Condensed Consolidated Unaudited Results

for the six months ended 28 February 2014 and

Cautionary Announcement

AUSTRO GROUP LIMITED

- EPS ↑ 12% to 3,0 cents per share
- Adjusted HEPS ↑ 55% to 4,4 cents per share
- Adjusted EBITDA ↑ 47% to R27,3 million
- Growth in Power segment profitability
- Turnaround in Wood segment continues to gain momentum

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	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Revenue	1%	**264 110**	261 142	502 709
Cost of sales		**(179 686)**	(181 692)	(348 401)
Gross profit	6%	**84 424**	79 450	154 308
Other operating income		**1 821**	2 962	1 759
Net operating expenses	(10%)	**(72 591)**	(66 073)	(151 486)
Profit from operations before interest and taxation		**13 654**	16 339	4 581
Net interest received		**559**	19	142
Interest received		**972**	1 048	1 865
Interest paid		**(413)**	(1 029)	(1 723)
Profit before taxation		**14 213**	16 358	4 723
Taxation (expense)/income		**(2 320)**	(5 746)	2 972
Total comprehensive income for the period	12%	**11 893**	**10 612**	**7 695**
Attributable to:				
Owners of Austro		**11 984**	10 737	7 904
Non-controlling interest		**(91)**	(125)	(209)
Total comprehensive income for the period		**11 893**	**10 612**	**7 695**
Number of shares in issue		**395 292 923**	395 292 923	395 292 923
Weighted average number of shares		**395 292 923**	395 292 923	395 292 923
Earnings per share and diluted earnings per share (cents)	12%	**3,0**	2,7	2,0
Headline earnings per share and diluted headline earnings per share (cents)[1]	7%	**3,0**	2,8	1,8
Adjusted headline earnings per share (cents)[1]	55%	**4,4**	2,8	5,2
EBITDA (R'000)[2]	(4%)	**17 874**	18 625	13 389
Adjusted EBITDA (R'000)[2]	47%	**27 329**	18 625	30 909

	% change	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
1. Headline earnings reconciliation				
Attributable income for the period		**11 984**	10 737	7 904
Net (profit)/loss on disposal of plant and equipment		**(78)**	563	(952)
Tax effect of adjustments		**22**	(104)	267
Headline earnings	7%	**11 928**	**11 196**	**7 219**
Legal costs relating to Freed litigation		**3 087**	-	-
Provision for long-term share-related incentives		**6 368**	-	1 325
Deferred taxation adjustment		**(1 435)**	-	-
Onerous lease effect		**-**	-	(2 457)
Inventory write-off		**-**	-	13 231
Obsolete inventory provision		**-**	-	5 421
Tax effect of adjustments		**(2 647)**	-	(4 076)
Adjusted headline earnings	55%	**17 301**	**11 196**	**20 663**
2. EBITDA reconciliation				
Profit from operations before interest and taxation		**13 654**	16 339	4 581
Depreciation		**4 220**	2 286	8 808
EBITDA	(4%)	**17 874**	**18 625**	**13 389**
Legal costs relating to Freed litigation		**3 087**	-	-
Provision for long-term share-related incentives		**6 368**	-	1 325
Onerous lease effect		**-**	-	(2 457)
Inventory write-off		**-**	-	13 231
Obsolete inventory provision		**-**	-	5 421
Adjusted EBITDA	47%	**27 329**	**18 625**	**30 909**
Adjusted EBITDA %		**10,3%**	7,1%	6,1%

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Stated capital			
Balance at beginning and end of period	**295 497**	295 497	295 497
Accumulated profits	**81 383**	77 734	69 399
Balance at beginning of period	**69 399**	66 997	66 997
Prior year adjustments	**-**	-	(5 502)
Attributable income for the period	**11 984**	10 737	7 904
Dividends declared and paid	**-**	-	-
Non-controlling interest	**(301)**	(126)	(210)
Total capital and reserves	**376 579**	**373 105**	**364 686**

