

# RISK MANAGEMENT

Our risk management process provides an appropriate balance between identifying and minimising key risks while realising value creation opportunities. Risks identified arise from various internal and external factors. Risks inform as well as shape our strategy. The board is ultimately responsible for governing the group’s risk management process, which includes formulating the group’s risk appetite, and setting and monitoring risk tolerance. The board discharges its duties by mandating specific risk management duties and responsibilities to the group risk committee.

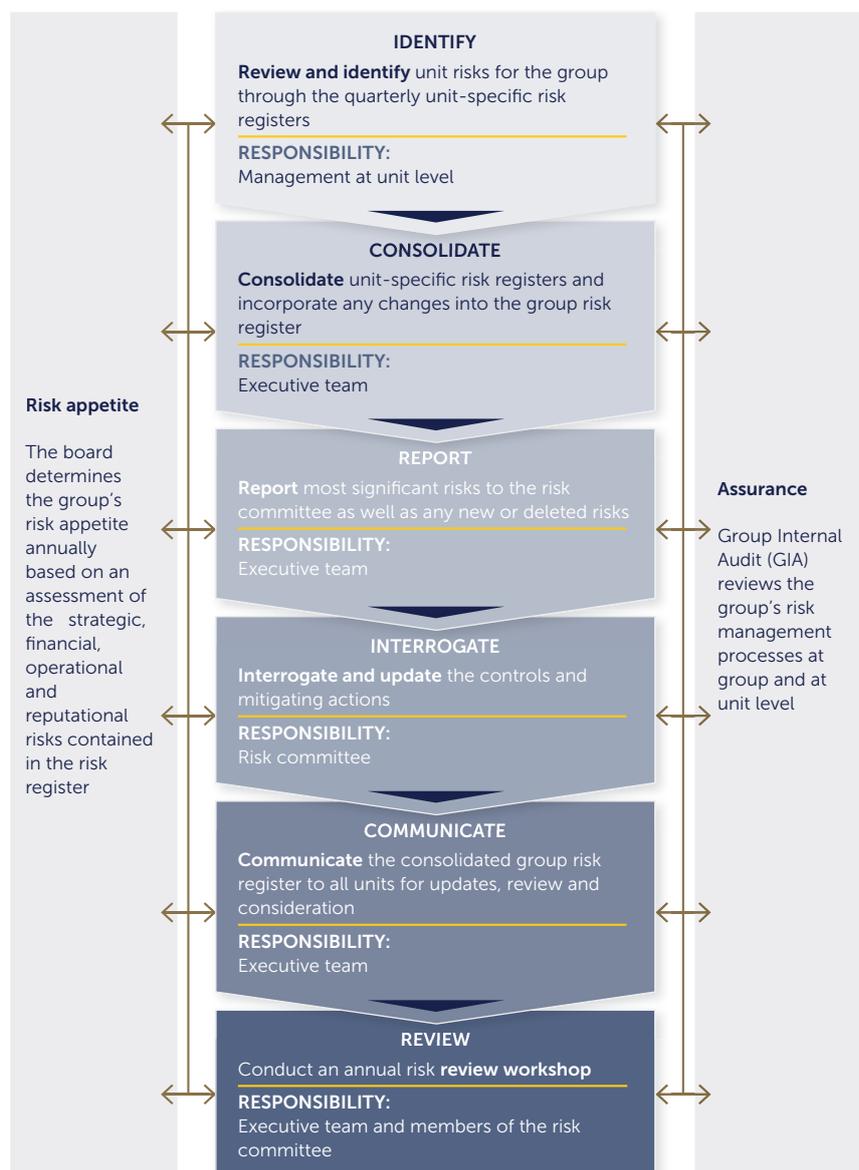
## RISK APPROACH

Sun International has a formal risk management process and governance structure with various management and board committees responsible for identifying, reviewing and monitoring the group’s risks and recognising opportunities. Our executive team remains collectively responsible for managing and reviewing the risk register prior to each risk committee meeting.

