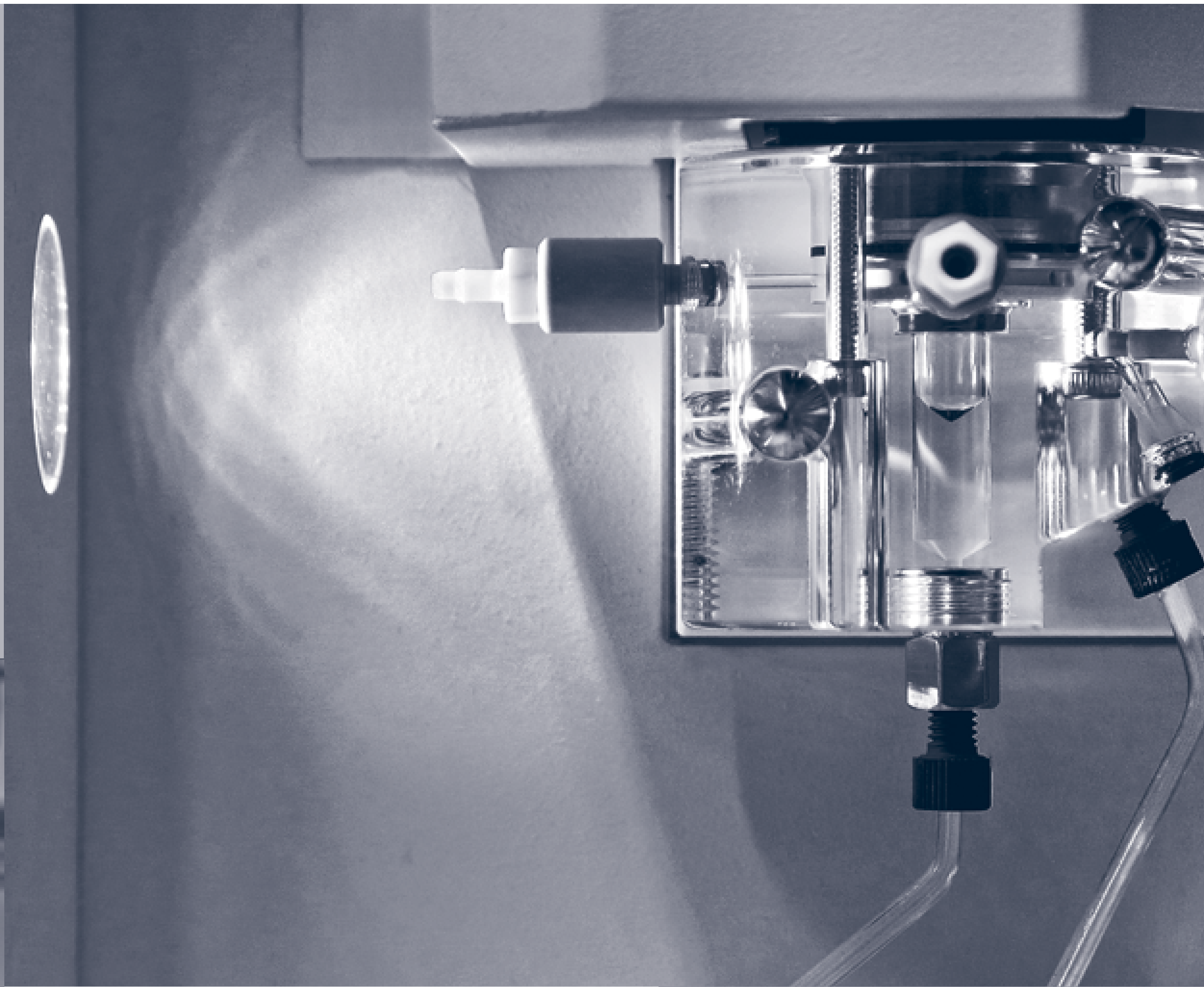
Lonza



Annual Report 2015

Financial Overview

Financial Report
Remuneration Report
Corporate Governance Report

Annual Report 2015

Financial Overview

Financial Report
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Financial Report

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Financial Report

Consolidated Financial Statements

Financial Statements of Lonza Group Ltd, Basel

Supplementary Financial Information

Consolidated Balance Sheet

Assets[1]

million CHF	[2]Note	2015	2014
Non-current assets			
Property, plant and equipment	6	2 366	2 466
Intangible assets	5	830	877
Goodwill	5	1 121	1 130
Other non-current assets		19	21
Deferred tax assets	21	47	47
Investments in associates / joint ventures	7	13	17
Other investments		7	7
Non-current loans and advances	14	1	1
Total non-current assets		**4 404**	**4 566**
Current assets			
Inventories	8	893	898
Trade receivables	10	538	622
Current tax receivables		21	7
Other receivables, prepaid expenses and accrued income	11	115	139
Cash and cash equivalents	12, 14	277	209
Total current assets		**1 844**	**1 875**
Total assets		**6 248**	**6 441**

Total Equity and Liabilities[1]

million CHF	[2]Note	2015	2014
Equity			
Share capital	25	53	53
Share premium		311	311
Treasury shares	25	(51)	(77)
Retained earnings and reserves		1 822	1 843
Total equity attributable to equity holders of the parent		**2 135**	**2 130**
Non-controlling interest		**0**	**0**
Total equity		**2 135**	**2 130**
Liabilities			
Deferred tax liabilities	21	255	256
Non-current provisions	13	68	47
Employee benefit liability	23	738	727
Other non-current liabilities		62	36
Non-current debt	14	1 414	1 693
Total non-current liabilities		**2 537**	**2 759**
Current provisions	13	33	38
Other current liabilities	15	638	647
Current tax payables		89	77
Trade payables	16	292	262
Current debt	14	524	528
Total current liabilities		**1 576**	**1 552**
Total liabilities		**4 113**	**4 311**
Total equity and liabilities		**6 248**	**6 441**

1 At 31 December
2 See the accompanying notes to the consolidated financial statements

Consolidated Income Statement

million CHF	[1] Note	2015	[2] 2014
Sales	2	**3 803**	**3 640**
Cost of goods sold		(2 704)	(2 566)
Gross profit		**1 099**	**1 074**
Marketing and distribution		(239)	(239)
Research and development	22	(103)	(101)
Administration and general overheads		(313)	(294)
Other operating income	19	55	45
Other operating expenses	19	(71)	(62)
Result from operating activities (EBIT)		**428**	**423**
Financial income	20.1	4	24
Financial expenses	20.2	(89)	(84)
Net financing costs		**(85)**	**(60)**
Share of loss of associates / joint ventures	7	(2)	(84)
Profit before income taxes		**341**	**279**
Income taxes	21	(64)	(42)
Profit for the period		**277**	**237**
Attributable to:			
Equity holders of the parent		277	237
Non-controlling interest		0	0
Profit for the period		**277**	**237**
		CHF	CHF
Basic earnings per share	26	5.30	4.56
Diluted earnings per share	26	5.26	4.54

Consolidated Statement of Comprehensive Income

million CHF	[1] Note	2015	2015	2014	2014
Profit for the period			**277**		**237**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurements of net defined benefit liability	23	(58)		(352)	
Income tax on items that will not be reclassified to profit or loss	21.2	8	(50)	103	(249)
Items that are or may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		(113)		131	
Cash flow hedges - effective portion of changes in fair value		10		(12)	
Cash flow hedges - reclassified to profit or loss		(3)		0	
Income tax on items that are or may be reclassified to profit or loss	21.2	(1)	(107)	(4)	115
Other comprehensive (loss) / income for the period, net of tax			**(157)**		**(134)**
Total comprehensive income for the period			**120**		**103**
Total comprehensive income attributable to:					
Equity holders of the parent			120		103
Non-controlling interest			0		0
Total comprehensive income for the period			**120**		**103**

1 See the accompanying notes to the consolidated financial statements

2 The presentation of financial income / expenses has changed in 2015 (note 20) and 2014 information was adjusted accordingly

Consolidated Cash Flow Statement

million CHF	Note[1]	2015	2014
Profit for the period		**277**	**237**
Adjustments for non-cash items:			
– Income taxes	21	64	42
– Net financing costs	20	85	60
– Share of loss of associates / joint ventures	7	2	84
– Depreciation of property, plant and equipment (excl. impairment)	6	249	250
– Amortization of intangibles	5	51	49
– Reversal of impairment	3,6	(1)	(1)
– Impairment losses on property, plant, equipment and intangibles	3,6	53	16
– Increase of provisions	13	37	14
– Decrease of employee benefit liability		(44)	(8)
– Loss on disposal of property, plant and equipment		6	2
– Amortization of other liabilities / assets		(2)	1
– Share-based payments	24	17	11
Income taxes paid		(61)	(39)
Interest paid		(60)	(61)
Total before change in net working capital		**673**	**657**
Increase inventories		(15)	(111)
(Increase) / decrease in trade receivables		68	(45)
Increase / (decrease)in trade payables		36	(6)
Decrease in other net working capital		50	68
Use of provisions	13	(21)	(33)
Decrease in other payables, net		(50)	(47)
Net cash provided by operating activities		**741**	**483**

million CHF	Note[1]	2015	2014
Purchase of property, plant and equipment	6	(256)	(158)
Purchase of intangible assets	5	(8)	(22)
Proceeds from sale of tangible and intangible assets		2	8
Acquisition of subsidiaries, net of cash acquired		(30)	0
Disposal of subsidiaries, net of cash disposed of		4	0
Purchase of unconsolidated investments		0	(3)
Proceeds from sale of other assets		0	2
Decrease in loans and advances		0	2
Increase in loans and advances		0	(6)
Interest received		1	8
Dividends received		5	2
Net cash used for investing activities		**(282)**	**(167)**
Repayment of straight bond	14	(240)	0
Repayment of German private placement	14	(155)	0
Issue of straight bond	14	324	0
Repayment of syndicated loan	14	(125)	(195)
Repayment of acquisition bridge financing	14	0	(104)
Repayment of borrowings	14	(83)	(14)
Increase in other non-current liabilities		30	3
Decrease in other non-current liabilities		(1)	(1)
Dividends paid	26	(131)	(112)
Sale of treasury shares		0	2
Net cash used for financing activities		**(381)**	**(421)**
Effect of currency translation on cash		(10)	8
Net increase / (decrease) in cash and cash equivalents		**68**	**(97)**
Cash and cash equivalents at 1 January		209	306
Cash and cash equivalents at 31 December		277	209

1 See the accompanying notes to the consolidated financial statements

Consolidated Statement of Changes in Equity

million CHF	Note[1]	Attributable to equity holders of the parent							Non-controlling interest	Total equity
		Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
At 31 December 2013		**53**	**310**	**2 416**	**1**	**(574)**	**(80)**	**2 126**	**0**	**2 126**
Profit for the period		0	0	237	0	0	0	237	0	237
– Remeasurement of defined benefit liability		0	0	(249)	0	0	0	(249)	0	(249)
– Exchange differences on translating foreign operations		0	0	0	0	125	0	125	0	125
– Cash flow hedges		0	0	0	(10)	0	0	(10)	0	(10)
Other comprehensive income, net of tax		0	0	(249)	(10)	125	0	(134)	0	(134)
Total comprehensive income for the period		**0**	**0**	**(12)**	**(10)**	**125**	**0**	**103**	**0**	**103**
Dividends	26	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	24	0	0	11	0	0	0	11	0	11
Movement in treasury shares		0	1	(2)	0	0	3	2	0	2
At 31 December 2014		**53**	**311**	**2 301**	**(9)**	**(449)**	**(77)**	**2 130**	**0**	**2 130**
Profit for the period		0	0	277	0	0	0	277	0	277
– Remeasurement of defined benefit liability		0	0	(50)	0	0	0	(50)	0	(50)
– Exchange differences on translating foreign operations		0	0	0	0	(113)	0	(113)	0	(113)
– Cash flow hedges		0	0	0	6	0	0	6	0	6
Other comprehensive income, net of tax		0	0	(50)	6	(113)	0	(157)	0	(157)
Total comprehensive income for the year		**0**	**0**	**227**	**6**	**(113)**	**0**	**120**	**0**	**120**
Dividends	26	0	0	(131)	0	0	0	(131)	0	(131)
Recognition of share-based payments	24	0	0	15	0	0	0	15	0	15
Movement in treasury shares		0	0	(25)	0	0	26	1	0	1
At 31 December 2015		**53**	**311**	**2 387**	**(3)**	**(562)**	**(51)**	**2 135**	**0**	**2 135**

Translation Reserve The translation reserve of the consolidated statement of changes in equity comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities including the impact on translating monetary items that form a net investment in a foreign operation.

1 See the accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

1 Accounting Principles

Lonza Group Lonza Group Ltd and its subsidiaries (hereafter "the Group" or "Lonza") operate under the name Lonza. Lonza Group Ltd is a limited liability company incorporated and domiciled in Switzerland. The Group is headquartered in Basel, Switzerland. Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life science industries. Products and services span its customers' needs from research to final product manufacture. It is the global leader in the production and support of chemical and biological active pharmaceutical ingredients. Lonza is also the world leader in microbial control, providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood protection.

Basis of Preparation The consolidated financial statements for 2015 and 2014 are reported in Swiss francs (CHF), rounded to millions, and based on the annual accounts of Lonza Group Ltd (Company) and its subsidiaries at 31 December, which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments are stated at their fair values and the employee benefit liability is stated at the fair value of plan assets less the present value of the defined benefit obligation.

Changes in Accounting Standards There were no new standards or amendments to existing standards that had a significant impact on the Group's consolidated financial statements.

The following new and revised standards have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements of Lonza has not yet been comprehensively analyzed. The expected effects as disclosed below reflect a first assessment by Group management.

Standard / Interpretation		Effective date	Planned application by Lonza
Amendments to IAS 1 – Disclosure Initiative	*	1 January 2016	Reporting year 2016
Amendments to IFRS 11 – Acquisitions of Interests in Joint Operations	*	1 January 2016	Reporting year 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization	*	1 January 2016	Reporting year 2016
Annual Improvements (2012–2014 cycle)	*	1 January 2016	Reporting year 2016
Amendments to IAS12 – Recognition of Deferred Tax Assets for Unrealized Losses	*	1 January 2017	Reporting year 2017
IFRS 15 – Revenue from Contracts with Customers	**	1 January 2018	Reporting year 2018
IFRS 9 – Financial instruments	**	1 January 2018	Reporting year 2018
IFRS 16 – Leases	**	1 January 2019	Reporting year 2019
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture		To be determined	

* No or no significant impact is expected on the consolidated financial statements

** The Group is currently assessing the impact of adopting these standards

Principles of Consolidation The consolidated financial statements represent the accounts for the year ended 31 December of Lonza Group Ltd and its subsidiaries. Subsidiaries are those entities controlled, directly or indirectly, by Lonza Group Ltd. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. The significant subsidiaries included in the consolidated financial statements are shown in note 32.

The full consolidation method is used, whereby the assets, liabilities, income and expenses are incorporated in full, irrespective of the extent of any non-controlling interest. Payables, receivables, income and expenses between Lonza-consolidated companies are eliminated. Intercompany profits included in year-end inventories of goods produced within Lonza are eliminated, as well as unrealized gains on transactions between subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures, as disclosed in note 7. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Associates and interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. They are recognized initially at cost, which includes transaction costs. Subsequent to the initial recognition, the consolidated financial statements include the Group's share of the profit and loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases. Dividends paid during the year reduce the carrying value of the investments.

Segment Reporting For the purpose of segment reporting, the Group's Executive Committee (EC) is considered to be the Group's Chief Operating Decision Maker. The determination of the Group's operating segments is based on the organizational units for which information is reported to the EC on a regular basis. The information provided is used as the basis of the segment revenue and profit disclosures reported in note 2. Selected segment balance sheet information and performance measures are also routinely provided to the EC. The Group has two segments, Pharma&Biotech and Specialty Ingredients. Revenues are primarily generated from the sale of products. The Pharma&Biotech segment also derives revenues from the sale or licensing of products or technology to third parties. Residual operating activities from certain global activities are reported as "Corporate". These include the EC and global group functions for communications, human resources, finance (including treasury and taxes), legal, environmental and safety services. Transfer prices between operating segments are set on an arm's-length basis. Operating assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables / payables, inventories and other assets and liabilities, such as provisions, which can be reasonably attributed to the reported operating segments. Non-operating assets and liabilities mainly include current and deferred income tax balances, post-employment benefit assets / liabilities and financial assets / liabilities such as cash, investments and debt.

Revenue Recognition Sales are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Rebates to customers are recognized in the same period that the related sales are recorded. Revenue from termination fees is recorded in the income statement in the period in which the termination occurs. The percentage of completion (POC) method is applied for development projects and defined long-term contracts in the Pharma&Biotech segment that have the economic substance of a construction contract. The stage of completion of a contract is determined on the basis of the estimated total contract costs. Revenue from the sale of rights is recognized upon transfer of rights or on an accrual basis, depending on whether the transaction in substance is a sale or a licensing arrangement. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Foreign Currencies Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF), which is the Group's presentation currency. For consolidation purposes the balance sheet of foreign consolidated companies is translated to CHF with the rate on the balance sheet date. Income, expenses and cash flows of the foreign consolidated companies are translated into CHF using the monthly average exchange rates during the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange rate differences arising from the different exchange rates applied in balance sheets and income statements are recognized in other comprehensive income. In the individual company's financial statements, transactions in foreign currencies are translated at the foreign exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. All resulting foreign exchange gains and losses are recognized in the individual company's profit or loss statement, except when they arise on monetary items that form a part of the Group's net investment in a foreign entity. In such a case, the exchange gains and losses are recognized in other comprehensive income.

Derivative Financial Instruments and Hedging Derivative financial instruments are initially recognized in the balance sheet at their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting. On the date a derivative contract is entered into, the Group designates derivatives that qualify as hedges for accounting purposes as either a hedge of the fair value of a recognized asset, liability or firm commitment (fair value hedge), a hedge of a forecasted transaction (cash flow hedge) or a hedge of a net investment in a foreign entity. Changes in the fair value of derivatives that are fair value hedges are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges that are highly effective are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Where the forecasted transaction results in the recognition of an asset or liability, the gains and losses previously included in other comprehensive income are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in other comprehensive income are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement.

Certain derivative instruments, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognized in the income statement, when the committed or forecasted transaction is ultimately recognized in the income statement.

However, if a forecasted or committed transaction is no longer expected to occur, the cumulative gain or loss that was recognized in other comprehensive income is immediately transferred to the income statement.

The purpose of hedge accounting is to match the impact of the hedged item and the hedging instrument in the income statement. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of derivatives (forward exchange contract, FX swaps, commodity swaps and interest rate swaps) is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free rate. Current forward prices are provided by banks or other financial service providers.

Property, Plant and Equipment Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated on a component basis over their estimated useful lives, which vary from 10 to 50 years for buildings and structures, and 5 to 16 years for production facilities, machinery, plant, equipment and vehicles. Fixed assets are depreciated using the straight-line method over their estimated useful lives. Subsequent expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. Borrowing costs incurred with respect to qualifying assets are capitalized and included in the carrying value of the assets.

All other expenditure is recognized in the income statement as an expense as incurred. The residual values and the useful life of items of property, plant and equipment are reviewed and adjusted, if appropriate, at each balance sheet date.

Leases Financial leases, which effectively constitute assets purchased with long-term financing, are carried as fixed assets at their purchase price and are written off over their estimated useful lives if the leased assets are transferred to the lessee at the end of the lease term. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life. The corresponding liabilities are included in non-current and current debt. The finance lease gives rise to a depreciation expense for depreciable assets as well as a finance expense for each accounting period. For the purpose of classifying a lease of land and buildings, lease of the land and of the buildings is evaluated separately. Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

Intangible Assets Purchased intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are recognized at their fair value. Intangibles include software, licenses, patents, trademarks and similar rights granted by third parties, capitalized product development costs and capitalized computer software development costs. Costs associated with internally developed or maintained computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognized as intangible assets. Those direct costs include the software development employee costs and an appropriate portion of relevant overheads. Intangible assets are amortized using the straight-line method over their estimated useful lives, which is the lower of the legal duration and the economic useful life. Useful lives vary from 3 to 5 years for software, 5 to 30 years for patents, trademarks and similar rights and 4 to 16 years for development costs. All intangible assets in Lonza have finite useful lives, except for trademarks acquired in 2011 through the Arch Chemicals business combination and 2007 through the Cambrex business combination. The Group considers that these trademarks have an indefinite useful life as they are well established in the respective markets and have a history of strong performance. The Group intends and has the ability to maintain these trademarks for the foreseeable future.

Goodwill and Business Combinations Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition and includes the cash paid plus the fair value at the date of exchange of assets, liabilities incurred or assumed and equity instruments issued by the Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the period the costs are incurred and the services are received and reported within administration and general overhead expenses. At the date of acquisition, the Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired business, non-controlling interests are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets/liabilities of the acquired business in the functional currency of that business.

When the initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are recognized. During the measurement period, the provisional amounts are retrospectively adjusted and additional assets and liabilities may be recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date which, had they been known, would have affected the measurement of the amounts recognized at that date. The measurement period does not exceed 12 months from the date of acquisition. Goodwill is not amortized but is tested annually for impairment. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

Goodwill may also arise upon investments in associates and joint ventures, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates and joint ventures.

Inventories Inventories are reported at the lower of cost (purchase price or production cost) or market value (net realizable value). In determining net realizable value, any costs of completion and selling costs are deducted from the realizable value. The cost of inventories is calculated using the weighted average method. Prorated production overheads are included in the valuation of inventories. Adjustments are made for inventories with a lower market value or which are slow moving. Unsalable inventory is fully written off. Costs include all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Receivables Trade receivables are recognized at the original invoice amount less allowances made for doubtful accounts. An allowance for doubtful accounts is recorded for the difference between the carrying value and the estimated recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the aging of customer balances, specific credit circumstances and the Group's historical experience, also taking into account economic conditions. Expenses for doubtful trade receivables are recognized in the consolidated income statement within cost of goods sold. Long-term accounts receivable are discounted to take into account the time value of money, where material.

Financial Assets Loans and advances and other financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are classified as current with maturities not longer than 12 months and as non-current with maturities greater than 12 months after the balance sheet date. Loans and advances are carried at amortized costs using the effective interest method. Realized and unrealized gains and losses are recorded in the income statement in the period in which they arise. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Cash and Cash Equivalents Cash and cash equivalents include cash in hand, in postal and bank accounts, as well as short-term deposits and highly liquid funds, that have an original maturity of less than three months.

Impairment Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the assets may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Calculation of recoverable amount – In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment – An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Deferred Taxes Tax expense is calculated using the balance-sheet liability method. Additional deferred taxes are provided wherever temporary differences exist between the tax base of an asset or liability and its carrying amount in the consolidated accounts for the year.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and, for deferred tax assets, operating loss and tax credit carry-forwards.

Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates in the respective jurisdictions in which Lonza operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. For transactions and other events recognized in other comprehensive income or directly in equity, any related tax effect is recognized in other comprehensive income or in equity. Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future.

Employee Benefits Employee-benefit liabilities as stated in the consolidated balance sheet include obligations from defined-benefit pension plans, other post-employment benefits (medical plans) as well as other long-term employee-related liabilities, such as long-term vacation accounts.

Defined-Benefit Plans (Pension and Medical Plans) Most of Lonza's subsidiaries operate their own pension plans. Generally, they are funded by employees' and employers' contributions. In addition, the Group operates three medical plans in the United States. The Group's net obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined-benefit obligations is performed annually by a qualified external actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Remeasurements of the defined-benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

The Group determines the net interest expense on the net defined-benefit liability for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the annual period to the net defined-benefit liability, taking into account any changes in the net defined-benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined-benefit plans are recognized in profit or loss. While the net interest expense is disclosed within financial expenses, the other expenses related to defined-benefit plans are allocated to the different functions of the operating activities. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that related to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs.

Termination Benefits Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group recognizes termination benefits at the earlier date of a) when the Group can no longer withdraw the offer of termination benefits and b) when the Group recognizes costs for a restructuring that is within the scope of IAS 37 and involved the payment of termination benefits.

Provisions A provision is recognized in the balance sheet when (i) the Group has a legal or constructive obligation as a result of a past event, (ii) it is probable that an outflow of economic benefits will be required to settle the obligation and (iii) a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Provisions for environmental liabilities are made when there is a legal or constructive obligation for the Group that will result in an outflow of economic resources. Provisions are made for remedial work where there is an obligation to remedy environmental damage, as well as for containment work where required by environmental regulations.

Debt Debt instruments are initially recorded at cost, which is the proceeds received net of transaction costs. They are subsequently stated at amortized cost; any difference between the net proceeds and the redemption value is recognized in the income statement over the period of the debt instrument using the effective interest method.

Share Capital Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases Lonza Group Ltd's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

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

Share-Based Compensation The Group operates various equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of shares and other share-based compensations is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the entity revises its estimates of the number of shares that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Research and Development Research and development costs are generally charged against income as incurred. Development costs are only capitalized when the related products meet the recognition criteria of an internally generated intangible asset, which mainly require the technical feasibility of completing the intangible asset, the probability of future economic benefits, the reliable measurement of costs and the ability and intention of the Group to use or sell the intangible asset. Fixed assets (buildings, machinery, plant, equipment) used for research purposes are valued similarly to other fixed assets. Such assets are capitalized and depreciated over their estimated useful lives. Expenses for research and development include associated wages and salaries, material costs, depreciation on fixed assets, as well as overhead costs.

Other Operating Income and Other Operating Expenses Other operating income and other operating expenses include items not assignable to other functions of the consolidated income statement. They mainly include gains and losses from the disposal of intangible assets, property, plant and equipment and other non-current assets, income and expenses from the release and recognition of provisions, income and expense related to restructuring, gains and losses from currency-related operating derivative instruments, as well as operating exchange rate gains and losses.

Net Financing Costs Net financing costs comprise interest payable on borrowings calculated using the effective interest method, the interest expenses on the net defined-benefit liability, the finance charge for finance leases, dividend income, foreign exchange gains and losses arising on financial assets and liabilities, gains and losses on hedging instruments that are recognized in the income statement and gains/losses on sale of financial assets. Interest income/expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Dividend income is recognized in the income statement on the date that the dividend is declared. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Accounting Estimates and Judgments

Key assumptions and sources of estimation uncertainty

Use of Estimates The preparation of the financial statements and related disclosures in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. The disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in impairment tests, accounting for allowances for doubtful receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. The key assumptions about the future key sources of estimation uncertainty that entail a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are described below.

Impairment Test of Property, Plant and Equipment, Intangible Assets and Goodwill The Group has carrying values with regard to property, plant and equipment of CHF 2 366 million (2014: CHF 2 466 million), goodwill of CHF 1 121 million (2014: CHF 1 130 million) and intangible assets of CHF 830 million (2014: CHF 877 million) (see notes 5 and 6). The intangible assets include trademarks acquired through business combinations with a carrying value of CHF 384 million (2014: CHF 386 million), which have an indefinite useful life and are not systematically amortized. Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower-than-anticipated sales for products with capitalized rights could result in shortened useful lives or impairment. The impairment analysis as explained in note 5 is most sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash-inflows and the growth rate used for calculation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in note 5.2.

Pensions Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined-benefit obligation is influenced by assumptions on discount rates used to arrive at the present value of future pension liabilities and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent external actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2015, the present value of the Group's defined-benefit obligation was CHF 3 066 million (2014: CHF 3 033 million). The plan assets at fair value amounted to CHF 2 372 million (2014: CHF 2 359 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 694 million (2014: CHF 674 million) (see note 23). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter lifespans of participants and other changes in the factors being assessed. These differences could affect the fair value of assets or liabilities recognized in the balance sheet in future periods.

Business Combinations Where the Group acquires control of another business, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business shall be recognized, separately from goodwill. The process of assessing fair values requires in particular management involvement and judgment in the recognition and measurement of the following items:

- Intellectual property, such as patents, licenses, trademarks, customer relations and similar rights
- Contingencies, such as legal and environmental matters
- Contingent consideration arrangements
- The recoverability of any accumulated tax losses previously incurred by the acquired company

In all cases, management makes an assessment based on the underlying economic substance of the items in order to fairly present these items.

Environmental Provisions Lonza is exposed to environmental liabilities and risks relating to its operations, principally in respect to provisions for remediation costs, which at 31 December 2015 amounted to CHF 73 million (2014: CHF 49 million), as disclosed in note 13. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties that include, but are not limited to, the method and extent of remediation and the responsibility attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures. Lonza believes that its provisions are adequate, based upon currently available information; however, given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred beyond the amounts provided. Due to the uncertainty both of the amount and timing of future expenses, the provisions provided for environmental remediation costs could be affected in future periods.

Income Taxes At 31 December 2015, deferred tax assets of CHF 47 million (2014: CHF 47 million), current tax receivables of CHF 21 million (2014: CHF 7 million), deferred tax liabilities of CHF 255 million (2014: CHF 256 million) and current tax payables of CHF 89 million (2014: CHF 77 million) are included in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

Critical Accounting Judgments in Applying the Group's Accounting Policies In the process of applying the Group's accounting policies, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements (apart from those involving estimations, which are dealt with above).

Revenue Recognition The Group has recognized revenue for sales of goods during 2015 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experience with similar transactions, the quality delivered will be accepted. Therefore, it is appropriate to recognize revenue on these transactions during 2015. Moreover, the Group has various contractual agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to management's judgment, risks and rewards have been transferred to the customer and no future performance obligation exists. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

Intangible Assets The Group considers the trademarks acquired in 2011 through the Arch Chemicals business combination and in 2007 through the Cambrex business combination to have an indefinite useful life as they are well established in the respective markets and have a history of strong performance. The Group intends and has the ability to maintain these trademarks for the foreseeable future. The assumption of an indefinite useful life is reassessed whenever there is an indication that a trademark may have a definite useful life. In addition, intangible assets with indefinite useful lives are tested for impairment on an annual basis (see note 5).

2 Operating Segments

2.1 General Information

According to the requirements of IFRS 8 "Operating Segments" Lonza identified the following two market-focused segments: Pharma&Biotech and Specialty Ingredients. These segments are described as follows:

Pharma&Biotech In the Pharma&Biotech segment, Lonza is one of the world's leading suppliers of active pharmaceutical ingredients (APIs) and biopharmaceuticals as well as research and testing products and services. Lonza manufactures products that are at the forefront of powerful new treatments for cancer, diabetes, immune system disorders, heart conditions, Alzheimer's and Parkinson's diseases, inflammation and many other medical diseases and conditions. Lonza's customers cover a wide spectrum: from the world's largest pharmaceutical and biotechnology companies to medical research and testing organizations, as well as small start-ups pioneering breakthrough medical treatments.

Specialty Ingredients In the Specialty Ingredients segment, Lonza is an innovative supplier of solutions that promote health, wellness, beauty, nutrition, hygiene and materials protection. Lonza's Consumer Care business is one of the world's leading suppliers of microbial control solutions. In the nutrition business, Lonza is the world's largest producer of vitamin B3 compounds and L-Carnitine. In addition, Lonza is the world's largest supplier of actives for anti-dandruff shampoos and a leading provider of natural and organic cosmetic ingredients. Lonza's Agro Ingredients business offers custom agricultural manufacturing services designed to improve crop yields and food quality. Industrial Solutions offers preservatives and biocide blends that deter the growth of mold, mildew and/or other contaminants. Lonza's Wood Treatment business supplies products and services that enhance the quality of wood and protect this sustainable, renewable resource from termites and other insects, mold, fungus, moisture and fire. The Water Treatment business is one of the world's largest suppliers of sanitizers and other treatment chemicals for pools, spas and water parks, surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications.

