Remgro Limited

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

2024

Governance

This year Remgro is publishing its second TCFD Report which includes increased disclosure on climate-related risks and opportunities, as well as a qualitative assessment of these.

During the financial year, significant steps were taken to mature the understanding of climate-related risks and opportunities. The governance structure established in 2021 to define and address Environmental, Social and Governance (ESG) risks, namely an executive-level Operational ESG Committee and a board-level Strategic ESG committee, chaired by non-executive director, Mr Murphy Morobe, reviewed several climate-related issues.

Following these, Remgro built on its earlier targets 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 issues. The maturity level of the investee companies on climate matters on these issues varies, with those that are listed or have international exposure or are already subject to carbon budgets, such as Mediclinic Group Limited (Mediclinic), Heineken Beverages Holdings Limited (Heineken Beverages), OUTsurance Group Limited (OUTsurance Group) and PGSI Limited (PGSI), further down the journey than others. All significant investees are already disclosing climate-related risks, or preparing to do so, using recognised frameworks, such as the TCFD.

Remgro held an ESG collaboration conference in 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 this conference several investee companies have increased their strategic approaches 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 of the Integrated Annual Report that is published on the Company's website at www.remgro.com. Previous Remgro remuneration 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 constitute more than 70% of intrinsic net asset value (INAV). The remuneration targets also set target dates for Remgro to undertake scenario analysis of its climate-related risks and for the investment managers to exercise stewardship by encouraging key investee companies to do the same.

Strategy

To deliver on Remgro's ambition and related strategies, ongoing engagement on climate change is critical to facilitate understanding and share best practice amongst this Group. As an investment holding company, Remgro's approach has been to increase awareness of ESG and associated climate-related risks and opportunities amongst Remgro's investment managers and its representatives on the boards of the companies in which Remgro invests (also called the investee companies). This has been undertaken through our ESG collaboration forum and directed enquiries to subsidiary companies and those in which Remgro is a significant shareholder, as well as the work it undertakes within its own operations. Work to date has been to assess existing climate-related awareness, risk mitigation, measurement and targets where they exist.

Regarding climate change scenarios, in the second quarter of 2024, Remgro 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 provided 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 desktop 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. In parallel, the investee companies were 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 indicates a growing understanding of climate-related risks and opportunities, within the terms of reference of Board committees such as ESG, Risk, and Social and Ethics. Key companies within the portfolio are calculating and reporting their Scope 1 and 2 carbon emissions, with many still challenged with calculating Scope 3 emissions. The strategic impact on business models will be assessed during the 2025 financial year.

Remgro has taken strategic steps to increase access to renewable energy through the creation of an energy trading company, Energy Exchange of Southern Africa Proprietary Limited (Energy Exchange), which received its trading licence in 2022 and by establishing the Group Power initiative through Kigeni Ventures Proprietary Limited, a Section 12J Venture Capital Company in 2017. Since 2017, Remgro has facilitated the installation of 35 solar PV systems. The 2014 greening of its head office campus was an early signal of its intent to put good ESG practice at the core of its operations. Please refer to the "Environment" section on pages 14 to 18 of the ESG and Sustainability Report that is published on the Company's website at www.remgro.com.

The rooftop photovoltaic system on top of Remgro's Millennia Park Building

Risk management

As planned during the past financial year, work was undertaken to further develop and expand the Remgro risk register to specifically address key ESG aspects. The current risk methodology used expands on the widely used PESTLE (Political, Economic, Society, Technology, Legislation and Environment) framework. This focused primarily on risks which impact Remgro and was informed by the material risks identified by its investee companies.

Last year we stated that we would develop climate change scenarios to evaluate the impact and strategic resilience of Remgro's operations and investment portfolio. To build the specific inclusion of climate-related risks into its decision-making, Remgro used a framework that specifically triggers assessment of physical, transitional and liability risk. This incorporated the social impacts of climate change into the assessment and will assist in the future calculation of impacts on the strategy and financials alongside an enhanced focus on strategic business opportunities.

This year we undertook a qualitative risk assessment by taking into consideration Remgro's specific portfolio, the industries, their locations and unique vulnerabilities. This qualitative review did not seek to model or quantify the potential impact of climate change as the process and the underlying information has not yet reached a sufficient level of maturity.

