

Registration number: 02742471

Lonza Biologics Plc

**Annual Report and Financial Statements
For the year ended 31 December 2022**

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Lonza Biologics Plc

Company information

Directors	Edward Garfield Ralf Geier-Cibin Sandeepan Chakrawertti Alexander Herget
Company secretary	Gerard Kennedy
Registered number	02742471
Registered office	228 Bath Road Slough Berkshire SL1 4DX
Solicitors	Stevens & Bolton LLP Wey House Farnham Road Guildford Surrey GU1 4YD
Bankers	HSBC City Branch 33 Park Row Leeds West Yorkshire LS1 1LD
Tax advisor	Ernst & Young 1 Bridgewater Place Water Lane Leeds LS11 5QR
Auditor	KPMG LLP 1 Sovereign Square Sovereign Street Leeds West Yorkshire LS1 4DA

Strategic report
For the year ended 31 December 2022

The directors present their Strategic report for the year ended 31 December 2022.

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 know-how to grow its business with new and existing customers.

Performance during the year

The revenue of the Company improved to £252.8m (2021: £243.6m) as the Company experienced an increase in demand for its products and services.

The profit before taxation for the year improved by 12% to £38.3m (2021: £34.2m).

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.

Key performance indicators (KPIs)

	2022	2021
Total cost of sales and administrative expenses	£218.7m	£211.4m
Profit before taxation	£38.3m	£34.2m
Net assets	£141.1m	£119.7m
Average number of employees	1,363	1,334

These KPIs were selected by the Board as they are internally monitored relevant measures of business performance. As this is a cost-plus entity, costs are controlled locally in order to support profits for the consolidated group. Profit is monitored in order to ensure compliance with local and international laws and contractual agreements with stakeholders. The balance sheet position is monitored as this is a key marker for creditors. The average number of employees demonstrates the Company's continued commitment to growth and attracting skilled workers in the UK.

Future developments

The Company expects further moderate growth in the areas of development services as well as small and mid-scale contract manufacturing by implementing new technologies, processes and capitalizing on the increasing demand we see for non-standard monoclonal antibodies and more complex proteins, which are key focus points for the Company. The Company will continue to add additional capacity and increase resources accordingly.

Principal risks and uncertainties facing the business

The risks involved in terms of foreign currency exposure, capacity, resource utilisation rates, inventory and impairment risks 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 2022, the Company almost exclusively provided its services to Lonza Group companies and was financed entirely by its ultimate parent company, Lonza Group AG.

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 section 172 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.

Strategic report (continued)
For the year ended 31 December 2022

Section 172 statement (continued)

- The board want 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, updated in 2022, governs how the board evaluate and set high standards for suppliers. We have also strengthened our Responsible Sourcing program globally, see page 25 of the Lonza 2022 Sustainability Report (available on the Lonza website) for our group-wide initiatives.
- 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.
- We have the ambition to procure and source all our electricity from renewable sources by 2025 (where available).

This report was approved by the board of directors on 21 September 2023 and signed on its behalf by:


.....
Edward Garfield
Director
21/09/2023

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

Directors' report
For the year ended 31 December 2022

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2022.

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 and biotech markets. The Group focuses on preventing and curing illness, by supporting customers to deliver innovative medicines that help treat a wide range of diseases. Patients and consumers benefit from the way the Group applies its manufacturing technologies to the healthcare, preservation and production categories.

The Group 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 carries out this core activity of custom development and manufacturing services on behalf of the Group, including enabling the production and delivery of stock to local markets. Custom development includes research and development expenditure. The Company also provides support and other services on behalf of the Group.

Dividends

During the year, no dividends were paid (2021: £20m)

Directors of the Company

The directors who served the Company during the year and to the date of the financial statements being approved, unless otherwise stated, were as follows:

Edward Garfield
Ralf Geier
Sandeepan Chakrawerti
Alexander Herget

Going concern

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the reasons mentioned in note 2 of the accounting policies section of these financial statements.

Directors' report (continued)

For the year ended 31 December 2022

Streamlined energy and carbon reporting (SECR)

This report outlines Lonza Biologics Plc's greenhouse gas and energy usage for the year ending 31 December 2022 as required by, and in accordance with, the Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

For the year ending 31 December 2022:

Energy Type	Emissions Type	Definition	Total Volume (kWh)	Calculated Emissions (kg CO ₂ e)
Gas	Scope 1	Total Energy Consumption - Gas	10,734,313	1,959,441
Electricity	Scope 2	Total Energy Consumption - Electricity	14,549,670	2,813,615
Transport	Scope 3	Total Energy Consumption - Business related mileage	209,703	47,645
Total			25,493,686	4,820,701