Corporate Corporate includes mainly corporate functions, such as finance and accounting, legal, communication, information technology and human resources.

2.2 Information about Reportable Segment Profit or Loss Assets and Liabilities including Reconciliations

In the following table, revenues and profit or loss are disclosed by the two reportable segments and corporate, which includes the costs of the corporate functions, including eliminations, and adds up to the Group total. Lonza does not allocate financing costs, income and expenses from associates and joint ventures as well as taxes to the reportable segments. The information disclosed by the operating segments is the same as that reported monthly to the Group's Executive Committee.

Year Ended 31 December 2015

million CHF		Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate / Eliminations	Group total
Sales third-party		**2 167**	**1 596**	**3 763**	**40**	**3 803**
Intersegment sales[1]		62	27	89	(89)	0
Total sales		**2 229**	**1 623**	**3 852**	**(49)**	**3 803**
Result from operating activities (EBIT)		**271**	**216**	**487**	**(59)**	**428**
– Percentage return on sales	%	12.5	13.5	12.9	n.a.	11.3
Financial income						4
Financial expenses						(89)
Net financing costs						**(85)**
Share of loss of associates / joint ventures						(2)
Profit before income taxes						**341**
Income taxes						(64)
Profit for the period						**277**
Included in result from operating activities (EBIT):						
– Other operating income[2]		23	16	39	14	53
– Other operating expenses[2]		(23)	(16)	(39)	(26)	(65)
– Research and development		(51)	(134)	(185)	0	(185)
– Depreciation and amortization		(113)	(143)	(256)	(44)	(300)
– Impairment, net of reversal of impairment		(3)	(47)	(50)	(2)	(52)
– Restructuring (expenses) / income		(2)	(9)	(11)	(1)	(12)
– Environmental (expenses) / income		(1)	0	(1)	(30)	(31)
CORE result from operating activities (EBIT)		**298**	**284**	**582**	**(58)**	**524**
Total assets		3 554	3 596	7 150	(902)	6 248
Total liabilities		462	1 340	1 802	2 311	4 113
Total equity		3 092	2 256	5 348	(3 213)	2 135
Net financial liabilities		(362)	(11)	(373)	3 097	2 724
Net capital invested[3]		2 730	2 245	4 975	(116)	4 859
Return on net capital invested (RONOA)[4]	%	13.1	10.9	12.0	n.a.	10.8
Included in total assets:						
Total property, plant and equipment		936	1 406	2 342	24	2 366
– Additions to property, plant and equipment		86	145	231	25	256
– Additions to property, plant and equipment from acquisitions		2	0	2	1	3
Total goodwill and intangible assets		1 375	546	1 921	30	1 951
– Additions to intangible assets		3	0	3	5	8
– Additions to intangible assets from acquisitions		27	0	27	0	27
Investments in associates / joint ventures		2	2	4	9	13
Headcount		3 474	4 590	8 064	1 765	9 829
Average headcount		3 349	4 710	8 059	1 759	9 818

1 Intersegment sales were based on prevailing market prices.

2 Excluding restructuring- and environment-related income / expenses

3 Net capital invested comprises all operating assets and goodwill less operating liabilities.

4 Calculated at historical monthly average rates based on net capital invested excluding goodwill.

Year Ended 31 December 2014

million CHF		Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate / Eliminations	Group total
Sales third-party		**2 154**	**1 446**	**3 600**	**40**	**3 640**
Intersegment sales[1]		68	51	119	(119)	0
Total sales		**2 222**	**1 497**	**3 719**	**(79)**	**3 640**
Result from operating activities (EBIT)		**242**	**224**	**466**	**(43)**	**423**
– Percentage return on sales	%	11.2	15.5	12.9	n.a.	11.6
Financial income						24
Financial expenses						(84)
Net financing costs						**(60)**
Share of loss of associates / joint ventures						(84)
Profit before income taxes						**279**
Income taxes						(42)
Profit for the period						**237**
Included in result from operating activities (EBIT):						
– Other operating income[2]		12	12	24	13	37
– Other operating expenses[2]		(15)	(12)	(27)	(21)	(48)
– Research and development		(50)	(145)	(195)	0	(195)
– Depreciation and amortization		(109)	(151)	(260)	(39)	(299)
– Impairment, net of reversal of impairment		(4)	(11)	(15)	0	(15)
– Restructuring (expenses) / income		(5)	0	(5)	(1)	(6)
– Environmental (expenses) / income		1	0	1	(6)	(5)
CORE result from operating activities (EBIT)		**272**	**245**	**517**	**(42)**	**475**
Total assets		3 555	3 814	7 369	(928)	6 441
Total liabilities		143	2 103	2 246	2 065	4 311
Total equity		3 412	1 711	5 123	(2 993)	2 130
Net financial liabilities		(685)	816	131	2 963	3 094
Net capital invested[3]		2 727	2 527	5 254	(30)	5 224
Return on net capital invested (RONOA)[4]	%	12.5	10.7	11.6	n.a.	10.3
Included in total assets:						
Total property, plant and equipment		948	1 499	2 447	19	2 466
– Additions to property, plant and equipment		76	69	145	13	158
Total goodwill and intangible assets		1 382	590	1 972	35	2 007
– Additions to intangible assets		3	6	9	13	22
Investments in associates / joint ventures		2	3	5	12	17
– Additions to investments in associates / joint ventures		0	3	3	0	3
Headcount		3 225	4 831	8 056	1 753	9 809
Average headcount		3 356	4 904	8 260	1 612	9 872

1 Intersegment sales were based on prevailing market prices.
2 Excluding restructuring-related income / expenses
3 Net capital invested comprises all operating assets and goodwill less operating liabilities.
4 Calculated at historical monthly average rates based on net capital invested excluding goodwill.

2.3 Measurement of Operating Segment Profit or Loss

The accounting principles applied to the operating segments are based on the same accounting principles used for the consolidated financial statements. Lonza evaluates the performance of its operating segments on the basis of the result from operating activities (EBIT) as well as the CORE result from operating activities. Intersegment sales and transfers are based on prevailing market prices.

2.4 Geographical Information

Year Ended 31 December 2015

million CHF	Revenue from external customers (sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	344	938	27	15	2	982
Germany	223	4	30	63	0	97
Ireland	170	1	0	0	0	1
United Kingdom	155	88	65	10	0	163
France	109	2	4	10	0	16
Netherlands	65	0	0	0	0	0
Belgium	51	61	0	85	0	146
Sweden	46	0	0	0	0	0
Italy	32	0	0	10	0	10
Spain	18	119	0	0	0	119
Czech Republic	6	26	0	0	0	26
Rest of Europe	124	2	0	9	0	11
Europe	**1 343**	**1 241**	**126**	**202**	**2**	**1 571**
United States	1 581	579	601	897	9	2 086
Canada	78	0	8	4	0	12
Rest of North America	27	0	0	0	0	0
North America	**1 686**	**579**	**609**	**901**	**9**	**2 098**
Brazil	96	8	9	0	3	20
Rest of Latin America	34	0	0	0	0	0
Latin America	**130**	**8**	**9**	**0**	**3**	**20**
China	149	246	11	4	0	261
Singapore	102	278	52	0	3	333
Japan	99	1	2	0	0	3
India	61	4	0	2	0	6
Rest of Asia	109	0	0	0	1	1
Asia	**520**	**529**	**65**	**6**	**4**	**604**
South Africa	**55**	**4**	**3**	**0**	**0**	**7**
New Zealand	**30**	**4**	**12**	**10**	**0**	**26**
Other countries	**39**	**1**	**6**	**2**	**1**	**10**
Total	**3 803**	**2 366**	**830**	**1 121**	**19**	**4 336**

Year Ended 31 December 2014

million CHF	Revenue from external customers (sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	371	917	35	15	2	969
Germany	252	6	36	70	0	112
Ireland	59	1	0	0	0	1
United Kingdom	141	96	72	18	0	186
France	132	2	5	11	0	18
Netherlands	64	0	0	0	0	0
Belgium	38	68	0	85	0	153
Sweden	46	0	0	0	0	0
Italy	41	0	0	11	0	11
Spain	19	133	0	0	0	133
Czech Republic	5	74	0	0	0	74
Rest of Europe	107	0	1	11	0	12
Europe	**1 275**	**1 297**	**149**	**221**	**2**	**1 669**
United States	1 549	578	626	900	10	2 114
Canada	57	0	0	0	0	0
Rest of North America	33	0	0	0	0	0
North America	**1 639**	**578**	**626**	**900**	**10**	**2 114**
Brazil	102	10	13	0	4	27
Rest of Latin America	30	0	1	0	0	1
Latin America	**132**	**10**	**14**	**0**	**4**	**28**
China	46	291	55	0	3	349
Singapore	150	276	12	5	0	293
Japan	86	1	2	0	0	3
India	78	5	0	2	0	7
Rest of Asia	109	0	1	0	1	2
Asia	**469**	**573**	**70**	**7**	**4**	**654**
South Africa	**55**	**5**	**5**	**0**	**0**	**10**
New Zealand	**24**	**1**	**7**	**0**	**0**	**8**
Other countries	**46**	**2**	**6**	**2**	**1**	**11**
Total	**3 640**	**2 466**	**877**	**1 130**	**21**	**4 494**

2.5 Information About Major Customers

In 2015 Lonza's largest customer accounted for 5.5% and the second, third, fourth and fifth largest customers for 4.2%, 4.1%, 4.0% and 3.5% in relation to total Group sales, respectively. No other customer accounted for 2.8% or more of Lonza's total sales. The largest customer related to the Specialty Ingredients segment, while the second, third, fourth and fifth largest customers related to the Pharma&Biotech segment.

In 2014 Lonza's largest customer accounted for 5.9% and the second, third, fourth and fifth largest customers for 3.4%, 2.9%, 2.9% and 2.8% in relation to total Group sales, respectively. No other customer accounted for 2.7% or more of Lonza's total sales. The first and fourth largest customers related to the Specialty Ingredients segment, while the second, third and fifth largest customers related to the Pharma&Biotech segment.

3 Restructuring

Year Ended 31 December 2015

million CHF	Specialty Ingredients	Pharma& Biotech	Corporate	Total
Impairment of property, plant and equipment[1]	3	47	2	52
Restructuring charges	2	9	1	12
Total	**5**	**56**	**3**	**64**

Year Ended 31 December 2014

million CHF	[2]Specialty Ingredients	[3]Pharma& Biotech	Corporate	Total
Impairment of property, plant and equipment	4	11	0	15
Restructuring charges	5	0	1	6
Total	**9**	**11**	**1**	**21**

1 Net of reversal of impairment (CHF 1 million)
2 Restructuring charges include restructuring activities related to Lonza's Chinese sites and other restructuring measures. The impairment of assets is related to the Chinese sites.
3 The impairment of assets is related to the Kouřim (CZ) site (CHF 11 million), the Chinese sites (CHF 1 million) and the Hopkinton, MA (USA) site (reversal impairment of CHF 1 million).

In 2015 Lonza decided to further consolidate its microbial manufacturing activities at the Visp (CH) site and to optimize the portfolio of the Kouřim (CZ) site. As a result, Lonza recognized an impairment loss of the Kouřim-related property, plant and equipment of CHF 39 million, which mainly relates to the Pharma&Biotech segment (CHF 34 million). Restructuring charges comprise settlements and inventory write-offs of CHF 8 million. All costs are included within cost of goods sold.

In addition, Lonza recognized an impairment loss of certain Walkersville, MD (USA)-related property, plant and equipment of CHF 13 million, which is disclosed within cost of goods sold of the Pharma&Biotech segment.

4 Business Combinations

Effective 3 August 2015, Lonza Group acquired 100% of the shares of Zelam Holdings Ltd for a cash consideration of NZD 28 million (CHF 18 million). Zelam is a research-focused chemical company based in New Zealand (NZ), which develops and manufactures products for crop protection, specializing in fungicides, insecticides, herbicides, foliar nutrients and additives. Zelam also develops and manufactures products for wood protection.

Effective 1 October 2015, Lonza Group acquired 100% of the shares of Diacon Technologies Ltd for a total consideration of CAD 17 million (CHF 12 million). Diacon is a leading formulator and supplier of anti-sapstain chemicals and ancillary sawmill products.

The fair values of assets aquired and liabilities assumed included in the consolidated balance sheet as of 31 December 2015 have been determined on a provisional basis, resulting in a goodwill of CHF 14 million. Both acquisitions are reported within the Specialty Ingredients segment and do not have a significant impact on the consolidated financial statements for the 12-month period ended 31 December 2015.

5 Intangible Assets and Goodwill

5.1 Cost and Accumulated Amortization and Impairment

2015

million CHF	Goodwill	Arch Chemicals Inc. / Cambrex trademarks	Patents trademarks client relationship	Computer software	Development cost	Construction in progress	Total
Cost							
At 1 January	**1 137**	**386**	**593**	**118**	**98**	**6**	**2 338**
Additions	0	0	1	4	0	3	8
Disposals[1]	0	0	(14)	(1)	(6)	0	(21)
Acquisition of subsidiaries	14	0	12	0	1	0	27
Disposal of subsidiary	(4)	0	0	0	0	0	(4)
Transfers / reclassification	0	0	(3)	9	0	(6)	0
Currency translation differences	(20)	(2)	(18)	(1)	0	0	(41)
At 31 December	**1 127**	**384**	**571**	**129**	**93**	**3**	**2 307**
Accumulated amortization and impairment							
At 1 January	**(7)**	**0**	**(205)**	**(86)**	**(33)**	**0**	**(331)**
Amortization	0	0	(36)	(8)	(7)	0	(51)
Disposals[1]	0	0	14	1	6	0	21
Transfers / reclassification	0	0	6	(6)	0	0	0
Currency translation differences	1	0	4	0	0	0	5
At 31 December	**(6)**	**0**	**(217)**	**(99)**	**(34)**	**0**	**(356)**
Net carrying amount 31 December	**1 121**	**384**	**354**	**30**	**59**	**3**	**1 951**

1 Disposals include amounts for fully amortized intangibles that are no longer in use.

2014

million CHF	Goodwill	Arch Chemicals Inc./Cambrex trademarks	Patents trademarks client relationship	Computer software	Development cost	Construction in progress	Total
Cost							
At 1 January	**1 049**	**350**	**541**	**94**	**91**	**0**	**2 125**
Additions	0	0	10	6	0	6	22
Disposals[1]	0	0	(4)	(2)	(3)	0	(9)
Reclassification from property, plant and equipment (note 6)	0	0	0	16	0	0	16
Currency translation differences	88	36	46	4	10	0	184
At 31 December	**1 137**	**386**	**593**	**118**	**98**	**6**	**2 338**
Accumulated amortization and impairment							
At 1 January	**(7)**	**0**	**(163)**	**(80)**	**(26)**	**0**	**(276)**
Amortization	0	0	(35)	(7)	(7)	0	(49)
Disposals[1]	0	0	4	2	3	0	9
Currency translation differences	0	0	(11)	(1)	(3)	0	(15)
At 31 December	**(7)**	**0**	**(205)**	**(86)**	**(33)**	**0**	**(331)**
Net carrying amount 31 December	**1 130**	**386**	**388**	**32**	**65**	**6**	**2 007**

Intangible assets include software purchased from third parties, related software implementation costs, as well as patents, trademarks, client relationships acquired and development costs. Their amortization is included in the "Administration and general overheads" line item of the consolidated income statement.

Trademarks acquired through the Arch Chemicals Inc. (2011) and Cambrex (2007) acquistions are considered to have indefinite useful lives. As a result, these intangible assets with a carrying amount of CHF 384 million as of 31 December 2015 (2014: CHF 386 million) are not systematically amortized.

Development costs as of 31 December 2015 include internally generated intangible assets of CHF 1 million (2014: CHF 2 million) as well as technology acquired with the Arch Chemical Inc. acquisition of CHF 54 million (2014: CHF 59 million), the Cambrex aquisition of CHF 3 million (2014: CHF 4 million) and the Diacon acquisition of CHF 1 million.

1 Disposals include amounts for fully amortized intangibles that are no longer in use.

5.2 Impairment Tests for Cash-Generating Units Containing Goodwill and Intangible Assets with Indefinite Useful Lives

The Group has identified the following cash-generating units:

Specialty Ingredients The segment's business units are the cash-generating units used for the impairment testing of goodwill and intangible assets with indefinite useful lives.

Pharma&Biotech The various technologies (mammalian, chemical, etc.) applied within the segment are the cash-generating units used for the impairment testing of goodwill and intangibles assets with indefinite useful lives.

The following cash-generating units maintain carrying amounts of goodwill as presented below (at year-end exchange rates):

million CHF	2015	2014
Specialty Ingredients (representing a group of cash-generating units)	722	722
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	324	344
Mammalian (custom manufacturing and related development services)	26	26
Chemical (custom manufacturing and related development services)	31	34
Agro Ingredients	14	4
Wood Protection	4	0
Total carrying amounts of goodwill	**1 121**	**1 130**

The following cash-generating units maintain carrying amounts of intangible assets with indefinite useful lives as presented below (at year-end exchange rates):

million CHF	2015	2014
Specialty Ingredients (representing a group of cash-generating units)	357	359
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	27	27
Total carrying amounts of intangible assets with indefinite useful lives	**384**	**386**

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. These cash flow projections for 2016 to 2020 are based on the business strategy review and exclude any future cash inflows and outflows expected to arise from growth potential of future capital expenditures.

The cash flow projections beyond the five-year period, as stated in the respective paragraphs of the cash-generating units, are based on the concept of perpetual growth rates, which do not necessarily reflect the Group's strategic objective targets for the future growth potential of the underlying businesses.

The key assumptions and the approach to determining the recovery value of the cash-generating units are based on the following:

The **Specialty Ingredients** business includes the cash-generating units of Consumer Care, Agro Ingredients, Industrial Solutions, Wood Protection and Water Treatment. These cash-generating units are the combination of the activities acquired through the Arch Chemicals acquisition in 2011, as well as the former Life Science Ingredients activities from Lonza. The cash flow projections for 2016–2020 are based on a 4.2% (2014: 4.1%) average sales growth. The cash flow projections beyond the five-year period are based on a 1% growth rate (2014: 1%). A pre-tax discount rate of 9.4% (2014: 10.1%) has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The **Bioscience Solutions / Cell Therapy / Viral Therapy** businesses include the Cambrex Corporation, acquired in 2007, the amaxa business, acquired in 2008, as well as MODA Technology Partners and Vivante GMP Solutions, acquired in May and August 2010, respectively. The cash flow projections for 2016–2020 are based on a 11.2% (2014: 7.9%) average sales growth with growing EBIT margins, as the cash-generating units are operating in growing markets. The cash flow projections beyond the five-year period are extrapolated using a 0.5% growth rate (2014: 0.5%). A pre-tax discount rate of 8.6% (2014: 8.8%) has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The **Mammalian** business is primarily located in the United States, Great Britain and Singapore. Forecasted sales are based on existing contracts and planned utilization of equipment based on customer demand over the five-year period. Prices are as per contracts in effect realized and are assumed to stay at current levels. The cash flow projections for 2016–2020 are based on a 7.5% (2014: 6.0%) average sales growth, mainly as a result of the increased capacity utilization of existing plants as well as capacity expansions currently being realized. The cash flow projections beyond the five-year period are based on a zero growth rate. A pre-tax discount rate of 7.7% (2014: 8.3%) has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The **Chemical** business represents primarily the antibody drug conjugates, small molecules and peptides custom manufacturing activities. Sales are projected on the basis of the current product portfolio, with production costs varying in line with sales increase. From 2016 until 2020, sales are assumed to grow on average by 2.8% (2014: 2.7%) p.a. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 6.3% (2014: 7.6%). Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

In addition, the following table summarizes the assumptions applied for the Agro Ingredients and Wood Protection cash-generating units:

	Agro Ingredients CGU	Wood Protection CGU
Acquisitions	Zelam in 2015 Nicotinates business	Diacon Technologies in 2015
Pre-tax discount rate	8.4%	9.5%
Sales growth rate during forecast period	4.1%	6.4%
Sales growth rate after forecast period	1.0%	1.0%

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

6 Property, Plant and Equipment

2015

million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**49**	**1 693**	**3 898**	**161**	**5 801**
Additions	0	15	69	172	256
Disposals	(1)	(5)	(45)	0	(51)
Acquisition of subsidiaries	1	1	1	0	3
Transfers / reclassification	0	45	62	(107)	0
Currency translation differences	(1)	(21)	(70)	(1)	(93)
At 31 December	**48**	**1 728**	**3 915**	**225**	**5 916**
Accumulated depreciation and impairment					
At 1 January	**(2)**	**(788)**	**(2 545)**	**0**	**(3 335)**
Depreciation charge	0	(59)	(190)	0	(249)
Disposals	0	4	39	0	43
Impairment losses (note 3)	0	(17)	(36)	0	(53)
Reversal of impairment losses (note 3)	0	0	1	0	1
Transfers / reclassification	0	(4)	4	0	0
Currency translation differences	(1)	6	38	0	43
At 31 December	**(3)**	**(858)**	**(2 689)**	**0**	**(3 550)**
Net carrying amount 31 December	**45**	**870**	**1 226**	**225**	**2 366**

2014

million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**50**	**1 597**	**3 592**	**329**	**5 568**
Additions	0	11	49	98	158
Disposals	(1)	(10)	(83)	(1)	(95)
Reclassification to intangible assets (note 5)	0	0	0	(16)	(16)
Transfers / reclassification	0	49	213	(262)	0
Currency translation differences	0	46	127	13	186
At 31 December	**49**	**1 693**	**3 898**	**161**	**5 801**
Accumulated depreciation and impairment					
At 1 January	**(2)**	**(724)**	**(2 348)**	**0**	**(3 074)**
Depreciation charge	(1)	(58)	(191)	0	(250)
Disposals	0	9	76	0	85
Impairment losses (note 3)	0	(6)	(10)	0	(16)
Reversal of impairment losses (note 3)	0	0	1	0	1
Currency translation differences	1	(9)	(73)	0	(81)
At 31 December	**(2)**	**(788)**	**(2 545)**	**0**	**(3 335)**
Net carrying amount 31 December	**47**	**905**	**1 353**	**161**	**2 466**

Commitments for capital expenditure in property, plant and equipment amounted to CHF 72 million at year-end 2015 (2014: CHF 42 million), mainly related to capital expenditures at the Portsmouth site and for the Swiss-based operations. The carrying amount of property, plant and equipment under finance lease contracts at year-end 2015 amounted to CHF 5 million (2014: CHF 5 million). Depreciation relating to property, plant and equipment under finance lease contracts amounted to CHF 0.2 million (2014: CHF 0.2 million). No assets were pledged for security of the Group's own liabilities in 2015 and 2014. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Leases

1. Lessee

Finance Lease Liabilities – Minimum Lease Payments

million CHF	2015	2014
Not later than 1 year	0	0
Later than 1 year and not later than 5 years	2	2
Later than 5 years	8	8
Total future minimum finance lease payments	**10**	**10**
Future finance charges on finance lease payments	(5)	(5)
Present value of minimum finance lease payments	**5**	**5**

Present Value of Finance Lease Liabilities

million CHF	2015	2014
Not later than 1 year	0	0
Later than 1 year and not later than 5 years	1	1
Later than 5 years	4	4
Present value of minimum finance lease payments	**5**	**5**

Operating Lease Liabilities – Minimum Lease Payments

million CHF	2015	2014
Not later than 1 year	13	13
Later than 1 year and not later than 5 years	35	38
Later than 5 years	39	44
Total future minimum operating lease payments	**87**	**95**

Lonza leases a number of vehicles, buildings, warehouses, factory and office facilities under operating leases. These leases run for periods between one and 21 years, all with an option to renew the lease after that date. None of the leases include contingent rentals.

During the year ended 31 December 2015, CHF 16 million (2014: CHF 14 million) was recognized as an expense in the consolidated income statement in respect to operating leases.

The land and building elements of a lease of land and buildings were considered separately for the purpose of lease classification as outlined in IAS 17.

2. Lessor

There is an operating lease for which Lonza acts as lessor. This lease falls within the scope of IAS 17 and IFRIC 4 guidance. It consists primarily of a biopharmaceutical manufacturing facility in Visp. The future minimum lease payments under non-cancelable operating leases are zero, because the lease payments are pre-financed by the customer.

7 Investments in Associates and Joint Ventures

The following table summarizes the carrying amounts of interests in joint ventures and associates, which are accounted for using the equity method.

Balance Sheet Value

million CHF	2015	2014
Interests in joint ventures	3	4
Interests in associates	10	13
Total	**13**	**17**

Net Income Statement Effect

million CHF	2015	2014
Share of loss of joint ventures	(3)	(86)
Share of profit of associates	1	2
Total	**(2)**	**(84)**

7.1 Joint Ventures

Lonza holds a 50% stake in TL Biopharmaceutical Ltd, as well as in two other individually immaterial companies.

TL Biopharmaceutical Ltd

In October 2014 the decision was made to write-off entirely the value of Lonza's interest in the Teva joint venture, which resulted in a reduction in value of CHF 83 million. The write-off was disclosed as share of loss from associates / joint ventures. Lonza's share of the loss of the joint venture amounts to CHF 2 million for 2015 (2014: CHF 85 million including the transfer of currency translation effects on the loan of CHF 2 million from other comprehensive income to the income statement).

The following table summarizes the financial information of TL Biopharmaceutical Ltd:

million CHF		2015	2014
Percentage of ownership	%	50	50
Current assets		0	0
Non-current assets		0	0
Current liabilities		(13)	(9)
Non-current liabilities (including non-current debt – CHF 299 million; 2014: CHF 299 million)		(299)	(299)
Net assets (100%)		**(312)**	**(308)**
Group's share of net assets (50%)		(156)	(154)
Carrying amount of interest in TL Biopharmaceutical Ltd		**0**	**0**
Revenues		0	0
Depreciation and amortization		0	(159)
Interest expense		(4)	(5)
Income tax expense		0	0
Profit and total comprehensive income (100%)		(4)	(167)
Group's share of profit and total comprehensive income (50%)		**(2)**	**(83)**

A review of the carrying amount of capitalized development costs in October 2014 led to the decision to write-down the asset value entirely, resulting in a write-off of CHF 159 million, for which Lonza recognized its proportional share as mentioned above.

As of 31 December 2015, Lonza financed the Teva-Lonza joint venture with a loan of CHF 151 million (2014: CHF 149 million) nominal value, of which CHF 151 million (2014: CHF 149 million) is subordinated. The carrying amount of the loan is CHF 0 as of 31 December 2015 (2014: CHF 0).

In 2015 Lonza had no sales of goods and services to TL Biopharmaceutical Ltd (2014: CHF 3 million).

Other Joint Ventures

The following table analyzes, in aggregate, the carrying amount and share of profit and other comprehensive income of the two joint ventures that are individually immaterial:

million CHF	2015	2014
Carrying amount of interests in other joint ventures	3	4
Share of loss	(1)	(1)
Share of other comprehensive income	0	0

In 2015 the Group received dividends of CHF 1 million (2014: CHF 0) from these joint ventures.

7.2 Associates

The Group has interests in two individually immaterial associates. The following table analyzes, in aggregate, the carrying amount and share of profit and other comprehensive income of these associates:

million CHF	2015	2014
Carrying amount of interests in associates	10	13
Share of profit	1	2
Share of other comprehensive income	0	0

In 2015 the Group received dividends of CHF 4 million (2014: CHF 2 million) from associates.

8 Inventories

million CHF	2015	2014
Inventories	993	988
Value adjustments	(100)	(90)
Total	**893**	**898**

million CHF	%	2015	%	2014
Raw materials	23	203	22	198
Work in progress	3	30	8	70
Finished goods	51	455	48	433
Other	23	205	22	197
Total	**100**	**893**	**100**	**898**

By Operating Segments

million CHF	%	2015	%	2014
Specialty Ingredients	52	461	48	435
Pharma&Biotech	48	432	52	463
Total	**100**	**893**	**100**	**898**

The 2015 development of inventory value adjustments is shown as follows:

Inventory Write-Downs

million CHF				2015	2014
	Raw materials	Work in progress and finished goods	Other	Total	Total
At 1 January	**10**	**43**	**37**	**90**	**76**
Increase	25	185	4	214	222
Reversal / Utilization of write-downs	(21)	(176)	(5)	(202)	(210)
Currency translation differences	0	(2)	0	(2)	2
At 31 December	**14**	**50**	**36**	**100**	**90**

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 2 569 million (2014: CHF 2 471 million).

9 Development Contracts

In the Pharma&Biotech segment, the percentage of completion (POC) method was applied to account for development contracts as well as a long-term manufacturing contract with the economic substance of a construction contract. The stage of completion is estimated on the basis of costs incurred, compared with total forecasted costs. This accounting method is applied only to customer contracts with defined payment and delivery dates. Contract costs are usually recognized as an expense in the income statement in the accounting periods in which the work is performed. An expected excess of contract cost over total contract revenue is recognized as an expense as soon as it is apparent that total contract cost may exceed total contract revenue.

million CHF	2015	2014
Contract revenue recognized as revenue in the period	**98**	**76**
– Contract costs incurred	8	22
– Recognized profits less recognized losses	8	10
Contract costs incurred plus recognized profits less recognized losses	**16**	**32**
Less progress billings	0	(3)
Total net amount due from customers	**16**	**29**
Gross amount due from customers for contract work	**16**	**29**
Advances received	**0**	**5**

10 Trade Receivables

million CHF	2015	2014
Receivables from customers	545	629
Allowances for credit losses	(7)	(7)
Total	**538**	**622**

The Group's credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2015, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Aging of Trade Receivables

million CHF	2015	2014
Not past due	429	512
Past due 1–30 days	89	79
Past due 31–120 days	16	25
Past due more than 120 days	11	13
Total	**545**	**629**

Reconciliation of Changes in Allowance Accounts for Credit Losses

million CHF	2015	2014
Balance at the beginning of the year	7	9
Write-offs	(1)	(1)
Increase in provision for credit losses	5	6
Decrease in provision for credit losses	(4)	(7)
Balance at the end of the year	**7**	**7**

In general, Lonza does not require collateral in respect of trade and other receivables, but uses credit insurance for country risk where appropriate.

Accounts Receivable Securitization Program

Lonza has a securitization program with Market Street Funding LLC and PNC Bank, National Association. Under the program Lonza sells U.S. trade accounts receivable, and certain Canadian trade accounts receivable, to Market Street Funding LLC through its wholly owned subsidiary, Arch Chemicals Receivables LLC.

The amount of funding that Lonza can obtain under the program is subject to change based upon the level of eligible receivables, with a maximum funding amount of USD 47 million (2014: USD 36 million).

Under the program, the payment by Market Street Funding LLC for a portion of the purchase price is deferred until the transferred underlying receivables have been completely settled. Lonza's maximum exposure related to the receivables sold is equal to the deferred purchase price component, which is substantially higher than the average expected credit loss on the receivables. As a result, Lonza continues to recognize all of the transferred receivables in the consolidated balance sheet.

As of 31 December 2015, the consolidated balance sheet includes receivables of USD 79 million (2014: USD 73 million) which Lonza sold to Market Street Funding LLC and for which it obtained funds of USD 30 million (2014: USD 33 million). These are disclosed as "Other current liabilities" (note 15).

