Half-Year Report 2017

Lonza

Half-Year Financial Highlights

CORE[1] Earnings million CHF		2017	Change in %	2016
CORE EBITDA		577	29.1	447
Margin in %		24.8		22.1
Result from operating activities (CORE EBIT)		447	43.3	312
Margin in %		19.2		15.5
CORE Profit for the period		310	46.9	211
CORE EPS basic	CHF	5.05	35.8	[2]3.72
CORE EPS diluted	CHF	5.02	35.7	[2]3.70
CORE RONOA in %		31.0	52.6	20.3

IFRS Results million CHF		2017	Change in %	2016
Sales		2 323	15.1	2 019
EBITDA		529	19.4	443
Margin in %		22.8		21.9
Result from operating activities (EBIT)		373	27.7	292
Margin in %		16.1		14.5
Profit for the period		233	20.1	194
EPS basic	CHF	3.80	11.1	[2]3.42
EPS diluted	CHF	3.78	11.2	[2]3.40
Operational free cash flow (before acquisition)		335	26.9	264
Operational free cash flow		[3]302	20.8	250
RONOA in %		19.7	29.9	15.2
Net debt		[4]1 588	5.5	1 505
Debt-equity ratio		[4]0.69	(5.5)	0.73
Number of employees		10 342	4.1	9 931

1 In the CORE results for the items "EBITDA," "Result from operating activities (EBIT)," "Profit for the period" and "Earnings per share," the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. "CORE RONOA" does not include acquisition-related intangible assets. See also page 8.

2 As a consequence of the capital increase of 10 May 2017, the calculation of the earnings per share and the diluted earnings per share have been adjusted by the factor resulting from the rights offering.

3 Including the acquisition of PharmaCell B.V. (NL) on 3 May 2017; excluding the acquisition of Capsugel on 5 July 2017. See "Selected Explantory Notes" 4, page 13, for more information.

4 Pro forma net debt and pro forma equity at 30 June 2017, which exclude the cash resulting from the capital increase of CHF 3,061 million.

Highlights

Lonza Half-Year Performance and Full-Year 2017 Outlook (Lonza Standalone)

- Lonza continued strong performance with 15.1% sales and 43.3% CORE EBIT growth in reported currency compared with financial results in Half-Year 2016
- Pharma&Biotech with outstanding results in Half-Year 2017 and significant improvements in Specialty Ingredients
- Particularly strong momentum in Clinical Development, in Commercial Mammalian and Chemical Manufacturing, as well as in Consumer Health and Nutrition
- Full-year outlook for 2017 confirmed, as already upgraded with Q1 2017 Qualitative Business Update in April 2017

Lonza Mid-Term Guidance to 2022 and New Growth Initiatives

- New 2022 mid-term guidance (including Capsugel) highlights Lonza's growth perspectives:

Sales	**CHF 7.5 billion**
CORE EBITDA margin	**30%**
CORE RONOA	**35%**

- Launch of "Ibex – The Agile Advantage™," a unique future-shaping innovative modular facility in Biological Development and Manufacturing based at Lonza's Visp (CH) site with an extra 100,000 m^2 surface and several hundred new positions
- Ibex™ Solutions offer a modular, technology-independent development and manufacturing complex capable of supporting activities across multiple technologies – mammalian, microbial, cellular or bio-conjugate – and from late discovery to development and commercial manufacturing
- Healthcare continuum offerings further bolstered by Capsugel acquisition, now part of the Lonza Group
- Pro-forma net debt/CORE EBITDA (last twelve months CORE EBITDA of the combined Lonza and Capsugel businesses) at closing of Capsugel acquisition on 5 July 2017 is estimated at 2.8x

Dear Stakeholders,

Lonza's first half of 2017 was characterized by its continuation on its solid growth path. After a successful year 2016 with record financial results, Lonza has further developed its robust market position, consistent customer relations and innovative solutions as a leading supplier in pharmaceuticals, biotech and specialty ingredients, which resulted in tangible organic growth. Profitability initiatives continued to deliver results on a group and segment level. Their successful implementation within all of Lonza added to the significant sales growth and even stronger bottom-line.

In the first half of 2017, Lonza's sales were up by 15.1% to CHF 2,323 million and CORE EBIT up by 43.3% to CHF 447 million in reported currency (CHF 447 million in constant exchange rates) compared with financial results in Half-Year 2016. CORE RONOA (return on net operating assets) further improved to 31.0% from 20.3% in the same period last year. Net debt on a Lonza stand-alone basis was CHF 1,588 million (excluding cash of CHF 3,061 million from the capital increase), which resulted in a net debt/CORE EBITDA ratio of 1.51x.

Lonza's Pharma&Biotech and Specialty Ingredients segments both improved profitability along the healthcare continuum with Commercial Mammalian and Chemical Manufacturing, Clinical Development & Licensing and Consumer Health & Nutrition as key drivers. We are expecting a continued strong performance in H2 2017. However, results will then be compared with an exceptionally strong H2 2016. Lonza confirms its full-year 2017 guidance on a stand-alone basis, which was already upgraded with Q1 2017 Qualitative Business Update in April 2017.