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

Physical risk

As is fairly predictable in the South African environment, water in all its aspects is a key risk facing all Remgro investee companies and is included in the ESG risk register, which is being developed. Refer to the Risk Management Report on page 114 of the Integrated Annual Report that is published on the Company's website at www.remgro.com. Water 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 took Cape Town to the brink of day zero a few years ago. There are forecasts for more dry weather in South Africa in the future. Gauteng is particularly at risk as infrastructure failures in both water supply and distribution occur. Poorly functioning sanitation systems plague the provinces. Many of the investee companies have direct water vulnerabilities. Economic disruption will impact the entire value chain.

Extreme heat and the growing length of heatwaves can potentially significantly affect 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 and food processing sector, such as RCL Foods Limited (RCL Foods) and Siqalo Foods Proprietary Limited (Siqalo Foods). Climate change impacts 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 the productivity and health of outdoor workers, for example in the telecommunications field, the Maziv Proprietary Limited (Maziv) group (a wholly owned subsidiary of Community Investment Ventures Holdings Proprietary Limited (CIVH)) is having to consider this factor. Extreme heat in the manufacturing sector adds to the need for cooling and ventilation, ultimately having a financial impact as well as increasing emissions. Most investee companies are implementing energy efficiency measures or switching in part to renewable energy as a way of mitigating the risks of unpredictable energy supply in South Africa and managing some energy costs.

Climate change has resulted in long-term drought in the central part of Southern Africa. Drought not only impacts food security, but increases the risk of fire. Although a small number of properties within the portfolio face fire risk, this is mitigated by actions already taken. Remgro is not widely exposed in the current high-risk fire zones within South Africa. This risk would have to be periodically reassessed and considered from the perspective of the disruptive economic effects of fires, such as those experienced on the Garden Route several years ago.

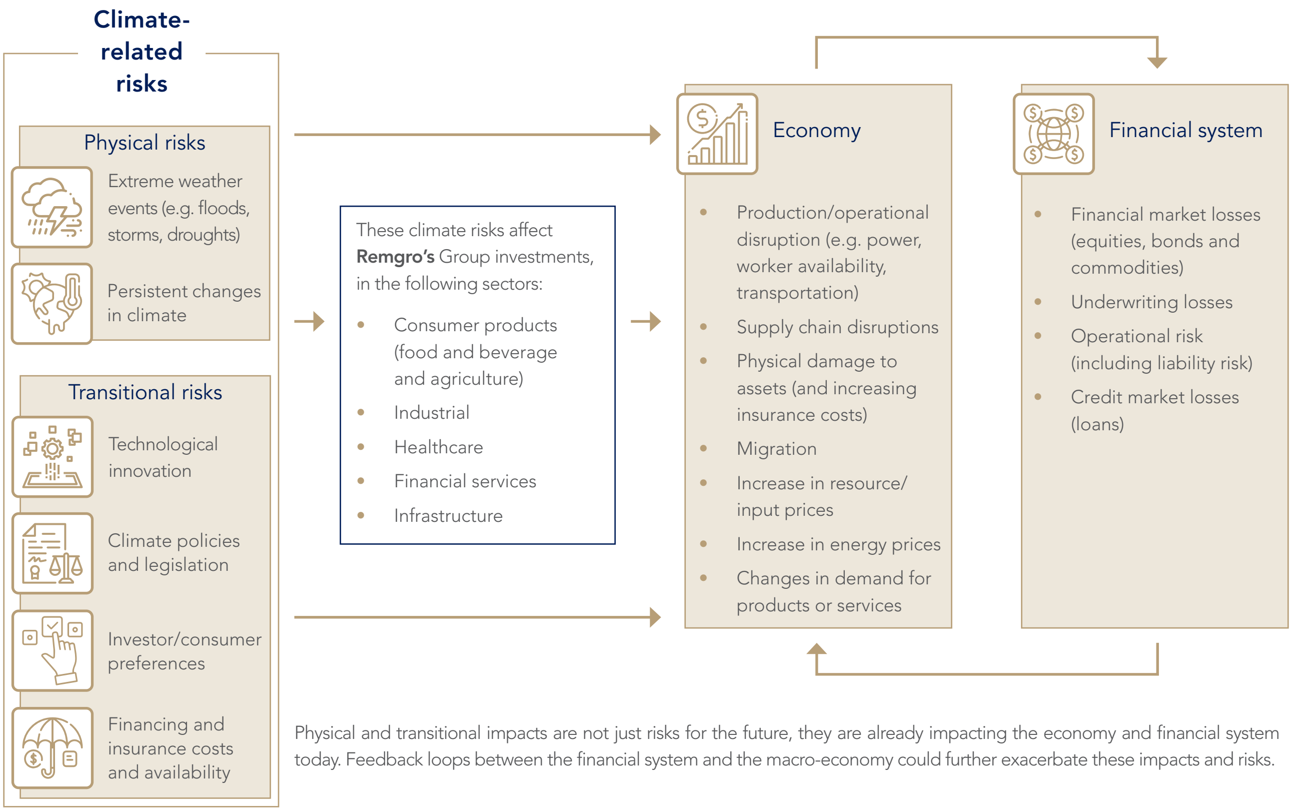
OUTsurance Group and the insurance sector are exposed to an increasing number of weather-related claims. Over recent years, floods, fire and drought have led to record claims in South Africa and Australia, where OUTsurance Group has a significant presence. For other companies within the portfolio the access to and affordability of insurance cover, for business disruption and direct impacts are factors which are likely to be the subject of increasing focus in future.

