Half-Year Report 2013

Lonza

Core Earnings and Financial Highlights for First Half-Year

Core[1] Earning Figures million CHF	2013	Change in %	[2]2012
Core result from operating activities (EBIT)	**213**	9.8	194
Margin in %	12.2		9.9
Core EBITDA	**346**	3.6	334
Margin in %	19.8		17.0
Core profit for the period	**127**	10.4	115
Core EPS basic (CHF)	**2.45**	9.9	2.23
Core EPS diluted (CHF)	**2.44**	9.9	2.22
Core RONOA in %	**11.8**	8.3	10.9

Financial Highlights (IFRS results) million CHF	2013	Change in %	[2]2012
Sales	**1 744**	(11.2)	1 964
EBITDA	**334**	3.7	322
Margin in %	19.2		16.4
Result from operating activities (EBIT) before Hopkinton impairment	**181**	11.0	163
Margin in %	10.4		8.3
Result from operating activities (EBIT) incl. Hopkinton impairment	**112**	(31.3)	163
Margin in %	6.4		8.3
Profit for the period	**41**	(51.2)	84
EPS basic (CHF)	**0.79**	(51.5)	1.63
EPS diluted (CHF)	**0.79**	(51.2)	1.62
Operational free cash flow	**68**	(76.1)	284
RONOA in % before Hopkinton impairment	**8.1**	9.5	7.4
RONOA in % including Hopkinton impairment	**6.6**	(10.8)	7.4
Net debt	**2 417**	(4.5)	2 531
Debt-equity ratio	**1.13**	(6.7)	1.21
Number of employees	**10 274**	(7.3)	11 084

[1] In the core results for the items "EBITDA", "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. "Core RONOA" does not include acquisition-related intangible assets. See also page 7.

[2] Includes Performance Products which were divested end of 2012.

Lonza Progresses Well with Transformational Activities and Delivers Better-than-expected Half-year CORE EBIT

- In the first half of 2013, the two market segments, Specialty Ingredients and Pharma&Biotech, performed better than expected on a CORE EBIT basis
- Company anticipates CHF 100 million reduction in cost base from optimized global manufacturing footprint and further optimizations by 2016
- Decision to concentrate and consolidate our future Microbial Biologics assets and activities at our Visp (CH) site. As a result, our Microbial Biologics plant in Hopkinton, MA (USA) will be phased down. This phasedown will not affect our obligations to existing Hopkinton customers
- Teva and Lonza announce mutual decision to discontinue biologics joint venture. This will reduce Lonza's committed investments in the next three years by more than CHF 150 million
- Carveout of Wood Treatment business with all strategic options to be considered
- Based on cost savings and on orders booked for Custom Manufacturing, Lonza confirms CORE EBIT growth of approximately 10% for 2013 and is set for further solid growth in 2014 and beyond

Overview

In the first half of 2013, Lonza successfully executed several previously announced strategic tasks and initiated activities to deliver long-term sustainable growth. From a results perspective, the two market segments, Specialty Ingredients and Pharma&Biotech, performed better than expected on a CORE EBIT basis in the first half of 2013.

Specialty Ingredients delivered a good performance, with substantially increased profitability in nearly all subsegments and in total. Positive developments such as the very strong demand for the agrochemical offerings, the good demand for high-performance products as well as the successful conclusion of the Arch integration balanced the significantly lower revenues in the recreational water business, where the cold and rainy weather led to a record low in the first six months, after a record high for the same period in the prior year.

In Pharma&Biotech new long-term custom manufacturing contracts were signed in the first half of the year and as a result production at the large-scale facility for mammalian cell culture in Singapore was adjusted to accommodate customer requirements. At the large-scale antibody drug conjugates (ADC) plant in Visp, there was a scheduled production shutdown in the first quarter to facilitate the planned expansion of capacity which is required to serve growing customer demand. In Hopkinton we focused on operational improvements and less on acquiring new projects. These unusual items resulted in lower revenues in the first half of 2013.

In the first half, we made significant progress in the optimization of our global manufacturing footprint, conducting detailed analyses and reviewing proposals for site consolidations. Measures to improve productivity, including the VispChallenge project, also moved forward with excellent results. In addition, we began to see strong growth projects take hold, with operational alignment.

In the first half, we announced the keystones for our optimized global manufacturing footprint. These optimizations will result in an anticipated cost-base reduction of CHF 100 million by the end of 2016, with the majority of activities to be completed by 2015.

Specific decisions

- Swords (IE) – as previously announced, the facility was closed in the second quarter of 2013 (35 employees impacted)
- On 24 July 2013, the Board of Directors decided to concentrate and consolidate our future Microbial Biologics assets and activities at our Visp site, where we have successfully operated small and large-scale assets for that technology for many years and to phase down our Microbial Biologics plant in Hopkinton, and approved an impairment of CHF 69 million which is booked in the first half of 2013. This phasedown will not affect our obligations to existing Hopkinton customers. Also our core EBIT target this year will not be influenced by this decision (it will lead to a headcount reduction of approx. 2/3 of the 300 employees by the end of the year 2013)
- After the termination of consultation with the staff representative of Lonza Bioscience Ltd, Lonza has decided the cessation of the activities on the Saint-Beauzire (FR) site in the fourth quarter of 2013 (13 employees impacted)

By the year 2015, 70 to 80% of the optimization activities will be completed, with the remainder expected to be completed by the end of 2016. We will continuously monitor and evaluate the progress of our transformational activities. The planned productivity improvements and measures concerning the manufacturing site footprint will fulfill the majority of the project goals.

