

SCHAFFER'S FULL YEAR PROFIT INCREASES TO \$5.7 MILLION

17 August 2016

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 2016 of \$5.7 million. The NPAT result is a 61% increase compared to prior year and includes \$4.0 million net profit after tax from the sale of SFC's 20% interest in the 616 St Kilda Road property syndicate.

The Board has declared a final ordinary dividend of \$0.13 per share (fully franked). The total dividend for the 2016 financial year of \$0.25 per share (fully franked) maintains the total dividend from the previous financial year. The record date for the dividend is 2 September 2016, with payment on 16 September 2016.

FINANCIAL SUMMARY

	Financial Year to		% Change
	30-Jun-16	30-Jun-15	
Revenue (\$m)	213.6	157.3	36%
EBIT ¹ (\$m)	13.9	8.7	60%
NPAT* (\$m)	5.7	3.5	61%
Earnings per share	\$0.41	\$0.25	61%
Ordinary dividends per share	\$0.25	\$0.25	-

* Net Profit after tax and minority interests.

¹ EBIT excludes non-recurring costs. Refer to most recent Investor Presentation for definitions of non-IFRS measures.

DIVISIONAL REVIEW

AUTOMOTIVE LEATHER

	Financial Year to		
	30-Jun-16	30-Jun-15	% Change
Revenue (\$m)	155.1	101.1	53%
EBIT (\$m)	4.8	6.3	(23%)

Automotive Leather's revenue increased substantially by 53% to \$155.1 million. EBIT decreased to \$4.8 million.

The 2016 financial year has been critical to the future growth and development of Automotive Leather.

The division's year included the successful commissioning of the new Slovakian finishing (October 2015) and cutting (January 2016) plants. This is a company redefining project. We have hired, trained and integrated approximately 500 new employees. We have achieved compliance approval from our customers. We are managing the business complexities of transferring hide processing for the European leather business from Australia to Slovakia.

Automotive Leather is achieving all of this while concurrently implementing and bedding down the delivery of 16 new programs, which resulted in a 53% increase in turnover for the financial year. To provide perspective, Automotive Leather in a typical year would implement just two or three new supply programs.

This has been a transformational project and, as expected, additional set up costs have impacted short-term profitability. Those costs included lower cutting yields, additional cutting work, testing and customer visits etc. As the new programs fully settle in and new program volumes reach steady state levels, we expect cutting yields and profitability to improve.

Following the successful commissioning of the new Slovakian facility, Howe's next strategic objective is for all finishing of European customer leather to be undertaken in Slovakia by early calendar year 2017. To support this objective, Howe commissioned a second finishing line in Slovakia late in the financial year.

Finishing in Slovakia will result in a material reduction in inventory levels of semi processed hides. Those hides are now shipped from South America directly to Europe, rather than via Australia. Reduced inventory levels and order lead times will release working capital. Howe will apply those funds in part to finance the increased hide volumes required to supply the new programs. Howe will also benefit from reductions in freight costs and manufacturing expenses.

With the rationalisation of supply chains and increased capability in Slovakia, it has been necessary to assess the scale of operations in Australia. Late in the financial year, Howe undertook redundancies at its Thomastown leather finishing facility and operations ceased at the Rosedale tannery.

Transformation on this scale does not come without cost. Pre-tax non-recurring costs associated with the ramp up in Slovakia and resizing of Australian operations included \$1.1 million in redundancy costs, a \$0.3 million non-cash write-down of decommissioned assets in Australia and \$1.1 million in new facility start-up costs in Slovakia. Howe will realise the benefit of these expenditures in coming years.

Howe is a multicurrency business. As such, it is impacted by currency movements. Sales are predominately in Euro and input costs (hides and chemicals) are principally in US dollars. Howe's revenue was improved by the strengthening of the Euro against the Australian dollar. Contrastingly, hide costs increased in Australian dollar terms with the strengthening of the US dollar. US dollar hide costs decreased by 11% early in the financial year. However, the benefit of that reduction only flowed through in the second half as the hide inventory was processed and moved into customer programs.

Automotive Leather anticipates that volumes for the first half of the current financial year will be similar to the increased level achieved in the second half of the 2016 financial year. In addition, new programs commencing in the second half of the year will increase volumes further. Steady state operations should increase efficiency of both the new facilities and new programs. Accordingly, Howe expects profitability for the first half to improve compared to prior corresponding period (based on current exchange rates).

The AUD/EUR exchange rate is currently higher compared with the prior year average of AUD/EUR 0.66. If the rate remains at these levels, it will negatively affect Australian dollar revenue. We anticipate that that impact will be offset by reduced US dollar hide costs and improved yield efficiencies across the new programs.

BUILDING MATERIALS

	Financial Year to		
	30-Jun-16	30-Jun-15	% Change
Revenue (\$m)	51.8	49.1	6%
EBIT (\$m)	2.9	1.4	110%

The Building Materials division increased revenue by 6% to \$51.8 million. EBIT more than doubled to \$2.9 million (pcp: \$1.4 million).

The division's leading business unit was Building Products, which supplies paving and walling products to residential and commercial building sectors. Comparatively better economic conditions on the East Coast, including local government spending, has continued through the second half to contribute to an

improved result for this business. Building Products' exclusive Australian-sourced natural stone has good penetration with key projects in key locations. Margins have also improved with ongoing cost reductions and production efficiency programs. The business unit continues to seek to identify further opportunities for cost savings and increased efficiency.

