

Corporate responsibility

Committed to continuous improvement

Overview

Serono has been a member of the United Nations Global Compact (UNGC) since 2001 and is committed to continuous improvement in the area of corporate responsibility. As you will read below, Serono has taken a number of steps to monitor and implement the 10 UNGC Principles relating to protection of the environment, upholding of labor standards and respect of human rights.

These measures have resulted in continuous and significant improvements in our environmental performance, as well as enhanced awareness and learning with respect to social issues and the monitoring of social indicators. They have also led to the introduction of major initiatives in 2005, namely the ISO 14001 certification of our main manufacturing sites, adoption of a group-wide code of business conduct, introduction of formal rules and guidelines in key areas such as procurement, harassment and discrimination, and signing of a European partnership agreement to reduce use of laboratory animals.

Serono is very proud to have been recognized on several occasions this year for its corporate responsibility efforts. Serono was awarded the Swiss Prize of Ethics, the ASPAN-SO2005 Prize for our collaboration on an energy-saving project with the city of Geneva, and other industry awards.

This section of the Annual Report provides a description of the measures adopted during the year 2005 to enhance our environmental and social performance, together with a detailed account of quantitative results obtained during this period. Regularly updated information and performance indicators pertaining to our corporate governance, environmental management, social issues, stakeholder relations, products safety and business ethics can be found in Fact Sheets, which can be accessed from the corporate responsibility section of our website (www.serono.com).



Environmental performance

Serono is a leading biotechnology company that specializes in the production of medicines and development of recombinant proteins and small molecules. Our activities have a very limited impact on the environment. It currently concerns water consumption, energy use for both heating and transportation (freight and personal), as well as carbon emissions from the gray energy generated in the production of electricity and gas supplied to our sites from an energy facility.

Our research and manufacturing processes do not involve the production of genetically modified organisms for sale or release into the environment. They do not involve or generate, hazardous chemicals, heavy metals, carcinogenic substances or so-called persistent organic pollutants such as PCBs, dioxins or pesticides. Reactions are carried out in aqueous phase and, therefore, do not cause emissions of atmospheric pollutants or ozone-depleting substances. The proteins, hormones and other molecules that we produce are naturally occurring substances in living organisms. While genetic modifications are applied to the cells and microorganisms that synthesize these molecules so that they are obtained in required concentrations and purity, such cells and microorganisms are completely deactivated – in keeping with regulations – before they are released in waste effluents. Our research operations are regularly inspected by biological safety regulatory authorities and use Class 1 microorganisms that present no health or environmental hazard according to internationally recognized standards.

New developments and initiatives

ISO 14001 certification

Our main manufacturing sites, Serono's Biotech Center in Corsiers-sur-Vevey (Switzerland) and Industria Farmaceutica Serono in Bari (Italy), received ISO 14001:2004 certification in the first quarter of 2005. Together, these two sites represent 65% of Serono's sales of therapeutic products. This measure will be extended in the future to other sites.

The ISO 14001 standardization procedure involves several steps, including an analysis of the company's environmental impact and management system, verification of compliance with local/national legislation, elaboration of programs for the reduction of impact of relevant processes, assignment of environmental responsibilities within the company, definition of monitoring and control procedures, measures to ensure transparency of internal and external communication, and an external audit by an accredited expertise organization.

With the ISO 14001 certification procedure, Serono aims to improve its ability to manage energy and water consumption, as well as to motivate staff to care for the environment. We also recognize the key importance of this standardization tool to enhance our competitive advantage and relations with our stakeholders.

Group-wide coordination of environmental management

Serono organized an Environmental Management Seminar in April 2005 with a view to enhance coordination on environmental management issues within the group. This seminar was attended by representatives from all R&D and manufacturing sites. The main outcome was the initiation of action plans for a future harmonization of environmental management systems at the corporate level, internal and external communication, and identification and monitoring of key performance indicators. A follow-up meeting is planned in 2006.

Key trends in 2005 compared to previous year

Over the 2001–2005 period, remarkable progress was achieved in the reduction of our overall environmental footprint, through steady improvements in water and energy efficiency and reduction of waste and emissions. As already mentioned, our main manufacturing sites have now adopted ISO 14001 certification, a measure that will be extended in the future to other sites.

