Full-year Report 2012

Lonza

- Solid sales growth on comparable basis with stable market demand
- “Focus and Deliver” remain key principles in all businesses
  - Portfolio management progressing well, first streamlining executed
  - VispChallenge intensified and on track to deliver CHF 100 million in productivity improvements by 2015, with headcount reductions started
  - Arch Integration being finalized, with majority of measures implemented
- Microbial Control performed as expected and further strengthened its market position
- Although revenue increased in Custom Manufacturing, EBIT was impacted by ramp-up cost of new large-scale biological site in Singapore and quality-related expenses in Hopkinton
- Significant free-cash flow generation despite dividend payment, with deleveraging fully on track as guided
- 15% EBIT growth delivered, based on a 2011 EBIT of CHF 292 million (before acquisitions)
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2012
- Sir Richard Sykes and Gerhard Mayr, Board members in office for many years, have decided not to stand for re-election at the next Annual General Meeting on 9 April 2013. The Board of Directors is proposing to elect Dr. Antonio Trius and Prof. Dr. Ing. Werner J. Bauer as new members

Financial Highlights Full-Year

Financial highlights million CHF	2012	Change in %	2011
Sales	**3 925**	45.8	2 692
EBITDA	**640**	19.2	537
Margin in %	16.3		19.9
Result from operating activities (EBIT)	**335**	28.4	261
Margin in %	8.5		9.7
Profit for the period	**182**	18.2	154
EPS basic (CHF)	**3.52**	18.1	2.98
EPS diluted (CHF)	**3.50**	17.8	2.97
CORE[1]			
Result from operating activities (EBIT)	**398**	22.1	326
Margin in %	10.1		12.1
Profit for the period	**249**	10.7	225
EPS basic (CHF)	**4.81**	10.3	4.36
EPS diluted (CHF)	**4.79**	10.4	4.34
Operational free cash flow (before acquisition)	**506**	298.4	127
RONOA in %	**7.5**		6.9
Net debt	**2 301**	(13.1)	2 647
Debt-equity ratio	**0.96**		1.12
Number of employees	**10 789**	(1.9)	11 001

[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, other special charges / income from restructuring / acquisitions and the gain from the sale of the Performance Urethanes and Organics business are eliminated.

Overview The principles of “Focus and Deliver”, which we initiated as management’s guiding principles at the beginning of the year, delivered positive results. Following the Arch acquisition revenues increased by 45.8 % to CHF 3 925 million. Lonza’s broad technology toolbox attracted new customers in all areas and led to satisfactory capacity utilization at all sites. The volatile macroeconomic situation was challenging, but Lonza managed to balance most of the risks by delivering its extensive product portfolio to a diverse set of markets. The integration of the Microbial Control business acquired in October 2011 was implemented successfully and the new sector is consolidated on a full-year basis for the first time. Capital expenditure remained on a reduced level without jeopardizing growth projects and in accordance with guidance.

Investing in Growth In 2012, we continued to invest in promising growth projects driven by increased market demand and the need for new technologies. The Slough (UK) expansion for biological research and development and early-phase production is on track.

In Life Science Ingredients, new plants were successfully audited by several customers. Clients appreciate the reliability of supply and high quality standards Lonza provides. The new pyromellitic dianhydride (PMDA) production in Nanjing (CN) was qualified and is being ramped up. The Liyang (CN) plant was closed in the middle of 2012. A new investment in an agrochemical plant in Visp (CH) has been approved and is under construction.

Operating Overview In 2012, Lonza experienced solid demand in nearly all businesses, resulting in satisfactory capacity utilization. All audits by regulatory authorities were executed successfully for various technologies at several sites, among others the successful FDA audits in Braine (BE), Visp and Singapore, including pre-approval inspections by the EMA in the latter case. In 2012, Lonza provided a full response and completed qualification and validation procedures following the warning letter received in 2011 at our Hopkinton, MA (USA) site. Although the warning status is not yet resolved, it is anticipated that a re-inspection will take place in early 2013.

In December 2012, Lonza completed the divestment of the Group's Performance Urethanes and Organics business located in Brandenburg, KY (USA).

