

RISK MANAGEMENT

Our risk management process aims to achieve an appropriate balance between identifying and minimising key risks and realising value creation opportunities. 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.

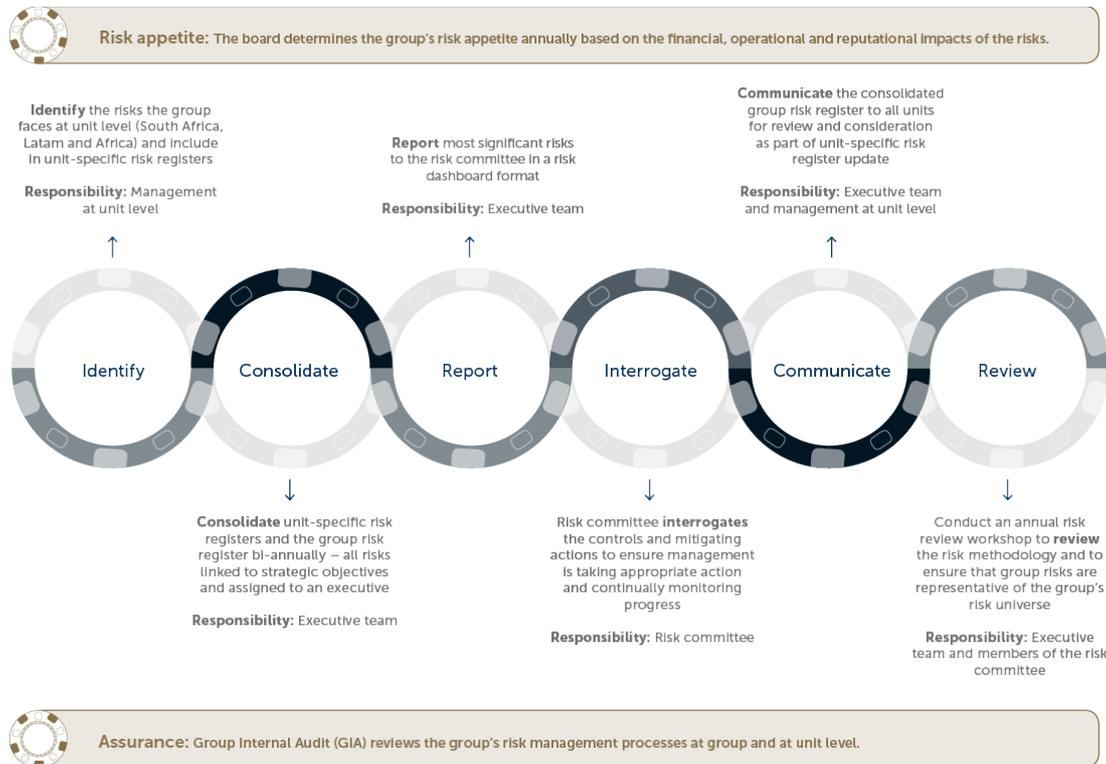
RISK APPROACH

Sun International has a formal [risk management process](#) and [governance structure](#) with various management and board sub-committees responsible for identifying, reviewing and monitoring the group’s risks and identifying opportunities. During 2018, the group’s risk approach was consistently applied group-wide and remains robust.

Risks are linked to the group’s strategic objectives to understand the likelihood of the group achieving its long-term sustainable business strategy. 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 that includes quarterly status updates, contingency plans and possible opportunities, to minimise or prevent the risk.

As part of the revised risk management programme, an annual risk workshop is held to ensure the risk methodology is still relevant and that the risks are representative of the group’s risk universe. The risk review workshop includes the risk committee, and relevant executive members. The executive team remains collectively responsible for managing and reviewing the entire register prior to each risk committee meeting.

RISK IDENTIFICATION PROCESS



RISK GOVERNANCE

The group's management team is tasked with identifying the group's risks and each unit in South Africa, Africa and Latam has a unit-specific risk register, using the same methodology, which is compiled and consolidated quarterly. The most significant risks are reported to and reviewed by the risk committee at each meeting in the form of a risk dashboard, where the committee interrogates the controls and mitigating actions to ensure management is taking appropriate action and continually monitoring progress. 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 and assesses each risk.