Both energy and water consumption decreased markedly in 2005, by nearly a quarter for energy (–24%) and a third for water (–33%) on a per capita basis. Total carbon dioxide (CO₂) emissions due to gas and fuel showed a moderate decrease on a per capita basis (–5.7%), although they increased by approximately 7.3% overall. We have started to monitor gray energy from generation and distribution of gas and electricity.

The production of chemical waste has been cut by more than 90% over the last three years – from 1,114 tons in 2002 to 100.5 tons in 2005 – due mainly to technology changes in manufacturing processes. The production of non-chemical waste increased in 2005 by 6.7% overall, but is down 15% on a per capita basis. We treat and recycle an increasing part of our waste on site – 65% of total waste generated in 2005, compared to 44% in 2003.



Key indicators

Energy consumption down 4.7% (energy efficiency up 12.7%)

Water consumption down 15.6% (water efficiency up 27.3%)

Total chemical waste down 21% (chemical waste efficiency up 36%)

VOC (volatile organic compounds) emissions down 26.4%

Total non-chemical waste per capita down 14.8% (+6.7% overall)

Carbon efficiency constant at 0%, with overall carbon dioxide emissions up 7.3%

Total waste recycled and treated up, to 65% of the total waste generated, compared to 59% in 2004

Environmental performance data

Environmental performance data is collected annually from all Serono's manufacturing and R&D sites. The administrative headquarters office building (582 employees¹) was also surveyed in 2005. Overall, our data covers 12 sites with a total of 2,688 employees, or 57% of the total workforce of 4,750. Given that the remaining sites are essentially decentralized sales units that make up the rest of the company's workforce, we assume with a reasonable degree of confidence that the data presented below is a good approximation of the company's full environmental impact.

Water

Water is the main medium used by Serono in its research and manufacturing operations. Total water consumption decreased by 15.6% in 2005. This downward trend is related to the installation of a new energy-saving system of water condensate recovery in steam production and cooling at one of the manufacturing sites. Water efficiency in the company has more than doubled (+158%) since 2000.

Energy consumption, carbon dioxide emissions, and gray energy

Serono's energy sources are composed of gas (49.6%), electricity (48.6%), and other fuels (1.7%). Total energy consumption decreased between 2004 and 2005 (–4.7%) and energy efficiency increased by 12.7%.

Energy-related carbon efficiency remained stable. Although in absolute terms CO₂ emissions increased 7.3% last year, they have followed a decreasing trend since 2003 on a per capita basis (–21.5%) as a result of the company's efficiency efforts and substitution of electricity with gas.

It should be stressed that our CO₂ emissions data is calculated assuming that electricity generation for all sites is based on a typical European electricity mix. Although this is not factored into our statistics, the inclusion of a Swiss electricity mix for sites located in Switzerland would yield significantly lower CO₂ emission levels overall, as electricity generation in Switzerland is almost entirely based on non-fossil fuel sources, such as hydroelectricity and nuclear energy.

Carbon emissions from gray energy are emissions generated in the production of electricity and gas supplied to our sites from an energy facility. These emissions amounted to 39.5kt in 2005, which is more than double the level of CO₂ emissions emitted through our operations (17.3kt). A trend comparison will be possible at a later stage, given that this is the first time we include an indicator for gray energy in our data. We need to point out, however, that the company's influence on these gray energy emissions is minimal.

¹ The term "employee" in this report is used to mean persons working in the company irrespective of the nature (i.e. fulltime or parttime) of their employment contract.

Consumption and emission trends

Year	Energy consumption (Gjoule)	Water consumption (10 ³ m ³)	Chemical waste (Tons)	Non-chemical waste (Tons)	CO ₂ emissions from operations (Tons)	CO ₂ emissions from gray energy (Tons)
2000	494,918	850.4	1,785.0	–	–	–
2001	526,811	842.1	1,475.1	–	–	–
2002	539,731	838.2	1,113.8	943.1	14,542.0	–
2003	630,784	773.4	449.3	1,593.5	17,474.4	–
2004	631,704	794.9	127.3	1,477.1	16,184.0	–
2005	602,182	670.7	100.5	1,576.4	17,372.0	39,297.0
2004–2005 (% change)	–4.7%	–15.6%	–21.1%	6.7%	7.3%	–

