Abridged TCFD (Task Force on Climate-related Financial Disclosures) Report

Governance

During the financial year, further steps were taken to further understand and develop climate-related risks and opportunities. The governance structures established during 2021 to define and address ESG risks, namely an executive Operational ESG Committee and a board Strategic ESG Committee, chaired by non-executive director, Mr Murphy Morobe, reviewed several climate-related issues.

Following these, Remgro built on its earlier targets by using its influence to encourage the establishment of ESG governance structures within its investee companies, to specifically include climate-related risks and encourage more disclosure on ESG and climate-related matters. The maturity level of the investee companies on climate matters varies across the Group, with those that are listed, with international exposure or those that are already subject to carbon budgets, such as Mediclinic International Limited, Heineken Beverages Holdings Limited (Heineken Beverages), OUTsurance Group Limited (OUTsurance Group) and PGSI Limited, further along the journey than others.

Remgro held an ESG collaboration conference during October 2023 for all Remgro investment managers, the Operational ESG Committee executives, the chairman of the Strategic ESG Committee, as well as key individuals from the investee companies. The keynote presentation, delivered by a member of the Presidential Climate Commission, addressed the systemic economic impacts of climate change for South Africa and the paths to addressing both the need to reduce emissions in line with the Nationally Determined Contribution to the Paris Agreements, as well as the need for a *Just Transition*. The conference also launched a collaboration network, aimed at encouraging knowledge sharing on ESG and climate issues. Following from the conference a number of the investee companies have since increased their strategic approach to ESG, as well as improving data and disclosure.

Since 2021, Remgro has linked its ESG journey to its long-term remuneration incentives and in 2023 encouraged the companies it invests in, to do the same (refer to the Remuneration Report on page 90). Previous Remgro targets incentivised emissions reductions, as well as the inclusion of a wider group of investee companies in the systematic collation of data for the Remgro Scope 3 emissions profile. In this report, emissions collated from investee companies make up more than 70% of INAV. Target dates have been set for Remgro to undertake scenario analysis of its climate-related risks and to exercise stewardship by encouraging key investee companies to do the same.

Strategy

Remgro has also embarked on a qualitative analysis of the impacts of climate change on the holding company. To date this has identified key catalysts for impact, and a high-level assessment of what the transmission channels would be for future assessment of any significant impact on the Group's financials and strategy. The exercise was facilitated by external experts and included a desk top analysis which explored the key sectors in which Remgro is invested, and a review of investee company reports to identify areas of potential vulnerability to climate risks. In a facilitated discussion at the Operational ESG Committee, Remgro investment managers provided insights based on their sector knowledge which were used to refine the study. The investee companies were also requested to provide insights into their governance structures, strategies and understanding of climate-related risks and their assessment of their top five risks.

At a high level, this analysis indicated that there is a growing understanding of climate-related risks and opportunities within the terms of reference of board committees such as risk, and social and ethics. The key investee companies within the portfolio are calculating and reporting their Scope 1 and 2 carbon emissions, with many still challenged with calculating Scope 3 emissions. Assessment of the strategic impact on business models will follow during the 2025 financial year.

Risk and opportunities

Remgro's exposure to risk is considered through potential impacts on its investee companies, which face both physical risks linked to the South African environment which is heating at faster rates than the global average, the country's inherent water challenges, as well as the transitional risk resulting from regulatory change, consumer and market pressures, rising costs of finance and insurance due to risk ratings.

This qualitative review did not seek to model or quantify the potential impact of climate change at this stage, as the process and the underlying information has not yet reached a sufficient level of maturity.

Physical risk

Water in all its aspects is a key risk facing all Remgro investee companies and is part of the ESG risk register (Refer to the Risk Management Report on page 114). This risk is exacerbated by climate change and the increased likelihood of extreme weather events such as flooding and or drought. The threat of insufficient water is exacerbated by infrastructure failures in both water supply and distribution, as well as poorly functioning sanitation systems.