Analyses carried out in connection with the business portfolio optimization led to the decision to undertake planning for the carveout of the Wood Treatment business in order to evaluate all strategic options for the future development of this business.

Following a strategic review of the Teva-Lonza joint venture (TL-JV) by the Lonza Board of Directors on 24 July 2013, the companies have agreed to discontinue their collaboration for the development, manufacturing and marketing of biosimilars. The discontinuation of the TL-JV, which began in 2009, will enable both companies to better advance their own strategies and efforts in serving those healthcare communities. Both companies will continue to explore opportunities to maximize the value of the investments and progress that the joint venture has made to this point, and remain in agreement that affordable, efficacious and safe biosimilar treatments will bring benefits to patients and better serve these markets.

With the discontinuation of the joint venture we will cease investing in areas that are no longer strategic to Lonza such as clinical developments and end product commercialization. In our assessment those investments in biosimilars will require more capital than initially planned and will also take more time until they reach the market. This is why we will in the future concentrate on our core competence in the areas of contract manufacturing and cell line development.

Over the past few years Lonza has built up relevant expertise and knowledge in the biosimilar area partly reflected in intellectual property rights. Currently, Lonza's accumulated investments amount to around CHF 100 million and we are now evaluating the options on how to utilize and exploit the assets in the future.

Financial Summary

- CORE EBIT increased by 9.8% to CHF 213 million
- EBIT before Hopkinton impairment increased by 11.0% to CHF 181 million
- EBIT including Hopkinton impairment stands at CHF 112 million
- Revenues at CHF 1 744 million (–11.2%) or –6.8% without Performance Products (divested in 2012)
- Operational free cash flow at CHF 68 million (CHF 284 million in the first half of 2012) due to high seasonal inventory levels in the Water and the Custom Manufacturing businesses
- Net debt decreased by 4.5% to CHF 2 417 million (compared with the first half of 2012) after payment of dividend. Net debt/EBITDA at 3.33×
- Capital expenditures at CHF 86 million, down 39.0%
- Successful placement of a CHF 300 million straight bond at favorable conditions

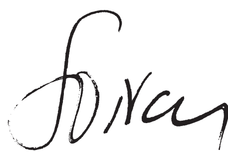
Outlook

Lonza has started to further strengthen its market position through concentration on key markets, product portfolio optimization, and a focus on serving global megatrends. With our improved manufacturing network in place, available capacities will be highly utilized over the next few years, resulting in an increased return on net operating assets.

Debt reduction remains a priority. All businesses are generating operating free cash flow, and this is enabling the company to further reduce net debt as planned. Capital expenditure remains at a forecast level of below CHF 300 million in 2013, including maintenance capital expenditures. Lonza has also refinanced on very favorable conditions via a straight bond. Based on new long-term contracts signed, good order book visibility, the initiated optimization of the global manufacturing footprint, the ongoing business portfolio optimizations and no macroeconomic changes, we are confident in providing the following outlook:

- For 2013 – reiteration of CORE EBIT growth of approximately 10%
- For 2014 – Lonza expects further double-digit CORE EBIT growth
- For 2015 – Lonza reiterates the target of an EBITDA margin of 20% and a net debt/EBITDA ratio of ~2×

Lonza is committed to respond flexibly and decisively to challenges and opportunities. We continue to focus and deliver on customers' expectations, while delivering shareholder value. Thank you for your continued confidence in our company.



Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Specialty Ingredients

Specialty Ingredients million CHF	2013	Change in %	2012
Sales	**1 132**	(9.0)	1 244
Sales without Performance Products	**1 132**	(1.6)	1 151
Core result from operating activities (EBIT)	**153**	13.3	135
Core EBIT margin in %	13.5		10.9
Core EBITDA	**209**	10.6	189
Core EBITDA margin in %	18.5		15.2

The Specialty Ingredients market segment is organized in five key, globally active markets: Water Treatment, Consumer Care, Agro Ingredients, Wood Protection and Industrial Solutions. The new organizational structure, introduced in early 2013, is now fully implemented and operational.

Lonza has leading positions in these five markets. Lonza's Recreational Water business (including our world-renowned HTH® family of pool treatments) is the world's largest supplier of swimming pool and spa treatment products. In the consumer markets, Lonza offers the largest portfolio of registered biocides for the hygiene and preservation markets. We are the world leader in niacin, and in Personal Care we offer a unique range of products that leverages the full range of technologies in the Lonza portfolio. Wood Protection provides leading microbial control products for pressure-treated wood and anti-sapstains. Lonza is also a leading provider of value chemical and biotech ingredients for the agrochemical markets and supplies a wide range of products and services to industrial markets.

