

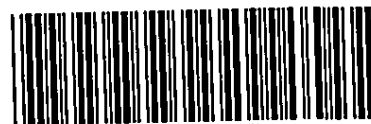
Serono Limited

Annual report

for the year ended 31 December 2006

Registered Number 1192915

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# **Serono Limited**

## **Annual Report**

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# **Serono Limited**

## **Directors and advisors**

### **Directors**

R Gradnik  
B Kirschbaum  
O Klinger

### **Secretary and registered office**

N Fraser  
Serono Limited  
Bedfont Cross  
Stanwell Road  
Feltham  
Middlesex  
TW14 8NX

### **Bankers**

ABN Amro Bank NV  
London Headquarters  
250 Bishopsgate  
London  
EC2M 4AA

### **Solicitors**

Cameron McKenna  
Mitre House  
160 Aldersgate Street  
London  
EC1A 4DD

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
The Atrium  
1 Harefield Road  
Uxbridge  
UB8 1EX

# **Serono Limited**

## **Directors' report for the year ended 31 December 2006**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2006

### **Principal activities**

The principal activities of the company continue to be that of sales, marketing and distribution of various ethical pharmaceutical products and services to hospitals, wholesalers, pharmacies and clinics

### **Review of business and future developments**

Serono Limited is involved in the sales and marketing of ethical pharmaceutical products

Traditionally, the company's leading products were in the following therapeutic areas

- Neurology
- Reproductive Health
- Metabolic Endocrinology

In 2006, the company has enhanced its activities in the field of Dermatology, as well

### **Results and Dividends**

The profit and loss account for the year is set out on page 7. The directors do not recommend the payment of a dividend (2005 £Nil). The profit for the year of £1,383,000 (2005 £1,311,000) will be transferred to reserves

### **Business Environment**

The pharmaceutical industry is a highly complex and regulated industry, subject to a wide range of governmental and industry regulations and guidelines. The company continuously invests significant resources to ensure its full compliance with all rules and regulations.

The size of the markets the company is operating in is highly dependent on the Government's health care budget and the subsequent resource allocation decisions of local Patient Care Trusts in the United Kingdom. Additionally, these markets are highly competitive, with a number of large multinational pharmaceutical companies directly competing with Serono Limited.

### **Strategy**

The company's objective is to provide therapeutic treatments to unmet medical needs. Its line of high technology products, coupled with its commitment to high level patient care, form the basis of the company's strategy, providing sustained growth and returns.

### **Key Performance Indicators**

The business results of Serono Limited continued to be strong, with 2006 sales reaching £52,933,000, an increase of 12.9% over 2005. Net profit, after tax, for the year was £1,383,000, which represents a growth of 5.5% versus the previous year.

### **Future Outlook**

Serono Limited plans to continue developing and promoting its current line of high technology products in the UK and expects to expand it with new products being developed globally by its affiliated companies.

# **Serono Limited**

## **Directors' report for the year ended 31 December 2006 (continued)**

The company expects further downward price pressures as part of the planned changes in the PPRS scheme, expected in 2009. However, due to potential growth in some of the company's markets and the potential introduction of new products, the company expects that overall revenue will remain stable or grow over the coming years.

### **Post Balance Sheet Events**

On September 21, 2006, Maria-Iris Bertarelli, Ernesto Bertarelli and Donata Spath agreed to sell all the shares of SeroMer Biotech S A and all the registered shares of Serono S A that they held to Merck KGaA, a German company and its wholly-owned subsidiary Merck Vierte Allgemeine Beteiligungsgesellschaft mbH, which acted as purchaser. The sale was consummated on January 5, 2007 and Serono S A became Merck Serono S A on the same day. After the consummation of the sale, Maria-Iris Bertarelli, Ernesto Bertarelli and Donata Späth held no shares in Merck Serono S A.

On January 5, 2007, as a result of the consummation of the sale agreement mentioned above, Merck Vierte Allgemeine Beteiligungsgesellschaft mbH, Darmstadt, Germany owned 84.51% of the share capital and 89.17% of the voting rights. Additional shares were acquired through a public tender offer under Swiss law that ran until February 22, 2007, as well as on the stock market. A squeeze-out to acquire the remaining shares was successfully completed on July 6, 2007, with the ruling issued by the Civil Court of the City of Basel.

