

OPERATING ENVIRONMENT

We operate in a dynamic macro-operating environment, influenced by external and internal factors that are not always in our control. Therefore, we focus on areas we can impact in the gaming and hospitality environment, which is largely impacted by economic, regulatory and industry trends in South Africa and Latam. We ensure our strategy can adapt to these trends as we navigate our way forward.

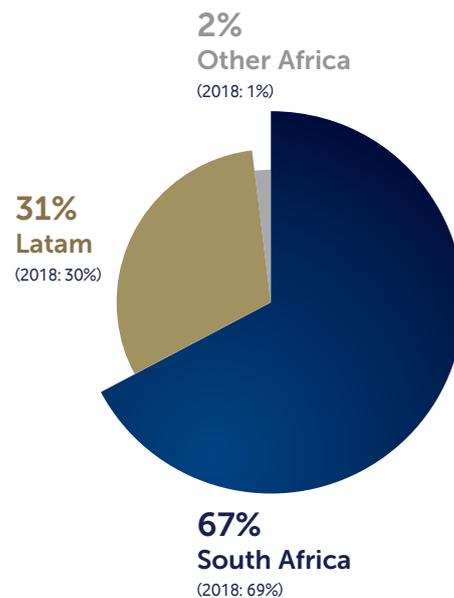
ECONOMIC ENVIRONMENT

The South African economy continues to underperform, with low GDP growth and high unemployment, weighed down by lower investor confidence on the back of concerns of a further ratings downgrade, continued power outages, increasing debt levels and ongoing social and political tensions. Consumer disposable income remains under pressure resulting in the likelihood of less disposable income allocated to leisure and entertainment spend. The rand remains vulnerable to movements in the US dollar and, if South Africa is downgraded to non-investment grade, more volatility lies ahead as investors withdraw money from South Africa.

The rand closed at R13.99 (2019: R14.43) and is expected to weaken for the remainder of 2020. Latin America (Latam) experienced a growth slump, with eight out of 20 sovereigns on a negative rating outlook¹. Key factors impacting Latam's sovereign credit trends include persistent fiscal challenges, restricted market risk, rising debt and political and social risk. The graph depicts the GDP and inflation trends of the countries in which our core assets operate, namely South Africa, Argentina, Colombia, Chile, Panama and Peru.

¹ Fitch rating June 2019.

Group revenue contribution





Operating environment continued

Certain factors impacting economic growth in our countries of representation

SOUTH AFRICA

Ratings²: Long-term issuer default **BB+**

Outlook: **Negative**

- Low-growth economy exacerbated by high and rising debt and high unemployment
- Pressures on policymaking from extremely high inequality
- Strong local bond market with enticing yields

ARGENTINA

Ratings²: Long-term issuer default **CC**

Hyperinflationary environment

High (>80%) and increasingly costly debt burden

Extension of repayment of short-term US dollar-denominated treasury bills

CHILE

Ratings²: Long-term issuer default **A**

Outlook: **Stable**

- Rising social demands that will pressure government finances
- Fiscal stimulus package of USD5.5 billion to focus on infrastructure, SMEs and employment protection measures
- Upward trajectory of public debt as a percentage of GDP
- Credible policy framework

PERU

Ratings²: Long-term issuer default **BBB+**

Outlook: **Stable**

- Political uncertainty holding back private non-mining investment
- Economic policymaking institutions remain resilient despite political uncertainty
- Increase in private and public consumption amid sustained job creation and robust credit growth
- Strong public and external balance sheets

² Fitch ratings December 2019.

