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PATHEON UK LIMITED

Report and Financial Statements

31 October 2012

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COMPANIES HOUSE

Patheon UK Limited

Registered No 3764421

COMPANY INFORMATION

DIRECTORS

A Mancuso
I Jones
M Lytton
J Mullen

SECRETARY

M Quinn (resigned 28 August 2012)

AUDITORS

Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

BANKERS

Barclays
4th Floor
Apex Plaza
Forbury Road
Reading
RG1 1AX

SOLICITORS

Macfarlanes
20 Cursitor Street
London
EC4A 1LT

REGISTERED OFFICE

Kingfisher Drive
Covington
Swindon
Wiltshire
SN3 5BZ

Patheon UK Limited

Registered No. 3764421

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 October 2012

RESULTS AND DIVIDENDS

The loss for the year, after taxation, is £36,998,000 (2011 profit £17,414,000) There was no preference dividend paid during the year (2011 £120,000)

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company is one of providing commercial manufacturing and development services for prescription and over-the-counter drugs to the international pharmaceutical and biotechnology industry

REVIEW OF THE BUSINESS

Patheon announced in April 2012 that it would be phasing out operations within the Non-Cephs and PDS Swindon division over a period of the next two to three years Commercial operation will continue in the Non-Cephs area to support client contracts through to 2018 The PDS facility in Milton Park will continue to operate post the phase down activity, providing product development services together with Phase I/II capability This phase down activity will however be offset by increased European activity quoted and contracted through the UK entity and subcontracted within the company's European network

During the year the company has completed the process of transferring its Zug, Switzerland European headquarters operations to Patheon UK Ltd The new business quotes team for both Commercial and PDS are now established within Patheon UK Ltd All contracts with clients for new and some existing clients have been transferred to Patheon UK Ltd under contract re-assignment rules This will strengthen the financial position of the site through FY13 and beyond as this business expands

The Company during the year has continued to implement a lean manufacturing program this program involves the identification of various Operational Efficiency (OE) programs These programs are then rolled out through the company structures into "Mini-T's" and procurement activities These activities are corporately sponsored and reported monthly as part of the sites global reporting

The company's key financial and other performance indicators during the year were as follows -

	2012 £'000	2011 £'000	Change %
Turnover	69,479	76,508	-9%
Total operating profit/ (loss)	(1,005)	21,574	-105%
Shareholders' funds	(4,794)	31,014	-115%
Current assets as % of current liabilities	122%	125%	-3%
Average number of employees	537	603	-11%

Turnover decreased by 9% during the year The continued transfer of the European headquarter operations contributed an additional £27,193,000 compared to the prior year Contract manufacturing services (CMS) revenue decreased by £34,034,000 due to release of deferred contract revenue in the prior year, while Pharmaceutical Development Services (PDS) revenue decreased by £188,000

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DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS (continued)

Operating profit decreased by £22,579,000 during the year to an overall loss of £1,005,000. This decrease was mainly due to increased material costs and also the release of deferred contract revenue in the prior year which has no equivalent release in the current year. Increased material costs of £21,355,000 were incurred in relation to the revenues earned where management have now subcontracted the manufacture to other European Patheon entities.

Profit for the financial year decreased by £54,412,000 with exceptional non-operating items of £38,151,000 relating to asset impairments, write back of negative goodwill and restructuring costs. The tax charge also increased by £9,309,000 relative to the prior year.

Shareholders' funds have decreased by 115% as a result of the exceptional non-operating items relating to impairment of assets and restructuring costs.

The company's current asset to liability ratio has decreased by 3% in comparison to prior year with net current assets increasing by £7,166,000. Current liabilities have increased by £6,252,000 with amounts owed to group undertakings increasing by £6,593,000 due to the European headquarter operations activity.

The total number of employees during the year decreased by 11%.

FUTURE DEVELOPMENTS

Commercial revenue will increase vs FY12 driven by client stock build activity through FY13 together with a number of client product launches. The underlying production revenue is expected to increase year on year by approx 11% due to planned client repatriation programs. The revenue is expected to be stable through to the end of financial year 2014. During the next year the site will be supporting its clients to launch a number of new commercial products this equating to approx £2.7m in FY13. Patheon UK Ltd will continue to assist client programs through the 'Phase Down' period.

The Pharmaceutical Development Services division is split into two facilities. The Swindon facility will be phasing out operation through FY14 in line with the Commercial operations. The site forecast through this period will see revenue decline as services are completed or transferred within the Patheon network. Revenue is expected to decline in the Swindon facility by approx 38% in FY13.

