ADDRESS BY THE CHAIRMAN OF SIGMA PHARMACEUTICALS LTD
DR JOHN STOCKER AO
AT THE SIGMA ANNUAL GENERAL MEETING IN MELBOURNE
ON 22 MAY 2008

INTRODUCTION

It has been a challenging twelve months for Sigma since my last address to you at Sigma's 2007 Annual General Meeting. A number of factors, including a difficult and changing external environment, have negatively impacted the Company's profitability and share price and resulted in the need to revise our profit forecast twice during the year.

This is the first time since we listed on the ASX in 1999 that Sigma has failed to meet or exceed guidance, and these results have been a significant disappointment to the Board and Management.

Addressing the factors which led to these results has been a key focus for the company over the last half year, and will continue to be a key focus in the year ahead. We remain confident that our unique, comprehensive offer will see the equity market giving us due recognition as the long term benefits of our business model flow through to the bottom line.

One of the key factors which has impacted on Sigma and indeed all industry participants during the past year has been change in the regulatory regime. Last year I spoke to you about the introduction of the Community Service Obligation Funding Pool which was introduced in July 2006, and I noted our disappointment that, when it was introduced, it failed to compensate Sigma in a manner consistent with the originally stated aims of the scheme. Since then, we are pleased that the rules governing the allocation of the CSO Pool have been clarified, which has resulted in a more equitable allocation of the pool to Sigma going forward, although the issue was unfortunately not finally clarified until October of last year.

The other key regulatory changes which have impacted on Sigma's business this year are reforms to the Pharmaceutical Benefits Scheme. The reforms seek to reduce the government cost of supplying pharmaceutical products to the Australian consumer under the National Medicines Policy. Price reductions of up to 25% will levied on around $2 billion of current PBS expenditure. These changes have had a material impact on our key generics business, with sales of certain of our key licensed generics decreasing due to increased competition and price decreases ahead of the new scheme. Concurrently, increased discounting and rebates offered by all market participants in the lead up to these reforms have also had a detrimental effect on margins.

To mitigate the impact of these changes, the Company has been working on a number of measures to improve internal productivity and profitability, including renegotiation of key supply agreements with manufacturers of the impacted products. Sigma's Managing Director Mr de Alwis will be expanding on these measures shortly.

FINANCIAL RESULTS

Turning to Sigma's financial results for the year ended 31 January 2008, as reported, overall the company achieved good sales growth, with group sales revenues up by 9.9% to almost $3 billion. Much of this growth can be attributable to the increasing support that retail pharmacy is giving to our exclusive Embrace program.

This overall sale growth comprised growth of 13.6% in our Healthcare business and a decrease of 2.1% in our Pharmaceuticals business.

The sales growth of the Healthcare business was particularly pleasing, given this was achieved against the backdrop of regulatory changes and reflects a consolidation of previous market share gains. The decrease in Pharmaceuticals sales primarily reflects the impact of the highly competitive landscape on the key licensed generics.

With a number of one-off restructure costs, a focus on the underlying ongoing performance provides shareholders with a more meaningful comparison to the prior year.

Earnings Before Interest, Tax, Depreciation and Amortisation, decreased by 0.8% to $210.1 million for the full year, the second half seeing a 35.3% increase on this measure over the first half of the year.

Earnings Before Interest and Tax were down 2.3% on the prior year to $173.2 million, but likewise showed a significant turnaround in the second half, up 42.9% on the first half performance.

Underlying Net Profit After Tax of $90.2 million was down 13.8% on 2006/07, with a strong $53.6 million contribution from the second half.

Accordingly, whilst the Group financial performance in the first half was poor despite market share gains, the second half saw Sigma once again achieve results in line with the market consensus and has put Sigma back on a stronger growth trajectory.

Our Managing Director, Mr Elmo de Alwis will later cover the performance of the company and the results of each division in more detail.

The final dividend for the 2008 year was 4 cents per share, fully franked, bringing the total for the year to 7 cents per share. This represents a headline payout ratio on reported profits of 60% after adding back the amortisation of intangibles and rationalisation and restructure costs.