11 Other Receivables, Prepaid Expenses and Accrued Income

million CHF	2015	2014
Other receivables	58	54
Prepaid taxes and social security payments	7	10
Prepaid expenses and accrued income	47	66
Derivative financial instruments (see note 28.5)	3	9
Total	**115**	**139**

"Other receivables" include accruals and receivables for taxes (other than income taxes).

12 Cash and Cash Equivalents

million CHF	2015	2014
Cash	264	186
Time deposits	13	23
Total	**277**	**209**

13 Provisions

Non-Current Provisions

million CHF	Environmental	Restructuring	Other	Total
At 1 January 2015	**37**	**5**	**5**	**47**
Increase	28	0	0	28
Used	(3)	0	0	(3)
Reversed	(1)	(1)	0	(2)
Discount effect	1	0	0	1
Reclassification (to current provisions)	0	(2)	0	(2)
Currency translation differences	(1)	0	0	(1)
At 31 December 2015	**61**	**2**	**5**	**68**

Current Provisions

million CHF	Environmental	Restructuring	Other	Total
At 1 January 2015	**12**	**18**	**8**	**38**
Increase	4	2	9	15
Used	(4)	(10)	(4)	(18)
Reversed	0	(1)	(3)	(4)
Reclassification (from non-current provisions)	0	2	0	2
Currency translation differences	0	0	0	0
At 31 December 2015	**12**	**11**	**10**	**33**

Environmental The non-current environmental provision mainly reflects the future expenses for environmental remediation and protection for the plants in Visp (CH) and Castleford (UK) as well as for various other plants of the acquired legacy Arch Chemicals business and is expected to be utilized within ten years. The legacy Arch-related provisions include environmental risks for existing as well as divested plants.

Restructuring The current restructuring provision consists of costs related to the phasedown of the Hopkinton, MA (USA) site amounting to CHF 8 million (2014: CHF 12 million).

In 2011 Lonza initiated VispChallenge, a program to secure the future of the Visp (CH) site, both strategically and economically. The implementation of the planned measures is expected to be completed in 2017. As of 31 December 2015 the related provision for the restructuring program amounted to CHF 4 million (2014: CHF 8 million).

Other Other non-current provisions are mainly associated with asset retirement obligations of the Singapore based operations.

14 Net Debt

The net debt comprises:

Non-Current Debt

million CHF		2015		2014
Straight bonds		1 067		1 141
Syndicated loan (2011 – 2018)		0		125
German private placement		49		53
Other long-term debt due to banks and others:				
– Banks and other financial institutions	0		77	
– Others	293	293	292	369
Finance lease liabilities		5		5
Total non-current debt		**1 414**		**1 693**

Straight Bonds – Fixed Interest Rates

million CHF	2015	2014
3% CHF 400 million, 2010 / 2016, due 2 June 2016, issued at 100.721%	400	399
2.25% CHF 240 million, 2011 / 2015, due 7 December 2015, issued at 100.47%	0	240
3.125% CHF 140 million, 2011 / 2018, due 7 December 2018, issued at 100.56%	139	139
2% CHF 200 million, 2012 / 2018, due 11 October 2018, issued at 100.21%	199	199
3% CHF 105 million, 2012 / 2022, due 11 October 2022, issued at 100.74%	105	105
1.75% CHF 300 million, 2013 / 2019, due 10 April 2019, issued at 100.45%	299	299
0.625% CHF 150 million, 2015 / 2020, due 22 September 2020, issued at 100.135%	150	0
1.25% CHF 175 million, 2015 / 2023, due 22 September 2023, issued at 100.133%	175	0
Total including current portion	**1 467**	**1 381**
Less current portion of straight bonds	(400)	(240)
Total non-current straight bonds	**1 067**	**1 141**

Syndicated Loan The Syndicated loan facility of CHF 700 million, which was not used as of 31 December 2015 (2014: CHF 125 million was used as of 31 December), has floating interest rates (CHF LIBOR + margin, depending on margin grid). Lonza has not hedged the related interest rate risk. The entire loan facility is granted until 2016, CHF 637 million until 2017 and CHF 614 million until 9 September 2018.

The syndicated loan agreement contains a financial covenant that is based on Lonza's net debt / EBITDA ratio. The Group became released in 2015 from this covenant as the net debt / EBITDA ratio fell below a defined threshold.

German Private Placement Dual-currency German private placement (Schuldscheindarlehen) of EUR 34 million (2014: EUR 67.5 million) and USD 12 million (2014: USD 133 million) tranches carry fixed and floating interest rates (LIBOR / EURIBOR + margin) and are repayable in 2017 and 2019. The carrying amount is CHF 49 million as of 31 December 2015 (2014: CHF 213 million, whereof CHF 160 million disclosed as current debt). The repayments in 2015 amount to CHF 155 million.

Others Other non-current debt comprises a private placement of senior notes amounting to USD 158 million with certain institutional investors (repayable in 2017) as well as industrial revenue bonds of USD 142 million issued by governmental institutions in the United States (repayable in 2020, 2022, 2025 and 2030).

Current Debt

million CHF	2015	2014
Due to banks and other financial institutions	80	98
Others	44	30
Non-current debt due within one year		
– Straight bond (2010–2016)	400	0
– Straight bond (2011–2015)	0	240
– German private placement	0	160
Total current debt	**524**	**528**
Total debt	**1 938**	**2 221**

Loans and Advances (Floating Interest Rates)

million CHF	2015	2014
Non-current loans and advances	(1)	(1)
Cash and cash equivalents	(277)	(209)
Total loans and advances / cash and cash equivalents	**(278)**	**(210)**
Net debt	**1 660**	**2 011**

Breakdown of Total Debt By Currencies

million CHF			2015			2014
	Average interest rates %	%		Average interest rates %	%	
CHF	1.92	78	1 508	2.38	73	1 618
EUR	2.13	2	37	2.30	4	81
USD	2.88	20	393	2.92	23	520
Other	0.00	0	0	0.00	0	2
Total		**100**	**1 938**		**100**	**2 221**

15 Other Current Liabilities

million CHF	2015	2014
Accrued liabilities and other payables	401	338
Derivative financial instruments (see note 28.5)	34	72
Liability related to securitization program (see note 10)	30	33
Other financial liabilities	158	189
Accrued interest payables	15	15
Total	**638**	**647**

"Accrued liabilities and other payables" include accruals and deferred income, such as down-payments from customers.

16 Trade Payables

million CHF	2015	2014
Payables to third parties	292	262
Total	**292**	**262**

"Payables to third parties" principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amount of trade payables approximates their fair value.

17 Material and Energy Costs

million CHF	2015	2014
Material costs	1 396	1 336
Energy costs	75	74
Total	**1 471**	**1 410**

18 Personnel Expenses

million CHF	2015	2014
Wages and salaries	778	762
Operating expenses defined-benefit pension plans (note 23)	8	35
Other social security contributions	166	153
Other personnel expenses	43	38
Total personnel cost	**995**	**988**

19 Other Operating Income and Expenses

In 2015 “Other operating income” mainly comprises operating exchange rate gains, insurance benefits, income from the reversal of provisions and gains from sale of property, plant and equipment. “Other operating expenses” in 2015 reflect losses from sale of property, plant and equipment and operating exchange rate losses as well as expenses incurred in connection with operational provisions.

Major elements of “Other operating income” in 2014 include gains from sale of property, plant and equipment, government subsidies, insurance benefits, operating exchange rate gains and income from the reversal of provisions. In 2014 “Other operating expenses” reflect expenses incurred in connection with restructuring and environmental provisions, losses from sale of property, plant and equipment and operating exchange rate losses.

20 Financial Results

20.1 Interest and Other Financial Income

million CHF	2015	[1]2014
Interest income	4	9
Foreign exchange rate differences, including impact from currency related financial derivative instruments	0	15
Total	**4**	**24**

1 The presentation of financial income / expenses has changed in 2015 and 2014 information was adjusted accordingly

20.2 Interest and Other Financial Expenses

million CHF	2015	[1]2014
Interest expenses	(80)	(76)
Foreign exchange rate differences, including impact from currency related financial derivative instruments	(2)	0
Other financial expenses	(7)	(8)
Total	**(89)**	**(84)**

“Interest expenses” comprise interest expenses on the Group’s debt (refer to note 14), the net defined benefit liabilities (see note 23), the accounts receivable securitization program (see note 10) as well as other interest.

21 Taxes

21.1 Income Taxes

Major Components of Tax Expenses

million CHF	2015	2014
Current taxes	(58)	(38)
Deferred tax expense relating to the origination and reversal of temporary differences	(7)	(10)
Deferred tax income resulting from tax rate changes	1	6
Total	**(64)**	**(42)**

Lonza Group Ltd and the operating company Lonza Ltd are domiciled in Switzerland. The maximum rate of all income taxes on companies domiciled in Switzerland is 8% (2014: 8%) for holding companies and 22% for operating companies in the Canton of Valais (2014: 22%).

Since the Group operates across the world, it is subject to income taxes in several different tax jurisdictions. Lonza uses, as the Group's tax rate, the ordinary tax rate for a legal entity in the Canton of Valais in Switzerland. The Group's effective tax rate for 2015 is 19% (2014: 15%).

Capital taxes of CHF 16 million (2014: CHF 14 million) are included in "Administration and general overheads".

Reconciliation of Tax Expense

million CHF	2015	2014
Profit before income taxes	341	279
Tax at the group rate (2015: 22 % / 2014: 22 %)	75	61
Deviation from average group tax rate	14	(6)
Non-deductible expenses	4	23
Tax-free earnings	(13)	(14)
Deferred tax effect from tax rate changes	1	6
Changes in prior-year estimates (including valuation allowances)	(11)	(13)
Tax on unremitted earnings	(13)	(17)
Effect of non-recognition of deferred tax assets	7	1
Other	0	1
Total	**64**	**42**
Deferred tax expenses (charged) / credited directly to equity	**0**	**0**
Current tax expenses (charged) / credited directly to equity	**0**	**(5)**

The components of deferred income tax balances are included in the following captions in the consolidated balance sheet:

Components of Deferred Income Tax Balances

million CHF	2015		2014	
	Assets	Liabilities	Assets	Liabilities
Current provisions	4	12	5	17
Non-current provisions / Employee benefit liability	283	65	269	56
Intangible assets	0	291	1	290
Inventories net	4	30	3	33
Property, plant and equipment	14	154	16	171
Other assets	21	43	19	37
Tax loss carry-forwards	61	0	82	0
Netting of deferred tax assets and deferred tax liabilities	(340)	(340)	(348)	(348)
Total	**47**	**255**	**47**	**256**

The development of deferred tax (expenses) / income can be explained as follows:

million CHF	2015	2014
Deferred tax assets	47	47
Deferred tax liabilities	(255)	(256)
Net deferred tax liability at 31 December	**(208)**	**(209)**
Less deferred tax liabilities net at 1 January	209	293
(Increase) / decrease in deferred tax liabilities net	**1**	**84**
Currency translation differences	(3)	15
Acquisition of subsidiaries	4	0
Movements of deferred tax (assets) / liabilities recognized in other comprehensive income	(8)	(103)
(Expense) / income recognized in income statement	**(6)**	**(4)**

Unrecognized Tax Losses: Expiry

million CHF	2015	2014
Within 1 year	0	0
Between 2 to 5 years	37	42
After 5 years	75	48
Unlimited	173	183
Total	**285**	**273**

In assessing whether it is probable that future taxable profit will be available to offset these tax loss carry-forwards, management considers a portion of such benefits to be recoverable on the basis of the current situation of the company and the future economic benefits outlined in specific business plans for each relevant subsidiary.

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the remittance of earnings of foreign subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group, regarded as permanently reinvested, were CHF 451 million at 31 December 2015 (2014: CHF 392 million).

21.2 Disclosure of Tax Effects to Each Component of Other Comprehensive Income

million CHF			2015			2014
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	(113)	0	(113)	131	(6)	125
Cash flow hedges	7	(1)	6	(12)	2	(10)
Remeasurement of defined-benefit liability	(58)	8	(50)	(352)	103	(249)
Other comprehensive income	**(164)**	**7**	**(157)**	**(233)**	**99**	**(134)**

22 Research and Development

Reasearch and development (R&D) costs include all primary costs directly related to this function, as well as internal services and imputed depreciation. These costs are incurred for:

– Development of new products and services
– Improvement of existing products and services
– Development of new production processes
– Improvement of existing production processes
– Cost for patents
– Purchase price for product and process know-how to the extent not capitalized

The research and development costs amounted to CHF 185 million (2014: CHF 195 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 103 million (2014: CHF 101 million), as the remainder of such costs are absorbed in "Cost of goods sold" for R&D products and services sold.

23 Employee Benefit Liabilities

The tables below reconcile the Group's employee benefit liabilities in the balance sheet as well the related remeasurement in the statement of other comprehensive income:

million CHF	2015	2014
Defined-benefit pension plans (see note 23.1)	694	674
Post-employment medical benefits (see note 23.2)	38	47
Non-current vacation accrual (Swiss entities)	3	3
Other employee benefit liabilities	3	3
Total	**738**	**727**

million CHF	2015	2014
Remeasurement for:		
Defined-benefit pension plans (see note 23.1)	60	344
Post-employment medical benefits (see note 23.2)	(2)	8
Total	**58**	**352**

23.1 Defined-Benefit Pension Plans

The group operates defined-benefit pension plans in various countries, with the major plans being in Switzerland, Great Britain and the United States (as described below). For pension accounting purposes, these plans are considered as defined-benefit plans.

Pension Plan in Switzerland The Group's Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG), and is funded through a legally separate trustee administered pension fund (Pensionskasse der Lonza). The Board of Trustees is responsible for the investment of the assets, which cannot revert to the Company. The cash funding of these plans, which may from time to time involve special payments, is designed to ensure that present and future contributions should be sufficient to meet future liabilities. Furthermore, the Board of Trustees is able to adapt the contributions and benefits.

The plan contains a cash balance benefit formula, accounted for as a defined benefit plan. Employer and employee contributions are defined in the pension fund rules in terms of an age-related sliding scale of percentages of pay. Under Swiss law, the company guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the Board of Trustees. The plan benefits are managed by a third-party insurance company and are defined in pension plan rules compliant with the BVG. The risks linked to retirement benefits (disability and death) have been reinsured until 31 December 2016. The investment risk is not reinsured.

Retirement benefits are based on the accumulated retirement capital (made up of yearly contributions and the interest thereon), which can either be drawn as a life-long annuity or as a lump sum payment or a combination of both. The annuity is calculated by multiplying the retirement capital with the applicable conversion rate defined in the fund rules. The Board of Trustees may adjust the annuity at its discretion subject to the plan's funded status including sufficient free funds as determined according to Swiss statutory valuation rules.

Retirement benefits and related plan assets of plan participants with a retirement date on or before 31 December 2007 were transferred to an insurance company. The insurance company guarantees these retirement benefits and bears the investment, death and disability risks.

Pension Plan in the UK The Group operates two major plans in the UK, the Hickson UK Group Pension Scheme and the Lonza Biologics Pension Scheme.

The Hickson UK Group Pension Scheme is the defined-benefit pension plan of the UK Arch Chemicals business. The plan is closed to new entrants. The Scheme is a registered scheme under UK legislation and is contracted out of the State Second Pension. The Scheme is subject to the scheme funding requirements outlined in UK legislation. Pensions are linked to final salaries and service, and statutory inflation increases apply, except where contractually different.

Ongoing contributions are sufficient to fund current accrual rates, and a deficit recovery plan has been in place for a number of years to recover any shortfall in funding. The fund is managed by a corporate trustee body, which oversees investment strategy and general regulatory compliance. It also maintains a set of assumptions around mortality and returns on investments as well as cost inflation. Currently investments are weighted towards bonds and Liability Driven Investments but with a significant equity investment and a small property portfolio.

The Lonza Biologics Pension Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement and their length of service. The plan is closed to new entrants. The Scheme is a registered scheme under UK legislation and is contracted out of the State Second Pension. The Scheme is subject to the scheme funding requirements outlined in UK legislation.

The Scheme was established from June 1996 under trust and is governed by the Scheme's second definitive trust deed dated January 1998 and the Scheme's rules dated June 1996 and subsequent amending deeds. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Employer.

Pension Plans in the United States Lonza sponsors several defined-benefit pension plans in the United States, all of which are closed to new participants and the majority of which are frozen with respect to future benefit accruals. The exception relates to one small collectively bargained plan with 81 active participants, only 27 of whom continued to accrue benefits as of 1 January 2015. All eligible U.S. employees currently participate in a defined-contribution retirement plan.

The pension benefits for all U.S. pension plan participants (with the exception of the cash balance portion of the Arch Chemicals pension plan described below) are generally based on final average pay and credited service as of the date of termination or as of the date benefit accruals were frozen (if earlier), and are payable as a lifetime pension. The collectively bargained pension plan for the Williamsport Union employees is a multiplier plan which uses a flat dollar amount multiplied by a years-of-service formula. Participants in these plans may commence benefit payments upon attainment of normal retirement age, or in some cases, as of an earlier date (usually age 55) provided the criteria for early retirement has been met as of the participant's termination of employment with the Company.

Employees of Arch Chemicals hired after 2007 and before 2012 (when the plan was frozen to new hires) are covered under an account-based cash balance formula that is credited each year with interest based on the yield on ten-year U.S. Treasury securities. Upon termination of employment, participants in the cash balance formula have the option to receive an immediate benefit in the form of a lump sum, or else a lifetime pension. This disbursement of pension funds is not contingent upon the participant's attainment of a specific age.

The majority of pension benefit payments are paid from a trustee-administered fund; however, there are also some small, non-qualified, unfunded plans where Lonza meets the benefit payment obligation as such benefits become due. The qualified defined benefit plans, whose assets are held in a trust, are subject to minimum funding requirements and are subject to further regulation under the Internal Revenue Code and the Employees Retirement Income Security Act of 1974 (ERISA). Responsibility for governance of these qualified plans, including investment decisions and contribution schedules, lies with a committee of pension plan fiduciaries appointed by Lonza. Actuarial valuations are completed each year for the plans to determine the contribution requirement. The minimum annual contribution for each plan is equal to the present value of benefits accrued each year (if any), plus expected administrative expenses of the plan to be paid from the trust, plus a rolling amortization of any prior underfunding. The plan sponsor may elect to contribute more than the minimum, in which case the excess amounts may under certain circumstances be used to offset future funding requirements.

The movement in the net defined-benefit liability over 2014–2015 is as follows:

million CHF	Defined-benefit obligation	Fair value of plan assets	Net defined-benefit liability
At 1 January 2014	**2 497**	**(2 175)**	**322**
Included in profit or loss			
Current service cost	36	0	36
Past service credit	(1)	0	(1)
Interest expense / (income)	82	(71)	11
Included in other comprehensive income			
Remeasurements loss / (gain):			
– Actuarial loss / (gain) arising from :			
– Demographic assumptions	60	0	60
– Financial assumptions	334	0	334
– Experience adjustment	30	0	30
– Return on plan assets excluding interest income	0	(80)	(80)
Total remeasurements loss / (gain)	424	(80)	344
Effect of movements in exchange rates	85	(68)	17
Other			
Contributions paid by:			
– Employers	0	(55)	(55)
– Plan participants	16	(16)	0
Benefits paid	(106)	106	0
At 31 December 2014	**3 033**	**(2 359)**	**674**
– Thereof present value of funded defined-benefit obligation	3 009		
– Thereof present value of unfunded defined-benefit obligation	24		
Included in profit or loss			
Current service cost	49	0	49
Past service credit	(41)	0	(41)
Interest expense / (income)	66	(50)	16
Included in other comprehensive income			
Remeasurements loss / (gain):			
– Actuarial loss / (gain) arising from :			
– Demographic assumptions	(9)	0	(9)
– Financial assumptions	(17)	0	(17)
– Experience adjustment	123	0	123
– Return on plan assets excluding interest income	0	(37)	(37)
Total remeasurements loss / (gain)	97	(37)	60
Effect of movements in exchange rates	(40)	30	(10)
Other			
Contributions paid by:			
– Employers	0	(54)	(54)
– Plan participants	17	(17)	0
Benefits paid	(115)	115	0
At 31 December 2015	**3 066**	**(2 372)**	**694**
– Thereof present value of funded defined-benefit obligation	3 045		
– Thereof present value of unfunded defined-benefit obligation	21		

As a result of a plan amendment of the Swiss plan (reduction of the conversion rate), the Group recognized a past service credit of CHF 41 million for the 2015 financial year.

The Group expects to pay CHF 70 million in contributions to defined-benefit pension plans in 2016.

The defined-benefit obligation and plan assets are disaggregated by country as follows:

million CHF					2015					2014
	CH	US	UK	Rest of the world	Total	CH	US	UK	Rest of the world	Total
Present value of defined-benefit obligation	1 761	602	666	37	3 066	1 632	644	716	41	3 033
Fair value of plan assets	(1 409)	(401)	(550)	(12)	(2 372)	(1 333)	(444)	(569)	(13)	(2 359)
Total net defined-benefit liability	352	201	116	25	694	299	200	147	28	674

The significant actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

in %			2015			2014
	CH	US	UK	CH	US	UK
Discount rate	0.80	4.27	3.85	1.00	3.89	3.58
Future salary increases	1.00	0.00	3.29	1.00	0.00	3.18
Future pension increases	n.a.	0.00	2.33	n.a.	0.00	2.20

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in each territory[1]. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

in years			2015			2014
	CH	US	UK	CH	US	UK
Retiring at the end of the reporting period:						
– Male	21.5	21.0	21.7	21.4	22.0	21.6
– Female	24.0	23.0	24.6	23.9	24.0	24.5
Retiring 20 years after the end of the reporting period:						
– Male	23.2	23.0	23.4	23.2	23.0	23.3
– Female	25.7	25.0	26.3	25.6	26.0	26.2

1 For the Pension Plan in Switzerland BVG 2010 mortality tables were applied.

The sensitivity of the defined-benefit obligation to changes in the relevant actuarial assumptions is:

effect in million CHF	Change in assumption	31 12 2015 Increase	31 12 2015 Decrease	31 12 2014 Increase	31 12 2014 Decrease
Discount rate	0.25%	(109)	116	(112)	117
Future salary increases	0.25%	22	(21)	20	(21)
Life expectancy	1 year	76	(78)	77	(78)

The above sensitivity analyses are based on a change in an assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined-benefit obligation to significant actuarial assumptions the same method (present value of the defined-benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous period.

At 31 December the weighted average duration of the defined-benefit obligation for the major plans as well as the Group in total is:

in years	2015	2014
Group	14.8	15.3
CH	13.8	13.7
UK	19.2	20.0
US	12.2	13.2

Plan assets comprise:

million CHF	2015 Quoted	2015 Unquoted	2015 Total	2015 %	2014 Quoted	2014 Unquoted	2014 Total	2014 %
Equity instruments	703	0	703	30%	708	0	708	30%
Debt instruments								
Investment-grade (AAA to BBB)	946	102	1 048		1 063	102	1 165	
Non-investment-grade (below BBB–)	40	0	40		44	0	44	
	986	102	1 088	46%	1 107	102	1 209	51%
Real estate	109	75	184	8%	100	73	173	7%
Cash and cash equivalents	81	0	81	3%	22	0	22	1%
Other	311	5	316	13%	247	0	247	11%
Total	**2 190**	**182**	**2 372**	**100%**	**2 184**	**175**	**2 359**	**100%**

23.2 Post-Employment Medical Benefits

Lonza's post-employment medical benefit plans are not funded and are provided under defined-benefit plans. They consist of post-retirement healthcare benefits in the United States, such as drug coverage and other medical benefits, as well as limited death benefits.

The post-retirement healthcare plans are not open to new members and grandfathered participants must meet specific age/service requirements to participate.

The movements in the defined-benefit obligation are as follows:

million CHF	2015	2014
At 1 January	**47**	**34**
Included in profit or loss		
Current service cost	1	1
Past service credit	(6)	0
Interest expense	1	1
Included in other comprehensive income		
Remeasurements loss/(gain):		
Actuarial loss/(gain) arising from:		
– Demographic assumptions	(1)	4
– Financial assumptions	0	3
– Experience adjustment	(1)	1
Total remeasurements loss/(gain)	(2)	8
Effect of movements in exchange rates	0	5
Other		
Contributions paid by:		
– Plan participants	2	2
Benefits paid	(5)	(4)
At 31 December	**38**	**47**

In 2015 the plans were amended. As a result of changes of the cost-sharing structure, the Group recognized a past service credit of CHF 6 million.

The significant actuarial assumptions were as follows:

in %	2015	2014
Discount rate	4.27	3.79
Medical-cost trend rate	7.00	7.00

The sensitivity of the defined-benefit obligation to changes in the relevant actuarial assumptions is:

effect in million CHF		31 12 2015		31 12 2014	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(1)	1	(1)	2
Medical-cost trend rate	1.00%	4	(3)	6	(5)
Life expectancy	1 year	1	(1)	1	(2)

For the medical plan the same mortality assumptions are applied as for the pension plans in the United States (see 23.1). In addition, the sensitivity analyses are based on the same methodology as for the pension plans.

24 Share-Based Payments

Equity-Settled Share Schemes

Employee Share Purchase Plan (ESPP)

In keeping with its vision and culture, Lonza has continuously encouraged employee participation in the company through stock ownership. In 2005 the former Employee Share Purchase Plan was updated. Under the new plan, ESPP Plus, employees were given the opportunity – but not the obligation – to purchase Lonza shares in multiples of three with a price reduction of 30%. The shares purchased in this manner remain blocked for three years and are eligible for a dividend. After this blocking period, participants are entirely free to do as they wish with the shares. If participants keep their shares for a further two years in a blocked deposit, they will then – after this holding period is over – receive one additional free share for every three shares purchased. Due to cost-saving measures, the reissue of the share purchase plan was interrupted in 2009 and 2013.

In 2014, the former Employee Share Purchase Plan was updated. During November of 2014, the Employee Stock Purchase Plan (ESPP) was offered to the majority of active permanent employees (including Executive Committee members). Under the terms of the 2014 ESPP, employees were given the opportunity to purchase shares of Lonza stock at a price of CHF 77.99. This price represents a discount of 30% from the average weighted price of Lonza shares on the SIX Swiss Stock Exchange for the period from 24 November 2014 to 5 December 2014, which was CHF 111.42. The minimum investment amount is CHF 500 and the maximum CHF 3 000. All shares purchased under the 2014 ESPP are blocked from any disposal for a three-year period. During the blocking period, participants are the entitled beneficiaries of the shares and all attached rights. The ESPP 2014 does not include any additional free shares. This plan was not offered in 2015.

The purchase conditions to participate in the ESPP Plus were as follows:
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares
2012: ranging from 9 shares to 318 shares
2014: ranging from CHF 500 to CHF 3 000

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

Details of Share Purchase Plans

	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date CHF
ESPP 2010 Plus	71 865	3:1	23 955	30 05 2015	76.81
ESPP 2011 Plus	74 526	3:1	24 842	30 05 2016	75.76
ESPP 2012 Plus	200 802	3:1	66 934	30 05 2017	38.34
ESPP 2014	22 300	n.a.	0	01 12 2017	77.99

Development Within 2015 of the ESPP Plus

	Share awards outstanding 01 01 2015	Share awards granted during 2015	Share awards forfeited during 2015	Shares vested during 2015	Share awards lapsed during 2015	Share awards outstanding 31 12 2015
ESPP 2010 Plus	22 811	0	0	(15 237)	(7 574)	0
ESPP 2011 Plus	23 458	0	(5 911)	(4)	0	17 543
ESPP 2012 Plus	63 233	0	(4 630)	0	0	58 603
Total shares	**109 502**	**0**	**(10 541)**	**(15 241)**	**(7 574)**	**76 146**

Development Within 2014 of the ESPP Plus

	Share awards outstanding 01 01 2014	Share awards granted during 2014	Share awards forfeited during 2014	Shares vested during 2014	Share awards lapsed during 2014	Share awards outstanding 31 12 2014
ESPP 2010 Plus	23 028	0	0	(217)	0	22 811
ESPP 2011 Plus	23 659	0	0	(201)	0	23 458
ESPP 2012 Plus	63 675	0	0	(442)	0	63 233
Total shares	**110 362**	**0**	**0**	**(860)**	**0**	**109 502**

No share awards were granted in 2015. The weighted average share price of the vested shares in 2015 was CHF 76.81 (2014: CHF 56.79). The outstanding share awards on 31 December 2015 had a weighted average share price of CHF 46.96 (2014: CHF 54.37) and a remaining weighted average contractual life of 14 months (2014: 21 months).

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

Fair Value at Grant Date

CHF	
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985
ESPP 2011	1 505 624
ESPP 2011 discount	1 693 827
ESPP 2012	2 053 000
ESPP 2012 discount	2 309 625
ESPP 2014 discount	2 484 666

Long-Term Incentive Plan (LTIP)

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

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

Equity Awards Under the LTIP, selected key employees are awarded the right to receive a number of registered shares of Lonza in the future. Depending on the level of the job, the target equity award grant is between 10% and 100% of the annual base salary. The grant is made at target and the payout level can be between 0% and 200%. The Executive Committee members, including the CEO, have a target of 100% of base salery with payout levels between 0% and 200% maximum.

The LTIP plan design is determined at the beginning of the three-year performance period. For 2015, the plan design was modified to define minimum, target and stretch goals. The 2015 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2015 and administered in accordance with this approval.

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

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

Vesting Targets For the 2013 LTIP, the performance metrics were EPS and TSR with 50% weight for each measure. For more details, see page 55.

For the 2014 and 2015 LTIP, the performance metrics are CORE EPS and CORE RONOA with 50% weight for each measure.

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

Overview of Vesting Conditions for the LTIP

Total Shareholder Return (TSR[1]) For years 2012 and 2013, the vesting of up to 50% of the granted equity awards is based on the total shareholder return (TSR) achieved during Lonza's three fiscal years before the end of the vesting period compared with a peer group. The 2012 and 2013 TSR target is fully reached in the event that Lonza outperforms the average of the peer group (MSCI Chemicals, MSCI Health Care, SPI) on an annualized basis by 9% on average over three years. At this TSR level, the maximum amount of the granted equity awards vests. If the TSR target is not fully reached, the number of granted equity awards that vest is reduced linearly according to the achieved target of TSR. The threshold target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, 25% of the granted equity awards will vest. If the threshold is not met, the granted equity awards linked to this performance metric will lapse.

Economic Value Added (EVA[2]) For the year 2012, the vesting of up to 50% of the remaining granted equity awards is based on the average annual Group Economic Value Added (EVA) growth achieved during Lonza's three fiscal years at the end of the vesting period. For competitive reasons, Lonza does not further specify the details of the absolute objectives. The actual target and associated proposed payouts will be disclosed in Lonza's Remuneration Report relating to the year of payout. If the EVA target is not fully reached, the percentage of the granted equity awards from the grant that vest is reduced linearly according to the EVA achievement. The threshold target is to maintain the same level of EVA at the beginning of the performance period. If this minimum target is met, 25% of the granted equity awards will vest. If the EVA threshold is not met, the granted equity awards linked to this performance metric will lapse.

1 TSR measures growth in share price with dividends reinvested. This measure is based on an external market view of the company's success.

2 EVA or Economic Value Added is an estimate of true "economic" profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk. EVA is calculated as follows: Net operating profit after taxes minus cost of capital of net operating assets.