Personal Care turned in a solid performance. The Antidandruff business was impacted by high inventory positions at customers at the beginning of 2013. A correction is expected in the second half. Specialty Ingredients sales for use in skin and hair care were slightly below the mid-year target, but exceeded the figure for the comparable period of 2012. New and innovative products for antiaging and antiacne actives, and a new natural preservative for cosmetic products were well received in the market.

Hygiene & Preservation experienced robust global demand for established products and saw the first benefits of the introduction of new, innovative products against norovirus and hospital-acquired infections. The Home Care and Industrial & Institutional subsegments benefited from solid global demand; however, prices came under pressure from aggressive competition in Europe. The introduction of Lonzagard™ RCS, a biocidal formulation providing shorter contact times in healthcare and institutional applications to combat norovirus, was well received in the market. Lonza experienced increasing interest for disinfectant wipes to combat hospital-acquired infections.

Nutrition Ingredients were ahead of target based on solid market demand. The Niacin business saw solid volumes and stabilizing margins in the first half of 2013. L-carnitine offerings (Carnipure™ and Carniking™) performed positively.

Agro Ingredients delivered strong growth coupled with high overall capacity utilization. In Custom Manufacturing for the crop protection industry, Lonza achieved high capacity utilization in most product groups. Production capacities at our key assets are fully utilized. The project for capacity expansion at our Visp asset park is running according to plan and startup is expected in the fourth quarter of 2013.

Growing industry interest in Lonza's agrochemical biotechnological development and manufacturing capabilities is reflected in a steadily expanding pipeline, which continued in the first half of 2013. The first commercial sales of production services were reported in the first quarter of 2013.

Meta™ (metaldehyde) benefited from good business conditions for the active substance due to heavy slug infestation in our main markets, above all in the UK and France. Sales were significantly above last year. Manufacture of formulated products in the new formulation plant in Visp (CH) is running smoothly, and commercial sales picked up in countries where we have obtained product registrations. In other countries, product approval is expected in the coming months.

Lonza is offering a number of formulation ingredients (Proxel™) to the agrochemical industry for preservation of ready-to-use crop protection formulations. Driven by strong overall market demand, the business performed above the previous year's level.

The launch and expansion of the Frexus™ product line, serving the agricultural industry in the area of plant nutrition (pre- and post-harvest treatments), are running according to plan. The focus has been on the Brazilian market, followed by expansion to other South American countries.

Water Treatment: After a record high last year, the Water business experienced record low revenues in the first six months due to cold and rainy weather in the main markets for recreational water, and revenues were significantly lower than last year and below target. This was also spurred by inventory control by our largest customers as the entire global business continues to adjust working capital and control costs to mitigate the effect of lower sales.

Industrial, Commercial and Municipality (ICM) markets continue to perform as expected. Development of sales in South America, as well as the growth of the merchant export business, were on target.

The proprietary feeder systems, which have a unique design and are sold under the Pulsar® and Constant-Chlor® brands, are gaining traction in servicing water wells in emerging countries. This market has substantial growth potential and we are well positioned with our custom-made feeder systems.

Wood Treatment: The global Wood Treatment business delivered on target in the first half of 2013. Inventory levels at customers were relatively high after some years of reduced construction activities. However, performance has significantly improved compared with the first half of 2012.

Sales in North America improved over last year spurred by the recovery in the US housing construction industry. Volume sales declined in industrial applications due to cooler weather conditions. In the Residential business, volumes were slightly below target, but better than the same period last year, despite a decision to exit low-margin businesses.

Industrial Solutions: The Industrial Solutions businesses enjoyed vigorous demand in nearly all areas and markets. The High Performance Materials group turned in a robust performance, driven mainly by strong sales of Primaset™ cyanate ester resins to the electronics industry and Lonzacure™ products for structural composites to aerospace customers.

The Materials Protection business performed in line with expectations across almost all application areas, especially construction products and antifouling paints. Especially good results were delivered in the first half-year in Japan and China.

Despite facing intense price competition in most areas, the Oleo Chemical Derivatives business delivered healthy margins by implementing strict cost controls. The Shale Oil and Gas Chemicals businesses were consolidated into one unit to offer a unified presence in the market. Demand for corrosion inhibitors and biocide products was high. Several new products were launched in the first half of the year and are expected to have a positive impact on the end-of-year results.

Pharma&Biotech

Pharma&Biotech million CHF	2013	Change in %	2012
Sales	**609**	**(14.6)**	**713**
Core result from operating activities (EBIT)	**73**	**(2.7)**	**75**
Core EBIT margin in %	12.0		10.5
Core EBITDA	**145**	**(7.6)**	**157**
Core EBITDA margin in %	23.8		22.0

The newly created Pharma&Biotech market segment is organized in three key markets: Custom Manufacturing, Custom Development Services, and Bioscience Solutions. With this new overarching market segment, Lonza has created an organization that is aligned with customer needs and provides a complete set of offerings to serve all customers in the pharmaceutical and biotechnology industry in every stage of their projects: from initial concept, through commercial launch, and even up to end-of-life-cycle supply.

