Lonza Biologics Plc

Annual report and Financial Statements

Registered number 2742471

For the year ended
31 December 2019

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Lonza Biologics Plc
Officers and Advisors

Company Secretary
Gerry Kennedy

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228 Bath Road
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Auditor
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Banker
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Tax advisor
Ernst & Young
1 Bridgewater Place
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Solicitor
Stevens & Bolton LLP
Wey House
Farnham Road
Guildford
Surrey
GU1 4YD

Directors
Michael Brown (resigned 21 May 2020)
Edward Garfield
Nick Carter
Ralf Geier
Alexander Herget (appointed 21 May 2020)

Strategic Report

Business strategy
The company is a leading development services provider and contract manufacturer as part of Lonza Group and benefits from Lonza's excellent reputation in the market place and the continued strong growth in the Biopharmaceutical market. The company develops its technological knowhow and relationships with research institutions to grow its business with new and existing customers.

Performance during the year
The revenue of the company increased to £183.5m (2018: £163.4m) as the company experienced an increase in demand for its products and services.

The profit before taxation for the year increased to £18.2m (2018: £16.9m).

The number of projects the company is working on continues at a high level. Further investments were made during the year to enhance production and development capacities.

KPIs	**2019**	**2018**
Batches produced in the year*	73	64
Revenue	£183.5m	£163.4m
Profit on ordinary activities before taxation	£18.1m	£16.9m

* GMP Batches of drug substance produced for customers at the Slough facility

Position at year end and prospects
The company expects further growth in the areas of development services as well as small and mid-scale contract manufacturing and will continue to add additional capacity and increase resources accordingly. In the short term the company is further preparing for the economic challenges to the Biopharmaceutical industry. The company is actively managing the situation and adapting its cost base and resources carefully.

The principal risk and uncertainties facing the business
The risks involved in terms of foreign currency exposure, capacity and resource utilisation rates are covered by Lonza Group companies, to which the company is providing the services. The primary remaining risks in the area of credit and liquidity risk are closely monitored and reviewed regularly by the Board. During 2019, the company almost exclusively provided its services to Lonza Group companies and was financed entirely by its ultimate parent company, Lonza Group AG.

The company is closely monitoring the progress of the Brexit negotiations and the potential impacts of COVID-19. The company has established a Brexit committee specifically to monitor developments as the post Brexit landscape evolves and, in particular, to ensure that all potential implications relating to Brexit are considered. The company is regularly reviewing processes and practices to minimise the business and employee risks related to COVID-19.

Strategic Report

Section 172 statement
As a Board we have always taken decisions for the long-term and collectively and individually our aim is always to uphold the highest standard of conduct and act fairly. Similarly, we understand that our business can only grow and prosper over the long-term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers, the environment and the shareholders to whom we are accountable.

We ensure that the requirements of s172 Companies Act 2006 are met and the interests of our stakeholder groups are considered through a combination of the following:

- An employee engagement survey is completed periodically.

- The board wants to ensure that customers get the best of the products and services offered, and guarantee continual improvement and stability of supply. This means having a robust supply chain, operational capacity and efficiency, committed project managers, and compliance with strict quality and regluatory standards.

- The Lonza Supplier Code of Conduct governs how the board evaluate and set high standards for suppliers.

- Employees are required to take Code of Conduct training every year which includes an integrity pledge certificate. Additionally, Lonza employees have to pass tests in online training courses on anti-bribery, competition law, insider trading and conflicts of interest. All employees explicitly consent to uphold the values expressed in the Code of Conduct.

By order of the board

N Carter
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

16 December 2020

Directors' report

The directors present their Directors' report and accounts for the year ended 31 December 2019.

Principal activities

The company is part of a Life Science driven group headquartered in Basel, Switzerland. The Lonza Group is one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. The Group focuses on preventing and curing illness, by supporting customers to deliver innovative medicines that help treat a wide range of diseases, as well as creating a healthier environment. Patients and consumers benefit from the way the Group applies its manufacturing technologies to the healthcare, preservation and production categories.

