



The North of England Zoological Society

TRUSTEES' REPORT AND FINANCIAL STATEMENTS

Year ended 31st December 2018

Registered Charity Number 306077



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REFERENCE AND ADMINISTRATIVE DETAILS OF THE NORTH OF ENGLAND ZOOLOGICAL SOCIETY, ITS TRUSTEES AND ADVISORS

Honorary Positions

Vice Presidents

The Right Honourable Lord Wade of Chorlton, kt, JP
(Deceased 7th June 2018)

The Honourable Lady Jane Heber-Percy

Trustees on the date of this report and serving during the year:

Elected by the members

Bruce Ursell – Chairman

Malcolm Ardron – Vice Chairman

William Beale – Vice Chairman

Edwin Christmas

Penny Coates

Sandra Donnelly

Professor Richard Griffiths

Professor Russell Newton

Angela Pinnington

Paula Spence (Resigned 10th March 2018)

Simon Venables

Co-opted by the Trustees

Catherine Buckley (Retired 5th October 2018)

Professor David MacDonald (Co-opted 2nd March 2018)

Principal Executives

Dr Mark Pilgrim – Chief Executive Officer

Jamie Christon – Chief Operating Officer

Company Secretary

Aarco Services Limited represented by Nick Clarke

External Advisors to the Ethical Review Committee

Dr Ian Dunbar

Dr Richard Preziosi

Dr Thomas Webb

Independent Auditor

PricewaterhouseCoopers LLP, No 1 Spingingfields,
1 Hardman Square, Manchester, M3 3EB

Internal Auditor

RSM, 20 Chapel Street, Liverpool, L3 9AG

Solicitors

Aaron & Partners, Grosvenor Court, Foregate Street, Chester,
CH1 1HG

DTM Legal LLP, Archway House, Station Road, Chester, CH1 3DW

Hill Dickinson, No.1 St. Paul's Square, Liverpool, L3 9SJ

Jolliffe & Co, 6 St John Street, Chester, CH1 1DA

Bankers

Santander, 7th Floor, 4 St Paul's Square, Liverpool, L3 9SJ

Actuaries

Spence & Partners Limited, The Culzean Building,
36 Renfield Street, Glasgow, G2 1LU.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The Trustees of the North of England Zoological Society ("NEZS" or "the Charity") are pleased to present their annual report together with the consolidated financial statements of the Charity and its subsidiaries for the year ended 31 December 2018 which are also prepared to meet the requirements for a directors' report and financial statements for Companies Act 2006 purposes. NEZS is a conservation and education charity which owns and runs Chester Zoo. Further information about NEZS's activities during 2018 can be found in the "Chester Zoo Annual Review" which is published separately and can be downloaded from www.chesterzoo.org.

The financial statements comply with the Charities Act 2011, the Companies Act 2006, the Society's Memorandum and Articles of Association, and Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102).

Strategic Report

Objectives and Strategy

The Society's objects, as set out in its Memorandum and Articles of Association, are

- (a) to promote the conservation of the physical and natural environment by promoting biodiversity; and
- (b) to advance the education of the public on the conservation of the physical and natural world and the promotion of biodiversity; in particular by, but not limited to, the provision of public education, scientific study and the maintenance of endangered animals, plants and habitats in both protective and natural environments.

Our Mission

Preventing Extinction

Our Strategy

The Society's five-year strategic plan was launched in 2018 and supports the mission statement "Preventing Extinction". The strategic plan contains six strategic objectives which are:

- Preventing extinction by achieving the greatest conservation impact
- Preventing extinction by being a world class visitor attraction
- Preventing extinction by providing exceptional animal and plant care
- Preventing extinction by ensuring financial stability
- Preventing extinction by developing our people
- Preventing extinction by being a voice for change

Achievements and Performance in 2018

2018 was a record year for the North of England Zoological Society as Chester Zoo welcomed 1,969,768 visitors, 6% above 2017 and 4% ahead of the record set in 2016. Membership of the Society continued to increase and at the end of the financial year the Society had just over 114,000 members. The devastating fire within the Monsoon Forest building unfortunately marked the end of the year and thanks are due to all supporters who made generous donations following the fire.

Significant capital investment in the zoo continued as part of the Strategic Development Plan. In July 2018 we opened The Oakfield, the newly refurbished pub restaurant. We completed the construction of the tree kangaroo and pademelon exhibit within Islands, built a new staff canteen, upgraded the penguin enclosure and replaced play areas that had reached end of life. Work continued on the new Madagascar zone which subsequently opened to visitors in March 2019.

The zoo continued to have significant media coverage through Channel 4's the "Secret Life of the Zoo" series and the much loved winter Lanterns event attracted over 90,000 visitors. The initiative to make the zoo more accessible to children at schools previously unable to visit due to monetary constraints continued and in 2018 we offered over 36,000 free places over the winter months as well as subsidising coach travel.

None of this would have been possible without the skills, dedication and passion of our staff and volunteers and the Trustees are grateful for their continuing support in delivering the Society's strategy.

A full review of the Society's achievements and performance in 2018 can be found in the "Chester Zoo Annual Review" which is published separately and can be downloaded from www.chesterzoo.org.

Equal Opportunities

The Society is an equal opportunities employer and is committed to promoting equal opportunity for all staff and job applicants. The Society has an equal opportunities policy and does not discriminate against staff on the basis of their gender, sexual orientation, marital or civil partner status, gender reassignment, race, colour, nationality, ethnic or national origin, religion or belief, disability or age. This policy applies to all aspects of our relationship with staff and to relations between staff members at all levels. This includes job advertisements, recruitment and selection, training and development, opportunities for promotion, conditions of service, pay and benefits, conduct at work, disciplinary and grievance procedures, and termination of employment.

In April 2019, the Society published its Gender Pay Gap report relating to April 2018, the results of which highlight the equal opportunities available regardless of gender. Details of the report can be found at www.chesterzoo.org.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Public Benefit

The Trustees have complied with the duty in section 4 of the Charities Act 2011 to have due regard to public guidance published by the Charity Commission, including its supplementary guidance on fee charging.

The Society relies on income from admission fees, catering and retail sales and other charges to cover its operating costs and in setting the pricing structure, the Trustees give careful consideration to the accessibility of the zoo to those on low incomes. Coupled with a flexible pricing structure, many visitors enjoy concessionary prices which are set to encourage visits by children, students, families, senior citizens and those with disabilities, with over 63,000 receiving free admission. There were 128,000 concessionary priced education visits, of which over 36,000 received free admission and more than 30,000 were taught by our education team.

Financial Review 2018

The year ended 31st December 2018 was a record year for The North of England Zoological Society (the Society) in terms of zoo visitor numbers, income and expenditure on our charitable activities. Our underlying income rose to £44.3m (2017: £41.3m) whilst underlying expenditure rose to £40.9m (2017: £38.5m). These figures exclude exceptional income and expenditure relating to the Monsoon Forest fire. Having taken account of the £0.4m net impact of these exceptional items the Society reported a £3.0m net increase in our funds (2017: £2.9m increase after a £1.6m pension funding charge in 2017, nil in 2018).

Incoming resources

The bulk of the Society's income comes from the zoo's visitors and members, in the form of admissions and other charges. Visitor numbers reached a record 1,969,768 in 2018, up nearly 6% from 1,866,628 in 2017, with nearly a third of those visits made by our members. Membership numbers increased by 20% to 114,007 during the year and have grown by 130% in the last 5 years.

Our winter Lanterns event attracted over 90,000 visitors and we welcomed 128,000 education visitors, more than 36,000 of whom visited the zoo for free during the winter months under an initiative launched in 2017.

Total visitor related income for 2018, which includes admission fees and membership income, rose by 7% to £28.1m (2017: £26.3m).

As a registered charity the Society generates voluntary income from visitor donations, Gift Aid, animal adoptions, grants, legacies and other donations. With increases in visitor numbers, the related donations and Gift Aid on admission increased to £2.9m (2017: £2.8m). Fundraising income, which includes animal adoptions, grants, legacies and other donations was £1.3m (2017: £1.3m).