Earnings Per Share (EPS) For the year 2013, the vesting of up to 50% of the granted equity awards is dependent on growth of earnings per share (EPS) achieved during Lonza's three fiscal years. For competitive reasons, Lonza does not further specify the details of the absolute objectives. The actual target and associated proposed payouts will be separately disclosed in Lonza's Remuneration Report relating to the year of payout. If the EPS target is not fully reached, the percentage of the granted equity awards from the grant that vest is reduced linearly according to the EPS achievement. The threshold target is to maintain the same level of EPS at the beginning of the performance period. If this minimum target is met, 25% of the granted equity awards will vest. If the EPS threshold is not met, the granted equity awards linked to this performance metric will lapse.

For the years 2014 and 2015, the vesting of up to 50% of the granted equity awards is dependent on growth of CORE EPS achieved during Lonza's three fiscal years and 50% of the granted equity awards is dependent upon growth of CORE[1] RONOA achieved during Lonza's three fiscal years.

1 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.

Performance Metrics for CORE EPS Approved at AGM 2015 (LTIP 2015)

- The minimum threshold to be reached at year-end 2017 was determined by the NCC to be higher than the CORE EPS achieved on 31 December 2014 (which was CHF 6.79). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE EPS will vest.
- If the target is reached, 100% of the equity awards granted under CORE EPS will vest. CORE EPS is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 123% of the CORE EPS at target. If such level of CORE EPS is reached, 200% of the equity awards granted under CORE EPS will vest.

Performance Metrics for CORE RONOA Approved at AGM 2015 (LTIP 2015)

- The minimum threshold to be reached at year-end 2017 was determined by the NCC to be higher than the CORE RONOA achieved on 31 December 2014 (which was 14.3%). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE RONOA will vest.
- If the target is reached, 100% of the equity awards granted under CORE RONOA will vest. CORE RONOA is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 126% of the CORE RONOA at target. If such level of CORE RONOA is reached, 200% of the equity awards granted under CORE RONOA will vest.

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

Actual Performance and Payout for the LTIP 2012 and 2013 Performance under the 2012 LTIP exceeded the maximum for EVA generating a 100% payout on 50% of the total award. Performance under the 2012 LTIP achieved the maximum target for TSR generating a 100% payout on the remaining 50% of the total award. The total 2012 LTIP payout equals 100%.

Performance under the 2013 LTIP exceeded the maximum for EPS generating a 100% payout on 50% of the total award. Performance under the 2013 LTIP achieved the maximum target for TSR generating a 100% payout on the remaining 50% of the total award. The total 2013 LTIP payout equals 100%.

2013 LTIP

	Achievements	Payout in %
EPS (Earnings Per Share: 50%)	CHF 5.30	100
TSR (Total Shareholder Return: 50%)	Exceeded Indices by 38.8%	100
Total Payout		**100**

Historical Data on Vesting Conditions The following table shows historical data on vesting conditions for LTIP granted equity awards in the years 2012 to 2015, information used in calculating the fair value of the LTIP grants, and the number of equity awards vesting following the target attainment in the respective year.

Details of Long-Term Incentive Plans

	Grant date	Share price CHF	Granted equity awards	Fair value at grant date	Vesting date
LTIP 2012	01 02 2012	49.69	267 031	4 975 783	31 01 2015
LTIP 2013	01 02 2013	53.60	204 653	5 484 728	31 01 2016
LTIP 2014	01 02 2014	91.15	137 180	6 251 978	31 01 2017
LTIP 2015	01 02 2015	109.20	116 907	12 766 244	31 01 2018

Vesting Conditions at Grant Date

	Market price CHF	Granted equity awards	Fair value of equity awards	Expected vesting EVA/EPS/RONOA at grant date	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2012 TSR	49.69	133 515	24.85		100%	3%	97%	3 217 665
LTIP 2012 EVA	49.69	133 516	49.69	25%	100%	3%	97%	1 608 844
LTIP 2013 TSR	53.60	102 327	26.80		100%	3%	97%	2 660 093
LTIP 2013 EPS	53.60	102 327	53.60	50%	100%	3%	97%	2 660 093
LTIP 2014 CORE RONOA	91.15	68 590	91.15	50%	100%	3%	97%	3 032 210
LTIP 2014 CORE EPS	91.15	68 590	91.15	50%	100%	3%	97%	3 032 210
LTIP 2015 CORE RONOA	109.20	58 453	109.20	100%	100%	3%	97%	6 191 576
LTIP 2015 CORE EPS	109.20	58 454	109.20	100%	100%	3%	97%	6 191 681

Development Within 2015 of the LTIP

	Equity awards outstanding 01 01 2015	Equity awards granted during 2015	Equity awards forfeited during 2015	Vested equity awards during 2015	Equity awards lapsed during 2015	Equity awards outstanding 31 12 2015
LTIP 2012	276 754	0	0	(222 677)	(54 077)	0
LTIP 2013	204 653	0	(14 981)	0	0	189 672
LTIP 2014	137 180	1 557	(1 326)	0	0	137 411
LTIP 2015	0	116 907	0	0	0	116 907
Total equity awards	**618 587**	**118 464**	**(16 307)**	**(222 677)**	**(54 077)**	**443 990**

Development Within 2014 of the LTIP

	Equity awards outstanding 01 01 2014	Equity awards granted during 2014	Equity awards forfeited during 2014	Vested equity awards during 2014	Equity awards lapsed during 2014	Equity awards outstanding 31 12 2014
LTIP 2011	127 857	0	0	0	(127 857)	0
LTIP 2012	276 754	0	0	0	0	276 754
LTIP 2013	204 653	0	0	0	0	204 653
LTIP 2014	0	137 180	0	0	0	137 180
Total equity awards	**609 264**	**137 180**	**0**	**0**	**(127 857)**	**618 587**

The estimated fair value of the granted equity awards in 2015 was CHF 108.66 (2014: CHF 45.58). The weighted average share price of the vested shares in 2015 was CHF 49.69 (2014: no equity awards vested). The outstanding granted equity awards on 31 December 2015 had a weighted average share price of CHF 54.31 (2014: CHF 27.31) and a remaining weighted average contractual life of 11 months (2014: 10 months). The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for equity awards are expensed on a straight-line basis over the vesting period, based on estimates of equity awards that will eventually vest.

Fair Value at Grant Date

CHF	
LTIP 2012	4 975 783
LTIP 2013	5 484 728
LTIP 2014	6 251 978
LTIP 2015	12 766 244

Extended Short-Term Incentive Plan (E-STIP)

Relationship to STIP For the years 2012, 2013 and 2014 the company provided the members of the Executive Committee and Senior Management with Short-Term Incentive Plans, of which two-thirds is paid in cash (Cash STIP) and one-third in restricted share units (RSUs) (E-STIP) which vest after three years. Performance metrics are defined for each financial year; achievement determines the payout of STIP. The performance metrics for the STIP (Cash STIP and E-STIP) are the same.

E-STIP

Targeted E-STIP amount as % of base salary	– 26.7% for the Chief Executive Officer – 25% for other Executive Committee members – 10% to 20% for Senior Management
E-STIP targets weighting	– 50% CORE EBIT (Financial) – 15% Lonza Sales (Financial) – 15% Operational Free Cash Flow (Financial) – 20% Personal targets are linked back to the financial targets (10% weighting for CORE EBIT, 5% weighting for Sales and 5% weighting for Operational Free Cash Flow)
Maximum potential payout	Depending on the financial results achievement, the Cash STIP payout may range between 0% and 200% for the financial targets and 0% and 150% for personal targets. Total maximum payout opportunity is 190% (80% financial × 200% + 20% personal × 150% = 190%)

Alignment on Share Price The value of the plan is strongly dependent on Lonza's future share price, thereby further reinforcing the link to shareholders' interests. The E-STIP is awarded in the form of RSUs, which are subject to a three-year vesting requirement.

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

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

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

Non-Vested RSUs

	Grant date	Share price	Granted share units	Vesting date
E-STIP 2011	31 03 2012	46.66	33 205	31 03 2015
E-STIP 2012	31 03 2013	61.60	41 405	31 03 2016
E-STIP 2013	31 03 2014	90.15	19 771	31 03 2017
E-STIP 2014	31 03 2015	121.50	20 418	31 03 2018

Development Within 2015 of E-STIP

	Share units outstanding 01 01 2015	Share units granted during 2015	Share units forfeited during 2015	Shares units vested during 2015	Share units lapsed during 2015	Share units outstanding 31 12 2015
E-STIP 2011	32 001	0	0	(13 536)	(18 465)	0
E-STIP 2012	38 565	0	(9 121)	(999)	0	28 445
E-STIP 2013	19 250	0	0	(1 421)	0	17 829
E-STIP 2014	0	20 418	0	(700)	0	19 718
Total	**89 816**	**20 418**	**(9 121)**	**(16 656)**	**(18 465)**	**65 992**

Development Within 2014 of E-STIP

	Share units outstanding 01 01 2014	Share units granted during 2014	Share units forfeited during 2014	Shares units vested during 2014	Share units lapsed during 2014	Share units outstanding 31 12 2014
E-STIP 2011	32 001	0	0	0	0	32 001
E-STIP 2012	40 526	0	0	(1 961)		38 565
E-STIP 2013	0	19 771	0	(521)	0	19 250
Total non-vested share units	**72 527**	**19 771**	**0**	**(2 482)**	**0**	**89 816**

The estimated fair value of the RSUs granted in 2015 was CHF 121.50 (2014: CHF 90.15). The weighted average share price of the vested share unit in 2015 was CHF 54.41 (2014: CHF 67.59). The outstanding share units on 31 December 2015 had a weighted average share price of CHF 87.21 (2014: CHF 62.40) and a remaining weighted average contractual life of 13 months (2014: 13 months).

The fair value was calculated using the market price at grant date. The amounts for share units were expensed on a straight-line basis over the vesting period, based on estimates of share units that will eventually vest. The expected volatility was 3%.

Fair Value at Grant Date

CHF	
E-STIP 2011	1 502 865
E-STIP 2012	2 474 032
E-STIP 2013	1 728 885
E-STIP 2014	2 406 363

Compensation of the Board of Directors

Objective and Benchmarks Based on the analysis performed by NBS, the NCC determined that they would use benchmark data of Swiss companies (various sectors) that are comparable in type of business, complexity, size and global presence to Lonza in determining competitive Board of Directors' Compensation. Lonza's objective is to pay the members of the Board of Directors at the median of this benchmark group[1].

Overall Structure and Level of Compensation The overall structure and level of compensation of the Board of Directors remained unchanged between 2014 and 2015. There were no changes to the Chairman's fee in 2015.

For the period from the AGM 2015 to the AGM 2016, the members of the Board of Directors will receive fixed gross compensation for Board of Directors membership and additional compensation for committee chairperson and committee memberships as described below:

Compensation Board of Directors AGM 2015 to AGM 2016[2]

CHF	Annual fee	Committee membership fee	Committee chairperson fee
Board of Directors Member	200 000	40 000	80 000
Chairman of the Board of Directors	450 000		

The compensation of the Chairman of the Board of Directors includes his remuneration as a member of the Innovation and Technology Committee of the Board of Directors.

The total compensation of the Committee chairpersons amounts to CHF 280 000 and includes the additional Committee membership fee.

Board of Directors' compensation is paid in four installments at the end of June, September, December and March; 50% of the compensation is paid in cash and 50% in shares. In 2014, the number of granted shares was calculated based on the average closing share price of the last five business days of each quarter with a discount of 20%. The number of shares granted for Board of Directors' compensation paid on or after 1 April 2015 is based on the average closing share price of the last five business days of each quarter, and the 20% discount has no longer been applied. The share restrictions lapse after three years from the grant date. Shares are eligible for a dividend. This structure of Board of Director compensation is closely aligned with our shareholders' interests.

The members of the Board of Directors do not receive variable compensation. The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Board of Directors of Lonza.

1 Geberit AG, The Swatch Group SA, Clariant AG, Panalpina Welttransport (Holding) AG, Sika AG, ARYZTA AG, Barry Callebaut AG, Givaudan SA, Sulzer Ltd, Georg Fischer AG, Emmi AG, OC Oerlikon Corporation AG, Logitech International S.A., Actelion Ltd, Sonova Holding AG, Forbo Holding AG

2 Refer to Section 3.3 regarding total compensation (including national employer social contributions) provided to the Board of Directors in financial year 2015. The table to the left represents the time period from AGM 2015 to AGM 2016 and does not include social contributions of the employer.

Development of Compensation for Board of Directors in 2015

	Grant date	Total number of shares	Share price CHF	Fair values of shares	[1] Cash CHF	Total CHF	Blocked until
	31 03 2015	2 600	122.08	317 408	311 250	628 658	31 03 2018
	30 06 2015	2 316	126.96	294 039	311 250	605 289	30 06 2018
	30 09 2015	2 409	128.86	310 424	311 250	621 674	30 09 2018
	31 12 2015	1 939	160.32	310 860	311 250	622 110	31 12 2018
Total		**9 264**	**133.07**	**1 232 731**	**1 245 000**	**2 477 731**	

The amount of CHF 2 477 731 was recognized as an expense in the year 2015.

Development of Compensation for Board of Directors in 2014

	Grant date	Total number of shares	Share price CHF	Fair values of shares	[1] Cash CHF	Total CHF	Blocked until
	31 03 2014	3 442	89.98	309 711	275 000	584 711	31 03 2017
	30 06 2014	3 576	96.22	344 083	311 250	655 333	30 06 2017
	30 09 2014	2 966	114.92	340 853	311 250	652 103	30 09 2017
	31 12 2014	3 076	111.28	342 297	311 250	653 547	31 12 2017
Total		**13 060**	**102.37**	**1 336 944**	**1 208 750**	**2 545 694**	

The amount of CHF 2 545 694 was recognized as an expense in the year 2014.

Development of Compensation for Board of Directors in 2013

	Grant date	Total number of shares	Share price CHF	Fair values of shares	[1] Cash CHF	Total CHF	Blocked until
	31 03 2013	8 146	61.33	499 594	165 000	664 594	31 03 2016
	30 06 2013	4 221	69.96	295 301	262 500	557 801	30 06 2016
	30 09 2013	3 961	74.30	294 302	262 500	556 802	30 09 2016
	31 12 2013	3 688	83.98	309 718	275 000	584 718	31 12 2016
Total		**20 016**	**69.89**	**1 398 915**	**965 000**	**2 363 915**	

The amount of CHF 2 363 915 was recognized as an expense in the year 2013.

Development of Compensation for Board of Directors in 2012

	Grant date	Total number of shares	Share price CHF	Fair values of shares	[1] Cash CHF	Total CHF	Blocked until
	31 03 2012	9 715	46.74	454 079	180 000	634 079	31.03.2015
	30 06 2012	13 779	38.57	531 456	175 000	706 456	30 06 2015
	30 09 2012	10 006	49.84	498 699	210 000	708 699	30 09 2015
	31 12 2012	9 885	49.49	489 228	175 000	664 228	31 12 2015
Total		**43 385**	**45.49**	**1 973 462**	**740 000**	**2 713 462**	

The amount of CHF 2 713 462 was recognized as an expense in the year 2012.

1 Excluding social security and withholding tax

Recognition in the Consolidated Financial Statements All the equity-settled share-based payments had an impact on the 2015 “Profit before income taxes” amounting to an expense of CHF 17 million (2014: CHF 11 million).

25 Changes in Shares and Share Capital Movements

		31 12 2015	Change in year	31 12 2014	Change in year	31 12 2013
Total number of shares		**52 920 140**	**0**	**52 920 140**	**0**	**52 920 140**
Treasury shares						
Shares reserved for share purchase plan (ESPP)		0	(86 785)	86 785	(860)	87 645
Shares reserved for long-term incentive plan (LTIP)		0	(113 845)	113 845	0	113 845
Free shares		637 505	(67 493)	704 998	(38 454)	743 452
Total treasury shares		**637 505**	**(268 123)**	**905 628**	**(39 314)**	**944 942**
Total shares ranking for dividend at 31 December		**52 282 635**	**268 123**	**52 014 512**	**39 314**	**51 975 198**
Transferred shares between January and date of dividend payment of following year		n.a		244 780		8 382
Total shares ranking for dividend at date of dividend payment		**n.a**		**52 259 292**		**51 983 580**
Share capital movements						
Share capital	CHF	**52 920 140**	**0**	**52 920 140**	**0**	**52 920 140**

The share capital on 31 December 2015 comprised 52 920 140 registered shares with a par value of CHF 1 each (2014: 52 920 140 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2014: CHF 52 920 140).

Contingent Capital The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 5 029 860 fully paid-in registered shares with a par value CHF 1 each up to a maximum aggregate amount of CHF 5 029 860.

Authorized Capital The Board of Directors shall be authorized to increase, at any time until 8 April 2017, the share capital of the Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 5 029 860. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association.

At 31 December 2015, Lonza Group Ltd had a fully paid-in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860.

Reserves in the amount of CHF 26 460 070 (2014: CHF 26 460 070) included in the financial statements of the parent company cannot be distributed.

Dividend Payment of a dividend per share of CHF 2.50 (2014: CHF 2.50) is proposed after the balance sheet date.

26 Earnings per Share

Basic Earnings per Share

million CHF		2015	2014
Profit for the period (equity holders of the parent)		277	237
Weighted average number of outstanding shares		52 268 315	51 988 177
Basic earnings per share	CHF	**5.30**	**4.56**
Diluted earnings per share			
Profit for the period (equity holders of the parent)		277	237
– Impact from dilution		0	0
Diluted profit for the period		277	237
Weighted average number of outstanding shares		52 268 315	51 988 177
– Adjustments for dilutive share units and shares		424 924	200 874
Weighted average number of shares for diluted earnings per share		52 693 239	52 189 051
Diluted earnings per share	CHF	**5.26**	**4.54**
Dividends paid for the period		**131**	**112**
Dividends per share for the period	CHF	**2.50**	**2.15**
Dividends declared after the balance sheet date		**131**	**130**
Dividends per share declared after the balance sheet date	CHF	**2.50**	**2.50**

27 Related Parties

Identity of Related Parties The Group has a related-party relationship with associates, joint ventures (see note 7), pension and other post retirement plans (see note 23) as well as with the Board of Directors and the members of the Executive Committee.

Transactions with Key Management Personnel

Board of Directors In 2015 payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.658 million[1] (2014: CHF 2.770 million[1]), 46.39% (2014: 48.27%) of which was received in the form of shares. The Directors' fee is paid 50% in cash and 50% in shares; the value of the employer's social security contributions is added to the cash payments. The value of the granted shares is determined at the relevant market price at grant date. The shares vest three years after the date of grant and are eligible for a dividend. Members of the Board of Directors and their immediate relatives control 129 815 (2014: 118 739) or 0.25% (2014: 0.22%) of the voting shares of Lonza Group Ltd. None of the directors owns shares in the Group's subsidiaries or associates.

1 Including social security and withholding tax

Executive Committee Compensation In 2015 no member of the Executive Committee left Lonza and no new member joined the Executive Committee. In 2014 one acting member of the Executive Committee gave up his function. The acting members of the Executive Committee received, for their contributions and time served in 2015, CHF 7.227 million[1] (2014: CHF 5.210 million[1]) in cash and additional benefits. Share-based compensation includes 27 930 LTIP shares granted (2014: 47 861 shares), the value of share-based STIP payments as well as the CEO's one-time true-up share grant, equivalent to a total value of CHF 3.807 million (2014: CHF 2.746 million). Termination benefits according to the termination agreements of the members of the Executive Committee are not included in these amounts.

The compensation for the Board of Directors and the Executive Committee (termination benefits included) was as follows:

million CHF	2015	2014
Short-term benefits [2]	7.598	5.764
Post-employment benefits [3]	1.054	0.878
Termination benefits	0.000	0.999
Share-based payments	5.040	4.084
Total	**13.692**	**11.725**

2 Including incentive payout in March of the following year.
3 Including contribution for social security and pension fund.

The remuneration is included in "Personnel expenses" (see note 18). For additional information please refer to the Remuneration Report.

28 Financial Risk Management

28.1 Overall Risk Management Policy

Lonza is exposed in particular to credit and liquidity risk as well as to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities, and forecasted transactions. Lonza's overall risk management policy aims to limit these risks through operational and finance activities.

The Board of Directors has overall responsibility for the establishment and oversight of Lonza's risk management framework. Financial risk management is carried out by a central treasury department (Group Treasury). Group Treasury is responsible for implementing the policy, and identifies, evaluates and hedges financial risks in close cooperation with Lonza's business units. Group Treasury also has the sole responsibility for carrying out foreign exchange transactions and executing financial derivative transactions with third parties.

Lonza's risk management policies are established to identify and analyze the risks faced by Lonza, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Lonza's activities.

Lonza Audit Committee oversees how management monitors compliance with Lonza's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Lonza. Lonza Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

28.2 Credit Risk

Credit risk is the risk of financial loss to Lonza if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and mainly arises from Lonza's receivables from customers.

Accounts Receivable Lonza's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including geographic location, industry, and existence of previous financial difficulties.

Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Audit Committee; these limits are reviewed regularly. For customers domiciled in specific countries with high risk, Lonza has credit risk insurance covering the maximum exposure.

The maximum credit risk is equal to the carrying amount of the respective assets. There are no commitments that could increase this exposure to more than the carrying amounts. In general, Lonza does not require collateral in respect of trade and other receivables, but uses credit insurance for country risk where appropriate.

Lonza establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The allowance is based only on the specific loss component that relates to individually significant exposures. There is no collective impairment recognized.

Financial Instruments and Cash Deposits Credit risk from balances with banks and financial institutions is managed by the Group's treasury department. Counterparty credit ratings are reviewed regularly.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

million CHF	2015	2014
Loans and receivables		
Trade receivables, net	538	622
Other receivables	58	54
Non-current loans and advances	1	1
Cash and cash equivalents	277	209
Total loans and receivables	**874**	**886**
Financial assets at fair value		
Financial assets at fair value through profit or loss – held for trading:		
Currency-related instruments[1]	2	9
Interest-related instruments[1]	1	0
Total financial assets at fair value through profit or loss – held for trading	**3**	**9**
Financial assets effective for hedge accounting purposes:		
Commodity-related instruments[1]	0	0
Total financial assets effective for hedge accounting purposes	**0**	**0**
Total financial assets at fair value	**3**	**9**
Total	**877**	**895**

1 Included in "Other receivables, prepaid expenses and accrued income" (see note 11).

28.3 Liquidity Risk

Liquidity risk is the risk that Lonza will not be able to meet its financial obligations as they fall due. Lonza's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza's reputation. Group Treasury maintains flexibility in funding also using bilateral and syndicated credit lines. Lonza has concluded the following lines of credit: Committed credit lines of CHF 973 million (CHF 0 used as of 31 December 2015). Lines are committed for up to three years. Uncommitted credit lines of CHF 185 million (CHF 0 used as of 31 December 2015) with a maturity of one year.

The following table analyzes the Group's financial liabilities and derivative financial liabilities in relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments. Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant.

31 December 2015

million CHF	Carrying amount	[1] Contractual cash flows	Between 0 and 6 months	Between 7 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Financial liabilities								
Straight bond (2010–2016)	400	412	412	0	0	0	0	0
Straight bond (2011–2018)	139	153	0	4	4	145	0	0
Straight bond (2012–2018)	199	212	0	4	4	204	0	0
Straight bond (2012–2022)	105	127	0	3	3	3	6	112
Straight bond (2013–2019)	299	321	5	0	5	5	306	0
Straight bond (2015–2020)	150	155	0	1	1	1	152	0
Straight bond (2015–2023)	175	193	0	2	2	2	4	183
Syndicated loan (2011–2018)	0	0	0	0	0	0	0	0
German private placement	49	51	0	1	45	0	5	0
Other debt due to banks and financial institutions	80	83	8	75	0	0	0	0
Other debt due to others	337	378	48	4	165	3	39	119
Finance lease liabilities	5	10	0	0	0	0	2	8
Total debt	**1 938**	**2 095**	**473**	**94**	**229**	**363**	**514**	**422**
Trade payables	292	292	292	0	0	0	0	0
Other current liabilities [2]	405	405	405	0	0	0	0	0
Total financial liabilities	**2 635**	**2 792**	**1 170**	**94**	**229**	**363**	**514**	**422**

1 Including interest payments
2 Including negative fair values of derivative financial instruments according to note 28.5

31 December 2014

million CHF	Carrying amount	[1] Contractual cash flows	Between 0 and 6 months	Between 7 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Financial liabilities								
Straight bond (2010–2016)	399	424	12	0	412	0	0	0
Straight bond (2011–2015)	240	245	0	245	0	0	0	0
Straight bond (2011–2018)	139	158	0	4	4	4	146	0
Straight bond (2012–2018)	199	216	0	4	4	4	204	0
Straight bond (2012–2022)	105	130	0	3	3	3	6	115
Straight bond (2013–2019)	299	326	5	0	5	5	311	0
Syndicated loan (2011–2018)	125	130	0	1	1	1	127	0
German private placement	213	220	2	162	1	8	42	5
Other debt due to banks and financial institutions	175	182	101	2	79	0	0	0
Other debt due to others	322	370	35	4	8	165	4	154
Finance lease liabilities	5	10	0	0	0	0	2	8
Total debt	**2 221**	**2 411**	**155**	**425**	**517**	**190**	**842**	**282**
Trade payables	262	262	262	0	0	0	0	0
Other current liabilities [2]	433	433	433	0	0	0	0	0
Total financial liabilities	**2 916**	**3 106**	**850**	**425**	**517**	**190**	**842**	**282**

1 Including interest payments
2 Including negative fair values of derivative financial instruments according to note 28.5

28.4 Market Risk

Market risk is the risk that changes in market prices will affect Lonza's income or the value of its holdings of financial instruments. Lonza is exposed to market risk from changes in currency exchange and interest rates and commodities. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Lonza has established a treasury policy of which the objective is to reduce the volatility relating to these exposures. Lonza enters into various derivative transactions based on Lonza's treasury policy that establishes guidelines in areas such as counterparty exposure and hedging practices. Counterparties to agreements are major international financial institutions with at least investment grade rating. Positions are monitored using techniques such as market value and sensitivity analyses. All such transactions are carried out within the guidelines set by the Audit Committee.

Foreign Exchange Risk The Group operates across the world and is exposed to movements in foreign currencies affecting the Group financial result and the value of Group equity. Foreign exchange risk arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the foreign-currency-denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss-franc-denominated Group Financial Statements ("translation exposures"). Foreign exchange risks arise primarily on transactions that are denominated in USD, EUR and GBP.

In managing its exposure regarding the fluctuation in foreign currency exchange rates, Lonza has entered into a variety of currency swaps and forward contracts. These agreements generally include the exchange of one currency against another currency at a future date. Lonza adopts a policy of hedging 100% of the committed contractual exposure. The hedging of the planned contractual exposure depends on Lonza's view of the market.

The table below shows the impact on post-tax profit if at 31 December a currency had strengthened (+) or weakened (–) versus the Swiss franc with all other variables held constant as a result of the currency exposures outlined in the tables below:

Currency	Sensitivity	Post-tax profit				Other comprehensive income			
million CHF		2015		2014		2015		2014	
		+	–	+	–	+	–	+	–
USD	+/–10%	1.8	(1.8)	(1.7)	1.7	(4.8)	4.8	0.0	0.0
EUR	+/–10%	(0.1)	0.1	(0.7)	0.7	(2.1)	2.1	0.0	0.0
GBP	+/–10%	3.2	(3.2)	3.2	(3.2)	0.0	0.0	0.0	0.0

The summary quantitative data relating to the Group's exposure to currency risks as reported to the management of the Group is as follows:

31 December 2015

million CHF	USD	GBP	EUR	SGD	DKK	AUD	Other	Total
Trade receivables, net	89	45	62	1	2	3	8	210
Other receivables, prepaid expenses and accrued income	3	8	15	3	0	0	0	29
Cash and cash equivalents	24	4	23	1	1	3	7	63
Non-current debt	0	0	(37)	0	0	0	0	(37)
Other non-current liabilities	(28)	0	0	(3)	0	(1)	(1)	(33)
Other current liabilities	(30)	(9)	(7)	(10)	(2)	(1)	(3)	(62)
Trade payables	(20)	(1)	(35)	(12)	0	(3)	(5)	(76)
Current debt	(2)	0	0	0	0	0	0	(2)
Gross balance sheet exposure	**36**	**47**	**21**	**(20)**	**1**	**1**	**6**	**92**
Currency-related instruments	(14)	(7)	(22)	0	0	0	0	(43)
Net exposure	**22**	**40**	**(1)**	**(20)**	**1**	**1**	**6**	**49**

31 December 2014

million CHF	USD	GBP	EUR	SGD	DKK	CAD	Other	Total
Trade receivables, net	112	38	88	0	1	4	1	244
Other receivables, prepaid expenses and accrued income	4	8	10	0	0	0	0	22
Cash and cash equivalents	18	6	16	0	1	0	1	42
Non-current debt	0	0	(41)	0	0	0	0	(41)
Other non-current liabilities	1	0	0	0	0	0	0	1
Other current liabilities	(33)	(6)	(43)	0	0	(1)	0	(83)
Trade payables	(26)	(1)	(32)	0	0	0	(3)	(62)
Current debt	(3)	0	(40)	0	0	0	0	(43)
Gross balance sheet exposure	**73**	**45**	**(42)**	**0**	**2**	**3**	**(1)**	**80**
Currency-related instruments	(93)	(7)	34	0	0	0	0	(66)
Net exposure	**(20)**	**38**	**(8)**	**0**	**2**	**3**	**(1)**	**14**

The following exchange rates were applied during the year:

Balance Sheet Year-End Rates

		2015	2014
EU	Euro	1.0821	1.2030
USA	Dollar	0.9903	0.9898
Great Britain	Pound sterling	1.4684	1.5411
Singapore	Singapore dollar	0.7010	0.7492
China	Renminbi	0.1525	0.1595

Income Statement Year-Average Rates

		2015	2014
EU	Euro	1.0684	1.2146
USA	Dollar	0.9627	0.9155
Great Britain	Pound sterling	1.4712	1.5069
Singapore	Singapore dollar	0.7003	0.7223
China	Renminbi	0.1532	0.1486

Interest-Rate Risk Interest-rate risk arises from movements in interest rates which could affect the Group financial result or the value of Group equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments. The primary objective of the Group's interest rate management is to protect the net interest result.

Lonza's policy is to manage interest cost using a mix of fixed and variable rate debt. Group policy is to maintain at least 50% of its borrowings in fixed-rate instruments. In order to manage this mix in a cost-efficient manner, Lonza enters into interest-rate swaps and cross-currency interest-rate swaps to exchange at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a corresponding notional principal amount. Lonza adopts a policy of having one-third of the debt on a short-term basis and two-thirds of the debt on a long-term basis. The mix between floating and fixed rates depends on the market view of Lonza.

Lonza's exposure to interest rate risk was as follows:

	2015	2014
Net Debt (note 14)	1 660	2 011
Net debt at fixed interest rates[1]	(1 595)	(1 435)
Interest risk exposure	65	576

1 Including effects from interest rate swaps and cross currency interest rate swaps

If the interest rates had increased / decreased by 1% in 2015, with all other variables held constant, post-tax profit would have been CHF 0.5 million lower / higher (2014: CHF 4.9 million lower / higher).

Commodity-Price Risk Lonza needs liquefied petroleum gas (LPG) as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the commodity-price risk via swaps. At 31 December 2015, if the propane and naphtha price had weakened / strengthened by 10%, with all other variables held constant, other comprehensive income would have been CHF 1 million lower / higher (2014: CHF 1 million lower / higher).