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, agricultural and other sectors, to operate under declining emissions caps for 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 carbon-related policies or regulations, where companies need to source raw materials and component parts from other countries that are also experiencing tighter regulation and physical risks. The potential impact of the Carbon Border Adjustment Mechanism (CBAM) enacted by the EU has yet to be assessed and requires further study. As the climate-related risks grow, the South African economy will be put under increasing pressure. The economic impact will further affect the food and beverage businesses that are linked to consumer spending.

Possible transmission from climate-related risks to financial system vulnerabilities



Physical and transitional impacts are not just risks for the future, they are already impacting the economy and financial system today. Feedback loops between the financial system and the macro-economy could further exacerbate these impacts and risks.

In response to these transitional risks, many investee companies have invested in renewable energy projects or are evaluating opportunities to do so. For example Air Products South Africa Proprietary Limited (Air Products) has installed solar PV systems in their small energy consumers and has entered into a Power Purchase Agreement (PPA) for a 75 MW Solar PV system for its major facilities.

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

Remgro has a licenced energy trading company, Energy Exchange, 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 or are unable to invest in the technology, but wish to secure greener energy for their operations. For more details, visit the website www.energyexchangesa.com.

energy exchange
OF SOUTHERN AFRICA

Scenario analysis

The effects of climate change are now increasingly evident across Africa. While extreme floods and wind and waves are still pounding the Cape, long-term drought in central Southern Africa dramatically affects farmers and food security. Ongoing work in the coming year is necessary to strengthen our understanding within Remgro of potential financial impacts from these events and how Remgro as a holding company will be impacted by various climate change scenarios and the international responses that may follow. One such example is the EU legislative response pertaining to cross-border carbon levies, for example the CBAM. The impact of this on South African companies may be significant. There may be multiple differing carbon levy responses from various countries, which the Group may have to respond to in order to continue to conduct business with those countries. This means reducing carbon emissions so that your product does not attract carbon levies when bought by a foreign company making it too expensive, resulting in a loss of market.

Another scenario is that because of drought caused by climate change, a certain agricultural input (for example hops) may no longer be available locally for the production of an end product (like beer) and therefore would need to be imported.

The next steps will be to deepen our understanding of how Remgro as a holding company will be impacted by various international response scenarios.

Early indications are that, like many South African companies, the Group will benefit from an orderly global transition towards a lower emissions global economy with widely shared understanding of limits and expectations, as well as benefiting from the ability to market goods and services in various jurisdictions. As a committed South African corporate citizen, Remgro is invested in playing a role in containing physical change within parameters that are conducive to improving the quality of life of 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.

Targets and metrics

Remgro aims to play a leading role in ESG and sustainability in South Africa and to drive continued focus on specific ESG outcomes in its own operations and its investment portfolio. As an investment holding company, Remgro's goal setting and metrics will take into consideration its own operations, its independently managed subsidiaries and its portfolio of investee companies where it has a strategic shareholding.

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.

The Remgro goals for climate change are to make a commitment to the ambition of Net Zero by 2050, to develop an action plan to support this ambition, and also to conduct a deeper climate change scenario analysis. We continue to consider decarbonisation plans and we undertook our first qualitative assessment of climate-related risks. The energy goals are improving efficiency and increasing the use of green energy.

