

# Material issues and risk management

We consider material issues as matters that could substantively influence the assessment of providers of capital and other stakeholders with regard to Sun International’s ability to create value over the short, medium and long term. In order to achieve our strategic objectives and manage our risks, these material issues are continuously monitored by Sun International and the board as its governing body.

## Materiality determination process

Consultation with our stakeholders is key to our materiality determination process. We use the feedback obtained from interactions with our investors, which includes our annual general meeting, investor presentations, face-to-face meetings, email and telephone calls. Through interacting with our providers of debt our financial team was able to establish what issues were material to them in terms of Sun International.

We also use the feedback from government, regulators and industry bodies, as well as the communities in which we operate to determine material issues in terms of Sun International. In addition, Integrated Report Assurance Services undertook an internal materiality scan of our board and committee minutes in an attempt to determine the issues that should be deemed most material to Sun International for the purpose of defining the scope of this integrated annual report.

Based on these engagements and taking into account the group’s top risks from which both risks and opportunities could flow, our material issues are determined and discussed at the relevant governance committees, such as exco, board, social and ethics, audit and risk. Our material issues, tabled alongside, are addressed through our strategic priorities, which are discussed in the chief executive’s strategic review on pages 28 to 35 and throughout our integrated annual report.

Material issue	Why this is considered material	Reference to discussion in report
<b>Managing our way through tough economic conditions</b>	Our business depends on consumers spending disposable income at our various properties. The current tough global economic environment continues to place strain on consumers, which in turn negatively impacts our profitability. The challenging political and social environment in South Africa is of significant concern to our South African operations.	16
<b>Exploring and delivering on growth opportunities</b>	With the tough global economic environment, it is critical for us to look for opportunities in markets with higher growth potential, and to be innovative when providing products and services.	5 30
<b>Managing our complex regulatory environment</b>	We operate in a highly regulated and complex environment, particularly in South Africa, and it is critical for us to focus on compliance, to ensure we maintain our licence to operate and embrace the transformation agenda of the South African economy. We have an experienced team in Latam that deals with the regulatory environment in these foreign jurisdictions.	16
<b>Remaining relevant in the societies within which we operate</b>	As most of our casino licences provide for exclusivity it is therefore important for us to be mindful of the various communities within which we operate to continuously provide services and products that remain relevant.	35 63
<b>Managing relations with our key stakeholders</b>	Proactive stakeholder engagement is imperative to ensure that we understand stakeholders’ needs in order to achieve our strategic objectives.	24

## Risk management approach

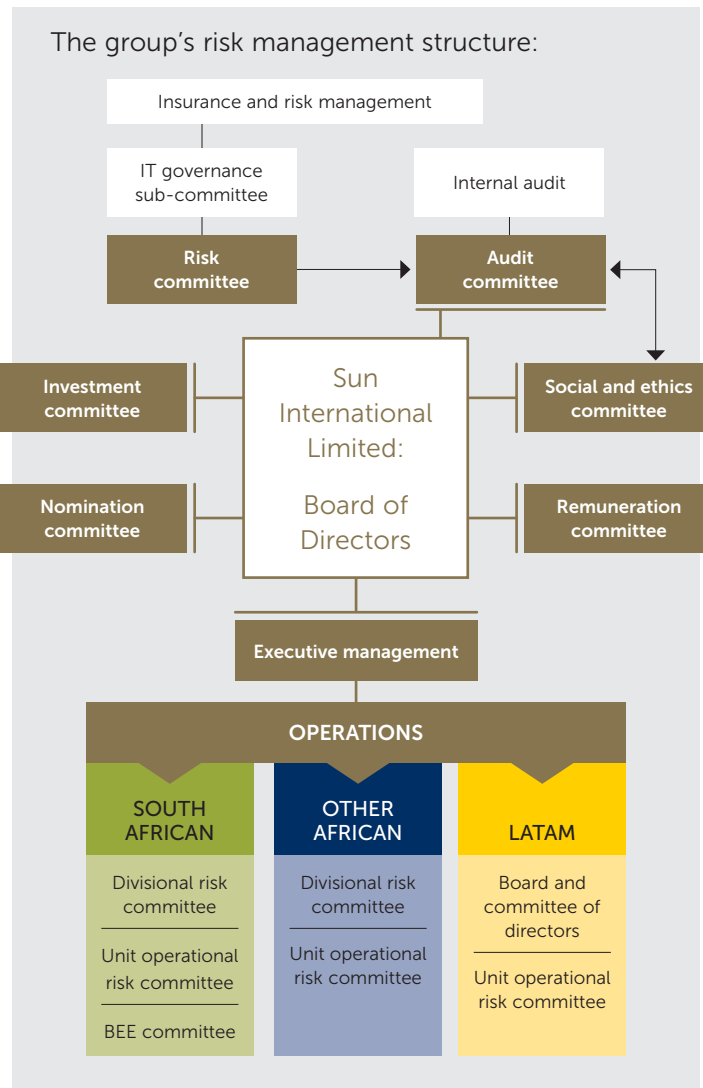
The Sun International board annually approves strategic plans for the group, which it adjusts as and when necessary. It is also responsible for the development of Sun International's risk appetite and the setting and monitoring of risk tolerance. While it is imperative that the group practices effective and sound risk management, it operates in a dynamic and challenging environment that includes pursuing new business opportunities both locally and internationally, which has resulted in a slightly increased level of risk appetite and tolerance for the group. The group's risk management structure is set out alongside.