28.5 Overview of Derivative Financial Instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2015 and 2014. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by using the difference of the prices fixed in the outstanding derivative contracts from the actual market conditions which would have been applied at the year-end if we had to recover these trades.

Financial Instruments at Fair Value Through Profit or Loss – Held for Trading

million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2015	2014	2015	2014	2015	2014	2015	2014
Currency-related instruments								
– Forward foreign exchange rate contracts	39	27	0	0	(1)	0	(1)	0
– Currency swaps	529	155	2	9	(10)	(19)	(8)	(10)
Total currency-related instruments	**568**	**182**	**2**	**9**	**(11)**	**(19)**	**(9)**	**(10)**
Interest-related instruments								
– Interest rate swaps	0	120	0	0	0	(1)	0	(1)
– Cross currency interest rate swaps	444	579	1	0	(19)	(41)	(18)	(41)
Total interest-related instruments	**444**	**699**	**1**	**0**	**(19)**	**(42)**	**(18)**	**(42)**
Total financial instruments at fair value through profit or loss – held for trading	**1 012**	**881**	**3**	**9**	**(30)**	**(61)**	**(27)**	**(52)**

Financial Instruments Effective for Hedge-Accounting Purposes

million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2015	2014	2015	2014	2015	2014	2015	2014
Currency-related instruments								
– Forward foreign exchange rate contracts	85	0	0	0	(1)	0	(1)	0
Total currency-related instruments	85	0	0	0	(1)	0	(1)	0
Commodity-related instruments								
– Butane swap	0	15	0	0	0	(7)	0	(7)
– Naphtha swap	6	10	0	0	(1)	(4)	(1)	(4)
– Propane swap	12	0	0	0	(2)	0	(2)	0
Total commodity-related instruments	**18**	**25**	**0**	**0**	**(3)**	**(11)**	**(3)**	**(11)**
Total financial instruments effective for hedge-accounting purposes	**103**	**25**	**0**	**0**	**(4)**	**(11)**	**(4)**	**(11)**

Offsetting of Financial Asset and Financial Liabilities The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements with the respective counterparties in order to mitigate counterparty risk. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for offsetting in the balance sheet as the Group does not have a currently enforceable right to offset recognised amounts, because the right to offset is only enforceable on the occurrence of future events, such as a default or other credit events.

The following table sets out the carrying value of derivative financial instruments and the amounts that are subject to master netting agreements.

million CHF	Assets		Liabilities	
	2015	2014	2015	2014
– Forward foreign exchange rate contracts	0	0	(2)	0
– Currency swaps	2	9	(10)	(19)
– Interest rate swaps	0	0	0	(1)
– Cross-currency interest rate swaps	1	0	(19)	(41)
– Commodity-related instruments	0	0	(3)	(11)
Carrying value of derivative financial instruments	**3**	**9**	**(34)**	**(72)**
Derivatives subject to master netting agreements	(2)	(2)	2	2
Collateral arrangements[1]	0	0	0	0
Net amount	**1**	**7**	**(32)**	**(70)**

1 The Group has not entered into any collateral arrangements.

Financial Instruments by Currency

million CHF	2015	2014
Forward foreign exchange rate contracts and currency swaps		
USD	561	109
GBP	13	18
EUR	58	14
SGD	11	12
CZK	3	10
CAD	0	8
DKK	4	7
JPY	2	4
AUD	1	0
Total	**653**	**182**
Commodity swap	18	25
Interest rate swap	0	120
Cross currency interest rate swap	444	579
Total financial instruments	**1 115**	**906**

Positive fair values of derivatives are included as part of "Other receivables, prepaid expenses and accrued income". Negative fair values of derivatives are included as part of "Other current liabilities". Hedge accounting was applied to cash flow hedges on highly probable payments in foreign currencies and for raw materials (butane / naphtha / propane).

28.6 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				2015				2014
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	3	0	3	0	9	0	9
Liabilities								
Derivative financial instruments	0	(34)	0	(34)	0	(72)	0	(72)
Net assets and liabilities measured at fair value	0	(31)	0	(31)	0	(63)	0	(63)

In 2015 there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

28.7 Carrying Amounts and Fair Values of Financial Instruments by Category

The carrying values less impairment provision of trade receivables are assumed to approximate to their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The table below shows the carrying amounts and fair values of financial instruments by category.

Carrying Amounts and Fair Values of Financial Instruments by Category

million CHF	Carrying amount		Fair value	
	31 12 2015	31 12 2014	31 12 2015	31 12 2014
Financial assets – available for sale				
Other investments – available for sale – carried at cost	7	7	7	7
Total financial assets – available for sale	**7**	**7**	**7**	**7**
Loans and receivables				
Trade receivables, net	538	622	538	622
Other receivables	58	54	58	54
Non-current loans	1	1	1	1
Cash and cash equivalents	277	209	277	209
Total loans and receivables	**874**	**886**	**874**	**886**
Financial assets at fair value				
Financial assets at fair value through profit or loss – held for trading:				
Currency-related instruments	2	9	2	9
Interest-related instruments	1	0	1	0
Total financial assets at fair value through profit or loss – held for trading	**3**	**9**	**3**	**9**
Financial assets effective for hedge accounting purposes:				
Commodity-related instruments	0	0	0	0
Total financial assets effective for hedge accounting purposes	**0**	**0**	**0**	**0**
Total financial assets at fair value	**3**	**9**	**3**	**9**
Financial liabilities at amortized cost				
Debt:				
– Straight bonds[1]	1 467	1 381	1 529	1 447
– Other debt	471	840	471	840
Current liabilities	371	361	371	361
Trade payables	292	262	292	262
Total financial liabilities at amortized cost	**2 601**	**2 844**	**2 663**	**2 910**
Financial liabilities at fair value				
Financial liabilities at fair value through profit or loss – held for trading:				
Currency-related instruments	11	19	11	19
Interest-related instruments	19	42	19	42
Total financial liabilities at fair value through profit or loss – held for trading	**30**	**61**	**30**	**61**
Financial liabilities effective for hedge accounting purposes				
Currency-related instruments	1	0	1	0
Commodity-related instruments	3	11	3	11
Total financial liabilities effective for hedge accounting purposes	**4**	**11**	**4**	**11**
Total financial liabilities at fair value	**34**	**72**	**34**	**72**

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.

28.8 Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders and the return on capital, which Lonza defines as total shareholders' equity, excluding non-controlling interest, and the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10% and 15%; in 2015, the return was 10.8% (2014: 10.3%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.1% (2014: 2.5%).

From time to time, Lonza purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issue under Lonza's share programs. Lonza does not have a defined share buy-back plan.

Neither Lonza Group Ltd nor any of its subsidiaries is subject to externally imposed capital requirements.

29 Share Ownership of the Members of the Board of Directors and the Executive Committee

Based on information available to Lonza, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2015, a total of 129 815 (2014: 118 739) registered shares in Lonza Group Ltd and controlled 0.25% (2014: 0.22%) of the share capital. None of the members of the Board of Directors or Executive Committee owns shares in the Group's subsidiaries or associates.

The Company feels strongly that our Executive Committee and other senior managers should have a specific shareholding in Lonza to strengthen their alignment with shareholders' interests. We have established minimum shareholding requirements for the Executive Committee and other senior managers based on their level in the organization and specified a five-year period to achieve these minimum requirements. Shareholding levels will be reviewed annually as of January 2016. The NCC may periodically review the minimum shareholding requirements. The members of the Executive Committee and parties closely associated with them held 60 095 (2014: 28 215) shares and controlled 0.11% (2014: 0.05%) of the share capital. The individual control rights are proportional to the holdings shown below.

1 Spouse, children below 18, any legal entities that they own or otherwise control, or any legal or natural person who is acting as their fiduciary.

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2015:

Board of Directors

Lonza shares (numbers)	2015	2014
Rolf Soiron	68 324	66 298
Patrick Aebischer	12 229	13 977
Werner Bauer	18 456	13 709
Thomas Ebeling	3 531	2 459
Jean-Daniel Gerber	11 995	10 734
Barbara Richmond	1 460	510
Margot Scheltema	6 716	5 608
Jürgen Steinemann	3 632	2 922
Antonio Trius	3 472	2 522

Executive Committee

Lonza shares (numbers)	2015	2014
Richard Ridinger	25 906	14 000
Sven Abend	0	0
Marc Funk	12 049	1 685
Toralf Haag	15 736	11 489
Beat In-Albon	6 404	1 041

30 Enterprise Risk Management

The Enterprise Risk Management (ERM) program is a critical platform for Lonza's global organization and business as it provides a mechanism and a structure for prudently addressing risk responsibility and management in each and every organization. Lonza pursues a comprehensive risk management program as an essential element of sound corporate governance and is committed to continuously embedding risk management in its daily culture.

In 2015 Lonza's ERM process was revised and is currently performed in four steps: Step 1: Identification (through detailed risk discussions with risk owners), assessment and assignment of risks; Step 2: Consolidation, review and prioritization of risks; Step 3: Presentation of consolidated risk overview to the Executive Committee and Board of Directors; and Step 4: Update on risks and mitigation measures.

Lonza has identified six risk categories: (i) strategic risks, (ii) financial risks, (iii) corporate governance and reputation risks, (iv) political, legal and regulatory risks, (v) products and services risks and (vi) operational and performance risks.

Each identified risk is assessed according to its probability of occurrence and its negative impact on the Group:

- The probability of occurrence is assessed for the period until year-end 2018, with a risk range from unlikely to highly probable.
- Any potential negative effect of a risk is assessed according to its impact on the annual Group's EBIT, the Group's reputation and the Group's operations.

Through the above-described process, we have drawn up a universe of the risks to which Lonza is exposed. Risks have been identified for each segment and for the corporate functions. These risks were presented to the Executive Committee and to the Board of Directors at their meetings in October 2015 (with follow-up at the Board meeting of December 2015). The most significant risks in the Specialty Ingredients segment consist mainly of the potential dependency on a relatively few large products and customers and Lonza's ability to respond to ever-changing Environment, Health and Safety (EHS) and regulatory laws and requirements. In the Pharma&Biotech segment, the most significant risks relate to quality, operational execution and the securing of long-term profitable contracts.

Financial risk management is disclosed in note 28.

31 Events After the Balance Sheet Date

No noteworthy events occurred after the balance sheet date. The Consolidated Financial Statements 2015 were approved for issue by the Board of Directors on 8 March 2016 and are subject to approval by the Annual General Meeting on 22 April 2016.

32 Principal Subsidiaries and Joint Ventures

The principal subsidiaries and joint ventures are shown in the tables below:

Lonza Companies	Town/Country	Currency[1]	Share capital in 000	Holding direct %	Holding indirect %
Arch Chemicals Canada Inc.	Toronto CA	CAD	10 000		100%
Arch Chemicals Limited	Castleford GB	GPB	1 000		100%
Arch Chemicals Inc.	Allendale US	USD	0.1		[2] 100%
Arch Chemicals Receivables LLC	Wilmington US	USD	n.a.		100%
Arch Personal Care Products L.P.	South Plainfield US	USD	0.1		[3] 100%
Arch Protection Chemicals Private Limited	Mumbai IN	INR	1 300		[2] 100%
Arch Quimica Argentina S.R.L.	Buenos Aires AR	ARS	9 911		100%
Arch Quimica Brasil Ltda	Salto BR	BRL	30 388		100%
Arch Quimica Colombia S.A.	Bogotá CO	COP	5 301		[5] 97%
Arch Quimica S.A. de C.V	Naucalpan MX	MXN	109.25		100%
Arch Timber Protection B.V.	Wijchen NL	EUR	27.3		100%
Arch Treatment Technologies Inc.	Atlanta US	USD	0.1		[4] 100%
Arch UK Biocides Limited	Castleford GB	GBP	1 644		100%
Arch Water Products France S.A.S.	Amboise FR	EUR	460		100%
Arch Water Products South Africa (Proprietary) Limited	Kempton Park SA	ZAR	100		100%
Arch Wood Protection (Aust) Pty Limited	Trentham AU	AUD	0.08		[4] 100%
Arch Wood Protection (M) Sdn. Bhd.	Kuala Lumpur MY	MYR	500		100%
Arch Wood Protection (NZ) Limited	Auckland NZ	NZD	6 100		100%
Arch Wood Protection Canada Corp.	Mississauga CA	CAD	0.1		[4] 100%
Arch Wood Protection (SA) (Proprietary) Limited	Port Shepstone SA	ZAR	3		100%
Arch Wood Protection Inc.	Atlanta US	USD	0.1		[4] 100%
Diacon Technologies Ltd	Vancouver, CA	CAD	[2] 0.6		[2] 100%
Gewerbepark Hochrhein GmbH	Waldshut-Tiengen DE	EUR	10 400		100%
Hickson Ltd	Castleford GB	GBP	108 161		100%
Lonza AG	Visp CH	CHF	60 000	100%	
Lonza America Inc.	Allendale US	USD	8	100%	
Lonza Australia Pty Ltd	Mt. Waverley AU	AUD	90		100%
Lonza Benelux BV	Breda NL	EUR	112		100%
Lonza Biologics Inc.	Portsmouth US	USD	1		100%
Lonza Biologics plc	Slough GB	GBP	14 500		100%
Lonza Biologics Porriño S.L.	Porriño ES	EUR	10 296		100%
Lonza Biologics Tuas Pte Ltd	Singapore SG	USD	25 000		100%
		SGD	172 000		
Lonza BioPharma AG	Visp CH	CHF	550	100%	
Lonza Bioproducts AG	Basel CH	CHF	100	100%	
Lonza Bioscience SARL	Saint-Beauzire FR	EUR	8 849		100%
Lonza Bioscience Singapore Pte Ltd	Singapore SG	USD	1		100%
Lonza Bioscience Singapore	Singapore SG	USD	[2] 0.1		100%

1 Abbreviation of currencies in accordance with ISO standards.
2 Rounded.
3 Limited partnership.
4 No par value or not provided by law.
5 3% are held by individuals.

Lonza Companies	Town / Country	Currency[1]	Share capital in 000	Holding direct %	Holding indirect %
Lonza Biotec sro	Kouřim CZ	CZK	282 100		100%
Lonza Braine SA	Braine-l Alleud BE	EUR	40 000		100%
Lonza (China) Investments Co. Ltd	Guangzhou CN	USD	84 000	100%	
Lonza Cologne GmbH	Cologne DE	EUR	1 502		100%
Lonza Copenhagen ApS	Vallensbaek Strand DK	DKK	150		100%
Lonza do Brasil Especialidades Quimicas Ltda.	São Paulo BR	BRL	[2] 18 387	[2] 99.9%	[2] 0.1%
Lonza Europe BV	Breda NL	EUR	20.5	[2] 32%	[2] 68%
Lonza Finance Limited	St. Helier Jersey GB	CHF	335	100%	
Lonza France Sàrl	Levallois-Perret FR	EUR	132		100%
Lonza Group GmbH	Waldshut-Tiengen DE	EUR	25	0.4%	99.6%
Lonza Group UK Limited	Slough GB	GBP	17 000		100%
Lonza Guangzhou Ltd	Guangzhou CN	USD	12 000		100%
Lonza Guangzhou Nansha Ltd	Guangzhou CN	USD	135 500		100%
Lonza Holding Singapore Pte Ltd	Singapore SG	USD	100 000		100%
Lonza Houston Inc.	Houston US	USD	1		100%
Lonza Ibérica S.A.U.	Barcelona ES	EUR	60		100%
Lonza Inc.	Allendale US	USD	697		100%
Lonza India Private Ltd	Mumbai IN	INR	23 459		[1] 100%
Lonza Japan Ltd	Tokyo JP	JPY	200 000	100%	
Lonza Licences AG	Basel CH	CHF	100	100%	
Lonza Liyang Chemical Co. Ltd	Liyang CN	USD	3 000		100%
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore SG	USD	183		100%
Lonza Milano S.r.l.	Treviglio IT	EUR	52		100%
Lonza Nanjing Ltd	Nanjing CN	USD	14 000		100%
Lonza Rockland Inc.	Rockland US	USD	200		100%
Lonza Sales AG	Basel CH	CHF	2 000	100%	
Lonza Shanghai International Trading Ltd	Shanghai CN	USD	200	100%	
Lonza Swiss Finanz AG	Basel CH	CHF	100	100%	
Lonza Swiss Licences AG	Basel CH	CHF	100	100%	
Lonza Suzhou Ltd	Suzhou CN	USD	19		[3] 100%
Lonza Verviers Sprl	Verviers BE	EUR	19		100%
Lonza Walkersville Inc.	Walkersville US	USD	1		100%
Lonza Wokingham Limited	Wokingham GB	GBP	1		100%
OOO Lonza Rus	Moscow RU	RUB	10		100%
TL Biopharmaceutical Ltd	Visp CH	CHF	1 000		50%
Zelam Holdings Ltd	New Plymouth NZ	NZD	1 000		100%
Zelam Ltd	New Plymouth NZ	NZD	1 000		100%

1 Abbreviation of currencies in accordance with ISO standards.
2 Rounded.
3 No shares issued; capital is registered.

Report of the Statutory Auditor

Report of the Statutory Auditor on the Consolidated Financial Statements to the Annual General Meeting of Lonza Group Ltd, Basel

As statutory auditor, we have audited the accompanying consolidated financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes on pages 4 to 79 for the year ended 31 December 2015.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Zurich, 8 March 2016

Balance Sheet
Lonza Group Ltd, Basel

Assets[1]

CHF	Note	2015	2014
Current assets			
Cash and cash equivalents		114 849 217	181 626
Short-term financial assets:			
– from subsidiaries and associates		187 436 735	113 894 392
Other short-term receivables			
– from third parties		56 549	47 120
– from subsidiaries and associates		8 015 552	15 056 033
Prepaid expenses and accrued income			
– from third parties		6 317 297	14 477 598
– from subsidiaries and associates		22 530 356	32 647 612
Total current assets		**339 205 706**	**176 304 381**
Non-current assets			
Long-term financial assets:			
– from subsidiaries and associates	2.2	1 028 768 838	1 324 655 387
Investments	2.1	1 732 090 237	1 738 621 984
Property, plant and equipment		321 677	668 776
Total non-current assets		**2 761 180 752**	**3 063 946 147**
Total assets		**3 100 386 458**	**3 240 250 528**

Liabilities and Shareholders' Equity[1]

CHF	Note	2015	2014
Current liabilities			
Trade accounts payables:			
– from third parties	2.3	1 596 983	1 465 811
– from subsidiaries and associates		166 145	484 893
Short-term interest-bearing liabilities:			
– from third parties	2.4	400 000 000	86 180 000
– from subsidiaries and associates		433 425 051	307 984 385
Short-term provisons:			
– from third parties		790 990	10 205 535
Accrued expenses and deferred income:			
– from third parties		60 252 160	83 198 165
– from subsidiaries and associates		3 046 433	3 423 191
Total current liabilities		**899 277 762**	**492 941 980**
Non-current liabilities			
Long-term interest-bearing liabilities:			
– from third parties	2.5	0	525 000 000
– from subsidiaries and associates		185 421 820	196 142 710
Long-term provisions:			
– from third parties		346 342	363 318
Total non-current liabilities		**185 768 162**	**721 506 028**
Total liabilities		**1 085 045 924**	**1 214 448 008**
Shareholders' equity			
Share capital	2.6	52 920 140	52 920 140
Legal capital reserves:			
– Reserves from capital contributions	2.7	374 645 313	505 293 543
Legal retained earnings reserves:			
– General legal retained earnings		26 460 070	26 460 070
Voluntary retained earnings:			
– Available earnings:			
– Profit brought forward		1 517 771 183	1 343 033 606
– Profit for the year		94 071 700	174 737 577
Treasury shares	2.8	(50 527 872)	(76 642 416)
Total shareholders' equity		**2 015 340 534**	**2 025 802 520**
Total liabilities and shareholders' equity		**3 100 386 458**	**3 240 250 528**
Shareholders' equity as a percentage of total assets in %		**65.0**	**62.5**

1 At 31 December

Income Statement
Lonza Group Ltd, Basel

CHF	Note	2015	2014
Income			
Dividend income		67 843 041	79 603 273
Royalties income		81 701 673	73 216 389
Other financial income	2.9	21 791 378	85 014 084
Other operating income		1 084 933	7 099 928
Total income		**172 421 025**	**244 933 674**
Expenses			
Other financial expenses	2.10	23 930 727	28 659 996
Personnel expenses		39 006 047	22 745 764
Other operating expenses	2.11	9 004 507	9 684 339
Impairment losses on investments	2.1	6 531 747	0
Depreciation on equipment		188 645	299 649
Direct taxes		(312 348)	8'806'349
Total expenses		**78 349 325**	**70 196 097**
Profit for the year		**94 071 700**	**174 737 577**

Notes to the Financial Statements
Lonza Group Ltd, Basel

1 Principles

1.1 General Aspects

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

1.2 Financial Assets

Financial assets include short- and long-term loans to subsidiaries and associates. Loans granted in foreign currencies are translated at the rate as of the balance sheet date.

1.3 Treasury Shares

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized through the shareholders' equity as an increase or decrease of available earnings brought forward.

1.4 Share-Based Payments

When treasury shares are used for share-based payment programs, the difference between the acquisition costs and any consideration paid by the employees at grant date is recognized as personnel expenses.

1.5 Short-/Long-Term Interest-Bearing Liabilities

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds or syndicate loans are recognized as prepaid expenses and amortized on a straight-line basis over the principals' maturity period. Premiums are recognized as accrued expenses and amortized on a straight-line basis over the principals' maturity period.

1.6. Presentation of a Cash Flow Statement and Additional Disclosures in the Notes

As Lonza Group Ltd has prepared its consolidated financial statements in accordance with a recognized accounting standard (International Financial Reporting Standards IFRS), it has decided to forgo presentation of a cash flow statement, information on interest-bearing liabilities and audit fees in the note disclosures as would be required by Swiss law.

2 Information on Balance Sheet and Income Statement Items

2.1 Investments

Lonza Group Ltd holds the following direct subsidiaries as of 31 December 2015. For indirect principal subsidiaries, please see the list on pages 78 and 79.

Direct subsidiaries	Place	Capital in 1 000				Share in capital and voting rights in %	
		31.12.2015		31.12.2014		31.12.2015	31.12.2014
Arch Quimica, S.A. de C.V.	Mexico, MX	MXN	109	MXN	0	28%	0%
Lonza AG	Visp, CH	CHF	60 000	CHF	60 000	100%	100%
Lonza America Inc.	Allendale, US	USD	8	USD	8	100%	100%
Lonza BioPharma AG	Visp, CH	CHF	550	CHF	550	100%	100%
Lonza Bioproducts AG	Basel, CH	CHF	100	CHF	100	100%	100%
Lonza do Brasil Especialidades Quimicas Ltda.	Sao Paulo, BR	BRL	18 387	BRL	18 387	99.9%	99.9%
Lonza (China) Investments Co. Ltd	Guangzhou, CN	USD	75 500	USD	75 500	100%	100%
Lonza Europe BV	Breda, NL	EUR	21	EUR	21	68%	68%
Lonza Finance Limited	St. Helier, Jersey. GB	CHF	335	CHF	335	100%	100%
Lonza Japan Ltd	Tokyo, JP	JPY	200 000	JPY	200 000	100%	100%
Lonza Licences AG	Basel, CH	CHF	100	CHF	100	100%	100%
Lonza Sales AG	Basel, CH	CHF	2 000	CHF	2 000	100%	100%
Lonza Swiss Finanz AG	Basel, CH	CHF	100	CHF	100	100%	100%
Lonza Swiss Licences AG	Basel, CH	CHF	100	CHF	100	100%	100%
International School of Basel AG	Reinach, CH	CHF	20 525	CHF	20 525	1.6%	**1.6%**

An impairment loss of CHF 6 531 747 was recognized in financial year 2015 for Lonza do Brasil Especialidades Quimicas Ltda.

2.2 Financial Assets

Lonza Group Ltd has issued subordination agreements of CHF 170 million (2014: CHF 145 million) on loans to subsidiaries and associates.

2.3 Trade Accounts Payables

Trade accounts payables include liabilities to personnel welfare institutions of CHF 193 109 at 31 December 2015 (2014: CHF 697 676).

2.4 Short-Term Interest-Bearing Liabilities

CHF	31 12 2015	31 12 2014
Bonds due within 1 year: Interest rate 3%/ Maturity 02 06 2016	400 000 000	0
Bank loans	0	86 180 000

2.5 Long-Term Interest-Bearing Liabilities

CHF	31 12 2015	31 12 2014
Bonds: Interest rate 3%/Maturity 02.06.2016	0	400 000 000
Bank loans	0	125 000 000

2.6 Share Capital, Authorized and Contingent Capital

Authorized capital: The Board of Directors is authorized to increase, at any time until 8 April 2017, the share capital of Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. This authorized capital was created by the Annual General Meeting held on 8 April 2015. The additional terms and conditions of the authorized capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Article 4^{ter} of the Company's Articles of Association.

Contingent capital: The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 5 029 860 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 029 860. This contingent capital (also called conditional capital) was created by the Annual General Meeting on 11 April 2005. The additional terms and conditions of the conditional capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4^{bis} of the Company's Articles of Association. According to Article $4^{quarter}$ of the Company's Articles of Association, the capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 5 029 860.

2.7 Reserves from Capital Contributions

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contributions established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle of CHF 839 727 980 were approved by the Swiss Federal Tax Authority on 6 December 2011. The amount of CHF 747 926 528 was reclassified from "Available earnings brought forward" to "Reserves from capital contributions" as per 31 December 2011 to reflect the approved amount as "Reserves from capital contributions". As of 31 December 2015 the reserves from capital contributions amounted to CHF 374 645 313 (31 December 2014: CHF 505 293 543).

2.8 Treasury Shares

	Total shares	Average price in CHF	Number of transactions
Treasury shares at 01 01 2014, weighted average price	**944 942**	**84.41**	
Acquisitions 2014	0	0.00	0
Distribution to board members	(13 672)	95.40	4
Distribution to E-STIP share plans	(2 482)	92.03	2
Distribution to ESPP share plans	(23 160)	110.39	11
Treasury shares at 31 12 2014, weighted average price	**905 628**	**84.63**	
Acquisitions 2015	1 855	110.94	5
Distribution to board members	(10 401)	121.54	4
Distribution to E-STIP share plans	(16 656)	125.61	5
Distribution to LTIP share plans	(222 677)	100.08	3
Distribution to ESPP share plans	(15 354)	128.66	5
Distribution to other share plans	(4 890)	109.20	1
Treasury shares at 31 12 2015, weighted average price	**637 505**	**79.26**	

At 31 December 2015, acquisition costs for treasury shares amounted to CHF 50 527 872.

2.9 Other Financial Income

Other Financial Income in 2015 includes net exchange rate gains of CHF 5 264 468 (2014: CHF 58 787 300) and interest income from loans to subsidiaries and associates of CHF 13 369 342 (2014: CHF 22 237 153).

2.10 Other Financial Expenses

CHF	2015	2014
Bank interest and fees	4 130 671	8 012 236
Interest on bonds	12 000 000	12 000 000
Interest on deposits subsidiaries	5 932 265	6 653 737
Amortization of discounts and issue costs	1 867 791	1 994 023
Total financial expenses	**23 930 727**	**28 659 996**

2.11 Other Operating Expenses

CHF	2015	2014
Consulting expenses	6 152 133	6 327 849
Administrative expenses	2 595 753	3 052 616
Other operating expenses	256 621	303 874
Total other operating expenses	**9 004 507**	**9 684 339**

3 Other Information

3.1 Full-Time Equivalents

At 31 December 2015, Lonza Group Ltd had 47 employees (2014: 49).

3.2 Contingent Liabilities , Guarantees and Pledges

At 31 December 2015, indemnity liabilities, guarantees and pledges in favour of third parties totaled CHF 1 263 697 474 (2014: CHF 1 342 782 204). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

3.3 Major Shareholders

In accordance with Art. 663c of the Swiss Code of Obligations: See 1.2 Significant Shareholders in Corporate Governance Report, page 123.

3.4 Share Ownership of the Members of the Board of Directors and the Executive Committee

In accordance with Art. 663c para. 3 of the Swiss Code of Obligations: See note 29 in the Consolidated Financial Statements, page 76 and Remuneration Report, on pages 100 to 116.

3.5 Shares for Members of the Board and Employees

According to the share-based payment plans (see note 24), Lonza Group Ltd allocates treasury shares as following:

		2015		2014
	Number of shares	Value in CHF	Number of shares	Value in CHF
Allocated to members of the Board of Directors	10 401	1 264 168	13 672	1 304 365
Allocated to members of the Executive Committee	21 056	2 330 336	35 226	3 206 191
Allocated to other employees	10 820	1 200 941	14 082	1 281 623
Total	**42 277**	**4 795 445**	**62 980**	**5 792 179**

In 2015 Lonza Group Ltd employed two members of the Executive Committee (2014: 4).

3.6 Significant Events After the Balance Sheet Date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

Proposal of the Board of Directors

Concerning the Appropriation of Available Earnings and Reserves from Capital Contributions

CHF	2015
Available earnings brought forward	1 517 771 183
Profit for the year	94 071 700
Treasury shares	(50 527 872)
Available earnings at the disposal of the Annual General Meeting	**1 561 315 011**
Available earnings carry-forward	**1 561 315 011**

CHF	2015
Legal capital reserves qualified as reserves from capital contributions	374 645 313
Reserves from capital contributions [1]	**374 645 313**
Payment of a dividend (out of reserves from capital contributions) in 2015 of CHF 2.50 (2014: CHF 2.50) per share on the share capital eligible for dividend of CHF 52 282 635 (2014: CHF 52 259 292) [2]	(130 706 588)
Available reserves from capital contributions carry-forward	**243 938 725**

1 Refer to note 2.7 to the Financial Statements – Lonza Group Ltd., Basel

2 Depending on the amount of share capital eligible for dividend on the record date of 27 April 2016. No dividend will be paid out on shares held by the Company.

If the Annual General Meeting approves the above proposal from the Board of Directors, the dividend of CHF 2.50 per registered share, net of withholding tax (as per Article 5 Abs 1bis VStG), will be paid as of 28 April 2016.

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Basel, 8 March 2016

Report of the Statutory Auditor

Report of the Statutory Auditor on the Financial Statements to the Annual General Meeting of Lonza Group Ltd, Basel

As statutory auditor, we have audited the accompanying financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement and notes on pages 82 to 89 for the year ended 31 December 2015.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Michael Blume	*Florin Janine Krapp*
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, 8 March 2016

Investor Information

Lonza Group Ltd shares are listed on the SIX Swiss Exchange and were included in the Swiss Leader Index (SLI). Lonza also maintains a secondary listing on the SGX Singapore Exchange. The nominal value of the Lonza Group Ltd share is CHF 1. Lonza Group shares closed at the end of 2015 at a price of CHF 163.10, which represents an increase of 45.4 % in 2015.

