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Serono Laboratories (UK) Limited

Annual report

for the year ended 31 December 1997



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for the year ended 31 December 1997

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Serono Laboratories (UK) Limited

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Directors and advisors

Directors

E Bertarelli
K Macleod
A L Scarpa
H Thierstein
F R Sandi
J Theurillat

Secretary and registered office

F Naef
Serono Laboratories (UK) Ltd
99 Bridge Road East
Welwyn Garden City
Herts
AL7 1BG

Bankers

Natwest Bank plc
PO Box 2162
20 Dean Street
London
W1A 1SX

Solicitors

Cameron McKenna
Mitre House
160 Aldersgate Street
London
EC1A 4DD

Auditors

Coopers & Lybrand
Abacus House
Castle Park
Gloucester Street
Cambridge
CB3 0AN

**Directors' report
for the year ended 31 December 1997**

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activities

The profit and loss account for the year is set out on page 7.

The principal activities of the company are unchanged from last year, and are the marketing of various ethical pharmaceutical products and services to hospitals and wholesalers.

Review of business and future developments

All major therapeutic areas experienced considerable commercial pressure during 1997. Market position was maintained and significant success was achieved in promoting recombinant hFSH, Gonal-F®, in the fertility therapeutic area. The launch of Rebif®, a therapy for relapsing - remitting multiple sclerosis, is expected in 1998. This will further strengthen the Company's recombinant portfolio and enhance its position as a leading Biotechnology company.

Dividends and transfers to reserves

The directors do not recommend the payment of a dividend. The loss for the year of £198,000 (1996: £610,000 profit) will be transferred to reserves.

Creditor payment policy

The company does not follow a formal code of payment. Payments are made within the terms of payment laid down by the suppliers.

Charitable donations

During the year the company made donations of £2,617 (1996: £4,236) to various charitable causes.

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 medicine.

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Directors

The directors of the company at 31 December 1997 were:

Dr L Margarito (Chairman) (Resigned 20 January 1998)
Mr F Bertarelli (Resigned 16 June 1997)
Mr E Bertarelli
Dr A L Scarpa
Mr T Sullivan (Resigned 23 November 1998)
Mr H Thierstein
Mr K Macleod (Appointed 8 December 1998)
Mr F R Sandi (Appointed 16 June 1997)
Mr J Theurillat (Appointed 16 June 1997)

Directors' interests in shares of the company

The company is a subsidiary of Ares-Serono BV, a company incorporated in the Netherlands. 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. As permitted by Statutory Instrument, the directors are not required to notify the company of details of any interests in shares, debentures or options of other companies in the group which are incorporated outside Great Britain.

Year 2000

The company is in the process of implementing a Year 2000 project and is seeking to take best reasonable efforts in the circumstances to minimise risks to its business associated with the Year 2000 problem. The Group's accounting package, Oracle, to be implemented by mid 1999, will be Year 2000 compliant.

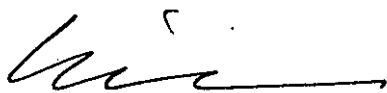
The directors expect all major systems to be Year 2000 compliant, based on a phased implementation plan, by 31 December 1999.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998, following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

In accordance with Section 386 of the Companies 1985 Act, the company has dispensed with the requirement for the annual reappointment of an auditor. Accordingly, PricewaterhouseCoopers will be deemed reappointed as the company's auditors.

By order of the board



Director



Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or 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;
- 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 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

By order of the board

 Director

Report of the auditors to the members of Serono Laboratories (UK) Limited

We have audited the financial statements on pages 7 to 16.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of the company's affairs at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers.

Chartered Accountants and Registered Auditors

Cambridge, 18 February 1999.

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Profit and loss account for the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	28,714	29,132
Cost of sales		(20,306)	(20,402)
Gross profit		8,408	8,730
Other operating expenses	3	(8,334)	(7,600)
Operating (loss)/profit		74	1,130
Interest receivable		3	22
Interest payable and similar charges	6	(246)	(129)
(Loss)/profit on ordinary activities before taxation	7	(169)	1,023
Taxation	8	(29)	(413)
Retained (loss)/profit for the year	17, 18	(198)	610

All activities are continuing.