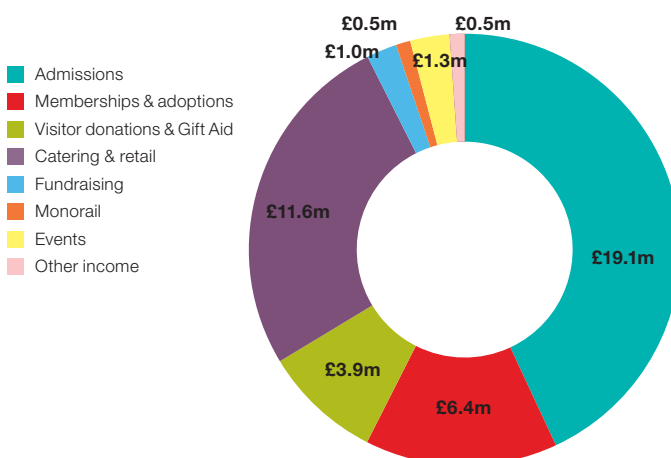
This fundraising figure includes £0.2m of generous donations by the public following the Monsoon Forest fire. Since the year end this fund has grown to £0.3m and will be used in the coming years to fund a number of conservation projects both in the zoo and in the field.

The Society's trading subsidiary, Chester Zoo Enterprises Limited, which provides retail and food & beverage offerings across the zoo site had a turnover of £12.0m in 2018 (2017: £11.0m). This performance was impacted by the closure of Oakfield House for redevelopment

during the first half of the year. The Oakfield opened to visitors as a gastro pub in July 2018.

Exceptional income of £5.2m reflects the estimated income to be recovered from insurers for the rebuild of the Monsoon Forest building and offsets the impairment charge recognised in respect of the damage.

An analysis of the sources of 2018 underlying income is shown in the following chart:



Resources expended

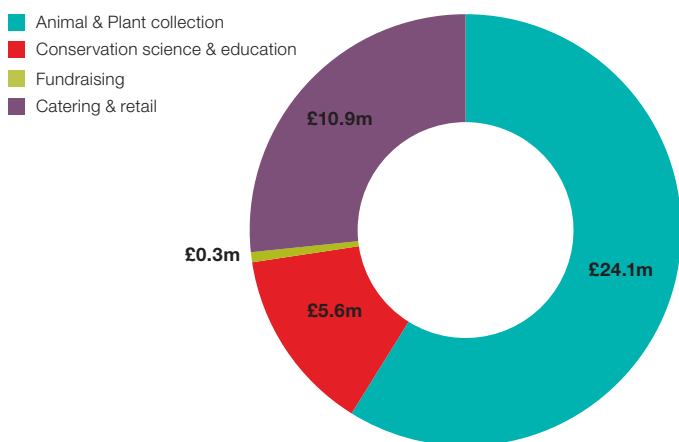
In 2018 we spent £40.9m (2017: £38.5m), excluding capital expenditure and exceptional costs relating to the Monsoon Forest fire. Resources expended on our charitable activities, including the costs of maintaining the animal & plant collection, the visitor facilities, science and education and our field conservation programmes, together with related support costs totalled £29.7m (2017: £26.8m). In addition we spent £0.3m (2017: £0.2m) generating our voluntary income.

Information on the conservation and research field programmes funded can be found at www.chesterzoo.org and the Society's 2018 Annual Review.

Chester Zoo Enterprises Limited had costs of £10.9m, excluding £0.7m of rents paid to the Society, and it made an operating profit of £0.4m in 2018 (2017: £0.4m) which is donated to the Society.

By far the biggest element of expenditure relates to our employees and the cost continues to be impacted by both increases in the number of employees and the ongoing increases to the national living wage and to auto-enrolment pension contributions. Our average Full Time Equivalent (FTE) headcount for 2018 rose to 579 from 555 in 2017. A third of these employees worked directly in support of the Society's charitable objectives, either with our animal & plant collection or in education, science and research. In addition we benefitted from the hard work of a team of over 220 passionate volunteers.

The chart below shows an analysis of 2018 expenditure (excluding exceptional costs):



Exceptional costs in relation to the fire in the Monsoon Forest total £5.6m, £5.2m is an impairment charge in relation to certain elements of the building structure, its fixtures and fittings, which were damaged in the fire and are offset by income to be received from insurers. A further £0.4m has been accrued to cover uninsured professional fees.

Capital expenditure

During 2018 the Society spent £10.4m on capital expenditure (2017: £9.6m). This expenditure included the completion of the renovations to Oakfield House and its conversion to a gastro pub, building of a new habitat for tree kangaroo and pademelon within Islands, upgrades to the penguin habitat and construction of a new canteen for our employees and volunteers. We also commenced work on a number of projects that will be delivered in 2019. These include a Madagascar forest exhibit with an immersive lemur walkthrough exhibit that opened in March 2019 and construction of an off-show area which will allow holding and movement of animals during planned development works and a new enclosure for our Asiatic lions.

Borrowings, investments and reserves

It is the general policy of the Society to apply towards its charitable objectives as much cash as it reasonably can, to avoid accumulating excessive reserves. Where considered appropriate and being mindful not to overcommit the Charity, borrowings are undertaken to fund elements of significant capital projects.

In setting its reserves policy the Society takes account of its continuing financial commitments in terms of staffing and overheads including the costs of maintaining the animal and plant collection and funding its charitable activities. The Society also considers the risk that its income for any particular year may be impacted by a number of factors outside the Society's control such as periods of prolonged wet weather at peak visitor times, competition from other visitor attractions, social trends, varying levels of economic prosperity and employment, alongside the potential for closure of the zoo to visitors due to the outbreak of contagious disease.

Having considered these factors, the Society maintained minimum available cash reserves of £1.5m at all times during 2018 supplemented by a minimum £0.5m of undrawn committed borrowing facilities. Such reserves would be sufficient for the zoo to operate without significant curtailment of its activities for a period of up to one month. Since the

end of 2018 the Trustees have increased the level of cash reserves held to £1.9m to reflect the increased cost base of the zoo.

At the end of 2018 the Society had borrowed £7.1m and had £3.5m of cash reserves, including £1m of cash reserves held in escrow for the defined benefit pension scheme. The Society's borrowing facility comprises a £18m unsecured revolving credit facility, which is in place until April 2023 and a £2.0m overdraft facility which is renewable annually. At 31 December 2018 the Society had access to £13m of undrawn borrowings and £2.5m of cash reserves.

Pensions

The Society's defined benefit pension scheme was closed to future accrual in 2012 and at 31 December 2018 reported a surplus of £4.6m under FRS102 (2017: £5.4m). During 2018, in accordance with an agreement with the Pension Trustees, the Society deposited £1m into an escrow account held by the Society, which is to be used, if required, to fund a buy out of the scheme, when the scheme liabilities would be fully secured with an insurer. The reported surplus, which excludes the amount held in the escrow account, is not recognised in the financial statements as the Society cannot gain economic benefit from it.

The Society now operates a defined contribution scheme which is open to all employees. For permanent employees who contribute 3% or more, the Society makes a contribution that is 2% more than the employee contribution up to a maximum of 9%. Qualifying seasonal employees are enrolled into the NEST pension scheme with contributions in line with government rates.

Restricted and Designated Funds

Restricted income funds derive from donations, grants and legacies received and are put towards a variety of capital projects and conservation activities. Unrestricted income funds may be designated or freely available for the Society's general charitable purposes.

After setting aside restricted income funds, the balance of the Society's available funds at the balance sheet date are designated as follows:

- to charitable activities which the Society intends to support over the coming year.
- to capital expenditure that is either contractually committed or is planned for the coming financial year; then
- to funds that could only be realised by disposing of fixed assets held for charitable use, up to a maximum of the net book value of those fixed assets at the balance sheet date.

If, after designating unrestricted funds as above, there are funds remaining, these are treated as unrestricted free reserves.

The Trustees do not consider it necessary to retain income in respect of the Society's designated fund activities. Whilst these funds have been earmarked by the Trustees for particular purposes or uses, they are not committed or restricted legally.

At 31 December 2018 the Society had total funds employed of £50.6m (2017: £47.6m) of which £1.1m (2017: £1.0m) were restricted and the balance of £49.6m (2017: £46.6m) were designated, including £45.4m (2017: £42.6m) tied to fixed assets. The increase in the amount tied to fixed assets reflects the impact of capital expenditure in the year. There were no unrestricted free reserves (2017: nil).

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Plans for Future Periods

2018 saw the completion of a number of projects as part of the zoo's strategic development plan. 2019 will be no different and work is ongoing on a number of projects including a new habitat for the Asiatic lions, as well as holding facilities which are required to facilitate the Grasslands development planned to start in late 2019 and to be complete for 2022, subject to planning permission being obtained.