The Pharmaceutical Development Services division at the Milton Park facility will continue to operate and offer product development services together with Phase I/II capabilities. General investment in the facility will support the growth in revenue and site capabilities. Revenue growth together with the transfer of projects from the Swindon facility could see uplift in revenue of 47% through FY15.

The company has a clearly stated policy for caring and protecting the environment, with regular audits and continuous monitoring of its activities to ensure best practices are employed for effective environmental protection. In addition to any site policies the company is also driven by corporate policies to continuously improve its waste generation and management. Patheon, as a whole, takes very seriously its responsibilities with regards being a good corporate citizen and neighbour.

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DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the company are broadly grouped as competitive, legislative, foreign exchange rates, going concern, R&D, economic and other financial risks

• Competitive risks

Client strategies and market trends - As a contract manufacturer and provider of outsourced services to the global pharmaceutical market, Patheon is dependent on our clients outsourcing strategies on global industry trends. Any changes in our client's strategy or changes in global trends regarding outsourcing may have an impact on our activities. These risks are minimised by the Group through development of strategic partnerships with key clients and acquiring niche capabilities.

Competition – within the current competitive global market, we are encountering competition from existing or new entrants in the market. The risk of not remaining competitive is minimised (but not eliminated) through our strategic focus on competitive advantage through capabilities, service and efficiency.

• Legislative/regulatory risks

Currently the company is regulated by various national regulatory bodies, with the main ones being Medical Healthcare Regulatory Agency (MHRA) in UK and Food and Drug Administration (FDA) in the USA. Regulatory changes may raise risks as to Patheon's abilities to service these markets, either impacting the company's capabilities or impacting indirectly through changes to the client's product requirements. Patheon are upgrading capabilities and systems continuously to ensure they meet all current and reasonably foreseen regulatory changes.

• Foreign currency exposure

Due to the global nature of the revenues, the company is exposed to financial foreign exchange risk, mainly for its USD and Euro denominated revenues. There are no currency hedges or other financial instruments in place at a company level to protect against exchange rates variations. Such risks are managed by the group's treasury function at a corporate level.

• Going concern

The company has considered financial resources together with long term contracts with a number of customers and suppliers across different geographic areas. As a consequence the directors believe the company is well placed to manage its business risks successfully despite the current economic outlook.

After making enquiries and reviewing the long range projected results for contracts the directors have a reasonable expectation that the company have adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

A parental support letter is also in place covering a period of 12 months from the date of signing the statutory accounts. This letter covers the provision of financial support by Patheon Inc to meet liabilities as they fall due, but only to the extent that money is not otherwise available.

• Research and development

The company undertakes R&D activities on behalf of its clients as part of the range of services offered through its Pharmaceutical Development Services Business Unit (PDS). These do not include any animal testing activities. The services are on a 'fee for service' basis and billed on completion of agreed milestones. The company does not enter into risk sharing deals with the clients based on the success of client products, therefore the risks are minimised to collection of fees only.

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DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

- *Economic risks*

Through the normal course of its activities, the company has exposure to economic risks specifically interest rates. The company borrowings are mainly with its parent company where it pays a variable interest rate.

- *Other financial risks*

Product and services price risks are limited through structured contracts which are based on firm pricing, usually with mechanisms for annual price increases relating to component and/or index-linked increases. The majority of revenues are through long term contracts with large pharmaceutical companies that have a high quality credit score. For smaller clients, usually using the PDS services, Patheon charge a security deposit and structure the contracts for billing on frequent milestones, therefore minimising our exposure for collecting debt.

The cash flow and liquidity is currently dependent on support from the parent company via intercompany loans.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

EMPLOYEE INVOLVEMENT

The company has adopted the policy of providing employees with information including a quarterly newsletter and employee meetings are conducted through monthly sessions. In addition, regular focus group sessions are conducted between management and employees to allow for a free flow of information and ideas as well as regular meetings of the Company Consultative Group (which is an employee/employer information sharing forum). A discretionary bonus scheme for all employees is in operation that is linked to the financial performance of the company.

DIRECTORS

The directors who served during the year were as follows

A Mancuso

I Jones

M Lytton

E Evans (resigned 21 December 2011)

J Mullen

A Kelley (appointed 21 December 2011, resigned 29 June 2012)

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DIRECTORS' REPORT (continued)

DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquires of fellow directors and of the company's auditors, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

RE-APPOINTMENT OF AUDITORS

Under s487(2) of the Companies' Act 2006, Ernst & Young will be deemed to be re-appointed as auditors, unless the members resolve not to re-appoint in accordance with s488 of the Companies' Act 2006.

