CHAIRMAN'S ADDRESS TO THE 55th ANNUAL GENERAL MEETING

Good morning, ladies and gentlemen.

On behalf of my fellow Directors, it is my pleasure to welcome you to Schaffer Corporation's 2009 Annual General Meeting and to thank you for joining us.

I would like to take this opportunity to not only review the 2009 financial year but also to explain how Schaffer Corporation is responding to the present challenges and the impact these challenges will have on the Company's performance during the current financial year.

Schaffer Corporation operates businesses in three diverse industries: Building Materials; Automotive Leather; and Property. As in previous years, conditions in these industries differed and had both positive and negative effects on your Company's financial performance for the 2009 financial year. The net outcome was a slight decrease in net profit after tax to $10.5 million (down 4%) with revenue 13% lower at $169 million. Considering the dramatic impact of the Global Financial Crisis combined with the fact that Schaffer Corporation made no material property sales during the year, your Board considers the financial results for 2009 were satisfactory, and better than initially anticipated.

Earnings per share decreased to 74.1¢ from 77.3¢ and return on average capital employed, which Schaffer Corporation regards as a key measure of our financial performance, also decreased marginally to 16% from 17% during the 2009 financial year.

Schaffer Corporation's policy continues to be to pay out a majority of earnings as dividends whenever prudent. However in light of the impact of the GFC and tightening credit markets, the Board considered it appropriate to slightly reduce the final dividend for 2009. Consequently dividends totalling 45¢ per share (fully franked) were paid for the 2009 financial year (2008 50¢ per share), representing a dividend payout ratio of almost 61%.

I will now briefly take you through the performance of each division and, in particular, explain some of the key strategies we have adopted to manage the risks and opportunities associated with each division.

Automotive Leather

Howe Automotive Ltd is an export business. It sends more than 95% of its product to Asia, Europe and North America, where we operate leather cutting plants.

Changes in the exchange rate between the Australian dollar and the US dollar, Euro and Renminbi, (the currency of mainland China), have a significant effect on Howe's performance. As all of you are likely aware, during the 2009 financial year the Australian dollar experienced unprecedented volatility, particularly against the US Dollar. The spot exchanges rates varied from a high of 96¢ US to the AUD in early July 2008, to a low of around 63¢ in early March 2009, and then rebounded again to end the year at around 80¢. Added to this currency volatility we saw a material decline in global automobile sales. Yet despite all this Howe performed extremely well, increasing EBIT by 8% to $9.6 million, while revenue declined by 19% to $96.6 million, as a result of a material reduction in the volume of automotive leather sold.

As a result of the earlier investments made towards improving operational flexibility, the Automotive Leather business has been able to quickly respond to the changing demand conditions at both its finishing plant in Melbourne and its international cutting plants in Mexico, Slovakia and China. Howe was consequently able to trade profitably, despite the very difficult and volatile market conditions experienced by the global automotive industry.

Building Materials

The Building Materials division recorded mixed performance for the 2009 financial year.

Delta Corporation – the pre-stressed and pre-cast concrete manufacturing business – had yet another outstanding year. Delta achieved record revenue, with several major projects including the new Perth-Bunbury Highway project and two major office development projects in the Perth CBD (Bishop's See and Century City), and work for the Woodside Pluto LNG project. The doubling of capacity at the Herne Hill facility has been a key driver of revenue growth for Delta over the past three years. It has facilitated Delta bidding on and winning larger jobs that require stockpiling of product and large areas of storage.

The Building Products segment of the Building Materials Division, comprises Urbanstone, Urbanstone Central, Archistone, Limestone Resources, Lumeah and an imported range of stone products. Profitability was affected by the slowdown in residential housing and subdivision work across the country and particularly in WA, resulting in disappointing sales of quarry cut natural limestone and reconstituted limestone blocks. Nevertheless over the past three financial years the Building Products segment of our Building Materials Division, has increased revenue significantly via strategic acquisitions and strong organic growth. The segment now incorporates a vertically integrated manufacturing and retailing business offering a broad range of premium paving and walling products through a national retail and distribution network. During the last quarter of the 2009 financial year the underlying financial performance of the Building Products segment improved significantly, and this trend has continued through the first quarter of the current financial year.

Property

EBIT from the Property division fell by 46% to $3.6 million in 2009, due to the lack of property sales. Last year's EBIT included a $4.2 million profit on the sale of an investment property in Melbourne, and land sales at the Mindarie Keys Marina residential development. Underlying rental income from investment properties actually increased by 50% in 2009, from the flow–on effect of rent reviews negotiated in 2007 and 2008.