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited as at 28 February 2014 R'000	Unaudited as at 28 February 2013 R'000	Audited as at 31 August 2013 R'000
ASSETS			
Non-current assets	**160 417**	147 220	158 173
Plant and equipment	**43 976**	41 019	40 987
Goodwill	**95 544**	95 544	95 544
Deferred taxation	**20 897**	10 657	21 642
Current assets	**340 525**	356 061	304 489
Inventories	**194 496**	191 248	170 298
Trade and other receivables	**108 804**	105 157	88 662
Taxation receivable	**5 285**	4 318	5 191
Cash and cash equivalents	**31 940**	55 338	40 338
Total assets	**500 942**	**503 281**	**462 662**
EQUITY AND LIABILITIES			
Capital and reserves	**376 880**	373 231	364 896
Stated capital	**295 497**	295 497	295 497
Accumulated profits	**81 383**	77 734	69 399
Non-controlling interest	**(301)**	(126)	(210)
Total capital and reserves	**376 579**	**373 105**	**364 686**
Non-current liabilities	**6 214**	17 047	8 022
Interest-bearing liabilities	**2 510**	5 416	3 984
Deferred tax liability	**3 704**	-	4 038
Provision for onerous lease	**-**	11 631	-
Current liabilities	**118 149**	113 129	89 954
Trade and other payables	**115 029**	109 751	87 440
Current portion of interest-bearing liabilities	**2 734**	2 280	2 512
Current portion of provision for onerous lease	**-**	1 098	-
Taxation payable	**386**	-	2
Total equity and liabilities	**500 942**	**503 281**	**462 662**
Net asset value per share (cents)	**95,3**	94,4	92,3
Net tangible asset value per share (cents)	**71,2**	70,3	68,1
Average net operating assets (R'000)	**452 002**	428 037	431 113
Average net tangible operating assets (R'000)	**356 458**	332 493	335 569
Average net operating asset turnover[5]	**1,1x**	1,1x	1,2x
Average net tangible operating asset turnover[5]	**1,4x**	1,5x	1,5x
Adjusted operating profit margin[6]	**8,7%**	6,3%	4,4%
Pre-tax return on average net operating assets	**9,8%**	7,1%	5,1%
Pre-tax return on average net tangible operating assets	**12,4%**	9,1%	6,6%

[5] Turnover determined for the last 12 months
[6] Operating profits determined for the last 12 months

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Profit before taxation	**14 213**	16 358	4 723
Non-cash items and other adjustments	**3 583**	3 141	4 456
	17 796	19 499	9 179
(Increase)/decrease in working capital	**(16 751)**	6 785	18 167
(Increase)/decrease in inventories	**(24 198)**	6 085	26 697
(Increase)/decrease in trade and other receivables	**(20 142)**	1 509	14 587
Increase/(decrease) in trade and other payables	**27 589**	(809)	(23 117)
Cash generated by operations	**1 045**	26 284	27 346
Interest received	**972**	1 048	1 865
Interest paid	**(413)**	(1 029)	(1 723)
Dividends paid	**-**	-	-
Taxation paid	**(1 619)**	(2 128)	(597)
Cash (outflow)/inflow from operating activities	**(15)**	**24 175**	**26 891**
Additions to plant and equipment	**(7 795)**	(3 516)	(13 130)
Proceeds on disposal of plant and equipment	**664**	817	3 452
Cash outflow from investing activities	**(7 131)**	**(2 699)**	**(9 678)**
Repayment of interest-bearing liabilities	**(1 252)**	(553)	(1 290)
Settlement of onerous lease	**-**	-	(10 000)
Cash outflow from financing activities	**(1 252)**	**(553)**	**(11 290)**
Net (outflow)/inflow of cash and cash equivalents	**(8 398)**	20 923	5 923
Cash and cash equivalents at beginning of period	**40 338**	34 415	34 415
Cash and cash equivalents at end of period	**31 940**	**55 338**	**40 338**