On behalf of the Board



Ian Jones

Director

Date 28/5/13

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED

We have audited the financial statements of Patheon UK Limited for the year ended 31 October 2012 which comprise Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Responsibilities Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications of our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Ernst & Young LLP

Jane Barwell (Senior statutory auditor)
for and on behalf of Ernst & Young LLP (Statutory Auditor)
Bristol

Date *28 May 2013*

Patheon UK Limited

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PROFIT AND LOSS ACCOUNT
for the year ended 31 October 2012

	<i>Notes</i>	<i>2012</i> <i>£'000</i>	<i>2011</i> <i>£'000</i>
TURNOVER continuing operations	2	69,479	76,508
Raw materials, consumables and change in work in progress		(33,672)	(11,878)
Staff costs	5	(19,089)	(23,712)
Depreciation and amortisation	3	(2,299)	(4,471)
Other operating charges		(15,424)	(14,873)
OPERATING (LOSS)/PROFIT continuing operations	3	(1,005)	21,574
Non-operating exceptional items	6	(38,151)	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES		(39,156)	21,574
Before investment income, interest and taxation			
Interest receivable and other income	7	408	3,414
Interest payable and similar charges	8	(589)	(604)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(39,337)	24,384
Tax on (loss)/profit on ordinary activities	9	2,339	(6,970)
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(36,998)	17,414

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 October 2012

	<i>2012</i> <i>£'000</i>	<i>2011</i> <i>£'000</i>
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	(36,998)	17,414
Actuarial gain/(loss) recognised in the pension scheme	1,190	(5,717)
Deferred tax recognised on the pension scheme	-	1,534
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	(35,808)	13,231

Patheon UK Limited

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BALANCE SHEET

as at 31 October 2012

	Notes	2012 £'000	2011 £'000
FIXED ASSETS			
Investments	11	-	-
Intangible assets	12	-	(9,187)
Tangible assets	13	5,771	52,818
		<u>5,771</u>	<u>43,631</u>
CURRENT ASSETS			
Stocks	14	6,101	5,934
Deferred taxation	19	1,868	-
Debtors	15	17,577	13,759
Cash		5,111	3,798
		<u>30,657</u>	<u>23,491</u>
CREDITORS amounts falling due within one year	16	(25,111)	(18,859)
NET CURRENT ASSETS		<u>5,546</u>	<u>4,632</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,317</u>	<u>48,263</u>
CREDITORS amounts falling due after more than one year			
Bank and other loans	17	(11,294)	(5,675)
Long term deferred revenue	18	(1,066)	(202)
		<u>(12,360)</u>	<u>(5,877)</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	19	-	(2,633)
NET (LIABILITIES)/ASSETS EXCLUDING PENSION LIABILITY		<u>(1,043)</u>	<u>39,753</u>
Pension liability	23	(3,751)	(8,739)
NET (LIABILITIES)/ASSETS		<u><u>(4,794)</u></u>	<u><u>31,014</u></u>
CAPITAL AND RESERVES			
Called-up share capital	20	2,100	2,100
Other reserves	21	26,520	26,520
Profit and loss account	21	(33,414)	2,394
SHAREHOLDERS (DEFICIT)/FUNDS		<u><u>(4,794)</u></u>	<u><u>31,014</u></u>

Approved by the Board



Ian Jones
Director

Date 28/11/13

Patheon UK Limited

Registered No 3764421

NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2012

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The financial statements present information about the company as an individual undertaking and not about its group. The company has taken advantage of the exemption from preparing consolidated accounts by virtue of section 401 of the Companies Act 2006, as during the year it was a wholly owned subsidiary of Patheon Inc, which prepares consolidated accounts which are publicly available

Going Concern

The financial statements have been prepared on a going concern basis. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The ultimate parent company has confirmed to the directors that adequate financial support will continue to be made available to enable the company to meet its liabilities as they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

Revenue recognition

Revenue is recognised when services are completed in accordance with specific agreements with clients and when all costs connected with these services have been incurred, the price is fixed and determinable and collectability is reasonably assured.

For pharmaceutical development services, revenue is recognised on the achievement of specific milestones in accordance with the relevant service contracts. Client deposits on pharmaceutical development services in progress are included in accounts payable and accrued liabilities.

