

AUDIT AND RISK Committee Report to the shareholders of Remgro Limited

This report by the Audit and Risk Committee (the committee), as appointed by the shareholders in respect of the year under review, is prepared in accordance with the principles of the King IV Report on Corporate Governance for South Africa (2016) (King IV) and the requirements of the Companies Act (No. 71 of 2008), as amended (Companies Act), and describes how the committee has discharged its statutory duties in terms of the Companies Act and its additional duties assigned to it by the Board in respect of the financial year ended 30 June 2023.

Committee members and attendance at meetings

The committee comprises four independent non-executive directors (as set out in the table below) and is chaired by Ms Sonja De Bruyn. All the committee members are suitably skilled and experienced. In terms of the committee's mandate, at least four meetings should be held annually.

Composition of the committee

Committee member ⁽¹⁾	Number of meetings held	Number of meetings attended
S E N De Bruyn (Chairman)	4	4
N P Mageza	4	4
P J Moleketi	4	4
F Robertson	4	4

⁽¹⁾ Brief curricula vitae of these directors are set out on pages 91 to 92. As is evident from the curricula vitae of these directors, all of them are financial and/or industry experts.

The Chief Executive Officer, Chief Financial Officer (CFO), head of internal audit, other members of senior management and representatives of the external auditor of the Company attend the committee meetings by invitation. Committee agendas provide for confidential meetings between committee members and the internal and external auditors, as well as management.

Role and responsibilities

The committee's role and responsibilities include its statutory duties as per the Companies Act, as well as the responsibilities assigned to it by the Board. The responsibilities of the Audit and Risk Committee are codified in a formal Terms of Reference, which is reviewed at least annually and which is available on Remgro's website at www.remgro.com. During the year under review, the Board reviewed the Terms of Reference of the Audit and Risk Committee, in light of the principles and recommended practices of King IV.

The committee is satisfied that it has fulfilled all of its duties during the financial year under review, as further detailed below.

The committee has also satisfied itself that there are effective boards and audit committees (where applicable) functioning at Remgro's significant operating subsidiaries (RCL Foods Limited (RCL Foods), Siqalo Foods Proprietary Limited (Siqalo Foods), Wispeco Holdings Proprietary Limited (Wispeco) and

Capevin Holdings Proprietary Limited (Capevin)), associates and joint ventures, whose minutes of meetings held are also included in the committee's agenda.

More information about the functioning of the committee and the matters dealt with in this report can be found in the Corporate Governance Report and in the Risk and Opportunities Management Report on page 76 and 122.



Statutory duties

In its execution of its mandate, the committee has performed the following statutory duties:

- Nominated PricewaterhouseCoopers Inc. (PwC) (with Ms Rika Labuschaigne as designated partner), who, in the opinion of the committee, is independent of the Company, to the shareholders for appointment as the external auditor for the financial year ended 30 June 2023
- Determined the fees to be paid to the external auditor and their terms of engagement
- Ensured that the appointment of the external auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors
- Determined the nature and extent of any non-audit services that the external auditor may provide to the Company and its wholly owned subsidiaries administered by Remgro Management Services Limited (RMS)
- Pre-approved any proposed agreement with the external auditor for the provision of non-audit services to the Company and its wholly owned subsidiaries administered by RMS

External audit

The committee is satisfied that the Company's external auditor, PwC, is independent of the Company and is therefore able to conduct its audit functions without any influence from the Company. The designated external audit partner rotates every five years.

PwC has been the auditor of the Company for 55 years. The business of the Company was previously transacted through Rembrandt Group Limited of which, based on available statutory records, PwC and its predecessor firms have been the external auditor for 75 years. The committee is satisfied with PwC's independence from the Company, notwithstanding its tenure as external auditor.

PwC has confirmed its compliance with the ethical requirements regarding independence and is considered independent with respect to the Group as required by the codes endorsed and administered by the Independent Regulatory Board for Auditors (IRBA), the South African Institute of Chartered Accountants and the International Federation of Accountants. As required by section 3.84(g)(iii) of the JSE Listings Requirements, the committee obtained the information listed in paragraph 22.15(h) of the JSE Listings Requirements and satisfied itself that the external auditor and audit partner for the year under review, Ms Rika Labuschaigne, have the necessary experience, accreditation and are suitable for re-appointment. The committee is also satisfied that Ms Rika Labuschaigne is not on the JSE's list of disqualified individuals.

