Notice of Meeting and Explanatory Memorandum

Date: 14 January 2011

Time: 10.00am (Melbourne time)

Location: ANZ Pavilion, Victorian Arts Centre
Level 8, 100 St Kilda Road
Melbourne, Victoria

Sigma Pharmaceuticals Limited
ABN 15 088 417 403

This is an important document and requires your immediate attention.
You should read it carefully and in its entirety.
If you are in any doubt about how to deal with this document,
you should contact your financial, legal, taxation or other professional adviser immediately.

Financial Adviser

LAZARD

Legal Adviser

MinterEllison LAWYERS

Important Notices

General

This Explanatory Memorandum and Notice of Meeting (**Explanatory Memorandum**) is dated 3 December 2010.

This document is important. You should read it in its entirety before making a decision on how to vote on the Resolutions to be considered at the Meeting. A proxy form for the Meeting is enclosed. If you are in doubt as to how to vote on the Resolutions, you should consult your financial, legal, taxation or other professional adviser immediately.

Defined terms

Capitalised terms in this Explanatory Memorandum are defined in either the "Glossary and Interpretation" section or where the relevant term is first used.

Responsibility

This Explanatory Memorandum has been prepared by Sigma.

Deloitte Corporate Finance Pty Ltd (**Deloitte**) has prepared the Independent Expert's Report in relation to the Transaction. Sigma does not assume any responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent that any inaccuracy or incompleteness in the Independent Expert's Report arises directly from the inaccuracy or incompleteness of information given to Deloitte by Sigma.

ASX

A final copy of this Explanatory Memorandum has been given to ASX. Neither ASX nor any of its respective officers takes any responsibility for the contents of this document.

Forward looking statements

- Some of the statements appearing in this document may be in the nature of forward looking statements. Sometimes, but not always, forward looking statements may be identified by the words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan", "consider", "foresee", "aim", "will" and similar expressions.
- Indications of, and guidance on, future sales, capital expenditure, earnings and financial position and performance are also forward looking statements.
- You should be aware that such statements are only estimates and are subject to inherent risks and uncertainties, many of which are outside Sigma's control. Those risks and uncertainties include factors and risks specific to Sigma and external risks such as (without limitation) operational risks, the impact of inflation on operating costs, any fluctuations in exchange rates, regulatory issues and changes in law and accounting policies, any reliance on third parties, any increased competition, any loss of key customers including loss of key long-term contracts, any inability to enforce legal rights, the ability to service existing debt and to refinance debt to meet expenditure needs, loss of key personnel and delays in obtaining or inability to obtain any necessary government approvals or licences, impact of changes to interest rates, effect of new technologies, changes to government fiscal, monetary and regulatory policies and share price and volume fluctuations.
- Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.
- The forward looking statements in this Explanatory Memorandum reflect views held only as at the date of this Explanatory Memorandum. All forward looking statements included in this Explanatory Memorandum are believed on reasonable grounds not to be misleading or deceptive. Sigma has no obligation to disseminate after the date of this Explanatory Memorandum any updates or revisions to any such statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless it is required to update or correct this Explanatory Memorandum pursuant to the ASX Listing Rules or the Corporations Act.

No financial product advice

This Explanatory Memorandum does not constitute financial product or investment advice in respect of the Resolutions. It is not a recommendation to buy or sell shares. It has been prepared without taking into account the objectives, financial situation or needs of Shareholders or other persons. Before deciding how to vote or act, Shareholders should consider the appropriateness of the information having regard to their own objectives, financial situation and needs and seek financial, legal, taxation and other professional advice appropriate to their jurisdiction and circumstances.

Sigma is not licensed to provide financial product advice in relation to the Shares or any other financial product.

No internet site is part of this document

No internet site is part of this Explanatory Memorandum. The Company maintains an internet site (www.sigmaco.com.au). Any reference in this Explanatory Memorandum to this internet site is a textual reference only and the internet site does not form part of this Explanatory Memorandum by virtue of any such reference.

Overview of this Explanatory Memorandum

WHAT IS THIS DOCUMENT FOR?

This Explanatory Memorandum (which accompanies and forms part of this Notice of Meeting) relates to:

(a) the proposed sale of Sigma Pharmaceuticals Limited's (**Sigma's**) Pharmaceuticals Division (which will occur by way of the sale of all of the issued share capital in Sigma Pharmaceuticals (Australia) Pty Ltd, Orphan Holdings Pty Ltd and Fawns and McAllan Proprietary Limited) to the Aspen Pharmacare Holdings Limited group of companies (**Aspen**) (**Transaction**); and

(b) proposed changes to Sigma's Constitution to remove certain restrictions on Sigma's ability to pay a dividend and to reflect recent amendments to the Corporations Act relating to the payment of dividends.

The purpose of this document is to provide Shareholders with information to consider before voting on the Resolutions in connection with the above proposals. Shareholders will have an opportunity to vote on the Resolutions at the Meeting of Shareholders to be held on 14 January 2011 at 10.00am (Melbourne time) at the ANZ Pavilion, Victorian Arts Centre, Level 8, 100 St Kilda Road, Melbourne, Victoria, Australia.

WHY SHOULD YOU VOTE?

As a Shareholder, your vote enables you to have a say in whether the Resolutions are approved and to play a role in deciding the future of Sigma.

WHAT SHOULD YOU DO NEXT?

Step 1: Read this Explanatory Memorandum in full

You should read and carefully consider the information included in this Explanatory Memorandum (including the risks described in section 8 and the Independent Expert's Report set out in Attachment A) to help you make an informed decision as to how to vote on the Resolutions. If you have any doubt as to what action you should take, please contact your financial, legal, taxation or other professional adviser immediately.

Step 2: Vote on the Resolutions

As a Shareholder, it is your right to vote on whether the Resolutions should be approved and, therefore, whether the sale of Sigma's Pharmaceuticals Division should proceed and changes to the Constitution should be made. You can vote in person at the Meeting or by proxy (by post, fax or online). Details on how to vote are set out on page 6 of this document.

WHAT DO YOUR DIRECTORS RECOMMEND?

Your Directors unanimously recommend that you vote in favour of:

- the Transaction, in the absence of a Superior Proposal; and
- the amendments to the Constitution.

Each of your Directors is also a Sigma Shareholder. In the absence of a Superior Proposal, your Directors intend to vote all Sigma Shares respectively held or controlled by them in favour of the Resolutions.

FOR FURTHER INFORMATION

If you have any questions after reading this Explanatory Memorandum, please call the Sigma Shareholder Information Line on 1300 139 653 (within Australia, toll free) or +61 2 8280 7167 (from international) Monday to Friday between 8.30am and 5.30pm (Melbourne time).

Key dates and timetable

The proposed indicative timetable for the Completion of the Transaction and the amendments to the Constitution is as follows:

Date	Action
3 December 2010	Date of Notice of Meeting and Explanatory Memorandum
14 January 2011	Date of the Company's Meeting
14 January 2011	Effective Date of Amendments to Constitution
31 January 2011	Completion of the Transaction

Please note that these dates and times are indicative only and are subject to change.

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Chairman's Letter

3 December 2010

Dear Sigma Shareholder,

On 16 August 2010, Sigma announced that it had agreed in principle to sell its Pharmaceuticals Division to Aspen for gross proceeds of approximately $900 million. The Pharmaceuticals Division comprises Sigma's Generics, Consumer, OTC, Herron, Ethical Products, Medical Products, Orphan and Manufacturing businesses.

Sigma has now reached formal agreement with Aspen on the terms and conditions of the sale and the ongoing relationship between the two companies.

The decision to sell the Pharmaceuticals Division to Aspen followed careful consideration by the Board of a number of alternatives for Sigma's future, including expressions of interest for the whole of Sigma's business and specific divisions of the Company.

Your Board concluded that Aspen's proposal to acquire the Pharmaceuticals Division provides the best outcome for Shareholders.

The Transaction allows Sigma to:

- significantly reduce its bank debt, enhancing the Company's financial flexibility;
- consider capital management initiatives, such as the payment of a franked special dividend; and
- retain full ownership of the Healthcare Division, which comprises the Wholesale Business and the Retail Business, in which it is a leading participant in the Australian market.

If the Transaction does not proceed, Sigma may need to consider alternative means to meet the repayment schedule for its bank debt. These alternatives may be less favourable than the Transaction, and it is possible that Sigma will be unable to repay its debt as scheduled.

The Independent Expert has concluded that the Transaction is 'fair and reasonable'.

Following the Transaction Sigma will focus on business improvement initiatives and organic growth opportunities that build upon the strong relationships with our extensive pharmacy network. Sigma will have an ongoing relationship with Aspen, which has the potential to provide a number of benefits to Sigma. For example, under the Supply Agreement between Sigma and Aspen, Sigma will have distribution rights to products Aspen will acquire from Sigma under the Transaction for five years, and will potentially have distribution rights to a range of new Aspen products.

It is also proposed that amendments are made to Sigma's Constitution to reflect changes made to the Corporations Act on 28 June 2010 that have changed the circumstances in which companies are able to pay dividends to shareholders. The recent changes to the law repeal the express requirement that dividends may only be paid out of company profits. Subject to these amendments to the Constitution, Completion of the Transaction, Sigma's forecast financial requirements and any restrictions on Sigma's ability to pay dividends, it is the Board's present intention to pay a franked special dividend to Shareholders.

Your Directors unanimously recommend that you vote in favour of:

- the Transaction, in the absence of a Superior Proposal; and
- the amendments to the Constitution.

Each of your Directors is also a Sigma Shareholder. In the absence of a Superior Proposal, your Directors intend to vote all Sigma Shares respectively held or controlled by them in favour of the Resolutions.

Chairman's Letter

WHAT YOU SHOULD DO

1. Carefully read this document

This Explanatory Memorandum provides information to help you make a decision on whether to approve the Resolutions, including the reasons for the Board's recommendation and the potential risks of approving the Transaction. It is an important document and you should read it carefully.

2. Vote on the Resolutions

As a Sigma Shareholder, you are entitled to vote on whether you want the Resolutions to proceed or not. You can vote:

- using the enclosed proxy form, which must be received by Sigma's Share Registry, by post or fax, by 10.00am (Melbourne time) on 12 January 2011;
- by online proxy at www.linkmarketservices.com.au, by 10.00am (Melbourne time) on 12 January 2011; or
- in person at the Meeting to be held at 10.00am (Melbourne time) on 14 January 2011 at the ANZ Pavilion, Victorian Arts Centre, Level 8, 100 St Kilda Road, Melbourne, Victoria, Australia.

Your vote is important in determining whether the Transaction proceeds and whether the amendments to the Constitution are made. If you have any questions, you can call the Sigma Shareholder Information Line on 1300 139 653 (within Australia, toll free) or +61 2 8280 7167 (from international) Monday to Friday between 8.30am and 5.30pm (Melbourne time).

On behalf of the Board, I encourage you to have your say in Sigma's future, and to vote on the Resolutions to approve the Transaction and amend Sigma's Constitution. Thank you for your continued support of Sigma.

Yours sincerely,

Brian Jamieson

Chairman
Sigma Pharmaceuticals Limited

Notice of Meeting

The Meeting of Shareholders of Sigma Pharmaceuticals Limited will be held:

- on 14 January 2011
- at 10.00am (Melbourne time)
- at the ANZ Pavilion, Victorian Arts Centre, Level 8, 100 St Kilda Road, Melbourne, Victoria, Australia

Business

Resolution 1: Sale of Pharmaceuticals Division to Aspen

To consider and, if thought fit, pass, with or without modification, the following resolution:

'THAT, for the purposes of ASX Listing Rule 11.2 and all other purposes, approval is given to the disposal by the Company of the following assets to Aspen Asia Pacific Pty Ltd, or a wholly owned subsidiary of Aspen Pharmacare Holdings Limited, on the terms described in the Explanatory Memorandum accompanying and forming part of the notice of this meeting:

(a) all of the issued share capital in Sigma Pharmaceuticals (Australia) Pty Ltd (ACN: 004 118 594);

(b) all of the issued share capital in Orphan Holdings Pty Ltd (ACN: 115 816 209); and

(c) all of the issued share capital in Fawns and McAllan Proprietary Limited (ACN: 004 296 066).

Voting exclusion statement

For the purposes of Resolution 1, the Company will disregard any votes cast by Aspen Pharmacare Holdings Limited, Aspen Asia Pacific Pty Ltd or any of their respective associates.

However, the Company need not disregard a vote in respect of Resolution 1 if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by a person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 2: Amendments to the Constitution

To consider and, if thought fit, pass, the following resolution which will be proposed as a special resolution:

'THAT, with effect from the close of the Meeting, the Company modify its Constitution as follows:

(a) in rule 27.1(a), delete the words, 'out of profits of the Company';

(b) in rule 27.1(b), delete the words, 'out of profits' and substitute 'that may be paid as a dividend or other distribution';

(c) in rule 27.2, delete the first sentence which currently reads, 'The Company must not pay a dividend except out of the profits of the Company (including profits previously set aside as a reserve).' and substitute 'The Company may pay dividends as the Board resolves.';

(d) in rule 27.2, delete the last sentence and substitute, 'A resolution of the Board as to the amount available for a dividend is conclusive.';

(e) in rule 27.7, delete the words, 'out of profit derived', and also delete the subsequent use of the word 'profits' and substitute 'sources';

(f) in rule 32.1, delete, 'profits, revenues or other.';

(g) in rule 32.1, delete the words 'and rule 32.4' and substitute 'rule 32.4 and the terms of the distribution'; and

(h) in rule 32.2 delete 'profits' and substitute 'amounts'.

Please note that:

- as a special resolution, Resolution 2 will only be passed if at least 75% of the votes cast by Shareholders entitled to vote on Resolution 2 are in favour of Resolution 2; and
- the Resolutions are not conditional upon one another.

Voting and proxies

Appointment of proxies

Proxies may be appointed for the Meeting.
Please note that:

- A Shareholder entitled to attend and vote at the Meeting is entitled to appoint no more than two proxies to attend and vote on behalf of the Shareholder. Where two proxies are appointed, each proxy must be appointed to represent a specified number of votes or proportion of the Shareholder's voting rights. If no number or proportion is specified, each proxy may exercise half of the votes.
- A proxy need not be a Shareholder of the Company and may be an individual or a body corporate.
- A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body corporate may exercise as a proxy at the Meeting. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been provided to the Company.
- If a Shareholder appoints the Chairman of the Meeting as proxy and does not specify how the Chairman is to vote on an item of business, the Chairman intends to vote (if permitted under the proxy form) as proxy in favour of the Resolutions.

Lodgement of proxy forms

A proxy form accompanies this Notice of Meeting. The completed proxy form and the power of attorney (if any) under which the proxy form is signed or a certified copy of the relevant attorney will be effective if it is received by Sigma's Share Registry at least 48 hours before the start of the Meeting (that is, by 10.00am (Melbourne time) on 12 January 2011).

Proxies may be returned:

By mail:

Link Market Services Limited
Locked Bag A14
Sydney South
NSW 1235

By hand:

Link Market Services Limited
Level 12, 680 George Street
Sydney
NSW 2000

By fax:

Link Market Services Limited
+61 2 9287 0309

Online:
at www.linkmarketservices.com.au

Select the 'Proxy Voting' option on the top right of the home page, then select 'Sigma' from the drop down menu, enter your holding details as shown on the enclosed proxy form, and follow the prompts to lodge your vote.

If you have any difficulties lodging your vote online, or if you require an additional proxy form, please contact Link Market Services on 1300 139 653 or +61 2 8280 7167.

Voting

The Company has determined, in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cth), that the Company's Shares quoted on ASX at 7.00pm (Melbourne time) on 12 January 2011 are taken, for the purposes of the Meeting, to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote (if not excluded) at the Meeting.

By order of the Board

Date 3 December 2010

Signed

Susan Morgan
Company Secretary

1. Explanatory Memorandum

1. Introduction

1.1 General

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held at 10.00am (Melbourne time) on 14 January 2011 at the ANZ Pavilion, Victorian Arts Centre, Level 8, 100 St Kilda Road, Melbourne, Victoria, Australia. It forms part of the Notice of Meeting and must be read together with that notice.

1.2 Business of the Meeting – Summary

The business of the Meeting is to consider and, if thought fit, to pass the following Resolutions:

- Resolution 1 – to approve the proposed disposal of the Company's Pharmaceuticals Division to Aspen (the **Transaction**); and
- Resolution 2 (a special resolution) – to amend the Constitution to remove restrictions on the Company's ability to pay a dividend to Shareholders, and to reflect recent amendments to the Corporations Act relating to the payment of dividends.

1.3 Further information

If you have any questions in relation to any of the Resolutions, please call the Sigma Shareholder Information Line on 1300 139 653 (within Australia, toll free) or +61 2 8280 7167 (from international) Monday to Friday between 8.30am and 5.30pm (Melbourne time), or consult with your financial, legal, taxation or other professional adviser.

2. Reasons to vote in favour of the Transaction

2.1 The Transaction allows Sigma to significantly reduce its outstanding bank debt

Sigma has a $340 million syndicated banking facility. Sigma intends to use the proceeds of the Transaction to fully repay the debt outstanding under this facility. Due to the earnings downgrade announced on 23 November 2010, Sigma is likely to breach covenants under its syndicated banking facility in the quarter ending 31 January 2011. However, in light of the expected repayment of this facility, Sigma expects any covenant breaches will be resolved if the Transaction proceeds.

Sigma also intends to significantly reduce the debt outstanding under its $750 million trade receivables securitisation facilities.

This will provide the Company with greatly improved financial flexibility and the opportunity to consider capital management initiatives, such as the payment of a franked special dividend (subject to Sigma's forecast financial requirements and any restrictions on Sigma's ability to pay dividends).

2.2 Sigma will retain its market leading Healthcare Division

Shareholders will retain full ownership of Sigma's Healthcare Division, comprising:

- Sigma's Wholesale Business, which has a market share of over 30% of the Australian full-line pharmaceutical wholesale market and sells to over 4,000 retail pharmacies; and
- Sigma's Retail Business, which owns Australia's largest and third largest retail pharmacy banner networks Amcal (including Amcal Max) and Guardian, represented through over 500 outlets nationwide.

The Board considers Sigma will be well positioned for future growth and business improvement following the Transaction.

2. Reasons to vote in favour of the Transaction

2.3 The Independent Expert has concluded that the Transaction is 'fair and reasonable'

The Independent Expert, Deloitte, has concluded that the Transaction is 'fair and reasonable'.

This conclusion is based on a number of considerations, which are described in the Independent Expert Report set out in Attachment A. In particular, Deloitte considers the value of the consideration offered by Aspen to be consistent with the high end of Deloitte's assessed fair market value of the Pharmaceuticals Division, and the expected benefits to Shareholders outweigh the disadvantages that may result from the Transaction.

2.4 Significant risks remain if the Transaction does not proceed

Sigma is required to repay the debt outstanding under its $340 million syndicated debt facility by 18 September 2011. The repayment schedule includes a repayment of $30 million upon Completion of the Transaction and an additional $10 million by 31 March 2011. Sigma is likely to breach covenants under this facility in the quarter ending 31 January 2011.

Sigma also has trade receivables securitisation facilities totalling $750 million, $100 million of which expires in February 2011, and $650 million of which expires in March 2011, subject to certain conditions. Sigma is currently in discussions with its lenders regarding the extension of these facilities.

If the Transaction is not approved, or for any other reason does not proceed, Sigma will need to assess alternatives. These alternatives may include other asset sales and/or a capital raising to enable Sigma to meet its debt repayment schedule. These alternatives may be less favourable than the Transaction and may result in Sigma being unable to repay its debt according to the repayment schedule. In this case, Sigma will require agreement from its banking syndicate to delay the timetable for debt reduction. There is no assurance that such approval will be forthcoming.

2.5 No superior proposal has emerged

As at the date of this Explanatory Memorandum, the Board has not received or become aware of any Superior Proposal. In general terms, a Superior Proposal is a proposal from a third party that would be likely to result in a transaction more favourable to Shareholders as a whole than the Transaction.

2.6 The Transaction is unanimously recommended by the Sigma Board

Following careful consideration of a number of alternatives for Sigma's future, including expressions of interest in relation to the whole of Sigma's business and specific divisions of the Company, the Board concluded that the Transaction provides the best outcome for Shareholders.

Accordingly, the Directors unanimously recommend that you vote in favour of the Transaction, in the absence of a Superior Proposal. Each of your Directors is also a Sigma Shareholder. In the absence of a Superior Proposal, your Directors intend to vote all Sigma Shares respectively held or controlled by them in favour of the Resolutions.

3. Reasons to vote in favour of the amendments to the Constitution

3. Reasons to vote in favour of the amendments to the Constitution

The Constitution currently provides that Sigma may only pay a dividend out of the profits of the Company. This restriction in the Constitution was, until recently, broadly consistent with the Corporations Act.

Amendments to the Corporations Act on 28 June 2010 repealed the express requirement that dividends may only be paid out of company profits. The requirement has been replaced with a new rule that prohibits a company from paying a dividend unless:

(a) the company's assets exceed its liabilities immediately before the dividend is 'declared' and the excess is sufficient for the payment of the dividend;

(b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and

(c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

It is not clear that the amendment to the Corporations Act has in fact effectively abolished the requirement that dividends be paid out of profits rather than capital in that the new provisions in the Corporations Act only specifies when a dividend may not be paid, rather than when a dividend may be paid. Nevertheless, Resolution 2 proposes amendments to the Constitution removing express requirements that dividends only be paid out of profits (and incidental references to the payment of profits from dividends) consistent with the amendments to the Corporations Act that have been made, and to ensure that Sigma is not subject to any undesired restrictions on its ability to pay dividends to its Shareholders in the future.

4. Reasons for Shareholders to vote against the Transaction

4.1 Sigma Shareholders will cease to have any direct interest in the Pharmaceuticals Division

Sigma is selling its entire Pharmaceuticals Division to Aspen under the Transaction. Shareholders will not have future exposure to this division, including the opportunity to benefit from the potential growth in the Generics market following Completion of the Transaction.

4.2 The performance of Sigma will be dependent on operations within the Healthcare Division

If the Transaction proceeds, Sigma will have a narrower focus on, and be wholly reliant on, its Wholesale Business and Retail Business. This will mean it is less diversified, and more susceptible to changes in regulatory policy affecting those businesses.

4. Reasons for Shareholders to vote against the Transaction

4.3 A Superior Proposal may emerge

If the Transaction does not proceed, an alternative proposal may be put to Shareholders at a later date that may offer greater value, and/or less risk, to Shareholders than under the Transaction. However, as at the date of this Explanatory Memorandum, the Directors are not aware of any Superior Proposal.

5. Resolution 1 Sale of Pharmaceuticals Division to Aspen

5. Resolution 1
Sale of Pharmaceuticals Division to Aspen

5.1 Background

On 16 August 2010, Sigma announced that it had agreed in principle to sell its Pharmaceuticals Division to Aspen for gross proceeds of approximately $900 million. On 23 November 2010, Sigma announced it had finalised the contractual terms of the Transaction.

Aspen is a South African company and Africa's largest pharmaceutical manufacturer. Aspen's business includes the supply of branded and generic pharmaceutical, healthcare and nutritional products.

The Pharmaceuticals Division comprises Sigma's Generics, Consumer, OTC, Herron, Ethical Products, Medical Products, Orphan and Manufacturing businesses.

Under the proposed Transaction Sigma will retain its Healthcare Division, which comprises the Wholesale Business and Retail Business.

5.2 Transaction Summary

On 23 November 2010, Sigma signed a number of formal agreements relating to the sale of its Pharmaceuticals Division to Aspen for gross proceeds of approximately $900 million. The businesses comprising the Pharmaceuticals Division that are proposed to be sold to Aspen are:

- Generics;
- Consumer, comprising OTC and Herron;
- Ethical Products, Medical Products and Orphan; and
- Manufacturing.

As part of the Transaction, employees of the Pharmaceuticals Division will transfer to Aspen.

The actual proceeds received by Sigma at the Completion of the Transaction (currently scheduled to be 31 January 2011) will be subject to the final levels of working capital as at Completion for the Pharmaceuticals Division and other adjustments.

Agreements signed or to be signed by the Group Companies and Sigma (and its subsidiary, Sigma Company Limited (**SCL**)), in connection with the Transaction include:

- a Share Sale Agreement, under which Sigma agrees to sell all of the issued share capital in Sigma Pharmaceuticals (Australia) Pty Ltd, Orphan Holdings Pty Ltd and Fawns and McAllan Proprietary Limited (**Share Sale Agreement**);
- a Restructure Deed, under which certain assets and liabilities of the Sigma Group are restructured to facilitate the Transaction (**Restructure Deed**);
- a Transition Services Agreement, under which SCL agrees to provide certain transition services to Sigma Pharmaceuticals (Australia) Pty Limited (**SPAL**) for approximately 12 months after Completion of the Share Sale Agreement (**TSA**);
- a Supply Agreement under which SPAL (to be renamed Aspen Australia Pty Ltd following Completion of the Transaction) agrees to supply certain products to SCL, and SCL agrees to distribute those products to its customers, for five years after Completion (**Supply Agreement**);
- a Product Manufacture and Supply Agreement, under which SPAL will manufacture and supply Private Label Portfolio products to SCL for two years after Completion (**PMSA**); and
- a Term Sheet, under which the terms of a Licence Agreement relating to SPAL (**Licence Agreement**) has been amended,

(together, the **Transaction Documents**).

Summaries of each of these agreements are provided in section 9 "Additional information" of this Explanatory Memorandum.

The Transaction is conditional on a number of matters (see section 9.2 for further details) including the approval of the Foreign Investment Review Board and the Australian Competition and Consumer Commission. The Transaction also requires Shareholder approval under the ASX Listing Rules on the basis that the Transaction represents a sale of a main undertaking of the Company. This Resolution is seeking Shareholder approval in relation to the Transaction for the purposes of ASX Listing Rule 11.2 and for all other purposes.

If the Transaction proceeds, Sigma will retain its Healthcare Division, which comprises:

- Sigma's Wholesale Business which has a market share of over 30% in the Australian full-line pharmaceutical wholesale market and sells to over 4,000 retail pharmacies; and
- Sigma's Retail Business which owns Australia's largest and third largest retail pharmacy banner networks Amcal (including Amcal Max) and Guardian, represented through over 500 outlets nationwide.

5.3 Recommendation of the Sigma Board

The Directors unanimously recommend that Shareholders vote in favour of the Transaction in the absence of a Superior Proposal.

In making this recommendation, the Board considered the advantages and disadvantages of the Transaction, including the factors discussed in this Explanatory Memorandum. These include:

- the reasons for Shareholders to vote in favour of the Resolution to approve the Transaction (set out in section 2 and detailed below);
- the reasons for Shareholders to vote against the Transaction (set out in section 4);
- the risks associated with Sigma's business (set out in sections 8.4 and 8.5); and
- the Independent Expert's Report (set out in Attachment A).

Before the Transaction with Aspen was agreed, the Board also considered a number of alternatives for Sigma's future, including expressions of interest in relation to the whole of Sigma's business as well as specific divisions of the Company. These expressions of interest were indicative, conditional and non-binding and were not considered acceptable by the Board.

The Board assessed the Transaction and the alternatives against a number of criteria, including:

- the value delivered to the Company and to Shareholders;
- the timing and certainty of Completion of the Transaction;
- the likelihood that Sigma would be able to meet the repayment schedule for its syndicated banking facility; and
- the impact on the businesses retained by Sigma, including Sigma's earnings profile and growth opportunities.

For the reasons specified below, and with reference to the criteria described above, the Board has formed the view that, in the absence of a Superior Proposal, the Transaction represents the best outcome for Shareholders.

The Board considers the key advantages of the Transaction to include:

THE TRANSACTION ALLOWS SIGMA TO SIGNIFICANTLY REDUCE ITS OUTSTANDING BANK DEBT

Sigma is currently required to repay its $340 million syndicated banking facility according to the following timetable:

- $30 million upon Completion of the Transaction;
- $10 million by 31 March 2011; and
- $300 million by 18 September 2011.

Sigma also has trade receivables securitisation facilities totalling $750 million, $100 million of which expires in February 2011, and $650 million of which expires in March 2011, subject to certain conditions. Sigma is currently in discussions with its lenders regarding the extension of these facilities.

If the Transaction proceeds, Sigma intends to fully repay the debt outstanding under its syndicated banking facility, and to repay a significant proportion of its trade receivables securitisation facilities.

Subsequent to full repayment of the existing syndicated facility, Sigma intends to establish new debt facilities. These new facilities are currently intended to be drawn in the order of $150 million to $200 million after the Transaction.

Following the Transaction, Sigma intends to continue as a leading participant in the Australian pharmaceutical wholesaling market, with an extensive pharmacy retail banner network (Amcal, Amcal Max and Guardian) and a net asset position of approximately $862 million[1]. The Supply Agreement with Aspen Australia is expected to further strengthen this position.

SIGMA RETAINS ITS HEALTHCARE DIVISION

Completion of the Transaction will not affect Sigma's retention of full ownership of the Healthcare Division comprising both the Wholesale Business and Retail Business.

Following the Transaction, Sigma is expected to be well positioned for future growth and business improvement. Healthcare continues to be a growth sector of the Australian economy, and the Healthcare Division enjoys a strong position in this industry.

In the near-term, Sigma's new management team will focus on reducing working capital associated with the Wholesale Business and reviewing its cost structure. Over the medium to longer term, management's strategic focus will include considering options to further expand its core strengths in Sigma's Wholesale Business and Retail Business and develop new operational areas that grow and enhance Shareholder value.

1 As at 31 July 2010 (refer to section 8.2).

5. Resolution 1
Sale of Pharmaceuticals Division to Aspen

Sigma's Wholesale Business has a market share of over 30% in the Australian full-line pharmaceutical wholesale market and sells to over 4,000 retail pharmacies. Sigma's Retail Business owns Australia's largest and third largest retail pharmacy banner networks Amcal (including Amcal Max) and Guardian, represented through over 500 outlets nationwide. As such, Sigma remains a key player in the Australian healthcare industry.

The Transaction includes a Supply Agreement between Sigma and Aspen Australia under which Sigma will distribute a substantial range of products on behalf of Aspen Australia. The Healthcare Division will continue to have distribution rights to the portfolio of products sold to Aspen. Further details of the Supply Agreement are provided in section 9.5.

Growing Shareholder value is a key strategic objective of the Board which it intends to address through a two step process. The initial focus will be a restructure programme and measures to improve returns on invested capital by targeting improved profitability and more efficient working capital levels. Management believes these initiatives will place the company in a strong, competitive position, on which the second stage of strategy can be implemented. This second stage will include a further review of opportunities to improve the current Healthcare Division and the potential for growth through new operational areas that diversify the operational risk profile of Sigma.

THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE TRANSACTION IS 'FAIR AND REASONABLE'

The Independent Expert, Deloitte, has concluded that the Transaction is 'fair and reasonable'.

This conclusion is based on a number of considerations, which are described in the Independent Expert Report set out in Attachment A. In particular, Deloitte considers the value of the consideration offered by Aspen to be consistent with the high end of Deloitte's assessed fair market value of the Pharmaceuticals Division, and the expected benefits to Shareholders outweigh the disadvantages that may result from the Transaction.

SIGNIFICANT RISKS REMAIN IF THE TRANSACTION DOES NOT PROCEED

If the Transaction does not proceed, and there is no Superior Proposal, Sigma will be required to seek alternatives to meet its debt repayment schedule. Alternatives could include other asset sales and/or a capital raising that may result in dilution for some Shareholders. Sigma received expressions of interest in relation to certain other businesses and assets. However such expressions of interest were conditional, non-binding and incapable of acceptance by the Board. The Board has determined that each of these alternatives provided a less favourable and less certain outcome for Shareholders relative to the Transaction.

If the Transaction does not proceed and these alternatives cannot be pursued or are unsuccessful, Sigma would have difficulty repaying its debt in accordance with the current repayment schedule without significant refinancing. If Sigma is not able to obtain the required refinancing, Sigma will require the agreement of its banking syndicate to delay the repayment timetable. If an agreement between Sigma and its banking syndicate cannot be reached, and Sigma is unable to make the specified debt repayments, it could result in Sigma defaulting on its debt facilities, or require a renegotiation of key debt facility terms which could potentially cause a substantial increase in Sigma's ongoing interest payments.

NO SUPERIOR PROPOSAL HAS EMERGED

As at the date of this Explanatory Memorandum, Sigma has not received a proposal from any third party that, in the Board's opinion, would provide a superior outcome, relative to the Transaction, for Shareholders.

5.4 If the Transaction does not Proceed

Break Fee

If Resolution 1 is not approved, the Transaction will not be implemented and Sigma will be required to pay a break fee of $4.5 million (plus GST if any) to Aspen.

If a break fee is payable, it must be paid within five Business Days of the later of the termination of the Share Sale Agreement and receipt of written demand for payment from Aspen Asia.

Licence Agreement

The Sigma Group sought consent from a number of contractual counterparties to the novation of various contracts in connection with the restructuring of assets and liabilities under the Restructure Deed and the Transaction. One of the relevant contracts is a Licence Agreement between, among others, Arrow International and Sigma (then known as Arrow Pharmaceuticals Pty Ltd) dated 23 September 2005, as amended by letter

agreement dated 5 April 2007 and signed by all parties on 12 April 2007 (**Licence Agreement**).

The Licence Agreement provided for the provision of certain products and restraints on certain activities by Arrow International for a period of time.

Arrow International agreed to the novation of the Licence Agreement from Sigma to SPAL, except in respect of Venlafaxine (as hydrochloride) products, which are to remain with Sigma following Completion. Venlafaxine is an anti-depressant.

In consideration of agreeing to the novation of the Licence Agreement and other agreements, Sigma, SPAL and Aspen have made certain acknowledgements in a binding term sheet (**Term Sheet**) including, but not limited to, those in respect of:

(a) the satisfaction of certain obligations of Arrow International under the Licence Agreement; and

(b) Watson Pharmaceuticals, Inc. (being the ultimate holding company of the party from which Sigma acquired Arrow International) (**Watsons**) and certain of its affiliates having the right to compete with SPAL in respect of certain products licensed under the Licence Agreement,

(together, **Acknowledgements**).

The Licence Agreement and other agreements will only be novated if the Transaction proceeds, however the Acknowledgements made by Sigma will apply even if the Transaction does not proceed. Sigma may not have made the Acknowledgements in the absence of Arrow International's agreement to novate the Licence Agreement and other agreements. Accordingly, if the Transaction does not proceed Sigma may have made acknowledgements it would not otherwise have made. The Acknowledgements may negatively affect Sigma's business in future if the Transaction is not approved by Shareholders or does not otherwise complete.

Under the Term Sheet as a result of the partial novation Sigma (or its nominee) is entitled to enter into a licence agreement, in respect of Venlafaxine, on the same terms as the Licence Agreement subject to such consequential changes as are required. The right to market Venlafaxine is to remain with Sigma because of current litigation in respect of that product, for which Sigma is to remain responsible (see section 9.2 for further detail).

Further details on the competition risk to Sigma, in respect of the Term Sheet, are provided in section 8.5 and further details on the Term Sheet are provided in section 9.4.

5.5 Potential Disadvantages if the Transaction Proceeds

The Transaction has a number of potential disadvantages that Shareholders should consider before deciding whether to vote in favour of the Transaction. The Directors are of the opinion that these disadvantages are outweighed by the advantages of the Transaction and that the Transaction is in the best interests of Shareholders. However, Shareholders should consider their individual circumstances and make their own determination. The key disadvantages of the Transaction that have been identified include:

SIGMA SHAREHOLDERS WILL CEASE TO HAVE ANY DIRECT INTEREST IN THE PHARMACEUTICALS DIVISION

Shareholders will not retain any direct exposure to the Pharmaceuticals Division and will not directly benefit from any additional value that may be realised from assets associated with this division following its sale.

Sigma had previously identified an opportunity to grow the Generics Division. This was in part due to Sigma's market share, a loyal pharmacy customer base and Sigma's expectation that products with a current PBS value of $2.5 billion will come off patent over the next five years. If the Pharmaceuticals Division is sold, Sigma will no longer have an opportunity to directly benefit from the potential growth in PBS expenditure in the Generics market.

THE PERFORMANCE OF SIGMA WILL BE DEPENDENT ON OPERATIONS WITHIN THE HEALTHCARE DIVISION

Following Completion of the Transaction, Sigma's business will consist of the Wholesale Business and Retail Business. As a result, Sigma's operational risk profile will be less diversified than at present. Sigma's financial performance may also be more directly affected by any regulatory change that influences the Australian pharmaceutical wholesaling market.

By selling the Pharmaceuticals Division, Sigma will also be changing the scale of its activities by a significant extent, which may not be consistent with the investment objectives of all Shareholders.

5. Resolution 1
Sale of Pharmaceuticals Division to Aspen

A SUPERIOR PROPOSAL MAY EMERGE

If the Transaction does not proceed, it is possible that at some time in the future an alternative proposal may be put to Sigma that offers greater value for, and/or less risk to, Shareholders than would be realised under the Transaction. However, as at the date of this Explanatory Memorandum, the Directors are not aware of any Superior Proposal.

