Schaffer Corporation Limited

Full Year Results Presentation June 2013

Creating long-term shareholder value through the efficient operation and growth of our core businesses

Organisation Chart (Core Businesses)

SCHAFFER CORPORATION LIMITED

Building Materials Division

Delta

- Precast concrete – Herne Hill, WA

Building Products

- UrbanStone Factory (paving) - Jandakot, WA
- Archistone Masonry Block Plant (walling and paving) - Jandakot, WA
- Archistone reconstituted landscaping limestone blocks - Gin Gin, WA
- Limestone Resources
  - Reconstituted retaining wall blocks - Carabooda, WA
  - Natural quarry cut blocks (landscaping and building) - Moore River and Swan Lease, WA
- Lumeah - insitu poured exposed aggregate and limestone paving
- Natural granite and stone - Australian sourced
- Natural granite and stone - imported
- Urbanstone Central - national network of ideas and design centres for retail and trade

Property Division

Syndicated Investment Property

Company Owned Property

Automotive Leather Division

Howe

- Finishing - Thomastown, Victoria
- Tannery - Rosedale, Victoria
- Cutting
  - Howe Shanghai - China
  - Howe Slovensko - Slovakia
- Sales Offices
  - Australia
  - China
  - Slovakia
  - Japan
  - Germany

Highlights

Overall profits are similar to the prior year

- Building Materials continued to perform strongly.
- Automotive Leather volumes, revenue and profits were lower, as predicted.
- $2.3 million of profit after tax related to the ongoing insurance claim for the loss of building at 10 Bennett Avenue, North Coogee, Western Australia.

Further strengthening of our financial position

- Continued strong operating cash generation.
- Cash flow has been applied to further reduce net debt.
- Capital investment and dividends continue to be conservative.

The group outlook is positive

- A devalued Australian dollar against the Euro will have a significant positive impact on the Automotive Leather division.
- Automotive Leather demand is increasing as new programs have commenced.
- Building Materials order banks are strong moving into FY2014, although a reduction of resource related infrastructure projects is expected.

Financial Performance

Revenue decreased but statutory profits were similar to the prior year

Full-Year	June-2013	June-2012	% Change
Revenue ($m)	**138.4**	152.6	(9%)
EBITDA ($m)[1]	**20.0**	19.9	1%
EBIT ($m)[2]	**14.8**	14.9	(1%)
NPAT ($m)	**7.6**	7.5	1%
EPS	**$0.54**	$0.53	1%
Return on average capital employed (ROACE)	**14%**	14%	
Ordinary dividend (fully franked)	**$0.23**	$0.21	

1. Refer to slide 25 for EBITDA reconciliation
2. EBITDA less depreciation and amortisation

Financial Performance

After removal of insurance proceeds, the Underlying Profit has decreased by 20%

Full-Year	June-2013	June-2012	% Change
Underlying Profit[1] ($m)	**5.1**	6.4	(20%)
Underlying EPS	**$0.36**	$0.45	(20%)
Underlying ROACE	**10%**	12%	

1. Refer to slide 25 for Underlying Profit reconciliation

- Automotive Leather profit decreased 32% from an expected decrease from lower demand as programs were completed, and the strong Australian currency.
- Building Materials profit up 10% due to positive impacts from Western Australian resources and civil infrastructure sectors, although the retail sector remained very subdued.

Cash Flow

Full-Year Ending ($m)	June-2013	June-2012
EBITDA	**20.0**	19.9
Less profit of disposal of assets / non-cash items	**(4.0)**	(1.3)
Net interest paid	**(3.2)**	(3.8)
Tax paid	**(0.5)**	(3.1)
(Increase)/decrease in Howe trade working capital	**(5.4)**	3.8
Other changes in working capital	**1.7**	(0.5)
Total operating cash generated	**8.6**	**15.0**
Net debt reduction/(increase)	**4.0**	12.2
Capital expenditure	**4.1**	2.4
Investment in property	**1.0**	-
Proceeds from insurance/divestments	**(4.0)**	(2.7)
Dividends paid	**3.5**	2.9
Share buy back	**-**	0.2
Total cash applied	**8.6**	**15.0**

- Cash flow from operations and insurance proceeds resulted in further reduced net debt
- Howe trade working capital increase relates to inventory purchased to service higher FY2014 program demand

