CHAIRMAN'S ADDRESS TO THE 2012 ANNUAL GENERAL MEETING

Good morning, ladies and gentlemen

My fellow Directors and I have great pleasure in welcoming you to Schaffer Corporation's 2012 and 58th Annual General Meeting.

I said last year at this Meeting that the 2011 financial year was, in a word, 'challenging'. It will come as little surprise to you that we feel very similarly about the 2012 financial year. There was a continuation of economic uncertainty, tight bank credit and low commercial and consumer spending. It was imperative that we continued to analyse and adjust our divisional business strategies to ensure the best results possible for our shareholders in the prevailing circumstances.

The diversification of our business across geography and distinct markets mitigates risk and provides opportunity. This was again evident in 2012, where the Automotive Leather and Building Materials divisions achieved profit improvement but Property recorded a reduction in profit due to reduced property sales.

At the Group level, the line results were:
- An 11% percent increase in revenue to $152.6 million
- A 22% increase in earnings before interest and tax (EBIT) to $14.9 million
- A 56% increase in net profit after tax (NPAT) to $7.5 million
- A 162% increase in underlying profit to $6.4 million, and
- An increase in earnings per share from $0.34 to $0.53 per share.

Whilst the strong improvement in NPAT was welcome, the more striking result was the much-improved underlying profit. That underlying profit is more reflective of the repeatable profit in the group, as it removes the effects of 'one off' items.

Our key internal measure in assessing Group performance is Return on Average Capital Employed (ROCE). ROCE reflects the efficiency of the use to which the Company applies capital in generating profit. The improvement in profitability saw ROCE increase from 11% to 14%.

Capital management is another of this Company's key focuses. We continued our conservative and prudent approach as a defence to the lingering economic volatility. With diligent working capital management in the 2012 financial year, operating cash flow strongly improved. The free cash flow was applied to further reducing net debt and leverage. Those reductions marry with conservative levels of capital expenditure and dividends to provide Schaffer Corporation with increased financial capacity and flexibility.

The Board's dividend policy remains to pay out a majority of earnings as dividends whenever prudent. In setting dividends for the year, the Board noted the ongoing uncertainty of prevailing economic conditions. Accordingly, the Board declared and paid conservative dividends of $0.21, which represents a payout ratio of 39%. That ratio is the lowest it has been for some years and reflects the environment in Australia and globally.

We are now nearly 5 months into the 2013 financial year and the outlook is no less challenging.

Building Materials is benefiting from an increase in resources and civil infrastructure projects in Western Australia. However, there is significant conjecture as to the quantum and duration of investment into such projects. The residential housing markets remain subdued; global political and economic uncertainty continues to impact Automotive Leather.

Your Board and management maintain close attention on those factors that we can control – the levers that we have put in place and can push and pull – to ensure our businesses respond most effectively to the difficult conditions.

I will now review each of our divisions in greater detail.

Automotive Leather

Schaffer Corporation owns 83% of the Howe Automotive Group (Howe). From its finishing facility at Thomastown, north of Melbourne, Howe exports virtually all of its whole finished hides to Europe and China. In those markets, Howe operates leather-cutting plants that supply into the production programs of major automobile manufacturers. The cutting plants are strategically located to be close to their customers and to help service the major global growth markets in automobile sales.

As I noted last year, during 2011, Howe closed its Juarez, Mexico cutting plant. That plant and its employees were subject to increasing local violence, which was unacceptable to both Howe's and Schaffer Corporation's corporate values. The plant supplied the North American automotive market, which had witnessed both declining sales volumes and pricing.

Despite the Juarez plant closure, Howe achieved a 13% increase in revenue for the 2012 financial year. The volume of cut leather supplied into Europe and China increased by a combined 27%. Howe's EBIT more than doubled to $7.4 million.

Howe is an exporter that earns almost all of its revenues in foreign currencies. As a result, global economic conditions and exchange rate movements against its Australian dollar reporting currency do significantly impact Howe. Raw material inputs – hides and chemicals – are mostly purchased in US dollars; the majority of sales are in Euros but those in US dollars receive a partial natural hedge from the raw material costs. Over the year, the Australian dollar declined about 5% against the US dollar and appreciated about 9% against the Euro. What that means is that those currency movements had a net negative effect on Howe's profitability.