Intensity Ratio

Intensity Measurement	Floor Area (m ²)	Intensity ratio (kg CO ₂ e/m ²)
Floor Area	30,039	160

For the year ending 31 December 2021:

Energy Type	Emissions Type	Definition	Total Volume (kWh)	Calculated Emissions (kg CO ₂ e)
Gas	Scope 1	Total Energy Consumption - Gas	11,831,698	2,167,094
Electricity	Scope 2	Total Energy Consumption - Electricity	13,356,018	2,835,883
Transport	Scope 3	Total Energy Consumption - Business related mileage	68,457	16,007
Total			25,256,173	5,018,984

Intensity Ratio

Intensity Measurement	Floor Area (m ²)	Intensity ratio (kg CO ₂ e/m ²)
Floor Area	24,907	202

Reporting Methodology and Quantification

Lonza Biologics Plc's approach to reporting is based on WBCSD/WRI Greenhouse Gas Protocol: a corporate accounting standard revised edition in conjunction with UK Government environmental reporting guidelines including SECR guidance. An operational control approach has been taken. UK Government greenhouse-gas conversion factors for company reporting 2022 (2021 for the comparative period) have been employed. Scope 2 emissions from purchased electricity have been calculated primarily using the location-based approach.

Directors' report (continued)
For the year ended 31 December 2022

Streamlined energy and carbon reporting (SECR) (continued)

Energy Efficiency Actions

There were no projects in 2022 to specifically improve energy efficiency. However, our onsite teams are continuing to work to meet our global sustainability goals on reducing energy and greenhouse gas emissions intensity, with a site sustainability roadmap. Please see the Lonza Sustainability Report 2022 (available on the company website), pages 28-30 and 33-35 for our group-wide actions for reducing greenhouse gas emissions (Scope 1, 2 and 3), and increasing energy efficiency and sourcing of energy from renewable sources.

Note on comparatives

The Manchester office was excluded from this disclosure in the filed 2021 financial statements as the usage data was not available as Lonza is not billed directly for this. The emissions were also considered to be likely minimal.

The data became available in June 2023 so we have included the floor area and usage data in the 2022 disclosures. If 2021 were to be restated, the volume of electricity consumption (Scope 2) would have been 13,451,510 kWh and the calculated emissions would have been 2,856,159 kg CO₂e. The floor area would have been 25,766 m² and the intensity ratio would have been 196 kg CO₂e/m². The impact is less than 5% on all affected figures and no other figures are impacted. We do not consider the difference to be material enough to warrant restatement.

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.

Equal opportunities

The Company is committed to offering equal opportunities in recruitment, training, career development and promotion to all people, including those with disabilities, having regard for their particular aptitudes and abilities. Full and fair consideration is given to applicants with disabilities and every effort is made to give employees who become disabled whilst employed by the Company an opportunity for retraining and continuation in employment. The training, career development and promotion of disabled persons should, as far as possible, be the same as that of other employees.

Financial risk management

Particulars of risk are detailed in the Strategic report.

Research and development

Biologics is involved in the development of the Group's proprietary pharmaceutical product-producing expression systems. Biologics is one of the leading monoclonal antibodies (MABs) and recombinant proteins contract manufacturers, utilising the Group's proprietary mammalian cell cultures for varied applications. The company strives to provide a complete product development package for its clients, using extensive development and manufacturing services to develop high quality products such as MABs, bispecific and other complex molecules. The R&D projects undertaken by Biologics span a range of medical conditions and therapeutic indications, reflecting its wide client base and breadth of expertise.

During the year, the Company incurred research and development costs amounting to £19.2m (2021 (restated): £19.0m). See Note 2 in the accounts for details about the 2021 restatement.

Directors' report (continued)
For the year ended 31 December 2022

Qualifying Indemnity provisions

During the year, the Company had in force an indemnity provision in favour of one or more directors of the Company against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006.

Events after the end of the reporting period

The directors are not aware of any adjusting or non-adjusting post-balance sheet events.

Disclosure of information to the auditor

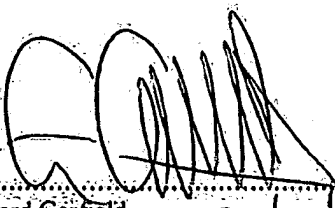
The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself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

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

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.

This report was approved by the board of directors on 21 September 2023 and signed on its behalf by:



Edward Garfield
Director

21/09/2023

Registered office
228 Bath Road
Slough
Berkshire
SL1 4DX

**Statement of directors' responsibilities
For the year ended 31 December 2022**

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 accounting 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 2022, which comprise the Income statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, and Notes to the Financial Statements, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 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.
- 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.

Independent Auditor's Report to the Members of Lonza Biologics Plc

(continued)

Fraud and breaches of laws and regulations - ability to detect (continued)

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

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.