Greenhouse gas (GHG) reduction targets

Mediclinic – carbon neutral by 2030 in direct operations (Scope 1 and 2)

OUTsurance Group – net zero emissions by 2050 throughout the value chain (Scope 1, 2 and 3)

Air Products – reduce total GHG emissions by 33% by 2030 (baseline year 2021)

RCL Foods – reduce GHG emission intensity by 25% from 2020 – 2025

Maziv – carbon neutral target by 2050

Exercising responsible investment stewardship where there is influence, but no control, requires a deliberate and collaborative approach. Remgro has launched several initiatives to further these aims through capacity building, knowledge sharing, and improved disclosures.

Disclosure

As a Group, Remgro has reported its GHG emissions to the CDP since 2010, receiving recognition for its disclosure and inclusion in the Climate Disclosure Leadership Index. Remgro's aim is to extend its own environmental reporting beyond those companies in which it maintains majority shareholding to ultimately include as much of its portfolio of investments as possible.

Nine companies were included in Remgro's carbon footprint for this year (2023: seven). For the purposes of this report on Remgro's 2024 carbon footprint, Distell Group Holdings Limited (Distell), which was previously included, will be excluded due to Remgro exchanging its interest in Distell for an interest in Heineken Beverages. Remgro's portion of the carbon footprint of Heineken Beverages will be included in due course. Maziv (through CIVH) and PGSI have been included for the first time, alongside Remgro head office, Mediclinic, RCL Foods, Siqalo Foods, OUTsurance Group, Air Products and Wispeco Holdings Proprietary Limited (Wispeco). This group constitutes more than 70% of Remgro's INAV as at 30 June 2024. For Remgro's next CDP submission (during 2025), Remgro will submit its 2024 carbon footprint.

The change in boundaries for this report (inherent in our business) and the intended future incorporation of additional investee company data does pose some challenges for long-term comparability. Maturity in carbon accounting within the investee companies is varied but improving. Not all of these numbers have been externally verified. If the numbers change following verification, they will be restated.

Remgro has identified decarbonisation as a long-term strategic goal and committed to enhancing its scorecard in this regard. It is therefore anticipated that there will be ongoing improvements in the number, quality and verification of disclosures in future reports.

Environmental reporting approach

Remgro closely monitors developments in environmental reporting protocols for financial services industries, investment holding companies and the sectors in which its investee companies operate. This includes trends in GHG reporting and the setting of various environmental targets.

Remgro applies the principles of Partnership for Carbon Accounting Financials (PCAF), as recommended by both the GHG Protocol (the most widely used carbon accounting methodology) and the Science-based Targets initiative (SBTi). The latter's objective is to align corporate carbon emissions in accordance with the Paris Agreement's aim of limiting global warming to no more than 1.5 degrees Celsius above pre-industrial times. Under PCAF guidance, investment companies should account for their investee companies' direct operational GHG emissions (including emissions from electricity consumption), attributable to the percentage share (either equity or debt) that the company holds in the investee companies. These emissions are collected under a specific investment category (Greenhouse Gas Protocol: Scope 3 Category 15) and are separate from the direct emissions of the investment company itself. The PCAF approach allows investors to account for their investee companies' emissions, while eliminating any possibility of "double accounting" for the same emissions between two or more entities.

Remgro's latest CDP submission (to be submitted during October 2024 and based on Remgro's 30 June 2023 carbon footprint) includes Remgro's investee companies' Scope 1 and 2 emissions as per the PCAF methodology. These Scope 1 and 2 investee companies' emissions amounted to 1 418 679 tonnes CO_2 equivalent (tCO_2e). This includes the emissions of Air Products, Mediclinic, OUTsurance Group, RCL Foods, Siqalo Foods and Wispeco. This is apportioned to Remgro in accordance with Remgro's percentage share of the investee companies' enterprise value including cash (EVIC).

As a diversified investor, Remgro has investee companies in different sectors, of different sizes and with differing impacts on the environment. Remgro's ultimate aim is to account for the majority of its portfolio, including those with the largest environmental footprints, within its own environmental reporting boundaries. This is a strategic process of expanded inclusion of investee companies over the next number of years.

For the 30 June 2024 carbon footprint report, Remgro is including Remgro's head office, Air Products, Mediclinic, OUTsurance Group, RCL Foods, Siqalo Foods, Maziv (through CIVH), PGSI and Wispeco.