Each risk is linked to the achievement of the group’s strategic objectives. The group considers its risks in terms of the possible impact and likelihood of a risk occurring, along with the effectiveness of mitigating controls which results in a residual risk exposure. A residual risk rating is allocated to each risk with a detailed risk mitigation action plan with quarterly status updates and contingency plans and possible opportunities, to minimise or prevent the risk. The residual risk rating considers the duration of the prevailing risk and determines the urgency of action required by management. Each risk is assigned to a specific executive who is responsible for implementing the mitigation measures and accountable for continually monitoring progress.

An annual risk workshop, attended by the risk committee and relevant executives, is held to ensure the risk methodology and approach is still relevant and that the risks are representative of the group’s risk universe. The risk committee is satisfied that the group’s 2019 risk approach was consistently applied group-wide and remains relevant and robust. The group also obtains an independent opinion from a third-party consultant from time to time on the appropriateness of its risk management process and its alignment to best practice.

## RISK IDENTIFICATION PROCESS

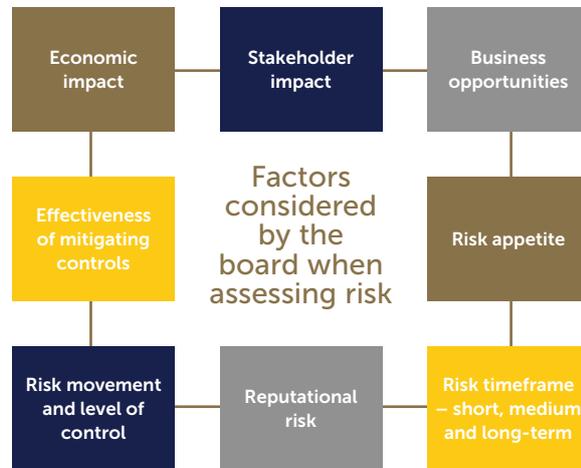




**Risk management** continued

**RISK GOVERNANCE**

The chairman of the risk committee reports to the board following each meeting, in accordance with the committee's terms of reference. The committee's mandate provides that material matters are reported to the group's audit committee to ensure the committee has appropriate insight into the group's key risks and opportunities and avoid duplication of matters within the remit of both committees. The board, through the audit and risk committees, considers the risks and opportunities the group may face. It also seeks the assurance of the risk committee chairman, that the risks have been assessed and mitigated by management. The chairman of the audit committee is a member of the risk committee. The interaction between these two committees is such that the audit committee has an oversight role specifically in relation to financial reporting risks.



**Risk governance structure**

The risk governance structure below depicts the various management and board committees responsible for the risk management process group-wide. As a control measure, GIA's annual internal audit plan includes a review of the risk methodology application consistency, the effectiveness of risk controls and the risk governance structure.