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: Medicines and Healthcare Products Regulatory Agency requirements, health and safety, anti-bribery, employment law, GDPR 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:

Independent Auditor's Report to the Members of Lonza Biologics Plc

(continued)

Strategic report and directors' report (continued)

- 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.

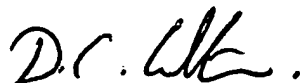
Auditor's responsibilities

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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

1 Sovereign Square
Sovereign Street
Leeds
West Yorkshire
LS1 4DA

22 September 2023

Lonza Biologics Plc**Income statement
For the year ended 31 December 2022**

	<i>Note</i>	<i>2022 £000</i>	<i>2021 £000</i>
Revenue	5	252,804	243,564
Cost of sales		(200,875)	(197,601)
Gross profit		51,929	45,963
Administrative expenses		(17,803)	(13,820)
Other operating income	9	6,018	3,800
Operating profit	6	40,144	35,943
Interest receivable and similar income	10	3,369	2,156
Interest payable and similar charges	11	(5,210)	(3,939)
Profit before tax		38,303	34,160
Tax on profit	13	(12,856)	(6,671)
Profit for the financial year		25,447	27,489

The above results were derived from continuing operations.

The notes on pages 17 to 38 form an integral part of these financial statements.

Lonza Biologics Plc**Statement of comprehensive income
For the year ended 31 December 2022**

	<i>Note</i>	<i>2022 £000</i>	<i>2021 £000</i>
Profit for the year		25,447	27,489
Items that cannot be reclassified to the income statement:			
Actuarial gain on Defined Benefit pension scheme liability	25	85,770	23,577
Actuarial (loss)/gain on plan assets	25	(89,619)	10,620
Deferred tax effect of the above items	22	1,624	(6,794)
		(2,225)	27,403
Items that are or may be reclassified subsequently to the income statement:			
Deferred tax on Share Options	22	(325)	41
Total comprehensive income for the year		22,897	54,933

The notes on pages 17 to 38 form an integral part of these financial statements.

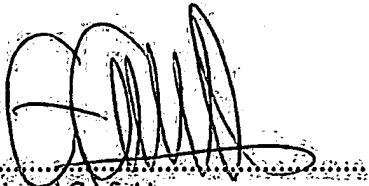
Balance sheet
As at 31 December 2022

	<i>Note</i>	<i>2022</i> <i>£000</i>	<i>2021</i> <i>£000</i>
Fixed assets			
Intangible assets	14	1,809	1,924
Property, plant and equipment	15	138,462	122,562
		<u>140,271</u>	<u>124,486</u>
Current assets			
Stocks	16	75,135	50,389
Debtors: amounts falling due within one year	17	41,960	43,435
Cash at bank and in hand	18	4,937	8,180
		<u>122,032</u>	<u>102,004</u>
Creditors: amounts falling due within one year	19	<u>(77,151)</u>	<u>(60,051)</u>
Net current assets		<u>44,881</u>	<u>41,953</u>
Total assets less current liabilities		<u>185,152</u>	<u>166,439</u>
Creditors: amounts falling due after more than one year	20	<u>(36,957)</u>	<u>(39,693)</u>
		<u>148,195</u>	<u>126,746</u>
Provisions for liabilities			
Provisions	21	(254)	(249)
Deferred tax liabilities	22	(2,575)	(1,720)
Employee benefits	25	(4,252)	(5,070)
		<u>(7,081)</u>	<u>(7,039)</u>
Net assets		<u>141,114</u>	<u>119,707</u>
Capital and reserves			
Called up share capital	23	14,500	14,500
Profit and loss account		126,614	105,207
Total equity		<u>141,114</u>	<u>119,707</u>

Lonza Biologics Plc
Registered number: 02742471

Balance sheet (continued)
As at 31 December 2022

These financial statements were approved by the board of directors on 21 September 2023 and were signed on their behalf by:

A handwritten signature in black ink, appearing to read 'E. Garfield', is written over a dotted line.

Edward Garfield
Director

Registered Office
228 Bath Road
Slough
Berkshire
SL1 4DX

The notes on pages 17 to 38 form an integral part of these financial statements.