This will be the first time that Remgro includes Maziv and PGSI in its environmental reporting boundary.

The consolidated Remgro PCAF carbon footprint report is assured by an independent third-party verifier.

Remgro Group's GHG emissions data

GHG Protocol carbon footprint: Remgro's investee companies (reported at 100%)

Tonnes CO_2e	Scope 1		Scope 2 (market-based)		Scope 3[1]		Outside of scopes[2]		Remgro EVIC share of Scope 1 and 2 (as per PCAF)	
	2024	2023	**2024**	2023	**2024**	2023	**2024**	2023	**2024**	2023
Remgro head office	**1 723**	1 838	**2 048**	1 904	**2 450**	1 728	**–**	–	**3 771**	3 741
Air Products[3]	**60 315**	43 597	**1 166 908**	1 245 037	**nr**	nr	**nr**	nr	**612 362**	643 071
Maziv[4]	**6 099**	5 257	**11 066**	10 868	**nr**	nr	**nr**	nr	**5 556**	nr
Mediclinic[5]	**42 549**	44 562	**140 348**	160 719	**117 128**	72 865	**2 790**	2 711	**59 986**	69 819
OUTsurance Group	**814**	987	**9 085**	7 493	**6 087**	6 135	**5**	36	**2 976**	2 527
PGSI[6]	**179 579**	186 143	**140 648**	136 849	**nr**	nr	**nr**	nr	**69 555**	nr
RCL Foods	**526 170**	518 158	**474 482**	504 779	**nr**	349 255	**nr**	86 530	**649 704**	621 273
Siqalo Foods	**12 829**	12 084	**17 755**	18 809	**1 607**	2 249	**16 889**	13 502	**29 613**	30 893
Wispeco	**14 576**	12 985	**34 719**	38 686	**17 068**	17 509	**nr**	nr	**48 932**	51 096

nr not reported

(1) *Scope 3 emissions are voluntarily reported and include different emissions located within a company's upstream and downstream value chain. These value chain emissions are not necessarily completely reported by Remgro's investee companies and are largely dependent on available data from third-party suppliers and customers.*

(2) *Outside of scopes include emissions accounted for by the direct CO_2 impact of burning biomass and biofuels where the Scope 1 impact of these fuels has been determined to be net zero. It also includes non-Kyoto Protocol fugitive emissions outside of the GHG Protocol such as R22 Freon air-conditioning gas refills.*

(3) *Air Products has a September year-end. The 2024 numbers included represent the 12 months to 30 September 2023 (2023: includes the 12 months to 30 September 2022).*

(4) *Maziv has a March year-end. The 2024 numbers included represent the 12 months to 31 March 2024 (2023: includes the 12 months to 31 March 2023).*

(5) *Mediclinic reports on a calendar year. The 2024 numbers included represent the 12 months to 31 December 2023 (2023: includes the 12 months to 31 December 2022).*

(6) *PGSI has a December year-end. The 2024 numbers included represent the 12 months to 25 December 2023 (2023: includes the 12 months to 25 December 2022).*

Remgro's portion of investee companies' Scope 1 and 2 GHG emissions[1] (tonnes CO_2e)

	Remgro Scope 1 and 2 GHG PCAF portion		EVIC[2] share (as per PCAF)		
	2024	2023	**2024**	2023	**Year-end**
Remgro head office	**3 771**	3 741	**100%**	100%	**Jun-24**
Air Products	**612 362**	643 071	**50%**	50%	**Sep-23**
Maziv	**5 556**	nr	**32%**	nr	**Mar-24**
Mediclinic	**59 986**	69 819	**33%**	34%	**Dec-23**
OUTsurance Group	**2 976**	2 527	**30%**	30%	**Jun-24**
PGSI	**69 555**	nr	**22%**	nr	**Dec-24**
RCL Foods	**649 704**	621 273	**65%**	61%	**Jun-24**
Siqalo Foods	**29 613**	30 893	**97%**	100%	**Jun-24**
Wispeco	**48 932**	51 096	**99%**	99%	**Jun-24**

nr not reported

(1) *Mediclinic and Air Products carbon footprint data has been verified for FY2022 and FY2023. At the time of reporting RCL Foods, Siqalo Foods, Remgro head office and Wispeco had not yet been verified for FY2023, but have undergone some external reassessment. OUTsurance Group has not been externally verified.*

(2) *EVIC = Enterprise value including cash.*

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