Lonza expects to continue its growth along the healthcare continuum, to drive its position as a valued and preferred partner for its existing and new clients, and to grow through innovation. Based on that expectation, Lonza (including Capsugel) announces its mid-term guidance until the end of 2022, on the occasion of Lonza's 125th anniversary with:

- Sales CHF 7.5 billion
- CORE EBITDA margin of 30%
- CORE RONOA of 35%

Lonza takes its continued strong performance and its mid-term guidance to 2022 as an explicit commitment to further sustainable growth through constant innovation and adding substantial value to its customers and partners. Among other growth initiatives, Lonza launches a unique, future-shaping innovation for the Pharma&Biotech markets, "Ibex – The Agile Advantage™." Ibex™ Solutions offer a modular, technology-independent development and manufacturing complex capable of supporting activities across multiple technologies – mammalian, microbial, cellular or bioconjugate – and from late discovery to development and manufacturing. It is expected to reduce time-to-market for Lonza's customers by 12 months or more, de-risk their strategic investment decisions and let them participate in Lonza's expertise and service network in Visp (CH). Construction began in June 2017 with a formal groundbreaking ceremony expected in the second half of 2017. Several hundred new positions are expected to be created on Lonza's 100,000 m^2 brownfield surface in Visp (CH).

After the closing of the acquisition of Capsugel on 5 July 2017, the post-deal integration began immediately. Lonza confirms that the acquisition of Capsugel will capture new market opportunities and substantial top-line synergies identified at the time of signing with initial benefits from 2018 onwards. The specific businesses of Capsugel will be integrated into Lonza's segments along the healthcare continuum.

Lonza is confident to further grow along the healthcare continuum and to substantially shape the pharma, biotech, consumer health and nutrition markets for the benefit of its customers, shareholders and society – based on the dedication, commitment and integrity of its ~14,000 employees around the world.

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Financial Summary

Lonza continued its strong performance from H2 2016 and achieved significant growth in comparison to H1 2016, both top- and bottom-line. Leverage and free cash flow development were as expected and in line with Lonza's financial objectives.

- Sales grew by 15.1% in reported currency to CHF 2,323 million (15.1% in constant exchange rates)
- CORE EBIT growth of 43.3% in reported currency to CHF 447 million (43.3% in constant exchange rates)
- CORE RONOA improved to 31.0% from 20.3% in H1 2016
- Net debt of CHF 1,588 million and net debt/CORE EBITDA ratio of 1.51x (net debt excluding the cash resulting from the capital increase of CHF 3,061 million in H1 2017)
- Operational free cash flow is up by 20.8% to CHF 302 million (including the acquisition of PharmaCell B.V. (NL) on 3 May 2017; excluding the acquisition of Capsugel on 5 July 2017; see also "Selected Explantory Notes" 4, page 13)

Outlook 2017

The outlook for Full-Year 2017, on a Lonza stand-alone basis, which was already updated with Q1 2017 Qualitative Business Update in April 2017, is confirmed:

- Sales growth of high-single digit
- CORE EBITDA above CHF 1 billion
- Double-digit CORE EBIT growth significantly above sales growth
- CORE RONOA above the 21.5% achieved in 2016

Lonza expects to continue its momentum in H2 2017; however, results will be compared with an exceptionally strong H2 2016.

Mid-Term Guidance to 2022

Lonza expects to continue its growth along the healthcare continuum, to drive its position as a valued and preferred partner for its existing and new clients, and to grow through innovation. Based on that expectation, Lonza (including Capsugel) reviewed its mid-term outlook and is announcing the following guidance until the end of 2022, on the occasion of Lonza's 125th anniversary:

- Sales CHF 7.5 billion
- CORE EBITDA margin 30%
- CORE RONOA 35%

This outlook is based on the present macro-economic environment, current visibility and constant exchange rates for the most important currencies in which Lonza is trading. As other inorganic growth projects or divestments cannot be predicted, the guidance is based on today's business composition.

Launch of Ibex™ by Lonza – An Innovative Concept in Biological Development and Manufacturing

Lonza takes its continued strong performance and its mid-term guidance to 2022 as an explicit commitment to further sustainable growth through constant innovation and adding substantial value to its customers and partners. Among other growth initiatives, Lonza launches a unique, future-shaping innovation for the Pharma&Biotech markets, "Ibex – The Agile Advantage™."

Ibex™ Solutions is an innovative new biological development and manufacturing concept, coupling flexibility in facility build-out with fully tailored business models and leveraging Lonza's expertise and service network in Visp (CH). Construction began in June with a formal groundbreaking ceremony expected in the second half of 2017. Several hundred new positions are expected to be created on Lonza's 100,000 m² brownfield surface in Visp (CH).

Ibex™ biomanufacturing comprises a modular, technology-independent development and manufacturing facility capable of supporting activities across multiple technologies – mammalian, microbial, cellular or bio-conjugate – and from late discovery to development and manufacturing. This flexibility gives customers complete freedom in facility design and implementation and the ability to respond rapidly as their needs evolve.