As we have highlighted in the past Schaffer Corporation adopts a conservative accounting policy for valuing its property portfolio. The carrying value of all property investments are reflected at historical cost less accumulated depreciation. The alternative 'mark to market' approach has the potential to distort reported profits due to periodic "non-cash" revaluation or impairment adjustments. The Board believes that the negative market sentiment and substantial losses incurred elsewhere in the listed property sector bears out the wisdom of our approach. All of our rental property investments continue to generate strong positive cash flow, and there were no material asset impairment charges in relation to property investments during 2009.

Subsequent to the financial year end, Schaffer Corporation entered into sale and leaseback contracts over two of the smaller Urbanstone Central retail properties in WA. The profit on these sales will not be material in the current financial year, and the net proceeds have been used to reduce bank debt.

OUTLOOK

There are some early encouraging signs of a recovery in global markets. Australia appears to have largely avoided the effects of a severe recession, nevertheless the economic outlook generally is still very uncertain. It appears likely that many of the markets in which Schaffer competes will remain volatile for some time to come. However as we are now well into the first half of the 2010 financial year I will outline how your Board expects the first half to unfold for each division.

Automotive Leather

I mentioned earlier that Howe Automotive exports 95% of its product, and imports the majority of its manufacturing inputs. Consequently the company has an ongoing exposure to fluctuations in exchange rates. The AUD has appreciated strongly against the USD and to a lesser extent the EUR since March this year, which has had a negative impact on Howe's financial performance. We do have a currency hedging strategy in place. However because of the material time differences between placing purchase orders for raw materials, and when we receive sales orders in various currencies, hedging is only ever going to cover a portion of our overall foreign exchange currency risk.

During the first half of the current financial year, the volume of leather sold is currently expected to be approximately 20% higher than the corresponding period last year. Overall the higher sales volumes are not expected to offset the impact of less favourable exchange rates, and therefore EBIT in the first half of 2010 is likely to be lower than during the first half of 2009. When we released our 2009 results in August our outlook statement on automotive leather forecast an improvement in EBIT performance in the first half of 2010 compared to the corresponding period. However this was subject to a caveat on relatively stable exchange rates. Unfortunately this has not been the case as the AUD has continued to appreciate strongly against our major trading currencies since June. Several leading economists are forecasting a further strengthening of the AUD particularly against the USD. If correct these predictions would have a negative impact on the Automotive Leather division's earnings in the second half of this financial year.

Building Materials

As highlighted in our outlook statement in August, activity levels at Delta Corporation are expected to be substantially lower in the first half of 2010 due to the completion of several major projects. Consequently Delta's EBIT contribution in the first half will be materially lower than last year. The lead time between submitting tenders and commencing manufacturing operations on major projects, assuming our tenders are successful, often extends over several months. This "lag" between major projects combined with the impact of a tight credit market for financing new commercial construction projects, will adversely affect Delta's earnings in 2010.

In contrast the financial performance of the Building Products segment during the first half is expected to be substantially better than last year. The benefit of our efforts to 'right size' the segment and integrate and rationalise manufacturing facilities are starting to pay dividends, and margins have improved. We will soon commence construction of a new Urbanstone Central retail store in Perth's northern suburbs.

Overall EBIT for Building Materials in the first half is likely to be slightly lower than the previous corresponding period, with the improvements in Building Products only partially offsetting the financial impact of reduced activity at Delta.

Property

EBIT from the property division for the first half is expected to be higher than last year due to rent increases negotiated in the second half of 2008. To date none of our property investments have experienced any material increase in vacancy rates or lease defaults, although in difficult economic times these risks are greater. There are unlikely to be any material property sales recorded in the first half of 2010.

Interest Expense & Net Debt

The group net interest expense is expected to be materially lower during the first half compared to the corresponding prior period, due to a substantial reduction in the group net debt position. From a peak in January 2009, group net debt at the end of October has decreased by 28% through active management of working capital, which has lead to a substantial reduction in inventory, and supplemented by some property sales.

Dividends

Currently the board anticipates maintaining the interim dividend for 2010 at 20c per share fully franked, in line with the final dividend paid for 2009.

Summary

In summary, we are expecting our results for this half to be similar to the comparative period last year. The current economic climate remains too volatile to be too precise about the likely outcome for the second half of this financial year, although at this point in time, we expect that it will be difficult to match the result achieved in the second half of the 2009. Of course a reversal of recent trends in exchange rates and an increase in commercial construction activity would, if they happened, change the equation substantially. We will provide a further update on the outlook for the full 2010 financial year in February next year when we release our first half results.

Your Board and management remain committed to protecting the long-term interests of shareholders and to continuing to grow our manufacturing businesses. Schaffer Corporation has navigated both prosperous and troubled times for well over fifty years now. We intend to maintain that legacy in the years ahead, and we are well positioned to do so.

Yours sincerely

John Schaffer
Chairman

18 November 2009