

# RISK REVIEW

## RISK MANAGEMENT

Grindrod has embedded risk management processes throughout all business operations. Management is accountable for designing and implementing risk management systems and processes and reporting on these to the Board and its sub-committees.

Our risk management processes are based on the principles of King IV, ISO 31000 and the Committee of Sponsoring Organisations of the Treadway Commission Enterprise Risk Management (COSO ERM). The Group's risk management function operates through a Risk and Opportunity Governance Framework and a formal risk management plan.

Risk management is listed as a key performance area for all Grindrod line managers.

Management utilises risk management to identify key risks and associated opportunities, while monitoring the processes and plans to manage identified key risks. Key risk areas are identified and evaluated based on their potential impact and probability regarding the occurrence's likelihood and negative or positive effect.

The effectiveness of risk management efforts is assessed in terms of the Group's King IV-aligned combined assurance model, providing five levels of assurance:



## ROLES AND RESPONSIBILITIES

Every committee of the Board is responsible for the management of relevant risks falling within its area of responsibility. The Risk committee has overall responsibility for the risk management framework. This provides a basis for:

- Enhancing strategic planning by identifying risks and opportunities linked to Grindrod's strategic objectives.
- Proactively tackling issues likely to positively or negatively impact Grindrod's strategic objectives.
- Improving the quality of decision-making by providing structured methods for exploring risks and allocating resources.
- Supporting consistent behaviours and decision-making towards risks and opportunities.
- Identifying recurring/strong themes and pervasive risks.
- Developing complete risk responses by comprehensively understanding their causes, effects and consequences.
- Aligning risk appetites and defined risk tolerance levels for each key risk with Grindrod's strategy.
- Improving Grindrod's agility to anticipate, identify, adapt and respond to changes.

The board sub-committees assist the Board in discharging its duties and responsibilities. Each committee operates within its annually reviewed, Board-approved Terms of Reference.

Independent non-executive directors chair all Board committees. Committees have a minimum of three members with the necessary capacity, knowledge, skills and experience.

Role	Responsibility
Board	Retains ultimate responsibility for risk and opportunity governance, including compliance and performance-related aspects. Determines the appropriate level of risk that Grindrod is willing to tolerate and opportunities it is willing to pursue.
Risk committee	Assists the Board in carrying out its risk governance responsibilities.
Investment committee	Assists the Board in setting Grindrod's strategic direction, within the context of identified risks and opportunities. Advises on capital and other strategic applications.
Audit committee	Ensures the integrity of internal financial controls and manages financial and related Information Technology (IT) risks.
Social and Ethics and Sustainability committee	Assists the Board in discharging its corporate governance responsibilities relating to sustainable development across the three domains of economic, social and environmental. Aspects include ethics, anti-bribery and corruption, the environment, health and public safety, legal compliance, stakeholder relations, transformation, labour and employment.

Role	Responsibility
Nomination and Governance committee	Reviews the skills and experience base and performance of the Chair, the Board and its committees. Oversees the sourcing and selection process for Board appointments.
Remuneration committee	Assists the Board to perform its remuneration governance responsibilities.
Executive management	Designs, implements and monitors integrated risk management processes. Encourages a risk-conscious business culture by embedding agreed internal controls and mitigating actions through all levels of management and supervisory staff.
Divisional executives	Develop and implement risk management systems and processes within their divisions.
Group risk management	Co-ordinates risk and opportunity management activities throughout Grindrod, continually reviews the systems and processes of risk management against accepted standards and best practices and co-ordinates appropriate reporting to the Board.
Employees	Report on risks and opportunities they become aware of and implement actions in line with the risk management processes.
Internal audit	Performs an independent assessment of the effectiveness of risk governance.

## RISK REVIEW continued

### ASSURANCE OF GRINDROD'S RISK MANAGEMENT FUNCTION

In 2021, BDO South Africa (BDO) was contracted to undertake an independent assessment of Grindrod's ERM function. The key objectives of this ERM review were to:

- Evaluate Grindrod's current framework against leading guidelines and recommendations.
- Provide best-practice recommendations for improving Grindrod's risk processes.
- Review the current risk and control registers and assess the overall effectiveness of the risk management processes.