5.6 Obtaining further information

You can obtain further information by contacting the Sigma Shareholder Information Line on 1300 139 653 (within Australia, toll free) or +61 2 8280 7167 (from international) Monday to Friday between 8.30am and 5.30pm (Melbourne time) or by contacting your financial, legal, taxation or other professional adviser.

6. Information about Sigma

6. Information about Sigma

6.1 Overview Of Present Position

Sigma was originally founded by two Melbourne pharmacists in 1912 and merged with Arrow Pharmaceuticals in 2005. Sigma has a market capitalisation of approximately $560 million as at the close of trading on 2 December 2010.

Sigma is an Australian manufacturer and marketer of prescription and OTC pharmaceutical products, and exports to markets in Asia Pacific, the Middle East, Africa and Europe. The Company also operates a leading full-line wholesale and distribution business which supplies Australian pharmacies.

Sigma's retail pharmacy banner brands include Amcal, Guardian and the newly launched Amcal Max brand. Together these brands occupy a strong position across Australia with over 500 outlets nationwide. Sigma currently has over 1,650 employees.

Sigma operates five manufacturing sites across Australia. The largest of Sigma's sites, the Dandenong facility in Victoria, recently completed a major expansion and redevelopment programme to improve production capacity and efficiencies. The site in Tennyson, Queensland, is currently undergoing a phased closure.

The following table summarises the businesses to be retained by Sigma and those to be sold to Aspen as part of the Transaction:

Businesses to be retained by Sigma	Businesses to be sold to Aspen
Wholesale	Generics
Retail	Consumer (OTC and Herron)
	Ethical/Medical Products
	Orphan
	Manufacturing

6.2 Businesses to be retained by Sigma

Wholesale Business

Sigma's Wholesale Business represents one of three full-line pharmaceutical distributors in Australia. It stocks and delivers Pharmaceutical Benefits Scheme (**PBS**) medicines to any pharmacy in Australia, irrespective of location. Annual sales revenue is in excess of $2.6 billion, and in the recent past this has grown at a higher rate than the overall market. Sigma's Wholesale Business has a market share of over 30% of the Australian full-line pharmaceutical wholesale market and offers daily delivery services to over 4,000 retail pharmacies, including both small independent stores and large customer groups. There are 14 distribution centres located throughout Australia, maintaining approximately 15,000 product lines across the major distribution centres. Product lines include prescription drugs, OTC medicines and general retail merchandising products.

In Australia, the Federal Government is the primary funder of prescription drugs through the PBS. The PBS regulates wholesaler remuneration on PBS prescription medicines through mandated wholesaling mark-ups and the CSO Deed. The Community Service Obligation Funding Pool (**CSO**) is a pool of approximately $175 million per annum which is shared amongst the qualified CSO distributors based on units sold and compliance with the Deed. Sigma is a qualified CSO distributor and party to the CSO Deed, and maintains a close working relationship with regulatory bodies, customers and other stakeholders.

A dedicated field force provides direct customer services including key account and business development managers, sale of business consultants, and a wide range of support services.

The Wholesale Business remains focused on delivering attractive returns to Shareholders, and developing strategies to enhance the service proposition to customers. With wholesaler remuneration largely capped by the PBS and CSO, developing such points of difference results in long-term sustainable advantages which drive profit opportunities. This includes further development of Amcal and Guardian and a dedicated pharmacy retail solution for independent pharmacies and tailoring of customer service levels.

Historically, the Wholesale Business has required a significant investment in working capital. Optimising inventory holdings across the distribution facility network, reducing extended credit terms offered to customers, and renegotiating key supply contracts on mutually beneficial terms are key areas of focus for Sigma's senior management.

The rationalisation of distribution sites continues, with the phased closure of the sites in Laverton and Clayton underway and expected to be completed by Easter 2011. A new facility at Rowville has been commissioned. These initiatives are intended by management to drive increased efficiencies in Sigma's largest State for wholesaling, and release substantial investment in capital, which will potentially be available to be reinvested in other profit making opportunities.

Retail Business

Sigma owns Australia's largest and third largest pharmacy retail brands, Amcal (including Amcal Max) and Guardian, represented through over 500 outlets nationwide. Generating approximately $900 million per annum of wholesale turnover, the retail pharmacy members represent a key customer group of Sigma's Wholesale Business.

Amcal and Guardian pharmacies continue to achieve strong brand awareness throughout Australian communities with over 2 million consumers signed to loyalty programmes and over 35 million catalogues per year distributed to households nationally.

Sigma believes that the value proposition for Amcal and Guardian members is supported by the development and implementation of initiatives such as marketing and merchandise programmes, field operations support, business analysis tools, store design enhancements and training programmes.

Amcal and Guardian members pay an annual fee to Sigma for the use of the brand and store livery, buying and supply chain support, marketing through brands and catalogues, and in-store merchandising opportunities.

Sigma has invested in the development of the Amcal Max brand and this has resulted in significant growth in 2010 with over 20 pharmacies operating under this franchise model. Over the next 12 months the Amcal Max brand is expected to deliver further expansion of pharmacy numbers, with 30 additional stores targeted.

The Retail Business also includes Sigma's private label branded goods portfolio, sold and marketed through Sigma's Amcal, Amcal Max and Guardian banner members (**Private Label Portfolio**). The Private Label Portfolio currently consists of approximately 250 stock keeping units and covers all major OTC product categories. The portfolio is continually enhanced through new product launches, refreshed packaging, and in-store merchandise and marketing support.

Aspen Australia and SCL have entered into a Product Manufacture and Supply Agreement under which Aspen Australia will manufacture and supply a substantial portion of the current Private Label Portfolio to SCL following Completion (**PMSA**). Aspen Australia will maintain the regulatory authorisations for the Private Label products, and must assist and support SCL's application for regulatory authorisations in SCL's name for the same Private Label products so that supply of the products is maintained following expiry of the PMSA.

Under the PMSA, approximately 45% of Sigma's Private Label Portfolio will be manufactured by Aspen Australia. For a further approximately 40% of the Private Label Portfolio, Aspen Australia will facilitate the supply to Sigma through third party manufacturers.

SCL has appointed Aspen Australia as SCL's exclusive source of these Products from the current Private Label Portfolio.

Further detail on the PMSA is provided in section 9.6.

6.3 Businesses to be sold to Aspen

Generics

The Generics Division was established through Sigma's merger with Arrow Pharmaceuticals in 2005 and involves the sale, marketing, sourcing and manufacturing of PBS approved generic and private prescription (non-PBS) pharmaceutical products.

The Generics Portfolio markets, manufactures and sources generic PBS products which are licensed from originator pharmaceutical companies and other generic companies. The Private Prescription Portfolio markets and sells non-PBS products directly to pharmacies, via non-exclusive distribution agreements with individual pharmaceutical companies.

The core business of the Generics Division involves launching a generic equivalent for patent-expired prescription products. With more than 1,000 fully-supporting and 1,500 partially-supporting retail pharmacy customers, the Generics Division maintains a strong presence through new generic products. Some of these new products are sourced from Sigma's exclusive generic pipeline in Australia from Arrow International. Over the next five years, Sigma expects products with a current PBS value of approximately $2.5 billion will come off patent, which represents a significant opportunity.

Over recent years, however, the generics market in Australia has changed significantly due to increased competitor activity and major changes to the regulatory environment. Major patent expirations have attracted overseas generic companies to initiate and intensify sales and marketing activities, increasing discounting pressure to compete for pharmacy business. In 2006, PBS reform was introduced to deliver an immediate and ongoing cost saving to the Government through statutory price reductions and a price disclosure mechanism. Major

6. Information about Sigma

uncertainty remains regarding the depth and breadth of the price reductions on genericised molecules. To date, all price reductions have been absorbed by the supply chain and Sigma believes that this will remain the expectation from pharmacists in the near to medium-term.

Multinational pharmaceutical companies appear to continue to develop various legal and commercial strategies aimed at extending the revenue stream from PBS molecules that are nearing patent expiry. Such actions impact on the profitability of generic suppliers and delay cost saving to the PBS.

While Sigma has retained a major presence in the Australian market, management believes the ongoing profitability of this business remains uncertain, with additional legislated reforms to the PBS recently passing the Senate and ever-increasing levels of competition.

Consumer Division

Sigma's Consumer Division operates the largest Australian-owned OTC portfolio in the pharmacy channel, with brands in the categories of pain relief and analgesics, laxatives, cough and cold medicines, osteoarthritis medicines, vitamins and supplements, and rubs and oils. Sigma's key brands include Herron Gold, Herron Blue, Herron Natural Healthcare, Goanna, Osteoeze, Vita-Minis, Coloxyl, Ural and the Chemists' Own umbrella brand.

The Herron brands are distributed through grocery and pharmacy channels. While performing well in pharmacies, management believes the Herron brands continue to face challenges in the grocery distribution channel, including from increased competition from grocery participants' "own brands".

The Chemists' Own brand and other Sigma OTC brands are distributed exclusively through the pharmacy channel.

Unlike prescription drugs, OTC products are not price regulated by the Government. Retail pharmacies are generally able to set prices for such products based on local demand and competitive considerations, hence sales of these products represent an attractive margin proposition for their business. With the continued Government focus on preventative health and self-medication measures to reduce the burden on the PBS and health system, it is expected that OTC products will remain a growing market segment. However, with such growth often comes increased competition, and an increasing proportion of OTC products sold in Australia are sourced from low cost overseas manufacturers, impacting Sigma's ability to maintain profit margins and incentive to invest to grow sales and market share.

Ethical/Medical Products and Orphan

Sigma's Ethical/Medical Products Division and Orphan Division is a large Australian-owned supplier of prescription pharmaceuticals, and a niche product specialist. The divisions include a portfolio of ethical products acquired from Bristol-Myers Squibb Australia in 2009. These divisions are focused on licensing, registering, marketing and distributing niche products typically prescribed by specialists and GPs. These products typically treat serious disorders for which there are limited alternatives available, and target well-defined patient populations.

Key distribution channels for these divisions are:

- Ethical/Medical – community GPs; and
- Orphan – specialists (hospitals and private clinics) and hospital pharmacies.

These divisions also provide tailor-made solutions for their customers. This includes negotiating with suppliers to be granted a licence to sell their product in Australia and New Zealand, registration and price-reimbursement services, and marketing.

The current promoted portfolio covers therapeutic areas such as gastro/hepatology, haematology, neurology/psychiatry, metabolism, palliative care, urology and infectious diseases.

Manufacturing

The Manufacturing Division currently supports 24 customers and is a large contract manufacturer of pharmaceuticals and complementary medicines in Australia. Products manufactured include liquids, creams and ointment products; solid dose, ethical, OTC and antibiotics products; and tablet, capsule and powder products. Sigma also provides packaging and technical support services including analytical and microbiological testing, validation stability testing, material sourcing and primary distribution.

Aspen will acquire the following manufacturing sites as part of the Transaction.

Site	Overview	Capability
Baulkham Hills	Manufactures and packs mainly ethical and generic products, some OTC and private label products	Tablet, capsule and powder manufacturing. Blister, bottle and sachet packing lines
Dandenong	Manufactures and packs mainly ethical and generic products, some OTC and private label products	Tablet, powder and liquid dose manufacturing. Bottle (solid dose and liquid), tube filling ointments and creams, blister and sachet packing lines
Noble Park	Manufactures and packs mainly ethical and contract products	Tablet, powder, cream, ointment and liquid dose manufacturing. Bottle (solid dose and liquid), tube and blister packing lines
South Croydon	Dedicated antibiotics facility	Tablet, capsule and powder manufacturing. Blister, bottle and sachet packing lines
Tennyson[2]	Manufactures and packs mainly Herron, Chemists' Own and Private Label Portfolio products	Tablet and capsule manufacturing. Blister and bottle packing lines

The Manufacturing Division also includes Sigma's Exports Business, which distributes pharmaceutical products to a diversified multinational customer base in approximately 30 countries throughout Asia Pacific, the Middle East, Africa and Europe.

6.4 Ongoing Arrangements between Sigma and Aspen

If the Transaction is approved, and the other conditions precedent are satisfied, Sigma's Pharmaceuticals Division will be acquired by Aspen and will be separated from Sigma's Healthcare Division. Going forward, the relationship between the Pharmaceuticals Division and the Healthcare Division will be governed by contractual arrangements, including but not limited to those described below:

- Sigma will have, for five years (with a further five year option), distribution rights with the Pharmaceuticals Division similar to existing arrangements;
- Aspen will support Sigma's existing pharmacy sales programmes and provide contract manufacturing services for at least two years for Sigma's Private Label products; and
- Sigma will provide transitional information technology, payroll and human resources services to the Group Companies acquired by Aspen for up to 12 months.

Sigma will also be subject to a non-compete with the Pharmaceuticals Division for a period of two years (five years for the Generics Division).

See section 9 for further details on the ongoing arrangements between Sigma and Aspen.

2 Currently undergoing a phased closure.

7. Resolution 2 Amendments to the Constitution

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

Amendments to the Corporations Act on 28 June 2010 repealed the express requirement that dividends may only be paid out of company profits. The requirement has been replaced with a new rule that prohibits a company from paying a dividend unless:

(a) the company's assets exceed its liabilities immediately before the dividend is 'declared' and the excess is sufficient for the payment of the dividend;

(b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and

(c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

It is not clear that the amendment to the Corporations Act has in fact effectively abolished the requirement that dividends be paid out of profits rather than capital in that the new provisions in the Corporations Act only specifies when a dividend may not be paid, rather than when a dividend may be paid. Nevertheless, Resolution 2 proposes amendments to the Company's Constitution removing express requirements that dividends only be paid out of profits (and incidental references to the payment of profits from dividends) consistent with the amendments to the Corporations Act that have been made.

It is the current intention of Sigma's Board, subject to its continuing assessment of the Company's financial position, to pay a franked special dividend to Shareholders. Such a dividend could therefore be paid after the Completion of the Transaction. Completion of the Transaction is currently expected to occur on 31 January 2011.

The proposed amendments to the Constitution are to ensure that Sigma is not subject to a requirement that any dividend paid to its Shareholders must be paid from profits of the Company where that requirement is not imposed by the Corporations Act.

8. Sigma's Position following the Transaction and amendments to the Constitution

8.1 Post Transaction intentions of Sigma

General

Following the Transaction, the Company will continue to be called Sigma Pharmaceuticals Limited and will be headquartered in Melbourne.

Board, Management and Employees

During 2010, Sigma has made the following appointments to its Board and senior management team:

Board

- Mr Brian Jamieson commenced as Chairman of Sigma on 21 June 2010. Mr Jamieson was a Director of SCL from May 2003 to December 2005, at which time he became a Director of Sigma Pharmaceuticals Limited. He is also a director of OZ Minerals Limited, a director of Tatts Group Limited and chairman of Mesoblast Limited. He is a former Managing Partner Melbourne of Minter Ellison Lawyers and a former Chief Executive of KPMG Australia.
- Mr Raymond Gunston commenced as a Director of Sigma on 1 July 2010. Mr Gunston has extensive corporate and financial services experience in the public and private sectors, specialising in finance, taxation and accounting.

Management team

- Mr Mark Hooper commenced as Managing Director and Chief Executive Officer of Sigma on 30 August 2010. Mr Hooper was most recently the Chief Financial Officer and an Executive Director of PaperlinX Limited. His previous roles include Chief Financial Officer and Chief Operating Officer (Consumer and Pharmacy) of Symbion Health Limited (2006 to 2008) and Chief Financial Officer of Sigma (2001 to 2006).
- Mr Jeff Sells commenced as Chief Financial Officer of Sigma on 30 August 2010. His former roles include Chief Financial Officer of Citidal Resource Group Limited (October 2008 to August 2010), Chief Financial Officer of Oxiana Limited (2004 to August 2008) and Group Treasurer of Sigma (2002 to 2004).

Both Mr Hooper and Mr Sells will continue in their respective roles at Sigma upon Completion of the Transaction.

As part of the Transaction, a number of Sigma employees will transfer to Aspen. The individuals to transfer to Aspen have not yet been finally determined.

Use of proceeds

Sigma will receive gross proceeds of approximately $900 million from the Transaction[3].

Following Completion of the Transaction, the proceeds of the sale will be used in the first instance to:

- repay outstanding debt under Sigma's $340 million syndicated bank debt facility[4]; and
- pay consultants' costs associated with the Transaction of approximately $20 million.

Sigma will also repay a significant proportion of its trade receivables securitisation facilities.

It is expected that there will be no taxable capital gain in respect of the Transaction as the tax cost base of the shares being sold is expected to be higher than the sale proceeds. As a result, there should be no income tax liability arising on the disposal of the Pharmaceuticals Division.

Sigma is currently in negotiations with its lenders to establish new debt facilities, which will provide liquidity going forward. Sigma's Board and management will undertake a detailed review of the best use of Sigma's new debt facilities and the appropriate capital structure for the Company, which may include payment of a franked special dividend to Shareholders.

Any decision regarding application of the proceeds will be made after a full consideration of Sigma's forecast financial requirements including working capital, capital expenditure and litigation expenses (including the Shareholder Class Action commenced on 29 October 2010). It is possible that the applicants in the Shareholder Class Action will seek to prevent, or limit Sigma's ability to pay, a special dividend.

Strategic direction

Following the Transaction, Sigma will continue as a leading participant in the Australian pharmaceutical wholesale market, with an extensive pharmacy retail banner network (Amcal, Amcal Max and Guardian) and a net asset position of approximately $862 million[5]. The Company's strategic focus following Completion will be on organic growth opportunities that build upon its already robust relationships with over 4,000 retail pharmacies nationally, as well as new initiatives including business improvement and medium-term growth opportunities.

3 Subject to determination of working capital and other adjustments.

4 As at 31 July the facility limit was $400 million. Sigma repaid $40 million of this facility on 30 August 2010 and $20 million on 30 November 2010. As at the date of this Explanatory Memorandum, the facility limit is $340 million.

5 As at 31 July 2010 (refer to section 8.2).

8. Sigma's position following the Transaction and amendments to the Constitution

Capital structure

Following the Transaction, Sigma will have a stronger balance sheet than immediately before the Transaction, with the proceeds being used to fully repay its syndicated bank debt facility and significantly reduce its trade receivables securitisation facilities. Sigma's Board and senior management will then assess the appropriate capital structure of Sigma going forward including the appropriate level of gearing. It is likely that the Board and senior management will adopt a conservative approach to gearing, in order to re-establish credibility with banking partners and to provide stability to make improvements in operational performance. It is presently intended that Sigma will pursue the establishment of new debt facilities drawn in the order of $150 million to $200 million to fund ongoing working capital requirements.

Dividends and Shareholder distributions

The payment of any future dividends or returns of capital will be at the discretion of the Board and will depend, amongst other things, on the performance and financial position of the Company at the relevant time.

8.2 Pro-forma consolidated balance sheet as at 31 July 2010

The pro-forma consolidated balance sheet of Sigma as at 31 July 2010, adjusted for the Transaction, is provided below.

The pro-forma historical financial information has been derived from the interim financial report of Sigma as at 31 July 2010. The interim financial report was reviewed by PricewaterhouseCoopers (Sigma's auditors) and lodged with ASX on 29 September 2010.

The pro-forma balance sheet information is presented in abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The pro-forma balance sheet has been prepared by:

- assuming the Transaction occurred on 31 July 2010;
- assuming the Transaction occurred on a "cash free, debt free" basis;
- recognising the receipt of $900 million in gross proceeds from the Transaction, and assuming no working capital adjustments;
- utilising the $900 million gross proceeds to repay the $263 million outstanding under Sigma's syndicated banking facility as at 31 July 2010[6];
- utilising the $900 million gross proceeds to reduce trade receivables securitisation by $400 million. The impact of this repayment is the recognition on balance sheet of $400 million debtors; and
- assuming estimated Transaction costs and associated professional fees of a total of $20 million are paid out of the above proceeds.

The balance of $217 million, representing the difference between the gross Transaction proceeds of $900 million and the use of proceeds detailed above, has been included as part of cash and cash equivalents for the purposes of the unaudited pro-forma consolidated balance sheet.

The pro-forma cash and cash equivalents balance of $229 million is as at 31 July 2010 and therefore does not represent Sigma's effective cash balance following the Transaction. The cash and cash equivalents balance as per the pro-forma balance sheet will be impacted by repayments on amounts drawn on Sigma's trade receivables securitisation facilities. Furthermore, Sigma's cash position will change due to cash flows from operating, investing and financing activities from 1 August 2010 to the Completion of the Transaction.

6 As at 31 July 2010 the facility limit was $400 million. Sigma repaid $40 million of this facility on 30 August 2010 which was scheduled for repayment on 30 September 2010. A further repayment of $20 million was made on 30 November 2010. These repayments were funded through operating cashflows. A repayment of $30 million is due upon Completion of the Transaction, and a further repayment of $10 million is due by 31 March 2011.

Sigma Pharmaceuticals Limited
Historical Consolidated Balance Sheet and Pro-Forma Consolidated Balance Sheet
As at 31 July 2010
in AUD millions

	Interim Consolidated Balance Sheet	Unaudited Consolidated Pro-Forma Balance Sheet
Current assets		
Cash and cash equivalents	11.5	228.5
Receivables	304.9	641.0
Income tax receivable	7.7	7.7
Inventories	351.9	236.7
Derivative financial instruments	4.3	4.3
Prepayments	6.4	3.1
Assets classified as held for sale	43.5	14.0
Total current assets	**730.2**	**1,135.3**
Non-current assets		
Receivables	7.9	7.9
Gateway loans receivable	13.3	13.3
Derivative financial instruments	1.5	1.5
Property, plant and equipment	199.7	48.2
Intangible assets	654.2	53.7
Deferred tax assets	45.4	15.0
Total non-current assets	**922.0**	**139.6**
Total assets	**1,652.1**	**1,274.8**
Current liabilities		
Payables	391.0	354.3
Interest bearing liabilities - Gateway	7.7	7.7
Interest bearing liabilities	284.4	21.4
Derivative financial instruments	5.8	5.8
Provisions	18.7	10.1
Deferred income	0.3	0.3
Total current liabilities	**707.9**	**399.6**
Non-current liabilities		
Deferred tax liabilities	88.9	10.2
Derivative financial instruments	2.0	2.0
Provisions	1.3	0.5
Deferred income	0.4	0.4
Total non-current liabilities	**92.6**	**13.1**
Total liabilities	**800.4**	**412.6**
Net assets	**851.7**	**862.2**
Total equity	**851.7**	**862.2**

Notes:

1 Properties classified as 'Held For Sale' at 31 July 2010 of $43.5 million are not currently being pursued for sale as the Transaction contemplates that some of these properties will be sold to Aspen. In respect of the properties not included in the Transaction (except for Clayton), these properties will not be pursued for sale as the potential sale proceeds from Aspen will be sufficient to meet debt repayment obligations.

2 Sigma repaid $40 million of its syndicated banking facility on 30 August 2010 which was scheduled for repayment on 30 September 2010. A further repayment of $20 million was made on 30 November 2010. These repayments were funded through operating cashflows. A repayment of $30 million is due upon Completion of the Transaction, and a further repayment of $10 million by 31 March 2011. If the Transaction proceeds, Sigma intends to fully repay its syndicated banking debt. As a result, Sigma will have no outstanding long-term debt on its balance sheet.

3 The pro-forma historical financial information has been derived from the interim financial report of Sigma as at 31 July 2010. The interim financial report was reviewed by PricewaterhouseCoopers and lodged with ASX on 29 September 2010.

8. Sigma's Position following the Transaction and Amendments to the Constitution

8.3 Proforma Consolidated Statement of Financial Performance for the six months ended 31 July 2010

The Pro-forma Consolidated Statement of Financial Performance of Sigma for the six months ended 31 July 2010, adjusted for the Transaction, is provided below.

The pro-forma historical financial information has been derived from the interim financial report of Sigma for the half year ended 31 July 2010. The interim financial report was reviewed by PricewaterhouseCoopers and lodged with ASX on 29 September 2010.

The reconciliation between the interim reported consolidated EBIT of $(180.2) million and the consolidated underlying EBIT of $64.5 million is provided on pages 5 to 7 within the "Sigma 2010 Half Year Results Presentation" lodged with ASX on 29 September 2010.

The pro-forma interim underlying Healthcare Division EBIT represents the historical earnings of the Healthcare Division assuming the Transaction occurred on 1 February 2010. It excludes the historical earnings of the Pharmaceuticals Division as it operated in the Sigma Group. It does not purport to represent Sigma's performance had the Healthcare Division operated as a standalone entity during the above period.

The interim financial report for the half year ended 31 July 2010 disclosed a reported EBIT of $28.6 million for the Healthcare segment and page 7 of the associated results presentation provides a reconciliation from the reported EBIT of $28.6 million to an underlying EBIT of $31.6 million. This differs from the pro-forma interim underlying Healthcare Division EBIT of $29.2 million shown in the table below due to:

- a proportionate allocation of corporate costs to the Healthcare Division which were disclosed separately in the interim report and associated results presentation;
- the addition of earnings associated with the Private Label Portfolio products range, which were previously reported under the Pharmaceuticals Division segment but will be retained by Sigma as part of the Transaction; and
- adjusting for the Transaction arrangements described below.

Pro-forma adjustments for net financing costs and tax have not been made because the financing arrangements and tax structures under which Sigma operated during the above period may not reflect the financing arrangements and tax structure of Sigma after the Completion of the Transaction.

The Pro-forma Summary Financial Performance for the Healthcare Division has been prepared by assuming:

- the Transaction occurred on 1 February 2010;
- no adjustment has been made to the pro-forma historical financial information for the profit and loss on the discontinuation of the Pharmaceuticals Division;
- no adjustment has been made for estimated Transaction costs (Sigma will incur approximately $20 million before tax in one-off Transaction costs and associated professional fees);
- Sigma has a long-term supply arrangements with Aspen whereby Sigma charges negotiated distribution fees, and transitional support fees under the Transaction Documents, assumed to have commenced on 1 February 2010; and
- Aspen provides Sigma with contract manufacturing services at agreed prices relevant to Private Label Portfolio products in the Healthcare Division (see section 9.6 for further information regarding review of prices).

Sigma Pharmaceuticals Limited
Consolidated Statement of Financial Performance and
Pro-Forma Summary Financial Peformance Healthcare (excl Pharmaceuticals Division)
For the half year ended 31 July 2010
in AUD millions

	Interim Consolidated Statement of Financial Performance	Adjustments One off Items	Interim Consolidated Underlying Performance	Pro-forma Unaudited Interim Underlying Healthcare Division
Sales revenue	**1,621.3**		**1,621.3**	**1,498.7**
Costs of goods sold	(1,458.3)	9.4	(1,448.9)	(1,402.5)
Gross profit	**163.0**	**9.4**	**172.4**	**96.2**
GP %	10.1%		10.6%	6.4%
Other revenue and income	18.1		18.1	17.1
Warehouse and delivery expenses	(38.5)		(38.5)	(34.9)
Sales and marketing expenses	(45.4)		(45.4)	(19.8)
Administration expenses	(45.0)	2.9	(42.1)	(29.4)
Impairment - other assets	(6.6)	6.6	0.0	0.0
Impairment - goodwill	(220.0)	220.0	0.0	0.0
Plant rationalisation and restructuring	(5.8)	5.8	0.0	0.0
EBIT	**(180.2)**	**244.7**	**64.5**	**29.2**
Financial income	0.6		0.6	
Financial expenses	(38.3)		(38.3)	
Net financing costs	**(37.7)**	**0.0**	**(37.7)**	
Profit / (loss) before income tax	**(217.9)**	**244.7**	**26.8**	
Income tax expense	(0.6)	(7.4)	(8.1)	
Net profit / (loss) for the half year	**(218.5)**	**237.3**	**18.8**	

8.4 Risks relating to Sigma's business and financial condition following the Transaction

There are existing risks relating to Sigma's business and an investment in Sigma, which will continue to be relevant to Shareholders following Completion of the Transaction. Some of the risks which may affect the future operating and financial performance of Sigma and the future investment performance of Sigma Shares are set out below.

Some of the risks identified in this section may be mitigated by the use of safeguards and appropriate systems and controls. However, many will be outside the control of Sigma. There are also general risks associated with any investment in securities.

Additional risks and uncertainties not currently known to Sigma may also have a material adverse effect on Sigma's business and an investment in Sigma.

The risks identified in this Explanatory Memorandum are not exhaustive, and no assurances or guarantees of future performance of, profitability of, or payment of dividends by, Sigma are given.

8. Sigma's Position following the Transaction and Amendments to the Constitution

8.5 Specific risks

Funding

If the Transaction proceeds, Sigma intends to fully repay the debt outstanding under its syndicated banking facility, and repay a significant proportion of the debt outstanding under its trade receivables securitisation facilities.

Subsequent to full repayment of the existing syndicated facility, Sigma intends to establish new debt facilities. These new facilities are currently intended to be drawn in the order of $150 million to $200 million after the Transaction. However, Sigma's ability to secure debt facilities, and the terms of any facilities, will depend on a number of factors such as debt market, economic, industry and share market conditions. Inability to obtain financing may affect the financial condition and performance of Sigma.

Shareholder Class Action

On 3 September 2010, Sigma received correspondence foreshadowing a proposed shareholder class action against Sigma relating to alleged non-disclosure by Sigma prior to its capital raising in September 2009.

On 29 October 2010, Sigma was served with an application and statement of claim filed in the Federal Court of Australia. The statement of claim makes various allegations against Sigma concerning Sigma's market disclosure during 2009 and 2010 (**Shareholder Class Action**). The applicants are said to comprise persons who acquired Sigma Shares between 7 September 2009 and 25 February 2010. The applicants are seeking declarations and unquantified damages.

Sigma refutes the allegations and intends to vigorously defend the proceedings.

If the applicants are awarded damages, such award will affect the cash flow of Sigma. It may affect Sigma's ability to pay future dividends. Sigma may need to increase its borrowings in order to pay any awarded damages. It is possible that the applicants in the Shareholder Class Action will seek to prevent, or limit Sigma's ability to pay, dividends pending determination of the Shareholder Class Action.

Sigma's reputation and its Share price may also be adversely affected by any award of damages or other orders that may be made against it.

The Share Sale Agreement also provides for an indemnity from SCL to Aspen in respect of losses suffered by Aspen and its affiliates (including the purchased companies) as a result of lack of, or inadequate disclosure relating to, continuous disclosure or securities laws by a member of the Sigma Group prior to Completion. Further details on this indemnity are provided in section 9.2.

Reduced diversification

Following Completion of the Transaction, Sigma's remaining business will consist of the Healthcare Division, comprising the Wholesale Business and Retail Business. As a result, Sigma's performance will be reliant on the Healthcare Division and the Company's operational risk profile will be less diversified than at present. Sigma's performance may also be more directly affected by any regulatory change that influences the Australian pharmaceutical wholesaling market.

Claims in connection with the Share Sale Agreement

Sigma and SCL have given certain warranties and indemnities to Aspen in connection with the Share Sale Agreement. Warranties and indemnities are given in relation to the conduct of the Pharmaceuticals Division before Completion, including in respect of the assets to be sold under the Transaction, taxes and information provided to Aspen during the due diligence process. These are outlined in more detail in section 9.2. To the extent that Aspen makes claims against Sigma or SCL for a breach of warranty under the Share Sale Agreement, this may adversely affect Sigma's financial condition.

Ongoing arrangements with Aspen

Sigma and Aspen have entered into a number of agreements in relation to the provision of services to the Pharmaceuticals Division and Healthcare Divisions, including a supply agreement, a product manufacturing and supply agreement, and a transition services agreement. There is a risk that as a result of the separation of the Pharmaceuticals Division assets from Sigma's remaining business there may be interruptions in the services to be provided by Aspen to Sigma, and this may adversely affect Sigma's operations.

For example, under the Supply Agreement Sigma will be appointed by Aspen Australia (currently SPAL) as its distributor in respect of certain products. The financial performance of Sigma may be affected by the success of those supply arrangements, including such matters as the volume of products that Aspen Australia sources or makes available to Sigma for supply to Sigma's customers.

The financial performance of the Healthcare Division may also be affected by these ongoing arrangements. For example, the prices at which the Retail Business will acquire Private Label products will be subject to review

(refer to section 9.6). To the extent prices are increased as a consequence of review, financial performance may be affected.

Changes in Government regulatory policies and regulation

The PBS, the Federal Government's subsidised prescription drug scheme, regulates this market. The pharmacy wholesaler remuneration for distributing PBS drugs is based on a mandated mark up of the manufacturer's price and access to the CSO funding pool. As such, wholesaling remuneration is impacted by PBS changes either directly through changes to the wholesaler margin or CSO funding or indirectly through changes to drug prices. PBS reforms legislated in 2010 will see price reductions across a number of drugs and therefore lower the wholesaler remuneration for these drugs.

The Federal Government regulates the structure of community pharmacy and scheduling of drugs marketed in Australia. Changes to these regulations may impact the pharmacy wholesaling market.

Sigma continues to be an appointed CSO distributor and complies with the requirements of the CSO Deed, which was established as part of the Fourth Community Pharmacy Agreement in 2005.

Funding of the CSO at current levels for the next five years was agreed to in the Fifth Community Pharmacy Agreement (2010). To date, there has been no agreement for compensation to pharmaceutical wholesalers from the Government for the flow-on impact from the proposed PBS reform initiatives currently before the Senate.

The Therapeutic Goods Administration (**TGA**), an authority of the Commonwealth Department of Health and Ageing, has responsibility for administering the Therapeutic Goods Act 1989. The TGA conducts assessment and monitoring activities to ensure that therapeutic goods available in Australia are of an acceptable standard. Any changes to TGA provisions, including those regarding Private Label Portfolio product registration approvals or recalls of Private Label Portfolio product, may impact the future profitability and reputation of the Retail Business.

Customers

Sigma has a large customer base comprising individual stores and groups of stores that have formed buying groups to negotiate more favourable terms with Sigma on behalf of their member stores. Sigma remains exposed to competitor pressures in retaining and attracting such customers. The loss of a key customer, the inability to renew contracts on similar terms, or the inability of the business to attract new customers may have a material impact on future profitability and efficient utilisation of fixed assets invested in the business.

Sigma is exposed to the risk of its customers failing to honour payment obligations. Due to Sigma's reduced size after the Transaction, there is a risk that if a large customer or customer group becomes insolvent the impact on Sigma's business will be greater.

One of Sigma's key customer contracts is due to expire in June 2011. There is no certainty that this contract will be renewed.

Suppliers

In addition to the risks outlined above in relation to ongoing arrangements with Aspen, Sigma's performance may be negatively impacted if it cannot enter into reasonable commercial agreements with third party suppliers in connection with its Wholesale Business and Retail Business.

Sigma is also exposed to the risk that large suppliers of pharmaceutical products sell direct to retail pharmacies. Whilst most suppliers utilise the full-line pharmaceutical wholesalers, there is one major supplier who currently markets direct to pharmacy, however a large portion of that supplier's wholesale business remains with the full-line wholesalers. Any future material change in policy of suppliers to a direct distribution model may have a detrimental effect on Sigma's Wholesale Business.

Competition

The retail pharmaceutical market is highly competitive, with pharmacies, supermarket retailers and online retailers competing for market share. Sigma's position in this market may change as a result of competitor activity, the impact of changes in the regulatory environment governing pharmacy operations, or the entry of new competitors. A decline in Sigma's competitive position could result in a decline in revenue and a loss of market share which could have an adverse effect on Sigma's future financial performance and position.

The pharmaceutical wholesale market is also highly competitive. Although this market is highly regulated, Sigma faces competition from other full-line pharmaceutical wholesalers, manufacturers who sell direct to pharmacy and customer buying groups. Furthermore, there is no certainty that new competitors

8. Sigma's Position following the Transaction and Amendments to the Constitution

will not enter the pharmaceutical wholesaler market at some future time.

In addition, Sigma has made certain acknowledgements in respect of the Licence Agreement. These acknowledgements may negatively impact Sigma's business in the event that the Transaction does not proceed. If the Transaction does proceed, Sigma's business will no longer include the manufacture of the products under the Licence Agreement, and the acknowledgements will not directly affect Sigma, but may indirectly affect Sigma through volumes of products distributed through the Supply Agreement.

Further details on the Licence Agreement and Term Sheet are provided in section 5.4 and section 9.4.

Business interruption

Sigma is susceptible to having its business interrupted by factors including failure of critical plant and equipment (such as computer systems), interruption to supplies, loss or destruction of assets by fire or disruptions caused by industrial action.

By the date of the expiry of the PMSA, Sigma will need either to extend its arrangements with Aspen or secure alternative sources of supply of Private Label products. To the extent it is unable to do so either at all or on favourable terms, Sigma's financial performance will be affected.

Environmental regulation

Sigma's wholesale distribution sites are required to comply with stringent environmental regulations. If any breach of these regulations occurs at any of these sites, Sigma may be subject to material clean-up costs and other liabilities.