Principal Risks and Uncertainties

The Trustees have set a risk management strategy which sets out responsibilities for risk management across the Society, the Society's risk appetite, a process for reporting, review and escalation in relation to identified risks and links to the internal control environment and external legal frameworks.

The Trustees actively review the major risks that the Society faces on a regular basis against the relevant mitigating internal controls and believe that maintaining cash reserves within defined levels, alongside appropriate insurances will provide sufficient resources in the event of most adverse conditions.

The key risks identified by the Trustees are:

- Protection of the Society's assets including its reserves and the wider zoo estate, which is addressed through having an appropriate governance structure, relevant insurances and regular audit and review;
- A major operational issue impacting public safety and causing reputational damage which is addressed through documented operational procedures and which are regularly tested, health & safety training and routine checks, external audit and advice; and
- Failure to recruit, manage and retain a skilled workforce which is managed through the induction process, performance development plans, succession planning, agreement of a fair pay structure with employees and investment in training.

The effectiveness of the Society's risk assessment procedures are reviewed by the Audit & Risk Management Committee. The Society's internal auditors undertake a schedule of internal audits determined and scoped by the Audit & Risk Management Committee and report back to the committee on a regular basis. The internal auditors also provide advice and guidance on the Society's overall risk management process.

Structure, Governance and Management

The North of England Zoological Society ("the Society") is a registered charity (Number 306077) and a company limited by guarantee (Number 287902), regulated by its Memorandum and Articles of Association. Its principal and registered office is Cedar House, Zoological Gardens, Caughall Road, Upton by Chester, Chester, CH2 1LH.

The Society, also known as Chester Zoo, owns a trading subsidiary company, Chester Zoo Enterprises Limited, whose taxable profits are distributed to the Society via Gift Aid.

Chester Zoo Foundation Nigeria ("CZFN"), an unlimited company (registered in England, no. 08904330) is a wholly owned subsidiary of Chester Zoo (Nigeria) Limited ("CZNL"), a limited company (registered in England, no. 08374657) and a wholly-owned subsidiary of the

Society. Both CZNL and CZFN facilitate the management of the Society's conservation activities in Nigeria.

The Society is also the sole member of the North of England Zoological Society Pension Trustee Company Limited, a company limited by guarantee (registered in England, no. 9173532) which provides governance of the Society's defined benefit pension scheme.

Trustees and Governance

The Trustees, as a body of charity trustees and as directors for the purposes of company law, have general control and management of the administration of the Society. They determine the strategic direction and policies of the Society, with consultation and discussion with the Chief Executive Officer and Chief Operating Officer of the Society as Principal Executives and their teams who implement these policies.

The number of Trustees shall be not less than three and not more than sixteen of whom not more than thirteen shall be Elected Trustees and not more than three shall be Co-opted Trustees. Elected Trustees, who must be members of the Society, are elected by the members at the Annual General Meeting to serve for a maximum of six years. Co-opted Trustees are co-opted by the Trustees and may serve for up to fifteen months from being appointed. The Trustees hold at least six formal meetings each year, together with an Annual General Meeting. The Chairman and Vice Chairmen are elected by the Trustees from their current membership, for a period not exceeding three years before re-election for a maximum of one further term not exceeding three years. They are not required to retire as Trustees in accordance with the six year maximum in this circumstance.

Key Responsibilities of the Trustees

To manage the business of the Society and to hold the Society "in trust" for current and future beneficiaries by:

- ensuring that the Society has a clear vision, mission and strategic direction and is focused on achieving these;
- being responsible for the performance of the Society, its employees and for its "corporate" behaviour;
- ensuring that the Society complies with legal and regulatory requirements;
- acting as guardians of the Society's assets, both tangible and intangible, taking all due care over their security, deployment and proper application; and
- ensuring that the Society's governance is of the highest possible standard.

Trustee Committees

In 2018, Trustees delegated aspects of their powers to committees consisting of some of their members and specialist advisors. These committees report to the Trustees.

Ethical Review Committee – prime responsibility for advising the Executive of the Society, on behalf of the Trustees, in respect of all research and ethics, and to oversee the ethical activities of the Society in so far as they relate to the advancement of the Society's stated mission.

Audit & Risk Management Committee – prime responsibility to review the effectiveness and integrity of systems for internal financial control, risk assessment procedures, information technology security,

procedures for detecting fraud, appointment of a senior finance team, appointment of external and internal auditors and review of audit findings and to investigate, on behalf of the Trustees, any financial and administrative matter which may put the charity at risk.

Remuneration Committee – determines remuneration and conditions of service for principal executives.

Trustee Nominations Committee – takes responsibility for identifying and proposing new Trustees, and (if elected) for their subsequent induction, support and development.

Strategic Development Committee – responsible for ensuring that the Strategic Development Plan (SDP) is implemented in accordance with the strategy set out by Trustees. Monitors progress, scrutinises and makes decisions in respect of individual strategic capital projects in respect of the overall SDP with regard to quality, cost and overall programme. Makes recommendations to the Board of Trustees for any issues of significance in respect of the SDP and its implementation.

Trustee involvement in each committee at 31 December 2018 is set out in the table below:

| Committees | Ethical Review | Audit and Risk Management | Remuneration | Trustee Nominations | Strategic Development |
|------------------------|----------------|---------------------------|--------------|---------------------|-----------------------|
| Bruce Ursell | | | Chair | Chair | x |
| Malcolm Ardron | | | x | x | Chair |
| William Beale | x | | x | x | x |
| Edwin Christmas | | | | | |
| Penny Coates | | x | | | x |
| Sandra Donnelly | | | | | |
| Prof Richard Griffiths | x | | | | |
| David McDonald | | | | | |
| Prof Russell Newton | Chair | x | | | |
| Angela Pinnington | x | x | | | |
| Simon Venables | | Chair | | | |

Trustees – Recruitment

If there are vacancies in any year, the Nomination Committee prepares a list of names of members of the Society that they recommend for election to the Trustee board at the Annual General Meeting. Such recommendations are made having regard to the maintenance of an appropriate mix of skills on the Trustee Board to ensure adequate management of the zoo and protection of the Society's assets.

Trustees' Training

The relationship between the executive and the Trustees is fundamental to the Society's success. It is vitally important therefore that the Trustees understand the overall day to-day operational activities of the Society. To this end, new Trustees are required to complete an induction tour of the zoo's various divisions, and to discuss with the executive team the

role and function of each division, and the part it plays in the fulfilment of the Society's mission.

Each Trustee is issued with an induction pack on becoming a Trustee that covers their roles and responsibilities and the mission, vision, values, strategy and current plans for the Society. All Trustees are encouraged to attend appropriate external training courses, covering the role and responsibilities of being a charity trustee.

Trustees' Third Party Indemnity

The Society purchases liability insurance cover for the Society, its Trustees and other employees which provides appropriate cover against claimants' damages, judgements, settlements or the costs incurred in the defence of actions.

Statement of Trustees Responsibilities

The trustees (who are also directors of the North of England Zoological Society for the purposes of company law) are responsible for preparing the Trustees' Annual Report (including the Strategic Report) and the financial statements in accordance with applicable law and regulation.

Company law requires the trustees to prepare financial statements for each financial year. Under that law the trustees have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the charitable company and the group and of the incoming resources and application of resources, including the income and expenditure, of the charitable group for that period. In preparing these financial statements, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Statement of Recommended Practice: Accounting and Reporting by Charities (2015);
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and the group 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 charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

Disclosure of Information to Auditor

Each of the persons who are Trustees at the date of approval of this report confirms that:

- So far as the Trustee is aware, there is no relevant audit information of which the Society's auditor is unaware;
- the Trustee has taken all the steps that he/she ought to have taken as a Trustee in order to make himself/herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

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

Independent Auditor

In 2018, the Trustees reviewed the Society's auditors and following a resolution at the Annual General Meeting, re-appointed PricewaterhouseCoopers LLP.

The Strategic Report on pages 5 to 16 was approved by the Trustees on the 20 May 2019 and signed on their behalf by:

Bruce Ursell
Chairman of Trustees

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NORTH OF ENGLAND ZOOLOGICAL SOCIETY

Report on the audit of the financial statements

Opinion

In our opinion, The North of England Zoological Society's group financial statements and parent charitable company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 December 2018 and of the group's incoming resources and application of resources, including its income and expenditure, and of the group's cash flows, 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 Trustees' Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and society balance sheets as at 31 December 2018; the consolidated statement of financial activities and the consolidated cash flow statement for the year then ended; the accounting policies; and the notes to the financial statements.