On September 26, 2007, Merck Limited, a wholly owned subsidiary of Merck KGaA, allotted 71,669 ordinary shares at £100 each to Serono BV, the immediate parent company of Serono Limited, in consideration of the transfer to Merck Limited of the whole issued share capital of Serono Limited.

On January 1, 2008, Serono Limited ceased to trade and all assets, liabilities and operating activities were transferred to Merck Limited, thereafter trading as Merck Serono Limited.

### **Principal risks and uncertainties**

The management of the business and the execution of the company's strategy are subject to a number of risks.

The key business risks affecting the company are set below:

- Reductions in the public health care spend, especially in the therapeutic areas the company is involved in.
- Emergence of new therapeutic products, and new medical technologies, that could render the company's products and medical devices obsolete.

Risks are formally reviewed by management and appropriate processes are in place to monitor and mitigate them.

### **Financial risk management**

The company's operations expose it to a variety of financial risks that include the effects of changes in market prices and credit risk. The company has in place a credit risk management programme that requires appropriate credit checks on potential customers before sales are made. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The company does not use derivative financial instruments and as such no hedge accounting is applied.

# **Serono Limited**

## **Directors' report for the year ended 31 December 2006 (continued)**

### **Research and development**

The company is committed to sponsoring and carrying out research in connection with the development of its products to maintain and improve its services to the medical profession

### **Directors**

The directors of the company who held office during the year and up to the date of signing these financial statements were

Mr J Theurillat (Resigned 5<sup>th</sup> January 2007)

Mr T Wells (Resigned 3<sup>rd</sup> February 2007)

Mr J Ambuehl (Resigned 31<sup>st</sup> January 2007)

Mr R Gradnik, Mr B Kirschbaum and Mr O Klinger were appointed as directors of the company on 5<sup>th</sup> January 2007

The company is a subsidiary of Merck Serono SA (formerly Serono SA), a company registered in Switzerland. According to the register required to be kept under Section 325 of the Companies Act 1985 no directors have any beneficial interest in the shares, debentures or options of any company within the Group that are required to be disclosed under Schedule 7 of the Companies Act 1985

### **Statement of directors' responsibilities in respect of the Annual Report and the financial statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare financial statements in accordance with the United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit and loss of the company for that period.

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of the changes arising from the adoption of new accounting standards in the year as explained on page 9 under note 1 'Accounting Policies'
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the notes to 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, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records which 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 1985. 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.

# Serono Limited

## Directors' report for the year ended 31 December 2006 (continued)

### Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that

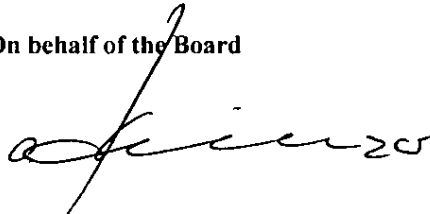
- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

### Auditors

Due to the post year end sale of shares of Serono S A to Merck KgaA and the resultant change in ownership of Serono Limited, PricewaterhouseCoopers LLP will not be seeking re-appointment at the Annual General Meeting. They have stated that there are no matters connected with their resignation which should be brought to the attention of members or creditors.

On behalf of the Board



O Klinger  
Director

Date 31. March 2008

# Serono Limited

## Independent auditors' report to the members of Serono Limited

We have audited the financial statements of Serono Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### Basis of audit opinion

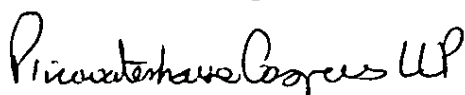
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
West London

7 April 2008



## Serono Limited

### Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Turnover</b>	2	<b>52,933</b>	46,860
Cost of sales		(32,395)	(26,818)
<b>Gross profit</b>		<b>20,538</b>	20,042
Net operating expenses	3	(20,632)	(20,697)
Other operating income	4	2,116	2,558
<b>Operating profit</b>	7	<b>2,022</b>	1,903
Interest receivable and similar income	8	71	147
Interest payable and similar charges	9	(35)	(23)
<b>Profit on ordinary activities before taxation</b>		<b>2,058</b>	2,027
Taxation charge on profit on ordinary activities	10	(675)	(716)
<b>Retained profit for the financial year</b>	17,18	<b>1,383</b>	1,311