Following a comprehensive tender process during the 2021 financial year, the Audit and Risk Committee recommended to appoint Ernst & Young Inc. (EY) as the new external auditor of Remgro, with effect from the financial year ending 30 June 2024. An indicative non-binding advisory vote to appoint EY, with effect from the 2024 financial year, was tabled at Remgro's Annual General Meeting (AGM) held on 25 November 2021. At the meeting, 99.72% of the ordinary shareholders, which excludes the votes of the B ordinary shareholders, voted in favour of the appointment of EY, with effect from the 2024 financial year. Therefore the committee nominated, for approval at the AGM on 4 December 2023, EY as external auditor and Mr Malcolm Rapson as audit partner for the 2024 financial year. The committee is satisfied that Mr Malcolm Rapson is not on the JSE's list of disqualified individuals.

A formal policy governs the process whereby the external auditor of the Company is considered for non-audit services. In terms of the policy, the committee is responsible for determining the nature and extent of any non-audit services that the external auditor may provide and to pre-approve any proposed contract with the external auditor for the provision of non-audit services. For the year under review, non-audit services related mainly to normal tax services. The extent of these services was within the committee's pre-approved amount.

Internal financial control and accounting systems

The committee is responsible for assessing the systems of internal financial controls and accounting systems of the Company and its wholly owned subsidiaries administered by RMS. In this regard the committee evaluated reports on the effectiveness of the systems of internal financial controls conducted by the internal audit function, considered information provided by management and held discussions with the external auditor on the results of their audit. The committee is of the opinion that the systems of internal financial controls are effective and form a basis for the preparation of reliable financial statements. In support of the aforementioned, the committee also received reports from the internal audit function regarding the effectiveness of the combined assurance process and anti-corruption, fraud prevention and detection measures in place.

The Remgro executives serving on the boards of investee companies (RCL Foods, Siqalo Foods, Wispeco, Capevin and associates and joint ventures) are responsible for enabling the Company's influence to ensure that effective internal controls are implemented and complied with.

Expertise and experience of the CFO and finance function

The committee has considered and satisfied itself with the appropriateness of the expertise and experience of the CFO, Mr Neville Williams, whose *curriculum vitae* appears on page 93 of the Integrated Annual Report.

The committee has furthermore considered and satisfied itself with the appropriateness of the expertise and adequacy of resources of the Company's finance function, and the experience of the senior members of management responsible for the financial function.

Financial statements and going concern

The committee has reviewed the standalone and consolidated financial statements of the Company, and is satisfied that they comply with International Financial Reporting Standards (IFRS) and the Companies Act, and that the accounting policies used are appropriate. In particular, the committee considered the following

significant matters, identified by the management team and the external auditor, and is satisfied that these matters have been appropriately accounted for in the Annual Financial Statements:

- **Valuation of investments and consideration of possible impairments or reversal of impairments of investments and assets**

The intrinsic net asset value (INAV) is one of the measures used to assess shareholder value created. Investee companies, which represent operating segments, are valued and included in the INAV. The investments in Mediclinic Group Limited (Mediclinic), which was previously listed, and Heineken Beverages Holdings Proprietary Limited (Heineken Beverages) were valued as unlisted investments for the first time in this regard. Due to the significant contribution of the investment in Mediclinic to Remgro's INAV, Remgro engaged the services of an independent expert to perform the valuation of its investment in Mediclinic. The valuation methodology used for the Mediclinic investment was the sum-of-the-parts methodology, which was underpinned by the discounted cash flows of the underlying businesses. Given the short period since the Distell/Heineken transaction implementation, the Heineken Beverages investment was valued using the price of recent investment (PRI) methodology, since limited integration has taken place as at 30 June 2023 and reliable consolidated forecast information is also limited. Going forward and consistent with Remgro's valuation approach, it is most likely that a different valuation methodology be used, for example the discounted cash flow (DCF) methodology. In such an instance, various discounts (lack of marketability, lack of control and forecast risk) would be applicable, which could affect the valuation in future. The committee considered the methodologies, assumptions and judgements applied by management in determining the fair value of investments and is satisfied that the approach taken was appropriate.

The committee further considered the methodologies, assumptions and judgements applied by management in determining the impairment of investments and assets, of which the carrying values exceed the fair values, and is satisfied that the approach taken was appropriate. The most significant investments and assets tested in this regard being Remgro's investment in Heineken Beverages and the goodwill and indefinite life intangible assets that originated from the acquisition of Siqalo Foods, respectively.

The committee also considered the methodologies, assumptions and judgements applied by management in determining the reversal of previous impaired or partially impaired investments, of which the fair values exceed the carrying values, and is satisfied that the approach taken was appropriate. The most significant investment tested in this regard being Remgro's investment in Mediclinic.

Refer to notes 2, 4.4 and 10.3 to the Annual Financial Statements that is published on the Company's website at www.remgro.com for further details.

- **Accounting for equity accounted investments**

The Company holds significant investments which are equity accounted for in terms of IAS 28: *Investments in Associates and Joint Ventures*. Some of the equity accounted investments have year-ends which are non-coterminous with that of the Company, the most significant investments in this regard being Mediclinic and Community Investment Ventures Holdings Proprietary Limited (CIVH). These investments are equity accounted from results for a financial period ended within three months from the Group's financial year-end.



