted the trial project underway at several hotels. The project consists of a system using a combination of enzymes and probiotics resulting in the diversion of a significant amount of food waste to composting.

To reduce single-use plastic, the procurement policy was amended to:
- increase package sizing at larger hotels thereby reducing the quantum of packaging;
- replace straws and stirrers with biostraws and wooden stirrers;
- use biodegradable take-away cups and 100% recyclable guest supplies; and
- use glass instead of plastic where possible.

A continued focus will be to engage tenants at properties to participate in the group’s waste reduction and diversion from landfill strategy.

**Biodiversity**

The majority of our hotels are in urban areas and not close to sensitive environments. There are seven hotels in rural environments where biodiversity management is more important. No new facilities were developed at these properties during the year. The properties have programmes in place to remove alien vegetation and, where applicable, this is replaced with indigenous plants.

**Environmental education**

As part of our efforts to be a good corporate citizen, we encourage local communities to adopt a responsible attitude towards using electricity and water and managing waste. The group also champions opportunities to inform people about the importance of reducing their environmental impact by organising clean-ups, tree planting and urban improvement projects through the ‘Tsogo Sun Volunteers’ programme.

Looking ahead

**Community development**

We will continue supporting local communities in education, health and welfare through in-kind contributions and monitoring the impact thereof by tracking donations and measuring their benefits. The results of a social needs analysis undertaken in December 2020 revealed that the primary needs in impoverished communities during Covid-19 were food, water, shelter, availability of personal protective equipment, access to medical care, smart devices and data. These insights will inform the selection of charitable organisations the group supports in the future.

**Enterprise and supplier development**

The group’s enterprise and supplier development programme, Tsogo Sun Entrepreneurs, is well positioned to continue actively addressing the need for small business development and will continue serving its beneficiaries in useful and innovative ways in the future. The basis for delivery of support will shift to remote business development using online platforms and technology.

**Transformation**

The group will continue prioritising transformation and endeavour to maintain its performance in the year ahead. This will be achieved through continuously focusing on all areas of the empowerment framework, with emphasis on maintaining workforce diversity and continuing to develop their skills and those of potential new employees in our communities.

**Environment**

The group intends to refine its framework and enhance its environmental reporting to align with the Task Force on Climate-related Financial Disclosures (TCFD) in the coming year.

The focus will continue to be on ensuring the energy and water consumption management programmes remain in place to reduce consumption year on year, excluding the impact of increased capacity or additional operations. Through environmental education, the group will continue encouraging communities, employees and customers to take responsibility for their environmental impact and positively change their behaviour by communicating about topics such as climate change.

We are working towards minimising waste to landfill. Our focus during the prior year was on identifying partners who can assist in achieving this. We will continue working on understanding our waste streams and identify those to be eliminated through our green purchasing policy, which is in progress. During the coming year, our attention will be on optimising separation at source in kitchens and bars through employee education and upgrading waste collection areas.
Our strategy in action continued
Sustainability strategy in action continued

Tsogo Sun Citizenship

CARING ACROSS COMMUNITIES
Tsogo Sun Hotels supports its local communities in education, health and welfare through in-kind contributions. During the year, the group supported 104 charitable organisations and community-based initiatives.

TSOGO SUN ENVIRONMENT
Environmental responsibility is fundamental to Tsogo Sun Hotels’ philosophy of citizenship. We implement strict measures to reduce our environmental impact and conserve natural resources.

TSOGO SUN ENTREPRENEURS
The Tsogo Sun Entrepreneurs programme provides mentorship, coaching and other practical benefits and tools to business owners to help small enterprises become sustainable.

TSOGO SUN VOLUNTEERS
Through the Tsogo Sun Volunteers programme, employees participate in diverse community projects that range from assisting at welfare shelters to organising beach clean-ups.
Approach
The group manages debt levels using the leverage ratio (net debt:Ebitda) and ensures availability of sufficient credit facilities with long-term maturities, providing additional liquidity when economic conditions deteriorate. As a consequence of the Covid-19 pandemic’s impact on the group, resulting in Ebitda losses for the year, the leverage ratio has become irrelevant and the group now manages the business by minimizing cash burn and maintaining adequate facility headroom.

### 2021 performance

#### Net interest-bearing debt
Interest-bearing debt net of cash at 31 March 2021 totalled R3.1 billion, which is R183 million below the 31 March 2020 balance of R3.3 billion. It comprises free cash outflow of R446 million to fund operations, finance costs, taxation and maintenance capex during the Covid-19 lockdown period, offset by the proceeds from the sale of Maia of R467 million and a currency translation gain of R175 million which was recognised on the US Dollar-denominated loans.

#### Interest rate and currency risk management
The group manages its interest rate risk by using floating-to-fixed interest rate swaps. Interest rate swaps have the economic effect of converting floating rate borrowings to fixed rates. Where the group raises long-term borrowings at floating rates, it swaps them into fixed rates in terms of group policy. Group policy requires that between 25% and 75% of its net borrowings (net borrowings = gross borrowings net of cash and cash equivalents) are to be in fixed rate instruments over a 12-month rolling period. Under the interest rate swaps, the group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to an agreed reference interest rate calculated on agreed notional principal amounts. The settlement dates coincide with the dates on which interest is payable on the underlying debt and settlement occurs on a net basis. As at 31 March 2021, 52% of combined group net debt was hedged through fixed interest rate swaps, allowing the group to benefit from the reduction in interest rates over the year on the unhedged portion. As a consequence, the weighted average effective interest rate for the year declined from 8.1% in 2020 to 7.0% in 2021.

