

Lonza Biologics Plc

Directors' report and Financial Statements

Registered number 2742471

For the year ended
31 December 2018



Lonza Biologics Plc
Directors' report and Financial Statements
For the year ended 31 December 2018

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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
Rodolfo Savitzky (Resigned 16 July 2018)
Edward Garfield
Nick Carter
Ralf Geier (Appointed 16 July 2018)

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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 £163.4m (2017: £130.8m) as the company experienced an increase in demand for its products and services.

The profit before taxation for the year increased to £16.9m (2017: £12.6m).

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	2018	2017
Batches produced in the year*	64	54
Revenue	£163.4m	£130.8m
Profit on ordinary activities before taxation	£16.9m	£12.6m

* 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 2018, the company almost exclusively provided its services to Lonza Group companies and was financed entirely by its ultimate parent company, Lonza Group AG. Further details are provided in note 24.

The company is closely monitoring the progress of the Brexit negotiations. The company have 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:

By order of the board



N Carter
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

28th June 2019

Lonza Biologics Plc
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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

28th June 2019

Lonza Biologics Plc
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Directors' report

The directors present their Directors' report and accounts for the year ended 31 December 2018.

Principal activities

The company is part of a Life Science driven group headquartered in Switzerland. Lonza is one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. As an integrated solutions provider, Lonza is boosting its value creation along and beyond the healthcare continuum with a strong focus on patient healthcare, consumer preventive healthcare and consumer's healthy environment.

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.

The company has no branches outside the UK.

Dividends

The company did not pay an interim dividend during the year (2017: £nil). The directors do not recommend the payment of a final dividend (2017: £nil).

Directors and directors' interests

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

Michael Brown	
Rodolfo Savitzky	(Resigned 16 July 2018)
Edward Garfield	
Nick Carter	
Ralf Geier	(Appointed 16 July 2018)

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

Lonza Biologics Plc
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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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 2018 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; 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.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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, including the impact of Brexit, 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

- 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

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

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 7, 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

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/auditorresponsibilities.

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

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.

Malcolm C Harding

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

28 June 2019

Lonza Biologics Plc
Directors' report and Financial Statements
for the year ended 31 December 2018

Statement of Profit and Loss and Other Comprehensive Income

	Notes	2018 £ 000	2017 £ 000
Revenue	2	163,402	130,831
Cost of sales		(128,017)	(102,322)
Gross Profit		<u>35,385</u>	<u>28,509</u>
Administrative and other operating costs	3	(20,930)	(17,370)
Other operating income	16	3,087	1,968
Operating Profit		<u>17,542</u>	<u>13,107</u>
Financial income	6	3,211	3,235
Financial expenses	6	(3,864)	(3,743)
Net financing expense		<u>(653)</u>	<u>(508)</u>
Profit on ordinary activities before taxation		<u>16,889</u>	<u>12,599</u>
Tax on profit on ordinary activities	7	(3,233)	(2,626)
Profit for the financial year		<u>13,656</u>	<u>9,973</u>
Other comprehensive income			
<i>Items that cannot be reclassified to the consolidated income statement:</i>			
Actuarial gain /(loss) on Defined Benefit pension scheme liability	19	19,614	(7,232)
Actuarial (loss)/gain on plan assets	19	(8,103)	4,000
Actuarial (loss) on Defined Benefit Pension plan	19	11,511	(3,232)
Deferred tax effect of the above items	14	(1,957)	622
Deferred tax rate change adjustment	14	-	(73)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Deferred tax on Share Options	14	1	209
Other comprehensive income for the year, net of income tax		<u>9,555</u>	<u>(2,474)</u>
Total comprehensive income for the year		<u>23,211</u>	<u>7,499</u>

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

The notes on pages 15 - 34 form part of the Financial Statements.

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 Directors' report and Financial Statements
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Statement of Financial Position

	Notes	2018	2017
		£ 000	£ 000
Non-current assets			
Property, plant and equipment	9	60,575	54,885
Intangible assets	8	244	753
Deferred tax assets	14	2,935	4,353
		<u>63,754</u>	<u>59,991</u>
Current assets			
Inventories	10	31,417	27,911
Trade and other receivables	11	55,700	53,004
Cash and cash equivalents	12	10,215	3,793
		<u>97,332</u>	<u>84,708</u>
Total Assets		161,086	144,699
Current Liabilities			
Trade and other payables	13	(14,114)	(11,673)
Accruals	13	(16,277)	(17,954)
Amounts owed to group undertakings	13	(10,471)	(11,041)
		<u>(40,862)</u>	<u>(40,668)</u>
Total assets less current liabilities		120,224	104,031
Non-current liabilities			
Deferred tax liabilities	14	(3,934)	(2,693)
Employee benefits	19	(15,900)	(24,159)
		<u>(19,834)</u>	<u>(26,852)</u>
Total liabilities		(60,696)	(67,520)
Net assets		100,390	77,179
Equity			
Called up share capital	15	14,500	14,500
Retained Earnings	16	85,890	62,679
		<u>100,390</u>	<u>77,179</u>
Total Equity		100,390	77,179

The notes on pages 15 - 34 form part of the Financial Statements.

These financial statements were approved by the board of directors' on 28th June 2019 and were signed on its behalf by



N Carter
 Director

Registered Office
 228 Bath Road
 Slough
 Berkshire
 SL1 4DX

Registered number 2742471

Lonza Biologics Plc
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Statement of Changes in Equity

	Notes	Share Capital £ 000	Retained Earnings £ 000	Total Equity £ 000
Balance at 1 January 2017		14,500	55,180	69,680
Profit for the year		-	9,973	9,973
Deferred tax	14	-	758	758
Actuarial (loss) on Defined Benefit pension scheme	19	-	(3,232)	(3,232)
Balance at 31 December 2017		<u>14,500</u>	<u>62,679</u>	<u>77,179</u>
Balance at 1 January 2018		14,500	62,679	77,179
Profit for the year		-	13,656	13,656
Deferred tax	14	-	(1,956)	(1,956)
Actuarial gain on Defined Benefit pension scheme	19	-	11,511	11,511
Balance at 31 December 2018		<u>14,500</u>	<u>85,890</u>	<u>100,390</u>

The notes on pages 15 - 34 form part of the Financial Statements.

