

Chief executive's strategic review



Graeme Stephens
Chief executive



Achievements in the year under review

EXISTING OPERATIONS AND GUEST EXPERIENCE

- Concluded food and beverage insourcing, bringing on board over 3 000 people and >60 outlets
- Initiated the International VIP gaming business at Sun City
- Implemented new information technology systems to better understand customer playing patterns and enhance marketing efforts and focus
- Implemented new ERP system, which will enable efficiencies in how we operate

EXISTING ASSET PORTFOLIO

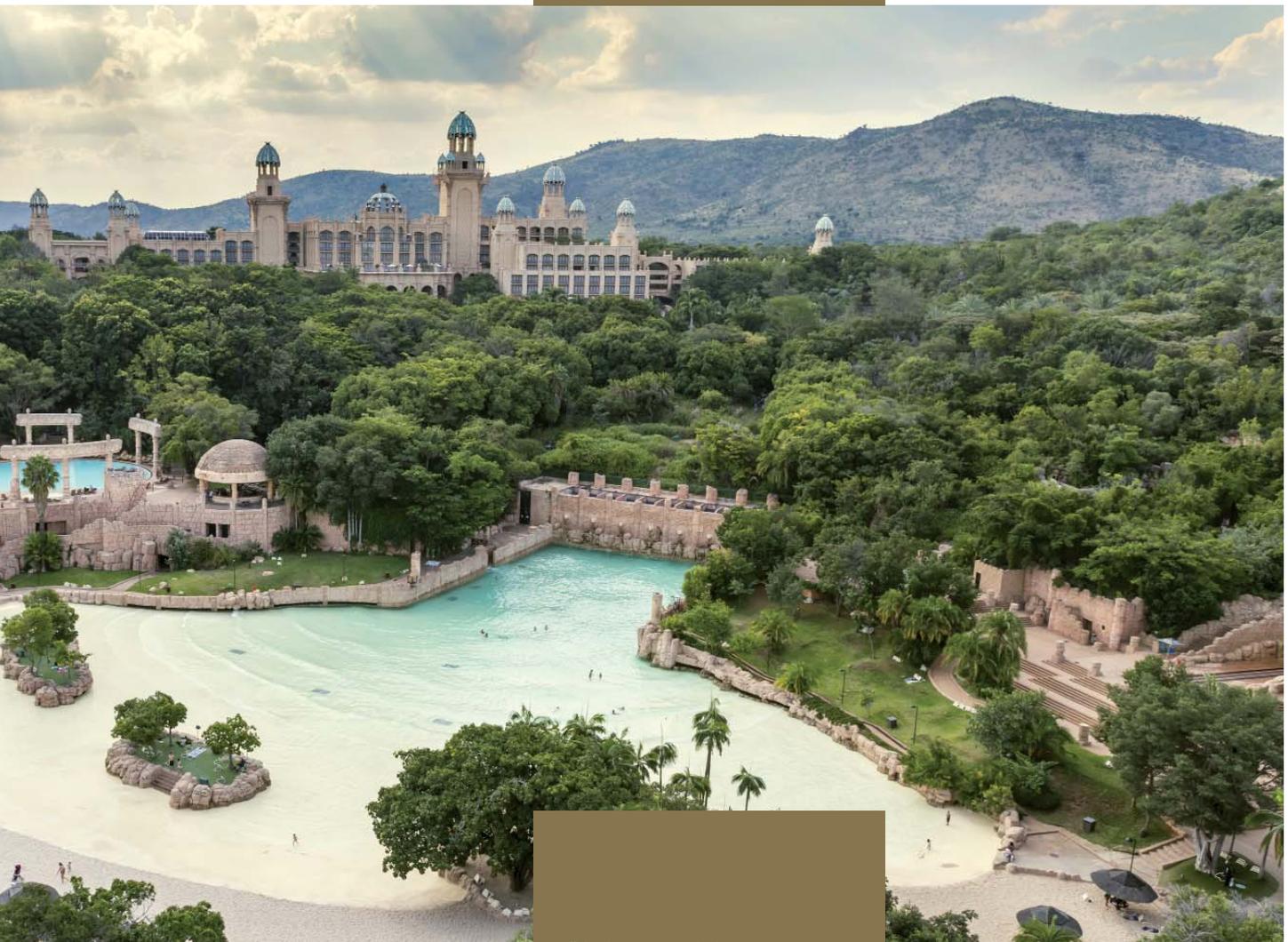
- Refurbished Sun City: completed Valley of the Waves, introduced a Sun Park multipurpose conferencing facility and the entertainment centre is near completion
- Significant progress with Time Square's construction phase with casino due to open in April 2017
- Finalised the disposal of non-core assets in southern Africa
- Introduced Tsogo Sun as a 20% minority shareholder in our Western Cape assets