The group is not exposed to significant foreign exchange risk in its offshore division as the functional currency (the currency in which cash flows are generated) matches the currency of the debt raised in those entities, being US Dollars. As a result, no forward cover contracts are required in respect of this debt and a natural hedge exists. There is however foreign currency risk exposure on the conversion of these US Dollar-denominated loans to Rand and while the group has not hedged this risk given that the cost to do so is prohibitive, the intention since listing has been to reduce the Dollar-denominated debt and the proceeds from the sale of Maia has assisted in achieving this. Offshore cash at year end was held approximately 33% in US Dollar, 38% in Nigerian Naira and 8% in Mozambican Metical with 15% in other local currency deposits.

### Key performance indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt:Ebitda</td>
<td>(17.4) times</td>
<td>2.4 times</td>
</tr>
<tr>
<td>Unutilised net facilities (including available cash on hand)</td>
<td>R1 860 million</td>
<td>R1 662 million</td>
</tr>
<tr>
<td>Weighted average expiry of debt facilities</td>
<td>2.2 years</td>
<td>2.9 years</td>
</tr>
<tr>
<td>Net debt hedged through fixed interest rate swaps</td>
<td>52%</td>
<td>49%</td>
</tr>
</tbody>
</table>

It is important to ensure the group’s capital structure is appropriate so that the business survives through economic cycles.

Cyclical variations in macroeconomic conditions are particularly relevant in the hotel industry, which is regularly in undersupply or oversupply. To withstand the impacts of these cycles, the group aims to ensure debt is used prudently.
Our strategy in action continued

Continued

Sustainability strategy in action continued

Funding capacity and covenants
The group’s liquidity and access to facilities are of paramount importance and as previously reported, the group has received covenant waivers from all its lenders for the minimum covenant requirements (leverage and interest cover ratios) as at 30 September 2020 and 31 March 2021 respectively. Revised covenants were introduced at Tsogo Sun Hotels level which establishes a maximum rolling 12-month negative Ebitda (Earnings before interest, income tax, depreciation, amortisation, IFRS 16 rent adjustments, long-term incentives and exceptional items) level. This Ebitda threshold excluded the Covid-19 interventions undertaken by the group and was capped at a maximum Ebitda loss of R1.0 billion. In addition, a minimum liquidity level of R500 million is required which includes available facilities and cash on hand. An event of default will occur if both the Ebitda and liquidity covenants are breached in one of the measurement periods or the Ebitda covenant is breached for two consecutive measurement periods. These covenants were introduced and measured quarterly at December 2020 and March 2021 and the group comfortably met the minimum Ebitda and liquidity thresholds on both occasions. At Hospitality level, lenders have introduced a minimum liquidity covenant of R125 million including available facilities and cash on hand. Similarly, Hospitality has met these minimum liquidity requirements.

Looking ahead
The lenders to both Tsogo Sun Hotels and Hospitality have been very supportive of the group during this challenging period and have approved the covenant waivers for September 2021 on the basis that the rolling Ebitda threshold be reduced to R533 million (June 2021 measurement period), R453 million (September 2021 measurement period) and R412 million (December 2021 measurement period) and that revised covenants continue to be measured on a quarterly basis at a Tsogo Sun Hotels level. In Hospitality, the requirement is to continue to have a minimum available liquidity of R125 million, until such time that the normal covenant requirements are met. The terms of the revised waiver relating to an event of default remain the same as described above. Covenant levels for later periods will be reassessed during the preparation of the group’s FY23 budgets.

As at 31 March 2021, the group has net cash and cash equivalents of R407 million. The group has R3.5 billion of interest-bearing debt (excluding capitalised lease liabilities) and access to R1.5 billion in undrawn facilities to meet its obligations as they become due. In preparing the cash flow forecasts utilised to assess going concern, the continuing impact of the Covid-19 pandemic on the group’s operations and liquidity was considered. Based on the assumption that there is some recovery in the corporate, conferencing and international segments in the summer of 2021/2022, once the vaccine rollout has stabilised and the third wave of Covid-19 infections has passed, management believes that the company should meet these revised covenant levels. The group comfortably met the minimum Ebitda and liquidity thresholds for the June 2021 covenant measurement period. As at 30 June 2021, Tsogo Sun Hotels’ rolling 12-month Ebitda loss was R303 million with available facilities including cash on hand of R1.3 billion. Similarly, Hospitality’s available facilities including cash amounted to R441 million as at 30 June 2021.

Based on the information currently available, management has assessed the impact of the adjusted level 4 restrictions on cash flow forecasts and incorporated a reduction in revenue, Ebitdar and cash generation during July 2021 and August 2021 to align with trading levels achieved in the prior comparative periods when similar restrictions were in place. Based on these assumptions, the latest restrictions are not expected to result in breach of these revised covenants, however, management will continue to engage with its lenders.
2021 performance

Product relevance

For us to deliver the experiences that our customers desire, it is important that our physical product and service delivery are easily accessible and relevant at appropriate price points; are consistent in standard and delivery; and provide a variety and quality of experiences that encourage repeat visits. Our customers' expectations involve a range of deliverables that include the nature of our technology offerings, the quality of our physical products, where our hotels are located, the appeal of our restaurants, and our availability in response to travel patterns.