CONDENSED SEGMENTAL ANALYSIS

	Power			Wood		
	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Revenue	**178 983**	169 782	344 263	**89 873**	94 066	171 586
Gross profit	**54 258**	50 116	98 894	**30 364**	29 334	55 414
Gross profit %	**30%**	30%	29%	**34%**	31%	32%
Profit/(loss) from operations before interest and taxation	**13 350**	15 824	6 228	**5 295**	671	9 541
EBITDA [3]	**22 753**	18 854	16 554	**9 738**	3 437	15 695
Adjusted EBITDA [3]	**25 840**	18 854	35 206	**9 738**	3 437	3 238
Capital expenditure	**4 540**	719	11 136	**3 545**	2 797	1 986
Depreciation	**1 615**	1 269	4 088	**2 574**	984	4 655
Taxation expense/(income)	**2 605**	4 734	2 432	**1 349**	741	(2 100)
Total assets	**293 042**	304 579	256 834	**108 528**	98 093	106 760
Total liabilities	**74 547**	71 236	52 747	**42 088**	57 136	45 428
Net tangible operating assets[4]	**194 333**	181 651	174 665	**64 622**	56 764	57 462
Number of employees	**251**	203	200	**136**	158	150

	Head Office			Consolidation		
	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Revenue	**9 342**	3 543	9 698	**(14 088)**	(6 249)	(22 838)
Gross profit	**9 342**	3 543	9 698	**(9 540)**	(3 543)	(9 698)
Gross profit %	**100%**	100%	100%	**-**	-	-
Profit/(loss) from operations before interest and taxation	**(4 991)**	(156)	(11 188)	**-**	-	-
EBITDA [3]	**(4 959)**	(123)	(11 124)	**(9 658)**	(3 543)	(7 736)
Adjusted EBITDA [3]	**1 409**	(123)	201	**(9 658)**	(3 543)	(7 736)
Capital expenditure	**9**	-	8	**(299)**	-	-
Depreciation	**31**	33	65	**-**	-	-
Taxation expense/(income)	**(1 634)**	271	(3 304)	**-**	-	-
Total assets	**260 987**	256 156	261 777	**(161 615)**	(155 547)	(162 709)
Total liabilities	**10 756**	2 119	4 110	**(3 028)**	(315)	(4 309)
Net tangible operating assets[4]	**7 180**	2 075	7 808	-	-	-
Number of employees	**5**	6	5			

	Total		
	Unaudited for the six months ended 28 February 2014 R'000	Unaudited for the six months ended 28 February 2013 R'000	Audited for the twelve months ended 31 August 2013 R'000
Revenue	**264 110**	261 142	502 709
Gross profit	**84 424**	79 450	154 308
Gross profit %	**32%**	30%	31%
Profit/(loss) from operations before interest and taxation	**13 654**	16 339	4 581
EBITDA [3]	**17 874**	18 625	13 389
Adjusted EBITDA [3]	**27 329**	18 625	30 909
Capital expenditure	**7 795**	3 516	13 130
Depreciation	**4 220**	2 286	8 808
Taxation expense/(income)	**2 320**	5 746	(2 972)
Total assets	**500 942**	503 281	462 662
Total liabilities	**124 363**	130 176	97 976
Net tangible operating assets[4]	**266 135**	240 490	239 935
Number of employees	**392**	367	355

[3] All EBITDA figures exclude intercompany management fees
[4] Excludes goodwill which is all attributable to the Power segment

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.

Austro currently comprises two key business segments:

– Power segment ("Power") incorporates:
  – Private Power Sales: the design,manufacture, supply, installation and maintenance of diesel generators and distribution of industrial engines, marine engines and components.
  – Temporary Power: rental of temporary power in the form of diesel generators.
– Wood segment incorporates the distribution and maintenance of professional woodworking equipment, tooling and edging.

Group subsidiaries include:
– New Way Power Proprietary Limited (incorporating Neptune Plant Hire) ("New Way Power")
– PowerO2 Proprietary Limited ("PowerO2")
– Austro Proprietary Limited ("Wood")

It is the board's intention to refocus Austro as an energy group and introduce energy related companies which we believe will deliver appropriate returns on capital and have good growth prospects throughout sub-Saharan Africa. We intend developing these existing and new platforms over time through a combination of organic and acquisitive growth.