#### BDO's conclusions

BDO concluded that Grindrod's risk and opportunity governance framework was adequate and aligned to King IV, ISO 31000 and the COSO ERM framework. More specifically, BDO concluded that:

- Grindrod's risk management principles are being continuously improved.
- The Group's risk culture is driven from the top in a positive manner.
- Risk management processes are well-defined and complied with at each level.

The next independent review of Grindrod's ERM function will be undertaken in 2023.

#### Risk rating methodology

We analyse, mitigate and subsequently rank our risks from the following broad perspectives:

##### GLOBAL PERVASIVE RISKS

Far-reaching and universally pervasive risks may significantly impact Grindrod's sustainability. While these external risk factors are largely beyond our control, we constantly monitor and take steps to manage their actual or potential impacts.

##### KEY INDUSTRY RISKS

Material risks to the industries in which Grindrod operates are identified with due consideration of the key national, regional and global risks relevant to Grindrod's operations. These are categorised according to the World Economic Forum's five threat categories.

##### RESIDUAL RISKS

Residual risk is defined as the threat that remains after every effort has been made to identify and eliminate risks in a given situation. The residual risk is calculated in the same way as the initial risk, by determining the likelihood and consequence, and then combining them into a risk matrix.

### INDUSTRY KEY RISK AREAS

Material risks to the industries in which Grindrod operates are identified with due consideration of the key national, regional and global risks relevant to Grindrod's operations and categorised according to the World Economic Forum's five threat categories, namely Economic, Environmental, Geopolitical, Social and Technological, ranked in order of perceived imminent risk.

Consideration is given to selected external sources, including the World Economic Forum's Global Risk Report, Institute of Risk Management South Africa (IRMSA) Perspective, Institute of Directors South Africa Sentiment Index, Allianz's Risk Barometer and Marsh Top Global Maritime Risks. Internally, the Grindrod Global Risk Sensitivity Model, Top Risks and Opportunities Report read with the Pervasive Risk Report and insights of operational and senior executives lend further input.

The ongoing conflict in the Ukraine, never-ending cyber threats coupled with ransomware demands, hacks and data breaches, escalating concerns about energy sources, high inflation, are examples of risk drivers that organisations must navigate on a day-to-day basis. Global economic outlook projections for 2023 point out that the economy is likely to enter recession. Inflationary pressures remain above pre-pandemic trends which is likely to occur for several years, if not for a longer period.

The table below outlines the key risk areas for the current and previous years relevant to the industry in which Grindrod operates. The risk ratings are not residual risk ratings, and hence do not factor in controls or mitigations. Grindrod considers the controls and mitigations when analysing the risk areas for the Group.



Risk category	Key risk area	2022		2021	
		Risk ranking	Risk rating	Risk ranking	Risk rating
<b>Economic</b>	Business interruption	5	High	6	High
	Global economic crisis and trade wars	6	High	7	High
	Commodity demand, price volatility and customer concentration	7	High	8	High
	Declining regional investment	12	Medium	12	Medium
	Energy and water cost fluctuation	13	High	13	High
	Infrastructure and SOE deficiencies	14	High	14	High
<b>Environmental</b>	Climate change and extreme weather	2	High	2	High
<b>Social</b>	COVID-19 pandemic	8	Low	4	Medium
	Social unrest and inequality	1	High	1	High
	Local political instability and economic uncertainty	4	High	5	High
<b>Geopolitical</b>	Governance, legislation and regulations	9	Medium	9	Medium
	Global regulatory compliance	10	Medium	10	Medium
	Fraud and corruption	11	Medium	11	Medium
<b>Technological</b>	Cyber	3	High	3	High

## RISK REVIEW continued

### OUR TOP RISKS 2022

The tables below outline the key top risks in order of priority that have a material impact on Grindrod's ability to create value, as at 31 December 2022.