Significant transactions that occur after the equity accounted investments' period-end, but before the Group's year-end, are accounted for in Remgro's consolidated financial statements. Significant adjustments for the current year related to dividends received from equity accounted investments, the acquisition of an additional 5.4% indirect interest in Mediclinic during June 2023, including the provision for transaction costs incurred, and the conversion of Mediclinic's financial information from its presentation currency (British pound) to the Group's presentation currency as at 30 June 2023. The committee considered these transactions and is satisfied with the accounting treatment thereof. Refer to note 4.1 to the Annual Financial Statements that is published on the Company's website at www.remgro.com for further details.



- **Accounting for the investments in Heineken Beverages and Capevin**

On 26 April 2023, the Heineken International B.V. Southern African business, including an interest in Namibia Breweries Limited, combined with the bulk of the Distell business (consisting of its cider, other RTDs (ready-to-drink) and spirits and wine business (In-scope assets)) in Heineken Beverages. Remgro received a 15.5% interest in Heineken Beverages and has subsequently increased its interest to 18.8%. Distell simultaneously unbundled its subsidiary, Capevin, which held Distell's remaining assets, including its Scotch whisky business, and Remgro received an economic interest of 31.4% in Capevin. Remgro has significant influence over Heineken Beverages through its board representation and the investment is classified as an associate and is accounted for using the equity method. Remgro's shareholding in Capevin mirrors the shareholding that was previously held in Distell, being an economic interest of 31.4% and a voting interest of 55.9%. Therefore, the Capevin investment remains classified as a subsidiary. The transaction had a pervasive impact on the Annual Financial Statements, as the carve-out of the In-scope assets resulted in the recognition of a significant profit on disposal, as well as the presentation of discontinued operations, which required a restatement of the prior year's income statement and related notes.

The committee considered the assumptions and key judgements made by management in accounting for the investments in Heineken Beverages and Capevin and is satisfied with the accounting treatment thereof. Refer to note 1(1) to the Annual Financial Statements that is published on the Company's website at www.remgro.com for further details.



- **Going concern**

The committee has reviewed a documented assessment by management of the going concern premise of the Company. Based on the facts and circumstances known, management and the committee determined that there is not a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern, and therefore the committee recommended to the Board that the Company will be a going concern for the foreseeable future.

Risk and opportunities management

The committee has assigned oversight of the risk and opportunities management function to the Risk, Opportunities, Technology and Information Governance Operational Subcommittee (the ROTIG Committee), which is a subcommittee

of the committee. The mandate of the ROTIG Committee includes the maintenance of the Risk Management and Opportunities Policy and plan, establishment of an operational Risk and Opportunities Register, technology and information risk management, legal compliance and occupational health and safety. The ROTIG Committee is chaired by the CFO and the 15 other members are all senior managers of the Company. The chairman of the committee has a standing invitation to attend the ROTIG Committee meetings as an *ex officio* member to ensure the effective functioning of the ROTIG Committee and that appropriate risk information is shared with the committee.

Internal audit

The Company's internal audit division is an effective, independent appraisal function and forms an integral part of the Enterprise-wide Risk and Opportunities Management system that provides assurance on the effectiveness of the Company's system of internal control. The committee has appointed Mr Deon Annandale as Remgro's Chief Audit Executive (CAE). The committee is satisfied with the attributes, objectivity and independence of the CAE, and that the CAE has the necessary experience, gravitas and competence. The internal audit division of the Company is staffed by qualified and experienced personnel and services all of Remgro's wholly owned subsidiaries administered by RMS, as well as Wispeco. In addition, the internal audit division also performs independent internal audit work for other investee companies such as CIVH, OUTsurance Group Limited, SEACOM Capital Limited and Business Partners Limited.

During the year under review the committee considered and recommended the internal audit charter for approval by the Board. The committee further considered the internal audit quality assurance plan and the performance of the internal audit function, and is satisfied that the internal audit function conforms to a recognised industry code of ethics and standards. Further details on the Group's internal audit functions are provided in the Risk and Opportunities Management Report on page 122.



Compliance

The committee is responsible for reviewing any major breach of relevant legal and regulatory requirements. The committee is satisfied that there has been no material non-compliance with laws and regulations during the year under review.

The committee is also satisfied that it has complied with all its legal, regulatory and other responsibilities during the year under review.

Recommendation to the Board

The committee has reviewed and considered the Integrated Annual Report, including the comprehensive Annual Financial Statements published on the Company's website at www.remgro.com, and has recommended it for approval by the Board.



Sonja De Bruyn
Chairman of the Audit and Risk Committee

Stellenbosch
20 September 2023