For commercial manufacturing services, revenue is recognised when services are complete and the risks and rewards of ownership of the goods have passed to the buyer.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Buildings – Freehold	-	40 years
Buildings – Short leasehold	-	the lower of 20 years and the life of the lease
Computer hardware	-	4 years
Computer software	-	3 years
Plant and equipment	-	15 years
Laboratory equipment	-	5 years
Furniture and fittings	-	10 years
Change parts	-	5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For buildings impaired in the year, the remaining book value is being depreciated over the remaining estimated useful economic life of 6 years from the balance sheet date.

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NOTES TO THE FINANCIAL STATEMENTS
as at 31 October 2012

1. ACCOUNTING POLICIES (continued)

Goodwill

Goodwill is the difference between the consideration paid for the acquired entity and the aggregated amount of the fair value of that entity's identifiable assets and liabilities. Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the period in which the non-monetary assets are recovered, whether through depreciation or sale.

Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Cost includes all costs incurred in bringing each product to its present location and condition as follows:

- | | |
|--|---|
| Raw materials, consumables and goods for re-sale | - purchase cost on a first in first out basis |
| Work in progress and finished goods | - cost of direct materials and labour plus attributable overheads based on a normal level of activity |

Taxation

The tax charge / credit is calculated based on the results for the year.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All exchange differences are taken to the profit and loss account.

Operating and finance leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Cash flow statement

The company has adopted the exemption provisions under FRS1 (Revised) and has not prepared a cash flow statement, as the company is wholly owned subsidiary of Patheon Inc, within whose consolidated cash flow statement the cash flows of the company are included.

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NOTES TO THE FINANCIAL STATEMENTS as at 31 October 2012

1. ACCOUNTING POLICIES (continued)

Pension costs

The Patheon UK Pension Plan scheme is a defined benefit scheme which was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. A bulk transfer of assets from the Hoechst Marion Roussel scheme to the Patheon UK Scheme to cover pension liabilities associated with the past service to the date of acquisition of members transferring to the new scheme occurred in the financial year ended 31 October 2006. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are valued at market value at the balance sheet date.

The Pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to the defined benefit liability, to the extent recognised, is set off against the defined benefit liability and not included within other deferred tax assets or liabilities.

Increases in the present value of scheme liabilities expected to arise from employee service in the period up until 31 January 2012 are charged to operating profit/loss. The expected return on scheme assets less the increase in the present value of liabilities arising from the passage of time is included in interest receivable and other income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The scheme was closed to future accrual with effect from 31 January 2012 and employees now participate in a defined contribution scheme. A curtailment event has taken place in 2012 and appropriate allowance has been made to account for this event.

Share based payments

Equity-settled transactions

Under FRS 20, the fair value of equity-settled share option transactions are determined at the date of the grant using an appropriate pricing model. At each balance sheet date before vesting, the cumulative expense is calculated. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Cash-settled transactions

Under FRS 20, the fair value of cash-settled restricted share unit (RSU's) transactions are established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

During the year 50,000 new share options in the company's ultimate parent undertaking were granted to company employees or directors. However as the number of unvested share options and RSU's under FRS20 at the balance sheet date are 83,316 and Nil respectively, the directors consider the related FRS 20 fair values to be expensed over the vesting period are not material and have therefore excluded further disclosures from the financial statements.

Research and Development

Research and development activities are carried out through clinical research phases 1, 2 and 3. All research is carried out on behalf of customers, and is expensed through the profit and loss account as incurred.

Segmental Analysis

Patheon UK Limited operates in competitive international markets and information on competitor activity is not available. In the opinion of the directors, disclosure of the information required by the Companies Act 2006 and SSAP 25 would be seriously prejudicial to the interests of the company.

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NOTES TO THE FINANCIAL STATEMENTS as at 31 October 2012

2. TURNOVER

Turnover, which is stated net of value added tax, represents revenue recognised from the provision of services which fall within the company's continuing ordinary activities

The analysis by geographic market is as follows

	2012 £'000	2011 £'000
United Kingdom	4,249	3,121
Europe	25,069	20,928
USA	28,950	9,259
Rest of World	11,211	43,200
	<u>69,479</u>	<u>76,508</u>

3. OPERATING (LOSS)/PROFIT

This is stated after charging/ (crediting)

	2012 £'000	2011 £'000
Depreciation of owned fixed assets	2,639	5,157
Amortisation of negative goodwill	(340)	(686)
Depreciation and amortisation	<u>2,299</u>	<u>4,471</u>
Auditors' remuneration - audit of the financial statements	52	64
- tax	19	14
- other services	2	2
Operating lease rentals - land and buildings	137	127
- plant and machinery	411	408
Research and development expenditure	<u>6,331</u>	<u>7,045</u>

4. DIRECTORS' REMUNERATION

The directors did not receive any remuneration for their services during the year to 31 October 2012. None of the directors were members of the pension scheme.

