Tsogo Sun Hotels Limited
(previously known as Southern Sun Hotels Proprietary Limited)
Incorporated in the Republic of South Africa
Registration number 2002/006356/06
Share Code: TGO ISIN:ZAE000272522
("**Tsogo Sun Hotels**" or "**the Group**" or **"the Company"**)

TRADING UPDATE FOR THE YEAR ENDED 31 MARCH 2020

Shareholders are advised that Tsogo Sun Hotels is scheduled to release its financial results for the year ended 31 March 2020 on or about 29 May 2020. In terms of paragraph 3.4(b) of the JSE Limited Listings Requirements, listed companies are required to publish a trading statement as soon as they are satisfied that a reasonable degree of certainty exists that the financial results for the period to be reported upon next will differ by at least 20% from those of the prior comparative period. In addition to providing shareholders with an update on financial performance, the Group will also be providing an update on its COVID-19 operational response as well as funding capacity and covenants.

The Company intends publishing Earnings per share ("EPS"), Headline earnings per share ("HEPS") and Adjusted headline earnings per share ("Adjusted HEPS") as well as Earnings before interest, income tax, depreciation, amortisation, property rentals, long term incentives and exceptional items ("EBITDAR") for the year ended 31 March 2020. The Company is of the opinion that the publication of Adjusted HEPS and EBITDAR are appropriate performance measures which will assist shareholders in understanding the Group's trading results. In order to provide shareholders with meaningful, like-for-like analysis of the Group's performance for the year, the pro forma financial information as set out in Annexure 3 of the Company's prelisting statement issued to shareholders on 23 May 2019 has been used as the comparative set of results. Shareholders are referred to Annexure 4 of the pre-listing statement for the reporting accountants' report on the pro forma financial information. Digital copies of the pre-listing statement can be found on the Group's website at https://www.tsogosun.com/investors/circulars/2019.

Shareholders are advised that:

- Revenue is expected to be between 1% and 3% higher (R44 million and R132 million higher) compared to the prior comparative period of R4,389 million;
- EBITDAR is expected to be between 8% and 10% lower (R119 million and R149 million lower) compared to the prior comparative period of R1,488 million;
- EPS is expected to be between 84.0 cents and 89.0 cents lower compared to the prior comparative period EPS of 2.6 cents;
- HEPS is expected to be between 40% and 45% lower (13.9 cents and 15.7 cents lower) compared to the prior comparative period HEPS of 34.8 cents; and
- Adjusted HEPS is expected to be between 28% and 33% lower (10.6 cents and 12.5 cents lower) compared to the prior comparative period Adjusted HEPS of 37.9 cents.

Trading during the first nine months of the financial year was impacted by the depressed macro-economic environment both locally and in our African operations with demand by corporate and leisure groups as well the transient traveller showing little sign of recovery. Revenues were favourably impacted in the third quarter following the successful conclusion of the fixed and variable leases over the three Sandton hotels with effect from 1 November

2019. These include the InterContinental Sandton Towers, Sandton Sun and Garden Court Sandton City, which together total 1 001 rooms and make up 5% of the group's total rooms portfolio. In terms of the leases, which are similar to those between Tsogo Sun Hotels and Hospitality Property Fund Limited ("HPF"), 99% of hotel earnings after the deduction of management fees payable to the Group, accrues to the hotel owners as rent. As a result, while the group consolidated the trading of these hotels on the income statement, the net impact on EBITDA (after rentals) is minimal. Excluding the impact of the Sandton hotels, revenue for the Group's base portfolio is expected to decline by between 2% and 4% for the year ended 31 March 2020.

COVID-19 had a marked impact on the Group's fourth quarter trading with international demand retracting as early as February 2020. The initial international travel regulations imposed by the President on 15 March 2020 and finally, the total ban on inter-provincial travel announced on 23 March 2020 as part of the nationwide lockdown resulted in a material reduction in Revenues for the month of March, which is normally a peak activity month for the Group. The Group's entire portfolio, in South Africa, Africa and the Seychelles has been deactivated with the exception of those designated as quarantine facilities or as accommodation for essential service providers and persons awaiting repatriation.

Despite strict cost controls during the year to counteract the above-inflationary increases in administered costs including property rates and utilities, the shortfall in revenue as a result of the decline in demand which was further exacerbated by the COVID-19 pandemic has meant that EBITDAR is expected to decline by between 8% and 10% and by 11% and 13% once the inorganic impact of the Sandton hotels are excluded.