Group Net Debt

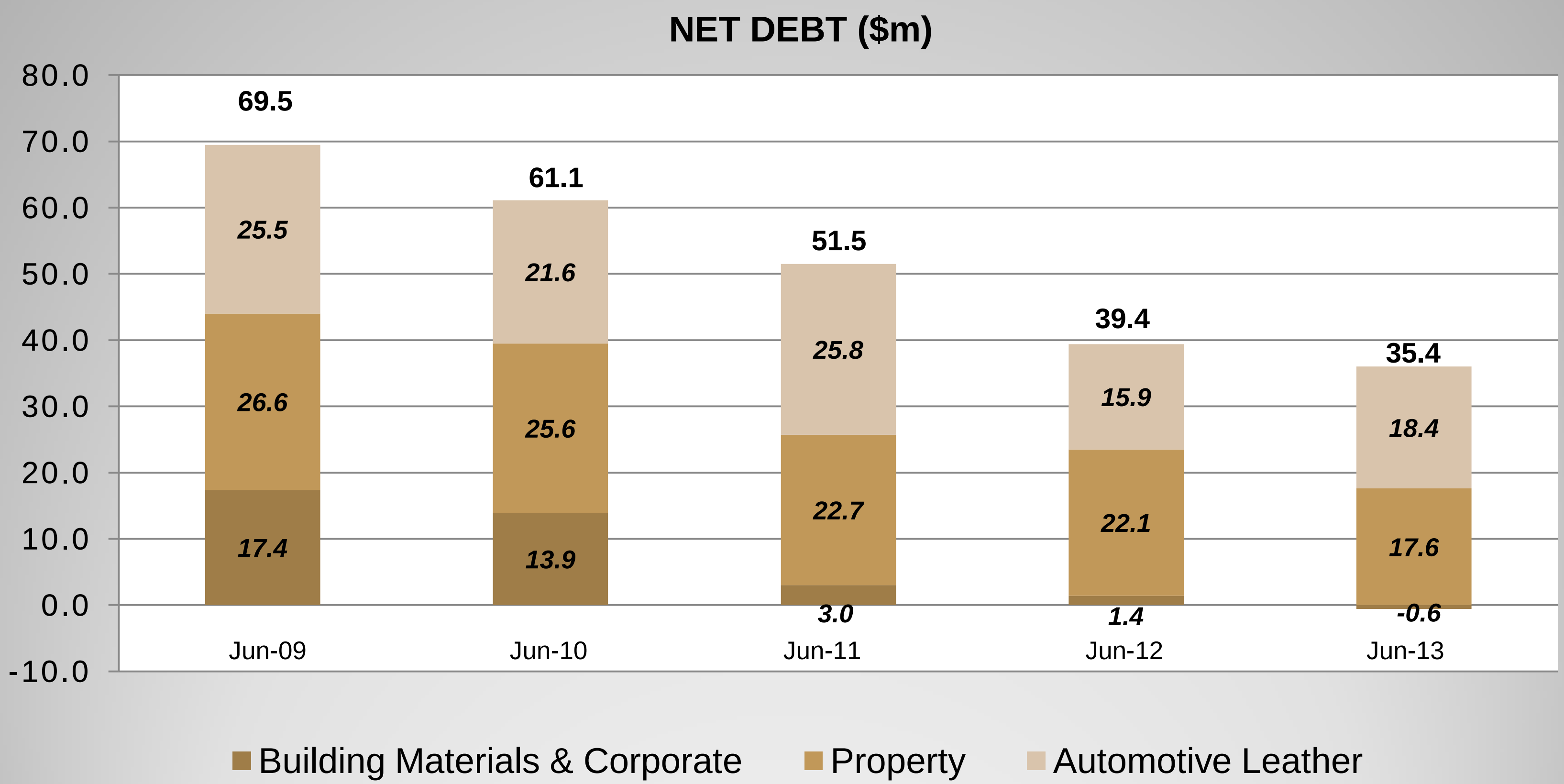
Group Net debt reduction of $4.0 million adds more strength to our Balance Sheet

All amounts in $m	Building Materials & Corporate	Property[1]	Automotive Leather	Total 30 June 2013	Total 30 June 2012
Type of Debt:					
Bank debt - recourse	1.0	3.7	-	**4.7**	8.1
Bank debt - non-recourse	-	19.6	-	**19.6**	18.8
Govt loans - non-recourse	-	-	22.5	**22.5**	25.0
Equipment finance	1.2	-	0.1	**1.3**	1.5
	2.2	**23.3**	**22.6**	**48.1**	**53.4**
Maturity Profile:					
- FY13	-	-	-	**-**	10.8
- FY14	0.5	7.1	2.6	**10.2**	14.7
- FY15	1.3	15.2	2.5	**19.0**	14.3
- FY16 and beyond	0.4	1.0	17.5	**18.9**	13.6
	2.2	**23.3**	**22.6**	**48.1**	**53.4**
Net Debt Position:					
Gross debt	2.2	23.3	22.6	**48.1**	53.4
Cash and term deposits	(2.8)	(5.7)	(4.2)	**(12.7)**	(14.0)
Net Debt/(Cash)	**(0.6)**	**17.6**	**18.4**	**35.4**	**39.4**