Directors' remuneration has been borne by other group companies (Patheon Inc, Patheon Italia SpA). These directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 October 2011 and 31 October 2012.

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NOTES TO THE FINANCIAL STATEMENTS
as at 31 October 2012

5. STAFF COSTS

	2012	2011
	£'000	£'000
Wages and salaries	20,984	20,181
Social security costs	1,983	1,866
Other pension (gains)/ costs	(3,878)	1,665
	<u>19,089</u>	<u>23,712</u>

Other pension costs include a gain for curtailment which took place in the year of £5,000,000 as a result of the company closing the plan to future accrual with effect from 31 January 2012

The average monthly number of employees during the year was as follows

	2012	2011
	No	No
Production and service	330	361
Administration and other	207	242
	<u>537</u>	<u>603</u>

6. EXCEPTIONAL ITEMS

	2012	2011
	£'000	£'000
Fixed asset impairment	45,034	-
Negative goodwill written back	(8,847)	-
Restructuring costs	1,964	-
	<u>38,151</u>	<u>-</u>

The value of negative goodwill has been fully written back to profit and loss as a result of the assets to which it relates being fully impaired in the year (see Note 12)

7. INTEREST RECEIVABLE AND OTHER INCOME

	2012	2011
	£'000	£'000
Interest receivable on bank deposits	7	10
Interest on pension scheme liabilities	122	163
Gain on foreign exchange	279	271
Other income – insurance proceeds	-	2,970
	<u>408</u>	<u>3,414</u>

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8. INTEREST PAYABLE AND SIMILAR CHARGES

	2012	2011
	£'000	£'000
Interest payable to group undertakings	247	464
Bank loans and overdrafts	342	140
	<u>589</u>	<u>604</u>

9. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

	2012	2011
	£'000	£'000
Current tax		
UK corporation tax	-	-
Deferred tax	(2,339)	6,970
	<u>(2,339)</u>	<u>6,970</u>

Factors affecting current tax

The tax assessed on the profit/ (loss) on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 24.83% (2011: 26.83%). The differences are reconciled below

	2012	2011
	£'000	£'000
(Loss)/Profit on ordinary activities before tax	(39,337)	24,384
Profit on ordinary activities multiplied by standard rate of corporation tax in UK of 24.83/26.83%	<u>(9,767)</u>	<u>6,542</u>
<i>Effect of</i>		
Disallowed expenses and non-taxable income	1,501	13
Capital allowances in excess of depreciation	7,898	(131)
Other timing differences	88	229
Unrelieved tax losses	1,987	(6,270)
Pension provision	(1,707)	(383)
Total UK corporation tax	<u>-</u>	<u>-</u>

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9 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

	2012 £'000	2011 £'000
<i>Deferred tax</i>		
Prior year adjustment	(242)	145
(Decelerated)/accelerated capital allowances	(4,502)	131
(Increase)/decrease in tax losses	-	6,270
Other timing differences	81	(87)
Rate change	162	128
Pension provision	2,162	383
Total deferred tax	(2,339)	6,970

Factors that may affect future tax charges

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date

The Finance Act 2012, which includes a reduction in the UK corporate tax rate to 24% from April 2012 and 23% from April 2013, has now been enacted and so UK deferred tax assets and liabilities have been calculated accordingly at 23%

The UK government intends to reduce the UK corporate income tax rate further, to 21% by 1 April 2014 and 20% by 1 April 2015, which will be enacted in subsequent Finance Bills. Consequently, the Company will only recognise the impact of the rate change which is substantively enacted at that time in its financial statements. The further reduction in tax rate will affect both the future current and deferred tax charge of the Company. The impact of the proposed reductions from 23% to 20% would reduce the company's potential gross deferred tax asset from £8,828,728 to £7,677,156. The effect on the Company of these proposed changes to the UK tax system will be reflected in the company's financial statements in future years, as appropriate, once the proposals have been substantively enacted.