EPS results are impacted by exceptional losses of R1.2 billion (2019: R374 million) net of tax and non-controlling interests, the majority of which relates to fair value losses on the revaluation of the externally-managed investment properties in HPF, property, plant and equipment impairments of a number of hotels in South Africa and Offshore as well as impairments of Offshore investments. The majority of the quantum of these impairments are due to management's assessment of the negative impact of COVID-19 on forecast cash flows generated by the underlying hotels for the financial years ended March 2021 and March 2022 and volatility in the bond market and increased in-county risk assessments that have had a material impact on discounts rates across the portfolio. In South Africa in particular, the risk posed by the COVID-19 pandemic compounded by the ratings downgrade, saw the 10Y bond yield increasing by 1.9% from 31 March 2019 (8.61%) to 31 March 2020 (10.51%).

Excluding the impact of these exceptional items HEPS and Adjusted HEPS are expected to be between 40% and 45% and between 28% and 33% lower than the prior year, respectively, reflecting the difficult years trading and the material impact of the loss of revenue for most of the peak March month.

Funding Capacity and Covenants

The Group's liquidity and access to facilities are of paramount importance and shareholders are advised that as at 31 March 2020 the Group was well within lender covenant requirements:

- Tsogo Sun Hotel's leverage ratio (Net Debt to EBITDA) is 1.3 times against a maximum covenant requirement of no more than 2.5 times;
- Tsogo Sun Hotel's interest cover ratio is 12.2 times against a minimum covenant requirement of at least 3 times;
- HPF's leverage ratio (Net Debt to EBITDA) is 3.2 times against a maximum covenant requirement of no more than 3.5 times; and
- HPF's interest cover ratio is 3.7 times against a minimum covenant requirement of at least 2 times.

Lenders to both Tsogo Sun Hotels and HPF have approved the waiver of the September 2020 covenants, securing the Group's access to sufficient short-term liquidity facilities, taking into account the Covid-19 status and action plan described below.

COVID-19 Status and Action Plan

Since the implementation of the national lockdown on 27 March 2020, the Group has been in close communication with its lenders, employees, trading partners, suppliers, tenants and landlords in order to arrive at mutually sustainable operating solutions in these extraordinarily difficult times. The Group has implemented the following steps to reduce costs and preserve cash:

- **Reduction of payroll burden:** The Group has implemented the temporary layoff of employees and has had to materially reduce pay for all levels including executive management and board members. The Group will continue to operate on skeleton staffing levels until demand returns. In addition, employee recruitments and training have been placed on hold while salary increases, accrued bonus settlements and additional LTI allocations have been deferred. In order to alleviate the cash flow burden on both the Company and its employees, applications have been submitted for the UIF TERS grant; pension and medical aid fund contribution holidays for a maximum period of three months; SDL payment holidays as well as PAYE payment deferrals.
- **Rent relief:** The Group is seeking rent relief with landlords for the period of the lock down and subsequent low demand periods and negotiations in this regard continue.
- **Suppliers**: The Group has negotiated reduced or extended payment terms with major suppliers, particularly those providing fixed cost services such as security and lift maintenance. Municipal rates and taxes are a material fixed monthly cost for the Group and while we currently continue to meet these obligations, we are lobbying government through industry bodies to grant a deferral or payment holiday. All contractual variable costs with suppliers have been reduced to nil until trading resumes by extending the period of the contracts.

Inter provincial travel is vital for the hotel industry and the Group has been actively lobbying through industry bodies for the earliest relaxation of travel restrictions, so that we can begin to open our hotels.

Management is currently formulating a plan for the phased reopening of its portfolio with hotels identified to resume operations as soon as we are allowed to and those that will open thereafter based on anticipated demand. The remaining hotels are not expected to be reactivated for an extended period of time, which are generally those that are reliant on international inbound travel and significant groups and conferencing business. As a result of the extended delay to opening and the expected social distancing regulations and restrictions on group gatherings, affected hotels are likely to be operationally restructured.

In anticipation of the reactivation, the Group has formulated a number of health protocols and control measures to safeguard our employees and guests including employee training, personal protective equipment and hygiene resources, social distancing and screening of guests as well as increased sanitation and hygiene processes.

This financial year has been one of highs, with the Group celebrating its 50th anniversary and the separate listing of Tsogo Sun Hotels on the Johannesburg Stock Exchange. A short nine months later, the Group experienced the low of having to de-activate the vast majority of its hotels. While the Group supports government's efforts to safeguard the health of citizens, the prolonged lockdown has had and will continue to have a devastating impact on the South

African economy in general and the Southern African travel and tourism industry and its employees in particular. No industry can survive extended periods without revenue and we implore the Government to open the economy as quickly as possible, with due regard for safety.

The financial information in this trading update has not been reviewed and reported on by the Group's external auditors, PricewaterhouseCoopers Inc.

20 May 2020

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