



Silex

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ANNUAL GENERAL MEETING

22 November, 2011

CHAIRMAN'S ADDRESS

Ladies & Gentlemen,

After I have introduced the Board of Directors to you, I will discuss briefly the developments of Silex's globally focused technologies over the past year, and our move towards commercialization of a number of our technologies. Our Managing Director will then give a more detailed review of the Company's activities, the achievements and significant events for the year and strategies for the future.

The Board

Firstly, let me introduce my fellow directors:

Dr Michael Goldsworthy, Silex's CEO and Managing Director, is also the company's founder. He is co-inventor of the SILEX Technology and has been the driving force behind the Company's other technology interests. Dr Goldsworthy remains intrinsically involved in the SILEX Technology and the technology development and commercialization plans of our subsidiaries. Dr Goldsworthy leads a strong and diverse management team which has been expanded over the last year as the Group's activities have grown. The management team will assist the Company to develop strategically and operationally.

Mr Chris Wilks has held a Silex directorship since 1988. He brings extensive financial experience and strategic skills to the Board having had an extensive career in chartered accounting, investment banking.

Dr Colin Goldschmidt, who is standing for re-election today, brings a considerable amount of public company management and international business operational experience to the Board. Dr Goldschmidt has held a Silex non-executive directorship since 1992.

Professor Stephen Burdon, who is standing for election for the first time today, joined the Board as an independent Non-Executive Director in February 2011. Professor Burdon has extensive management experience having served as Group Managing Director of Telstra and British Telecom Asia Pacific amongst many other senior corporate positions. He is currently Chairman of our Audit and Remuneration Committees.

I joined the Silex Board as an independent Non-Executive Director in 1996 and was appointed Chairman in October 2010.

Julie Ducie is the Company Secretary.

There is no doubt that 2011 has been a challenging year not only for Silex but, for all of us due to the global economic uncertainty, the earthquake and tsunami tragedy in northern Japan, and other significant events.

I believe our Board has the mix of skills and experience necessary to help guide and monitor the performance of the Company on behalf of our shareholders. I would like to thank Dr Goldsworthy and all of my non-executive directors and our Company Secretary, Julie Ducie for their contribution to the Company over the past year.

Achievements

Our board remains committed to the Company's focus on unique innovative technologies in the alternative energy sector and believes the Company is well placed to capitalize on the world's growing demand for carbon-free alternative energy technologies. Our long-term goal to commercialise these world-leading technologies is slowly but surely being realised.

Our founding technology – the SILEX Laser Uranium Enrichment Technology – has achieved further positive test results this year, underpinning efforts to establish the commercial scalability of the technology. In addition, engineering design and prototyping activities required for the design and manufacturing of a full-scale commercial enrichment facility are progressing well. These activities are occurring concurrently with the US Nuclear Regulatory Commission Licensing activities for the granting of a commercial facility license. The SILEX Technology is the only third-generation laser-based enrichment technology being commercialised in the world today. Providing the commercialisation program is successfully completed, this technology has the potential to be a game changer in the nuclear fuel industry.

Our second major focus is our unique utility-scale solar power technology. The Solar Systems' Concentrating PV technology is currently being commercialized in Victoria and significant progress has been made in the past year. We are well advanced with the construction of a 500kW test plant consisting of 16 CS 500 Dish System units located at the Company's Bridgewater test facility. Stage 1 activities at Mildura are also underway for the construction of a solar pilot plant with up to 2MW of capacity. This project is the precursor to a 100MW facility being constructed at the same site for which considerable government funding has been gratefully awarded.

In addition to our activities here in Australia, we are progressing with preliminary activities for a US (Southern California) pilot plant and with the erection of a single display dish at the prestigious King Abdullah University of Science and Technology in Saudi Arabia. We believe this technology is potentially a world-leader for very large utility-scale solar power station deployment and we are very excited about the prospect of a US pilot plant and Middle Eastern demonstration facility to showcase this technology to our partners, our potential global customers and our international client base with the aim of generating significant market interest.

Our US based subsidiary Translucent, has continued to progress its R&D activities and is moving closer to commercial outcomes in three target markets being; LED lighting, power electronics and the market for ultra-high efficiency solar cells. We currently have wafers at a number of potential international Tier 1 customers for testing. As Dr Goldsworthy will explain in more detail, Translucent is getting closer to the commercialization of its products and we remain very confident in the Company's prospects.