10. DIVIDENDS

	2012 £'000	2011 £'000
<i>Dividends on preference shares proposed and paid in the financial year</i>		
Interim dividend	-	60
Final dividend	-	60
	-	120

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11. INVESTMENTS

	<i>Shares in subsidiary</i>
	<i>£'000</i>
At 31 October 2011 and 2012	-

Name of subsidiary undertaking	Country of registration	Class of share capital held	Proportion held	Nature of business
Patheon UK Pension Trustees Limited	United Kingdom	Ordinary	100%	Dormant

12. INTANGIBLE ASSETS

	<i>Negative goodwill</i>
	<i>£'000</i>
<i>Cost</i>	
At 1 November 2011	(19,302)
At 31 October 2012	(19,302)
<i>Amortisation</i>	
At 1 November 2011	10,115
Written back during the year	340
Written back to recoverable amount	8,847
At 31 October 2012	19,302
<i>Net book value</i>	
31 October 2012	-
1 November 2011	(9,187)

Negative goodwill arising on the acquisition of the trade and assets of Hoechst Marion Roussel (HMR) Swindon is being written back to profit and loss in line with the period in which the non-monetary assets are recovered, whether through depreciation or sale

The value of negative goodwill has been fully written back as a result of the assets to which it relates being fully impaired in the year

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13. TANGIBLE FIXED ASSETS

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Fixtures and fittings</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Cost</i>				
At 1 November 2011	28,495	56,914	2,236	87,645
Additions	46	612	(17)	641
Disposals	-	(187)	-	(187)
At 31 October 2012	28,541	57,339	2,219	88,099
<i>Depreciation</i>				
At 1 November 2011	5,669	28,460	698	34,827
Provided during the year	418	2,086	135	2,639
Impairment charge in the year	20,265	23,782	988	45,035
Disposals	-	(173)	-	(173)
At 31 October 2012	26,352	54,155	1,821	82,328
<i>Net book value</i>				
At 31 October 2012	2,189	3,184	398	5,771
At 1 November 2011	22,826	28,454	1,538	52,818

In accordance with 'FRS 11 Impairment of Fixed Assets and Goodwill' the carrying values of the UK based assets in the Swindon based segments at 30 April 2012, have been compared to their recoverable amounts, represented by their value in use to the company

The value in use has been derived from discounted cash flow projections using a pre-tax discount rate of 7.4%. Cash flows have been projected over 6 years from the balance sheet date based on management's most recent business forecast

Land and buildings

The net book value of land and buildings include £1,785,000 of freehold land as at 31 October 2012 (2011 £1,762,000)

The net book value of buildings comprises

	<i>2012</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>
Freehold	255	20,832
Short leasehold	149	232
	404	21,064

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14. STOCKS

	2012	2011
	£'000	£'000
Raw materials	3,695	3,984
Engineering stores	1,015	1,021
Work in progress	574	307
Finished goods	817	622
	<u>6,101</u>	<u>5,934</u>

15. DEBTORS

	2012	2011
	£'000	£'000
Trade debtors	13,382	9,237
Amounts due from parent undertaking	1,605	1,499
Prepayments	762	687
Other debtors	1,592	1,682
Other taxes and social security costs	236	654
	<u>17,577</u>	<u>13,759</u>

16. CREDITORS: amounts falling due within one year

	2012	2011
	£'000	£'000
Trade creditors	3,675	4,158
Amounts due to group undertakings	12,912	6,319
Other taxes and social security costs	515	879
Accruals	6,740	6,761
Deferred income	1,269	742
	<u>25,111</u>	<u>18,859</u>

The company has a \$10m revolving credit facility in place with JP Morgan. This is secured over certain of the company assets. Additionally the letter of credit from JP Morgan also contains guarantees in favour of HMRC for £500,000 (2011 £500,000) and MEPC Milton Park Ltd for £250,000 (2011 £250,000). The total letter of credit is for £750,000 (2011 £750,000).

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17. BANK AND OTHER LOANS

	2012	2011
	£'000	£'000
Intercompany Loan (Patheon BV)	5,294	5,675
JP Morgan Drawdown	6,000	-
	<u>11,294</u>	<u>5,675</u>

The inter-company loan from Patheon BV has a maturity date of 31 October 2016 with interest payable at LIBO plus 3.68%. The JP Morgan loan is a current balance on a revolving credit facility and bears a variable rate of interest.