Responsiveness is further enhanced by the integration of the Ibex™ biomanufacturing facility into the Visp site with its experienced workforce and established service networks.

Ibex™ Solutions offer highly flexible models to match and adapt to each customer's expectations and forecasts. The availability of a modular complex means time-to-market is expected to be reduced by 12 months or more. These advantages contribute to a significant de-risking of major strategic investment decisions.

Further information is available on www.lonza.com.

Capsugel Acquisition and Integration

After the successful closing of the acquisition of Capsugel on 5 July 2017, the post-deal integration began immediately. Post-acquisition topics were clearly defined in pre-closing activities and most dedicated integration teams are in place, coming from both legacy companies. Lonza confirms that the acquisition of Capsugel will capture new market opportunities and substantial top-line synergies identified at the time of signing with initial benefits from 2018 onwards. We expect to achieve CHF ~30 million p.a. operating synergies, CHF ~15 million p.a. tax synergies, both by year three. CHF ~100 million p.a. top-line synergies are expected to be achieved by year five. The specific businesses of Capsugel will be integrated into Lonza's segments along the healthcare continuum. Combined financial figures will be reported with the full-year results 2017 in January 2018. Lonza confirms its positive outlook for Capsugel.

Capsugel Financing

The Capsugel acquisition was financed through a combination of equity and debt instruments.

Following the successful placement of 5.0 million new shares with gross proceeds in the amount of CHF 865 million by way of an accelerated bookbuilding in February, Lonza offered after the approval of shareholders during the Annual General Meeting (AGM) on 25 April 2017, a total of 16,548,612 newly issued shares by way of a discounted rights offering in April. The transaction was successfully completed on 10 May 2017 with gross proceeds in the amount of CHF 2.26 billion.

The balance of the acquisition price was financed through indebtedness including USD 1 billion term loan and USD 1.5 billion bridge loan facilities provided by the assigned banks. The bridge is projected to be refinanced by traditional debt instruments within the next 18 month.

Lonza already issued dual tranche CHF 235 million straight bonds in July 2017 (Issue Size 4-Year Bond: CHF 125 million; Issue Size 7-Year Bond: CHF 110 million). The bonds have a maturity of 4 and 7 years with coupons of 0.200% and 0.700% respectively.

Lonza estimates a pro-forma net debt/CORE EBITDA ratio at the closing of the Capsugel acquisition on 5 July 2017 of 2.8x – a leverage level consistent with the previously communicated threshold of up to 3x net debt/CORE EBITDA. Further de-leveraging to approximately the net debt/CORE EBITDA level at the end of 2016 is expected to be achieved, as originally announced, by 2019.

Pharma&Biotech Segment

Pharma&Biotech million CHF	2017	Change in %	2016
Sales	1 064	27.0	838
CORE EBITDA	335	48.2	226
CORE EBITDA margin in %	31.5		27.0
CORE result from operating activities (EBIT)	273	71.7	159
CORE EBIT margin in %	25.7		19.0

Pharma&Biotech's performance remained at an all-time high with sales 27.0% up to CHF 1,064 million and CORE EBIT of CHF 273 million, up by 71.1% compared with the same period last year. The CORE EBITDA margin in the first half 2017 was 31.5%. The continued strong performance throughout the first half of 2017 was mainly driven by strong commercial programs across all businesses, sales increases in commercial manufacturing of mammalian cell cultures, chemical manufacturing and on-going strong demand for clinical development and licensing services.

Pharma&Biotech expects to continue its momentum in H2 2017; however, results will be compared with an exceptionally strong H2 2016.

Commercial Manufacturing

Mammalian Manufacturing profited from uninterrupted production campaigns with high capacity utilization and its robust customer base, leading to further sales and performance increases in H1 2017. Negotiations with Lonza's customers to extend contracts in terms of volume and timeframe are ongoing.

Capacity expansion is on track with the current ramp-up of a new dedicated suite in Portsmouth, NH (USA) and the construction of single-use technology in our Singapore facility on its way. A further expansion project, based on innovative custom-made business models, has been successfully signed in the first half of this year. Lonza entered into a 50:50 joint venture with Sanofi for building a large-scale mammalian manufacturing facility in Visp (CH). Lonza will construct the facility and will support the joint venture in its operation of the facility. The investment and the capacity is planned to be shared on a 50:50 base. This business model offers both parties a high flexibility. The new facility is expected to be operational in 2020. With this expanded capacity, Lonza will be able to offer additional manufacturing capabilities for our customers.

Positive performance within Chemical Manufacturing reflects Lonza's strong pipeline and high visibility going forward. Small molecules made a significant improvement compared to the prior year due to better commercial offerings to existing and new customers.

Lonza's explicit commitment to constant innovation and adding value to its customers and partners is demonstrated by the launch of Ibex™ Solutions, a unique contract development and manufacturing organization (CDMO) and concept that couples facility build-out flexibility with fully tailored business and ownership models and leverages Lonza's expertise and service network in Visp (CH). Construction began in June, with official groundbreaking due in the second half of 2017. Further information is available on www.lonza.com.