The group seeks to respond dynamically to changing trends, refreshing hotel offerings to reflect contemporary tastes and embracing new technologies to improve the customer experience. Therefore, we invest in regularly maintaining and refurbishing our properties to keep them attractive and relevant to our customers. We maintain a rolling five-year capex planning system to identify hotels requiring refurbishment as well as plant and infrastructure replacements.

We believe that our properties offer a superior experience compared to our peers and other leisure offerings. To preserve our market position and attract and retain new and existing guests to our hotels, we will continue our disciplined programme of investment to continuously refresh the offerings and decor of our facilities. No material deviations from the brand standards occurred during the year.

Product development

Developing hotel real estate is a critical component of the business and our plans for organic growth. Over the past five years, approximately R1.4 billion was invested in the refurbishment and maintenance of the group’s existing hotels, excluding the acquisition of new properties. However, as part of our Covid-19 action plan, the group suspended all capex with only emergency capex and repairs and maintenance to be considered to preserve cash.

The ability to develop and maintain relevant physical products is a key competency required in the business, and the selection of locations, hotel development and refurbishment and ongoing property maintenance are the core skills required. Key personnel are permanently employed to deliver these core skills that safeguard and mentor this knowledge. These skills are augmented by a network of experienced professionals who have worked with the business for several years.

IT

IT strategy, governance and decision making form part of a coordinated and integrated process across relevant business functions. IT decisions are taken in collaboration with the business operations based on the demands of the industry in which we operate. In most areas, we continue using industry-specific third-party packaged solutions. We also develop numerous in-house applications and integrations to differentiate our service offerings. We believe specialist suppliers are generally better equipped to conduct research and development and keep pace with industry changes and the
Our strategy in action continued

Sustainability strategy in action continued

rapid evolution of technology. However, we actively direct application development by participating in the process with our suppliers. This approach optimises our technology investment and reduces redundancy. Due to continuous and responsible IT investment over the past few years, there are no legacy system issues. Our systems remain current and are fully supported by relevant vendors and/or in-house by our employees.

We limited investment into new IT solutions during the year with the onset of Covid-19 in favour of reducing costs while ensuring that we maintained our current solutions appropriately. We were encouraged by the commercial support we received from our primary suppliers who assisted us with relief during the year.

The core property management systems for our hotel front office and reservations environment remain stable and productive.

The group’s digital platform (including but not limited to tsogosun.com) continues to enable better customer engagement, relationship and business management.

A cloud-based PABX (telephone solution) is being introduced as the traditional PABXs reach the end of their lifespans. This cloud-based solution supports the group’s efforts to minimise its environmental impact by replacing the old PABXs’ electricity consumption and footprint. The group suspended implementing further cloud-based PABXs to contain costs during lockdown. This will continue to be a focus when trading conditions improve in the future.

The group continues to support all cloud-based solutions as our preferred strategy. The migration to the cloud-based payroll solution, Payspace, was successfully concluded in the year and the system has operated effectively since May 2020.

The processing and protection of all sensitive and personally identifiable information is a global priority, and we will be challenged by threats posed by the cyber underworld. With specific reference to POPIA and GDPR, the group engaged Michalsons to educate our employees on legislation.

We strengthened our cyber-security efforts with improved solutions and firewalls that include both internal and external protection layers. Further, we engaged a tier one third-party solution provider who manages the cyber-security operations centre (CSOC). Its focus includes management, detection and response (MDR) services.

Tsogo Sun brand portfolio management

As a leading hospitality company in southern Africa, the unique selling points of creating great experiences, providing quality products and delivering trusted service with flair are synonymous across the Tsogo Sun Hotels family of brands.

The clear categorisation of the brand portfolio in our luxury, full service and economy segments enables ease of decision making in operations, particularly when introducing new brands or acquiring new hotels. During the year, Marriott vacated five Hospitality properties, namely Arabella Hotel, Golf & Spa, Hazyview Sun, The Edward, Mount Grace Hotel & Spa and Southern Sun The Marine. All five hotels were successfully rebranded within Tsogo Sun Hotels during the year and all are now internally managed by the group.

A key part of our focus during the year was to continue clearly communicating brand messages across the group’s channels and integrating ecommerce digital and traditional marketing for a more seamless customer experience. While this work continues, to date it has assisted the business with better internal alignment and provided the consumer with brand clarity. The investment in the sunburst continues to pay off and the symbol unites our brands.

Customer satisfaction

Our customers’ satisfaction is a priority and we pay close attention to their feedback both when they are at our hotels and when they interact with us before and after their stays. We monitor website traffic, social media engagement and online reviews to measure visibility and to directly engage with customers. We use post-stay surveys to learn more about our customers’ experiences and the feedback provided enables the hotels to better serve their guests. The overall guest satisfaction score measured through post-stay guest surveys averaged 87% (2020: 88%). The overall guest satisfaction score measured through online third-party review sites was 85% (2020: 86%).

