

**SCHAFFER ANNOUNCES \$3.5M PROFIT, MAINTAINS DIVIDEND**

19 August 2015

Diversified industrial Group, Schaffer Corporation Limited (ASX: SFC), today reported net profit after tax of \$3.5 million for the 2015 financial year. The Group also declared a final dividend of \$0.13 per share (fully franked), which maintains total dividends at \$0.25 per share (fully franked) for the year.

SFC Chairman, Mr John Schaffer, said that the NPAT result substantially reflected the impact of higher hide costs, the higher start-up costs associated with new programs, and currency fluctuations on SFC's main contributor to group revenue and earnings, Howe Automotive Leather.

"Whilst our Group second half was up on last year, the full year result was substantially lower," Mr Schaffer said.

"The first half of last year benefited from favourable exchange conditions, which also led to several million dollars of abnormal stock profits. This year was the reverse: hide costs increased in US dollar terms and the exchange rate made our Australian dollar costs higher.

"The impact has been amplified by two factors. Firstly, the stock build up necessary to service the projected increases in demand from approved programs that will start flowing in the current financial year, and secondly, the extra costs of starting up new programs," Mr Schaffer said.

The stock build up has also coincided with the establishment of a new leather cutting and finishing facility in Slovakia to service increased volumes. Whilst the process has increased both working capital and expansion capital expenditure in Automotive Leather, substantial benefits will accrue to the division as the new facility ramps up production.

"The new Slovakian facility will enable a substantially shorter travel time through the supply chain from source to customer. That will nearly halve stock days, which will reduce the working capital requirement at Howe and release cash to reduce the debt Howe has utilised to fund the growth in production capacity and increased sales," Mr Schaffer said.

"Whilst we are conscious of current global economic volatility, we expect to see volumes at Automotive Leather increase during the current year and the division's profitability to increase in the 2017 year, pending foreign currency movements, as higher priced hide stock works its way through the system during this year, and the new programs are bedded down," Mr Schaffer added.

SFC's Building Materials and Property divisions also reported decreases in revenue and profitability. However, Delta Corporation and Building Products are both well placed to win additional work and improve margins as industry conditions improve.

"Order books at Building Materials are higher than this time last year and there is a growing number of current and prospective projects here in Western Australia," Mr Schaffer noted.

"Within Property, we have a current offer to purchase our 20% share in the syndicate property at 616 St Kilda Road. Whilst the offer is not unconditional, negotiations are quite advanced, and when completed should realise a profit of around \$4 million to be included in the results of the 2016 financial year. Additionally, we continue to grow the value of our investment in Gosh Capital.

"We anticipate that Group underlying performance for the first half will be a similar result to last year, assuming that current foreign exchange rates prevail, but profits should receive a large boost by the \$4 million after tax profit from the sale of our interest in 616 St Kilda Road," Mr Schaffer concluded.

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