MATERIAL MATTERS

MATERIAL MATTERS FOR 2022

DETERMINING WHAT MATTERS MOST

ANALYSE

Grindrod continually assesses material matters that may impact its stakeholders and the sustainability of the business through a comprehensive Enterprise Risk Management (ERM) process, which includes the detailed identification of risks and opportunities and allied mitigations.

PRIORITISE

The Board, its sub-committees and the executive regularly review material matters and inherent risks. The impact of these on the Group's stakeholders, strategy, performance and risk matrix are considered, and matters are prioritised accordingly and grouped into themes.

INTEGRATE

Material matters are integrated into the overarching strategy, various governance and risk frameworks, management and operational processes and are continuously monitored through our integrated risk management and combined assurance processes.

MACRO/EXTERNAL

Macro shifts

- Climate change
- Global energy crises and local energy insecurity
- Social incohesion, unemployment, civil unrest and industrial action
- Pandemics
- Failing infrastructure and services
- *Force majeure* and market restrictions
- Emerging economies and growth prospects in Africa

Business impact on society and nature

- Grindrod ESG Transformation Framework and Pathway
- Collaboration and partnerships across the supply chain
- Engagement and partnerships to address challenges faced by Eskom and State-Owned Enterprises (SOEs) impacting the South African economic outlook

Developing our communities

- Decent work and economic growth
- Sustainable access to water and renewable energy
- Access to quality education

Customer-centric operations

- Cost-effective and efficient customer solutions strategy
- Applying an agile supply chain approach to customer challenges
- Efficiency and effectiveness in trade corridor development and management
- Optimisation and integration for efficient and seamless solutions

COMPANY/INTERNAL

Scaling our prosperity

- Strategy execution:
  - Horizon 1 (optimise)
  - Horizon 2 (grow)
  - Horizon 3 (innovate)

Employee wellbeing and transformation

- A safe, healthy environment
- Transformation, diversity, equity and inclusion
- Gender equality
- Training and holistic skills development

Technology adoption

- Cybersecurity, cyber resilience and data protection
- Modernisation for smart ports, terminals and logistics
- Digitisation and automation for consolidated value chains

Good governance and compliance

- Business integrity and ethics
- Sound risk management
- Comprehensive legal and other compliance
- Managing corruption and fraud

OUR OPERATING ENVIRONMENT

The promising recovery from the impact of the global COVID-19 pandemic in early 2022 was stalled by the economic fallout from the Russo-Ukrainian conflict, which resulted in severe disruptions in supply chains and commodity markets across the globe. Inflation rates have been rampant, and are expected to remain high during 2023, with pressures being felt on a wide range of emerging markets and developing economies through higher borrowing costs and capital outflow risks.

MACROECONOMIC FACTORS

Global backdrop

World economic growth has been held back by geopolitical disruptions centred in Europe, exacerbated by rising interest rates, inflation and China's policies on COVID-19 and related property sector disruptions. Further interest rate increases from central banks, in response to spiralling inflation, may hamper consumption and investment growth, as will the impacts of the ongoing war in the Ukraine, the cost-of-living crisis and China's economic slowdown. The energy crisis weighs heavily on world economies. However, the easing of remaining supply bottlenecks, and labour market pressures, could soften these impacts and result in less monetary tightening.

Energy commodity markets remain at risk, but the energy outlook should gradually improve over 2023 as the EU secures more non-Russian liquified natural gas (LNG) supply.

Global inflation

Global inflation rose to 8.8% in 2022, but is expected to stabilise to 6.6% during 2023, and 4.3% in 2024, still above pre-pandemic levels of a c. 3.5%. Additional energy and food price shocks may result in inflationary conditions persisting for longer, with global constriction of financing conditions potentially triggering emerging market debt distress. Central banks interventions are having an impact on inflation rates, but real policy rates need to be kept above the neutral level.

Growth projections 2023

It is predicted that global growth will slow from 3.4% to 2.9% in 2023, with many countries around the world showing recession-like conditions. More than a third of the global economy will see two consecutive quarters of negative growth. However, the IMF forecasts a global rebound in 2024 following the impact of the opening of China's economy.