**Statement of changes in equity
For the year ended 31 December 2022**

	<i>Called up share capital</i> £000	<i>Profit and loss account</i> £000	<i>Total equity</i> £000
At 1 January 2021	14,500	72,731	87,231
Profit for the year	-	27,489	27,489
Actuarial gain on defined benefit pension scheme	-	34,197	34,197
Deferred tax	-	(6,753)	(6,753)
Total comprehensive income for the year	-	54,933	54,933
Transactions with owners, recorded directly in equity			
Dividends paid to group company (note 12)	-	(20,000)	(20,000)
Charge from parent for equity-settled share based payments	-	(3,075)	(3,075)
Expense relating to equity-settled share based payments (note 27)	-	618	618
At 31 December 2021 and 1 January 2022	14,500	105,207	119,707
Profit for the year	-	25,447	25,447
Actuarial loss on defined benefit pension scheme	-	(3,849)	(3,849)
Deferred tax	-	1,299	1,299
Total comprehensive income for the year	-	22,897	22,897
Transactions with owners, recorded directly in equity			
Charge from parent for equity-settled share based payments	-	(2,257)	(2,257)
Expense relating to equity-settled share based payments (note 27)	-	767	767
At 31 December 2022	14,500	126,614	141,114

The notes on pages 17 to 38 form an integral part of these financial statements.

**Notes to the financial statements
For the year ended 31 December 2022**

1. General information

Lonza Biologics (the “Company”) is a public limited company which is incorporated and domiciled in the United Kingdom under the Companies Act 2006. The registered number is 02742471 and the registered address is 228 Bath Road Slough Berkshire SL1 4DX.

The principal activities of the Company are described in the Directors' report on page 4.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

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

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

The financial statements are presented in Sterling rounded to the nearest £000 except when otherwise stated.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- The requirements of IAS 7 Statement of Cash Flows;
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- The requirements of the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements; and;
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

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:

- The requirements of IFRS 2 Share based payment: Disclosure requirements of in respect of group settled share-based payments; and
- The requirements of IFRS 7 Financial Instruments: Disclosures.

Notes to the financial statements
For the year ended 31 December 2022

2. Accounting policies

Summary of significant accounting policies and key accounting estimates

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 going concern basis under the historical cost convention 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.

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the following reasons. The directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for the period twelve months from the date of these accounts based on a forecasting exercise performed, covering the same period. The assumption made as part of this exercise is that the Company will continue to trade at consistent levels as experienced throughout 2022 and during 2023 to the date of signing of these financial statements.

There have been no subsequent events identified that would affect the going concern conclusion.

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 presentation currency of the financial statements.

Revenue recognition

Revenue, which is stated net of value added tax, represents amounts derived from group companies for the provision of services. This comprises of manufacturing, development, support and other services (including research & development services) rendered to other group companies. Revenue is recognised, at an agreed mark-up, as costs are expensed to the income statement. Please see the Tax accounting policy for further details. Revenue from manufacturing services is recognised when all the performance conditions have been met.

Research and development expenditure

Research and development expenditure, that does not meet the definition of an intangible asset, is charged to the income statement as incurred and subsequently recharged to a fellow group company. Research and development expenditure is included in cost of sales and the related recharges are included within revenue from development services.

Restatement of prior year research & development costs

The directors have reviewed the research & development expenses disclosed under Note 6 'Operating profit' to ensure that all research and development expenditure is appropriately disclosed.

Notes to the financial statements
For the year ended 31 December 2022

2. Accounting policies (continued)

Research and development expenditure (continued)

The prior year comparatives have been restated as the previously disclosed research and development expenses were understated. This restatement has no impact on the financial statements other than the disclosure in note 6. The prior period amounts have been restated as follows:

	Previously reported	Adjustment	Adjusted reporting
	£000	£000	£000
Research & development expenses	1,932	17,028	18,960

Research and development expenditure credits

Research and development expenditure credits are estimated based on successfully filed historical claims. They are recognized as other operating income in the income statement in the same period as the associated expenses. Credits recognized as "other debtors" initially until they are officially approved by HMRC. At this point, they are offset against tax liabilities at the agreed value.

Intangible assets

Intangibles that are acquired by the Company are measured at cost less accumulated amortisation. Amortisation of licenses is over a 10 year period.

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
- 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.

**Notes to the financial statements
For the year ended 31 December 2022**

2. Accounting policies (continued)

Impairment (continued)

Financial assets (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, 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.

Stocks

Stocks 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 non-interest bearing and are stated at original invoiced amount less an appropriate allowance for expected credit losses. At each reporting date, the Company measures the loss allowance at an amount equal to the lifetime expected credit losses.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Since the majority of the Company's receivables are intercompany and there have been no historical losses, nor any events or indicators which would cause the directors to believe that there will be any future losses, the directors are comfortable that the risk is minimal.

Trade receivables are written off when there is no reasonable expectation of recovery.

A default on a trade receivable occurs when the debtor fails to make contractual payments when they fall due.

Tax

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.