Extreme heat and the growing length of heatwaves have the potential for significant effects on several of the Remgro investments. The review covered the impact on the food and beverage sector companies, such as Heineken Beverages, and in the agricultural sector, such as RCL Foods Limited and Siqalo Foods Proprietary Limited. Climate change has an impact on the successful growing of basic agricultural products, such as oil seeds, grapes and hops. Extreme heat is a factor that many other sectors have to consider as it especially impacts outdoor workers, in the telecommunications field, for example the Maziv Proprietary Limited (Maziv) Group (a wholly owned subsidiary of Community Investment Ventures Holdings Proprietary Limited). Extreme heat adds to the need for cooling and ventilation, which in turn can push up energy use, ultimately having a financial impact as well as results in increasing emissions. Most investee companies are in the process of implementing energy efficiency measures or switching in part to renewable energy as a way of mitigating the risks of energy supply in South Africa and managing energy costs.

The insurance sector is exposed to an increasing number of weather-related claims. Floods, fire and drought over recent years have led to record claims in South Africa and Australia, where OUTsurance Group has a significant presence.

Transitional risk

Carbon taxes and the imminent introduction of mandatory carbon budgets (the draft regulations were published for comment in the second quarter of 2024) mean that there is regulatory pressure for companies in the industrial and agricultural sectors to operate under declining emissions caps supporting South Africa to meet its commitments to the Paris Agreement. Failure to meet the carbon budgets will be linked to punitive carbon taxes, as set out in the national budget delivered in February 2024.

South African companies may also face further transitional risks through foreign climate-related policies or regulations, where the company needs to source materials or parts (e.g. equipment) from other countries. In addition, importation has increasing physical risks associated, such as shipping delays due to storms etc. The potential impact of the carbon border tax adjustment mechanism (CBAM) enacted by the EU has yet to be assessed and requires further study. With the climate-related risks growing, the South African economy will be put under increasing pressure. Economic impact will further have an effect on the food and beverage businesses that are linked to consumer spending.

As a response to these transitional risks, many of the investee companies have invested in renewable energy projects or are evaluating opportunities to do so. Air Products South Africa Proprietary Limited, for example, has installed solar PV systems in their small energy consumers, and have invested in a 75 MW Solar PV system for its major facilities.

Remgro's Scope 3 emissions as a holding company, which may appear to increase as more investee companies supply emission data, should over the medium term stabilise and start declining. This year nine companies have been included in the carbon footprint, which is two more than the previous year.

Remgro has a licensed energy trading company, Energy Exchange of Southern Africa Proprietary Limited, which plays a role in sourcing green energy from generators of renewable energy and supplying that energy on a contractual basis to companies which do not wish to invest in the technology, but wish to secure greener energy for their operations.

Targets and metrics

The Group is on a decarbonisation pathway and has for more than a decade participated in the Carbon Disclosure Project (CDP) but has not yet set quantifiable emissions reductions targets for its operations or its portfolio. It has a stated intent to be carbon neutral.

Remgro expanded its baseline ESG footprint report to include more investee companies than the prior year to better monitor adoption and progress of sustainable practices across the group. Ten companies were previously assessed, and this was increased to 11 companies in the past year.

Although there is still much to do, we can already see progress with respect to climate action. Many of the companies in which Remgro invests have already set ESG targets regarding climate change and energy management. More than half of the 11 investee companies assessed have set decarbonisation targets, with six that have energy efficiency targets and two that are in the process of setting energy efficiency targets. Remgro plans to work with the remaining companies to support the ongoing implementation actions as well as the development of future targets in this respect.

Scenario analysis

Ongoing work is necessary to understand how Remgro as a holding company will be impacted by various climate change scenarios and the international responses that may follow. For example the EU's legislative response for carbon intensive goods entering the EU is to issue carbon levies for the Carbon Border Adjustment Mechanism (CBAM). The impact on South African companies could be significant and there could be loss of markets.

Early indications are that, like many South African companies, the Group will benefit from an orderly transition towards a lower-emissions global economy with widely shared understanding of limits and expectations, as well as benefiting from the ability and opportunity to market goods and services in multiple jurisdictions. As a committed South African corporate citizen, Remgro is invested in playing a role in containing physical changes within parameters that are conducive to improving the quality of life of all citizens and reducing the devastating effects of extreme events. Each extreme event, or any loss of jobs due to South Africa failing to meet its international commitments on climate change, would leave lasting developmental challenges for those in the country least able to protect themselves.

For more detail, please see the full TCFD Report at www.remgro.com