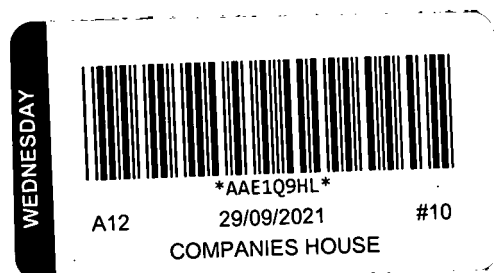


Lonza Biologics Plc
Annual report and Financial Statements
Registered number 2742471

For the year ended
31 December 2020



Lonza Biologics Plc
Annual report and Financial Statements
For the year ended 31 December 2020

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**Lonza Biologics Plc
Officers and Advisors**

Company Secretary

Gerry Kennedy

Registered Office

228 Bath Road
Slough
Berkshire
SL1 4DX

Auditor

KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds
West Yorkshire
LS1 4DA

Banker

HSBC
City Branch
33 Park Row
Leeds
West Yorkshire
LS1 1LD

Tax advisor

Ernst & Young
1 Bridgewater Place
Water Lane
Leeds
LS11 5QR

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)

Lonza Biologics Plc
Annual report and Financial Statements
For the year ended 31 December 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 £246.3m (2019: £183.5m) as the company experienced an increase in demand for its products and services.

The profit before taxation for the year increased to £57.9m (2019: £18.2m). The increase is primarily driven by the result of the diverted profit tax HMRC enquiry, which was concluded during 2020.

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	2020	2019
Revenue	£246.3m	£183.5m
Profit on ordinary activities before taxation	£57.9m	£18.2m

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.

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 2020, 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 continues to monitor the impact of Brexit and COVID-19. The company has a Brexit committee in place specifically to monitor developments as the post Brexit landscape evolves. The company is regularly reviewing processes and practices to minimise the business and employee risks related to COVID-19.

Lonza Biologics Plc
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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 regulatory 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


Edward Garfield
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

22 September 2021

Lonza Biologics Plc
Annual report and Financial Statements
For the year ended 31 December 2020

Directors' report

The directors present their Directors' report and accounts for the year ended 31 December 2020.

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 £20m during the year (2019: £23m).

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 (resigned 1 July 2021)

Ralf Geier

Sandeepan Chakrawerti (appointed 1 July 2021)

Alexander Herget (appointed 21 May 2020)

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

Lonza Biologics Plc
Annual report and Financial Statements
For the year ended 31 December 2020

Directors' Report (continued)

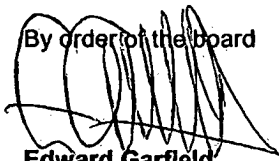
Disclosure of information to auditor

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



Edward Garfield
Director

Registered Office

228 Bath Road
Slough
Berkshire
SL1 4DX

22 September 2021

Lonza Biologics Plc
Annual report and Financial Statements
For the year ended 31 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, the 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 judgements 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

Opinion

We have audited the financial statements of Lonza Biologics Plc ("the company") for the year ended 31 December 2020 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 2020 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").

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.

Our conclusions based on this work:

we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the intragroup nature of the trade.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

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

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation, recognising the nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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 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.

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.

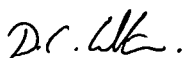
Auditor's responsibilities

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
23-Sep-21

Lonza Biologics Plc
Annual report and Financial Statements
for the year ended 31 December 2020

Statement of Profit and Loss and Other Comprehensive Income

	Notes	2020 £ 000	2019 £ 000
Revenue	2	246,313	183,535
Cost of sales		(166,197)	(141,946)
Gross Profit		<u>80,116</u>	<u>41,589</u>
Administrative and other operating costs	3	(22,703)	(26,771)
Other operating income	6	1,927	4,861
Operating Profit		<u>59,340</u>	<u>19,679</u>
Financial income	7	3,207	3,504
Financial expenses	7	(4,664)	(4,995)
Net financing expense		<u>(1,457)</u>	<u>(1,491)</u>
Profit on ordinary activities before taxation		<u>57,883</u>	<u>18,188</u>
Tax on profit on ordinary activities	8	(5,825)	(12,616)
Profit for the financial year		<u>52,058</u>	<u>5,572</u>
Other comprehensive income			
<i>Items that cannot be reclassified to the income statement:</i>			
Actuarial loss on Defined Benefit pension scheme liability	19	(44,688)	(26,172)
Actuarial gain on plan assets	19	20,533	15,811
Actuarial loss on Defined Benefit Pension plan	19	(24,155)	(10,361)
Deferred tax effect of the above items	16	4,912	1,761
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Deferred tax on Share Options	16	(3)	57
Other comprehensive income for the year, net of income tax		<u>(19,246)</u>	<u>(8,543)</u>
Total comprehensive income for the year		<u>32,812</u>	<u>(2,971)</u>

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.