The popularity of our brands and products, and the overall level of guest satisfaction demonstrated through these percentages, correlate with the high levels of engagement across various online and social media platforms we use to interact with existing guests and prospective customers:

<table>
<thead>
<tr>
<th>Website: average visits per month</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>tsogosun.com</td>
<td>217 000</td>
<td>1 200 000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social media platforms: engagement</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook (likes)</td>
<td>937 259</td>
<td>1 052 495</td>
</tr>
<tr>
<td>Twitter (followers)</td>
<td>52 269</td>
<td>52 342</td>
</tr>
<tr>
<td>Instagram (followers)</td>
<td>73 183</td>
<td>82 400</td>
</tr>
</tbody>
</table>
tsogosun.com received an average of 217 000 visits each month during the year, down from 1.2 million in the previous year. This decline in traffic was partly due to Tsogo Sun Gaming and its 13 casinos moving to a separate website following the listing of Tsogo Sun Hotels in the previous year, and partly due to the group’s hotels being temporarily closed during lockdown. Total social media platform following amounted to 1 million (2020: 1.2 million) and decreased since the prior year for the same reasons.

**Customer rewards programme**
The Tsogo Sun Hotels Rewards programme with SunRands currency encourages relationships of mutual value with customers by giving SunRands benefits to members. The programme provides the group with information about trends across our customer base. This enables us to improve our offerings and respond appropriately to Rewards members’ needs and expectations. The Rewards programme is cardless; members use their membership number and PIN to qualify for Rewards benefits. This limits Covid-19 exposure and aligns with ecommerce objectives.

**Rewards programme segmental analysis**
We had 59 640 active Rewards programme members, a 42% revenue contribution (2020: 36%). The increase in contribution is because guests comprised mainly domestic travellers as there were minimal international tourists visiting South Africa due to lockdown restrictions.

**Guest and employee safety**
Tsogo Sun Hotels recognises that customers and employees’ health, safety and wellbeing are of paramount importance. We maintain the highest quality life safety equipment and compliance with procedures 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 group hotels, including outsourced restaurants, undergo an independent audit every second or third month. The audit covers food safety practices and compliance to the group’s standard and legislated elements. It also includes temperature control, personal hygiene, good manufacturing practices, product traceability and storage, cleaning programmes and pest control. Audits are strictly unannounced and include surface swabs, hand swabs and food samples, which are selected at random during the audits and assessed for micro-biological quality. No significant issues were noted.

While Tsogo Sun Hotels has always maintained the highest standards of cleanliness and hygiene, the group intensified these practices due to Covid-19, and the related health and safety regulations have been in place since March 2020.

The group enforces strict Covid-19 health and safety protocols at all hotels to provide a safe environment for customers and employees. Special operating procedures and specific protective measures for guest and employee safety are strictly adhered to, with stringent Covid-19 protocols enforced and comprehensive training provided to employees in line with guidelines and hygiene policies of the World Health Organisation, the National Department of Health and the National Institute for Communicable Diseases.

Covid-19 safety protocols include (among other measures):
- wearing masks and enforcing social distancing;
- medical screening questionnaires;
- temperature screening (over 37.5°C undergo evaluation);
- hand sanitising at all entrances and exits;
- providing employees with personal protective equipment;
- maintaining intensified hygiene and cleanliness regimens; and
- strict food handling procedures.
Looking ahead

Customer rewards programmes
Benefits and rewards are continuously reviewed with current trading conditions in mind to ensure the Rewards programme remains relevant. Database growth, repeat visits and incremental spend will remain a core focus of the Tsogo Sun Hotels’ Rewards programme. Data profiling will also remain a priority to improve our understanding of customer behaviour and purchasing patterns. We will pay particular attention to data protection, and alignment with local and international legislation and standards.

IT
We continue managing our current solutions to effectively operate our business while exploring future opportunities, with some initiatives being:

• enhanced cyber-security and continuously improving our maturity posture;
• maintaining the customer information system, which supports GDPR and POPIA requirements. Further, we will continue working on business and IT processes to ensure compliance. This will include various upgrades to ensure we remain on the most current supported versions;
• further adoption and migration of IT solutions to the cloud that enable improved security and meet legislation requirements;
• continuing with the strategy of PABX in the cloud and on-net telephone service to reduce telephony costs; and
• reviewing new network technologies to improve functionality, security and commercials.

The South African regulatory environment continues to become more complex with the ongoing introduction of new legislation, rulings, practices and policies. The advent of Covid-19 further complicated this landscape with numerous directives and practice notes released by the JSE, guiding issuers on enhanced financial and qualitative disclosures relating to the impact of Covid-19 to protect investors and other stakeholders. The group complies with these guidance notes where relevant.

The main regulatory impact on our business as a result of Covid-19 is due to the health and safety regulations introduced by government. With our culture of high customer health and safety standards, the group was well placed to comply with these regulations and worked closely with government and the TBCSA to develop health and safety protocols for the tourism industry. As we already have a high level of compliance, implementing these protocols did not require material capex spend.

Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fines imposed for other regulatory breaches</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Fines imposed for breaches of law</td>
<td>Nil</td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

2021 performance
The South African trading environment is highly regulated and compliance with regulations is critical to our licence to trade. The broader trading environment is becoming increasingly complex and is governed by legislation and policies, most of it relatively new, relating to competition, customer protection, privacy, environmental, health and safety, money laundering, B-BBEE and labour issues. Several 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.