Eco-efficiency indicators

Year	Energy (10 ³ US\$/Gj)	Water (10 ³ US\$/m ³)	Chemical waste (10 ³ US\$/Ton)	Non-chemical waste (10 ³ US\$/Ton)	CO ₂ emissions (10 ³ US\$/Ton)	CO ₂ emissions from gray energy (10 ³ US\$/Ton)	Total product sales (10 ³ US\$)
2000	2.32	1.35	0.64	–	–	–	1,147.0
2001	2.37	1.48	0.85	–	–	–	1,249.4
2002	2.64	1.70	1.28	1.51	0.098	–	1,423.1
2003	2.95	2.40	4.14	1.17	0.106	–	1,858.0
2004	3.45	2.74	17.11	1.47	0.135	–	2,177.9
2005	3.88	3.49	23.27	1.48	0.135	0.060	2,338.9
2004–2005 (% change)	12.7%	27.3%	36.0%	0.6%	–	–	7.4%

Per capita indicators

Year	Energy consumption (Gjoule)	Water consumption (10 ³ m ³)	Chemical waste (Tons)	Non-chemical waste (Tons)	CO ₂ emissions (Tons)	CO ₂ emissions from gray energy (Tons)
2001	117.04	0.19	0.33	–	–	–
2002	116.93	0.18	0.24	0.20	3.15	–
2003	297.26	0.17	0.21	0.75	8.23	–
2004	294.50	0.37	0.06	0.69	6.85	–
2005	224.03	0.25	0.04	0.59	6.46	14.62
2004–2005 (% change)	–23.9%	–32.7%	–37.0%	–14.8%	–5.6%	–

Waste recycling and treatment indicators

Year	Total waste (Tons)	Total waste recycled (Tons)	Total waste treated (Tons)	Percentage waste recycled and treated	Per capita waste (Tons)
2003	2,042.8	448.0	460.6	44%	0.96
2004	1,604.4	479.2	464.6	59%	0.75
2005	1,676.9	550.8	535.6	65%	0.62
2004–2005 (% change)	4.5%	14.9%	15.3%	10.1%	–16.6%

Waste

The total waste monitored at Serono's R&D and manufacturing sites falls into two categories:

- Non-chemical waste, including recyclables such as paper, plastics, glass, aluminum, etc., old equipment, biological material and incinerated waste
- Chemical waste, including solvents, chemicals and effluents.

The quantity of chemical waste was 100.5 tons in 2005, a 21% decrease compared to the previous year. This result can be attributed to the closing of two research and manufacturing sites. Non-chemical waste, on the other hand, increased 6.7%, due mainly to the inclusion this year of an administrative site that generates an appreciable amount of paper and various other non-chemical waste. This, however, needs to be considered in the context of a continuous growth in waste recycling and treatment capacity, which

allowed 65% of the total waste generated in 2005 to be recycled or processed through our own treatment facilities, compared to 59% the previous year. The remaining part is either incinerated or treated by public utilities. On a per capita basis, total waste produced has been decreasing at an average annual rate of 18% since 2003.

Chemical oxygen demand (COD)

Wastewater generated from manufacturing processes contains dissolved and suspended solids. Some of our manufacturing sites have their own waste treatment facilities, which allow the removal of organic pollutants by biological systems or physical or chemical treatment. Other sites do not treat their own wastewater, but send it to a local publicly owned wastewater treatment facility.

The quality of the wastewater is assessed by measuring the oxygen required to oxidize organic compounds present in the water, an indicator called chemical oxygen demand (COD). This indicator is an indirect measure of water quality. Our 2005 result of 714mg/l is the average value for seven sites.

Volatile organic compounds (VOC)

Serono's manufacturing processes are carried out in aqueous phase. Chemical solvents are almost exclusively used in the form of ethanol for disinfecting and cleaning purposes. Therefore, the potential production of VOCs is insignificant compared to levels typically observed in the chemical industry. Data collected on VOCs from sites where solvents are in use show that emissions levels dropped from 53 tons in 2004 to 39 tons in 2005.

