Schaffer Corporation Limited

SCHAFFER UNDERLYING HALF-YEAR PROFIT INCREASES 21%

22 February 2017

Dear Shareholder

Schaffer Corporation Limited (ASX: SFC) has today reported a 21% increase in underlying profit for the first half of the 2017 financial year. SFC also announced that it would maintain its interim dividend of $0.12 per share (fully franked).

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-16 (current)	**31-Dec-15 (pcp)**	**% change on pcp**
Revenue ($m)	**102.3**	103.8	(1%)
EBIT[1] ($m)	**5.7**	11.4	(51%)
NPAT* ($m)	**2.4**	6.7	(65%)
Earnings per share	**$0.17**	$0.48	(65%)
Ordinary dividends per share	**$0.12**	$0.12	-
Underlying Profit ($m)[2]	**3.0**	2.5	21%
Underlying EPS	**$0.21**	$0.18	21%

* Net Profit after tax and minority interests.
[1] EBIT excludes restructuring costs.
[2] Underlying Profit is NPAT excluding property sales and restructuring costs after tax.
Refer to most recent Investor Presentation for definitions of non-IFRS measures.

The improved underlying profit reflected improving profitability at Automotive Leather. During the half, the division began to deliver the benefits of the substantial investment made in its European operations. SFC expects the benefits to continue in this half and the 2018 financial year.

Underlying profit reflects ongoing operations and excludes non-recurring items. Unlike statutory profit, it excludes the effect of property sales. Statutory net profit after tax (NPAT) decreased $4.3 million from the prior period, which included a $4.2 million contribution NPAT from property sales.

During the half, SFC completed the transfer of most of its leather processing operations to Slovakia. This resulted in the direct shipping of hides to Slovakia for processing. This change dramatically decreased stock levels. The company has also eliminated additional raw materials necessary for the transition phase. Automotive Leather is now supporting a 64% increase in revenue from two years ago with the same level of stock value.

The effect of these changes is to reduce working capital requirements and in turn, generate cash and reduce net debt. Net debt fell by $11.5 million from 30 June 2016 to $46.7 million.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-16 (current)	**31-Dec-15 (pcp)**	**% change on pcp**
Revenue ($m)	**77.5**	71.4	9%
EBIT ($m)	**4.0**	2.3	74%

The Slovakian operations are accommodating volumes from 16 new program awards in prior years. Since coming online, the operations have delivered significant revenue and now profit growth. The division will further increase volumes and improve profitability as it drives efficiencies.

Head Office: 1305 Hay Street, West Perth WA 6005 **Postal Address**: PO Box 770, West Perth WA 6872
Telephone: +61 8 9483 1222 **Facsimile**: +61 8 9481 0439 **Website**: www.schaffer.com.au
Schaffer Corporation Limited **ABN** 73 008 675 689

In the half, revenue increased by 9%, resulting from increased volumes but offset by a strengthening of the AUD against the EUR.

Operationally, Automotive Leather benefitted from a 13% reduction in the average cost of hides in USD terms compared to the prior period. The new programs require greater investment in value-added processes, such as perforation and lamination, which increases unit costs. The Slovakian team continues to improve its skill set, leading to improved cutting yields and operational efficiencies.

The half year result was impacted by currency movements. Sales are primarily in EUR; hides are almost exclusively purchased in USD; reporting currency is AUD. The average AUD:EUR exchange rate for the period increased by 5% from 0.65 to 0.69. The average AUD:USD exchange rate decreased by 8% from 0.79 to 0.73.These changes meant AUD revenue was lower and AUD costs were higher than if exchange rates had been static.

SFC expects Automotive Leather's volumes to increase further in the current half with the commencement of several new programs in Europe. With further operational efficiency improvements, the division should achieve significant improvement in volumes, revenue and profit compared to the second half of the prior year.

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-16 (current)	**31-Dec-15 (pcp)**	**% change on pcp**
Revenue ($m)	**21.7**	28.4	(24%)
EBIT ($m)	**1.2**	2.4	(50%)

Building Materials had another challenging half year, particularly at Delta Corporation.