Tsogo Sun Hotels complies with all applicable legislation in all countries where it operates and, where possible, builds constructive relationships with regulatory bodies. There were no significant breaches of any legislation and no significant fines imposed during the year.
We do not sell a system or manufacture a physical product for resale. Every aspect of the business, from dining at the restaurants to the check-in and check-out at the front desk, requires 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 corporate level, the group relies on executives and managers who can identify and manage both risks and opportunities and implement appropriate responses. These individuals need to apply long-term thinking and avoid quick and unsustainable fixes.

To attract and retain the appropriate talent pool, the group must ensure all aspects of the employee’s experience, including but not limited to, remuneration and incentivisation, are properly structured.

### Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and control score</td>
<td>13.3/19</td>
<td>12.8/19</td>
<td>12.2/19</td>
</tr>
<tr>
<td>Verified training spend as a percentage of leviable amount</td>
<td>2.2%</td>
<td>5.3%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Employee resignations</td>
<td>8.3%</td>
<td>8.7%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

### 2021 performance

#### Human capital management

We believe that the group’s sustainable growth 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 where each employee can perform and grow to their fullest potential. We also strive to attract and retain the highest calibre of employees while redressing historical imbalances where these might exist.

#### Job creation and employee stability

The group contributes 5 844 direct jobs and 8 616 combined direct and indirect jobs (including 2 772 contractors employed by third-party providers comprising security, cleaning and landscaping services) at our operations in South Africa.

The severe impact of Covid-19 and the national state of disaster directly affected the group’s human capital and its ability to sustain jobs and provide stability for employees.

As part of the group’s Covid-19 action plan to reduce costs and preserve cash, a reduction of payroll burden was necessary during the year. The group understands that this is an extremely stressful time for employees and is committed to engaging with them openly and honestly. The group continuously communicated with all management and employees, sharing the severe impact that Covid-19 and the national state of disaster had, and continues to have, on the business.

The UIF Temporary Employer/Employee Relief Scheme (TERS) greatly assisted in alleviating the cash flow burden on both the group and our employees while hotels were closed or operating at low occupancy levels. The group processed R186 million in grants and paid R180 million to employees and operational support staff for the period ended 31 March 2021, with the balance having been returned to the Department of Labour. However, with this assistance coming to an end and given the expected extended period of depressed trading, especially in the face of a third wave of infections, the temporary layoff structure originally implemented in March 2020 remains in place with further distinction made between employees at operating and closed hotels since then.
Due to the financial strain experienced by the group and our employees, the group’s headcount has permanently reduced by 1,361 positions either through retrenchment, resignation, dismissal or retirement. Employee resignations reduced to 8.3% (2020: 8.7%), which remains at an acceptable level for the hospitality industry.

Employee development
The group’s accreditation as a training provider enabled us to continue developing and providing new learning programmes that improve the skills of employees and unemployed people in communities.

The value of skills development spend (SDS) was verified at R14.9 million, equal to 2.7% of the leviable amount (2020: R103 million, equal to 7.5% of leviable amount). R12.7 million, equal to 2.3% of the leviable amount, was allocated to SDS on black people (2020: R90 million, equal to 6.6% of the leviable amount). R12 million, equal to 2.2% of the leviable amount, was allocated to B-BBEE SDS measured on the National Black Economically Active Population (NBEAP) (2020: R72 million, equal to 5.3% of the leviable amount). The skills development B-BBEE score was 9.79 out of 20. During the year, the group employed 193 people on learnerships and provided 87 unemployed people with learnership opportunities.

Skills development interventions during the year were directly impacted by lockdown and were delivered remotely as hotels were temporarily closed and employees were on layoff. We provided access to the Ithute online learning platform and weekly webinars saw a total attendance of 2,000. In total, 123 managers commenced with a four-month formal programme across the six main functional areas of the business for which they will be certificated on successful completion.

With a focus on youth employment, we continue to support work integrated learning in the industry, enabling learners to complete the practical component of their formal learning programmes. Integrated learning includes technical vocational education and training qualifications, certificates, diplomas and bachelors of technology while providing relevant work experience for future employment. We placed 100 students for work integrated learning at certain hotels and virtually to enable them to complete their qualifications and graduate.

Employee engagement
The group’s employee engagement programme, called livingTSOGO, reflects the values, culture and behaviours common to the business. Employees participate in the components designed to bring the values to life, including livingTSOGO World, which incorporates the group’s induction programme, and livingTSOGO Moments, a peer voting system that provides recognition and rewards employees for living the values.

Covid-19 has been the predominant subject of employee engagement due to its devastating impact on lives and livelihoods since March 2020. livingTSOGO was shared as a reminder at every webinar offered to employees who are encouraged to express the group’s core behaviours to be consistent, be present and have respect.

The monthly employee voting system was suspended at the beginning of lockdown and will be reinstated when ordinary trading resumes. Training webinars and courses (including manager-led sessions) were a source of engagement with employees and included topics to build coping skills and enhance resilience in this challenging time.