Other indicators

Year	VOCs (tons)	COD (mgO ₂ /l)
2003	115.0	–
2004	53.0	–
2005	39.0	713.9
2004–2005 (% change)	–26.4%	–

Biodiversity and conservation design

Serono's main impact on biodiversity is in the construction of new buildings or manufacturing sites, or the extension of existing sites. All our construction projects undergo environmental impact assessments. They also include planning to mitigate the impact of transportation and commuting. We are sensitive to the necessity of preserving valuable natural functions of our sites when designing new plants and buildings. The proportion between the permeable (i.e. porous and covered with vegetation) and the non-permeable (buildings, driveways, walkways, parking lots, etc.) parts of the parcels on which our plants are operating is respectively 66% and 34% of the total land area. While recommended open space percentages vary between countries, regions, and even local communities, it is widely recognized that conservation design practices are beneficial to the natural environment, especially as concerns water quality, biodiversity and natural habitats, contribute to reducing flooding risks, and are essential to the quality of life of employees.

In Switzerland, environmental conservation organizations are systematically involved in a dialogue resulting in measures undertaken for the restoration of ecosystems or habitats when building or expanding our sites. The building of the new company headquarters was undertaken after complete decontamination of the area, and the choice of vegetation was made in cooperation with the Geneva's Botanical Gardens.

Social performance

Employee Policy

Serono's Employee Policy is dedicated to creating a working environment that attracts and nurtures the best talents from all cultures and enables them to excel, grow and innovate. Under the oversight of a member of the Executive Management Board, it is geared towards:

- Implementing fair and competitive employee compensation and benefits programs
- Implementing recognition programs designed to reward excellence in contribution and performance
- Developing a safe, healthy and productive workplace
- Ensuring employees' well-being and responding to their needs
- Encouraging mutual respect, diversity and teamwork
- Providing equal opportunities in the recruitment, development and promotion of employees
- Promoting active participation and interest of the employees in the company's sustainable growth



During 2005, we commissioned a leading global human resources consulting firm to assess how Serono compared as an employer with best-of-breed organizations. Drawing on their extensive past research and an examination of Serono's practices in 55 different areas, their conclusion was that "Serono's employment offer and people practices are mostly in line with Best in Class Companies." While welcoming this strong confirmation of the value of Serono's employment offer, we will continue to work on improving our ability to offer a compelling package to attract, develop and retain the best talents in the biotech and pharmaceutical industry.

The impact and effectiveness of various aspects of our Employee Policy is monitored and assessed through regular employee surveys.

Occupational health and safety (OHS)

Serono's OHS Policy aims to ensure a safe and healthy working environment for employees and focuses on the prevention of accidents, occupational diseases, exposure to hazardous or toxic substances, explosions and fires.

Each R&D, manufacturing and administrative site director is responsible for the establishment and implementation of the OHS Policy. All newly hired personnel are given an introductory training, and employee representatives are involved in OHS systems through a Safety Committee at each site. The site's Safety Committee ensures that adequate measures are taken to protect employees from hazards, and that potential threats and risks are identified and addressed. Emergency procedures in case of incident or crisis are defined in site-specific safety guidelines.

As indicators of health and safety performance, we measure the number of occupational fatalities, accidents and illnesses, as well as the days that affected employees are unable to work due to these events. Accident and illness frequency rates are reported per 100 employees working 50 weeks annually and 40 hours a week (i.e. 200,000 hours), which is a standard base for such incidence rates.

In 2005, Serono's operations registered no fatalities. There were 93 accidents registered for 12 sites, or 3.5 accidents for 100 workers. Although this rate is less than half of the Swiss national average of 7.4 accidents for 100 workers, it is important to stress that it is in all likelihood an overestimate, since data was collected from the sites with the highest risk of occupational accidents. There were 0.37 lost days per employee in 2005 as a result of accidents, which yields a losttime injuries rate of 0.019.

Based on data collected from 10 Serono sites, there were on average 6.1 lost days per employee due to illness in 2005. The corresponding occupational illness frequency rate was 0.44. As we have introduced the monitoring of these indicators in 2005, we will be in a position to analyze trends at a later stage.