Sun International's response to the economic environment

Ongoing efficiency and optimisation focus – restructured our central office

Reducing debt levels

Ongoing strategic agreements that are cash accretive – Sibaya and SunSlots

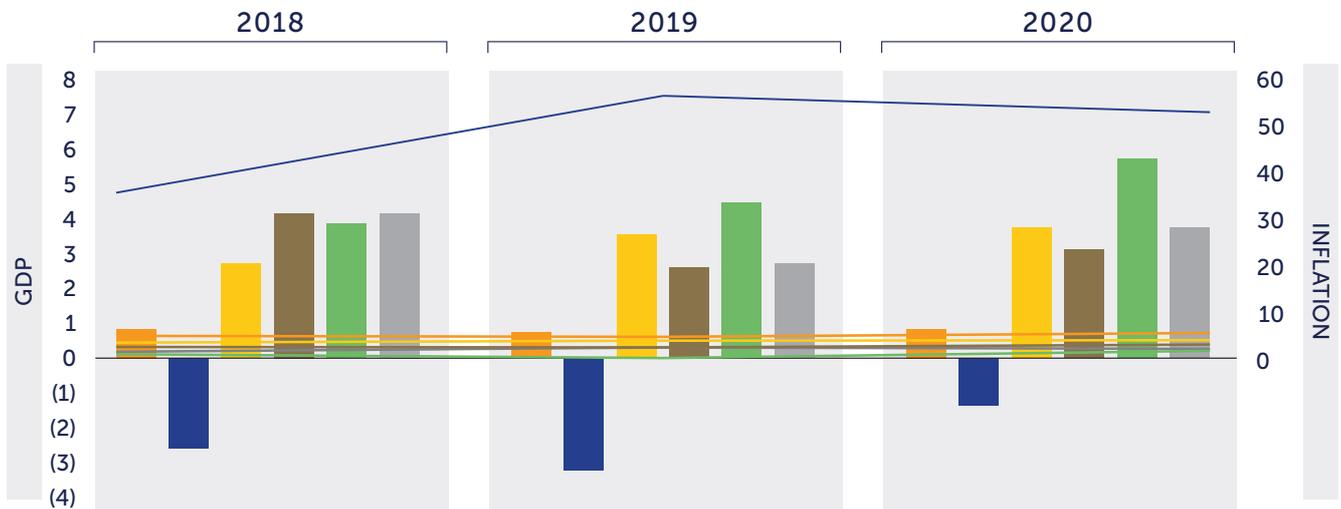
Refurbishing and maintaining properties to attract and retain guests

Offering guests loyalty programmes and benefits



Operating environment continued

Real GDP and consumer prices



	South Africa			Argentina			Colombia		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Gross domestic product, constant prices percent change	0.8	0.7	0.8	-2.5	-3.1	-1.3	2.6	3.4	3.6
Inflation, average consumer prices percent change	4.6	4.4	5.2	34.3	54.4	51.0	3.2	3.6	3.7

	Chile			Panama			Peru		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Gross domestic product, constant prices percent change	4.0	2.5	3.0	3.7	4.3	5.5	4.0	2.6	3.6
Inflation, average consumer prices percent change	2.3	2.2	2.8	0.8	0.0	1.5	1.3	2.2	1.9

Movements in consumer prices are shown as annual averages.

Source: International Monetary Fund's World Economic Outlook October 2019 and January 2020.





Operating environment continued

REGULATORY ENVIRONMENT

The group operates in a complex regulatory environment that is regularly monitored through its legal and compliance departments in South Africa and Latam. The National Gambling Board (NGB) is the main regulatory body that oversees the regulation in South Africa’s gaming industry. Our Latam operations have various regulatory and industry bodies that are tabled below. An update on key developments is discussed below.

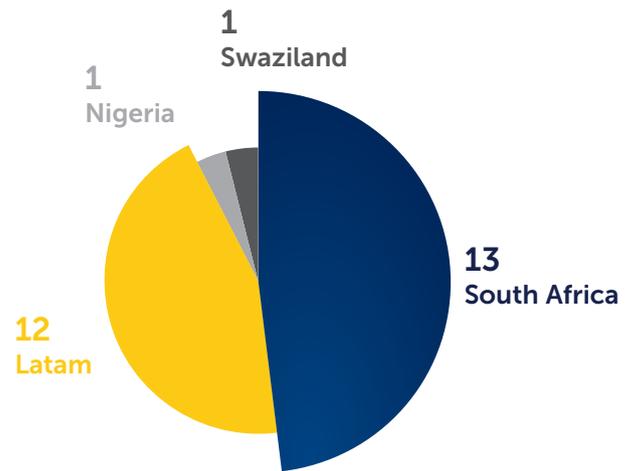
Key regulatory and industry bodies in South Africa and Latam