**Notes to the financial statements
For the year ended 31 December 2022**

2. Accounting policies (continued)

Tax (continued)

The Company's current tax expense is measured at the amount expected to be paid to the taxation authorities including management's estimate of the impact of any areas of uncertainty in open returns where the liabilities remain to be agreed with tax authorities. Transfer pricing (being the determination and application of a margin on costs which complies with all relevant tax laws applicable to all parties involved in intercompany sales) relies on the exercise of judgement and it is possible for there to be a range of reasonable views. Principally for any uncertain tax items for which a provision is made, it relates to transactions with related parties which are required to be priced on an arm's length basis. The tax rates applied are those which are enacted or substantively enacted at the balance sheet date. Current tax may also include 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

Provisions are recorded when the Company has a present, legal or constructive obligation as a result of a past event, for which it is probable that it will be required to settle by an outflow of resources and for which a reliable estimate of the amount of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation.

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.

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.

**Notes to the financial statements
For the year ended 31 December 2022**

2. Accounting policies (continued)

Leases (continued)

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.

**Notes to the financial statements
For the year ended 31 December 2022**

2. Accounting policies (continued)

Equity settled share based payment transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date as which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined by the market price of the shares of the ultimate parent undertaking. In valuing equity-settled transaction, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the company (market conditions). No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extend to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and therefore the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense, calculated on an employee by employee basis and allocated from the group level, since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

The Company, which is part of the group plan, recognises and measures its share based payment expense based on a reasonable allocation of the employee's period of service to the Company.

Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a an inter-company liability with a corresponding debit to equity.

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.

Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in compliance with FRS 101 requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

Management have identified the following critical judgement or estimate in applying the Company's accounting policies:

Notes to the financial statements
For the year ended 31 December 2022

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Defined benefit pension plans (note 25)

The pension cost and the defined benefit pension obligation of the Company's defined benefit pension plans are based on a number of selected assumptions; these include the discount rate, inflation rate, salary growth and longevity. Differences arising from actual experience or future changes in assumptions will be reflected in future periods. The effect of changing these assumptions is described in note 25.

4. New and amended standards and interpretations

The nature and impact of each new standard or amendment is described below:

Property, Plant and Equipments: Proceeds before Intended Use - Amendments to IAS 16

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the financial statements of the Company.

None of the other new standards or interpretations had an impact on the Company.

5. Revenue

An analysis of revenue by class of business is as follows:

	2022 £000	2021 £000
Manufacturing	142,918	123,605
Development services	51,825	63,509
Other services	28,815	26,671
Support services	29,246	29,779
	<u>252,804</u>	<u>243,564</u>

The analysis of revenue by geographical market is as follows:

	2022 £000	2021 £000
UK	-	861
Europe	252,274	241,541
Rest of the world	530	1,162
	<u>252,804</u>	<u>243,564</u>

**Notes to the financial statements
For the year ended 31 December 2022**

6. Operating profit

The operating profit is stated after charging:

	2022 £000	2021 (restated*) £000
Depreciation of property plant and equipment	14,884	13,092
Amortisation of intangible assets	1,436	1,031
Lease rentals	925	382
Impairment of stocks	4,225	6,360
Auditor's remuneration - audit of these financial statements	135	151
Research & development expenses	19,203	18,960

No non-audit services were provided by the auditor of the Company during the year ended 31 December 2022 or 31 December 2021.

*See note 2 for an explanation for the restatement of the prior year's research & development expenses.

7. Directors' remuneration

	2022 £000	2021 £000
Emoluments	992	871
Pension benefits	38	37
	<u>1,030</u>	<u>908</u>

During the year, no retirement benefits were accruing to any directors (2021: none) in respect of defined benefit pension plans.

During the year, retirement benefits were accruing to 3 directors (2021: 3) in respect of defined contribution pension plans.

The number of directors who received shares under a long-term incentive scheme during the year is 2 (2021: 1).

The highest paid director received remuneration of £515,688 (2021: £502,699).

Contributions to the defined contribution pension plan in respect of the highest paid director amount to £16,288 (2021: £15,561).

Notes to the financial statements
For the year ended 31 December 2022

8. Staff costs

The aggregate payroll costs, including directors' were as follows:

	2022 £000	2021 £000
Wages and salaries	89,775	84,644
Social security costs	10,614	8,695
Other pension costs	4,250	4,745
Share based payments	767	618
	<u>105,406</u>	<u>98,702</u>

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

	2022 No.	2021 No.
Administration (including support and other services)	157	240
Research and development	656	493
Operations	550	601
	<u>1,363</u>	<u>1,334</u>

9. Other operating income

	2022 £000	2021 £000
Research and development credits	3,045	2,491
Income from support services	2,971	1,309
Gain on disposal of tangible assets	2	-
	<u>6,018</u>	<u>3,800</u>