Reliance on key personnel

Sigma is committed to providing an attractive employment environment, conditions and prospects to assist in retaining its key senior management personnel. However, there can be no assurance that Sigma will be able to retain these key personnel. The loss of key personnel or the inability to recruit and retain high calibre staff could have a material adverse effect on Sigma. The addition of new employees and the departure of existing employees, particularly in key positions, can be disruptive and could have an adverse effect on Sigma.

Litigation

Litigation risk to Sigma includes, but is not limited to, the Shareholder Class Action proceedings issued in the Federal Court of Australia (described above), the Vifor Litigation, the Wyeth Litigation, customer claims, personal injury claims and employee claims. If any claim were to be pursued and be successful it may adversely impact the profits or financial position of Sigma.

Occupational health and safety (OH&S)

If Sigma fails to comply with necessary OH&S legislative requirements, it could result in fines, penalties and compensation for damages as well as reputational damage to Sigma.

Acquisitions

Sigma may consider future acquisitions of businesses that fit within its strategy and which it is not prevented from making by the non-compete undertakings that it has given to Aspen. There is a risk that appropriate acquisition opportunities or alliances may not be available or that the target companies may not enter into dealings with Sigma. There is no guarantee that future potential acquisitions will be available on favourable terms or that they will be successfully integrated.

Under the Share Sale Agreement Sigma is subject to a restraint of trade which may hinder its ability to pursue certain acquisitions. Further details on the restraint are provided in section 9.2.

Reputation

Sigma has recently experienced negative publicity, damage to its reputation and other business difficulties, including the suspension of trading in its shares on ASX while it finalised its accounts for the 2010 financial year and negotiated with its financiers. These events may adversely impact the reputation of Sigma, its financial performance, the trading of Sigma Shares and Sigma's ability to raise debt and equity in the present and in the future.

General risks

Share price and volume fluctuations

The equity market has experienced price and volume volatility that has affected the share price of many companies. Security prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of Sigma Shares.

Economic risks

Sigma is exposed to economic factors in the ordinary course of business. Factors such as changes in fiscal, monetary and regulatory policies can adversely impact Sigma's earnings. Businesses such as Sigma that borrow money are potentially exposed to adverse interest rate movements that may affect the cost of borrowing, which in turn would impact on earnings and increase the financial risk inherent in those businesses.

Wherever possible, overseas contracts are negotiated in Australian dollars. Where a liability or asset arises in a currency other than Australian dollars, it is Sigma's practice for the exposure to be covered by forward sale or purchase of the currency. A portion of all variable interest rate commitments are hedged by the use of fixed-for-floating interest rate swaps. The principal amount and the duration of these swaps is determined by the total level of Sigma's borrowings and the interest rate outlook prevailing in the financial markets.

Government policies and legislation

Sigma operates in highly regulated industry segments. Sigma may be affected by changes to government policies and legislation, including those relating to the pharmaceutical industry, property, the environment, taxation, the regulation of trade practices and competition.

Sigma is also subject to the regulatory requirements of the Corporations Act, the ASX Listing Rules and ASIC policy. Changes to legislation or to these regulatory requirements or other policy and procedures may affect Sigma, its business operations and financial performance, or have other unforeseen implications.

Taxation implications

Future changes in Australian taxation law, including changes in interpretation or application of the law by the courts or taxation authorities in Australia, may affect taxation treatment of an investment in Sigma Shares, or the holding and disposal of those Shares. Further, changes in tax law, or changes in the way tax law is expected to be interpreted, in the various jurisdictions in which Sigma operates, may impact the future tax liabilities of Sigma.

Changes in accounting policy

Sigma is subject to the usual business risk that there may be changes in accounting policies which impact on Sigma.

Asset impairment

As a consequence of the global financial crisis, ASIC has specifically identified impairment of assets as an issue for Australian companies. The Board monitors impairment risk. Consistent with Australian Accounting Standard AASB 136 Impairment of Assets, Sigma is periodically required to assess the carrying value of its assets, including its brands. Where the recoverable amount of an asset is assessed to be less than its carrying value, Sigma is obliged to recognise an impairment charge in its profit and loss account. Impairment charges can be significant and can reduce the level of a company's profits and, potentially, its capacity to pay dividends. Impairment charges are a non-cash item.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In the case of measuring value in use of its assets, Sigma is required to estimate future cash flows that it expects to derive from the assets or business. The future cash flows are discounted by an appropriate rate that reflects the relative risk in these assets (weighted average cost of capital or WACC), forming the basis of an asset's value in use. There is the risk that the value in use of an asset will decline due to diminishing future cash flow estimates, increasing WACC due to changing risk profiles in the industry or specifically to the company or a combination of these and other market factors. Where the value in use of an asset is higher than its fair value less costs to sell, and this value in use is lower than the asset's carrying amount, an impairment of that asset has to be recognised.

Sigma recognised impairment charges in its profit and loss account on 31 January 2010 of $424.2 million, and on 31 July 2010 of $220 million.

Dividends

The payment of any future dividends will be at the discretion of the Board and will depend, amongst other things, on the performance and financial circumstances of the Company at the relevant time.

However, the Board's general policy will be to distribute cash flows generated by the Company's operating activities which are surplus to the Company's ongoing requirements for maintaining and growing the business. There can be no guarantee as to the likelihood, timing, franking or quantum of future dividends from Sigma.

9. Additional Information

9.1 Sigma's Debt Refinancing and Financial Position

Sigma's accounts for the 2010 financial year included a non-cash impairment of goodwill of $424.2 million.

Sigma's reported financial results as at 31 January 2010 resulted in the Sigma Group breaching interest cover and certain other borrowing covenants related to its syndicated borrowing facility. Sigma re-negotiated its agreement with its syndicate lenders. The terms of the new lending arrangements were such that the borrowing covenant breaches were waived and revised covenants were agreed to.

Sigma released its results for the half year ended 31 July 2010 on 29 September 2010. Sigma recognised a further non-cash impairment of goodwill in relation to the Pharmaceuticals Division of $220.0 million. This was due to the carrying value of Sigma Group's goodwill being reassessed in light of the proposed sale of the Pharmaceuticals Division to Aspen for gross proceeds of approximately $900 million. There were also one-off write-downs amounting to $16.0 million which included inventory write-downs. These impairments and write downs again put pressure on Sigma's revised borrowing covenants.

There is no guarantee that that if Sigma breaches its borrowing covenants again, borrowing terms will be able to re-negotiated and/or extended. The Board considers entering into the Transaction is a prudent course of action as it will allow the Company to repay a significant portion of its existing debt and supplement its cash reserves. This should reduce the likelihood that Sigma will breach its borrowing covenants in the future.

9.2 Summary of the Share Sale Agreement

Share Sale Agreement

On 23 November 2010, Aspen Asia Pacific Pty Ltd (**Aspen Asia**), Aspen Pharmacare Holdings Limited (**Aspen Pharmacare**), Sigma and SCL entered into a share sale agreement relating to the sale and purchase of the Pharmaceuticals Division (**Share Sale Agreement**). The following is a summary of what the Directors consider to be the key terms and conditions of the Share Sale Agreement for the purposes of providing relevant information on the Transaction to Shareholders.

Sale and purchase

SCL has agreed to sell, and Aspen Asia has agreed to purchase, all of the issued shares in SPAL, Orphan Holdings and Fawns & McAllan for an aggregate purchase price of $900 million (before working capital and other adjustments). Through this Transaction, ownership of each of the Group Companies will be transferred to Aspen. The purchase price, subject to adjustments, is payable on Completion of the Transaction by Aspen. Completion of the Transaction is scheduled to occur on 31 January 2011.

Subject to the transfer of certain assets of the Pharmaceuticals Division from other entities under the Restructure Deed (refer to section 9.3), the assets of the Pharmaceuticals Division will be held by the Group Companies at Completion.

Conditions

The operative provisions of the Share Sale Agreement relating to the sale and purchase of the Pharmaceuticals Division have no effect until the Treasurer consents to the Transaction for the purposes of the *Foreign Acquisitions and Takeovers Act 1975* (Cth).

Completion must not occur unless the following additional conditions are satisfied (or waived by the party entitled to the benefit of the condition):

- Shareholders approve the Resolution in respect of the Transaction;
- the ACCC provides written confirmation that it will not object to the Transaction either unconditionally or on conditions that are reasonably acceptable to Aspen Asia and, to the extent such conditions relate to the Business or require any action before Completion, or would materially affect the Remaining Businesses after Completion, Sigma;
- the transfer of shares, assets, contracts and employees to and from, and assumption of liabilities by, the parties to the Restructure Deed is materially complete (refer to section 9.3);

9. Additional Information

- Westpac Banking Corporation, as agent for the banking syndicate, consents in writing to the Transaction either unconditionally or on conditions that are acceptable to Sigma and, to the extent that they affect the Pharmaceuticals Division after Completion, reasonably acceptable to Aspen Asia;
- SCL procures the provision by Westpac Banking Corporation of releases of certain shares and assets forming part of the sale and purchase of the Pharmaceuticals Division from the securities over those shares and assets currently in favour of Westpac Banking Corporation;
- no Prescribed Occurrence occurs which includes, for instance, an insolvency or capital restructure event in relation to a Group Company; and
- prior to Completion:
  - there is no breach by SCL of a warranty under the Share Sale Agreement which would or is reasonably likely to, individually or in aggregate with other breaches of warranties, result in or constitute (i) in respect of matters after the date of the Share Sale Agreement, a material adverse change and (ii) in respect of matter arising before the date of the Share Sale Agreement, a valid claim by Aspen Asia that would exceed $90 million assuming that Completion occurred without waiver in respect of such breach; and
  - no matter, event or circumstance occurs which will have or is reasonably likely to have, individually or when aggregated with all such matters, events or circumstances, the result that any of SCL and its affiliates which are party to a Transaction Document (other than the Share Sale Agreement) will be or is reasonably likely to be in breach of any Transaction Document on or shortly after Completion where such breach will result in or constitute a material adverse change.

A "material adverse change" occurs where, subject to a number of exceptions, a matter, event or circumstance will have or is reasonably likely to have, individually or when aggregated with all such matters, events or circumstances, the result that the EBIT of the Pharmaceuticals Division for the financial year ending 31 January 2011 will be reduced by $7.5 million or more (after deducting from the amount of the reduction any increase in EBIT derived from an unrelated matter, event or circumstance).

If all of the conditions have been satisfied, or in respect of certain conditions, no event has occurred that would prevent any of those conditions from being satisfied (or in any case, waived), then Completion is scheduled to occur on 31 January 2011.

At the date of this Explanatory Memorandum, Sigma is not aware of any circumstances which would cause the conditions not to be satisfied. Sigma will announce to ASX any changes in the status of the conditions.

Exclusivity

No-shop

During the period from the date of the Share Sale Agreement to 5.00pm on the date of the Meeting or Completion or the termination of the Share Sale Agreement (whichever is the first to occur) (**Exclusivity Period**), Sigma and SCL must not:

- permit their affiliates to, directly or indirectly, solicit, initiate, encourage or invite enquiries, offers, proposals or discussions in relation to an Alternative Proposal, other than from Aspen Asia or an affiliate of Aspen Asia; or
- enter into any agreement, arrangement or understanding in relation to an Alternative Proposal, or in any way bind Sigma to proceed with an Alternative Proposal.

No-talk

During the Exclusivity Period, Sigma and SCL must not, other than with Aspen Asia or an affiliate of Aspen Asia, directly or indirectly, nor directly or indirectly permit, SCL or any affiliate of SCL or any of their respective Representatives to:

- provide any information to any person in connection with or which could lead to an Alternative Proposal;
- participate in any negotiations in connection with or which could lead to any Alternative Proposal; or
- otherwise cooperate or assist or participate in any effort to initiate or otherwise progress an Alternative Proposal,

provided that the Board may respond to a Superior Proposal, and if SCL or one of its affiliates receives any unsolicited requests for information in relation to an Alternative Proposal, SCL must notify Aspen Asia of such a request.

If SCL or any of its affiliates receives an Alternative Proposal which is, or may be with negotiation, a Superior Proposal, it must provide Aspen Asia with the material terms of such proposal and, subject to limited exceptions, provide Aspen Asia with the opportunity to propose a counter offer.

Break Fee

Sigma has agreed to pay a break fee to Aspen of $4.5 million, if any of the following occurs:

(a) the Share Sale Agreement is terminated as a consequence of a failure of Shareholders to approve the Resolution in respect of the Transaction where the Independent Expert has opined that the Transaction is fair and reasonable or not fair but reasonable or in the best interests of Sigma Shareholders who are not associated with Aspen and either:

   a. a majority of the Sigma Shareholders present in person, by proxy or personal representative and entitled to vote at the Meeting do not approve the Resolution in respect of the Transaction; or

   b. SPL does not put the Resolution in respect of the Transaction to a General Meeting by 14 January 2011;

(b) the Share Sale Agreement is terminated by Aspen Asia as a consequence of the non-fulfilment of one or more of certain Completion conditions which are largely within Sigma's control; or

(c) the Share Sale Agreement is terminated by either Aspen Asia or SCL if, during the Exclusivity Period, a Superior Proposal is announced or made and the Sigma Board publicly recommends that proposal.

If it is determined that all or any part of the Break Fee is unlawful, involves a breach of directors' duties or constitutes unacceptable circumstances or breaches an order of the Takeovers Panel, then Sigma will not be liable to pay that portion of the Break Fee, and will be entitled to a refund of that portion of the break fee if it has already been paid. In this circumstance, Aspen Pharmacare and Aspen Asia may pursue any other remedies available to them at law for recovery, but only to the extent that such recovery together with the payment of any part of the break fee does not exceed $4.5 million.

Warranties and indemnities

SCL has given Aspen Asia limited representations, warranties and indemnities (including a tax indemnity) regarding the shares in the Group Companies, records and accounts, assets, business contracts, litigation, tax, intellectual property, insurance, information technology, real property, financing, employees, superannuation, compliance with statutory requirements and information provided during due diligence investigations.

Claims made by Aspen Asia under the Share Sale Agreement (including with respect to a breach of warranty) are subject to certain financial thresholds and time limits, with the effect that Aspen Asia cannot recover under a claim unless:

- the amount finally agreed or adjudicated to be payable in respect of the claim is $1 million or more, and unless and until the aggregate of all such claims, each of more than $1 million exceeds $4.5 million, in which case SCL will be liable for the whole amount; and
- Aspen Asia has given written notice of the claim to SCL:
  - in the case of a breach of warranty other than a tax warranty, within 12 months of the Completion Date;
  - in the case of a breach of a tax warranty or a claim under the tax indemnity, within 24 months of the Completion Date; or
  - in the case of a claim under the indemnity in connection with the Deed of Cross Guarantee between SCL, Sigma and others or the indemnity in connection with wilful default or gross negligence of Sigma or any of its subsidiaries prior to Completion, within 3 years of the Completion Date,

  and in any case unless the claim has been settled or legal proceedings have been commenced by the date that is 6 months from the date of that notice.

The collective maximum aggregate liability of Sigma and SCL in respect of warranties (other than certain warranties including in respect of ownership of sale shares, capacity to sell and the capital structure of the Group Companies) and under the tax indemnity is limited, in aggregate, to the amount equal to 25% of the purchase price actually received by SCL under the Share Sale Agreement and in respect of all claims, including claims under all warranties and indemnities, is limited to the amount of the purchase price actually received by SCL under the Share Sale Agreement.

9. Additional Information

Restraint

Sigma, its subsidiaries including SCL and its related bodies corporate, must not, for a period of 2 years after the Completion Date:

- engage in a business of manufacturing, marketing, selling, distributing, supplying or licensing PBS Products, Ethical Products, OTC Products, Generic Products or any other similar goods supplied by the Group Companies in the 12 months prior to Completion and to the extent that those goods remain current and applicable to the Pharmaceuticals Division at Completion, whether directly to retailers or via wholesale distributors, hospitals and grocery retailers, or engage in a business which is substantially the same as this or any part of it; or
- interfere with the relationship between Aspen and their respective customers, licensors, employees or suppliers in respect of the operation of the business of the Pharmaceuticals Division post Completion;
- employ, solicit or entice away from Aspen any employee of the Pharmaceuticals Division; or
- canvass, solicit or entice away from Aspen the custom of any person who, at any time in the 12 months prior to Completion, was a customer of the Pharmaceuticals Division.

In addition, Sigma, its subsidiaries including SCL and its related bodies corporate must not, for a period of 5 years after the Completion Date, engage in a business in relation to Generic Products.

The above prohibitions are subject to a number of exceptions and, in particular, do not prevent Sigma from operating its Wholesale Business and Retail Business or from performing its obligations under the Transaction Documents.

Litigation

After Completion, SCL will continue to control the Wyeth Litigation and the Vifor Litigation, and retain the rights to market and distribute the products the subject of the Vifor Litigation and the Wyeth Litigation (including the Ferrosig and Venlafaxine products) and Aspen Asia will control other litigation in respect of the Group Companies.

All costs of a Group Company in relation to litigation will, in respect of the period prior to Completion, be borne by SCL.

All costs of a Group Company in relation to litigation will, other than for the Wyeth Litigation and the Vifor Litigation, in respect of the period on and from Completion, be borne by Aspen Asia.

All benefits of litigation if realised before Completion will belong to SCL, or if realised on and from Completion (excluding the Wyeth Litigation and the Vifor Litigation) will belong to Aspen Asia. All benefits of litigation resulting from the Wyeth Litigation and Vifor Litigation (including the right to market and distribute the products that are the subject of these litigations) will belong to SCL whether they are realised before, on or after Completion.

There are specific provisions to ensure that SCL is able to commercialise the products that are the subject of the Wyeth Litigation in the event that that litigation is successfully pursued.

Subject to Completion, SCL has agreed to indemnify Aspen against any loss suffered by Aspen and its affiliates (including the purchased companies) as a result of any claim by a third party against a member of the Sigma Group for loss suffered as a result of lack of or inadequate disclosure relating to continuous disclosure or securities laws prior to Completion.

See also the Litigation risk factors set out in section 8.5.

Restructure Deed

SCL and Aspen must procure that the transfer of shares, assets, contracts and employees to and from, and assumption of liabilities by, the parties to the Restructure Deed is effected in accordance with the Restructure Deed.

Further information regarding the terms of the Restructure Deed is provided in section 9.3.

Guarantee

Aspen Pharmacare guarantees to SCL and Sigma the performance of various payment obligations of Aspen Asia under the Share Sale Agreement.

Sigma guarantees to Aspen Asia and Aspen Pharmacare the performance of all of SCL's obligations under the Share Sale Agreement.

9.3 Summary of the Restructure Deed

Under the Share Sale Agreement, the Restructure Deed is contemplated to be entered into between Sigma, SCL, SPAL, Aspen and various other Sigma Group members prior to Completion. The Restructure Deed regulates the transfer of shares, assets, real property, intellectual property, product registrations, contracts and employees to and from, and assumption of

liabilities by, the parties to ensure that, at Completion, the Pharmaceuticals Division is entirely held by the Group Companies and the Wholesale Business and Retail Business are entirely owned and operated, either directly or indirectly, by Sigma. Under the Share Sale Agreement, the Restructure Deed will be completed, shortly before Completion under the Share Sale Agreement.

The transfer of shares, assets, real property, intellectual property, product registrations, contracts and employees under the Restructure Deed is conditional on certain of the conditions in the Share Sale Agreement being satisfied or waived in accordance with the Share Sale Agreement. For the 12 month period commencing on Completion, there are additional obligations on the parties to effect the transfer of:

- any assets held by Sigma or one of its subsidiaries following Completion that were used wholly or predominantly in the Pharmaceuticals Division during the 12 months prior to Completion to the Group Companies; and
- assets held by Group Companies following Completion that were used wholly or predominantly in the Wholesale Business or the Retail Business during the 12 months prior to Completion to Sigma or one of its subsidiaries.

Shares, assets, real property, intellectual property, product registrations, contracts and employees will be transferred under the Restructure Deed together with all related liabilities irrespective of whether those liabilities relate to the period before or after Completion. Transferees of shares, assets, real property, intellectual property, contracts and employees under the Restructure Deed will be liable as if they had continuously held those shares, assets, real property or intellectual property, been party to those contracts or employed those employees (as the case may be).

Aspen Asia and SPAL have provided a guarantee and indemnity in respect of the obligations of the Group Companies under the Restructure Deed.

9.4 Summary of Term Sheet relating to Licence Agreement

Sigma and SPAL have entered into the Term Sheet. The Term Sheet sets out the principal terms that the parties to it have agreed in respect of various agreements including the Licence Agreement. Formal amendments to those agreements will be entered into, in accordance with the Term Sheet at a later date.

Further information on the Term Sheet and Licence Agreement is provided in section 5.4.

9.5 Summary of the Supply Agreement

On 23 November 2010, SPAL (to be re-named Aspen Australia Pty Ltd) (**Aspen Australia**) and SCL entered into a supply agreement relating to the supply of certain products by Aspen Australia to SCL, and the distribution of products by SCL to its customers (**Supply Agreement**) from Completion. The following is a summary of the key terms and conditions of the Supply Agreement.

Appointment

Aspen Australia appoints SCL as its distributor of the Chemists' Own Products, Consumer Products, PBS Generic Products, PBS Non-Generic Products and Ethical Products which Aspen will acquire from Sigma under the Transaction (**Supply Products**) and New Generic Products on the terms of the Supply Agreement. The initial Supply Products are identified in a schedule to the Supply Agreement. Aspen Australia will supply the Supply Products to SCL in accordance with purchase orders issued by SCL from time to time (although Aspen Australia may elect whether to accept or reject any such purchase order). Customers may also place 'turnover orders' with SCL either directly or through Aspen Australia.

A reimbursement arrangement applies to Aspen Australia's appointment as distributor of the Consumer Products, PBS Generic Products and New Generic Products. Under this arrangement, Aspen Australia funds certain discounts which SCL provides to its customers for those products. Aspen Australia agrees not to enter into a similar arrangement with another wholesaler in Australia with respect to these products (subject to certain specified exceptions, including in respect of government and hospital tenders).

The Supply Agreement is for an initial five year term, and may be extended for a further five years at SCL's option, by SCL giving at least one year's notice prior to the expiry of the initial term. Either party may terminate the Supply Agreement if the other party commits a material breach, and fails to remedy that breach within 20 Business Days after receiving notice requiring it to do so; if the other party suffers an insolvency event; or if the other party undergoes a change of control (as defined, but subject to certain specified exceptions).

Supply Products, pricing and fees

Aspen Australia has various obligations to supply the Supply Products (including to discharge its obligations in accordance with all laws; to supply the products

9. Additional Information

in accordance with the product description for each product; and to pack and label the products in a particular manner). Aspen Australia must also use commercially reasonable efforts to co-ordinate and have available adequate stocks of products to fulfil its obligations under the Supply Agreement.

The prices that SCL will pay Aspen Australia for the Supply Products supplied under the Supply Agreement are specified in a schedule to the Supply Agreement. These prices may be varied by Aspen Australia from time to time.

Aspen Australia must pay SCL various fees and other amounts in connection with the distribution by it of the Supply Products, including the funding of approved discounts and the Distribution Fees. The Distribution Fees payable by Aspen Australia as at the Start Date are specified in a schedule to the Supply Agreement, and are subject to variations and the payment of 'top-up' amounts during the term (based on formulae set out in that schedule). The parties are also required to negotiate in good faith variations to the Distribution Fees in certain circumstances (including, if requested by SCL annually after the second anniversary of the Start Date, to reflect an increase in SCL's input costs relating to the distribution of the Supply Products). A specific regime relating to the reimbursement of discounts and rebates in relation to the Arrow Private Products is set out in a schedule to the Supply Agreement.

Aspen Australia may only remove a product from the list of Supply Products specified in the Supply Agreement in certain (limited) circumstances.

Embrace and Embrace Equity Programme

SCL will continue to conduct the Embrace Programme and Embrace Equity Programme during the term of the Supply Agreement in substantially the same manner as those programmes were conducted immediately prior to the Start Date.

Following the execution of the Supply Agreement, the parties will negotiate in good faith the mechanism for calculating their respective cost contributions to the funding of the Embrace Equity Programme. If the parties fail to agree this funding mechanism within 90 days from the Start Date, the issue will be referred to binding expert determination.

Regulatory matters and product recall

Each party must maintain all regulatory consents that are required by law for it to discharge its obligations under the Supply Agreement. In the event of a product recall, unless the product recall is due to SCL's breach of the Supply Agreement, Aspen Australia must pay to SCL a specified recall fee, and must replace defective products or refund to customers the cost of the affected products. If, however, the product recall is due to SCL's breach of the Supply Agreement, SCL must pay to Aspen Australia the actual direct costs and expenses incurred by Aspen Australia in respect of the product recall. Other than payments made under the indemnities (see below), the amounts referred to above are the only amounts payable by one party to the other in the event of a product recall.

Liability and indemnities

Each party's total aggregate liability to the other in any year of the Supply Agreement is limited to $100 million (pro-rated for the first contract year based on the number of months in that year). Some liabilities are excluded from this cap.

There are further limits on Aspen Australia's liability for the supply of defective products.

Aspen Australia agrees to indemnify SCL for certain third party claims in respect of intellectual property other than that purchased by Aspen Australia under the Share Sale Agreement. Aspen Australia's liability under these indemnities is reduced to the extent that the relevant loss was incurred as a direct result of SCL's breach, negligence or fraudulent or unlawful acts or omissions (**SCL Contributory Conduct**).

SCL indemnifies Aspen Australia for third party claims arising in connection with the injury to, or death of, any individual to whom any Products have been supplied, to the extent arising from SCL Contributory Conduct.

9.6 Summary of the Product Manufacture and Supply Agreement

On 23 November 2010, Aspen Australia and SCL entered into the Product Manufacture and Supply Agreement relating to Aspen Australia's provision of manufacturing, analytical and other services to SCL (**PMSA**). The following is a summary of the key terms and conditions of the PMSA.

Appointment

From Completion of the Share Sale Agreement, SCL appoints Aspen Australia to manufacture and/or supply approximately 85% of the current Private Label Portfolio (**Products**) and Aspen Australia accepts such appointment.

SCL appoints Aspen Australia as SCL's exclusive source of the Products. This exclusivity does not apply in relation to new products being pharmaceutical products other than the Products.

The PMSA, and Aspen Australia's appointment under it, continues until terminated in accordance with its terms. Either party may terminate for convenience on 12 months notice, provided that termination for convenience may not be effected until the expiry of the initial two years of the term.

Product

Aspen Australia must comply with all current regulatory requirements, the current good manufacturing practice for medicinal products and all requirements under law in the manufacture, package and supply of the Products.

The price paid for the Products will initially be the price that is currently paid by SCL to SPAL. However, Aspen Australia has the opportunity prior to 1 July 2011, to reset the price, and then review the price each subsequent year on 1 July to reflect current fully absorbed cost of manufacture or supply by Aspen Australia (**Standard Cost**). In addition, Aspen Australia may review the price every six months for changes to the foreign exchange rate.

Liability for failure to supply and supply of non-conforming Products

Given that Aspen Australia manufactures and/or supplies Products at Standard Cost, Sigma has limited rights in relation to any failure to supply or supply of non-conforming products.

Aspen Australia will not be responsible for consequential loss (including loss of profit), and in most cases its liability will be limited to re-supply or credit for money paid.

Aspen Australia has provided an indemnity for third party litigation in respect of death or illness resulting from its breach of contract.

Aspen Australia's total aggregate liability to SCL in any year of the PMSA is limited to $20,000,000.

9.7 Summary of Transition Services Agreement

On 23 November 2010, SCL, Aspen Asia and SPAL entered into a transition services agreement relating to the provision of transition services by SCL to the Group Companies (**TSA**). The following is a summary of the key terms and conditions of the TSA.

Transition Services

Sigma will provide the following services to the Group Companies for up to 12 months following completion of the Share Sale Agreement (**Transition Period**):

- Information Technology Services;
- Payroll Services; and
- Human Resources Services,

(together, **Sigma Services**).

The parties' intention in entering into the TSA is to ensure that SCL will no longer have the responsibility of providing Sigma Services to the Group Companies after the Transition Period has expired. Accordingly SCL's obligations to provide Sigma Services under the TSA are likely to cease around February 2012.

SPAL will pay SCL for the provision of the Sigma Services. Monthly fees for the Sigma Services will be $270,000. In addition, SPAL is required to make a one-off payment of $200,000 for certain pre-completion human resources services. SPAL may also request SCL to provide additional transition activities. These transitional services will only be provided by SCL if SCL and Aspen Asia agree on a price for such additional services.

Standard of Transition Services

SCL will provide the Sigma Services to the Group Companies to the same standard that such services were being provided to the Group Companies prior to the Transaction. If a particular service was not being provided to a member of the Group Companies prior to the Transaction, then SCL will not have an obligation to provide such a service under the TSA, unless it is separately agreed as a transition activity.

Transition Planning

The parties have agreed to establish a transition committee and a steering committee to determine the actions that must take place prior to the Transaction and throughout the Transition Period, to help ensure transition runs smoothly.

Access to Sigma Systems and Ownership of SPAL Data

SCL will use commercially reasonable efforts to procure from relevant suppliers and licensors certain rights as are necessary to enable SPAL to use the Sigma systems that were used by the Group Companies, prior to the Transaction. SPAL must reimburse any cost incurred by SCL in procuring such rights.

9. Additional Information

SPAL will own all intellectual property rights in SPAL data and all SPAL information relating to the Group Companies.

Termination Rights

Either the Purchaser or SPAL may terminate the TSA with immediate effect by giving written notice to the other in certain circumstances including material breach of the TSA by the other, an insolvency event occurring in connection with the other or an un-consented to change in control of the other.

Aspen Asia also has the right to terminate for convenience on one month's notice one or more of the 'categories' of a Sigma Service, being either:

- Information Technology Services;
- Payroll Services; or
- Human Resources Services.

Limitations of Liability

SCL's liability to Aspen Asia, SPAL and the Group Companies arising from the TSA is limited to $1,620,000. This amount represents 6 times the monthly agreed fee for the Sigma Services. SCL also excludes liability for indirect and consequential damages. However to the extent that SCL breaches the TSA due to an act of a third party, SCL's liability to SPAL will be the same as any liability of the third party to SCL under the relevant agreement.

SCL's liability is not limited in respect of any causes of action arising from:

- death or illness of, or personal injury to, any individual;
- the loss or destruction of, or damage to tangible property;
- fraudulent or illegal conduct on the part of a party against whom a claim is made, or that of any of its personnel; or
- a breach of confidentiality, intellectual property or privacy obligations.

The liability limitations also operate reciprocally in favour of SPAL and Aspen Asia.

9.8 Impact on Sigma securities

As at the date of this Explanatory Memorandum, Sigma has on issue:

- 1,178,626,572 Sigma Shares; and
- 2,190,193 Performance Rights.

Sigma Shares

Other than to the extent any Performance Rights vest early as a result of the Transaction (see below), the number of Sigma Shares on issue will not be impacted by the Transaction.

Employee securities

Sigma currently operates the Sigma Long Term Incentive Plan. As part of the Transaction, a number of Sigma employees will transfer to Aspen. The individuals to transfer to Aspen have not yet been finally determined.

Employees who do transfer will cease employment with Sigma for the purposes of the Long Term Incentive Plan. Treatment of equity grants on a cessation of employment varies under employees' employment terms, and is in some cases also subject to discretions of the Board, including discretions allowing the Board to determine that an equity grant does not lapse notwithstanding a cessation of employment or fully or partially vests upon a cessation of employment.

As some of the Performance Rights are likely to vest and/or lapse on, or shortly after the transfer of Sigma employees to Aspen, it is likely the number of Performance Rights on issue will decrease as a result of the Transaction.

Sigma Employee Share Plan

Sigma also operates the Sigma Employee Share Plan in conjunction with Sigma Employee Share Administration Pty Ltd (**SESA**).

As a result of the Transaction, some employees of Sigma, or Sigma's subsidiaries, will cease to be Participants in the Sigma Employee Share Plan. Under the Sigma Employee Share Plan, Participants are granted interest free loans to purchase Shares. Where employment of a Participant under the Sigma Employee Share Plan is terminated and the amount of the loan has not been repaid in full at that time, the Participant must either repay the balance of the loan (and remain the holder of the Shares or sell them on-market), or transfer any Shares that were purchased in connection with the loan to SESA, and SESA will repay the loan to Sigma. The market value of the Shares granted to the Participant under the Sigma Employee Share Plan will then be used to repay, in full or in part, the outstanding amount of the loan. To the extent any money received from the sale of the Participant's Shares is in excess of the amount of the loan outstanding, SESA shall pay the balance to the Participant (net of costs).

Where a Participant's employment is terminated (including as a result of the Participant no longer being employed within Sigma), the Participant's loan is discharged in full (even if the amount realised on sale of the Shares is less than the outstanding loan amount).

9.9 Provision of further information relevant to the Transaction

If, between the date of this Explanatory Memorandum and the Meeting, Sigma becomes aware that:

- A material statement in this Explanatory Memorandum is false or misleading;
- There is a material omission from this Explanatory Memorandum; or
- A significant change affecting a matter included in this Explanatory Memorandum has occurred,

Sigma will prepare a supplementary document. The form which the supplementary document may take, and whether a copy will be sent to each Shareholder, will depend on the nature and timing of the new or changed circumstances.

In all cases, the supplementary document will be available from Sigma's website at www.sigmaco.com.au or from ASX's website.