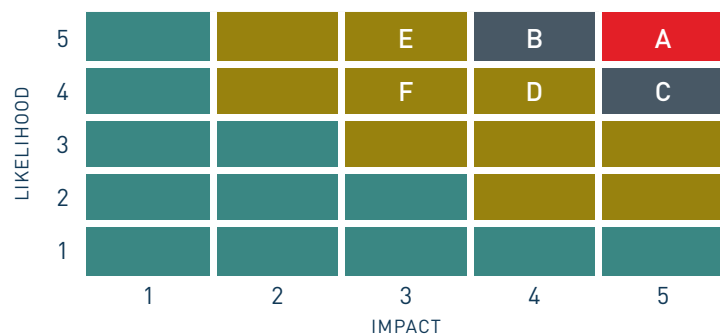
RESIDUAL RISKS	Movement	2022 Residual risk rating	2021 Residual risk rating
Political and sovereign risk	–	B	B
Key logistic providers' engagement	–	C	B
Regulatory compliance	–	B	B
Liquidity	▼	D	C
Safety, Health, Environment, Risk and Quality (SHERQ)	–	C	C
Customer and commodity concentration	–	C	C
Transformation	–	C	C
Cyber and Information and Communication Technology (ICT)	–	D	D
Fraud, bribery and corruption	–	E	E

Grindrod continuously evaluates the top risks that materially impact on the environment in which it operates.

Two new key residual risks which impact Grindrod's strategy execution were added to the top residual risks register during 2023:

- (a) Load-shedding: Grindrod has implemented scenario and contingency planning to mitigate the risk of extended or complete load-shedding.
- (b) Project execution: Project strategy execution and project performance is key to the creation of shareholder value through the optimisation of our current businesses and unlocking growth opportunities for Horizon 2 and 3 businesses.

#### Residual Risk Heat Map



MATRIX EVALUATION	LOW	1-6	VALUATION RANGE
	MEDIUM	8-16	
	HIGH	20	
	CRITICAL	25	



HAZEL XULU | GROUP RISK AND INTERNAL AUDIT MANAGER

## RISK REVIEW continued

A detailed analysis of each identified risk and how management is mitigating each risk, is shown below:

RISK	Implications for value creation	Mitigating actions	Associated opportunities
<b>Political and sovereign risk</b>  Grindrod operates in countries where political and foreign exchange decisions, conditions or events, may affect the viability or value of its business.  This risk remains high due to lack of energy sources, economic unrest across the world due to socioeconomic conditions remaining challenging and South Africa's weak economic fundamentals. These are exacerbated by slow structural reforms and challenges at state-owned enterprises.	<ul style="list-style-type: none"> <li>• Supply-chain disruption caused by political turmoil.</li> <li>• Value erosion due to credit-rating downgrades.</li> <li>• Expropriation of assets or concessions.</li> <li>• Increased cost of capital.</li> <li>• Reduced enterprise and stakeholder value.</li> <li>• Hiking commodity and energy prices.</li> </ul>	<ul style="list-style-type: none"> <li>• Manage and monitor exposure levels of foreign exchange risks.</li> <li>• Partner with investors that invest in these regions, such as development finance institutions.</li> <li>• Identify strategic markets with strong prospects for political reform.</li> <li>• Perform thorough country and investment assessment before investing.</li> <li>• Insure political risk where appropriate.</li> <li>• Engage collaboratively and consultatively with regional governments and communities.</li> <li>• Invest in meaningful social upliftment initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>• Develop new infrastructure and integrated logistics opportunities across Africa in line with Grindrod's strategy. The returns are likely to be high if Grindrod can operate successfully in all jurisdictions.</li> </ul>
<b>Key logistic providers' engagement</b>  Grindrod's operations rely on agreements with suppliers and partners to optimise infrastructure utilisation and ensure efficient cargo flow. Income losses could jeopardise business outcomes due to business interruptions.  Grindrod maintains pro-active relationships with key strategic suppliers and partners, notwithstanding the current challenges in our business environments.	<ul style="list-style-type: none"> <li>• A loss of sustainable income if a crucial supplier or partner defaults on an agreement.</li> <li>• Underutilised capacity due to lack of competitive pricing and rail resource allocation.</li> <li>• Rail/road challenges impacting Grindrod's South African port operations.</li> <li>• Reduced infrastructural asset efficiencies due to inefficiencies in the strategic supply chain.</li> <li>• Reduced enterprise and stakeholder value.</li> </ul>	<ul style="list-style-type: none"> <li>• Well-defined and actively monitored risk tolerance levels.</li> <li>• Constructive engagement with suppliers and partners at strategic and operational levels.</li> <li>• Agreements with suppliers that maximise asset utilisation through diversification.</li> <li>• Create and maintain customer-centric solutions.</li> <li>• Establish governance structures to manage key strategic supplier relationships effectively.</li> <li>• Shareholding with government in key strategic assets in Mozambique.</li> <li>• Promote key stakeholder involvement in the ownership of key strategic assets.</li> <li>• Exploring various new commodities and geographic domiciles – exploring various commodity sourcing opportunities with niche clients to ensure sustainable growth.</li> </ul>	<ul style="list-style-type: none"> <li>• Engagement with stakeholders in SADC on strategic and operational issues.</li> </ul>
<b>Regulatory compliance</b>  Grindrod's licence to operate is subject to its divisions ensuring continued compliance with all laws and regulations applicable to its diverse operations. Inadequate compliance could result in reputational damage that will impact on the sustainability of Grindrod's operations.	<ul style="list-style-type: none"> <li>• Litigation and claims from customers.</li> <li>• Fines and increased audits from regulators.</li> <li>• Negative impact on the Grindrod brand.</li> <li>• Financial losses, reduced share price.</li> <li>• Reduced employee commitment and loss of key personnel.</li> <li>• Reputational damage.</li> <li>• Loss of competitive advantage with reduced enterprise and stakeholder value.</li> </ul>	<ul style="list-style-type: none"> <li>• Well-defined and actively monitored risk tolerance levels.</li> <li>• Ongoing monitoring of compliance utilising a combined assurance approach.</li> <li>• Embedding a compliance-based culture across business divisions.</li> <li>• Prompt responses to all queries from regulators, with strict adherence to deadlines.</li> <li>• Implementation of incoming JSE requirements and ongoing monitoring.</li> <li>• Compliance with the Protection of Personal Information Act (POPIA).</li> </ul>	<ul style="list-style-type: none"> <li>• Create a culture of compliance and good governance.</li> <li>• Save costs associated with potential fines.</li> <li>• Build trust with regulators by demonstrating commitment to good governance and compliance with laws and regulations.</li> </ul>