Results

The group has delivered a good performance despite the difficult economic environment. Revenue increased marginally to R264,1 million (2013: R261,1 million), being negatively affected by a decline in revenues from the Wood segment. There was a notable increase in gross margins in both business segments. Operating expenses increased 10%, driven primarily by the employment of executives and staff across the group, once-off legal fees and the appointment of JFN Management Proprietary Limited ("JFN") to provide strategic and business support services to Austro and supplement the internal executive capacity of the group. If these operating expenses are excluded, operating expenses have decreased by 5% relative to the prior comparative period.

Earnings before interest, taxation, depreciation and amortisation ("EBITDA") of R17,9 million (2013: R18,6 million) declined marginally as a result of the increased operating expenses. The company has elected to show adjusted EBITDA which provides a more meaningful reflection of sustainable trading. Adjusted EBITDA increased 47% to R27,3 million (2013: R18,6 million) at an adjusted EBITDA margin to revenue of 10,3% (2013: 7,1%). The adjustments to EBITDA arise from:

– legal fees of R3,1 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 has to date been successful in enforcing this restraint (refer to update below); and
– an IFRS2 charge of R6,4 million relating to the provision for long-term share-related incentives awarded to JFN and staff. Due to the magnitude of the charge in the current reporting period we have separately identified and reported this charge in a voluntary adjusted HEPS calculation and accordingly we have included an adjustment in the comparative for the year ended 31 August 2013. It is our intention to continue providing this additional disclosure going forward.

The group's effective tax rate is distorted by movements in deferred tax balances during the interim period relating to corrections in the tax base.

Headline earnings of R11,9 million (2013: R11,2 million) are marginally higher than for the prior comparative period. This translates into headline earnings per share ("HEPS") of 3,0 cents (2013: 2,8 cents). Adjusted headline earnings of R17,3 million (2013: R11,2 million) represents an improvement of 1,6 cents per share (55%) to 4,4 cents per share.

Net working capital has increased over the interim period as replacement stock has been purchased at higher Rand prices and as Wood prepares for their in-house trade show to be held in June. There is a significant internal focus on reducing inventory levels on a sustainable basis. Debtor collections are being closely monitored. Suppliers are paid within credit terms.

The group maintained a strong financial and liquidity position with cash balances at 28 February 2014 amounting to R31,9 million (2013: R55,3 million). External borrowings remain low at R5,2 million (2013: R7,7 million) resulting in a net cash position of R26,7 million (2013: R47,6 million). A R45 million trading facility is in place which provides the group with more scope to manage exchange control fluctuations and credit terms with foreign suppliers.

The group has invested R7,8 million in capital expenditure during the financial year to date, equating to 3,0% of revenue. This capital expenditure related to expanding the Temporary Power fleet, improving the New Way manufacturing facility, moving premises at Wood and the acquisition of the Leitz agency at Wood.

Operational review

Power

The Private Power Sales segment performed well in a challenging environment, supported by ongoing demand in the construction and data infrastructure markets. Hyram Serretta was appointed as the CEO with effect from January 2014.

Revenue increased 4% to R161,5 million (2013: R155,0 million) and gross profit grew 2% to R41,2 million (2013: R40,2 million). Adjusted EBITDA increased 31% to R17,2 million (2013: R13,2 million), representing a margin relative to revenue of 11%. Staff headcount has increased by 51 people, primarily due to the inclusion of previously outsourced manufacturing staff.

The Temporary Power segment continued to grow and performed exceptionally well. Revenue was up 18% to R17,5 million (2013: R13,2 million) and gross profit increased 33% to R13,2 million (2013: R10,0 million), representing a margin of 76%. Given the demand for rental equipment, the group has started expanding its fleet. Our in-house manufacturing capabilities give this division a pricing advantage in the market place. EBITDA increased 50% to R8,6 million (2013: R5,7 million), representing a margin relative to revenue of 49%.

