

Operating environment

Sun International has grown, not only in the number of its properties but also geographically as it has expanded outside of the African continent into Latin America – firstly with Chile in 2008, then Panama in 2014, Colombia in 2015 and the Dreams merger in 2016.

With the conclusion of the Dreams merger in 2016, the group extended its representation in Chile and is now also represented in Peru. Its focus has also shifted from countries in Africa where it has sold all its interests outside of South Africa save for Nigeria, which it is actively looking to exit. The revenue contributions in the 2016 financial year have also shifted significantly, with South Africa's revenue contribution amounting to 78% (2015: 81%) and Latam's revenue contribution amounting to 20% (2015: 17%). If the Dreams' properties were included for the full 2016 financial year Latam's contribution to revenue and EBITDA would have been 32%. As a result, the group has diversified its country risk and created opportunities to further grow its business in Latam.

Although the group remains largely dependent on the South African economy, its geographical expansion into Latam provides opportunities to enhance its shareholder value, as economic growth in Chile, Colombia, Peru and Panama is more favourable than the stagnant economic environment in South Africa. Despite increasing its geographic diversification, the group remains impacted by the global economy and growth forecasts have weakened throughout the world, with emerging markets and developing economies facing stronger headwinds, including weaker growth among advanced economies and low commodity prices.

Over the past year the rand experienced significant depreciation of 21% against the US dollar, largely due to political uncertainty, a weakened economy and the possibility of a further credit rating downgrade towards the end of 2016.

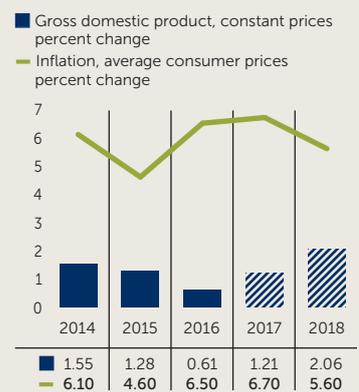
Regulatory environment

South Africa has a complex regulatory environment and each industry has various oversight bodies to ensure compliance with regulation. Gaming legislation – namely the National Gambling Act No 7 of 2004 is Sun International's primary compliance focus.

The South African economy has experienced lacklustre growth over the past few years. According to economists, the GDP growth rate in South Africa is expected to be under 1% by the end of 2016 and looking forward, economists estimate a GDP growth rate in South Africa to be just over 1% in 2017. In the long term, the GDP growth rate is projected to trend around 2% in 2018.

Source: IMF 2016
• Forecast

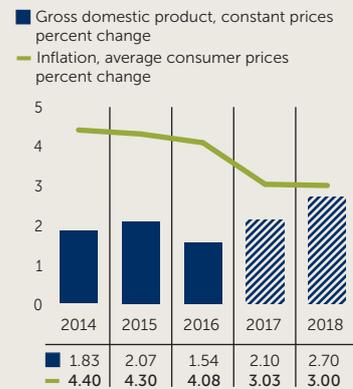
SOUTH AFRICA



Chile has been one of Latam's fastest-growing economies over the past decade. In recent years it has reduced poverty rates but the country still faces challenges. With a significant reliance on copper and the recent weakening in demand and the price of copper, the currency has weakened and growth rates have slowed however growth is expected to increase to over 2% in 2017 and 2018.

Source: IMF 2016
• Forecast

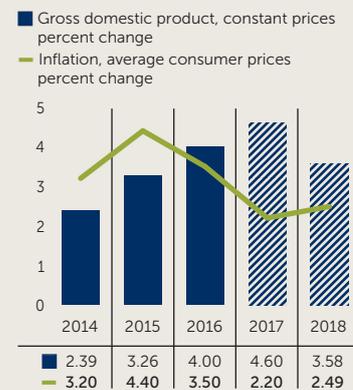
CHILE GDP AND INFLATION



Peru has been one of the region's fastest-growing economies, with an average growth rate of 5.9% in a context of low inflation, averaging 2.9%. A favourable external environment, prudent macroeconomic policies and structural reforms in different areas combined to create a scenario of high growth and low inflation. Over the next two to three years, large-scale mining projects are expected to begin production and increased private and public investment in infrastructure projects will support growth.

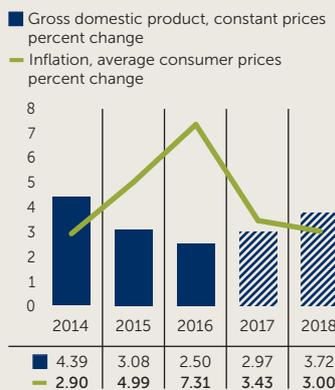
Source: IMF 2016
• Forecast

PERU GDP AND INFLATION



Colombia remained among the fastest-growing economies in the region in 2015, largely due to effective macroeconomic and fiscal management. However, the country was significantly affected by the global economic slowdown and lower oil prices – economic growth slowed from 4.6% in 2014 to 3.1% in 2015. Growth is expected to moderate further to 2.7%, before beginning to recover in 2017.

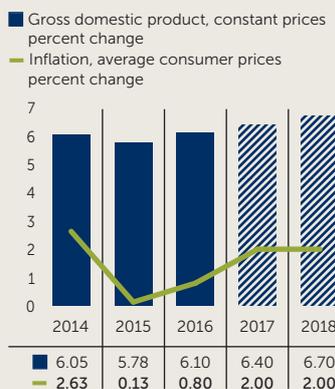
COLOMBIA GDP AND INFLATION



Source: IMF 2016
• Forecast

Panama has been one of the fastest-growing economies worldwide, with an average annual growth of 7.2% between 2001 and 2013. Economic growth was 6.2% and 5.8% in 2014 and 2015 respectively, with a forecasted growth of 5.9% in 2016. In the medium term growth is likely to remain between 6% and 6.5%. Public and private investments should remain high, with the recently opened Canal.

