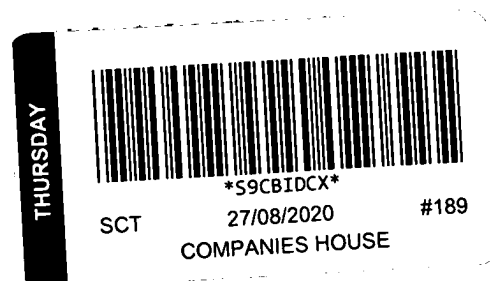
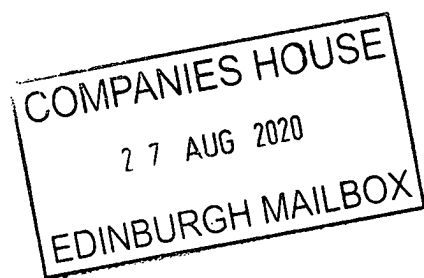


**Charles River Laboratories Edinburgh Limited**

**Annual Report and Financial Statements  
For the year ended 28 December 2019**

**Company Registration No. SC091725**



## **Charles River Laboratories Edinburgh Limited**

**Annual Report and Financial Statements  
For the year ended 28 December 2019**

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# **Charles River Laboratories Edinburgh Limited**

**Directors and Advisers for the year ended 28 December 2019**

**Directors**

B Bathgate

S Price

D Smith

**Company Secretary**

S Price

**Company number**

SC091725

**Registered Office**

Elphinstone Research Centre

Tranent

EH33 2NE

**Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

# Charles River Laboratories Edinburgh Limited

## Strategic report for the year ended 28 December 2019

The directors present their strategic report of the company for the year ended 28 December 2019.

### Principal activities

The principal activity of the Company is to contract scientific research and consultancy on behalf of the pharmaceutical, agrochemical and veterinary sectors. The Company does not undertake standalone research and development.

### Business performance and future outlook

The turnover for the financial year was £86,806,000 (2018: £83,648,000). The profit for the financial year amounted to £8,119,000 (2018: £11,792,000). During the year a dividend of £61.82 (2018: £65.45) per ordinary share was declared and paid.

During the financial year the Company increased turnover by 4% as a result of the continuing growth in both the pharmaceutical and agrochemical sectors. Gross profit margins decreased from 31.2% to 27.3%, mainly as a result of a change in product mix. Employee numbers increased from 1,022 to 1,127 in line with underlying growth. High levels of new contract awards throughout the year resulted in the Company's revenue backlog remaining at high levels. This provides a strong indicator moving into 2020. At the end of the year the Company maintained its strong net current asset and net asset positions. The Company's defined benefit pension scheme suffered from an actuarial loss, and had already received the benefit of its current year cash contributions paid in advance during the prior. This resulted in an overall increase of the deficit from £8,324,000 at the end of 2018 to a deficit of £12,981,000 at the end of 2019.

Looking out through 2020, the Company starts the year with a strong order book, and a detailed plan to grow both turnover and profit, through consolidating its strategic partnerships and alliances with the leading global customers in each of its business sectors. During the first quarter of 2020, it became apparent that the Coronavirus COVID-19 pandemic was likely to affect all companies in some way. The directors have assessed the potential impact of COVID-19 on the business, whilst also ensuring that government regulations and best practice guidelines are employed throughout the company. The director's view is that the Company is fortunate to operate in sectors that are classed as essential, and as such is able to continue trading, largely unaffected. The latest forecasts indicate that while the second quarter of 2020 will be adversely affected, this will not be significant, and the business is expected to fully recover by the end of the year, resulting in higher level of turnover and profit than achieved in 2019.

### Principal risks and uncertainties

The key business risks facing the Company are considered to be the level of research and development activity undertaken by existing and potential customers, as well as the outsourcing policies of these customers. These risks are managed by working across pharmaceutical, agrochemical and veterinary sectors, as well as active sales programs, client engagement and monitoring of concentration of turnover. For 2020 the availability of staff is considered an additional risk due to the COVID-19 pandemic. This risk is being managed through identifying individuals with transferrable skills, and offering cross-training where appropriate, as well as making PPE and hand sanitiser available. To further reduce the risk, social distancing guidelines have been introduced in all working areas, whilst also enforcing home-working best practice for all support staff who do not require to be on-site during this time.

### Financial risk management

The Company's activities expose it to a number of financial risks including cash flow risk, credit risk, liquidity risk and price risk. The Company does not currently use derivative financial instruments.

#### *Cash flow risk*

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, as the Company make sales in US Dollars and Euros. To manage this risk, the Company makes purchases in US Dollars and Euros, where possible.

#### *Credit risk*

The Company's principal financial assets are bank balances and cash and trade and other debtors and amounts owed from group undertakings.

The Company's credit risk is primarily attributable to its trade debtors. The amounts presented in the balance sheet are net of provisions for doubtful debts. A provision for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

# Charles River Laboratories Edinburgh Limited

## Strategic report for the year ended 28 December 2019 (continued)

### Financial risk management (continued)

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

#### Liquidity risk

There is a continued level of uncertainty in the global market as a result of the economic downturn in recent years, which can give rise to difficulty in accessing liquidity from third parties.

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Company uses a mixture of long-term and short-term inter-company finance.

#### Price risk

The Company is not exposed to any significant price risk.