Lonza harnesses science and technology to create products that support safer and healthier living and that enhance the overall quality of life. Lonza offers products and services from the custom development and manufacturing of active pharmaceutical ingredients to innovative dosage forms for the pharma and consumer health and nutrition industries.

Dividends

The company paid a dividend of £23m during the year (2018: £nil), and in September 2020 a £20m dividend was declared and paid by the company.

Directors and directors' interests

The directors of the company during the year were as follows:

Michael Brown (resigned 21 May 2020)
Edward Garfield
Nick Carter
Ralf Geier
Alexander Herget (appointed 21 May 2020)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

Employees

The company believes it is important that employees are informed regularly about aspects of the business and its progress which the company considers are relevant to them. Communications at the time of key announcements include presentations to all employees, together with briefings throughout the year. Emails and the company's intranet site are used to update employees. In addition regular meetings are held with staff and managers, both to raise issues and to assist with the two-way flow of information. Employee communications are regularly reviewed by the directors and improvements are implemented as required. The company actively encourages and financially supports a wide range of sports and social functions many of which are organised by the Sports and Social Club.

The company understands that continuing education, training and development of staff are important to ensure its future success. It therefore supports individuals who wish to obtain appropriate further educational qualifications.

Lonza recognizes that its people are the cornerstone of its success and we value our diversity as a source of strength. Lonza is committed to non-discriminatory working practices. Independent of their position, all employees are duty bound to treat their colleagues with fairness, courtesy, and respect irrespective of ethnicity, national origin, colour, religion, marital status, sexual orientation, gender identity or gender expression, creed, age, sex, disability, veteran status or any similar characteristic

Directors' Report (continued)

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

N Carter
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

16 December 2020

Statement of Directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's report to the members of Lonza Biologics Plc

Directors' responsibilities
As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Opinion
We have audited the financial statements of Lonza Biologics Plc ("the company") for the year ended 31 December 2019 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern
The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Independent Auditor's report to the members of Lonza Biologics Plc

Directors' responsibilities
As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

David Caseldine (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

16 December 2020

Statement of Profit and Loss and Other Comprehensive Income

	Notes	2019 £ 000	2018 £ 000
Revenue	2	183,535	163,402
Cost of sales		(141,946)	(128,017)
Gross Profit		41,589	35,385
Administrative and other operating costs	3	(26,771)	(20,930)
Other operating income	6	4,861	3,087
Operating Profit		19,679	17,542
Financial income	7	3,504	3,211
Financial expenses	7	(4,995)	(3,864)
Net financing expense		(1,491)	(653)
Profit on ordinary activities before taxation		18,188	16,889
Tax on profit on ordinary activities	8	(12,616)	(3,233)
Profit for the financial year		5,572	13,656
Other comprehensive income			
Items that cannot be reclassified to the income statement:			
Actuarial (loss)/gain on Defined Benefit pension scheme liability	19	(26,172)	19,614
Actuarial gain/(loss) on plan assets	19	15,811	(8,103)
Actuarial (loss)/gain on Defined Benefit Pension plan	19	(10,361)	11,511
Deferred tax effect of the above items	16	1,761	(1,957)
Items that are or may be reclassified subsequently to profit or loss:			
Deferred tax on Share Options	16	57	1
Other comprehensive income for the year, net of income tax		(8,543)	9,555
Total comprehensive income for the year		(2,971)	23,211

None of the company's activities were acquired or discontinued during the above two financial years.

The notes on pages 14-23 form part of the Financial Statements.

