

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2018

I am pleased to present the report of the Sun International audit committee for the year ended 31 December 2018.

The audit committee assists the board in fulfilling its responsibilities regarding the company's corporate and financial reporting, internal controls, risk management, as well as assessing the independence and effectiveness of the external auditors. This is supplemented with the statutory duties set out in the Companies Act 71 of 2008, as amended (Companies Act). The committee performs the requisite statutory functions on behalf of all subsidiaries within the group and reports to these subsidiary boards confirming the performance of its duties each year.

COMPOSITION, MEETINGS AND ASSESSMENT

The committee comprises five independent non-executive directors and meets at least three times per annum as per the committee mandate and terms of reference. The Sun International chief executive, chief financial officer, chief audit executive of Group Internal Audit (GIA), the external auditor and other service providers (group tax manager and group finance manager) attend meetings by invitation.

Four meetings were held during the financial year and to the date of this report.

Member	Mar 2018	Sep 2018	Nov 2018	Mar 2019
	In attendance			
GR Rosenthal ¹	✓	n/a	n/a	n/a
PD Bacon	✓	✓	✓	✓
PL Campher	✓	✓	✓	✓
EAMMG Cibie	✓	✓	✓	✓
CM Henry (chairperson) ²	✓	✓	✓	✓
ZP Zatu ³	✓	✓	✓	✓

¹ GR Rosenthal was chairman and retired effective 12 May 2018.

² CM Henry was appointed chairperson effective 15 May 2018.

³ ZP Zatu was appointed a member of the committee effective 23 November 2018.

The members of the committee have the necessary financial literacy, skills and experience to discharge their duties effectively.

The committee's terms of reference prescribe that the effectiveness of the committee, its chairperson and members should be assessed annually. In 2017 the committee's evaluation assessment was conducted internally. The results of the assessment reflected that the committee was performing its functions effectively and there were limited areas for improvement.

Following the assessment of the effectiveness of the committee as conducted by the nomination committee, the members of the committee are nominated by the board for re-election to the committee in the forthcoming financial year. Shareholders will vote on this recommendation at the upcoming 2019 annual general meeting.

ROLE AND RESPONSIBILITIES

The committee has executed its responsibilities in keeping with the recommendations of the King Code of Corporate Governance™ for South Africa, 2016 (King IV™*), the JSE Listings Requirements and the Companies Act. This is in addition to the supplementary responsibilities prescribed by our mandate and terms of reference, as approved by the board. Our key areas of responsibility are to:

- perform the statutory duties as prescribed by the Companies Act
- oversee the group's integrated reporting process and assess the disclosures made to all the stakeholders, which includes the annual financial statements for the year under review
- consider the risk and compliance management processes and the relevant assurance
- consider the effectiveness of internal controls
- oversee the appointment and function of internal and external audit and the non-audit services rendered during the year
- assess the independence and performance of both the internal and external audit processes and providers.

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REPORT OF THE AUDIT COMMITTEE CONTINUED

FINANCIAL STATEMENTS AND ACCOUNTING POLICIES

The committee assessed the group's accounting policies and consolidated annual financial statements for the year ended 31 December 2018. The committee recommended the audited consolidated annual financial statements to the board for approval, which the board subsequently approved, and they will be presented to shareholders at the 2019 annual general meeting.

The committee confirms that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Profession Act 26 of 2005.

The committee did not receive any complaints relating to the accounting practices; internal audit; the content or auditing of the group's audited consolidated annual financial statements; the internal financial controls of the group or any related matters.

At the committee meetings held during November 2018 and March 2019, the committee, after considering the reports of the external auditor and internal audit, concluded that there was no reason to believe that there had been any material breaches of financial reporting procedures throughout the group which warranted being brought to the attention of the board or shareholders.

EXTERNAL AUDITOR APPOINTMENT, INDEPENDENCE AND FEES

The committee is responsible for determining that the external audit firm and designated individual auditor have the necessary independence, experience, qualifications and skills, and that the audit fees and non-audit fees are reviewed and approved.

The committee is satisfied that the group's external auditor, PricewaterhouseCoopers Inc. (PwC) is independent, which review included the extent of non-audit work undertaken by PwC for the group and compliance with criteria relating to independence or conflicts of interest, as prescribed by the Independent Regulatory Board for Auditors and other international bodies. The requisite assurance was also sought and provided by PwC that internal governance processes within the audit firm support and demonstrate its claim to independence. A formal policy governs the process whereby PwC is considered for non-audit services. The audit committee determines the nature and extent of non-audit services that PwC can provide and preapproves all permitted non-audit assignments by PwC.