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Statement of Cash Flows

Cash flows from operating activities	Notes	2018	2017
		£ 000	£ 000
Profit for the year		13,656	9,973
Adjustments for:			
Depreciation and amortisation	8/9	8,150	7,511
Loss on disposal of fixed assets	9	53	1,251
Financial income	6	(3,211)	(3,235)
Financial expense	6	3,864	3,743
Pension charge less employer contribution		2,615	1,977
Taxation	7	3,233	2,626
		<u>28,360</u>	<u>23,846</u>
(Increase) in trade and other receivables	11	(4,978)	(2,797)
(Increase) in inventories	10	(3,506)	(10,978)
Increase in trade and other payables	13	260	8,303
Decrease/(Increase) in tax receivable	11	2,282	(1,969)
		<u>22,418</u>	<u>16,405</u>
Interest paid	6	-	-
Tax paid		(2,600)	(2,620)
Net cash inflow from operating activities		<u>19,818</u>	<u>13,785</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	9	(13,150)	(11,145)
Acquisition of other intangible assets	8	(234)	-
Finance income		7	-
Net cash outflow from investing activities		<u>(13,377)</u>	<u>(11,145)</u>
Total Cash Inflows/Outflows		6,441	2,640
Reconciliation of net cash flow to movement in net debt			
Net Increase/(decrease) in cash in the period		6,441	2,640
Cash and cash equivalent at 1 January		3,793	1,380
Effect of exchange rate fluctuations on cash held		(19)	(227)
Cash and cash equivalents at 31 December		<u>10,215</u>	<u>3,793</u>

Lonza Biologics Plc
Directors' report and Financial Statements
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Notes forming part of the financial statements
continued

1 Accounting policies

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

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 4. The financial position of the company, its cash flows, liquidity position and borrowing facilities are described in the notes on pages 14 to 33.

In addition note 20 to the financial statements includes the company's objectives, policies and process for managing its capital, its financial risk management, objectives and details of its exposure to credit risk and liquidity risk.

The ultimate parent company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue its operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual reports and accounts.

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.

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 significant risks and rewards of ownership have been transferred, and all associated quality assurance has been performed.

IFRS 15 revenue from contracts with customer became effective from 01 January 2018. The adoption of this standard has had no material impact on the financial statements and no transition adjustments have been made.

Research and development expenditure

Research expenditure is written off to the income statement in the year it is incurred. Costs associated with on going development programs are accrued to the BS as WIP 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.

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

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.

Lonza Biologics Plc
Directors' report and Financial Statements
for the year ended 31 December 2018

Notes forming part of the financial statements
continued

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 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 objective evidence 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
continued

1 Accounting policies (continued)

Operating lease expenses

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 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.

Accounting developments

The following standards and interpretations, issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee, have been adopted by the Company with no significant impact on its financial statements:

- IFRS 2 (Amendment) 'Share-based payment' - definition of 'Vesting condition'.
- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018). revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replace existing revenue recognition guidance including IAS 18 revenue.

The adoption of the other standards had no significant impact on the Company's financial statements.

EU endorsed IFRS and interpretations with effective dates after 31 December 2018 relevant to the Company will be implemented in the financial year when the standards become effective.

The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

IFRS 16 Leases was issued in January 2016 and will become effective for the financial period beginning on 1 January 2019. IFRS 16 will replace existing leases guidance, including IAS 17 Leases, and sets out the principles for recognition and measurement of leases. The new standard will also result in an increased volume of disclosure information in the Annual Financial Statements.

IFRS 16 Leases became effective for the financial period beginning on 1 January 2019. Implementation of IFRS 16 will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. The standard will affect primarily the Group's accounting for operating leases.

As of 31 December 2018, the Company has non-cancellable operating lease commitments of £27.8 million, which are an appropriate indicator of the IFRS 16 implementation impact on the Group's consolidated balance sheet. The company will implement the new standard effective 1 January 2019 and will apply the modified retrospective approach for the transition, meaning that the comparative 2018 results will not be restated when the new standard is applied.

- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date 1 January 2017). The company does not have any unrealised losses on debt instruments measured at fair value so would not be affected by amendments to IAS 12.
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).

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Notes forming part of the financial statements
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2 Revenue	2018	2017
	£ 000	£ 000
By activity:		
Manufacturing	82,630	76,074
Development Service	52,255	33,991
Licences	545	1,177
Consultancy services	<u>27,972</u>	<u>19,589</u>
	<u>163,402</u>	<u>130,831</u>

3 Expenses and auditor's remuneration	2018	2017
	£ 000	£ 000
Included in the administrative and other operating costs are the following:		
Repairs and maintenance	5,375	1,661
Depreciation and amortisation	911	180
Operational consulting and services	11,009	5,703
Operating lease rentals	350	156
Auditor's remuneration:		
audit of these financial statements	75	75
other audit services	-	-
Research & Development expenses	<u>705</u>	<u>1,578</u>

4 Directors' remuneration

One director exercised shares in the year at £192,190 (2017: £nil).

	2018	2017
	£ 000	£ 000
Emoluments	779	481
Pension Benefits	<u>58</u>	<u>43</u>
	837	524

Directors emoluments of £482,090 (2017: £254,000) were received by the highest paid director.

Number of directors in company pension schemes:

	2018	2017
	Number	Number
Defined benefit schemes	1	1

Pension payments to the highest director were £22,800 (2017: £20,038).