SOUTH AFRICA
The Department of Trade and Industry (dti) authorises the issuing of casino licences. In 2015 the dti increased the South African casino licences from 40 to 41, which is under appeal
The National Gambling Board oversees the regulation of South Africa’s gaming industry There are 41 authorised casino licences in South Africa, and 39 have been issued . Each province has its own gaming legislation

LATAM
ARGENTINA has a federal structure and gaming activities remain under control of each province . Mendoza’s gaming regulatory authority is the Instituto Provincial de Juegos y Casino de le Provincia de Mendoza
CHILE – The Superintendent of Casinos (SCJ) oversees 18 authorised casinos in 13 regions of the country, with another seven casinos operating under concession granted by certain municipalities
PANAMA – The Gaming Control Board – operating under the auspices of the Minister of Economy and Finance
PERU – The General Direction of Casino Games and Slot Machines . Peru is preparing for legislative reforms, which, if approved, will regulate online gambling and sports betting services in the country. This will provide opportunities for Sun International to introduce online and sports betting products
COLOMBIA - The Coljuegos



SUN INTERNATIONAL CASINO LICENCES
27



6
Sun International route operator licences (LPMs)

1
Sun International online sports betting licence

4
Sun International cash betting retail stores



Operating environment continued

Key legislation impacting our business

SOUTH AFRICA

SMOKING LEGISLATION

THE DRAFT CONTROL OF TOBACCO PRODUCTS AND ELECTRONIC DELIVERY SYSTEMS BILL 2018 (THE DRAFT BILL)

Context and impact

In 2018, the Department of Health published the Draft Bill for public comment. The Draft Bill, inter alia, proposes prohibiting any person from smoking in an enclosed public place or an enclosed workplace. The operation of casinos falls within the scope of this provision. The effect of the Draft Bill is that casinos may no longer be permitted to designate separate, indoor smoking areas/rooms. We have engaged with the gaming regulators on the matter and the Casino Association of South Africa (CASA) and have made submissions on the Draft Bill. The proposed legislation to ban smoking in public areas will significantly impact the group's casino revenues

GAMING TAXES AND LEVIES

AMENDMENTS TO GAUTENG, KWAZULU-NATAL (KZN), WESTERN CAPE AND NORTH WEST GAMING LEVIES

Context and impact

The Gauteng, KZN and Western Cape Gambling Boards are proposing increased gaming levies, which will impact Sun International's profitability. In addition, the North West Gambling Board imposed increases that became effective on 1 February 2020

SOUTH AFRICAN NATIONAL GAMING TAX

AMENDMENTS TO THE NATIONAL GAMBLING AMENDMENT BILL

Context and impact

It was announced in the 2019 budget speech that draft legislation introducing a gambling tax in the form of a 1% gaming income levy would be published for public comment

REPOSITIONING THE NGB

TO BECOME A NATIONAL GAMBLING REGULATOR

Context and impact

The National Gambling Amendment Bill was tabled at Parliament in 2018. If the amendments are enacted in their current form there will be an imbalance in the legislative framework, as a single individual can make material decisions that may affect the gambling industry negatively without any input from other key persons of the NGR

2019 developments

CASA, on behalf of its members, submitted substantial comments in 2018 against the Amendment Bill and the dti introduced the redrafted Bill to the Select Committee on Trade and International Relations. There has been no further update on this Bill

CARBON TAX IMPLEMENTATION OF THE CARBON TAX ACT NO. 15 OF 2019

Context and impact

Effective 1 June 2019, the Carbon Tax Act imposes a tax of R120 per carbon ton on a company's CO2 greenhouse gas emissions, based on a scientific formula

2019 developments

Sun International is in the process of calculating its carbon tax liability July to December 2019 – approximately R200 000

FINANCIAL INTELLIGENCE CENTRE ACT (FICA)

MORE ONEROUS REQUIREMENTS FOR CUSTOMERS WHO TRANSACT BELOW R5 000

Context and impact

This amendment requires accountable and reporting institutions to identify all customers who transact below R5 000. The group has revised its controls and systems within its gaming operations to align with the amendments to the FICA

