

MATERIAL MATTERS

Our material matters consider the operating environment, including external and internal factors, our stakeholder concerns, and the risks impacting our business.

OPERATING ENVIRONMENT

The group operates in eight countries across two continents. This provides a dynamic and often challenging operating context, which can impact the delivery of our vision. Continually monitoring external factors helps identify risks and opportunities, which we respond to through our business model and strategy. The external factors indicated below are the most material issues that impact on our day-to-day operating environment.

Key external factors

Local and global economic conditions	Socio-economic and social issues	Gambling boards requirements	Government policy and legislation	Local infrastructure	Climate change
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STAKEHOLDER ENGAGEMENT

Proactive and transparent stakeholder engagement is important to achieving our strategy and vision. It enables us to determine and address stakeholders' material concerns and manage their expectations. Our reputation directly impacts whether consumers become our guests, whether suppliers become vendors, and whether government believes we comply with regulations and give back to the community by driving economic and social development (E&SD). Sun International has numerous stakeholders with whom we engage on various platforms. Our key stakeholders for the year under review are shown [here](#).

RISK MANAGEMENT

Through a formal risk management process and governance structure, Sun International identifies, reviews, monitors and responds to the most material risks and opportunities across our business units and the countries in which we operate. Risk identification is key to safeguarding our assets, recognising opportunities, and implementing strategies to ensure we continue to address our material matters and deliver on our strategy.

STRATEGY

Our group strategy consists of five objectives that guide our growth and operational aspirations. These strategic objectives are informed by and address the material matters, risks and opportunities the group faces as well as key stakeholder concerns.

MATERIALITY DETERMINATION PROCESS

The process of determining materiality, outlined below, involves reviewing our risks, opportunities, external environment and stakeholder concerns. This process is dynamic and evolves yearly to ensure our material matters remain relevant and enable the group to achieve its strategic objectives, vision and mission. This materiality determination process, shown below is reviewed, updated and approved annually by the relevant governing bodies.

Our materiality process and methodology are reviewed and updated annually and, where applicable, aligned to best practice.



GROUP MATERIAL MATTERS

We consider material matters as factors that could substantively influence the assessment of providers of capital and other stakeholders regarding Sun International's ability to create value over the short, medium and long term. Our material matters are informed by our internal and external operating environment. They inform our business model, strategy and stakeholder engagement process. To achieve our strategic objectives and manage our risks, these material matters key for level of control are continuously monitored by Sun International and its governing body.

MANAGING OUR WAY THROUGH TOUGH ECONOMIC CONDITIONS

Our business depends on consumer spending at our properties. The prevailing tough economic environment in South Africa continues to strain consumers' disposable income, particularly discretionary spending on gaming and hospitality. This negatively impacts our profitability. The ongoing political and social challenges in South Africa remain a concern for the group.

2018 update: Consumer and investor confidence improved marginally following the December 2017 election, when Cyril Ramaphosa was elected as the President of South Africa. The upcoming May 2019 South African general elections are important to ensure South Africa can generate social and economic growth. Economic growth prospects across our international operations have improved and stabilised, although global geopolitical risks are increasing.

Opportunities: As the group navigates its way through these tough economic conditions. South Africa's interest rates are attractive for international investors. This provides a platform for increased investor inflows. The group makes a concerted effort to contain costs, improve customer service and become more efficient in this difficult economic climate.

Risks:

- Weak economic conditions
- Times Square not achieving its feasibility

Level of control



Risk level
Serious

SMOKING LEGISLATION

The proposed amendments to the smoking legislation, which will ban smoking in public areas, will severely impact casino revenues.

2018 update: The group submitted comments to the South African Department of Health on the draft Control of Tobacco Products and Electronic Delivery System Bill, following its publication in May 2018, expressing concerns about smoking (including e-cigarettes) being banned in public areas. Extensive lobbying through interested stakeholders such as CASA, gaming boards, and trade unions has taken place to raise similar concerns. Sun International continues to actively monitor this legislation and explore mitigating actions if this Bill is passed.

Risks:

- Smoking legislation

Level of control



Risk level
Serious

HIGH GEARING LEVELS

Managing high debt levels, in a tough economic environment, and managing certain properties that have performed below expectations, is imperative in ensuring we continue to provide sustainable shareholder value.

2018 update: Following the group's rights offer in 2018, which was significantly oversubscribed, R1.6 billion was raised and used to reduce the group's debt levels and strengthen the balance sheet. The group's balance sheet remains resilient and the group experienced strong cash flows.

Risks:

- Weak economic conditions

Level of control



Risk level
Serious

CAPITAL ALLOCATION AND UNDERPERFORMANCE OF OUR INVESTMENTS

The group continues to strategically allocate capital and carefully monitor its underperforming investments, in line with the economic environment.

2018 update: The group closed two underperforming investments in Colombia (Sun Nao Casino) and Panama (International VIP Business and the 66th floor of the Ocean Sun Casino), which led to decreased income and a significant cost reduction. Following the closure of the Sun Nao Casino in Colombia, the group explored a more lucrative business model for the Colombian market by opening several small low-cost halls using Sun Nao Casino's machines and tables. Although the group continues to incur small losses, this business model is an opportunity to turn this business into a profitable venture.

There was significant increased activity at Maslow Time Square with the opening of The Maslow Time Square Hotel. Although casino income is still below expectations, we remain confident it will continue to gain market share, grow revenue, and improve its operating margin. Following a good performance in 2017, Sun City came under pressure due to the difficult economic climate.