10. Glossary and Interpretation

10. Glossary and Interpretation

Term	Meaning
ACCC	Australian Competition and Consumer Commission
Acknowledgements	The acknowledgements made, under the Term Sheet, as set out in section 5.4
ACN	Australian Company Number
Alternative Proposal	(a) The announcement or commencement of a takeover bid for Sigma by any entity which is not Aspen; (b) A proposal for a change of control of Sigma including by a scheme of arrangement or merger in relation to Sigma; (c) Another transaction for the whole or substantially the whole of the business of Sigma; or (d) Any proposed transaction that is inconsistent with the implementation of the Transaction, including any proposed sale of the medical or generics businesses conducted by Sigma
Amcal	The Amcal pharmacy retailer
Arrow International	Includes Arrow Group ApS, a company incorporated in Denmark with the company number 25191621, Arrow International Limited, a company incorporated in Malta with the company number C28746 and Robin Hood Holdings Limited, a company incorporated in Malta with the company number C31123
Arrow Pharmaceuticals	Arrow Pharmaceuticals Pty Ltd ACN 003 144 170
Arrow Private Products	Third party products to be distributed by SCL under the Supply Agreement
ASIC	Australian Securities and Investments Commission
Aspen	Aspen Pharmacare Holdings Limited group of companies
Aspen Asia	Aspen Asia Pacific Pty Ltd ACN 146 444 484
Aspen Australia	SPAL (to be re-named Aspen Australia following its acquisition by Aspen Asia)
Aspen Generics	The PBS Generic Products and New Generic Products that are subject to certain distribution restrictions in relation to SCL under the Supply Agreement
Aspen Pharmacare	Aspen Pharmacare Holdings Limited, the ultimate holding company of the Aspen group which is listed on the Johannesburg Stock Exchange, and which guarantees the obligations of Aspen Asia under the Share Sale Agreement
ASX	ASX Limited ACN 008 624 691
ASX Listing Rules	The listing rules of ASX
Banner Pharmacies	Amcal (including Amcal Max) and Guardian
Board	The board of Directors of Sigma
Business Day	A day that is not a Saturday, Sunday, bank holiday or public holiday in Melbourne, Australia
Chairman	The chairman of Sigma
Chemists' Own Products	The products that SCL will exclusively distribute for Aspen in Australia under the Supply Agreement
Company	Sigma Pharmaceuticals Limited ACN 088 417 403
Company Secretary	The Company Secretary of Sigma
Completion	Completion of the Transaction under the Share Sale Agreement
Completion Date	31 January 2011 or any other date agreed by Sigma and Aspen Asia
Constitution	Sigma's Constitution
Consumer Division	The Consumer Division within the Pharmaceuticals Division
Consumer Products	Products to be distributed by SCL under the Supply Agreement
Corporations Act	The Corporations Act 2001 (Cth)

10. Glossary and Interpretation

Term	Meaning
CSO	Community Service Obligation Funding Pool
CSO Deed	The deed, to which Sigma is a party to, that regulates the wholesaler remuneration through mandated wholesaling mark-ups
Deloitte	Deloitte Corporate Finance Pty Ltd
Director	A member of the Board
Distribution Fees	The distribution fees payable by Aspen Australia to SCL under the Supply Agreement
EBIT	Earnings before interest and tax
Ethical Products Division	The Ethical Products Division within the Pharmaceuticals Division
Ethical Products	Prescription pharmaceutical products not listed on the Schedule of Pharmaceutical Benefits as published by the Australian Government Department of Health and Ageing from time to time
Embrace Equity Programme	The additional benefit launched by SCL in 2010 pursuant to which Customers who have enrolled in the Embrace Programme are issued fully paid shares in SCL in return for achieving specified net dollar spend targets across SCL's product range
Embrace Programme	The sales programme launched by SCL in 2006 pursuant to which SCL offers competitively priced bundled discounts to its Customers across its product range, together with other benefits
Exclusivity Period	The period from the date of the Share Sale Agreement to the earlier of 5.00pm on the date of the General Meeting or Completion or the termination of the Share Sale Agreement
Explanatory Memorandum	This Explanatory Memorandum, which includes the Notice of Meeting
Exports Business	Sigma's Exports Division within the Manufacturing Division
Fawns & McAllan	Fawns and McAllan Proprietary Limited ACN 004 296 066
FIRB	The Foreign Investment Review Board
Generics Division	Sigma's Generics Division within the Pharmaceuticals Division
Generics Portfolio	Sigma's Generics Portfolio within the Generics Division
GP	General Practitioner
Group Companies	SPAL, Orphan Holdings, Fawns & McAllan, Herron Pharmaceuticals Pty Ltd, Chemists' Own Pty Ltd, Arrow Pharmaceuticals Pty Ltd, Orphan Australia Pty Ltd and QP Pharmaceuticals Pty Ltd, being those companies which form part of the Pharmaceuticals Division and in respect of which ownership will be transferred to Aspen Asia under the Share Sale Agreement
GST	Goods and Services Tax
Guardian	The Guardian pharmacy retailer
Healthcare Division	Sigma's Healthcare Division comprising the Wholesale Business and Retail Business which will be retained by Sigma post Completion
Herron	The Herron Pharmaceuticals business which is within the Consumer Division
Independent Expert's Report	The report prepared by Deloitte, which is set out in Attachment A to this Explanatory Memorandum
Licence Agreement	Licence Agreement between, among others, Arrow International and Sigma (then known as Arrow Pharmaceuticals Pty Ltd) dated 23 September 2005, as amended by letter agreement dated 5 April 2007 and signed by all parties on 12 April 2007

Term	Meaning
Long Term Incentive Plan	The Sigma Long Term Incentive Plan offered to certain employees of Sigma, whereby Performance Rights are granted to employees and may convert into Shares in accordance with certain criteria
Manufacturing Division	The Manufacturing Division within the Pharmaceuticals Division
Medical Products	The Medical Products division within the Pharmaceuticals Division
Meeting	The Meeting of the Company scheduled to be held on 14 January 2011
New Generic Products	PBS Generic Products that Aspen Australia, from time to time, notifies to SCL are to be added to the Supply Agreement
Notice of Meeting	The Notice of Meeting contained in this Explanatory Memorandum
OH&S	Occupational health and safety
Orphan	The business conducted by Orphan Holdings and within the Generics Division
Orphan Holdings	Orphan Holdings Pty Ltd ACN 115 816 209
OTC	Over-the-counter (a drug or product that can be sold to a consumer without a prescription)
Participant	A participant of the Sigma Employee Share Plan
PBS	Pharmaceutical Benefits Scheme
PBS Generic Products	Products to be distributed by SCL under the Supply Agreement
PBS Non-Generic Products	Products to be distributed by SCL under the Supply Agreement
Performance Rights	Performance Rights granted under the Long Term Incentive Plan
Pharmaceuticals Division	Comprises Sigma's Generics, Consumer, OTC, Herron, Ethical Products, Medical Products, Orphan and Manufacturing businesses
PMSA	The Product Manufacture and Supply Agreement between Aspen Australia and SCL and described in section 9.6
Prescribed Occurrence	Generally includes, subject to limited exceptions, an occurrence in respect of a Group Company whereby it materially alters its capital or is subject to an insolvency type event
Private Label Portfolio	Sigma's private label branded goods portfolio, sold and marketed through Sigma's banner network (Amcal, Amcal Max and Guardian) within its Retail Business
Private Prescription Portfolio	Sigma's non-PBS product portfolio, sold and marketed directly to pharmacies via non-exclusive distribution agreements with individual pharmaceutical companies
Products	The Supplier Manufactured Products, Third Party Bulk Products and Third Party Finished Products
Representative	In relation to a person or entity, means its directors, officers, employees, consultants, agents, contractors, advisers or financiers
Resolution	A resolution set out in the Notice of Meeting
Restructure Deed	The restructure deed between Sigma, SCL, SPAL, Aspen and various other parties described in section 9.3
Retail Business	Sigma's Retail Business, within the Healthcare Division, which owns Australia's largest and third largest retail pharmacy banner networks, Amcal, Amcal Max and Guardian
SCL	Sigma Company Limited, a wholly-owned subsidiary of Sigma ACN 004 132 923
SCL Contributory Conduct	SCL's breach, negligence or fraudulent or unlawful acts or omissions under the Supply Agreement
SESA	Sigma Employee Share Administration Pty Ltd
Share	A fully paid ordinary share in the Company

10. Glossary and Interpretation

Term	Meaning
Shareholder	A person registered on the Company's share register as a member of the Company
Shareholder Class Action	The shareholder class action served on Sigma on 29 October 2010 that raises allegations against Sigma concerning Sigma's market disclosure during 2009 and 2010
Share Registry	Link Market Services Pty Limited
Share Sale Agreement	The share sale agreement dated 23 November 2010 between Sigma, SCL, Aspen Asia and Aspen Pharmacare and described in section 9.2
Sigma	Sigma Pharmaceuticals Limited ACN 088 417 403
Sigma Employee Share Plan	The employee share plan offered by Sigma and SESA to certain of Sigma's, or Sigma's subsidiaries, employees in accordance with the Sigma Employee Share Plan rules
Sigma Group	The group of companies of which Sigma is the ultimate holding company as at 23 November 2010
Sigma Services	The information technology services, payroll services and human resources services to be provided by SCL under the TSA
SPAL	Sigma Pharmaceuticals (Australia) Pty Ltd ACN 004 118 594
Start Date	The date the Supply Agreement commences
Superior Proposal	A bona fide written Alternative Proposal which: (a) was not solicited, invited, facilitated, encouraged or initiated by Sigma or any of its related bodies corporate or any of their respective Representatives in breach of the Share Sale Agreement; (b) in the determination of the Board acting reasonably and in good faith after consultation with Sigma's financial adviser, would, if completed substantially in accordance with its terms, be likely to result in a transaction clearly more favourable to Shareholders as a whole than the Transaction having regard to matters including consideration, conditionality, funding, timing and certainty; and (c) the Board reasonably determines, after external legal advice, it should recommend to Shareholders instead of the Transaction to satisfy the Directors' fiduciary or statutory duties.
Supplier Manufactured Products	Those Products which Sigma appoints Aspen Australia to manufacture in accordance with the PMSA
Supply Agreement	The supply agreement between Aspen Australian and SCL relating to the supply the Supply Products and described in section 9.5
Supply Products	Chemists' Own Products, Consumer Products, PBS Generic Products, PBS Non-Generic Products, Ethical Products and New Generic Products
Term Sheet	The term sheet to various agreements, including the Licence Agreement, that will be varied after Completion, entered into by, among others, Arrow International, Aspen, Sigma and SPAL
TGA	An authority of the Commonwealth Department of Health and Ageing that has responsibility for administering the Therapeutic Goods Act 1989
Third Party Bulk Products	Those Products manufactured by a third party, delivered to Aspen Australia, packaged by Aspen Australia and supplied to Sigma under the terms of the PMSA
Third Party Finished Products	Those Products to be manufactured and packaged by a third party, delivered to Aspen Australia and on-supplied to Sigma in accordance with the PMSA
Transaction	The sale of the Pharmaceuticals Division to Aspen as described in this Explanatory Memorandum

Term	Meaning
Transaction Documents	Includes the Share Sale Agreement, Restructure Deed, Supply Agreement, PMSA and TSA and as contemplated by the Transaction Documents
Transition Period	The period of up 12 to months after Completion of the Share Sale Agreement during which time SCL will provide the Sigma Services under the TSA
Treasurer	The Treasurer of the Commonwealth of Australia
TSA	The Transitional Services Agreement between SCL and SPAL and described in section 9.7
Vifor Litigation	The matter of Vifor (International) Limited v Sigma Company Limited & Ors in the Supreme Court of New South Wales, with case number 6325 of 2008, between Vifor (International) Limited on the one hand and SCL, Sigma and SPAL on the other, and any related proceedings, negotiations, settlements, cross-claims, claims, appeals, orders or judgments
Watson	Watson Pharmaceuticals, Inc. a Nevada, USA Corporation
Wholesale Business	Sigma's Wholesale Business within the Healthcare Division, which focuses on the pharmaceutical wholesale market
Wyeth Litigation	The proceedings in the Federal Court of Australia with file number VID 195/2009, between SPAL and Wyeth Australia Pty Ltd, in relation to a patent dispute between the parties and any related proceedings, negotiations, settlements, cross-claims, appeals, orders or judgments

Attachment A – Independent Expert's Report

Deloitte.

Sigma Pharmaceuticals Limited

Independent expert's report and Financial Services Guide

December 2010

Financial Services Guide

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

550 Bourke Street
Melbourne VIC 3000
GPO Box 78
Melbourne VIC 3001 Australia

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

What financial services are we licensed to provide?

We are authorised to provide general financial product advice or to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes and government debentures, stocks or bonds.

Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

How are we and all employees remunerated?

Deloitte will receive a fee of approximately $250,000 exclusive of GST in relation to the preparation of this report. This fee is based on time spent at our normal hourly rates and is not contingent upon the success or otherwise of the proposed sale of Sigma Pharmaceuticals Limited's (Sigma) Pharmaceuticals Division to Aspen Pharmacare Holdings Limited (Aspen) for cash consideration of $900 million (Proposed Transaction).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

Associations and relationships

We are ultimately owned by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms. The following represents a summary of work performed by Deloitte and Deloitte Touche Tohmatsu (and other entities related to Deloitte Touche Tohmatsu) (together Deloitte Australia) over the past two years:

- Sigma – a range of taxation advisory, forensic, corporate reorganisation, risk management and consulting services
- Aspen – taxation advisory services.

All of these services were unrelated to the proposal herein.

Neither we, or any other member of Deloitte Australia, nor any partner or employee thereof has any financial interest in the outcome of the Proposed Transaction.

What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220
complaints@deloitte.com.au
Fax: +61 2 9255 8434

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
info@fos.org.au
www.fos.org.au
Tel: 1300 780 808
Fax: +61 3 9613 6399

What compensation arrangements do we have?

Deloitte Touche Tohmatsu holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

3 December 2010
Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of 550 Bourke Street, Melbourne, VIC 3000

Deloitte.

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The Directors
Sigma Pharmaceuticals Limited
96 Merrindale Drive
Croydon Victoria 3136

3 December 2010

Dear Directors

Independent expert's report

Introduction

On 16 August 2010, Sigma Pharmaceuticals Limited (Sigma or the Company) announced that it had agreed in principle to sell Sigma's Pharmaceuticals Division (the Pharmaceuticals Division) to the Aspen Pharmacare Holdings Limited group of companies (Aspen) for cash consideration of $900 million (Cash Consideration) (the Proposed Transaction). If the Proposed Transaction is approved by shareholders of Sigma (the Shareholders), Sigma will retain its pharmacy wholesaling and retail businesses (Healthcare Division).

The Pharmaceuticals Division constitutes Sigma's pharmaceutical products manufacturing, marketing and supply business, which includes Sigma's generics, over-the-counter (OTC), consumer products and medical and ethicals (Medical) businesses

The key terms of the Proposed Transaction were finalised on 23 November 2010 and are summarised below:

- Sigma and Aspen have entered into a product manufacture and supply agreement (PMSA) for an initial term of two years under which:
  - Aspen will manufacture and/or supply approximately 85% of Sigma's current private label (Amcal, Guardian and Pharmacy Care) products.
  - Aspen will be the exclusive supplier (with limited exceptions) of these private label products at current cost as at the completion date of the Proposed Transaction (the Completion Date). Aspen has the opportunity prior to 1 July 2011 to reset the price and then re-set the price on 1 July each subsequent year to reflect current fully absorbed cost of manufacture or supply by Aspen
- Sigma and Aspen have entered into a Supply Agreement under which Aspen will supply certain products to Sigma and Sigma will distribute the products to its customers. Aspen will be required to pay Sigma a distribution fee (Distribution Fee) for these services. The agreement is for an initial period of five years with an option for Sigma to extend this for a further five years
- Sigma and Aspen have entered into a Transition Services Agreement (TSA) under which Sigma will provide information technology (IT), payroll and human resources services (HR) that are currently provided to the Pharmaceuticals Division for up to one year.

If, following execution of formal documentation, the Proposed Transaction does not proceed for reasons relating to Sigma, Aspen will be entitled to a break fee of $4.5 million.

Purpose of the report

There is no legal requirement to prepare an independent expert's report (IER) in relation to the Proposed Transaction under the Corporations Act 2001 (Cth) (the Corporations Act). However, the directors of Sigma (Directors) have requested Deloitte Corporate Finance Pty Limited (Deloitte) to provide an IER in order to assist the Shareholders in their decision whether or not to approve the Proposed Transaction.

Shareholders are required to vote on the Proposed Transaction at an Extraordinary General Meeting (EGM), which is scheduled for 14 January 2011. This report is to be included in the explanatory memorandum (EM) which forms part of the notice of meeting (NOM) which will be sent to the Shareholders, and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In evaluating whether the Proposed Transaction is fair and reasonable to the Shareholders we have considered the overall effect of the Proposed Transaction on the Shareholders, and formed a view as to whether the expected benefits to the Shareholders outweigh any disadvantages that may result from the Proposed Transaction.

In this context, value is an important element, but not the only element of this assessment. Therefore, we have also considered various other factors relevant to the Proposed Transaction so far as the Shareholders are concerned.

In undertaking this analysis, we have assessed the fair market value of the Pharmaceuticals Division as a whole and compared that value with the value of the Cash Consideration under the Proposed Transaction.

In forming our opinion as to whether the Proposed Transaction is fair and reasonable we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction is, or is not, fair and reasonable.

Summary and conclusion

We consider that the Proposed Transaction is fair and reasonable. In arriving at this opinion, we have had regard to the following factors:

Advantages of the Proposed Transaction

The likely advantages to Shareholders if the Proposed Transaction is approved include:

The value of the consideration offered is in line with the high end of the assessed fair market value of the Pharmaceuticals Division

Our assessed fair market value of the Pharmaceuticals Division is $825 million to $900 million. The value of the consideration offered by Aspen, being $900 million, is at the high end of that valuation range.

The table below compares our valuation of the Pharmaceuticals Division and the consideration offered by Aspen.

Table 1: Summary of value of the Pharmaceuticals Division

	Low value ($ million)	High value ($ million)
Selected fair market value of the Pharmaceuticals Division	825.0	900.0
Value of the consideration offered by Aspen	900.0	900.0

Source: Deloitte analysis

In assessing the fair market value of the Pharmaceuticals Division, we have considered significant factors affecting the future earnings of the division. These factors include:

- growth rate of the overall Australian pharmaceutical industry
- growth potential and increased competition in the generic products market
- regulated pricing environment imposed by the current PBS reforms.

We have used the capitalisation of maintainable earnings method to estimate the fair market value of the Pharmaceuticals Division. We have used the discounted cash flow method to provide additional evidence of the fair market value of the Pharmaceuticals Division. This cross check provides support for our valuation.

Valuation using the capitalisation of maintainable earnings

The estimated fair market value of the Pharmaceuticals Division utilising the capitalisation of maintainable earnings method is in the range of $825.0 million to $900.0 million on a control basis. This method requires the determination of an estimated future maintainable earnings, an appropriate earnings multiple and an appropriate premium for control.

We have estimated the future maintainable earnings before interest and tax (EBIT) of the Pharmaceuticals Division to be in the range of $70 million to $80 million, having had regard to Sigma's business plan, the division's historical results and forecast financial year (FY) January 2011 EBIT and outlook of the generics, OTC and consumer brands, Medical and manufacturing businesses. For our valuation using the capitalisation of maintainable earnings method, we have selected the mid-point of $75 million as future maintainable EBIT.

We have selected an EBIT multiple in the range of 11.0 times to 12.0 times (on a control basis), having considered market trading multiples observed for companies comparable to the Pharmaceuticals Division, earnings multiples observed for transactions involving pharmaceutical manufacturing companies, and an appropriate control premium.

The following table sets out the range of fair market values of the Pharmaceuticals Division derived using the capitalisation of maintainable earnings method, together with the fair market value derived using higher and lower earnings multiples and future maintainable earnings.

Table 2: Valuation using capitalisation of maintainable earnings method

Selected EBIT multiple (times)	Future maintainable EBIT ($ million)		
	70.0	75.0	80.0
10.0 times	700.0	750.0	800.0
11.0 times	770.0	825.0	880.0
12.0 times	840.0	900.0	960.0
13.0 times	910.0	975.0	1,040.0

Source: Deloitte analysis

Based on the analysis set out, we have estimated the fair market value of the Pharmaceuticals Division based on the capitalisation of maintainable earnings method to be in the range of $825 million to $900 million on a control basis.

Absence of other offers

Since April 2010, Sigma, in conjunction with its financial advisor, Lazard Pty Limited, has undertaken a number of processes to realise cash proceeds from the sale of various assets including the Herron brands, the Orphan business, the entire Company and the standalone generics businesses.

Sigma has received expressions of interest in relation to certain other businesses and assets. However, such expressions of interest were conditional, non-binding and incapable of acceptance by the Board. The Board has determined that each of these alternatives provided a less favourable and less certain outcome for shareholders relative to the Proposed Transaction. Further, since the announcement of the Proposed Transaction, Sigma has not received any superior proposals.

Sale of the Pharmaceuticals Division will allow Sigma to repay debt and restore the company's financial position

Sigma has faced significant financial pressure over the past nine months. On 25 February 2010, Sigma requested a trading halt and on 1 March 2010, a suspension from trading so as to revise its earnings guidance for FY 2010, primarily due to higher than expected competition and price discounting in the generics market and a lack of participation by pharmacies in Sigma's end of year promotional activities. As a result, Sigma breached the financial covenants relating to its syndicated bank debt, which resulted in associated cross default under the terms of its Waratah securitised debt facility.

Sigma was able to renegotiate its debt covenants with the banking syndicate and Westpac (as the agent of the syndicated facility) and lenders have agreed to waive these events of default. Notwithstanding this, Sigma remains in a difficult financial position due to the following:

- $100 million of its syndicated bank debt was required to be repaid by way of asset disposals by 31 March 2011 (refer to Section 4.7). The first instalment of $40 million due by 30 September 2010 was fully repaid by Sigma from operating cash flows. The second instalment of $50 million is due by 30 November 2010 with the remaining $10 million due by 31 March 2011. We understand that Sigma proposes to make an interim payment in relation to the outstanding $50 million balance out of operational cash flows, with a deferral of the remaining balance to the Completion Date, and the Company is currently in discussions with its banking syndicate in relation to amending these scheduled loan repayments

  If the Proposed Transaction does not proceed, Sigma will consider other asset sales or a capital raising to repay the remaining outstanding balance, subject to obtaining approval from its banking syndicate to delay the timetable for debt reduction.

The remaining syndicated bank facility of approximately $300 million is due for repayment or refinancing by 18 September 2011

- the $100 million Waratah securitised debt facility is due to be repaid or refinanced in February 2011, and Sigma is presently in discussions to extend this facility
- the $650 million off-balance sheet debtors securitisation program matures in March 2011. This program functions as a working capital facility. Although Sigma did not default on this program in early 2010, lenders and Sigma have agreed to several additional conditions to increase credit protection for lenders. If Sigma fails to comply with these conditions, and Sigma's financial position deteriorates further, lenders may withdraw liquidity support once the current facility expires on 15 March 2011. Whilst this debt is off-balance sheet, if it is not refinanced Sigma would be unable to offer its customers the same terms of trade, which could have a significant impact on the performance of its Healthcare Division.

On 29 September 2010, Sigma announced that it had booked a goodwill impairment of $220 million in relation to the Pharmaceuticals Division in its half year accounts for the six months ended 31 July 2010. This is based on management's assessment that the consideration offered by Aspen under the Proposed Transaction represents a current indicator of recoverable amount.

Notwithstanding that most of the repayments in relation to the $100 million syndicated bank debt have been financed from operating cash flows to date, Sigma still faces the short term challenge of refinancing the $650 million off-balance sheet debtors securitisation program in March 2011, and the remaining $400 million debt before September 2011, in an environment where there is considerable uncertainty in the Australian pharmaceutical industry.

In order to refinance its debt facilities, Sigma may be required to incur higher finance costs and/or accept more onerous financial covenants required by the lenders. The refinancing risks could be further exacerbated by:

- continued downward price pressure on generic products due to the mandatory price reduction and the price disclosure requirement under the current PBS reforms
- the potential for further aggressive price discounting of generic drugs as overseas manufacturers attempt to gain market share in Australia
- concerns around management's ability to turn around its generics business.

If the Proposed Transaction does not proceed, Sigma will have difficulty repaying its debt in accordance with the current repayment schedule without significant refinancing. If Sigma is not able to obtain the required funding, Sigma will require an agreement with its banking syndicate to delay the repayment timetable. If an agreement cannot be reached and Sigma is unable to make the specified debt repayments, it could result in the Company defaulting on its debt facilities or require a renegotiation of key debt facility terms which could cause a substantial increase in Sigma's ongoing interest payments.

In addition, if the Proposed Transaction does not proceed, Sigma will need to assess alternatives which may include other asset sales and/or an equity raising, to enable Sigma to meet its debt repayment schedule.

If the Proposed Transaction is completed, management intends to repay the entire outstanding syndicated bank debt and a significant portion of the trade receivables securitisation facilities.

Increased focus on business management and rebuild stakeholder confidence

The poor operating performance in FY January 2010 and the consequential breach of financial covenants and associated uncertainty around the future of the Company have led to a loss of confidence by the Company's stakeholders, including its shareholders, lenders, creditors, customers and employees. Since March 2010, there have been changes to the Board and senior management.

If the Proposed Transaction is completed, Sigma's financial position can be restored through the retirement of debt. The refreshed Board and senior management team will then have an opportunity to focus on managing the underlying operations and rebuilding stakeholder confidence.

Capital management initiatives

If the Proposed Transaction proceeds, Sigma intends to repay the entire outstanding syndicated banking debt and a significant portion of its trade receivables securitisation facilities. Sigma also intends to establish new facilities which are currently intended to be drawn in the order of $150 million to $200 million. This will amongst other things, provide liquidity to allow for capital management initiatives.

In the absence of the Proposed Transaction, shares in Sigma would likely trade below current levels

In the absence of the Proposed Transaction or an alternative transaction, shares in Sigma would likely trade below the prices achieved since the announcement of Aspen's original proposal to acquire all the outstanding shares in Sigma, which was subsequently revised to become the Proposed Transaction. If the Proposed Transaction does not proceed, shares in Sigma may trade at a price consistent with the levels prior to the announcement of the Aspen offer.

Healthcare Division has a strong market position and low risk profile

If the Proposed Transaction proceeds, Shareholders will have exposure only to the Healthcare Division of Sigma, which consists of the wholesale pharmaceutical distribution and its retail banner management businesses.

Sigma's wholesale business has a strong market position, with approximately 30% market share in the Australian full-line pharmaceutical wholesale market. The wholesale business is one of three full-line wholesalers in Australia that distributes the complete range of PBS-listed medicines to any retail pharmacy in Australia. It currently operates 14 distribution warehouses and services over 4,000 pharmacies (including pharmacies operating under its banner groups and independent pharmacists) across the country.

Its strong market position is underpinned by its ownership of two retail pharmacy banner groups in Australia, being Amcal (including Amcal Max) and Guardian, which represent the largest and third largest banner groups in Australia, and its existing relationship with independent pharmacies.

Earnings of the wholesale business will be adversely affected by the mandatory price reduction and price disclosure requirement set out in the current PBS reforms, as the wholesale margin is currently set at 7% of PBS-listed prices for prescription medicines plus access to the Community Service Obligation (CSO) as an approved CSO distributor. However, this downward margin pressure could be partly mitigated by Sigma's ability to achieve higher margins on other products (outside PBS), increased distribution volumes and optimising the investment in working capital.

The earnings outlook for the wholesale business will be underpinned by the long term growth in

the Australian pharmaceutical industry, reflecting the growing ageing population in Australia, continued innovation and development of new pharmaceutical products, the increase in lifestyle diseases and a shift of attitude to preventative healthcare.

Transparency of Sigma's earnings will also improve following the Proposed Transaction. As an integrated operator, it has historically been difficult for investors and other stakeholders of the Company to understand Sigma's operations and the attribution of earnings across the business. If the Proposed Transaction is approved, the structure and operation of Sigma will be simplified, which should enable better transparency of Sigma's business.

Disadvantages of the Proposed Transaction

The likely disadvantages to Shareholders if the Proposed Transaction is approved include:

Reduced diversification

The remaining Healthcare Division is a lower margin business compared to the Pharmaceuticals Division. Shareholders who desire exposure to an Australian pharmaceutical manufacturing business will no longer have exposure to the Pharmaceuticals Division post the Proposed Transaction and will need to identify alternative investments.

Forgoing future potential growth of the Pharmaceuticals Division

Although the Pharmaceuticals Division is facing increasing competition in the generic product segment of the market and downward pricing pressure due to the current PBS reforms, the Medical business of the Pharmaceuticals Division may continue to generate stable earnings at a high margin and the generics business of the Pharmaceuticals Division will have an opportunity to capture market share in the F1[1] expiring patent market over the next four years. By approving the Proposed Transaction, Shareholders will not be able to participate in this growth opportunity for the Pharmaceuticals Division.

Sigma could become a smaller scale company

Following the Proposed Transaction, Sigma will have a smaller business, given that more than 50% of the Company's earnings, together with the majority of the Company's fixed assets, will be sold under the Proposed Transaction.

A potential decrease in the scale of Sigma's business may result in reduced analyst coverage, lower the profile of the Company, particularly with institutional investors, and hence decrease the liquidity of the Company's shares compared to that currently experienced by Shareholders.

Conclusion on advantages and disadvantages

On balance, in our opinion, the advantages of the Proposed Transaction outweigh the disadvantages.

[1] The F1 medicines category contains on-patent medicines that are not substitutable with other brands or medicines.

Opinion

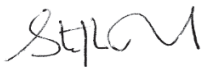
In our opinion, the Proposed Transaction is fair and reasonable to the Shareholders.

An individual shareholder's decision in relation to the Proposed Transaction may be influenced by his or her particular circumstances. If in doubt the shareholder should consult an independent adviser, who should have regard to their individual circumstances.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Stephen Reid

Director

Stephen Ferris

Director

Note: All amounts stated in this report are in Australian dollars ($) unless otherwise stated, and may be subject to rounding.

Contents

1 Terms of the Proposed Transaction

1.1 Summary

On 16 August 2010, Sigma announced the Proposed Transaction whereby it agreed to sell the Pharmaceuticals Division to Aspen for cash consideration of $900 million. If the Proposed Transaction is approved by the Shareholders, Sigma will retain its Healthcare Division. The Pharmaceuticals Division constitutes Sigma's pharmaceutical products manufacturing, marketing and supply business, which includes Sigma's generics, OTC, consumer products and Medical businesses

The key terms of the Proposed Transaction were finalised on 23 November 2010 and are summarised below:

- Sigma and Aspen have entered into a PMSA for an initial term of two years under which:
  - Aspen will manufacture and/or supply approximately 85% of Sigma's current private label (Amcal, Guardian and Pharmacy Care) products.
  - Aspen will be the exclusive supplier (with limited exceptions) of these private label products at current cost as at the Completion Date. Aspen has the opportunity prior to 1 July 2011 to reset the price and then re-set the price on 1 July each subsequent year to reflect current fully absorbed cost of manufacture or supply by Aspen
- Sigma and Aspen have entered into a Supply Agreement under which Aspen will supply certain products to Sigma and Sigma will distribute the products to its customers. Aspen will be required to pay Sigma the Distribution Fee for these services. The agreement is for an initial period of five years with an option for Sigma to extend this for a further five years
- Sigma and Aspen have entered into a TSA under which Sigma will provide IT, payroll and HR services that are currently provided to the Pharmaceuticals Division for up to one year.

If, following execution of formal documentation, the Proposed Transaction does not proceed for reasons relating to Sigma, Aspen will be entitled to a break fee of $4.5 million.

1.2 Board and management's intentions

If the Proposed Transaction is approved, Sigma's Board and management are likely to use the proceeds from the Proposed Transaction to undertake the following:

- reduce Sigma's debt facilities to improve its financial position in relation to the remaining businesses
- a capital management program.

1.3 Key conditions of the Proposed Transaction

The Proposed Transaction is subject to various conditions, the most significant being:

- Sigma shareholder approval
- approval from Sigma's lenders
- regulatory approval from the Foreign Investment Review Board (FIRB), the Australian Competition and Consumer Commission (ACCC) and other regulatory authorities.

2 Scope of the report

2.1 Purpose of the report

There is no legal requirement to prepare an IER in relation to the Proposed Transaction under the Corporations Act. However, the Directors have requested Deloitte to provide an IER in order to assist Shareholders in their decision to accept or reject the Proposed Transaction.

Shareholders will vote on the Proposed Transaction at an EGM, which is scheduled for mid January 2011. This report is to be included in the EM which will accompany the NOM which will be sent to Shareholders, and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Transaction. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

In determining whether the the Transaction is fair and reasonable, we have had regard to common market practice and to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 regarding the content of expert's report. This regulatory guide prescribes standards of best practice in the preparation of independent expert's reports.

In undertaking this analysis, we have assessed the fair market value of the Pharmaceuticals Division as a whole and compared that value with the value of the Cash Consideration under the Proposed Transaction.

In assessing whether the Proposed Transaction is fair and reasonable, we have considered the overall effect of the Proposed Transaction on Shareholders, and formed a view as to whether the expected benefits to the Shareholders outweigh any disadvantages that may result from the Proposed Transaction.

In this context, value is an important element, but not the only element of this assessment. Therefore, we have also considered various other factors relevant to the Proposed Transaction insofar as the Shareholders are concerned.

In forming our opinion as to whether the Proposed Transaction is fair and reasonable we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposed Transaction is, or is not, fair and reasonable.

In October 2010, ASIC issued Consultation Paper 143 which sets proposed updates to ASIC's policies on the content of expert reports and the independence of experts. Under ASIC's policy, fair and reasonable are treated as separate concepts. We note that our conclusion in relation to the Proposed Transaction does not change, irrespective of whether fair and reasonable are treated as a single or separate opinion.

2.2.1 Individual circumstances

We have evaluated the Proposed Transaction for Shareholders as a whole and have not considered the effect of the Proposed Transaction on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Transaction from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Transaction is fair and reasonable. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 6.

This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited (APESB).

Our procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

3 Australian pharmaceutical industry

Sigma operates in the Australian pharmaceutical industry, and is engaged in manufacturing, wholesaling and retailing of generic, ethical, OTC, Medical and consumer products. Accordingly, we have provided an overview of the Australian pharmaceutical industry including a discussion of the manufacturing, wholesaling and retailing subsectors.

3.1 Industry overview

The Australian pharmaceutical industry represents just over 1% of the global pharmaceutical market, with an estimated annual turnover of approximately $18 billion. The Australian pharmaceutical market is the 15th largest in the world, based on total pharmaceutical sales and the fourth largest market in Asia[2] (after Japan, China and India). Broadly defined, the industry employs approximately 90,000 people and is comprised of over 600 firms and institutions involved in manufacturing, research and wholesaling and approximately 5,100 retailers.

Pharmaceutical products can be grouped into three major product categories including:

- **ethical pharmaceuticals** - comprised approximately 58%[3] of industry revenue in the financial year ended 30 June 2010 (FY June 2010). Ethical pharmaceuticals can only be obtained with a medical practitioner's prescription or in hospitals. Included in this segment are commercially available branded drugs that are protected by patents, in addition to generic drugs without patent protection. A generic drug must contain the same active ingredients as the original formulation
- **OTC pharmaceuticals** - comprised approximately 25%[4] of industry revenue in FY June 2010. These products may be sold directly to consumers without prescription through pharmacies and supermarkets to treat the symptoms of common, minor and self-limiting ailments that do not require a medical diagnosis
- **veterinary products** - comprised approximately 5%[4] of industry revenue in FY June 2010. Veterinary products include vaccines and other medicines for both companion animals (pets) and livestock. These products are manufactured by a relatively small number of firms, many of which also produce human pharmaceutical products.

The remaining 12%[4] of industry revenue was generated through sales of other consumer products such as baby nappies and other hygiene products.

3.2 Regulation

The pharmaceutical industry is one of the most highly regulated industries in Australia. The Federal Government regulates the quality, safety and efficacy of therapeutic goods, and the state governments control the distribution of products through their scheduling systems. The industry is principally regulated by the Commonwealth Department of Health and Ageing through a number of regulatory bodies including:

- the Therapeutic Goods Administration (TGA),
- the Pharmaceutical Benefits Advisory Committee (PBAC)
- the Pharmaceutical Benefits Pricing Authority (PBPA)
- the CSO Funding Pool Administration Agency.

[2] IBISWorld Pty Limited (IBISWorld)
[3] Ibid
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The licensing of pharmaceutical wholesalers and the storage of chemical and pharmaceutical goods is administered by individual state health departments.

The TGA, established by the Therapeutic Goods Act 1989 (Cth), carries out a range of assessment and monitoring activities to ensure therapeutic goods available in Australia are of an acceptable standard with the aim of ensuring that the Australian community has access, within a reasonable time, to therapeutic advances. Therapeutic goods must be registered on the Australian Register of Therapeutic Goods (ARTG) before they can be supplied in Australia, unless they are exempt or given special approval by the TGA. This applies to prescription, OTC and complementary medicines. Australian manufacturers of all medicines must be licensed under Part 4 of the Therapeutic Goods Act 1989 (Cth) and their manufacturing processes must comply with the principles of Good Manufacturing Practice (GMP).[4]

The Government subsidises the cost of medicines through the operation of the PBS to ensure affordable access to medications for the population of Australia. In FY June 2008, expenditure on medications in Australia totalled $13.7 billion, which comprised $8.1 billion on benefits-paid medications and $5.6 billion on other medications[5]. The Government funded 83.7%[6] of the benefits-paid pharmaceuticals through subsidies. The Government decides which medications are included in the PBS list through the PBAC. The Government also negotiates the maximum prices offered to manufacturers for PBS-listed drugs through the PBPA and sets the maximum margins that may be earned by pharmaceutical wholesalers and retailers for PBS-listed drugs under the Community Pharmacy Agreements.

Approximately 85% of ethical drugs administered in Australia are offered through the PBS. For pharmaceuticals listed on the PBS, the price is determined via negotiations between the PBPA (a Government agency) and the manufacturers. The Government's monopsony[7] purchasing power is used to secure lower prices and restrict volumes as a means of controlling the cost of the scheme. The Government needs to control health care expenditure where it is the main purchaser of medicinal and pharmaceutical products, while ensuring affordable access to medications for the population.

[4] The TGA adopts the principles of GMP with reference to guidelines issued by the Pharmaceuticals Inspection Convention and the Pharmaceuticals Inspection Co-operation Scheme, two global bodies designed to facilitate international co-operation in the field of GMP between regulatory authorities and the pharmaceutical industry

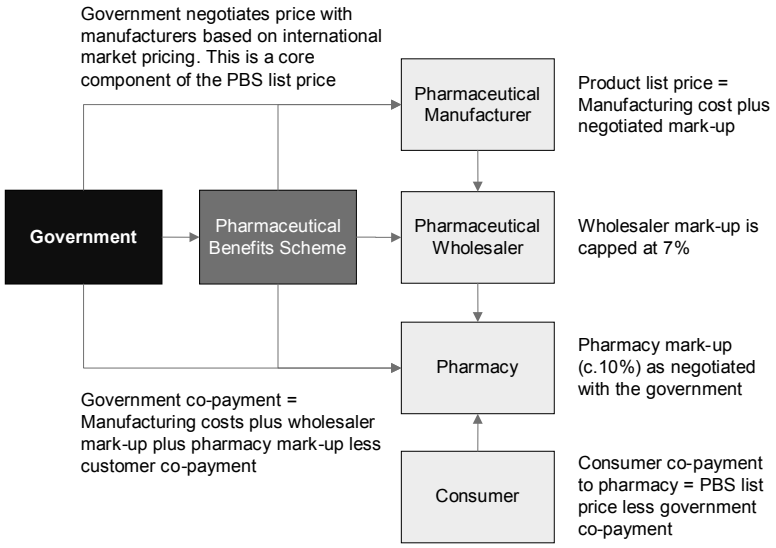
[5] Australian Institute of Health and Welfare

[6] Ibid

[7] A market in which there is one source of demand and many sources of supply

The following chart summarises the operation of the PBS.