5 Staff numbers and costs	2018	2017
	£ 000	£ 000
Wages and salaries	54,527	48,501
Social security costs	5,391	4,489
Other pension costs	<u>5,512</u>	<u>4,698</u>
	<u>65,430</u>	<u>57,688</u>

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

	2018	2017
	Number	Number
Administration	304	180
Development	356	329
Operations	<u>528</u>	<u>343</u>
	<u>1,188</u>	<u>852</u>

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6 Finance income and expense recognised in profit and loss	2018	2017
	£ 000	£ 000
Other Interest income	7	-
Interest on loans from parent undertakings	33	-
Interest income on defined benefit plan assets (note 19)	3,171	3,212
Foreign exchange gains	-	23
Total financial income	<u>3,211</u>	<u>3,235</u>
Interest paid on loans from parent undertakings	-	-
Interest on defined benefit pension plan obligation (note 19)	(3,808)	(3,743)
Foreign exchange losses	(58)	-
Total finance expense	<u>(3,864)</u>	<u>(3,743)</u>
Net financial expense recognised in profit and loss	<u>(653)</u>	<u>(508)</u>
7 Taxation	2018	2017
	£ 000	£ 000
Recognised in the income statement		
Current tax:		
Current year	2,403	2,192
Adjustments for prior years	126	(161)
	<u>2,529</u>	<u>2,031</u>
Deferred tax:		
Origination and reversal of temporary differences	740	504
Adjustment for prior period	42	150
Effect of changes in tax rate on opening liability	(78)	(59)
	<u>704</u>	<u>595</u>
Total tax expense	3,233	2,626
Reconciliation of effective tax rate		
	2018	2017
	£ 000	£ 000
Profit on ordinary activities before tax	16,889	12,599
Total tax expense	<u>(3,233)</u>	<u>(2,626)</u>
Profit after tax	<u>13,656</u>	<u>9,973</u>
	£ 000	£ 000
Tax using the UK corporation tax rate 19% (2017: 19.25%)	3,209	2,426
Reduction in tax rate on deferred tax balances	(78)	(59)
Expenses not deductible	170	272
Adjustment in respect of prior period	168	(11)
Income not taxable	(106)	-
Share options	(130)	(2)
Total tax expense	<u>3,233</u>	<u>2,626</u>

The Finance (No.2) Act 2015 obtained Royal Assent on 18 November 2015 and enacted a reduction in the UK corporation tax rate from 20% to 19% with effect from 1 April 2017 and a further reduction to 18% from 1 April 2020.

The Finance Act 2016 which received Royal Assent on 15 September 2016 enacted a further reduction in the tax rate to 17% from 1 April 2020. Deferred tax has therefore been provided at 17% (2016 - 17%) as the timing differences are not expected to materially reverse before 1 April 2020.

The company has capital losses of £2,917,000 (2017: £2,917,000) that are available indefinitely for offset against future taxable profits of the company. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty whether suitable profits will arise in future periods against which the deferred tax asset would reverse.

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8 Intangible fixed assets	2018	2017
License	£ 000	£ 000
Cost		
Balance at 1 January 2018	5,262	5,262
Additions	234	-
Disposal	(52)	-
At 31 December 2018	<u>5,444</u>	<u>5,262</u>
Amortisation		
Balance at 1 January 2018	4,509	3,593
Provided during the year	743	916
On disposals	(52)	-
At 31 December 2018	<u>5,200</u>	<u>4,509</u>
Net book value		
At 31 December	<u>244</u>	<u>753</u>

9 Property, plant and equipment	CIP Leasehold improvements	CIP Plant & equipment	Leasehold improvements	Plant & equipment	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
Cost					
At 1 January 2017	10,009	2,295	57,050	72,338	141,692
Additions	1,222	8,162	124	1,637	11,145
Transfer to fixed assets	(3,290)	(3,725)	3,290	3,725	-
Disposals	-	-	(7,326)	(5,850)	(13,176)
Balance at 31 December 2017	<u>7,941</u>	<u>6,732</u>	<u>53,138</u>	<u>71,850</u>	<u>139,661</u>
Cost					
At 1 January 2018	7,941	6,732	53,138	71,850	139,661
Additions	778	10,609	31	1,732	13,150
Transfer to fixed assets	(106)	(2,857)	125	2,838	-
Disposals	-	-	(211)	(20,300)	(20,511)
Balance at 31 December 2018	<u>8,613</u>	<u>14,484</u>	<u>53,083</u>	<u>56,120</u>	<u>132,300</u>
Depreciation					
At 1 January 2017	-	-	28,756	61,598	90,354
Charge for the year	-	-	2,263	4,082	6,345
On disposals	-	-	(6,176)	(5,748)	(11,924)
Balance at 31 December 2017	<u>-</u>	<u>-</u>	<u>24,843</u>	<u>59,932</u>	<u>84,775</u>
Depreciation					
At 1 January 2018	-	-	24,843	59,932	84,775
Charge for the year	-	-	2,930	4,477	7,407
On disposals	-	-	(209)	(20,249)	(20,458)
Balance at 31 December 2018	<u>-</u>	<u>-</u>	<u>27,564</u>	<u>44,160</u>	<u>71,724</u>
Net book value					
At 31 December 2018	<u>8,613</u>	<u>14,484</u>	<u>25,518</u>	<u>11,960</u>	<u>60,576</u>
At 31 December 2017	<u>7,941</u>	<u>6,732</u>	<u>28,295</u>	<u>11,917</u>	<u>54,886</u>
CIP = construction in progress					

10 Inventories	2018	2017
	£ 000	£ 000
Raw materials and consumables	7,083	7,644
Work in progress	24,334	20,267
	<u>31,417</u>	<u>27,911</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 £34,686,000 (2017: £20,483,167).