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 charitable 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent charitable 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.

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

terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the charity's activities, beneficiaries, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The trustees 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.

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.

Strategic Report and Trustees' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Trustees' Report, including the Strategic Report, for the financial year for which the financial statements are prepared is consistent with the financial statements; and the Strategic Report and the Trustees' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and parent charitable company and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Trustees' Report. We have nothing to report in this respect.

Responsibilities for the financial statements and the audit

Responsibilities of the trustees for the financial statements

As explained more fully in the *Statement of Trustees' Responsibilities*, the trustees 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 trustees 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 trustees are responsible for assessing the group's and parent charitable company's ability to continue as a going concern, disclosing as applicable, matters related

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE NORTH OF ENGLAND ZOOLOGICAL SOCIETY (CONTINUED)

to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group and parent charitable 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 Financial Reporting Council's website at: 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 charity'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.

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 parent charitable company or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Nicholas Boden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
20 May 2019

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

(Including a consolidated income and expenditure account) for the year ended 31 December 2018

| | Notes | Unrestricted Funds £'000 | Restricted Funds £'000 | Total 2018 £'000 | Total 2017 £'000 |
|---|-------|-----------------------------|---------------------------|---------------------|---------------------|
| Income from: | | | | | |
| Charitable activities | | | | | |
| Animal and plant collection | 2 | 28,104 | - | 28,104 | 26,302 |
| Donations and legacies | | | | | |
| Voluntary income | 3 | 3,486 | 709 | 4,195 | 4,034 |
| Other trading activities | | | | | |
| Subsidiary's trading turnover | 4 | 11,974 | - | 11,974 | 11,013 |
| Investments | | | | | |
| Investment income | 5 | 8 | - | 8 | 5 |
| Exceptional income | 9 | - | 5,160 | 5,160 | - |
| Total income | | 43,572 | 5,869 | 49,441 | 41,354 |
| Expenditure on: | | | | | |
| Charitable activities | | | | | |
| Animal and plant collection | 6a | (23,921) | (151) | (24,072) | (21,769) |
| Conservation science and education | 6a | (5,120) | (508) | (5,628) | (4,997) |
| Raising funds | | | | | |
| Costs of generating voluntary income | 6a | (307) | - | (307) | (207) |
| Subsidiary's cost of goods sold and other costs | 4 | (10,895) | - | (10,895) | (9,943) |
| Exceptional costs | 9 | (384) | (5,160) | (5,544) | - |
| Total expenditure | | (40,627) | (5,819) | (46,446) | (36,916) |
| Net income | | 2,945 | 50 | 2,995 | 4,438 |
| Other gains and losses | | | | | |
| Contribution made to defined benefit scheme | 22 | - | - | - | (1,556) |
| Transfer to restricted funds | 19 | (1,000) | 1,000 | - | - |
| Net movement in funds | | 1,945 | 1,050 | 2,995 | 2,882 |
| Reconciliation of funds | 19 | | | | |
| Total funds brought forward | | 46,613 | 1,028 | 47,641 | 44,759 |
| Total funds carried forward | | 48,558 | 2,078 | 50,636 | 47,641 |

The North of England Zoological Society made an unconsolidated surplus of £2,995,000 (2017: £2,882,000). The above results are all in respect of continuing operations.

No Statement of Changes in Equity has been presented as all such gains and losses have been included above.

CONSOLIDATED & SOCIETY BALANCE SHEETS AS AT 31 DECEMBER 2018

| | Notes | Consolidated | | Society | |
|---|-------|----------------|----------------|----------------|----------------|
| | | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Fixed assets | | | | | |
| Tangible assets | 12 | 54,820 | 56,216 | 55,279 | 56,216 |
| Investment in subsidiary companies | 13 | - | - | - | - |
| | | 54,820 | 56,216 | 55,279 | 56,216 |
| Current assets | | | | | |
| Stocks | 14 | 732 | 704 | 91 | 65 |
| Debtors | 15 | 6,071 | 812 | 5,830 | 1,201 |
| Cash at bank and in hand | 16 | 3,531 | 1,963 | 3,531 | 1,963 |
| | | 10,334 | 3,479 | 9,452 | 3,229 |
| Creditors: amounts falling due within one year | 17 | (7,468) | (6,204) | (7,045) | (5,955) |
| Net current liabilities | | (2,866) | (2,725) | 2,407 | (2,726) |
| Total assets less current liabilities | | 57,686 | 53,491 | 57,686 | 53,490 |
| Creditors: amounts falling due after more than one year | 18 | (7,050) | (5,850) | (7,050) | (5,850) |
| Net assets | | 50,636 | 47,641 | 50,636 | 47,640 |
| Funds employed | | | | | |
| Income funds – restricted | 19 | 2,078 | 1,028 | 21,078 | 1,028 |
| Income funds - unrestricted | | | | | |
| Designated funds | 19 | 48,558 | 46,613 | 48,558 | 46,612 |
| Total funds employed | | 50,636 | 47,641 | 50,636 | 47,640 |

The notes on pages 16 to 28 form part of these financial statements.

The financial statements were approved and authorised by the Trustees on the 20 May 2019 and signed on their behalf by:

Bruce Ursell
Chairman of Trustees

Company number – 287902 – North of England Zoological Society

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|---|-------|-----------------|---------------|
| Cash flows from operating activities: | | | |
| Net movement in funds as per the Statement of Financial Activities | | 2,995 | 4,438 |
| Adjustments for: | | | |
| Interest paid | | 196 | 165 |
| Interest received | 5 | (8) | (5) |
| Depreciation charge | 12 | 6,637 | 6,121 |
| Impairment charge | 12 | 5,160 | - |
| Increase in stocks | 14 | (28) | (18) |
| (Increase)/decrease in debtors | 15 | (5,259) | 262 |
| Increase/(decrease) in creditors due within one year | 17 | 1,491 | (539) |
| Contributions to pension scheme | | (56) | (1,550) |
| Net cash provided by operating activities | | 11,128 | 8,924 |
| Cash flows from investing activities: | | | |
| Interest received | 5 | 8 | 5 |
| Purchase of fixed assets | 12 | (10,400) | (9,620) |
| Net cash used in investing activities | | (10,392) | (9,615) |
| Cash flow from financing activities: | | | |
| Cash inflows from new borrowing | 18 | 1,200 | 600 |
| Interest paid | | (196) | (165) |
| Net cash provided by financing activities | | 1,004 | 435 |
| Operating cash inflow/(outflow) in year | | 1,740 | (256) |
| Increase/(decrease) in net cash at bank in the year | | 1,740 | (256) |
| Cash and cash equivalents at 1 January | 16 | 1,791 | 2,047 |
| Cash and cash equivalents at 31 December | 16 | 3,531 | 1,791 |

PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied in dealing with items that are considered material in relation to the financial statements of The North of England Zoological Society ("the Society"). They are consistent with those adopted in the financial statements for the prior year.

Basis of Preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom. The financial statements comply with the Charities Act 2011, the Companies Act 2006, the Memorandum and Articles of Association, and Accounting and Reporting by Charities: Statement of Recommended Practice 2015 ("SORP") applicable to charities preparing their financial statements in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS102).

The Society's activities, together with the factors likely to affect its future development, performance and position are set out in the Trustees' report. The financial position of the Society and its subsidiary, its cash flows and liquidity position are shown in these financial statements. There are no significant estimates or matters of uncertainty in the financial statements other than in relation to the exceptional income and costs relating to the Monsoon Forest fire (note 9). The Trustees report also notes the principal risks and uncertainties that impact on the Society.

The Society has a history of generating an annual surplus and has a balance sheet showing significant reserves. As a consequence the Trustees believe that the Society is well placed to manage its risks successfully and taking into consideration the current economic conditions.