The committee, in consultation with executive management, agreed to the terms of the 31 December 2018 audit engagement letter, the audit plan and budgeted audit fees. Refer to note 4 in the annual financial statements disclosing audit fees and fees for non-audit services.

Following the assessment of the performance of PwC, the committee has nominated PwC for re-election as the group's external auditor at the 2019 annual general meeting. The committee satisfied itself that the audit firm and designated auditor are accredited in terms of the JSE list of auditors and their advisers.

SIGNIFICANT MATTERS AND QUALITY OF THE EXTERNAL AUDIT

Sun City impairment

IAS 36: Impairment of Assets requires an entity to assess, at each reporting date, whether there are any indicators that assets may be impaired. An entity is required to consider information from both external sources (such as market interest rates, significant adverse changes in the market, economic or operating environment in which the entity operates, and internal sources (such as future forecasts, restructuring or evidence of obsolescence or physical damage to assets)).

After the assessment described above and extensive discussions with the auditors, Sun International was required to take an impairment charge of R306 million against the R2.3 billion carrying value of Sun City.

The R306 million impairment was allocated against leasehold buildings, as this asset class is representative of the majority of the current fair value of the net asset value of Sun City, which arose from the 2016 refurbishments.

In the prior year of assessment, Sun City indicated a possible impairment. Although extremely sensitive to the analysis, no impairment was necessary at that stage. However, due to the continued underperformance during the 2018 period under review, it was prudent to recognise the impairment charge.

The procedures performed on the key audit matters have been discussed and agreed with management and presented to the audit committee. The audit committee has satisfied itself that the procedures performed are adequate and appropriate.



Refer to the independent auditor’s report on page 8 to 14 for a detailed description of the key audit matters.

GOVERNANCE OF RISK

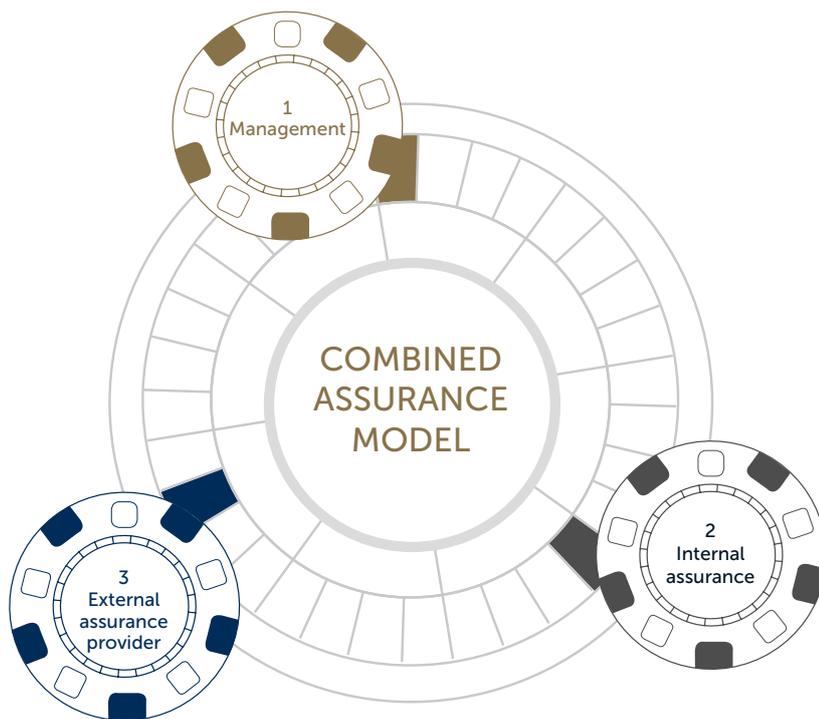
The committee’s chairperson is a member of the risk committee and the chairman of the risk committee is a member of the audit committee. This provides the audit committee with oversight of the group’s risk management function, including the risks relating to operational, financial reporting, fraud, internal control, information technology (IT) governance and compliance, among others. The group’s strategic risk register and risk committee minutes are included in the audit committee meeting pack for review.

