

Leadership & Direction

The recapitalization of Patheon is behind us, Puerto Rico is being addressed and we are divesting non-strategic operations. Patheon is moving in the right direction and we have appointed a new CEO – a proven pharmaceutical executive with the knowledge and experience to lead Patheon forward in a new era of growth.

New directions in 2007

From the Board's perspective, the immediate priority at the outset of 2007 was to establish a strong financial foundation for Patheon, enabling the Company to move forward with certainty and confidence to grow and enhance shareholder value. In March, Patheon announced an investment of US\$150 million in convertible preferred shares by JLL Partners of New York, which was approved by shareholders in April. Concurrently, the balance of the North American and U.K. credit facilities were refinanced through new credit arrangements with J.P. Morgan Securities Inc. and GE Commercial Finance.

This recapitalization achieved several goals. First, the Company gained the capital and financial stability essential to Patheon's future success. Second, we achieved the benefits of working with JLL Partners – experienced, long-term investors with considerable knowledge of the global healthcare industry who are making an ongoing contribution to the direction of Patheon through participation on the Board.

With financial restructuring behind us, the Board moved decisively to support management's priorities to position Patheon for sustainable and profitable growth.

These included developing a plan to restore profitability in Puerto Rico, focusing the overall business on higher-margin services, and enhancing performance at all operations. In addition, as we saw operating performance improve, we looked to establish new long-term direction and leadership to realize our vision of global leadership and unlock the new opportunities that we see.

Addressing the challenges in Puerto Rico

In addition to capital restructuring, the most pressing challenges last year for Patheon related to continued losses at our three sites in Puerto Rico. We appointed new senior management in Puerto Rico earlier this year and, more recently, completed a comprehensive review and longer-term business plan for the Puerto Rico operations. As announced in December, we have decided to sell the Carolina site while streamlining the Caguas and Manati facilities. Our Puerto Rico operations are stabilizing and, with the sale of the Carolina facility, we expect improved results next year.

Focusing our business

In April 2007, we announced a major initiative to focus Patheon's capital and resources on the development and manufacture of prescription pharmaceutical products, which represent higher-margin revenues, while also improving profitability. We divested our Niagara-Burlington Operations, which manufacture over-the-counter pharmaceutical products, in a transaction that was completed on January 31, 2008. To further improve capacity utilization, we are transferring production from our York Mills site in Toronto to our site in Whitby, Ontario, and have entered into an agreement to sell the York Mills facility.

Improving operating performance

During fiscal 2007, our other operations in Canada, Europe and Cincinnati continued to perform well, achieving an EBITDA before repositioning margin of more than 18% – a considerable improvement over the performance of the past few years.

New leadership

While working with management to address the challenges and improve profitability, the Board also took the longer-term view. We determined that a new start for Patheon and a positive new direction would be best served by new leadership. The Board launched a search for a permanent CEO, identifying and appointing a leading pharmaceutical executive to move Patheon forward.

In Wes Wheeler, we have found a leader with in-depth knowledge of the pharma industry and a breadth of experience in manufacturing, research and development and marketing. We also are very pleased that there has been a positive and seamless transition of leadership from Riccardo Trecroce, who guided Patheon so well through the recapitalization and restructuring process in a watershed year.

Confidence in the future

Patheon has emerged from the uncertainty and challenges of fiscal 2007 as a focused and strong contender with a clear vision. We believe the course we have established in Puerto Rico will address our major challenges and enable these operations to make a positive contribution to our results. Patheon is well equipped, with an engaged and experienced Board, strong new leadership, and a host of opportunities. We have every confidence in the future of Patheon.

(signed)

Peter A.W. Green
Chairman, Board of Directors

