

**ADDRESS BY THE CHAIRMAN ELECT OF THE REMUNERATION & NOMINATION
COMMITTEE SIGMA PHARMACEUTICALS LTD
MR DAVID BAYES
AT THE SIGMA ANNUAL GENERAL MEETING IN MELBOURNE
ON 21 JUNE 2010**

THANK YOU BRIAN

GOOD MORNING LADIES AND GENTLEMEN

THE CORPORATIONS ACT REQUIRES THE PREPARATION OF THE REMUNERATION REPORT AND FOR SHAREHOLDERS TO HAVE A NON-BINDING VOTE ON THE REPORT. I REFER YOU TO ITEM 3 IN YOUR NOTICE OF MEETING IN THIS REGARD.

AS THE CHAIRPERSON ELECT OF SIGMA'S REMUNERATION COMMITTEE, I FELT IT MIGHT BE BENEFICIAL TO BRIEFLY OUTLINE THE MAIN FEATURES OF SIGMA'S REMUNERATION STRATEGY AND OUTCOMES.

THE KEY OUTCOMES FROM THE REMUNERATION AND NOMINATIONS COMMITTEE MEETINGS FOR THE 2009/10 FINANCIAL YEAR ARE AS FOLLOWS:

- OUR CEO RECEIVED TOTAL REMUNERATION PAYMENTS OF \$1,018,228 DURING THE 2009/10 FINANCIAL YEAR
- NO SHORT TERM INCENTIVES WERE PAID TO THE CEO OR OUR EXECUTIVES UNDER THE SIGMA STI (SHORT TERM INCENTIVE PLAN) FOR THE 2009 AND 2010 FINANCIAL YEARS
- RIGHTS ARISING UNDER THE 2004 LTI (LONG TERM INCENTIVE PLAN) FOR THE CEO AND THE 2006 LONG TERM INCENTIVE PLAN FOR THE CEO AND EXECUTIVES HAVE LAPSED
- RIGHTS ARISING UNDER THE 2007, 2008 AND 2009 LONG TERM INCENTIVE PLANS FOR THE CEO AND EXECUTIVES HAVE NOT SATISFIED THE PERFORMANCE CRITERIA TO PERMIT PAYMENT DURING THE 2009/10 FINANCIAL YEAR, SO NO PAYMENTS HAVE BEEN MADE.
- THE CEO AND EXECUTIVE REMUNERATION REVIEW INCREASES WERE CONSISTENT WITH THE RATE OF INFLATION FOR THE 2009/10 FINANCIAL YEAR
- NON-EXECUTIVE DIRECTOR FEES WERE NOT INCREASED DURING THE 2008/9 OR 2009/10 FINANCIAL YEARS

- THE AGGREGATE FEES MAXIMUM LIMIT FOR THE NON-EXECUTIVE DIRECTOR FEE POOL HAS NOT BEEN INCREASED SINCE THE 2007 ANNUAL GENERAL MEETING, AND NO INCREASES TO THE AGGREGATE FEE POOL ARE SOUGHT AT TODAY'S ANNUAL GENERAL MEETING

MOVING NOW TO SOME OF THE DETAIL.....

AT THE EXECUTIVE LEVEL, THE REMUNERATION FRAMEWORK IS DESIGNED TO ALIGN EXECUTIVE REMUNERATION WITH:

- ACHIEVEMENT OF STRATEGIC COMPANY OBJECTIVES;
- PERSONAL PERFORMANCE, AND;
- CREATION OF VALUE FOR SHAREHOLDERS.

TOTAL REMUNERATION COMPRISES FIXED REMUNERATION WHICH IS REFERRED TO AS TOTAL EMPLOYMENT COST OR TEC AND AT RISK REMUNERATION WHICH IS MADE UP OF SHORT TERM AND LONG TERM INCENTIVES.

IN THE 2009/10 FINANCIAL YEAR OUR CEO ONLY RECEIVED A SMALL INCREASE TO HIS FIXED REMUNERATION AND HIS POTENTIAL SHORT TERM INCENTIVE REMAINED AT 100% OF FIXED REMUNERATION. IT'S IMPORTANT TO DRAW YOUR ATTENTION TO THE FACT THAT ELIGIBILITY FOR PAYMENT OF THIS SHORT TERM INCENTIVE ONLY EXISTS WHEN THE COMPANY'S NET PROFIT AFTER TAX MEETS OR EXCEEDS BUDGET. AS AN ASIDE TO THAT, WERE AN ACQUISITION TO BE MADE DURING THE YEAR, AN ADJUSTMENT WOULD BE MADE TO THE NPAT TARGET LEVEL.

SO, ONCE THE NPAT HURDLE REQUIREMENT HAS BEEN MET, 25-50% OF THE SHORT TERM INCENTIVE IS PAYABLE TO OUR CEO DEPENDING ON THE LEVEL IN WHICH NPAT HAS BEEN EXCEEDED. THE EXTENT TO WHICH THE REMAINDER IS PAYABLE IS CALCULATED ON THE CEO'S ABILITY TO MEET OR EXCEED A VARIETY OF COMPANY AND INDIVIDUAL KEY PERFORMANCE INDICATORS (KPIs) WHICH ARE SET AT OR NEAR THE COMMENCEMENT OF EACH FINANCIAL YEAR.

