

SCHAFFER FULL YEAR PROFIT OF \$3.5M, DIVIDEND MAINTAINED

19 August 2015

Dear Shareholders

Schaffer Corporation Limited (ASX: SFC) has today reported a full year net profit after tax (NPAT) for the financial year ended 30 June 2015 of \$3.5 million.

The result incorporates an improved Group second half performance compared to previous corresponding period. It also reflects an anticipated decrease compared to the previous full financial year result (\$6.2 million). That prior year result was favourably impacted by a combination of lower hide costs and foreign exchange movements, particularly in the first half.

The Board has declared a final ordinary dividend of \$0.13 per share (fully franked). That brings the total dividend for the 2015 financial year to \$0.25 per share (fully franked). The full year dividend maintains the total dividend from the previous financial year. The record date for the dividend is 4 September 2015 with payment on 18 September 2015.

FINANCIAL SUMMARY

	Financial Year to		% Change
	30-Jun-15	30-Jun-14	
Revenue (\$m)	157.3	163.6	(4%)
EBITDA ¹ (\$m)	13.9	24.3	(43%)
EBIT ¹ (\$m)	8.7	19.3	(55%)
NPAT* (\$m)	3.5	6.2	(43%)
Earnings per share	\$0.25	\$0.44	(43%)
Ordinary dividends per share	\$0.25	\$0.25	-

* Net Profit after tax and minority interests.

¹ Refer to most recent Annual Report for definitions of non-IFRS measures.

DIVISIONAL REVIEW

Automotive Leather

Automotive Leather's revenue decreased by 2% to \$101.1 million. EBIT decreased to \$6.3 million. The prior year's EBIT was \$15.2 million, which included a \$4 million abnormal stock profit in the first half.

Volume for the full year was at a similar level to the prior year. Supply increased in the second half and additional models commenced late in the year. The impact of those additional programs will have a more substantial impact on volumes in the 2016 financial year.

The main drivers of the profit result were hide cost increases, the impact of starting and developing supply for 16 new models, and the effect of currency movements.

The 16 new models are commencing during the second half of the 2015 financial year and throughout the 2016 financial year. They have much higher start-up costs, and thus lower profitability, due to lower cutting yields, extra development work, testing costs, customer visits, and often start-up can be subject to delays. These costs tend to be up-front before programs begin, and whilst they reduce over the life of the program, the extra cost is initially much higher.



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The average US dollar cost of imported hides (that is, excluding the effect of currency movements) was 6% higher than the previous year. The 2015 financial year average AUD:USD exchange rate also decreased by 9% (from USD0.91 to USD0.83), amplifying the effect of the cost increase in Australian dollar terms.

In addition, the average AUD:EUR exchange rate increased by 4% (from EUR0.67 to EUR0.70). That change negatively impacted reporting currency revenue, as those export revenues are largely EUR denominated.

Automotive Leather has commenced numerous awarded programs. Those programs will have a significant impact on the volumes for the current year, including new supply to Mercedes Benz.

Those awarded programs drove the investment decision to establish new leather finishing and cutting facilities in Slovakia. Those facilities are on track to be commissioned and operational during the second quarter of the current financial year.

As it builds throughput, this new 15,000 square metre facility will decrease stock days by almost 50%. That decrease will reflect a shorter travel time through the supply chain from source to customer. Reducing stock days will reduce working capital required in the business and release additional free cash. Automotive Leather will apply the extra cash generated to reduce the debt that the division has used to fund the significant amount of stock required to service the increasing volumes.

That additional stock was purchased at higher costs than current global hide prices (in US dollar terms) and that cost was exacerbated by the fall in the Australian dollar. Adding in the impact of some delays to program commencements late in the financial year, the value of stock on hand increased by \$22 million over the year. Division net debt increased by \$18 million.

Establishing and starting up the new Slovakian facility has required additional expenditure, which has also contributed to the increase in net debt. That expenditure has included the purchase of machinery and equipment, along with contingency stock in Australia to duplicate program supply whilst the Slovakian facility becomes established.

SFC had anticipated increased profitability in the current year. However, high cost stocks on hand at the start of the year will impact the 2016 financial year profit as the stock is sold through. Additionally, the higher costs associated with program commencements will add abnormal costs. As a result, SFC estimates that first half EBIT for Automotive Leather will be similar to previous year, subject to currency movements.

Building Materials

The Building Materials division decreased revenue by 5% to \$49.1 million. EBIT decreased to \$1.4 million (pcp: \$1.8 million).

Delta Corporation remains the engine of Building Materials. Delta produces and supplies precast and prestressed concrete products. Having experienced record levels of demand in recent years, the transition from the Western Australian construction boom to the operational phase impacted Delta's result, as it did in the previous year.