NEW AREAS AND PRODUCTS

- Finalised the merger of our Latin American operations with Dreams SA to form the largest gaming company in Latam, in which we own 55%
- Finalised the acquisition of a further 25% in GPI Slots leading to a controlling interest of 50.1%

OUR PEOPLE

- Launched our new values and conducted employee surveys across our South African operations and Sun Monticello in Chile
- Launched existing new talent management, learning and leadership development initiatives



Sun City Valley of the Waves

GOVERNANCE AND SUSTAINABILITY

- Provided over two million meals for children in South Africa as part of our Follow the Sun campaign in partnership with international non-profit organisation Stop Hunger
- Raised significant money for charity in the 2016 Sun International CEO SleepOut challenge
- Awarded Empowerdex rating "Top Ten most empowered companies on JSE"

"A key achievement during the year under review was the refinancing of all South African debt, including the raising of significant additional debt to fund the development of Time Square and related settlement payments."



Overview

We have come to the end of another eventful financial year, where significant effort went into concluding a number of key strategic deliverables. Many of these have been in progress for some years and through hard work, patience and focus I am very pleased that we have successfully strategically repositioned the group and are on track to achieve the remaining key initiatives well within the five-year time frame that we set in 2013. Our operations now employ state-of-the-art technology and the cost base has been restructured to ensure we are efficient. Our marketing efforts and new brand have gained traction and we have granular insight into our database of customers, which is essential in the prevailing tough

economic environment. We are well advanced with improving the quality of our South African portfolio, in particular the makeover of Sun City and the construction of Time Square, which will open in 2017 as the largest casino in Gauteng. We have essentially exited our African portfolio outside of South Africa (with Nigeria now being the last remaining asset to dispose of) and we have significantly increased our presence in Latin America, which positions us perfectly to capitalise on the many growth opportunities in that region. We have also added new lines of business to boost revenues from our core casino business, including a large food and beverage division and alternate gaming businesses such as the fast-growing LPM business and online sports betting.

A key achievement during the year under review was the restructuring of the group debt effectively into two balance sheets that do not have recourse to each other: the Latam business (denominated in pesos) and the South African business (denominated in rands). In South Africa, we raised significant additional debt from a consortium of the major local banks to

fund the development of Time Square and related settlement payments, with reasonable covenants to cater for the build and operational ramp up. The debt on each of the balance sheets has an appropriate mix of short- to long-term tenure and a rate hedging policy has been implemented. We also raised non-recourse funding (in local currency) from a consortium of Chilean banks to conclude the Dreams merger and to provide that region with sufficient unutilised debt capacity for future expansion.