Figure 1: Operation of the PBS



Source: Australian Federal Government PBS website

Faced with increasing costs associated with the PBS, commencing in 2005 the Government implemented a range of reforms to the scheme. Many off-patent drugs were being priced at on-patent equiavlents, resulting in some generic medicines being priced substantially above comparative overseas products. Reforms included a mandatory price reduction of 12.5% of the price to the pharmacy when medicines come off patent. Furthermore, the regulated margin that wholesalers could charge was cut from 10% to 7% (based on manufacturer's prices). The price reductions took effect from 1 April 2005 while the changes to wholesaler margins became effective as of 1 July 2006.

In November 2006, the Federal Government announced a series of further reforms to the PBS also designed to address the rising cost of the PBS to the Government. The principal reforms related to the classification, for pricing purposes, of drugs included on the PBS list. From 1 August 2007, medicines on the PBS were separated into two groups, each subject to different pricing arrangements.

Medicines where there is only a single brand listed were classified as F1 medicines. The F1 category contains on-patent medicines that are not substitutable with other brands or medicines. Medicines where there are either more than one listed brand, groups of interchangeable medicines or a generic equivalent exists, were classified as F2 medicines.

From 1 August 2008, further reductions (of up to 25%) in the prices of a number of F2 medicines were imposed. These price reductions have affected approximately 100 PBS-listed drugs and are in addition to the price reduction imposed in 2006. The effect of these price reductions is to reduce the margins in the industry, and therefore the price paid by the Government, as the co-payments made by consumers remained largely unchanged.

Another significant reform was the introduction of pharmaceutical wholesaler compensation through the implementation of the CSO funding pool, administered by the CSO Funding Pool Administration Agency. The purpose of the CSO funding pool is to compensate designated wholesalers for meeting various service standard requirements with the aim of ensuring that all communities, particularly those in remote and regional Australia, have adequate access to all PBS-listed medications. The CSO is primarily funded through the cost reductions secured in other PBS reforms and is expected to partially offset the reduction in wholesale margins imposed in 2006.

Further reforms to the PBS were announced as part of the Federal Budget in May 2010. These reforms include further price reductions for F2 category medicines as well as increased price disclosure requirements for F2 category medicines. Under the latter reform, manufacturers will be required to disclose to the Government the prices at which their drugs are sold to wholesalers and retailers in order to enable greater price transparency. Over time, it is expected that this reform will reduce costs to the Government as any significant price discounts currently offered by manufacturers to wholesalers and pharmacies will likely be claimed by the Government pursuant to future statutory price reductions.

Other recent reforms to the PBS included various incentive and rebate payments to wholesalers and pharmacies, a streamlined authority approvals process for some medicines and the establishment of an 'access to medicines' working group.

3.3 Industry subsectors

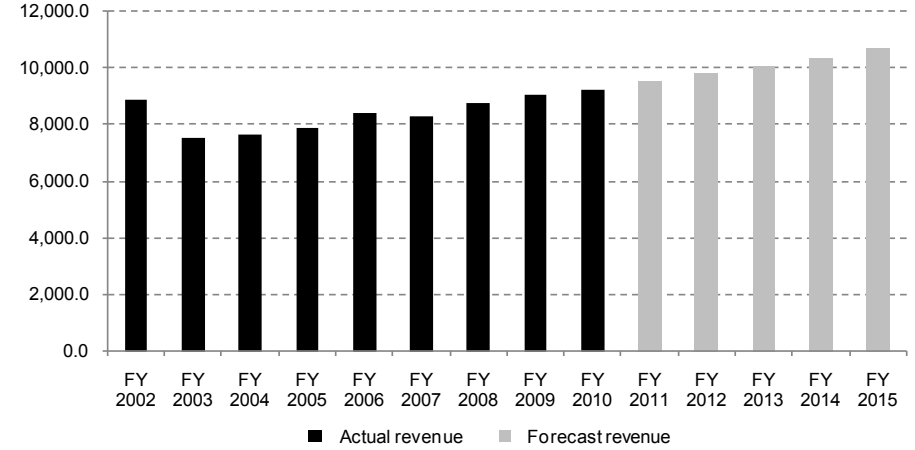
We provide below an overview of each of the pharmaceutical manufacturing, wholesaling and retailing subsectors.

3.3.1 Pharmaceutical manufacturing sector

The Australian pharmaceutical manufacturing sector generated revenue of approximately $8.9 billion in FY June 2010 and employs approximately 13,000 people across approximately 200 local and multinational businesses.

The figure below sets out the historical revenue trend between FY June 2002 and FY June 2010 and revenue forecasts for FY June 2011 through to FY June 2015 for the pharmaceutical manufacturing sector.

Figure 2: Pharmaceutical manufacturing sector revenue ($'million)



Source: IBISWorld

Revenue has increased at a compound annual growth rate (CAGR) of 3.2% per annum (p.a.) over the five years to FY June 2010 and is projected to increase at a CAGR of 3.4% p.a. over the five years to 2015. The more moderate growth over the five years to FY June 2010 is partly due to the lack of any 'blockbuster' drugs entering the market during that period and the impact of the changes to the PBS implemented in recent years. Notwithstanding the increasing demand for pharmaceuticals due to the ageing population and changes in community attitudes to healthcare, revenue growth for the pharmaceutical manufacturing sector is expected to remain moderate in the medium term as the reforms to the PBS are expected to continue to affect margins in the sector. In addition, there are a number of 'blockbuster' drugs which are expected to come off patent in the near future, which present significant opportunities for generic drug manufacturers to increase their market share.

Competition in the pharmaceutical manufacturing sector is based on a number of factors, including:

- whether a product is still under patent, out-of-patent or is a generic equivalent. Competition is limited while a product is still patented. Competition is mainly between a few patented drugs with similar applications and is based on product innovation and development
- once the patent on a product expires, competition between an out-of-patent drug and the generic equivalent becomes increasingly based on price. Australian pharmaceutical manufacturers currently face significant competition from lower cost overseas producers. Furthermore, with a number of key global patents set to expire over the next few years, this type of competition is expected to intensify
- once a patent expires, the original innovator of the product may continue to compete with the generic equivalent by relying on name recognition and brand loyalty
- whether the prices for prescription medicines are regulated under the PBS. In such cases, companies tend to focus on cost-cutting, the improvement of existing products and product innovation rather than price.

Australian production mainly comprises secondary manufacturing activities such as the formulation and packaging of finished products, with the necessary active ingredients predominantly imported from the participant's parent company, while passive ingredients (e.g. fillers) and containers are generally purchased locally. Little synthesis and manufacture of active drug compounds, a high value-added activity, occurs in Australia.

For the FY June 2010, Australian pharmaceutical industry imports totalled approximately $10.0 billion, compared to a total domestic demand (revenue from locally produced pharmaceuticals plus imports less exports) of $15.5 billion[8]. The Australian pharmaceutical manufacturing industry is expected to continue to face strong competition from overseas manufacturers.

[8] IBISWorld

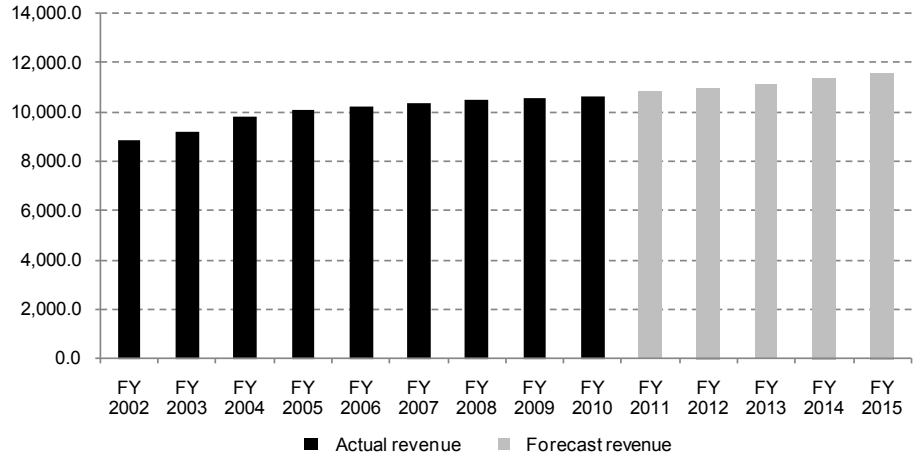
3.3.2 Pharmaceutical wholesaling sector

Operators in the pharmaceutical wholesaling sector are engaged in product procurement, distribution and sales of ethical drugs, OTC products as well as a range of other healthcare products. The pharmaceutical wholesaling sector serves as an intermediary between the pharmaceutical manufacturers (both local and overseas) and the retail pharmacies and other end-user channels such as hospitals and clinics. Employing approximately 5,500 people across over 600 businesses, the pharmaceutical wholesaling sector generated revenue of approximately $10.6 billion in FY June 2010. Approximately 65% of revenue was derived from prescription medications, 15% related to pharmacy-only medications and OTC and complementary medicines each comprised 10%.

As a consequence of the significant proportion of revenue generated from prescription medications, the pharmaceutical wholesaling sector is heavily influenced by the PBS. For PBS listed drugs, the Government stipulates the mark-up that can be charged by the pharmaceutical wholesaler. As discussed in Section 3.2, recent PBS reforms cut wholesalers' margins from 10% to 7% and have resulted in minimal or moderate revenue growth despite higher volumes. A portion of the cost savings for the Government from this margin reduction is directed to the CSO funding pool. However, CSO payments are not available to all pharmaceutical wholesalers and only partially offset the margin reduction caused by the PBS reforms.

The figure below sets out the historical revenue trend for the pharmaceutical wholesaling sector from FY June 2002 to FY June 2010 and revenue forecasts for FY June 2011 through to FY June 2015.

Figure 3: Pharmaceutical wholesaling sector revenue ($'million)



Source: IBISWorld

Revenue increased at a CAGR of 1.2% p.a. over the five years to FY June 2010 and is expected to increase at a CAGR of 1.7% p.a. over the five years to FY June 2015. These modest growth rates are principally due to the impact of recent PBS reforms and the resultant margin squeeze in the sector. There has also been a shift away from the traditional wholesaler/distributor model with a number of larger retailers operating a centralised warehouse and relying on their own distribution networks. These factors are expected to continue to adversely affect the wholesaling sector, however other general industry-wide factors, such as an ageing population and an increased focus on preventative healthcare, may alleviate the effect of these factors on wholesalers' performance in the medium term.

3.3.3 Pharmaceutical retailing sector

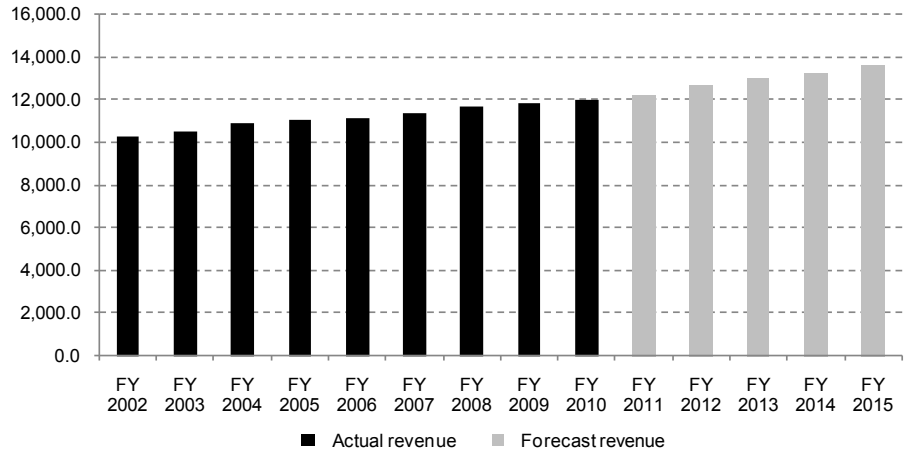
The Australian pharmaceutical retailing sector comprises approximately 5,100 pharmacies providing prescription medications (including patent and generic drugs), pharmacy-only non-prescription medications and OTC medications. In addition to medications, pharmacies also provide a range of other products such as cosmetics, toiletries and other healthcare related products.

Key drivers of the pharmaceutical retailing sector include:

- the Guild Government Agreement which amongst others, sets pharmacist dispensing remuneration
- the PBS
- competition from supermarkets and other retailers which sell some OTC and general healthcare products that are also sold by pharmacies
- the ageing population
- community attitudes towards healthcare and healthy living
- consumer sentiment and levels of disposable income.

In FY June 2010, the pharmaceutical retailing sector generated revenue of approximately $12.0 billion. The figure below sets out the historical revenue trend for the pharmaceutical retailing sector between FY June 2002 and FY June 2010 and revenue forecasts for FY June 2011 through to FY June 2015.

Figure 4: Pharmaceutical retailing sector revenue ($'million)



Source: IBISWorld

In FY June 2010, 70% of revenue was derived from prescription medicines, 13% from non-prescription medicine and the remaining 17% from general retail (i.e. front-of-store sales). Over the past three decades, there has been a gradual decrease in the proportion of revenue sourced from non-medicine related products, from 50% in FY June 1991 to 30% in FY June 2001 and 17% in FY June 2010. This is principally due to increased competition from supermarkets and specialty stores for products such as toiletries, cosmetics and OTC drugs, which has seen the pharmacy sector's market share in these product lines heavily reduced.

In recent years, pharmacies have increased their focus on front-of-store sales in an attempt to arrest and possibly reverse this trend, however, the diminution of market share has continued. Consequently, revenue growth for pharmacies in the five years to FY June 2010 at a CAGR of 1.6% p.a. has been principally underpinned by growth in dispensary revenues, despite the revenue squeeze caused by medicine price reductions under the recent PBS reforms. Revenue is expected to grow at a CAGR of 2.6% in the five years to FY June 2015, largely supported by factors such as the ageing population and changes in community attitudes to healthcare and healthier living.

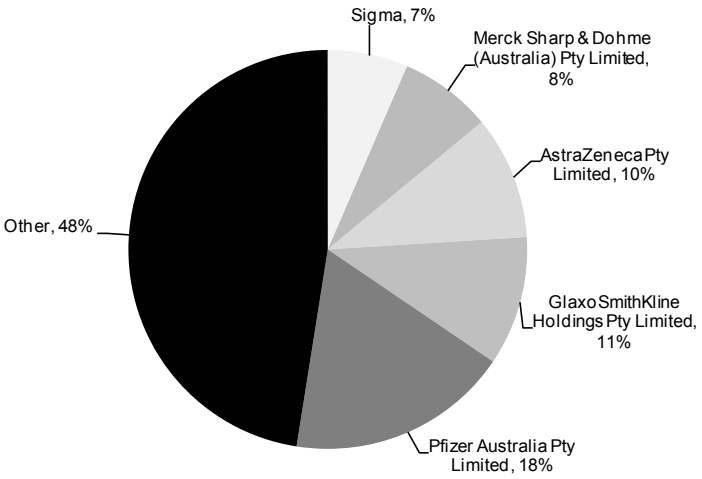
Currently, the EBIT of pharmacies remains stable, despite the revenue pressures due to higher margins from dispensing generic equivalents of out-of-patent PBS medicines and the renewed focus on front-of-store sales.

3.4 Competition

The industry is becoming increasingly global with major players operating on a large scale. In recent years the level of globalisation has increased due to a number of cross-border mergers and acquisitions and a growing trend towards collaborative alliances in research and development (R&D) and marketing. At present, eight[9] of the top ten pharmaceutical manufacturers operating in Australia are subsidiaries of established multinational pharmaceutical companies with significant market presence globally.

A progressive consolidation process has brought the five main players to a total market share of approximately 54%. The figure below sets out the market share by revenue of the major players in the Australian pharmaceutical manufacturing industry.

Figure 5: Market share of the main pharmaceutical manufacturers in Australia as at June 2010 (based on revenue)



Source: IBISWorld

3.5 Barriers to entry

The principal barriers to entry in the Australian pharmaceutical industry include:

- the high level of government regulation, including price controls through the PBS and stringent quality and compliance regulations. The impact of government regulation, especially

[9] IBISWorld

in regard to the PBS and recent reforms, affects the profitability of each subsector of the pharmaceutical industry

- the existence of several established, vertically integrated and often global operators with significant market presence and financial strength
- the existence of long patent lives
- the high cost of R&D and the high rate at which novel drugs in advanced stages of R&D drop out prior to commercialisation
- the significant capital expenditure required to establish manufacturing plants, warehouse facilities and distribution networks
- the existing supply agreements between wholesalers and retailers.

3.6 Key industry issues

The operating environment and competitive landscape have changed significantly over the past decade. The key issues facing the Australian pharmaceutical industry are as follows:

- the products to which in excess of $1.0 billion of current PBS expenditure relates are expected to come off patent between 2010 and 2014
- dominance of the regulatory framework. The Commonwealth Government has continued with its PBS reforms to attempt to control the costs associated with the scheme. Based on the May 2010 memorandum of understanding between Medicines Australia which was passed by the Senate in November 2010, the industry association representing the innovative medicines industry, and the Commonwealth of Australia, the price of single brand PBS drugs will be subject to a 16% reduction (previously only 12.5%) upon listing of a competing brand on the PBS list.

  In addition, all brands of F2 medicines will be subject to price disclosure commencing 1 December 2010 whereby manufacturers are required to provide information to the Government showing the market prices of their drugs. Where there is a significant difference between the government price and the weighted average market price of a drug, the PBS price will be reduced to match the market.

  Through the price disclosure mechanism, prices of F2 medicines are expected to decline as competing pharmaceutical manufacturers align prices to the market to ensure their products remain competitive. The legislated reforms will continue to drive price reductions on drugs and increase industry transparency through mandatory price disclosure. The price restriction inherent with the reforms effectively places downward pressure on the industry's operating margins and profitability
- increasing competition in Australia, particularly in relation to the generic product segment, is driven by new, predominately overseas multinationals, generic pharmaceutical companies entering the Australian market. The key focus is on opportunities relating to the expiry of major drug patents over the next few years.

  New generic pharmaceutical companies have adopted aggressive pricing strategies in an attempt to gain market share and secure their market position in time to capture the growth in the generic product segment of the Australian pharmaceutical market. Additional pressure also comes from the originators, who previously did not compete in the generic product segment, launching their generic version of patent drugs.

  The increased competition is evident by the level of price discount offered by generic drug manufacturers in recent periods

- Australian pharmaceutical manufacturers are generally less competitive compared to global manufacturers given the high labour cost environment and that Australia represents only 1% of the global drug usage. This is evidenced by the fact that many multinational pharmaceutical companies have closed down their manufacturing facilities in Australia. However, there has also been a proportionate increase in local contract manufacturing due to specific packaging and other regulatory requirements in Australia. Long term viability of the industry will depend on its ability to compete with manufacturers from lower cost countries.

3.7 Industry outlook

The domestic pharmaceutical industry is forecast to experience continued growth driven by the following factors:

- an ageing population: Australia's population aged 65 and over is anticipated to increase from approximately 13% of the total population in 2007[10] to nearly 24% by 2056. Already accounting for over 80%[11] of Australia's pharmaceutical consumption, these trends will see this market segment become even more important, dictating both drug development patterns, government policy as well as consumption patterns
- continued product development and innovation in:
  - various therapeutic areas including human immunodeficiency virus (HIV) anti-virals, erectile dysfunction therapies, Alzheimer's disease and attention-deficit hyperactivity disorder
  - lifestyle drugs which treat non-life threatening and non-painful conditions such as baldness, impotence, acne, etc
  - personalised drugs which use information about an individual patient to select or optimise that patient's preventative and therapeutic care using genomics[12] and proteomics[13] (directly or indirectly)
- an increase in demand for vaccines due to current concerns with regards to possible pandemics including swine influenza and avian influenza (bird flu)
- lifestyle trends and the subsequent development of lifestyle diseases (obesity, depression, ulcers, etc) will also serve to dictate development and consumption patterns.

However, overall industry growth in Australia may be constrained by the effects of patent expirations resulting in an increasing level of generic competition, increased competition from offshore manufacturers affecting the domestic manufacturing sector, and the Federal Government's cost containment strategies regarding health expenditure.

[10] Australian Bureau of Statistics
[11] IBISWorld
[12] Genomics is the study of the genomes of organisms and efforts to determine the entire Deoxyribonucleic acid (DNA) sequence of organisms and fine-scale genetic mapping efforts.
[13] Proteomics is the large-scale study of proteins, particularly their structures and functions

4 Profile of Sigma

Sigma is a vertically integrated Australian manufacturer and wholesaler of ethical, OTC, generic, Medical and consumer pharmaceutical products. It also owns two of Australia's largest retail pharmacy banners, being Amcal and Guardian. Sigma is listed on the Australian Securities Exchange (ASX) with a market capitalisation of approximately $511.8 million.[14]

Sigma in its current form was established upon the merger of Sigma Company Limited and Arrow in December 2005. The combination merged Sigma Company Limited's manufacturing operations and its suite of OTC and prescription products and brands, including those of Herron Pharmaceuticals Pty Limited (Herron), with the significant generics pharmaceutical marketing business of Arrow.

This section provides an overview of Sigma and its operations.

4.1 Company history

An overview of the company history is provided in Figure 6 below.

Figure 6: Company history

1997	• Sigma Company Limited, a pharmacist-owned co-operative, listed on the Australia Pacific Exchange (a stock exchange operated by Austock Group) and acquired the Guardian pharmacy banner group
1998	• Sigma Company Limited acquired Amcal pharmacy banner group
2002	• Sigma Company Limited announced a possible merger with Australian Pharmaceuticals Industries Limited (API) in February 2002, however, the ACCC subsequently rejected the proposal • Arrow listed on the ASX
2003	• Sigma Company Limited acquired Herron and Chemists' Own Pty Limited (Chemists' Own)
2005	• Sigma Company Limited and Arrow merged to form Sigma via a reverse takeover of Arrow in December 2005
2006	• Sigma made an off-market offer to acquire all shares in API in October 2006, which was subsequently rejected in December 2006
2007	• in May 2007, Sigma announced the opening of its upgraded manufacturing facility in Dandenong, Victoria, which was upgraded at a cost of $63 million • Sigma, in conjunction with a private equity consortium, made an offer for the consumer and pharmacy business of Symbion Health Limited (Symbion) in June 2007. This offer was subsequently rejected by Symbion
2008	• in February 2008, Sigma completed the acquisition of specialised-pharmaceuticals business, Orphan Holdings Pty Limited (Orphan), for cash consideration of $130 million • in April 2008, Sigma and Metcash Limited (Metcash) investigated the possibility of jointly bidding for Symbion's consumer brands and pharmaceutical wholesaling assets. Metcash subsequently withdrew from this process in July 2008
2009	• in June 2009, Sigma announced the closure of its Tennyson manufacturing plant in Brisbane over two years as part of its plant rationalisation program • in September 2009, Sigma announced the proposed acquisition of an established brand portfolio and a manufacturing facility in Noble Park, Victoria, from BMS for cash consideration of approximately $60 million • in October 2009, Sigma completed a two-stage one for three renounceable entitlement offer to raise approximately $297 million to fund the BMS purchase

[14] As at 19 November 2010

	and to reduce debt
2010	• Sigma requested a trading halt on 25 February and on 1 March 2010 a suspension from trading, to revise its 2010 earnings guidance arising from year-end adjustments • in April 2010, Sigma's Managing Director and Chief Executive Officer resigned, followed by the Chief Financial Officer, Chairman and a non-executive director in May 2010 • in May 2010, Sigma announced it had received a non-binding, indicative and conditional takeover offer from Aspen of $0.60 per Sigma share which was subsequently revised to $0.55 per share in July 2010 • in June 2010, Mr Mark Hooper was announced as the new Managing Director and Chief Executive Officer of Sigma • in July 2010, Mr Jeff Sells was announced as the new Chief Financial Officer of Sigma • on 16 August 2010, Sigma announced the proposed sale of the Pharmaceuticals Division to Aspen for $900 million • the ACCC issued a Statement of Issues on the proposed acquisition of Sigma's Pharmaceuticals Division by Aspen in relation to certain competition issues and has invited further submissions from the public • in November 2010, Sigma was served with a statement of claim (shareholder class action) filed in the Federal Court of Australia in relation to its market disclosure during 2009 and 2010. The applicants are seeking unquantified damages • on 23 November 2010, Sigma announced it had reached formal agreement with Aspen on the terms and conditions of the Proposed Transaction.

Source: ASX announcements

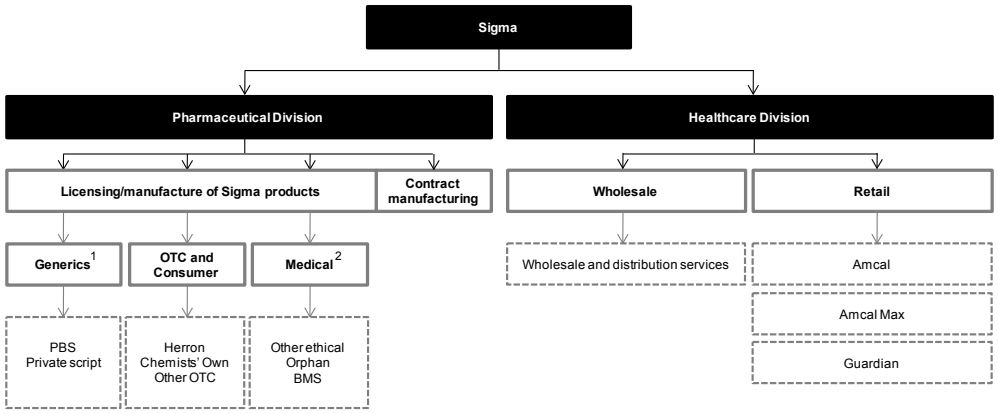
4.2 Principal activities

Sigma operates across two broad divisions:

- the Pharmaceuticals Division, which comprises Sigma's Generics, Consumer, OTC, Herron, Ethical Products, Medical Products, Orphan and Manufacturing businesses
- the Healthcare Division, which comprises the pharmacy wholesaling and retail businesses (under the Amcal, Amcal Max and Guardian pharmacy brands).

Sigma's principal activities and operational structure is presented in Figure 7 below.

Figure 7: Sigma group structure



Source: ASX announcements, Company website

Notes:
1. The Generics business includes manufactured and imported products
2. The Medical business includes the manufacture and marketing of ethical products under licence from international companies; the manufacture of other ethical products under legacy brands of the Company and those acquired in the BMS transaction; and the Orphan business.

Sigma's operations are based in Australia, however, the Company provides contract manufacturing services to international companies and exports a broad range of its products to selected markets through a network of distributors.

For the financial year ended 31 January 2010 (FY January 2010), Sigma generated $3.2 billion in revenue and $167.2 million in EBIT, before abnormal and extraordinary items. As shown in the figures below, the majority of revenue is generated through the Healthcare Division, whilst the Pharmaceuticals Division contributed the majority of EBIT (before abnormal and extraordinary items).

Figure 8: Revenue contribution of divisions in FY January 2010

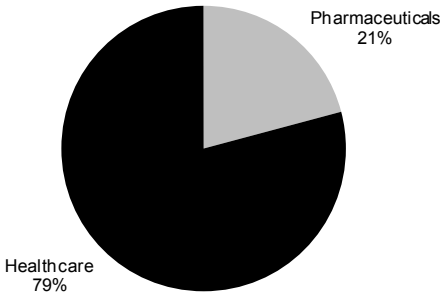
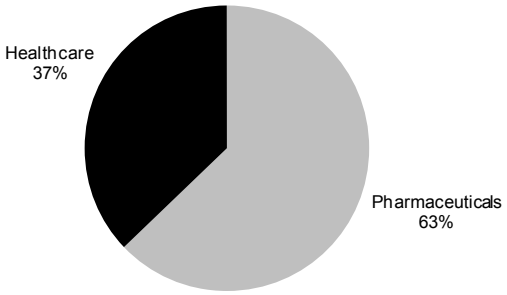


Figure 9: EBIT contribution of divisions in FY January 2010[1]



Source: ASX announcements

Note:
1. Refers to underlying EBIT, being reported EBIT adjusted for impairment and other abnormal and extraordinary items as identified by Sigma management.

4.2.1 Pharmaceuticals Division

The Pharmaceuticals Division manufactures and markets a broad range of generic and non-generic ethical products, OTC products and complementary medicines.

Sigma is the largest pharmaceutical manufacturer in Australia, operating three manufacturing plants in Victoria, one in New South Wales (NSW) and is in the process of decommissioning a fifth plant in Tennyson, Queensland. Closure of the Tennyson plant, downsizing of its Noble Park plant and a $73.6 million redevelopment of the Dandenong plant reflect Sigma's ongoing plant rationalisation and restructuring program designed to improve margins and reduce infrastructure costs. The Dandenong plant is a world class manufacturing facility with an annual capacity of over 4 billion tablets and 25 million units of liquid. This plant currently has significant unused capacity.

Sigma also has a contract manufacturing and exports business, accounting for approximately 2.3% of FY January 2010 consolidated revenues.

The products manufactured and sold by the Pharmaceuticals Division, together with a brief description on the source of revenue and the direct costs incurred, are shown in the table below.

Table 3: Earnings base of the Pharmaceuticals Division

Product	Revenue point	Direct costs [3]
Generic products[1]	Pharmacies	Manufacturing costs and cost of products imported from overseas
OTC and consumer products[2]	Grocery and pharmacies	Manufacturing costs and cost of products imported from overseas
Medical products		
Orphan products	Medical specialist and hospital	Cost of products imported from overseas
Medical	General practitioners and pharmacies	Cost of products imported from overseas
BMS and other ethical products	Pharmacies	Manufacturing costs and cost of products imported from overseas

Source: Management, Deloitte analysis

Notes:

1. The Pharmaceuticals Division purchases and markets a number of generic products on behalf of the Healthcare Division, referred to as the Arrow Private Scripts Model products, which are currently reported in the performance results of the Pharmaceuticals Division for the purposes of simplifying segment reporting (rather than being representative of the underlying operations of the Pharmaceuticals Division)
2. The Pharmaceuticals Division manufactures products for the Healthcare Division under the Amcal and Guardian brands (referred to as Private Label products). These products are sold at standard cost to the Healthcare Division and, therefore, the Pharmaceuticals Division does not generate a margin
3. The Pharmaceuticals Division carries all the distribution costs other than those from the Healthcare distribution centres to the pharmacies.

Earnings for the Pharmaceuticals Division equal the profit margin between each revenue point and direct costs. For accounting purposes, the Pharmaceuticals Division does not currently incur any distribution and logistics costs in relation to the transport of products from the distribution warehouses to the retailers (these costs are borne by the wholesale operations). Under the terms of the Proposed Transaction, the Pharmaceuticals Division will pay a Distribution Fee to Sigma during the term of the Supply Agreement.

Generic products

Sigma entered the Australian generics market after merging with Arrow in 2005. Sigma currently holds 20%[15] of the Australian generics market, making it the second largest generics manufacturer in Australia. Generic product sales represented approximately 43.5% of the Pharmaceuticals Division's revenues and 9.1% of Sigma's total revenues in FY January 2010.

The Company currently has a portfolio of over 110 PBS listed molecules. Sigma is aiming to have a generic drug equivalent for all major PBS listed drugs that are coming off patent in the next five years. These patent protected drugs accounted for in excess over $1.0 billion of PBS expenditure in FY June 2010.

OTC and Consumer products

Sigma's OTC brands include the umbrella brands Herron, Chemists' Own as well as Ural, Coloxyl, Goanna, Vita-Minis, OsteoEze and other brands. These are distributed through the

[15] Management estimates

Company's Healthcare Division to pharmacy customers and several of these brands are also sold direct from Sigma Pharmaceuticals to the grocery channel supermarket customers. Sigma has the fourth largest OTC product portfolio in the pharmacy channel[16], manufacturing and marketing over 225 OTC products under its brands. The Consumer division sales represented approximately 15% of the Pharmaceuticals Division's revenues and 3.3% of Sigma's total revenue in FY January 2010.

The Chemists' Own, Ural, Coloxyl, Vita-Minis and Goanna brands performed strongly in 2010 (exhibiting growth of approximately 10%). However, the umbrella brand Herron (which was part of the Herron business acquired by Sigma in 2003 for $123 million, including 38 Chemists' Own products) did not perform in line with expectations.

Increased advertising for Herron Paracetamol and Herron Blue Ibuprofen grew market share in the grocery channel in FY January 2010 but was unable to be sustained for the full year. The Herron Natural Healthcare range received only limited advertising support in FY January 2010. The value of the umbrella Herron brand has deteriorated since acquisition.

While Sigma has attempted to address this since 2007 with the appointment of consumer marketers, performance has been compromised by low levels of marketing and brand support relative to the competitors. The Chemists' Own, Ural, Coloxyl and Goanna brands' comparatively strong performance in FY January 2010 is due to broad and exclusive distribution in the pharmacy sales channel.

Medical products

Sigma's Medical business largely comprises the Orphan business, which was acquired in FY January 2008 for $130 million, and focuses on the marketing and distribution of branded ethical pharmaceutical products. The products acquired from Orphan are typically low volume, highly specialised, niche ethical products which are licensed from overseas suppliers for sale to medical specialists, retail and hospital pharmacies in Australia and New Zealand. Approximately 76% of Orphan's gross revenues in FY January 2010 were derived from the sale of the products Salofalk and Ursofalk, for which Sigma holds the distribution rights under its contract with German-based Dr Falk.

In addition, Sigma markets a small number of patented ethical products under licensing agreements with the patent holders. In FY January 2010, Medical products contributed approximately 23.7% of the Pharmaceuticals Division's revenues and 4.8% of total revenues. The FY January 2010 EBIT margin for the Medical business was significantly higher than for any other type of product in the Pharmaceuticals Division.

Recent operating issues of the Pharmaceuticals Division

The Pharmaceuticals Division's performance in FY January 2010 did not meet management's expectations resulting in a significant year-end impairment. Key issues impacting the result included:

- the performance of the generics business was below expectations primarily due to:
  - lower than expected customer participation in promotional activity for generic products
  - mandatory price reductions for generic drugs through the PBS reforms, which came into effect during 2009 and 2010
  - the uncertainty around generic product pricing due to the PBS reforms

[16] IMS Australian Pharmaceuticals Index May 2010

- increasing competition in the generic product market due to the increase in generic product suppliers in Australia, including original innovators producing generic versions of the patented product and new market entrants establishing sales and marketing operations in Australia
- Sigma failing to release generic products on time to meet certain recent patent expiries

- low level of marketing and brand awareness of the Herron brand since Sigma acquired the brand in 2003
- lower than expected growth in the Medical business, despite its high margins.

Outlook for the Pharmaceuticals Division

The main challenge facing the Pharmaceuticals Division is to maintain profitability of its generic product business in a declining price environment, which is imposed by the PBS reforms, and retain its market share while competition in the generic product market continues to intensify with increasing numbers of market participants entering the Australian market. It is also important that the Pharmaceuticals Division continues to focus on launching generic products in time to meet key patent expiries.

Another challenge is to maintain operating margins and achieve growth of its consumer product businesses in an environment where the strength of the bargaining position of the major grocery retailers significantly outweighs that of any supplier in Australia.

Furthermore, in order to remain competitive in Australia, Sigma's Pharmaceuticals Division will need to continue to focus on sourcing lower cost raw materials and further rationalisation of the fixed cost base in order to reduce manufacturing costs.

4.2.2 Healthcare Division

Sigma's Healthcare Division comprises its wholesale distribution business and retail banner management for pharmacy groups, including Amcal (and Amcal Max) and Guardian.

Wholesale business

The wholesale business provides a daily distribution service to approximately 4,000 pharmacies across the country and operates 14 wholesale pharmaceutical distribution centres, including the Seven Hills centre, which was opened in 2007 to meet rapidly increasing demand in NSW.

In addition, the Company stocks over 15,000 stock keeping units of various OTC and general retail products in its major distribution centres. The Company estimates its share of the Australian full-line pharmaceutical wholesale market to be approximately 30%.

Sigma represents one of three full-line pharmaceutical distributors in Australia, responsible for procuring and supplying every PBS listed product line requested by a pharmacy. Sigma distributes the complete range of PBS listed medicines to any retail pharmacy in Australia, which it sources directly from the Pharmaceuticals Division and from third party manufacturers.

In Australia, the Federal Government is the primary funder of prescription drugs through the PBS, which regulates the wholesaler remuneration on PBS prescription medicines through mandated wholesaling mark-ups and the CSO Deed. The CSO Obligation Funding Pool is a pool of approximately $175 million which is shared amongst qualified CSO distributors based on units sold and compliance with the CSO Deed. Sigma is a qualified CSO distributor and party to the CSO Deed.

Retail business

Accounting for approximately 13% of the Australian retail pharmacy market[17], Sigma owns two of the three largest retail pharmacy banners in Australia, Amcal (including Amcal Max) and Guardian. Sigma currently has a network of over 500 members under its banners, which provides Sigma with an important downstream market for its pharmaceutical and wholesaling operations.

Amcal and Guardian members pay an annual fee to Sigma for the use of the brand and store livery, buying and supply chain support, marketing through brands and catalogues and in-store merchandising opportunities.

The retail business also includes Sigma's private label branded goods portfolio which is sold and marketed through Sigma's Amcal, Guardian and Pharmacy Care banners. Private label branded products currently consist of approximately 250 stock keeping units and covers all major OTC product categories.