Statement of Financial Position

	Notes	2019	2018
		£ 000	£ 000
Non-current assets			
Property, plant and equipment	10	95,100	60,575
Intangible assets	9	2,074	244
		97,174	60,819
Current assets			
Inventories	11	34,177	31,417
Debtors (of which £5,040k is due after one year)	12	64,676	58,635
Cash and cash equivalents	13	4,293	10,215
		103,146	100,267
Total Assets		**200,320**	**161,086**
Creditors: amounts falling due within one year	14	(64,641)	(40,862)
Total assets less current liabilities		**135,679**	**120,224**
Creditors: amounts falling due after one year	15	(30,816)	-
Provisons			
Deferred tax liabilities	16	(2,714)	(3,934)
Employee benefits	19	(27,730)	(15,900)
		(30,444)	**(19,834)**
Net assets		**74,419**	**100,390**
Equity			
Called up share capital	17	14,500	14,500
Retained Earnings		59,919	85,890
Total Equity		**74,419**	**100,390**

The notes on pages 14-23 form part of the Financial Statements.

These financial statements were approved by the board of directors on 16 December 2020 and were signed on its behalf by

N Carter
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

Registered number 2742471

Statement of Changes in Equity

	Notes	Share Capital £ 000	Retained Earnings £ 000	Total Equity £ 000
Balance at 1 January 2018		14,500	62,679	77,179
Profit for the year		-	13,656	13,656
Deferred tax	16	-	(1,956)	(1,956)
Actuarial gain on defined benefit pension scheme	19	-	11,511	11,511
Balance at 31 December 2018		14,500	85,890	100,390
Balance at 1 January 2019		14,500	85,890	100,390
Profit for the year		-	5,572	5,572
Deferred tax	16	-	1,818	1,818
Actuarial loss on defined benefit pension scheme	19	-	(10,361)	(10,361)
		14,500	82,919	97,419
Transactions with owners, recorded directly in equity				
Dividend paid to group company		-	(23,000)	(23,000)
Balance at 31 December 2019		14,500	59,919	74,419

The notes on pages 14-23 form part of the Financial Statements.

1 Accounting policies
Lonza Biologics (the "Company") is a company incorporated and domiciled in the UK.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). The *comparative information was prepared under IFRS (as adopted by the EU). There are no transition adjustments.*

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Company's ultimate parent undertaking, Lonza Group AG includes the Company in its consolidated financial statements. The consolidated financial statements of Lonza Group AG are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from www.lonza.com, or alternatively from Lonza Group AG, Muenchensteinerstrasse 38, CH-4002, Basel.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:
• a Cash Flow Statement and related notes;
• Comparative period reconciliations for share capital
• Disclosures in respect of transactions with wholly owned subsidiaries ;
• Disclosures in respect of capital management;
• *The effects of new but not yet effective IFRSs;*

As the consolidated financial statements of Lonza AG include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

• Detailed disclosures in relation to certain group share-based payment arrangements (IFRS 2).
• Financial instrument disclosures (IFRS 7).

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Measurement convention
The financial statements are prepared on the historical cost basis except for share based payment arrangements which are valued at fair value.

Going Concern
The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of severe but plausible downsides, including downsides which are Covid-19 related, the company will have sufficient funds, through funding from its ultimate parent company, Lonza Group AG, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Lonza Group AG providing additional financial support during that period, in addition to not seeking repayment of their debts. Lonza Group AG has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Foreign currency
Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The company's functional currency is pounds sterling, which is also the presentational currency of the financial statements.

Revenue
Revenue, which is stated net of value added tax, represents amounts derived from group and external companies for the provision of goods and services. This comprises of manufacturing sales, research and development and consultancy services rendered to other group companies. Revenue is recognised on manufacturing sales when the performance obligations have been met, and all associated quality assurance has been performed.

Research and development expenditure
Research expenditure is written off to the income statement in the year it is incurred and subsequently recharged to a fellow group company. Costs associated with ongoing development programs are accrued to the balance sheet as work in progress and released when the revenue is booked.