11 Trade and other receivables	2018	2017
	£ 000	£ 000
Current		
Trade receivables	1,062	584
Amounts owed by group undertakings	44,487	41,163
Tax receivable	6,194	8,476
Prepayments and accrued income	3,957	2,781
	<u>55,700</u>	<u>53,004</u>

12 Cash and cash equivalents	2018	2017
	£ 000	£ 000
Cash at bank and in hand	<u>10,215</u>	<u>3,793</u>

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13 Trade and other payables	2018	2017
	£ 000	£ 000
Current		
Trade payables	12,916	10,393
Amounts owed to group undertakings	1,368	1,938
Group relief owed to group undertakings	9,103	9,103
Other creditors	1,198	1,280
Accruals and deferred income	16,277	17,954
	<u>40,862</u>	<u>40,668</u>

14 Deferred tax assets and liabilities	2018	2017
	£ 000	£ 000
Liabilities		
Property, plant and equipment	(3,934)	(2,693)
	<u>(3,934)</u>	<u>(2,693)</u>
Assets		
Employee benefits plans	2,703	4,107
Temporary differences trading	2	2
Share options	230	244
	<u>2,935</u>	<u>4,353</u>

Movement in deferred tax during the year	Temporary differences trading	Property Plant and Equipment	Employee Benefits Plan	Intangible Assets	Share Option
	£ 000	£ 000	£ 000	£ 000	£ 000
Balance as at 1 January 2017	16	(1,753)	3,132	-	103
Recognised to income statement	-	(883)	483	(27)	(77)
Recognised to equity	-	-	622	-	173
Prior year adjustment to income statement	(14)	(136)	-	-	-
Prior year adjustment to equity	-	-	-	-	56
Rate change adjustment to equity	-	-	(73)	-	(20)
Rate change adjustment to income statement	-	103	(57)	3	9
Balance as at 31 December 2017	2	(2,669)	4,107	(24)	244
Balance as at 1 January 2018	2	(2,669)	4,107	(24)	244
Recognised to income statement	-	(1,193)	553	(6)	(15)
Recognised to equity	-	-	(1,957)	-	1
Prior year adjustment to income statement	-	(42)	-	-	-
Prior year adjustment to equity	-	-	-	-	-
Rate change adjustment to equity	-	-	-	-	-
Rate change adjustment to income statement	-	-	-	-	-
Balance as at 31 December 2018	2	(3,904)	2,703	(30)	230

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.

15 Share capital		2018	2017
Allotted, called up and fully paid:			
Ordinary shares	£1 each	14,500	14,500

16 Other operating income

Other operating income of £3,087k (2017: £1,968k) relates to the cumulative anticipated research and development expenditure credit ("RDEC") receivable from HMRC in respect of the period ending 31 December 2018 and £461k from a government grant.

17 Analysis of changes in net debt

	At 1 Jan 2018	Cash flows	Currency fluctuation	At 31 Dec 2018
	£ 000	£ 000	£ 000	£ 000
Cash at bank and in hand	3,793	6,441	(19)	10,215
Total	<u>3,793</u>	<u>6,441</u>	<u>(19)</u>	<u>10,215</u>

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18 Capital commitments	2018 £ 000	2017 £ 000
Amounts contracted for but not provided in the accounts	<u>2,503</u>	<u>5,063</u>

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 £2,265,477 (2017: £1,578,626). Accrued balances at the year end were £nil (2017: £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 2017 and 31 December 2018 have been calculated by a qualified independent actuary updating the preliminary results of the actuarial valuation as at 30 June 2017.

Actuarial assumptions	2018 %	2017 %
Discount rate	3.00	2.60
Future salary increases	3.60	3.60
Future pension increases in deferment	2.60	2.60
Future pension increases in payment	3.45	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 (2017: 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 2018 is 23.2 (2017: 23.7) for males and 24.3 (2017: 24.8) for females.

The salary increase assumption has been taken as 3.60% pa (2017: 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 to the Employer

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.

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19 Lonza Biologics Pension Schemes (continued)
The funded status of the Scheme is as follows:

	2018 £'000	2017 £'000
Present value of funded defined benefit obligations	(132,833)	(145,802)
Fair value of scheme assets	116,933	121,642
Recognised liability for defined benefit obligations	<u>(15,900)</u>	<u>(24,160)</u>

Scheme assets consist of the following:

	2018 £'000	2017 £'000
<i>Return Seeking Assets</i>		
Equities	37,580	51,704
Alternatives	24,275	18,278
Broad Bonds	6,783	13,114
Government Bonds	14,926	9,704
Property	2,569	2,396
Cash and Hedge Funds	8,356	3,948
Subtotal	<u>94,489</u>	<u>99,144</u>
<i>Matching Assets</i>		
Fixed Interest Government Bonds (UK)	4,608	4,727
Index Linked Government Bonds (UK)	17,836	17,772
Subtotal	<u>22,444</u>	<u>22,499</u>
Total fair value of Scheme assets	<u>116,933</u>	<u>121,643</u>

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

	2018 £'000	2017 £'000
At 1 January	145,802	132,812
Current service cost	3,247	3,121
Past service cost	529	-
Interest cost	3,808	3,743
Contributions by plan participants	15	15
Actuarial (gain) / loss	(19,614)	7,232
Benefits paid	(954)	(1,121)
Present value of obligation as at 31 December	<u>132,833</u>	<u>145,802</u>

	2018 £'000	2017 £'000
At 1 January	121,643	114,393
Interest income on plan assets	3,171	3,212
Actuarial (loss) / gain	(8,103)	4,000
Contributions by employer	1,741	1,718
Contributions by plan participants	15	15
Administration cost (excl. cost of managing plan assets)	(580)	(574)
Benefits paid	(954)	(1,121)
Fair value of plan assets as at 31 December	<u>116,933</u>	<u>121,643</u>

Expense recognised in the income statement

	2018 £'000	2017 £'000
(a) Operating costs:		
Current service cost	3,247	3,121
Past service cost	529	-
Administration cost (excl. cost of managing plan assets)	580	574
Total operating costs	<u>4,356</u>	<u>3,695</u>
(b) Finance costs:		
Interest cost on defined benefit obligation	3,808	3,743
Interest income on plan assets	(3,171)	(3,212)
Total finance costs	<u>637</u>	<u>531</u>
Total recognised pensions costs	<u>4,993</u>	<u>4,226</u>

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19 Lonza Biologics Pension Schemes (continued)

	2018 £'000	2017 £'000
Interest income on scheme assets	3,171	3,212
Actuarial (loss) / gain on scheme assets	<u>(8,103)</u>	<u>4,000</u>
Actual Return on Scheme Assets	<u>(4,932)</u>	<u>7,212</u>