Exchange rates are out of our control. What Howe does control is a complete focus on its core business strategy of being a high quality, low cost global producer. We have made and continue to make investments in technologies to improve cost efficiency. We continuously evolve our hide sourcing to ensure Howe sources the best quality raw materials at the lowest cost and converts them into finished hides at the most efficient cost.

Building Materials

The Building Materials division comprises Delta Corporation and Building Products.

The pre-stressed and pre-cast concrete manufacturer Delta Corporation drove a 9% increase in divisional revenue and an improvement in margin. Building Products had a subdued result that was similar to the prior year and impacted by the lingering tough market conditions.

Delta Corporation benefited from increased investment into resources and civil infrastructure projects in Western Australia. It also performed well in the architectural precast market, including the completion of the high profile Fiona Stanley Hospital Project and the Curtin University Engineering Building.

Building Products comprises UrbanStone, Urbanstone Central, Archistone (including Archistone Masonry products), Limestone Resources, Imported Stone products and Lumeah. As in 2011, it had a very subdued year. Low commercial and residential building activity is the key factor. This has vigorously stimulated competition, as suppliers try to achieve their share of the reduced market.

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Building Products continues to adjust the products being offered to target market opportunities. For example, the introduction of Archistone Masonry Block products has made good inroads and Building Products aims to achieve further penetration with additional new products.

Property

EBIT for the Property division decreased by 37%, an outcome that resulted from the reduction in EBIT from property sales compared with the previous year. Those previous sales reduced the inventory of rented investment properties. However, the underlying rental income decreased by only 4% as vacancies decreased and rents increased for the remaining properties.

The 2011 result was increased by $4.3 million for the sale of Schaffer Corporation's interest in the syndicated joint venture property at 89 St Georges Terrace, Perth and a property at 1500 Albany Highway, Cannington. In contrast, during the 2012 financial year, Schaffer Corporation disposed of its interest in a syndicate property at Vulcan Road, Canning Vale, Western Australia generating profit of $0.4 million.

The fire that destroyed our property at 10 Bennett Avenue, North Coogee is the subject of an ongoing insurance claim. Until 2006, that property housed our previous Gosh Leather business. Since 2008, it has been leased to a materials recovery facility. During the year, we received interim proceeds net of costs of $1.3 million from the claim. The balance of the claim is still under negotiation.

Asset Backing

Schaffer Corporation maintains its conservative accounting policy of historical cost less accumulated depreciation in valuing the property portfolio. We estimate – backed by qualified independent valuations – that there are approximately $33.7 million of post tax unrealised gains on property that are not reflected in those book values. At 30 June 2012, the addition of those unrealised gains increases Group Net Tangible Assets to $6.24 per share compared to the book value of $3.84 per share.

Cash and Net Debt

In uncertain economic times such as we are experiencing, the Board believes that financial prudence includes reducing the Group's net debt. In 2012, the Group generated surplus operating cash flow of $15.0 million, which we largely applied to reduce net debt by $12.2 million. This reduction followed a $9.9 million reduction in 2011. At 30 June 2012, Group net debt stood at $39.3 million.

Schaffer Corporation's recourse debt (encompassing Building Materials and Corporate) was just $1.4 million at 30 June. Where we incorporate the market valuations of properties that we own and operate, that represents a leverage ratio (which we define as net debt to net debt plus equity) of only 2%.

The Group has 3 distinct debt pools. At 30 June 2012, they were:

Debt Pool	Net Debt	Measure (based on market values)	Debt Security
Building Materials and Corporate	$1.4m	Leverage Ratio – 2%	Recourse to Schaffer Corporation
Syndicated Investment Property	$22.0m	Loan to Valuation Ratio – 53%	17% of debt recourse to Schaffer Corporation
Automotive Leather	$15.9m	Leverage Ratio – 38%	Debt non-recourse to assets of other divisions
Total	**$39.3m**		

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OUTLOOK

For the many Shareholders who join us each year, I'm sure what I am about to say will sound remarkably familiar: that the volatility and uncertainty of economic conditions in Australia and around the world continue to make forecasting difficult.