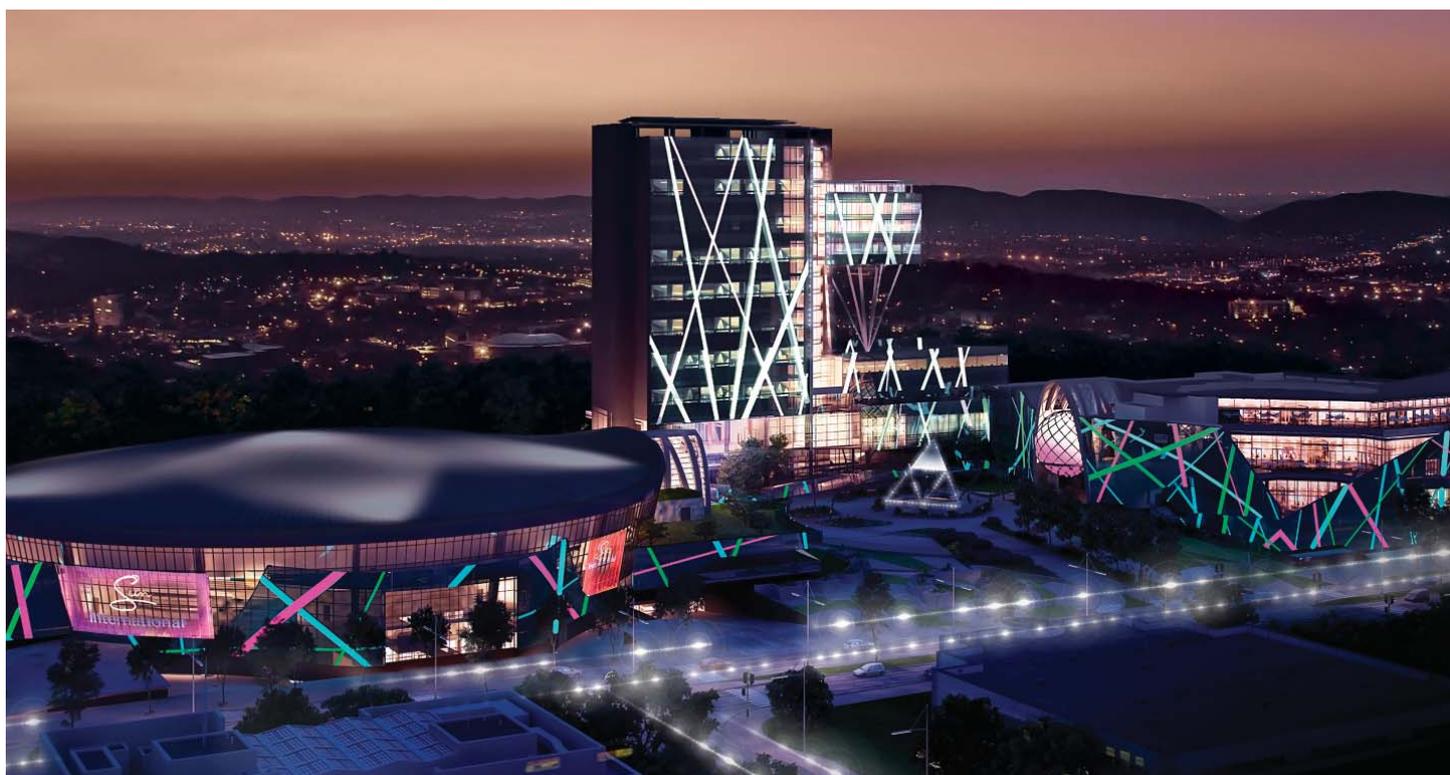
Despite good progress with our strategic initiatives, we continue to deal with the challenges of an economic slowdown in South Africa and Latin America. In South Africa, economic growth forecasts have been revised downward to below 1%, which has in turn increased concerns of a further ratings downgrade at the end of 2016. In the tough current economic environment, purse strings are being tightened around the world and our business has not escaped the negative impact this is having on gaming spend. We therefore need to work even harder to attract customers to our properties and to ensure that we deliver on our vision

of providing them with a memorable experience so that they return.

Financial performance

Group revenue grew by 15% to R12.2 billion, boosted by a decent performance from Chile, the addition of new properties, new lines of business and in particular the insourcing of food and beverage. The new businesses are, however, yet to contribute meaningfully to profit and the core South African gaming business can only achieve very low revenue growth (0.8%) in the prevailing economic climate compared to the much higher general escalation in costs. We are seeing a trend that those customers with whom we directly engage with (the higher end of our database) are less vulnerable to the economic downturn and we are able to grow our business from this segment. The primary fall off in visitation and spend is arising from the lower end of our customer database, where people are clearly more economically constrained.

Fortunately, over the past few years we anticipated the long-term nature of the



economic downturn in South Africa and have already taken significant steps to mitigate its negative impact. The group has invested significantly in its operations by implementing new systems and analytics that are helping to achieve some growth in gaming revenue. Through restructuring our cost base in gaming structures and closing down offshore sales and marketing offices we have also achieved significant savings. These activities have positioned the group for the leaner times that we are now experiencing but with the low revenue growth outlook in South Africa, the group will need to continue focusing on cost containment in an environment that has only a few opportunities left for further cost cuts.

At a trading level we managed to achieve growth in profit (EBITDA up 4%) but high interest (due to financing the various strategic initiatives with debt) and a higher effective tax rate resulted in adjusted earnings per share falling by 21% in comparison to the prior year. The dividend payout ratio has been maintained in line with prior years.