### Key performance indicators ("KPIs")

Given the straightforward nature of the business, the Company's directors are of the opinion that analyses using KPIs are not necessary for an understanding of the development, performance or position of the business. However, the financial key performance indicators that the Directors consider to be important in monitoring the success of the business are as follows:

	2019 £'000	2018 £'000
<b>Revenue per head</b>	<b>77.0</b>	<b>81.8</b>

Revenue per head is calculated against total average employees throughout the year. Proportionately, there has been a decrease from the prior year which has been driven by an increase in staff numbers.

	2019 %	2018 %
<b>Gross margin</b>	<b>27.3</b>	<b>31.2</b>

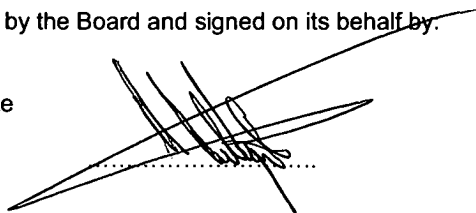
The gross margin has reduced slightly from the prior year due to a fluctuation in the mix of contract styles. This is calculated by dividing the gross profit by the turnover for the year.

	2019 Days	2018 Days
<b>Debtor Days</b>	<b>47</b>	<b>65</b>

Debtor days are calculated by considering the trade debtors balance at year end against the turnover for the year. This is actively managed on a day to day basis. Debtor days have improved over prior years, and there are no significant concerns over the recoverability of debtors held at the balance sheet date.

Approved by the Board and signed on its behalf by:

B Bathgate  
Director



# Charles River Laboratories Edinburgh Limited

## Directors' report for the year ended 28 December 2019

The directors present their annual report and the audited financial statements of the company for the year ended 28 December 2019. The registered Company number is SC091725.

### Directors and their interests

The directors who held office during the financial year and up to the date of signing the financial statements are as follows:

B Bathgate  
D Johst (retired 20 May 2020)  
D Smith  
S Price (appointed 20 May 2020)

### Dividends

Interim dividends of £61.82 (2018: £65.45) per ordinary share were paid during the year. The directors do not recommend the payment of a further final dividend in respect of the year (2018: £nil).

### Business performance, future outlook and principal risks and uncertainties

The results for the year are set out on in the income statement on page 8. The results for the year, future developments and principal risks and uncertainties have been discussed in the Strategic report on pages 2 and 3.

### Going concern

The directors have prepared a cash flow forecast which shows that they expect the Company to be able to meet its cash obligations as they fall due.

The forecast necessarily includes a number of assumptions; however, based on the directors' knowledge of the business and the Company's track record of successfully achieving its targets, they consider that the assumptions which underpin the forecast are realistic and achievable. As discussed in the Strategic report, the directors have also considered, in great detail, the impact of COVID-19. In particular, the directors have assessed how COVID-19 is likely to affect not only the company's market sectors and customer base, but also the supply chain. They have prepared a detailed impact assessment of the potential risks to employees, identified mitigating actions and controls, and established a continuity plan designed to ensure the company's continued ability to fulfil customer contracts. Furthermore, the directors actively monitor government announcements and review all aspects of statutory financial aid that may be available, such as the Coronavirus Job Retention Scheme for funding furloughed employees.

As at 28 December 2019, the Company had net current assets of £5,400,000 (2018 - £13,672,000). Further, the Company had a net cash balance of £7,110,000 at 28 December 2019 (2018 - £6,010,000), and an available but un-used intercompany revolving credit facility of £5,000,000 (2018 - £5,000,000).

Consequently, based on all of the available evidence, the directors have a reasonable expectation that the Company has adequate financial resources to continue in existence for the foreseeable future, and they continue to adopt the going concern basis in preparing these financial statements.

### Directors' Indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

### Disabled employees

The Company is committed to employment policies which allow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

# Charles River Laboratories Edinburgh Limited

## Directors' report for the year ended 28 December 2019 (continued)

### Employee involvement

The Company remains committed to its quality management programme which involves all staff in seeking to continuously improve the services offered to sponsors. Staff share in the success of the group through bonus arrangements. Staff training and development have continued to be emphasised through the availability of extensive in-house training courses and through performance appraisal systems.

The Company communicates with its employees on all matters relevant to them through a variety of media. These include all hands meetings, departmental meetings and one to one feedback, as well as a dedicated intranet site and message boards. The key information provided to staff includes financial performance of the group and its ultimate parent company, regulatory and quality issues and performance improvement initiatives.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and 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 the directors have prepared the Company's financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102). 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;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and group will continue in business.

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 also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Directors' statement on disclosure of information to auditors

The directors who were members of the Board at the time of approving the directors' report are listed on page 3. Having made enquiries of fellow directors, each of these directors at the date of approval of this report confirms that:

- to the best of each directors' knowledge and belief, there is no relevant audit information of which the Company's auditors are unaware: and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board on 25 August 2020 and signed on its behalf by:

B Bathgate  
Director



*Independent auditors' report to the members of Charles River Laboratories Edinburgh Limited***Report on the audit of the financial statements**

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**Opinion**

In our opinion, Charles River Laboratories Edinburgh Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 28 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 28 December 2019; the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

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ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

**Reporting on other information**

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The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.



