

REPORT OF THE CHIEF FINANCIAL OFFICER



Fathima Ally Chief Financial Officer

Grindrod's core business is stable with healthy cash generation from operations and our balance sheet is strong. Capital allocation disciplines are well entrenched, and in addition to stay-in business and expansionary capital investments made in 2022, Grindrod held true to sustaining dividend flow to its

Fathima Ally
Chief Financial Officer
5 April 2023

Grindrod's 2022 financial year was one where new operational records were set, and solid financial performance was reported. The backdrop of challenges experienced in the year was met with the resilience of our teams and their customer-solutions-seeking mindset. Grindrod made good strides towards the non-core business exit strategy with the disposal of Grindrod Bank and certain significant private equity investments within the larger portfolio.

Grindrod's core business delivered good results for the year ended 31 December 2022, with headline earnings of R1.1 billion, up 37% on the prior year. In addition, Grindrod reported cash generated from operations of R1.7 billion in 2022, up 62% on the prior year.

The strong commodity markets bolstered volume growth in the Port and Terminals segment. This, together with profit participation on coal cargo handled, resulted in Port and Terminals headline earnings of R822 million, up 111% on the prior year.

The healthy freight and shipping rates contributed to the convincing performance of the Logistics segment, where headline earnings of R636 million was up 162% compared to the prior year. The coastal shipping and container depot businesses recovered exceptionally well following the devastating floods in KwaZulu-Natal. Headline earnings include losses of R26 million related to flood damage and insurance proceeds of R67 million.

The Group segment performance was impacted by various factors, including an impairment of R223 million on the loan previously advanced to set up the Richards Bay black empowerment structure, a R40 million expense linked to obligations under the employee share price linked long-term incentive scheme due to Grindrod's share price increase, and, lastly, increased withholding taxes on offshore dividend repatriations of R45 million.

The disposal of Grindrod Bank on 1 November 2022, for gross proceeds of R1.6 billion, represented a critical milestone. Grindrod Bank reported earnings of R142 million for the 10 months prior to disposal. The transaction resulted in a post-tax loss on sale of R292 million, and transaction costs of R26 million were recorded. In addition, contractual obligations of R85 million were raised on disposal, linked mainly to warranties provided to the buyer on specific loans and advances disposed of. In view of the disposal, the Bank segment was classified as a discontinued operation in 2022 in terms of IFRS 5: Non-Current Assets Held for Sale and Discontinued Operations, resulting in the prior year's income statement being re-presented.

The private equity investment portfolio has a carrying value of R319 million, with one significant asset remaining at R241 million. The carrying value of the KwaZulu-Natal north coast property loans at year-end amounted to R1.1 billion.

The robust oil prices resulted in the Marine Fuels segment results rising 119% from the prior year.

Financial review

Key segmental continuing income statement metrics (includes share of joint ventures on a line-by-line basis):

Rmillion	2022	2021*	Variance %
Revenue	24 360	17 550	39
Core operations	7 405	4 683	58
Non-core operations	16 955	12 867	32
Trading profit/(loss)	1 917	1 524	26
Core operations	2 174	1 646	32
Non-core operations	(257)	(122)	>100
Share of associate earnings	163	115	42
Non-trading items	54	(450)	>100
Net profit/(loss) attributable to ordinary shareholders	776	61	>100
Core operations	1 090	426	>100
Non-core operations	(314)	(365)	14

* Re-presented due to the disposal of Grindrod Bank.

Revenue growth in core operations was driven by volume growth, improved tariffs, and new customer solutions implemented. Non-core operations revenue related to the Marine Fuels segment and arose due to the strong oil market.

Trading profit from core operations was up 32%, benefitting from volume growth due to the solid commodity market. The R223 million impairment of the loan previously advanced to set up the Richards Bay black empowerment structure is recorded against core trading profit.

The non-core trading loss is largely attributable to net fair value losses on the private equity

portfolio of R132 million and impairment and fair value losses of R204 million relating to the KwaZulu-Natal north coast property loans mainly due to the increase in interest rates, which impacted the discount rates applied in the fair value model.

Share of associates earnings mainly relates to Grindrod's investment in the Port of Maputo, which delivered strong results capitalising on the additional slab and berthing capacity.

Non-trading items arose from property, plant and equipment disposals mainly due to the disposal of two flats in London in 2022.



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Group headline earnings reconciliation

Rmillion	Continued core operations	Non-core operations	Dis-continued operations	Total
Net profit/(loss) attributable to ordinary shareholders	1 090	(314)	(175)	601
Scrapping and impairment of fixed assets due to floods, net of insurance proceeds	10	-	-	10
Reversals of impairment of fixed assets	(6)	-	-	(11)
Net profit on disposal of joint venture	(7)	-	-	(7)
Net profit on disposal of fixed assets	(30)	-	-	(30)
Loss on disposal of the Bank	-	-	292	292
Headline earnings/(loss)	1 057	(314)	117	860

Core headline earnings at R1.1 billion represent a 37% uplift from the 2021 core headline earnings of R772 million.