All activities derive from continuing operations

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents

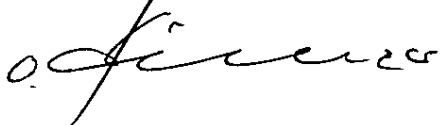
There have been no other recognised gains and losses in the year other than those shown above and therefore no separate statement of total recognised gains and losses has been presented

# Serono Limited

## Balance sheet as at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Fixed assets</b>			
Tangible assets	11	142	227
<b>Current assets</b>			
Debtors	12		
Falling due within one year		17,558	14,290
Falling due after more than one year		3,005	3,148
Cash at bank and in hand		710	331
		21,273	17,769
<b>Creditors: amounts falling due within one year</b>	13	(14,457)	(12,139)
<b>Net current assets</b>		6,816	5,630
<b>Total assets less current liabilities</b>		6,958	5,857
<b>Provisions for liabilities and charges</b>	14	(560)	(920)
<b>Net assets</b>		6,398	4,937
<b>Capital and reserves</b>			
Called up share capital	16	800	800
Profit and loss account	17	5,598	4,137
<b>Total equity shareholders' funds</b>	18	6,398	4,937

The financial statements on pages 7 to 24 were approved by the board of directors on 21 March 2008 and were signed on its behalf by



Director

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006

### 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and the Companies Act 1985. A summary of the more important accounting policies, which have been applied consistently throughout the year, with the exception of the changes arising from the adoption of new accounting standards, are described below.

#### **Basis of accounting**

The financial statements have been prepared on a going concern basis and in accordance with the historical cost convention.

#### **Changes in Accounting Policies**

The company has adopted FRS 20 'Share-based Payment' which has resulted in a reduction of profit of £78,000 in the current year (2005: £nil). The prior year comparative has not been restated as it is not material.

During the year it was decided that the company would implement corporate policy regarding the value threshold for the capitalisation of fixed assets. This change resulted in a £56,000 write-off to the profit and loss during the year (2005: £nil).

#### **Cash flow statement**

The company is a wholly owned subsidiary of Serono BV and is included in the consolidated financial statements of the ultimate parent undertaking Serono SA, which are publicly available (see note 21). Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of the Financial Reporting Standard 1 (revised 1996).

#### **Tangible fixed assets and depreciation**

Tangible fixed assets are stated at their historic purchase cost less accumulated depreciation, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Fixtures, fittings and equipment	10-33

Leasehold improvements are depreciated over the unexpired period of the lease.

#### **Research and development**

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

# **Serono Limited**

## **Notes to the financial statements for the year ended 31 December 2006 (continued)**

### **1 Principal accounting policies (continued)**

#### **Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term

#### **Foreign currencies**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities are translated into sterling at the rates of exchange ruling at the relevant balance sheet date or, where appropriate, the forward contract, any exchange differences arising thereon are included in the profit and loss account.

#### **Turnover**

The Company recognises revenue when title, ownership and risk of loss pass to the customer at the point of delivery, net of trade discounts and accruals for estimated future rebates and returns. Value added tax and other sales taxes are excluded.

#### **Deferred taxation**

Deferred tax is recognized in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

#### **Pension costs**

The company operates defined contribution pension schemes. The assets of the schemes are held separately from those of the company in an independently administered fund. The pension cost charge disclosed in note 15 represents contributions payable by the company to the fund.

#### **Provisions**

Provisions are recognised in the financial statements when

- a) The company has a present obligation (legal or constructive) as a result of a past event
- b) It is probable that an outflow of resources will be required to settle the obligation, and
- c) A reliable estimate can be made of the amount of the obligation

The following methods are used to measure the amount of provision required

- a) Best estimate
- b) Risk and Uncertainties
- c) Present Value

A provision is only used for expenditures that relate to the matter for which the provision was originally recognised. The onerous lease provision has been discounted to its present value.

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 1 Principal accounting policies (continued)

#### Share Based Payments

The company has applied the requirements of FRS 20 'Share Based Payments' and calculated national insurance on share option gains. The Parent Company issues equity settled shares to certain employees.