SPECIFICALLY,

AS A RESULT OF THE COMPANY'S PERFORMANCE FOR THE FINANCIAL YEAR ENDED 31ST JANUARY 2010 OUR CEO WAS NOT AWARDED ANY SHORT TERM INCENTIVE PAYMENT.

TURNING NOW TO OUR EXECUTIVES.

IN THE 2009/10 FINANCIAL YEAR THEY ALSO ONLY RECEIVED SMALL INCREASES TO FIXED REMUNERATION, AND THEIR POTENTIAL SHORT TERM INCENTIVE REMAINED AT 30% OF FIXED REMUNERATION.

LIKE OUR CEO, PAYMENT OF INCENTIVES FOR OUR EXECUTIVES IS CONTINGENT ON THE COMPANY MEETING OR EXCEEDING THE BUDGETED NET PROFIT AFTER TAX KPI. ONCE THE NPAT HURDLE REQUIREMENT HAS BEEN MET, 25-50% OF THE SHORT TERM INCENTIVE IS PAYABLE TO OUR EXECUTIVES DEPENDING ON THE LEVEL TO WHICH NPAT HAS BEEN EXCEEDED. THE EXTENT TO WHICH THE REMAINING 50% IS PAYABLE IS CALCULATED ON THE EXECUTIVE'S ABILITY TO MEET OR EXCEED A VARIETY OF INDIVIDUAL KEY PERFORMANCE INDICATORS (KPIs) WHICH ARE SET AT OR NEAR THE COMMENCEMENT OF EACH FINANCIAL YEAR.

FOR THE FINANCIAL YEAR ENDED 31ST JANUARY 2010 THE EXECUTIVE TEAM WAS ALSO NOT AWARDED ANY SHORT TERM INCENTIVE PAYMENTS DUE TO THE COMPANY NOT ACHIEVING THE BUDGETED NET PROFIT AFTER TAX KPI.

LET ME KNOW TALK ABOUT LONG TERM INCENTIVES.

IN 2006 AN EXECUTIVE LONG TERM INCENTIVE PLAN WAS INTRODUCED WHICH INVOLVES GRANTING PERFORMANCE RIGHTS TO OUR KEY EMPLOYEES. IN THE 2010 FINANCIAL YEAR A FOURTH EXECUTIVE LONG TERM INCENTIVE PLAN WAS OFFERED TO OUR CEO AND OUR EXECUTIVE TEAM.

OUR CEO HAS THE OPPORTUNITY TO EARN 60% OF FIXED REMUNERATION IN PERFORMANCE RIGHTS AS PART OF THE LONG TERM INCENTIVE PLAN. OUR EXECUTIVE TEAM HAS THE OPPORTUNITY TO EARN 40% OF FIXED REMUNERATION IN PERFORMANCE RIGHTS AS PART OF THE LONG TERM INCENTIVE PLAN.

THE EQUITY NATURE OF THE EXECUTIVE LONG TERM INCENTIVE PLAN IS DESIGNED TO ENSURE THAT THERE'S ALIGNMENT BETWEEN THE VALUES AND BEHAVIOURS OF OUR EXECUTIVES AND THE INTERESTS OF SHAREHOLDERS. FURTHERMORE, THE LONG TERM INCENTIVE PLAN IS DESIGNED TO ASSIST THE COMPANY IN ATTRACTING AND RETAINING HIGH CALIBRE EXECUTIVES.

SO, SPECIFICALLY,

DURING THE 2009/10 FINANCIAL YEAR THE 2006 LONG TERM INCENTIVE PLAN LAPSED AS THE PERFORMANCE CONDITIONS WERE NOT MET. IN ADDITION, RIGHTS ARISING UNDER THE 2004 LONG TERM INCENTIVE PLAN FOR THE CEO ALSO LAPSED AS THE PERFORMANCE CONDITIONS WERE NOT MET.

NO PAYMENTS HAVE BEEN MADE OR WILL BE MADE IN THE FUTURE IN RELATION TO THESE PLANS.

DURING THE 2009/10 FINANCIAL YEAR NO LONG TERM INCENTIVE PLANS HAVE ACTUALLY BEEN PAID TO THE CEO OR EXECUTIVES AS THE PERFORMANCE CONDITIONS HAVE NOT BEEN ACHIEVED.

IN FACT NO PAYMENTS HAVE BEEN MADE UNDER ANY EXISTING LONG TERM INCENTIVE PLAN (2007, 2008 & 2009) OR UNDER THE 2004 AND 2006 PLANS WHICH LAPSED DURING THE 2009/10 FINANCIAL YEAR.