Opportunities: Grow Time Square's market share and improve the operating margin. Secure new lines of business for Sun City, particularly mid-week business and focus on increasing foreign visitation out of China and India when government makes the announced changes to the visa legislation.

Risks

- Maslow Time Square not achieving its feasibility
- Weak economic conditions

Level of control



Risk level
Priority

MANAGING RELATIONS WITH OUR KEY STAKEHOLDERS AND REMAINING RELEVANT IN THE AREAS WHERE WE OPERATE

Proactive stakeholder engagement is imperative to ensure we understand stakeholder needs to achieve our strategic objectives, minimise our risks and optimise business opportunities. As most of our casino licences provide for exclusive area rights, we must offer products and services that support, and remain relevant to, the communities in which we operate.

2018 update: Community demands for increased local procurement spend was a material stakeholder concern. Sun International has established targets for increasing local procurement spend across its South African operations. Further, we provide formal business development support for current and potential suppliers as part of our E&SD strategy.

In addition to the group's inclusive stakeholder engagement approach, our community engagement methodology was refreshed to ensure that all community engagement and interventions align with the group's sustainability strategy and, more broadly, with provincial and national growth and development plans.

Opportunities: Transparent and positive stakeholder relations lead to greater stakeholder cohesion and inclusivity and provide opportunities to uplift SED within our communities and boost the tourism industry, which remains an important element in stimulating economic growth.

Risks

- Increased demands from stakeholders – communities

Level of control



Risk level
Priority

MANAGING OUR COMPLEX REGULATORY ENVIRONMENT

We operate in a highly regulated and complex environment. The possibility of increased taxes and more onerous licence conditions will all impact the group's profitability. The group continues to focus on compliance requirements, ensuring we maintain our operational and social licence to operate. The increased availability of alternate gaming and the encroachment of EBTs in our catchment areas remain a concern as our market share has eroded.

2018 update: Ongoing lobbying, through CASA, against increased taxes and more onerous licence conditions remains a significant group focus. The Gauteng Gambling Board recently gazette an increase in gaming taxes in Gauteng, applicable from 1 April 2019. CASA is challenging the increase on grounds of a procedural and fairness basis.

Sun International continues to oppose the EBT rollout in the catchment areas of casinos in the current regulatory environment on the basis that significant investments have been made by Sun International in return for the casino licence.

CASA, on behalf of its members, is appealing the proposed decision by the Minister of Trade and Industry to increase the number of casino licences in the country to 41 with the additional one casino licence earmarked for the North West. CASAmade a submission to proposed changes to the National Gambling Bill which seeks to

Level of control



Risk level
Priority

introduce a new body to replace the current National Gambling Board with a National Gambling Regulator.

Risks

- Ongoing changes in licence conditions
- Erosion of market share due to EBTs and LPMs in catchment areas
- Increase in gaming taxes and VAT

IMPROVING OPERATING AND RESOURCE EFFICIENCIES

To remain relevant to our customers and to adapt in a weak trading environment, the group focuses on extracting efficiencies across the business and optimising systems.

2018 update: An efficiency initiative team was established that has identified several processes across the business that need to be revised to function more efficiently. Several initiatives have been or are being implemented at an operational level.

Opportunities: Managing the business more efficiently and improving the utilisation of technology will lead to further cost containments and improve customer service levels.

Risks:

- Weak economic conditions

EXPIRING LICENCES AND GRANDWEST EXCLUSIVITY

Our casino business depends on the renewal and exclusivity of our casino licences. The group continues to monitor licence renewal bidding processes and changes in licence conditions that impact the business.

2018 update: The group's bid for the Iquique municipal licence in Chile was awarded to Sun Dreams for another 15 years. While our bids all met the minimum criteria, we lost to a competitor whose economic offer (additional tax) was substantially above ours and at levels which would not generate satisfactory returns for us. The group offset this by acquiring two operations, the Park Hyatt Hotel, Casino & Spa in Mendoza, Argentina and Thunderbird Resorts in Peru.

In February 2018, the Western Cape government gazetted draft legislation to establish three zones for casinos in the Cape Metropole and to allow for licence relocation. This legislation includes changes to gaming tax tables and conditions for relocation, entailing additional taxes and fees. The group submitted comments on the draft legislation and simultaneously engaged with several stakeholders including the media, local municipalities in Worcester, Caledon and Mykonos and other interested stakeholder groupings. Overwhelming public support was received against the relocation of licences.

Opportunities: There is an opportunity to look at real estate development at GrandWest to generate additional footfall and realise estate value. Sun Dreams continues to seek further expansion opportunities in Latam and is addressing the issue of renewal of the Monticello license.

Level of control



Risk level
Priority

Level of control



Risk level
Focus area

Risks

- Loss of GrandWest licence exclusivity
- Ongoing challenges in licence conditions

RELIABILITY AND SUSTAINABILITY OF NATURAL RESOURCES LIKE ENERGY AND WATER

External factors such as water scarcity, the ongoing proposed material energy cost increase and the financial crisis facing South Africa’s energy supply continue to create additional pressure on our business.

2018 update: Renewable energy projects are being considered across the group and we are in the process of identifying and evaluating the most suitable approach for participating in energy projects. The water crisis has abated, and we have implemented sustainable solutions to address any future water crises at our properties in the Western Cape and Eastern Cape.

Opportunities: The implementation of energy-efficient projects will assist in reducing our reliance on South Africa’s energy supplier and reduce energy and water consumption.

Risks:

- Weak economic conditions

Level of control



Risk level
Priority