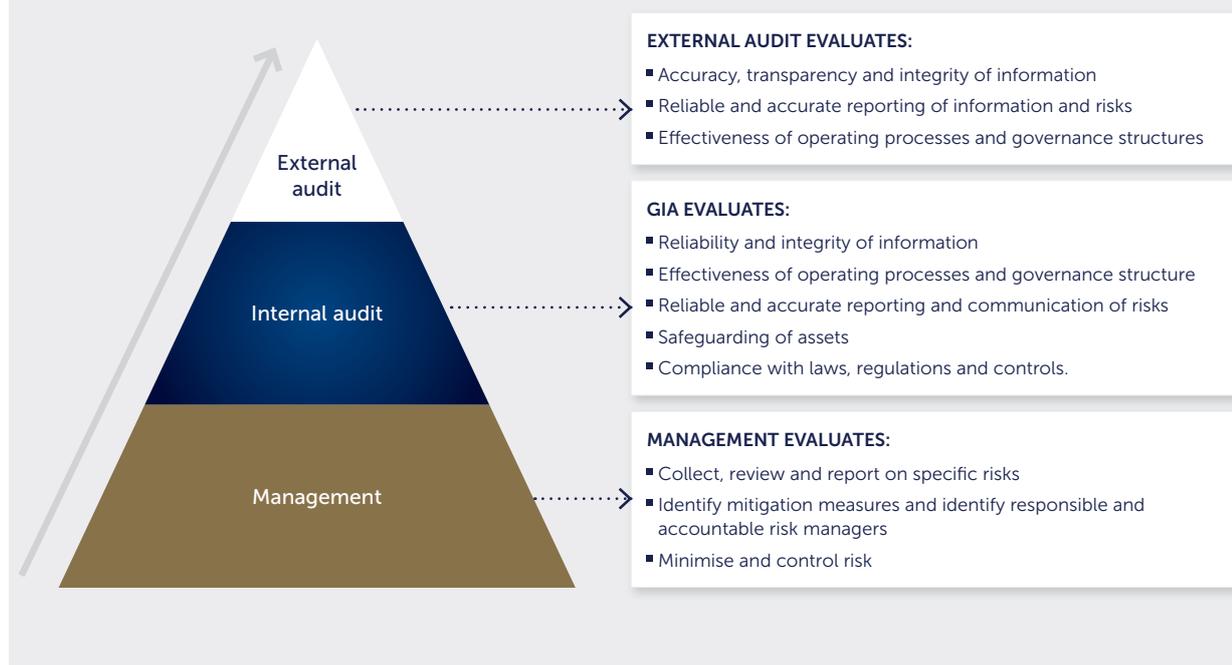




**Risk management** continued

**Combined assurance model**

The group's combined assurance model is presented below and consists of internal assurance (management and internal audit) and external assurance (external audit).



**TOP 10 RISKS AS AT 31 DECEMBER 2020**

Historically we have always reported on our top 10 risks as at 31 December. However, given the unprecedented risk the coronavirus presents world-wide, we believe it is prudent to inform all stakeholders how the group is managing its operations given the significant impact on our business. The paragraph below details how Sun International is mitigating this risk.

**Coronavirus (COVID-19)**

Sun International was proactive in mobilising its operations to safeguard our employees as well as hotel and casino patrons and other customers who visit our premises. We have identified key suppliers and procurement items to ensure continuity of supply. A crisis leadership task team was established incorporating health and safety representatives to monitor business interruption and contaminations within the group.

We have also implemented relevant health and safety measures including hand sanitizers, thermal sensors and masks and developed standard operating procedures to deal with suspected or confirmed positive COVID-19 cases. To keep all employees, suppliers and patrons informed we continue to provide regular communications group-wide.

The group continues to monitor this unprecedented pandemic and proactively communicate with all stakeholders. Further we continue to review and assess the long-term impact this global pandemic will have on our properties.

A comprehensive media update is provide on our website at at <https://corporate.suninternational.com/media/>



Risk management continued

The risk table identifies the group's top 10 risks as at 31 December 2019. These risks are discussed in detail and include Sun International's level of control, key stakeholders impacted and primary board committee responsible for oversight. For the year under review risk 9 (civil protests and riots) was added to the risk register and risk 5 (the non-renewal or significant cost of SCJ licences renewal) moved into the top 10 risks. Two prior risks (Maslow Time Square not achieving its feasibility and cyber threats and information security) moved out of the group's top 10 risk register but remain within our risk universe.

Risk ranking	Risk description	Residual risk	Change in severity	Strategic objective
1	Smoking legislation (South Africa and Latam)	<b>SERIOUS</b>	Risk movement ◆ <b>UNCHANGED</b> (2018:1)	 Governance and sustainability
2	Weak economic conditions (South Africa and Latam)	<b>SERIOUS</b>	Risk movement ▲ <b>INCREASED</b> (2018:3)	 Improve our existing operations and our guest experience
3	Erosion of market share due to Electronic Bingo Terminal (EBTs) and Limited Pay-out Machines (LPMs) in catchment areas	<b>MODERATE</b>	Risk movement ▼ <b>DECREASED</b> (2018:2)	 Improve our existing operations and our guest experience
4	Increase in gaming taxes and levies (South Africa and Latam)	<b>MODERATE</b>	Risk movement ▲ <b>INCREASED</b> (2018:8)	 Protect and leverage our existing asset portfolio
5	Non-renewal or significant cost of SCJ licences renewal (Latam)	<b>MODERATE</b>	Risk movement ▲ <b>INCREASED</b> (2018:16)	 Protect and leverage our existing asset portfolio
6	Increased demands from stakeholders (communities and local suppliers)	<b>MODERATE</b>	Risk movement ▲ <b>INCREASED</b> (2018:9)	 Protect and leverage our existing asset portfolio  Governance and sustainability
7	Loss of Grandwest Casino licence exclusivity (South Africa)	<b>WITHIN APPETITE</b>	Risk movement ▼ <b>DECREASED</b> (2018:5)	 Protect and leverage our existing asset portfolio
8	Ongoing changes in licence conditions (South Africa and Latam)	<b>WITHIN APPETITE</b>	Risk movement ▼ <b>DECREASED</b> (2018:6)	 Protect and leverage our existing asset portfolio
9	Civil protests and riots (South Africa and Latam)	<b>WITHIN APPETITE</b>	Risk movement ● <b>NEW RISK</b>	 Protect and leverage our existing asset portfolio
10	Illegal gambling (South Africa and Latam)	<b>WITHIN APPETITE</b>	Risk movement ▼ <b>DECREASED</b> (2018:7)	 Improve our existing operations and our guest experience