	Growth	Projected growth	
Region	**2022**	2023	2024
Global economy	**3.4%**	2.9%	3.1%
Advanced economies	**2.7%**	1.2%	1.4%
Emerging market and developing economies	**3.9%**	4.0%	4.2%

SOUTH AFRICAN FACTORS

Economy

South Africa's economy has been growing by less than 3% annually since 2012 and, according to the International Monetary Fund (IMF), is expected to grow by 1.2% in 2023 and 1.3% in 2024 as the impact of higher interest rates, ongoing power outages and weak demand continues to be felt, potentially entering into a technical recession during 2023. Due to extensive load-shedding and other logistical constraints, the South African Reserve Bank (SARB), in contrast, has forecast gross domestic product (GDP) growth of only 0.3%.

Inflation and interest rates

Inflation soared to 13-year highs during 2022, peaking at 7.8%. The SARB adopted an aggressive monetary stance and hiked interest rates. Higher interest rates will put further pressure on the local economy.

Structural constraints and political uncertainty

South Africa's economy came under pressure in 2022 primarily due to the impacts felt from increased load-shedding, the ports strike and the global slowdown, resulting in the IMF and SARB downgrading economic growth forecasts. It is estimated that load-shedding for 208 days during 2022 reduced real GDP growth by up to five percentage points (2021: 2.9%).

Looking ahead, given the scale of load-shedding predicted for 2023, the SARB deducted two percentage points from growth for the year. The impacts resulting from the greylisting of South Africa on 24 February 2023 are as yet unknown, but it is expected to increase the cost of doing business with South Africa, making offshore funding and transacting more onerous.

On the upside, the National Energy Crisis Committee plans to add new power from several sources over the next two years. Eskom has also stated its aim to improve maintenance to lift its generation performance. However, regular load-shedding will likely persist until the end of 2024.

Unemployment remains high (South Africa's official and youth unemployment rates are the highest in the world), with increasing poverty levels. It is expected that a significantly lower number of new jobs will be created in South Africa in 2023 compared to the previous year. There is no more critical issue for future South African prosperity than that real inclusive economic growth should be accelerated.

AFRICAN FACTORS

Trading environment

The trading environment will continue to present challenges in 2023, with demand under pressure from rising inflation and high unemployment rates.

Despite Africa facing the heavy burden of debt servicing, instability created by election cycles, geopolitics and war with risks to food security, the region is not expected to experience a major downturn in economic growth in 2023. Debt servicing will worsen due to currency weakening, with Zambia, Zimbabwe and Mozambique carrying high debt burdens relative to GDP. Growth outlook is slightly weaker as a result of lower trading partner growth, tighter financial and monetary conditions and a negative shift in the commodity terms of trade. The IMF predicts sub-Saharan African growth of 3.8% in 2023 and 4.1% in 2024.

East Africa

Growth is estimated to have moderated to 4.2% in 2022 from 5.1% in 2021. However, it is projected to recover to the pre-pandemic average above 5.0% in 2023 and 2024. While the production structure in East Africa is relatively diversified, countries in the region are largely net importers of commodities. They thus bear the brunt of high international prices in addition to recurrent climate shocks and insecurity, particularly in the Horn of Africa (African Development Bank, 2023).

Elections pose a risk to stability

The 2023/2024 election cycle presents a risk of political protests, mass demonstrations and strikes in a range of countries. Africa will hold head of state (presidential or prime ministerial) or national legislature elections in 17 states during 2023 and upcoming elections in countries like Algeria, Madagascar, Nigeria, South Africa and Zimbabwe could result in disruptive civil unrest in 2023.

In South Africa, the ANC held their National Conference in December 2022, which saw Cyril Ramaphosa re-elected as the ANC president. Global financial markets reacted positively to the news, strengthening the Rand against all three major currencies (Dollar, Pound Sterling and Euro).

Security issues in northern Mozambique

Whilst the security issues in northern Mozambique have seen significant improvement, a cautionary approach is being followed.

OUR OPERATING ENVIRONMENT continued

MARKET OUTLOOK

Commodities

Global commodities performed exceptionally well in 2022 as geopolitical disruptions in Europe elevated costs and disrupted the supply of crucial commodities, while global demand growth was further tempered by rising interest rates and China's COVID-19 related and property sector disruptions. Commodity prices are expected to ease over 2023. India's energy demand saw the import of thermal coal increase by 15 million megatonnes in 2022, emerging as a key source of demand in 2022 and this is expected to continue into 2023.

The following table outlines the commodities that are an important part of Grindrod's strategy in the short- and long-term.