Investment in subsidiary undertakings
Investments in subsidiary undertakings are disclosed at cost less any impairment. Where management identifies uncertainties over the carrying value of any investment it is impaired to a present estimate of its net realisable value.

Intangibles
Intangibles that are acquired by the Company are measured at cost less accumulated amortisation. Amortisation is over a 10 year period.
Expenditure on internally generated goodwill and brands is recognised in the Income Statement as the expense is incurred.

Property, plant and equipment
Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment. Gains and losses on disposal are recognised net within "administrative expenses" in the income statement.

Subsequent costs
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the company and its costs can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

<u>Depreciation</u>
Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment as follows:

• Leasehold building improvements	over the shorter of 20 years or the lease term
• Plant and machinery	over 4-8 years
• Buildings	10-40 years

Impairment
<u>Financial assets</u>
Financial assets comprise trade and other receivables and cash and cash equivalents. A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognised in the income statement.

<u>Non-financial assets</u>
Non financial assets comprise of property, plant, equipment and inventory. The carrying amounts of the company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing its value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss has been recognised.

Inventories
Inventories are stated at the lower of cost and net realisable value. In the case of work in progress and manufactured product, cost includes an appropriate share of overheads based on normal operating activity.

Trade receivables
Trade receivables are recognised at the original invoice amount less allowances made for impairment. An allowance is recorded for the difference between the carrying amount and the recoverable amount where there is evidence based on expected credit losses that the company will not be able to collect all the amounts due.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Provisions
A provision is recognised if, as a result of a past event, the company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flow at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

1 Accounting policies (continued)

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.
The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate.
Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Previously under IAS 17: Payments made under operating leases are charged to the income statement on a straight line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expenditure.

Pensions

Defined contribution

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for the contribution to defined contribution pension plans are recognised as an expense in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.
Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Equity settled share based payment transactions

The Lonza Group share schemes entitle employees to acquire shares in Lonza group AG through share option arrangements. The schemes are all equity settled. The fair value of share entitlements granted is recognised as an employee expense in the income statements with a corresponding increase in equity. The expense for the share entitlements shown in the income statement is based on the fair value of the total number of entitlements expected to vest and is allocated to accounting periods over the vesting period. At each balance sheet date, the company revises its estimates of the number of options that are expected to become exercisable. It recognised the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity over the remaining vesting period.

Equity amount are recycled from reserves when the obligation of the Company is settled, via payments to Lonza Group.

Financial income and expenses

Financial income comprises interest income on funds invested and net exchange gains of foreign currency deposits and balances. Interest income is recognised as it accrues in the income statement, using the effective interest method.
Financial expenses comprise interest expense on borrowings and net exchange losses of foreign currency deposits and balances. All borrowing costs are recognised in the income statement using the effective interest method.
Foreign currency gains and losses are reported on a net basis.

2 Revenue

	2019 £ 000	2018 £ 000
By activity:		
Manufacturing	104,987	82,630
Development Service	47,822	52,255
Licences	2,391	545
Consultancy services	28,335	27,972
	183,535	163,402

3 Expenses and auditor's remuneration

Included in the administrative and other operating costs are the following:

		2019 £ 000	2018 £ 000
Repairs and maintenance		6,063	5,375
Depreciation and amortisation		10,771	7,088
Operational consulting and services		2,258	6,543
Lease rentals (2018: operating lease rentals)		114	350
Impairment of inventory		3,061	-
Auditor's remuneration:	audit of these financial statements	97	75
	other audit services	-	-
Research & Development expenses		399	705

4 Directors' remuneration

One director exercised share options in the year to the value of £146,973 (2018: £192,190).

	2019 £ 000	2018 £ 000
Emoluments	752	779
Pension Benefits	49	58
	801	837

Directors emoluments of £463,000 (2018: £482,090) were received by the highest paid director.

Number of directors in company pension schemes:	2019 Number	2018 Number
Defined benefit schemes	1	1

Pension payments to the highest director were £22,971 (2018: £22,800).

