Schaffer Corporation Limited

SCHAFFER HALF-YEAR PROFIT $2.1 MILLION, MAINTAINS DIVIDEND

18 February 2015

Dear Shareholders

Schaffer Corporation Limited (ASX: SFC) has reported a net profit after tax (NPAT) of $2.1 million for the first half of the 2015 financial year (pcp: $4.9 million). SFC will maintain its interim dividend at $0.12 per share (fully franked), in line with the previous corresponding period (pcp).

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-14 (current)	**30-Jun-14**	**31-Dec-13 (pcp)**
Revenue ($m)	**75.7**	77.2	86.2
EBIT[1] ($m)	**4.5**	4.0	15.3
NPAT* ($m)	**2.1**	1.2	4.9
Earnings per share	**$0.15**	$0.09	$0.35
Ordinary dividends per share	**$0.12**	$0.13	$0.12

[1] Refer to most recent Annual Report for definitions of Non-IFRS measures.
* Net Profit after tax and minority interests.

AUTOMOTIVE LEATHER

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-14 (current)	**30-Jun-14**	**31-Dec-13 (pcp)**
Revenue ($m)	**47.1**	50.4	53.0
EBIT ($m)	**3.5**	4.1	11.1

The Automotive Leather division's revenue decreased by 11% to $47.1 million compared to previous corresponding period, and EBIT decreased to $3.5 million (pcp: $11.1 million). EBIT for the half-year to 31 December 2013 included an abnormal stock profit of more than $4 million, which is outlined in the relevant company announcements.

A further $2 million of the decrease in EBIT compared with the previous corresponding period is attributable to the weakening of the Euro and the strengthening of the US dollar against the Australian dollar. Automotive Leather purchases its raw materials in US dollars, which on a 6 month average basis has strengthened 3.5% against the Australian dollar (making those purchases more expensive) and more than 70% of sales are denominated in Euros, which has weakened 2.3% (decreasing revenue in Australian dollar terms).

Volumes decreased 7% over the immediately prior half year. However, a substantial upward trend is in progress. Various new model programs will commence in the second half, followed by new supply to Mercedes Benz in Europe during the next financial year. SFC forecasts that revenue and EBIT will be higher than the previous corresponding period, based on current foreign exchange rates.

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Schaffer Corporation Limited **ABN** 73 008 675 689

BUILDING MATERIALS

FINANCIAL PERFORMANCE SUMMARY	Financial Half-Year to		
	31-Dec-14 (current)	**30-Jun-14**	**31-Dec-13 (pcp)**
Revenue ($m)	**25.1**	22.2	29.7
EBIT ($m)	**0.6**	(0.8)	2.5

The Building Materials division's revenue decreased by 16% to $25.1 million compared to previous corresponding period, and EBIT decreased to $0.6 million (pcp: $2.5 million).

Delta Corporation produces pre-cast and pre-stressed concrete products. Its results were negatively impacted by declining activity in the resources sector. Decreased revenue was accompanied by lower margins due to increased competition. The result was an improvement on the second half of the previous financial year. However, scope for further improvement and cost reductions remains.

The Building Products business unit supplies paving and walling products to residential and commercial building sectors. The business unit achieved an improved result compared to the prior corresponding period, largely due to reduced production and overhead costs.

Order banks across the Building Materials division are at reasonable levels. The division will continue to focus on reducing costs. SFC anticipates revenue and EBIT for the second half to be higher than the previous corresponding period. Nonetheless, SFC remains cautious given the uncertainty of current industry trends.

INVESTMENT PROPERTY

The Investment Property division comprises SFC's interests in syndicated property investments. Revenue decreased by 8% to $3.1 million and EBIT decreased by 12% to $1.2 million. Occupancy was 94% of net lettable area compared to 100% for the majority of the previous corresponding period.

SFC anticipates that vacancies will remain constant and expects a similar result in the second half to the previous corresponding period.

GOSH CAPITAL

Gosh Capital is the Group's 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. It also will reinvest surplus funds to generate income. The conversion of the Cockburn Coast area to a high density residential precinct has enhanced the future development potential of the North Coogee site.