Equity-settled share based payments are measured at fair value at the date of the grant. The fair value determined of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on an estimate of the shares that will eventually vest. The fair value is measured using a binomial model. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the profit and loss account.

### 2 Turnover

The whole of the turnover from continuing activities is attributable to sales and distribution activities, marketing various ethical pharmaceutical products and services to hospitals, wholesalers, pharmacies and clinics. The analysis by geographical destination of the company's turnover, all of which originated in the United Kingdom, is set out below.

	2006 £'000	2005 £'000
United Kingdom	45,415	40,251
Rest of Europe	7,518	6,609
	<b>52,933</b>	<b>46,860</b>

### 3 Net operating expenses

	2006 £'000	2005 £'000
Distribution costs	4,169	3,678
Selling & general administrative expenses	16,463	17,019
	<b>20,632</b>	<b>20,697</b>

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 4 Other operating income

	2006	2005
	£'000	£'000
Other Operating Income	2,116	2,558

The assumed investment in the Multiple Sclerosis Risk Sharing Scheme for disease-modifying therapies has been revised following consultations with the Department of Health. The minimum legal commitment as clarified in those discussions is £1,200,000 per year and not £700 per patient per year as had been the Company's previous interpretation. Serono Limited invests in excess of this commitment of £1,200,000 per year. A recalculation of the existing accrual based upon the agreed level of contribution enabled a release of £706,000 which was credited to the profit and loss account within "other operating income".

In addition a contribution towards expenditure incurred in respect of the above scheme is made by the parent company.

### 5 Directors' emoluments

	2006	2005
	£'000	£'000
Aggregate emoluments	-	287

No Directors (2005: Nil) are accruing benefits under a defined contribution pension scheme.

No Directors (2005: Nil) exercised share options during the financial year.

The emoluments of Mr Gradnik, Mr Kirschbaum and Mr Klinger are paid by the parent company which makes no recharge to the company. Mr Gradnik, Mr Kirschbaum and Mr Klinger are directors of the parent company and a number of fellow subsidiaries and it is not possible to make accurate apportionments of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments in respect of Mr Gradnik, Mr Kirschbaum and Mr Klinger.

#### Highest paid director

	2006	2005
	£'000	£'000
Aggregate emoluments	-	287

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 6 Employee information

The average monthly number of persons (including executive directors) employed during the year was

By activity	2006 Number	2005 Number
Administration	30	38
Selling & Distribution	32	36
Research and development	5	4
	67	78

	2006 £'000	2005 £'000
<b>Staff costs (for the above persons)</b>		
Wages and salaries	3,969	4,601
Social security costs	463	615
Other pension costs (see note 15)	229	251
Share Based Payments	78	-
	4,739	5,467

#### Employee stock option plan

Stock options were granted to senior management members of the company. Each stock option gave the holder the right to purchase one bearer share of Serono S A stock. Stock options were granted every plan year and vested as follows: 25% one year after date of grant, 50% after two years, 75% after 3 years and 100% after 4 years. Options expired six years after the fourth and final vesting date such that each option had a 10-year duration. The exercise price was equal to the fair value of the underlying Serono S A bearer share on the date of grant.

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 7 Operating Profit

	2006 £'000	2005 £'000
Operating Profit is stated after charging/(crediting)		
Depreciation charge for the year on owned tangible fixed assets	84	89
Auditors' remuneration		
- Audit services	41	32
- Non-audit services, comprising taxation services	37	24
Operating lease charges		
- Hire of plant and machinery	263	282
- Other operating leases	771	771
Research and development costs		
- Current costs	2,009	1,270
Gains on foreign exchange transactions	(66)	(28)

### 8 Interest receivable and similar income

	2006 £'000	2005 £'000
Intercompany interest on cashpooling	71	147

### 9 Interest payable and similar charges

	2006 £'000	2005 £'000
On bank overdrafts	13	14
Intercompany interest on cashpooling	22	9
	35	23



# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 10 UK Corporation tax on profits of the year