Lonza Biologics Plc
Annual report and Financial Statements
for the year ended 31 December 2020

Statement of Financial Position

	Notes	2020	2019
		£ 000	£ 000
Non-current assets			
Property, plant and equipment	10	96,222	95,100
Intangible assets	9	<u>2,608</u>	<u>2,074</u>
		98,830	97,174
Current assets			
Inventories	11	42,455	34,177
Debtors (of which £8,823k is due after one year)	12	81,878	64,676
Cash and cash equivalents	13	<u>4,470</u>	<u>4,293</u>
		<u>128,803</u>	<u>103,146</u>
Total Assets		227,633	200,320
Creditors: amounts falling due within one year			
	14	<u>(66,100)</u>	<u>(64,641)</u>
Total assets less current liabilities		161,533	135,679
Creditors: amounts falling due after one year			
	15	(27,657)	(30,816)
Provisions			
Deferred tax liabilities	16	(3,117)	(2,714)
Employee benefits	19	<u>(43,528)</u>	<u>(27,730)</u>
		<u>(46,645)</u>	<u>(30,444)</u>
Net assets		<u>87,231</u>	<u>74,419</u>
Equity			
Called up share capital	17	14,500	14,500
Retained Earnings		72,731	59,919
Total Equity		<u>87,231</u>	<u>74,419</u>

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

These financial statements were approved by the board of directors on 22/09/21 and were signed on its behalf by


Edward Garfield
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

Registered number 2742471

Lonza Biologics Plc
Annual report and Financial Statements
for the year ended 31 December 2020

Statement of Changes in Equity

	Notes	Share Capital £ 000	Retained Earnings £ 000	Total Equity £ 000
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)
		<u>14,500</u>	<u>82,919</u>	<u>97,419</u>
Transactions with owners, recorded directly in equity				
Dividend paid to group company			(23,000)	(23,000)
Balance at 31 December 2019		<u>14,500</u>	<u>59,919</u>	<u>74,419</u>
Balance at 1 January 2020		14,500	59,919	74,419
Profit for the year		-	52,058	52,058
Deferred tax	16	-	4,909	4,909
Actuarial loss on defined benefit pension scheme	19	-	(24,155)	(24,155)
		<u>14,500</u>	<u>92,731</u>	<u>107,231</u>
Transactions with owners, recorded directly in equity				
Dividend paid to group company			(20,000)	(20,000)
Balance at 31 December 2020		<u>14,500</u>	<u>72,731</u>	<u>87,231</u>

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

Notes forming 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"). 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, Munchensteinerstrasse 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 Group 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 company principally provides manufacturing, development and consultancy services to Lonza Group AG companies.

The company's activities as a trading company and its funding structure are therefore dependent upon the overall continuing operation of the Lonza Group. The directors have therefore made enquiries relating to the financial performance and position of the Lonza Group, including the impact of the COVID-19 pandemic, as at the date of approval of these financial statements. No matters which may reasonably possibly impact the ability of the company to continue as a going concern during the forecast period have been identified from these enquiries.

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 trading with and funding from its ultimate parent company, Lonza Group AG, to meet its liabilities as they fall due for that period.

These forecasts are dependent on Lonza Group AG providing additional financial support during that period, principally by way of settling amounts receivable from group companies to the company (note 12). This is in addition to the Group not seeking repayment of amounts owed by the company to group companies as disclosed in note 14. 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.

Notes forming part of the financial statements

Depreciation

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

Financial assets

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.

Non-financial assets

Non-financial assets comprise of property, plant, equipment, intangibles 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.

Notes forming part of the financial statements

1 Accounting policies (continued)

Leases

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.

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 recognises 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.

Notes forming part of the financial statements

2 Revenue	2020	2019
	£ 000	£ 000
By activity:		
Manufacturing	113,829	104,987
Development Service	83,792	47,822
Licences	2,299	2,391
Consultancy services	46,393	28,335
	<u>246,313</u>	<u>183,535</u>

3 Expenses and auditor's remuneration	2020	2019
	£ 000	£ 000

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

Repairs and maintenance	6,978	6,063
Depreciation and amortisation	12,140	10,771
Operational consulting and services	2,572	2,258
Lease rentals	328	114
Impairment of inventory	3,103	3,061
Auditor's remuneration:	97	97
		audit of these financial statements
		other audit services
Research & Development expenses	<u>2,160</u>	<u>399</u>

4 Directors' remuneration

One director exercised share options in the year to the value of £143,597 (2019: £148,973).