The company has no recognised gains and losses other than those included in the loss above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

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Balance sheet at 31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	9	489	552
Current assets			
Stocks	10	3,019	3,746
Debtors	11	5,966	4,599
Cash at bank and in hand		1	245
		8,986	8,590
Creditors: amounts falling due within one year	12	6,263	6,482
Net current assets		2,723	2,108
Total assets less current liabilities		3,212	2,660
Creditors: amounts falling due after more than one year	13	2,250	1,500
Net assets		962	1,160
Capital and reserves			
Called-up share capital	16	800	800
Profit and loss account	17	162	360
Equity shareholders' funds	18	962	1,160

The financial statements on pages 7 to 16 were approved by the board of directors on February 11, 1999 and were signed on its behalf by: Jacques Thawilat

Director
J. Thawilat

**Notes to the financial statements
for the year ended 31 December 1997****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going concern

The financial statements have been prepared on a going concern basis. The directors have received assurance from the ultimate parent company that they will continue to support the company. They therefore believe that the going concern basis is appropriate.

Change in presentation of financial information

FRS 1 'Cashflow statements' was revised in 1996 to change the format for reporting cashflows. The revised standard came into effect for accounting periods on or after 23 March 1997. The company is no longer required to prepare a cash flow statement as the ultimate parent company's accounts are publicly available and Serono Laboratories (UK) Limited is a wholly-owned subsidiary.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, 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:

	%
Motor vehicles	25
Fixtures, fittings and equipment	20 - 33⅓

Refurbishment of short leasehold property is amortised 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.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated to sterling at the exchange rate ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

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

2 Turnover

The analysis by geographical segment of the company's turnover, all of which originated in the United Kingdom, is set out below:

	1997	1996
	£'000	£'000
United Kingdom	27,511	28,283
Rest of Europe	1,185	849
Outside Europe	18	-
	28,714	29,132

3 Other operating expenses

	1997 £'000	1996 £'000
Distribution costs	5,150	5,074
Administrative expenses	2,124	1,679
Research and development	1,060	847
	<u>8,334</u>	<u>7,600</u>

4 Directors' emoluments

	1997 £'000	1996 as restated £'000
Aggregate emoluments	156	143
Company pension contributions to money purchase schemes	20	18
	<u>176</u>	<u>161</u>

Retirement benefits are accruing to one director under a money purchase pension scheme.

Comparative figures have been restated to reflect the disclosure requirements of SI 1997/570.

5 Employee information

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

	1997 Number	1996 Number
Administration	13	13
Distribution	3	3
Selling	34	33
Research and development	14	11
	<u>64</u>	<u>60</u>
	<u>64</u>	<u>60</u>
	1997 £'000	1996 £'000
Staff costs (for the above persons):		
Wages and salaries	2,055	1,977
Social security costs	212	197
Other pension costs (see note 14)	155	134
	<u>2,422</u>	<u>2,308</u>

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6 Interest payable and similar charges

	1997 £'000	1996 £'000
On bank loans and overdrafts	229	129
	<u> </u>	<u> </u>

7 (Loss)/profit on ordinary activities before taxation

	1997 £'000	1996 £'000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charge for the year	225	230
Auditors' remuneration:		
- Audit	21	17
- Other	4	5
Operating leases charges:		
- Hire of plant and machinery	350	400
- Other operating leases	298	149
Loss on foreign exchange transactions	52	9
(Loss)/profit on disposal	(1)	1
	<u> </u>	<u> </u>

8 Taxation

	1997 £'000	1996 £'000
United Kingdom corporation tax at 31.5% (1996: 33%)		
Current year	111	413
Deferred tax	(82)	-
	<u> </u>	<u> </u>
	29	413
	<u> </u>	<u> </u>

9 Tangible fixed assets

	Short leasehold improvements £'000	Fixtures, fittings & equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 January 1997	552	1,135	20	1,707
Additions	-	162	-	162
Disposals	-	(39)	-	(39)
At 31 December 1997	552	1,258	20	1,830
Depreciation				
At 1 January 1997	259	887	9	1,155
Charge for year	70	150	5	225
Eliminated in respect of disposals	-	(39)	-	(39)
At 31 December 1997	329	998	14	1,341
Net book value				
At 31 December 1997	223	260	6	489
Net book value At 31 December 1996	293	248	11	552