 Sun International's financial performance is discussed in detail in the chief financial officer's review on page 40.

Strategy

To ensure our strategy is still appropriate and continues to address our material issues, opportunities, risks and stakeholder concerns, we continually evaluate our objectives and make adjustments accordingly. We are confident that our current strategic objectives remain relevant, without the need for significant change and we maintain our strong focus on implementation.

 Refer to the strategic scorecard set out on page 36.

Improving our existing operations and guest experience

Good progress was made against this strategic objective during the year under review following three years of significant operational change. One of our main objectives is to offer a great customer experience from their initial awareness stage, through the engagement process to the post-experience phase. This ensures we place our customers first and at the core of the business. It was pleasing to note that our customer satisfaction

scores increased by 3% in the past year, with an average score of 89.3%. This affirmation is testament to various initiatives to improve existing operations and new offerings introduced during the year under review.

We have finalised the organisational structures and labour aspects of insourcing our food and beverage business and completed the takeover, refurbishment and opening of a number of outlets. We are now focusing on realising savings through bulk procurement and pre-negotiated trading terms with nationally approved suppliers. We are now able to dovetail our food and beverage offering with the marketing initiatives of the gaming division and we have implemented a food and beverage promotional calendar to drive footfall and maintain relevance with our patrons.

We opened the first Sun Park multipurpose conferencing facility at Sun City, which has been well received and provides us with another platform to drive incremental room nights, gaming, banqueting, and other revenues. Sun Parks will be extended to other properties during the next financial year.



A refreshed four-tier loyalty programme – “Sun MVG” – has been developed for rollout by the end of the 2016 calendar year. This programme will focus on all Sun International customers, not just gaming, and will introduce initiatives to encourage active participation and ultimately grow revenues across all aspects of our business.

Our International VIP gaming initiative at Sun City got underway properly this year and we hosted a number of groups from Asia. We are encouraged by the very positive reaction of the players to the property and are increasing our efforts in this space. In the year under review, we achieved good revenue but have fully provided for certain debts not collected at year end and this has reduced the EBITDA to slightly above breakeven. Our focus in the year ahead is to increase the volume of play, reduce volatility and improve collection.

From an information technology perspective, great strides have been made in understanding customers' needs and designing operations to meet these better. The Bally Business Intelligence system, a data analytics system developed specifically for the gaming industry and rolled out to all properties, has greatly improved our direct marketing initiatives to targeted customers. IFS Applications, an enterprise resource planning system, was implemented across the group and enables us to streamline and simplify the group's administration.

Protecting and leveraging our existing asset portfolio

The group has a diverse portfolio of assets, including world-class five-star hotels, modern and well located casinos, and premier resorts. It is essential that we harvest the full potential of our existing portfolio and continually review our offerings to identify properties that need reinvestment and upgrading and those that may no longer be core to our strategy.

The big initiative in this space has been the relocation of our Morula casino licence to anchor the new Time Square casino and entertainment centre at Menlyn Maine in Tshwane. We have worked on this for some years and progress is now well advanced. The new project will include an 8 000-seater indoor arena, a 2 000-slot machine and 60-table casino, a 245-room hotel, many restaurants and bars and a

conference centre. We increased the scope and layout of the project such that we will now open in phases and this has enabled construction of the casino to be fast-tracked for an opening in April 2017, six months ahead of the previous schedule. The anticipated returns on the project remain well above the group's cost of capital.

The refurbishment of Sun City, arguably the most iconic property in our portfolio, is now almost complete, with the Cabanas Hotel and the Valley of the Waves extension and upgrades having been reopened in 2015, together with a number of new restaurants and fast food outlets. We have also added many new attractions and entertainment venues for both children and adults. The last major component of the makeover has been the extensive refurbishment of the conferencing facilities, which has been undertaken during 2016 and is on track to be completed by November 2016. The new convention facilities will position Sun City once again as the premier convention destination in the country and it should resurrect midweek visitation to the resort.

The disposal of our African portfolio to the Minor Hotel group, with the exception of our Nigerian operations, was finalised during the year under review. These assets were deemed non-core some years ago and their disposal to Minor has been implemented in two phases – the first in 2014 and the final in April 2016.