# Charles River Laboratories Edinburgh Limited

## *Independent auditors' report to the members of Charles River Laboratories Edinburgh Limited*

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 28 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' responsibilities for the audit of the financial statements*

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 auditors' 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 further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **Other required reporting**

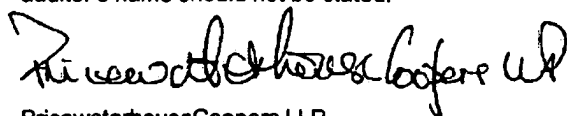
#### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the auditor's name should not be stated.



PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Edinburgh  
25 August 2020

# Charles River Laboratories Edinburgh Limited

## Income Statement for the year ended 28 December 2019

	Note	2019 £'000	2018 £'000
Turnover	4	86,806	83,648
Cost of sales		(63,084)	(57,572)
<b>Gross profit</b>		<b>23,722</b>	<b>26,076</b>
Administrative expenses		(13,598)	(11,901)
<b>Operating profit</b>	5	<b>10,124</b>	<b>14,175</b>
Interest receivable and similar income	8	47	46
Interest payable and similar expenses	9	(15)	(6)
Other financial cost	19	(249)	(329)
<b>Profit on ordinary activities before taxation</b>		<b>9,907</b>	<b>13,886</b>
Tax on profit	10	(1,788)	(2,094)
<b>Profit for the financial year</b>		<b>8,119</b>	<b>11,792</b>

## Statement of Comprehensive Income for the year ended 28 December 2019

		2019 £'000	2018 £'000
<b>Profit for the financial year</b>		<b>8,119</b>	<b>11,792</b>
<b>Other comprehensive expense</b>			
Actuarial loss related to the pension scheme	19	(4,409)	(3,802)
Deferred taxation on actuarial loss		750	646
<b>Other comprehensive expense for the year, net of tax</b>		<b>(3,659)</b>	<b>(3,156)</b>
<b>Total comprehensive income</b>		<b>4,460</b>	<b>8,636</b>

There is no material difference between the reported profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The above results relate entirely to continuing activities.

The notes on pages 11 to 27 form part of these financial statements.

# Charles River Laboratories Edinburgh Limited

## Balance Sheet as at 28 December 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible fixed assets	11	42,799	43,116
		42,799	43,116
<b>Current assets</b>			
Stocks	12	1,987	1,170
Debtors	13	30,969	40,684
Cash at bank and in hand		7,110	6,010
		40,066	47,864
<b>Creditors: amounts falling due within one year</b>	14	(34,666)	(34,192)
<b>Net current assets</b>		5,400	13,672
<b>Total assets less current liabilities</b>		48,199	56,788
Pension liability	19	(12,981)	(8,324)
<b>Net assets</b>		35,218	48,464
<b>Capital and reserves</b>			
Called up share capital	16	275	275
Capital redemption reserve		325	325
Share premium account		1,059	1,059
Retained earnings		33,559	46,805
<b>Total shareholders' funds</b>		35,218	48,464

The financial statements on pages 8 to 27 were approved by the Board of Directors on 25 August 2020 and were signed on its behalf by:

B Bathgate  
Director



**Statement of Changes in Equity**  
**For the year ended 28 December 2019**

	Retained earnings		Total		Capital	Share	
	Share	Other	Retained	Share	redemption	premium	Total
	appropriation		earnings	capital	reserve	account	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 30 December 2017</b>	3,129	53,447	<b>56,576</b>	275	325	1,059	<b>58,235</b>
Profit for the financial year	-	11,792	<b>11,792</b>	-	-	-	<b>11,792</b>
Actuarial loss related to the pension scheme	-	(3,156)	<b>(3,156)</b>	-	-	-	<b>(3,156)</b>
<b>Total comprehensive income for the year</b>	-	8,636	<b>8,636</b>	-	-	-	<b>8,636</b>
Share option transactions	1,025	(1,432)	<b>(407)</b>	-	-	-	<b>(407)</b>
Dividends	-	(18,000)	<b>(18,000)</b>	-	-	-	<b>(18,000)</b>
<b>Total transactions with owners, recognised directly in equity</b>	<b>1,025</b>	<b>(19,432)</b>	<b>(18,407)</b>	-	-	-	<b>(18,407)</b>
<b>Balance as at 29 December 2018</b>	4,154	42,651	<b>46,805</b>	275	325	1,059	<b>48,464</b>
Profit for the financial year	-	8,119	<b>8,119</b>	-	-	-	<b>8,119</b>
Actuarial loss related to the pension scheme	-	(3,659)	<b>(3,659)</b>	-	-	-	<b>(3,659)</b>
<b>Total comprehensive income for the year</b>	-	4,460	<b>4,460</b>	-	-	-	<b>4,460</b>
Share option transactions	1,196	(1,902)	<b>(706)</b>	-	-	-	<b>(706)</b>
Dividends	-	(17,000)	<b>(17,000)</b>	-	-	-	<b>(17,000)</b>
<b>Total transactions with owners, recognised directly in equity</b>	<b>1,196</b>	<b>(18,902)</b>	<b>(17,706)</b>	-	-	-	<b>(17,706)</b>
<b>Balance as at 28 December 2019</b>	5,350	28,209	<b>33,559</b>	275	325	1,059	<b>35,218</b>

Dividends of £61.82 per ordinary share totalling £17,000,000 were paid during the current year.

**Notes to the financial statements**  
**Year ended 28 December 2019****1. General information**

Charles River Laboratories Edinburgh Limited (the "Company") is a private Company limited by shares and is incorporated in Scotland, United Kingdom. The address of its registered office is Elphinstone Research Centre, Tranent, EH33 2NE.