Occupational health and safety indicators

Year	Number of fatalities	Number of accidents (11 sites)	Accident incidence rate (Number of accidents per 100 employees working 200,000 hours)	Lost time injury rate (Lost days per 100 employees working 200,000 hours)	Occupational illness frequency rate (Lost days per 100 employees working 200,000 hours)
2005	–	93	0.0014	0.019	0.44

Staff turnover and employment contracts

During the year 2005, the total number of employees decreased 3.1% mainly due to the management buyout of a Serono facility and the closing of operations in a research center. Staff turnover excluding restructuring was 12.2%. The proportion of the workforce on part-time vs. full-time contracts in 2005 is different across gender lines. While 1.8% of men were on part-time employment, this proportion was 12.7% for women. On average, the proportion of employees on part-time contracts in the company is 7.4% (see workforce table).



Gender and workforce diversity

Our employees represent 71 nationalities worldwide and 38 at our headquarters in Geneva. This diversity contributes to the dynamism, flexibility and creativity of our company.

Serono employs slightly more women (51%) than men (49%) overall. The proportion of women in managerial positions is currently 20%, up from 18% in 2004.

Gender ratios in management

	Total	Percentage
Women	43	20%
Men	174	80%
Total	217	100%

Discrimination and harassment

Serono's corporate policy on harassment and discrimination aims to promote and maintain a work environment that is free from harassment. No discrimination on the basis of race, gender, color, national origin, ancestry, religion, physical or mental disability, sexual orientation or age is tolerated by the company.

Procedures for complaint or third-party mediation are placed under the responsibility of

the Human Resources Department, and all reported incidents are investigated with the appropriate level of confidentiality.

Redundancies

In 2005, research activities conducted at the Serono Genetics Institute (SGI) in Evry, France, were transferred to Geneva. Administrative employees, as well as scientists and laboratory technicians unwilling or unable to relocate to Geneva, received a redundancy plan that included:

- A competitive severance allowance
- Outplacement services for employees wishing to look for other opportunities
- Funding of training programs and health benefits.

Scientists and laboratory technicians who decided to move to Geneva were offered full relocation assistance (logistics and financial).

At the end of 2005, Serono agreed to an amicable management buyout (MBO) with Bourn Hall Limited which is composed of Bourn Hall Clinic, the world's first in-vitro fertilisation clinic, and LCG Bioscience, an organisation offering clinical research and development services to the biotechnology and pharmaceutical industry. All Bourn Hall Ltd contractual agreements remain unaffected as a result of this MBO and this includes continuity of service for employees.

Labor standards and employee benefits

The great majority (86%) of Serono's employees work in countries or regions (Switzerland, Europe, North America) where employment standards are well developed. Specific employment arrangements vary from country to country, depending on legal provisions. Serono complies strictly with local legislation on such matters.

Workforce by gender and employment type

	100%	90-99%	50-89%	< 50%	Total	Gender ratio	Part-time ratio
Women	2,126	32	246	30	2,434	51%	12.7%
Men	2,274	4	33	5	2,316	49%	1.8%
All employees	4,400	36	279	35	4,750	100%	7.4%
Employment ratio	92.6%	0.8%	5.9%	0.7%	100%		

Workforce by region

	Switzerland	Europe	North America	Latin America	Rest of world	Total
	1,465	1,808	814	206	457	4,750
	31%	38%	17%	4%	10%	100%

Over two-thirds (69%) of Serono's workforce are employed in Switzerland and European countries where consultative arrangements between employees and management are based on collective agreements or recognition of trade unions. In these regions, labor councils, enterprise delegates and other workers consultation mechanisms are in place.

Serono has developed an Employee Share Purchase Plan, under which all its employees, where legally possible, have an opportunity to allocate a portion of their salary to buy the company's shares at favorable terms. Shares can be sold immediately after their purchase. Employees who leave their shares in the Plan for a full year are eligible for a company matching share program.

Depending on location, part-time employees enjoy proportionately the same benefits as full-time staff in terms of wage rates and social benefits. Non-financial benefits to Serono's employees include facilitated access to sports or other recreational activities that are beneficial to health and well-being. Temporary staff recruited through external agencies receive social benefits through the relevant agency.

Remuneration and performance appraisal of employees

The remuneration of all employees is based on level of responsibility, competence and performance. Serono benchmarks external practices in order to ensure that its remuneration schemes are competitive. Overall, Serono's total cash compensation is above market median, and 10% above its targeted competitive position.

Appraisals are conducted twice a year on the basis of objectives and career development plans that are set and reviewed annually. The performance management system and its impact on compensation are supervised by compensation committees at board level, as well as by the management in each Serono affiliate and site.

