



CHAIRMAN'S ADDRESS TO THE 54th 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 2008 Annual General Meeting and to thank you for joining us.

For many of you who attend this meeting each year, my address today will be somewhat longer than in recent years. As you can imagine, the ongoing financial crisis and its impact on the Australian economy and the sectors in which Schaffer Corporation operates has occupied our minds substantially in recent months. I would like to take this opportunity to not only review the 2008 financial year but also to explain how Schaffer Corporation is responding to the present difficulties and the likely impact 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 the industries differed and had both positive and negative impacts on your Company's financial performance for the 2008 financial year. The net outcome was a 6% improvement in net profit after tax to \$10.9 million with revenue 32% higher at \$196 million.

Earnings per Share improved to 77.3¢ and return on average capital employed, which Schaffer Corporation regards as a key measure of our performance, increased to 18% from 17% in the 2007 financial year.

Schaffer Corporation's policy continues to be to pay out a majority of earnings as dividends, whenever prudent. In line with this policy, the Company paid dividends totalling 50¢ per share (fully franked) for the 2008 financial year, or about two-thirds of after-tax profits.

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 is an export business. It sends more than 95% of its product to Asia, Europe and North America.

Changes in the exchange rate between the Australian dollar and the US dollar, Euro and Renminbi, respectively, have a significant effect on Howe's performance. For those of you who may not be aware, the Renminbi – also known as the Yuan – is the currency of mainland China.

As all of you are likely aware, the Australian dollar has fallen dramatically in recent months against both the US dollar and Euro. However, over the 2008 financial year, the Australian dollar actually appreciated against both currencies.

Schaffer Corporation manages Howe's currency risk by entering into hedging arrangements for a proportion of our net exposure to the US dollar and the Euro. In the 2008 financial year, this hedging strategy resulted in a net gain of \$1.4 million on foreign exchange contracts.

Despite the earnings impact of a strong Australian dollar, Howe performed extremely well, increasing EBIT by 49%.

The implementation in recent years of two key strategic initiatives have been critical to Howe's success.

Firstly, as I have highlighted in recent years, Howe has repositioned its business and reset its cost base by relocating its labour-intensive operations offshore. As a result, Howe is a globally competitive low cost producer of quality automotive leather.

Secondly, Howe has increased its sales to Asia, primarily China, and decreased its exposure to the North American market, which continues to experience extremely difficult conditions. In the 2008 financial year, sales to Asian customers increased by 228% whilst to North American customers the increase was 15%.

Building Materials

Building Materials' constituent businesses recorded varying performance for the 2008 financial year.

Delta Corporation – the pre-stressed and pre-cast concrete manufacturing business – had an 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).

The Building Products segment of our Building Material Division, comprising Urbanstone, Urbanstone Central, Archistone, Limestone Resources and an Imported Range, achieved a 19% increase in revenue, partially as a result of the inclusion of Archistone from July 2007.

However, Building Products' profitability was negatively impacted by several factors. Integration costs following the acquisition of Archistone and Limestone Resources (acquired in July 2006) and rebranding costs for our national network of retail outlets under the Urbanstone Central brand were material. In the second half of the year, a slowdown in residential housing and subdivision work in Western Australia resulted in disappointing sales of quarry cut natural limestone and reconstituted limestone blocks.

In recent years, Schaffer Corporation has invested nearly \$35 million in Building Materials. That capital has consisted largely of the two acquisitions, the purchase of additional retail properties and facilities upgrades and new manufacturing equipment at Delta and Urbanstone.

The doubling of capacity at the Herne Hill facility has been a key driver of revenue growth for Delta over the past three years. Delta now has approximately 20 acres of production buildings and storage yards at Herne Hill, which makes it one of Australia's largest pre-cast and pre-stressed yards.

The upgraded capacity has had a two-fold effect. It has facilitated Delta bidding on and winning larger jobs that require stockpiling of product and large areas of storage. It has also enabled Delta to take on a larger overall number of projects. With a strong order book, Delta is positioned for another successful year in 2009.

In the past two financial years, the Building Products segment of our Building Materials division has increased revenue significantly via strategic acquisitions and strong organic growth. The segment is now a well-established, vertically integrated manufacturing and retailing business offering a broad range of premium paving and walling products through a national retail network.

In the 2009 financial year, Building Products will substantially complete integration of its recent acquisitions and the rationalisation of its manufacturing facilities, resulting in both an enhanced product offering and stronger distribution model.

Property

During the 2008 financial year, Western Australia experienced a severe shortage of commercial rental property. In line with this shortage, Schaffer Corporation's property portfolio appreciated substantially in value. The portfolio, consisting of both investment properties and Building Materials' retail and

manufacturing properties, has a gross value of more than \$118 million. Those assets are carried in Schaffer Corporation's balance sheets at a value of \$42 million.