PANAMA GDP AND INFLATION



Source: IMF 2016
• Forecast

Regulation across Latam is overseen by our experienced team in Latam, where each country has its own regulatory body as shown below. The group has 13 gaming licences in Latam.

OTHER LATAM REGULATORY BODIES WHERE SUN INTERNATIONAL HAS REPRESENTATION

Peru: The General Direction of Casino Games and Slot Machines, under the Deputy Ministry of Tourism is the regulatory authority for the gaming operations of casinos and slot machines.

Colombia: Coljuegos is the industrial and commercial company of the state that manages and issues rules of the games of chance and gambling monopoly.

Panama: The Gaming Control Board is a state institution established by Law No 19 of 8 May 1947 that assumes regulatory control of the games of chance and wagering activities. It operates under the auspices of the Minister of Economy and Finance.



Gaming and hospitality industry

Gaming

The casino industry in South Africa has come under pressure over the last few years with the introduction of alternate forms of gambling and the weak local economy. Alternate forms of gaming which include limited payout machines (LPMs) and Electronic Bingo Terminals (EBTs), in essence mini casinos, continue to impact the casino market in South Africa. While the national gambling board is against the rollout of EBTs, certain provinces continue to issue licences or are looking to do so. While the group is not against EBTs we do object to having them licenced in the catchment areas of casinos where significant investments have been made in return for the casino licence.

Online sports betting although still small has reflected strong growth and

The National Gambling Board is responsible for overseeing the regulation in the gambling industry in South Africa. In addition, each province has their own gaming legislation. There are 40 authorised gaming licences in South Africa and 38 have been issued. Sun International has 13 of these licences in the eight provinces where it operates.

 See page 10 for the group structure.

The Casino Association of South Africa (CASA) represents the interests of the country's legal casino gaming industry. Sun International and other casinos are all members of CASA and adhere to its code of conduct.

The primary recent regulatory amendments in South Africa include the amended B-BBEE Codes of Good Practice, the proposed amendments to the smoking legislation, the National Liquor Act, the Financial Intelligence Centre Act and the Tourism Code, which Sun International will be measured against from 2016.

In Chile the Superintendence of Casinos (SCJ), an autonomous body representing the state, regulates the casino industry under the law No 19 995. The SCJ oversees 16 authorised casinos in 10 regions of the country. In addition to the SCJ regulated casinos, there are another seven casinos operating under concession granted by certain municipalities. In terms of a new casino law, the licence for these casinos will expire in December 2017 and a bidding process will be undertaken. The new licences will fall under the regulations of the SCJ.

is expected to continue to grow. Online gaming is currently prohibited in South Africa. The Remote Gambling Bill aims to legalise remote or internet gambling. The Bill is currently serving before Parliament but faces significant resistance.

The casino industry in Latam showed an upward trend in 2015, despite the economic slowdown, the uncertain regulatory landscape and the recovery resulting from the application of regulatory changes, where smoking indoors in public places was banned in 2013. In particular, casinos in Peru and Chile experienced increased revenues of 32% and 11% respectively. The ban of smoking in public areas impacted Chile's footfall at casinos from 2013 to 2014 (a decline of 8.4%). However, the casino industry in Chile has shown a positive trend in terms of their gross income between 2013 to 2015, as well as total machine bets over the same period.

Online gambling is currently prohibited in Chile while it is opening up in other countries in the region.

Hospitality

Rooms' revenue makes up only 9% of Sun International's revenue with the majority of the group's hotels primarily focussed on serving our gaming customers. In South Africa only Sun City, the Table Bay and the Maslow are focussed on local and international business and leisure travellers. In Chile the group has a number of hotels at its casino properties which serve both local travellers and VIP gaming customers.

Food and beverage which is an important component of our offering has increased its contribution to group revenue (9% of revenue) with the insourcing of a number of food and beverage outlets. The decision to insource was in order to ensure our guests receive a quality, consistent and appropriately priced offering at our properties.

Technology

Technology is inherent in Sun International's business of gaming and hospitality. In gaming today's slot machines are in essence computers and the wealth of statistical information from the group's loyalty program assists the group to better understand its business and its customers. In this regard we have invested heavily over the past few years in our Enterprise Gaming System (EGS) developed by Bally and in our business information system Bally BI. These are leading systems in the gaming industry.

Over the past year we have also invested heavily in our website which is based on the adobe platform and allows us to interact directly with our customers and for businesses to interact directly with us.

The roll out of IFS, our back office ERP platform, was completed in the past year. The system has replaced and consolidated a number of our legacy systems to enable a more integrated and holistic approach to our back office.

Society

Our portfolio of casino properties, which to a large extent have exclusivity in the areas where they operate, have a significant impact on the communities surrounding our properties. Not only do our customers come from these communities but also a large number of our employees. We therefore play a meaningful role in these communities through various enterprise and supplier development initiatives. Being a responsible corporate citizen is part of the group's DNA and it fully supports responsible gambling through the South African Responsible Gambling Foundation, the entity which supervises the National Responsible Gambling Programme (NRGP) in co-operation with the gambling industry operators and governmental regulators. The NGRP integrates education, research and treatment into one programme.



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Ocean Sun Casino, Panama