"We Care – Well-being for our People" program and appointment of social advisor

A new program was introduced in 2005 that allows employees to choose their work schedule individually and provides better nutritional information and healthfoods in the company's cafeterias. Under rules of complete confidentiality, a social advisor at Serono's Geneva headquarters is tasked with helping staff with their needs and issues. The US affiliate has adopted an assistance program to support employees with personal issues. Serono's work environment in Switzerland and the US is entirely non-smoking, with designated rooms for smokers in office buildings. Work/life balance initiatives can include summer schedules, flexible time, fitness facilities and/or yoga classes, depending on location. Childcare facilities in the new headquarters building will become operational in 2006.

Training and development

The continuous development needs of employees, managers and executives are nurtured and supported in the framework of Serono's "Pillars of Excellence" program. Well-defined competency areas, namely effective leadership, management and business knowledge, interpersonal skills, cognitive skills and energy and drive, offer learning opportunities to assist and foster career progression and individual development. The training is delivered through external programs designed for Serono (partnership with MIT and Thunderbird University, for example), internal courses, facilitated workshops, personalized coaching sessions, individual or team assignments and recommended reading.

In 2005, Serono invested US\$10.5 million in employee training, amounting to US\$2,200 per employee. Group-wide investment for training has decreased slightly over the 2004–2005 biennium (–6.7% on a per capita basis), due in part to reduced training expenses in marketing.

Investment in training (US\$000)

Year	Administration	Manufacturing	Marketing	R&D	Total
2003 Overall	4,545	561	3,450	2,613	11,169
Per employee					2.44
2004 Overall	4,627	594	3,605	2,758	11,584
Per employee					2.36
2005 Overall	4,975	509	2,499	2,752	10,435
Per employee					2.20

Other developments and initiatives

Worldwide Code of Business Conduct

In a development aimed at ensuring the application of harmonized standards of integrity and compliance with the company's core values throughout the group, a Worldwide Code of Business Conduct (WCBC) was adopted in 2005. This code prohibits insider trading as well as bribery and kickbacks. It defines rules and guidelines with respect to conflicts of interest and the behavior of employees who are in contact with public officials. Interaction with healthcare professionals is regulated in the US under the PhRMA Code and under the US-specific Code of Business Conduct, which addresses the ethical standards to be observed in such interactions, based on the principle that the care of a patient should be based on the patient's medical needs and the healthcare professional's medical knowledge and experience.

Reporting in case of non-compliance with the US Code is guided in the US by the company's Whistleblower Policy. In other countries, it occurs through the Worldwide Code of Business Conduct and the European and International Compliance Officer. While responsibility for its implementation rests with every individual employee, proper enforcement is under the purview of Serono's General Managers and The European and International Compliance Officer. Serono's managers have been given the additional responsibility of leading by example and providing guidance and advice to employees on the implementation of the policy.

The WCBC is a publicly available document that can be accessed from the company's website at www.serono.com/company/pdf/seronoCofBC.pdf. The supplemental Code of Business Conduct for the USA is also publicly available from the company's website at http://www.seronusa.com/about/SCP_Code_05_final.pdf



Customer health and safety

Serono's research, preclinical testing, clinical trials, facilities, manufacturing, labeling, pricing, and sales and marketing are subject to extensive regulation by numerous governmental authorities, including authorities in the European Union and Switzerland, as well as governmental authorities in the United States, such as the FDA. R&D activities are subject to laws regulating such things as laboratory practices and the use and disposal of potentially hazardous materials, including radioactive compounds and infectious disease agents.

Our Clinical Safety Policy, which applies to all Serono medical products and devices available for use under prescription, aims to ensure the highest level of protection to patients treated with our drugs, as well as subjects receiving our medical products and/or devices. This objective is pursued within the context of a highly regulated environment under Clinical Safety and Pharmacovigilance Standards and Regulations, as well as Good Manufacturing and Good Clinical Practices. The policy also applies to products undergoing clinical trial or post-marketing assessment, whether conducted by Serono, a local operating company, a contract research organization or a licensee.

Serono provides information on the safety of its medical products and devices in the form of patient leaflets, summary of product characteristics, product labels, scientific publications and periodic reports. Our Labeling Committee approves and monitors the labeling process, while the Safety and Ethics Committee ensures proper monitoring and reporting of product safety (see Corporate governance section 4.3.5 on page 122).