Risk management continued

Residual Risk: **WITHIN APPETITE** **MODERATE** **SERIOUS**

1

SMOKING LEGISLATION (SOUTH AFRICA AND LATAM)

Sun International's level of control: **Low**

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Primary board committee: **Risk committee**

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Key stakeholders: **Employees, customers, health authorities and shareholders**

Risk movement

◆

**UNCHANGED**

(2018:1)

**Risk description**

South Africa's draft Control of Tobacco Products and Electronic Delivery System Bill, 2018 was published in May 2018 and includes a ban on smoking (including e-cigarettes) in public areas (both indoor and outdoor areas). This proposed legislation will have a significant impact on group casino revenues

In Chile, new bills have been proposed to increase smoking restrictions in public areas as well as restrictions for smoking advertisements. However, to date there is no urgency of these bills being enforced

**Risk mitigation**

- Submitted comments on the proposed South African legislation
- Lobbying and engaging with CASA, the gaming boards, trade unions and other companies who have similar concerns regarding this legislation
- Working in conjunction with the gaming industry in Latam to monitor proposed legislation and impact on Sun Dreams
- Rolling out alternative non-tobacco products at certain South African operations
- Increasing smoking decks at our Latam operations

**Outlook**

- The South African legislation is not expected to be enacted in the 2020 financial year
- In Chile there is no urgency for the revision and approval of these proposed bills, with uncertainty around these revisions becoming law
- The group continues to lobby and coordinate efforts with other affected industries

**Strategic objectives impacted**

Governance and sustainability

2

WEAK ECONOMIC CONDITIONS (SOUTH AFRICA AND LATAM)

Sun International's level of control: **Low**

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Primary board committee: **Risk and audit committees**

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Key stakeholders: **Shareholders and potential investors and employees**

Risk movement

▲

**INCREASED**

(2018:3)

**Risk description**

The economies within which we operate remain subdued with a bleak economic outlook in South Africa

**Risk mitigation**

- Ongoing focus on improving operational and resource efficiencies as well as cost containment across the group
- Reducing group debt levels as well as refinancing and hedging debt
- Focusing on customer service and value offerings
- Focusing on repairs and maintenance while optimising capital expenditure
- Improving investor relationships through regular and proactive engagement
- Restructuring the central office in South Africa

**Outlook**

- Global weak economic climate will continue and in South Africa the situation is further exacerbated by the country's fragile energy supplier and high energy costs. As such the group will continue extracting efficiencies group-wide

**Strategic objectives impacted**

Improve our existing operations and our guest experience



Risk management continued

Residual Risk: **WITHIN APPETITE** **MODERATE** **SERIOUS**

**3** **EROSION OF MARKET SHARE DUE TO ELECTRONIC BINGO TERMINAL (EBTS) AND LIMITED PAY-OUT MACHINES (LPMS) IN CATCHMENT AREAS**

**RISK CATEGORY**  
Increased competition

Sun International's level of control:	<b>Low</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Shareholders and potential investors, gaming boards, regulators and suppliers</b>

**Risk description**  
The economies within which we operate remain subdued with a bleak economic outlook in South Africa

**Risk mitigation**

- Ongoing focus on improving operational and resource efficiencies as well as cost containment across the group
- Reducing group debt levels as well as refinancing and hedging debt
- Focusing on customer service and value offerings
- Focusing on repairs and maintenance while optimising capital expenditure
- Improving investor relationships through regular and proactive engagement
- Restructuring the central office in South Africa

