

**ADDRESS GIVEN BY THE RETIRING CHAIRMAN OF SIGMA PHARMACEUTICAL LIMITED,
DR JOHN STOCKER, AT THE AGM ON MONDAY 21 JUNE 2010**

Good morning ladies and gentlemen and thank you for your attendance here today.

As you will be aware from the Notice of Meeting, I have today retired as Chairman and will be leaving the Board at the conclusion of this meeting.

I would like to take the opportunity to discuss recent events at Sigma.

The financial year ended 31 January 2010 was a turbulent one for Sigma. As you are aware, we reported a net loss of \$389.0 million, compared to a profit of \$80.1 million for the previous financial year – figures which speak for themselves. Much of this was non-cash, but nonetheless our share price has fallen sharply in recent months.

The Board is not happy about these events, and understands that you will not be happy either. We deeply regret this has occurred.

A number of issues combined to bring about this outcome.

First, the size of the changes that were happening in our markets. Our margins have become increasingly squeezed by:

- new Government regulations designed to drive down the pharmaceutical benefits scheme and generics prices, and
- aggressive competitive discounting in the growing generics market.

Second, our business has emphasised growth in what has been a highly competitive environment in recent times.

We acknowledge these issues today and assure you that the Board and management are working hard to address them.

But I think it's also important today to give you some context as to why these issues came about, by explaining Sigma's strategy to deal with changes in its marketplace in recent years.

It has been apparent for a number of years that Sigma's traditional core pharmaceutical wholesaling business faced ongoing margin squeeze from Government regulation.

It has also been the case historically that the ACCC has not supported a rationalisation among the three pharmaceutical wholesalers that would have enabled the industry to develop a more efficient and competitive cost structure to adapt to the margin pressures imposed by Government.

Faced with that environment, Sigma has sought to enhance growth opportunities for shareholders by diversifying into adjacent pharmaceutical supply markets in Australia.

One of these was Generics, which has grown from virtually nothing ten years ago to a significant share of the Australian pharmaceuticals market today, and will continue to grow into the future.

This was the reason we acquired Arrow in 2005, an acquisition which has given us a market leadership position in Australian generics which we retain today notwithstanding the increased competitive activity.

Sigma's strategy has also been underpinned by a belief that our wholesaling market share provided the commercial opportunity to supply a range of other products to the more than 1,500 pharmacists we supply. Hence we have sought to be the supplier of choice to pharmacists for not just PBS pharmaceuticals but also Over The Counter medicines, generics and vitamins.

In this strategy we have been reasonably effective, although there is always room for improvement. The Herron purchase has not lived up to expectations, although it remains a good niche business today.

Acquisitions in our industry typically involve large amounts of goodwill, due to low tangible asset backing in many businesses. It is an industry that more often than not derives value from know-how and intellectual property rather than physical assets. Goodwill, once booked on a balance sheet, is exposed to write-down as businesses, market conditions and discount rates change over time, and unfortunately this proved to be the case for our Arrow and Herron acquisitions as at the end of the financial year.

The non-cash write-down to goodwill arising from these acquisitions was substantial and led us to move from an underlying profit to a reported loss.

It is important to note that \$300m of the Arrow-related goodwill only arose because:

- first, we acquired Arrow using Sigma shares, and

- second, our share price went up sharply between the time we announced the proposed Arrow purchase and the time it was completed, such was the market's enthusiasm for the purchase. Until the end of the financial year, the cash flows of the business supported the carrying value of the goodwill.

We deeply regret that this write-down resulted in no second half dividend being able to be paid for the year just completed.

In summary, the abrupt downturn in the profitability of our Generics Division in the last months of the financial year led to the Company writing down the value of goodwill.

A number of people have asked why the Board suspended the shares for so long and why the Board was not aware of the size of the write-down sooner.

In an effort to provide some context, I make the following points in relation to those questions.

1. The impairment testing of goodwill is a process the company undertakes in accordance with accounting standards. It is the subject of rigorous internal review.
2. If you refer to the Annual Report, on page 80, you will note the key items contained in this process
3. It is a massively complex issue
4. It involves many tiers of management; and
5. It involves complex calculations around a range of issues which fluctuate significantly and which are the subject of changing forecasts

Of course, your Board recognised the urgency, but also the need for accuracy, and it took what it firmly believes was the right course of action.

Senior management is changing.

A comprehensive program of Board renewal is under way, and my retirement is part of that.

Such changes almost never occur in these situations as rapidly as might immediately appease the media, but our first responsibility is to get things right, rather than just doing things for the sake of being seen to be doing things.

Generous trading terms are being wound back.

And we have moved quickly to ensure that we retain good lender support.

While Sigma today faces challenges, I strongly believe it is a good business with a good future. Sigma has:

- A strong market position in the Australian health and pharmaceuticals supply market, which should enjoy strong and steady long term growth due to:
 - Our population growth
 - ageing of this population, and
 - increasing health care spend per capita
- a leading position in many sectors of these markets
- respected brands in both retail pharmacy and pharmaceutical products, and
- excellent relationships with Australia's pharmacists, who are a vital backbone of our community.

Shareholders will be aware that our long serving Chief Executive Officer Elmo de Alwis has resigned and will be leaving the company in the near future. This is appropriate in the circumstances. On a personal note, I can attest that Elmo has always been a passionate, enthusiastic and hard working CEO of the company. He has been popular with staff and customers and has been instrumental in many of the key decisions that have positioned Sigma as a leader in its sector over the 33 years of his tenure with the Company.

On behalf of the Company, I acknowledge his service to Sigma and wish him well for the future.

I would also like to thank and acknowledge the support of shareholders in Sigma, my fellow Board members, and Senior Management during my tenure.

I now hand back to the Company's new Chairman, Brian Jamieson. Brian is a man of integrity, judgement and experience, and will make a fine Chairman of Sigma. Important decisions lie ahead, such as responding to Aspen's proposal, but under Brian's leadership, I am confident the Company is in good hands.