1. Includes $4.9m cash on deposit from 10 Bennett Avenue, North Coogee, Western Australia insurance claim

Group Net Debt

Group Net debt halved over the past 4 years



Schaffer Corporation Limited

Debt and Assets

Market value of Group Net Tangible Assets $6.58/share (pcp $6.24/share)

	Building Materials & Corporate	Property	Automotive Leather	Total 30 June 2013
Net assets (Book) ($m)	37.9	3.1	23.5	**64.5**
Net assets (Market Value) ($m)	43.2	30.9	23.5	**97.6**
Asset backing (NTA - Book) ($/share)	$2.43	$0.22	$1.59	**$4.24**
Asset backing (NTA - Market Value) ($/share)	$2.80	$2.19	$1.59	**$6.58**

Estimated $47.4 million of unrealised property value before tax ($33.2 million after tax) included in Market Value.

Schaffer Building Materials

Building Products

URBANSTONE CENTRAL

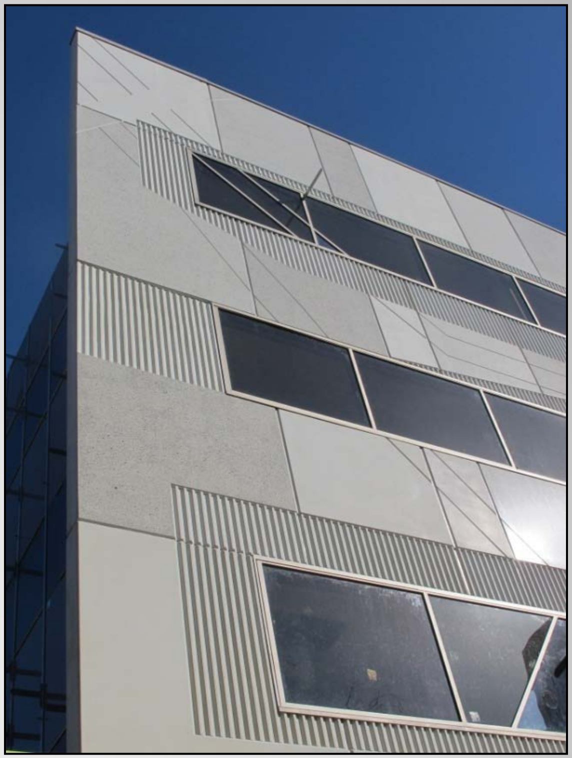
LIMESTONE RESOURCES

ARCHISTONE

URBANSTONE THE BEST

Lumeah Handcrafted Decorative Concrete

DELTA CORPORATION LIMITED

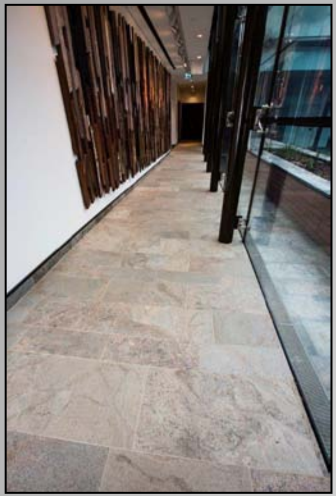


Building Materials Results

$m	June-2013	June-2012	% Change
Revenue	**58.5**	56.4	4%
Segment EBIT	**5.5**	5.0	10%
Margin	**9.4%**	8.8%	

- Civil infrastructure developments and civil works for large resources projects in Western Australia have continued to increased profits for Delta (precast prestressed concrete).
- Building Products (paving and walling products) had yet another tough year due to the extended depressed conditions for residential and commercial construction. Government funded projects have offset the subdued performance to some extent.
- Order books are at strong levels that are similar to the beginning of FY2013.

Building Products



Key Points

- Strategy for the Archistone Masonry Division is progressing to plan. We are supplying a wide variety of building types and growing the application of our unique value-added range of products in the Architectural market.
- Our product offering has been broadened with exclusive Australian granite.
- Major projects have been dominated by Government and Local Government funded infrastructure projects.
- Western Australia and South Australia continue to attract our focus.