5 Staff numbers and costs

	2019 £ 000	2018 £ 000
Wages and salaries	69,479	54,527
Social security costs	7,070	5,391
Other pension costs	5,024	5,512
	81,573	65,430

Average number of employees during the year, analysed by category, was as follows

	2019 Number	2018 Number
Administration	235	304
Development	340	356
Operations	552	528
	1,127	1,188

6 Other operating income

Other operating income of £4,861k (2018: £3,087k) relates to the cumulative anticipated research and development expenditure credit ("RDEC") receivable from HMRC in respect of the period ending 31 December 2019, £407k from a government grant and £1,744k received from the proceeds of liquidation.

7 Finance income and expense recognised in profit and loss

	2019 £ 000	2018 £ 000
Other interest income	-	7
Interest on loans from parent undertakings	-	33
Interest income on defined benefit plan assets (note 19)	3,504	3,171
Foreign exchange gains	-	-
Total financial income	3,504	3,211
Interest on defined benefit pension plan obligation (note 19)	(3,984)	(3,808)
Interest on lease liability	(761)	-
Bank loans and overdrafts	(97)	-
Interest on loans from parent undertakings	(28)	-
Foreign exchange losses	(125)	(56)
Total finance expense	(4,995)	(3,864)
Net financial expense recognised in profit and loss	(1,491)	(653)

8 Taxation

Recognised in the income statement

	2019 £ 000	2018 £ 000
Current tax:		
Current year	7,516	2,403
Adjustments for prior years	6,607	126
	14,123	2,529
Deferred tax:		
Origination and reversal of temporary differences	(175)	740
Adjustment for prior period	(1,325)	42
Effect of changes in tax rate on opening liability	(7)	(78)
	(1,507)	704
Total tax expense	12,616	3,233

Reconciliation of effective tax rate

	2019 £ 000	2018 £ 000
Profit on ordinary activities before tax	18,188	16,889
Total tax expense	(12,616)	(3,233)
Profit after tax	5,572	13,656
	£ 000	£ 000
Tax using the UK corporation tax rate 19% (2018: 19%)	3,456	3,209
Reduction in tax rate on deferred tax balances	21	(78)
Expenses not deductible	246	170
Adjustment in respect of prior period	5,282	168
Income not taxable	(57)	(106)
Share options	(146)	(130)
Transfer price adjustment	3,814	-
Total tax expense	12,616	3,233

In 2017 an enquiry was opened into the transfer pricing arrangements between Lonza Biologics plc and its Swiss parent. This enquiry was closed in March 2020 through a settlement, and amended tax returns for 2015-2018 have subsequently been filed. This has resulted in an increase in the 2019 current tax charge of £8.8m.

The Finance Act 2016, which received Royal Assent on 15 September 2016, enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2020. On 11 March 2020, it was announced in the UK Budget that the reduction in the corporation tax rate to 17% would be reversed, and the standard rate of corporation tax will remain at 19%. This was substantively enacted on 17 March 2020 by way of special resolution. As this change was not substantively enacted at the balance sheet date, deferred tax has been calculated at 17%.

The company has capital losses of £2,917,716 (2018: £2,917,716) that are available indefinitely for offset against future capital gains of the company. Deferred tax assets have not been recognised as there is uncertainty whether suitable profits will arise in future periods against which the deferred tax assets would reverse.