2019 developments

The company's gaming operations successfully implemented controls and systems to align with the risk-based approach. The company was nominated by the FIC to participate in a country assessment conducted by independent foreign assessors

B-BBEE LEGISLATION

Context and impact

The dti released the new draft codes on 31 May 2019 and the Tourism Sector Charter unveiled their sector codes changes in November 2019 for commentary

2019 developments

Sun International is monitoring changes to the Tourism Sector Code

LATAM

INCREASE IN CHILE'S SMOKING RESTRICTIONS IN PUBLIC AREAS

Context and impact

The proposed new bills will increase smoking restrictions in public areas, however there is uncertainty as to whether these bills will be enforced

PERU GAMING TAXES AND LEVIES

A DECREE PUBLISHED REGARDING A MONTHLY CONSUMPTION TAX

Context and impact

In terms of a decree published in September 2018, from 1 January 2019, casinos will have to pay a monthly consumption tax levied against its machine and gaming table they offer on premises. The specific amounts will vary according to the level of gaming income reported by each machine or table. This represents an estimated additional tax of 4.8% to the current 12% tax on gross gaming income



Operating environment continued



GAMING AND HOSPITALITY ENVIRONMENT

Gaming

South Africa’s casino industry remains under pressure as a result of the subdued economic climate that places pressure on consumer disposable income. Significant issues other than the issues mentioned in the legislative impacts (smoking and, gaming taxes and levies) that are impacting the group are discussed below and in further detail in the risk section.

SOUTH AFRICA

ONGOING ROLLOUT OF EBT'S

Context and impact

The proliferation of EBT's continues to impact the casino market in South Africa. While the NGB is against the rollout of EBT's, certain provinces continue to issue licences or are looking to do so. Sun International is opposed to an EBT rollout in the current regulatory environment

ILLEGAL AND ONLINE GAMBLING

Context and impact

Illegal and online gambling leads to negative socio-economic impacts, including fewer collected taxes for national development and redundancies in casino jobs

RELOCATION OF A CASINO LICENCE IN THE CAPE METROPOLE (WESTERN CAPE)

Context and impact

This proposed legislation could lead to declines in gambling revenue and a loss of jobs. Sun International’s GrandWest and Worcester casinos will be directly impacted should this Bill be passed into law

LATAM

ILLEGAL AND ONLINE GAMBLING

Context and impact

Illegal and online gambling leads to negative socio-economic impacts, including fewer collected taxes for national development and redundancies in casino jobs

Hospitality

While the tourism sector is an important driver of economic growth, the hospitality industry is particularly vulnerable to the ebbs and flows of economic conditions and increasing competition. Towards the end of 2019, South Africa finalised visa waiver agreements with several African and Middle Eastern countries in a bid to boost tourism to the country. Although this visa issue has been resolved, there is a lag effect to regaining market share in the hospitality industry. While the drought conditions in the Western Cape and Eastern Cape have abated, the group continues to implement sustainable solutions to ensure our guests are not negatively impacted should a similar crisis reoccur.

Rooms make up 8% (2018: 8%) of Sun International’s revenue. Most of the group’s hotels focus on serving our gaming customers. In South Africa, Sun City, The Table Bay, The Maslow Sandton and Maslow Time Square are focused on local and international business and leisure travellers. In Chile, the group has several hotels at its casino properties that serve local travellers and VIP gaming customers.

The coronavirus (COVID-19) outbreak has killed thousands of people and continues to spread. Leading health experts globally have been meeting at the World Health Organization to accelerate and fund priority research on the disease to help stem the outbreaks. To prevent its spread, travel bans have been implemented world-wide. Sun International is taking all necessary precautions to ensure a safe and healthy environment for all our stakeholders.

OTHER OPERATING ENVIRONMENT FACTORS

While not specifically covered under this operating environment section, the group acknowledges that there are various other factors impacting our operations. These include climate change, IT and society in general, which are incorporated in other sections of our integrated annual report – environment, governance and sustainability, improve our existing operations and guest experience and socio-economic development.