The Trustees have a reasonable expectation that the Society and its subsidiary companies have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Consolidation

The consolidated statement of financial activities (SOFA), consolidated balance sheet and consolidated cash flow statement include the financial statements of the Society and its subsidiary undertakings, Chester Zoo Enterprises Limited, Chester Zoo (Nigeria) Limited, Chester Zoo Foundation Nigeria and the North of England Zoological Society Pension Trustee Company Limited made up to 31 December 2017 and comply with recommended practice for accounting by charities. The results of the subsidiaries are consolidated on a line by line basis. The charity has adapted the Companies Act formats to reflect the special nature of the charity's activities. No separate SOFA has been presented for the charity alone as permitted by Section 408 of the Companies Act 2006 and paragraph 397 of the SORP.

Funds Employed

All funds employed must be expended in furtherance of the objectives of the Society. Restricted income funds must be used in furtherance of some specific aspect of those objectives.

Designated funds are those which have been set aside by the Trustees out of unrestricted funds for identifiable future expenditure, but the designation has an administrative purpose only and does not legally restrict the Trustees' discretion to apply the funds.

Incoming Resources

In accordance with the SORP, all incoming resources becoming receivable by the Society during the year are recognised in the SOFA, regardless of their source or of the purpose to which they are to be allocated. Income, both unrestricted and restricted, is recognised at the time of receipt except where it relates to a service to be provided in the following financial year. Such income is deferred and released over the period the service is provided. An example of this is the treatment of annual membership income.

Where income is restricted to a specific purpose, as specified by a donor, the income is included in restricted funds. Legacies are recognised when payment is received or assets transferred, or where there has been a grant of probate and the executors have established that there are sufficient assets in the estate after meeting its liabilities to pay the legacy. Grants are recognised when there is entitlement, conditions have been met and there is certainty of receipt.

Resources Expended

Expenditure is recognised when a liability is incurred. In accordance with the new SORP, support costs have been allocated to charitable activities and fundraising, apportioned by usage according to relative cost driving activities. Support costs now also include governance costs as a separate component in line with the new SORP.

VAT

Visitor admission income is treated as VAT exempt. Accordingly the Society is a partially exempt body and may not recover all VAT incurred on costs, with the exception of VAT incurred in connection with the catering, retail, and event operations for which the sales are subject to VAT. These operate through the trading subsidiary Chester Zoo Enterprises Limited and the VAT directly related to these operations can be recovered in full. The cost of irrecoverable VAT is apportioned in the SOFA under other resources expended. Any irrecoverable VAT relating to the purchase of fixed assets is capitalised as part of the asset value.

Taxation

The Society is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

Investments in Subsidiary Undertakings

These are included at cost less any provision for impairment.

Fixed Assets

These are included in the balance sheet at historic purchase cost less

accumulated depreciation. Assets in the course of construction are stated at cost, less any recognised impairment loss.

Depreciation

The rates and method of depreciation are consistent with those used in previous years. Depreciation is calculated using a straight line basis. Freehold land is not depreciated and assets in the course of construction are only depreciated when the assets are ready for their intended use.

| Asset Class | Rate of Depreciation Applied |
|--------------------------|------------------------------|
| Freehold Properties | 2% to 10% |
| Buildings and Enclosures | 4% to 25% |
| Machinery and Equipment | 10% to 25% |

No annual assessment is made of the value of the animal and plant collection. It is valued consistently at a nominal sum of £1,000 and not depreciated.

Impairment

The carrying amounts of assets are reassessed when impairment indicators are present. An impairment loss is recognised to the extent the carrying amount of an asset exceeds its estimated recoverable amount. The estimated recoverable amount is reviewed at subsequent balance sheet dates where further information is available. Note 9 further explains the impairment charge recognised in the year ended 31st December 2018.

Leases

All leases currently held by the Society are operating leases and the rental charges are taken as expenditure when incurred. The Society has not entered into any finance leases.

Stocks

Stocks are valued at the lower of cost and estimated net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Pensions

The Society operates two voluntary pension schemes.

The Society makes contributions to a defined contribution pension scheme for all qualifying permanent employees and to the NEST scheme for all qualifying seasonal employees. Employees are automatically enrolled on the pension scheme unless the Society is notified by the employee that they wish to opt out. The cost of these contributions is charged to the Statement of Financial Activities ("SOFA") when payable.

The defined benefit scheme was closed to future accrual in March 2012. A minimum deficit reduction payment will be made to the scheme annually in order to reduce the scheme's solvency deficit over time. This payment is recognised within actuarial gains and losses in the net movement in funds in the SOFA.

To the extent that the scheme is in surplus on a technical provisions basis, the Society does not recognise this in the financial statements as the Society is unable to recover any surplus either through reduced contributions in the future or through refunds from the scheme.

Grant-making

The Society supports a wide range of conservation and research activities both in the zoo and externally, often in partnership with other organisations. This support may be ongoing with our major conservation programmes. One-off annual grants including scholarships are also awarded.

Criteria for our funding support for projects include feasibility; qualification of project personnel; capacity building; benefits to local communities; relevance to other conservation initiatives of the zoo and regions or countries where the zoo already has a field conservation focus; links to species within the collection plan; opportunities for technical support from zoo employees.

Primarily support is provided to those projects which are judged to have potential to make a significant positive conservation impact. Applications are requested to be made on our standard grant application forms and these are reviewed internally against standardised criteria before a funding decision is made.

Liabilities relating to grants are recognised once the Society is irrevocably committed to the provision of the grant.

Related Party Transactions

Details of transactions with entities that are part of The North of England Zoological Society group are disclosed in the notes to the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Status

The Society is a company limited by guarantee and has no share capital. Members have guaranteed the liabilities of the Society to the extent of £1 each in the event of the charity being wound up.

2. Income from Charitable Activities

| | Unrestricted Funds | | | Total 2018 £'000 | Total 2017 £'000 |
|--|--------------------------|--------------------------------|---------------------------|-----------------------------------|---------------------|
| | Visitor Related £'000 | Other unrestricted £'000 | Other designated £'000 | | |
| Animal and plant collection | | | | | |
| Visitor admission to zoo and gardens | 19,066 | - | - | 19,066 | 18,361 |
| Monorail and boats | 481 | - | - | 481 | 524 |
| Membership of zoo and Gift Aid thereon | 7,128 | - | - | 7,128 | 5,983 |
| Events | 995 | - | - | 995 | 989 |
| Other | 434 | - | - | 434 | 445 |
| Total incoming resources from charitable activities | 28,104 | - | - | 28,104 | 26,302 |

3. Income from Donations and Legacies

| | Unrestricted 2018 £'000 | Restricted 2018 £'000 | Total 2018 £'000 | Total 2017 £'000 |
|--|----------------------------|--------------------------|-----------------------------------|---------------------|
| Donations and Gift Aid on admission to zoo | 2,902 | - | 2,902 | 2,755 |
| Animal adoptions | 286 | - | 286 | 264 |
| Grants and other donations | 298 | 709 | 1,007 | 1,015 |
| Total voluntary income | 3,486 | 709 | 4,195 | 4,034 |

The restricted income funds derive from certain donations, grants and legacies received and are put towards a variety of capital projects, equipment or outreach activities.

4. Other Trading Activities

The Society has a wholly owned trading subsidiary, Chester Zoo Enterprises Limited, incorporated in the UK (representing an investment of £100 in ordinary £1 shares) which operates the catering, retail and event activities of the Zoo from outlets rented from the Society. It distributes its taxable profit via Gift Aid to the Society. A summary of its trading results is shown below.

