

CHAIRMAN'S ADDRESS AT THE SIGMA EXTRAORDINARY GENERAL MEETING IN MELBOURNE ON 14 JANUARY 2011

Sale of Pharmaceuticals Division The Background

After much careful consideration, the Board has resolved to recommend that shareholders approve the sale of Sigma's Pharmaceuticals Business.

The sale will allow Sigma to significantly reduce its outstanding debt position.

Sigma's accounts for the financial year 2010 included a non cash impairment of \$424.2m which resulted in the group breaching interest cover and certain other borrowing covenants related to its syndicated borrowing facility. Sigma subsequently renegotiated its lending terms.

A further writedown of \$220m in the accounts for the half year ending July 31st 2010, and an earnings downgrade announced on November 23rd 2010 has put pressure on Sigma's revised borrowing covenants.

Sigma is required to repay the \$340 million syndicated borrowing facility by September 2011. Sigma also has trade receivables securitisation facilities totalling around \$750m, \$100m of which was due to expire in February 2011. Sigma has sought and been granted an extension to March 2011. The total facilities of \$750m are now due in March 2011.

Significant cash flow will be generated by the sale. Sigma Pharmaceuticals will receive gross proceeds of \$900m for the sale of the Pharmaceuticals Division which comprises the following businesses:

- Generics medicines;
- Consumer products, being our over-the-counter and Herron businesses;
- Ethical products, medical products and the Orphan businesses; and
- Manufacturing facilities.

This will allow Sigma to fully repay its syndicated banking facility and significantly reduce the amount outstanding on its trade receivables securitisation. These repayments will result in Sigma having a much improved financial position.

As part of the transaction, employees of the pharmaceuticals division have been made offers of employment by Aspen.

Impact on Sigma and its shareholders

As discussed, the Transaction will significantly reduce Sigma's debt, thereby strengthening its Balance Sheet to provide greater financial flexibility.

Sigma will retain full ownership of the Healthcare Division and continue to provide wholesale and retail services to Australia's community pharmacies.

It will retain its name of Sigma Pharmaceuticals Limited. The Board of Sigma will continue. Mark Hooper will remain CEO and Managing Director, and Jeff Sells will retain the role of Chief Financial Officer.

There are potential disadvantages if the Transaction proceeds. Sigma shareholders will cease to have any direct interest in the pharmaceuticals manufacturing sector.

Sigma's risk profile will be less diversified and accordingly Sigma will have greater exposure to regulatory and industry change and its impact on the wholesaling sector.

Following the sale, the size of the company will be significantly reduced. This may not be consistent with individual shareholder's investment objectives.

Despite these potential disadvantages, your directors unanimously recommend you vote in favour of approving the sale, and intend to vote their own shares in favour of the resolution.

Sigma is proposing to amend its Constitution to reflect amendments to the Corporations Act effective 28 June 2010. The amendments will remove the express requirement that dividends may only be paid out of company profits.

The proposed amendments to the Constitution are to ensure that Sigma is not subject to a requirement that any dividend paid to shareholders must be paid from profits of the Company.

ITEM 1: Sale of Pharmaceuticals Division to Aspen Asia Pacific Pty Ltd

Sigma has reached agreement with Aspen Asia Pacific Pty Ltd to sell the pharmaceuticals business of the company for approximately \$900 million. The pharmaceuticals division comprises Sigma's generics, consumer, over-the-counter, Herron, ethical products, medial products, Orphan and manufacturing businesses.

The sale will allow Sigma to:

- (a) significantly reduce its bank debt, enhancing Sigma's financial flexibility;
- (b) consider capital management initiatives, such as the Board's current intention to pay a franked special dividend following completion of the sale to Aspen; and
- (c) retain full ownership of the wholesale and retail business which are leading participants in the Australian market.

The Independent Expert has concluded that the proposed sale of the pharmaceuticals business to Aspen is fair and reasonable. The Board recommends shareholders vote in favour of this resolution.

The regulatory conditions precedent to the sale have been met, including approval by the Foreign Investment Review Board. The transaction, if approved by Sigma shareholders today, is expected to be finalised on 31 January 2011.

ITEM 2: Amendments to the Constitution

Amendments to the *Corporations Act 2001* (Cth) have removed the positive requirement that dividends be only paid out of company profits. The proposed amendments to the Constitution are to reflect these legislative changes and ensure that Sigma is not subject to a requirement that any dividend paid to its shareholders must be paid out of profits where the *Corporations Act* does not require it.

I would like to take the opportunity to express my sincere gratitude to the staff of Sigma Pharmaceuticals. They have remained steadfast and taken on each challenge as it has arisen over the past months, working together to deliver the best outcome for Sigma and its shareholders. While the Board believes the sale of the Pharmaceuticals Division is the correct decision in the circumstances, there is sadness as well and I know the staff will be feeling the same.