

# Sigma – Remuneration Report

## **SLIDE 1**

Thank you Elmo.

Good morning Ladies and Gentlemen

## **SLIDE 2**

At last years AGM, we told you that we were planning to:

- Increase the “At Risk” component Short Term Incentive (STI) to 30% for Executives and to 50% for the CEO, based on both corporate and individual targets
- Introduce a LTI Plan for Executives
- Increase the “At Risk” components percentage of Executives remuneration, so that their remuneration now comprises:
  - Total Employment Cost - cash salary;
  - Short Term Incentives - annual cash incentive;
  - Long Term Incentive - 3 year equity incentive; and
- Implementation of a new Group Remuneration strategy designed to drive Shareholder value.

I am please to say all of these items were completed – this has been a busy year for the Remuneration and Nomination Committee.

## **SLIDE 3**

The focus this year has been on aligning the Human Resource Practice following the merger between Sigma and Arrow, to ensure our company has one culture as we go forward.

I am pleased to say that we have fully integrated our Remuneration and HR processes successfully. We now have:

- one unified remuneration, salary and payroll system;
- one set of HR processes and policies; and
- aligned our safety processes. This alignment, plus our increased focus on safety has resulted in a 60% decline in Lost Time Injuries over the past year.

This focus on safety has been a major initiative, and the Board and Management are delighted with this vastly improved safety record. However, this is still work in progress for us.

#### **SLIDE 4**

The Corporations Law requires the preparation of the Remuneration Report, and for Shareholders to have a non-binding vote on the Remuneration Report. You should refer to Agenda Item 4 in your Notice of Meeting.

As the Chairperson of Sigma's Remuneration Committee, we considered that it would be beneficial to briefly comment on some aspects of the Remuneration Report.

This year we have restructured the Remuneration Report. I trust that our changes have made a very detailed Report a little easier to read and follow.

During the year, we conducted an independent Board Performance Review. This Review was the continuation of a Board review process instigated some years ago. Our last Review was in 2005.

This Review focussed on, amongst other matters:

- does our Board have the right set of skills and competencies to grow and enhance Sigma in the future; and
- our Non Executive Directors Succession Plan.

We are currently dealing with both of these matters.

At the Board level, the total Directors fees have not been increased since 2005 and prior to the merger of Arrow and Sigma. This year we have requested an increase in the aggregate fees pool for Directors. This request has been based upon:

- independent external advice;
- no increase in Sigma since the AGM in 2005;
- our Board review highlighted the possible need for an additional Director; and
- the complexity and size of Sigma's business has increased significantly since the merger with Arrow.

This has been a busy year for your Directors as can be seen in the Director's Report where you will note the substantial increase in the number of scheduled and unscheduled Board meetings. Whilst we have basically bedded down the Arrow merger, the workload of Directors is most unlikely to reduce in the current business environment.

The matter of increasing the remuneration pool for Directors is Agenda Item 5 in your Notice of Meeting.

During the Review by our independent advisors, we determined we should further restructure our remuneration to our CEO and some General Managers.

As a result of the Review our CEO has only received a very modest increase in his salary. However, we have increased his potential Short Term Incentive from 50% to 100% of his salary. The extent of this potential incentive is dependant on our CEO achieving company and individual targets, that if achieved, will increase Shareholder value.

The adjustments to our Employee Incentive Program have been reviewed by our external advisor and they are in line with practices of other ASX Top 100 Companies.

Last year we introduced a Long-Term Incentive Plan by way of granting performance rights to our key employees. Our CEO / MD participates in this Plan. You will see Item 6 in your Notice of Meeting, which addresses our CEO's participation in this Incentive and as usual requires your support. There is a very detailed explanation of this Incentive in the Notice of Meeting. The method of calculating the number of performance rights is consistent with last year. The performance hurdles of Total Shareholder Return and Earnings Per Share have been reviewed by our external advisor and are consistent with other ASX 100 companies and our approach to driving Shareholder value.

**SLIDE 5**

To conclude, we believe that the Group Remuneration Strategy ensures the linkage between the performance of Sigma and Executive remuneration.

Firstly, the strategy ensures that we have our Executives motivated to deliver outstanding performance for you, our Shareholders. The performance hurdles used in both the Long-Term and Short-Term Incentive Programs are consistent with our approach of driving Shareholder value.

Providing motivation greatly assists in Sigma achieving its second and third objectives – being to retain and attract our valued employees. The Long-Term and Short-Term Incentive Programs provide significant incentives for employees to both remain with Sigma, resulting in reduced turnover of Executives, and to strive for improvements to continue to add Shareholder value.