Clinical Development

High interest for clinical development and licensing services, ranging from early- to late-stage clinical phase drug products development and expert support, adds significantly to Pharma&Biotech's H1 2017 results. Going forward Lonza sees high interest in these services, which results in visibility until 2020 for already-started or planned capacity expansions as customers seek to secure their supplies against a high global demand. Due to new products and our continuous innovation and tailor-made solutions in clinical development, margins improved in accordance with value added to our customers.

Lonza's Emerging Technologies team celebrated 10 years as an antibody drug conjugate (ADC) manufacturing pioneer, successfully supporting Lonza's clients in developing more personalized and second-generation approaches for many difficult-to-treat cancers. Potential product launches and approvals are expected within the next two to three years, depending on products' approval by regulatory authorities.

Lonza Cell Therapy is growing steadily. With the acquisition of cell and gene contract manufacturer PharmaCell B.V. (NL) in H1 2017, Lonza further expanded into Europe to fulfill longstanding customer requests for a global footprint and for more proximity. With recent investments in HansaBioMed Life Sciences from Estonia and Exosomics Siena in Italy, Lonza also tapped into the therapeutics market of exosome technology to leverage its portfolio of drug discovery products, as well as its development and manufacturing expertise in mammalian cell culture.

Bioscience Solutions

Bioscience Solutions experienced some headwind due to continued mergers & acquisitions in the competitive life-science industry, cuts in academic funding, and impacts associated with production and capacity issues. Operational issues relating to certain biotherapeutic liquid media products manufactured in one particular area of our Walkersville, MD (USA) site that used to produce <20 L containers resulted in an FDA warning letter in April 2017. The issues are being addressed and mitigation and remediation efforts are underway.

Bioscience has taken action by increasing investments in processes, production capabilities and customer relationship management to improve operational performance and enhance product offerings.

Quality and Regulatory

Besides the Walkersville inspection, Lonza Pharma&Biotech cGMP sites had six other regulatory inspections in H1 2017 (compared with 11 in the same period last year) and 49 customer audits (compared with 60 in the same period last year) that have all been successful.

Specialty Ingredients
Segment

Specialty Ingredients million CHF	2017	Change in %	2016
Sales	**1 238**	6.3	1 165
CORE EBITDA	**261**	8.3	241
CORE EBITDA margin in %	21.1		20.7
CORE result from operating activities (EBIT)	**213**	9.8	194
CORE EBIT margin in %	17.2		16.7

The Specialty Ingredients segment experienced a good first half of 2017 with sales 6.3% up to CHF 1,238 million and CORE EBIT of CHF 213 million, up by 9.8% compared with the same period last year. The CORE EBITDA margin in the first half 2017 was 21.1%. Consumer Health & Nutrition added significantly to the increase in revenue and in profitability. Within other Lonza Specialty Ingredients businesses, operational excellence programs resulted in efficiency gains and higher profitability compared with previous reporting periods, too. Business excellence through automation, streamlining, digitalization and the exploitation of synergies remains a cornerstone going forward.

Consumer Care

Lonza Consumer Health & Nutrition benefited from growing customer interest, its strong product pipeline and its innovative solutions. This fast-growing unit within Lonza's Specialty Ingredients portfolio demonstrates Lonza's expertise and recognized position in preventive healthcare and well-being products. The Hygiene and Preservation businesses across the Americas performed strongly; innovative product offerings are expected to gain more momentum in H2 2017 and onwards. New product launches in the anti-dandruff markets with anti-microbial technology including geographical expansions, e.g. into Russia and the Middle East, are expected to further add to this momentum.

Agro Ingredients

Agro Ingredients showed solid growth based on higher demand in animal nutrition. In the first two quarters, the vitamin B3 compounds business for production animals experienced strong demand in all geographies, especially in China. The feed applications for L-Carnitine-based and Arabinogalactan-based formulations also grew by geographic expansion, especially into Asia.

The build-up of a niche portfolio of agrochemical products and applications for selected specialty crops, based on Lonza's broad technology platforms in chemistry and biotechnology, further advanced in H1 2017. Geographic expansion, new label claims and new formulations are supporting strategic growth plans in this business. For example, Meta™, Lonza's specific molluscicide for slug and snail control in agriculture and home & garden applications, had a solid start with strong demand from our strategic growth areas in South East Asia. Demand for conventional active ingredients for the herbicides, insecticides and fungicides remained soft.

Coatings and Composites

Coatings and Composites experienced strong growth and developed in line with our expectations with Performance Ingredients, for example oil and gas, chemicals, metal businesses, outperforming. Performance Ingredients made use of healthy demand across all relevant markets, especially in North America and a disciplined value chain management, all of which resulted in higher-than-expected profitability levels despite the fact that some raw materials have increased in cost.

