

**SDI Limited**  
**Chairman's Address**  
**29th Annual General Meeting**  
**19 November 2014**

The 2014 financial year has shown again a substantial improvement on the previous year due to the Company's underlying strengths as well as relatively favourable exchange rates and silver prices. The Company has continued to invest in infrastructure growth together with ongoing R&D which has shown positive results.

For the year ending 30 June 2014, net profit after tax increased by 37.9 % to \$6.5 million, compared to \$4.7 million for the previous 12 month period. Earnings before interest and tax (EBIT) increased by 22.9% to \$8.0m compared to \$6.5 million for the corresponding period last year.

Sales in Australian Dollars increased by 15.4% to \$65.3 million compared to the prior year's sales of \$56.6 million and when adjusted for currency movement sales increased by 3.8%. Whilst this is not a large increase, market performance varied. SDI exports over 90% of its products to over 100 countries. Brazil, which has underperformed in the past, increased its sales by 20.7%, Australian sales which includes direct exports from Australia increased by 8.6%. European sales were flat and North American sales decreased by 2.8%.

Sales performances by country varied. Improvement is expected as new initiatives start to take effect. The North American sales team has been strengthened by the addition of senior management personnel which have more market and business experience. A new EU Sales Manager, Australian trained with extensive market experience, will manage the European market. Europe is a large market which is currently going through economic problems. The under performers in the EU markets were the French and Italian markets. The current initiatives will take time and should improve future market penetration which will lead to increasing sales and profitability.

SDI's Brazilian subsidiary has shown the benefits for the restructuring and investment of the previous years. Sales have increased by 21% and Brazil is continuing to improve its contribution to the consolidated profit. SDI expects there will be further improvements if the Brazilian currency stabilises and it receives its local GMP approvals by the Brazilian regulatory authorities to allow manufacturing for the Brazilian and Latin American markets. Considerable work has been under taken at the site in Sao Paulo to gain GMP approval. It is expected that the approval will be received in 2015.

Operating expenses in Australian Dollars increased by 19.6% compared to the previous year. Approximately 60% of SDI's total operating expenses relate to its offshore subsidiaries and are subject to currency movements. When allowing for currency movements the increase was 11.3% over the previous year.

Over previous years, operating expenses were curtailed due to the pressure of the strong Australian dollar. This strategy has had a negative impact on future sales and profitability. With the weakening of the Australian Dollar, the Company has accelerated its strategic programs. Several marketing initiatives together with capital works have now been implemented. The Company has increased its marketing and sales expenditure in several markets, particularly in North America and Europe. This strategy is imperative to both protect SDI's current market and increase its future market share. The Management is aware of increasing expenditure, however it understands that the

Company must protect its current market with a view of increasing market share in its global markets.

Total cash holdings increased by \$0.3 million to \$4.0m. Debt decreased by \$1.4m after expenditure on plant and equipment of \$3.1m and R & D of \$1.5m. This expenditure is critical for the future growth of the Company and will result in the continuation of a pipeline of new products to stay competitive. Australian manufacturers must invest in production automation to reduce their manufacturing cost base to ensure future viability.

SDI's commitment to its R & D programs expects that new Composite, Glass Ionomer and other restorative products will be released in the short and medium term. Additionally a major new electronic product will be released into the market in this financial year.

In 2013 the Company received a second 'strike' against the Remuneration Report. A subsequent 'spill' resolution was defeated. This only leads to the distraction of the Management and Board to concentrate on the business. It also incurs additional expenditure to the Company. Future 'strikes' if they occur will result in nothing except to placate some shareholders who feel that they are achieving something by 'striking'! Shareholders who use the Strike process for alternate agendas are seen by the corporate Boards as abusing the purpose of the Strike legislation. Consequently I again request that shareholders allow the Management and the Board to concentrate on building a solid and profitable business.

The Company annually reviews the remuneration of its Senior Managers and as a result of the review the Board has ensured that managers are rewarded fairly considering the tough environment that exists in Australia for manufacturers and exporters. The Company utilises the services of independent remuneration consultants. It may be difficult for some shareholders to understand that the Dental Industry worldwide is an expensive industry and seemingly high salaries are common in order to entice or retain the best employees possible.

The Board of Directors has declared a final fully franked dividend of 0.5 cents per share which was paid on the 26th of September, 2014. Total dividends for the financial year have increased by 0.2 cents to 0.7 cents, compared to 0.5 cents for the previous year.

In closing, I wish to acknowledge the contribution to the year's success by the Board of Directors who have advised, encouraged and assisted the management of the Company throughout the year. Additionally, I wish to express my appreciation to Senior Managers and all staff for their efforts. SDI's employees have expressed that they are proud to work for a successful Australian manufacturing and exporting company. The Company is confident that it can continue to improve and do better in the future.

Jeffery Cheetham

Executive Chairman & Managing Director