9 Intangible fixed assets

Licence	2019 £ 000
Cost	
Balance at 1 January 2019	5,444
Additions	2,803
At 31 December 2019	8,247
Amortisation	
Balance at 1 January 2019	5,200
Provided during the year	973
At 31 December 2019	6,173
Net book value	
At 31 December	2,074

10 Property, plant and equipment

	CIP Leasehold improvements	CIP Plant & equipment	Leasehold improvements	Plant & equipment	Land & Buildings	Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Cost						
At 1 January 2019 reported as per IAS17	8,613	14,484	53,083	56,120	-	132,300
Right of use assets	-	-	-	-	23,414	23,414
At 1 January 2019 reported as per IFRS16	8,613	14,484	53,083	56,120	23,414	155,714
Additions	2,783	3,212	817	3,721	10,375	20,908
Transfer	(3,153)	(15,267)	3,070	15,350	-	-
Adjustment	-	-	-	2,055	-	2,055
Balance at 31 December 2019	8,243	2,429	56,970	77,246	33,789	178,677
Depreciation						
At 1 January 2019	-	-	27,564	44,160	-	71,724
Charge for the year	-	-	2,767	4,576	2,455	9,798
Adjustment	-	-		2,055	-	2,055
Balance at 31 December 2019	-	-	30,331	50,791	2,455	83,577
Net book value						
At 31 December 2019	8,243	2,429	26,639	26,455	31,334	95,100

CIP = construction in progress

Right of use assets

At 31 December 2019, property, plant and equipment includes right of use assets as follows:

	Land & Buildings	Total
	£ 000	£ 000
Balance at 1 January 2019	23,414	23,414
Additions	10,375	10,375
Depreciation charge for the year	2,455	2,455
Balance at 31 December 2019	31,334	31,334

11 Inventories

	2019 £ 000	2018 £ 000
Raw materials and consumables	10,783	7,083
Work in progress	16,881	12,562
Finished Goods	6,513	11,772
	34,177	31,417

The difference between purchase price or production cost of stocks and their replacement cost is not significant.

Raw materials and changes in work in progress recognised as cost of sales in the year amounted to £26,980,000 (2018: £34,686,000).

12 Trade and other receivables

	2019 £ 000	2018 £ 000
Current		
Trade receivables	771	1,062
Amounts owed by group undertakings	48,832	44,487
Deferred tax asset (see note 16)	5,040	2,935
Tax receivable	4,728	6,194
Prepayments and accrued income	5,305	3,957
	64,676	58,635

13 Cash and cash equivalents

	2019 £ 000	2018 £ 000
Cash at bank and in hand	4,293	10,215

14 Creditors: amounts falling due within one year

	2019 £ 000	2018 £ 000
Trade payables	12,979	12,916
Amounts owed to group undertakings	15,660	1,368
Group relief owed to group undertakings	9,773	9,103
Other creditors	6,539	1,198
Lease liability	1,487	-
Accruals and deferred income	18,203	16,277
	64,641	40,862

15 Creditors: amounts falling due after one year

	2019 £ 000	2018 £ 000
Lease liability	30,816	-
	30,816	-

16 Deferred tax assets and liabilities

	2019 £ 000	2018 £ 000
Liabilities		
Fixed assets	(2,714)	(3,934)
	(2,714)	(3,934)
Assets		
Employee benefits plans	4,714	2,703
Temporary differences trading	39	2
Share options	287	230
	5,040	2,935

Movement in deferred tax during the year	**Temporary differences trading**	**Property Plant and Equipment** £ 000	**Employee Benefits Plan** £ 000	**Intangible Assets** £ 000	**Share Options** £ 000	**Total** £ 000
Balance as at 1 January 2019	2	(3,904)	2,703	(30)	230	(999)
Recognised to income statement	(14)	71	250	(132)		175
Recognised to equity	-	-	1,761	-	57	1,818
Prior year adjustment to income statement	51	1,274	-	-	-	1,325
Prior year adjustment to equity	-	-	-	-	-	-
Rate change adjustment to equity	-	-	-	-	-	-
Rate change adjustment to income statement	-	(7)	-	14	-	7
Balance as at 31 December 2019	39	(2,566)	4,714	(148)	287	2,326

Deferred tax asset and liabilities are measured at rates that are expected to apply in the period when the asset is realised or the liability is settled based on the tax rates that have been enacted, or substantially enacted, at the balance sheet date.

