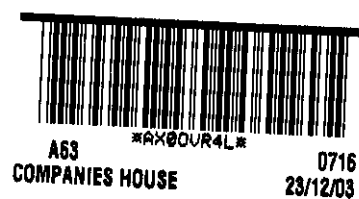


Serono Limited (Formerly Serono UK Limited)
Annual report
for the year ended 31 December 2002

Registered Number 1192915



Serono Limited

Annual Report

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Serono Limited

Directors and advisors

Directors

G von Kalckreuth

J Theurillat

J-P Verhassel

Secretary and registered office

L Bruggmann

Serono Limited

Bedfont Cross

Stanwell Road

Feltham

Middlesex

TW14 8NX

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

PricewaterhouseCoopers LLP

Harman House

1 George Street

Uxbridge

UB8 1QQ

Serono Limited

Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

Principal activities

The principal activities of the company continue to be that of marketing various ethical pharmaceutical products and services to hospitals and wholesalers.

Review of business and future developments

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results and Dividends

The profit and loss account for the year is set out on page 6. The directors do not recommend the payment of a dividend (2001:£Nil). The profit for the year of £447,000 (2001: restated £460,000) will be transferred to reserves.

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.

Directors and their interests

The directors of the company who held office during the year were:

Mr J Theurillat

Mr J-P Verhassel

Mr D Dogramatzis (resigned 15/7/2002)

Mr G von Kalckreuth (appointed 15/7/2002)

The company is a group subsidiary of 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. 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.

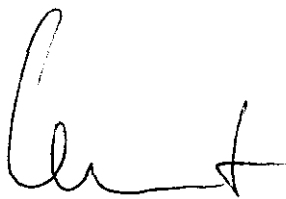
Serono Limited

Directors' report for the year ended 31 December 2002 (continued)

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 28th February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

By order of the Board



Director

Date

8.12.03

Serono Limited

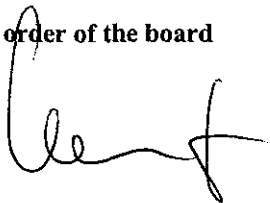
Statement of directors' responsibilities

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 except for the adoption of FRS 19 'Deferred tax' during the year;
- 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

Date

8.12.03

Serono Limited

Independent auditors' report to the members of Serono Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

Basis of audit 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Uxbridge

Serono Limited

Profit and loss account for the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
			(Restated)
Turnover	2	23,442	26,693
Cost of sales		(14,333)	(17,273)
Gross profit		9,109	9,420
Net operating expenses	3	(8,077)	(8,290)
Operating profit		1,032	1,130
Interest receivable and similar income		13	48
Interest payable and similar charges	6	(138)	(110)
Profit on ordinary activities before taxation	7	907	1,068
Taxation on profit on ordinary activities	8	(460)	(608)
Retained profit for the year	17,18	447	460

Statement of total recognised gains and losses for the period ended 31 December 2002

	Note	2002 £'000	2001 £'000
Profit for the financial period		447	460
Prior year adjustment – FRS 19	18	64	-
Total gains recognised since last annual report		511	460

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 year stated above and their historical cost equivalents.

Serono Limited

Balance sheet as at 31 December 2002

	Note	2002 £'000	2001 £'000 (Restated)
Fixed assets			
Tangible assets	9	393	467
Current assets			
Stocks	10	3,014	2,212
Debtors	11	7,653	8,422
Cash at bank and in hand		11	501
		10,678	11,135
Creditors: amounts falling due within one year	12	(9,162)	(10,180)
Net current assets		1,516	955
Total assets less current liabilities		1,909	1,422
Provisions for liabilities and charges	13	(85)	(45)
Net assets		1,824	1,377
Capital and reserves			
Called up share capital	16	800	800
Profit and loss account	17	1,024	577
Total equity shareholders' funds	18	1,824	1,377

The financial statements on pages 6 to 19 were approved by the board of directors on 8th December 2003 and were signed on its behalf by:

Director

Serono Limited

Notes to the financial statements for the year ended 31 December 2002

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 except for the adoption of FRS 19, 'Deferred Tax', during the year, is set out below.