Lonza develops and manufactures cells, buffers and media. It also offers proprietary gene expression systems for mammalian cell cultures and microbial fermentation. Further activities include the development of high-yielding and scalable chemical and biological production processes, as well as bulk drug substance manufacturing in a broad range of small-, mid- and large-scale manufacturing assets around the world. Lonza's technology offerings range from organic small molecules, via synthetic, biologically derived or recombinant peptides, highly active pharmaceutical ingredients (HAPI), antibody drug conjugates (ADCs) and cytotoxics, to mammalian cell cultures, microbial fermentation and cell and viral therapy.

Custom Manufacturing: In addition to the continued outsourcing trend, which remains firmly in place across the entire industry, the first half of 2013 showed that some pharmaceutical companies have started to reanalyze their in-house manufacturing strategy. Risk mitigation and security of supply considerations have led to a different dual-sourcing strategy, with a strong emphasis on partnering with custom manufacturers. This revised strategy led to new long-term contracts signed by Lonza with its pharma and biotech customers. Substantial contracts for both biological and chemically derived products were signed for commercial and late-stage clinical products at the end of the second quarter. Manufacture of these new products will start in the second half of this year, lifting capacity utilization in the second half of 2013 to planned levels and significantly improving the utilization visibility for 2014 and beyond. Solid development was seen in the project pipeline for product candidates in different stages of clinical trials. Customers appreciate the full service offering and the broad range of Lonza's technological toolbox.

Capacity utilization in our network in the first half of 2013 was on a lower level, as expected. Revenues in the first half of this year were lower compared with the same period last year. These lower results were influenced by the initiation of some major projects to prepare the ground for future growth. The first quarter saw a scheduled production stop at our antibody drug conjugates plant in Visp. This was necessary so that production capacity could be stepped up to meet the rapidly increasing market demand from customers with products in different stages of clinical trials. The further expansion of the antibody drug conjugates facility in Visp is on track and will come online in the middle of 2014.

Ensuring security of supply for customers of our new large-scale mammalian cell culture facility in Singapore necessitated various plant adaptations and more frequent product changeovers than usual. This resulted in an unwelcome shortening of the production cycle, which had a negative impact on batch releases, as well as sales and earnings in the first half. In addition, production capacities at our large-scale mammalian cell culture plant in Singapore were adapted to accommodate growing customer demand. This investment is included in the CAPEX guidance.

In the first half, significant progress was made on the optimization of our global manufacturing footprint. On 24 July 2013, the Board of Directors decided to concentrate and consolidate our future Microbial Biologics assets and activities at our Visp site, where we have successfully operated small and large-scale assets for that technology for many years and to phase down our Microbial Biologics plant in Hopkinton, and approved an impairment

Corporate

of CHF 69 million which is booked in the first half of 2013. This phasedown will not affect our obligations to existing Hopkinton customers. We plan to reduce our headcount on this site and will have restructuring costs of about CHF 34 million, which will be booked in the second half of 2013 (reduction of approx. ⅔ of the 300 employees by the end of the year 2013). Our core EBIT target this year will not be influenced by this decision.

Custom Development Services successfully launched the Developability Assessment Platform. This offers risk identification, and manufacturability and safety assessments, leading to reduced attrition rates for project candidates in early clinical trials.

The development services laboratories in Singapore are now fully operational for cell line construction and full process development. These service offerings from Singapore proved especially attractive for customers in Japan, resulting in the signing of five new contracts. The programs covered by these contracts include cell line construction and full process development and manufacturing. The Antibody Drug Conjugates Process Development Group was able to harness the power of Lonza's capabilities, signing an important agreement to develop a novel cytotoxic payload with potential for use in a wide range of ADC projects.

Bioscience Solutions turned in a solid performance in the first half of 2013. Against the background of the economic crisis in the USA and Europe, and smaller budgets, customer activities slowed down. But double-digit growth was realized in emerging markets, especially the BRIC countries. The Media business sustained its strong performance and the Sartorius collaboration, entered into in late 2012, is fully on track and providing the first benefits. The development of robust, cGMP-compliant processes for induced pluripotent stem cells (iPSCs) made good progress. Negotiations started with several companies for process development and manufacturing of iPSC-based therapies for a variety of clinical applications. The Cell Biology programs address new customer requirements for advanced cell models and cell-culture-related tools. Transfection, Molecular Biology and Research Media all faced a challenging market environment and aggressive competition in Europe and the USA. Testing Solutions saw strong endotoxin sales overall and stronger growth in Asian markets, which, unfortunately, was offset by lower demand in Europe and the USA.

Corporate million CHF	2013	2012
Sales	**3**	7
Core result from operating activities (EBIT)	**(13)**	(16)
Core EBITDA	**(8)**	(12)

Core Results as Defined by Lonza

Lonza believes that understanding in the financial markets of the Group's performance is enhanced by emphasizing the core results of performance, because the core results enable better comparison over a period of years. Therefore, the core results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets which can differ significantly from year to year. For this same reason, Lonza uses these core results, in addition to IFRS, as important factors in assessing the Group's performance. See also footnote in financial highlights on page one.