18. LONG TERM DEFERRED REVENUE

	2012	2011
	£'000	£'000
Contract advances	1,066	202
	<u>1,066</u>	<u>202</u>

19. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for deferred tax

	<i>Deferred tax asset</i>
	£'000
At 1 November 2011	1,197
Charged to the profit and loss account	2,339
As at 31 October 2012	<u>3,536</u>

The components of recognised and unrecognised deferred tax comprise

	<i>Recognised</i>	<i>Not recognised</i>	<i>Recognised</i>	<i>Not recognised</i>
	2012	2012	2011	2011
	£'000	£'000	£'000	£'000
Accelerated capital allowances	-	3,174	(4,704)	-
Available losses	1,868	1,841	1,990	-
Other timing differences	-	278	81	133
Total deferred tax assets	<u>1,868</u>	<u>5,293</u>	<u>(2,633)</u>	<u>133</u>

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19 PROVISIONS FOR LIABILITIES AND CHARGES (continued)

A deferred tax asset was first recognised in 2009 as the directors are reasonably certain that the losses will be utilised. The deferred tax asset in relation to the pension fund of £1,668,000 (2011: £3,830,000) has been offset against the pension liability as required by FRS17.

20 SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up And fully paid</i>	
	<i>2012 No</i>	<i>2011 No</i>	<i>2012 £'000</i>	<i>2011 £'000</i>
Ordinary shares of £1 each	2,000,000	2,000,000	100	100
6% preference shares of £1 each	8,000,000	8,000,000	2,000	2,000
Total	10,000,000	10,000,000	2,100	2,100

The preference shares were issued at par. They carry a dividend right of 6% per annum payable half yearly in April and October. If at the time the dividends become payable there are insufficient profits the dividend will cease to be due and payable. There are no specific repayment terms except on a winding up of the company where the preference shareholders have the right to receive, in preference to ordinary shareholders, £1 per share plus any accrued dividend. The preference shares carry voting rights at meetings of 1 vote per share whereas the ordinary shares carry 100 votes per share. As there is no foreseeable intention to redeem the preference shares they have been included as part of the equity of the company.

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share capital £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 31 October 2010	2,100	26,520	(10,717)	17,903
Actuarial gain on pension scheme	-	-	(5,717)	(5,717)
Profit for the year	-	-	17,414	17,414
Deferred tax recognised on pension scheme	-	-	1,534	1,534
Dividend paid	-	-	(120)	(120)
At 31 October 2011	2,100	26,520	2,394	31,014
Actuarial gain on pension scheme	-	-	1,190	1,190
(Loss) for the year	-	-	(36,998)	(36,998)
At 31 October 2012	2,100	26,520	(33,414)	(4,794)

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22. OTHER FINANCIAL COMMITMENTS

The company had annual commitments under operating leases as set out below

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
			<i>£'000</i>	<i>£'000</i>
<i>Operating leases which expire</i>				
- within one year	-	-	158	-
- in two to five years	138	138	238	433
	<u>138</u>	<u>138</u>	<u>396</u>	<u>433</u>

23. PENSIONS

The Patheon UK Pension Plan, a defined benefit scheme, was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. The valuation of the scheme for these financial statements has been based on the most recent full actuarial valuation as at 31 October 2012. Scheme assets are stated at their market values at the respective balance sheet dates.

The amount recognised in the Balance Sheet, Profit and Loss Account and in the Statement of Total Recognised Gains and Losses for the year are analysed as follows:

Amounts recognized in the balance sheet

	<i>2012</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>
<i>Scheme assets at fair value</i>		
Equities	10,557	19,071
Diversified target return funds	18,768	11,301
Bonds	8,993	3,178
Other	782	1,766
Total market value of assets	<u>39,100</u>	<u>35,316</u>
Actuarial present value of liabilities	<u>(44,519)</u>	<u>(47,885)</u>
Deficit in the scheme	<u>(5,419)</u>	<u>(12,569)</u>
Related deferred tax asset	1,668	3,830
Unrecognised liability	<u>-</u>	<u>-</u>
Recognised liability	<u>(3,751)</u>	<u>(8,739)</u>

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23. PENSIONS (continued)

Analysis of movement in deficit during the year	2012 £'000	2011 £'000
Deficit in scheme at beginning of the year	(12,569)	(11,030)
<i>Movement in year</i>		
Current service cost (<i>gross of member contributions, incl DIS premiums</i>)	(428)	(1,619)
Past service cost	(755)	-
Aggregate contributions paid	2,014	5,634
Other finance expense	122	163
Effects of any curtailments or settlements	5,007	-
Actuarial gain / (loss) recognised in STRGL	1,190	(5,717)
Deficit in scheme at end of the year	<u>(5,419)</u>	<u>(12,569)</u>
	2012 £'000	2011 £'000
<i>Amounts recognised in the profit and loss</i>		
Current service cost (inc DIS premiums)	456	1,679
Interest cost	2,225	2,170
Expected return on scheme assets	(2,347)	(2,333)
Past service cost	755	-
Effects of any curtailments or settlements	(5,007)	-
Total	<u>(3,918)</u>	<u>1,516</u>
	2012 £'000	2011 £'000
<i>Actual return on assets over the period</i>		
Actual return	<u>2,899</u>	<u>(246)</u>
	2012 £'000	2011 £'000
<i>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)</i>		
Asset gain	552	(2,580)
Liability gain	1,596	(896)
Changes in assumptions for the valuation of liabilities	(958)	(2,241)
Actuarial gain/ (loss) recognised in STRGL	<u>1,190</u>	<u>(5,717)</u>