Basis of accounting

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

Change in accounting policies

In December 2000, the Accounting Standards Board issued FRS 19 'Deferred Tax.' The company adopted FRS 19 in the financial statements. The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly. The effect of the change in accounting policy to adopt FRS 19 was to decrease tax on profit on ordinary activities by £45k (2001: increase £208k) and to increase profit for the financial period by £45k (2001: decrease £208k). The adjustments to opening reserves are shown in note 18.

Cash flow statement

The company is a wholly owned subsidiary of Serono BV and is included in the consolidated financial statements of Serono SA, which are publicly available (see note 22). 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

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:

	%
Fixtures, fittings and equipment	10-33

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

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

1 Principal accounting policies (continued)

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. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of transaction. 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, this is usually on despatch of goods.

Deferred taxation

Under FRS 19, provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future. 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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

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

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 represents contributions payable by the company.

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

2 Turnover

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

	2002	2001
	£'000	£'000
United Kingdom	19,577	23,002
Rest of Europe	3,865	3,691
	<u>23,442</u>	<u>26,693</u>

3 Net operating expenses

	2002	2001
	£'000	£'000
Sales and distribution costs	4,952	5,384
Administrative expenses	2,300	2,151
Research and development	825	755
	<u>8,077</u>	<u>8,290</u>

4 Directors' emoluments

	2002	2001
	£'000	£'000
Aggregate emoluments	227	178
Company pension contributions to money purchase schemes	22	13
Compensation for loss of office	84	-

No Directors (2001 :1) are accruing benefits under a defined contribution pension scheme.

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

Highest paid director

	2002	2001
	£'000	£'000
Aggregate emoluments	146	178
Company pension contributions to money purchase schemes	22	13
Compensation for loss of office	84	-

5 Employee information

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

	2002	2001
By activity:	Number	Number
Administration	16	16
Selling	40	37
Research and development	4	7
	60	60

	2002	2001
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	2,751	2,513
Social security costs	392	270
Other pension costs (see note 15)	205	278
	3,348	3,061

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

6 Interest payable and similar charges

	2002	2001
	£'000	£'000
On bank loans and overdrafts	138	110

7 Profit on ordinary activities before taxation

	2002	2001
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year on owned tangible fixed assets	198	241
Auditors' remuneration:		
- Audit services	30	28
- Non-audit services, comprising taxation services	45	58
Operating lease charges:		
- Hire of plant and machinery	323	279
- Other operating leases	785	780
Loss on foreign exchange transactions	63	17
Loss on disposal of fixed assets	-	117

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

8 Tax on profit on ordinary activities

	2002	2001
	£'000	£'000
		(Restated)
United Kingdom corporation tax at 30% (2001: 30%)		
Current tax	331	400
Under provision in respect of prior years	174	-
Deferred tax	(45)	208
	460	608

The tax charge for the period is higher (2001: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002	2001
	£'000	£'000
Profit on ordinary activities before tax	907	1,068
Profit on ordinary activities multiplied by the standard rate of	272	320
Effects of:		
Adjustments to tax in respect of the prior period	174	-
Expenses not deductible for tax purposes	76	122
Differences between capital allowances and depreciation	(17)	8
Other short term timing differences	-	(50)
Current tax charge for period	505	400

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

9 Tangible fixed assets

	Short leasehold improvements	Fixtures, fittings & equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002	133	1,228	1,361
Additions	44	80	124
At 31 December 2002	177	1,308	1,485
Depreciation			
At 1 January 2002	28	866	894
Charge for year	-	198	198
At 31 December 2002	28	1,064	1,092
Net book value			
At 31 December 2002	149	244	393
At 31 December 2001	105	362	467