17 Share capital

		2019	2019
Allotted, called up and fully paid:			
Ordinary shares	£1 each	14,500	14,500

18 Capital commitments

	2019 £ 000	2018 £ 000
Amounts contracted for but not provided in the accounts	370	2,503

19 Lonza Biologics Pension Schemes

Defined Contribution Plan

The company operates one defined contribution pension plan. The total expense relating to the plan in the current year was £2,344,485 (2018: £2,265,477). Accrued balances at the year end were £nil (2018: £nil).

Defined Benefit Plan

The company operates one final salary defined benefit scheme in the UK. The present values of the defined benefit obligation ("DBO") as at 31 December 2019 and 31 December 2018 have been calculated by a qualified independent actuary based on the actuarial valuation as at 30 June 2017.

	2019	2018
Actuarial assumptions	%	%
Discount rate	2.15	3.00
Future salary increases	3.25	3.60
Future pension increases in deferment	2.35	2.60
Future pension increases in payment	3.15	3.45

The assumptions have been derived in a similar way to previous periods but are based on the estimated duration of the Scheme's liabilities, 24 years (2019: 24 years), and market yields.

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 on 31 December 2019 is 24.7 (2018: 23.2) for males and 25.8 (2018: 24.3) for females.

The salary increase assumption has been taken as 3.25% pa (2018: 3.60%), which represents the company's current expectation for the rate of future salary increases over the long term.

Information about the risks of the Scheme

The ultimate cost of the Scheme to the Employer will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to the Employer is that the assumptions underlying the disclosures, or the calculation of contribution requirements are not borne out in practice and the cost to the Employer is higher than expected. This could result in higher contributions required from the Employer and a higher deficit/lower surplus disclosed. This may also impact the Employer's ability to grant discretionary benefits or other enhancements to members.

More specifically, the assumptions not being borne out in practice could include:

i. The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Employer contribution rate;

ii. Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;

iii. Unanticipated future changes in mortality patterns leading to an increase in the Scheme's liabilities. Future mortality rates cannot be predicted with certainty. This is especially so bearing in mind that the youngest Scheme members could be expected to still be alive in 60 years or more and it is not possible to reliably predict what medical advances may or may not have occurred by this time;

iv. The potential exercise (by members or others) of options against the Scheme, for example taking early retirement or exchanging a portion of pension for a cash lump sum;

v. The relatively small number of Scheme members is likely to lead to particular volatility in the funding level and the Employer contributions as the future demographic experience of such a group is more uncertain than would be the case for a larger group;

The Scheme's assets have been selected to mitigate the risks that the Scheme is exposed to. In particular, the intention to hedge between 80% and 100% of the interest rate risk exposure. Furthermore, the target is for 20% of the Scheme's assets to be held in "matching" assets to broadly reflect the liabilities in respect of pensioner members.

The funded status of the Scheme is as follows:

	2019 £ 000	2018 £ 000
Present value of funded defined benefit obligations	(163,686)	(132,833)
Fair value of scheme assets	135,956	116,933
Recognised liability for defined benefit obligations	(27,730)	(15,900)

Scheme assets consist of the following:

	2019 £'000	2018 £'000
Return Seeking Assets		
Equities	59,007	37,580
Alternatives	16,358	24,275
Broad Bonds	25,229	6,783
Government Bonds	-	14,926
Property	4,343	2,569
Cash and Hedge Funds	10,401	8,356
Subtotal	115,338	94,489
Matching Assets		
Fixed Interest Government Bonds (UK)	813	4,608
Index Linked Government Bonds (UK)	19,805	17,836
Subtotal	20,618	22,444
Total fair value of Scheme assets	135,956	116,933

19 Lonza Biologics Pension Schemes (continued)

Movement in the liability for defined benefit obligation and the fair value of plan assets