Statement of financial position

Key segmental statement of financial position metrics (includes share of joint ventures on a line-by-line basis)

Rmillion	2022	2021	Variance %
Property, plant and equipment (PPE), right-of-use assets and intangible assets	5 099	5 561	(8)
Assets held for sale	975	65	>100
Investments and other assets	1 988	2 472	(20)
Current assets and bank and cash	8 013	6 647	21
Loans and advances	1 073	9537	>(100)
Liquid assets and negotiable securities	-	3 936	>(100)
Total assets	17 148	28 218	(39)
Total equity	8 821	8 571	3
Total interest-bearing debt	3 417	4 785	(29)
Deposits from Bank customers	-	11 221	>(100)
Current and other liabilities	4 546	3 641	25
Liabilities associated with assets held for sale	364	-	100
Total equity and liabilities	17 148	28 218	(39)

PPE, right-of-use assets and intangible assets decreased due to the transfer of assets to held for sale in view of the joint venture transaction with Maersk logistics and service operations and certain of Grindrod's container depots and its coastal shipping business, which became effective in early January 2023. This is also what the assets held for sale and liabilities associated with assets held for sale relate to.

The decrease in investments and other assets is mainly due to net fair value losses on, and disposal of, certain significant private equity investments and an impairment of the loan previously advanced to set up the Richards Bay black empowerment structure.

Current assets and bank and cash increased due to improved trading, as well as proceeds from the disposal of Grindrod Bank.

The significant decrease in loans and advances is largely attributable to the disposal of Grindrod Bank and, to a lesser extent, fair value losses of R204 million relating to the KwaZulu-Natal north coast property loans and advances.

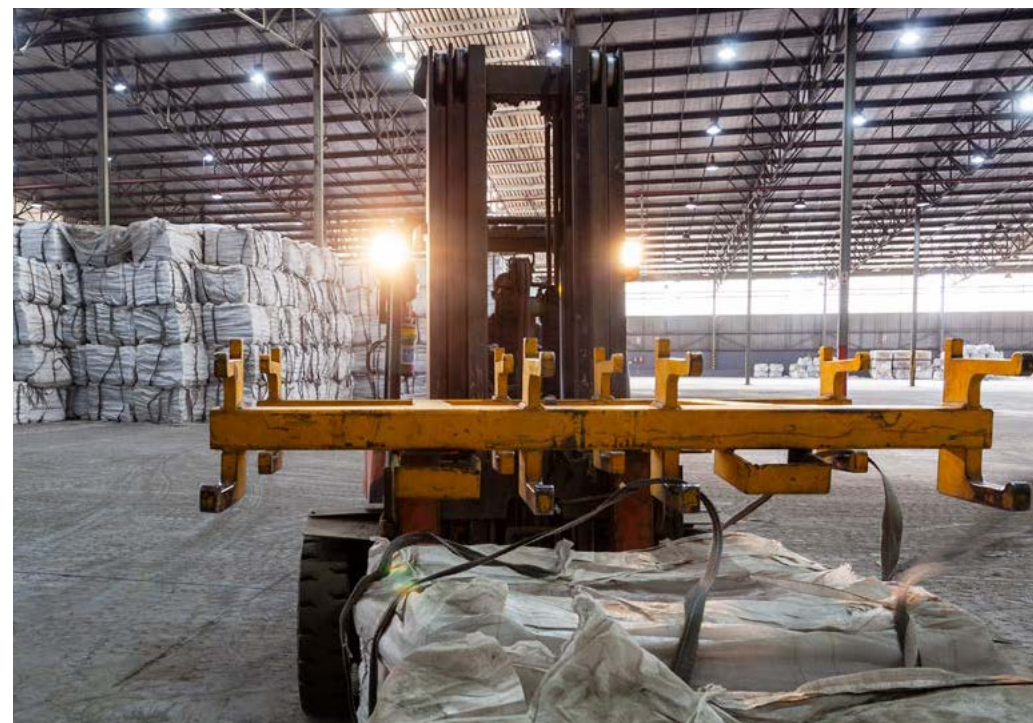
Exchange rate and current-year profits contributed to the increased equity. This was partly offset by dividends of R680 million declared and paid to ordinary and preference shareholders during 2022.

Interest-bearing borrowings have decreased due to the sale of Grindrod Bank, a reduction in the private equity debt and the transfer of lease liabilities to the held for sale disposal group arising from the conclusion of the joint venture with Maersk Logistics and Services operations.

The increase in current and other liabilities is largely due to increased trading activities.

Capital allocation

Grindrod's capital allocation fundamentals aim to safeguard the strength of the balance sheet whilst reinvesting to ensure the sustainability and growth of the business and simultaneously deliver returns to shareholders.



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The Group generated positive cash from operations of R1.7 billion, which was utilised to settle interest, taxation and dividend obligations of R622 million. R578 million was utilised for capital expenditure, and R402 million was used to make lease liability and short-term borrowing repayments during the year.