These results demonstrate that the poor first half performance last year has overshadowed the very real progress being achieved across our business, in particular the additional leverage across the pharmaceutical market following our merger with Arrow Pharmaceuticals in December 2005. As a result of the merger Sigma now occupies a unique position in the industry, with diverse market leading positions in Generics, Distribution, Over-The-Counter products and Pharmaceutical Manufacturing. The business generates strong cash flows and we believe will continue to grow and shift its product mix towards higher margin product categories. The Embrace program continues to be a key strategy for Sigma, and we are pleased that the program continues to achieve improving trends in customer support. While Sigma, like other industry participants, has been impacted by the difficult operating environment during the last year, we remain confident in the long term value proposition that our business model represents to our customers and to our shareholders.

Looking forward, Sigma will derive increasing benefit from the value which will be generated from our robust product pipeline. During the forthcoming year we have 20 new products scheduled for launch from our exclusive Arrow Group pipeline, and thereafter we have a generic equivalent in the pipeline for every major patent expiry out to 2012. We are confident that Sigma's generics business will continue to provide shareholders with significant value creation in the years ahead.

Minimising the financial aspects of the credit market crisis is a key focus for your Board. The upcoming year will see a strong focus on return on invested capital measures across the business, because delivering a satisfactory return over the cost of capital is essential for shareholder value accretion. [In February Sigma also successfully completed the refinance of $255 million of current bilateral finance facilities for the next three years, confirming support for Sigma from our banks.

Our Herron brand, which underperformed over the past year, is being reinvigorated. A new management team with specific skills in fast-moving consumer goods, was recruited last September and over coming months new contemporary packaging will be released, together with targeted advertising and 20 new products scheduled to be released over the next 12 months.

Going forward we will continue to review and pursue opportunities for growth where we perceive there to be a good strategic fit with the business. The

Australian pharmaceutical industry is poised for a period of consolidation. We have publicly stated our interest in participating in this.

In February this year we completed the acquisition of Orphan Australia, a privately owned speciality pharmaceutical company which focuses on marketing and distribution of novel, highly specialised therapies. The acquisition of Orphan Australia provides a number of strategic and financial benefits to Sigma, including entry into high margin, high growth, specialised pharmaceuticals which have low risk profiles, minimal competition and which are complementary to Sigma's existing product range as well as enhancing Sigma's marketing and distribution reach into hospitals. Orphan Australia has generated double digit revenue growth for the past three years and is expected to continue growing significantly, driven by sales of current products, recent PBS listings and new licensed products. To date, this business is outperforming our initial expectations.

As previously announced, Sigma has been investigating with Metcash Limited the possibility of jointly bidding for Symbion Health's consumer brands and pharmaceutical wholesaling. Following analysis, Sigma submitted a bid for the Consumer assets. Primary's advisors have since informed us that our bid was not accepted. With due regard for our investment criteria, Sigma will not be pursuing this acquisition any further. However, we have signed a Memorandum Of Understanding with Metcash in relation to the establishment of a back office and logistics joint venture should they be successful in purchasing the Symbion Pharmacy assets.

Regulatory Environment.

As I noted earlier, from an industry perspective the past two years have seen unprecedented change to the regulatory environment. With the next major change to the regulations not likely until a Guild agreement is finalised in 2010, we expect that although there will continue to be market turbulence in the short term due to the implementation of the current PBS reforms, we are entering a period of greater regulatory certainty. Our diversified, vertically integrated business model provides a platform to take advantage of this more stable environment.

As previously announced, during the year we were pleased to welcome two new directors to our board – Mr Doug Curlewis and Mr David Bayes. Both bring relevant commercial and consumer experience which will be of assistance to the board. They will be standing for re-election later during this meeting and they will each address you at that point. We were also pleased during the year to welcome a number of new appointments to the executive team, including our new Chief Financial Officer Mark Smith.

CONCLUSION

In conclusion, I would like on behalf of the Board to thank our management and our employees for their continuing commitment and efforts. It has been a challenging period and despite a difficult year, it is my belief that Sigma remains well positioned to deliver shareholder value. I also wish to thank my fellow directors, our shareholders, customers and suppliers for their support and the Board looks forward to working with them in the year ahead.

Dr John Stocker AO
Chairman
22 May 2008