**2. Statement of compliance**

The individual financial statements of Charles River Laboratories Edinburgh Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

The principal activity of the Company is to contract scientific research and consultancy on behalf of the pharmaceutical, agrochemical and veterinary sectors.

**3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparing the financial statements**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom including FRS 102 on a basis consistent with the prior year.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in 'Critical accounting judgements and key source of estimation uncertainty' section later on this note.

**Going concern**

The directors have prepared a cash flow forecast which shows that they expect the Company to be able to meet its cash obligations as they fall due.

The forecast necessarily includes a number of assumptions; however, based on the directors' knowledge of the business and the Company's track record of successfully achieving its targets, they consider that the assumptions which underpin the forecast are realistic and achievable. As discussed in the Strategic report, and in the Directors' report, the directors have also considered, in great detail, the impact of COVID-19. In particular, the directors have assessed how COVID-19 is likely to affect not only the company's market sectors and customer base, but also the supply chain. They have prepared a detailed impact assessment of the potential risks to employees, identified mitigating actions and controls, and established a continuity plan designed to ensure the company's continued ability to fulfil customer contracts. Furthermore, the directors actively monitor government announcements and review all aspects of statutory financial aid that may be available, such as the Coronavirus Job Retention Scheme for funding furloughed employees.

Consequently, based on all of the available evidence, the directors have a reasonable expectation that the Company has adequate financial resources to continue in existence for the foreseeable future, and they continue to adopt the going concern basis in preparing these financial statements.

**Exemptions for qualifying entities under FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions, have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders. A qualifying entity is defined as a member of a Group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the financial statements of Charles River Laboratories International Inc which are publicly available.

As a qualifying entity, the Company has taken advantage of the following exemptions in its separate financial statements:

- i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
- ii) from the requirement to present certain financial instrument disclosures, as required by sections 11 and 12 of FRS 102;
- iii) from disclosing share based payment arrangements, required by paragraphs 26.18(b), 26.19 to 26.21 and 26.23 of FRS 102, concerning its own equity instruments;

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 3. Summary of significant accounting policies (continued) Exemptions for qualifying entities under FRS 102 (continued)

- iv) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
- v) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

#### Foreign currency

##### *i) Functional and presentation currency*

The Company financial statements are presented in pound sterling.

##### *ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

#### Turnover

Turnover, which excludes value added tax and trade discounts, represents amounts receivable for services provided in the normal course of business.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the income statement turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

#### Employee benefits

The Company provides a range of benefits to employees, including paid holiday arrangement and defined contribution and benefit pension plans.

##### *i) Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

##### *ii) Defined benefit pension plan*

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company, in separate trustee administered funds. The Company operates a scheme which is accounted for in the Company financial statements in accordance with Section 28 of FRS 102.

##### *ii) Defined benefit pension plan (continued)*

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income statement if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 3. Summary of significant accounting policies (continued) Employee benefits (continued)

#### *iii) Defined contribution pension plan*

For defined contribution schemes the amount charged to the income statement in respect of pension costs is the contributions payable in the financial year. Differences between contributions payable in the financial year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

#### **Finance costs**

Finance costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. The commencement of capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

#### **Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

#### *i) Current tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

#### *ii) Deferred tax*

Deferred tax arises from timing differences that are differences between taxable profits and total income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

#### **Tangible fixed assets**

Tangible fixed assets are stated at historic purchase cost or valuation, less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is provided on all tangible fixed assets, other than freehold land and assets under construction, at rates calculated to write off the cost of each asset on a straight line basis over their expected useful economic lives as follows:

Heritable property	Forty years
Plant and machinery	Three to ten years

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the income statement as a movement on reserves. Assets under construction are not depreciated until they are brought into use. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the income statement as a movement on reserves.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income statement.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 3. Summary of significant accounting policies (continued)

#### Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

##### *i) Finance lease*

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Company's incremental borrowing rate is used.

Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset. Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

##### *ii) Operating leased assets*

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight line basis over the period of the lease.

##### *iii) Lease incentives*

The Company has taken advantage of transition exemption under paragraph 35.10 (p) in respect of lease incentives on leases in existence on the date of transition to FRS 102 (28 December 2014) and continues to credit such lease incentives to the income statement over the period to the first review date on which the rent is adjusted to market rates.

#### Stocks

Stocks are stated at the lower of cost and estimated selling price less cost to complete and sell on a first in, first out (FIFO) basis of valuation. A provision is made for obsolete, slow-moving or defective items where appropriate.

#### Long term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account. Excess progress payments are included in creditors as payments on account. Cumulative costs incurred net of amounts transferred to cost of sales, less provision for contingencies and anticipated future losses on contracts, are included as work-in-progress balances in stock.

#### Share based payments

The Company participates in a number of equity-settled, share-based compensation plans operated by Charles River Laboratories International Inc (Note 7). The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement.

The intrinsic value of options exercised during the year is invoiced to the Company by Charles River Laboratories International, Inc. Any differences between the intrinsic value and the expense recognised in the income statement for the year, are recognised as a debit or credit to the share based payment reserve within shareholders' funds, and are shown in the statement of changes in equity.

National Insurance Contributions (NIC) payable by the Company or its subsidiary undertaking on the exercise of share options, are provided for based on the intrinsic value of these options and the prevailing rate of NIC at the balance sheet date.



# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 3. Summary of significant accounting policies (continued)

#### Financial instruments

The Company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### *i) Financial assets*

Basic financial assets, including trade and other debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### *ii) Financial liabilities*

Basic financial liabilities, including trade and other creditors, bank loans and loans from fellow group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue any derivative financial instruments.

##### *iii) Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Related party transactions

The Company has taken advantage of the exemption under paragraph 33.1A of FRS 102 and discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 3. Summary of significant accounting policies (continued)

#### **Critical accounting judgements and key source of estimation uncertainty**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

#### *i) Useful economic lives of tangible fixed assets*

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See Note 11 for the carrying amount of tangible fixed assets, and accounting policy for the useful economic lives for each class of assets.

#### *ii) Actuarial estimates of pension scheme liabilities*

The net defined benefit pension liability is an estimate based on actuarial assumptions and a standard approach to the valuation, using the projected unit credit method. The company relies on a report prepared by an appointed independent qualified actuary. To prepare the valuation report, the actuary uses assumptions in a forward looking financial and demographic model from a wide range of possibilities. The principal estimated assumptions are life expectancy, rate of salary increase, rate of inflation, and the corporate bond discount rate. See Note 19 for detailed information regarding the assumptions used.

#### *iii) Percentage of completion revenue recognition*

Revenue on long term projects is estimated based on the percentage of completion method, applied to the overall agreed contract value. If the estimates of the end result of a contract change, the sales and profits recognised are adjusted in the period when the change first becomes known and can be evaluated.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 4. Turnover

The directors are of the opinion that the Company has only one class of business, namely contract scientific research and consultancy. However, the Company provided its services to customers in a number of geographical areas and its turnover can be summarised as follows:

	2019 £'000	2018 £'000
United Kingdom	30,628	27,576
Other	56,178	56,072
	<b>86,806</b>	<b>83,648</b>

### 5. Operating profit

Operating profit is stated after charging/(crediting):

	2019 £'000	2018 £'000
Depreciation and amounts written off tangible fixed assets	4,618	3,853
Auditors' remuneration for audit services	193	183
Operating lease rentals	596	519
Gain on the sale of tangible fixed assets	(89)	(319)
Research & Development tax credit	(4,681)	(4,378)
Foreign exchange loss	136	294

### 6. Staff costs

The average monthly number of persons both full time and part time (excluding executive directors) employed by the Company during the financial year was:

	2019 Number	2018 Number
Operating areas	873	792
Administration	254	230
	<b>1,127</b>	<b>1,022</b>

Their aggregate remuneration (including directors' remuneration) comprised:

	2019 £'000	2018 £'000
Wages and salaries	33,776	30,184
Social security costs	4,174	3,117
Other pension costs (Note 19)	3,629	3,183
Share option costs (Note 7)	1,196	1,025
	<b>42,775</b>	<b>37,509</b>

### Directors' remuneration

	2019 £'000	2018 £'000
Aggregate remuneration	387	414

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 6. Staff costs (continued)

The directors participate in share option schemes and long-term incentive schemes operated by the ultimate parent company (Note 7). The above amounts do not include any gains made on the exercise of share options or the value of any shares or share options received under these long-term incentive schemes. One director exercised share options during the year (2018: one). No directors have shares that were received or receivable under long-term incentive schemes during the year (2018: none).

There were no directors (2018: none) to whom retirement benefits were accruing under defined benefit pension schemes in respect of qualifying services. There were no directors (2018: none) to whom retirement benefits were accruing under defined contribution pension schemes in respect of qualifying services.

#### Highest paid director

One director is paid by the Company. The other directors are paid by other group undertakings. No allocation of these payments is made to the Company.

The above amounts for remuneration include the following in respect of the highest paid director:

	2019 £'000	2018 £'000
Aggregate remuneration	387	414

The accrued pension entitlement under the group's defined benefit pension scheme of the highest paid director at 28 December 2019 was £nil (2018: £nil). The highest paid director exercised share options during the year and the prior year.

### 7. Share based payments and share options

The ultimate parent company Charles River Laboratories International, Inc. has established a number of approved share option plans and arrangements, under which employees may be granted share based awards such as stock options, restricted stock units (RSU's), and performance share units (PSU's):

There are currently 3 approved plans in operation:

- The 2007 Incentive Plan (2007 Plan) as amended in 2009, 2011, 2013 and 2015, effective from May 2007.
- The 2016 Incentive Plan (2016 Plan), effective from May 2016
- The 2017 Incentive Plan (2017 Plan), effective from May 2017

Under each of the plans, the general terms and conditions are as follows:

- Stock options, which entitle the holder to purchase a specified number of shares of common stock at an exercise price equal to the closing market price of common stock on the date of grant; typically vest over 4 years; and typically expire 5 years from date of grant.
- RSU's, which represent an unsecured promise to grant at no cost a set number of shares of common stock upon the completion of the vesting schedule, and typically vest over 2 to 4 years. With respect to RSUs, recipients are not entitled to cash dividends and have no voting rights on the stock during the vesting period.
- PSU's, which entitle the holder to receive at no cost, a specified number of shares of common stock within a range of shares from zero to a specified maximum and typically vest over 3 years. Payout of this award is contingent upon achievement of certain performance and market conditions.

The options are equity settled and the exercise price is the share price at the grant date. The Company accounts for all share option schemes in accordance with Section 26 of FRS 102 ("Share-based payments").