COMBINED ASSURANCE

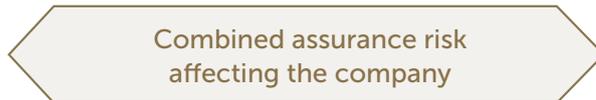
The group’s combined assurance model assists the group with understanding and demonstrating its combined lines of defence in mitigating areas of risk. The group’s combined assurance model is robustly evaluated by management, the risk committee and the audit committee during the year. It provides the committee with assurance that adequate assurance is provided for the mitigation of key risks across the group.

The group’s combined assurance model is depicted as a high-level overview below and was applied to the group’s top 15 risks for the year under review.

COMBINED ASSURANCE MODEL



Internal assurance is provided by our internal audit department



Our external assurance providers include PricewaterhouseCoopers Inc. (PwC), IBIS Assurance and Marsh, among others

REPORT OF THE AUDIT COMMITTEE CONTINUED

GROUP INTERNAL AUDIT (GIA)

The committee is mandated to ensure that the internal audit function is independent, properly resourced and effective. The independence, resources and effectiveness of GIA are assessed annually by the committee. In 2015 an independent quality assurance review was conducted, as required by the Institute of Internal Auditors. The next review will be conducted in 2019.

The purpose, authority and responsibilities of GIA are formally defined in an internal audit charter, which is reviewed and approved by the committee annually. GIA is designed to maintain an appropriate degree of independence from management in order to render impartial and unbiased judgements in performing its services. The scope of its function includes:

- performing independent evaluations of the adequacy and effectiveness of group controls, financial reporting mechanisms and records, information systems and operations;
- reporting on the adequacy of these controls;
- providing additional assurance regarding the safeguarding of assets and financial information; and
- to review and provide opinions on the effectiveness of the group's risk management processes and internal financial controls.

The director of GIA is accountable to the committee chairperson and reports administratively to the chief financial officer. GIA is functionally independent from the activities audited and the day-to-day internal control processes of the organisation. GIA provides management and the committee with independent evaluations and examinations of the group's activities and resultant business risks.

GIA is also responsible for monitoring and evaluating operating procedures and processes including, *inter alia*, gaming compliance, the responsible gambling programme compliance, operational health and safety and environmental audits. To minimise the duplication of effort, risk assessment in Sun International is coordinated through interaction between GIA and the audit and risk committees. The chief audit executive of GIA reports at audit and risk committee meetings and has unrestricted access to the chairperson/chairman, respectively, of these committees with whom she meets, independent of management, several times during the year. The appointment or dismissal of the chief audit executive of GIA requires the agreement of the audit committee.

The chief audit executive of GIA also attends the social and ethics committee meetings to provide feedback on audits considered relevant to the work of the committee.

INTERNAL FINANCIAL CONTROLS

The board of directors is responsible for the group's systems of internal financial controls. These systems are designed to provide reasonable but not absolute assurance as to the integrity and reliability of the audited consolidated annual financial statements. The systems safeguard, verify and maintain accountability of group assets, as well as detect and minimise significant fraud, potential liability, loss and material misstatement while complying with the applicable laws and regulations. The board tasked the committee to oversee the testing of the group's internal financial controls.

The committee confirms that GIA has adequately tested the group's internal financial controls to provide the board with positive assurance on the key areas of the group's internal financial controls.

The committee is of the opinion, having received the written assurance provided by GIA, that the group's systems of internal financial controls in all key material aspects are effective and provide reasonable assurance that the financial records may be relied upon for the preparation of the audited consolidated annual financial statements.

INTERNAL CONTROLS

The controls throughout the group concentrate on all risk areas with an emphasis on critical risk areas in the casino and hotel control environments. These risk areas are closely monitored and subject to GIA reviews. Assessments of the IT environments are also performed. Continual review and reporting structures enhance the control environments. GIA is of the opinion that the control environment of the group is adequate and effective in mitigating the risks to which the group is exposed.



EVALUATION OF THE EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND THE FINANCE FUNCTION

The committee satisfied itself that the expertise and experience of the chief financial officer, Mr N Basthdaw, is appropriate.

The committee also satisfied itself that the expertise and resources within the finance function are appropriate, as is the experience of the senior members engaged to perform the financial responsibilities within the group.

GOING CONCERN

Based on the results of the committee's assessment of the going concern, the committee believes that no material uncertainties existed to impact the going concern of the group and was comfortable in recommending to the board that the group will be a going concern for the next financial year, and that the going concern basis of accounting was appropriately applied.

The committee, having fulfilled its responsibilities, has recommended the audited consolidated annual financial statements for the year ended 31 December 2018 for approval by the board of directors.



CM Henry

Chairperson

29 March 2019