



# AUSTRO GROUP LIMITED

## Provisional Condensed Consolidated Financial Results for the year ended 31 August 2014

- Revenue ↑ 16% to R585 million
- Adjusted EBITDA ↑ 60% to R49 million
- Adjusted headline earnings ↑ 67% to 8,7 cents per share
- Improving working capital
- Strong cash position and improved group liquidity

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" or "the group")

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME			
	% change	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000
Revenue	16%	585 006	502 709
Cost of sales		(410 416)	(348 401)
Gross profit	13%	174 590	154 308
Gross profit %		30%	31%
Other operating income		6 025	1 759
Net operating expenses	3%	(156 772)	(151 486)
Profit from operations before interest and taxation		23 843	4 581
Net interest received		1 293	142
Interest received		1 719	1 865
Interest paid		(426)	(1 723)
Profit before taxation		25 136	4 723
Taxation (expense)/income		(625)	2 972
Total comprehensive income for the year	219%	24 511	7 695
Attributable to:			
Owners of Austro	213%	24 718	7 904
Non-controlling interest		(207)	(209)
Total comprehensive income for the year		24 511	7 695
Number of shares in issue		395 292 923	395 292 923
Weighted average number of shares		395 292 923	395 292 923
Earnings per share and diluted earnings per share (cents)	215%	6,3	2,0
Headline earnings per share and diluted headline earnings per share (cents) <sup>1</sup>	239%	6,1	1,8
Adjusted headline earnings per share (cents) <sup>1</sup>	67%	8,7	5,2*
EBITDA (R'000) <sup>2</sup>	142%	32 402	13 389
Adjusted EBITDA (R'000) <sup>2</sup>	60%	49 379	30 909*

\* The 2013 comparatives for adjusted headline earnings per share and adjusted EBITDA are different to what was previously reported as the company elected to adjust for IFRS2 charges in the current year due to the materiality of the expense. The 2013 comparative was therefore also adjusted to ensure that the numbers remain comparable.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
	% change	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000
<b>1. Headline earnings reconciliation</b>			
Attributable income for the year		24 718	7 904
Net profit on disposal of plant and equipment		(676)	(952)
Tax effect of adjustments		189	267
Headline earnings	236%	24 231	7 219
Legal costs relating to Freed litigation		3 211	-
IFRS2 charge		13 766	1 325
Deferred taxation adjustment		(2 946)	-
Onerous lease effect		-	(2 457)
Inventory write-off		-	13 231
Obsolete inventory allowance		-	5 421
Tax effect of adjustments		(3 854)	(4 076)
Adjusted headline earnings	67%	34 408	20 663
<b>2. EBITDA reconciliation</b>			
Profit from operations before interest and taxation		23 843	4 581
Depreciation		8 559	8 808
EBITDA	142%	32 402	13 389
Legal costs relating to Freed litigation		3 211	-
IFRS2 charge		13 766	1 325
Onerous lease effect		-	(2 457)
Inventory write-off		-	13 231
Obsolete inventory allowance		-	5 421
Adjusted EBITDA	60%	49 379	30 909
Adjusted EBITDA %		8,4%	6,1%

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION			
	% change	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Plant and equipment		157 152	158 173
Goodwill		42 853	40 987
Deferred taxation		95 544	95 544
Current assets		18 755	21 642
Inventories		356 798	304 489
Trade and other receivables		145 467	170 298
Taxation receivable		128 943	88 662
Cash and cash equivalents		8 744	5 191
		73 644	40 338
Total assets		513 950	462 662
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Stated capital		389 614	364 896
Accumulated profits		295 497	295 497
Non-controlling interest		94 117	69 399
Total capital and reserves		389 197	364 686
<b>Non-current liabilities</b>			
Interest-bearing liabilities		1 820	8 022
Deferred tax liability		1 820	3 984
		-	4 038
Current liabilities		122 933	89 954
Trade and other payables		119 368	87 440
Current portion of interest-bearing liabilities		1 785	2 512
Taxation payable		1 780	2
Total equity and liabilities		513 950	462 662
Net asset value per share (cents)		98,56	92,31
Net tangible asset value per share (cents)		74,39	68,14
Average net operating assets (R'000)		327 019	339 251
Average net tangible operating assets (R'000)		231 475	243 707
Average net operating asset turnover		1,8x	1,5x
Average net tangible operating asset turnover		2,5x	2,1x
Adjusted operating profit margin		7,0%	4,4%
Pre-tax return on average net operating assets		12,5%	6,5%
Pre-tax return on average net tangible operating assets		17,6%	9,1%