	2018 £'000	2017 £'000
Components of defined benefit costs in OCI		
Actuarial gain / (loss) on defined benefit obligation	19,614	(7,232)
Actuarial (loss) / gain on plan assets	<u>(8,103)</u>	<u>4,000</u>
Defined Benefit Income recognised in OCI	<u>11,511</u>	<u>(3,232)</u>

	2018 £'000	2017 £'000
Sensitivity		
Defined Benefit Obligation at 31.12.		
with discount rate -0.25%	141,896	156,573
with discount rate +0.25%	124,481	135,930
with salary increases -0.25%	130,368	143,139
with salary increases +0.25%	135,408	148,583
with pension increases in deferment -0.25%	131,140	143,943
with pension increases in deferment +0.25%	134,621	147,764
with pension increases in payment -0.25%*	130,180	142,889
with pension increases in payment +0.25%	135,586	148,824
with life expectancy +1 year	138,350	151,723
with life expectancy -1 year	127,380	139,594

* With appropriate allowance for caps and floors on pension increases and fixed pension increases remaining unchanged

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 2019 is £911,000

20 Financial Instruments

Detailed below are the assumptions applied in determining the fair value of financial instruments held by the company.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Fair Values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

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20 Financial Instruments (continued)

	Note	Carrying amount 2018 £ 000	Fair Value 2018 £ 000	Carrying amount 2017 £ 000	Fair Value 2017 £ 000
Cash and cash equivalents	12	10,215	10,215	3,793	3,793
Trade receivables	11	1,062	1,062	584	584
Amounts owed by group undertakings	11	44,487	44,487	41,163	41,163
Tax receivable	11	6,194	6,194	8,476	8,476
Total financial assets		61,958	61,958	54,016	54,016
Trade payables	13	(12,916)	(12,916)	(10,393)	(10,393)
Amounts owed to group undertakings	13	(1,368)	(1,368)	(1,938)	(1,938)
Group relief owed to group undertakings	13	(9,103)	(9,103)	(9,103)	(9,103)
Other creditors	13	(1,198)	(1,198)	(1,280)	(1,280)
Total financial Liabilities		(24,585)	(24,585)	(22,714)	(22,714)
Total financial instruments		37,373	37,373	31,302	31,302

There is no material difference between fair values and carrying values of amounts above as all the balances other than intergroup loans are due within less than one year. Balances due after more than one year are intercompany loans which are rolled over within 30 days, interest restructured and therefore reflects ruling market rates.

The company applied the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 2017 £ 000	Level 2 2017 £ 000	Level 3 2017 £ 000	Total fair value 2017 £ 000
Financial assets	-	54,016	-	54,016
Financial Liabilities	-	(22,714)	-	(22,714)
Total financial instruments measured at fair value	-	31,302	-	31,302
	Level 1 2018 £ 000	Level 2 2018 £ 000	Level 3 2018 £ 000	Total fair value 2018 £ 000
Financial assets	-	61,958	-	61,958
Financial Liabilities	-	(24,585)	-	(24,585)
Total financial instruments measured at fair value	-	37,373	-	37,373

In 2018 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Financial risk management

The company is exposed in particular to the following risks:

- Credit risk
- Liquidity risk
- Market risk

These affect its assets, liabilities and forecast transactions. The company's overall risk management policy aims to limit these market risks through operational and finance activities. The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management.

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20 Financial Instruments (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations and these arise principally from group companies.

Trade receivables

During 2018, the company almost exclusively provided its services to Lonza Group companies and was financed entirely from Lonza Group AG. We therefore do not consider there to be a concentration risk by either geographical region or type of counterparty. Additionally, credit risk is closely monitored and reviewed regularly by the Board.

The company does not require collateral in respect of trade and other receivables. The company has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

The interest rate received on group deposits were 0.10 - 0.48% in 2018 (2017: 0.10 - 0.24%) and they were rolled over within 6 - 36 days. As most of the receivables above are due from fellow group companies, the risk of default is minimal and all settlements are made within 30 days.

(b) Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza Biologics Plc's reputation.

The table below analyses the company's financial liabilities in relevant maturity grouping, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flow. All balances are due within less than 12 months and are equal to their carrying balances, as the impact of discounting is not significant.

2018 Financial Liabilities

	Carrying amounts £ 000	Contractual amounts £ 000	1 - 6 months £ 000	Due after 6 months £ 000
Amounts owed to group companies	(10,471)	(10,471)	(10,471)	-
Trade and other payables	(14,114)	(14,114)	(14,114)	-
Accruals	(16,276)	(16,276)	(16,276)	-
Total financial liabilities	(40,861)	(40,861)	(40,861)	-

2017 Financial Liabilities

	Carrying amounts £ 000	Contractual amounts £ 000	1 - 6 months £ 000	Due after 6 months £ 000
Amounts owed to group companies	(11,041)	(11,041)	(11,041)	-
Trade and other payables	(11,673)	(11,673)	(11,673)	-
Accruals	(17,954)	(17,954)	(17,954)	-
Total financial liabilities	(40,668)	(40,668)	(40,668)	-

There was no difference between carrying amounts and contractual amounts for trade and other payables and accruals.

(c) Market risk

Market risk is the risk that changes in market prices will affect the company's income. The company is exposed to market risk from changes in currency exchange and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The risk involved in terms of, for example, foreign currency exposure, capacity and resource utilisation rates are covered by the Lonza Group Company to which Lonza Biologics plc provides its services.

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20 Financial Instruments (continued)

(d) Foreign currency risk

The company is exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currency. The currencies, in which these transactions primarily are denominated, are Euros (EUR), US Dollars (USD) and Swiss Francs (CHF).

The company has less impact on foreign currency movements on its sales as it invoices primarily in Pounds Sterling, thereby passing this foreign exchange risk to the counterparty.