Condensed Financial Reports

Condensed consolidated balance sheet at 31 December 2012 and 30 June 2013 (unaudited) million CHF	2013	[1]2012 (restated)
Non-current assets	4 957	4 987
Long-term loans and advances	97	83
Total non-current assets	**5 054**	**5 070**
Current assets	1 672	1 535
Short-term advances	1	2
Cash and cash equivalents	275	429
Total current assets	**1 948**	**1 966**
Total assets	**7 002**	**7 036**
Equity attributable to equity holders of the parent	2 146	2 097
Non-controlling interests	0	(1)
Total equity	**2 146**	**2 096**
Long-term liabilities	1 142	1 208
Long-term debt	2 613	2 427
Total non-current liabilities	**3 755**	**3 635**
Short-term liabilities	924	917
Short-term debt	177	388
Total current liabilities	**1 101**	**1 305**
Total liabilities and equity	**7 002**	**7 036**

Condensed consolidated income statement for the six months ended 30 June (unaudited) million CHF	2013	[1]2012 (restated)
Sales	**1 744**	**1 964**
Cost of goods sold	(1 331)	(1 460)
Gross profit	**413**	**504**
Other operating expenses	(301)	(341)
Result from operating activities (EBIT)	**112**	**163**
Net financing costs	(58)	(54)
Share of loss of associates / joint ventures	(5)	(6)
Profit before income taxes	**49**	**103**
Income taxes	(8)	(19)
Profit for the period	**41**	**84**
Profit attributable to:		
Equity holders of the parent	41	84
Non-controlling interests	0	0
Profit for the period	**41**	**84**
Basic earnings per share – EPS basic (CHF)	0.79	1.63
Diluted earnings per share – EPS diluted (CHF)	0.79	1.62

[1] Restated to reflect changes from IAS19 (2011) (see note 1)

Condensed consolidated statement of comprehensive income for the six months ended 30 June (unaudited) million CHF	2013	[1]2012 (restated)
Profit for the period	**41**	**84**
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Re-measurements of defined benefit liability	107	(62)
Income tax on items that will not be reclassified to profit or loss	(33)	20
	74	**(42)**
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	46	12
Cash flow hedges	(2)	(3)
Income tax on items that are or may be reclassified to profit or loss	(2)	0
	42	**9**
Other comprehensive income for the period, net of tax	**116**	**(33)**
Total comprehensive income for the period	**157**	**51**
Total comprehensive income attributable to:		
Equity holders of the parent	157	51
Non-controlling interests	0	0
Total comprehensive income for the period	**157**	**51**

Condensed consolidated cash flow statement for the six months ended 30 June (unaudited) million CHF	2013	[1]2012 (restated)
Profit for the period	**41**	**84**
Adjustment for non-cash items	301	241
Income tax and interest paid	(79)	(63)
Total before change in net working capital	**263**	**262**
(Increase) / decrease of net working capital	(182)	95
Increase / (decrease) of other payables net	20	2
Net cash (used for) / provided by operating activities	**101**	**359**
Purchase of property, plant & equipment and intangible assets	(86)	(141)
Net purchase of other assets and disposals	(9)	15
Interest and dividend received	2	13
Net cash (used for) / provided by investing activities	**(93)**	**(113)**
Issue of straight bond	299	0
Repayment of straight bond	(300)	0
Increase / (decrease) in debt	(48)	(47)
Increase / (decrease) in other liabilities	(3)	(7)
Dividends paid	(112)	(111)
Net cash (used for) / provided by financing activities	**(164)**	**(165)**
Effect of currency translation on cash	2	1
Net (decrease) / increase in cash and cash equivalents	**(154)**	**82**
Cash and cash equivalents at 1 January	429	196
Cash and cash equivalents at 30 June	275	278

[1] Restated to reflect changes from IAS19 (2011) (see note 1)

Condensed consolidated statement of changes in equity for the six months ended 30 June (unaudited) million CHF	Attributable to equity holders of the parent								
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Trans-lation reserve	Treasury shares	Total	Non-controlling interest	Total equity
Six months ended 30 June 2012									
At 31 December 2011, as previously reported	**53**	**310**	**2 596**	**(1)**	**(491)**	**(110)**	**2 357**	**(1)**	**2 356**
Impact of change in accounting policies[1]	0	0	(218)	0	0	0	(218)	0	(218)
Restated balance at 31 December 2011	**53**	**310**	**2 378**	**(1)**	**(491)**	**(110)**	**2 139**	**(1)**	**2 138**
Profit for the period, as restated	0	0	84	0	0	0	84	0	84
Other comprehensive income, net of tax, as restated	0	0	(42)	(3)	12	0	(33)	0	(33)
Total comprehensive income for the period, as restated	**0**	**0**	**42**	**(3)**	**12**	**0**	**51**	**0**	**51**
Dividends	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	0	0	2	0	0	0	2	0	2
Transfer of employee shares	0	(4)	(1)	0	0	8	3	0	3
Restated balance at 30 June 2012	**53**	**306**	**2 310**	**(4)**	**(479)**	**(102)**	**2 084**	**(1)**	**2 083**
Six months ended 30 June 2013									
At 31 December 2012, as previously reported	**53**	**310**	**2 659**	**1**	**(532)**	**(84)**	**2 407**	**(1)**	**2 406**
Impact of change in accounting policies[1]	0	0	(313)	0	3	0	(310)	0	(310)
Restated balance at 31 December 2012	**53**	**310**	**2 346**	**1**	**(529)**	**(84)**	**2 097**	**(1)**	**2 096**
Profit for the period	0	0	41	0	0	0	41	0	41
Other comprehensive income, net of tax	0	0	74	(2)	44	0	116	0	116
Total comprehensive income for the period	**0**	**0**	**115**	**(2)**	**44**	**0**	**157**	**0**	**157**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	0	0	4	0	0	0	4	0	4
Transfer of employee shares	0	0	(3)	0	0	3	0	0	0
Changes in non-controlling interests	0	0	0	0	0	0	0	1	1
At 30 June 2013	**53**	**310**	**2 350**	**(1)**	**(485)**	**(81)**	**2 146**	**0**	**2 146**