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW			
	% change	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000
<b>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW</b>			
<b>Profit before taxation</b>			
		25 136	4 723
<b>Non-cash items and other adjustments</b>			
		6 590	4 456
Decrease in working capital		31 726	9 179
Cash generated by operations		16 478	18 167
Interest received		48 204	27 346
Interest paid		1 719	1 865
Taxation paid		(426)	(1 723)
Cash inflow from operating activities		(3 551)	(597)
Additions to plant and equipment		45 946	26 891
Proceeds on disposal of plant and equipment		(11 920)	(13 130)
Proceeds from disposal of intangible assets		2 171	3 452
Cash outflow from investing activities		(9 749)	(9 678)
Repayment of interest-bearing liabilities		(2 891)	(1 290)
Settlement of onerous lease		-	(10 000)
Cash outflow from financing activities		(2 891)	(11 290)
Net inflow of cash and cash equivalents		33 306	5 923
Cash and cash equivalents at beginning of year		40 338	34 415
Cash and cash equivalents at end of year		73 644	40 338

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY			
	% change	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000
<b>CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY</b>			
<b>Stated capital</b>			
Balance at beginning and end of year		295 497	295 497
<b>Accumulated profits</b>			
Balance at beginning of year		69 399	66 997
Prior year adjustments		-	(5 502)
Attributable income for the year		24 718	7 904
Dividends declared and paid		-	-
Non-controlling interest		(417)	(210)
Total capital and reserves		389 197	364 686

CONDENSED SEGMENTAL ANALYSIS											
	Power		Wood		Head Office		Consolidation		Total		
	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000	Reviewed for the year ended 31 August 2014 R'000	Audited for the year ended 31 August 2013 R'000	
Revenue	389 859	331 123	195 147	171 586	26 345	9 698	(26 345)	(9 698)	585 006	502 709	
External	389 859	331 123	195 147	171 586	-	-	-	-	585 006	502 709	
Intercompany	-	-	-	-	26 345	9 698	(26 345)	(9 698)	-	-	
Profit/(loss) from operations before interest and taxation	13 133	6 228	14 302	9 541	(3 592)	(11 188)	-	-	23 843	4 581	
EBITDA <sup>3</sup>	38 095	16 554	24 772	15 695	(3 548)	(11 124)	(26 917)	(7 736)	32 402	13 389	
Adjusted EBITDA <sup>3</sup>	42 091	35 206	24 831	3 238	9 374	201	(26 917)	(7 736)	49 379	30 909	
Capital expenditure	7 539	11 136	4 372	1 986	9	8	-	-	11 920	13 130	
Depreciation	3 323	4 088	5 191	4 655	45	65	-	-	8 559	8 808	
Taxation expense/(income)	4 329	2 432	(2 240)	(2 100)	(1 464)	(3 304)	-	-	625	(2 972)	
Total assets	287 891	256 834	123 372	106 760	262 693	261 777	(160 006)	(162 709)	513 950	462 662	
Total liabilities	61 613	52 747	41 817	45 428	22 417	4 110	(1 094)	(4 309)	124 753	97 976	
Net tangible operating assets <sup>4</sup>	175 006	181 073	68 358	57 462	6 429	7 474	-	-	249 793	246 009	
Number of employees	258	200	147	150	5	5			410	355	

<sup>3</sup> All EBITDA figures exclude intercompany management fees.  
<sup>4</sup> Excludes goodwill which is all attributable to the Power segment.

Non-executive directors: SB Joffe (Chairman), PC Baloyi, NV Lila, PM Makwana (Lead Independent)\*, PS O'Flaherty, AJ Phillips\*  
Executive directors: PD Mansour (Chief Executive Officer), JS Friedman (Financial Director)  
Business address: 30 - 38 Jacoba Street, Alberton North, 1456  
Registered address: 1125 Leader Avenue, Stormil Ext 4, Rodepoort, 1724

\*Independent  
Business postal address: PO Box 1914, Florida, 1710  
Company secretary: CIS Company Secretaries Proprietary Limited  
Transfer secretaries: Computershare Investor Services Proprietary Limited  
Sponsor: Java Capital

### COMMENTARY

Austro is an industrial energy and supplies group that provides quality branded and in some segments locally manufactured capital and consumable goods and support services to a broad range of economic sectors in South Africa and sub-Saharan Africa. Clients range from heavy industrial, mining and construction groups to wholesalers, retailers, technology and telecommunications companies, banks and manufacturers. Adding value to the products sold by offering ongoing servicing and customer support is a key component of Austro's business model.