Factors considered by the board when assessing risk

- possible economic impact on our business
- degree to which the risk affects us and our stakeholders
- extent to which the risk is likely to grow in significance and impact our business in the future
- business opportunities the risk presents
- strength and effectiveness of mitigating controls in place to manage the risk
- whether the residual risk is within the group's tolerance levels.

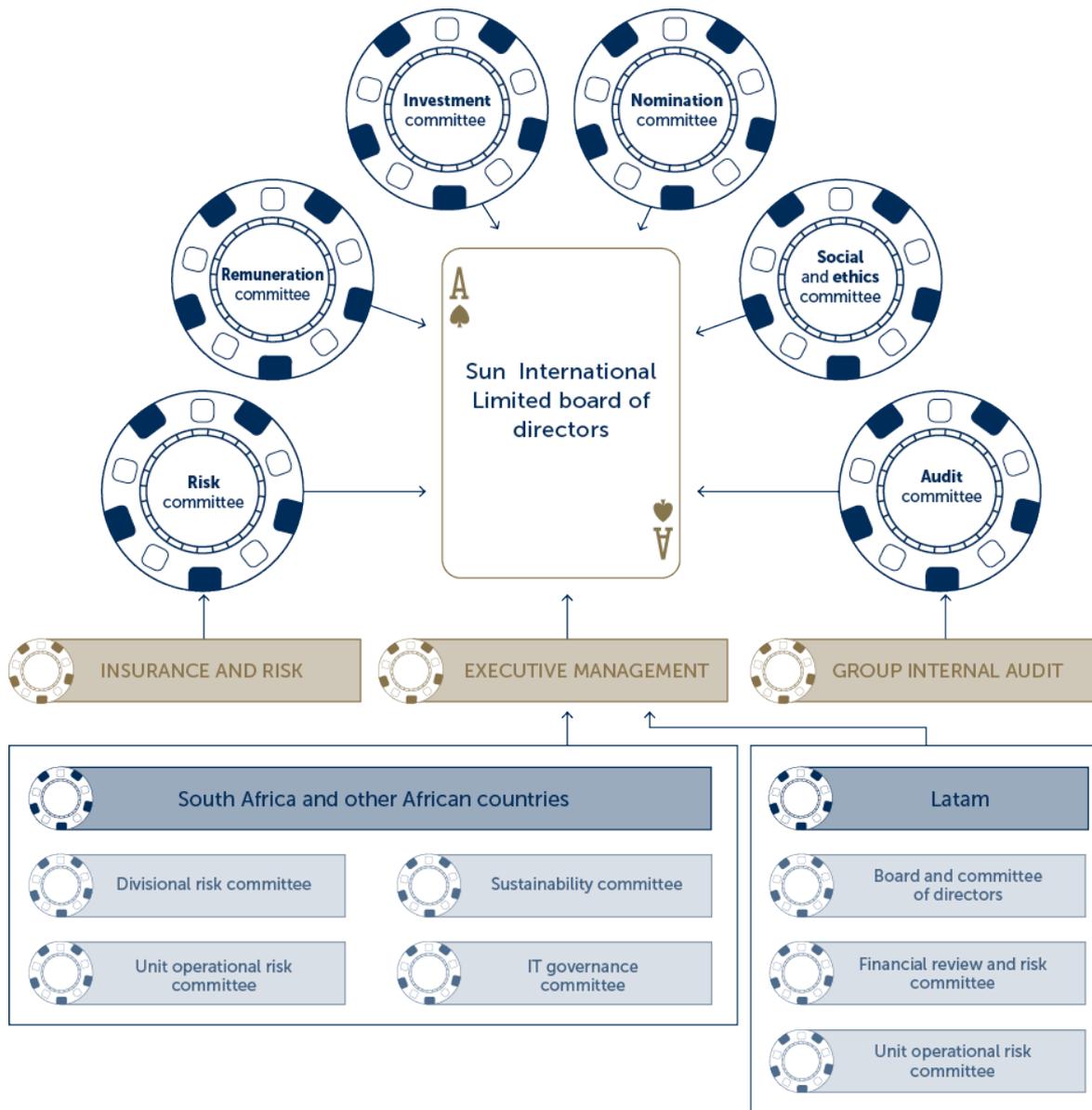
The chairman of the audit committee is a member of the risk committee. The interaction between these two committees is such that the audit committee has an oversight role specifically in relation to financial reporting risks.