10. Interest receivable and similar income

	2022 £000	2021 £000
Interest on amounts owed by group undertakings	-	8
Interest income on defined benefit plan assets (note 25)	3,369	2,148
	<u>3,369</u>	<u>2,156</u>

**Notes to the financial statements
For the year ended 31 December 2022**

11. Interest payable and similar charges

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Interest on amounts owed to group undertakings	319	24
Interest on defined benefit pension plan obligation (note 25)	3,424	2,702
Interest on lease liability	982	902
Interest on unwinding of provisions	5	4
Interest on bank loans and overdraft	-	104
Foreign exchange losses	480	203
	<u>5,210</u>	<u>3,939</u>

12. Dividends paid

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
Dividend paid to immediate parent undertaking	-	20,000
	<u>-</u>	<u>20,000</u>

13. Tax on profit

Recognised in the income statement

	<i>2022</i>	<i>2021</i>
	<i>£000</i>	<i>£000</i>
<i>Current tax</i>		
Current year	8,933	6,261
Adjustments for prior years	1,769	(263)
	<u>10,702</u>	<u>5,998</u>
<i>Deferred tax</i>		
Origination and reversal of temporary differences	1,561	167
Impact of changes in tax laws/tax rates applied	577	653
Adjustment for prior period	16	(147)
	<u>2,154</u>	<u>673</u>
<i>Total tax expense</i>	<u>12,856</u>	<u>6,671</u>

Notes to the financial statements
For the year ended 31 December 2022

13. Tax on profit (continued)

Reconciliation of effective tax rate

The tax on profit before tax for the year is higher than (2021: higher than) the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below:

	2022 £000	2021 £000
Profit before tax	38,303	34,160
Total tax expense	(12,856)	(6,671)
Profit after tax	<u>25,447</u>	<u>27,489</u>
Tax using the UK corporation tax rate 19% (2021: 19%)	7,278	6,490
Change in tax rate applied on deferred tax balances (note 22)	577	653
Expenses not deductible	671	661
Adjustment in respect of prior period	1,785	(410)
Income not taxable	(103)	(133)
Adjustments to current year taxable income	2,547	-
Share options	101	(590)
Total tax charge for the year	<u><u>12,856</u></u>	<u><u>6,671</u></u>

The Company has capital losses of £2,117,045 (2021: £2,117,045) that are available indefinitely for offset against future capital gains of the Company. Deferred tax assets have not been recognized as there is uncertainty whether suitable profits will arise in future periods against which the deferred tax assets would reverse.

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. However, in March 2021, The Finance Bill 2021 included measures to increase the standard rate of UK corporation tax to 25% with effect from 1 April 2023. The Finance Bill 2021 was enacted in June 2021 and accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2022 and 31 December 2021.

Notes to the financial statements
For the year ended 31 December 2022

14. Intangible assets

	<i>Software and licences £000</i>
<i>Cost</i>	
At 1 January 2022	10,115
Additions	270
Transfers from capital work in progress (note 15)	1,051
At 31 December 2022	<u>11,436</u>
<i>Accumulated amortisation</i>	
At 1 January 2022	8,191
Charge for the year	1,436
At 31 December 2022	<u>9,627</u>
<i>Net book value</i>	
At 31 December 2022	<u>1,809</u>
At 31 December 2021	<u>1,924</u>

Notes to the financial statements
For the year ended 31 December 2022

15. Property, plant and equipment

	<i>Capital work in progress £000</i>	<i>Leasehold improvements £000</i>	<i>Plant and equipment £000</i>	<i>Buildings £000</i>	<i>Total £000</i>
Cost					
At 1 January 2022	23,475	62,592	92,903	49,865	228,835
Additions	14,995	994	14,068	1,921	31,978
Transfer from capital work in progress	(10,406)	3,337	7,069	-	-
Disposals	-	-	-	(399)	(399)
Transfer to intangible assets (note 14)	(1,051)	-	-	-	(1,051)
At 31 December 2022	27,013	66,923	114,040	51,387	259,363
Accumulated depreciation					
At 1 January 2022	-	35,245	62,856	8,172	106,273
Charge for the year	-	3,109	7,689	4,086	14,884
Eliminated on disposal	-	-	-	(256)	(256)
At 31 December 2022	-	38,354	70,545	12,002	120,901
Net book value					
At 31 December 2022	27,013	28,569	43,495	39,385	138,462
At 31 December 2021	23,475	27,347	30,047	41,693	122,562

At 31 December 2022, property, plant and equipment includes right-of-use assets as follows:

	<i>Buildings £000</i>
Cost at 1 January 2022	49,865
Additions	1,921
Disposal	(399)
Accumulated depreciation	(12,002)
Net book value at 31 December 2022	39,385

Lonza Biologics Plc

Notes to the financial statements For the year ended 31 December 2022

16. Stocks

	2022 £000	2021 £000
Raw materials and consumables	29,452	22,157
Work in progress	27,141	17,813
Finished goods	18,542	10,419
	<u>75,135</u>	<u>50,389</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 £26,376,006 (2021: £31,436,406).