Austro currently comprises two business segments:

- Power segment ("Power") incorporates:
  - Private Power Sales: The manufacture, supply, installation and maintenance of diesel generators and related components
  - Power Product Distribution: The distribution of industrial engines, marine engines and components
  - Temporary Power: Rental of temporary power in the form of diesel generators
- Wood segment ("Wood") encompasses the distribution of professional woodworking equipment, tooling and edging and provision of associated services such as blade sharpening and equipment maintenance.

Group subsidiaries currently include:

- New Way Power Proprietary Limited (Incorporating Neptune Plant Hire)
- PowerO<sup>2</sup> Proprietary Limited
- Austro Proprietary Limited

In line with management's intention to introduce new energy platforms into the group, Austro announced on 13 August 2014 the proposed acquisition of an effective 100% shareholding in Centulube Holdings Proprietary Limited ("Centulube"), a business involved in the production and marketing of oil lubricants in sub-Saharan Africa. Based in Germiston, Johannesburg, Centulube has a production capacity in excess of 12 million litres per annum and will form the foundation of a Fuel segment to be developed by Austro. Centulube has recently been appointed as a distributor of Mobil lubricants for its Automotive and Industrial lines of business and in respect of certain Strategic Global Accounts. The transaction is expected to be completed in the first half of the 2015 financial year.

### Results

The board is pleased to present the results of Austro for the financial year ended 31 August 2014. Despite a subdued macroeconomic environment, each of the group companies delivered strong performances. Revenue for the year increased 16% to R585,0 million (2013: R502,7 million) with group wide gross margins remaining stable. Operating expenses increased 3% on the prior year. If non-recurring expenses (as set out in the headline earnings reconciliation) are excluded, operating expenses increased 4%, below inflation and highlighting management's commitment to controlling costs and improving efficiencies across the group.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") increased 142% to R32,4 million (2013: R13,4 million). The group's trading was largely unaffected by the NUMSA strike action that took place during July this year. This was as a result of building relationships and constant communication with our staff as well as contingency planning ahead of the work stoppages.

Consistent with prior year disclosure, management has elected to disclose an adjusted EBITDA which provides a more meaningful reflection of sustainable earnings. Adjusted EBITDA increased 60% to R49,4 million (2013: R30,9 million) at an adjusted EBITDA margin relative to revenue of 8,4% (2013: 6,1%). The adjustments to EBITDA arise from:

- legal fees of R3,2 million incurred to interdict and restrain former New Way executive directors from breaching restraint of trade undertakings, common law and other legal duties owed to the group (refer to a SENS announcement released on 5 November 2013). The group was successful in enforcing this restraint (refer to update below); and
- an IFRS2 charge of R13,8 million (2013: R1,3 million) relating to the provision for long-term share-related incentives awarded to FNM Management Proprietary Limited and Austro staff. Due to the magnitude of the charge in the current reporting period and the extent to which it distorts the trading performance of the group, we have separately identified and reported this charge in a voluntary adjusted headline earnings per share calculation and accordingly we have included an adjustment in the comparative for the year ended 31 August 2013.

Improved controls over inventory resulted in no unusual allowances being raised or write-offs this year (2013: R18,7 million).

Headline earnings increased 239% to R24,2 million (2013: R7,2 million). This translates into headline earnings per share of 6,1 cents (2013: 1,8 cents). Adjusted headline earnings of R34,4 million (2013: R20,7 million) represents an improvement of 3,5 cents per share (67%) to 8,7 cents per share (2013: 5,2 cents per share).

Net working capital decreased during the year under review following a significant focus on reducing inventory balances on a sustainable basis. The comparative for trade and other receivables was abnormally low as the balance included significant prepayments received from customers. The company took advantage of generous credit terms extended by certain suppliers which lead to the increase in trade and other payables. Debtors collections are being closely monitored and suppliers are paid within credit terms.

The group improved its financial and liquidity position with cash balances at 31 August 2014 increasing to R73,6 million (2013: R40,3 million). External borrowings remain low at R3,6 million (2013: R6,5 million) resulting in a net cash position of R70,0 million (2013: R33,8 million). A R60 million trading facility is in place which provides the group with scope to manage exchange control fluctuations, credit terms with foreign suppliers and take advantage of attractive trading opportunities.

