

## AUSTRO GROUP LIMITED

(Incorporated in the Republic of South Africa)

(Registration number 2001/029771/06)

JSE share code: ASO ISIN: ZAE000090882

("Austro" or "the Company")



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## ACQUISITION OF CENTLUBE AND WITHDRAWAL OF CAUTIONARY

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### 1. INTRODUCTION

Shareholders are advised that Austro has entered into an agreement (the "**acquisition agreement**") with Ricophase Proprietary Limited ("**Ricophase**"), Tapson Sadiki ("**Sadiki**"), Tebogo Desiree Kukama ("**Tebogo**"), Aobakwe Reginald Koketso Kukama ("**Reggie**"), the Horatio Share Trust (the "**Hinckley Trust**") and Grant Hinckley ("**Grant**") (collectively "**the vendors**") to acquire an effective 100% shareholding in Centlube Holdings Proprietary Limited ("**Centlube Holdings**").

Centlube Holdings and its subsidiary ("**the Centlube group**") are involved in the production and marketing of oil lubricants in sub-Saharan Africa. Based in Wadeville, Germiston, it has a production capacity in excess of 12 million litres per annum. It is a licensee and distributor of ENI oil lubricants and also produces steel rolling fluids on behalf of Houghton plc.

Austro is repositioning itself to focus on the energy sector. Energy is a significant economic segment which has exciting growth prospects in sub-Saharan Africa. Austro already has an exposure to the power sector through its private power, temporary power and power distribution businesses which comprise its power cluster. The Centlube group will form the foundation of a fuel cluster to be established by Austro.

### 2. TERMS AND CONDITIONS OF THE ACQUISITION

The issued share capital of Centlube Holdings is held as to 50% by Friedshelf 1320 Proprietary Limited ("**Friedshelf**") and as to 50% by the Hinckley Trust. Friedshelf's sole asset is its 50% shareholding in Centlube Holdings and it has no material liabilities.

Austro has agreed to purchase, with effect from 1 March 2014, an effective 100% shareholding in Centlube Holdings, through the acquisition by Austro of:

- the entire issued share capital of Friedshelf from the Friedshelf shareholders, namely Ricophase, Sadiki, Tebogo and Reggie (collectively the "**Friedshelf shareholders**") and the Friedshelf shareholders' claims against Centlube Holdings for an aggregate purchase consideration, subject to any additional amount as detailed below, of R32 million, R6 280 003 of which will be payable in cash and R25 719 997 of which will be payable by the allotment and issue of 17 737 929 Austro shares at an issue price of R1.45 per share. The purchase consideration for the Ricophase interest in Friedshelf and claims against Centlube Holdings will be settled entirely with Austro shares; and
- 50% of the share capital of and claims against Centlube Holdings from the Hinckley Trust for an aggregate purchase consideration, subject to any additional amount as detailed below, of R32 million, R26 million of which will be payable in cash and R6 million of which will be payable by the allotment and issue of 4 137 931 Austro shares at an issue price of R1.45 per share,

(collectively the "**acquisition**").

The acquisition consideration will be increased by R16 million (the "**additional payment**") from R64 million to R80 million if on or before 31 December 2015 the Centlube group is appointed by a certain global oil major and significant player in the lubricants industry as a distributor. The additional payment (which shall become payable within 10 days of the execution of the relevant distribution agreement or the acquisition agreement becoming unconditional, whichever is the later) shall be discharged by Austro as follows:

- R8 million will be payable to the Friedshelf shareholders either in cash or by the allotment and issue of Austro shares valued at a price equal to a 5% discount to the 30 day volume weighted average

- traded price of Austro shares prior to the allotment and issue of Austro shares (at the election of Austro); and
- R8 million will be payable to the Hinckley Trust in cash.

The acquisition remains conditional upon:

- Austro being satisfied with the outcome of its due diligence investigation in respect of the Centlube group;
- Competition Authority approval;
- the finalisation and delivery to Austro of the Centlube group's audited financial statements for the year ended 28 February 2014;
- the acquisition being approved by the requisite majority of Austro shareholders, as required in terms of the JSE Listings Requirements;
- the extension of the term of the lease agreement entered into by the Centlube group for a further 5 years from 1 January 2016;
- the conclusion of a service and executive restraint of trade agreement between Austro (or one of its subsidiaries) and Grant;
- the consent of FirstRand Bank Limited being obtained for the change in control of the Centlube group pursuant to the acquisition;
- no material adverse change occurring in relation to the Centlube group, its business or prospects, prior to the fulfilment of all the above conditions precedent.

Each of Sadiki, Tebogo, Reggie and Grant have given restraint and other non-compete undertakings to Austro in relation to the Centlube group business (for a period of 12 months in the case of Sadiki, Tebogo and Reggie and 24 months in the case of Grant).

Each of the vendors who will be allotted and issued Austro shares in part settlement of the acquisition consideration has undertaken not to deal in such Austro shares before 1 April 2016.