There are certain conditions precedent to the implementation of the sale of each property and when these conditions are met, the sale of our remaining shareholdings in the properties will be effected. Regarding Nigeria, as a consequence of the poor environment in that country and other issues facing the company and its shareholders, the board has taken the decision to exit our investment in Nigeria. We expect that this may still take some time as we intend to maximise the value that we can obtain from our shareholding. The group's investment (shareholding and loans) in Nigeria, has a book value of R177 million.

In April 2016, we concluded the disposal of a 10% interest in SunWest and Worcester Casino to Tsogo Sun. Our partner GPI likewise disposed of a 10% interest, which gives Tsogo a 20% interest in these assets. The Sun International disposal consideration was R675 million, which will be paid over a period of 18 months, with the first payment having

been received in April 2016. The transaction allows us to realise a portion of our investment in the Western Cape assets at market value without compromising our control or management of the assets.

In 2013, we opened the new R1 billion extension to the Boardwalk casino in Port Elizabeth – an extension that was constructed in return for the Eastern Cape Gambling Board (ECGB) extending the exclusivity of the casino licence until September 2025. Since then, the ECGB licensed “Electronic Bingo Terminals (EBTs)”, which have morphed into small casinos directly in the Boardwalk's awarded area of exclusivity. The three EBT operations licensed within the Boardwalk catchment area can operate 900 machines between them, which is the same size as the Boardwalk casino itself. These “EBT” operations have had a significantly negative impact on the casino at the Boardwalk. Earlier this year, we applied to the ECGB to further develop the property with the addition of a large high-end shopping mall to drive footfall and we also requested a 20-year extension of our casino licence, a period over which we hoped to get a return on our total investment to date. Following public hearings in March 2016, the ECGB approved the shopping mall but did not grant the 20-year extension to the casino licence. As a result, we will not proceed with the mall development at this stage.

The Boardwalk has now commenced a process of litigation against the ECGB on the basis that the granting of licences to competing casinos in the catchment area of the Boardwalk is in breach of the exclusivity that the Boardwalk should have received in return for its bid commitment spend of R1 billion at the Boardwalk complex.

Growing our business into new areas and products

We believe it is imperative to continue looking for opportunities that either grow our core casino business or offer new related products. During the financial year under review, we finalised two significant deals that will stand the group in good stead going forward.

The merger between our Latin American portfolio and the assets of Dreams SA was finalised in May 2016 to create the largest gaming company in Latam. This deal has been years in the making and is a milestone in the history of Sun International, as it

provides significant opportunities to achieve scale and reach outside Africa and to diversify earnings and risk. In total, the merged entity has 13 casinos in four Latin American countries, which amounts to about 7 000 slot machines and 300 tables. This merger includes Sun International's Monticello in Chile along with a further six Chilean casinos (Coyhaique, Iquique, Puerto Varas, Punta Arenas, Temuco and Valdivia), the Sun Nao Casino in Colombia, the Ocean Club Casino in Panama and four casinos in Lima, Peru. Sun International controls the merged group through a 55% shareholding and the local executive management team has significant operational experience in the region.

We are confident that Latin America holds tremendous potential, and plans are well advanced to expand further. Despite the current economic downturn, the seven casinos in Chile are achieving good growth. Two of the licences in the portfolio come up for renewal in 2017, and in addition to bidding to renew these existing municipal licences, there will be further opportunities to bid for additional new licences. This process is a priority in the year ahead. We have plans for expansion in Peru and in the medium term there will be exciting opportunities in Brazil, which is developing regulations to allow gambling. The debt in the Latin American business has intentionally been kept low, which means the business has sufficient capacity to fund its expansion plans.

In South Africa, the acquisition of a further 25.0% interest in GPI Slots was concluded on 5 April 2016 and consequently, Sun International now has a controlling interest in GPI Slots, with a 50.1% shareholding, meaning that we now consolidate the investment. GPI Slots has been growing fast over the past few years and still has capacity for growth in excess of our core casino business. The business has around 3 500 slots in operation and so collectively it is significant in relation to our stand-alone casinos. Subsequent to year end, we exercised our option to acquire a further 19.9% interest, which will cost approximately R250 million and will take our shareholding to 70%. The acquisition of this additional stake is still subject to certain gaming board approvals, which are expected by the end of the 2016 calendar year.

In December 2015, the Competition Commission prohibited the proposed acquisition of Peermont Global. The transaction ultimately lapsed on 31 March



One of my standout experiences during the financial year was the opportunity to engage with all of our employees at a unit level during the "chief executive roadshow". These presentations, held at all our units, gave me valuable first-hand insight into the issues that employees face daily.