VispChallenge In 2011, Lonza initiated VispChallenge, a program to secure the future of the Visp site, both strategically and economically. Visp is the largest of Lonza's sites, but its profitability has been unsatisfactory over the past few years. The site is not only heavily exposed to competitive pressure from low-cost manufacturers, unfavorable exchange rates (continuously strong Swiss franc) and higher oil prices and energy costs, but it is also contending with a suboptimal product portfolio as well as challenging site complexity.

With VispChallenge, Lonza is working to ensure Visp remains a competitive and profitable site over the long term. Activities must be more focused on value creation by reducing the complexity of the site and improving cost structure and flexibility. This includes a review of business models and optimization of the portfolio. Such measures always also require improvements to staffing. This is why 400 positions will be taken out within 24 months. This reduction is being managed carefully. Natural attrition, early retirements, internal transfers and a reduction in the number of temporary workforces will help to keep the number of lay-offs low. A social plan has been agreed with the unions.

In 2012, there was also a review of Corporate Functions initiated. It will result in a reduction of 100 positions worldwide. The implementation of both measures is expected to be completed in 2015.

Financial Summary

- EBIT increased to CHF 335 million by 28.4 % (after acquisitions) or 14.7 % (before acquisitions).
- Operational free cash flow (before acquisitions) significantly increased to CHF 506 million by 298.4%.
- Net debt reduced from CHF 2 647 million to CHF 2 301 million by 13.1%, resulting in a gearing of 96% and a net debt/EBITDA ratio of 3.35 (before restructuring and Arch integration charges).
- Net working capital in relation to sales decreased to 23.5% in 2012 (23.9% in 2011).
- Capital expenditure at CHF 310 million.
- A dual-tranche straight bond has been issued:
  - CHF 200 million with a coupon of 2%, maturing in 2018
  - CHF 105 million with a coupon of 3%, maturing in 2022
- A certificate of indebtedness (Schuldscheindarlehen) has been placed as part of an inaugural dual-currency multi-tranche certificate of indebtedness, with a total value equivalent to EUR 170 million. The split between EUR and USD was 40 and 60 percent, respectively. The private placement has maturities of three, five, and seven years.

Dividend The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2012. Subject to approval by the Annual General Meeting, this dividend will be paid out of the reserves from capital contribution and free of Swiss withholding tax.

Board of Directors Sir Richard Sykes and Gerhard Mayr, Board members in office for many years, have decided not to stand for re-election at the next Annual General Meeting on 9 April 2013. The Board of Directors is proposing to elect Dr. Antonio Trius and Prof. Dr. Ing. Werner J. Bauer as new members:

– Dr. Antonio Trius brings long experience to the Board of Lonza in areas such as market positioning, portfolio management and the personal care industry. He was CEO of Cognis from 2001 to 2010. Prior to that he held various management positions with Cognis, Henkel and Pulcra. Since September 2011 he has been a Board member of Nubiola and since July 2012 a member of the Supervisory Board of Altana.
– Prof. Dr. Ing. Werner J. Bauer brings broad knowledge in areas such as innovation, technology and production management. Since 2007 he has been Head of Innovation, Technology, Research and Development at Nestlé S.A. Prior to joining Nestlé in 1990 he was a Director at the Fraunhofer Institute and a Professor of Chemical Engineering at the Technical University in Hamburg. He is a Supervisory Board member of GEA-Group AG and of Bertelsmann SE & Co. KGaA. He is Chairman of the Board of Trustees of the Bertelsmann Foundation, of the Board of Galderma Pharma and of the Supervisory Board of Nestlé Deutschland AG.

Senior Management In January 2012, the Board of Directors decided to change the top leadership of the company. The Chairman of the Board of Directors, Rolf Soiron, assumed responsibility as CEO ad interim, in addition to his board responsibilities, during a three-month transition period. In May, Richard Ridinger became the new CEO of the company.

Outlook Lonza strengthened its market position and balanced its risk portfolio through a successful integration of the Microbial Control sector. Progress was achieved in strategic strengthening of the Custom Manufacturing sector with new technologies. In 2013, these two sectors will contribute to the company's performance with new applications and new product approvals (e.g. in the areas of antibody drug conjugates, highly active pharmaceutical ingredients and peptides) as well as with broader product and service portfolios. Lonza expects increasing demand for agrochemical ingredients.