## RISK REVIEW continued

RISK	Implications for value creation	Mitigating actions	Associated opportunities
<b>Liquidity</b> <p>Poor market conditions can influence cash flow within the Port and Terminals and Logistics businesses and restrict the ability to execute on strategic projects and acquisitions.</p> <p>The risk of cash flow shortages in the Group where Port and Terminals and Logistics divisions are impacted by continued local and global economic growth constraints including managing debt covenants can reduce cash and cash flow generation.</p>	<ul style="list-style-type: none"> <li>Cash shortage in the Group can result in a failure to service debt and fund investment opportunities. These would lead to high interest expenses on borrowings and breaches of covenants.</li> </ul>	<ul style="list-style-type: none"> <li>Well-defined and actively monitored risk tolerance levels.</li> <li>Active monitoring and reporting on facilities, cash flows and covenants through our centralised Treasury function.</li> <li>Drive working-capital management.</li> <li>Regular cash forecasts for USD and ZAR Group funds reported to the Board in the quarterly Treasury report.</li> </ul>	<ul style="list-style-type: none"> <li>Responsibly leverage the Grindrod balance sheet to ensure maximum shareholder return on investment.</li> </ul>
<b>SHERQ</b> <p>Grindrod operates in an environment that exposes its employees, other stakeholders and the environment to potential risks.</p> <p>To meet customer and quality requirements, compliance with ISO and environmental legislations have become imperative to support operational excellence.</p>	<ul style="list-style-type: none"> <li>Fatalities, injuries, occupational disease.</li> <li>Heightened mental health challenges potentially impacting workforce.</li> <li>Adverse impact on staff health and welfare.</li> <li>Significant environmental events.</li> <li>Sub-standard quality of service delivery.</li> <li>Reputational damage.</li> <li>Insurance claims.</li> <li>Legal non-compliance exposing S16.1 and S16.2 appointees according to OHS Act 85 of 1993.</li> <li>Stakeholder relations.</li> <li>Employee retention.</li> <li>Interrupted supply of cargo to customers.</li> </ul>	<ul style="list-style-type: none"> <li>Policies and procedures developed and implemented.</li> <li>Awareness campaigns/toolbox talks etc.</li> <li>Implement SHERQ and legal compliance KPIs for senior employees.</li> <li>Improve SHERQ risk management through a refresher campaign across the Group.</li> <li>Drive community engagement to prevent road fatalities.</li> <li>Implement ISO system certification across Freight operations/Business Units.</li> </ul>	<ul style="list-style-type: none"> <li>Operate in environments that support safe and secure working conditions for all employees, while ensuring compliance with all applicable legislation.</li> <li>Minimise negative impacts on the environment and communities.</li> <li>Provide goods and services that meet customer and quality requirements, while complying with relevant legislation and voluntary adopted frameworks.</li> </ul>
<b>Customer and commodity concentration</b> <p>Grindrod's Freight Services business is exposed to the risks of customer concentration and continued cyclical commodity demand and prices, which results in volatility in asset-utilisation and resultant earnings.</p>	<ul style="list-style-type: none"> <li>Concentrated exposure to cyclical commodity demand and prices results in volatility of earnings and asset utilisation. This will affect enterprise and stakeholder value, and earnings predictability.</li> <li>Undue dependency on specific suppliers could impact Grindrod's performance should defaults occur.</li> <li>Increasing environmental pressure on coal as a primary electricity source will reduce demand for this commodity in the long run.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing market trend analysis and understanding to identify new opportunities.</li> <li>Engage major customers and suppliers to optimise logistics solutions and mutually align objectives.</li> <li>Investigate opportunities to bulk up the division through targeted acquisitions.</li> <li>Engage constructively with suppliers and partners to secure mutual commitment to unlocking the potential of infrastructural assets and corridors.</li> <li>Improve capacity utilisation through commodity, customer and geographic diversification.</li> <li>Continued engagement with key logistics services providers to deliver contracted coal and magnetite volumes.</li> <li>Secure bulk commodities that are in line with the future bulk terminal strategy.</li> </ul>	<ul style="list-style-type: none"> <li>Revenue streams based on new commodities while maintaining optimal infrastructure efficiencies.</li> <li>New customers and markets, e.g., graphite, vanadium and hematite.</li> </ul>