Recent operating issues of the Healthcare Division

While Sigma recorded revenue growth of 7.5% for its healthcare business in FY January 2010, the wholesale business has experienced increasing pressure on its margins following the mandatory price reductions as part of the PBS reforms (refer Section 3).

Furthermore, as a result of Sigma breaching its banking covenants at the end of FY January 2010 (refer Section 4.7), Sigma's lenders have increasingly restricted the Company's ability to rely on its working capital debt facilities to maintain liquidity, resulting in the Company experiencing significant working capital issues in FY January 2010.

Outlook for the Healthcare Division

As detailed in Section 4.4.2, Sigma currently has $750 million of trade receivables securitisation facilities, predominantly for funding working capital. Through payment terms extended to customers, retail pharmacies are able to effectively leverage Sigma's financial position to fund a substantial portion of their own working capital and expansionary spend without seeking funding direct from a bank.

A key focus of management going forward will be to reduce its working capital funding requirements by shortening debtor payment terms and optimising inventory holdings. However, the risk associated with Sigma renegotiating reduced payment terms with pharmacies is that it could potentially lose retail pharmacy market share.

Management is also focusing on minimising sales leakage and improving wholesale and private label buying compliance from its customers.

[17] IBISWorld

4.3 Directors and key management personnel

Sigma's board of directors and key management personnel have changed significantly recently following the resignation of the Company's Managing Director and Chief Executive Officer in April 2010 and the Chief Financial Officer, the Chairman and a non-executive director in May 2010.

The current board of directors and key management personnel of Sigma are outlined in the following table.

Table 4: Directors and key management personnel

Name	Role
Board of Directors	
Brian Jamieson	Chairman since June 2010, Non-executive Director since December 2005
David Bayes	Non-executive Director since June 2007
David Manuel	Non-executive Director since October 2009
Linda Nicholls	Non-executive Director since December 2005
Bill Scott	Non-executive Director since December 2005
Raymond Gunston	Non-executive Director since July 2010
Senior management	
Mark Hooper	Managing Director and Chief Executive Officer since 30 August 2010
Jeff Sells	Chief Financial Officer, since 30 August 2010

Source: ASX announcements

4.4 Capital structure and shareholders

4.4.1 Outstanding securities

As at the date of this report, Sigma had the following securities on issue:

- 1,178.6 million ordinary shares
- 2.2 million unlisted performance rights issued to Sigma employees. Upon meeting the required performance conditions the rights can be exercised by employees in return for Sigma shares.

The following table lists the top ten shareholders of Sigma as at 25 October 2010 based on the most current information available.

Table 5: Top ten shareholders of Sigma as at 25 October 2010

Shareholder	Volume held	% of issued shares
National Nominees Limited	189,877,559	16.11
HSBC Custody Nominees (Australia) Limited	176,376,191	14.96
JP Morgan Nominees Australia Limited	155,479,130	13.19
Citicorp Nominees Pty Limited	45,010,217	3.82
RBC Dexia Investor Services Australia Nominees Pty Limited	12,665,149	1.07
Cogent Nominees Pty Limited	10,976,300	0.93
CS Fourth Nominees Pty Limited – Unpaid A/C	10,274,629	0.87
Citicorp Nominees Pty Limited – CFSIL CWLTH Aust SHS 1 A/C	10,100,000	0.86
JP Morgan Nominees Australia Limited – Cash Income A/C	7,886,773	0.67
Citicorp Nominees Pty Limited – CWLTH Bank Off Super A/C	6,158,052	0.52
Subtotal	**624,804,000**	**53.01**
Other	553,822,572	46.99
Total	**1,178,626,572**	**100.00**

Source: Internal management documents

4.4.2 Debt funding

As at 31 October 2010, Sigma had a total debt of approximately $260 million which consists of the following:

- a secured syndicated debt with a facility limit of $400 million, of which $250 million was drawn down
- the Waratah debtors securitisation facility of $100 million provided by Westpac Banking Corporation, of which $3.0 million was drawn down
- $6.7 million of debt associated with the Company's Gateway program.

In addition, Sigma has a debtors securitisation facility (with a total facility limit of $650 million) which is treated as off-balance sheet debt given the majority of the risks and rewards of the debt are transferred to the lender. This facility allows Sigma to receive cash in advance by securitising its debtors (referred to as the Sigma Rewards program)[18]. As at 31 July 2010, approximately $538 million was drawn down on the program. This is primarily to provide working capital for Sigma's wholesale business.

[18] The Sigma Rewards debtors securitisation program does not relate to the customer loyalty program of the same name offered by Sigma to customers

4.5 Share price performance

A summary of Sigma's share price performance is provided in Table 6 below.

Table 6: Sigma quarterly share price information

Quarter ended	High ($)	Low ($)	Last Trade ($)	Volume ('000s)	VWAP[1] ($)
31-Mar-07	2.99	2.37	2.51	191,233	2.64
30-Jun-07	2.63	2.09	2.12	601,932	2.38
30-Sep-07	2.14	1.25	1.47	642,011	1.68
31-Dec-07	1.71	1.41	1.60	269,237	1.54
31-Mar-08	1.65	1.23	1.25	202,861	1.40
30-Jun-08	1.28	0.97	0.99	198,031	1.14
30-Sep-08	1.48	0.84	1.20	202,950	1.17
31-Dec-08	1.44	1.01	1.08	204,182	1.27
31-Mar-09	1.25	0.87	1.06	135,824	1.03
30-Jun-09	1.29	0.91	1.22	162,315	1.05
30-Sep-09	1.34	1.05	1.07	200,022	1.14
31-Dec-09	1.08	0.89	0.99	278,212	0.97
31-Mar-10[2]	1.02	0.38	0.47	184,250	0.75
30-Jun-10	0.56	0.34	0.42	877,787	0.46
30-Sep-10	0.55	0.38	0.48	245,496	0.46
23-Nov-10[3]	0.48	0.43	0.46	93,429	0.46

Source: ThomsonReuters

Notes:
1. VWAP – volume weighted average price
2. Trading in Sigma's shares was requested by Sigma to be suspended by the ASX for the period of 1 March 2010 to 31 March 2010
3. Refers to the period 1 October 2010 to 23 November 2010.

Sigma share price movements and trading volumes are presented graphically in the figure below.

Figure 10: Sigma share activity on the ASX since 1 January 2007

Source: ThomsonReuters, ASX announcements

Table 7: Factors affecting trading in Sigma shares

Notes	Dates	Comments
1	12 May 2007	Sigma announced the opening of its upgraded Dandenong manufacturing facility
2	14 June 2007	Sigma announced its intention to formulate an offer for Symbion
3	July – December 2007	Sigma completed on-market share buy-back of 9.9% of issued shares
4	22 April 2008	Sigma confirmed negotiations with Metcash in relation to a joint bid for Symbion's consumer brands and pharmaceutical wholesaling business
5	9 July 2008	Metcash withdrew its joint bid with Sigma for Symbion's brands and wholesaling business
6	18 September 2008	Sigma successfully refinanced $500 million of corporate debt facilities
7	7 September 2009	Sigma announced acquisition of BMS and $297 million one for three renounceable entitlement offer
8	10 September 2009	Sigma completed the first stage of one for three renounceable entitlement offer, raising approximately $134 million out of a total $297 million
9	1 March 2010	Sigma requested a trading halt on 25 February and on 1 March 2010 a suspension from trading, to revise its 2010 earnings guidance arising from year-end adjustments
10	31 March 2010	Sigma shares emerged from one month trading halt and announced a net loss of $389 million, including impairment of goodwill of approximately $424 million for 2010
11	21 May 2010	Sigma announced it had received an initial non-binding, indicative and conditional takeover offer from an unnamed company (later identified as Aspen) of $0.60 per Sigma share
12	7 July 2010	Aspen announced an updated offer for Sigma shares of $0.55 per share
13	16 August 2010	Sigma announced it had agreed in principle to sell the Pharmaceuticals Division to Aspen for $900 million
14	3 September 2010	Sigma announced it had received correspondence foreshadowing a proposed statement of claim (shareholder class action) relating to alleged non-disclosure by Sigma prior to the capital raising in September 2009
15	23 November 2010	Sigma announced that it has reached formal agreement with Aspen on the terms and conditions of the Proposed Transaction.

Source: ASX announcements

4.6 Financial performance

The consolidated audited income statements of Sigma for the three years ended 31 January 2008 to 31 January 2010 and the consolidated reviewed income statement of Sigma for the six months ended 31 July 2010 are summarised in the table below.

Table 8: Consolidated financial performance

	Audited FY January 2008 ($'000)	Audited FY January 2009 ($'000)	Audited FY January 2010 ($'000)	Reviewed 6 months to 31 Jul 2010 ($'000)
Revenue	2,966,502	3,081,287	3,220,430	1,621,303
Revenue growth (%)	*9.9%*[1]	*3.9%*	*4.5%*	*n/a*
Cost of sales	(2,625,126)	(2,706,761)	(2,890,891)	(1,458,291)
Gross profit	**341,376**	**374,526**	**329,539**	**163,012**
Gross margin (%)	*11.5%*	*12.2%*	*10.2%*	*10.1%*
EBITDA[2]	**195,471**	**234,761**	**(263,167)**	**(156,320)**
Depreciation and amortisation expense	(36,894)	(44,501)	(45,828)	(23,880)
EBIT	**158,577**	**190,260**	**(308,995)**	**(180,200)**
EBIT margin	*5.3%*	*6.2%*	*(9.6%)*	*(11.1%)*
Net finance costs	(49,139)	(76,716)	(72,103)	(37,696)
Profit/(loss) before tax	**109,438**	**113,544**	**(381,098)**	**(217,896)**

Source: ASX announcements

Note:
1. Based on FY January 2007 revenue of $2,698.5 million
2. EBITDA – earnings before interest, tax, depreciation and amortisation.

The following table sets out the Company's underlying earnings after adjusting for the abnormal and extraordinary items.

Table 9: Consolidated financial performance

	Audited FY January 2008 ($'000)	Audited FY January 2009 ($'000)	Audited FY January 2010 ($'000)	Reviewed 6 months to 31 Jul 2010 ($'000)
Reported EBITDA	**195,471**	**234,761**	**(263,167)**	**(156,320)**
Adjustments for abnormal and extraordinary items				
Impairment of goodwill	-	-	424,230	220,000
Impairment of other assets	-	228	40,000	16,043
Other non-recurring costs	-	4,292	12,000	8,681
Normalised EBITDA	**195,471**	**239,281**	**213,063**	**88,404**
Depreciation and amortisation expense	(36,894)	(44,501)	(45,828)	(23,880)
Normalised EBIT	**158,577**	**194,780**	**167,235**	**64,524**
Normalised EBIT margin	*5.3%*	*6.3%*	*5.2%*	*4.0%*

Source: ASX announcements, Deloitte analysis

We note the following in relation to the financial performance of Sigma:

- as discussed in Section 4.2, 79.2% of FY January 2010 revenues relate to the Healthcare Division, whilst 20.8% relate to the Pharmaceuticals Division.

  Sigma supplies to pharmacies under its own banner groups and a number of other independent pharmacies and pharmacy groups. Sigma has a long standing customer relationship and service contract with the Gance Group (owner and operator of the Chemist Warehouse, My Chemist and E Pharmacy) which generated 21.5% of healthcare and 17.0% of consolidated revenues

- generics sales represented 43.5% of total pharmaceuticals revenues in FY January 2010 and 9.1% of consolidated revenues

- normalised EBIT margin increased by 1.0% in FY January 2009 compared with FY January 2008 due to Sigma's acquisition of Orphan in February 2008 and cost control measures implemented across both the pharmaceutical and Healthcare Divisions. Sigma also mitigated the effect of PBS reforms implemented in August 2008 on FY January 2009 results by renegotiating supply contracts on key generics, including sourcing products from alternative suppliers in some instances.

  In comparison, the decline in normalised EBIT in FY January 2010 compared with previous years is the result of lower gross margins achieved following PBS reforms implemented in August 2008

- Sigma acquired BMS in September 2009, which contributed revenues of $12 million in FY January 2010

- the growth in revenues in FY January 2010 was driven by the Company's wholesaling business, which achieved revenue growth of 7.5% and an EBIT margin of 2.7% (before abnormal and extraordinary items). All distribution and logistics costs are currently accounted for in the Healthcare Division. Distribution and logistics costs relating to the transport of products from the distribution centres to retail pharmacies were approximately $73.6 million in FY January 2010
- overheads comprise administration costs (approximately 26% of total overheads in FY January 2010), sales and marketing expenses (37%), warehouse and logistics expenses (31%) and manufacturing and research and development costs (6%).

  Approximately 65% of total overheads were allocated to the Pharmaceuticals Division and 35% were allocated to the Healthcare Division in FY January 2010
- abnormal and extraordinary items in FY 2010 and for the six months to July 2010 relate to impairment of goodwill (refer Section 4.7 for further discussion) and assets (inventory and fixed assets) and other non-recurring items, such as one-off redundancy costs.

4.7 Financial position

The consolidated audited balance sheet of Sigma as at 31 January 2010 and the consolidated reviewed balance sheet of Sigma as at 31 July 2010 are summarised in the table below.

Table 10: Financial position

	Audited 31 Jan 2010 ($'000)	Reviewed 31 Jul 2010 ($'000)
Cash and cash equivalents	14,418	11,466
Trade and other receivables	346,002	304,885
Inventories	343,918	351,883
Derivative financial instruments	1,180	4,325
Prepayments	10,358	6,422
Assets classified as held for sale	-	43,500
Income tax receivable	-	7,682
Total current assets	**715,876**	**730,163**
Gateway loan receivables	43,274	13,298
Other receivables	-	7,899
Derivative financial instruments	3,069	1,514
Equity investments	-	-
Property, plant and equipment	225,091	199,701
Intangible assets	888,521	654,222
Deferred tax assets	50,215	45,350
Total non-current assets	**1,210,170**	**921,984**
Total assets	**1,926,046**	**1,652,147**
Trade and other payables	413,123	391,035
Interest bearing liabilities	322,200	292,154
Derivative financial instruments	4,667	5,757
Other current liabilities	21,605	18,932
Total current liabilities	**761,595**	**707,878**
Interest bearing liabilities	-	-
Deferred tax liabilities	94,012	88,883
Derivative financial instruments	1,616	2,028
Other liabilities	1,869	1,653
Total non-current liabilities	**97,497**	**92,564**
Total liabilities	**859,092**	**800,442**
Net assets	**1,066,954**	**851,705**

Source: ASX announcements

We note the following in relation to the consolidated financial position of Sigma:

- as at 31 July 2010, total current and non-current trade and other receivables is $312.8 million, consisting of $254.7 million in other debtors and the Company's investment in two notes totalling $58.1 million in relation to its Sigma Rewards debtors securitisation program.

  The Sigma Rewards program, as discussed in Section 4.4.2, is an off-balance sheet debtor securitisation program which allows Sigma to receive cash in advance of actual debtor payment. This facility is treated as an off-balance sheet item as a significant portion of the risks and rewards of ownership of the debt are transferred to a third party. The program has a facility limit of $650 million which is 90% funded by ANZ Banking Corporation. Sigma incurred $24.3 million of interest in relation to Sigma Rewards in FY January 2010 and $16.8 million for the six month period ended 31 July 2010. As at 31 July 2010, approximately $538 million was drawn down from the facility. The facility expires in March 2011.

  We understand that although Sigma has not breached the terms of the Sigma Rewards debtors securitisation program, the Company has agreed to certain amendments to the facility requested by its lenders after Sigma breached the covenants of its syndicated loan facility and the Waratah working capital facility (discussed further below)

- assets held for sale as at 31 July 2010 relate to properties which Sigma committed to sell during the six month period ended 31 July 2010 in order to meet bank debt repayments of $50 million due on 30 November 2010. However, as a number of these properties may be sold as part of the Proposed Transaction, management is not actively pursuing the sale of these properties subsequent to 31 July 2010

- Gateway loan receivables relates to a Sigma-operated pharmacy financing program. Through this program, Sigma sources funding for its licensees.

  During FY January 2010, several borrowers under the Gateway program defaulted on their loans. Sigma is exposed to the default risks associated with the remaining loans under the program. Accordingly, the Company began to recognise the Gateway loans on its balance sheet and as at 31 July 2010 had $7.9 million of such loans recorded on it balance sheet

- the decrease in property, plant and equipment as at 31 July 2010 of $25.4 million primarily relates to land and buildings that were reclassified as assets held for sale

- as a result of recent poor performance by its Pharmaceuticals Division due to the PBS reforms and increasing competition in the generic products market, Sigma's goodwill was impaired by approximately $424.2 million in FY January 2010. A further $220.0 million impairment charge for the six month period ended 31 July 2010 was booked to reflect the Proposed Transaction

  Approximately $182.4 million of the FY January 2010 impairment loss was attributed to the goodwill associated with Sigma's current pharmaceuticals business (representing a decrease of 30.2%), while $239.8 million related to the current healthcare business (representing a decrease of approximately 86.2%).

  However, the $220.0 million impairment loss for the six month period ended 31 July 2010 related solely to the Pharmaceuticals Division (representing a decrease of approximately 33.2%)

- current and non-current derivative financial instruments relate to interest rate options and swaps and foreign exchange forward contracts and options in order to hedge exposure to fluctuations in interest and foreign exchange rates

- Sigma currently has a syndicated loan facility of $400 million with four financial institutions.

  As at 31 January 2010 Sigma was in breach of specific covenants relating to its syndicated banking facility. As such, the syndicated bank debt was required to be reclassified as current debt. In addition, the Company has a $100 million working capital facility with Westpac Banking Corporation (Waratah Facility), which is secured by certain high quality debtors of Sigma.[19] As a result of cross default provisions, Sigma was also in breach of the covenants of the Waratah Facility as at 31 January 2010. The Waratah facility is scheduled to mature in February 2011.

  As a result of the covenant breaches, Sigma agreed to revised debt covenants with its lenders and a repayment schedule for its syndicated facility as follows:

  - $40 million to be repaid via permitted asset disposals by 30 September 2010. This was repaid in full by Sigma from operating cash flows
  - $50 million due by 30 November 2010. We understand that Sigma proposes to make an interim payment in relation to the outstanding $50 million balance out of operational cash flows, with a deferral of the remaining balance to the Completion Date, and the Company is currently in discussions with its banking syndicate in relation to amending this scheduled loan repayment
  - $10 million to be repaid by 31 March 2011
  - the balance of $300 million to be repaid in line with the original facility date of 18 September 2011.

[19] Under the agreed terms, the debtors sold into the Waratah facility yield a cash advance equivalent to approximately 80% of the face value of the debtor

5 Valuation methodology

5.1 Valuation methodologies

To estimate the fair market value of the Pharmaceuticals Division we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

5.2 Selection of valuation methodologies

The Proposed Transaction involves Sigma selling the Pharmaceuticals Division to Aspen. The Pharmaceuticals Division is operating in an environment of heightened competition in the lead up to the expected expiry of patents relating to in excess of $1.0 billion of annual sales of ethical drugs over the next five years and the impact of the ongoing PBS reforms on the industry.

The fair market value of the Pharmaceuticals Division is likely to be affected by the following significant factors which have a bearing on the selection of valuation methodologies.

Growth rate of the overall Australian pharmaceutical industry

Total revenue for the Australian pharmaceutical industry (manufacturing, wholesale and retail pharmacy) is forecast to increase from $32.2 billion in 2011 to $35.6 billion in 2015 [20] which represents a CAGR of 2.0%. Pharmaceuticals manufacturing represents approximately 30% of total industry revenue and growth in the Australian pharmaceutical industry will primarily be driven by:

- **an ageing population**: Australia's population aged 65 and over, which currently accounts for over 80%[21] of Australia's pharmaceutical consumption, is projected to increase from approximately 13% of the total population in 2007 to nearly 24% by 2056[22]
- **continued product development and innovation** in:
  - various therapeutic areas including HIV anti-virals, erectile dysfunction therapies, Alzheimer's disease and attention-deficit hyperactivity disorder
  - lifestyle drugs which treat non-life threatening and non-painful conditions such as baldness, impotence, acne, etc
  - personalised drugs which use information about an individual patient to select or optimise that patient's preventative and therapeutic care using genomics and proteomics (directly or indirectly)
- **an increase in demand for vaccines** due to current concerns with regards to possible pandemics including swine influenza and avian influenza (bird flu)
- **lifestyle trends** and the subsequent development of lifestyle diseases (obesity, depression, ulcers, etc).

[20] IBISWorld
[21] Ibid
[22] Australian Bureau of Statistics

Growth potential and increased competition in the generic products market

Whilst the overall Australian pharmaceutical industry is not expected to exhibit significant growth, patents on drugs, which account for in excess of $1.0 billion of the current PBS spend, will expire between 2010 and 2014.[23] This represents a significant growth opportunity for generic manufacturers to enter market segments that were previously only available to the drug originators.

The level of competition is expected to intensify as new suppliers enter the Australian pharmaceutical market to compete for this growth in the generic products market. In recent years originators have also competed against generic drug manufacturers by producing their own generic version of the off patent drugs.

There is considerable uncertainty around the following:

- the extent to which the Pharmaceuticals Division will be able to retain market share to capture the potential upside from upcoming patent expiries
- the level of price reductions for generic products driven by the ongoing PBS reforms and increasing market competition.

Regulated pricing environment for the Australian pharmaceutical industry

As mentioned in Section 3.2, a key risk to the Australian generic drug market relates to downward pricing pressure on drugs as a result of PBS reforms and affects prices in two ways:

- **a direct reduction in the prices of drugs -** according to the Memorandum of Understanding (MOU) reached between Medicines Australia and the Commonwealth Australia in May 2010, price reductions will apply to certain medicines listed under the F2 formularies on 1 December 2010 and 1 February 2011, with further price cuts to follow in 2012. Legislation in relation to this MOU was passed by the Senate in November 2010
- **increasing industry transparency via mandatory full price disclosure –** legislation related to price disclosure for all brands classified as F2 medicines was passed by the Senate in November 2010. Consequently, the price reduction from the weighted average price disclosures relating to the F2 medicines over the period to 1 April 2012 will be a minimum of 23%. The aim of price disclosures under the current PBS reforms is to ensure that over the long term, the price paid under the PBS will more closely reflect the actual price at which the drug is being sold by manufacturers.

As a result, there is inherent uncertainty as to the level of price reductions that will result from each price disclosure cycle and this system effectively ensures a reduction in the margins available to a manufacturer of an off-patent drug over time.

Due to the inherent uncertainties around the key drivers of the business, it is difficult to establish a reasonable basis for certain key assumptions that would form part of a discounted cash flow analysis. Consequently, we have adopted the capitalisation of maintainable earnings method to determine the fair market value of the Pharmaceuticals Division. We have used the discounted cash flow method as a cross check to provide additional evidence of the fair market value of the Pharmaceuticals Division.

[23] IBISWorld

5.2.1 Capitalisation of maintainable earnings method

We consider it appropriate to value the Pharmaceuticals Division using the capitalisation of maintainable earnings method due to the following factors:

- the underlying operations of the Pharmaceuticals Division have generated positive earnings over the past three years, before adjusting for abnormal and extraordinary items
- approximately 87% of the EBIT of the Pharmaceuticals Division is currently generated from the OTC, Medical and contract export businesses, which are expected to grow at a moderate rate with a steady operating margin
- the generic product business in the Pharmaceuticals Division historically generated approximately 12% of the division's EBIT. Although the PBS reforms are likely to result in lower earnings for the existing generic product business, there is an opportunity for the business to grow in the near to medium term
- the manufacturing facilities of the Pharmaceuticals Division currently have unused capacity and do not require significant capital expenditure in the near future
- the Pharmaceuticals Division does not have a finite lifespan
- there is an adequate number of publicly listed companies with operations sufficiently similar to those of the Pharmaceuticals Division to permit meaningful analysis of the comparable company's operating margins and earnings multiples observed from share trading and comparable transactions.

5.2.2 Discounted cash flow cross check

We have also used the discounted cash flow method to cross check the fair market value of the Pharmaceuticals Division, based on assumptions to take into account the risks to manufacturer margins as a result of price reforms to the PBS and the opportunities in the generic products market presented by the expected expiry of several key patents in the next few years.

Our discounted cash flow analysis takes account of:

- the relatively stable cash flows generated from the OTC, Medical and contract export businesses
- the impact of the PBS reforms and the expansion of the generic product market due to patent drugs coming off patent protection on future cash flows of the generic product business

The discount rate applied to the cash flows takes into account the inherent uncertainty of the Australian pharmaceutical industry.

We have selected the discounted cash flow method to cross check our valuation as it takes into account specific assumptions in relation to the expected future regulatory and market outlook for the Australian pharmaceutical industry.

However, due to the inherent uncertainties around the key drivers of the business such as the regulated pricing environment of the Australian pharmaceutical industry as well as the growth potential and increased competition in the generics products market, it is difficult to establish a reasonable basis for certain assumptions. Accordingly, we have used the capitalisation of maintainable earnings method as our primary valuation methodology.

6 Valuation of the Pharmaceuticals Division

We have valued the Pharmaceuticals Division using the capitalisation of maintainable earnings method.

6.1 Capitalisation of maintainable earnings method

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate multiple and adding any surplus or non-operating assets. To value the Pharmaceuticals Division using the capitalisation of maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings
- an appropriate earnings multiple
- an appropriate premium for control
- the value of any surplus assets.

Our considerations on each of these are discussed separately below.

6.1.1 Future maintainable earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate. We have selected EBIT as an appropriate measure of earnings for the Pharmaceuticals Division because earnings multiples based on EBIT are less sensitive to different financing structures and effective tax rates than multiples based on net profit after tax, and partially take account of different capital expenditure requirements, which are ignored by multiples of EBITDA.

In selecting a future maintainable EBIT, we have considered the following:

- the historical FY January 2009, FY January 2010 EBIT and the EBIT achieved for the six month period ended 31 July 2010 by each of the businesses within the Pharmaceuticals Division. This is summarised in the following table:

Table 11: Pharmaceuticals Division's historical EBIT

	FY January 2009 ($'million)	FY January 2010 ($'million)	6 months to 31 Jul 2010 ($'million)
Underlying EBIT	137.6	105.0	40.2

Source: Sigma FY January 2010 annual results presentation; Sigma FY January 2011 half year results presentation

- we note that the historical segment results for the Pharmaceuticals Division do not fully reflect the terms of the Proposed Transaction. If the Proposed Transaction proceeds, the Pharmaceuticals Division will incur additional distribution and overhead costs in order to operate as a standalone entity
- the exclusion of the Ferrosig and Evelexa from the Pharmaceuticals Division's generics portfolio post the Proposed Transaction
- the Pharmaceuticals Division's pro-forma EBIT guidance for FY January 2011 (after allowing for distribution costs), based on Sigma's EBIT guidance for FY January 2011 which was released by the Directors in July 2010 and updated on 23 November 2010. Our selected

future maintainable EBIT is consistent with this revised earnings guidance

- Sigma's most recent business plan
- the earnings growth potential in the generics business in the near future having regard to the market size of the drugs coming off patent, the Pharmaceuticals Division's ability to retain its market share and potential price reductions for F2 products
- the current operating outlook for the OTC and consumer, Medical and contract exporting businesses within the Pharmaceuticals Division
- future manufacturing costs which are expected to increase in line with inflation.

Based on the above considerations, we have estimated future maintainable EBIT to be in the range of $70.0 million to $80.0 million. For our valuation using the capitalisation of maintainable earnings method, we have selected the mid-point of $75.0 million as future maintainable EBIT.

6.1.2 Earnings multiple

We have determined an earnings multiple in the range of 11.0 to 12.0 times EBIT on a control basis.

In selecting this earnings multiple we have considered:

- earnings multiples derived from share market prices of comparable listed companies
- prices achieved in mergers and acquisitions of comparable companies
- an appropriate premium for control.

These are discussed separately below.

Market trading multiples

The share market valuation of listed companies provides evidence of an appropriate earnings multiple for the Pharmaceuticals Division. The share price of a listed company represents the market value of a minority interest in that company.

There is only one other Australian listed generic pharmaceutical manufacturing company, Ascent Pharmahealth Limited (Ascent Pharmahealth), which is considerably smaller than the Pharmaceuticals Division and which conducts its manufacturing activities in Asia. During March 2010, Ascent Pharmahealth received an offer from Strides Arcolab Limited to acquire all of the outstanding shares of Ascent Pharmahealth that it currently does not own.

Accordingly, as there are no highly comparable companies in Australia, we have compiled share market trading multiples for the following:

- large diversified pharmaceutical companies with R&D capability – these companies are large research-based pharmaceutical companies that are involved in product R&D, clinical trials, obtaining product approval from governments, obtaining patent protection as well as manufacturing and distributing products to the market
- other international pharmaceutical manufacturing companies (excluding large diversified pharmaceutical companies with R&D capability) – operations of these companies involve manufacturing various pharmaceutical related products, including generic drugs, active pharmaceutical ingredients, specialty pharmaceutical products, therapeutic, OTC and other healthcare consumer products. Some of these companies also have distribution capability
- pharmaceutical distribution companies – these companies focus only on distribution of pharmaceutical related products from manufacturers to the end markets, such as retail pharmacies.

These companies, together with their earnings multiples and descriptions are set out in Appendix 2.

General comments regarding the multiples, margins and operations of the above companies, are listed below:

- enterprise values were calculated as the sum of each company's most recent disclosed net borrowings and the market capitalisation as at 19 November 2010. Earnings are based on the last annual report
- many of the companies in Appendix 2 are considerably larger than the Pharmaceuticals Division and operate across a number of geographic regions under different regulatory markets. Accordingly, these companies face a number of different risks and opportunities compared to the Pharmaceuticals Division
- other than Ascent Pharmahealth, which is considerably smaller than the Pharmaceuticals Division, there are no other Australian companies comparable to the Pharmaceuticals Division. During March 2010, Ascent Pharmahealth also received an offer from Strides Arcolab Limited to acquire all of the outstanding shares of Ascent Pharmahealth that it currently does not own
- the operations of large diversified pharmaceutical companies with R&D capability, such as Merck & Company Incorporated, Pfizer Incorporated (Pfizer) and GlaxoSmithKline plc, differ significantly from those of the Pharmaceuticals Division. In general, large diversified pharmaceutical companies with R&D capability have been able to achieve EBIT margins in the range of 25% to 40%, as a high proportion of their product portfolio consists of patented drugs.

  These companies have the benefit of strong cash flow generation, which supports ongoing R&D costs and future product acquisitions. They also typically have access to global markets. However, we note that patents of many key products held by these companies are expected to expire over the next few years. To sustain their earnings profile, these large diversified pharmaceutical companies are attempting to renew or extend patents, or launch generic versions of the drugs. Forecast EBIT multiples observed for the large diversified pharmaceutical companies with R&D capability are in the range of 6.0 times to 10.1 times, with an average of 8.2 times
- the operational characteristics and risk profile of other international pharmaceutical manufacturing companies are more comparable to the Pharmaceuticals Division, since significant parts of their operations involve licensing, manufacturing, marketing and distributing generic, branded generic and speciality products. However, we note that the other international pharmaceutical manufacturing companies typically supply to markets (predominantly North America, Europe and India) which are significantly larger than the Australian market. These companies are therefore in a better position to benefit from economies of scale. In addition, generic manufacturers in India and China operate in a lower labour cost environment compared to generic manufacturers in Australia. Forecast EBIT margins for the other international pharmaceutical manufacturing companies are in the range of 5.5% to 36.5%, with an average margin of 21.6%. Forecast EBIT multiples observed for the other international pharmaceutical manufacturing companies are in the range of 4.9 times to 17.1 times, with an average of 9.9 times

- increasing cross-border consolidation in the global pharmaceutical manufacturing market suggests companies are seeking to capitalise on rapidly emerging economies and their increasing ability to access healthcare. These companies are therefore likely to have more opportunity to generate revenue growth from pharmaceutical products in the short to medium term compared with a company operating in a comparatively more mature market, such as Australia
- similar to Australia, there is an increasing global trend towards price regulation of drugs, particularly within European countries and Japan. Whilst the US government is yet to regulate prices to the same extent, there is considerable uncertainty as to what effect the recently passed US Health Care and Education Reconciliation Act of 2010 will have on price regulation of drugs (both generic and patented), however, any price regulation is expected to be delayed in the short to medium term. The US share of world pharmaceutical sales is expected to remain the largest at approximately 43% between 2010 and 2014[24]
- given that pharmaceutical distribution companies focus only on distributing pharmaceutical related products to markets, the EBIT margin and multiples for these companies are lower. Forecast EBIT margins for the pharmaceutical distribution companies are in the range of 1.3% to 4.1%, with an average margin of 2.1%. Forecast EBIT multiples observed for the pharmaceutical distribution companies are in the range of 6.0 times to 10.2 times, with an average of 7.9 times
- the Pharmaceuticals Division is predominantly focused on the Australian market whilst gaining some exposure to the overseas markets through the exports business.

Merger and acquisition multiples

The price achieved in mergers or acquisitions of companies with comparable operations to the Pharmaceuticals Division provides evidence of an appropriate earnings multiple for the Pharmaceuticals Division. The acquisition price of a company represents the market value of a controlling interest in that company. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control.

We have compiled merger and acquisition multiples for transactions involving Australian and international companies operating in the pharmaceutical industry. Most of the selected transactions involve operations based outside of Australia, many are significantly larger than the Proposed Transaction and were completed before the global financial crisis. Consequently, we do not consider these transactions to be very comparable and have placed limited emphasis on them. Notwithstanding this, for completeness, specific details regarding the merger and acquisition transactions identified and the calculation of the merger and acquisition earnings multiples are provided at Appendix 3.

We note the following regarding the multiples observed from the selected transactions:

- enterprise values were calculated as the sum of each company's most recent disclosed net borrowings and the market capitalisation of the company implied by the consideration paid by the bidder. Earnings were based on the last annual report prior to the transaction
- we have considered merger and acquisition transactions since 1 January 2007, across the broader pharmaceutical industry, which consists of large diversified pharmaceutical companies with R&D capability and other international pharmaceutical manufacturing companies that are involved in manufacturing a range of pharmaceutical related products (including generic and other ethical medicines), contract manufacturing and R&D activities.

[24] Economist Intelligence Unit

We have also considered merger and acquisition transactions in which Sigma participated since 2003

- with the exception of the transactions in which Sigma participated and Lipa Pharmaceuticals Limited (Lipa), which is an Australian pharmaceutical company, all comparable merger and acquisition transactions involved international target and bidder companies

  Sigma participated in four merger and acquisition transactions since 2003, which consisted of the acquisition of Herron (2003), Arrow (2005), Orphan (2008) and the BMS business (2009). The historical EBIT multiple implied by the transactions range from 3.5 times in the case of the BMS business to 24.5 times for Arrow. We note the lower EBIT multiple implied by the acquisition of the BMS business was in line with Sigma's growth expectations of the business, while the Arrow transaction occurred in 2005, prior to the global financial crisis and therefore we do not consider it relevant for the purposes of the Proposed Transaction
- the EBIT multiples implied by the merger and acquisition transactions of the other international pharmaceutical companies range from 11.9 times to 24.7 times. Overall, the average and median EBIT multiples of the other international pharmaceutical companies are 17.9 times and 16.1 times, respectively
- for the merger and acquisition transactions announced prior to the global financial crisis (which dramatically affected share prices globally), the average and median EBIT multiples observed were 18.4 times and 20.1 times, respectively
- for the transactions announced after the global financial crisis, the average and median EBIT multiples observed were 16.2 times and 15.9 times, respectively
- in general, the EBIT multiples observed for the transactions which implied an enterprise value of the target company greater than US dollars (USD) 1 billion were higher than those observed for transactions involving comparatively smaller target companies
- given that the EBIT multiples observed for the transactions are calculated based on earnings from the last annual report prior to the transaction, we would expect the EBIT multiples observed to be higher than the multiples calculated based on forecast EBIT.

Premium for control

Earnings multiples derived from market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values (refer Appendix 4). The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- determine the strategy and policy of the company
- make acquisitions or divest operations
- control the composition of the board of directors.

In addition, we have analysed the control premium implied by the mergers and acquisition transactions discussed above and set out in Appendix 3. However, for the same reasons discussed above, we have placed limited emphasis on the control premiums implied by these transactions. Notwithstanding this, we have included the following commentary for completeness:

- the control premiums paid by the acquirers in the comparable merger and acquisition transactions (set out in Appendix 3) are determined based on the VWAP for the 1, 10 and 30 trading days prior to the date of the announcement of the transaction. The control premium determined based on the VWAP 1 trading day prior to the announcement is typically lower than those determined based on the 10 and 30 trading days prior to the announcement. This is because share prices may be influenced by market speculation and rumours of the transactions. The control premiums determined based on 10 and 30 trading days prior to the announcement are not significantly different. As such, in Appendix 3, we have shown the control premium based on the 10 trading days prior to the announcement
- overall, the control premiums observed for the comparable merger and acquisition transactions of the other international pharmaceutical companies, based on the 10 trading days VWAP prior to the announcement, is in the range of 3.6%[25] and 59.6%, with an average and median control premium of 31.5% and 24.4%, respectively
- with the exception of the merger and acquisition transactions in which Sigma participated since 2003 and Lipa, all comparable merger and acquisition transactions involved international target and bidder companies, many of the transactions involved businesses that were significantly larger than the Pharmaceuticals Division and many were completed prior to the global financial crisis.