Gosh Capital's assets presently comprise:

- The land at 10 Bennett Avenue – 2.1 hectares zoned to be redeveloped for approximately 175 units.
- A bulky goods retail centre located at 39 Dixon Road, Rockingham, Western Australia. SFC purchased the centre for $7.75 million (at an 8.75% yield) and developed to add an additional tenancy. With a fully tenanted weighted average lease expiry of 6 years, the property is now valued at $10.1 million. The property is debt leveraged at 60%, non recourse to the Group.
- Smaller investments in three property unit trusts in New South Wales and South Australia (totalling $2.5 million). Those investments are yielding approximately 10% per annum.

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- A $0.5 million investment in a Western Australian property unit trust with a mandate to develop a 50.9 hectare commercial subdivision.

Profits for this division are growing steadily. SFC forecasts an increase in profit for the second half of the 2015 financial year (from a low base).

NET TANGIBLE ASSETS

At 31 December 2014, the Group's net tangible assets (NTA) at market value were $7.40 per share. That reflects an increase of $0.26 over the first half and compares with a closing share price of $5.40 at that date.

The Group's NTA at market value includes an estimated $52.6 million of unrealised property value before tax ($36.8 million after tax). The unrealised values are supported by ongoing and recent independent valuations. However, SFC carries those property assets in its accounts at depreciated book value.

OUTLOOK

The first half reflected the impact that currency movements can have on the Automotive Leather division's results, both positive and negative. This division has the largest impact on SFC's profitability and by its nature is exposed to foreign currency movements. Prior to the end of the financial year, the Automotive Leather division entered into Forward Exchange Contracts (FECs) to hedge against future currency movements. Almost 40% of annual estimated exposure has been hedged. The hedged exposure should increase to 50% by the end of the financial year. The aim is to reduce earnings volatility caused by currency movements.

For the second half, SFC anticipates that Group performance will be higher than the previous corresponding period, assuming prevailing foreign exchange rates are maintained. That forecast is driven by:

- An increase in Automotive Leather EBIT due to increasing volumes from new programs.
- An increased EBIT for Building Materials from healthy order banks and reduced cost structures.
- A similar EBIT for Investment Property (excluding property sales).
- A steady increase in the EBIT for Gosh Capital (from a low base).

For the full year, SFC anticipates statutory NPAT will be lower than the 2014 financial year due to the significant decrease in first half profits from Automotive Leather.

Looking further forward, SFC has very positive expectations of profit growth. SFC expects at least 50% volume growth from awarded Automotive Leather programs over the next three years. A large proportion of that growth will come in the 2016 financial year. Volume increases to awarded programs from existing customers will be further supplemented by the new Mercedes Benz supply.

NEW SLOVAKIAN FACILITIES

A major initiative for Automotive Leather is the establishment of new finishing and cutting facilities in Kosicé, Slovakia. Those facilities will increase supply capacity and enhance the division's European presence.

The European finishing operations will enable SFC to move semi-processed raw material directly from South America to Europe. The effect will be to almost halve Automotive Leather's average stock holding for European supply (currently 7.5 months). The decreased stock holding will significantly decrease working capital requirements. That decrease will largely offset the working capital needed to fund such a significant increase in volumes. The direct shipping will also result in duty and freight savings. The costs will also be in Euros, providing a natural partial hedge to Euro-denominated revenues.

Construction has commenced in Kosicé on the new 15,000 square metre facility. It is expected to be operational towards the end of the 2015 calendar year. Automotive Leather is placing orders for plant and equipment, which we intend to finance through a leasing facility. Automotive Leather has also arranged an increased working capital facility to assist with the funding of the division's growth and the commissioning of this new facility.

DIVIDENDS

On 20 March 2015, SFC will pay a fully-franked interim ordinary dividend of $0.12 per share, which is the same as the previous corresponding period. The record date for the interim dividend is 13 March 2015.

John Schaffer
Chairman

18 February 2015