The most significant news releases, other than results publications, during the course of 2015 were the following:

12 February TiGenix and Lonza Sign Agreement for the Manufacture of Stem Cell-Based Treatment of Complex Perianal Fistulas in Crohn's Disease

18 February Lonza and arGEN-X Announce a Multi-Product GS Xceed™ License Agreement for Therapeutic Antibodies

25 March CPI-Led UK Biotech Consortium Secures £ 6.2 m Government Investment

7 May Nikon and Lonza Form Collaboration for Cell and Gene Therapy Manufacturing in Japan

16 June Lonza to Expand Viral Therapy Business with Planned Construction of New Facility in Houston, TX (USA)

23 June Octane and Lonza Announce Exclusive Collaboration to Evaluate Groundbreaking Autologous Cell Therapy Technology

2 July Lonza Announces Additional Long-Term Agreement with Alexion

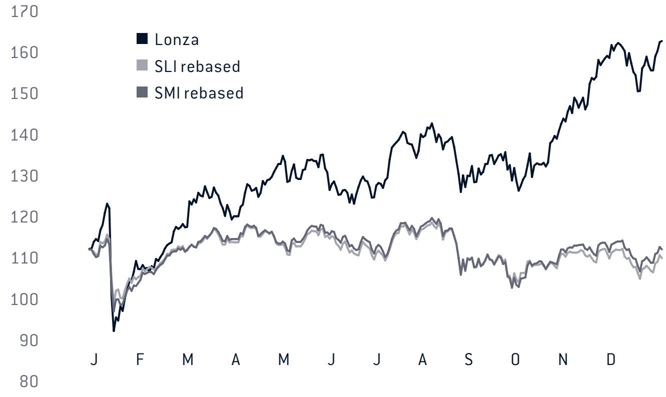
19 August Lonza Prices CHF 325 Million Dual Tranche Straight Bonds

7 October Lonza and Benitec BioPharma Enter Agreement to Develop Scalable AAV Manufacturing Process for ddRNAi Therapeutics

14 December Lonza Announces Change in Executive Committee Membership

For a comprehensive review of the media releases issued during 2015, refer to *www.lonza.com/news*

Lonza Group Ltd 2015 Share Price Development vs. Swiss Leader Index and the Swiss Market Index (rebased)



The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2015 can be viewed at: *www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings*

The free float in Lonza Group Ltd registered shares reached 98.80 % at the year-end, and the average daily trade volume was 215 477 shares in 2015.

Dividend Payment Development

Registered Shares

		2015	2014
Number of shares issued		52 920 140	52 920 140
Number of shares ranking for dividend[1]		52 282 635	52 014 512
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	277	237
Diluted net income[2]	million CHF	277	237

Ratios per Security[2]

		2015	2014
Weighted average number of shares		52 268 315	51 988 177
Diluted weighted average number of shares		52 693 239	52 189 051
Basic earnings per share	CHF	5.30	4.56
Diluted earnings per share	CHF	5.26	4.54

1 See note 25 to the consolidated financial statements

2 See note 26 to the consolidated financial statements

Ten-Year Overview of Major Highlights

million CHF		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Sales		3 803	3 640	3 584	3 925	2 692	2 680	2 690	2 937	2 870	2 914
Result from operating activities (EBIT)		428	423	253	340	261	374	239	441	408	344
Net capital invested		4 859	5 224	4 958	5 437	5 667	3 688	3 900	3 768	3 277	2 608
Return on net capital invested (RONOA)	%	10.8	10.3	5.9	7.5	6.9	10.8	6.7	13.8	14.1	12.4
Headcount		9 829	9 809	9 935	10 789	11 001	8 280	8 386	8 462	6 929	6 146

Statement of Value Added

	[1] Note		2015 million CHF	%		2014 million CHF	%
Origin of value added							
Income from production			3 840			3 662	
Dividend earned			0			2	
Total income			**3 840**	**100.0**		**3 664**	**100.0**
Services bought from third parties							
– Material costs	17		(1 396)			(1 336)	
– Energy costs	17		(75)			(74)	
– Other operating expenses excl. capital taxes			(630)			(528)	
Gross value added			**1 739**			**1 726**	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment	5, 6		(300)			(299)	
Income from application of the equity method	7		(2)			(84)	
Total net value added			**1 437**	**37.4**		**1 343**	**36.7**
Distribution of value added							
To staff:							
– Wages and salaries	18	778			762		
– Pensions	18	8			35		
– Other social security contributions	18	166			153		
– Other personnel expenses	18	43			38		
Total personnel cost			**995**	**69.2**		**988**	**73.7**
To public authorities:							
– Income and capital taxes	21		80	5.6		56	4.2
To lenders:							
– Financial expenses net	20.1, 20.2		85	5.9		60	4.5
To shareholders:							
– Dividends paid	26		131	9.1		112	8.3
To the company:							
– Profit for the period		277			237		
– Dividends paid	26	(131)	146	10.2	(112)	125	9.3
Total			**1 437**	**100.0**		**1 341**	**100.0**
Distribution of value added per employee			CHF			CHF	
Wages and salaries			79 242			77 188	
Pensions			815			3 545	
Other social security contributions			16 907			15 499	
Other personnel expenses			4 380			3 849	
Total per employee			**101 344**			**100 081**	

1 See the accompanying Notes to the Consolidated Financial Statements.

Free Cash Flow

The following is a summary of the free cash flow, using Lonza's definition. It includes earnings before interest, taxes and depreciation (EBITDA) and subtracts/adds the increase/decrease of operating net working capital, subtracts capital expenditures, acquisitions and adds disposal of fixed assets and subsidiaries as well as changes in other long-term operating assets/liabilities. This key measure is the same as reported monthly to the Executive Committee.

million CHF	2015	2014
EBITDA	780	737
Change of operating net working capital	139	(94)
Capital expenditures in tangible and intangible assets	(264)	(180)
Disposal of tangible and intangible assets	8	10
Acquisition of subsidiaries	(30)	0
Disposal of subsidiaries	4	0
Change of other assets and liabilities	30	3
Free cash flow	**667**	**476**

CORE Results

Reconciliation of IFRS Results to CORE Results 2015

million CHF	IFRS results	Amortization of intangible assets from acquisition	Impairments	Reversal of Impairments	Restructuring costs / income	[3] Other	Results associates	[1] CORE results
Sales	**3 803**	**0**	**0**	**0**	**0**	**0**	**0**	**3 803**
Cost of goods sold	(2 704)	0	53	(1)	9	1	0	(2 642)
Gross profit	**1 099**	**0**	**53**	**(1)**	**9**	**1**	**0**	**1 161**
Marketing and distribution	(239)	0	0	0	0	(2)	0	(241)
Research and development	(103)	0	0	0	0	(1)	0	(104)
Administration and general overheads	(313)	31	0	0	0	(8)	0	(290)
Other operating income	55	0	0	0	(1)	0	0	54
Other operating expenses	(71)	0	0	0	4	11	0	(56)
Result from operating activities (EBIT)	**428**	**31**	**53**	**(1)**	**12**	**1**	**0**	**524**
Financial income	4	0	0	0	0	0	0	4
Financial expenses	(89)	0	0	0	0	0	0	(89)
Net financing costs	**(85)**	**0**	**0**	**0**	**0**	**0**	**0**	**(85)**
Share of loss of associates / joint ventures	(2)	0	0	0	0	0	2	0
Profit before income taxes	**341**	**31**	**53**	**(1)**	**12**	**1**	**2**	**439**
Income taxes[2]	(64)	(6)	(10)	0	(3)	0	0	(83)
Profit for the period	**277**	**25**	**43**	**(1)**	**9**	**1**	**2**	**356**
Non-controlling interests	0	0	0	0	0	0	0	0
Equity holders of the parent	**277**	**25**	**43**	**(1)**	**9**	**1**	**2**	**356**
Number of shares, basic	52 268 315							52 268 315
Number of shares, diluted	52 693 239							52 693 239
Basic earnings per share	5.30							6.81
Diluted earnings per share	5.26							6.76

1. In the CORE results for the items “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 / acquisition are eliminated.
2. Tax impact calculated based on average Group tax rate.
3. “Other” primarily includes the favorable impact of the IAS19 past service credit of the Swiss pension plan of CHF 41 million, as well as expenses related to the set-up of additional provisions.

Reconciliation of IFRS Results to CORE Results 2014

million CHF	IFRS results	Amortization of intangible assets from acquisition	Impairments	Restructuring costs / income	Results associates	[1] CORE results
Sales	**3 640**	**0**	**0**	**0**	**0**	**3 640**
Cost of goods sold	(2 566)	0	15	0	0	(2 551)
Gross profit	**1 074**	**0**	**15**	**0**	**0**	**1 089**
Marketing and distribution	(239)	0	0	0	0	(239)
Research and development	(101)	0	0	0	0	(101)
Administration and general overheads	(294)	31	0	0	0	(263)
Other operating income	45	0	0	(8)	0	37
Other operating expenses	(62)	0	0	14	0	(48)
Result from operating activities (EBIT)	**423**	**31**	**15**	**6**	**0**	**475**
Financial income	24	0	0	0	0	24
Financial expenses	(84)	0	0	0	0	(84)
Net financing costs	**(60)**	**0**	**0**	**0**	**0**	**(60)**
Share of loss of associates / joint ventures	(84)	0	0	0	84	0
Profit before income taxes	**279**	**31**	**15**	**6**	**84**	**415**
Income taxes[2]	(42)	(5)	(2)	(1)	(12)	(62)
Profit for the period	**237**	**26**	**13**	**5**	**72**	**353**
Non-controlling interests	0	0	0	0	0	0
Equity holders of the parent	**237**	**26**	**13**	**5**	**72**	**353**
Number of shares, basic	51 988 177					51 988 177
Number of shares, diluted	52 189 051					52 189 051
Basic earnings per share	4.56					6.79
Diluted earnings per share	4.54					6.76

1 In the CORE results for the items “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 / acquisition are eliminated.

2 Tax impact calculated based on average Group tax rate.

Remuneration Report

This Remuneration Report provides a comprehensive overview of Lonza's compensation philosophy, principles and components. The report presents, in accordance with the applicable SIX Swiss Exchange regulations and reporting standards, the structure, governance and details of Board of Directors and Executive Committee members' compensation.

Compensation and Performance Overview 2015

Lonza's compensation philosophy is designed to attract and retain talent through competitive compensation programs. All compensation programs are performance based, linking employee rewards with company performance. Executive compensation is aligned with the short-term and long-term objectives of Lonza; results are measured based on achievement of specific goals that are aligned with the short-term and long-term objectives. Our performance goals are selected to achieve a balance between desired short-term and long-term outcomes. In this way, we encourage strategic decisions for competitive advantage and discourage executives from taking unnecessary or excessive risks that would threaten the reputation or sustainability of the Company.

For 2015 Lonza's overall financial performance vs. short-term incentive plan (STIP) targets was as follows

2015 STIP Payout: Financial Targets[1]

million CHF	2015 actual performance	Target weighting in %	Achieved in %	Proposed 2015 payout % (weighted)
CORE EBIT	523.9	50	109.29	54.64
Sales (at target FX rates)	3 802.8	15	58.86	8.83
Operational Cash Flow	666.7	15	200.00	30.00

1 Financial targets account for 80% of the total STIP weighting; individual performance accounts for the remaining 20% weight. For Executive Committee members, the overall target achievement was 117.34% (2014: 78.93%).

Lonza's overall financial performance in 2015 vs. long-term incentive plan (LTIP) targets for 2013 was determined by the Nomination and Compensation Committee (NCC) to approximate the financial performance required to meet Lonza's challenging strategic goals and support Lonza's three-year plan. The 2013 LTIP performance was as follows (plan vested on 31 January 2016).

2013 LTIP Financial Performance[2]

	Actual performance	Payout in %
EPS (Earnings Per Share)	CHF 5.30	100
TSR (Total Shareholder Return[3])	Exceeded Indices by 38.8%	100

2 3-year cycle completed 31 December 2015. See page 113 for more details.
3 Compared with MSCI Chemicals, MSCI Health Care, SPI.

As illustrated above, Lonza's financial performance is benefiting from the measurable progress that our teams are making by implementing strategic and transformational initiatives. Lonza's compensation programs closely align the short- and long-term targets of the company and the remuneration of our executives. We have seen solid financial performance in 2015, which contributed toward the successful achievement of our short-term incentive targets. We are continuing to see the benefits of the longer-term initiatives with a 2013 LTIP payout (which is only the second LTIP payout in the last five years).

The Company feels strongly that our Executive Committee and other senior managers should have a defined shareholding in Lonza to strengthen their alignment with our shareholders' interests. Starting in 2016 we have therefore established minimum shareholding requirements for the Executive Committee and other senior managers based on level in the organization and specified a five-year period to achieve these minimum requirements. Shareholding levels will be reviewed annually beginning in January 2016.

The following pages describe our remuneration and performance linkage in greater detail.

1 Compensation-Setting Process

1.1 Rules in the Articles of Association Relating to Remuneration

Lonza's Articles of Association[1] contain rules regarding the approval of compensation by the Shareholders' Meeting (Article 22), the Supplementary amount in the event of changes in the Executive Committee (Article 23), compensation of the members of the Board of Directors and the Executive Committee, including the principles applicable to performance-related compensation (Article 24), the agreements with members of the Board of Directors and the Executive Committee (Article 25) and loans to members of the Board of Directors and the Executive Committee (Article 27).

1 www.lonza.com/aoa

1.2 Responsibilities of Company Bodies Relating to Remuneration

Board of Directors As outlined in the Organizational Regulations (Article 2.8)[2], the Board of Directors takes decisions on the following matters:

a The determination of the remuneration for the members of the Board of Directors in accordance with the Articles of Association, subject to approval of the compensation of the Board by the Shareholders' Meeting pursuant to the Articles of Association;
b The proposals to the Shareholders' Meeting regarding approval of the compensation of the Board of Directors and the Executive Committee; and
c The preparation of the Remuneration Report.

2 www.lonza.com/orgreg

Nomination and Compensation Committee The Nomination and Compensation Committee (NCC) has the following roles and responsibilities as outlined in the Nomination and Compensation Committee Charter[2]:

a To recommend and review compensation policies and plans for approval by the full Board of Directors;
b To review periodically and make recommendations to the Board of Directors regarding any variable incentive and the extent to which the plans meet their objectives;
c To advise the Board of Directors on the compensation of its members;
d To review and approve the objectives relevant to the CEO's compensation, to evaluate the performance on a regular basis and to determine the CEO's remuneration based on performance, subject to approval of the compensation of the Executive Committee by the Shareholders' Meeting pursuant to the Articles of Association;
e To review and approve the remuneration proposals for members of the Executive Committee subject to approval by the Shareholders' Meeting pursuant to the Articles of Association;
f To recommend to the Board of Directors proposals to be submitted to the Annual Shareholders' Meeting for approval regarding total amounts of compensation of the Board and the Executive Committee pursuant to the Articles of Association;
g To support the Board of Directors in preparing the remuneration report;

h To inform the Board of Directors about compensation policies and programs as well as benchmark compensation of key peer companies; and
i To inform the Board of Directors about the terms of employment for the members of the Executive Committee, based on the proposal of the NCC.

The NCC continuously reviews the aspects of executive compensation and compliance with good governance standards. During this year's review, Lonza considered third-party benchmark data, feedback from shareholders, members of the investment community, policy recommendations provided by institutional shareholder advisory organizations and the Swiss Ordinance Against Excessive Pay for Stock-Exchange-Listed Companies.

The Chief Human Resources Officer and the relevant HR specialists prepare the NCC meeting materials and provide the related materials for such meetings. These individuals have an advisory function without voting rights. The Chief Human Resources Officer acts as secretary to the NCC and attends all NCC meetings.

Shareholders' Meeting The Shareholders' Meeting approves annually the compensation of the Board of Directors and the Executive Committee in accordance with Article 22 of Lonza's Articles of Association[1].

1 www.lonza.com/aoa

1.3 NCC and Board Meetings

The 2015 meetings of the NCC and the Board of Directors relating to compensation took place in January, February, March, July, October and December. A meeting dealing with 2015 compensation matters was held in January 2016.

At these meetings, the NCC and/or the Board of Directors finalized:

– Plan provisions, grants, financial targets and target achievements for the STIP and LTIP plans and discontinued the 2015 E-STIP (see page 110 and 112 for additional discussions on these decisions);
– Share ownership guidelines for the Executive Committee;
– Recommendations relating to compensation motions to be submitted to the Annual General Meeting.

The NCC held six meetings in 2015. All members of the NCC participated in all meetings. The NCC informs the Board of Directors on a regular basis about its activities and decisions. The discussions and the decisions of the Board of Directors and the NCC regarding compensation of the members of the Executive Committee are resolved in the absence of the affected members of the Executive Committee. All members of the Board of Directors are non-executive members. All members of the Board of Directors took part and voted at its meetings regarding compensation matters.

1.4 External Advisers and Benchmarks

As part of the ongoing commitment to review the competitive environment for 2015 compensation, Lonza updated the market analysis on total compensation for the Board of Directors and Executive Committee with New Bridge Street (NBS)[1]. The benchmark companies used for the Board of Directors and the Executive Committee are described in greater details in Sections 3.1 and 4.1.

1 NBS is part of Aon Hewitt's Performance, Reward and Talent Group.

2 Compensation Components

The compensation of Lonza employees includes the following components (total compensation):

Base Pay The base pay of Lonza employees is established by assessing the scope of the job within the context of the relevant market, as well as individual performance. The base pay should be in general comparable with the median of similar positions in the pharmaceutical, chemical and general industries. Potential increases in base pay are evaluated on a regular basis and are typically based on relevant market benchmarks and the employee's performance.

Variable Compensation The variable compensation is designed to provide employees with the opportunity to participate in the company's overall success and earn a competitive total compensation. The majority of employees participate in a short-term incentive plan (STIP). Senior management and key employees also participate in a long-term incentive plan (LTIP). The guiding principle for these plans is to motivate and reward employees for the company's short-term and long-term financial success.

Benefits The benefits programs are specified by country, taking into consideration local legislation as well as competitive market practices within our industry. Benefit packages are reviewed on a regular basis.

3 Compensation of the Board of Directors

3.1 Principles

Objective and Benchmarks Based on the analysis performed by NBS, the NCC determined that they would use benchmark data of Swiss companies (various sectors) that are comparable in type of business, complexity, size and global presence to Lonza in determining competitive Board of Directors' Compensation. Lonza's objective is to pay the members of the Board of Directors at the median of this benchmark group[1].

Overall Structure and Level of Compensation The overall structure and level of compensation of the Board of Directors remained unchanged between 2014 and 2015. There were no changes to the Chairman's fee in 2015.

3.2 Compensation Components

For the period from the AGM 2015 to the AGM 2016, the members of the Board of Directors receive fixed gross compensation for Board of Directors membership and additional compensation for committee chairperson and committee memberships as described below:

Compensation Board of Directors AGM 2015 to AGM 2016[2]

CHF	Annual fee	Committee membership fee	Committee chairperson fee
Board of Directors Member	200 000	40 000	80 000
Chairman of the Board of Directors	450 000		

The compensation of the Chairman of the Board of Directors includes his remuneration as a member of the Innovation and Technology Committee of the Board of Directors.

The total compensation of the Committee chairpersons amounts to CHF 280 000 and includes the Committee membership fee.

Board of Directors' compensation is paid in four installments at the end of June, September, December and March; 50% of the compensation is paid in cash and 50% in shares. In 2014 the number of granted shares was calculated based on the average closing share price of the last five business days of each quarter, with a discount of 20%. The number of shares granted for Board of Directors' compensation paid on or after 1 April 2015 is based on the average closing share price of the last five business days of each quarter, and the 20% discount has no longer been applied. The share restrictions lapse after three years from the grant date. Shares are eligible for a dividend. This structure of Board of Directors compensation is closely aligned with our shareholders' interests.

1 Geberit AG, The Swatch Group SA, Clariant AG, Panalpina Welttransport (Holding) AG, Sika AG, ARYZTA AG, Barry Callebaut AG, Givaudan SA, Sulzer Ltd, Georg Fisher AG, Emmi AG, OC Oerlikon Corporation AG, Logitech International S.A., Actelion Ltd, Sonova Holding AG, Forbo Holding AG.

2 Refer to Section 3.3 regarding total compensation (including national employer social contributions) provided to the Board of Directors in financial year 2015. The table to the left represents the period from AGM 2015 to AGM 2016 and does not include social contributions of the employer.

The members of the Board of Directors do not receive variable compensation. The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Board of Directors of Lonza.

3.3 Aggregate Compensation of the Board of Directors

Board of Directors' Compensation

	2015					2014				
	Cash payment CHF	Number of shares	[2] Value of shares CHF	[3] Social security and taxes CHF	[4] Total CHF	Cash payment CHF	Number of shares	[3] Value of shares CHF	[3] Social security and taxes CHF	[4] Total CHF
Rolf Soiron Chairman of the Board[1]	206 801	1 776	235 316	41 976	484 093	207 917	2 535	259 700	43 332	510 949
Patrick Aebischer [5]	126 510	1 101	145 926	29 114	301 550	131 712	1 611	164 410	28 840	324 962
Werner Bauer	108 352	943	124 997	25 054	258 403	112 842	1 379	140 729	24 720	278 291
Thomas Ebeling	108 352	943	124 997	25 054	258 403	112 842	1 379	140 729	24 720	278 291
Jean-Daniel Gerber [5]	128 935	1 105	146 414	25 519	300 868	133 223	1 630	166 357	27 110	326 690
Barbara Richmond[6]	68 770	898	119 503	81 147	269 420	63 839	749	79 745	59 645	203 229
Margot Scheltema[5]	82 960	1 032	137 502	65 791	286 253	101 250	1 232	126 353	67 500	295 103
Jürgen Steinemann[6]	44 775	581	80 160	128 168	253 103	84 631	988	105 546	18 540	208 717
Antonio Trius	71 109	885	117 916	56 391	245 416	90 000	1 100	112 253	60 000	262 253
Peter Wilden[7]						32 928	457	41 121	7 210	81 259
Total	**946 564**	**9 264**	**1 232 731**	**478 214**	**2 657 509**	**1 071 184**	**13 060**	**1 336 943**	**361 617**	**2 769 744**

There was a decrease in Board compensation in 2015 resulting from the elimination of the discount as described in section 3.2.

No loans or credits were granted to current or former members of the Board of Directors during 2015 (nor in 2014). No loans or credits were outstanding as of 31 December 2015. During 2015, no payments (or waiver of claims) were made to current or former Board members or to persons closely linked to them. No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

For a full review of the historical development of compensation for the Board of Directors, see page 60 in the Lonza Financial Report.

1 This compensation includes Mr. Soiron's committee membership. Mr. Soiron is a member of the Innovation and Technology Committee.

2 The fair values were calculated using the average closing share price of the last five business days of each quarter, see note 24 in the Lonza Financial Report 2015.

3 The social security amounts disclosed in this column represent the full costs of the employer and employee social security contributions and withholding tax.

4 All compensation amounts refer to gross payments, including social security and withholding tax, except where stated otherwise.

5 Patrick Aebischer, Jean-Daniel Gerber and Margot Scheltema are chairpersons of a Board Committee.

6 Barbara Richmond and Jürgen Steinemann joined the Board of Directors in April 2014. Social security and taxes 2015 for Jürgen Steinemann include 2014 and 2015 tax liability.

7 Peter Wilden left the Board of Directors in April 2014.

4 Compensation of the Executive Committee

4.1 Principles

Objective and Benchmarks Lonza's objective is to pay the members of the Executive Committee a base salary in line with the median for the market as described below, with the potential for executives to earn above-median compensation through a combination of competitive short-term and long-term incentive programs if the company outperforms its financial targets. These incentive plans are designed to align the Executive Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Executive Committee is benchmarked on a regular basis against the relevant industry.

Based on the benchmarking study completed by NBS, the following peer groups were used in 2015 to assess total compensation for the Executive Committee.

Peer Groups

Primary Peer Group	Secondary Peer Groups
European pharmaceutical / chemical sector businesses (all data adjusted to reflect differences in revenue and market value)[1]	Swiss companies similar in size to Lonza in other sectors[2]
	US pharmaceutical[3] or chemical[4] companies similar in size to Lonza

This NBS benchmarking study as updated, together with Willis Towers Watson and Mercer[5] benchmark data, were both used to review the remuneration of the Executive Committee and the senior management for 2015. As a result of this analysis, the overall structure of compensation for the Executive Committee remained largely unchanged in 2015. For the alignments made to the base salary of the EC and the CEO please refer to the applicable charts in sections 4.3 and 4.4.

4.2 Remuneration Components

The compensation of the members of the Executive Committee consists of the following components:

Base Salary The base salary is paid in cash and determined for each position considering the responsibilities of the position and performance of each member of the Executive Committee.

Short-Term Incentive Plans (STIP) The company provides the members of the Executive Committee with Short-Term Incentive Plan. Performance metrics are defined for each financial year; achievement determines the payout of STIP. For more details regarding the STIP, please refer to page 110.

1 Actelion Ltd, BASF SE, Bayer AG, Clariant AG, Croda International Plc, Evonik Industries AG, Givaudan SA, Novartis AG, Roche Holding Ltd, Sika AG, SGS SA, STADA Arzneimittel AG, Syngenta AG, Wacker Chemie AG.

2 ARYZTA AG, Barry Callebaut AG, Emmi AG, Forbo Holding AG, Geberit AG, Georg Fischer AG, Logitech International S.A., OC Oerlikon Corporation AG, Panalpina Welttransport (Holding) AG, Sonova Holding AG, Sulzer Ltd, The Swatch Group SA.

3 Pharma-Actavis, Inc., Alere Inc., Endo Health Solutions Inc., Life Technologies Corporation, Mylan, Inc., Perrigo Company, Zoetis Inc.

4 Cabot Corporation, Celanese Corporation, Chemtura Corporation, The Chlorox Company, Coty Inc., Eastman Chemical Company, FMC Corporation, International Flavors and Fragrances Inc., Methanex Corporation, Sigma-Aldrich Corporation, Westlake Chemical Corporation, W.R. Grace and Company.

5 Willis Towers Watson, Mercer and AON Hewitt have further consulting arrangements with Lonza Human Resources.

Long-Term Incentive Plans (LTIP) The LTIP is designed to align the interests of the Executive Committee with those of Lonza's shareholders and to serve as a retention incentive for the executives. The LTIP is a 100% equity-based plan with conditional equity awards vesting after three years according to performance conditions. Executive Committee members are awarded the right to receive a number of shares in Lonza in the future, provided that certain performance-related conditions are achieved. For more details regarding the LTIP, please refer to page 113.

Benefits The Executive Committee's compensation package also includes certain benefits, above all pension and other benefits, such as a car, expenses allowance, health insurance and (if applicable) tuition fees.

4.3 Aggregate Compensation of the Executive Committee

The table below shows the breakout of the Executive Committee Compensation.

Executive Committee's Compensation[1]

million CHF	2015	2014
Cash payments and benefits		
Base salary	3.101	2.893
Short-term incentive (cash)[2]	2.844	1.242
Post-employment benefits / other benefits[3]	1.282	1.074
Termination benefits in cash[4]		0.999
Share-based payments		
Value of STIP paid out in shares[5]	0.223	
Value of 2014 E-STIP RSU's[6]		0.565
Corrective One-Time True-Up for CEO[7]	0.534	
Value of LTIP equity awards at fair value in 2014, at market value in 2015[8] (number of equity awards 2015: 27 930, 2014: 47 861)	3.050	2.182
Total	11.034	**8.955**
Ratio of fixed compensation to the performance-related components of compensation (without termination payment)	**69.36%**	**99.49%**

1 2015 and 2014: 5 members (average 5)

2 STIP 2014: paid in March 2015. The achievement for 2015 was 117.34% (2014: 78.93%) and will be paid out in April 2016 after the approval of the Shareholders' Meeting.

3 Social security, pension fund and other benefits. The social security and pension fund amounts disclosed on this line represent the full costs of the employer contributions for 2015. The table shows the fair value of the other benefits.

4 This table discloses the amounts accrued for the years 2014 and paid out in 2015.

5 Actual number of shares relating to the STIP payout will be determined in March 2016. This STIP payout in shares was made in application of the new minimum shareholding requirement according to which the STIP payout will be 50% in shares if an EC member does not meet the minimum shareholding requirement (see section 4.6 below).

6 The E-STIP was discontinued in 2015 (see section 4.6 below).

7 Please see page 111 for further details relating to this true-up for the CEO.

8 The fair value in 2014 was calculated using the fair value at grant date according to IFRS2. For more detailed comments, please refer to note 24 in the Consolidated Financial Report, in particular, the fair values are not actual payouts made, but provide information about the expected value of the awards at grant date. It is possible that given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero). The fair value 2015 was calculated using the market value at grant date.

The change in base salary paid to the Executive Committee in 2015 is due to salary increases to current Executive Committee members to bring them in line with benchmark data. These increases were in line with the shareholder approvals received at the AGM 2015.

The proposed STIP payment for 2015 is reflective of Lonza's excellent financial and strategic performance. Compared with the STIP payout for the financial year 2014, the proposed STIP amount for the financial year 2015 represents an increase of 69.8%. This increase results from improved business achievement, an increase of the STIP from 80% to 100% at target for the CEO and an increase in the base salary budget for the Executive Committee which has been approved at the AGM 2015.

The number of LTIP Equity Awards decreased in 2015 (2015: 27 930, 2014: 47 861) due to the increase in share price on the date of grant of CHF 109.20 (2014: CHF 91.15). Note that the value of LTIP Equity Awards in CHF increased from CHF 2.182 million in 2014 to CHF 3.050 million in 2015 which was approved by shareholders in April 2015.

The 2015 LTIP represented an increase of 39.8% over 2014 LTIP. This increase is mainly due to the change of the plan design and the increase of the maximum LTIP award as a percentage of base salary from 150% in 2014 (160% for the CEO) to 200% in 2015. The increase in the maximum LTIP award to 200% resulted from a benchmark study regarding the total compensation of the Executive Committee members. A potential vesting of 200% of the LTIP equity awards would require the CORE EPS / CORE RONOA performance at very challenging levels. As indicated by the performance of the LTIP over the last years, Lonza has consistently set challenging LTIP targets in application of the pay for performance principle.

Effective October 2015 the NCC made the decision to introduce shareholding requirements for the Executive Committee to further align the Executive Committee with the interests of shareholders. In support of this strategy, the E-STIP was eliminated for 2015 and the Cash STIP will be the only short-term incentive program offered. As described in section 4.6 in this document, the STIP will pay out 50% in cash and 50% in stock as long as the minimum shareholding requirements are not met.

Termination payments for 2014 are not included in fixed compensation ratio calculations (there were no terminations in 2015).

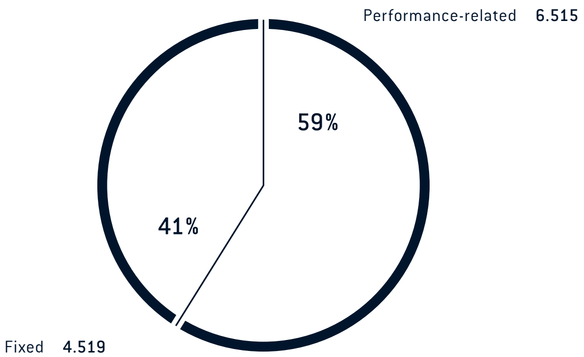
No loans or credits were granted to current or former members of the Executive Committee during 2015 (nor in 2014). No loans or credits were outstanding as of 31 December 2015. During 2015 no payments (or waiver of claims) were made to current or former members of the Executive Committee or to persons closely linked to them. No member of the Executive Committee benefits materially from any contract between a Lonza company and a third party.

Performance-Related vs. Fixed Compensation

As illustrated below, Lonza's excellent financial performance has increased the ratio of performance-related vs. fixed compensation.