In Materials Performance & Protection, positive momentum came from composite materials used in energy storage, electronics and aerospace. Ship building has yet to recover whereas the use of marine anti-fouling in ship maintenance experienced a significant rebound in H1 2017. Paints and Coatings were slightly under pressure due to a competitive market environment in North America, but positive signs came from Europe and China.

Lonza's Wood Protection unit saw top- and bottom-line moderate growth rates coming from a high base line. Demand in North America is still high with positive consumer sentiment leading to investments in housing and home improvement.

Water Treatment

The recreational Water Treatment business had a mixed start, especially in North America, when taking into consideration the different weather patterns in some geographical areas. However, Europe, South Africa and the Middle East performed well in sales volume based on solid demand. Sales in South America, especially Brazil, were negatively influenced. Our industrial, commercial, municipal and surface water (ICMS) business recorded strong growth rates. ICMS also invested in innovative green technology for drinking water applications to offer sustainable solutions in accordance with growing customer demands and regulatory requirements. We have made good progress in reducing the exposure to the more weather-dependent conditions in the recreational water treatment business towards more exposure to the less-seasonal ICMS business.

Corporate

Corporate million CHF	2017	2016
Sales	21	16
CORE EBITDA	(19)	(20)
CORE result from operating activities (EBIT)	(39)	(41)

CORE Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of our company because the CORE results enable better comparison across years. Therefore, the CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

Condensed Financial Statements

Condensed consolidated balance sheet at 31 December 2016 and 30 June 2017 (unaudited) million CHF	2017	2016
Non-current assets	4 651	4 762
Non-current loans and advances	1	1
Total non-current assets	**4 652**	4 763
Current assets	1 751	1 699
Current advances	1	1
Cash and cash equivalents	3 187	274
Assets held for sale	0	91
Total current assets	**4 939**	2 065
Total assets	**9 591**	6 828
Equity attributable to equity holders of the parent	5 311	2 355
Total equity	**5 311**	2 355
Non-current liabilities	1 194	1 270
Non-current debt	1 468	1 571
Total non-current liabilities	**2 662**	2 841
Current liabilities	1 370	1 303
Current debt	248	289
Liabilities held for sale	0	40
Total current liabilities	**1 618**	1 632
Total equity and liabilities	**9 591**	6 828
Net debt	**(1 473)**	1 584
Net debt, excluding cash from capital increase	**1 588**	1 584

Condensed consolidated income statement for the six months ended 30 June (unaudited) million CHF		2017	2016
Sales		**2 323**	2 019
Cost of goods sold		(1 440)	(1 318)
Gross profit		**883**	701
Operating expenses		(510)	(409)
Result from operating activities (EBIT)[1]		**373**	292
Net financing costs		(83)	(51)
Share of loss of associates/joint ventures		(1)	(1)
Profit before income taxes		**289**	240
Income taxes		(56)	(46)
Profit for the period, attributable to the equity holders of the parent		**233**	194
Basic earnings per share – EPS basic	CHF	3.80	[2]3.42
Diluted earnings per share – EPS diluted	CHF	3.78	[2]3.40

1 Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related and Lonza's share of profit/loss from associates and joint ventures.

2 As a consequence of the capital increase of 10 May 2017, the calculation of the earnings per share and the diluted earnings per share have been adjusted by the factor resulting from the rights offering.

Condensed consolidated statement of comprehensive income for the six months ended 30 June (unaudited)

million CHF

	2017	2016
Profit for the period	**233**	194
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of net defined benefit liability	28	[1](208)
Income tax on items that will not be reclassified to profit or loss	(8)	50
	20	(158)
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(63)	(2)
Cash flow hedges	[2](108)	3
Income tax on items that are or may be reclassified to profit or loss	6	0
	(165)	1
Other comprehensive income for the period, net of tax	**(145)**	(157)
Total comprehensive income for the period, attributable to equity holders of the parent	**88**	37

Condensed consolidated cash flow statement for the six months ended 30 June (unaudited)

million CHF

	2017	2016
Profit for the period	**233**	194
Adjustment for non-cash items	352	276
Income tax and interest paid	(72)	(57)
Increase of net working capital	(57)	(59)
Use of provisions	(6)	(10)
Increase/(decrease) of other payables, net	(36)	78
Net cash provided by operating activities	**414**	422
Purchase of property, plant & equipment and intangible assets	(163)	(151)
Acquisition of subsidiaries, net of cash acquired	(33)	(14)
Sale of assets held for sale	20	0
Net purchase of other assets and disposals	(6)	2
Interest and dividend received	10	1
Net cash used for investing activities	**(172)**	(162)
Increase of capital	[3]3 061	0
Repayment of straight bond	0	(400)
Issue of syndicated loan	0	230
Repayment of syndicated loan	(100)	0
Decrease in debt	(34)	(3)
Increase in other non-current liabilities	23	25
Purchase of treasury shares	(14)	0
Sale of treasury shares	3	0
Dividends paid	(159)	(131)
Net cash provided by/(used for) financing activities	**2 780**	(279)
Effect of currency translation on cash	[4](109)	(1)
Net (decrease)/increase in cash and cash equivalents	**2 913**	(20)
Cash and Cash equivalents at 1 January	274	277
Cash and Cash equivalents at 30 June	3 187	257

1 Declines in discount rates in 2016 were the primary influencing factor on the re-measurement of the defined benefit plan liabilities

2 Includes primarily the impact from derivative financial instruments and USD cash balances to manage Lonza's foreign currency exposure related to the Capsugel transaction (see note 4)

3 Excludes expenses of CHF 37 million associated with the rights offering which were not paid as of 30 June 2017.

4 Includes exchange rate impact on USD cash balances to finance the Capsugel acquisition (resulting from the CHF proceeds from the captial increases, subsequently converted to USD). See also note 4.

