

SCHAFFER INCREASES EBIT BY 31%, RAISES DIVIDEND; PREVIOUSLY REPORTED GOODWILL IMPAIRMENT REDUCES STATUTORY PROFIT BY 18%

20 August 2014

Dear Shareholders

Schaffer Corporation Limited (ASX: SFC) has recorded a net profit after tax (NPAT) for the 2014 financial year of \$6.2 million (pcp: \$7.6 million). Two non-recurring items, being a \$3.7 million impairment of the carrying value of goodwill in the Building Products division and \$0.7 million of insurance proceeds, impacted the result. Excluding those items, Underlying NPAT increased 80% to \$9.2 million from \$5.1 million.

Given SFC's underlying performance and the Board's policy of prudent capital management, the Directors have declared a fully franked final ordinary dividend of \$0.13 per share. The total dividend for the year of \$0.25 per share (fully franked) is a 9% increase over last year. The record date is 5 September 2014 for dividend payment on 19 September 2014.

FINANCIAL SUMMARY

	Financial Year to		% Change
	30-Jun-14	30-Jun-13	
Revenue (\$m)	163.6	138.4	18%
EBITDA ¹ (\$m)	24.3	20.0	22%
EBIT ¹ (\$m)	19.3	14.8	31%
NPAT* (\$m) after \$3.7m goodwill write-off	6.2	7.6	(18%)
Earnings per share	\$0.44	\$0.54	(18%)
Ordinary dividends per share	\$0.25	\$0.23	9%
Underlying NPAT ¹ (\$m)	9.2	5.1	80%
Underlying EPS ¹	\$0.66	\$0.36	80%

* Net Profit after tax and minority interests.

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

The 31% increase in EBIT and 80% increase in Underlying Profit derived principally from the Automotive Leather division recording a 16% increase in volume from new model programs combined with favourable foreign exchange rate movements that increased Australian-dollar-denominated export revenue and resulted in abnormal stock profits.

SFC realised the bulk of the stock profits in the first half of the financial year as stock purchased at favourable exchange rates, and held at 30 June 2013, were sold.

NET TANGIBLE ASSETS

On the last ASX trading day of the financial year, SFC's shares closed at \$5.91. At 30 June 2014, the Group's net tangible assets at market value (NTA) were \$7.14 per share – a 21% premium to the year-end share price.

That NTA includes an estimated \$49.0 million (before tax) of unrealised property value (\$34.3 million after tax). SFC carries the relevant assets in its accounts at the more conservative depreciated book values. The assessed unrealised values are supported by ongoing and recent independent, accredited valuations.

DIVISIONAL REVIEW**Automotive Leather**

The Automotive Leather division's revenue increased by 42% to \$103.5 million and EBIT increased threefold to \$15.2 million (pcp: \$5.0 million).

Overall volumes increased by 16%. The Slovakian facility increased volumes by 31%, which growth was associated with new vehicle model programs.

During the latter part of the financial year, the Australian dollar (AUD) depreciated substantially against the Euro (EUR) and the US dollar (USD). The prevailing rates have positively impacted SFC's export revenues (denominated in AUD). However, the lower AUD:USD rate does also adversely impact input costs, as most semi-processed raw materials and some chemicals are purchased in USD.

The changes in exchange rates also increased EBIT due to the accounting treatment of SFC's hide inventory. Automotive Leather purchased hides on hand at the beginning of the financial year at an average of AUD:USD 1.03. In AUD terms, those hides were cheaper than hides purchased at now-prevailing exchange rates. As a result, Automotive Leather's Cost of Goods Sold for the first half was comparatively low, which increased the division's profit. The 'lower' cost hides were almost entirely sold in the first half and Automotive Leather restocked with 'higher' cost hides. Accordingly, margins decreased for the second half but the full year result was a significant increase over the 2013 financial year.

Automotive Leather has been awarded a number of programs that it expects to increase production volumes from the 2016 financial year onwards. This includes newly awarded supply to a major European car manufacturer. During the current year, Automotive Leather will put in place capacity increases in finishing and cutting in readiness for the expected volume increase. For the first half, SFC expects volumes to be at similar levels to the second half of the 2014 financial year, but without the abnormal stock profits experienced last year. As a result, SFC expects Automotive Leather's result to be significantly lower than the prior corresponding period.

Building Materials

The Building Materials division decreased revenue by 11% to \$52.0 million, and EBIT decreased to \$1.8 million (pcp: \$5.5 million).

