Material Risks

The board recognises that the proactive engagement of risk is a vital aspect of the business. ELB's risk management framework provides an approach to identify, evaluate and respond to key risks and opportunities that may impact the Group. This is particularly important in a challenging environment such as the one ELB operates in.

The external audit function, as well as other external assurances, also provide a degree of comfort in that certain controls are reviewed during the course of these audits and any identified shortcomings are reported to management and to the Audit and Risk Committee.

The top risks facing the Group are summarised below:

1. ELB Engineering Services business rescue

On 8 January 2020 ELB informed its shareholders via SENS that ELB would be undertaking a restructuring of its Engineering Services business; a downsizing of its head office function; and the sale of its Australasian segment (collectively referred to as "**the Initiatives**"). The Initiatives have subsequently all been implemented.

However, despite the successful conclusion of the Initiatives, ELB Engineering Services (Pty) Ltd's ("**ELBES**") new business forecasts did not materialise. This placed unsustainable funding requirements on the Group and a decision was therefore made that the Group could no longer support ELBES. The ELBES board of directors therefore resolved to proceed with placing ELBES under business rescue in terms of Chapter 6 of the Companies Act. The required resolutions were filed and Daniel Terblanche was appointed as the business rescue practitioner. Shareholders were informed of this via SENS on 06 April 2020.

ELB has provided numerous guarantees and Group cross-suretyships to third parties in respect of both the indebtedness of and due performance by ELBES for its obligations under ongoing contracts. The guarantees provided to third parties include but are not limited to parental guarantees provided in respect of the Gamsberg Zinc project and Ngodwana Energy projects, which are still to be completed.

The Gamsberg Zinc project achieved operational completion on 20 January 2020. Performance guarantee testing was expected to commence and be completed on or before 31 March 2020 but was suspended as a result of a plant shut down due to the Covid-19 pandemic. The Group maintains a strong and positive working relationship with the client and continues to work diligently with the client to provide conditions conducive to enable Performance Guarantee testing and a successful handover.

ELBES's filing for Business Rescue has necessitated a revision of the contracting model relating to the Ngodwana Energy Project in order to reflect ELBES's reduced ability to contribute to the project. ELBES has engaged with KC Cottrell, its 55.5% consortium partner, in order to revise the consortium agreement to reflect the change in rights, duties and responsibilities between the partners.

Project delays as a result of the COVID-19 pandemic are expected to impact on the delivery schedule of the Ngodwana Energy project and as a consequence, additional costs and delay penalties may be incurred. Despite ELBES's reduced participation, the consortium partners remain jointly and severally liable for the execution of the project. Management continues to engage with the project client and with KC Cottrell to mitigate any potential delays.

The risks associated with the guarantees and the Group cross-suretyships are expected to be largely mitigated through the business rescue process and ongoing commercial negotiations with financiers and key customers of ELBES.

2. Going Concern

In determining the appropriate basis of preparation for the condensed consolidated interim financial statements as at 31 December 2019, the directors were required to consider whether the company and its subsidiaries can continue in operational existence for the foreseeable future. The Group's loss after tax for the period was R100.1 million (31 December 2018: loss after tax R271.8 million, 30 June 2019: profit after tax R31.1 million). The Group's total assets exceeded total liabilities by R396.8 million (31 December 2018: R260.8 million; 30 June 2019: R499.1 million). Current assets for the Group exceeded current liabilities by R202.7 million (31 December 2018: current liabilities exceeded current asset by R49.8 million; 30 June 2019: R 232.3 million).

The directors have made an assessment of the ability of the company and its subsidiaries (the "**Group**") to continue as a going concern. This basis presumes that funds and support will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors believe that the Group is a going concern based on the following facts and circumstances:

- Based on liquidity and solvency analyses, the forthcoming budget and cash flow forecast for the 12 months preceding the date of the interim financial statements, the directors believe that the Group will be a going concern. The cash flow forecast has been accurately compiled using appropriate assumptions. The budgets, plans and forecasts have, together with the assumptions used, been interrogated and approved by the Board. The forecasts and plans that have been implemented by management indicate that the Group will have sufficient cash resources for the foreseeable future.
- The directors have considered the agreements reached and transactions concluded post year end, the actions taken by the Group, the financial plans and forecasts, including all available information, and are of the opinion that the going concern assumption is appropriate in the preparation of the financial statements.
- The board is not aware of any new material changes nor any material non-compliance with statutory or regulatory requirements that may adversely impact the Group.
- The viability of the Group is supported by its financial statements. Total assets exceeded total liabilities and current assets exceeded current liabilities at 31 December 2019.
- The Group continues to engage with its banking and bonding facility providers, who remain committed to supporting the Group, through the provision of financing facilities.
- The Covid-19 pandemic has contributed to a reduction in operating profits which may result in operating losses for the 2020 financial year however, the impact thereof is not expected to impact on the Group's ability to continue to operate into the foreseeable future. The Group has sufficient headroom within its

agreed banking facilities to continue to operate during this period. Should a further national lock-down be implemented, the Group's trading results are likely to be negatively impacted.

3. Impact of COVID-19

The ELB Group was deeply saddened by the passing of two employees as a result of COVID-19 health complications, including Craig Smith, an Executive Director of ELB Equipment Holdings (Pty) Ltd and an employee of 32 years. Safety protocols have been instituted in order to manage risk and protect our employees and customers from further spread of COVID-19.

COVID-19 has caused a disruption to ELB's customers which has resulted in substantial reductions in trading volumes and profits for ELB Equipment Holdings (Pty) Ltd ("ELB Equipment") and prior to the effective date of disposal, the Australasian segment. ELB Equipment is expected to return to profitability during the forthcoming financial year albeit at lower than historical levels. The revised trading outlook necessitated a Section 189 retrenchment process in order to reduce the cost base of ELB Equipment to match expected trading/turnover levels going forward.

4. Political Uncertainty

Given challenging market conditions and political uncertainty, the Group continues to experience risks associated with:

- Labour and civil unrest;
- Low levels of market confidence;
- Corruption;
- Limited fixed investment by government and the private sector;
- Failing state owed entities;
- Little to no growth rates; and
- Exchange rate volatility.

ELB endeavors to effectively manage market instability and political uncertainties by diversifying operations and by continuing to grow into the mining sector and growing the maintenance, aftermarket and spares business lines.

5. Equipment lead times

Following on from the oversupply in global equipment levels, many of the original equipment manufacturers reduced production capacity in response to slowing demand and the recent impact of the Covid-19 pandemic. As a result, inventory supply lead times have increased for certain product lines which places pressure on the Group to maintain market share as customers search for alternative solutions.

We will continue to:

- monitor customer and competitor actions,

- Ensure that our estimates allow for the appropriate balance between achieving the required level of sales and inventory positions;
- Improve routes to market and focus on networking amongst global dealers in order to share availability of inventory; and
- Maintain strong relationships with technology providers and principals.

6. Non-compliance and governance

ELB is governed in accordance with good corporate governance practices, including legal compliance management, compliance or adherence to appropriate and relevant industry rules, codes and standards, and internal control systems.

We identify changes in the regulatory landscape, coupled with systems and processes to ensure compliance with applicable laws, other legal requirements and good governance practices.

7. Interest rate risk

The Group makes use of various working capital facilities which attract interest at market related JIBAR and Prime linked interest rates. To the extent that these benchmark rates increase, the funding costs to the group will increase. The Group constantly and actively manages its cash balances and utilisation of various facilities in order to optimise the overall cost of funding.

8. Information technology risk

Global incidences of cyber-attacks and ransomware attacks continue to increase. This risk is enhanced by the increased practice of working from home protocols instituted as a response to COVID-19. ELB is not a live-system environment, however the Group continues to manage these risks via data-backups, staff awareness and preventative anti-virus software.

9. Competition risk

ELB’s competitiveness is based on its ability to continue selling goods and services that meet the quality standards of its target markets, at margins and service levels that provide adequate returns. Increasing competition in relation to products originating from countries with low production costs may adversely affect ELB’s business, operating results, cash flows and financial performance.

We are implementing initiatives to ensure a more effective, efficient and competitive response to changing global marketplace dynamics. We continuously assess the efficiency and effectiveness of our operations against global benchmarks.

10. Infrastructure constraints

South Africa’s infrastructure constraints prolong underdevelopment and negatively impact on ELB’s growth opportunities as Customers limit their investments in expansion capital and growth which is linked to demand. While ELB is equipped to service existing demand, the group endeavors to maintain and grow profitability and improve operating performance.