Condensed consolidated statement of changes in equity for the six months ended 30 June (unaudited)

million CHF

	Attributable to equity holders of the parent							Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	**Total**	
Six months ended 30 June 2016								
Balance at 1 January 2016	**53**	**311**	**2 387**	**(3)**	**(562)**	**(51)**	**2 135**	**2 135**
Profit for the period	0	0	194	0	0	0	194	194
Other comprehensive income, net of tax	0	0	(158)	3	(2)	0	(157)	(157)
Total comprehensive income for the period	**0**	**0**	**36**	**3**	**(2)**	**0**	**37**	**37**
Dividends	0	0	(131)	0	0	0	(131)	(131)
Recognition of share-based payments	0	0	10	0	0	0	10	10
Movements in treasury shares	0	0	(18)	0	0	19	1	1
Balance at 30 June 2016	**53**	**311**	**2 284**	**0**	**(564)**	**(32)**	**2 052**	**2 052**
Six months ended 30 June 2017								
Balance at 1 January 2017	**53**	**311**	**2 565**	**(5)**	**(559)**	**(10)**	**2 355**	**2 355**
Profit for the period	0	0	233	0	0	0	233	233
Other comprehensive income, net of tax	0	0	20	(99)	(66)	0	(145)	(145)
Total comprehensive income for the period	**0**	**0**	**253**	**(99)**	**(66)**	**0**	**88**	**88**
Dividends	0	0	(159)	0	0	0	(159)	(159)
Issuance of share capital	21	3 003	0	0	0	0	3 024	3 024
Recognition of share-based payments	0	0	11	0	0	0	11	11
Movements in treasury shares	0	0	(16)	0	0	8	(8)	(8)
Balance at 30 June 2017	**74**	**3 314**	**2 654**	**(104)**	**(625)**	**(2)**	**5 311**	**5 311**

Selected Explanatory Notes

1 Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation of Financial Statements

These condensed consolidated financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2017 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2016 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements for the year ended 31 December 2016. However, they do not include all the information required for a complete set of IFRS financial statements.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

New Standards, Interpretations and Amendments

There were no new standards or amendments to existing standards that have a material effect on Lonza's financial statements.

2 Exchange Rates

Balance sheet period-end rate CHF	30.06.2017	31.12.2016
US dollar	0.96	1.02
Pound sterling	1.25	1.25
Euro	1.09	1.07

Income statement half year average rate CHF	2017	2016
US dollar	0.99	0.98
Pound sterling	1.25	1.41
Euro	1.08	1.10

3 Seasonality of Operations

Most businesses operate in areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year, except for some businesses within the Specialty Ingredients segment. In particular the water products business is seasonal in nature. Therefore, the results of the Specialty Ingredients segment for the six-month period ended 30 June 2017 are not indicative of the results to be expected for the entire financial year.

4 Acquisitions and Disposal of Businesses

Acquisition of PharmaCell B.V.

Effective 3 May 2017, Lonza Group acquired 100% of the shares of PharmaCell B.V. for cash consideration of EUR 31 million (CHF 33 million). The fair values of the acquired intangible assets will only be determined by independent valuation specialists in the second half of 2017, therefore goodwill currently amounts to CHF 33 million.

PharmaCell is a contract development and manufacturing organization specialized in the field of cell and gene therapy and regenerative medicine with employees in Maastricht and Geleen (NL).

The acquisition is reported within the Pharma&Biotech segment and does not have significant impact on the consolidated financial statements for the six-month period ended 30 June 2017, with the exception of the acquired goodwill.

Disposal of Peptides Business

On 7 December 2016, Lonza announced that it entered into a definitive agreement with PolyPeptide Laboratories Holding to sell the peptides business and operations of Lonza in Braine-l'Alleud, Belgium. As a consequence, assets of CHF 91 million and liabilities of CHF 40 million were classified as held for sale in Lonza's 2016 financial statements.

The transaction closed on 3 January 2017. The purchase price includes a one-time payment of CHF 20 million paid in 2017 as well as a defined percentage of the net sales of the disposed business for the financial years 2017–2021 (estimated at CHF 37 million). Lonza's estimate of the net present value of these future payments is reflected as a receivable in the consolidated balances sheet as of 30 June 2017.

In addition, the accumulated exchange rate translation reserve losses related to the peptides business of CHF 29 million have been reclassified to the income statement in 2017.