Our 90% owned Adelaide based subsidiary continues to focus on the development of innovative USB-based precision timing products and technologies. Significant interest has been generated in the products following their display at an international trade show in the USA in September 2011 and opportunities arising from this show are currently being pursued.

Dr Goldsworthy will discuss the recent market developments and the significant operational restructure that has occurred at Silex Solar that has resulted in significant cost reductions pending a full review of the business.

This is a very exciting time for the Silex Group and we remain vigilantly focused on the opportunities to commercialize our innovative technologies and create value for shareholders.

Remuneration Proposals

I would now like to say a few words in regards to the remuneration related resolutions that have been presented in this year's Notice of Meeting. As you are all no doubt aware, Remuneration Reports are ever more topical and controversial this year, given the application of the "two strikes" rule, which is described on page 6 of the Notice of Meeting. The Proxy results from Resolution 1 will shortly be shown on the screen and you will note that we will have a strike recorded against this resolution in accordance with the new Corporations law with a negative vote of over 25%. Whilst we are disappointed by this result, we as a Board support the new rule and appreciate its importance in facilitating the views of our shareholders and the increasing focus and scrutiny with regard to corporate governance. Over the past couple of months, and in the lead up to this meeting, we have had various discussions and communications with numerous shareholders and other interested parties in relation to the remuneration proposals.

It is evident to us that we may not have provided sufficient explanatory information in support of the Board's remuneration decisions outlined in the Notice of Meeting documentation. It is also clear that this has led to dissenting views on the part of some shareholders in regard to the Remuneration Report and the prospective Remuneration structures developed for your approval in Resolutions 4, 5, 6 and 7. I would like to take you through some of the detail and rationale behind the remuneration decisions made by the Board, and address some of the specific concerns raised during the course of the discussions held with various shareholders.

The first issue is the proposed new remuneration arrangements for our CEO, Dr Michael Goldsworthy. In prior years, Dr Goldsworthy was eligible to receive an annual Short Term Incentive payable in cash and awarded at the discretion of the Board. For the fiscal year ended 30 June 2011, no incentive was awarded. The previous Long Term Incentive arrangements for Dr Goldsworthy were approved by shareholders at the 2006 Annual General Meeting and expired out of the money in June 2011. Dr Goldsworthy's proposed new package is designed to align his remuneration with the interests of shareholders.

To develop the proposed remuneration arrangements for Dr Goldsworthy, the Remuneration Committee conducted a comprehensive review including engaging independent remuneration consultants. As part of their advice, the consultants considered the level of total and individual components of remuneration and made detailed reference to a core comparator group of ASX listed companies drawn from broadly similar sectors including energy, infrastructure, technology and life sciences.

Taking this into account a package structure was developed in conjunction with our consultants which we believe adequately, but not overly, remunerates Dr Goldsworthy compared to his peers, and incentivises him to create shareholder value. The structure includes the following three components: (1) Annual Fixed Remuneration, comprising 40% of the total potential remuneration package; (2) a capped Short Term Incentive (up to a maximum of 20% of the total remuneration package) in the form of an allotment of restricted Silex Systems ordinary shares subject to a 2 year escrow period – this being the subject of Resolution 6; and (3) a Long Term Incentive (with a target value of 40% of the total remuneration package) involving options over Silex shares, which is the subject of Resolution 5.

Specific performance criteria have been agreed by the Board for the Short Term Incentive component which includes a mix of financial and strategic objectives for each of the business units. Given Silex Systems remains in the development phase for a number of its businesses, it was considered to be more appropriate to pay the Short Term Incentive via the allotment of restricted shares to preserve cash.

The Long Term Incentive is similarly subject to a performance hurdle which is tied to Total Shareholder Return, which also clearly aligns Dr Goldsworthy's interests with shareholders. The Long Term Incentive comprises options with a 5 year life, where the vesting of the options will be determined on a sliding scale relative to a Total Shareholder Return hurdle measured over a 3 year performance period, relative to the ASX 300. A number of shareholders expressed concern regarding the exercise price of the options and voiced a preference for the exercise price to be set at \$5.40, which corresponds to the price at which our December 2010 placement was completed.