An internal procedure provides for the collection, documentation and processing of any safety information brought to the company's attention, both during drug development and use of products. This includes information originating from healthcare professionals, patients, regulatory authorities or scientific literature. All clinical safety data gathered from clinical trials and post-marketing sources is regularly reviewed and analyzed by the company.

Customer relations

Customer services processes are geared to adapt to the needs of customers, and specific approaches are developed for pre-wholesalers, wholesalers, public hospitals, private hospitals and pharmacists. An ISO 9001 certified Quality Management System directed at customer satisfaction was awarded to Serono Iberia in 2005 and Serono Portugal in 2004.

Procurement guidelines and quality standards for suppliers

Serono is gradually implementing environmental, labor and human rights quality standards for its suppliers across the group, starting with Serono International's Procurement Department. Clauses in Serono's Procurement Policy Conditions require suppliers and contractors to take all necessary measures to ensure that the goods or services they supply to Serono are manufactured or provided, packaged and transported in a way that minimizes their environmental impact. They are also required to warrant that the manufacture of the goods sold to Serono does not infringe on internationally recognized labor or human rights of workers, and does not rely on child or forced labor. Suppliers in the company's core areas of activity undergo a qualification audit and re-qualification audits based on industry specific Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice.

Community engagement and sponsorship

Serono's community engagement and support of charitable work aims at promoting projects that generate goodwill in the community and offer opportunity for employees' participation. For example, 45 Serono employees took part in 2005 in a skiing event that raised CHF100,000 for schoolchildren in difficulty.

Our primary areas of focus are academic projects, charitable healthcare initiatives and socio-cultural events. In addition, the Serono Foundation for the Advancement of Medical Science (www.serono-foundation.org) supports research and knowledge exchange activities in basic and clinical science.

Projects supported or initiated as part of our community engagement in 2005 include:

- The creation, with the Paris-based Pasteur Institute, of a joint research unit and professorial chair in the area of genetic aspects of infectious diseases
- A partnership with the Universities of Geneva and Lausanne to create a regional research center for reproductive endocrinology
- The support, in response to the earthquake and tsunami that struck South Asia at the end of 2004, of a Terre des Hommes project in favor of the health of mother and child in Sri Lanka
- The sponsorship of various activities and special days that aim at raising funds for the treatment of multiple sclerosis, psoriasis and cancer.

Serono's US affiliate launched a Community Service Council in 2005, comprised of individuals throughout the organization who bring energy, commitment, and passion to support and drive the implementation of programs such as supporting local elementary schools, working with charities, providing aid to low income individuals and families, and providing a 100% match on all employee donations to the American Red Cross. In the wake of Hurricane Katrina, a number of actions were implemented to support the rebuilding process.

The promotion of science and biotech education is also a priority for Serono. In this context, Serono Inc. in the US is a major sponsor of a program called BioTeach that fosters a better understanding of biotechnology in high schools around Massachusetts. A collaborative program with the Biotechnology Institute provides teachers with skills, strategies and knowledge to spread awareness of biotechnology to their students and educate their peers to do the same.

In Spain, an agreement with Queen Sofia's Foundation, which aims to support people suffering from Alzheimer's disease, will lead to the equipment of a R&D laboratory for research in the treatment of Alzheimer's. Another project conducted with Fundación Aprocór assisted in the decoration and equipment of the living quarters of mentally-disabled young people. All employees from Serono Spain took part in their inauguration.

A detailed description of sponsored projects is publicly available from our website at the following address: www.serono.com/company/pdf/serono_sponsoring_2005.pdf.

3Rs* initiative on animal research

Animal testing is required under the animal studies regulation for predicting human safety of pharmaceuticals in the development of cures, therapies and treatments for diseases. Serono is committed to ensuring that animal research is only performed when no equally predictive alternative methods accepted by regulatory bodies are available. All of our testing for new cures and treatments is covered by stringent regulations and inspections.

In November 2005, in keeping with our commitment to reduce the use of animals in researching new medicines, Serono and other companies in biotechnology, chemicals, pharmaceuticals, cosmetics and agrochemicals have adopted the "European Partnership to Promote Alternative Approaches to Animal Testing – 3Rs Declaration."