Inventory is stated after provisions for obsolete and old inventory of £2,399,026 (2021: £3,421,865).

17. Debtors: amounts falling due within one year

	2022 £000	2021 £000
Trade receivables	838	391
Amounts owed by group undertakings	28,552	27,747
Other debtors	8,547	8,952
Tax receivable	-	1,837
Prepayments and accrued income	4,023	4,508
	<u>41,960</u>	<u>43,435</u>

Amounts owed by group undertakings are unsecured, repayable on demand and interest free.

18. Cash at bank and in hand

	2022 £000	2021 £000
Cash at bank and in hand	<u>4,937</u>	<u>8,180</u>

**Notes to the financial statements
For the year ended 31 December 2022**

19. Creditors: amounts falling due within one year

	2022 £000	2021 £000
Trade creditors	20,660	14,107
Amounts owed to group undertakings	26,440	22,105
Corporation tax	1,123	-
Group relief owed to group undertakings	107	18
Lease liability	4,475	4,062
Accruals and deferred income	24,346	19,759
	<u>77,151</u>	<u>60,051</u>

Amounts owed to group undertakings include a non-trading balance of £22,967,000 (2021: £20,100,000) which is unsecured and repayable on demand. This is a loan subject to a variable interest rate, which at year-end was 4.03% (2021: 1.43%).

The remaining balances included in amounts due to group undertakings relate to trade and are unsecured, repayable on demand and interest free.

Accruals costs includes severance/retention accruals which were settled early in 2023.

20. Creditors: amounts falling due after more than one year

	2022 £000	2021 £000
Lease liability	<u>36,957</u>	<u>39,693</u>

21. Provisions

	<i>Provision for dilapidations £000</i>
At 1 January 2022	249
Charged to profit or loss	5
At 31 December 2022	<u>254</u>

Notes to the financial statements
For the year ended 31 December 2022

22. Deferred tax assets and liabilities

	<i>2022</i> <i>£000</i>
Deferred tax liability	
Intangible assets	(153)
Property, plant and equipment	(4,235)
Employee benefits plans	1,549
Share options	200
Share options - equity	-
Provisions	64
	<u>(2,575)</u>

	<i>2021</i> <i>£000</i>
Deferred tax liability	
Intangible assets	(110)
Property, plant and equipment	(3,756)
Employee benefits plans	1,208
Share options	550
Share options - equity	325
Provisions	63
	<u>(1,720)</u>

Notes to the financial statements
For the year ended 31 December 2022

22. Deferred tax assets and liabilities (continued)

	Share options £ 000	Property, plant and equipment £ 000	Employee benefits plan £ 000	Intangible assets £ 000	Share options - equity £ 000	Provisions £ 000	Total £ 000
Movement in deferred tax during the year							
At 1 January 2022	550	(3,756)	1,208	(110)	325	63	(1,720)
Recognised to income statement	(359)	(233)	(960)	(10)	-	1	(1,561)
Recognised to equity	-	-	731	-	(305)	-	426
Prior year adjustment to income statement	-	(16)	-	-	-	-	(16)
Prior year adjustment to equity	-	-	296	-	-	-	296
Rate change adjustment to income statement	9	(230)	(323)	(33)	-	-	(577)
Rate change adjustment to equity	-	-	597	-	(20)	-	577
At 31 December 2022	200	(4,235)	1,549	(153)	-	64	(2,575)

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.

23. Share capital

Allotted, called up and fully paid shares

	2022		2021	
	No.	£	No.	£
Ordinary shares of £1 each	14,500,000	14,500,000	14,500,000	14,500,000

24. Capital commitments

	2022 £000	2021 £000
Amount contracted for but not provided in the accounts	1,952	10,783

**Notes to the financial statements
For the year ended 31 December 2022**

25. 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 £3,756,143 (2021: £4,344,062). Accrued Company contributions at the year end were £412,046 (2021: £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 2021 and 31 December 2022 has been calculated based on the actuarial valuation as at 30 June 2020.

	2022	2021
<i>Actuarial assumptions</i>	%	%
Discount rate	5.05	1.95
Future salary increases	n/a	n/a
Future pension increases in deferment	2.80	2.85
Future pension increases in payment	3.35	3.40

The assumptions have been derived in a similar way to previous periods but are based on the estimated duration of the Scheme's liabilities, 18 years (2021: 25 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 2022 is 23.7 (2021: 23.1) for males and 25.4 (2021: 24.7) for females.