Employee wellness
Tsogo Sun Hotels seeks to find ways to help our employees manage their health. This past year, the focus was on providing information and support in response to the Covid-19 pandemic. The Tsogo Sun Group Medical Scheme had 4,414 employee members and 217 pensioner members at the end of the financial year. The scheme continued to regularly communicate with members and their beneficiaries to ensure that they receive helpful information with the appropriate level of cover for their health needs. The group’s Covid-19 human resources policy informs behaviour to safeguard our people’s health in the workplace.

Health and safety
The hospitality industry is a safe environment compared to many other industries. Our hotels 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.

To safeguard employees’ health and safety, the group provides Covid-19 education, sanitising material and personal protective equipment, as well as compulsory screening of employees reporting for duty and limiting the number of them on duty at the same time.

No employee fatalities due to health and safety incidents occurred at any of our properties during the year. Fewer employees were on duty at the group’s hotels due to lockdown regulations, resulting in the average lost-time injury frequency rate decreasing to 0.35 (2020: 1.53). This equates to the number of injuries that renders an employee unfit for duty for one shift or longer per 200,000 hours worked.

Unions
Tsogo Sun Hotels recognises the right to freedom of association of employees and we recognise that collective bargaining forms an integral part of labour relations. Of the 5,844 employees in the South African operations, 4,294 employees are eligible to join a union and 806 (18.7%) are members of a union. While collective bargaining agreements are in place, there were no wage negotiations for the improvement of terms and conditions of employment during the year, as most employees are on layoff agreements entered into either with various unions or individual employees.
We endeavour to maintain transparent and constructive relationships with our employees and encourage a culture of engagement in the business. In addition, the consistent approach we have applied in 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.

**Employment equity**

The principles of empowerment and diversity are entrenched in Tsogo Sun Hotels’ ethos. Our employment equity is set out in the table below and includes South Africa only. It excludes the approximately 2,772 contractors employed by third-party service providers and 1,157 employees outside of South Africa.

**Employment equity headcount**

<table>
<thead>
<tr>
<th>Employees</th>
<th>South African male</th>
<th>South African female</th>
<th>Foreign nationals</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>African</td>
<td>Indian</td>
<td>Coloured</td>
<td>White</td>
</tr>
<tr>
<td><strong>Permanent</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives and management</td>
<td>142</td>
<td>51</td>
<td>34</td>
<td>117</td>
</tr>
<tr>
<td>Supervisory and skilled</td>
<td>707</td>
<td>74</td>
<td>85</td>
<td>35</td>
</tr>
<tr>
<td>General</td>
<td>179</td>
<td>2</td>
<td>19</td>
<td>2</td>
</tr>
<tr>
<td><strong>Operational support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executives and management</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2</td>
</tr>
<tr>
<td>Supervisory and skilled</td>
<td>449</td>
<td>11</td>
<td>17</td>
<td>3</td>
</tr>
<tr>
<td>General</td>
<td>618</td>
<td>2</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total 2021</strong></td>
<td>2,095</td>
<td>140</td>
<td>179</td>
<td>165</td>
</tr>
<tr>
<td><strong>Total 2020</strong></td>
<td>2,301</td>
<td>175</td>
<td>181</td>
<td>202</td>
</tr>
</tbody>
</table>

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

We ensure our workforce reflects our focused employment equity philosophy. In this regard, the overall percentage of female employees is 54.9% of the workforce (2020: 55.5%) and the representation of black employees throughout the group is 92.7% (2020: 91.7%). In accordance with our management and control B-BBEE results measured against the National Black Economically Active Population demographic published by Stats SA, black representation is 25.78% at senior management level (2020: 28%), 53.75% at middle management level (2020: 53%) and 77.64% at junior management level (2020: 76%).

The main challenges in employment equity remain in the levels of executive management, senior management and black disabled employees. We will continue focusing on facilitating and fast tracking the development of our employees’ skills, enabling our development pipeline.

**Looking ahead**

**Employee development**

We will continue focusing on training our employees and equipping them with skills to improve performance and develop their careers by nurturing their leadership potential. During lockdown, learning was offered digitally and this focus will continue as online learning allows for cross-training and exposure across all occupational levels. Employees can access modules via the platform and receive certificates on completion of courses. Managers’ coaching remains a focus to ensure managers facilitate the growth of their employees to assist them to reach their full performance potential.
We know that businesses are valued as the present value of the future cash flows that can be generated by its assets and other capitals. While all the capitals we use are required to generate value, we use growth in cash flow as the true measure of growth for our business over time.

Growth in cash flow over time is generated through the optimal operation of the group’s capitals (organic growth), and building its tangible and intangible asset base through the development and acquisition of 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.

<table>
<thead>
<tr>
<th>Key pillars</th>
<th>Material risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free cash outflow of <strong>R446 million</strong> to fund operations while Covid-19 lockdown restrictions were in place</td>
<td><strong>ORGANIC GROWTH</strong> • Macroeconomic environment • Crime, safety, security and health • Portfolio management and product relevance • Capacity • Local authority capability</td>
</tr>
<tr>
<td>Investment expenditure of <strong>R16 million</strong> kept to a minimum to preserve cash</td>
<td><strong>INORGANIC GROWTH</strong> • Missed opportunities</td>
</tr>
</tbody>
</table>

* South African system-wide portfolio including managed properties.
Organic growth
Hotels 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 macroeconomic 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.