[1] Restated to reflect changes from IAS19 (2011) (see note 1)

Selected Explanatory Notes

1. Accounting Principles

Basis of Preparation of Financial Statements

These condensed consolidated financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2013 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2012 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements for the year ended 31 December 2012, except for accounting policy changes made after the closing date of the annual financial statements.

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

Changes in Accounting Policies

The following new standards and amendments to existing standards have been adopted with a date of initial application as of 1 January 2013:

- Amendments to IAS 1 – Presentation of items of other comprehensive income
- Amendments to IAS 19 – Employee benefits (2011)
- IAS 27 revised – Separate financial statements (2011)
- IAS 28 revised – Investments in associates and joint ventures (2011)
- Amendment to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities
- IFRS 10 – Consolidated financial statements
- IFRS 11 – Joint arrangements
- IFRS 12 – Disclosure of interests in other entities
- IFRS 13 – Fair value measurement
- Annual improvements to IFRS 2009–2011 cycle – various standards
- Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12

These new standards and amendments to existing standards did not have a significant impact on the Group's consolidated financial statements, except for the changes due to the amended IAS 19 (2011) standard, the impact of which is outlined below:

IAS 19: Employee benefits (2011)

The following changes in the IAS 19 (2011) standard have the most significant impact on the interim financial statements:

1) The amendments eliminate the option to defer the recognition of actuarial gains and losses from defined benefit plans (corridor method), as previously applied by Lonza.
2) The concept of including the expected return on plan assets at an estimated rate of return is replaced by calculating interest on the net defined benefit obligation and plan assets using the discount rate that is used to discount the defined benefit obligation.

The changes due to IAS19 (2011) had an adverse impact on the consolidated income statement for the six-month period ended 30 June 2013, amounting to CHF 7 million for the result from operating activities and CHF 8 million for the financial result. As a consequence, the profit before income taxes is lower by CHF 15 million and the profit for the period is lower by CHF 12 million due to IAS 19 (2011) for the six months ended 30 June 2013.

The IAS19 (2011) standard requires retrospective application. As a result, all prior-period information has been restated, as listed below:

Restated condensed consolidated balance sheet at 1 January 2012 million CHF	As originally published	IAS19 (2011)	Restated
Non-current assets	5 113	(27)	5 086
Long-term loans and advances	56	0	56
Total non-current assets	**5 169**	**(27)**	**5 142**
Current assets	1 693	0	1 693
Short-term advances	2	0	2
Cash and cash equivalents	196	0	196
Total current assets	**1 891**	**0**	**1 891**
Total assets	**7 060**	**(27)**	**7 033**
Equity attributable to equity holders of the parent	2 357	(218)	2 139
Non-controlling interests	(1)	0	(1)
Total equity	**2 356**	**(218)**	**2 138**
Long-term liabilities	954	191	1 145
Long-term debt	2 725	0	2 725
Total non-current liabilities	**3 679**	**191**	**3 870**
Short-term liabilities	849	0	849
Short-term debt	176	0	176
Total current liabilities	**1 025**	**0**	**1 025**
Total liabilities and equity	**7 060**	**(27)**	**7 033**

Restated condensed consolidated balance sheet at 31 December 2012 million CHF	As originally published	IAS19 (2011)	Restated
Non-current assets	5 051	(64)	4 987
Long-term loans and advances	83	0	83
Total non-current assets	**5 134**	**(64)**	**5 070**
Current assets	1 535	0	1 535
Short-term advances	2	0	2
Cash and cash equivalents	429	0	429
Total current assets	**1 966**	**0**	**1 966**
Total assets	**7 100**	**(64)**	**7 036**
Equity attributable to equity holders of the parent	2 407	(310)	2 097
Non-controlling interests	(1)	0	(1)
Total equity	**2 406**	**(310)**	**2 096**
Long-term liabilities	962	246	1 208
Long-term debt	2 427	0	2 427
Total non-current liabilities	**3 389**	**246**	**3 635**
Short-term liabilities	917	0	917
Short-term debt	388	0	388
Total current liabilities	**1 305**	**0**	**1 305**
Total liabilities and equity	**7 100**	**(64)**	**7 036**

As a result of the implementation of IAS 19 (2011) at 31 December 2012, post-employment benefit assets were CHF 75 million lower, deferred tax assets were CHF 11 million higher, deferred tax liabilities were CHF 112 million lower and post-employment benefit liabilities were CHF 358 million higher.