The risk committee is tasked with assessing the risks related to any new business opportunities against the group's risk framework and its risk appetite and risk tolerance. In this regard, the committee reviews the specific risks associated with transactional opportunities. These are firstly reviewed by the investment committee and then approved by the board in order to monitor risks identified during the initial due diligence phase all the way through to implementation. The board, through the audit and risk committees considers the risks and opportunities the company may face and assesses each issue in terms of the following:

- possible economic impact on our business;
- degree to which it affects us and our stakeholders;
- extent to which it is likely to grow in significance and impact our business in the future;
- business opportunities it presents;
- level of risk it presents;
- strength and effectiveness of mitigating controls in place; and
- whether the residual risk is within the group's tolerance levels.

This strong risk management culture has been developed for the South African business and we will be overseeing the introduction of this risk management culture and philosophy into the Sun Dreams business. While our operations in Latin America have adopted the Sun International risk framework and have been managing and reporting against the risk framework, most of the methodology will be new for the Dreams operations.

Dreams have had risk management in place on a smaller scale and the management team has already embraced the concepts given the value enhancement that can



be realised from a more defined and robust process.

The group Internal Audit (GIA) department, reviews the effectiveness of the group's risk management processes. Its annual internal audit plan includes a review of the effectiveness of risk controls both at the group and at individual properties. GIA's overall mandate includes the evaluation of risk exposures and the:

- reliability and integrity of information;
- effectiveness of operating processes;
- safeguarding of assets; and
- compliance with laws, regulations and controls.

The group's management team is tasked with identifying the risks the group faces and presenting its report, which takes the form of a group risk register, to the risk committee at each meeting. The risk register includes the nature of the risk, the mitigating controls, the possible




impact of the risk, the likelihood of the risk, the nature of the inherent risk and the residual risk.




The group considers its risks in terms of their impact and the likelihood of a risk materialising, together with the strength and effectiveness of the mitigating controls in place. A residual risk rating is allocated to each risk as per the table on page 22.








The risk committee reviews the key risks facing the group and interrogates the controls and mitigating actions to ensure management is taking appropriate mitigating action. During the year under review, each of the 35 strategic risks identified by the group were reviewed with the assistance of the relevant business owners. The risks are also linked to each of the group's strategic pillars in order to understand the likelihood of the group achieving its long-term strategy. New risks were introduced and certain risks were no longer considered as relevant.

## Key risks

Based on the risk management process and management’s view of the business and the risk committee’s latest review, the following have been identified as some of the key risks facing the business, together with the mitigating controls in place and the links to our strategic objectives, material issues and stakeholders.