Audited financial statements for Chester Zoo Enterprises Limited for the year ended 31 December 2018 will be filed with the Registrar of Companies.

| Chester Zoo Enterprises Limited trading results | Total 2018 £'000 | Total 2017 £'000 |
|--|---------------------------------|------------------------|
| Turnover | 11,974 | 11,013 |
| Resources expended | | |
| Labour and cost of goods sold | (8,609) | (7,423) |
| Gross trading surplus for year | 3,365 | 3,590 |
| Indirect costs | | |
| Operating and support costs paid to Society | (2,286) | (2,520) |
| Property rents paid to Society | (694) | (695) |
| Operating profit | 385 | 375 |
| Taxation | - | - |
| Profit for the financial year | 385 | 375 |
| Gift Aid donation to parent company | (385) | (375) |
| Surplus/(deficit) retained in subsidiary | - | - |

5. Interest income

| | Total 2018 £'000 | Total 2017 £'000 |
|------------------------------|---------------------------------|------------------------|
| Interest on cash deposits | 8 | 5 |
| Total interest income | 8 | 5 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6a. Analysis of Total Expenditure

| | Employee Costs £'000 | Other Direct Costs £'000 | Support Costs (Note 6b) £'000 | Total 2017 £'000 | Total 2016 £'000 |
|---|----------------------------|--------------------------------|-------------------------------------|---------------------------------|------------------------|
| Charitable activities | | | | | |
| Animal and plant collection | 6,424 | 12,259 | 5,389 | 24,072 | 21,769 |
| Conservation science and education | 2,088 | 2,191 | 1,349 | 5,628 | 2,701 |
| Total for Society | 8,512 | 14,450 | 6,738 | 29,700 | 25,766 |
| Raising Funds | | | | | |
| Costs of generating voluntary income | 103 | 72 | 132 | 307 | 207 |
| Exceptional costs (note 9) | - | 5,544 | - | 5,544 | - |
| Subsidiary's cost of goods sold and other costs | 3,806 | 4,803 | 2,286 | 10,895 | 9,943 |
| Total for Society | 8,615 | 20,066 | 6,870 | 35,551 | 26,973 |
| Total expenditure for Group | 12,421 | 24,869 | 9,156 | 46,446 | 36,916 |

6b. Analysis of Support Costs

| | Total 2018 £'000 | Total 2017 £'000 |
|-------------------------------|---------------------------------|------------------------|
| Direct employee | 4,155 | 3,730 |
| Other costs | 5,000 | 4,744 |
| Total of support costs | 9,155 | 8,474 |

6b. Analysis of Support Costs (continued)

Support costs have been allocated to the activities set out in note 6a on the basis of their usage of cost driving activities attributable to each support service, as follows:

| Support cost breakdown by activity | Animal and plant collection £'000 | Conservation science and education £'000 | Generating voluntary income £'000 | Subsidiary £'000 | Total 2018 £'000 | Total 2017 £'000 |
|------------------------------------|--------------------------------------|---|--------------------------------------|---------------------|-----------------------------|---------------------|
| Governance and Directorate | 455 | 148 | 6 | 297 | 906 | 963 |
| Human Resources | 553 | 138 | 8 | 392 | 1,091 | 1,017 |
| Information Technology | 432 | 108 | 6 | 306 | 852 | 956 |
| Finance Department | 1,178 | 246 | 83 | 427 | 1,934 | 1,936 |
| Security and Site operations | 322 | 114 | 5 | 175 | 616 | 585 |
| Maintenance Department | 1,675 | 595 | 24 | 687 | 2,981 | 2,401 |
| Estates and Project Planning | 775 | - | - | - | 775 | 615 |
| Total | 5,390 | 1,349 | 132 | 2,284 | 9,155 | 8,474 |

7. Grants Payable in Furtherance of the Charity's Objectives

The Society makes institutional grants payable in furtherance of the charity's objects, to support field and zoo conservation and research. The grants have been included in the other direct costs analysis of total resources expended within the Statement of Financial Activities.

| | Grants to institutions £'000 | Grants to individuals £'000 | Total 2018 £'000 | Total 2017 £'000 |
|------------------------------------|---------------------------------|--------------------------------|-----------------------------|---------------------|
| Conservation science and education | 792 | 78 | 870 | 893 |
| Total grants payable | 792 | 78 | 870 | 893 |

8. Net Income before other Recognised Gains and Losses

| This is after charging: | Total 2018 £'000 | Total 2017 £'000 |
|---|-----------------------------|---------------------|
| Services provided by the Society's auditor | | |
| Fees payable for the audit of the charity and consolidated accounts | 18 | 17 |
| Fees payable for the audit of the subsidiaries | 6 | 6 |
| Fees payable for taxation advice for the charity | - | - |
| Fees payable for taxation advice for the subsidiary | 5 | 5 |
| Operating Leases | 68 | 68 |
| Depreciation of tangible fixed assets | 6,637 | 6,121 |
| Impairment charge (note 9) | 5,160 | - |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Exceptional income and costs related to the Monsoon Forest fire

On 15th December 2018 a fire broke out in the Monsoon Forest building within the zoo's Islands zone. The fire caused significant damage to the buildings and its contents. The zoo is fully insured in respect of the damage and work is underway to assess the damage and repair of the building. Within the financial statements an impairment charge of £5,160,000 has been recognised, being the estimated net book value of the fixed assets destroyed in the fire based on information available at the time of approving the financial statements.

Insurers have accepted liability to cover the costs of repairing the building and work is ongoing to establish the full cost of repair. At 31st December 2018 an amount equal to the £5,160,000 impairment charge has been recognised to reflect the estimated income that will be received from insurers to repair the building. Should the actual amount received exceed this amount of estimated income then it will be recognised in the accounting period in which it becomes virtually certain.

Provision has also been made for £384,000 of uninsured costs, primarily the excesses on insurance policies together with professional fees.

Following the fire, we received generous donations from the public, of which £162,698 were received in the year ended 31st December 2018. These donations have been treated as restricted income and will be spent in future years on conservation projects supporting the zoo's mission, with a particular focus on those species who live in the Monsoon Forest building.

10. Trustees' Remuneration

The Trustees, being charity Trustees, received no remuneration (2017: nil) but received reimbursement totalling £2,425 (2017: £1,376) during the year for travel and accommodation expenses necessarily incurred. Indemnity insurance costing £12,177 (2017: £13,638) has been taken out by the Society to protect the Society, its Trustees and other employees.

11. Employee costs

The average monthly headcount employed by the Society during the year was 739 (2017: 716) including seasonal employees. The average monthly number of full-time equivalent employees (FTE) analysed by category were as follows:

| | Number of FTE employees | |
|------------------------------------|-------------------------|-------------|
| | 2018 Number | 2017 Number |
| Animal and plant collection | 136 | 128 |
| Conservation science and education | 58 | 45 |
| Fundraising | 3 | 3 |
| Trading subsidiary | 173 | 156 |
| Guest experience | 91 | 92 |
| Site operations | 53 | 55 |
| Support and governance | 65 | 66 |
| Total FTE employees | 579 | 555 |

The aggregate payroll costs of these persons were as follows:

| | Total 2018 £'000 | Total 2017 £'000 |
|-------------------------------------|-----------------------------|---------------------|
| Wages and salaries cost | 13,957 | 12,618 |
| Social security cost | 1,091 | 981 |
| Pension cost: | | |
| Defined benefit pension scheme | - | - |
| Defined contribution pension scheme | 1,262 | 946 |
| Total employee costs | 16,310 | 14,545 |

The number of employees, including those employed for only part of the year, whose emoluments for the year (excluding pension contributions) fell within each band of £10,000 from £60,000 upwards is shown below. All of these employees had benefits accruing to them under the defined contribution pension scheme. Only two had benefits accruing to them on the defined benefit scheme. Contributions to the defined contribution scheme for all of these employees totalled £92,644 (2017:£71,907).

| | 2018 Number | 2017 Number |
|---------------------------|--------------------|-------------|
| From £120,001 to £130,000 | 2 | 1 |
| From £110,001 to £120,000 | - | 1 |
| From £100,000 to £110,000 | - | - |
| From £90,001 to £100,000 | - | - |
| From £80,001 to £90,000 | 1 | - |
| From £70,001 to £80,000 | 1 | 1 |
| From £60,001 to £70,000 | 3 | 3 |

The key management personnel employed by the Society comprise five members of the executive team during the year. Their total employee benefits for 2018, including pension contributions, were £519,529 (2017: £503,550).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Tangible Fixed Assets for the Group and Society

| | Assets in the course of construction £'000 | Freehold Property £'000 | Buildings and enclosures £'000 | Machinery and equipment £'000 | Animals and plant collection £'000 | Total £'000 |
|----------------------------|---|-------------------------------|--------------------------------------|-------------------------------------|--|------------------------|
| Cost | | | | | | |
| At 1 January 2018 | 1,255 | 5,026 | 77,001 | 13,125 | 1 | 96,408 |
| Additions | 2,240 | 14 | 7,418 | 729 | - | 10,401 |
| Disposals and Transfers | (1,144) | - | 1,144 | - | - | - |
| At 31 December 2018 | 2,351 | 5,040 | 85,563 | 13,854 | 1 | 106,809 |
| Depreciation | | | | | | |
| At 1 January 2018 | - | 2,798 | 33,094 | 4,300 | - | 40,192 |
| Charge for the year | - | 29 | 5,153 | 1,455 | - | 6,637 |
| Impairment charge (note 9) | - | - | 4,666 | 494 | - | 5,160 |
| At 31 December 2018 | - | 2,827 | 42,913 | 6,249 | - | 51,989 |
| Net book value | | | | | | |
| At 31 December 2018 | 2,351 | 2,213 | 42,650 | 7,605 | 1 | 54,820 |
| At 31 December 2017 | 1,255 | 2,228 | 43,907 | 8,825 | 1 | 56,216 |

The Trustees consider that the Society holds no fixed assets for investment purposes. Whilst some of the fixed assets do yield a rental income, they were not acquired for that purpose, but to facilitate the operation of the zoo which is the primary charitable purpose of the Society.