Restated condensed consolidated income statement for the six months ended 30 June 2012 million CHF	As originally published	IAS19 (2011)	Restated
Sales	**1 964**	**0**	**1 964**
Cost of goods sold	(1 460)	0	(1 460)
Gross profit	**504**	**0**	**504**
Other operating expenses	(336)	(5)	(341)
Result from operating activities (EBIT)	**168**	**(5)**	**163**
Net financing costs	(46)	(8)	(54)
Share of loss of associates / joint ventures	(6)	0	(6)
Profit before income taxes	**116**	**(13)**	**103**
Income taxes	(22)	3	(19)
Profit for the period	**94**	**(10)**	**84**
Profit attributable to:			
Equity holders of the parent	**94**	**(10)**	84
Non-controlling interests	0	0	0
Profit for the period	**94**	**(10)**	**84**
Basic earnings per share – EPS basic (CHF)	1.82	(0.19)	1.63
Diluted earnings per share – EPS diluted (CHF)	1.81	(0.19)	1.62

Restated condensed consolidated statement of comprehensive income for the six months ended 30 June 2012 million CHF	As originally published	IAS19 (2011)	Restated
Profit for the period	**94**	**(10)**	**84**
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Re-measurements of defined benefit liability	0	(62)	(62)
Income tax on items that will not be reclassified to profit or loss	0	20	20
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	11	1	12
Cash flow hedges	(3)	0	(3)
Income tax on items that are or may be reclassified to profit or loss	0	0	0
Other comprehensive income, net of tax	**8**	**(41)**	**(33)**
Total comprehensive income for the period	**102**	**(51)**	**51**
Total comprehensive income attributable to:			
Equity holders of the parent	102	(51)	51
Non-controlling interests	0	0	0
Total comprehensive income for the period	**102**	**(51)**	**51**

Changes in Management Structure and Impact on Segment Information

On 4 February 2013, Lonza announced its plans to adapt the management structure of the company to focus on its target markets and to improve the effectiveness of its worldwide organizational structure and operations.

In alignment with Lonza markets, the previous Custom Manufacturing and Bioscience sectors were regrouped into one pharma market segments group. Microbial Control and Life Science Ingredients were regrouped into a specialty ingredients market segments group. Lonza identified the Pharma&Biotech and Speciality Ingredients segment as operating segments in accordance with IFRS 8 "Operating segments". Prior-year segment information has been restated accordingly.

For the six months ended 30 June 2012 million CHF	As originally published		Specialty Ingredients (restated)	As originally published		Pharma& Biotech (restated)
	Microbial Control	Life Science Ingredients		Custom Manufacturing	Bioscience	
Sales third-party	865	379	**1 244**	597	116	**713**
Inter-segment sales	6	33	39	20	6	26
Total sales	871	412	**1 283**	617	122	**739**
Goodwill impairment	0	0	0	0	0	0
Result from operating activities (EBIT)	87	25	**112**	59	8	**67**
Return on sales%	10.1	6.6	9.0	9.9	6.9	9.4

2. Exchange Rates

Balance sheet period-end rate CHF	30 06 2013	31 12 2012
US dollar	0.95	0.92
Pound sterling	1.44	1.48
Euro	1.24	1.21

Income statement half-year average rate CHF	2013	2012
US dollar	0.94	0.93
Pound sterling	1.45	1.46
Euro	1.23	1.20

3. Seasonality of Operations

All segments operate in business areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year, except for businesses within the Specialty Ingredients segment. In particular the water products business is seasonal in nature as its products are primarily used in the USA in summertime. Therefore, the results of the Specialty Ingredients segment for the six months ended 30 June 2013 are not indicative of the results to be expected for the entire financial year.

4. Impairment of Assets

The Group decided to concentrate and consolidate its future Microbial Biologics assets and activities at the Visp (CH) site and to phase down the Microbial Biologics plant in Hopkinton, MA (USA). As a consequence of the expected lower capacity utilization, the Group recognized an impairment of the Hopkinton-related property, plant and equipment of CHF 69 million, based on a value-in-use calculation, applying a pre-tax discount rate of 7.6%. The impairment loss is disclosed within cost of goods sold of the Pharma&Biotech segment. The phasedown will not affect Lonza's obligations to existing Hopkinton customers.

5. Debt

The straight bond (2009–2013) of CHF 300 million was repaid on 27 May 2013 and was refinanced by the issuance of a straight bond with the following terms:

CHF 300 million, due 10 April 2019, interest: 1.75% p.a., payable on 10 April, for the first time on 10 April 2014. The net proceeds of the bond amount to CHF 299 million per 10 April 2013, after considering up-front fees of CHF 2.3 million and an agio of CHF 1.3 million.