The volatility is based on a statistical analysis of daily share prices over a period equal to the vesting period of the schemes ending on the day before the grant date for the schemes.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 7. Share based payments and share options (continued)

	2019	2018
Volatility	27%	25%
Risk free interest rates	2.4%	2.4%
Expected dividend yield	Nil	Nil
Weighted average remaining contractual life of options outstanding at 28 December / 29 December	3.6 years	3.7 years

In the fair value model it has been assumed that the expected dividend yield for the share option plan is nil and the estimated life of the share options is 3.6 years.

The Company recognised total expenses of £1,196,000 related to Charles River Laboratories International Inc equity-settled share-based payment transactions in the year ended 28 December 2019 (2018 - £1,025,000).

### 8. Interest receivable and similar income

	2019 £'000	2018 £'000
Bank interest received	47	46

### 9. Interest payable and similar expenses

	2019 £'000	2018 £'000
Finance leases and hire purchase contracts	15	6

### 10. Tax on profit on ordinary activities

#### a) Analysis of tax charge in the financial year:

	2019 £'000	2018 £'000
Current tax		
UK corporation tax on profits of the year	1,160	758
Adjustment in respect of previous periods	76	(17)
Total current tax charge	1,236	741

#### Deferred tax (Note 15)

Origination and reversal of timing differences	611	1,794
Adjustment in respect of previous periods	(41)	(217)
Effect of changes in tax rates	(18)	(224)
<b>Total deferred tax</b>	<b>552</b>	<b>1,353</b>
<b>Total tax per income statement</b>	<b>1,788</b>	<b>2,094</b>

#### Other comprehensive income items

Deferred tax current year credit on actuarial gain	(750)	(646)
<b>Total deferred tax on actuarial gain per other comprehensive income</b>	<b>(750)</b>	<b>(646)</b>

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 10. Tax on profit on ordinary activities (continued)

#### b) Factors affecting tax charge for the year

The tax assessed for the year is different (2018: different) to the standard rate of corporation tax in the UK of 19.00% (2018 – 19.00%). The differences are explained below:

	£'000	£'000
Profit before tax	9,907	13,886
Tax on profit at standard UK		
Corporation tax rate of 19.00% (2018: 19.00%)	1,883	2,638
Effects of:		
Expenses not deductible for tax purposes	59	60
Income not taxable	-	(67)
Adjustment from previous periods	35	(234)
Tax rate changes	(18)	(224)
Share options movements not recognised	(171)	(104)
Gains/ rollover relief and other differences	-	25
Total tax on profit on ordinary activities	1,788	2,094

#### c) Factors affecting tax charge for future years

The standard rate of UK corporation tax was 19% in 2019 (19.00% in 2018). Finance Act 2016 (enacted on 15 September 2016) announced a further reduction in the standard rate to 17% from 1 April 2020. The UK government further announced on 11 March 2020 that the standard rate of corporation tax will remain at 19% from 1 April 2020. This will be implemented via Finance Bill 2020. While the rate change has been announced and likely substantively enacted by the date that the accounts are signed, the company has continued to recognise the deferred tax balances at 17% as this was the rate that was substantively enacted by the balance sheet date. Had the tax balances been recalculated at 19% an additional current year deferred tax expense of £1,864,000 would have been recognised.

# Charles River Laboratories Edinburgh Limited

Notes to the financial statements  
Year ended 28 December 2019

## 11. Tangible assets

	Heritable property	Plant and machinery	Assets under constructio n	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 29 December 2018	69,554	51,313	1,976	122,843
Additions	801	1,658	2,094	4,553
Transfers	1,387	1,098	(2,485)	-
Disposals	(252)	(94)	-	(346)
<b>At 28 December 2019</b>	<b>71,490</b>	<b>53,975</b>	<b>1,585</b>	<b>127,050</b>
<b>Accumulated depreciation</b>				
At 29 December 2018	36,368	43,359	-	79,727
Charge for the year	1,693	2,925	-	4,618
Disposals	-	(94)	-	(94)
<b>At 28 December 2019</b>	<b>38,061</b>	<b>46,190</b>	<b>-</b>	<b>84,251</b>
<b>Net book value</b>				
<b>At 28 December 2019</b>	<b>33,429</b>	<b>7,785</b>	<b>1,585</b>	<b>42,799</b>
At 29 December 2018	33,186	7,954	1,976	43,116

Heritable property includes the cost of land which is not depreciated of £432,000 (2018: £432,000).

Leased asset included above:

	Heritable property	Plant and machinery	Total
	£'000	£'000	£'000
<b>Net book value</b>			
<b>At 28 December 2019</b>	-	-	-
At 29 December 2018	-	21	21

## 12. Stocks and work-in-progress

	2019 £'000	2018 £'000
Raw materials and consumables	1,987	1,170

The amount of stocks recognised as an expense during the year was £4,615,000 (2018: £5,197,000).  
There is no material difference between the carrying amount of stock and the replacement cost.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 13. Debtors

	2019 £'000	2018 £'000
Trade debtors	11,168	14,789
Amounts recoverable on long term contracts	7,586	6,907
Amounts owed by group undertakings	2,725	3,869
Other debtors	1,861	1,891
Taxation recoverable	6,680	12,147
Prepayments and accrued income	949	1,081
	<b>30,969</b>	<b>40,684</b>

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

### 14. Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Payments received on account for long term contracts	16,208	17,875
Trade creditors	4,180	2,109
Amounts owed to group undertakings	1,327	2,134
Taxation and social security	1,388	806
Other creditors	6,996	6,273
Accruals and deferred income	1,846	2,076
Deferred tax payable within 12 months (See Note 15)	2,721	2,919
	<b>34,666</b>	<b>34,192</b>

Amounts owed to group undertakings are normal trading balances and are unsecured, interest free and repayable on demand.