The company's exposure to foreign currency risk was as follows:

	USD £ 000	CHF £ 000	EUR £ 000
2018			
Assets			
Trade and other receivables	-	-	-
Cash & cash equivalents	392	-	335
Liabilities			
Amounts owed to group companies	(30)	(560)	(178)
Trade and other payables	(317)	(290)	(269)
Gross statement of financial position exposure	45	(850)	(112)
	USD £ 000	CHF £ 000	EUR £ 000
2017			
Assets			
Trade and other receivables	8	(3)	-
Cash & cash equivalents	213	-	165
Liabilities			
Amounts owed to group companies	43	(573)	(657)
Trade and other payables	(807)	(293)	(367)
Gross statement of financial position exposure	(543)	(869)	(859)

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The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
	2018	2017	2018	2017
USD	1.334	1.289	1.274	1.351
CHF	1.301	1.269	1.255	1.318
EUR	1.130	1.141	1.113	1.128

Sensitivity Analysis:

If at 31 December 2018, had the pound sterling strengthened 10% in relation to all currencies, with all other variables held constant, post tax profit and equity for the year would have increased / (decreased) by amounts shown below:

	2018	2017
	£ 000	£ 000
USD	(3)	37
CHF	63	61
EUR	9	70
	<u>69</u>	<u>168</u>

A 10% weakening in the pound sterling against the above currencies would have resulted in an equal but opposite effect on the financial statements, on the basis that all other variables remain constant.

20 Financial Instruments (continued)

(e) Interest rate risk

The company's interest rate risk arises from short term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk. Borrowings issued at fixed rates expose the company to fair value interest rate risk.

Carrying amounts of balances upon which interest risk arises were as follows:

	2018	2017
	£ 000	£ 000
Amounts owed to group companies	<u>1,368</u>	<u>1,938</u>

Short term bank deposits are issued at fixed interest rates and repayable within three days. Amounts owed to group companies are rolled over within 14-60 days. The loan was fully repaid at the beginning of the year.

The interest rate paid on group deposit and loan was 0.10 - 0.48% in 2018 (2017: 0.10 - 0.24%). The loan was fully repaid at the beginning of the year.

Based on the outstanding debt at 31 December 2018, if interest rates on GBP denominated short-term borrowings had been 100 basis points higher with all other variables held constant, the impact on post-tax profit for the year would have been an increase of £171,000 (2017: £203,000). However, any movements in interest rates are covered by other Lonza Group companies in the sales price of goods and services provided. This includes the cost of borrowing.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (100bp) in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

Effect in thousands of pounds	Profit and Loss		Equity	
	100bp increase	100bp decrease	100bp increase	100bp decrease
31 December 2018				
Variable rate instruments	171	(171)	171	(171)
31 December 2017				
Variable rate instruments	203	(203)	203	(203)

(f) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as a result from operating activities divided by total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

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21 Operating lease commitments

At the year end the company had commitments under non-cancellable operating leases as set out below:

	Land and buildings 2018 £ 000	Land and buildings 2017 £ 000	Other 2018 £ 000	Other 2017 £ 000
Operating leases which expire:				
within one year	2,374	2,085	39	60
within two to five years	8,475	8,339	20	61
in over five years	16,944	19,028	-	-
	<u>27,793</u>	<u>29,452</u>	<u>59</u>	<u>121</u>

Significant lease arrangement on land and buildings

Lonza Biologics Plc's principle landholding in the UK relates to its operational manufacturing site in Slough Berkshire UK. The lease is for land and buildings known as 609-610 Bath Road and 640 Ajax Avenue Slough. The lease is granted for a term of 20 years from 19 June 2012. There are no landlord or tenant break rights or rights of renewal. The initial annual rent of £1,848,490 is subject to review on 19 June 2022 and 19 June 2027 on an upwards only basis referenced to increases in RPI over the preceding review period.

22 Related party transactions

The company has a related-party relationship with the parent company Lonza Group UK Limited.

Transactions with key management personnel	2018 £ 000	2017 £ 000
The compensation of key management is as follows:		
Key management emoluments including social security costs	3,131	2,175
Company contributions to money purchase pension plans	244	119
Share-based payments	469	118
	<u>3,844</u>	<u>2,412</u>

Other related party transactions

The aggregate value of transactions and outstanding balances with other group companies were as follows:

Expenses	2018 £ 000	2017 £ 000
Transactions with other group companies	4,391	2,827
Total	<u>4,391</u>	<u>2,827</u>
Revenue	2018 £ 000	2017 £ 000
Transactions with other group companies	163,200	130,991
Total	<u>163,200</u>	<u>130,991</u>
Receivables outstanding	2018 £ 000	2017 £ 000
Transactions with other group companies	44,487	41,163
Total	<u>44,487</u>	<u>41,163</u>
Payables outstanding	2018 £ 000	2017 £ 000
Transactions with other group companies	10,471	11,041
Due within 1 year	10,471	11,041
Total	<u>10,471</u>	<u>11,041</u>

23 Share-based payments

Employee Share Purchase Plan (ESPP)
Under the 2005 plan, ESPP Plus, employees were given the opportunity – but not the obligation – to purchase Lonza shares in multiples of three with a price reduction of 30%. The shares purchased in this manner remain blocked for three years and are eligible for a dividend. After this blocking period, participants are entirely free to do as they wish with the shares. If participants keep their shares for a further two years in a blocked deposit, they will then – after this holding period is over – receive one additional free share for every three shares purchased. Due to cost-saving measures, the reissue of the share purchase plan was interrupted in 2013.

23 The purchase conditions to participate in the ESPP Plus were as follows:

2012: Ranging from 9 shares to 318 shares

The ESPP is not part of an incentive program. The plan is intended as a long-term share savings scheme to provide employees with an incentive to strengthen teamwork and personal commitment.