As part of Sun International's combined assurance model, GIA's annual internal audit plan includes a review of the consistency of the application of the risk methodology and the effectiveness of risk controls. GIA's overall mandate includes the evaluation of risk exposures and the:

- reliability and integrity of information
- effectiveness of operating processes
- reliable and accurate reporting and communication of risks
- safeguarding of assets
- compliance with laws, regulations and controls.

The risk governance structure depicts the various management and board sub-committees responsible for the risk management process.

Risk governance structure



TOP 10 RISKS

As part of the group's overall risk universe, the following risks have been identified as the top 10 group risks. These risks are used to inform our business strategy accordingly. The residual risk ranking accounts for the impact and likelihood of the risk occurring and the controls in place to effectively mitigate the risk. The residual risk rating determines the urgency of action required by management. For the year under review, two risks (7 and 10) moved into the group top 10 risks, with one new risk (9) being added to the risk register.

Top 10 risks in 2018

Risk rating	Risk description	Residual risk description	Risk category
1 (2017: 1)	Smoking legislation (South Africa and Latam)	Serious	Regulated operating environment
2 (2017: 3)	Erosion of market share due to EBTs and LPMs in catchment areas	Serious	Increased competition
3 (2017: 2)	Weak economic conditions	Serious	Financial sustainability
4 (2017: 10)	Maslow Time Square not achieving its feasibility	Moderate	Financial sustainability
5 (2017: 4)	Loss of Grandwest Casino licence exclusivity	Within appetite	Gaming and other operating licences
6 (2017: 5)	Ongoing changes in licence conditions	Within appetite	Gaming and other operating licences
7 (2017: 11)	Illegal gambling (South Africa and Latam)	Within appetite	Increased competition
8 (2017: 6)	Increase in gaming taxes and VAT¹	Within appetite	Gaming and other operating licences
9 (New)	Increase demands from stakeholders – communities	Within appetite	Regulated operating environment
10 (2017: 16)	Cyber threats and information security	Within appetite	Business interruption

¹ This risk was ranked 13 in the risk register as at 31 December 2018. However, the risk was elevated to 8 post year end due to amended [Regulation 85](#) of the Gauteng Gambling Regulations, 1997, released on 14 January 2019. The amendment purported to introduce a new tax regime for casinos in Gauteng whereby gaming taxes were to be determined with reference to a sliding scale of GGR, effective 1 April 2019. Prior to this amendment, casino licensees were liable to pay a gaming tax amounting to 9% of each licensee's gross weekly gambling income. CASA opposed this amendment resulting in the Gauteng MEC responsible for Economic Development, Environment, Agriculture and Rural Development agreeing to withdraw the implementation of the amendment, and recommence the process to determine the effect such a proposed tax would have on the Gauteng casino industry.

RISK 1: SMOKING LEGISLATION (SOUTH AFRICA AND LATAM) (2017: 1)

Risk description: The 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 casino revenues in South Africa.

Risk rating: Serious

Risk movement: Unchanged

Sun International's level of control: Low

Primary board committee: Risk committee

Key stakeholders: Employees, customers, health authorities and shareholders

Risk movement



Risk mitigation

- Submitting comments on the proposed legislation
- Lobbying and engaging with CASA, the gaming boards, trade unions and other companies who have similar concerns regarding this legislation
- Rolling out alternative non-tobacco products at certain South African operations
- Establishing additional smoking decks at our Latam operations.

<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> • Governance and sustainability • Improve our existing operations and guest experience. 	<p>Outlook</p> <ul style="list-style-type: none"> • Legislation is not expected to be enacted in the 2019 financial year • Sun International continues to lobby and coordinate efforts with other affected industries.
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RISK 2: EROSION OF MARKET SHARE DUE TO EBTS AND LPMS IN CATCHMENT AREAS (2017: 3)

<p>Risk description: The proliferation of EBT and LPM licences issued in the group's catchment areas have eroded market share from casino operations due to increased competition.</p>		<p>Risk movement</p>
<p>Risk rating: Serious Risk movement: Increased Sun International's level of control: Low Primary board committee: Risk committee Key stakeholders: Shareholders and potential investors, gaming boards, regulators and suppliers</p>		
<p>Risk mitigation</p> <ul style="list-style-type: none"> • Pursuing legal action in KwaZulu-Natal against the issue of EBT licencing • Pursuing legal action in Eastern Cape around licence exclusivity • Engaging and collaborating with gaming boards around roll out of EBTS and LPMS in catchment areas • Lodging objections against the Eastern Cape Gambling Board to issue more ISO licences • Continuing to collaborate with law enforcement to clamp down on illegal gambling activities. 		
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> • Protect and leverage our existing asset portfolio 	<p>Outlook</p> <ul style="list-style-type: none"> • Sun International continues to engage government and the gaming boards regarding EBT and LPM rollouts to protect the group's licence exclusivity 	

