



Grindrod Environmental Reporting Approach 2012/13

Operational Control Approach

In setting its organisation boundaries for reporting greenhouse gas (GHG) or C emissions, and by implication all other environmental key performance indicators (KPI), Grindrod has adopted the operational control approach, as defined by the international GHG Protocol, including referenced and appendix documents.

The company adopted this approach since 2010 following the adoption of a board-approved Group Environmental and Climate Change Policy which includes clear objectives and targets for improvement in terms of climate change and other environmental KPI, and the follow-on logic that meeting these objectives and targets will require the full authority to introduce and implement changes to policies and management practices within companies or joint ventures (“JVs”) where Grindrod has financial interests. This Policy was revised and strengthened at the end of 2012. A copy of the revised Policy can be found on the Grindrod company website.

In addition, Grindrod completed a global best practice benchmarking exercise of transport and shipping companies in 2010 that indicated a move by leading companies towards either financial control or an operational control approach within these industries. Grindrod has also followed the debate and thought leadership within the global petroleum industry, which in some respects (from an environmental reporting point of view) shares the complexity of ownership and management of Grindrod’s shipping businesses, and found that in most companies within this industry there was also a shift towards a control approach. The GHG Protocol makes reference to the petroleum industry (“IPIECA”) guidelines, as a source of detailed guidance for all sectors regarding defining boundaries in the operational control approach.

The Deloitte limited sustainability assurance audit conducted in 2010/early 2011 found this approach “acceptable” whilst pointing out that many large organisations prefer the financial control approach “as the process of identifying financial control is mature and usually well debated internally”. However, one of the reasons that Grindrod has adopted an operational control approach over a financial control approach is that there are instances where Grindrod has limited financial control or minority equity share-holding but does have sufficient operational control to influence emissions reductions strategies – through management and/or contractual arrangements.

In line with the GHG Protocol's definition of operational control, Grindrod has disclosed 100% of emissions from entities it does have operational control over, and 0% of emissions for entities where, regardless of shareholding, Grindrod does not have "full authority to introduce and implement its operating policies".

Grindrod's Guidelines for Determining Operational Control

Grindrod has used the GHG Protocol definition for operational control, which states that ***"A company has operational control over an operation if the company or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation."***

Determining authority is based on the objective and auditable existence of at least one of the following:

1. Ownership. As financial control (either through majority shareholding or through contractual arrangements) and operational control are closely aligned, this forms the starting point for determining operational control. A 51% or higher stake in a Joint venture or company would indicate a high probability of having a reasonable ability to exert authority;
2. Employee Authority. Regardless of ownership, do Grindrod employees have reasonable ability/authority to make changes to/influence how the business is being run? If they do, this would indicate an ability to control operations. This may include ability to exert control via board representation or direct management control of operations;
3. ISO 14001 EMS. Does Grindrod have the reasonable ability to directly implement (by implication with own employees) or to influence the development (by non-employees) of an ISO 14001 environmental management system (EMS) or equivalent. If so, this would indicate an ability to control operations; and
4. Contractual arrangements. Does Grindrod have the reasonable ability to impose environmental management directives in contractual obligations? If so, this would indicate an ability to control operations.

The inclusion of "reasonable ability" is an important consideration. Within shipping, for example, it could be argued that Grindrod has the ability to influence how all of its assets (ships) that are chartered out are managed and run. In reality and in the context of how the global shipping community operates, however, this is not the case.

Given Grindrod's sometimes complex ownership and operational structure, particularly within the Freight Services and Shipping divisions, these screening rules have been applied firstly at the company ownership level as well as at the level of asset ownership and operations (i.e. specific ships and land-based facilities) within these companies.

Finally, Grindrod has adopted a conservative approach, including emissions from sources where interpretation of the screening rules are still not 100% decisive.