All businesses will generate significant free cash flow, enabling the company to reduce net debt as planned. Capital expenditure is forecasted to be approximately CHF 300 million in 2013, including maintenance capital expenditure.

This will lay the groundwork for a sustainable improvement in return on capital invested, which remains unsatisfactory. This is why Lonza will continue to face transformational challenges in 2013. Following the productivity improvement program in Visp, Lonza is now in the process of reviewing its global manufacturing footprint. In doing so, Lonza will identify best practices and productivity improvement opportunities throughout the organization. Additionally, Lonza will work on streamlining its administrative infrastructure. But business approaches, especially for all Lonza's go-to-market processes, will be the center of attention for management. The organizational structure of the company will be adapted accordingly.

Lonza is well equipped for a successful future, given its excellent technology platforms, global footprint, broad high-quality product and service offerings as well as its diversified customer base and, of course, its committed and highly skilled workforce. The year 2013 is likely to bring further macroeconomic challenges. But Lonza will be well positioned to tap into new opportunities. In 2013 Lonza expects further sales and EBIT growth and confirms the target of an EBITDA margin of 20% by 2015.

Lonza is committed to respond flexibly and decisively to challenges and opportunities. A key objective of Lonza's leadership and staff has been to focus and deliver on customers' expectations. This continues to be the case. But we also want to satisfy the interests of our other business partners and our shareholders.

Thank you for your continued confidence in our company.

Rolf Soiron
Chairman of the
Board of Directors

Richard Ridinger
Chief Executive Officer

Microbial Control

Microbial Control million CHF	2012	Change in %	2011
Sales	**1 625**	234.4	486
Change due to			
Volume and prices	(49)		
Currency translation	68		
Scope of consolidation	1 120		
Result from operating activities (EBIT) before special items	**120**		(8)
Margin in %	7.4		(1.6)
Gain from sale of Performance Urethanes and Organics business	18		0
Result from operating activities (EBIT)	**138**		(8)
Margin in %	8.5		(1.6)
EBITDA	**202**	1 342.9	14
Margin in %	12.4		2.9
Margin in % before special items	11.3		2.9

Sales for 2012 came in very close to target despite economic headwinds from the USA, Europe and China. A strong sales performance in the first half was led by a good start to the recreational water season in North America, robust sales in our Wood Protection business, the successful development of a new business in the oil and gas segment, and growth in our Hygiene and Material Protection businesses. During the second half of the year, demand was softer than anticipated in the major microbial and wood protection markets as working capital management became a higher priority for many customers, which resulted in different order patterns and shipment delays. Integration of the former Arch business continues to progress on schedule. Close management of the integration processes and the associated costs resulted in lower spending during the year.

Water Treatment The Recreational Water business had a good start to the season in North America, while in Europe it experienced a late start due to the weather. While the weather has an impact on this business in both regions, the economy also plays an important role in the overall success of the season. The North American water business saw lower volumes in the second half of the year as customers closely managed inventories and distributors reduced their demand, while the European market felt the impact of economic factors throughout the season.

Sales in Latin America were above those of the prior year but below expectations due to increased competition in the recreational water market as well as delayed regulatory approval for a new multi-functional active. Sales in South Africa were stable, with the business maintaining its market share and operating performance, despite significant increases in energy costs.

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.

Growth continued in the industrial water market. This was led by continued development of the Oil and Gas production treatment business, with new contracts signed for biocides, corrosion inhibitors and surfactants. This helped to offset weaker demand in Europe from traditional markets such as papermaking and industrial cooling and decreased demand in North America during the second half.

The **Hygiene & Preservation** business continued to grow steadily in North America while maintaining its position in Europe despite strong competitive pressure. These markets sustained stable growth in formulated products and the more complex active ingredients. This growth offset the increased price pressure on traditional bulk actives, particularly in Europe. In Asia the business continues to grow, focusing on smaller, specialized niche markets in hospitals, pharmaceutical manufacturing (clean rooms) and the hospitality sector.