RISK 3: WEAK ECONOMIC CONDITIONS (2017: 2)

<p>Risk description: South Africa continues to experience a weak economic climate that impacted the group's revenue and costs. The change in the country's leadership improved investor confidence, which could provide a more positive economic outlook.</p>		<p>Risk movement</p>
<p>Risk rating: Serious Risk movement: Increase Sun International's level of control: Low Primary board committee: Risk and audit committees Key stakeholders: Shareholders and potential investors and employees</p>		
<p>Risk mitigation</p> <ul style="list-style-type: none"> • Established an efficiency initiative team that is focusing on improving operational and resource efficiencies across the business • Focusing on cost containment • Focusing on customer service and value offerings • Focusing on repairs and maintenance while carefully considering capital expenditure • Reducing debt through the proceeds of the rights offer • Improving investor relationships through regular engagement. 		
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> • Improve our existing operations and guest experience 	<p>Outlook</p> <ul style="list-style-type: none"> • Sun International's efficiency initiative team will continue to implement efficiency initiative across the business • Post the 2019 South African general elections, further clarity may be provided on how the 	

	<p>government will implement growth-enhancing policies, however, there remains uncertainty</p> <ul style="list-style-type: none"> The fragility of South Africa's energy supplier and high energy costs remains a concern.
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RISK 4: MASLOW TIME SQUARE NOT ACHIEVING FEASIBILITY (2017: 10)

<p>Risk description: Despite ongoing marketing efforts and with the weak economic conditions, Maslow Time Square is not achieving the original projected estimates and there is a risk of impairment to the asset.</p>	<p>Risk movement</p>
<p>Risk rating: Moderate Risk movement: Increased Sun International's level of control: Medium Primary board committee: Risk committee Key stakeholders: Shareholders and potential investors, gambling boards</p>	
<p>Risk mitigation</p> <ul style="list-style-type: none"> Reconfiguring certain areas of the gaming floor Outsourcing certain food and beverage offerings Maximising hotel occupancy Reviewing operational efficiencies to improve margins Continuing to focus on marketing initiatives Driving Sun MVG sign-ups Increasing events in the arena to improve footfall. 	
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> Improve our existing operations and guest experience 	<p>Outlook</p> <ul style="list-style-type: none"> Revenue and footfall improved and we remain optimistic that Maslow Time Square will increase market share, given the lacklustre trading environment

RISK 5: LOSS OF GRANDWEST CASINO LICENCE EXCLUSIVITY (2017: 4)

<p>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.</p>	<p>Risk movement</p>
<p>Risk rating: Within appetite Risk movement: Decreased Sun International's level of control: Low Primary board committee: Risk committee Key stakeholders: Gambling boards, provincial government, communities and guests</p>	
<p>Risk mitigation</p> <ul style="list-style-type: none"> 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 Considering the feasibility of relocating the Worcester casino licence. 	
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> Protect and leverage our existing asset portfolio 	<p>Outlook</p> <ul style="list-style-type: none"> It is unlikely that this legislation will be implemented in 2019 given the general elections and other matters on which the government is focusing

RISK 6: ONGOING CHANGES IN LICENCE CONDITIONS (2017: 5)

<p>Risk description: Regulators may issue more onerous licence conditions that will impact the group’s licence compliance and profitability.</p>		<p>Risk movement</p>
<p>Risk rating: Within appetite Risk movement: Decreased Sun International’s level of control: Medium Primary board committee: Risk committee Key stakeholders: Gambling boards, provincial government, shareholders and potential investors</p>		
<p>Risk mitigation</p> <ul style="list-style-type: none"> • Negotiating licence conditions with various gambling boards • Proactively improving relationships with gambling boards • Maintaining or improving current B-BBEE levels • Continuing to invest in local and affected communities through SED spend. 		
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> • Protect and leverage our existing asset portfolio 	<p>Outlook</p> <ul style="list-style-type: none"> • Sun International continues to engage with the gambling boards 	