Residual		
<b>High</b> 	<b>Management action</b> Immediate: Management must immediately escalate to exco and board and immediate remediation plans must be instituted.	<b>Medium</b> 
	<b>Management action</b> Moderate: Management must implement action to reduce further exposure.	<b>Low</b> 
		<b>Management action</b> Tolerant: Management will monitor exposure levels, but risk falls within acceptable limits.

Risk	Mitigating controls	Link to strategic objectives	Link to material issue	Link to stakeholders
 <p><b>Cost of doing business in South Africa, including new B-BBEE targets introduced, change in licensing conditions and increase in gaming taxes</b></p>	<ul style="list-style-type: none"> <li>• Pursuing expansion and diversification strategy into other geographic regions with stronger growth prospects</li> <li>• Pursuing new revenue sources and new product offerings such as LPMs, online sports betting and international VIP business</li> <li>• Refreshing MVG offerings and customer management strategy</li> <li>• Cost containment</li> <li>• Monitoring by B-BBEE central committee and proactively identifying and addressing business processes</li> <li>• B-BBEE targets established with focus on priority pillars</li> <li>• External assurance of B-BBEE scorecard</li> <li>• Moving beyond compliance towards corporate responsibility</li> <li>• Proactively engaging with gaming boards on casino licence conditions</li> <li>• Increased monitoring by social and ethics committee</li> </ul>	<ul style="list-style-type: none"> <li>• Protect and leverage our existing asset portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Exploring and delivering on growth opportunities</li> <li>• Managing our complex regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders and potential investors</li> <li>• Gaming boards</li> <li>• Regulators</li> <li>• Suppliers</li> </ul>
 <p><b>Global economic conditions exacerbated by local/South African political, economic and social challenges</b></p>	<ul style="list-style-type: none"> <li>• Pursuing expansion and diversification strategy into other geographic regions with stronger growth prospects</li> <li>• Pursuing new revenue sources and new product offerings such as LPMs, online sports betting and international VIP</li> <li>• Cost containment</li> </ul>	<ul style="list-style-type: none"> <li>• Protect and leverage our existing asset portfolio</li> </ul>	<ul style="list-style-type: none"> <li>• Managing our way through tough economic conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholders and potential investors</li> <li>• Employees</li> </ul>
 <p><b>Loss of casino licences/exclusivity</b></p>	<p><b>GrandWest licence exclusivity</b></p> <ul style="list-style-type: none"> <li>• Increased focus on compliance and interaction with the Western Cape Gambling and Racing Board</li> <li>• Cultivating positive relationships with key stakeholders</li> <li>• Rebalancing the portfolio through Time Square development</li> </ul> <p><b>Chilean municipal licence renewals</b></p> <ul style="list-style-type: none"> <li>• Detailed planning for Chilean municipal bidding process underway</li> <li>• Opportunity to acquire other municipal licences</li> </ul>	<ul style="list-style-type: none"> <li>• Protect and leverage our existing asset portfolio</li> <li>• Grow our business into new areas and products</li> </ul>	<ul style="list-style-type: none"> <li>• Managing relations with our key stakeholders</li> <li>• Managing our complex regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>• Gambling boards</li> <li>• Provincial government</li> <li>• Chilean municipalities</li> </ul>