Proceeds from the disposal of private equity investments of R176 million were applied to the settlement of the preference share funding of R150 million.

Proceeds of R197 million were also received in the current year linked to the 2021 disposal of the carrier businesses and the UK Real Estate investment under deferred payment arrangements.

Proceeds from the disposal of Grindrod Bank were utilised to settle transaction costs and make a special dividend distribution of 55.9 cents per share to the shareholders on 19 December 2022. The balance of the proceeds of R1.1 billion have been allocated to the Matola upgrade, the manganese logistics solution project and warranties on the sale.

As at 31 December 2022, the balance sheet reflects net debt of R182 million. However, excluding ringfenced cash of R1.1 billion from the disposal of Grindrod Bank, the net debt is R1.3 billion. This equates to a net debt-to-equity ratio of 15% using operational cash only. Headroom exists to facilitate the raising of funding to support the Freight Services expansion, ensuring that net debt to EBITDA of less than 2.5 times is always maintained.

Capital projects

Capital commitments of R556 million (2021: R269 million) were approved as of 31 December 2022, relating predominantly to the Matola terminal upgrade and the refurbishment of locomotives. 64% of current-year capital expenditure, including joint ventures, of R767 million (2020: 65% of R568 million) was expensary.

Annually, Grindrod sets the weighted average cost of capital (WACC) and project hurdle rates to ensure that all projects are assessed in detail and that a robust process for allocating capital is adhered to. All projects are deemed high risk unless substantiated otherwise for factors such as guaranteed contractual off-take, solid counter-party or low country risk, amongst others. The project hurdle rates, using the project internal rate of return, have remained largely unchanged from the prior year and are set out in the table below:

	High Risk	Medium Risk
Hurdle rate	18%	15%

Dividend declaration

A final gross ordinary dividend of 22.2 cents was declared, resulting in a total ordinary dividend for the year of 95.3 cents. Total preference share dividends of R56 million (2021: R46 million) were declared to preference shareholders during the 2022 financial year.

Foreign currency exposures

Grindrod has US\$265 million (2021: US\$227 million) of net assets based outside South Africa, with US Dollar cost bases and generating US Dollar revenues, thereby reducing the exposure of the Group to any one country or currency. It is worth noting that the majority of Grindrod's operations in Mozambique trade in US Dollar currency, mitigating exposure to the Metical. Foreign exchange risks are monitored and mitigated in terms of approved policies.

Financial controls and risk management

Key financial personnel are employed across Grindrod to manage the financial departments, which monitor and support the operations through the analysis and reporting of results. These finance teams, with enabling financial systems, ensure that the financial information reported is complete, accurate, relevant and timely.

Internal control systems are designed to provide reasonable assurance against material losses, and the misstatement of financial results and are intended to manage all significant risks. Safeguarding and preventing the misuse of assets are other important aspects of internal control.

Principal features of the Group's internal financial controls are:

- An organisational structure comprising clearly defined reporting lines, responsibilities and levels of authority.
- Policies, procedures and guidelines to ensure that best practice standards are maintained and achieved.
- A system of financial planning, budgeting and reporting that enables performance to be monitored against predetermined objectives.
- Internal financial controls, which are supported by the Group's IT systems.
- A finance team with the appropriate level of skill and technical training.
- Independent oversight by the internal audit division through developing and testing financial control frameworks.

During 2022, internal financial control frameworks were tested by the internal audit division at several locations. Areas of non-compliance or deficiency were reported to and



discussed with management, following which action plans were drafted and implemented to address the risk of material misstatement of financial results. In line with the requirements of JSE listing rule 3.84(k), the deficiencies and remediation plans were also shared with the Audit committee and external auditors.

Accounting policies

The accounting policies adopted and methods of computation used in the preparation of the reviewed provisional consolidated financial statements are in terms of IFRS and are consistent with those of the Annual Financial Statements for the year ended 31 December 2021.

The Grindrod Bank disposal resulted in the Bank segment being presented as discontinued operations as it constituted a major line of business. Accordingly, the financial results in the income statement for 2021 have been re-presented.

Refer to the Accounting Policies section of the Annual Financial Statements available on Grindrod's website for further detail on new standards and interpretations not yet adopted. Key accounting estimates and judgements are disclosed in note 1 of the Annual Financial Statements.

Events after the reporting date

The joint venture transaction between Maersk Logistics and Services operations was concluded with all conditions precedent fulfilled on 1 January 2023.

In January 2023, the Group acquired the remaining shareholding in its joint venture RBT Grindrod Terminals Proprietary Limited.

There are no other material post-balance sheet events to report.

Mandatory external auditor rotation

Following a robust and comprehensive screening and bid evaluation process, the Audit committee and Board of Directors have proposed PricewaterhouseCoopers Incorporated (PwC) to be appointed as the Group's external auditors for the financial year ending 31 December 2024, with Nqaba Ndiweni acting as the designated audit partner.

The change in audit firm is subject to the approval of shareholders, under a non-binding vote, at the Company's Annual General Meeting, which is scheduled to be held on 25 May 2023.