The Trustees consider that it is not meaningful to consider the market value of most of the Society's land and buildings. Where an assessment can be made, the Trustees consider that the market value exceeds the book value.

All the tangible fixed assets included in the consolidated statement above relate entirely to the Society.

The Society considers that none of its assets meet the definition of heritage assets under FRS102. Although certain assets may have a heritage quality, these are all used for operational purposes in the running of the zoo and are therefore classified as operating assets.

13. Investments in subsidiary companies

| | 2018 £ | 2017 £ |
|---|-------------------|-----------|
| Investment in Chester Zoo Enterprises Limited | 100 | 100 |
| Investment in Chester Zoo (Nigeria) Limited | 1 | 1 |
| North of England Zoological Society Pension Trustee Company Limited | 1 | 1 |

The principal undertakings in which the Society's interest at the year end is more than 20% are as follows:

| Subsidiary undertakings | Company Number | Country of incorporation | Principal activity | Class and percentage of shares held | |
|--------------------------------|----------------|--------------------------|---|-------------------------------------|---------------|
| | | | | Group | Company |
| Chester Zoo Enterprises Ltd | 2669535 | UK | Catering and Retail | 100% ordinary | 100% ordinary |
| Chester Zoo (Nigeria) Ltd | 08374657 | UK | Protecting the biodiversity of Nigeria | 100% ordinary | 100% ordinary |
| Chester Zoo Foundation Nigeria | 08904330 | UK | Protecting the biodiversity of Nigeria. Wholly owned by Chester Zoo (Nigeria) Limited | 100% ordinary | - |

All the above undertakings are registered at Cedar House or Oakfield House, Caughall Road, Upton-by-Chester, Chester, CH2 1LH

14. Stocks

| | Group | | Society | |
|------------------|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Goods for resale | 641 | 640 | - | - |
| Consumables | 91 | 64 | 91 | 65 |
| Total | 732 | 704 | 91 | 65 |

15. Debtors: Amounts Falling Due Within One Year

| | Group | | Society | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Trade debtors | 238 | 187 | 177 | 161 |
| Amount owed by subsidiary undertaking | - | - | 279 | 415 |
| Other debtors | 50 | 17 | 50 | 17 |
| Insurance debtor (note 9) | 5,160 | - | 5,160 | - |
| Prepayments and accrued income | 623 | 608 | 623 | 608 |
| Total | 6,071 | 812 | 6,289 | 1,201 |

Amounts owed by the subsidiaries are unsecured, interest free and repayable on demand.

16. Cash at bank and in hand

Cash at bank and in hand includes £1m (2017: nil) of cash held in escrow, set aside for the Trustees of the Society's defined benefit pension scheme which is to be used, if required, to fund a buy out of the scheme, when the scheme liabilities would be fully secured with an insurer. The money would also be paid to the pension scheme if the Society were to become insolvent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Creditors: Amounts Falling Due Within One Year

| | Group | | Society | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Bank overdraft | - | 171 | - | 171 |
| Trade creditors | 2,173 | 1,255 | 1,750 | 1,006 |
| Other taxes and social security costs | 380 | 350 | 380 | 350 |
| Accruals | 2,223 | 2,208 | 2,223 | 2,208 |
| VAT payable | 17 | 42 | 17 | 42 |
| Other creditors | 417 | 198 | 417 | 198 |
| Deferred income | 2,258 | 1,980 | 2,258 | 1,980 |
| Total | 7,468 | 6,204 | 7,045 | 5,955 |

18. Creditors: Amounts Falling Due After More Than One Year

| | Group | | Society | |
|---------------------------|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Revolving credit facility | 7,050 | 5,850 | 7,050 | 5,850 |
| Total | 7,050 | 5,850 | 7,050 | 5,850 |

An unsecured £18m revolving credit facility was taken out with Santander in April 2018 and will expire in April 2023 where upon it must be repaid in full. The facility bears interest at a margin of between 1.5% and 1.75% above LIBOR on utilised amounts and a fee of 35% of the margin is paid on unutilised amounts. As part of compliance with the terms of the facility, the Society is obliged to meet two covenants. These are:

- (i) Interest cover – EBITDA must be at least four times the interest payable; and
- (ii) Leverage – Net debt must not exceed three times EBITDA.

As at the 31 December 2018 the Society was fully compliant with these covenants and anticipates complying with the covenants for the duration of the facility.

19. Movement in Consolidated Funds

| | Balance at 31 Dec 2017 £'000 | New funds £'000 | Funds utilised £'000 | Transfers £'000 | Balance at 31 Dec 2018 £'000 |
|--|---------------------------------------|-----------------------|----------------------------|--------------------|---------------------------------------|
| Restricted income funds | | | | | |
| Animal and plant collections | 184 | 121 | (151) | - | 154 |
| Conservation science and education projects | 844 | 425 | (508) | - | 761 |
| Monsoon Forest fire donations | - | 163 | - | - | 163 |
| Defined benefit pension scheme (note 23) | - | - | - | 1,000 | 1,000 |
| Exceptional items (note 9) | - | 5,160 | (5,160) | - | - |
| | 1,028 | 5,869 | (5,819) | 1,000 | 2,078 |
| Designated funds | | | | | |
| Reserves tied to tangible fixed assets | 42,580 | - | (8,201) | 10,984 | 45,363 |
| Animal and plant collections | 693 | - | (693) | 754 | 754 |
| Conservation, science and education projects | 1,833 | - | (1,833) | 1,695 | 1,695 |
| Future capital projects | 1,507 | - | (1,507) | 746 | 746 |
| | 46,613 | - | (12,234) | 14,179 | 48,558 |
| Other charitable funds | - | - | - | - | - |
| Total group funds employed | 47,641 | 5,869 | (18,053) | 15,179 | 50,636 |

| | Unrestricted | | | 2018 | 2017 |
|--------------------------------|---------------------|---------------------|---------------------|------------------------------|------------------------------|
| | General £'000 | Designated £'000 | Restricted £'000 | Total Funds £'000 | Total Funds £'000 |
| Tangible Fixed Assets | 9,457 | 45,363 | - | 54,820 | 56,216 |
| Current Assets and Liabilities | (2,407) | 3,195 | 2,078 | 2,866 | (2,726) |
| Long Term Liabilities | (7,050) | - | - | (7,050) | (5,850) |
| | - | 48,558 | 2,078 | 50,636 | 47,640 |

Restricted income funds generally derive from certain donations, grants and legacies received, including animal adoptions. Animal adoption income is all utilised to purchase animal foods, and the remaining restricted funds are put towards a variety of projects in support of the Society's mission.

Designated funds relate principally to the Society's capital expenditure programme for the coming year and to conservation projects which the Society wishes to support and that are in line with the charitable objectives

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Capital Commitments

| | Group | | Society | |
|--|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Capital expenditure, contracted for but not provided in the financial statements | 2,208 | 7,260 | 2,208 | 7,260 |

21. Leasing Commitments

The group's future minimum non-cancellable operating lease commitments are as follows:

| | Group | | Society | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| Within one year | 48 | 68 | 39 | 56 |
| Between one and five years | 2 | 50 | 2 | 41 |
| | 50 | 118 | 41 | 97 |

22. Related Party Transactions

The Society received a charitable donation by Gift Aid from Chester Zoo Enterprises Limited of £385,362 (2017: £375,929). The Society also leases retail and catering outlets to Chester Zoo Enterprises Limited for an annual lease of £693,875 (2017: £694,708) and also charged staff and support costs totalling £2,285,741 (2017: £2,519,469).

23. Pensions

The Society operates two pension schemes; a defined benefit scheme and a defined contribution scheme. The defined benefit scheme holds assets in a separately administered fund and closed to future accrual in March 2012. In line with FRS102, a surplus can only be recognised in the balance sheet to the extent that the Society can gain economic benefit from it. As the scheme is closed to future accrual, a surplus can only be recognised to the extent of an agreed refund, so there is not recognition of the surplus at the year end.