Segmental operating performance

<table>
<thead>
<tr>
<th></th>
<th>Revenue(1)</th>
<th>Ebitdar(2)</th>
<th>Ebitdar margin</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>Manco</td>
<td>68</td>
<td>266</td>
<td>(27)</td>
</tr>
<tr>
<td>Rental income – HPF(3)</td>
<td>27</td>
<td>310</td>
<td>27</td>
</tr>
<tr>
<td>Trading income – HPF(4)</td>
<td>38</td>
<td>-</td>
<td>(24)</td>
</tr>
<tr>
<td>Internally managed(5)</td>
<td>904</td>
<td>3 501</td>
<td>(131)</td>
</tr>
<tr>
<td>Coastal</td>
<td>429</td>
<td>1 885</td>
<td>(92)</td>
</tr>
<tr>
<td>Inland</td>
<td>334</td>
<td>1 344</td>
<td>(56)</td>
</tr>
<tr>
<td>Other</td>
<td>141</td>
<td>272</td>
<td>17</td>
</tr>
<tr>
<td>Offshore</td>
<td>135</td>
<td>569</td>
<td>(22)</td>
</tr>
<tr>
<td>Internal management fees(6)</td>
<td>(34)</td>
<td>(183)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1 138</strong></td>
<td><strong>4 463</strong></td>
<td><strong>(177)</strong></td>
</tr>
</tbody>
</table>

(1) All revenue and income from hotel operations is derived from external customers. No one customer contributes more than 10% to the group’s total revenue.
(2) Refer reconciliation of operating profit to Ebitdar in note 5 of the consolidated annual financial statements.
(3) Included in Manco.
(4) This segment reflects the trading performance of the Westin and Radisson Blu Gautrain hotels since the acquisition of their related operating/tenant companies on 1 October 2020 and 1 November 2020, respectively. These hotels were included in the Rental income – HPF segment in FY20 (2020: Total rental income from these hotels was R126 million). Refer to note 41 of the consolidated annual financial statements.
(5) Trading relating to the Arabella Hotel, Golf & Spa, Mount Grace Hotel & Spa, the Hazevuyun Sun, The Edward and Southern Sun The Marine are included in the internally managed segment as a consequence of these properties transferring from investment properties to owner-occupied property, plant and equipment during the year. These hotels were included in the Rental income – HPF segment in FY20 (2020: Total rental income from these hotels was R45 million).
(6) The CODM reviews rental income net of rates, taxes and cost recoveries for segmental reporting purposes. Rates, taxes and cost recoveries of R25 million (2020: R12 million) have been reallocated from Manco to Rental income – HPF. Refer to note 7 of the consolidated annual financial statements.
Our strategy in action continued

Growth strategy in action continued

Key performance indicators

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic income (reduction)</td>
<td>(R3 304 million)</td>
<td>(R134 million)</td>
<td>(R43 million)</td>
</tr>
<tr>
<td>Organic Ebitdar (reduction)</td>
<td>(R1 436 million)</td>
<td>(R181 million)</td>
<td>(R112 million)</td>
</tr>
<tr>
<td>Free cash (outflow)/inflow</td>
<td>(R446 million)</td>
<td>R484 million</td>
<td>R414 million</td>
</tr>
<tr>
<td>Maintenance capex</td>
<td>R46 million</td>
<td>R366 million</td>
<td>R384 million</td>
</tr>
<tr>
<td>Adjusted HEPS per share (reduction)</td>
<td>(77.6 cents)</td>
<td>(11.7 cents)</td>
<td>(5.6 cents)</td>
</tr>
</tbody>
</table>

Operational review

Trading for the group’s South African hotels for the year recorded system-wide (including owned and managed hotels but excluding externally managed hotels) revenue per available room (Revpar) 81% down on the prior year at R132 (2020: R690) due to a 9% decrease in average room rates to R1 006 (2020: R1 015) and a 49.2 percentage points (pp) decline in occupancies from the prior period to 13.2% (2020: 62.4%). Occupancy for the year is expressed as a percentage of total rooms available irrespective of whether the hotel traded or not.

The management activities of the South African hotels, net of group corporate office costs (including Hospitality’s central costs), incurred Ebitdar losses of R27 million (2020 profit: R154 million) for the year. This performance results from a R199 million decrease in internal and external management fee income due to the impact of Covid-19 and the release of loyalty programme forfeitures in the prior period of R36 million offset by central office cost savings largely related to payroll.

Rental income (net of costs) from investment properties of R27 million (2020: R310 million) declined by R283 million from the prior year. Excluding the performance of the seven hotels which transferred to owner-occupied property, plant and equipment during the year, rental income for the remaining six investment properties declined by R135 million to R3 million (2020: R138 million). This is largely due to the portfolio’s weighting towards the Cape Town and Gauteng markets and reliance on the international, corporate and government segments as well as conferencing, all of which suffered under the Covid-19 restrictions during the first half of the year and continue to experience muted trading following the second wave of infections.

Following Hospitality’s acquisition of controlling interests in associates which operate the Westin and Radisson Blu Gautrain hotels, a new segment has been introduced (Trading income – HPF) which reflects the trading performance of these hotels. Post-acquisition, this segment generated revenue of R38 million (2020: Rnil) and Ebitdar losses of R24 million (2020: Rnil).