The Scheme closed to future accrual on 31 March 2020 where the active members became deferred members at that date. A salary increase assumption was therefore not required as at 31 December 2022 and 31 December 2021.

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:

- 1) The return on the Scheme's assets being lower than assumed, resulting in an unaffordable increase in the required Employer contribution rate;
- 2) Falls in asset values (particularly equities) not being matched by similar falls in the value of liabilities;
- 3) 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;
- 4) 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;
- 5) 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.

Notes to the financial statements
For the year ended 31 December 2022

25. Lonza Biologics Pension Schemes (continued)

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:

	2022 £000	2021 £000
Present value of funded defined benefit obligations	(92,615)	(176,260)
Fair value of scheme assets	88,363	171,190
Recognised liability for defined benefit obligations	(4,252)	(5,070)

Scheme assets consist of the following:

	2022 £000	2021 £000
Return Seeking Assets		
Equities	5,878	40,530
Alternatives	27,228	40,738
Broad Bonds	16,000	34,461
Government Bonds	305	37,729
Property funds	21,052	10,068
Cash and Hedge Funds	17,900	7,664
Total fair value of Scheme assets	88,363	171,190

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

	2022 £000	2021 £000
At 1 January	176,260	203,208
Interest cost	3,424	2,702
Actuarial gain	(85,770)	(23,577)
Benefits paid	(1,299)	(6,073)
Present value of obligation as at 31 December	92,615	176,260

	2022 £000	2021 £000
At 1 January	171,190	159,680
Interest income on plan assets	3,369	2,148
Actuarial (loss)/gain	(89,619)	10,620
Contributions by employer	5,216	5,216
Administration cost (excl. cost of managing plan assets)	(494)	(401)
Benefits paid	(1,299)	(6,073)
Fair value of plan assets as at 31 December	88,363	171,190

Notes to the financial statements
For the year ended 31 December 2022

25. Lonza Biologics Pension Schemes (continued)

Expense recognised in the income statement

	2022 £000	2021 £000
(a) Operating costs:		
Administration cost (excl. cost of managing plan assets)	494	401
Total operating costs	494	401

(b) Finance costs:

Interest cost on defined benefit obligation	3,424	2,702
Interest income on plan assets	(3,369)	(2,148)
Total finance costs	55	554
Total recognised pension costs	549	955

	2022 £000	2021 £000
Interest income on scheme assets	3,369	2,148
Actuarial (loss)/gain on scheme assets	(89,619)	10,620
Actual Return on Scheme Assets	(86,250)	12,768

	2022 £000	2021 £000
Components of defined benefit costs in OCI		
Actuarial gain on defined benefit obligation	85,770	23,577
Actuarial (loss)/gain on plan assets	(89,619)	10,620
Defined Benefit (loss)/gain recognised in OCI	(3,849)	34,197

	2022 £000	2021 £000
Sensitivity		
Defined Benefit Obligation at 31 December		
with discount rate -0.25%	97,450	187,989
with discount rate +0.25%	88,094	165,436
with salary increases -0.25%	n/a	n/a
with salary increases +0.25%	n/a	n/a
with life expectancy +1 year	95,687	184,322
with life expectancy -1 year	89,465	167,910

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 2023 is £2,216,000 (2022: £5,216,000).

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

**Notes to the financial statements
For the year ended 31 December 2022****26. Leases**

	2022 £000	2021 £000
Interest expense on lease liabilities	982	902
Depreciation on right-of-use assets	4,086	3,818
	<u>5,068</u>	<u>4,720</u>

27. Share-based payments

The Company has recognised an expense of £767,000 (2021: £618,000) in the current year in relation to share option costs.

The Company is part of Lonza Group AG employee share option plan. Under the plan the company's employees are granted shares options of Lonza Group AG, having vesting period of 3 years with the only vesting condition being the employee continues to have a service relationship with the Company on each vesting date.

Equity settled awards to employees of the Company were granted by the parent on:

	<i>Number of instruments</i>	<i>Expiry date</i>
31 January 2020	1,035	31 January 2023
31 January 2021	835	31 January 2024
31 January 2022	2,195	31 January 2025

The weighted average share price at the date of exercise of share options exercised during the year was £615.87 (2021: £570.00).

The options outstanding at the year end have an exercise price of CHF nil and a weighted average contractual life of 3 years.

28. Parent and ultimate parent undertaking

In the opinion of the directors the ultimate parent company at 31 December 2022 was Lonza Group AG, a company incorporated in Switzerland which heads the smallest and 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, Muenchensteinerstrasse 38, CH-4002, Basel.

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

29. Events after the end of reporting period

The directors are not aware of any adjusting or non-adjusting post-balance sheet events.