	2019 £'000	2018 £'000
At 1 January	132,833	145,802
Current service cost	2,680	3,247
Past service cost	-	529
Interest cost	3,984	3,808
Contributions by plan participants	10	15
Actuarial (loss)/gain	26,172	(19,614)
Benefits paid	(1,993)	(954)
Present value of obligation as at 31 December	163,686	132,833

	2019 £'000	2018 £'000
At 1 January	116,933	121,643
Interest income on plan assets	3,504	3,171
Actuarial gain/(loss)	15,811	(8,103)
Contributions by employer	1,932	1,741
Contributions by plan participants	10	15
Administration cost (excl. cost of managing plan assets)	(241)	(580)
Benefits paid	(1,993)	(954)
Fair value of plan assets as at 31 December	135,956	116,933

Expense recognised in the income statement

	2019 £'000	2018 £'000
(a) Operating costs:		
Current service cost	2,680	3,247
Past service cost	-	529
Administration cost (excl. cost of managing plan assets)	241	580
Total operating costs	2,921	4,356
(b) Finance costs:		
Interest cost on defined benefit obligation	3,984	3,808
Interest income on plan assets	(3,504)	(3,171)
Total finance costs	480	637
Total recognised pensions costs	3,401	4,993

	2019 £'000	2018 £'000
Interest income on scheme assets	3,504	3,212
Actuarial (loss) / gain on scheme assets	15,811	(8,103)
Actual Return on Scheme Assets	19,315	(4,891)

Components of defined benefit costs in OCI

	2019 £'000	2018 £'000
Actuarial (loss)/gain on defined benefit obligation	(26,172)	19,614
Actuarial gain/(loss) on plan assets	15,811	(8,103)
Defined Benefit Income recognised in OCI	(10,361)	11,511

	2019 £'000	2018 £'000
Sensitivity		
Defined Benefit Obligation at 31.12.		
with discount rate -0.25%	175,140	141,896
with discount rate +0.25%	153,145	124,481
with salary increases -0.25%	160,829	130,368
with salary increases +0.25%	166,660	135,408
with life expectancy +1 year	171,052	138,350
with life expectancy -1 year	156,450	127,380

There was no investment held by the scheme in the company or any assets used by the company.

The expected employer contribution to the Scheme over the year to 31 December 2020 is £792,000.

20 Leases

	2019 £'000	2018 £'000
Lease expense (under IAS 17)	-	3,089
Interest expense on lease liabilities	761	-
Depreciation on right of use assets	2,455	-
	3,216	3,089

21 Ultimate controlling party

In the opinion of the directors the ultimate parent company at 31 December 2019 was Lonza Group AG, a company incorporated in Switzerland which heads the largest group in which the results of the company are incorporated.

The consolidated accounts of this group are available to the public and may be obtained from The Secretary, Lonza Group AG, Munchensteinerstrasse 38, PO Box, CH-4002, Basel, Switzerland.

The immediate and ultimate UK parent company is Lonza Group UK Ltd, a company registered in England and Wales.

22 Change in significant accounting policy

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 January 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

(a) Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4: Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

(b) As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17
On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term; and
- used a single discount rate to a portfolio of leases with reasonably similar characteristics.

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements at 31 December 2019:

Balance sheet	As reported £'000	Adjustments £'000	Balances without adoption of IFRS 16 £'000
Property, plant and equipment	95,100	(31,333)	63,767
Creditors: amounts falling due within one year	(64,641)	1,487	(63,154)
Creditors: amounts falling due after one year	(30,816)	30,816	-
Retained earnings	59,919	970	60,889

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 2.87%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 December 2018 in the Company's financial statements and the lease liabilities recognised at 1 January 2019:

	£'000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17	27,852
Discounted at the incremental borrowing rate at 1 January 2019	(4,438)
Lease liabilities recognised as at 1 January 2019	23,414

23 Subsequent event

In September 2020, a dividend of £20 million was declared and paid by the company.