### 15. Deferred taxation

#### Analysis of deferred tax balances:

	2019 £'000	2018 £'000
Fixed asset timing differences	6,048	5,859
Short term timing differences	(3,327)	(2,940)
Total liability	<b>2,721</b>	<b>2,919</b>

#### Analysis of movements in deferred tax provisions

##### Deferred tax Liabilities:

	2019 £'000	2018 £'000
Provision at start of year	2,919	2,213
Adjustment in respect of prior years	(41)	(218)
Deferred tax charge to income statement for year	593	1,570
Deferred tax credit in OCI for year	(750)	(646)
Total liabilities	<b>2,721</b>	<b>2,919</b>



# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 16. Called up share capital

	2019 £'000	2018 £'000
<b>Authorised:</b>		
275,000 (2018: 275,000) ordinary shares of £1 each	275	275
325,000 (2018: 325,000) 10% cumulative redeemable preference shares of £1 each	325	325
	<b>600</b>	<b>600</b>
<b>Allotted, issued and fully paid:</b>		
275,000 (2018: 275,000) ordinary shares of £1 each	275	275

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

The preference shares are classified as liabilities in the balance sheet. On a winding-up, the holders have priority before all other classes of shares to receive repayment of capital plus any arrears of dividend. The holders have no voting rights unless the dividend is in arrears by six months or more.

### 17. Financial commitments

At 28 December 2019, the Company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

#### Land and Buildings

	2019 £'000	2018 £'000
Not later than one year	598	534
Later than one year and not later than five years	2,494	2,410
Later than five years	681	681
	<b>3,773</b>	<b>3,625</b>

### 18. Capital commitments

Contracts placed for future capital expenditure not provided in the financial statements are as follows:

	2019 £'000	2018 £'000
Contracted for but not provided for	44	681

### 19. Pension arrangements

The Company participates in a group defined benefit pension scheme with assets being held in a separate trustee administered fund, and the related costs are assessed in accordance with the advice of professionally qualified actuaries. This scheme was closed to new entrants on 1 January 2003 and was closed to future benefit accrual on 30 November 2016. The former active members have retained their salary link, thus no curtailment gain or loss was recognised in the prior year. The group also participates in a group defined contribution scheme.

The total pension cost for the year in these financial statements amounted to £3,629,000 (2018: £3,183,000). This cost comprised £nil (2018: £78,000) in relation to the defined benefit scheme and £3,629,000 (2018: £3,105,000) in relation to the defined contribution scheme. There are no prepaid or accrued contributions at either year end in respect of the defined contribution scheme.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 19. Pension arrangements (continued)

The pension scheme is actuarially valued every three years and the last valuation was at 1 January 2017 by Mercer Limited. The main assumptions of the most recent valuation are as follows:

Discount rate	4.70% per annum
Investment return	6.20% per annum
RPI inflation	3.20% per annum
Salary growth	3.20% per annum
Post retirement pension increases	2.20% per annum on total pensions

#### Results of valuation

Market value of scheme assets	£140,200,000
Level of funding	77%

During the year the company made deficit reduction contributions of £nil (2018: £12,000,000). A revised funding target is currently under review.

Additional disclosures regarding the group's defined benefit pension scheme required under the provisions of Section 28 of FRS 102 are set out below.

The actuarial valuation described above has been updated as at 28 December 2019 by Mercer Limited, a qualified independent actuary using revised assumptions that are consistent with the requirements of Section 28 of FRS 102. Investments have been valued, for this purpose, at fair value and are disclosed at the end of this note.

#### Guaranteed Minimum Pensions (GMP equalisation)

The Company has recognised the increase in accounting liabilities as a result of the plan having to equalise its benefits to address inequalities in the calculations of guaranteed minimum pensions, following the High Court ruling on 26 October 2018. The Company has adopted method "C2" for calculating its liability, following guidance from its actuarial advisors. The liability estimate is split as follows, based on membership data as at 1 January 2017 (the most recent actuarial valuation date) and an effective calculation date of 26 October 2018.

Liability of future GMP equalisation	£71,000
Liability of past GMP equalisation impact (arrears payable to pensioners/dependants)	£ 7,000
Total GMP equalisation liability	£78,000

The key assumptions underpinning the estimate are set out below:

Discount rate	2.90%
RPI Inflation	3.30%
CPI Inflation	2.30%
Deferred pension revaluation	2.30%
Rate of pension increase (RPI max 5%)	3.10%
Rate of pension increase (CPI max 3%)	1.90%

	2019 £'000	2018 £'000
<b>Change in defined benefit obligation</b>		
Benefit obligation at end of prior year	164,409	169,094
Service cost	-	78
Interest expense	4,693	4,357
Effect of changes in actuarial assumptions	28,822	(6,075)
Benefits paid from plan assets	(5,140)	(3,045)
Benefit obligation at end of year	192,784	164,409

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 19. Pension arrangements (continued)