During the financial year, net rental income increased as new leases with higher rates commenced.

The Mindarie Keys marina residential development (Schaffer Corporation: 15%) achieved excellent sales results. This development is now largely complete, with only a handful of lots still to be sold.

Schaffer Corporation held a 9% equity interest in a commercial property in Melbourne that was also sold during the financial year. This stake realised a substantial capital gain.

I noted previously that the market value of our property portfolio is far higher than the book value or depreciated cost of those assets. Schaffer Corporation maintains a conservative accounting policy for its portfolio. As a result, the substantial increase in portfolio's market value during the financial year was not brought to account. The Board believes this policy remains appropriate. The alternative 'mark to market' approach has the potential to distort reported profits where property investments are sold. There would also be substantial costs associated with obtaining regular valuations for the entire portfolio.

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. With an approximate \$76 million difference between book and market values, Schaffer Corporation is very unlikely to experience a write down in the value of its property portfolio.

OUTLOOK

We are all acutely aware of the ongoing turmoil in world financial markets and the impact that is now being felt by businesses and individuals alike. This is arguably the most uncertain economic period witnessed by Schaffer Corporation since its foundation in 1955. The operational and bottom line impact on the Company is consequently very difficult to predict.

We are now well into the first half of the 2009 financial year and I will outline how Schaffer Corporation expects the first half to unfold for each division.

Automotive Leather

I mentioned earlier that Howe exports 95% of its product. It also imports the majority of its manufacturing inputs. This results in ongoing exposure to changes in exchange rates.

The recent and rapid depreciation of the Australian dollar, in isolation, will positively impact Howe's financial performance.

In the short term, outstanding net foreign currency US dollar liabilities are only partially offset by net assets in other foreign currencies. International Accounting Standards, with which all Australian listed companies must comply, require Schaffer Corporation to 'mark to market' net foreign currency liabilities on a monthly basis. Consequently, in the first four months of the year, Howe has recorded large foreign currency losses. Those losses have more than offset the underlying improvement in margins due to the depreciation of the Australian dollar.

Should the Australian dollar stabilize at or near recent exchange rates, the 'mark to market' losses will cease while the underlying improvement in margin will be maintained. In the longer term, Howe is much more competitive at these lower exchange rates.

Global events are also impacting volume. Actual sales volumes to date have been below Howe's expectations. The outlook for global vehicle sales is not strong for the balance of the financial year.

If the Australian dollar does not appreciate sharply, EBIT for the first half is likely to be substantially lower than in the previous corresponding period, largely as a result of the 'mark to market' losses. However, if exchange rates stabilise, EBIT in the second half will potentially be substantially higher.

Building Materials

Some of Delta's contracts extend for a year or more. As a result, Delta has not yet been impacted by the financial crisis. Obviously, the challenge will be for Delta to secure new contracts as existing contracts are completed. Delta's project pipeline for the remainder of the financial year is strong but may be affected by the availability of project financing for Government infrastructure developments, mining infrastructure and new construction.

Building Products has improved its sales and market penetration, particularly in Western Australia, as result of the successful introduction of the Urbanstone Central range of stores and the better integration and marketing of a diverse range of paving and walling products. Schaffer Corporation continues to 'right size' the division and integrate and rationalise manufacturing facilities. These measures should improve profitability going forward. However, a material improvement in profitability is likely to be linked to a recovery in new home starts, renovations and a general return of confidence in the residential and commercial property market.

EBIT for Building Materials in the first half is likely to be largely in line with the previous corresponding period.

Property

Ongoing rent reviews are likely to increase net rental income. The portfolio's investment properties are virtually fully leased with no expectation of vacancy rates to change materially in the short term. Recent and possible further cuts in official interest rates – as most economists are predicting – are likely to lower average borrowing costs, positively impacting earnings in Property.

Nonetheless, lower sales from Mindarie Keys (as it is almost completed) and the absence of sales from the portfolio are likely to result in lower EBIT for the first half, as compared with the previous period.

Dividends

The Board anticipates declaring an unchanged interim ordinary dividend of 25¢ per share fully franked, payable in March 2009.

In these difficult and highly uncertain times, the ongoing loyalty and support of Schaffer Corporation's shareholders is greatly appreciated by your Board and management. We also greatly appreciate the dedication and hard work of all our employees.

Your Board and management remain committed to protecting the long-term interests of shareholders and to continuing to grow this remarkable business. Schaffer Corporation has navigated both prosperous and troubled times for more than fifty years now. We intend to maintain that legacy for the years ahead.

Yours sincerely



John Schaffer
Chairman

19 November 2008