I think this may be an opportune time to explain how the options are valued for the Long Term Incentive component. The Binomial methodology is a standard and widely used calculation to value the options at the date of issue based on the 5 day Average Market Price (or 5 day VWAP) for Silex shares traded preceding the date of issue, plus 5 cents. As detailed in our Notice of Meeting, using an example issue date of 11 October 2011, the Binomial calculation based on the 5 day VWAP for Silex shares preceding that date gave an option value of \$1.2636 per option. When using \$5.40 in lieu of the 5 day VWAP, the options are valued by the Binomial calculation at \$0.7333. The Remuneration Committee considered this and objectively balanced shareholder concerns including the effect of dilution, to cap the number of options to be issued at approximately 791,000 as opposed to 1.4 million which would have resulted using the \$5.40 exercise price. We believe the Long Term Incentive proposal in Resolution 5 does indeed balance shareholder concerns, including dilution, whilst at the same time providing Dr Goldsworthy with a strong and realistic incentive to build shareholder value over time.

I would now like to discuss Resolution 7, being the approval of special remuneration arrangements for consulting services to be provided by Mr Chris Wilks for the 2012 financial year. The Long Term Incentive for Mr Wilks' is similar in structure to that of Dr Goldsworthy and is also subject to a performance hurdle tied to Total Shareholder Return. The same concerns have been raised with respect to the valuation of the options, with some shareholders repeating their opinion that the exercise price should be set at the December 2010 placement price of \$5.40. However, in Resolution 7, the Board has proposed a Long Term Incentive for Mr Wilks based on the same rationale used by the Remuneration Committee and independent consultants, balancing the value of options against the quantity to be granted using the Binomial methodology. Again, we believe the package proposed in Resolution 7 strikes an appropriate balance between these concerns.

Before I complete my remarks on these incentive packages, I want to emphasise and draw your attention to the fact that the options and shares proposed for Dr Goldsworthy and the options proposed for Mr Wilks only apply and vest if specific hurdles and defined performance criteria are met. The Board is satisfied it has set meaningful and realistic hurdles and performance criteria.

The last remaining remuneration resolution that I believe requires explanation is Resolution 4, which seeks shareholder approval to increase the maximum aggregate remuneration payable to Non-Executive Directors. The last increase in Non-Executive Director's fees occurred in 2006. Based on advice received from our Independent Remuneration Consultant, we are seeking to align the Directors' fees to those of other comparable companies. Furthermore, Mr Chris Wilks' additional business consulting fees are now paid from this pool given the change in his designation from an Executive to Non-Executive Director in June 2011. We also needed to allow for the addition of a new Director over the next couple of years. When all these components are combined, the increased aggregate remuneration pool of \$750,000 is enough – just – to cover Non-Executive remuneration over the next few years.

With this overview of the Remuneration related resolutions proposed in our Notice of Meeting, I hope that we have provided a satisfactory explanation as to the background and rationale for the propositions made. We have learned from the feedback we have received from shareholders this year, and will accordingly provide a more detailed explanation of Remuneration proposals in future years.

I would like to thank our shareholders for your support of the Company over the past year, and I will now hand over to the Company's Managing Director, Dr. Michael Goldsworthy, who will present a more detailed update of the Company's activities.

Further Information

Further information on the Company's activities can be found on the Silex website: www.silex.com.au or by contacting the persons listed below.

Contacts: Michael Goldsworthy or Julie Ducie on (02) 9532 1331

Forward Looking Statements and Business Risks:

Silex Systems is a research and development Company whose assets are its proprietary rights in various technologies, including, but not limited to, the SILEX technology, the SilexSolar technology and business, Solar Systems technology and business, Translucent technology and ChronoLogic technology. Several of the Company's technologies are in the development stage and have not been commercially deployed, and therefore are high-risk. Accordingly, the statements in this announcement regarding the future of the Company's technologies and commercial prospects are forward looking and actual results could be materially different from those expressed or implied by such forward looking statements as a result of various risk factors.

Some risk factors that could affect future results and commercial prospects include, but are not limited to: results from the SILEX uranium enrichment development program and the demand for enriched uranium; the business risks associated with SilexSolar's manufacturing and marketing activities; the risks associated with the development of Solar Systems technology and related marketing activities; the outcomes of the Company's interests in the development of various semiconductor, photonics and alternative energy technologies; the time taken to develop various technologies; the development of competing technologies; the potential for third party claims against the Company's ownership of Intellectual Property associated with its numerous technologies; the potential impact of government regulations or policies; and the outcomes of various commercialisation strategies undertaken by the Company