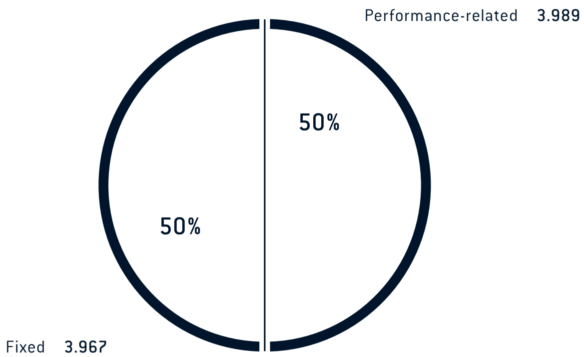
2015

million CHF



2014

million CHF



4.4 Highest Compensation Paid to a Member of the Executive Committee

The table below shows the breakout of the compensation of the highest-paid individual.

Compensation of the Highest-Paid Individual (Richard Ridinger, CEO)

million CHF	2015	2014
Base salary	0.965	0.915
Short-Term Incentive (cash)[1]	1.173	0.392
Post-employment benefits / other benefits[2]	0.339	0.274
Share-based payments		
Value of 2014 E-STIP RSUs[3]		0.196
Corrective One-Time True-Up	0.534	
Value of LTIP equity awards at fair value[4] (number of equity awards: 2015: 8 516, 2014: 15 798)	0.930	0.720
Total[5]	**3.941**	**2.497**
Ratio of fixed compensation to the performance-related components of compensation	**87.35%**	**90.97%**

1 Incentive (STIP) for the reporting year. The 2014 STIP was paid in April 2015; the 2015 STIP will be paid in April 2016 after AGM shareholders' approval. The CEO has met his shareholding requirement and will therefore receive fully cash payout of STIP 2015.

2 Social security and pension fund as well as company car and health insurance. The social security amounts disclosed on this line represent the full costs of the employer social security contribution for 2014 and 2015. The table shows the fair value of the other benefits.

3 The E-STIP was discontinued in 2015 (see section 4.6 below).

4 The fair value in 2014 was calculated using the fair value at grant date according to IFRS2. For more detailed comments, please refer to note 24 in the Consolidated Financial Report, in particular, the fair values are not actual payouts made, but provide information about the expected value of the awards at grant date. It is possible that given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero). The fair value 2015 was calculated using the market value at grant date.

5 The increase in total compensation reflects the changes in compensation recommended by the external consultants to bring the CEO in line with competitive benchmarking as well as the increase in the value of the LTIP equity awards and the corrective one-time true-up awarded by the Board of Directors.

6 4 890 shares granted on 31 January 2015 at the applicable market value of CHF 109.20 per share.

The proposed STIP payment for 2015 is reflective of Lonza's excellent financial and strategic performance. Compared with the STIP payout for the financial year 2014, the proposed STIP amount for the financial year 2015 represents an increase of 99.5%. This increase results from improved business achievement, increase of the STIP from 80% to 100% at target and an increase in the base salary budget for the Executive Committee member as approved at the AGM 2015.

In 2015 the Board of Directors was made aware of an incorrect methodology in the proration calculation for the LTIP share grant for the CEO when he was hired in 2012. The original calculation was based on an annual proration (8/12th i.e. 1 May 2012 to 31 December 2012) versus the standard market practice to prorate over the length of the three-year performance period (32/36th, i.e. 1 May 2012 to 31 December 2015). As a result, the Board of Directors approved a one-time true-up share payment for the CEO valued at CHF 534 000[6].

The compensation adviser retained by the NCC (New Bridge Street) confirmed that, where proration is applied to an LTIP award, the standard market practice is to apply proration over the entire length of the performance period as it reflects the period during which the individual has contributed to the performance. Lonza consistently applies this proration methodology over the length of the three-year performance period.

4.5 Compensation to Departing Members of the Executive Committee

There were no Executive Committee departures in 2015. In 2014 one member of the Executive Committee left the company and the terms and conditions related to this departure were fully disclosed in the Remuneration Report 2014.

4.6 Details of Incentive Plans

This subsection describes the plan details of the Short-Term Incentive Plan (STIP) and the Long-Term Incentive Plan (LTIP):

A Short-Term Incentive Plan (STIP)

History and Participation The Board of Directors implemented the current STIP for the majority of the Group's employees, including the members of the Executive Committee. More than 95% of our employees participate in short-term incentive plans, either in the STIP program or in a local bonus program.

The 2014 STIP for senior managers, including the Executive Committee members, was paid two-thirds in cash (Cash STIP) and one-third in RSUs (E-STIP). These RSUs vest after three years.

Effective 2015 the NCC made the decision to introduce shareholding requirements for the Executive Committee and further align the Executive Committee with the interests of shareholders. In support of this strategy, the E-STIP was eliminated for 2015 and the Cash STIP will be the only short-term incentive program offered. As outlined in the chart below, the Cash STIP will pay out in cash or in shares based on the Executive's individual holdings of Lonza shares.

The 2015 STIP Program operates for Executive Committee Members as follows:

Objective The STIP provides the potential for an annual incentive based on the financial performance of the Group and the performance of the participant.

Definition of Targets The performance criteria are set annually based on the company's short-term objectives and assessed for achievement at the end of the year against the defined financial performance results. Defined financial performance results are derived from the audited financial results 2015.

STIP	CEO	Other Executive Committee Members
Base Salary STIP Target as% of Base Salary[1]	100%	75%
Performance Targets	– 50% CORE EBIT – 15% Lonza Sales – 15% Operational Free Cash Flow – 20% Individual targets for Executive Committee members (for 2015: CORE EBIT 10%, Sales 5% and Operational Free Cash Flow 5%)	
Form of Payout	100% in cash if CEO holds shares equivalent to 2 times base salary (CEO) and other Executive Committee members 1 time base salary[2] in shares of Lonza 50% in cash and 50% in Lonza shares if Executive Committee member does not meet minimum requirements	
Payment Timing	The STIP is paid to the executive in April 2016 after the approval of the Shareholders' Meeting	

1 Payout range equals 0%–200%.
2 As measured on 31 January of the year the payment is made.

B Long-Term Incentive Plan (LTIP)

History and Participation The LTIP is an equity-based plan introduced in 2006 for the Executive Committee and a segment of key employees.

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

Equity Awards Under the LTIP, selected key employees are awarded the right to receive a number of registered shares of Lonza in the future. Depending on the level of the job, the target equity award grant is between 10% and 100% of the annual base salary. The grant is made at target and the payout level can be between 0% and 200%. The Executive Committee members, including the CEO, have a target of 100% of base salary with payout levels between 0% and 200% maximum.

The LTIP plan design is determined at the beginning of the three-year performance period. For 2015 the plan design was modified to define minimum, target and stretch goals. The 2015 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2015 and administered in accordance with this approval.

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

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

Vesting Targets For the 2013 LTIP, the performance metrics were EPS and TSR with 50% weight for each measure. For more details, see page 55.

For the 2014 and 2015 LTIP, the performance metrics are CORE EPS and CORE RONOA with 50% weight for each measure.

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

Overview of Vesting Conditions for the LTIP

For the years 2014 and 2015, the vesting of up to 50% of the granted equity awards is dependent on growth of CORE EPS achieved during Lonza's three fiscal years and 50% of the granted equity awards is dependent upon growth of CORE[1] RONOA achieved during Lonza's three fiscal years.

Performance Metrics for CORE EPS Approved at AGM 2015 (LTIP 2015)

- The minimum threshold to be reached at year-end 2017 was determined by the NCC to be higher than the CORE EPS achieved on 31 December 2014 (which was CHF 6.79). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE EPS will vest.
- If the target is reached, 100% of the equity awards granted under CORE EPS will vest. CORE EPS is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 123% of the CORE EPS at target. If such level of CORE EPS is reached, 200% of the equity awards granted under CORE EPS will vest.

Performance Metrics for CORE RONOA Approved at AGM 2015 (LTIP 2015)

- The minimum threshold to be reached at year-end 2017 was determined by the NCC to be higher than the CORE RONOA achieved on 31 December 2014 (which was 14.3%). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE RONOA will vest.
- If the target is reached, 100% of the equity awards granted under CORE RONOA will vest. CORE RONOA is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 126% of the CORE RONOA at target. If such level of CORE RONOA is reached, 200% of the equity awards granted under CORE RONOA will vest.

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

1 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.

Actual Performance and Payout for the LTIP 2012 and 2013 Performance under the 2012 LTIP exceeded the maximum for EVA generating a 100% payout on 50% of the total award. Performance under the 2012 LTIP achieved the maximum target for TSR generating a 100% payout on the remaining 50% of the total award. The total 2012 LTIP payout equals 100%.

Performance under the 2013 LTIP exceeded the maximum for EPS generating a 100% payout on 50% of the total award. Performance under the 2013 LTIP achieved the maximum target for TSR generating a 100% payout on the remaining 50% of the total award. The total 2013 LTIP payout equals 100%.

2013 LTIP

	Achievements	Payout in %
EPS (Earnings Per Share: 50%)	CHF 5.30	100
TSR (Total Shareholder Return: 50%)	Exceeded indices by 38.8%	100
Total Payout		**100**

4.7 Compensation in Case of Termination[1]

All executive agreements comply with the Swiss Ordinance Against Excessive Pay for Stock-Exchange-Listed Companies. The following outlines the specific termination-related topics included in the agreements of the Executive Committee members and the STIP, E-STIP and LTIP rules and administrative guidelines and practices.

A Notice Period

All members of the Executive Committee are entitled to a 12-month notice period.

B Base Pay and Benefits

All members of the Executive Committee who terminate their employment will receive their base pay during the 12-month notice period and will be eligible for the benefits relating to the 12-month notice period, such as lump-sum expenses, pension fund, health and accident insurance, company car, family/children allowances according to their respective employment agreement.

1 Cases such as death, disability and retirement are not covered in this section.

C STIP Payouts in the Event of Termination (Cash- and E-STIP)[1]

Resignation by the Executive Subject to applicable law, if a member of the Executive Committee resigns at any time prior to distribution of Cash-STIP awards such member will not be entitled to any award with respect to the plan year in which their employment is terminated, except if (i) the termination as a result of such resignation occurs after 31 December of the plan year and (ii) the executive was not released from his obligation to work. Subject to applicable law, the departing Executive will forfeit the right to receive a transfer of any unvested 2013 or 2014 E-STIP RSUs.

Termination by the Company Without Cause Any member of the Executive Committee whose employment is terminated by the Company without cause will be entitled to a prorated Cash-STIP payment relating to the notice period. The departing Executive will be entitled to vesting of the unvested 2013 or 2014 E-STIP RSUs at the end of the notice period.

Termination by the Company for Cause Any member of the Executive Committee whose employment is terminated by the Company for cause will not be entitled to the STIP payment relating to the current year (year of termination). The departing Executive will forfeit the right to receive a transfer of any unvested 2013 or 2014 E-STIP RSUs.

STIP in Change of Control Any member of the Executive Committee whose employment is terminated by the Company without cause or who terminates the employment due to good reason (such as his function / duties / responsibilities being altered or the Company or the successor to Lonza Group Ltd failing to confirm to the executive in writing that no such alteration is intended) within 18 months following a change in control will be entitled to a STIP payment during the termination notice period (pro-rata) based on actual (to the extent it may be determined) or presumed achievement and, if and to the extent the executive is released from his / her obligation to work, based on assumed target achievement (100%).

1 This summary of consequences in case of termination is based on plan rules applicable to STIP 2015.

D LTIP Payouts in the Event of Termination

Resignation by the Executive Any member of the Executive Committee who resigns will forfeit the right to receive a transfer of any unvested LTIP awards.

Termination by the Company Without Cause Any member of the Executive Committee whose employment is terminated by the Company without cause will be treated as follows for the 2014 and 2015 LTIP Grants:

- 2014 LTIP: Unvested shares will be forfeited if the end of the notice period occurs prior to the end of the performance period. If the end of the notice period occurs on or after the end of the performance period, the executive is eligible for a payout as determined by the performance against LTIP targets.
- 2015 LTIP: Unvested shares will vest on a pro rata basis based on the number of months worked (including the notice period) during the 36-month performance period.

Termination by the Company for Cause Any member of the Executive Committee whose employment is terminated by the Company for cause will forfeit the right to receive a transfer of any unvested LTIP shares.

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

E Non-Compete Clause

Under the terms of the employment agreement of the Executive Committee, members whose employment is terminated agrees that he will not for a period of 6 months following the end of the notice period, be partially or fully employed by any entity that materially competes with the Company or any of its affiliates. In case of a breach of the non-competition clause, the executive shall pay damages to the Company. As compensation for the period of non-competition, the executive will receive a monthly consideration equal to the executive's last monthly base salary minus any new income the executive earns in the relevant month.

The Company may elect to fully or partially release the departing Executive Committee member from this non-competition obligation no later than ten (10) months prior to the end of the notice period.

F Claw-Back

Any compensation (including fringe benefits) under the employment agreement of the Executive Committee members is subject to claw-back or forfeiture if the compensation is not approved by the Shareholders' Meeting.

5 Share Ownership of the Members of the Board of Directors and the Executive Committee

Based on information available to Lonza, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2015, a total of 129 815 (2014: 118 739) registered shares in Lonza Group Ltd and controlled 0.25% (2014: 0.22%) of the share capital. None of the members of the Board of Directors or Executive Committee owns shares in the Group's subsidiaries or associates.

1 Spouse, children below 18, any legal entities that they own or otherwise control, or any legal or natural person who is acting as their fiduciary.

The Company feels strongly that our Executive Committee and other senior managers should have a defined shareholding in Lonza to strengthen their alignment with our shareholders' interests. Starting in 2016 Lonza has established minimum shareholding requirements for the Executive Committee and other senior managers based on level in the organization and specified a five-year period to achieve these minimum requirements. Shareholding levels will be reviewed annually beginning in January 2016. The NCC may periodically review the minimum shareholding requirements.

The members of the Executive Committee and parties closely associated with them held 60 095 (2014: 28 215) shares and controlled 0.11% (2014: 0.05%) of the share capital. The individual control rights are proportional to the holdings shown below.

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2015:

Board of Directors

Lonza shares (numbers)	2015	2014
Rolf Soiron	68 324	66 298
Patrick Aebischer	12 229	13 977
Werner Bauer	18 456	13 709
Thomas Ebeling	3 531	2 459
Jean-Daniel Gerber	11 995	10 734
Barbara Richmond	1 460	510
Margot Scheltema	6 716	5 608
Jürgen Steinemann	3 632	2 922
Antonio Trius	3 472	2 522

Executive Committee

Lonza shares (numbers)	2015	2014
Richard Ridinger	25 906	14 000
Sven Abend	0	0
Marc Funk	12 049	1 685
Toralf Haag	15 736	11 489
Beat In-Albon	6 404	1 041

Minimum Shareholding Requirements:

CEO: 2 times Base Salary
Other Executive Committee: 1 times Base Salary
Other Sr. Managers: Annual LTIP Grant Value

Shareholdings measured at the end of January in each calendar year.

Five years to achieve minimum requirements.

Report of the Statutory Auditor

Report of the Statutory Auditor to the General Meeting of Lonza Group Ltd, Basel

We have audited the remuneration report dated 31 December 2015 of Lonza Group Ltd for the year ended 31 December 2015. Our audit was limited to the information according to articles 14–16 of the Ordinance Against Excessive Compensation in Stock Exchange Listed Companies contained in sections 3.3, 4.3, 4.4 and 4.5, on pages 105 to 109 of the Remuneration Report included in the Lonza Annual Report.

Responsibility of the Board of Directors

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance Against Excessive Compensation in Stock-Exchange-Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

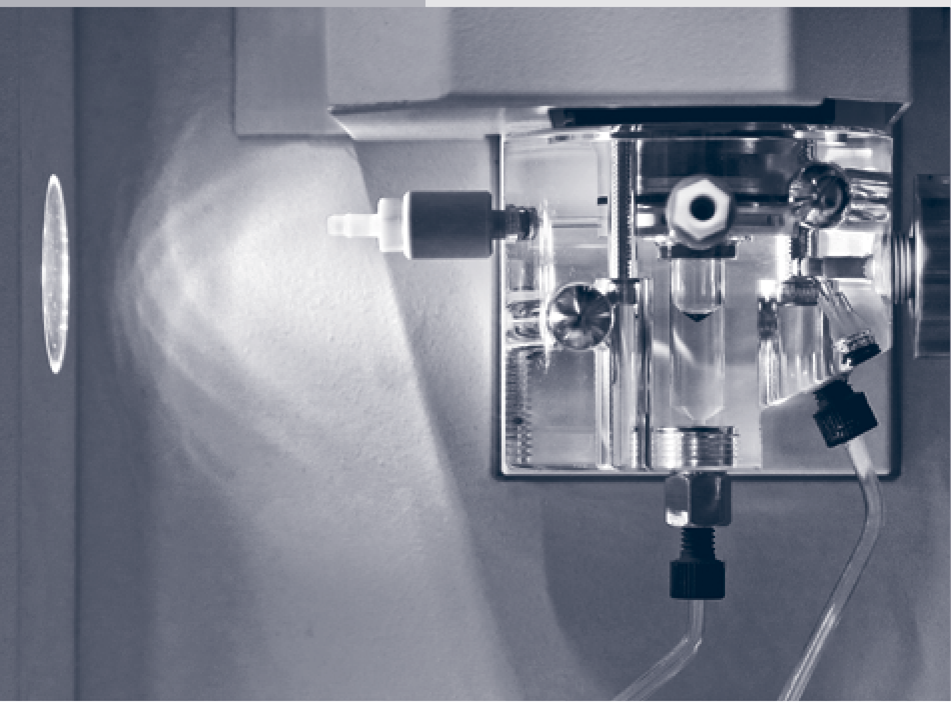
In our opinion, the remuneration report for the year ended 31 December 2015 of Lonza Group Ltd complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Michael Blume	*Florin Janine Krapp*
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, 8 March 2016

Corporate Governance Report



This Corporate Governance Report presents the structure, rules and processes that form the basis of Lonza's corporate governance. The Report follows the structure of the SIX Swiss Exchange's Directive on Information relating to Corporate Governance.

The principles and rules of Lonza's corporate governance are laid down in the Lonza Articles of Association[1] and in the Regulations Governing Internal Organization and Board Committees[2], including their Charters. In the implementation of its corporate governance, Lonza follows the Swiss Code of Best Practice for Corporate Governance issued by the Swiss Business Federation economiesuisse.

1 www.lonza.com/aoa
2 www.lonza.com/orgreg

1 Group Structure and Shareholders

1.1 Operational Group Structure

Board of Directors

Executive Committee (EC) CEO — CFO — COO — COO — CSO[3]

Segments	Operational Units	Corporate Functions	Business Service Organization
Pharma&Biotech Specialty Ingredients			

3 As of 1 January 2016, Sven Abend, Chief Strategy Officer (CSO), was appointed COO of the Specialty Ingredients segment to replace Beat In-Albon. As a result, the Executive Committee has been reduced from 5 to 4 members, and the position of CSO is no longer part of the Executive Committee.

Segments Lonza's activities are organized into two segments:

- The **Pharma&Biotech** segment covers Custom Development and Manufacturing offerings directed to pharmaceutical markets, as well as offerings from Lonza's Bioscience Solutions business for the BioResearch market. It includes five business units: Mammalian Manufacturing, Chemical and Microbial Manufacturing, Emerging Technologies, Clinical Development Licensing and Bioscience Solutions. This all-encompassing segment offers pharmaceutical and biotech industries Lonza's recognized development and manufacturing know-how and broad technology platform. For further details about the Pharma&Biotech segment, see the Pharma&Biotech section of the Lonza Annual Report, Corporate Overview, on pages 56ff.
- The **Specialty Ingredients** segment includes consumer-oriented offerings with five business units: Consumer Care, Agro Ingredients, Industrial Solutions[4], Wood Protection[5] and Water Treatment. For further details about the Specialty Ingredients segment and its business units, see the Specialty Ingredients section of the Lonza Annual Report, Corporate Overview, on pages 42 ff.

4 As of 1 January 2016, the business unit Industrial Solutions was renamed "Coatings and Composites".
5 As of 1 January 2016, the business unit Wood Protection was integrated into the Agro Ingredients business unit.

Operational Units Lonza's Operational Units are divided into four units: Pharma&Biotech Operations and Research & Technology, along with Specialty Ingredients Operations and Research & Technology.

Corporate Functions The Corporate Functions include Human Resources, Finance & Controlling, IT, Corporate Development, Engineering, Legal / IP, Logistics and Purchasing, Quality, Corporate Communications and Investor Relations and Environment, Health and Safety.

Business Service Organization The Business Service Organization is a global organization that supports our market activities by implementing corporate guidelines and driving service excellence.

Holding Company and Listed Companies Lonza Group Ltd, with registered office in Basel (CH), is the ultimate parent company of the Lonza Group. Except for Lonza Group Ltd, no company belonging to the Lonza Group is listed. Please refer to Section 2.4, page 125, for information on the listed shares, the stock exchanges on which Lonza Group Ltd is listed and the market capitalization.

Principal Subsidiaries and Joint Ventures The principal subsidiaries and joint ventures of the Lonza Group are shown on pages 78 and 79 of the Lonza Financial Report 2015.

1.2 Significant Shareholders

According to disclosure notifications filed with Lonza, the following shareholders held more than 3% of the Lonza share capital as of 31 December 2015:

Principal Shareholders

	Number of shares	%
BlackRock, Inc., New York, NY (USA)[1]	3 124 779	5.90
Massachusetts Mutual Life Insurance Company, Springfield, MA (USA)	1 655 977	3.13
UBS Fund Management (Switzerland) AG, Basel (CH)	1 608 429	3.04

1 On 7 March 2016, BlackRock, Inc. announced that it exceeded the 10% threshold as of 1 March 2016 (10.04%; 5 313 196 shares).

Lonza knows of no other shareholder(s) that owned more than 3% of its share capital as of 31 December 2015. To Lonza's best knowledge, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza or the exercise of shareholders' rights. For a full review of the individual disclosure notifications made during 2015, please refer to the SIX Swiss Exchange disclosure platform[2] or the Lonza website[3].

2 https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

3 www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings

1.3 Cross-Shareholdings

Lonza Group Ltd has not entered into any cross-shareholdings.

2 Capital Structure

2.1 Share Capital

As of 31 December 2015, Lonza's share capital amounted to CHF 52 920 140, fully paid-in and divided into 52 920 140 registered shares with a par value of CHF 1 each.

Shareholder Structure

	[1] 2015		[1] 2014	
	Shareholders %%	Shares %	Shareholders %	Shares %
Switzerland	85.66	24.29	85.49	26.17
United Kingdom	1.13	19.10	1.29	19.05
USA	4.03	6.12	4.51	6.34
Others	9.17	9.50	8.70	5.94
Shares in transit		39.79		40.79
Treasury shares without voting rights	0.01	1.20	0.01	1.71
Total	**100.00**	**100.00**	**100.00**	**100.00**
Total number of shares		52 920 140		52 920 140

1 As of 31 December

Share Register

	[1] 2015	[1] 2014
Registered shareholders	11 947	13 474
Registered shares	31 865 033	31 265 187
Share distribution:		
1– 100	4 832	5 579
101– 1 000	6 078	6 858
1 001– 50 000	845	959
50 001– 100 000	144	34
100 001–1 000 000	44	41
over 1 000 000	4	3
Total registered shareholders	11 947	13 474

2.2 Authorized and Conditional Capital

Authorized Capital The Board of Directors is authorized to increase, at any time until 8 April 2017, the share capital of Lonza through the issuance of a maximum of 5 000 000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. This authorized capital was created by the Annual General Meeting held on 8 April 2015. The additional terms and conditions of the authorized capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4ter of the Lonza Articles of Association[2].

2 www.lonza.com/aoa

Contingent Capital Lonza's share capital may be increased through the issuance of a maximum of 5 029 860 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 029 860. This contingent capital (also called conditional capital) was created by the Annual General Meeting on 11 April 2005. The additional terms and conditions of the conditional capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4bis of the Lonza Articles of Association[1].

According to Article 4quater of the Lonza Articles of Association[1], the capital increases in the form of contingent capital and authorized capital may increase Lonza's share capital by a maximum aggregate amount of CHF 5 029 860.

1 www.lonza.com/aoa

2.3 Changes in Capital

The share capital has not changed in the last three financial years.

	[2] 2015	[2] 2014	[2] 2013
Share capital in CHF	52 920 140	52 920 140	52 920 140
Registered shares	52 920 140	52 920 140	52 920 140
Par value in CHF / share	1	1	1

2 As of 31 December

2.4 Shares and Participation Certificates

Lonza registered shares, with a par value of CHF 1 each, are listed on the SIX Swiss Exchange (SIX), with secondary listing on the Singapore Exchange Securities Trading Limited (SGX-ST). In Switzerland they are included in the Swiss Leader Index (SLI).

Lonza has not issued any participation certificates (*Partizipationscheine*, non-voting shares).

Security numbers: (i) SIX: 001384101 (valor), ISIN CH0013841017, stock symbol: LONN VX (Telekurs); (ii) SGX-ST stock code: O6Z

On 31 December 2015, Lonza had a market capitalization of CHF 8 631 million (2014: CHF 5 937 million).

2.5 Profit-Sharing Certificates

Lonza has not issued any non-voting equity security (*Genussscheine*, profit-sharing certificates).

2.6 Limitations on Transferability and Nominee Registrations

Purchasers of registered shares declaring that they have acquired these shares in their own name and for their own account will be entered without limitation as shareholders with voting rights in the share register. Persons who do not declare to have acquired the respective shares in their own name and for their own account are considered "nominees" and will be entered with voting rights in the share register up to a maximum of 2% of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Lonza Articles of Association[1]. This restriction may only be removed by a resolution of the Shareholders' Meeting with a quorum in accordance with Swiss law.

1 www.lonza.com/aoa

2.7 Convertible Bonds and Options

Convertible Bonds Neither Lonza Group Ltd nor any of its subsidiaries has outstanding convertible bonds.

Options As of 31 December 2015, no options or warrants to acquire shares issued by or on behalf of Lonza Group Ltd were outstanding.

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is made up of nine non-executive members:

Name	Nationality	Year of birth	Position held	Year of initial appointment	Expiration of current term of office	Independence
Rolf Soiron	Swiss	1945	Chairman of the Board of Directors Member of the Innovation and Technology Committee	2005	2016	Independent
Patrick Aebischer	Swiss	1954	Vice Chairman of the Board of Directors Chairman of the Innovation and Technology Committee	2008	2016	Independent
Werner Bauer	German	1950	Member of the Board of Directors Member of the Innovation and Technology Committee	2013	2016	Independent
Thomas Ebeling	German	1959	Member of the Board of Directors Member of the Nomination and Compensation Committee	2013	2016	Independent
Jean-Daniel Gerber	Swiss	1946	Member of the Board of Directors Chairman of the Nomination and Compensation Committee	2011	2016	Independent
Barbara Richmond	British	1960	Member of the Board of Directors Member of the Audit and Compliance Committee	2014	2016	Independent
Margot Scheltema	Dutch	1954	Member of the Board of Directors Chairwoman of the Audit and Compliance Committee	2012	2016	Independent
Jürgen Steinemann	German	1958	Member of the Board of Directors Member of the Nomination and Compensation Committee	2014	2016	Independent
Antonio Trius	Spanish	1955	Member of the Board of Directors Member of the Audit and Compliance Committee	2013	2016	Independent

The assessment of the *independence* of the members of the Board of Directors is made pursuant to Article 14 of the Swiss Code of Best Practice for Corporate Governance. Independent members shall mean non-executive members of the Board of Directors who have never been members of the Executive Committee, or were members thereof more than three years ago, and who have no or comparatively minor business relations with the company.

3.2 Activities and Functions of the Members of the Board of Directors

Rolf Soiron

Rolf Soiron Holds a PhD in history from the University of Basel and a PMD from the Harvard Business School.

Chairman of the Board of Directors of Lonza Group Ltd (since 2005)

Current activities and functions:

- Chairman of the Council of the Foundation of the Graduate Institute of International and Development Studies, Geneva (since 2014) and Member of the Council (since 2010)
- Member of the Assembly Council of the International Committee of the Red Cross, Geneva (since 2010) and Member of the International Committee of the Red Cross, Geneva (since 2009)
- Chairman of the LafargeHolcim Foundation for Sustainable Construction (since 2003)
- Member of the Board of Directors of Jungbunzlauer Holding AG (since 1993)

Former activities and functions:

- Member of the Board of economiesuisse (2009–2015)
- Chairman of the Board of Directors of Holcim Ltd (2003–2014) and member of the Board (1994–2014)
- Chairman of the Foundation Council of Avenir Suisse (2009–2014)
- CEO ad interim of Lonza Group Ltd, Basel (January 2012–April 2012)
- Chairman of the Board of Directors of Nobel Biocare Holding Ltd (2003–2010)
- Chairman of the Basel University Council (1995–2005)
- Managing Director of Jungbunzlauer Group (2001–2003)
- CEO of Jungbunzlauer Group (1993–2001)
- Sandoz Group – COO and Head of Pharma in Basel (1992–1993), Group Vice-President Agribusiness USA in New York (1988–1992)
- Protek Group (orthopedic implants) – President and CEO (1983–1987)
- Sandoz Group – various functions in Human Resources, Finance and Corporate (1972–1983)

Patrick Aebischer

Patrick Aebischer Holds a doctorate in medicine from the University of Geneva. Has received numerous honors, including the Robert Bing Prize of the Swiss Academy of Medicine and the Pfizer Foundation Prize for Clinical Neurosciences.

Vice-Chairman of the Board of Directors of Lonza Group Ltd (since 2014) and Member of the Board of Directors (since March 2008)

Current activities and functions:
– Member of the Board of Directors of Nestlé SA (since April 2015)
– Chairman of the Advisory Board of the Novartis Venture Fund (since 2014)
– Member of the Foundation Board of the Wyss Center for Bio and Neuro Engineering (since 2014)
– Member of the Foundation Board of the World Economic Forum (since 2013)
– Member of the Singapore Biomedical Sciences International Advisory Council (since 2013)
– President of the Swiss Federal Institute of Technology of Lausanne (EPFL) and Professor of Neurosciences (since 2000)
– Fellow of the American Institute for Medical and Biological Engineering (since 2000)
– Fellow of the Swiss Academy of Medical Sciences (since 1998)
– Representative of the EPFL on the boards of various Swiss foundations

Former activities and functions:
– Member of the Board of Directors of Nestlé Health Science SA (2011–2015)
– Founder of three biotechnology companies

Werner Bauer Holds a diploma and PhD in Chemical Engineering from the University Erlangen-Nürnberg. Has received several scientific honors, among others the BioAlps Award 2011 and Honorary Senator from the Technical University of Munich.

Werner Bauer

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
– Member of the Board of Directors of Givaudan SA (since 2014)
– Member of the Supervisory Board of Bertelsmann SE & Co. KGaA (since 2012) and Chairman of the Board of Trustees of the Bertelsmann Foundation (since 2011)
– Member of the Supervisory Board of GEA-Group AG (since 2011)
– Chairman of the Supervisory Board of Nestlé Deutschland AG (since 2007)

Former activities and functions:
– Executive Vice-President of Nestlé S.A., Head of Innovation, Technology, Research and Development (2007–2013)
– Executive Vice-President of Nestlé S.A., Head of Technical, Production, Environment, Research & Development (2002–2007)
– Various managerial positions of increasing responsibility at Nestlé (1990–2002)
– Chairman of the Board of Directors of Galderma Pharma SA (2011–2014)
– Member of the Board of Directors of L'OREAL, France (2005–2012)
– Member of the Board of Directors of Alcon Inc., Switzerland (2002–2010)
– Director of the Fraunhofer Institute for Food Technology & Packaging (1985–1990)
– Professor of Chemical Engineering at the Technical University of Hamburg (1980–1985)

Thomas Ebeling Holds a Master's degree in Psychology from the University of Hamburg.