Lonza Microbial Control is the leader in registered biocides for the hygiene and preservation markets. Our products are used in hard-surface disinfectants, sanitizers and cleaning products; in the institutional healthcare market; in the hotel and restaurant markets; in healthcare applications such as gauze bandages and topical wound treatments; in cleaning and sanitizing applications for pharmaceutical clean-room manufacturing; and in food hygiene treatments such as sanitizing beverage bottles.

The **Personal Care** business performed on target in 2012, with strong volumes in antidandruff and improved sales of preservatives, offsetting weaker specialty ingredient sales. The Antidandruff business grew steadily across all regions, and particularly well in China. Lonza's Zinc Omadine® biocide is the most popular active ingredient for antidandruff shampoo in the world.

The Preservation business experienced steady growth with new sales for many certified organic products. The Ingredients business had a challenging year, with declining demand mainly due to reformulations and net working capital considerations on the part of customers.

The pipeline of new products within the combined portfolio, which now includes biotechnological actives, delivery systems, natural and traditional preservatives, botanicals, antidandruff agents and functional ingredients, will provide the growth opportunities needed to improve the business in the future.

The **Wood Treatment** business was ahead of target for 2012. Increased demand in North American residential and industrial markets, together with strong traditional preservative volumes in South Africa, was sufficient to offset pricing pressure in North America and softer demand in the second half in both North America and Europe.

Early optimism for the US housing market created strong demand in North America in the first half. However, this position reversed in the second half, with renewed uncertainty about the direction of US fiscal policy. Sales in Europe were also softer in the second half, but still managed to meet expectations due to the steady growth in Northern Europe of traditional active ingredients, along with strong performance of the fire retardant and formulated product businesses. Robust growth was also experienced in South Africa and the Asia-Pacific region, particularly in the core residential construction markets.

The **Materials Protection** business was affected by depressed economic conditions in Europe and Asia, linked to the building products and marine antifouling markets. This trend was offset by a strong performance in North America. Weaker sales in these larger market segments were also mitigated by improved performance in other niche segments such as plastics, textiles, paper, and metal working fluids.

The marine antifouling market, linked to the shipbuilding industry, is gradually shifting to lower-cost Asian countries, resulting in increased competitive pressure. The building products markets, similarly to the Wood Protection business, showed some promising signs early in the year, which then reversed in the second half, resulting in reduced demand and tight management of inventories by key customers.

Lonza's Materials Protection business is a leader in antimicrobial control technologies for use in paints, coatings and other building products, adhesives and sealants, marine antifouling hull paints and aquaculture nets, polymer emulsions, metalworking fluids, textiles and plastics. Our biocidal actives and formulated products for the building products market deter the growth of mold and mildew on painted surfaces, wallboard, ceiling tiles and related building materials, which in turn helps protect human health and safety.

Integration Update Building the world's leading Microbial Control business: The Arch integration is progressing as planned and is on track to deliver cost synergies as expected. The annual cost savings target of USD 50 million within two years is fully on track, with all the cost-saving measures initiated and 65 % of synergies already delivered in 2012. We are on target to achieve increased sales of at least USD 40 million by the end of 2014, based on cross-selling activities. Office consolidations in the Americas, Europe and Asia were largely completed in 2012, including the corporate center in Norwalk, CT (USA), which closed in the fourth quarter. The approximate reduction in headcount through corporate duplication and natural attrition was 160 overall. Consolidation of supplier agreements is still in progress. The business continues to look for additional synergistic savings opportunities as the integration moves forward. Further progress is being made toward the harmonization of the IT systems to create a common SAP platform, with roll-out expected before the end of 2013. The Arch acquisition is EPS-accretive from year 1 at more than CHF 0.40 per share and EVA-positive as of 2012.

Divestiture of Performance Urethanes Lonza completed the divestiture of the Performance Urethanes and Organics business located in Brandenburg, KY (USA). The transaction was announced in November 2012 and completed on 28 December 2012. Following the Arch acquisition in October 2011, Lonza considered a divestiture of certain Arch businesses and assets. The Arch Performance Urethanes and Organics business had been a leading supplier of specialty urethane and organic chemicals for over 40 years, developing and manufacturing products used in applications including products for coatings, adhesives, sealants and elastomers ("CASE"), flexible and rigid foams, coolants and solvents. The business also supplies polyols, glycols and glycol ethers for such industrial applications as coolants, solvents and food additives.