Acquisition of Capsugel

On 15 December 2016, Lonza announced that it had entered into a definitive agreement with KKR under which Lonza will acquire Capsugel S.A. ("Capsugel") in cash, including refinancing of existing Capsugel debt, through a transaction that has been approved by the Boards of Directors of both Lonza and Capsugel. Further details of the transaction were published in Lonza's 2016 Annual Report (note 4.4).

The transaction was subject to certain regulatory approvals and other customary closing conditions and finally closed on 5 July 2017. The all-cash acquisition of Capsugel was financed with a combination of debt and equity financing (see note 7).

The impact from this transaction on the 2017 interim consolidated financial statements is limited to transaction related costs of CHF 16 million, paid fees of CHF 17 million for credit facilities committed by banks as well as derivative financial instruments to manage Lonza's foreign currency exposure. Furthermore, following the capital increases in February and May 2017 Lonza held a significant amount of cash that it converted from CHF to USD for the settlement of the purchase price for Capsugel's shares. Lonza used these USD cash balances as a hedge instrument for the firm commitment to acquire the Capsugel shares and has applied hedge accounting. As a result of unfavorable USD / CHF exchange rate movements in 2017 Lonza incurred foreign exchange losses of CHF 101 million, which have been recognized in other comprehensive income. The accumulated losses are to be partially reclassified from the other comprehensive income to the goodwill resulting from the acquisition upon completion of the Capsugel acquisition in the second half of 2017.

5 Changes in Goodwill

The change in goodwill recognized is primarily attributed to the acquisition of PharmaCell as well as currency translation differences.

million CHF	At 31 December 2016	PharmaCell	Currency Translation Differences	At 30 June 2017
Cost	1 287	33	(63)	1 257
Accumulated impairment	0	0	0	0
Net carrying amount	**1 287**	**33**	**(63)**	**1 257**

6 Debt

The Syndicated loan facility of CHF 700 million, of which CHF 100 million was used as of 31 December 2016, has no amounts utilized as of 30 June 2017.

7 Increase of Share Capital and Dividends Paid

In February 2017 Lonza Group Ltd has successfully placed 5 million new shares (from Lonza Group Ltd's authorized capital) by way of an accelerated book building procedure with selected investors in Switzerland (private placement) and outside of Switzerland to institutional investors and qualified institutional buyers.

On 25 April 2017, the Annual General Meeting of Lonza Group Ltd approved an ordinary capital increase by the issuance of up to 22,000,000 fully paid registered shares by way of a rights offering and authorized the Board of Directors to determine the final number of offered shares to be newly issued and the offer price per offered share. The Board of Directors decided to offer 16,548,612 newly issued shares with a nominal value of CHF 1.00 each at an offer price of CHF 136.00.

The total gross proceeds of CHF 3.123 billion, net of certain costs and expenses associated with the capital increases (CHF 99 million), is used to partially finance the acquisition of Capsugel S.A. The nominal amount of Lonza Group Ltd's issued share capital has increased from CHF 52,920,140 as of 31 December 2016 to CHF 74,468,752 as of 30 June 2017.

As a consequence of the capital increase as of 10 May 2017 through a rights offering, the calculation of the earnings per share and the diluted earnings per share have been adjusted by the factor resulting from the rights offering. The underlying weighted average number of shares was adjusted for June 2016 to 56,719,245 for the calculation of earnings per share and to 57,046,652 for the diluted earnings per share.

On 25 April 2017, the Annual General Meeting approved the distribution of a dividend of CHF 2.75 (financial year 2015: CHF 2.50) per share in respect of the 2016 financial year. The distribution to holders of outstanding shares totaled CHF 159 million (2016: CHF 131 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

8 Operating Segments

Six months ended 30 June 2017 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ Eliminations [1]	Total Group
Sales third-party	**1 238**	**1 064**	**2 302**	**21**	**2 323**
Inter-segment sales	11	3	14	(14)	0
Total sales	**1 249**	**1 067**	**2 316**	**7**	**2 323**
Property, plant and equipment (impairment)/reversal of impairment	(1)	(4)	(5)	0	(5)
Result from operating activities (EBIT)[2]	**194**	**264**	**458**	**(85)**	**373**
Return on sales %	15.7	24.8	19.9	n.a.	16.1
Net financing costs					(83)
Share of loss of associates/ joint ventures					(1)
Profit before income taxes					**289**
Income taxes					(56)
Profit for the period					**233**

Six months ended 30 June 2016 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ Eliminations [1]	Total Group
Sales third-party	**1 165**	**838**	**2 003**	**16**	**2 019**
Inter-segment sales	25	8	33	(33)	0
Total sales	**1 190**	**846**	**2 036**	**(17)**	**2 019**
Property, plant and equipment (impairment)/reversal of impairment	2	(2)	0	0	0
Result from operating activities (EBIT)[2]	**183**	**150**	**333**	**(41)**	**292**
Return on sales %	15.7	17.9	16.6	n.a.	14.5
Net financing costs					(51)
Share of loss of associates/ joint ventures					(1)
Profit before income taxes					**240**
Income taxes					(46)
Profit for the period					**194**

1 The "Corporate / Eliminations" column represents the corporate function, including eliminations for reconciliation of the Group total.