Thomas Ebeling

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
– Member of the Advisory Board / MPM Oncology Investments LLC (since January 2016)
– Member of the Advisory Board / Auris Luxembourg III S.à r.l. (since 2015)
– Founder of Better Life Healthcare (since 2015)
– Member of the Supervisory Board of Bayer AG (since 2012)
– Adviser to TPG Biotech Fund (since 2011)
– CEO of ProSiebenSat1. Media SE (since 2009)

Former activities and functions:
– CEO of the Novartis Consumer Health Division (2007–2008)
– CEO of the global Novartis pharmaceuticals business (2000–2007)
– Head of Novartis Nutrition Division (1998–2000)
– General Manager of Novartis Nutrition for Germany and Austria (1997–1998)

Jean-Daniel Gerber

Jean-Daniel Gerber Holds a lic. rer. pol. in economics from the University of Bern. Was awarded an honorary doctorate by the Faculty of Economics and Social Sciences of the University of Bern.

Member of the Board of Directors of Lonza Group Ltd (since April 2011)

Current activities and functions:
- Chairman of the Association "Swiss Sustainable Finance" (since 2015)
- Vice-President of the Association "Platform Switzerland Europe" (since 2015)
- Member of the AO Alliance Foundation (since 2015)
- Chairman of the Board of the Swiss Investment Fund for Emerging Markets (SIFEM) (since 2011)
- Chairman of the Swiss Society for Public Good (since 2011)

Former activities and functions:
- Member of the Board of Directors of Credit Suisse Group Ltd (2012–2015)
- Director of the State Secretariat for Economic Affairs (SECO) with the title of State Secretary (2004–2011)
- Director of the Federal Office for Migration (then Federal Office for Refugees) in the Federal Department of Justice and Police (1997–2004)
- Executive Director at the World Bank (1993–1997) and Dean of the Executive Directors of the World Bank Group (1996–1997)
- Chief of Section for Developing Countries in the former Federal Office for Foreign Economic Affairs (1991–1992)

Barbara Richmond

Barbara Richmond Holds a first-class degree in Management Science from the University of Manchester Institute of Science and Technology in England. Is a Fellow of the Institute of Chartered Accountants in England and Wales.

Member of the Board of Directors of Lonza Group Ltd (since April 2014)

Current activities and functions:
- Group CFO of Redrow plc (since 2010)

Former activities and functions:
- Group CFO of Inchcape plc, (2006–2009)
- Non-Executive Director and Audit Committee Chair of Scarborough Building Society until its merger with The Skipton Building Society (2005–2009)
- Non-Executive Director, Senior Independent Director and Audit Committee Chair of Carclo Group PLC (2000–2006)
- Group CFO of Croda International plc (1997–2006) with dual role as Group CFO and President of Active Ingredients and Industrial Chemicals from 2002 to 2006
- Group CFO of Whessoe plc in1993 (1992–1997)
- Various financial roles in Alstom Group SA (1987–1992)
- Auditor and management consultant for Arthur Andersen (1981–1984)

Margot Scheltema Holds a doctorate in international law from the University of Amsterdam and a master of international affairs (MIA) from Columbia University in New York.

Margot Scheltema

Member of the Board of Directors of Lonza Group Ltd (since April 2012)

Current activities and functions:
- Member of the Supervisory Board of the Dutch Central Bank (since 2015)
- Member of the Central Plan Committee Dutch Planning Bureau (since 2014)
- Chair of the Monitoring Committee of the Dutch Pension Fund Code (since 2014)
- Counsel to the Enterprise Chamber of the Amsterdam Court of Appeal (since 2013)
- Member of the Supervisory Board of Warmtebedrijf Rotterdam (since 2011)
- Member of the Supervisory Board of TNT Express (since 2011)
- Member of the Supervisory Board of Schiphol NV (since 2010)

Former activities and functions:
- Vice-Chair of the Supervisory Board of Triodos Bank (2006–2015)
- Member of the Supervisory Board of ASR NV (2008–2015)
- Member of the Supervisory Board of the Rijksmuseum (2007–2015)
- External Member of the Audit Committee of the Dutch pension fund ABP (2010 to July 2014)
- Member of the Supervisory Board of ECN (2009–2013)
- Member of the AFM External Reporting Committee (2006–2012)
- Financial Director of Shell Nederland BV (2004–2008)
- Various managerial positions within the Shell Group (1985–2004)

Jürgen Steinemann Holds a degree in Economics and Business Management from the European Business School in Wiesbaden, London and Paris.

Jürgen Steinemann

Member of the Board of Directors of Lonza Group Ltd (since April 2014)

Current activities and functions:
- Member of the Board of Directors of Barry Callebaut AG (since 2015)
- Member of the Supervisory Board of Metro Group AG (since 2015)[1]
- Member of the Supervisory Board of Big Dutchman AG (since 2015)
- Member of the Supervisory Board of Ewald Dörken AG (since 2002)
- Member of the Board of the Swiss-American Chamber of Commerce (since 2011)

Former activities and functions:
- Chief Executive Officer of Barry Callebaut Ltd (2009–2015)
- Member of the Board of the Swiss-American Chamber of Commerce (2011–2015)
- Member of the Executive Board and Chief Operating Officer of Nutreco (2001–2009)
- Chief Executive Officer of Loders Croklaan (1999–2001)
- Various senior positions in business-to-business marketing and sales with the former Eridania Béghin-Say Group, ultimately in the "Corporate Plan et Stratégie" unit at the head office in Paris (1990–1998)

1 Jürgen Steinemann was elected as Chairman of the Supervisory Board of Metro Group AG on 19 February 2016.

Antonio Trius

Antonio Trius Holds a Bachelor in Organic Chemistry from the University of Barcelona, a PhD in Chemistry from the Autonomous University of Barcelona and a PDD in Business Administration from the IESE Barcelona.

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
- Member of the Board of Directors of MaxamCorp Holding S.L. (since 2014)
- Member of the Board of Directors of Azelis SA (since 2014)
- Member of the Supervisory Board of Altana AG (since 2012)

Former activities and functions:
- Member of the Board of Directors of Nubiola SL (2011–2015)
- CEO of Cognis GmbH (2001–2010)
- Executive Vice-President Care Chemicals North America Cognis BV (1999–2001)
- Vice-President Care Chemicals at Henkel KGaA (1997–1999)

3.3 Limitation of Number of Mandates

According to Article 26 of Lonza's Articles of Association[1], no member of the Board of Directors may hold more than:

- eight additional mandates in listed and non-listed companies, out of which not more than four mandates may be in listed companies;
- five mandates held at the request of Lonza or companies controlled by it; and
- ten mandates in associations, charitable foundations, trusts and employee welfare foundations.

The Chairperson of the Board of Directors may not hold more than eight additional mandates in listed and non-listed companies, out of which no more than three may be in listed companies.

Mandates shall mean mandates in the supreme governing body of a legal entity that is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control or in the same beneficial ownership are deemed to be a single mandate. Mandates in companies that are controlled by Lonza or that control Lonza are not subject to the limitation set forth above.

1 | www.lonza.com/aoa

3.4 Elections and Terms of Office

Each member of the Board of Directors is individually elected by the Annual General Meeting for a term of office of one year until the next Annual General Meeting. Board members may not serve more than nine complete terms of office on the Board of Directors. If deemed in the best interest of the Company, the Board of Directors can extend this limit.

The Chairperson of the Board of Directors is elected by the Shareholders' Meeting. The Vice-Chairperson is appointed by the members of the Board of Directors. The members of the Nomination and Compensation Committee are elected by the Shareholders' Meeting on an annual basis. The members of the other Board Committees are appointed by the Board of Directors. The Chairpersons of the Board Committees are nominated by the members of the respective Board Committees, except the Chairperson of the Nomination and Compensation Committee that is elected by the Board in corpore.

3.5 Internal Organizational Structure

The Board of Directors consists of the Chairperson, the Vice-Chairperson and the other Board members. In accordance with the Articles of Association[1], the number of members must be at least five.

1 www.lonza.com/aoa

The members of the Board of Directors sat on the following committees in 2015:

	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Rolf Soiron			Member
Patrick Aebischer			Chairman
Werner Bauer			Member
Thomas Ebeling		Member	
Jean-Daniel Gerber		Chairman	
Barbara Richmond	Member		
Margot Scheltema	Chairwoman		
Juergen Steinemann		Member	
Antonio Trius	Member		

Audit and Compliance Committee The Audit and Compliance Committee meets and consults regularly with the Executive Committee, the Lonza Audit Services and the external auditors to review the scope and results of their work and their performance, according to the Audit and Compliance Committee Charter[1]. Among other responsibilities, the Audit and Compliance Committee reviews (i) the external auditors' independence, (ii) the systems of internal control and financial reporting, (iii) the risk management system, (iv) compliance with laws, regulations and policies and (v) Lonza's financial statements and results (including releases). The Audit and Compliance Committee is empowered to decide the tasks assigned to it, and it regularly informs the full Board of Directors on all matters discussed and decided in its meetings. Internal and external auditors have full and free access to the Audit and Compliance Committee, which also oversees the Lonza Audit Services.

1 www.lonza.com/orgreg

Nomination and Compensation Committee The Nomination and Compensation Committee is entrusted with responsibilities that include the review and recommendation of compensation policies and plans (e.g. incentive compensation and equity plans) and the compensation[2] of the members of the Executive Committee. This Committee also makes an assessment to ensure that the area of nomination and compensation is in compliance with the standards set forth in the associated charter. Further, the Nomination and Compensation Committee is evaluating potential members of the Board of Directors. The Nomination and Compensation Committee is empowered to decide the tasks assigned to it and regularly informs the full Board of Directors on matters discussed in its meetings and submits proposals for Board decision in accordance with the Nomination and Compensation Committee Charter[2].

2 For more details on the duties and responsibilities of the Nomination and Compensation Committee regarding compensation, please refer to page 101 of the Remuneration Report.

Innovation and Technology Committee The Innovation and Technology Committee monitors potential technology breakthroughs, supports management in driving innovation projects and provides and facilitates contacts, e.g. with academia and research institutions. With regard to the tasks assigned to it, the Innovation and Technology Committee regularly informs the full Board of Directors on all matters discussed and decided in its meetings, in accordance with the Innovation and Technology Committee Charter[1].

Number of Meetings, Duration and Attendance

	Board of Directors	Audit and Compliance Committee (ACC)	Nomination and Compensation Committee (NCC)	Innovation and Technology Committee (ITC)
Number of meetings	7 (5 ordinary meetings and 2 extraordinary conference calls)	5	6	5
Average duration	Ordinary meetings: 6.5 hours Conference calls: 1 hour	2:15 hours	2:15 hours	2 hours
Overall attendance	92%	100%	100%	87%

The Regulations Governing Internal Organization and Board Committees[1] set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Executive Committee. The standing Board Committees provide support to the Board of Directors in their respective areas of responsibilities.

The Board of Directors meet with all members of the Executive Committee at each ordinary Board meeting for business updates and decisions to be taken. The CEO is a permanent guest of the Innovation and Technology Committee and is regularly invited to the meetings of the Nomination and Compensation Committee. The CFO attends all meetings of the Audit and Compliance Committee.

3.6 Areas of Responsibility

In accordance with the law and the Lonza Articles of Association[1], the Board of Directors is the supreme management body of the Group. The Board of Directors is responsible for the tasks assigned to it according to (i) Article 18 of the Company's Articles of Association[1] and (ii) the Regulations Governing Internal Organization and Board Committees (Article 2.8)[2]. The Board of Directors defines the strategic direction and is responsible for the ultimate management of Lonza as well as the supervision of the persons entrusted with Group management. It is responsible for issuing the necessary instructions especially with regard to compliance with the law, the Articles of Association, the regulations and directives. In compliance with law and the Articles of Association, the Board of Directors has – with the exception of non-delegable and inalienable duties – delegated the management of the company to the Executive Committee.

1 www.lonza.com/aoa
2 www.lonza.com/orgreg

The Board of Directors commits itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. On an annual basis, the Board undertakes a self-assessment process. The aim is to achieve continuous improvement in the functioning of the Board.

3.7 Information and Control Instruments

The Board of Directors ensures that it receives sufficient information from the Executive Committee to perform its supervisory duty and to make the decisions that are reserved for the Board of Directors through several means.

Board Information The Regulations Governing Internal Organization and Board Committees[2] confer on the CEO the duty to inform the Executive Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. In addition, during Board meetings, each member of the Board may request information from the other members of the Board, as well as from the members of the Executive Committee present on all affairs of the Company and the Group. Outside of Board meetings, each member of the Board may request from the members of the Executive Committee information concerning the course of business of the Company and the Group.

Regular Reports to the Board In addition to the documents required to pass resolutions, the Board of Directors receives the following reports:

- Monthly reports on the sales and earnings performance of the Group structured by segments.
- Reports on the cash flows, debt and debt-equity ratio, plus other relevant key figures for the Group on a quarterly basis.
- Qualitative assessments of the segments on a quarterly basis.
- Reports of the external audits for the full and half-year results (through the Audit and Compliance Committee).
- In cases involving extraordinary events of considerable commercial relevance, the Board of Directors receives direct, immediate information.
- Risk assessment reports submitted at least once per year; they are designed to provide the Board with a consistent, Group-wide perspective of key risks.

Internal Audit The Board of Directors, through the Audit and Compliance Committee, is supported by Lonza Audit Services. The Lonza Audit Services group comprises eight internal audit positions and reviews financial, operational and process activities of the Group with a risk-based audit program. They continually evaluate the adequacy and effectiveness of the system of internal controls and compliance with policies and procedures, and recommend appropriate action to correct deficiencies as they are identified. In 2015 they delivered 39 internal audit reports to the Audit and Compliance Committee.

Internal Control System Lonza has a system of internal financial and accounting policies, procedures and controls to provide a reasonable assurance – given the inherent limitations of all internal control systems to be implemented at an appropriate cost – that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded.

Compliance Instruments In addition to the above-mentioned control instruments, Lonza has implemented various other measures to improve compliance within the Group. The implementation of these measures is supervised by the Audit and Compliance Committee. One of these measures is the issuance of a Code of Conduct[1] that expresses Lonza's core principles and values in regard to professional business behavior. It also provides assistance in recognizing, understanding and complying with the laws and ethical standards that govern Lonza's business activities. The Code of Conduct is available to all employees and information about it has been widely circulated within the Group. Lonza employees have to pass iComply tests in online training courses, dealing with topics such as those addressed by the Code of Conduct, in particular antibribery, insider trading and conflicts of interest. In addition to these measures, Lonza offers a "whistleblower" hotline, which is operated by an external company. Cases disclosed through the "whistleblower" hotline are ultimately reported to the Audit and Compliance Committee.

1 | www.lonza.com/code-of-conduct

Risk Assessment The Board of Directors carries out risk assessments at least on an annual basis. The objective of the risk assessments is to make the principal risks to which Lonza is exposed more transparent and to improve the risk mitigations. In its 2015 assessment of Group risk, the Board of Directors of Lonza identified as the main risks: the dependency on few large products / customers in specific businesses of the Specialty Ingredient segment, the increasing challenges in the quality requirements, the operational execution and the securing of long-term contracts in the Pharma&Biotech segment.

For more details on risk management policy, financial risks (credit, liquidity and market risks) and enterprise risk management, please refer to financial note 28 on pages 64 ff. and note 30 on page 77 of the Consolidated Financial Statements.

4 Executive Committee

The members of the Executive Committee are appointed by the Board of Directors. The Executive Committee performs the duties assigned to it by the Board of Directors under the terms of the Regulations Governing Internal Organization and Board Committees[1]. It is responsible for leading Lonza and for developing and implementing the Lonza policy and strategy set out by the Board of Directors. The Executive Committee supports and coordinates the activities of the segments, the operational units, the corporate functions and the business service organization. The Executive Committee is also responsible for leadership development.

1 www.lonza.com/orgreg (Articles 4.1 and 4.3)

4.1 Members of the Executive Committee

New Composition of Executive Committee On 14 December 2015, Lonza announced that Beat In-Albon had decided to step down from his role as Chief Operating Officer for the Specialty Ingredients segment and his position on the Executive Committee with effect from 31 December 2015. Lonza further announced the appointment of Sven Abend as Chief Operating Officer Specialty Ingredients segment, to replace Beat In-Albon with effect from 1 January 2016. As a result, the number of members of the Executive Committee was reduced from 5 to 4 as of 1 January 2016.

As of 31 December 2015, the Executive Committee consisted of five members.

Name	Nationality	Year of Birth	Function
Richard Ridinger	German	1958	Chief Executive Officer
Toralf Haag	German	1966	Chief Financial Officer
Beat In-Albon	Swiss	1952	Chief Operating Officer Specialty Ingredients Segment
Marc Funk	Swiss	1960	Chief Operating Officer Pharma&Biotech Segment
Sven Abend	German	1968	Chief Strategy Officer

4.2 Activities and Functions of the Members of the Executive Committee

Richard Ridinger

Richard Ridinger Holds a degree in chemical engineering from the University of Karlsruhe.

Chief Executive Officer and Member of the Executive Committee (since May 2012)

Former activities and functions:

- Transfer and integration of Cognis GmbH into BASF (2011)
- Member of the Management Board and Executive Vice-President "Care Chemicals" of Cognis GmbH (2006–2010)
- SBU Head of "Cognis Care Chemicals" and member of the Cognis Executive Committee (2002–2006)
- Vice-President of the global "Care Chemicals Specialties" business of Cognis GmbH (2000–2002)
- Director global Skin Care Ingredients Business at Henkel KGaA / Cognis GmbH (1999–2000)
- Various positions at Henkel KGaA in R&D, Engineering and Production Management (1986–1999)

Toralf Haag

Toralf Haag Holds a degree in business administration from the University of Augsburg and a PhD from the University of Kiel.

Chief Financial Officer and Member of the Executive Committee (since August 2005)

Current activities and functions:

- Member of the Board of Fr. Sauter AG, Basel (since February 2014)
- Member of the Board of scienceindustries (since 2012)
- Member of the Board of Vereinigung Schweizer Finanzchefs (VSF) (since 2009)

Former activities and functions:

- Chief Financial Officer and Member of the Management Board at Norddeutsche Affinerie AG, Hamburg (2002–2005)
- CEO (President) Stamping & Frame Division of The Budd Company Detroit, a subsidiary of ThyssenKrupp Automotive (2000–2001)
- Director Finance, M&A and Corporate Development, The Budd Company Detroit (1997–1999)
- Assistant to the CEO of Thyssen Handelsunion AG, Düsseldorf (1994–1996)

Beat In-Albon

1 As of 31 December 2015, Beat In-Albon stepped down from his role as Chief Operating Officer of the Specialty Ingredients Segement and his position on the Executive Committee.

Beat In-Albon Holds a PhD in economics from the University of Fribourg.

COO Speciality Ingredients Market segment (since April 2013) and Member of the Executive Committee (since June 2012)[1].

Functions within Lonza:
- COO Life Science Ingredients Division (2012–March 2013)
- Head of Organic Fine & Performance Chemicals at Lonza (2003–2006)
- Member of the Lonza Management Committee (1999–2006)
- Head of Organic Fine Chemicals at Lonza (1998–2003)
- Joined Lonza in 1983 and held various managerial positions with Lonza Ltd, Basel

Former activities and functions:
- Member of the SGS's Operations Council (2007–2012)
- Head of Industrial Services Division at SGS (2009–2012)
- Head of Life Sciences Services Division at SGS (2007–2009)
- Member of the Board of Directors of Siegfried Holding Ltd (2011–2012)

Marc Funk

Marc Funk Holds a Master of Law from the University of Geneva and a Master of Law and Diplomacy from the Fletcher School (Tuft University, MA).

Chief Operating Officer Pharma&Biotech Segment (since May 2014) and Member of the Executive Committee (since April 2012)

Functions within Lonza:
- Group General Counsel (2009–March 2015) and Board Secretary (2009–April 2014)

Former activities and functions:
- Associate General Counsel of Merck Serono (formerly Serono) (2004–2008)
- Co-CEO and General Counsel of GeneProt (2000–2004)

Sven Abend

1 As of 1 January 2016, Sven Abend was appointed as Chief Operating Officer Specialty Ingredients segment to replace Beat In-Albon.

Sven Abend Holds a PhD in Chemistry from the Christian-Albrechts-Universität in Kiel, and a post-doctorate from the Department of Physics & Astronomy at the University of New York in Stony Brook

Chief Strategy Officer[1] and Member of the Executive Committee (since July 2014)

Former activities and functions:
- CEO of Kolb Ltd in Hedingen, Switzerland (2012–2014)
- Business Manager for Kolb's divisions focusing on specialty surfactants and custom manufacturing (2010–2012)
- Several senior positions in Global Product Management and ultimately as Director of Corporate Key Account Management at Cognis GmbH in Germany (2003–2010)
- Project Scientist for the R&D Home & Personal Care business at Unilever in the UK (2000–2003)

4.3 Limitation of Number of Mandates

Acccording to Article 26 of the Lonza Articles of Association[1], no member of the Executive Committee may hold more than:

- one additional mandate in a listed company;
- two additional mandates in non-listed companies;
- five mandates held at the request of Lonza or companies controlled by it; and
- ten mandates in associations, charitable foundations, trusts and employee welfare foundations.

1 www.lonza.com/aoa

Mandates shall mean mandates in the supreme governing body of a legal entity that is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control or in the same beneficial ownership are deemed to be a single mandate. Mandates in companies that are controlled by Lonza or that control Lonza are not subject to the limitation set forth above.

4.4 Management Contracts

Lonza Group Ltd has not entered into management contracts with companies or natural persons not belonging to the Group.

5 Compensation, Shareholdings and Loans

Details of Board and Executive Committee compensation are contained in the Remuneration Report (pages 99 ff.)

6 Shareholders' Participation Rights

6.1 Voting-Rights Restrictions and Representation

Only persons with valid entries in the share register are recognized as shareholders or usufructuaries. A shareholder may only be represented at the Annual General Meeting by a legal representative, another shareholder entitled to vote or the independent proxy. Persons who do not declare to have acquired their shares in their own name and for their own account are considered "nominees" and will be only entered with voting rights in the share register up to a maximum of 2% of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Lonza Articles of Association[1]. This restriction may only be removed by a resolution of a Shareholders' Meeting with a quorum in accordance with Swiss law.

1 | www.lonza.com/aoa

Each share has the right to one vote. The shares held by Lonza are not entitled to vote at the Annual General Meeting and bear no dividend.

Lonza may use an electronic voting system for all the resolutions to be taken at its Annual General Meetings. The Articles of Association[1] do not contain any other rules on electronic participation in the Shareholders' Meeting, nor specific rules on the issue of instructions to the independent proxy.

6.2 Statutory Quora

Except as otherwise stipulated by law, an absolute majority of the votes represented at the Annual General Meeting is required for resolutions and elections.

For certain important matters such as a change of the company purpose and domicile, the dissolution of the company without liquidation, and matters relating to capital changes, Article 704 of the Swiss Code of Obligations requires at least two-thirds of the voting rights represented and an absolute majority of the nominal value of shares represented.

6.3 Convocation of Shareholders' Meetings

Ordinary Shareholders' Meetings are called in accordance with the law and the Lonza Articles of Association[1]. Extraordinary Shareholders' Meetings must be called upon resolution of a Shareholders' Meeting or if demanded by one or more shareholders representing at least 5% of the share capital. Lonza posts the invitation to shareholders at least 20 days before the Annual General Meeting and publishes it on its website, as well as in the Swiss Official Gazette of Commerce.

6.4 Agenda

One or more shareholders representing together shares with a par value of CHF 100 000 may request an item to be included in the agenda of a Shareholders' Meeting. The request to include an item must be submitted in writing at least 40 days before the meeting, stating the item to be included and the motions.

6.5 Entry in the Share Register

Purchasers of Lonza shares may submit a request to be entered, without limitation, as shareholders with voting rights in the share register, provided they expressly declare that they have acquired these shares in their own name and on their own account. Special rules exist for persons who do not expressly declare in the entry application that they hold the shares on their own account (nominees) (see Section 2.6 page 126).

There are no special rules in the Lonza Articles of Association[1] concerning a deadline for entry in the share register. The share register will this year be closed on 15 April 2016 at 5 pm.

1 www.lonza.com/aoa

7 Changes of Control and Defense Measures

7.1 Duty to Make an Offer

According to the Swiss Stock Exchange Act[2], an investor who acquires more than 33⅓% of all voting rights (directly, indirectly or in concert with third parties) whether they are exercisable or not, is required to submit a takeover offer for all shares outstanding. No special opting-out or opting-up dispositions are contained in the Company's Articles of Association[1].

2 As per 1 January 2016, according to the Swiss Federal Act on Financial Infrastructure

7.2 Clauses on Change of Control

The employment agreements of the Executive Committee members contain certain clauses on change of control, which are outlined in the Remuneration Report (pages 114 and 115). In addition, Lonza's share-based compensation programs (E-STIP and LTIP) provide that unvested awards / blocked shares unconditionally vest upon change of control (see Remuneration Report, page 112).

8 Auditors

8.1 Duration of the Mandate and Term of Office of the Auditor in Charge

KPMG Ltd, Badenerstrasse 172, 8026 Zurich 4, Switzerland, has held the mandate as the external statutory auditors of Lonza Group Ltd and the Group since 1999.

The auditing company is elected for a term of one year. Michael Blume from KPMG Ltd has been the auditor in charge since April 2014. The Board of Directors proposes that KPMG Ltd be re-elected as auditors for the 2016 business year.

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 3.8 million in 2015 (2014: CHF 4.3 million) for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities.

8.3 Additional Honorarium

KPMG Ltd received a total fee of CHF 0.1 million in 2015 (2014: CHF 0.04 million) for services non-related to the audit of Group's annual financial statements. These services related to tax consulting.

8.4 Supervisory and Control Instruments vis-à-vis the Auditors

The Audit and Compliance Committee is responsible for evaluating the performance and independence of the external auditors on behalf of the Board of Directors. This evaluation occurs at least once a year. The criteria applied for the assessment include professional competence, sufficiency of resources, the ability to provide effective and practical recommendations and coordination of the external auditors with the Audit and Compliance Committee and senior management. In the reporting year, KPMG Ltd attended three Audit and Compliance meetings. In those meetings, the external auditors presented the 2015 audit strategy and their 2015 results. The Comprehensive Auditor's Report to the Board of Directors prepared by KPMG summarizes the reports presented to the Audit and Compliance Committee throughout the year.

Within the yearly approved budget, there is an amount permissible for non-audit services that the external auditors may perform. Within the scope of the approved and budgeted amount, the Chief Financial Officer can delegate non-audit-related mandates to the external auditors.

The Board of Directors has determined the rotation interval for the auditor in charge to be seven years, as defined by the Swiss Code of Obligations.

The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Lonza's management is responsible for preparing the financial statements and the reporting process, including the system of internal controls. The Audit and Compliance Committee is also responsible for overseeing the conduct of the activities by Lonza management and the external auditors.

The external auditor, KPMG Ltd, is responsible for expressing an opinion on the accounting records and the financial statements prepared in accordance with Swiss law and the Lonza Articles of Association[1]. KPMG Ltd is also responsible for expressing an opinion on the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes) prepared in accordance with the International Financial Reporting Standards (IFRS), which is issued by the International Accounting Standards Board (IASB), and with Swiss law.

KPMG also audited the Lonza Remuneration Report 2015 with respect to the information required by Articles 14 to 16 of the Ordinance Against Excessive Compensation in Stock-Exchange-Listed Companies.

1 www.lonza.com/aoa
2 www.lonza.com/news
3 www.lonza.com/news-reports-subscription
4 www.lonza.com/financial-reports

9 Information Policy and Key Reporting Dates

Lonza pursues a proactive and professional communication policy. Lonza publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts as required by the SIX Swiss Exchange. Ad hoc notices are made available on the Lonza website (pull system[2]). Lonza's website also provides a service that allows interested parties to receive, via e-mail distribution, free and timely notification of price-sensitive facts (push system[3]).

Corporate Communications reports directly to the Chief Executive Officer, while Investor Relations reports to the Chief Financial Officer. On basic matters of general corporate policy, Corporate Communications receives its directives from the Executive Committee.

Lonza provides the Annual Report, the Half-Year Results and Full-Year Results (on request only) to shareholders entered in the share register. These reports are also available on the Lonza website[4]. The invitation to the Annual General Meeting is published on Lonza's website and in the Swiss Official Gazette of Commerce. It is also sent by mail to the shareholders entered in the share register.

Lonza's website is regularly updated and provides relevant information such as share price development, news releases and presentations. It also contains an electronic version of the Annual Report 2015.

Media conferences and analyst meetings generally take place at Lonza's headquarters or by conference call. Lonza manages an annual program of investor meetings. Investors, potential investors and financial analysts are also welcomed at Lonza's headquarters in Basel.

Anticipated Key Reporting Dates
The list of all corporate events of special interest is subject to change during the year as dates are adjusted and added. Updated information is to be found on *www.lonza.com/investor-information*

Annual General Meeting for the 2015 Financial Year
22 April 2016, 10:00 am
Congress Center Basel, Switzerland

Half-Year Report 2016
20 July 2016

Full-Year Report 2016
25 January 2017

For Lonza's contact details, please refer to the inside cover page at the end of this Annual Report.

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Forward-Looking Statements

Forward-looking statements contained herein, which can be identified by terms like “believe”, “assume”, “expect” or similar expressions or implied discussion of potential new projects or future revenues, plans or intentions, are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainties. In addition to those discussed above, factors that could cause actual results to differ materially include 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; 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. All forward-looking statements are based on data available to Lonza at the time of preparation of this Annual Report. Lonza does not undertake to update any forward-looking statements contained in this Annual Report as a result of new information, future events or otherwise.

This publication is accessible online at www.lonza.com. In this report, “Lonza” and “the Group” refer to the whole group of Lonza companies, “Lonza Group Ltd” refers to Lonza Holding. Lonza is listed on the SIX Swiss Exchange, with a secondary listing on the Singapore Exchange Securities Trading Limited (“SGX-ST”). Lonza is not subject to the SGX-ST’s continuing listing requirements. Lonza is subject to the listing rules of the SIX Swiss Exchange. By publishing this Annual Report, Lonza fulfills its obligations under the SIX Swiss Exchange, as well as its obligation towards SGX-ST.

Lonza

Anticipated Key Reporting Dates

Annual General Meeting for the Financial Year 2015
22 April 2016, 10:00 am
Congress Center Basel Switzerland

Half-Year Report 2016: **20 July 2016**
Full-Year Report 2016: **25 January 2017**

Annual General Meeting for the Financial Year 2016
25 April 2017
Congress Center Basel, Switzerland

Listing and Security Information

Stock Exchange Listing/Trading
SIX Swiss Exchange, SGX Singapore Exchange

Common Stock Symbols
Bloomberg LONN VX
Reuters LONN VX
Telekurs LONN
SGX O6Z

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