	2020	2019
	£ 000	£ 000
Emoluments	820	752
Pension Benefits	47	49
	<u>867</u>	<u>801</u>

Directors emoluments of £376,940 (2019: £463,000) were received by the highest paid director.

Number of directors in company pension schemes:

	2020	2019
	Number	Number
Defined benefit schemes	<u>1</u>	<u>1</u>

Pension payments to the highest director were £20,140 (2019: £22,971).

Notes forming part of the financial statements

5	Staff numbers and costs	2020	2019
		£ 000	£ 000
	Wages and salaries	80,242	69,479
	Social security costs	8,418	7,070
	Other pension costs	4,549	5,024
		<u>93,209</u>	<u>81,573</u>

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

	2020	2019
	Number	Number
Administration	251	235
Development	394	340
Operations	615	552
	<u>1,260</u>	<u>1,127</u>

6 Other operating income

Other operating income of £1,927k (2019: £4,881k) relates to the cumulative anticipated research and development expenditure credit ("RDEC") receivable from HMRC in respect of the period ending 31 December 2020 and £109k from a government grant.

7 Finance income and expense recognised in profit and loss

	2020	2019
	£ 000	£ 000
Interest on loans from parent undertakings	26	-
Interest income on defined benefit plan assets (note 19)	3,178	3,504
Foreign exchange gains	3	-
Total financial income	<u>3,207</u>	<u>3,504</u>
Interest on defined benefit pension plan obligation (note 19)	(3,683)	(3,984)
Interest on lease liability	(838)	(761)
Bank loans and overdrafts	(143)	(97)
Interest on loans from parent undertakings	-	(28)
Foreign exchange losses	-	(125)
Total finance expense	<u>(4,664)</u>	<u>(4,995)</u>
Net financial expense recognised in profit and loss	<u>(1,457)</u>	<u>(1,491)</u>

8 Taxation

	2020	2019
	£ 000	£ 000
Recognised in the Income statement		
Current tax:		
Current year	6,161	7,516
Adjustments for prior years	(1,868)	6,607
	<u>4,293</u>	<u>14,123</u>

Deferred tax:		
Origination and reversal of temporary differences	4,867	(175)
Adjustment for prior period	(3,337)	(1,325)
Effect of changes in tax rate on opening liability	-	(7)
	<u>1,530</u>	<u>(1,507)</u>
Total tax expense	<u>5,823</u>	<u>12,616</u>

Reconciliation of effective tax rate

	2020	2019
	£ 000	£ 000
Profit on ordinary activities before tax	57,883	18,188
Total tax expense	(5,823)	(12,616)
Profit after tax	<u>52,060</u>	<u>5,572</u>
	£ 000	£ 000

Tax using the UK corporation tax rate 19% (2019: 19%)	10,998	3,458
Change in tax rate on deferred tax balances	(309)	21
Expenses not deductible	470	248
Adjustment in respect of prior period	(5,203)	5,282
Income not taxable	(44)	(57)
Share options	-	(148)
Transfer price adjustment	-	3,814
Effect of group relief / other reliefs	(87)	-
Total tax expense	<u>5,823</u>	<u>12,616</u>

The company has capital losses of £2,817,716 (2019: £2,817,716) 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.

The Finance Act 2016, which received Royal Assent on 16 September 2016, enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2020. However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019 - 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date. If the company's deferred tax balances at the period end were remeasured at 25% this would result in a deferred tax credit of £1,802,036.

Notes forming part of the financial statements

9	Intangible fixed assets	2020
	Lienco	£ 000
	Cost	
	Balance at 1 January 2020	8,247
	Additions	475
	Transfer from PPE (note 10)	1,046
	At 31 December 2020	<u>9,768</u>
	Amortisation	
	Balance at 1 January 2020	8,173
	Provided during the year	987
	At 31 December 2020	<u>7,160</u>
	Net book value	
	At 31 December 2020	<u>2,608</u>
	At 31 December 2019	<u>2,074</u>

