

## Pursuing our plan

In 2008, MDS made significant progress to build a stronger and more competitive business, better able to operate in dynamic global markets.

**Stephen P. DeFalco**  
President and Chief Executive Officer



When I became President and Chief Executive Officer in July 2005, MDS embarked on a journey to build a pure-play global life sciences company. We proceeded with resolve and took bold action to achieve our goal. We moved from being a company with six disparate businesses to one with three leading life sciences platforms. Most notably, we completed the largest divestiture in Company history with the sale of MDS Diagnostic Services in 2006, made the largest acquisition in 2007 with the purchase of Molecular Devices, and completed the largest share buyback in 2007 through a C\$500-million substantial issuer bid.

MDS has driven profitable growth by making process improvements and investments in our businesses – MDS Analytical Technologies, MDS Nordion and MDS Pharma Services – that have positioned them to win in a competitive global market. Today, more than ever, MDS is a company at the forefront of innovation. In 2008, MDS invested \$79 million on research and development, and launched 16 important new products and services to better help our customers develop new drugs, and diagnose and treat disease. While these efforts have improved our results in the face of a softening global economy, they have not

yet been able to reach the full potential for the top-line and bottom-line growth we expected. As a result, we made difficult decisions, which included restructuring our business and optimizing our global footprint. While significant progress has been made, we remain steadfast and operate with a sense of urgency.

### **Challenge and progress across MDS**

In 2008, MDS faced a number of significant challenges – the softening of demand for high-end instruments at MDS Analytical Technologies, the increased uncertainty of the long-term supply of medical isotopes at MDS Nordion, and the delayed profit recovery at MDS Pharma Services. We tackled these issues, and were buoyed by great employees who demonstrated resilience and a remarkable commitment to innovation, operational excellence and globalization.

**MDS Analytical Technologies** entered 2008 with good momentum that was tempered by slowing demand for high-end instruments, particularly by large pharmaceutical companies in North America. We continued to see strength in applied markets and were pleased by

growth in Asia. On the innovation front, our team moved diligently forward, raising the bar by introducing 10 new products.

Particularly noteworthy among these was the launch of two of the most advanced mass-spectrometry systems ever built – the AB SCIEX Triple Quad™ 5500 and the AB SCIEX QTRAP® 5500 Systems – both of which provide researchers with complete workflow solutions that are unmatched in terms of functionality, speed and performance. MDS Analytical Technologies also released new versions of several software applications that have made our mass-spectrometry systems easier to use, setting the stage for further expansion in food, water and environmental testing markets.

Analyst 1.5 software, for example, runs our mass-spec systems, and allows researchers to screen more analytes with even greater accuracy and precision. This capability will best serve the food and environmental industries, as they will now be able to screen for more than 600 contaminants in a single run.

We also made progress with our plans to build scale and scope by acquiring Blueshift Biotechnologies, a developer of screening platforms for life sciences research and maker of the IsoCyte™ bench-top laser-scanning cytometer. This acquisition broadens our capabilities in cellular analysis, and further strengthens the Company's global sales and service offering.

Our decision to relocate the manufacturing base of MDS Analytical Technologies to Asia will allow us to realize significant cost efficiencies and to take advantage of growing opportunities in that region.

We took action on the remaining integration opportunities from our acquisition of Molecular Devices in 2007. These included integrating locations in the United States, implementing common business systems across major sites, and rolling out standard processes, such as quality management, on a worldwide basis.

Going forward, MDS Analytical Technologies has a strong pipeline of new innovations, and a dedicated and highly skilled workforce committed to its pursuit of technological leadership.

**MDS Nordion** delivered another year of strong performance. The business demonstrated its agility and world-class operational capabilities in the face of challenges, such as the unplanned shutdown of Atomic Energy of Canada Limited's (AECL) NRU reactor in November and December 2007.

MDS Nordion is working to become the world's leading innovator in molecular medicine. To further advance that goal, in 2008, we completed the divestiture of two non-strategic product lines. We continue to strengthen MDS Nordion's medical-isotope and sterilization businesses, and are more focused than ever on building its growth portfolio. Revenues for products such as TheraSphere®, a breakthrough treatment for patients with inoperable liver cancer,

grew almost 50% in 2008. MDS Nordion also nurtured several partnerships, such as a 30-year partnership with TRIUMF, a world-class particle physics research laboratory located on the campus of the University of British Columbia; and a partnership with the University of Ottawa Heart Institute, where MDS Nordion established a Molecular Imaging Centre of Excellence to advance cardiology research.

Long-term isotope supply emerged as an issue in May 2008 when AECL and the Government of Canada announced their intention to discontinue the MAPLE project, without prior notice to, or consultation with, MDS. AECL and the Government made their announcements without disclosing a long-term plan for the supply of isotopes beyond extending the license of the NRU. To protect the interests of patients, the nuclear-medicine community, shareholders and customers, MDS filed a Notice of Arbitration to compel AECL to fulfill its contractual obligations under its 2006 interim and long-term supply agreement. MDS concurrently filed a court claim for C\$1.6 billion in damages against AECL, for negligence and breach of contract, and against the Government of Canada, for inducing breach of contract and for interference with economic relations.

Legal actions of this nature are complex and may take considerable time to resolve. Toward the end of the year, we again demonstrated our leadership by stepping up production to process additional isotopes received from the NRU when global supply of medical isotopes was threatened due to the shutdown of a nuclear reactor in Europe.

Over the past few years, we have successfully repositioned MDS Nordion, strengthened our leadership team and implemented operational improvements that have enabled us to bolster our premier position in the industry.

At **MDS Pharma Services**, our initiatives and investments to improve operational efficiency and better meet client needs are starting to take hold, but the conversion to revenue and earnings growth is taking longer than expected. Historically, the MDS Pharma Services business was built by acquisition, and was significantly challenged by the U.S. Food and Drug Administration's review of bioanalytical studies conducted at its facility in Montreal. We have worked with resolve and purpose to rebuild the business and have made steady progress.

First among our efforts was top-grading our business-development team and providing MDS Pharma Services employees with sophisticated, leading-edge tools to meet customer needs. We made significant investments in client-facing information-technology systems, including the launch of the industry-leading Apollo sample-management system for Central Labs, and next-generation ClinQuick® study-management software for phase I clinical trials.

We also launched our Quality On Time™ brand promise, and made expansions throughout the world to better meet the current and emerging needs of clients. In 2008, MDS Pharma Services opened a state-of-the-art phase I facility in Phoenix, and expanded its Central Lab facilities in Singapore to respond to growing opportunities in the Asia-Pacific region.

Our people continued to focus on operational excellence using LeanSigma to improve processes and to streamline the way we do business.

These investments and efforts have resulted in a 25% increase in new business wins versus 2007 and a growing, more profitable backlog.

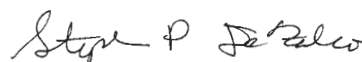
### **Moving forward**

In 2008, our businesses emerged stronger and better prepared to serve our customers in a dynamic market environment. We have become leaner, stronger and more agile. MDS has demanded and achieved much in terms of innovation, operational excellence and

globalization. Thanks to our employees, our innovative products and services are industry leading, and continue to make a distinctive contribution to the health and well-being of people.

While we have made much progress, we recognize the necessity of improved performance. MDS has an engaged and experienced Board of Directors and Management Team focused on driving growth, improving operating performance and shaping the Company's business portfolio. We continue to review our strategy against potential options, with a firm commitment to delivering shareholder value.

In 2008 we addressed issues, made great progress and have built a foundation to capitalize on the many opportunities ahead. We are moving forward with purpose and momentum.



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