2016 and this triggered an obligation for Sun International to pay Peermont a settlement relating to the transfer of the Morula casino licence to create Time Square at Menlyn, Tshwane. The settlement, which compensated Peermont for dropping its legal objection to the relocation, was agreed at R675 million and paid on 30 April 2016.

Our people

We continued to invest in our employees' learning and development with the aim of building casino and hospitality functional knowledge and skills. During the financial year, we finalised the group talent management strategy and launched various talent initiatives to further empower employees.

One of my standout experiences during the financial year was the opportunity to engage with all of our employees at a unit level during the "chief executive roadshow". These presentations, held at all our units, gave me valuable first-hand insight into the issues that employees face daily. We also used the roadshow as the platform to come up with our new vision, mission and values, which all employees helped to determine. With the launch of our refreshed values it is important that we drive behaviours that demonstrate we are living these values as a team, to ensure that they have a direct impact on service excellence and create lasting, powerful memories for our guests. Further engagement activities carried out included employee engagement surveys in South Africa and Chile's Sun Monticello, which provided an opportunity to better understand our staff's working environment, address challenges and reinforce the positives going forward. In response to a demand for better

communication, we have now launched an initiative called SunConnect, which is an internal TV broadcast to enhance employee communication.

During the year under review, a relationship building workshop was held between Sun International and SACCAWU, to further strengthen union relations. The focus of the workshop was the new job evaluation process underway within the organisation. I also continue to actively engage with SACCAWU at both national and shop-steward level.

Talent management is important in developing leadership talent across the group and allows us to acknowledge internal high-achievers, build a strong leadership pipeline and offer opportunities for people to grow within Sun International. Some exciting initiatives rolled out during the year under review included our talent mobility programme, which provides talented employees the opportunity to be based in various Sun International properties where we have representation, both locally and internationally. Management succession planning sessions take place regularly to ensure that we maintain a talent pipeline groupwide, and leadership assessments were conducted to assist in leaders achieving their individual development plans. The opening of Time Square is a massive project that will employ over 2 000 people and our focus is on promoting from within the organisation which will create new opportunities for people around the group. Various learning and development initiatives were either developed, implemented or piloted during the year to ensure our employees are equipped with the necessary skills to meet the needs of our customers – in this regard the insourcing of food and

beverage in particular has demanded that we train people in this discipline. In the medium term, once the Morula casino licence has relocated to Time Square we are converting Morula into a hospitality and gaming academy (run by the International Hotel School) and this will offer courses to external students, as well as our internal learning and development.

In this tough economic climate, we are cognisant of employees' financial challenges but unfortunately, given the low growth in gaming revenue in South Africa, we have been unable to justify reasonable salary increases. At a non-bargaining unit level increases for the financial period commencing 1 July 2016 were capped at 4%, which is well below inflation. We have completed a significant exercise to evaluate current remuneration processes, procedures and structures and ensure alignment with industry practices. Where appropriate, adjustments will be made to bring employees in line with both peer group and the industry.

The group made good progress with its transformation goals and following an external verification by Empowerdex, we achieved a level two status according to the generic tourism sector code. Good progress was made in the areas of skills development and enterprise and supplier development in particular. Going forward, management are in the process of revising the group's transformation strategy to further improve the group's progress.



Further detail on our transformation progress is included in our transformation progress report on our website at <http://ir.suninternational.com>.



Further detail on our employees is available online at <http://ir.suninternational.com>.

Governance and sustainability

As part of the Dreams merger process, a great deal of board and executive management time was invested in understanding the Dreams business practices and risks from a governance, legal and compliance perspective. Following the finalisation of the merger in May 2016, the group is in the process of revising its corporate governance structures to incorporate the Dreams' entities. The Sun Dreams board is autonomous and the directors have separate fiduciary duties. Sun International will have a majority of directors appointed to the Sun Dreams' board, which will ensure that matters of material relevance



Sun City Casino, Rustenburg

are brought to the attention of the Sun International board and that it receives the necessary assurances in terms of material matters and governance.