Risk	Mitigating controls	Link to strategic objectives	Link to material issue	Link to stakeholders
 <p><b>Impending smoking legislation in South Africa</b></p>	<ul style="list-style-type: none"> <li>Legislative developments monitored by Sun International's legal department</li> <li>Operational plans developed</li> <li>Motivating that legislators look at exempting casinos</li> <li>Reviewing legislation dealing with working in smoking areas</li> </ul>	<ul style="list-style-type: none"> <li>Protect and leverage our existing asset portfolio</li> <li>Improve our existing operations and our guest experience</li> <li>Our people</li> </ul>	<ul style="list-style-type: none"> <li>Managing our complex regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Employees</li> <li>Customers</li> <li>Health authorities</li> </ul>
 <p><b>Failure to successfully implement and operate Time Square</b></p>	<ul style="list-style-type: none"> <li>Management focus on delivering project timeously, on budget and thereafter EBITDA achievement</li> <li>Continued engagement with regulators</li> <li>Monthly management forum setup with relevant representatives to ensure successful delivery</li> </ul>	<ul style="list-style-type: none"> <li>Grow our business into new areas and products</li> <li>Our people</li> </ul>	<ul style="list-style-type: none"> <li>Exploring and delivering on growth opportunities</li> <li>Managing relations with our key stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders and potential investors</li> <li>Employees</li> <li>Suppliers</li> <li>Regulators</li> </ul>
 <p><b>Unsuccessful integration of Sun Dreams</b></p>	<ul style="list-style-type: none"> <li>Dreams merger substantially settled – final regulatory approvals received in May 2016</li> <li>Experienced Latam management team in place</li> <li>Sun International Dreams integration committee constituted to address integration issues</li> </ul>	<ul style="list-style-type: none"> <li>Grow our business into new areas and products</li> <li>Protect and leverage our existing asset portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Exploring and delivering on growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders and potential investors</li> <li>Foreign Embassies</li> <li>Employees</li> <li>Customers</li> </ul>
 <p><b>Unsuccessful regeneration of Sun City</b></p>	<ul style="list-style-type: none"> <li>Sun City is one of the group's key priorities with a clear strategy being implemented to improve financial performance</li> <li>Critical development projects are currently underway</li> <li>Appointed a new head of operations</li> <li>Leveraging new investments to achieve targeted EBITDA</li> <li>Ongoing engagements with unions by all levels of management</li> <li>Deep dive project to improve efficiencies and reduce costs</li> </ul>	<ul style="list-style-type: none"> <li>Improve our existing operations and our guest experience</li> </ul>	<ul style="list-style-type: none"> <li>Managing relations with our key stakeholders</li> <li>Remaining relevant in the societies within which we operate</li> </ul>	<ul style="list-style-type: none"> <li>Unions</li> <li>Employees</li> <li>Customers</li> <li>Regulators</li> </ul>
 <p><b>Change in consumer in the South African market – maturity</b></p>	<ul style="list-style-type: none"> <li>Focusing on improving efficiencies and cost reductions</li> <li>Focusing on marketing and sales strategy, restructuring the business, including the insourcing of food and beverage, customer management and alternative forms of gaming</li> <li>International expansion strategy in place in emerging higher growth markets</li> <li>VIP strategy implemented</li> <li>Significant focus on implementing and embedding operational changes</li> <li>Sunbet online sports betting as entry into online space</li> <li>Developing online gaming strategy</li> </ul>	<ul style="list-style-type: none"> <li>Improve our existing operations and our guest experience</li> </ul>	<ul style="list-style-type: none"> <li>Remaining relevant in the societies within which we operate</li> <li>Exploring and delivering on growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders and potential investors</li> <li>Employees</li> <li>Customers</li> <li>Suppliers</li> </ul>
 <p><b>Cybercrime</b></p>	<ul style="list-style-type: none"> <li>Protection of Personal Information (PoPI) mechanisms in place</li> <li>Data security embedded</li> <li>Key cybersecurity initiatives already implemented and continuously monitored</li> </ul>	<ul style="list-style-type: none"> <li>Governance and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Managing our complex regulatory environment</li> </ul>	<ul style="list-style-type: none"> <li>Customers</li> <li>Regulators</li> <li>Employees</li> </ul>
 <p><b>Rollout of EBTS and LPMS</b></p>	<ul style="list-style-type: none"> <li>Lobbying through CASA</li> <li>Exploring new digital offerings</li> <li>Monitoring and commenting on all draft provincial regulations</li> <li>Looking at opportunities outside the catchment areas of casinos</li> </ul>	<ul style="list-style-type: none"> <li>Protect and leverage our existing asset portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Exploring and delivering on growth opportunities</li> <li>Managing our way through tough economic conditions</li> </ul>	<ul style="list-style-type: none"> <li>Shareholders and potential investors</li> <li>Gambling boards</li> <li>Customers</li> </ul>