	2006 £'000	2005 £'000
<b>Current Tax</b>		
United Kingdom corporation tax at 30% (2005 30%)	724	669
Over/(Under) provision in respect of prior years	(29)	29
Total Current tax	695	698
<b>Deferred Tax</b>	(20)	18
<b>Tax on profit on ordinary activities</b>	<b>675</b>	<b>716</b>

The tax charge is higher (2005 Higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006 £'000	2005 £'000
Profit on ordinary activities before tax	2,058	2,027
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	617	608
Effects of		
Adjustments to tax in respect of the prior year	(29)	29
Expenses not deductible for tax purposes	87	79
Short-term timing differences	20	(18)
<b>Current tax charge for the year</b>	<b>695</b>	<b>698</b>

The directors are not aware of any factors affecting the future tax charge

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 10 Tax on profit on ordinary activities (continued)

Deferred tax asset	£'000
At 1 January 2006	63
Amount credited to P&L	20
<b>At 31 December 2006</b>	<b>83</b>

The deferred tax asset, which has been recognised in the balance sheet, is as follows

	2006 £'000	2005 £'000
Excess of depreciation over capital allowances	70	63
Short-term timing differences	13	-
	<b>83</b>	<b>63</b>

The directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements

The effects of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax asset recognised at 31 December 2006 by £5,500 in 2007. This decrease in deferred tax asset is due to the reduction in the Corporation Tax rate from 30 per cent to 28 per cent with effect from 1 April 2008

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 11 Tangible fixed assets

	Short leasehold improvements	Fixtures, fittings & equipment	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 January 2006	174	1,509	1,683
Additions	-	55	55
Disposals	(6)	(950)	(956)
<b>At 31 December 2006</b>	<b>168</b>	<b>614</b>	<b>782</b>
<b>Accumulated Depreciation</b>			
At 1 January 2006	63	1,393	1,456
Charge for year	12	72	84
Disposals	(2)	(898)	(900)
<b>At 31 December 2006</b>	<b>73</b>	<b>567</b>	<b>640</b>
<b>Net book value</b>			
<b>At 31 December 2006</b>	<b>95</b>	<b>47</b>	<b>142</b>
At 31 December 2005	111	116	227

The adoption of the Corporate policy regarding the financial threshold for the capitalisation of fixed assets resulted in a net write-off to Profit and Loss of £56,000 during 2006. The prior year component of this change was calculated but was immaterial and no adjustment to prior year balances has been made.

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 12 Debtors

	2006	2005
	£'000	£'000
Trade debtors	8,904	8,009
Amounts owed by group undertakings		
Falling due within one year	7,085	5,022
Falling due after more than one year	3,005	3,148
Other debtors	553	247
Deferred tax asset (see note 10)	83	63
Prepayments and accrued income	933	949
	<b>20,563</b>	<b>17,438</b>

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment. Interest of £29,000 is included within amounts owed by group undertakings, this being the daily interest receivable on closing daily bank balances for the previous quarter.

Amounts owed by group undertakings includes £255,000 amount owed by the parent in respect of a recharged onerous lease provision. The estimated receivable amounts have been split according to the likelihood of them being incurred within or in excess of a 12 month period.

Amounts owed by group undertakings includes an interest free loan made to Serono Contracting Limited of £2,750,000 falling due after more than one year. The terms of this loan provide that it become repayable only when the borrower is sufficiently strongly financed to be able to take on additional interest bearing debt.

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 13 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors	326	228
Amounts owed to group undertakings	11,178	7,774
Corporation Tax	91	402
Taxation and social security	196	91
Accruals and deferred income	2,666	3,644
	<b>14,457</b>	<b>12,139</b>

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. Accrued interest of £3,000 is included within amounts owed to group undertakings, this being the daily interest payable on closing daily bank balances for the previous quarter.