From a sustainability perspective, we made good progress in a number of our focus areas, including developing a group health and safety policy and finalising our climate change strategy. Our socioeconomic development initiatives continued to gain traction as we provided opportunities for chefs and aspiring young artists. We also partnered with the international non-profit organisation, Stop Hunger, on a Follow the Sun campaign, which provided 10 million meals for children around the world and perhaps more importantly in our lives, over two million meals to underprivileged South African children, who now have a nutritious meal every school day of the year.

The 2016 Sun International CEO SleepOut challenge sponsored by the group aimed to raise funds for education as a way to eradicate homelessness in South Africa. Based on a "pay it forward" principle, and with the support of many captains of industry, a significant amount of funding was raised once again. This year we made two additions to the SleepOut challenge. Firstly, we broadened the concept to encourage Sun International employees and customers to join in staff sympathy SleepOuts, which were held at our units across South Africa. Secondly, each CEO participating in the SleepOut challenge was asked to invite an exceptional colleague, outstanding student and inspirational matric learner, all with strong leadership qualities, to join the SleepOut on the Nelson Mandela Bridge in Johannesburg.

We remain committed as a business to give back to communities and to be socially responsible.



Further detail on our governance and sustainability is available on page 60.

Outlook

A large number of our strategic initiatives have now been implemented, which not only reduces uncertainty around them but also means that the anticipated benefits will start to reflect in full in the next financial period. The group is now essentially focused on two geographic areas (South Africa and Latam) and we are evaluating more appropriate group structures to reflect the independent ownership and management of these two regions.

Despite a slowdown in the Chilean economy, we expect continued growth from our portfolio of properties in that country. With the new Latam management team in place we also expect that the recent restructuring of Panama and Colombia should deliver improved performance from those properties. Integrating the Dreams merger in Latin America and successfully bidding for new municipal casino licences in Chile is critical to keep momentum going in our strategy to grow in that region. We have an opportunity to increase our shareholding in the Latam business from 55% to 75% through the acquisition of an exiting minority shareholding and we are very focused on trying to structure and fund this as it will give group shareholders greater exposure to the performance of that region.

Although Latam offers many opportunities for growth, South Africa will continue to be the dominant contributor to the group for some years. The acquisition of an additional 20% in GPI Slots will increase the proportion of the consolidated results that flow to shareholders and the opening of the new conferencing facilities at Sun City is expected to improve the resort's performance from January 2017. The major remaining large project currently in progress is Time Square at Menlyn Maine. Delivery of the project, on time and on budget and generating the anticipated revenue, is the major focus of the next year. As the Time Square project opens in phases, commencing with the casino in April 2017 and culminating with the hotel in March 2018, it will still be some time before we have two financial periods that are directly comparable.

Looking ahead to the medium term, our strategy in South Africa will include:

- Negotiating and implementing a solution to the Western Cape casino landscape;
- Negotiating and implementing a solution to create a sustainable future for the Boardwalk complex;
- Determining the most appropriate development plans for the unutilised land at Carnival and Sibaya, as well as other land banks within the group;
- Advancing our efforts to ensure we are appropriately positioned in the online casino space; and
- Addressing smaller non-core assets to ensure that the portfolio ultimately comprises quality properties that make a meaningful contribution.

Most of the above initiatives are within our control and can be driven to a conclusion but the operating environment, in particular in South Africa, remains a serious concern. Poor economic conditions exacerbated by local political, social and regulatory challenges are making it hard to grow our business in South Africa – and the cost of doing business in South Africa is now the number one risk on the company risk register. We do not anticipate any meaningful growth in gaming revenue until there is a recovery in the economy and renewed consumer confidence. Rooms and food and beverage are expected to achieve growth but these are relatively small components of the overall business. We continue to focus on cost control and in this way we hope to at least maintain EBITDA despite low anticipated gaming revenue growth. We anticipate a slight improvement in performance from the existing business during the current six-month period, due to extracting efficiencies, but with the opening of the Time Square casino in April 2017 we anticipate a period of meaningful growth in revenue and EBITDA while the property ramps up and stabilises.

Appreciation

I would like to sincerely thank the board for their ongoing support and wise counsel during this eventful year. To my management team and all our employees I fully appreciate that you are all working harder than ever, in uncertain times, and that in the prevailing economic environment we may not always be able to truly reward your efforts. I thank you for your contribution and I look forward to seeing everyone on the Sun team working together to live our values, deliver outstanding service and create lasting memories for our customers.

Graeme Stephens
Chief executive

14 October 2016