Delta Corporation produces and supplies pre-cast and pre-stressed concrete products. The post 'construction phase' decline in resources sector construction activity in Western Australia impacted Delta's result. Delta is a market leader of highly specialised, higher margin work in a competitive sector. That competition has impacted margins but Delta continued to win work in the infrastructure and commercial sectors. SFC's focus on continuous business improvement means that Delta is strongly positioned to both win additional work and improve margins when industry conditions improve.

The Building Products business unit supplies paving and walling products. For yet another year, the business unit has been operating in a difficult market. Competition remains fierce, particularly within the residential sales sector. The business unit's Masonry Block penetration strategy is progressing well with increasing supply of value-added architectural products. As in all parts of the business, Building Products maintains a focus on cost reductions across Production and Retail whilst maintaining service and quality.

Order books are at similar levels to the beginning of the 2014 financial year but SFC remains cautious in outlook. SFC does not expect the first half of the 2015 financial year to be as strong as prior corresponding period.

Investment Property

The Investment Property division comprises SFC's interests in syndicated property investments. Revenue increased by 18% to \$7.7 million and EBIT increased by 7% to \$3.1 million. This result included \$0.5 million profit from the final sales of land and marina assets by the Mindarie Keys Syndicate, in which SFC holds a 15% interest.

Excluding the effects of the property sales, revenue reduced by 7% to \$6.1 million and EBIT reduced by 10% to \$2.6 million. That reflects the weaker commercial office market causing occupancy of our net lettable area to decrease to 91% by 30 June.

SFC expects a reduced result in the first half of the 2015 financial year due to current vacancies and anticipated leasing incentives likely to be required to retain and improve property occupancy.

Gosh Capital

The Group's new 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.

As at today's date, Gosh Capital's assets comprise:

- The land at 10 Bennett Avenue.
- A bulky goods retail centre located at 39 Dixon Road, Rockingham, Western Australia. Gosh Capital purchased the site during the 2014 financial year for \$7.75 million (at an 8.75% yield). The purchase was funded 60% by debt, recourse against the property. Gosh Capital has invested a further \$1.8 million since acquisition to enable the acquisition of a lease with Petbarn.
- Smaller investments in two property unit trusts in New South Wales (totalling \$1.5 million), which are yielding approximately 10% a year, and a \$0.5m investment in a Western Australian property unit trust with a mandate to develop a 50.9 hectare commercial subdivision.

Gosh Capital has now replaced the revenue relating to the building lost by fire and previously rented at 10 Bennett Avenue. Accordingly, SFC forecasts a modest increase in profit for the first half of the 2015 financial year.

OUTLOOK

The Automotive Leather division has the largest impact on SFC's profitability. By its nature, it remains exposed to the direction of unpredictable foreign currency movements. Those movements have been volatile and impacted both positively and negatively in recent years. More general volatility and uncertainty in business environment and conditions continue to make forecasting difficult.



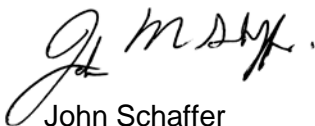
Schaffer Corporation Limited

Nonetheless, SFC anticipates that performance for the first half of the 2015 financial year will be significantly lower than the previous corresponding period, assuming that current foreign exchange rates will prevail. That forecast is driven by:

- A significant relative decrease in Automotive Leather's earnings due to the large abnormal stock profits realised in the first half of the 2014 financial year.
- A lower result for Building Materials. SFC expects profitability improvement for the division for the second half based on adjustments to cost structures and improvement in sales volumes.
- A reduction in Investment Property's result due to lower occupancy and expected leasing incentives.
- An increase in Gosh Capital profit, albeit from a low base, following the investment of capital during the 2014 financial year.

SFC is encouraged by the potential for further significant increases in volumes for Automotive Leather. SFC anticipates that growth to flow from the 2016 financial year onwards, based on awarded programs. Those programs include new supply to a major European car manufacturer. Automotive Leather is planning to increase production capacity, in both leather finishing and cutting, for the expected volume increase.

In conclusion, I would like to commend our long-serving management and our growing 1,100-strong workforce who have relentlessly applied themselves to the present challenges. We deliver the best quality products to our customers. We do it efficiently, with a focus on service and most importantly safety. Once again, appreciation goes to you, our shareholders, for your loyalty as we endeavour to maximise shareholder value through the efficient operation and growth of our businesses.



John Schaffer
Chairman