With fewer projects on offer, competition has intensified and margins fallen. Delta is a market leader of highly specialised, higher margin work. However, Delta developed its product range to perform a diverse range of projects utilising specialised precast products. That versatility aids Delta's ability to win work in the current environment. Delta is also strongly positioned to both win additional work and improve margins when industry conditions improve.

The Building Products business unit supplies paving and walling products.



The business unit has largely operated in difficult market conditions since the 2008 financial crisis. In the year under review, the unit maintained turnover despite another year of tough conditions. However, an uptick in commercial and government-funded projects is driving reasonable levels of sales for both manufactured and natural stone.

The business unit has continued to identify and effect cost reductions. That has improved the profitability of the unit. Building Products continues to investigate and implement further reductions and efficiencies across Production, Retail and Administration whilst maintaining service and quality.

Order books in both Delta and Building Products are higher than at the beginning of the 2015 financial year. Additionally, there are a number of current and prospective projects in Western Australia that are encouraging. SFC expects the first half of the 2016 financial year to reflect some moderate improvement.

PROPERTY

SFC's property portfolio, including Gosh Capital, has an estimated current market value of \$96.7 million. That represents \$55.0 million (before tax) of unrealised property value (\$38.5 million after tax).

SFC carries the relevant assets in its accounts at the more conservative depreciated book values. The assessed unrealised market values are supported by ongoing and recent independent and accredited valuations.

Investment Property

The Investment Property business unit comprises SFC's interests in syndicated property investments. Revenue decreased by 2% to \$6.0 million and EBIT decreased by 22% to \$2.4 million. The previous year included \$0.5 million profit from the final sales of land and marina assets by the Mindarie Keys Syndicate, in which SFC held a 15% interest. The result was also impacted by the level of incentives provided to maintain portfolio occupancy at around 95% in light of a weaker commercial office market.

The syndicated property at 616 St Kilda Road has recently been put on the market, and SFC currently has an offer to purchase its 20% share. The offer is not unconditional but negotiations are quite advanced, and when completed the transaction should realise a profit of around \$4 million after tax to be included in the results for the 2016 financial year.

Across the portfolio, SFC expects reduced rental profits in the first half of the 2016 financial year due to the likely reduction in its property portfolio.

Gosh Capital

Investment business Gosh Capital seeks to maximise the value of the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia.

The conversion of the Cockburn Coast area to a high density residential precinct has enhanced the future development potential of this site. Gosh Capital will also reinvest profits earned to grow its available capital for investment.

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Gosh Capital made the following investments during the year:

- Inghams Burton Property Trust (\$1 million) – a rented industrial property with an average 12% annual return expected.
- Yanchep Beach Road (\$0.5 million) – a residential sub-division with an expected internal rate of return of 20%, with distributions expected to be paid between 2019 and 2022.

SFC's 83% share of Gosh's portfolio now has a market value of \$22.7 million (\$17.7 million net of debt).

SFC forecasts a modest increase in Gosh Capital's profit for the first half of the 2016 financial year.

OUTLOOK

The Automotive Leather division has the largest impact on SFC's profitability.

The business is exposed to foreign currency movements, which are not within SFC's control. Those movements have been volatile and impacted both positively and negatively in recent years. More local and global volatility, including evolving economic situations in Europe and China, make forecasting even more difficult.

Entering the current year, global hide prices have reduced sharply due to lower demand from global leather users. However, to ensure continuity of supply, Automotive Leather holds at least six months of hide stock for programs. As a result, any additional profit due to these reduced costs will be delayed whilst higher cost stock is sold through. Additionally, higher costs are expected for the start-up of 16 new programs.

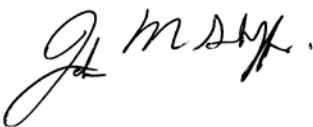
A key achievement expected for 2016 is the completion and operation of the new Slovakian leather finishing and expanded cutting facilities. This will decrease days hide stock is held, and the business will also realise freight and duty savings. Unfortunately, currency movements in the last year have impacted our ability to achieve higher profits in the current year. However, SFC predicts that with further expected volume increases, profits for Automotive Leather should increase in the 2017 financial year.

SFC anticipates that underlying performance for the first half of the 2016 financial year will be a similar result to prior year, assuming that current foreign exchange rates prevail.

That forecast is driven by:

- A significant increase in volume and revenue for Automotive Leather, but similar profit as a result of high cost hide inventory and start-up costs of 16 new programs.
- A modest increase in profit for Building Materials.
- A modest increase in profit for Gosh Capital.

In addition, the forecast will increase by around \$4 million after tax if the sale of SFC's share in 616 St Kilda Road occurs, as seems highly likely.



John Schaffer
Chairman