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 2020	8,243	2,429	58,970	77,248	33,789	178,679
	Additions	2,740	4,968	2,005	4,342	19	14,074
	Transfer	(2,497)	(4,276)	2,497	4,276	-	-
	Transfer to Intangible fixed assets (note 9)	-	(1,046)	-	-	-	(1,046)
	Disposal	-	-	(363)	-	(1,072)	(1,435)
	Balance at 31 December 2020	<u>8,486</u>	<u>2,075</u>	<u>61,109</u>	<u>85,864</u>	<u>32,738</u>	<u>190,270</u>
	Depreciation						
	At 1 January 2020	-	-	30,331	50,791	2,455	83,577
	Charge for the year	-	-	2,525	5,982	2,648	11,153
	Disposal	-	-	(214)	-	(468)	(682)
	Balance at 31 December 2020	<u>-</u>	<u>-</u>	<u>32,642</u>	<u>56,773</u>	<u>4,633</u>	<u>94,048</u>
	Net book value						
	At 31 December 2020	<u>8,486</u>	<u>2,075</u>	<u>28,467</u>	<u>29,091</u>	<u>28,103</u>	<u>96,222</u>
	At 31 December 2019	<u>8,243</u>	<u>2,429</u>	<u>28,639</u>	<u>26,455</u>	<u>31,334</u>	<u>95,100</u>

CIP = construction in progress

Right of use assets

At 31 December 2020, property, plant and equipment includes right of use assets as follows:

		Land & Buildings	Total
		£ 000	£ 000
	Cost at 1 January 2020	33,789	33,789
	Additions	19	19
	Disposals	(1,072)	(1,072)
	Accumulated depreciation	(4,633)	(4,633)
	Net book value at 31 December 2020	<u>28,103</u>	<u>28,103</u>

11	Inventories	2020	2019
		£ 000	£ 000
	Raw materials and consumables	12,313	10,783
	Work in progress	16,456	16,881
	Finished Goods	13,686	6,513
		<u>42,455</u>	<u>34,177</u>

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 £42,372,832 (2019: £26,890,000).

12	Trade and other receivables	2020	2019
		£ 000	£ 000
	Current		
	Trade receivables	537	771
	Amounts owed by group undertakings	62,416	48,832
	Deferred tax asset (see note 16)	8,823	5,040
	Other debtors	1,024	-
	Tax receivable	6,570	4,728
	Prepayments and accrued income	3,508	5,305
		<u>81,878</u>	<u>64,676</u>

13	Cash and cash equivalents	2020	2019
		£ 000	£ 000
	Cash at bank and in hand	<u>4,470</u>	<u>4,283</u>

Notes forming part of the financial statements

14 Creditors: amounts falling due within one year	2020	2019
	£ 000	£ 000
Trade payables	14,593	12,979
Amounts owed to group undertakings	18,851	15,660
Group relief owed to group undertakings	9,659	9,773
Other creditors	-	6,539
Lease liability	2,199	1,487
Accruals and deferred income	20,798	18,203
	<u>68,100</u>	<u>64,641</u>

15 Creditors: amounts falling due after one year	2020	2019
	£ 000	£ 000
Lease liability	27,657	30,818
	<u>27,657</u>	<u>30,818</u>

16 Deferred tax assets and liabilities	2020	2019
	£ 000	£ 000
Liabilities		
Fixed assets	(3,117)	(2,714)
	<u>(3,117)</u>	<u>(2,714)</u>
Assets		
Employee benefits plans	8,270	4,714
Temporary differences trading	269	39
Share options	284	287
	<u>8,823</u>	<u>5,040</u>

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 2020	39	(2,566)	4,714	(148)	287	2,326
Recognised to Income statement	(3,590)	44	(1,588)	(43)	-	(5,177)
Recognised to equity	-	-	4,589	-	(37)	4,552
Prior year adjustment to Income statement	3,413	(76)	-	-	-	3,337
Prior year adjustment to equity	-	-	-	-	-	-
Rate change adjustment to equity	-	-	323	-	34	357
Rate change adjustment to Income statement	407	(311)	232	(17)	-	311
Balance as at 31 December 2020	<u>269</u>	<u>(2,009)</u>	<u>8,270</u>	<u>(208)</u>	<u>284</u>	<u>6,708</u>

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	2020	2019
Alotted, called up and fully paid:		
Ordinary shares	£1 each	14,500
		14,500

Notes forming part of the financial statements

18	Capital commitments	2020 £ 000	2019 £ 000
	Amounts contracted for but not provided in the accounts	489	370

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 £3,042,867 (2019: £2,344,485). Accrued balances at the year end were £nil (2019: £nil).

Defined Benefit Plan

The company operates one final salary defined benefit scheme in the UK. The present value of the defined benefit obligation ("DBO") as at 31 December 2019 has been calculated by a qualified independent actuary based on the actuarial valuation as at 30 June 2017. The present value of the DBO as at 31 December 2020 has been calculated based on the actuarial valuation as at 30 June 2020.