RISK 7: ILLEGAL GAMBLING (SOUTH AFRICA AND LATAM) (2017: 11)

<p>Risk description: The proliferation of Illegal gambling operations continues to erode gambling revenues. Companies need to constantly adapt to these invisible operators. Even with law enforcement keeping a watchful eye on illegal gambling in South Africa and in Latam, there has been limited impact on this illegal industry.</p>		<p>Risk movement</p>
<p>Risk rating: Within appetite Risk movement: Increased Sun International’s level of control: Low Primary board committee: Risk committee Key stakeholders: Gambling boards, CASA, South African Police Service, and provincial and national government</p>		
<p>Risk mitigation</p> <ul style="list-style-type: none"> • Providing authorities with intelligence around illegal gaming and casino outlets • Lobbying with CASA and gaming boards for support from law enforcement agencies 		
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> • Improve our existing operations and guest experience 	<p>Outlook</p> <ul style="list-style-type: none"> • Sun International continues to engage with relevant stakeholders to assist in combatting illegal gambling 	

RISK 8: INCREASE IN GAMING TAXES AND VAT¹ (2017: 6)

<p>Risk description: The Gauteng Gambling Board gazetted an increase in Gauteng gaming taxes effective 1 April 2019. This will impact our South African operations' profitability in an already constrained economic environment.</p>		<p>Risk movement</p>
<p>Risk rating: Within appetite Risk movement: Decreased Sun International's level of control: Low Primary board committee: Risk committee Key stakeholders: Gambling boards, CASA, provincial government and shareholders</p>		
<p>Risk mitigation</p> <ul style="list-style-type: none"> Monitoring CASA's progress in challenging the increase on grounds of a procedural and fairness basis Lobbying and challenging proposed gaming tax legislation. 		
<p>Strategic objectives impacted</p> <ul style="list-style-type: none"> Protect and leverage our existing asset portfolio 	<p>Outlook</p> <ul style="list-style-type: none"> Ongoing lobbying with CASA to resolve this matter Current tax rates to be applied until further clarity on this increase 	

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RISK 9: INCREASED DEMANDS FROM STAKEHOLDERS – COMMUNITIES (NEW)

<p>Risk description: There has been a significant increase in demands from local communities 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.</p>		<p>Risk movement</p>
<p>Risk rating: Within appetite Risk movement: Increased Sun International's level of control: Medium Primary board committee: Social and ethics committee Key stakeholders: Communities and suppliers</p>		

Risk mitigation <ul style="list-style-type: none"> • Ongoing communication with interested stakeholder groupings • Appointed a dedicated SED and community engagement specialist to improve ongoing communication and engagement with local communities • Introduced stakeholder engagements forums • Focusing on local B-BBEE procurement, enterprise development and SED within communities surrounding group operations • Developing a formal community engagement management plan to improve community dialogue and to identify community needs. 	
Strategic objectives impacted <ul style="list-style-type: none"> • Protect and leverage our existing asset portfolio 	Outlook <ul style="list-style-type: none"> • Community engagement plan should be completed in July 2019 to be rolled out across our South African operations. • Ongoing SED stakeholder training will take place across units for SED representatives • Ongoing efforts to increase local procurement spend.

RISK 10: CYBER THREATS AND INFORMATION SECURITY (2017: 16)

Risk description: The group's dynamic operating environment includes the digital arena, which is susceptible to cyberthreats leading to business interruption, and the risk of customers' personal information being compromised.	Risk movement 
Risk rating: Within appetite Risk movement: Increased Sun International's level of control: Medium Primary board committee: Risk committee Key stakeholders: Customers and guests, employees and shareholders	
Risk mitigation <ul style="list-style-type: none"> • A group-wide cyber security policies are in place • Ongoing cyber training and awareness as well as cyber threat simulations • Various technologies in place to detect and block multiple levels of threats • Ongoing monitoring of cyber threats to identify root causes and implement solutions • Business continuity plans in place including the use of external forensic teams in the event of a sophisticated attack, cyber security insurance in place and certified ethical hackers to test Sun International's IT environment. 	
Strategic objectives impacted <ul style="list-style-type: none"> • Protect and leverage our existing asset portfolio 	Outlook <ul style="list-style-type: none"> • Sun International continues to proactively secure its IT management systems