The Building Products business unit supplies paving and walling products to the residential and commercial building sectors. Stronger economic conditions and public sector spending in the Eastern States have led to increased revenue from commercial projects. Conditions in Western Australia continue to be very subdued. Management has implemented further cost reductions and production efficiency programs to help mitigate this weakness in the key Western Australian market.

Delta Corporation produces pre-cast and pre-stressed concrete products. The Western Australian market remains depressed in terms of work volumes. It is highly competitive with ongoing low margins. Delta remains focused on securing profitable work whilst managing its cost structure to meet market conditions. Delta's profitability, while low, did improve compared to the second half of the 2016 financial year. Whilst there are upcoming project opportunities, the competitive environment and the uncertain timing of future projects makes forecasting difficult.

Across the division, order banks are lower. However, the East Coast continues to show strength and commercial products are gaining momentum. Management will continue to focus on reducing costs, aligning the cost base to the current economic environment. SFC expects a decrease in Building Material's revenue and EBIT for the second half compared to the prior year.

PROPERTY

SFC's property portfolio, including the property interests of Gosh Capital, has an estimated current market value of $86.3 million. SFC recognises those assets in its accounts at (lower) depreciated book values. The market values are supported by ongoing, recent independent accredited valuations. The difference reflects unrealised gains of $48.7 million before tax ($34.1 million after tax).

Head Office: 1305 Hay Street, West Perth WA 6005 **Postal Address**: PO Box 770, West Perth WA 6872
Telephone: +61 8 9483 1222 **Facsimile**: +61 8 9481 0439 **Website**: www.schaffer.com.au
Schaffer Corporation Limited ABN 73 008 675 689

INVESTMENT PROPERTY

The Investment Property division comprises SFC's interests in syndicated property investments. EBIT (excluding property sales) decreased to $1.0 million (prior period: $1.3 million), following the sale of SFC's interest in the 616 St Kilda Road syndicate in December 2015 and the use of incentives to retain tenants. For the second half, SFC expects a modest decrease in profit compared to the prior year.

GOSH CAPITAL

SFC owns 83% of Gosh Capital. It continues to reinvest profits in a range of investments. At 31 December 2016, the market value of the asset portfolio was $27.3 million ($21.2 million net of debt).

Gosh Capital's 2.1-hectare site at North Coogee forms part of the Cockburn Coast area. The area is being converted into a high-density residential precinct. The majority land owner is the Western Australian Government-owned Landcorp. During the half, Landcorp continued to perform significant work on the properties and public spaces around Gosh Capital's site.

The site's zoning provides for approximately 175 units to be constructed. With the current subdued market conditions, SFC has delayed development of the site. There is no corporate imperative to bring forward development at a time when value will not be maximised.

Profits for this division are growing steadily. SFC forecasts a modest increase in profit (from a low base) for the second half of the 2017 financial year.

OUTLOOK

SFC's strategic focus and investment in the industry and geographic diversity of its operations continues to be borne out in times of varied economic circumstances.

Automotive Leather's performance and prospective further growth in volumes and profit is encouraging. Management is working to consolidate the recent material growth and position for further success.

Building Materials is experiencing a difficult period but its own internal diversification facilitated a divisional profit despite the cyclical economic downturn in Western Australia.

Assuming static foreign exchange rates, SFC anticipates that Group performance for the second half will be significantly higher than the previous corresponding period. That forecast is driven by:

- A significant increase in volume, revenue and profit for Automotive Leather
- A decrease in EBIT for Building Materials
- A modest decrease in EBIT for Investment Property
- A steady increase (from a low base) in the EBIT for Gosh Capital.

DIVIDENDS

On 17 March 2017, SFC will pay a fully franked interim ordinary dividend of $0.12 per share, which matches the previous corresponding period. The record date for the dividend is 10 March 2017.

John Schaffer
Chairman

Head Office: 1305 Hay Street, West Perth WA 6005 **Postal Address**: PO Box 770, West Perth WA 6872
Telephone: +61 8 9483 1222 **Facsimile**: +61 8 9481 0439 **Website**: www.schaffer.com.au
Schaffer Corporation Limited **ABN** 73 008 675 689