## RISK REVIEW continued

RISK	Implications for value creation	Mitigating actions	Associated opportunities
<b>Transformation</b> <p>Grindrod is continually transforming itself to maintain its social contract with stakeholders as the commercial world evolves. Adequately addressing these requirements is integral to retaining and growing the Group's position as a preferred service provider.</p> <p>Our transformation efforts pay heed to any regulatory changes or revisions to applicable B-BBEE codes.</p>	<ul style="list-style-type: none"> <li>• Loss of existing client business.</li> <li>• Failure to secure new business to drive organic growth.</li> <li>• Fines imposed due to non-compliance.</li> <li>• Reputational damage.</li> <li>• Reduced enterprise and stakeholder value.</li> </ul>	<ul style="list-style-type: none"> <li>• Drive compliance across the business through clear strategies and communication.</li> <li>• Regular reporting on the status of each business through the Social and Ethics and Sustainability committee.</li> <li>• Identify compliance gaps in the light of the draft Maritime and Transport Sector Codes.</li> <li>• Ongoing monitoring to achieve B-BBEE ownership targets.</li> <li>• Official sponsor of AmaZulu Football Club, as part of Grindrod's commitment to empowering communities and expanding the brand throughout Africa.</li> </ul>	<ul style="list-style-type: none"> <li>• Making Grindrod more diverse through preferential procurement, supporting B-BBEE enterprises and upskilling our employees.</li> </ul>
<b>Cyber and ICT</b> <p>Grindrod's operations rely on technology platforms to facilitate service delivery. The increased use of digital platforms, changes in working environments and continuous advancement in digital technology, increases the risk of cybercrime. This necessitates maintaining the integrity and stability of key IT systems to protect client interests against increasingly sophisticated cyberattacks.</p>	<ul style="list-style-type: none"> <li>• Financial losses resulting from the theft of information or money, corruption of data and business disruption losses.</li> <li>• Reputational damage, including loss of clients.</li> <li>• Fines and regulatory sanctions.</li> <li>• Reduced enterprise and stakeholder value.</li> </ul>	<ul style="list-style-type: none"> <li>• Formalised cybersecurity strategy, policies, charters, processes and systems specifically focused on POPIA compliance.</li> <li>• IT Governance, IT general controls and cybersecurity risks are reviewed quarterly through a comprehensive cybersecurity framework.</li> <li>• Cyber insurance minimum requirements have been re-evaluated by insurers.</li> <li>• Business Continuity/Disaster Recovery requirements, practices and processes to ensure IT impacted disruptions.</li> <li>• ICT performance and the alignment of people, process and technology, ensuring IT is staffed with suitably skilled, empowered people.</li> </ul>	<ul style="list-style-type: none"> <li>• Collaboration and alignment of overall objectives between business operational IT and Group IT e.g., using integrated platforms and focused digital strategy.</li> <li>• Standardised network and security standards across the Group enable cost-effective integration of business, while supporting cybersecurity resilience.</li> <li>• Controlled application management, including security protocols and governance standards.</li> </ul>
<b>Fraud, bribery and corruption</b> <p>Grindrod operates in an environment where instances of fraud, bribery and corruption are pervasive. Sound governance and internal control structures may be compromised should employees operate outside the framework of Grindrod's core values of transparency, respect, integrity, professionalism, fairness and accountability.</p> <p>Fraud, bribery and corruption remain key risks in the Group due to their pervasive nature.</p>	<ul style="list-style-type: none"> <li>• Reputational damage to the Group, its directors, employees and potentially its stakeholders, including shareholders.</li> <li>• Volatility in share price, with the potential of a significant drop in the share price as a result of negative publicity and investor rules.</li> <li>• Regulatory fines and/or criminal prosecution – criminal prosecution may result in "blacklisting" from government work in a multitude of jurisdictions.</li> <li>• Investigation and remedial costs – legal fees and possibility of having a monitor imposed.</li> <li>• Financial losses, impacting the profitability of the Company.</li> <li>• The inability to secure adequate and applicable insurance cover.</li> <li>• Breaching obligations in debt funding agreements, with the potential for funding to be withdrawn at short notice.</li> </ul>	<ul style="list-style-type: none"> <li>• Fraud, bribery and corruption interactive training for entire employee base. Implementation of recommendations received from ENSAfrica.</li> <li>• Rollout of Grindrod EthicsDefender usage survey.</li> <li>• Comprehensive overhaul of Whistleblowing and Anti-Corruption Policies. Annual Ethics Declaration and Sign Off by all staff.</li> <li>• Robust monitoring of compliance with the Code of Ethics through internal audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Safeguard an ethical culture based on the Grindrod core values of transparency, respect, integrity, professionalism, fairness and accountability with no instances of fraud, bribery or corruption in, or connected to, the Group and its subsidiaries.</li> </ul>