**Risk movement**  
▼  
**DECREASED**  
(2018:2)

**Outlook**

- Sun International continues to engage government and the gaming boards regarding EBT and ISO rollouts to protect the group's licence exclusivity

**Strategic objectives impacted**

Improve our existing operations and our guest experience

**4** **INCREASE IN GAMING TAXES AND LEVIES (SOUTH AFRICA AND LATAM)**

**RISK CATEGORY**  
Regulated operating environment

Sun International's level of control:	<b>Low</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Gaming boards, CASA, provincial government and shareholders</b>

**Risk description**  
The Gauteng Gambling Board gazetted an increase in Gauteng gaming levies effective 1 April 2019. This Bill was however withdrawn by the MEC in 2019, following opposition by CASA, on behalf of its members  
  
The KwaZulu-Natal (KZN) Gambling Board gazetted an increase in KZN gaming levies effective January 2020. The increase in levies was however not material. This schedule was withdrawn by the MEC in January 2020, following opposition by CASA, on behalf of its members  
  
In January 2020, the MEC of the North West Province responsible for gambling gazetted an increase in gaming levies, which equates to an approximate 17% increase (approximately R9 million increase in levies). The matter is being opposed by CASA  
  
In January 2020, the Western Cape Provincial Treasury gazetted an increase in costs and fees. The business is considering its legal options  
  
In Peru, a decree was published in 2018 regarding a monthly consumption tax that includes taxes on gambling and betting, which became effective in January 2020

**Risk mitigation**

- Monitoring CASA's progress in challenging the increase on grounds of a procedural and fairness basis
- Lobbying and challenging proposed gaming tax legislation
- The gaming industry in Peru has launched a legal challenge against this proposed tax and Sun Dreams is obtaining legal advice on this proposed law

**Risk movement**  
▲  
**INCREASED**  
(2018:8)

**Outlook**

- We will continue to lobby through CASA and will comply with legislation in North West and Western Cape
- Awaiting feedback from the gaming industry and Sun Dreams' legal counsel on Peru's proposed decree to determine next steps

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio



Risk management continued

Residual Risk: **WITHIN APPETITE** **MODERATE** **SERIOUS**

**5 NON-RENEWAL OR SIGNIFICANT COST OF SCJ LICENCES RENEWAL (LATAM)**

**RISK CATEGORY**  
Gaming and other operating licences

Sun International's level of control: **Low**

Primary board committee: **Risk committee, investment committee**

Key stakeholders: **Gaming boards, SCJ and shareholders**

**Risk description**  
The potential renewal licence bid terms and conditions for our SCJ casinos in Chile in 2023 could prove uneconomically feasible for Sun Dreams

**Risk mitigation**

- Monitoring SCJ casino law changes with the regulators and legislative bodies
- Motivating for SCJ licence extensions
- Limiting capital expenditure until renewal certainty
- Collaborating with the Chilean casino association to modify casino law and recover the group's investment

**Outlook**

- Ongoing lobbying with the Chilean casino association to resolve this matter
- Taking legal action if the terms of renewal are in line with what was intended with initial bid, which would favour the existing incumbent

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio

**Risk movement**  
▲  
**INCREASED**  
(2018:16)

**6 INCREASED DEMANDS FROM STAKEHOLDERS (COMMUNITIES AND LOCAL SUPPLIERS)**

**RISK CATEGORY**  
Regulated operating environment

Sun International's level of control: **Medium**

Primary board committee: **Social and ethics committee**

Key stakeholders: **Communities and suppliers**

**Risk description**  
There has been a significant increase in demands from local communities and local suppliers surrounding our operations, ranging from procurement, employment, shareholding to land opportunities. Political parties are increasing their involvement and local B-BBEE shareholders' requests are increasing

**Risk mitigation**

- A formal community engagement management plan is in place including stakeholder engagement forums as well as a dedicated SED and community engagement specialist, to improve community dialogue and to identify community needs
- Ongoing communication with interested stakeholder groupings
- Focusing on local B-BBEE procurement, enterprise development and SED within communities surrounding group operations

**Outlook**

- These increased stakeholder demands are expected to continue given the weak economic environment. Sun International will continue efforts to increase local procurement spend and proactively engage with stakeholders