We are all aware of the long-standing issues in Europe and the United States. They are now joined by:

- The possibility of a slowdown in China.
- Heightened tensions between Japan and China, which are affecting automotive manufacturing in the region.
- Continuing uncertainty as to the duration and extent of the 'mining boom' within Australia.

On the currency side, for the first 4 months of this financial year, the Australian dollar-Euro exchange rate has fluctuated between a low of 0.78 Euro cents to a high of 0.86 Euro cents. This has material effect on our profitability.

Amongst all this uncertainty, we do see positive signs in the outlook for Schaffer Corporation.

Building Materials' order banks are healthy and will hold us in good stead for the current year. Based on awarded programs, we expect volumes for Automotive Leather to increase towards the end of 2013 and into 2014. We expect the property portfolio to continue to be close to fully tenanted.

I will now address our expectations for how the first half of the 2013 financial year will unfold.

Automotive Leather

Before the year began and based on awarded programs, Howe expected its volumes for the first half to be materially lower than the prior corresponding period. Tensions between China and Japan over disputed islands in the East China Sea are impacting automobile manufacturing in the region. That has contributed to a further drop in first half volumes. The strength of the Australian dollar is materially decreasing reported revenue compared with the prior period. Automotive Leather will report a materially lower first half profit.

We anticipate an increase in volumes and revenue increase in the second half and into the 2014 financial year, as new models for which we are the approved supplier ramp up. Those increases do depend on the resolution of the current political issues in Asia and the movements in the Australian dollar.

Building Materials

As the 2013 financial year commenced, Building Materials' order banks were very healthy. It is pleasing to report that this remains the case and is being principally driven by the momentum in resource industry and civil infrastructure projects that started during in the 2011 financial year.

Delta Corporation's order book is strong and we expect first half production levels to be higher than prior year.

Conversely, suppressed activity in the residential and commercial building sectors continues. We anticipate Building Products' first half result to be in line with last year. The business is targeting an improvement in volumes and revenue in the second half backed by further product developments. With its complimentary product range development, the business remains well positioned to benefit from an upturn in the market.

At the divisional level, we expect Building Materials to record a materially improved profit result for the first half compared to the prior year.

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Property

We anticipate that first half earnings from Property will be lower than in the prior year, excluding any impact from the settlement of the fire damage claim at North Coogee.

Net rental income should be higher than prior year due to reduced vacancies and increased rents. However, the first half of the prior year included profit before tax of $0.4 million from the sale of the property located at Vulcan Road, Canning Vale. We do not expect any property sales in this half.

Share Buy-Back

As part of the Company's capital management, Schaffer Corporation has extended the current on-market share buy-back for a maximum of 700,000 shares (approximately 5% of issued capital) for a further twelve months to 1 November 2013. Up to yesterday, 60,599 shares have been acquired at an average cost of $3.46 per share.

Dividends

During January 2013, the Board will consider the interim dividend after reviewing the preliminary half-year results and the anticipated conditions for the second half. At present, the Board expects to declare and pay a fully franked dividend of at least $0.11 per share, which is a 10% increase on the dividend for the same period last year.

Summary

Your Board expects yet another challenging year ahead. We believe the strategic positioning of our businesses and the diversified nature of the Group will enable Schaffer Corporation to continue to maximise profits within the current set of economic circumstances.

Overall, due to the reduced Automotive Leather division forecast, offset partially by an improvement for Building Materials, we anticipate a reduction in earnings for the first half over the prior year (excluding the possible effect of a final settlement on the fire damages claim for North Coogee).

Given the volatility and uncertainty, it would be imprudent to forecast at present for the full year. The Board will provide an update on the full year outlook in February, when Schaffer Corporation releases its first half results.

On behalf of the Board, I thank all our employees, including our stable and long-serving management team, for their dedication and effort in addressing the numerous challenges faced over the past year.

Finally, I would like to thank Shareholders for your ongoing backing. It is because of your loyalty, and that of our employees, that our business can address the challenging environment in the best way to achieve the most profitable outcome and create value for our shareholders.

I trust that I will see you all again at next year's Annual General Meeting.

John Schaffer
Chairman

15 November 2012

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