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 14 Provision for liabilities and charges

	<b>Onerous Leases £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Opening provision at 1 January 2006	786	134	920
Utilised	(233)	(134)	(367)
Provided in the year	7	-	7
<b>Closing provision at 31 December 2006</b>	<b>560</b>	<b>-</b>	<b>560</b>

#### Onerous Lease

A provision of £560,000 (2005 £786,000) is in respect of onerous lease obligations and represents the excess of rental expense over rental income for a period assessed by the directors as being fair and reasonable based upon current property market conditions

For properties assessed as having a limited likelihood of tenancy for the remainder of the term of their lease, a provision of £235,000 equal to the full rental and estimated dilapidation costs up to the date of termination has been provided. In respect of these properties, both leases will cease during 2008

For all other leases held being subject to an onerous lease provision, the directors anticipate the provision of £325,000 to be fully utilised by the end of one year

#### Other

Costs in respect of an opening year provision of £134,000 relating to expected legal and professional fees were fully incurred during the year

### 15 Pensions and similar obligations

Contributions amounting to £229,000 (2005 £251,000) were paid into the defined contribution scheme during the year. There were no outstanding or prepaid contributions as at 31 December 2006

### 16 Called up share capital

	<b>2006 £'000</b>	<b>2005 £'000</b>
<b>Authorised</b>		
800,000 ordinary shares of £1 each	800	800
<b>Allotted, called up and fully paid</b>		
800,000 ordinary shares of £1 each	800	800

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 17 Reserves

	Profit and loss account
	£'000
At 1 January 2006	4,137
Retained profit for the financial year (see note 18)	1,383
Share based payments	78
<b>At 31 December 2006</b>	<b>5,598</b>

### 18 Reconciliation of movements in equity shareholders' funds

	2006 £'000	2005 £'000
Opening equity shareholders' funds	4,937	3,626
Retained profit for the financial year	1,383	1,311
Share based payments	78	-
<b>Closing equity shareholders' funds</b>	<b>6,398</b>	<b>4,937</b>

### 19 Financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	2006 Land and buildings £'000	Other £'000	2005 Land and buildings £'000	Other £'000
Expiring within one year	57	33	-	58
Expiring between two and five years inclusive	116	176	201	174
Expiring in over five years	570	-	570	-
	<b>743</b>	<b>209</b>	<b>771</b>	<b>232</b>

# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 20 Share Based Payments

The group operates an equity-settled share based compensation plan. Stock options are granted to senior management. The fair value of stock options is recognised as compensation expense, over the period in which the options vest. The fair value is measured using a binomial model. The number of shares used to measure compensation expense is based on the best estimate of the number of shares expected to vest. Compensation expense is adjusted where actual forfeitures differ from estimates, so that the final expense is based on the number of shares that actually vest.

The fair value per option granted and the assumptions used in the calculations are as follows:

Grant Date	1 January 2003	1 January 2004	1 January 2005	1 January 2006
Share price at grant date	CHF 649.00	CHF 789.00	CHF 859.00	CHF 917.50
Exercise Price	CHF 649.00	CHF 789.00	CHF 859.00	CHF 917.50
Number of employees	9	6	7	4
Shares under Option	1,300	880	960	440
Vesting Period (Years)	4	4	4	4
Fair Value	CHF 215.13	CHF 226.57	CHF 256.87	CHF 290.45- CHF 301.59

A reconciliation of option movements over the year to 31 December 2006 is shown below:

	2006	Weighted average exercise price (CHF)	2005	Weighted average exercise price (CHF)
Outstanding at 1 January	3,450	1,081	3,330	1,061
Granted	440	1,045	960	1,055
Forfeited	(880)	818	(840)	749
Expired	(1,710)	1,294	-	-
Exercised	(140)	749	-	-
Outstanding at 31 December	1,160	943	3,450	1,081
Options exercisable at 31 December	410	1,075		



# Serono Limited

## Notes to the financial statements for the year ended 31 December 2006 (continued)

### 20 Share Based Payments (continued)

The table below details stock options outstanding as of 31 December 2006

Range of exercise price CHF	Options	Average remaining contractual life years
500 - 700	110	4.92
700 - 900	490	6.82
900 - 1,300	340	8.55
1,300 - 1,500	220	4.25
	1,160	

The fair value of options granted was measured using a binomial model. The inputs into the model were as follows:

	2006	2005
Dividend growth rate %	1.29	1.11
Expected market bid volatility %	28.73	22.11
Risk-free interest rate %	2.4	2.5
Expected life, in years	6	8
Weighted average exercise price CHF	1,045	1,055

Actual dividend yield may vary from the assumptions used above. Expected volatility was determined by calculating the market bid volatility of the share price of bearer shares of Serono S.A. listed on the vent-x of the Swiss Stock Exchange.