Other factors that are relevant to our consideration of an appropriate control premium include:

- the Pharmaceuticals Division will be sold without any debt. This is a key factor in determining the appropriate level of a control premium and supports a premium at the low end of the range
- the Australian pharmaceutical industry is subject to significant government control through PBS and various regulatory bodies
- the level of competition in the generic products market in Australia is expected to intensify
- through its distribution agreements with Sigma, the Pharmaceuticals Division has access to a well-established distribution network to the Australian market
- the division's Dandenong manufacturing facility is compliant with TGA regulations and has unused capacity, which can be directed towards fulfilling contract and export volumes in the future with minimal additional capital expenditure
- a potential acquirer could leverage the existing market presence of the Pharmaceuticals Division to introduce additional prescription, generic, OTC and consumer products from its global portfolio
- consolidation of the Pharmaceuticals Division's manufacturing facilities with those of a prospective purchaser could lead to improvements in the operating efficiency of the Pharmaceuticals Division's manufacturing facilities
- the Pharmaceuticals Division is a significant pharmaceutical manufacturer in Australia with a sizeable market share in various segments of the Australian pharmaceutical industry (including generics, Medical and OTC segments of the market) and an established

[25] Excluding the Cornerstone transaction, which involved the issue of capital to the bidder at a discount to the share price of Cornerstone

relationship with one of the major pharmaceutical wholesalers, which provides it immediate access to the retail pharmacy market

The level of control premium that should be applied to the value of a minority interest in order to derive the value of a controlling interest is somewhat subjective. Based on these considerations, we are of the opinion that a premium at the lower end of the range is appropriate for the Pharmaceuticals Division.

Selected multiple

In selecting an appropriate multiple to apply to the future maintainable EBIT of the Pharmaceuticals Division we have considered the following:

- our selected future maintainable EBIT has regard to the Pharmaceuticals Division's earnings outlook for January FY 2011 based on the considerations outlined in Section 6.1.1
- the forecast EBIT multiples observed for the other international pharmaceutical manufacturing companies are in the range of 4.9 times and 17.9 times, with an average of 9.9 times, on a minority interest basis
- many of the selected comparable companies are considerably larger than the Pharmaceuticals Division. In general, larger companies have higher earnings multiples than smaller companies
- greater emphasis has been placed on market trading multiples rather than comparable transaction multiples as most of the selected transactions involve operations located outside of Australia, many are significantly larger than the Proposed Transaction and many were completed before the global financial crisis
- drugs which constitute in excess of $1.0 billion of current PBS expenditure are expected to come off patent between 2010 and 2014
- increasing downward pressure on EBIT margins for pharmaceutical manufacturers in Australia due to the current PBS reforms which limit the extent to which generics marketers (such as the Pharmaceuticals Division) can influence the price of generic products and therefore their EBIT margin. Whilst the historical performance of the Pharmaceuticals Division's Generic products business has been below expectations, the year to date October 2010 performance of these businesses has improved
- the performance of the Pharmaceuticals Division's Medical and Consumer and OTC businesses has remained consistent
- we consider a control premium at the lower end of the range to be appropriate for the Pharmaceuticals Division.

Based on the above, we have selected an EBIT multiple in the range of 11.0 times to 12.0 times (on a control basis) to apply to our selected future maintainable earnings.

6.1.3 Surplus assets

Management has advised there are no material assets which do not contribute to the operations of the Pharmaceuticals Division, and we have not identified any material surplus assets during the course of our work. Consequently, no value has been placed on surplus assets.

6.1.4 Valuation: capitalisation of maintainable earnings

The following table sets out the range of fair market values of the Pharmaceuticals Division derived using the capitalisation of maintainable earnings method, together with the fair market value derived using higher and lower earnings multiples and future maintainable earnings,

Table 12: Summary - capitalisation of maintainable earnings method

	Future maintainable EBIT ($ million)		
Selected EBIT multiple (times)	70.0	75.0	80.0
10.0 times	700.0	750.0	800.0
11.0 times	770.0	825.0	880.0
12.0 times	840.0	900.0	960.0
13.0 times	910.0	975.0	1,040.0

Source: Deloitte analysis

Based on the above, we have estimated the fair market value of the Pharmaceuticals Division based on the capitalisation of maintainable earnings method to be in the range of $825.0 million to $900.0 million on a control basis.

6.2 Cross-check using the discounted cash flow method

The discounted cash flow method estimates market value by discounting a company's future cash flows to their net present value. To cross check the value of the Pharmaceuticals Division using the discounted cash flow method requires the determination of the following:

- future cash flows – based on a range of revenue and earnings scenarios which may be achievable over the period 1 November 2010 to 31 January 2015 (Projection Period)
- an appropriate discount rate to be applied to the future cash flows – we have estimated the discount rate based on rates of return required by investors in companies operating in the pharmaceutical industry
- an estimate of the terminal value
- the value of any surplus assets.

Our considerations on each of these factors are presented below.

6.2.1 Key assumptions

Sigma management has prepared the Model which estimates the future cash flows to be generated by the Pharmaceuticals Division. The Model includes projections of nominal, after-tax cash flows in Australian dollars for each of the key businesses in the Pharmaceuticals Division for the Projection Period.

The Model has been prepared based on:

- market based assumptions including projections of overall market size by revenue and projected market shares to be held by the Pharmaceuticals Division (for each of the F1 expiring medicines, F2 medicines and non-PBS medicines segments)
- FY January 2011 earnings guidance prepared by management and released to the market in

July 2010 (subsequently revised in November 2010), based on four months of actual results and eight months of forecast results. The financial year to October 2010 performance of the Pharmaceuticals Division is in line with the forecast for FY January 2011

- projected revenue growth and sales discounts
- forecast manufacturing costs and other expenses for FY January 2011, based on four months of actual results and eight months of forecast results
- cost assumptions specific to the Proposed Transaction
- expected cost synergies that could be realised by the Pharmaceuticals Division post the Proposed Transaction.

6.2.2 Assessing the reasonableness of assumptions

The analysis we have undertaken in respect of the Model includes:

- holding discussions with Sigma management in regards to:
  - the preparation of the projections and their views regarding the assumptions on which the projections are based
  - the future prospects of the Pharmaceuticals Division, including expected organic growth rates and new product launches
- reviewing the actual October 2010 financial year to date performance of the Pharmaceuticals Division
- identifying the major revenue and cost assumptions contained in the Model and considering the reasonableness of these assumptions for the purpose of our valuation including consideration of the following:
  - forecast PBS spend for F1 expiring, F2 and non-PBS medicines
  - the weighted average historical growth/decay rate in the volumes sold of the top five molecules which expired during the last five years
  - price to the pharmacist (PTP) and forecast volumes for F1 expiring and F2 medicines published by the PBPA
  - historical price discounts observed for the last five years
  - mandatory PBS price reductions required by the current PBS reforms and the expected price discounts due to price disclosures pursuant to the PBS reforms
  - Australian population growth projections published by the Australian Bureau of Statistics
  - the allocation of fixed and variable manufacturing and corporate overhead costs
  - review of executed agreements in relation to the Proposed Transaction
- performing scenario analysis around assumptions for market share, price discount, revenue growth for the Medical business and the discount rate over the Projection Period
- limited analytical procedures regarding the mathematical accuracy of the Model.

We made some adjustments to the cash flow projections in the Model, where it was considered appropriate. These adjustments included, but were not limited to market share, sales discounts, margin and inflation assumptions. Due to the inherent uncertainties around the key drivers of the business such as the regulated pricing environment of the Australian pharmaceutical industry as well as the growth potential and increased competition in the generics products market, it is difficult to establish a reasonable basis for certain assumptions.

Our work did not constitute an audit or review of the projections in accordance with the AUASB Standards and accordingly we do not express any opinion as to the reliability of the projections or the reasonableness of the underlying assumptions. However, nothing has come to our attention as a result of our limited work that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis.

Since projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the projections are based. Accordingly, actual results are likely to be different from those projected because events and circumstances frequently do not occur as expected, and those differences may be material.

6.2.1 Discount rate

The discount rate used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected a nominal after tax discount rate range of 10.0% to 11.0% to discount the future cash flows of the Pharmaceuticals Division to their present value. In selecting these discount rate ranges we considered the following:

- the required rates of return for comparable listed Australian and international pharmaceutical companies
- the debt to equity ratios of comparable listed Australian and international pharmaceutical companies
- specific risks associated with the management of the Pharmaceuticals Division to rectify current issues such as the failure to meet the first or equal-first launch dates on certain recent patent expiries and establishing an effective sales team to retain existing market share
- Sigma's current cost of debt, level of financial gearing and specific financing risks.

The nominal after tax discount rate range selected reflects our assessment of a weighted average cost of capital for the Pharmaceuticals Division based on the following:

- a cost of equity of 11.6% to 12.2% based on:
  - a risk free rate of 5.60% based on the five day average of the zero coupon ten year Australian government bond as at 19 November 2010
  - an equity market risk premium of 6.0%
  - a levered beta of 1.0 to 1.1
- a net debt to enterprise value ratio of 20%
- a corporate tax rate of 30.0%
- a cost of debt of 8.0%

6.2.2 Terminal value

The terminal value estimates the value of the ongoing cash flows after the forecast period. We estimated the terminal value using the Gordon growth method based on the following assumptions:

- forecast nominal post tax cash flows in the terminal year have been adjusted to assume that future sustaining capital expenditure will be equivalent to the projected depreciation charge for FY January 2015
- a discount rate in the range of 10.0% to 11.0%
- a nominal long term growth rate of 2.5%.

6.2.3 Surplus assets

As discussed in Section 6.1.3, no value has been placed on surplus assets.

6.2.4 Conclusion

The fair market value of the Pharmaceuticals Division implied by our discounted cash flow analysis supports our valuation under the capitalisation of future maintainable earnings method.

7 Evaluation and conclusion

7.1 Evaluation

In forming our opinion as to whether the Proposed Transaction is fair and reasonable, we have also considered the advantages and disadvantages of the Proposed Transaction so far as the Shareholders are concerned. Our analysis of the advantages and disadvantages is set out below.

Advantages of the Proposed Transaction

The likely advantages to Shareholders if the Proposed Transaction is approved include:

The value of the consideration offered is consistent with the high end of the assessed fair market value of the Pharmaceuticals

Our assessed fair market value of the Pharmaceuticals Division is $825 million to $900 million. The value of the consideration offered by Aspen, being $900 million, is at the high end of that valuation range.

The table below compares our valuation of the Pharmaceuticals Division and the consideration offered by Aspen.

Table 13: Summary of value of the Pharmaceuticals Division

	Low value ($ million)	High value ($ million)
Selected fair market value of the Pharmaceuticals Division	825.0	900.0
Value of the consideration offered by Aspen	900.0	900.0

Source: Deloitte analysis

In assessing the fair market value of the Pharmaceuticals Division, we have considered significant factors affecting the future earnings of the division. These factors include:

- growth rate of the overall Australian pharmaceutical industry
- growth potential and increased competition in the generic products market
- regulated pricing environment imposed by the current PBS reforms.

We have used the capitalisation of maintainable earnings methods to determine the fair market value of the Pharmaceuticals Division. In addition, we have used the discounted cash flow method to provide additional evidence of the fair market value of the Pharmaceuticals Division. This cross check provides support for our valuation.

Absence of other offers

Since April 2010, Sigma, in conjunction with its financial advisor, Lazard Pty Limited, has undertaken a number of processes to realise cash proceeds from the sale of various assets including the Herron brands, the Orphan business, the entire Company and the standalone generics businesses.

Sigma has received expressions of interest in relation to certain other businesses and assets. However, such expressions of interest were conditional, non-binding and incapable of acceptance by the Board. The Board has determined that each of these alternatives provided a less favourable and less certain outcome for shareholders relative to the Proposed Transaction. Further, since the

announcement of the Proposed Transaction, Sigma has not received any superior proposals.

Sale of the Pharmaceuticals Division will allow Sigma to repay debt and restore the company's financial position

Sigma has faced significant financial pressure over the past nine months. On 25 February 2010, Sigma requested a trading halt and on 1 March 2010, a suspension from trading so as to revise its earnings guidance for FY 2010, primarily due to higher than expected competition and price discounting in the generics market and a lack of participation by pharmacies in Sigma's end of year promotional activities. As a result, Sigma breached the financial covenants relating to its syndicated bank debt, which resulted in associated cross default under the terms of its Waratah securitised debt facility.

Sigma was able to renegotiate its debt covenants with the banking syndicate and Westpac (as the agent of the syndicated facility) and lenders have agreed to waive these events of default. Notwithstanding this, Sigma remains in a difficult financial position due to the following:

- $100 million of its syndicated bank debt was required to be repaid by way of asset disposals by 31 March 2011 (refer to Section 4.7). The first instalment of $40 million due by 30 September 2010 was fully repaid by Sigma from operating cash flows. The second instalment of $50 million is due by 30 November 2010 with the remaining $10 million due by 31 March 2011. We understand that Sigma proposes to make an interim payment in relation to the outstanding $50 million balance out of operational cash flows, with a deferral of the remaining balance to the Completion Date, and the Company is currently in discussions with its banking syndicate in relation to amending these scheduled loan repayments

  If the Proposed Transaction does not proceed, Sigma will consider other asset sales or a further capital raising to repay the remaining outstanding balance, subject to obtaining approval from its banking syndicate to delay the timetable for debt reduction.

  The remaining syndicated bank facility of approximately $300 million is due for repayment or refinancing by 18 September 2011

- the $100 million Waratah securitised debt facility is due to be repaid or refinanced in February 2011, and Sigma is presently in discussions to extend this facility

- the $650 million off-balance sheet debtors securitisation program matures in March 2011. This program functions as a working capital facility. Although Sigma did not default on this program in early 2010, lenders and Sigma have agreed to several additional conditions to increase credit protection for lenders. If Sigma fails to comply with these conditions, and Sigma's financial position deteriorates further, lenders may withdraw liquidity support once the current facility expires on 15 March 2011. Whilst this debt is off-balance sheet, if it is not refinanced Sigma would be unable to offer its customers the same terms of trade, which could have a significant impact on the performance of its Healthcare Division.

On 29 September 2010, Sigma announced that it had booked a goodwill impairment of $220 million in relation to the Pharmaceuticals Division in its half year accounts for the six months ended 31 July 2010. This is based on management's assessment that the consideration offered by Aspen under the Proposed Transaction represents a current indicator of recoverable amount.

Notwithstanding that most of the repayments in relation to the $100 million syndicated bank debt have been financed from operating cash flows to date, Sigma still faces the short term challenge of refinancing the $650 million off-balance sheet debtors securitisation program in March 2011, and the remaining $400 million debt before September 2011, in an environment where there is considerable uncertainty in the Australian pharmaceutical industry.

In order to refinance its debt facilities, Sigma may be required to incur higher finance costs and/or

accept more onerous financial covenants required by the lenders. The refinancing risks could be further exacerbated by:

- continued downward price pressure on generic products due to the mandatory price reduction and the price disclosure requirement under the current PBS reforms
- the potential for further aggressive price discounting of generic drugs as overseas manufacturers attempt to gain market share in Australia
- concerns around management's ability to turn around its generics business.

In conjunction with its advisors, Sigma has conducted several sales processes to realise cash proceeds from the sale of various parts of the business since April 2010. Sigma has received expressions of interest in relation to certain other businesses and assets. However, such expressions of interest were conditional, non-binding and incapable of acceptance by the Board. The Board has determined that each of these alternatives provided a less favourable and less certain outcome for shareholders relative to the Proposed Transaction. Further, since the announcement of the Proposed Transaction, Sigma has not received any superior proposals.

If the Proposed Transaction does not proceed, Sigma will have difficulty repaying its debt in accordance with the current repayment schedule without significant refinancing. If Sigma is not able to obtain the required funding, Sigma will require an agreement with its banking syndicate to delay the repayment timetable. If an agreement cannot be reached and Sigma is unable to make the specified debt repayments, it could result in the Company defaulting on its debt facilities or require a renegotiation of key debt facility terms which could cause a substantial increase in Sigma's ongoing interest payments.

In addition, if the Proposed Transaction does not proceed, Sigma will need to assess alternatives which may include other asset sales and/or an equity raising, to enable Sigma to meet its debt repayment schedule.

If the Proposed Transaction is completed, management intends to repay the entire outstanding syndicated bank debt and a significant portion of the trade receivables securitisation facilities.

Increased focus on business management and rebuild stakeholder confidence

The poor operating performance in FY January 2010 and the consequential breach of financial covenants and associated uncertainty around the future of the Company have led to a loss of confidence by the Company's stakeholders, including its shareholders, lenders, creditors, customers and employees. Since March 2010, there have been changes to the Board and senior management.

If the Proposed Transaction is completed, Sigma's financial position can be restored through the retirement of debt. The refreshed Board and senior management team will then have an opportunity to focus on managing the underlying operations and rebuilding stakeholder confidence.

Capital management initiatives

If the Proposed Transaction proceeds, Sigma intends to repay the entire outstanding syndicated banking debt and a significant portion of its trade receivables securitisation facilities. Sigma also intends to establish new facilities which are currently intended to be drawn in the order of $150 million to $200 million. This will amongst other things, provide liquidity to allow for capital management initiatives.

In the absence of the Proposed Transaction, shares in Sigma would likely trade below current levels

In the absence of the Proposed Transaction or an alternative transaction, shares in Sigma would likely trade below the prices achieved since the announcement of Aspen's original proposal to acquire all the outstanding shares in Sigma, which was subsequently revised to become the Proposed Transaction. If the Proposed Transaction does not proceed, shares in Sigma may trade at a price consistent with the levels prior to the announcement of the Aspen offer.

Healthcare Division has a strong market position and low risk profile

If the Proposed Transaction proceeds, Shareholders will have exposure only to the Healthcare Division of Sigma, which consists of the wholesale pharmaceutical distribution and its retail banner management businesses.

Sigma's wholesale business has a strong market position, with approximately 30% market share in the Australian full-line pharmaceutical wholesale market. The wholesale business is one of three full-line wholesalers in Australia that distributes the complete range of PBS-listed medicines to any retail pharmacy in Australia. It currently operates 14 distribution warehouses and services over 4,000 pharmacies (including pharmacies operating under its banner groups and independent pharmacists) across the country.

Its strong market position is underpinned by its ownership of two retail pharmacy banner groups in Australia, being Amcal (including Amcal Max) and Guardian, which represent the largest and third largest banner groups in Australia, and its existing relationship with independent pharmacies.

Earnings of the wholesale business will be adversely affected by the mandatory price reduction and price disclosure requirement set out in the current PBS reforms, as the wholesale margin is currently set at 7% of PBS-listed prices for prescription medicines plus access to the CSO as an approved CSO distributor. However, this downward margin pressure could be partly mitigated by Sigma's ability to achieve higher margins on other products (outside PBS), increased distribution volumes and optimising the investment in working capital.

The earnings outlook for the wholesale business will be underpinned by the long term growth in the Australian pharmaceutical industry, reflecting the growing ageing population in Australia, continued innovation and development of new pharmaceutical products, the increase in lifestyle diseases and a shift of attitude to preventative healthcare.

Transparency of Sigma's earnings will also improve following the Proposed Transaction. As an integrated operator, it has historically been difficult for investors and other stakeholders of the Company to understand Sigma's operations and the attribution of earnings across the business. If the Proposed Transaction is approved, the structure and operation of Sigma will be simplified, which should enable better transparency of Sigma's business.

Disadvantages of the Proposed Transaction

The likely disadvantages to Shareholders if the Proposed Transaction is approved include:

Reduced diversification

The remaining Healthcare Division is a lower margin business compared to the Pharmaceuticals Division. Shareholders who desire exposure to an Australian pharmaceutical manufacturing business will no longer have exposure to the Pharmaceuticals Division post the Proposed Transaction and will need to identify alternative investments.

Forgoing future potential growth of the Pharmaceuticals Division

Although the Pharmaceuticals Division is facing increasing competition in the generic product segment of the market and downward pricing pressure due to the current PBS reforms, the Medical business of the Pharmaceuticals Division may continue to generate stable earnings at a high margin and the generics business of the Pharmaceuticals Division will have an opportunity to capture market share in the F1[26] expiring patent market over the next four years. By approving the Proposed Transaction, Shareholders will not be able to participate in this growth opportunity for the Pharmaceuticals Division.

Sigma could become a smaller scale company

Following the Proposed Transaction, Sigma will have a smaller business, given that more than 50% of the Company's earnings, together with the majority of the Company's fixed assets, will be sold under the Proposed Transaction.

A potential decrease in the scale of Sigma's business may result in reduced analyst coverage, lower the profile of the Company, particularly with institutional investors, and hence decrease the liquidity of the Company's shares compared to that currently experienced by Shareholders.

Conclusion on advantages and disadvantages

On balance, in our opinion, the advantages of the Proposed Transaction outweigh the disadvantages.

7.2 Conclusion

Based on the foregoing, we are of the opinion that the Proposed Transaction is fair and reasonable.

[26] The F1 medicines category contains on-patent medicines that are not substitutable with other brands or medicines.

Appendix 1: Glossary

Reference	Definition
Actavis	Actavis Group hf
ACCC	Australian Competition and Consumer Commission
Adams Respiratory	Adams Respiratory Therapeutics Incorporated
AFSL	Australian Financial Services Licence
Alpharma	Alpharma Incorporated
APESB	Accounting Professional and Ethical Standards Board Limited
API	Australian Pharmaceutical Industries Limited
ARTG	Australian Register of Therapeutic Goods
Arrow	Arrow Pharmaceuticals Limited
Ascent Pharmahealth	Ascent Pharmahealth Limited
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Aspen	Aspen Pharmacare Holdings Limited
$	Australian dollars
AUASB	Auditing and Assurance Standards Board
BMS	Bristol-Myers Squibb
Barr	Barr Pharmaceuticals, Incorporated
Bradley	Bradley Pharmaceuticals Incorporated
CAGR	Compound annual growth rate
Cash Consideration	Cash consideration of $900 million
Cephalon	Cephalon Incorporated
Chemists' Own	Chemists' Own Pty Limited
Chiesi	Chiesi Farmaceutici SPA
Company	Sigma Pharmaceuticals Limited
Completion Date	Completion date of the Proposed Transaction
Cornerstone Therapeutics	Cornerstone Therapeutics Incorporated
Corporations Act	Corporations Act 2001 (Cth)
CSO	Community Services Obligation
Curagen	Curagen Corporation
Distribution Fee	Distribution fee payable by Aspen to Sigma under the Supply Agreement
Deloitte	Deloitte Corporate Finance Pty Limited
Directors	Directors of Sigma
DNA	Deoxyribonucleic acid
Dr Reddy's	Dr. Reddy's Laboratories Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EGM	Extraordinary General Meeting
EM	Explanatory memorandum
FIRB	Foreign Investment Review Board

Reference	Definition
FOS	Financial Ombudsman Servives
FSG	Financial Services Guide
FY January	Financial year ended 31 January
FY June	Financial year ended 30 June
Genentech	Genentech Incorporated
GMP	Good Manufacturing Practice
Healthcare Division	Sigma's wholesaling and retail pharmacy banner management business
Herron	Herron Pharmaceuticals Pty Limited
HIV	Human immunodeficiency virus
HR	Human resources
IBISWorld	IBIS World Pty Ltd
IER	Independent expert's report
IT	Information technology
King Pharmaceuticals	King Pharmaceuticals Incorporated
Lannett	Lannett Company Incorporated
Licence Agreement	Licence agreement between Sigma and Arrow which provided for the provision of certain products and restraints on certain activities by Arrow for a period of time
Lipa	Lipa Pharmaceuticals Limited
Medical	Sigma's medical and ethicals businesses
MedImmune	MedImmune LLC
Medpointe	Medpointe Incorporated
Merck	Merck & Company Incorporated
Metcash	Metcash Limited
Millennium Pharmaceuticals	Millennium Pharmaceuticals Incorporated
Model	A financial model which estimates the future cash flows to be generated by the Pharmaceuticals Division prepared by Sigma management
n/a	Not applicable or not available
nm	Not meaningful
NSW	New South Wales
NOM	Notice of meeting
Orphan	Orphan Holdings Pty Limited
OSI Pharmaceuticals	OSI Pharmaceuticals Incorporated
OTC	Over the counter
Patheon	Patheon Incorporated
p.a.	Per annum
PBAC	Pharmaceuticals Benefits Advisory Committee
PBPA	Pharmaceuticals Benefits Pricing Authority
PBS	Pharmaceuticals Benefits Scheme
Pfizer	Pfizer Incorporated
Pharmaceuticals Division	Sigma's pharmaceutical division
PMSA	Product manufacture and supply agreement

Attachment A – Independent Expert's Report

Reference	Definition
Projection Period	1 November 2010 to 31 January 2015
Proposed Transaction	Proposal to sell the Pharmaceuticals Division to Aspen
PTP	Price to the pharmacists
R&D	Research and development
Ranbaxy	Ranbaxy Laboratories Limited
Roche	Roche Holding AG
Scherling-Plough	Scherling-Plough Corporation
Sepracor	Sepracor Incorporated
Shareholders	Existing shareholders of Sigma
Shionogi	Shionogi & Company Limited
Sigma	Sigma Pharmaceuticals Limited
STADA	STADA Arzneimittel AG
Symbion	Symbion Health Limited
Proposed Transaction	Aspen's offer to acquire all the Pharmaceuticals Division
Teva	Teva Pharmaceutical Industries Limited
TGA	Therapeutic Goods Administration
Transition Period	An initial period of five years following completion of the Proposed Transaction
Transition Services Fee	IT and HR services fee payable by Aspen to Sigma for up to one year
TSA	Transition Services Agreement
US	United States
USD	United States dollar
Valeant	Valeant Pharmaceuticals International
VWAP	Volume weighted average price
Watson	Watson Pharmaceuticals Incorporated

Appendix 2: Comparable entities

The following table provides analysis of entities with comparable activities to the Pharmaceuticals Division:

Table 14: Earnings multiples of comparable companies – market trading

Company	Enterprise value (USD million)[1]	EBIT margin			EBIT multiple[2]		
		Historical	Current	Forecast	Historical (times)	Current (times)	Forecast (times)
Sigma	786	n/a[3]	4.1%	3.5%	n/a	5.8	6.9
Large diversified pharmaceutical companies with development R&D capabilities							
Johnson & Johnson	165,285	26.0%	27.1%	27.7%	10.3	9.8	9.2
Pfizer Incorporated	156,901	22.6%	38.1%	39.3%	13.9	6.1	6.0
Roche Holding AG	156,494	25.0%	32.5%	34.3%	12.6	9.8	9.1
Novartis AG	147,962	22.1%	26.0%	25.9%	14.8	11.2	10.1
GlaxoSmithKline Plc	119,376	29.6%	26.2%	31.8%	8.9	10.0	8.3
Merck & Co Incorporated	118,792	48.5%	29.8%	32.7%	8.9	8.8	8.1
Sanofi-Aventis	98,341	20.7%	36.7%	35.6%	11.2	6.3	6.7
High		**48.5%**	**38.1%**	**39.3%**	**14.8**	**11.2**	**10.1**
Low		**20.7%**	**26.0%**	**25.9%**	**8.9**	**6.1**	**6.0**
Average		**27.8%**	**30.9%**	**32.5%**	**11.5**	**8.9**	**8.2**
Median		**25.0%**	**29.8%**	**32.7%**	**11.2**	**9.8**	**8.3**
Other international pharmaceutical manufacturing companies							
Teva Pharmaceutical Industries Limited	53,573	17.3%	30.2%	30.6%	22.3	10.8	9.2
Daiichi Sankyo Company Limited	14,824	10.8%	n/a	n/a	12.0	n/a	n/a
Mylan Incorporated [4]	10,933	10.3%	22.7%	24.0%	20.9	8.8	7.5
Hospira Incorporated	10,735	13.0%	21.3%	23.5%	21.3	12.6	10.5
Watson Pharmaceuticals Incorporated [4]	7,219	13.7%	18.9%	19.4%	18.9	11.0	9.1
Valeant Pharmaceuticals International	6,625	21.4%	23.6%	36.5%	37.7	23.7	8.6
Dr Reddy's Laboratories Limited	6,528	9.1%	16.8%	19.1%	45.6	22.6	17.1
Aspen Pharmacare Holdings Limited [4]	6,517	25.8%	26.7%	26.6%	17.4	12.8	11.0
Perrigo Company [4]	6,458	14.8%	18.2%	19.0%	19.2	13.1	11.6
Ranbaxy Laboratories Limited	5,154	11.7%	16.4%	16.3%	24.8	16.7	15.4
Endo Pharmaceuticals Holdings Incorporated	3,745	27.0%	35.8%	33.9%	9.5	6.3	4.9

Company	Enterprise value (USD million)	EBIT margin Historical (%)	EBIT margin Current (%)	EBIT margin Forecast (%)	EBIT multiple Historical (times)	EBIT multiple Current (times)	EBIT multiple Forecast (times)
Gedeon Richter Plc	3,575	18.5%	19.7%	18.3%	14.4	13.3	13.2
STADA Arzneimittel AG [4]	3,259	12.2%	11.4%	13.1%	12.4	12.9	10.6
Sawai Pharmaceutical Company Limited [4]	1,470	17.0%	n/a	n/a	14.4	n/a	n/a
Par Pharmaceutical Companies Incorporated [4]	1,088	10.8%	16.1%	21.9%	8.5	6.8	5.8
Towa Pharmaceutical Company Limited [4]	937	18.6%	n/a	n/a	10.8	n/a	n/a
Strides Arcolab Limited	791	14.3%	n/a	n/a	18.9	n/a	n/a
Siegfried Holding AG	260	n/a	3.7%	5.5%	n/a	23.5	15.1
Lannett Co Incorporated	127	10.4%	7.0%	14.4%	9.7	15.4	6.6
Ascent Pharmahealth Limited [4]	75	10.6%	n/a	n/a	6.7	n/a	n/a
High		**27.0%**	**35.8%**	**36.5%**	**45.6**	**23.7**	**17.1**
Low		**9.1%**	**3.7%**	**5.5%**	**6.7**	**6.3**	**4.9**
Average		**15.4%**	**19.4%**	**21.6%**	**16.7**	**13.4**	**9.9**
Median		**14.0%**	**19.3%**	**20.6%**	**15.9**	**12.9**	**9.8**
Pharmaceutical distribution							
AmerisourceBergen Corporation	8,335	1.4%	1.4%	1.5%	7.6	7.3	6.8
Suzuken Company Limited	1,921	0.7%	n/a	n/a	12.6	n/a	n/a
United Drug Plc	898	2.7%	3.8%	4.1%	14.2	9.5	8.7
Andreae-Noris Zahn AG	763	0.9%	1.2%	1.3%	15.9	11.0	10.2
Australian Pharmaceutical Industries Limited	394	1.3%	1.5%	1.7%	8.1	6.9	6.0
High		**2.7%**	**3.8%**	**4.1%**	**15.9**	**11.0**	**10.2**
Low		**0.7%**	**1.2%**	**1.3%**	**7.6**	**6.9**	**6.0**
Average		**1.4%**	**2.0%**	**2.1%**	**11.7**	**8.7**	**7.9**
Median		**1.3%**	**1.5%**	**1.6%**	**12.6**	**8.4**	**7.7**

Source: ThomsonReuters

Notes:

1. Enterprise value of companies as at 19 November 2010 and converted into USD based on the exchange rate as at that date. Enterprise value is based on balance sheet debt
2. Historical EBIT multiples are based on companies' last reported annual results, current EBIT multiples are based on last reported interim results plus forecast earnings for the remainder of the year (based on brokers' consensus on EBIT for the current financial year) and forecast EBIT multiples are based on brokers' consensus on forecast earnings for the next financial year
3. n/a – not available
4. Companies also have internal distribution capability
5. Average and median calculations for pharmaceutical manufacturers exclude Dr Reddy's Laboratories Limited as it is considered an outlier. Dr Reddy's Laboratories Limited's operations include research and development in areas such as cancer, diabetes and cardiovascular disease.

We provide descriptions for comparable entities referred to in this report as follows:

Large diversified pharmaceutical companies with development R&D capabilities

Johnson & Johnson

Johnson & Johnson manufactures health care products and provides related services for the consumer, pharmaceutical, and medical devices and diagnostics markets. The company sells products such as skin and hair care products, acetaminophen products, pharmaceuticals, diagnostic equipment and surgical equipment in countries located around the world.

Pfizer

Pfizer is a research-based, global pharmaceutical company that discovers, develops, manufactures and markets medicines for humans and animals. The company's products include ethical products, OTC and animal health products such as anti-infective medicines and vaccines.

Roche Holding AG

Roche Holding AG (Roche) develops and manufactures pharmaceutical and diagnostic products. The company produces prescription drugs in the areas of cardiovascular, infectious, autoimmune, and respiratory diseases, dermatology, metabolic disorders, oncology, transplantation and the central nervous system.

Novartis AG

Novartis AG manufactures pharmaceutical and consumer healthcare products. The company produces pharmaceuticals for various therapeutic areas, including cardiovascular, respiratory and infectious diseases, oncology, neuroscience, transplantation and arthritis. In addition, Novartis AG manufactures generics OTC, vision and animal health products.

GlaxoSmithKline Plc

GlaxoSmithKline Plc is a research-based pharmaceutical group that develops, manufactures and markets vaccines, prescription and OTC medicines, as well as health-related consumer products. The group, which also provides laboratory testing and disease management services, specialises in treatments for respiratory, central nervous system, gastro-intestinal and genetic disorders.

Merck & Company Incorporated

Merck & Company Incorporated (Merck) is a global pharmaceutical company that discovers, develops, manufactures and markets a broad range of human and animal health products. Merck's products include a treatment for elevated cholesterol, a treatment for male pattern hair loss, a preventive treatment for osteoporosis, a treatment for hypertension and a treatment for allergic rhinitis.

Sanofi-Aventis

Sanofi-Aventis is a global pharmaceutical company that researches, develops and manufactures prescription pharmaceuticals and vaccines. The company develops cardiovascular, thrombosis, metabolic disorder, central nervous system, internal medicine and oncology drugs and vaccines.

Other international pharmaceutical manufacturing companies

Teva Pharmaceutical Industries Limited

Teva Pharmaceutical Industries Limited (Teva) is an international pharmaceutical company engaged in the development, production and marketing of a range of generic and branded pharmaceuticals. Teva also provides specialty pharmaceutical products, which include respiratory products based on its proprietary delivery systems. It also holds a biotechnology platform focused on the development of peptide and protein-based medicines.

Daiichi Sankyo Company, Limited

Daiichi Sankyo Company Limited engages in the research and development, manufacture and marketing of pharmaceutical and OTC products and has operations in Japan, North America, Europe and India. The company is also engaged in the research and development of products for glucose metabolic disorders, infectious diseases, malignant neoplasm and other diseases.

Mylan Incorporated

Mylan Incorporated is a global pharmaceutical company that develops, licenses, manufactures, markets and distributes more than 900 products, including generic and branded generic pharmaceuticals, specialty pharmaceutical products and active pharmaceutical ingredients. The generics segment primarily develops, manufactures, sells and distributes generic or branded generic pharmaceutical products in tablet, capsule or trans-dermal patch form.

Hospira Incorporated

Hospira Incorporated is a specialty pharmaceutical company that develops, manufactures and markets products such as generic acute-care and oncology injectables, as well as integrated infusion therapy and medication management systems. It typically supplies its products to hospitals, clinics, home healthcare providers and long-term care facilities and operates in North America, Latin America, Europe, the Middle East, Africa and the Asia Pacific region.

Watson Pharmaceuticals Incorporated

Watson Pharmaceuticals Incorporated is a specialty pharmaceutical company engaged in the development, manufacturing, marketing, sale and distribution of branded and generic pharmaceutical products. The company operates in the US across three segments, being generic products, branded products and distribution.

Valeant Pharmaceuticals International

Valeant Pharmaceuticals International (Valeant) is a multinational specialty pharmaceutical company that develops, manufactures and markets a range of pharmaceutical products. Valeant's specialty pharmaceutical and OTC products are marketed under brand names and are sold in the US, Canada, Australia and New Zealand, while it manufactures and markets branded generic and OTC products in Europe and Latin America. On 28 September 2010, Valeant merged with Biovail Corporation, a Canadian company specialising in the formulation, clinical testing, registration, manufacture and commercialisation of pharmaceutical products

Dr Reddy's Laboratories Limited

Dr. Reddy's Laboratories Limited (Dr Reddy's) produces finished dosage forms, active pharmaceutical ingredients and intermediates and biotechnology products and primarily markets its products in India, the US, Europe and Russia. In addition, the company contract manufactures generic prescription and OTC products for branded and generics companies in the US. Dr. Reddy's also conducts research in the areas of cancer, diabetes, cardiovascular, inflammation and bacterial infection and has various research collaboration agreements with Rheoscience A/S, ClinTec International, the National Cancer Institute in Maryland, Argenta Discovery Limited, 7TM Pharma and GlaxoSmithKline Plc.