Details of Share Purchase Plans

	Purchased	Ratio	Granted share award	Plan expiry date	Price at grant date CHF
ESPP2010 Plus	870	3:1	290	30.05.2015	76.81
ESPP2011 Plus	1,617	3:1	539	30.05.2016	75.76
ESPP2012 Plus	3,888	3:1	1,296	30.05.2017	38.34

Development within 2018 of the ESPP Plus

	Share awards outstanding 01 01 2018	Share awards granted During 2018	Share awards forfeited During 2018	Share awards vested During 2018	Share awards lapsed During 2018	Share awards outstanding 31 12 2018
ESPP2012 Plus	-	-	-	-	-	-
Total shares	-	-	-	-	-	-

Development within 2017 of the ESPP Plus

	Share awards outstanding 01 01 2017	Share awards granted During 2017	Share awards forfeited During 2017	Share awards vested During 2017	Share awards lapsed During 2017	Share awards outstanding 31 12 2017
ESPP2012 Plus	860	-	-	-	-	860
Total shares	860	-	-	(546)	(314)	(314)

The weighted average share price of the vested shares in 2018 was CHF 0.00 (2017: CHF 38.34)

The fair values of shares granted were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest.

Long-Term Incentive Plan (LTIP)

History and Participation

The LTIP is an equity-based plan introduced in 2006 for a selected segment of key employees, including the Executive Committee.

Objectives

The LTIP has been designed to align the interests of participants with those of Lonza's shareholders and to serve as a retention tool. LTIP participants are eligible to receive a number of Lonza shares at the end of the vesting period, provided that certain challenging performance conditions are met at the end of the three year performance period.

Notes forming part of the financial statements
continued

Equity Awards

Under the LTIP, participants are awarded the right to receive a number of Lonza registered shares in the future. Depending on the level of the job, the target equity award grant is between 10 % and 150 % of the annual base salary. The grant is made at target and the payout level can be between 0 % and 200 %. The Executive Committee members have a target of 125% and the CEO has a target of 150% of base salary with payout levels between 0% and 200% maximum. Any proration is applied in relation to the entire length of the three year performance period.

The LTIP plan design is determined at the beginning of the three-year performance period. For 2018, the plan design included minimum, target and stretch goals. The 2018 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2018 and administered in accordance with this approval.

Vesting will depend on achievement of the performance conditions and cannot exceed the maximum amount (200%) of granted equity awards.

Restriction and Vesting

The central feature of the plan is that key employees will only receive title and ownership of the shares after a three-year vesting period and only if the performance metrics required for vesting are fully or partially met.

Vesting Targets

For the 2018 LTIP, the performance metrics are CORE EPS and CORE RONOA with 50 % weight for each measure.

With the payout value directly linked to these key financial metrics, these two measures focus on Lonza's financial performance that will drive the valuation of Lonza with investors. The value of the LTIP will be ultimately driven by the share price at the time of payout, further linking the LTIP to the interests of the shareholders.

23 Share-based payments (continued)

Overview of Vesting Conditions for the LTIP

For the years 2018 and 2017, the vesting of up to 50 % of the granted equity awards is dependent on growth of CORE EPS achieved during Lonza's three fiscal years and the vesting of up to 50% of the granted equity awards is dependent upon growth of CORE RONOA achieved during Lonza's three fiscal years.

Performance Metrics for CORE EPS Approved at AGM 2018 (LTIP 2018)

- The minimum threshold to be reached at year-end 2020 was determined by the NCC, is approved by the board of directors, and set at a higher level than the CORE EPS basic achieved on 31 December 2017. If this minimum threshold is not reached at year end 2020, the payout will be zero. If this threshold is reached, 50 % of the equity awards granted under CORE EPS will vest.
- The threshold was determined to approximate 109% of the CORE EPS of the threshold set for the performance target for the LTIP 2017-2019. If such level of CORE EPS is reached, 50% of the equity awards granted under the CORE EPS vesting conditions will vest.
- If the target is reached, 100% of the equity awards granted under the CORE EPS vesting conditions will vest. In the event that the maximum defined target level were to be achieved, 200% of the equity awards granted under the CORE EPS vesting conditions would vest.
- The maximum was determined to be above the prorated 2022 mid-term guidance and is a double-digit figure above the threshold. In the event that the maximum defined target level were to be achieved, 200% of the equity awards granted the CORE EPS vesting conditions would vest.

Performance Metrics for CORE ROCI Approved at AGM 2018 (LTIP 2018)

- Following consultations during the fall of 2017, investors indicated a preference to replace CORE RONOA, return on net operating assets, with another return measure as long-term performance indicator. This change is driven mainly by Lonza's acquisitions in recent years.
- The minimum threshold to be reached at year-end 2020 is determined by the nomination and compensation committee and is approved by the board of directors at a higher level than at year-end 2017.
- If the minimum threshold is not reached, 0% of the equity awards granted under the ROCI vesting conditions will vest. In the event that the maximum defined target level were to be achieved, 200% of the equity awards granted under the ROCI vesting conditions would vest.
- A potential vesting of 200% of the LTIP equity awards granted would require the achievement at year-end 2020 of CORE EPS and ROCI at challenging levels versus our 2022 mid-term guidance (pro rata). As shown in the past, Lonza has consistently set challenging LTIP targets in application of the pay-for-performance principle.

Treatment of LTIP of Change of Control Situations

Under the LTIP rules, if a change of control occurs, all unvested granted shares shall immediately vest and the granted price shall be the price at which the shares are sold in the transaction resulting in the change in control.

Actual Performance and Payout for the LTIP 2016

The total 2015 LTIP payout equalled 200%

Performance under the 2016 LTIP exceeded the target for CORE EPS generating a 200 % payout on 50 % of the total award. Performance under the 2016 LTIP exceeded the target for Core RONOA generating a 200 % payout on the remaining 50 % of the total award. The total 2016 LTIP payout equals 200 %. The financial impact of the Capsugel integration were excluded from the Core results which are relevant to the LTIP payout.