10 Stocks

	1997 £'000	1996 £'000
Finished goods and goods for resale	3,019	3,746

11 Debtors

	1997 £'000	1996 £'000
Amounts falling due within one year		
Trade debtors	4,371	4,054
Amounts owed by parent and fellow subsidiary undertakings	1,235	115
Other debtors	85	60
Prepayments and accrued income	193	184
VAT recoverable	-	186
Deferred taxation	82	-
	5,966	4,599

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12 Creditors: amounts falling due within one year

	1997 £'000	1996 £'000
Bank overdrafts	924	-
Trade creditors	178	278
Amounts owed to parent and fellow subsidiary undertakings	3,432	4,862
Corporation tax	111	414
Social security	109	139
Value added tax	275	-
Accruals and deferred income	1,234	789
	<u>6,263</u>	<u>6,482</u>

13 Creditors: amounts falling due after more than one year

	1997 £'000	1996 £'000
Bank loan	<u>2,250</u>	<u>1,500</u>

The bank loan facility has been provided on the basis that the ultimate holding company will retain control of Serono Laboratories (UK) Limited, and will provide sufficient funds to support the company's continued operation whilst it has a liability to the bank.

14 Deferred taxation

	Amounts provided		Amounts unprovided	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Excess of capital allowances over depreciation	-	-	(41)	(37)
Short-term timing differences	(82)	-	(29)	(15)
	<u>(82)</u>	<u>-</u>	<u>(70)</u>	<u>(52)</u>

Deferred tax provided

The movement on deferred taxation is as follows:

	£'000
At 1 January 1997	-
Credited to profit and loss	82
At 31 December 1997	<u>82</u>

15 Pension and similar obligations

The company makes contributions to a defined contribution pension scheme on behalf of its employees. The pension cost charge represents contributions paid by the company to the fund and amounted to £155,000 (1996: £134,000).

16 Called up share capital

	1997 £'000	1996 £'000
Authorised		
800,000 (1996: 800,000) ordinary shares of £1 each	<u>800</u>	<u>800</u>
Allotted, called up and fully paid		
800,000 (1996: 800,000) ordinary shares of £1 each	<u>800</u>	<u>800</u>

17 Reserves

	Profit and loss account £'000
At 1 January 1997	360
Loss for the year	<u>(198)</u>
At 31 December 1997	<u>162</u>

18 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Opening shareholders' funds	1,160	550
(Loss)/profit for the financial year	<u>(198)</u>	<u>610</u>
Closing shareholders' funds	<u>962</u>	<u>1,160</u>

19 Contingent liabilities

At 31 December 1997 the company had indemnity liabilities of £600,000 in respect of Value Added Tax deferred (1996: £600,000).

20 Financial commitments

At 31 December 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	130	-	-	-
Expiring between two and five years inclusive	-	187	130	143
Expiring in over five years	220	-	270	-
	<u>350</u>	<u>187</u>	<u>400</u>	<u>143</u>

21 Related party transactions

As a wholly owned subsidiary whose results are included in the consolidated financial statements of Ares-Serono SA (see note 22), the company is exempt from the requirement to disclose details of transactions with other group companies. There were no transactions with any other related parties.

22 Ultimate and immediate parent undertaking

The directors regard Ares Serono SA, a company registered in Switzerland, as the ultimate parent company which principal shareholder as of 31 December 1997 was Bertarelli & Cie, a partnership limited by shares with its principal offices at Chésereux (Vaud), which held 59.34% of the capital and 66.72% of the voting rights. On the same date, Fabio Bertarelli held 12.56% of the capital and 13.78% of the voting rights in Ares Serono SA. Following the death of Fabio Bertarelli on 3 January 1998, his estate is entrusted with the control of Bertarelli & Cie and the Ares Serono shares previously owned by him. Copies of the ultimate parent's consolidated financial statements may be obtained from Ares Serono International SA, 15 Chemin des Mines, CH-1202, Geneva, Switzerland.

The directors regard Ares Serono NV, a company registered in The Netherlands, as the immediate parent company. According to the register kept by the company Ares Serono NV own 100% of the equity capital of Serono Laboratories (UK) Limited at 31 December 1997.