Overall, revenue for the internally managed South African hotel portfolio owned and leased by the group closed the year at R904 million (2020: R3.5 billion). All regions were severely affected by the impact of Covid-19 with the inland region recording the largest decline at R1.0 billion (excluding the performance of the Sandton Consortium hotels, revenue for the inland region declined by R679 million), followed by the Western Cape region at R682 million and finally, the KwaZulu-Natal region declining by R574 million on the prior year. The Other segment fared slightly better with revenue declining by R131 million from the prior year and posting an Ebitdar profit of R17 million. The SUN1 portfolio achieved some success in securing Covid-19 isolation business due to their smaller size and affordable price point which allowed corporates to secure entire hotels for isolation and screening purposes. Resort hotels also traded relatively better due to their more leisure-focused offering, benefiting from domestic clientele unable to travel overseas. The internally managed segment recorded Ebitdar losses of R131 million (2020 profit: R787 million) for the year ended 31 March 2021. This performance includes Ebitdar relating to the Sandton Consortium hotels (included in group trading since 1 November 2019) of Rnil (2020: R45 million) following the concessions applicable to these leases until trading normalises as well as total Ebitdar losses of R23 million (2020: Rnil) relating to the Arabella Hotel, Golf & Spa, the Mount Grace Hotel & Spa, the Hazyview Sun, The Edward and Southern Sun The Marine.

Total income for the offshore division of hotels of R135 million (2020: R569 million) for the year largely relates to the Southern Sun Maputo, Mozambique which was the only owned hotel in the offshore portfolio that traded throughout the lockdown period. Southern Sun Ikoyi, Nigeria and Southern Sun Ridgeway, Zambia commenced trading in September 2020, however, trading has been stifled in both regions. In Nigeria, the violent protests in Lagos negatively impacted trading, post the initial opening but the hotel does benefit from a loyal domestic market and Nigerian’s unable to holiday internationally chose Southern Sun Ikoyi as their leisure destination. Zambia is reliant on corporate travel from South Africa and given the restrictions on international travel over the year, trading at the Southern Sun Ridgeway remained muted. In response, expenses have been tightly controlled and the hotel’s breakeven occupancy has reduced to 20%. The balance of the owned offshore portfolio including StayEasy Maputo, Southern Sun Dar es Salaam, Tanzania and Paradise Sun, Seychelles remain closed and management continues to monitor demand levels for signs of reactivation. The offshore division incurred Ebitdar losses of R22 million (2020 profit: R101 million).
Inorganic growth will be a combination of capacity increases in existing businesses, greenfield developments in new markets and acquisitions within the group’s core competencies. In all situations, disciplined due diligence and feasibility are critical to ensure the success of growth projects.

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

Maintenance capital expenditure

The group spent R46 million (2020: R366 million) on maintenance capex, largely on repairs to ensure that the hotels are able to continue operating optimally.

Looking ahead

The recovery in occupancies to pre-Covid-19 levels is only likely to occur once international inbound and corporate travel resumes. It is clear that in order to achieve this, the majority of South African adults need to be vaccinated so that travellers feel safe and the country is removed from the “red-lists” of its biggest tourism source markets, including the USA, the UK and Germany. While there had been promising developments in the vaccination drive with government reducing the age for vaccine eligibility to 35, the recent violent protests in KwaZulu-Natal and Gauteng will have a negative impact on sentiment, and mean that recovery in the hospitality industry will be further delayed. As the local environment stabilises and vaccination levels increase allowing lockdown regulations to ease, closed hotels will begin to operate again. With excess supply in the market and lack of demand, average room rates will be under pressure. The group is focused on ensuring that it is the lowest cost operator in the market.

### Combined South African and offshore hotel trading statistics

<table>
<thead>
<tr>
<th></th>
<th>31 March 2021</th>
<th>31 March 2020</th>
<th>31 March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy</td>
<td>12.2%</td>
<td>59.3%</td>
<td>60.6%</td>
</tr>
<tr>
<td>Average room rate</td>
<td>R1 019</td>
<td>R1 090</td>
<td>R1 064</td>
</tr>
<tr>
<td>Revpar</td>
<td>R124</td>
<td>R647</td>
<td>R645</td>
</tr>
<tr>
<td>Rooms available</td>
<td>4 769 000</td>
<td>4 314 000</td>
<td>4 239 000</td>
</tr>
<tr>
<td>Rooms sold</td>
<td>582 000</td>
<td>2 560 000</td>
<td>2 568 000</td>
</tr>
<tr>
<td>Rooms revenue</td>
<td>R593 million</td>
<td>R2 791 million</td>
<td>R2 732 million</td>
</tr>
</tbody>
</table>

### Investment activity expenditure

<table>
<thead>
<tr>
<th></th>
<th>31 March 2021</th>
<th>31 March 2020</th>
<th>31 March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Sun Pretoria</td>
<td>–</td>
<td>200</td>
<td>–</td>
</tr>
<tr>
<td>Riverside Conference Centre</td>
<td>16</td>
<td>11</td>
<td>52</td>
</tr>
<tr>
<td>StayEasy Maputo</td>
<td>–</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td>hi Hotels</td>
<td>–</td>
<td>–</td>
<td>10</td>
</tr>
<tr>
<td>Investment activity expenditure</td>
<td>16</td>
<td>211</td>
<td>62</td>
</tr>
</tbody>
</table>