Notes forming part of the financial statements
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2016 LTIP

23 Share-based payments (continued)

Details of Long-Term Incentive Plans

	Grant date	Share price CHF	Granted equity awards	Fair value at grant date	Vesting date
LTIP 2015	01.02.2015	109.20	4,587	500,901	31.01.2018
LTIP 2016	01.02.2016	156.30	3,840	900,288	31.01.2019
LTIP 2017	01.02.2017	180.90	3,584	648,346	31.01.2020
LTIP 2018	01.02.2018	258.90	3,907	1,011,522	31.01.2021

Vesting Conditions at Grant Date								
	Market price CHF	Granted equity awards	Fair value of equity awards CHF	Expected EPS / RONOA / ROIC at grant date	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2015 CORE RONOA	109.20	58,453	109.20	100%	100%	3%	97%	6,191,576
LTIP 2015 CORE EPS	109.20	58,454	109.20	100%	100%	3%	97%	6,191,681
LTIP 2016 CORE RONOA	156.30	54,372	156.30	150%	150%	3%	97%	12,365,090
LTIP 2016 CORE EPS	156.30	54,372	156.30	150%	150%	3%	97%	12,365,090
LTIP 2017 CORE RONOA	180.90	53,289	180.90	100%	100%	10%	90%	8,676,982
LTIP 2017 CORE EPS	180.90	53,289	180.90	100%	100%	10%	90%	8,676,982
LTIP 2017 CAPSUGEL CORE RONOA	233.10	38,321	233.10	100%	100%	10%	90%	8,039,363
LTIP 2017 CAPSUGEL CORE EPS	233.10	38,320	233.10	100%	100%	10%	90%	8,039,153
LTIP 2018 ROIC	258.90	53,447	258.90	120%	100%	10%	90%	14,944,423
LTIP 2018 CORE EPS	258.90	53,446	258.90	120%	100%	10%	90%	14,944,143

Development within 2018 of the LTIP

	Equity awards outstanding 01 01 2018	Equity awards granted During 2018	Equity awards forfeited During 2018	Equity awards vested During 2018	Equity awards lapsed During 2018	Equity awards outstanding 31 12 2018
LTIP 2015	3,674	-	-	(3,674)	-	-
LTIP 2016	3,922	-	(25)	-	-	3,897
LTIP 2017	3,584	-	(89)	-	-	3,495
LTIP 2018	-	3,907	-	-	-	3,907
Total shares	11,180	3,907	(114)	(3,674)	0	11,299

Development within 2017 of the LTIP

	Equity awards outstanding 01 01 2017	Equity awards granted During 2017	Equity awards forfeited During 2017	Equity awards vested During 2017	Equity awards lapsed During 2017	Equity awards outstanding 31 12 2017
LTIP 2014	2604	-	(563)	(2,041)	-	-
LTIP 2015	3818	-	(144)	-	-	3,674
LTIP 2016	3922	-	-	-	-	3,922
LTIP 2017	-	3,584	-	-	-	3,584
Total shares	10,344	3,584	(707)	(2,041)	0	11,180

The estimated fair value of the granted equity awards in 2018 was CHF 279.61 (2017: CHF 182.47). The weighted average share price of the vested shares in 2018 was CHF 109.20 (2017: CHF 91.15).

The outstanding granted equity awards on 31 December 2018 had a weighted average share price of CHF 221.20 (2017: CHF 175.16) and a remaining weighted average contractual life of 19 months (2017: 15 months). The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for equity awards are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest.

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Extended Short-Term Incentive Plan (E-STIP)

Relationship to STIP

Performance metrics are defined for each financial year, achievement determines the payout of STIP. The performance metrics for the STIP (Cash STIP and E-STIP) are the same.

E-STIP

Targeted E-STIP amount as % of base salary

- 28.7 % for the Chief Executive Officer
- 25 % for other Executive Committee members
- 10 % to 20 % for Senior Management

E-STIP targets weighting

- 50 % CORE EBIT (Financial)
- 15 % Lonza Sales (Financial)
- 15 % Operational Free Cash Flow (Financial)
- 20 % Personal targets are linked back to the financial targets (10 % weighting for CORE EBIT, 5 % weighting for Sales and 5 % weighting for Operational Free Cash Flow)

Maximum potential payout

Depending on the financial results achievement, the Cash STIP payout may range between 0 % and 200 % for the financial targets and 0 % and 150 % for personal targets. Total maximum payout opportunity is 190 % (80 % financial × 200 % + 20 % personal × 150 % = 190 %)

23 Share-based payments (continued)

Alignment on Share Price

The value of the plan is strongly dependent on Lonza's future share price, thereby further reinforcing the link to shareholders' interests.

The E-STIP is awarded in the form of RSUs, which are subject to a three-year vesting requirement.

Grant Timing

The grant of the RSUs under the E-STIP 2014 took place in April 2015 following shareholder approval at the AGM (E-STIP 2013 on 31 March 2014), on which date the number of RSUs was determined based on the closing stock price of the last business day in March. These RSUs vest after three years.

Dividend and Voting Rights

The E-STIP RSUs do not qualify for dividends and voting rights until vested.

Treatment of E-STIP RSUs in Change of Control Situation

Under the outstanding E-STIP plan rules, if a change in control occurs, all unvested RSUs shall immediately vest and the granted price shall be the price at which the shares are sold in the transaction resulting in the change in control.

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Non-Vested RSUs

	Grant date	Share price	Granted share units	Vesting date
E-STIP 2014	31.03.2015	121.5	0	31.03.2018

Development within 2018 of E-STIP

	Share units outstanding 01 01 2018	Share units granted During 2018	Share units forfeited During 2018	Share units vested During 2018	Share units lapsed During 2018	Share units outstanding 31 12 2018
E-STIP 2014	305	-	-	(305)	-	-

Development within 2017 of E-STIP

	Share units outstanding 01 01 2017	Share units granted During 2017	Share units forfeited During 2017	Share units vested During 2017	Share units lapsed During 2017	Share units outstanding 31 12 2017
E-STIP 2014	305	-	-	-	-	305

No RSU's were granted in 2018. The weighted average share price of the vested share unit in 2018 was CHF 121.50 (2017: CHF 91.26). No outstanding share units on 31 December 2018.

24 Ultimate controlling party

In the opinion of the directors the ultimate parent company at 31 December 2018 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.

25 Subsequent events

In February 2019, a £20m dividend was declared and paid by the company.