	2020	2019
Actuarial assumptions	%	%
Discount rate	1.35	2.15
Future salary increases	n/a	3.25
Future pension increases in deferment	2.50	2.35
Future pension increases in payment	3.10	3.15

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 2020 is 23.4 (2019: 24.7) for males and 24.4 (2019: 25.8) for females.

The Scheme closed to future accrual on 31 March 2020 when the active members became deferred members at that date. A salary increase assumption was therefore not required as at 31 December 2020. The salary assumption as at 31 December 2019 was 3.25% pa which represented the company's expectation for the rate of future salary increases over the long term at that time.

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:

- The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Employer contribution rate;
- Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
- 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;
- 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;
- 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:

	2020 £ 000	2019 £ 000
Present value of funded defined benefit obligations	(203,208)	(163,688)
Fair value of scheme assets	159,680	135,956
Recognised liability for defined benefit obligations	(43,528)	(27,730)

Scheme assets consist of the following:

	2020 £'000	2019 £'000
Return Seeking Assets		
Equities	65,680	59,007
Alternatives	21,108	18,358
Broad Bonds	21,329	25,229
Government Bonds	10,353	-
Property funds	5,051	4,343
Cash and Hedge Funds	8,960	10,401
Subtotal	132,479	115,338
Matching Assets		
Fixed Interest Government Bonds (UK)	9,437	813
Index Linked Government Bonds (UK)	17,764	19,805
Subtotal	27,201	20,618
Total fair value of Scheme assets	159,680	135,956

Notes forming part of the financial statements

19 Lonza Biologics Pension Schemes (continued)

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

	2020 £'000	2019 £'000
At 1 January	103,686	132,833
Current service cost	820	2,680
Gains on settlement	(8,186)	-
Interest cost	3,683	3,884
Contributions by plan participants	4	10
Actuarial gain	44,688	28,172
Benefits paid	(1,487)	(1,993)
Present value of obligation as at 31 December	<u>203,208</u>	<u>163,686</u>

	2020 £'000	2019 £'000
At 1 January	135,958	116,033
Interest income on plan assets	3,178	3,504
Actuarial gain	20,533	15,811
Contributions by employer	1,825	1,932
Contributions by plan participants	4	10
Administration cost (excl. cost of managing plan assets)	(329)	(241)
Benefits paid	(1,487)	(1,993)
Fair value of plan assets as at 31 December	<u>159,680</u>	<u>135,956</u>

Expense recognised in the income statement

	2020 £'000	2019 £'000
(a) Operating costs:		
Current service cost	820	2,680
Gain on settlement	(8,186)	-
Administration cost (excl. cost of managing plan assets)	329	241
Total operating costs	<u>(7,037)</u>	<u>2,921</u>
(b) Finance costs:		
Interest cost on defined benefit obligation	3,683	3,884
Interest income on plan assets	(3,178)	(3,504)
Total finance costs	<u>505</u>	<u>480</u>
Total recognised pensions costs	<u>(6,532)</u>	<u>3,401</u>

	2020 £'000	2019 £'000
Interest income on scheme assets	3,178	3,504
Actuarial gain on scheme assets	20,533	15,811
Actual Return on Scheme Assets	<u>23,711</u>	<u>19,315</u>

Components of defined benefit costs in OCI

	2020 £'000	2019 £'000
Actuarial loss on defined benefit obligation	(44,688)	(28,172)
Actuarial gain on plan assets	20,533	15,811
Defined Benefit cost recognised in OCI	<u>(24,155)</u>	<u>(10,361)</u>

	2020 £'000	2019 £'000
Sensitivity		
Defined Benefit Obligation at 31.12.		
with discount rate -0.25%	217,649	175,140
with discount rate +0.25%	189,834	153,145
with salary increases -0.25%	n/a	160,829
with salary increases +0.25%	n/a	168,660
with life expectancy +1 year	213,135	171,052
with life expectancy -1 year	193,544	156,450

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 2021 is £218,000.

In 2020, the defined benefit pension scheme closed to future accrual.

Notes forming part of the financial statements

20 Leases

	2020 €'000	2019 €'000
Interest expense on lease liabilities	838	781
Depreciation on right of use assets	2,640	2,455
	<u>3,484</u>	<u>3,216</u>

21 Ultimate controlling party

In the opinion of the directors the ultimate parent company at 31 December 2020 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 Subsequent event

There are no subsequent events to report.