Building Products

Major Projects Completed

URBANSTONE

Western Australia:

- Bayview Terrace, Claremont
- Victoria Streetscape upgrade, Bunbury
- Rio Tinto Head Office, Wickham
- Police Complex, Northbridge
- Currie hall UWA, Nedlands
- Transperth rail platform extensions: Maddington, Queens Park, Beckenham, Warnbro
- Sir Charles Gairdner Hospital Precinct, Cancer Care Ward

South Australia:

- Gawler Super School
- Glenside medical facility
- Flinders University, School of Biological Studies
- UNISA Mawson Lakes

Victoria:

- Presbyterian Ladies College
- Vic Harbour Docklands
- Epping Plaza
- DHS Plaza Richmond

New South Wales:

- Juvenile Justice Centre, Wagga Wagga
- Juvenile Justice Centres, St. Marys
- Veterans Memorial Park ACT, Anzac memorial
- Australian Taxation Office Albury

Queensland:

- Cairns Waterfront
- Ipswich Hospital
- Coles Nambour
- Sea Pearl Mooloolaba

AUSTRALIAN GRANITE

Western Australia:

- Hale House, Premiers offices, West Perth
- Crown Casino, main entrance redevelopment

ARCHISTONE MASONRY BLOCK

Western Australia:

- Perth Airport Combined Logistics Building
- Perth Airport Terminal 1, Arrivals Upgrade
- Hammond Park Primary School
- Balga TAFE, Plumbing Trades Training Centre
- Currambine Shopping Centre Stage 2
- Dalyellup College Stage 2, Bunbury

Delta

Key Points

- Continuance of projects from resource and infrastructure sectors during FY2013.
- Slow-down in resource sector projects will put more focus on civil infrastructure and commercial work during FY2014.
- Successful completion of the supply of precast, prestressed voided roof planks for the Perth City Link rail tunnel.
- Strong order bank moving into FY2014.

Major Projects Completed

Resource and Infrastructure

- Ore Handling Facilities, Jimblebar
- 3 x Great Northern Hwy Bridges, Port Hedland
- Bunbury Port Access Project Bridges Stage 2
- Esperance Port Access Corridor Bridge
- Brookton Hwy Bridge, Kelmscott

Commercial

- Perth City Link Tunnel Project
- Cockburn Health & Community Facilities
- UWA Student Housing, Nedlands
- Bulkwest 20,000T grain storage cells
- Perth NIB stadium, East Perth
- Gorgon LNG Administration and Laboratory

Automotive Leather

Automotive Leather Results

$m	June-2013	June-2012	% Change
Revenue	**72.9**	89.6	(19%)
Segment EBIT	**5.0**	7.4	(32%)
Margin	**7%**	8%	

- 19% decrease in volumes and revenue was expected due to the completion of programs in FY2012 and FY2013.
- China volumes were down 44%, Europe down 5%.
- New program volumes in Europe commenced late in FY2013.
- The benefits of positive foreign currency movements occurred late in FY2013.
- The average selling prices and hide costs were similar to prior year.

Automotive Leather

Key Points

- Foreign currency for FY2013 was on average unfavourable compared to FY2012. However, the decline in the value of the AUD late in FY2013 will have a net positive financial effect in FY2014 if rates remain at current levels.
- New European programs commencing late in FY2013 will result in significant capacity expansion being undertaken in Slovakia.
- We continue to explore, investigate and invest in leather finishing technology that improves efficiency, reduces wastage and energy usage, and realises cost benefits.
- We continue to pursue and develop hide sourcing strategies that are cost effective and increase yield.

Automotive Leather Global Footprint

- Offices
- Factories

Property

IBM Building, Hay St, West Perth, WA

616 St Kilda Rd, Melbourne, VIC

Parks Centre, Bunbury, WA

Hometown Cannington, WA

Property Results

$m	June-2013	June-2012	% Change
Revenue	**7.1**	6.6	8%
Segment EBIT (excl. disposals and insurance)	**3.5**	2.8	23%
Net margin	**48%**	42%	
Profit on disposals	**-**	0.4[1]	
Insurance proceeds less associated costs	**4.0**[2]	1.3[2]	
Segment EBIT	**7.5**	4.5	64%

1. Relates to sales of syndicated property at Vulcan Road, Canningvale, Western Australia.
2. Relates to fire damage claim for 10 Bennett Avenue, North Coogee, Western Australia.

- We have been almost 100% tenanted for the majority of FY2013.
- Reduced vacancies have resulted in an improved financial performance.
- Progress payment on the fire damage claim for 10 Bennett Avenue, North Coogee, Western Australia has lifted EBIT by $4.0 million. Negotiations are still progressing for a final settlement.