A full actuarial valuation was carried out as at 31 December 2017 and updated to 31 December 2018 for the purpose of these disclosures by Mercer, a qualified independent actuary.

| | 2018 £'000 | 2017 £'000 |
|---|----------------|---------------|
| Present value of funded defined benefit obligations | 18,025 | 19,088 |
| Fair value of plan assets | 22,655 | 24,442 |
| Surplus | 4,630 | 5,354 |
| Effect of asset ceiling | (4,630) | (5,354) |
| Net defined benefit asset / (liability) recognised | - | - |

The major assumptions made by the actuary for the defined benefit scheme were as follows:

| Weighted average assumptions used to determine benefit obligations at: | 2018 | 2017 |
|---|--------------|-------------|
| Discount rate | 2.97% | 2.60% |
| Rate of price Inflation (RPI) | 3.44% | 3.20% |
| Rate of pension increases (5% RPI) | 3.25% | 3.00% |
| Rate of pension increases (2.5% RPI) | 2.16% | 2.05% |
| Assumed life expectations on retirement at age 65: | | |
| Male member retiring today (member age 65) | 23.0 | 22.7 |
| Male member retiring in 20 years (member age 45 today) | 25.2 | 24.8 |
| Female member retiring today (member age 65) | 25.5 | 25.2 |
| Female member retiring in 20 years (member age 45 today) | 27.9 | 27.5 |

The fair value of the plan assets and return on those assets were as follows:

| | Fair value at 31 Dec 2018 (£'000) | 2018 % | Fair value at 31 Dec 2017 (£'000) | 2017 % |
|---------------------------|--|-------------------|--|-------------------|
| Cash and cash equivalents | 113 | 0.5 | 78 | 0.3 |
| Equities | 6,417 | 28.3 | 12,052 | 49.3 |
| Debt Instruments | 13,672 | 60.4 | 9,862 | 40.3 |
| Property | 2,453 | 10.8 | 2,450 | 10.1 |
| Total | 22,655 | 100.0 | 24,442 | 100.0 |

| | 2018 £'000 | 2017 £'000 |
|---|-----------------------|-----------------------|
| Change in defined benefit obligation | | |
| Benefit obligation at beginning of year | 19,088 | 19,899 |
| Interest cost | 485 | 523 |
| Remeasurement: Actuarial (gain)/loss | (700) | (253) |
| Benefits and expenses paid | (848) | (1,081) |
| Benefit obligation at end of year | 18,025 | 19,088 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

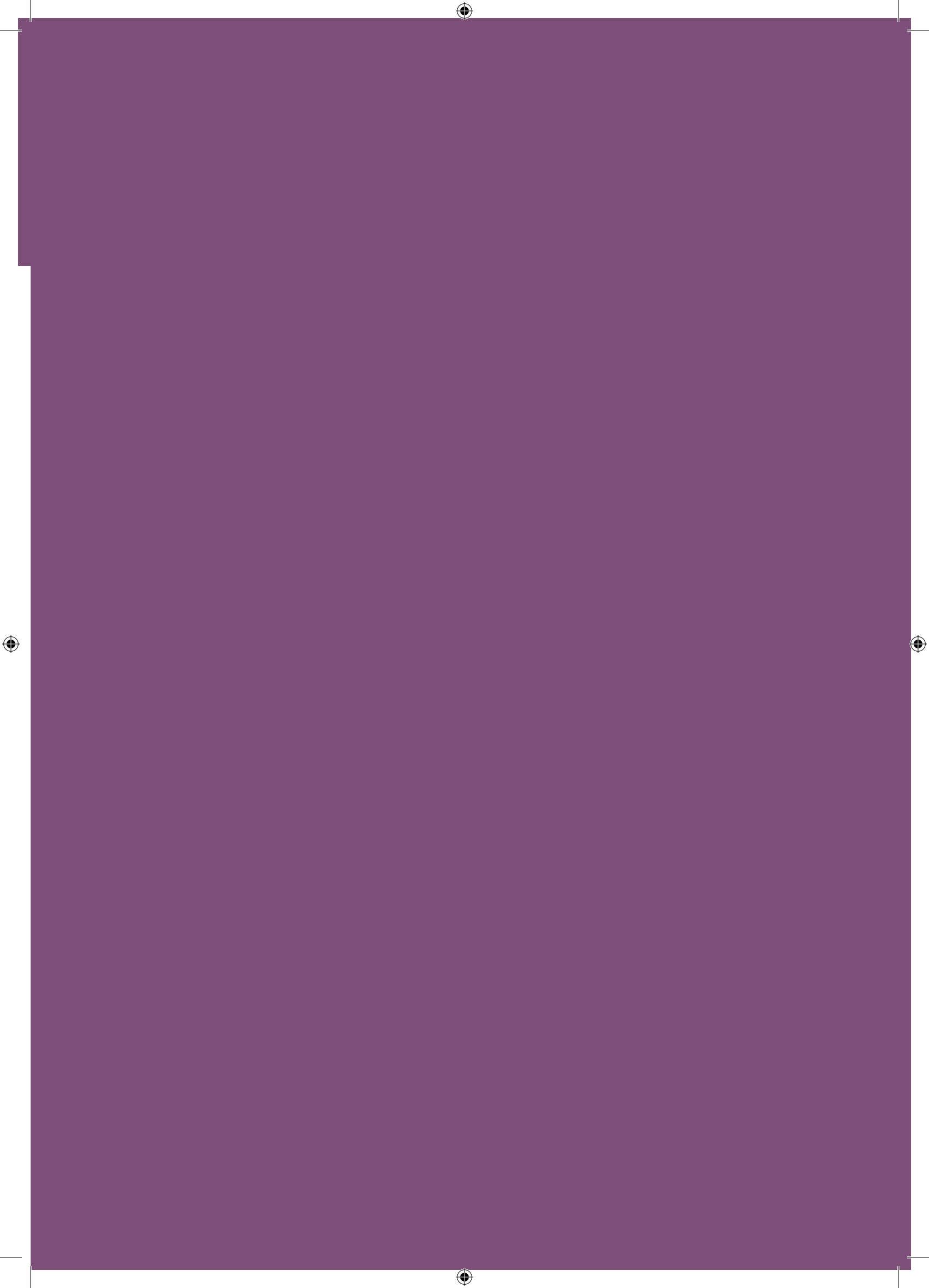
| | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Change in scheme assets | | |
| Fair value of scheme assets at beginning of year | 24,442 | 21,990 |
| Interest income | 625 | 593 |
| Employer contributions (incl. employer direct benefit payments) | 56 | 1,500 |
| Benefits and expenses paid | (848) | (1,081) |
| Remeasurements – return on scheme assets less interest income | (1,620) | 1,440 |
| Fair value of scheme assets at end of year | 22,655 | 24,442 |
| Expense recognised in the profit and loss account | | |
| Current service cost | - | - |
| Interest expense | 485 | 523 |
| Interest (income) on plan assets | (625) | (593) |
| Interest expense on effect of (asset ceiling) | 140 | 70 |
| Total net interest cost recognised in the profit and loss account | - | - |
| Remeasurements: | | |
| Effect of changes in assumptions | (533) | (253) |
| Effect of experience adjustments | (167) | - |
| Return on plan assets (excluding interest income) | 1,620 | (1,440) |
| Remeasurement on effect of asset ceiling | (864) | 3,193 |
| Pension deficit reduction accrual | (56) | 56 |
| Total remeasurements included in other comprehensive income gains and losses | - | 1,556 |
| Total pension cost recognised in the SOFA | - | 1,556 |

The Society has committed to making annual contributions with a view to funding the scheme on a solvency basis in the medium term. However, given the level of funding in the scheme it was agreed that the £1m due to be paid by the Society in 2018 would instead be held in escrow by the Society and hence the amount has not been included in the assets above. This £1m forms part of the Society's cash and cash equivalents balance (note 16) and is treated as restricted funds (note 19).

The Trustees of the Scheme have a first legal charge over certain assets of the Society with a market value of circa £10m.

Contributions, Defined Contribution Scheme

Contributions to the defined contribution scheme totalled £1,262,000 (2017: £946,000). The expenditure is taken from unrestricted funds.



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