10 Stocks

	2002	2001
	£'000	£'000
Finished goods and goods for resale	3,014	2,212

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

11 Debtors

	2002	2001
	£'000	£'000
		(Restated)
Trade debtors	4,023	6,655
Amounts owed by parent and fellow subsidiary undertakings	3,098	1,307
Other debtors	115	128
Prepayments and accrued income	308	268
Deferred tax asset (see note 14)	109	64
	<u>7,653</u>	<u>8,422</u>

Amounts owed by parent and fellow subsidiaries are unsecured, interest free and repayable on demand

Deferred tax asset	£'000
At 31 December 2001 as previously reported	-
Prior year adjustment – FRS 19	64
Amount credited to P&L (see note 8)	45
<u>At 31 December 2002</u>	<u>109</u>

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

12 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Bank loan	-	2,500
Bank overdrafts	1,671	1,047
Trade creditors	75	640
Amounts owed to parent and fellow subsidiary undertakings	4,335	3,554
Corporation Tax	113	141
Group relief payable	435	229
Taxation and social security	750	1,277
Accruals and deferred income	1,783	792
	<u>9,162</u>	<u>10,180</u>

13 Provisions for liabilities and charges

	Onerous lease
	£'000
At 1 January 2002	(45)
Utilised in the year	18
Additional Provision	(58)
<u>At 31 December 2002</u>	<u>(85)</u>

Onerous lease

The provision is in respect of onerous lease obligations and represents the excess of rental expenses over rental income. The provision is expected to be fully utilised by the end of 2004.

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

14 Deferred taxation

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

	2002 £'000	2001 £'000 (Restated)
Excess of depreciation over capital allowances	105	59
Short-term timing differences	4	5
	<u>109</u>	<u>64</u>

15 Pension and similar obligations

The company makes contributions to defined contribution pension schemes on behalf of its employees. The pension cost charge for the year amounted to £205,000 (2001: £278,000).

16 Called up share capital

	2002 £'000	2001 £'000
Authorised		
800,000 ordinary shares of £1 each	<u>800</u>	<u>800</u>
 Allotted, called up and fully paid		
800,000 ordinary shares of £1 each	<u>800</u>	<u>800</u>

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

17 Reserves

	Profit and loss account
	£'000
	(Restated)
At 1 January 2002 as previously reported	513
Prior year adjustment – FRS 19	64
Retained profit for the financial year	447
At 31 December 2002	1,024

18 Reconciliation of movements in shareholders' funds

	2002 £'000	2001 £'000
Opening shareholders' funds as previously reported	1,313	645
Prior year adjustment – FRS 19	64	272
Opening shareholders' funds as restated	1,377	917
Profit for the financial year	447	460
Closing shareholders' funds	1,824	1,377

19 Contingent liabilities

At 31 December 2002 the company had indemnity liabilities of £1,200,000 in respect of Value Added Tax deferred (2001: £1,200,000).

Serono Limited

Notes to the financial statements for the year ended 31 December 2002 (continued)

20 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	-	86	-	60
Expiring between two and five years inclusive	119	183	164	139
Expiring in over five years	694	-	616	-
	813	269	780	199

21 Related party transactions

As a wholly owned subsidiary whose results are included in the consolidated financial statements of Serono SA, 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

The ultimate parent company is Serono SA, a company registered in Switzerland, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The principal shareholder of Serono SA at 31 December 2002 was Bertarelli & Cie, a partnership limited by shares with its principal offices at Chésereux (Vaud), Switzerland. Bertarelli & Cie held 52.38% of the capital and 61.52% of the voting rights in Serono SA at this date. Ernesto Bertarelli controls Bertarelli & Cie.

On the same date Maria-Iris Bertarelli, Ernesto Bertarelli and Donatella Bertarelli Späth owned in the aggregate 7.13% of the capital and 9.91% of the voting rights of Serono SA. Copies of the ultimate parent's consolidated financial statements may be obtained from Serono International SA, Chemin des Mines 15 bis, CH-1202, Geneva, Switzerland.

The immediate parent company Serono BV is a company registered in the Netherlands.