### 21 Related party transactions

As a wholly owned subsidiary whose results are included in the consolidated financial statements of Serono S.A., which are publicly available, the company is exempt from the requirement to disclose details of transactions with other group companies under FRS 8. There were no transactions with any other related parties.

### 22 Ultimate and immediate parent undertaking

As of December 31, 2006, the ultimate parent undertaking and controlling party was Serono S.A., a company registered in Switzerland. The principal shareholder of Serono S.A. at 31 December 2006 was SeroMer Biotech S.A. (formerly known as Bertarelli Biotech S.A.), a corporation with its principal offices at Chésérax (Vaud), Switzerland, which held 61.05% of the capital and 67.80% of the voting rights in Serono S.A. As of December 31, 2006, the Bertarelli family controlled SeroMer Biotech S.A. On the same date, Maria-Iris Bertarelli, Ernesto Bertarelli and Donata Späth owned in the aggregate 4.76% of the capital and 8.32% of the voting rights of Serono S.A.

As of December 31, 2006, the immediate parent undertaking was Serono B.V., a company registered in the Netherlands.

# **Serono Limited**

## **Notes to the financial statements for the year ended 31 December 2006 (continued)**

### **22 Ultimate and immediate parent undertaking (continued)**

As at 26 September 2007, Serono BV agreed the sale of Serono Limited to Merck Limited in exchange for 71,669 ordinary shares at £100 per share. As at that date, the immediate parent undertakings were Merck Holding GmbH and Serono BV, holding 49.5% and 50.5% of the total shares respectively. The ultimate parent undertaking was Merck KGaA, a company registered in Germany.

### **23 Post Balance Sheet Event**

On September 21, 2006, Maria-Iris Bertarelli, Ernesto Bertarelli and Donata Spath agreed to sell all the shares of SeroMer Biotech S.A. and all the registered shares of Serono S.A. that they held to Merck KGaA, a German company and its wholly-owned subsidiary Merck Vierte Allgemeine Beteiligungsgesellschaft mbH, which acted as purchaser. The sale was consummated on January 5, 2007 and Serono S.A. became Merck Serono S.A. on the same day. After the consummation of the sale, Maria-Iris Bertarelli, Ernesto Bertarelli and Donata Späth held no shares in Merck Serono S.A.

On January 5, 2007, as a result of the consummation of the sale agreement mentioned above, Merck Vierte Allgemeine Beteiligungsgesellschaft mbH, Darmstadt, Germany owned 84.51% of the share capital and 89.17% of the voting rights. Additional shares were acquired through a public tender offer under Swiss law that ran until February 22, 2007, as well as on the stock market. A squeeze-out to acquire the remaining shares was successfully completed on July 6, 2007, with the ruling issued by the Civil Court of the City of Basel.

On September 26, 2007, Merck Limited, a wholly owned subsidiary of Merck KGaA, allotted 71,669 ordinary shares at £100 each to Serono BV, the immediate parent company of Serono Limited, in consideration of the transfer to Merck Limited of the whole issued share capital of Serono Limited.

On January 1, 2008, Serono Limited ceased to trade and all assets, liabilities and operating activities were transferred to Merck Limited, thereafter trading as Merck Serono Limited.

## Serono Limited

### Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Turnover</b>	2	<b>52,933</b>	46,860
Cost of sales		(32,395)	(26,818)
<b>Gross profit</b>		<b>20,538</b>	20,042
Net operating expenses	3	(20,632)	(20,697)
Other operating income	4	2,116	2,558
<b>Operating profit</b>	7	<b>2,022</b>	1,903
Interest receivable and similar income	8	71	147
Interest payable and similar charges	9	(35)	(23)
<b>Profit on ordinary activities before taxation</b>		<b>2,058</b>	2,027
Taxation charge on profit on ordinary activities	10	(675)	(716)
<b>Retained profit for the financial year</b>	17,18	<b>1,383</b>	1,311

All activities derive from continuing operations

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents

There have been no other recognised gains and losses in the year other than those shown above and therefore no separate statement of total recognised gains and losses has been presented

# Serono Limited

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