	2019 £'000	2018 £'000
<b>Change in fair value of plan assets</b>		
Fair value of plan assets at end of prior year	156,085	152,979
Interest income	4,445	4,028
Actuarial return on plan assets	24,413	(9,877)
Employer contributions	-	12,000
Benefits paid from plan assets	(5,140)	(3,045)
Fair value of plan assets at end of year	179,803	156,085

	2019 £'000	2018 £'000
<b>Amounts recognised in the balance sheet</b>		
Defined benefit obligations	192,784	164,409
Fair value of plan assets	179,803	156,085
Net defined benefit liability	12,981	8,324

<b>Cost relating to defined benefit plans:</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
Current service cost (GMP equalisation)	-	78
Net interest cost	249	329
<b>Cost related to defined benefit plans included in the income statement</b>	<b>249</b>	<b>407</b>

<b>Re-measurements (recognised in other comprehensive income)</b>	<b>2019 £'000</b>	<b>2018 £'000</b>
Effects of changes in assumptions	28,822	(6,075)
(Return)/loss on plan assets (excluding interest income)	(24,413)	9,877
<b>Total re-measurements included within Other comprehensive income</b>	<b>4,409</b>	<b>3,802</b>

<b>Total cost related to defined benefit plans recognised in income statement and Other comprehensive income</b>	<b>4,657</b>	<b>4,209</b>
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	2019 %	2018 %
<b>Plan assets</b>		
The asset allocations at the year end were as follows:		
Equities	35.9	33.1
Bonds	14.8	8.7
Other	48.5	54.8
Cash	0.8	3.5
	100.0	100.0

There were no amounts invested in the Company's own financial instruments.

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.2% (2018: 6.2%) assumption.

# Charles River Laboratories Edinburgh Limited

## Notes to the financial statements Year ended 28 December 2019

### 19. Pension arrangements (continued)

	2019	2018
	£'000	£'000
Actual return on plan assets	28,858	(5,849)

#### Weighted average assumptions used to determine benefit obligations

Discount rate	2.00%	2.90%
Rate of compensation increase	3.00%	3.30%
Rate of inflation (RPI)	3.00%	3.30%
Pension increases (pre April 2006)	2.90%	3.10%
Pension increases (post April 2006)	2.00%	2.10%

#### Weighted average life expectancy for mortality tables used to determine benefit obligations at:

Male member age 65 (current life expectancy)	23.1	23.3
Female member age 65 (current life expectancy)	23.1	23.3
Male member age 40 (life expectancy at age 65)	24.0	24.2
Female member age 40 (life expectancy at age 65)	24.0	24.2

#### Contributions

The company expects to contribute £6,000,000 to its pension plan in 2020 (2019: £nil).

### 20. Ultimate parent company and ultimate controlling party

The immediate parent company is Charles River Laboratories Preclinical Services Montreal Inc., a company registered in Canada. The ultimate parent undertaking and controlling party for the whole year was Charles River Laboratories International Inc, a company registered in the United States of America, which is the parent undertaking of the smallest and the largest group into which the results of the Company are consolidated. Copies of the consolidated financial statements of Charles River Laboratories International Inc can be obtained from the Company Secretary at Charles River Laboratories International Inc, 251 Ballardvale Street, Wilmington, MA 01887.

### 21. Related party transactions

The company has taken exemption under paragraph 33.1A of FRS 102 "Related Party Disclosures", and is exempt from disclosing related party transactions with fellow members of the group headed by Charles River Laboratories International Inc. The Company is a wholly owned subsidiary of Charles River Laboratories International Inc. and is included in its consolidated financial statements which are publicly available.

### 23. Events after the end of the reporting period

#### COVID-19

The global outbreak of the COVID-19 pandemic in 2020 is considered to be a non-adjusting event for the Company's 2019 financial statements. The directors have also concluded that the impact for 2020 will not be significant. In reaching these conclusions, the directors have carefully considered all available information, including actual results of the business for the first quarter of 2020, latest forecast results for the full year, overall expected impact to the market sector in which the Company operates, and general impacts to the global economy.

#### Defined Benefit pension scheme

Since the year-end, and as a result of the COVID-19 pandemic, there has been a significant level of volatility in the global markets. In the first quarter of 2020, corporate bond yields increased from 2.1% to 2.4%, whilst over the same period, market implied inflation reduced by around 0.4% per annum. Based on the sensitivities included in note 19, pension arrangements, the impact of the change in corporate bond yields and market implied inflation would have reduced the defined benefit pension scheme liabilities by around 15% since the end of the reporting period. The impact on the pension scheme assets depends on the underlying asset allocation, and the level of hedging in place. The investments are liability driven, with the aim of offsetting fluctuations in the level of liabilities.

# **Charles River Laboratories Edinburgh Limited**

## **Notes to the financial statements Year ended 28 December 2019**

### **23. Events after the end of the reporting period (continued) Defined Benefit pension scheme (continued)**

It is not possible to estimate with certainty what the overall impact to the pension scheme liability in 2020 will be, and as a result the directors have taken the decision to consider it as a non-adjusting event for the 2019 financial statements.

#### **Tax rate change**

The UK government announced on 11 March 2020 that the standard rate of corporation tax will remain at 19% from 1 April 2020, instead of the enacted reduction to 17%. The company has continued to recognise the deferred tax balances at 17% as this was the rate that was substantively enacted by the balance sheet date. Had the tax balances been recalculated at 19% an additional current year deferred tax expense of £1,864,000 would have been recognised.