Delta Corporation produces pre-cast and pre-stressed concrete products. Decline in activity in the resources sector has directly and indirectly suppressed conditions in the Western Australian construction industry. Delta achieved an improved revenue result on the previous period but profit was slightly down.

The infrastructure sector is relatively buoyant albeit with intense competition. These market conditions continue to drive down margins, which Delta anticipates will remain under intense pressure for the current year. Delta remains a market leader and cost competitive. Delta does not believe the competitive environment can sustain all of its competitors indefinitely. Should rationalisation occur, the market would move towards a balancing of supply and demand and more sustainable conditions.

Conditions, especially for Delta, make forecasting particularly difficult. Accordingly, Building Material's forecasts are relatively conservative. The order book for Building Products is strong but, for the division as a whole, SFC expects revenue to be lower. The first half of the 2017 financial year should record a decrease compared to the prior corresponding period.

PROPERTY

SFC's property portfolio, including Gosh Capital, has an estimated current market value of \$87.4 million. SFC recognises those assets in its accounts at their depreciated book values. The higher market values are supported by ongoing, recent independent accredited valuations. The difference between book and market values represents \$49.4 million (before tax) of unrealised property value (\$34.6 million after tax).

Investment Property

The Investment Property business unit comprises SFC's interests in syndicated property investments.

In December 2015, SFC sold its 20% share in the 616 St Kilda Road syndicate. SFC acquired the interest in 616 St Kilda Road in the late 1990s for \$1 million. Since that time, SFC has received excellent annual rental income, far in excess of the purchase price. The sale realised additional EBIT of \$5.7 million (\$4.0 million after tax). SFC has applied the proceeds to reduce corporate debt.

The 616 St Kilda Road interest reflects SFC's approach to property and its operating businesses more broadly. All are managed to maximise shareholder value over time. On an ongoing basis, SFC maximises rental returns from the portfolio. It also looks to identify opportunities to realise capital gains, where appropriate.

Underlying full year revenue and EBIT decreased, due to the timing of the asset divestment. SFC expects the trend for lower revenue and EBIT to continue during the first half of the 2017 financial year.

Gosh Capital

Investment business Gosh Capital has utilised the land asset on which the Gosh Leather business previously operated at 10 Bennett Avenue, North Coogee, Western Australia as a substantial initial asset upon which to develop an investment portfolio. Gosh Capital will also reinvest profits earned to grow its available capital for investment.

The Cockburn Coast area, encompassing North Coogee, is undergoing conversion to a high-density residential precinct. Landcorp, the Government-owned majority land owner, has completed significant work during the year on the properties and public spaces surrounding Gosh Capital's 2.1 hectare site, enhancing its future development potential. The site's zoning allows for the building of approximately 175 units.

During the year, Gosh Capital realised \$0.2 million from the sale of the Space 207 property, which was previously held by a property trust of which Gosh Capital is a unitholder.

Gosh Capital made a range of investments during the year. At 30 June 2016, the market value of the Gosh Capital asset portfolio was \$28.5 million (\$22.3 million net of debt), an increase of \$1.2 million in 12 months.

Excluding the profit on the sale of the Space 207 office building, SFC forecasts an increase in Gosh Capital's profit for the first half of the 2017 financial year (from a low base).

OUTLOOK

The Automotive Leather division has the largest impact on SFC's profitability. The division has had a transformative year with the establishment of the world class finishing facility and cutting facilities in Slovakia. As those facilities have ramped up over the last six months, the division has recorded higher than expected costs which have impacted profitability, as staff are trained and volumes scale. In the current half, SFC expects both the Slovakian and rationalised Australian operations to stabilise, delivering increased efficiencies and profitability.

SFC's businesses are exposed to foreign currency movements which are not within its control. Volatility in foreign exchange rates has impacted both positively and negatively in recent years.

Volatility also continues to affect local and global current economic conditions, particularly (as relevant to SFC) in Europe and China, which makes forecasting difficult.

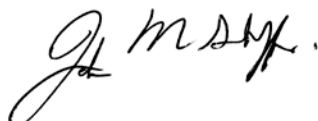
Global hide prices reduced sharply in the first half of the 2016 financial year due to lower demand. Future profitability will benefit as these lower cost hides are finished, cut and supplied to customers. Conversely, reported revenues in Australian dollar terms will be negatively impacted should the recent increase in the AUD/EUR exchange rate prevail during the half.

Allowing for the volatile economic backdrop, SFC forecasts an improvement in Automotive Leather's first half profits, based on current exchange rates.

SFC anticipates that Group underlying performance for the first half will be similar to the prior year, assuming that current foreign exchange rates prevail. That forecast is driven by:

- Improved profit for Automotive Leather.
- A decrease in profit for Building Materials.
- A decrease in profit for Investment Property.
- An increase in profit for Gosh Capital.

The 2016 financial year has presented us with various challenges. I commend and congratulate our management and workforce – now more than 1,700 – for their dedication and effort. I sincerely appreciate their focus on ensuring our organisation is resilient and profitable in our endeavours to maximise shareholder value.



John Schaffer
Chairman