I THINK IT'S IMPORTANT TO HIGHLIGHT OR EXPLAIN THAT OUR LONG TERM INCENTIVE PLANS HAVE A VESTING PERIOD OF THREE YEARS. THEREFORE, DESPITE THE VALUE OF THE PLANS BEING REFLECTED IN THE REMUNERATION OF OUR CEO AND EXECUTIVES EACH YEAR, THE CEO AND EXECUTIVES DO NOT RECEIVE ANY FINANCIAL BENEFIT FROM THE LTI PLAN UNTIL THE END OF THE THREE YEAR PERIODS AND THEN ONLY IF THE PERFORMANCE CONDITIONS OF EPS AND TSR HAVE BEEN MET.

TO EXPLAIN THIS FURTHER AND BY WAY OF EXAMPLE, IF WE LOOK AT THE LAST LTI PLAN WHICH WAS GRANTED IN 2009 YOU CAN SEE THAT THE OFFER WAS GRANTED TO THE CEO AND THE EXECUTIVES DURING THE 2009/10 FINANCIAL YEAR. THE EPS PERFORMANCE CONDITION WILL BE MEASURED AT THE END OF THE 2011/12 FINANCIAL YEAR AND TSR WILL BE MEASURED ON THE THIRD ANNIVERSARY OF THE GRANT DATE, NOVEMBER 31 2012.

IF THE EPS AND TSR PERFORMANCE MEASURES HAVE BEEN MET EITHER IN FULL OR IN PART (AS PER THE PLAN RULES) THE RIGHTS WILL VEST (IN PART OR FULL) AND THE CEO AND EXECUTIVE TEAM WILL TAKE FULL POSSESSION OF THE SHARES.

CONVERSELY, IF THE PERFORMANCE CONDITIONS ARE NOT MET THE RIGHTS WILL LAPSE AND THE CEO AND EXECUTIVES WILL NOT RECEIVE ANY FINANCIAL BENEFIT FROM THEM, THIS DESPITE THOSE AMOUNTS BEING SHOWN IN THEIR REPORTED TOTAL REMUNERATION FOR THE PAST THREE YEARS.

AS I ALREADY MENTIONED, THIS IS THE CASE FOR THE 2004 AND 2006 PLANS WHICH HAVE NOW LAPSED AND FOR WHICH NO PAYMENTS WERE MADE.

BY WAY OF FURTHER EXAMPLE, OUR CEO'S REPORTED TOTAL REMUNERATION IN THE 2009/10 REMUNERATION REPORT CONTAINED \$388,480 FOR THE VALUE OF

PERFORMANCE RIGHTS WHICH HAVE BEEN GRANTED TO OUR CEO UNDER FIVE PLANS SINCE 2004.

TO DATE NONE OF THESE PLANS HAVE VESTED AND THE 2004 AND 2006 PLANS HAVE NOW LAPSED. THEREFORE, ALTHOUGH \$388,480 FOR THESE PLANS CONSTITUTES APPROXIMATELY 28% OF OUR CEO'S DECLARED REMUNERATION FOR 2009/10, HE HAS NOT ACTUALLY BEEN PAID THIS BENEFIT AND WILL ONLY DO SO IF THE PERFORMANCE CONDITIONS ARE MET.

FINALLY, IT IS WORTH NOTING THAT UPON MR DE ALWIS' TERMINATION, AS A RESULT OF HIS RECENT RESIGNATION, THE LTI PLANS GRANTED TO HIM WILL LAPSE IN ACCORDANCE WITH THE PLAN RULES. THEREFORE, NO ACTUAL PAYMENTS WILL BE MADE TO MR DE ALWIS FOR ANY OF THE CURRENT PLANS.

WE BELIEVE THE GROUP REMUNERATION STRATEGY ENSURES THAT

- OUR EXECUTIVES ARE MOTIVATED TO DELIVER OUTSTANDING PERFORMANCE FOR YOU, OUR SHAREHOLDERS.
- OUR EXECUTIVE'S ARE ONLY REWARDED WITH SHORT TERM AND LONG TERM INCENTIVE PAYMENTS WHEN VALUE HAS BEEN CREATED FOR SHAREHOLDERS.
- THE PERFORMANCE HURDLES USED IN BOTH THE LONG TERM AND SHORT TERM INCENTIVE PLANS ARE CONSISTENT WITH OUR APPROACH OF DRIVING SHAREHOLDER VALUE.

SIGMA'S EXECUTIVE REMUNERATION FRAMEWORK IS DESIGNED TO REFLECT THE FACT THAT WE ARE ACUTELY CONSCIOUS OF THE NEED TO BALANCE OUR OPERATIONAL COSTS WITH OUR ABILITY TO ATTRACT AND RETAIN HIGH CALIBRE EXECUTIVES.

WE BELIEVE THE ACHIEVEMENT OF THE LONG-TERM AND SHORT-TERM INCENTIVE PROGRAMS PROVIDE SIGNIFICANT POTENTIAL REWARDS FOR EMPLOYEES AND THEREFORE APPROPRIATE INCENTIVES TO REMAIN WORKING WITH SIGMA AND TO STRIVE TO INCREASE SHAREHOLDER VALUE.

THANK-YOU FOR YOUR TIME THIS MORNING.

MR DAVID BAYES

CHAIRMAN- REMUNERATION AND NOMINATION COMMITTEE

21 JUNE 2010