This Declaration supports the development, validation and acceptance of alternative approaches to replace, reduce, and refine animal use and apply advanced methodology from biosciences and medicine to develop novel approaches.

This new 3Rs partnership initiative was launched in Brussels at a conference hosted by the European Commission's Enterprise and Research Departments. An action plan will be published in 2006, with yearly progress reports thereafter.

Awards

Swiss Ethics Prize

As a result of special efforts made in the improvement of environmental management and the adoption of an advanced occupational health and security framework, Serono's main Biotechnology Center was rewarded in November 2005 with the Swiss Ethics Prize, delivered by the Vaud Canton's School of Management. According to the Chairman of the Examiners Board, Pierre Zumwald, this Prize was a "reward for special efforts carried out in Switzerland by a Swiss company in the area of Corporate Social Responsibility and Sustainable Development." It was also aimed at "reminding the business community that taking into account the ethical dimension allows an organization to generate high added value."

Prize for Serono's Worldwide Research Center and Headquarters

In April 2005, Serono and the City of Geneva received the ASPAN-SO2005 Prize for their collaboration on an energy conservation project for Serono's new Global Research Center and Group Headquarters. This Prize was given in recognition of this exemplary public-private partnership by the Swiss Association for Town and Country Planning.

The building is currently under construction in Geneva, Switzerland, and includes energy conservation and management concerns as core elements of its design. It is located at walking distance from the railway station and linked to a RER commuter train stop. Thermally treated and tiled glass panels will constitute the façade's envelope, serving as thermal insulation, an intrinsic element of the building's decentralized temperature regulation system. Additional heating and cooling capacity will rely on thermal energy extracted from Lake Geneva's water, which will be pumped from a depth of 35 meters where the water temperature is stable. Compared to traditional heating and cooling techniques, this system will yield savings of approximately 60% in carbon dioxide emissions.

*3Rs stand for replacement, refinement and reduction

Half of the building's energy needs will be met by the pumping of lake water, and another 20% by hydroelectric power, making the building 70% reliant on renewable energies. Operating costs of the cooling system will be reduced by 50% compared to conventional technologies.

Other awards

In addition to these prizes, our US affiliate received several awards:

- A recognition that rewards the best healthcare marketing and communications (Medical Marketing & Media Award in the category of Best Use of Digital Marketing to Consumers for Fertility Lifelines)
- An award that highlights the Internet's role in achieving an organization's business objectives and recognizes the work that has gone into creating outstanding healthcare websites (Platinum eHealthcare Leadership Award for Best Special Effects for CoolLearnings website)
- The Corporate Sponsor of the Year Award from the National Multiple Sclerosis Society in the US
- The 2005 Cardinal Health Supplier Quality Award in recognition of outstanding quality performance in the following areas: Supply Chain Efficiency, Supply Chain Services, Value Added Best Practices and Supply Chain Management Opportunities. This is the first time Serono, Inc. received this recognition, scoring 64 out of a possible 65 points.



Finally, the 2005 Top Biotech and Pharma Employers survey conducted by *Science* ranked Serono among the top 20 employers. This survey sought to identify companies with the best reputation as employers based on responses from readers of *Science* and other selected respondents. 80% of the respondents came from the US, the rest primarily from Western Europe, and 83% were from private industry. Rankings were given on the basis of whether companies treat employees with respect and work-culture values align with employees' personal values, amongst other factors.

R&D on diseases in developing countries

Serono products are developed for the treatment of conditions that are mainly known in the developed world (such as infertility and MS). Only a small percentage of Serono's products are distributed in developing countries. Nevertheless, Serono routinely sends useful scientific reagents to a wide variety of laboratories in developing countries as a way of sharing knowledge on the molecular basis of infectious diseases.

In addition, we are currently collaborating with the World Health Organization on an innovative training program, in which a scientist from Brazil and a clinician from Cameroon were trained in the science of drug discovery according to Serono's quality standards. Within a very short time span, the program led to the development of various screening assays and the identification of potent inhibitors of a protein defined as key in the development of tropical diseases. These two scientists will continue to work on diseases in the developing world.



UNMET NEED MET

EVERYTHING WE DO IS TO HELP
PEOPLE WITH UNMET MEDICAL
NEEDS LEAD BETTER AND MORE
NORMAL LIVES