Commodity	Current exposure	Short-term fundamentals	Long-term fundamentals
Chrome ore/Ferrochrome	9.3 mtpa	Positive	Positive
Iron ore	7.3 mtpa	Volatile	Positive
Coal	9 mtpa	Positive	Negative
Manganese	3 mtpa	Positive	Positive
Graphite	0.3 mtpa	Positive	Positive
Copper	0.1 mtpa	Positive	Positive
Agriculture	nil*	Positive	Positive
Containers (TEU)	300 000 m^2	Positive	Positive

* Citrus and grapes currently limited to container volumes only.

MARKET OUTLOOK POSITIVE ● VOLATILE ● NEGATIVE ●

Chrome and Ferrochrome

The outlook for chrome and ferrochrome pricing levels is directly linked to the production of stainless steel. Prices are expected to rise on improving stainless steel demand and expected increases in raw material costs.

Iron ore

Iron ore prices are expected to decline due to weak global demand growth. Increased supply has also influenced pricing following recovery from COVID-19 and weather related disruptions in early 2022 and constraints surrounding Russia's invasion of Ukraine. Weakness in China's property sector, persistent COVID-19 disruptions in China due to the country's Zero-COVID-19 policy and environmentally driven steel production curbs should hold back steel-making demand growth. Overall, iron ore is forecast to average US$80 per tonne, however, the long-term outlook on steel-making volumes shows marginal growth and no contraction. Steel-making supports chrome, ferrochrome, iron ore and manganese. Grindrod's key iron ore customer supplies the customers' operations in China.

Manganese

Manganese prices are expected to generally trend upwards over the period as gradual recovery in steelmaking demand from China and rising battery demand towards late-2023 outweighs relatively slow supply growth.

GRINDROD'S PORTFOLIO OF COMMODITIES**

Coal

Coal prices are expected to decline as a result of seasonal trends and the easing of European demand, as natural gas prices start to stabilise and the world progressively shifts to cleaner energy sources. Price declines should be slowed by weak supply growth due to recent and ongoing environmentally-driven mine investment constraints. Demand from India and smaller markets in Asia and Africa is expected to remain strong in responses to rising electricity generation and manufacturing demand.

Copper

Copper is expected to trend downwards in the near term as global demand is restrained by the effect of strong inflation and global growth concerns, but should remain somewhat supported by elevated energy costs. Thereafter, prices should rise as growing demand for renewable energy development, and electric vehicles (EV), outpaces slowing supply growth.

Graphite

Graphite is a high-intensity material in EV batteries, with costs/emissions expected to shift towards natural graphite. It is anticipated that natural graphite demand will increase between five to nine times, over the next 10 years. Copper, graphite and manganese are required in the long term due to the growing demand for renewable energy development and EV.

Renewables and clean energy

With energy security remaining a key market risk, soaring demand and attractive long-term incentives are boosting the renewables energy sector. Global supply of LNG will be limited going into 2023, with an expected further reduction in Russian gas supply, requiring considerable demand destruction. The prevailing environment of geopolitical uncertainty, weaker macroeconomic growth and high inflation will call for offsets in the energy transition versus energy security debate. Lithium prices are expected to be more bearish in 2023 and other renewable inputs such as cobalt, nickel, graphite and vanadium are expected to perform well, specifically nickel in line with green battery forecasts.

Soft commodities

Sub-Saharan Africa relies on imports for basic food commodities to close the gap between domestic production and consumption. The region's trade deficit in major food items is anticipated to widen. Evaluated at constant global reference prices, the deficit is anticipated to grow from about US$18 billion to US$31 billion by 2029. Import volumes of cereals, meat, sugar and oils are rising. Apart from sugar, imports are growing at a faster rate than production or exports. Exports are decreasing for nearly all main commodities.
Import dependence is expected to deepen over the next 10 years.

Container markets

The seasonal nature of shipping demand causes predictable price swings, peaking August to October before the year-end holiday shopping season. Container shipping rates are expected to be volatile, trending downward as fuel costs stabilise and congestion at ports corrects. The Hong Kong and Shanghai Banking Corporation Limited predicts that container freight rates will hit a trough in mid-2023 (previously anticipated for 2024) due to lower demand forecasts and a higher-than-expected effective capacity increase as a result of the unwinding of congestion.

** The portfolio of commodities represents an approximation of all drybulk volumes handled across Port, Terminals, Rail and Logistics and excludes containerised volumes.