6. Dividends Paid

On 9 April 2013, the Annual General Meeting approved the distribution of a dividend of CHF 2.15 (2012: CHF 2.15) per share in respect of the 2012 financial year. The distribution to holders of outstanding shares totaled CHF 112 million (2012: CHF 111 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

7. Operating Segments

For the six months ended 30 June 2013 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate / Eliminations [1]	Group total
Sales third-party	**1 132**	**609**	**1 741**	**3**	**1 744**
Inter-segment sales	21	16	37	(37)	0
Total sales	**1 153**	**625**	**1 778**	**(34)**	**1 744**
Goodwill impairment	0	0	0	0	0
Property, plant and equipment impairment	0	(69)	(69)	0	(69)
Result from operating activities (EBIT)	**137**	**(7)**	**130**	**(18)**	**112**
Return on sales %	12.1	(1.1)	7.5	n.a.	6.4
Net financing costs					(58)
Share of loss of associates / joint ventures					(5)
Profit before income taxes					**49**
Income taxes					(8)
Profit for the period					**41**

For the six months ended 30 June 2012, restated million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate / Eliminations [1]	Group total
Sales third-party	**1 244**	**713**	**1 957**	**7**	**1 964**
Inter-segment sales	39	26	65	(65)	0
Total sales	**1 283**	**739**	**2 022**	**(58)**	**1 964**
Goodwill impairment	0	0	0	0	0
Result from operating activities (EBIT)	**112**	**67**	**179**	**(16)**	**163**
Return on sales %	9.0	9.4	9.1	n.a.	8.3
Net financing costs					(54)
Share of loss of associates / joint ventures					(6)
Profit before income taxes					**103**
Income taxes					(19)
Profit for the period					**84**

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

8. Financial Instruments

Carrying amounts and fair values of financial instruments by category million CHF	Carrying amount 30 06 2013	Fair value 30 06 2013
Financial assets – available for sale:		
Other investments – available for sale – carried at cost	5	5
Total financial assets – available for sale	**5**	**5**
Loans and receivables		
Trade receivables, net	603	603
Other receivables and accrued income	73	73
Short-term advances	1	1
Long-term loans	97	97
Cash and cash equivalents	275	275
Total loans and receivables	**1 049**	**1049**
Financial assets at fair value through profit or loss – held for trading:		
Currency-related instruments	2	2
Interest-related instruments	1	1
Total financial assets at fair value through profit or loss – held for trading	**3**	**3**
Financial liabilities at amortized cost:		
Long-term debt	2 613	2 665
Other short-term liabilities	491	491
Trade payables	281	281
Short-term debt	177	177
Total financial liabilities at amortized cost	**3 562**	**3 614**
Financial liabilities at fair value through profit or loss – held for trading:		
Currency-related instruments	12	12
Interest-related instruments	17	17
Total financial liabilities at fair value through profit or loss – held for trading	**29**	**29**

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).

Financial instruments carried at fair value at 30 June 2013 million CHF	Total fair value	Level 1	Level 2	Level 3
Assets				
Derivative financial instruments	3	0	3	0
Liabilities				
Derivative financial instruments	29	0	29	0
Net assets and liabilities measured at fair value	**(26)**	**0**	**(26)**	**0**

In 2013, 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.

9. Material Events Subsequent to the End of the Interim Period That Have Not Been Reflected in the Interim Financial Statements

On 24 July 2013, the Board of Directors decided to phase down the Hopkinton plant (see note 4) with a planned reduction in headcount. The Group expects restructuring costs of about CHF 34 million, which are not reflected in the Group's condensed half-year 2013 financial statements. The Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2013 for issue on 24 July 2013.

10. Operational Free Cash Flow

In 2013 and 2012, the development of operational free cash flow by component was as follows:

Components of operational free cash flow for the six months ended 30 June million CHF	2013	Change	2012
EBITDA	334	12	322
Change of operating net working capital	(182)	(277)	95
Capital expenditures in property, plant & equipment and intangible assets	(86)	55	(141)
Disposal of property, plant & equipment	2	(4)	6
Change of other assets and liabilities	0	(2)	2
Operational free cash flow	**68**	**(216)**	**284**

Forward-looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Statements herein regarding the proposed transaction between Lonza and Arch Chemicals, the expected timetable for completing the transaction, the potential benefits of the transaction, and any other statements about management s future expectations, beliefs, goals, plans or prospects also constitute forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty.

There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; uncertainties as to the timing of the tender offer and merger; uncertainties as to how many shareholders will tender their stock in the offer; the possibility that various closing conditions for the transaction may not be satisfied or waived; and the effects of disruption from the transaction making it more difficult to maintain relationships with employees, customers, and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this presentation was made.

The Half-Year Report 2013 is also available in German. The English version prevails.

Full-Year Report 2013
23 January 2014

Annual General Meeting
for the 2013 financial year
16 April 2014
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-Year Report 2014
24 July 2014

For publications and further information please contact:

Lonza Group Ltd
Muenchensteinerstrasse 38
4002 Basel, Switzerland
Tel +41 61 316 81 11
Fax +41 61 316 91 11
www.lonza.com

Investor Relations
Tel +41 61 316 85 40
Fax +41 61 316 95 40
investor.relations@lonza.com

Media / Corporate Communications
Tel +41 61 316 87 98
Fax +41 61 316 97 98
media@lonza.com

Share Register
c / o SIX SAG AG
P.O. Box
4601 Olten, Switzerland
Tel +41 62 311 61 33
Fax +41 62 311 61 93
lonza.aktienregister@sag.ch