Property Portfolio

Property	Interest
Syndicated Investment Properties	
IBM Building, 1060 Hay St, West Perth, WA	22%
Océ House, 616 St Kilda Rd, Melbourne, VIC	20%
Hometown, 1480 Albany Hwy, Cannington, WA	25%
Parks Centre, Bunbury, WA	17%
Syndicated Subdivisions	
Mindarie Keys, WA	15%
Neerabup, WA	20%
Owned/Operated	
1305 Hay St, West Perth, WA	100%
218 Campersic Rd, Herne Hill, WA	100%
Lot 101, 103, 104 Jandakot Rd, Jandakot, WA	100%
50 Cutler Rd, Carabooda, WA	100%
Gosh Leather Pty Ltd	
10 Bennett Ave, North Coogee, WA (Owned)	83%
Space 207 & Harbour Park, NSW (Property Unit Trust)	2%

Total estimate of $47.4 million of unrealised property value before tax.

- $27.8 million from syndicated properties portfolio.
- $19.6 million from company owned properties.

Total estimated market values are:

- Syndicated property: $42.9 million.
- Company owned property: $35.6 million.
- Property Unit Trusts: $1.0 million.

Outlook – H1 FY2014

Automotive Leather

- Volumes are expected to increase in the first half of FY2014 as newly started programs gain momentum. The volume increase is expected from European programs.
- If foreign currency rates continue at current levels, there will be a positive impact on the financial results.
- We are net exporters in Euro and net importers in USD.

Based on current level of exposure:

- A 1c decline in the AUD:EUR from the average FY2013 rate (€0.80) <u>increases</u> EBIT by approximately $800k per annum, but a 1c decline from €0.70 increases EBIT by approximately $1.0 million per annum.
- A 1c decline in the AUD:USD from the average FY2013 rate (US$1.03) <u>reduces</u> EBIT by approximately $400k per annum, but a 1c decline from US$0.93 reduces EBIT by approximately $500k per annum. (*However, hide stock for the majority of H1 FY2014 sales has already been purchased at last year's rates so the negative EBIT exposure for H1 will be significantly less resulting from this once-off benefit).*

- Revenue and EBIT are forecast to be materially higher for H1 FY2014.

Outlook – H1 FY2014 continued

Building Materials

- Strong order banks going into FY2014.
- Any increased activity in the residential and commercial sector is expected to be offset by a slow down in resource sector projects.
- H1 FY2014 revenue and EBIT are forecasted to be lower than prior corresponding period.

Property

- Due to softening office rental markets, we expect Property net rental results to be slightly lower than prior corresponding period.
- No sale of property expected.
- Negotiations are still progressing for final settlement of fire damage claim for 10 Bennett Avenue, North Coogee, Western Australia.

Outlook – H1 FY2014 continued

Overall

- A significant increase in Revenue and EBIT expected for H1 FY2014 (if current foreign exchange rates prevail).
- Automotive Leather gains expected to outweigh the lower projections forecast for Building Materials and Property.

Dividends

- The Board has declared a final dividend of 12¢ per share fully franked, payable on 20 September 2013. This is a 9% increase over prior corresponding period.
- This makes the total dividend for FY2013 23¢ per share (FY2012: 21¢) and equates to a payout ratio of 43%.
- Uncertain and volatile economic conditions continue to prevail and therefore a prudent dividend has been declared, consistent with recent years.

Non-IFRS Financial Information

EBITDA Reconciliation ($000's)	June 2013	June 2012
Profit before income tax	**11,522**	11,236
Finance income	**(374)**	(176)
Finance costs	**3,615**	3,830
EBIT	**14,763**	14,890
Depreciation and amortisation	**5,257**	5,024
EBITDA	**20,020**	19,914

Underlying Profit Reconciliation ($000's)	June 2013	June 2012
NPAT	**7,558**	7,517
Profit on sale of investment property after tax	**-**	(301)
Insurance proceeds less costs after tax and non-controlling interests	**(2,458)**	(830)
Underlying Profit	**5,100**	6,386

Schaffer Corporation Limited results are reported under International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The Company discloses certain non-IFRS financial measures. The non-IFRS measures should only be considered in addition to, and not as a substitute for, other measures of financial performance prepared in accordance with IFRS.

EBITDA is a non-IFRS earnings measure which does not have any standardised meaning prescribed by IFRS and therefore may not be comparable to EBITDA presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortisation. This measure is important to management when used as an additional means to evaluate the Company's performance.

Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of Directors, the ongoing operating activities of Schaffer Corporation in a way that appropriately reflects its underlying performance.

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