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23 PENSIONS (continued)

<i>Principal actuarial assumptions at the balance sheet date:</i>	<i>2012</i>	<i>2011</i>
Discount rate	4.6%	4.9%
Price inflation (RPI)	2.7%	2.8%
Price inflation (CPI)	2.0%	2.3%
Rate of increase in salaries	N/A	3.8%
Rate of increase for pensions in payment		
In line with RPI capped at 5.0% p a	2.7%	2.8%
In line with RPI capped at 2.5% p a	2.0%	2.5%
Post retirement mortality (life expectancy)		
Current pensioners age 65 – males	22.2	22.1
Current pensioners age 65 – females	25.0	24.8
Future pensioners age 65 (currently age 45) – males	25.1	25.0
Future pensioners age 65 (currently age 45) – females	27.9	27.7
Expected return on assets		
Equities	6.6%	7.2%
Diversified target return funds	6.1%	6.7%
Bonds	4.6%	4.9%
Other	2.0%	2.0%

<i>Changes in the present value of scheme liabilities</i>	<i>2012</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>
Present value of scheme liabilities at the start of the period	47,885	40,881
Interest cost	2,225	2,170
Current service cost (excl DIS premiums)	428	1,619
Member contributions	170	692
DWP rebate	129	156
Actuarial gain/ (loss)	(638)	3,137
Effects of any curtailments or settlements	(5,007)	-
Past service cost	755	-
Benefits paid	(1,428)	(770)
Present value of scheme liabilities at the end of the period	<u>44,519</u>	<u>47,885</u>

<i>Changes in the market value of assets</i>	<i>2012</i>	<i>2011</i>
	<i>£'000</i>	<i>£'000</i>
Market value of assets at the start of the period	35,316	29,850
Expected return on scheme assets	2,347	2,333
Actuarial gain/ (loss)	552	(2,580)
Member contributions	170	693
DWP rebate	129	156
Employer contributions (excl DIS premiums)	2,014	5,634
Benefits paid	(1,428)	(770)
Market value of assets at the end of the period	<u>39,100</u>	<u>35,316</u>

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23. PENSIONS (continued)

<i>History of experience gains and losses</i>	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
<i>Difference between expected and actual return on scheme assets</i>					
Amount - gain/ (loss)	(552)	2,579	1,156	3,604	(9,697)
Percentage of scheme assets	(1%)	7%	4%	15%	(53%)
<i>Experience (losses)/gains arising on scheme liabilities</i>					
Amount - gain/ (loss)	1,596	(896)	1,949	-	(994)
Percentage of the present value of the scheme liabilities	4%	(2%)	6.5%	0%	(4%)
<i>Total actuarial (loss)/gain recognised in the statement of total Recognised gains and losses</i>					
Amount - gain/ (loss)	1,190	(5,717)	2,974	(7,792)	(4,665)
Percentage of the present value of the scheme liabilities	3%	(12%)	7%	(20%)	(19%)

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of £9,715,000 (2011 – net loss of £10,905,000). The company expects to pay approximately £2,250,000 into the pension scheme in the year ended 31 October 2013.

24. RELATED PARTY TRANSACTIONS

Patheon UK Limited, as a wholly owned subsidiary undertaking of Patheon Inc, has taken exemption from disclosing transactions with other wholly owned Patheon Inc subsidiaries available from the related party disclosure requirements of Financial Reporting Standard No. 8. There were no other related party transactions.

25. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the financial statements amounted to £0.9 million as at 31 October 2012 (2011, £0.3 million).

26. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Patheon B.V., a company incorporated in the Netherlands. The ultimate parent company is Patheon Inc, a company incorporated in Canada. The controlling party is JLL Partners, a private equity group based in the US. The smallest and largest group of which the company is a member and for which group financial statements are prepared is Patheon Inc. A copy of the group financial statements can be obtained from the headquarters at the following address -

Patheon Inc
PO Box 110145
Research Triangle Park,
NC 27709-5145