The acquisition agreement incorporates warranties, indemnities and other undertakings from the vendors which are normal for an agreement of the nature contemplated.

### 3. CATEGORISATION OF THE ACQUISITION

The acquisition is classified as a Category 2 transaction in terms of the JSE Listings Requirements. However, as Ricophase is a shareholder of Friedshel and Ricophase is a material shareholder of Austro, the acquisition constitutes a "related party transaction" in terms of the JSE Listings Requirements. The acquisition will accordingly be subject to an independent majority of Austro shareholders voting in favour thereof. A circular convening a general meeting and providing further details of the acquisition will be posted to shareholders in due course.

The board has appointed BDO Corporate Finance Proprietary Limited (the "**independent expert**") to advise the board whether the terms of the acquisition are fair insofar as Austro shareholders are concerned. Whilst the contents of the independent expert's written opinion to the board of directors of Austro (the "**board**") and the final views of the board will be detailed in the circular to be issued by Austro, the board, together with the independent expert, has formed an initial view that the acquisition is fair to the shareholders of Austro.

### 4. FINANCIAL EFFECTS

The unaudited *pro forma* financial effects (the "**financial effects**") of the transaction on Austro's net asset value per share, net tangible asset value per share, earnings per share, diluted earnings per share, headline earnings per share and diluted headline earnings per share for the 6 months ended 28 February 2014 are set out below. The financial effects are the responsibility of the directors of Austro and have been prepared for illustrative purposes only to provide Austro shareholders with information on how the transaction may have impacted on the historical financial results of Austro for the six months ended 28 February 2014. Due to their nature, the financial effects may not give a fair reflection of Austro's financial position, changes in equity, results of operations and cash flows subsequent to the transaction.

The table below reflects the financial effects of the transaction on an Austro shareholder:

	<b>Before the acquisition (cents)</b>	<b>After the acquisition (cents)</b>	<b>% change</b>
Net asset value per share	95.34	98.80	3.6
Tangible net asset value per share	71.17	63.61	(10.6)
Earnings per share	3.03	0.91	(70.1)
Diluted earnings per share	3.03	0.91	(70.1)
Headline earnings per share	3.02	3.22	6.8
Diluted headline earnings per share	3.02	3.22	6.8

**Notes and assumptions:**

1. The figures set out in the “Before the acquisition” column above have been extracted from the unaudited interim results of Austro for the 6 months ended 28 February 2014 (“**the interim results**”).
2. The figures set out in the “After the acquisition” column above reflect the *pro forma* effects on the interim results of Austro resulting from the acquisition of an effective 100% shareholding in Centlube Holdings.
3. The acquisition is assumed to have been implemented on 1 September 2013 for earnings per share, diluted earnings per share, headline earnings per share and diluted headline earnings per share purposes and on 28 February 2014 for net asset value per share and tangible net asset value per share purposes.
4. The Centlube group’s figures have been extracted from the annual financial statements and monthly management accounts of Centlube Holdings for the year ended 28 February 2014.
5. The Centlube group’s figures have been adjusted so as to exclude the after tax impact of interest accrued on shareholder loans in Centlube Holdings.
6. The *pro forma* financial effects assume that the condition precedent relating to the additional payment is fulfilled and that the additional payment is made.
7. A 5% discount to Austro’s closing price of R1.88 on 12 August 2014 has been used as the assumed price at which the issued as consideration for the additional payment are issued at. This price results in a total of 26 355 145 new Austro shares being issued.
8. The cash component of the purchase consideration is funded out of Austro’s available cash resources and credit facilities. Interest on cash balances is foregone at an after tax rate of 3.7% and interest on facilities utilised is paid at an after tax rate of 6.8%.
9. The excess of the purchase consideration over Centlube Holdings’ net asset value has been allocated to Goodwill and Intangible Assets in the ratio of 40% and 60% respectively.
10. Intangible Assets arising from the acquisition are amortised over a period of 5 years. A Deferred Tax Liability is recognised to take into account the difference in tax base arising as a result of the Intangible Assets recognised on acquisition.
11. That portion of Goodwill arising from the difference between the assumed Austro share price at issue date and issue prices as per the acquisition agreement is immediately impaired. The reason for this assumption is that the value placed on the acquisition as a result of the application of IFRS does not reflect the value placed on Centlube by management and the board at the date of concluding the transaction. Management and the board wish to reflect the fair market value of the business on Austro’s statement of financial position.

**4. WITHDRAWAL OF CAUTIONARY**

Shareholders are referred to the cautionary announcement dated 15 May 2014 and the further cautionary announcement dated 27 June 2014 (which cautionary announcements related to the acquisition). As the details of the acquisition have now been announced, caution is no longer required to be exercised by shareholders when dealing in their Austro shares.

14 August 2014

Corporate advisor, legal advisor and sponsor to Austro



Independent Expert



Legal advisor to the Hinckley Trust and Grant

**WEBBER WENTZEL**

in alliance with > **Linklaters**

Legal advisor to Tebogo and Reggie

PADAYACHEE

ATTORNEYS 