During the interim period Austro launched a new company under the Power segment - PowerO2. This company will house 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. The business commenced trading in 2014 and is expected to be a strong contributor to the Power segment revenue going forward.

Wood

Wood underwent a significant restructuring in the prior year to align the business' cost base with revenue. This restructuring continues to yield benefits and this is evident in Wood's performance for the year to date.

While revenue decreased marginally to R89,9 million (2013: R94,1 million) due to difficult industry trading conditions, gross profit grew 4% to R30,4 million (2013: R29,3 million). Gross profit margins recovered impressively to 34% from 31% due to a deliberate focus on pricing and higher margin service related revenues. Adjusted EBITDA increased 183% to R9,7 million (2013: R3,4 million) due primarily to a significant decrease in operating expenses. This represents a margin relative to revenue of 11%.

Changes to the board of directors

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.

Update on litigation and distributorship

The interim interdict granted to New Way Power (the details of which were included in the company's Integrated Annual Report) remains in full force and effect until such time as a final determination on the matter is made or a settlement agreement is reached. New Way Power continues to be the sole distributor of John Deere industrial engines in South Africa and remains in contractual negotiations to formalise this arrangement.

Prospects and risks

Financial year-to-date trading has been encouraging. Risks remain in respect of labour unrest, the ability of Eskom to continue to meet demand for power, a slowdown in consumer spending and the knock-on effect this may have on construction activity and monetary policy. Input costs, through Rand exchange rates, and the sectors that the group serves are closely linked to monetary conditions and the performance of the global economy.

Our outlook is positive for the balance of the year. Within Private Power Sales the sales order book remains healthy and we plan to pursue organic and acquisitive growth opportunities. The restructuring undertaken during the 2013 financial year at Wood is expected to continue yielding benefits in the year ahead.

Dividend

In line with the group policy to reinvest for growth, no dividend has been declared for the interim period.

Cautionary Announcement

Shareholders are advised that the company has entered into negotiations which if successfully concluded may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a full announcement is made.

Basis of presentation

The accounting policies and method of measurement and recognition applied in the preparation of these condensed consolidated unaudited interim financial results are consistent with those applied in the audited annual financial statements for the previous year ended 31 August 2013.

The group has adopted the following new standards:
- Amendment to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities
- IFRS 10 – Consolidated Financial Statements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
- Amendments to IAS 16- Property, Plant and Equipment
- Amendment to IAS 19- Employee benefits
- Revised IAS 27 and 28 – Investments in Associates and Joint Ventures
- Amendments to IAS 32- Financial Instrument Presentation
- Amendments to IAS 34- Interim Financial Reporting

There was no material impact on the interim financial results identified based on management's assessment of these standards.

The condensed consolidated unaudited interim financial results have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in terms of the disclosure requirements set out in International Accounting Standards ("IAS") 34 as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Limited Listings Requirements and the requirements of the Companies Act, 2008. Financial Director, Jarrod Friedman CA(SA), was responsible for the preparation of the condensed consolidated unaudited interim financial results. The results for the period ended 28 February 2014 have not been reviewed or reported on by the group's independent external auditors.

There were no significant or material events subsequent to the end of the interim period.

For and on behalf of the board

PD Mansour
Chief Executive Officer

JS Friedman
Financial Director

15 May 2014

Non-executive directors: AJ Phillips* (Chairman), PC Baloyi*, SB Joffe, NV Lila*, PM Makwana*, PS O'Flaherty (*Independent)
Executive directors: PD Mansour (Chief Executive Officer), JS Friedman (Financial Director)
Registered address: 1125 Leader Avenue, Stormill Ext 4, Roodepoort, 1724
Business address: 30 - 38 Jacoba Street, Alberton North, 2023
Business postal address: PO Box 1914, Florida, 1710
Company secretary: Probity Business Services Proprietary Limited
Transfer secretaries: Computershare Investor Services Proprietary Limited
Sponsor: Java Capital