2 Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related and Lonza's share of profit/loss from associates and joint ventures.

9 Financial Instruments

Carrying amounts and fair values of financial instruments by category million CHF	Carrying amount 30 06 2017	Fair value 30 06 2017	Carrying amount 31 12 2016	Fair value 31 12 2016
Financial assets – available for sale				
Other investments – available for sale – carried at cost	13	13	13	13
Total financial assets – available for sale	**13**	**13**	**13**	**13**
Loans and receivables				
Trade receivables, net	609	609	612	612
Other receivables	91	91	73	73
Current advances	1	1	1	1
Non-current loans	1	1	1	1
Cash and cash equivalents	3 187	3 187	274	274
Total loans and receivables	**3 889**	**3 889**	**961**	**961**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	15	15	12	12
Interest-related instruments	3	3	0	0
Total financial assets at fair value through profit or loss – held for trading	**18**	**18**	**12**	**12**
Financial assets at fair value through profit or loss – designated				
Contingent consideration	37	37	0	0
Total financial assets at fair value through profit or loss – designated	**37**	**37**	**0**	**0**
Financial assets effective for hedge accounting purposes				
Commodity-related instruments	2	2	4	4
Total financial assets effective for hedge accounting purposes	**2**	**2**	**4**	**4**
Total financial assets at fair value	**57**	**57**	**16**	**16**
Financial liabilities at amortized cost				
Debt				
Straight bonds[1]	1 318	1 359	1 317	1 365
Other debt	398	398	543	543
Current liabilities	444	444	465	465
Trade payables	328	328	284	284
Total financial liabilities at amortized cost	**2 488**	**2 529**	**2 609**	**2 657**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	5	5	34	34
Interest-related instruments	8	8	35	35
Total financial liabilities at fair value through profit or loss – held for trading	**13**	**13**	**69**	**69**
Financial liabilities at fair value through profit or loss – designated				
Contingent consideration	7	7	18	18
Total financial liabilities at fair value through profit or loss – designated	**7**	**7**	**18**	**18**
Financial liabilities effective for hedge accounting purposes				
Currency-related instruments	45	45	18	18
Total financial liabilities effective for hedge accounting purposes	**45**	**45**	**18**	**18**
Total financial liabilities at fair value	**65**	**65**	**105**	**105**

1 The fair value of straight bonds for disclosure purposes is Level 1 and is calculated based on the observable market prices of the debt instruments.

Financial Instruments Carried at Fair Value

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

– Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
– Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

million CHF	30 06 2017				31 12 2016			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	20	0	20	0	16	0	16
Contingent consideration	0	0	37	37	0	0	0	0
Liabilities								
Derivative financial instruments	0	(58)	0	(58)	0	(87)	0	(87)
Contingent consideration	0	0	(7)	(7)	0	0	(18)	(18)
Net assets and liabilities measured at fair value	**0**	**(38)**	**(30)**	**(8)**	**0**	**(71)**	**(18)**	**(89)**

In 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements.

Liabilities of CHF 11 million related to contingent consideration arrangements have been settled in 2017.

10 Operational Free Cash Flow

In 2017 and 2016, the development of operational free cash flow by component was as follows:

Components of operational free cash flow for the six months ended 30 June million CHF	2017	Change	2016
EBITDA	529	86	443
Change of operating net working capital	(57)	2	(59)
Capital expenditures in property, plant & equipment and intangible assets	(163)	(12)	(151)
Disposal of property, plant & equipment	2	(1)	3
Change of other assets and liabilities	24	(4)	28
Operational free cash flow (before acquisition)	**335**	**71**	**264**
Acquisition of subsidiaries	(33)	(19)	(14)
Operational free cash flow	**302**	**52**	250

11 Events After the Balance Sheet Date

Following the receipt of all required regulatory approvals, Lonza has completed the acquisition of Capsugel S.A. on 5 July 2017.

On 25 July 2017, the Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2017 for issue.

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “outlook,” “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including the timing and strength of new product offerings; pricing strategies of competitors; the company’s ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. In particular, the assumptions underlying Outlook 2017 and Mid-Term Guidance 2022 herein may not prove to be correct. The statements in Outlook 2017 and Mid-Term Guidance 2022 constitute forward-looking statements and are not guarantees of future financial performance. Lonza’s actual results of operations could deviate materially from those set forth in Outlook 2017 as a result of the factors described above or other factors. Investors should not place undue reliance on the statements in Outlook 2017 and Mid-Term Guidance 2022. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this report was made.

The Half-Year Report 2017 is also available in German. The English version prevails.

Q3 2017 Business Update
27 October 2017

Full-Year Report 2017
31. January 2018

Annual General Meeting
for the 2017 Financial Year
4 May 2018
Congress Center Basel, Switzerland
MCH Swiss Exhibition (Basel) Ltd

Q1 2018 Business Update
4 May 2018

Half-Year Report 2018
25 July 2018

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