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio

Governance and sustainability

**Risk movement**  
▲  
**INCREASED**  
(2018:9)



Risk management continued

Residual Risk: **WITHIN APPETITE** **MODERATE** **SERIOUS**

**7 LOSS OF GRANDWEST CASINO LICENCE EXCLUSIVITY (SOUTH AFRICA)**

**RISK CATEGORY**  
Gaming and other operating licences

Sun International's level of control:	<b>Low</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Gaming boards, provincial government, communities and guests</b>

**Risk movement**  
▼  
**DECREASED**  
(2018:5)

**Risk description**  
Draft legislation was published in February 2018 that allows for the relocation of casinos. If this legislation is implemented, there is a risk of diluting GrandWest Casino's gambling revenues, thereby impacting overall profits which may lead to job losses and revenue displacement – all of which have a negative impact on the local economic environment. There has been significant media reaction to this draft legislation, with most interested parties objecting to the relocation of casinos. There were no further legislation developments since objections were lodged in August 2018

**Risk mitigation**

- Continuing to review and challenge the proposed legislation
- Ongoing lobbying with government to discuss and consider proposal for exclusivity
- Extensive engagement with media, local municipalities and other interested stakeholders informing them of the risks of relocation in respect of revenue declines and potential job losses

**Outlook**

- It is unlikely that this legislation will be implemented in 2020, however, Sun International will continue lobbying with relevant stakeholders to challenge this legislation

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio

**8 ONGOING CHANGES IN LICENCE CONDITIONS (SOUTH AFRICA AND LATAM)**

**RISK CATEGORY**  
Gaming and other operating licences

Sun International's level of control:	<b>Medium</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Gaming boards, provincial government, shareholders and potential investors</b>

**Risk movement**  
▼  
**DECREASED**  
(2018:6)

**Risk description**  
Regulators may issue more onerous licence conditions that will impact the group's licence compliance and profitability

**Risk mitigation**

- Negotiating licence conditions with various gambling boards
- Proactively improving relationships with gambling boards
- Maintaining or improving current B-BBEE levels in South Africa
- Continuing to invest in local and affected communities

**Outlook**

- The group continues to proactively engage with the relevant gambling boards

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio



Risk management continued

Residual Risk: **WITHIN APPETITE** **MODERATE** **SERIOUS**

**9 CIVIL PROTESTS AND RIOTS (SOUTH AFRICA AND LATAM)**

**RISK CATEGORY**  
Business interruption

Sun International's level of control:	<b>Low</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Provincial government, employees, guests, shareholders and potential investors</b>

**Risk description**

The potential risk of civil protests and riots resulting in business interruption, damage to property and restricted employee and guest access. Factors aggravating these protests and riots include lack of service delivery, poverty, high unemployment, an inequality gap and corruption

**Risk mitigation**

- Proactive employee engagement to determine matters of concern they face in their communities
- Ensuring business contingency plans including insurance as well as access to properties and loss of customer attraction and retention

**Risk movement**

●

**NEW RISK**

**Outlook**

- The weak economic conditions that persist in South Africa and the social challenges in Chile could give rise to further protests and riots and disruption to our operations. Ongoing proactive stakeholder engagement remains a focus to determine concerns within our countries of representation

**Strategic objectives impacted**

Protect and leverage our existing asset portfolio

**10 ILLEGAL GAMBLING (SOUTH AFRICA AND LATAM)**

**RISK CATEGORY**  
Increased competition

Sun International's level of control:	<b>Low</b>
Primary board committee:	<b>Risk committee</b>
Key stakeholders:	<b>Gaming boards, CASA, South African Police Service and provincial and national government</b>

**Risk description**

The proliferation of illegal gambling operations continues to erode gambling revenues. Companies need to constantly adapt to these invisible operators. Recently there has been improved coordination with gaming boards and law enforcement, which has resulted in the closure of some illegal operations

**Risk mitigation**

- Providing authorities with intelligence around illegal gaming and casino outlets
- Lobbying gaming boards for support from law enforcement agencies

**Risk movement**

▼

**DECREASED**  
(2018:7)

**Outlook**

- The group continues to engage with relevant stakeholders to assist in combatting illegal gambling. In South Africa we expect increased action against illegal operations

**Strategic objectives impacted**

Improve our existing operations and our guest experience