Aspen Pharmacare Holdings Limited

Aspen manufactures and supplies pharmaceutical products worldwide. The company produces branded, generic, OTC, infant nutritional and consumer products for various therapeutic conditions, as well as active pharmaceutical ingredients. Aspen manufactures its products at 14 pharmaceutical facilities located in South Africa, India, East Africa and Latin America.

Perrigo Company

Perrigo Company is a global healthcare supplier that develops, manufactures and distributes OTC and generic ethical products, nutritional products, infant formulas, active pharmaceutical ingredients and pharmaceutical and medical diagnostic products. Perrigo Company manufactures OTC pharmaceutical products and infant formulas for pharmacies under their own brands and operates in the US, Israel, Mexico, the UK and Australia.

Ranbaxy Laboratories Limited

Ranbaxy Laboratories Limited (Ranbaxy) is engaged in the manufacture of generics, active pharmaceuticals ingredients, OTC and other consumer products. In addition, Ranbaxy is involved in the discovery and development of drug molecules in the areas of infectious diseases, metabolic diseases, inflammatory diseases, oncology and anti-malaria therapies. The company has operations in North America, Latin America, Europe, Africa, the Asia Pacific and the Middle East. In addition to pharmaceutical operations, Ranbaxy offers financial services.

Endo Pharmaceuticals Holdings Incorporated

Endo Pharmaceuticals Holdings Incorporated is a specialty pharmaceutical company engaged in the research, development, manufacturing, marketing and sales of branded and generic pharmaceutical products used primarily to treat and manage pain, overactive bladder, prostate and bladder cancer and precocious puberty[27]. The company concentrates on generic drugs that have one or more barriers to market entry, such as a complex formulation, regulatory or legal challenges or difficulty in raw material sourcing.

Gedeon Richter Plc

Gedeon Richter Plc researches, develops, manufactures and markets branded generic pharmaceuticals, both in Hungary and internationally. Its products include gynaecological products for women's reproductive health, cardiovascular and central nervous system products In addition, the company owns and provides various support services to pharmacies.

[27] A medical term for puberty occurring at an unusually early age

STADA Arzneimittel AG

STADA Arzneimittel AG (STADA) develops and markets products with active pharmaceutical ingredients for the healthcare and pharmaceutical markets. Its generics segment manufactures active pharmaceutical ingredients, while the branded products segment primarily manufactures non-prescription products in addition to ethical products. STADA's customers includes doctors, doctors' co-operatives, pharmacies, hospitals, wholesalers and other service providers in the health care market, as well as statutory health insurance organisations or private insurance companies.

Sawai Pharmaceutical Company Limited

Sawai Pharmaceutical Company Limited operates primarily in Japan in the manufacturing and sale of pharmaceutical products and health care foods industry. It offers over 500 ethical pharmaceuticals in various formulations, which are typically supplied to hospitals, general practitioners and pharmacies.

Par Pharmaceutical Companies Incorporated

Par Pharmaceutical Companies Incorporated is engaged in the business of developing, licensing, manufacturing and distributing generic and branded drugs in the US. The company operates across two segments, being its generic products and branded products divisions.

Towa Pharmaceutical Company Limited

Towa Pharmaceutical Company Limited operates largely in Japan and engages in the manufacture and distribution of generic pharmaceutical products. It offers over 400 products in various therapeutic areas, including cardiovascular, respiratory and chemotherapeutics. It supplies its products to various hospitals, clinics and pharmacies.

Strides Arcolab Limited

Strides Aroclab Limited manufactures and exports branded and generic pharmaceutical dosage forms. The company offers pharmaceuticals formulations in various dosage forms, including tablets, capsules, soft gelatin capsules, parenterals and semi-solids. It also operates a pharmaceutical research centre that provides clinical supply manufacturing, process development, analytical, packaging development and microbiological testing services. The company has a strategic alliance with Aspen.

Siegfried Holding AG

Siegfried Holding AG is engaged in the production and development of active pharmaceutical ingredients and generic products in Western Europe and the US. The company's generics division manufactures products such as a generic dry powder inhaler and a product for pulmonary applications, while the Siegfried Actives division develops and manufactures various active pharmaceutical ingredients for controlled substances, including narcotics, analgesics and opiates. Siegfried Holding AG sells its products to various international chemical and pharmaceutical companies.

Lannett Company Incorporated

Lannett Company Incorporated (Lannett) develops, manufactures and distributes generic ethical products in tablet, capsule and oral liquid forms to customers throughout the US. Lannett markets its products primarily to drug wholesalers, pharmacy chains, distributors and government agencies.

Ascent Pharmahealth Limited

Ascent Pharmahealth Limited is engaged in the development, marketing and distribution of generic pharmaceuticals, other ethical and OTC products in Australia, Singapore, Malaysia, Hong Kong, Thailand and Vietnam. Ascent Pharmahealth Limited largely sells its products to pharmacies.

Pharmaceutical distribution

AmerisourceBergen Corporation

AmerisourceBergen Corporation provides drug distribution and related services to healthcare providers and pharmaceutical manufacturers in the US, the UK and Canada. The company distributes branded and generic pharmaceuticals, OTC products, home healthcare supplies and equipment and related services to various healthcare providers, such as hospitals, pharmacies and physicians. AmerisourceBergen serves its customers through a network of distribution and service centres and packaging facilities.

Suzuken Company Limited

Suzuken Company Limited engages in the manufacture and supply of pharmaceutical products and equipment to medical institutions and pharmacies in Japan. Its distribution segment distributes pharmaceuticals, diagnostic reagents and medical equipment and supplies, whilst its pharmaceutical manufacturing segment manufactures and sells pharmaceuticals, such as drugs for treating diabetes, as well as diagnostic reagents and nutritional foods. In addition, Suzuken Company Limited operates dispensing pharmacies, offers insurance agency and logistics services and sells foods, fixtures and fittings.

United Drug Plc

United Drug Plc operates in Ireland, the UK, the US and across Europe. Through its segment operations, the company provides pharmaceutical delivery services to retail and hospital pharmacies, contract manufacturing, distribution, sales and marketing and other technical support services to medical equipment and consumable manufacturers.

Andreae-Noris Zahn AG

Andreae-Noris Zahn AG is engaged in the wholesale trade of pharmaceutical products to pharmacies and hospitals in Germany. In addition, the company offers logistics services for the healthcare and pharmaceutical industry, planning and project management services for in-house logistics and commercial real estate and market research services for participants in the pharmaceutical industry. Andreae-Noris Zahn AG operates as a pharmacy co-operation system.

Australian Pharmaceutical Industries Limited

Australian Pharmaceutical Industries Limited is largely engaged in the wholesale distribution of pharmaceutical and allied products to pharmacy customers in Australia. Its retailing segment supplies various health, beauty and lifestyle products to the retail industry, while its manufacturing segment manufactures pharmaceutical medicines and OTC products in Australia and New Zealand. The company sells its products and services under the Priceline, Soul Pattinson, Priceline Pharmacy and Pharmacist Advice brand names.

Appendix 3: Comparable transactions

Below are the details of comparable merger and acquisition transactions in the pharmaceutical industry, listed by target company since 1 January 2007, however, for completeness sake, we have included mergers and acquisition transactions relating to Sigma since 2003. The other merger and acquisition transactions considered involve predominantly international pharmaceutical companies, as there are limited transactions involving Australian-based pharmaceutical companies.

Table 15: Merger and acquisition transaction multiples of companies with comparable operations to the Pharmaceuticals Division

Announcement date[1]	Target	Bidder	% acquired	Currency	Target Gearing[2]	Implied enterprise value (millions)[3]	Historical implied EBIT multiple (times)[4]	10 day implied control premium[5]
Large diversified pharmaceutical companies with R&D capability								
9 March 2009	Schering-Plough Corporation	Merck	100.0%	USD	n/a[6]	43,204	24.9	n/a
26 January 2009	Wyeth	Pfizer	100.0%	USD	-	64,019	9.2	23.4%
11 September 2008	Alpharma Incorporated	King Pharmaceuticals Incorporated	100.0%	USD	0.5%	1,533	nm[7]	52.8%
Average							**17.1**	**38.1%**
Median							**17.1**	**38.1%**
Other international pharmaceutical manufacturing companies								
Generic manufacturers								
21 June 2010	Valeant	Biovail Corporation	100.0%	USD	7.4%	3,689	15.8	n/a
18 March 2010	Ratiopharm GmbH	Teva	100.0%	EUR	n/a	3,625	n/a	n/a
1 February 2010	Mepha AG	Cephalon Incorporated	100.0%	USD	n/a	662	n/a	n/a
18 July 2008	Barr Pharmaceuticals, Incorporated	Teva	100.0%	USD	23.0%	8,731	24.7	48.6%
31 March 2008	Bentley Pharmaceuticals, Incorporated	Teva	100.0%	USD	-	342	20.1	8.4%
1 June 2007	Actavis Group hf	Novator Partners LLP	61.5%	EUR	24.1%	4,763	24.1	3.6%
22 August 2005	Arrow Pharmaceuticals Limited	Sigma	100.0%	AUD	n/a	680	24.5	n/a
Average[8]							**21.2**	**20.2%**
Median[8]							**22.1**	**8.4%**

Announcement date	Target	Bidder	% acquired	Currency	Target gearing	Implied enterprise value (millions)	Historical implied EBIT multiple (times)	10 day implied control premium
Other ethical manufacturers								
7 September 2009	BMS business	Sigma	100.0%	AUD	n/a	60	3.5	n/a
3 September 2009	Sepracor, Incorporated	Dainippon Sumitomo Pharma	100.0%	USD	-	2,336	16.1	11.7%
21 July 2008	Genentech, Incorporated	Roche Holdings Incorporated	44.2%	USD	-	98,861	23.3	21.0%
6 May 2009	Cornerstone Therapeutics Incorporated	Chiesi Farmaceutici SPA	55.3%	USD	-	38	3.0	-10.7%[9]
1 September 2008	Sciele Pharma, Incorporated	Shionogi & Company Limited	100.0%	USD	18.3%	1,118	14.4	59.6%
24 December 2007	Orphan Holdings Pty Limited	Sigma	100.0%	AUD	n/a	130	10.0	n/a
10 December 2007	Adams Respiratory Therapeutics, Incorporated	Reckitt Benckiser Plc	100.0%	USD	-	2,189	44.6	n/a
30 October 2007	Bradley Pharmaceuticals, Incorporated	Nycomed US Incorporated	100.0%	USD	7.1%	361	14.5	24.3%
20 July 2007	Medpointe Incorporated	Meda AB	100.0%	USD	n/a	793	n/a	n/a
15 April 2003	Herron	Sigma	100.0%	AUD	n/a	123	10.3	n/a
Average[10]							**17.1**	**29.2%**
Median[10]							**15.3**	**22.7%**
R&D companies								
1 March 2010	OSI Pharmaceuticals Incorporated	Astellas Pharma Incorporated	100.0%	USD	-	3,191	19.5	56.5%
29 May 2009	CuraGen Corporation	Celldex Therapeutics Incorporated	100.0%	USD	-	41	n/a	44.0%
10 April 2008	Millennium Pharmaceuticals Incorporated	Takeda Pharmaceutical Company Limited	100.0%	USD	-	7,600	n/a	58.6%
23 April 2007	MedImmune LLC	AstraZeneca Plc	100.0%	USD	-	14,126	n/a	31.1%
Average							**19.5**	**47.5%**
Median							**19.5**	**50.3%**

Announcement date	Target	Bidder	% acquired	Currency	Target gearing	Implied enterprise value (million)	Historical implied EBIT multiple (times)	10 day implied control premium
Contract manufacturing companies								
11 March 2009	Patheon Incorporated	JLL Patheon Holdings LLC	26.2%	USD	32.3%	464	11.9	24.4%
3 August 2007	Lipa[11]	CK Life Sciences International Incorporated	100.0%	AUD	22.5%	113	12.3	17.9%
2 March 2007	Patheon Incorporated	JLL Partners Fund V LP	29.4%	USD	n/a	n/a	n/a	n/a
Average							**12.1**	**21.1%**
Median							**12.1**	**21.1%**
Average of other international pharmaceutical manufacturing companies[12]							**17.9**	**31.5%**
Median of other international pharmaceutical manufacturing companies[12]							**16.1**	**24.4%**
Average of merger and acquisition transactions announced pre-global financial crisis[12]							**18.4**	**32.6%**
Median of merger and acquisition transactions announced pre-global financial crisis[12]							**20.1**	**27.7%**
Average of merger and acquisition transactions announced post-global financial crisis[12]							**16.2**	**32.0%**
Median of merger and acquisition transactions announced post-global financial crisis[12]							**15.9**	**24.4%**

Source: Company announcements, Mergermarket, Capital IQ

Notes:

1. Merger and acquisition transactions announced prior to 30 September 2008 are considered pre-global financial crisis transactions
2. Gearing refers to the target company's balance sheet net debt to enterprise value ratio at the date of the announcement of the transaction
3. Implied enterprise value based on implied consideration for 100% of equity plus net debt based on the target's last reported annual results prior to the announcement of the transaction
4. Implied EBIT multiple based on target company's last reported annual results
5. The control premium has been determined based on the VWAP for the 10 trading days prior to the date of announcement of the transaction. Control premium analysis was conducted using the VWAP for the one, 10 and 30 trading days prior to the announcement of the transaction, however, only the control premium analysis using the VWAP for the 10 trading days prior to announcement is shown in the table above
6. n/a – not available, referring to merger and acquisition transactions in which the target company is either a private company (and therefore share price and other information is not publicly available), or merger and acquisition information has not been disclosed publicly
7. nm – not meaningful
8. The average and median calculations exclude the Arrow Pharmaceuticals Limited transaction as this transaction occurred a number of years previously and is therefore not considered relevant
9. Chiesi Farmaceutici SPA (Chiesi) acquired a 55.3% interest in Cornerstone Therapeutics Incorporated (Cornerstone Therapeutics) in exchange for USD 15 million in cash, a 10 year licence to the rights of Chiesi's Curosurf product and equity in Cornerstone Therapeutics. Under the terms of the transaction, the equity consideration consisted of the issue of 11.9 million new shares in Cornerstone Therapeutics to Chiesi and an additional 1.6 million shares which were acquired by Chiesi at USD 5.50 per share. The control premium for the Cornerstone Therapeutics transaction is based on this price.
10. Average and median calculations exclude the BMS business, Orphan Holdings Pty Limited, Herron, Adams Respiratory Therapeutics and Cornerstone Therapeutics transactions. The EBIT multiple implied by the Adams Respiratory Therapeutics transaction is significantly higher than the other comparable transactions in Table 15 above and is therefore considered an outlier, whilst the Cornerstone Therapeutics transactions involved the issue of capital to the bidder and therefore is not directly comparable with the Proposed Transaction
11. We note Lipa was an Australian-based pharmaceutical company
12. Average and median calculations exclude the transactions r elating to Sigma, Alpharma, Adams Respiratory Therapeutics and the Cornerstone Therapeutics.

We provide descriptions for each of the above comparable transactions listed in reverse date order, as follows:

Schering-Plough Corporation

On 3 November 2009, Schering-Plough Corporation (Schering-Plough) was acquired by Merck through a reverse takeover. Consideration consisted of cash of USD 10.50 and 0.5767 shares in the combined company per Schering-Plough share, implying an equity value for Schering-Plough of USD 38.4 billion, or USD 23.61 per Schering-Plough share (based on Merck's daily VWAP one day prior to the announcement). After net debt of USD 4.8 billion, the implied enterprise value of Schering-Plough was USD 43.2 billion.

Wyeth

On 15 October 2009, Pfizer acquired Wyeth, a pharmaceutical company engaged in the discovery, development, manufacture, distribution and sale of pharmaceutical, consumer and animal health products. Consideration consisted of cash of USD 33.00 and 0.985 Pfizer shares per Wyeth share, implying an equity value of USD 66.8 billion for Wyeth, or USD 50.19 per Wyeth share (based on Pfizer's daily VWAP one day prior to the announcement). According to Pfizer, the acquisition will produce one of the world's premiere biopharmaceutical companies, with a diversified healthcare portfolio. After net cash of USD 2.8 billion, the implied enterprise value of Wyeth was USD 64.0 billion.

Alpharma Incorporated

On 30 December 2008, Alpharma Incorporated (Alpharma) was acquired by King Pharmaceuticals Incorporated (King Pharmaceuticals) for cash consideration of approximately USD 1.5 billion, or USD 37 per Alpharma share. After net debt of USD 8 million, the implied enterprise value of Alpharma was USD 1.5 billion. Alpharma's operations included the development, manufacture and marketing of pharmaceutical products for humans and animals, whilst King Pharmaceuticals is a vertically integrated pharmaceutical company engaged in the research and development, manufacturing and marketing of branded ethical pharmaceutical products.

Valeant

On 28 September 2010, Valeant merged with Biovail Corporation, a Canadian company specialising in the formulation, clinical testing, registration, manufacture and commercialisation of pharmaceutical products. Consideration consisted of cash of USD 16.77 and 1.7809 Biovail Corporation shares per Valeant share, implying an equity value of USD 3.2 billion for Valeant. After net debt of USD 448 million, the implied enterprise value of Valeant was USD 3.7 billion.

Ratiopharm GmbH

On 10 August 2010, Teva acquired Ratiopharm GmbH, a German-based private company engaged in the manufacture of generics, for approximately EUR 3.6 billion. Teva agreed to special transaction terms prescribed by Germany's Competition Bureau, including the divestitures of certain assets and associated licences of either Teva or Ratiopharm GmbH relating to the sale and supply of certain dosage forms of products sold in Canada.

Mepha AG

On 9 April 2010, Cephalon Incorporated (Cephalon) acquired Mepha AG, the Switzerland-based pharmaceutical company marketing generics (both branded and non-branded) and other specialty pharmaceutical products, for cash consideration of CHF 662 million. According to Cephalon, the acquisition of Mepha AG will diversify Cephalon's business mix, double the size of its international business and provide Cephalon with a platform to launch current and future products in new, developed and emerging markets.

Barr Pharmaceuticals Incorporated

On 23 December 2008, Teva acquired 100% of Barr Pharmaceuticals Incorporated (Barr) the fourth largest global generics manufacturer. Consideration consisted of cash of USD 39.90 per Barr share plus 0.6272 Teva shares, implying an equity value for Barr of approximately USD 7.2 billion based on Teva's daily VWAP one day prior to the announcement and an enterprise value of USD 8.7 billion after net debt. Completion of the transaction was subject to both parties divesting certain formulations of 16 overlapping generic drugs, representing approximately USD 60 million of combined annual sales.

Bentley Pharmaceuticals Incorporated

Teva acquired 100% of Bentley Pharmaceuticals Incorporated on 23 July 2008 for cash consideration of approximately USD 360 million, or approximately USD 14.82 per Bentley share. After net cash of approximately USD 18 million, the implied enterprise value of Bentley was USD 342 million. Bentley's operations consisted solely of generics manufacturing after the company divested its drug delivery business in June 2008. Bentley's portfolio consisted of 130 branded generic and generic products, which were marketed primarily in Spain.

Actavis Group hf

Novator Partners LLP, a UK-based private equity firm, acquired the remaining 61.5% of Actavis Group hf (Actavis) that it did not already own for EUR 1.075 per share, implying an equity value of EUR 3.6 billion for 100% of Actavis. As at completion of the transaction, Actavis had net debt of approximately EUR 1.2 billion, implying an enterprise value of EUR 4.8 billion for the Iceland-based company. Actavis develops, manufactures and supplies generic pharmaceuticals products to wholesalers in, among others, the US, Turkey, Bulgaria, Russia, Germany and the UK.

Arrow

Sigma Company Limited acquired Arrow via a reverse merger for 0.2254 Sigma Company Limited shares per newly-issued Arrow share. The exchange ratio implied an enterprise value for Arrow of approximately $680 million. As part of the transaction, Sigma Company Limited shareholders received a final dividend of $0.28 prior to completion of the merger with Arrow shareholders owning approximately 33.3% of the combined company and Sigma Company Limited shareholders owning the majority of 66.7%. The acquisition was part of Sigma Company Limited's strategy to expand in the generics pharmaceuticals market and followed an extensive five year partnership of the two companies.

Sepracor Incorporated

In October 2009, Dainippon Sumitomo Pharma, a Japanese manufacturer of medical pharmaceutical products, acquired Sepracor Incorporated (Sepracor), the US-based company engaged in the development, commercialisation and marketing of pharmaceutical products. Dainippon Sumitomo Pharma paid USD 23 per Sepracor share, implying an equity value of USD 2.6 billion and an enterprise value of USD 2.4 billion after net cash. Dainippon Sumitomo Pharma's rationale for the acquisition was to accelerate its expansion in the US and Canada and to provide access to Sepracor's pharmaceutical research.

BMS business

In September 2009, Sigma announced it was to acquire an established pharmaceuticals brand portfolio and a manufacturing facility in Noble Park, Victoria from BMS for approximately $60 million. Included in the acquisition were the rights to manufacture 15 ethical pharmaceutical and healthcare brands in Australia and New Zealand and the rights to export the brands to New Zealand.

Cornerstone Therapeutics Incorporated

Chiesi acquired a 55.3% interest in Cornerstone Therapeutics for USD 24 million, representing an implied equity value of USD 48 million for the specialty pharmaceutical company engaged in the acquisition, development and commercialisation of branded and generic pharmaceuticals for the US respiratory market. Under the terms of the transaction, Chiesi was issued 11.9 million shares in Cornerstone Therapeutics and acquired an additional 1.6 million shares for USD 5.50 per share (representing a discount of 11% to the VWAP of Cornerstone Therapeutics over the 10 days prior to the announcement of the transaction). As part of the transaction, Chiesi gave Cornerstone Therapeutics a 10 year licence to the rights of Chiesi's Curosurf product, a natural lung surfactant drug.

Genentech Incorporated

Roche acquired the remaining 44.2% interest in Genentech Incorporated (Genentech) it did not already own on 12 March 2009, after two previous offers in July 2008 and January 2009. Roche paid USD 95 per Genentech share representing total consideration of approximately USD 44.1 billion for the 44.2% of fully diluted share capital it did not already own. After net debt, the implied enterprise value of Genentech was USD 98.9 billion. Genentech's activities included the discovery, development and manufacture of bio-therapeutic medicines to treat patients with serious medical conditions in oncology, immunology, ophthalmology, metabolism and other areas.

Sciele Pharma Incorporated

On 9 October 2008, Shionogi & Company Limited (Shionogi), a Japan-based company, acquired US-based Sciele Pharma Incorporated for USD 31 per share, implying an equity value of USD 981 million and an enterprise value of USD 1.1 billion after net debt. According to Shionogi, the acquisition of the company will allow Shionogi to strengthen its sales infrastructure and further establish itself in the US.

Orphan

In December 2007, Sigma announced it was to acquire Orphan Holdings Pty Limited, a privately owned, Australian-based, specialty pharmaceutical company engaged in the licensing and marketing of specialist pharmaceutical products to treat serious diseases where treatment options are limited or inadequate. Sigma paid approximately $130 million to acquire the company.

Adams Respiratory Therapeutics Incorporated

In December 2007, Reckitt Benckiser plc announced it had agreed to acquire Adams Respiratory Therapeutics Incorporated (Adams Respiratory) for cash consideration of USD 2.3 billion. After net cash of USD 80 million, the implied enterprise value of Adams Respiratory was approximately USD 2.2 billion. Adams Respiratory operated as a specialty pharmaceutical company, engaging in the development, commercialisation and marketing of OTC and ethical drugs for the treatment of respiratory disorders. Distribution channels included drug wholesalers, retail pharmacies and grocery stores in the US.

Bradley Pharmaceuticals Incorporated

On 21 February 2008, Nycomed US Incorporated acquired US-based Bradley Pharmaceuticals Incorporated (Bradley) for USD 339 million, implying an enterprise value of USD 361 million for Bradley after net debt. Bradley, a specialty pharmaceutical company, developed and marketed ethical and OTC products for therapeutic markets, including dermatology, podiatry, gastroenterology and women's health markets.

Medpointe Incorporated

On 22 August 2007, Meda AB acquired Medpointe Incorporated (Medpointe) on a debt-free basis for a combined cash and share consideration of approximately USD 793 million, according to company announcements. According to Meda AB, the acquisition of the US-based speciality pharmaceutical company was in line with its marketing and product pipeline strategy and would provide a strong market in the US and Europe.

Herron

Sigma (prior to its merger with Arrow) acquired Herron, including 38 Chemists' Own products, for a cash and stock consideration of $123 million. Sigma issued 2 million shares at $4.60 per Sigma share, based on Sigma's closing price as at 12 April 2003 and paid the balance of the consideration of $113.8 million in cash. According to Sigma, the acquisition was in line with its long term strategy to expand its pharmaceutical business on a domestic and international basis and increase the scale of its manufacturing operations.

OSI Pharmaceuticals Incorporated

Astellas Pharma Incorporated, a Japan-based company, acquired OSI Pharmaceuticals Incorporated (OSI Pharmaceuticals) for USD 52 per share, implying an equity value of USD 3.4 billion and an enterprise value of USD 3.2 billion after net debt. OSI Pharmaceuticals was a US-based company primarily focused on the discovery, development and commercialisation of molecular targeted therapies addressing unmet medical needs in oncology, diabetes and obesity.

Curagen Corporation

On 1 October 2009, Celldex Therapeutics Incorporated acquired 100% of Curagen Corporation (Curagen), a clinical-stage biopharmaceutical company engaged in the development of approaches for the treatment of cancer, for cash consideration of USD 94.5 million. After net cash of USD 53.5 million, the implied enterprise value of Curagen was USD 41 million.

Millennium Pharmaceuticals Incorporated

Millennium Pharmaceuticals Incorporated (Millennium Pharmaceuticals), a US-based company focused on discovering, developing and commercialising medicines for cancer, inflammatory bowel diseases and other inflammatory diseases was acquired by Takeda Pharmaceuticals Company Limited, a Japan-based company, for USD 25 per Millennium Pharmaceuticals share, or an implied equity value of USD 8.1 billion. After net cash of USD 462.6 million, the implied enterprise value for the company was USD 7.7 billion.

MedImmune LLC

UK-based AstraZeneca Plc acquired MedImmune LLC (MedImmune) on 31 May 2007 for cash consideration of USD 58 representing an implied enterprise value of USD 14.1 billion. MedImmune, a biotechnology company, is focused on the therapeutic areas of infectious disease, cancer and inflammatory disease.

Patheon Incorporated (transaction announced on 11 March 2009)

Through its asset holding vehicle, JLL Patheon Holdings LLC, private equity firm JLL Partners made an unsolicited offer to acquire the remaining 26.2% interest in Patheon Incorporated (Patheon) it did not already own as at 11 March 2009 (excluding the shares associated with its convertible preferred shareholding, discussed below). JLL Partners paid USD 2 per Patheon share, implying an equity value of USD 258.3 million and an enterprise value of USD 464.1 million for Patheon after net debt. Patheon's operations consisted of contract drug development and manufacturing services to pharmaceutical and biotechnology companies primarily in the US.

Lipa

Hong Kong-based CK Life Sciences International Incorporated acquired Lipa, the Australian contract drug manufacturer, for $0.95 per Lipa share on 7 November 2007. After net debt of $22.5 million, the implied enterprise value of Lipa was $113.3 million.

Patheon (transaction announced on 2 March 2007)

On 29 July 2009, JLL Partners acquired a 29.4% stake in Patheon after converting all of its convertible preferred shares, which the private equity firm's acquiring fund purchased on 27 April 2007 for USD 150 million. Further details of the transaction were not disclosed.

Appendix 4: Control premium studies

Deloitte study

We conducted a study of premiums paid in Australian transactions completed between 1 January 2000 and 19 November 2010. This study was conducted by Deloitte staff for internal research purposes. Our merger and acquisition data was sourced from Bloomberg, Capital IQ and Mergermarket and yielded 581 transactions that were completed during the period under review.

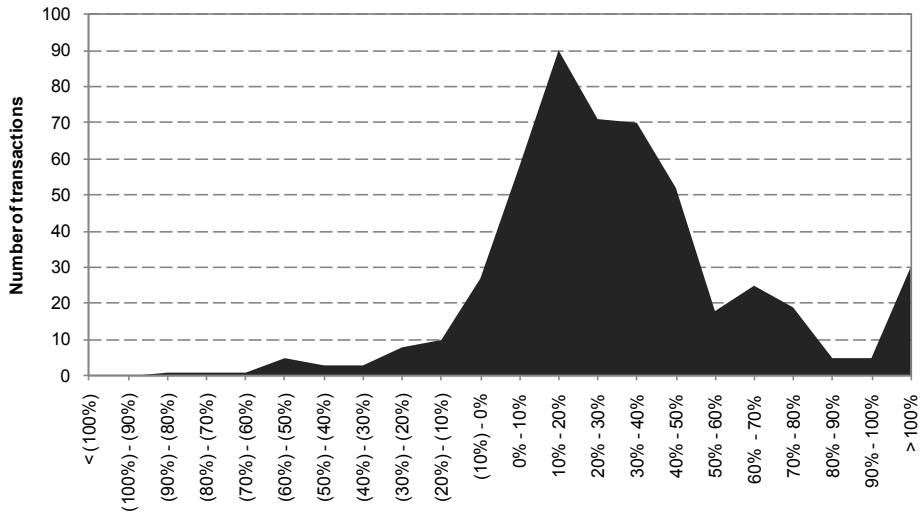
We excluded 79 transactions from our analysis where there was insufficient data. As a result, our data set was refined to 502 transactions where an acquiring company increased its shareholding in a target company from a minority interest to a majority stake or acquired a majority stake in the target company.

We assessed the premiums by comparing the offer price to the closing trading price of the target company one month prior to the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

Summary of findings

As the following figure shows, premiums paid in Australian transactions between 1 January 2000 and 19 November 2010 are widely distributed with a long 'tail' of transactions with high premiums.

Figure 11: Distribution of data



Source: Deloitte analysis

The following table details our findings.

Table 16: Premium analysis - findings

	Control premium
Average	32%
Median	26%
Upper quartile	44%
Lower quartile	11%

Source: Deloitte analysis

Notwithstanding the relatively wide dispersion of control premiums observed in our study we consider the control premium range of 20% to 40% to be representative of general market practice for the following reasons.

Many of the observed control premiums below 20% are likely to have been instances where the market has either been provided with information or anticipated a takeover offer in advance of the offer being announced. Accordingly, the pre-bid share trading price may already reflect some price appreciation in advance of a bid being received, which creates a downward bias on some of the observed control premiums in our study.

Many of the observed control premiums above 40% are likely to have been influenced by the following factors which create an upward bias on some of the observed control premiums in our study:

- some acquirers are prepared to pay above fair market value to realise 'special purchaser' value which is only available to a very few buyers. Such 'special purchaser' value would include the ability to access very high levels of synergistic benefits in the form of cost and revenue synergies or the ability to gain a significant strategic benefit
- abnormally high control premiums are often paid in contested takeovers where there are multiple bidders for a target company. In such cases, bidders may be prepared to pay away a greater proportion of their synergy benefits from a transaction than in a non-contested situation
- some of the observations of very high premiums are for relatively small listed companies where there is typically less trading liquidity in their shares and they are not closely followed by major broking analysts. In such situations, the traded price is more likely to trade at a deeper discount to fair market value on a control basis.

Accordingly, the observed control premiums to share trading prices for such stocks will tend to be higher.

Other studies

In addition to the study above, we have also had regard to the following:

- a study conducted by S.Rossi and P.Volpin of London Business School dated September 2003, 'Cross Country Determinants of Mergers and Acquisitions', on acquisitions of a control block of shares for listed companies in Australia announced and completed from 1990 to 2002. This study included 212 transactions over this period and indicated a mean control premium of 29.5% using the bid price of the target four weeks prior to the announcement
- 'Valuation of Businesses, Shares and Equity' (4th edition, 2003) by W.Lonergan states at pages 55-56 that: *"Experience indicates that the minimum premium that has to be paid to mount a successful takeover bid was generally in the order of at least 25 to 40 per cent above the market*

price prior to the announcement of an offer in the 1980s and early 1990s. Since then takeover premiums appear to have fallen slightly."

- a study conducted by P.Brown and R.da Silva dated 1997, 'Takeovers: Who wins?', JASSA: The Journal of the Securities Institute of Australia, v4(Summer):2-5. The study found that the average control premium paid in Australian takeovers was 29.7% between the period January 1974 and June 1985. For the ten year period to November 1995, the study found the average control premium declined to 19.7%.

Appendix 5: Sources of information

In preparing this report we have had access to the following principal sources of information:

- annual reports for Sigma for the years ended 31 January 2009 and 31 January 2010
- management accounts for Sigma for the years ended 31 January 2009 and 31 January 2010 and for the year to date period to 31 October 2010
- financial model prepared by Sigma management
- Sigma's business plan
- Australian Pharmaceuticals & Healthcare Report Q3 2009
- IBISWorld company report – 'Sigma Pharmaceuticals Limited' (January 2009)
- IBISWorld industry report - 'Pharmaceuticals Wholesaling in Australia' (June 2010)
- IBISWorld industry report - 'Pharmaceutical Manufacturing in Australia' (June 2010)
- IBISWorld industry report - 'Pharmacies in Australia' (July 2010)
- Memorandum of Understanding between Medicines Australia and the Commonwealth of Australia (6 May 2010)
- The Fifth Community Pharmacy Agreement between the Commonwealth of Australia and the Pharmacy Guild of Australia (3 May 2010)
- draft EM and NOM prepared by Sigma in relation to the Proposed Transaction
- executed PMSA
- executed restructure deed
- executed share sale agreement
- executed Supply Agreement
- executed TSA
- annual report for Aspen for the years ended 30 June 2009 and 30 June 2010
- annual reports for comparable companies
- company websites for Sigma, Aspen and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Thomson research, ThomsonReuters, SDC Platinum and Mergermarket
- other publicly available information, media releases and brokers' reports on Sigma, Aspen and the pharmaceutical industry.

In addition, we have had discussions and correspondence with certain directors and executives, of Sigma in relation to current operations and prospects of the Sigma.

Appendix 6: Qualifications, declarations and consents

The report has been prepared at the request of the Directors of Sigma and is to be included in the EM which will accompany the NOM which will be sent to Shareholders for approval of the Proposed Transaction at the EGM. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the EM which will accompany the NOM in their assessment of the Proposed Transaction outlined in the report and should not be used for any other purpose.

We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Transaction. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the APESB.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Transaction is fair and reasonable.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by Sigma and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Sigma management for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by Sigma and its officers, employees, agents or advisors, Sigma has agreed that it will not make any claim against Deloitte to recover any loss or damage which Sigma may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by Sigma and its officers, employees, agents or advisors or the failure by Sigma and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Transaction.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of Sigma personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued by the AUASB or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for Sigma included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of Sigma referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services Licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Stephen Reid, M App. Fin. Inv., B.Ec, F Fin, CA, Stephen Ferris, B.Ec, F.Fin, CA and Jennifer Liu, B.Com (Hons), CFA. Stephen Reid and Stephen Ferris are Directors of Deloitte. Each has many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of $250,000 exclusive of GST and disbursements in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Transaction. The following represents a summary of work performed by Deloitte and Deloitte Touche Tohmatsu (and other entities related to Deloitte Touche Tohmatsu in Australia) over the past two years:

- Sigma – a range of taxation advisory, forensic, corporate reorganisation, risk management and consulting services
- Aspen – taxation advisory services.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 550 Bourke Street, Melbourne VIC 3000 acknowledges that:

- Sigma proposes to issue an EM which will accompany the NOM to Shareholders in respect of the Proposed Transaction
- the EM which will accompany the NOM will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft EM and NOM for review
- it is named in the EM which will accompany the NOM as the 'independent expert' and the EM includes its independent expert's report in Annexure A of the EM.

On the basis that the EM which will accompany the NOM is consistent in all material respects with the draft EM and NOM received, Deloitte Corporate Finance Pty Limited consents to it being named in the EM which will accompany the NOM in the form and context in which it is so named, to the inclusion of its independent expert's report in Annexure A of the EM which will accompany the NOM and to all references to its independent expert's report in the form and context in which they are included, whether the EM which will accompany the NOM is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the EM which will accompany the NOM and takes no responsibility for any part of the EM or NOM, other than any references to its name and the independent expert's report as included in Annexure A of the EM which will accompany the NOM.

Attachment A – Independent Expert's Report

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Website

To view annual reports, shareholder and company information, news announcements, information on the business of Sigma and other historical information, visit the ASX website. Some announcements can also be found on Sigma's website at www.sigmaco.com.au.