The group's effective tax rate is distorted by the recognition of deferred tax assets not previously recognised, arising from assessed losses primarily at Wood and at group level, to be utilised in the future. The recognition of the deferred tax asset as a result of Wood's return to profitability which in turn resulted in a net taxation income for Wood in the current year.

### Operational review

#### Power

The Private Power Sales segment performed well in a sluggish environment, supported by ongoing demand in the retail, construction and data infrastructure markets. Revenue increased 18% to R354,3 million (2013: R300,6 million) and adjusted EBITDA increased 23% to R26,9 million (2013: R21,8 million), representing a margin relative to revenue of 7,3% (2013: 6,9%). Staff headcount increased by 58 people, primarily due to the employment of previously outsourced manufacturing staff, which resulted in material cost savings.

The Temporary Power segment continues to grow. Revenue was up 16% to R35,5 million (2013: R30,5 million). Adjusted EBITDA increased 14% to R15,2 million (2013: R13,4 million), representing a margin relative to revenue of 43% (2013: 44%).

During the year Austro launched a new company under the Power segment called PowerO<sup>2</sup>. This company houses the distributorship business that formerly existed within New Way Power, distributing diesel engines and spare parts to the fire pump, water pump, industrial, generator and marine industries. It was established to create a clear separation from the OEM business and focus on distribution. PowerO<sup>2</sup> represents John Deere, Mitsubishi and Doosan industrial engines. The business is expected to be a material contributor to the Power segment going forward.

Hyram Serretta was appointed as the CEO of the Power segment with effect from January 2014.

#### Wood

The restructuring implemented at Wood in 2013 continues to yield benefits as the company enjoyed a marked increase in profitability in the current year. Revenue increased 15% to R195,1 million (2013: R171,6 million) and adjusted EBITDA increased to R24,8 million (2013: R3,2 million) due primarily to the additional gross profit contribution from higher revenues and gross margins and a substantial decrease in operating expenses. This represents a margin relative to revenue of 12,7% (2013: 1,9%).

#### Changes to directorate

Austro was pleased to announce the following appointments to its board with effect from 12 February 2014:

- Mpho Makwana as an independent non-executive director;
- Paul Baloyi as an independent non-executive director;
- Nopasika Lila as an independent non-executive director; and
- Paul O'Flaherty as a non-executive director.

After many years of service, Tony Phillips has resigned as Chairman of the board with effect from 18 November 2014. He will remain on the board as an independent non-executive director. The board wishes to thank Tony for the outstanding leadership and guidance he has provided to Austro and looks forward to his continued contribution. Steven Joffe, who was appointed to the board as a non-executive director on 14 May 2014, will replace Tony as Chairman with effect from 18 November 2014. Mpho Makwana will serve as Lead Independent Director from the same date.

The appointments are aligned with Austro's strategy to transform and focus the company's growth in the expanding energy sector in Southern Africa by bringing extensive energy and public sector expertise to the Company in order to further develop and oversee the implementation of this strategy.

The following directors resigned from the board with effect from 14 May 2014:

- Gordon Nzalo;
- David Brouze; and
- Ulrich Schackemann.

The board thanks the outgoing directors for their years of service and wishes them well in their future endeavours.

#### Change to company secretary

Following the acquisition of Proby Business Services Proprietary Limited by Computershare Investor Services Proprietary Limited ("Computershare"), CIS Company Secretaries Proprietary Limited, a subsidiary of Computershare, was appointed as company secretary of Austro with effect from 24 June 2014.

#### Update on litigation and distributorship

Shareholders are referred to the announcement released on SENS on 3 December 2013. Austro has concluded a settlement agreement with former directors, Jonathan Freed and Justin Freed, in terms of which it has been agreed between the parties that the former directors are bound by and are interdicted and restrained, for a period of two years from 17 April 2014, from conducting themselves contrary to the restraint of trade provisions contained in their restraint of trade agreements. Austro continues to represent and trade with John Deere.

#### Prospects and risks

Economic growth prospects for South Africa are muted in the near term, with no imminent catalysts to spur growth. Austro's response to this environment is to focus on increasing the contribution to revenue of higher margin, recurring sales of parts and services, retaining existing customers through improved products and services, continually seek out attractive acquisition opportunities and increasing our emphasis on sales into other African markets.