Custom Manufacturing

Custom Manufacturing million CHF	2012	Change in %	2011
Sales	**1 320**	1.8	1 297
Change due to			
Volume and prices	(7)		
Currency translation	30		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**191**		228
Margin in %	14.5		17.6
Restructuring expenses	9		0
Result from operating activities (EBIT)	**182**	(20.2)	228
Margin in %	13.8		17.6
EBITDA	**323**	(17.8)	393
Margin in %	24.5		30.3
Margin in % before special items	25.2		30.3

Lonza further strengthened its leading market position thanks to innovation initiated by our customers and a solid outsourcing trend in combination with our deep expertise and broad technology toolbox.

Chemical Manufacturing In 2012, Lonza further strengthened its Chemical Manufacturing product pipeline in all clinical phases to more than 350 active projects and its manufacturing capacity utilization to above 75%. This trend was driven by our "Total Life Cycle Management" concept, development of the product portfolio as well as manufacturing services, from early product development to the post-patent generic stage. Lonza's new differentiating technologies – peptides, cytotoxics, antibody drug conjugates (ADC), highly active pharmaceutical ingredients (HAPI) and microreactor technology (MRT) – attracted many new customers and will continue to underpin Lonza's unique competitive position in the future. The Chemical Manufacturing business unit recovered from various product delays and project cancellations in 2011 and posted a significant improvement in 2012. In addition, the majority of the VispChallenge measures in this sector will be implemented in 2013, delivering efficiency benefits during the year.

The Chemical Manufacturing business unit continued its growth strategy, strengthening its manufacturing capacity and technology platforms. All major projects are on schedule, driven by customer demand:

– The first two build-out phases of the large-scale multi-purpose cGMP API (active pharmaceutical ingredients) plant in Nansha (CN) are now utilized by multiple customer projects after approval of the site by the FDA in late 2011.
– The new Nansha cGMP kilo-lab and an additional small-scale manufacturing train were successfully brought on line.
– The large-scale antibody drug conjugates project in Visp (CH) was finalized on schedule and the plant received FDA approval in the third quarter of 2012. A second expansion phase has started and will be finalized toward the end of the first half of 2014.
– Five additional HAPI labs in Visp, with capabilities for cytotoxic substances, are now fully operational and utilized.
– The new investment in additional cytotoxic API manufacturing capacity in Visp was started up.
– The new infrastructure investment in Braine (BE) has significantly increased the peptides manufacturing capabilities of the site.

The **Biological Manufacturing** business unit continued to operate with high batch success rates, above the industry average. Multiple new products and production campaigns pushed our mid- and large-scale asset utilization in 2012, including the new facility in Singapore, to above 70%.

Numerous initiatives and portfolio additions across our mammalian and microbial services and manufacturing offerings increased our current pipeline to more than 340 active projects.

The business made further progress with the execution of planned expansion projects, achieving a number of important milestones in 2012:

- The new Singapore facility successfully performed its first validation campaigns for multiple customers and was approved by the FDA in the fourth quarter of 2012.
- Expansion of the laboratories and manufacturing suites at our Slough (UK) facility is on track.
- The Hopkinton, MA (USA) site is fully operational, manufacturing multiple early-phase products for various customers. In close cooperation with the FDA and customers, the Hopkinton site made significant progress with its quality systems and equipment performance, and we expect the lifting of the warning letter ban in 2013 after a final FDA inspection.
- The harmonization programs for all mid- and large-scale mammalian manufacturing facilities are continuing. These programs enable our facilities to provide tailor-made capacity offerings for customers from 20 to 20 000 liters.

Development Services The AggreSolve™ technology, the highly potent cell lines (strategic collaboration with BioWa, POTELLIGENT® System) and the new media and feed systems (Lonza Bioscience) continue to experience strong customer interest.

Lonza also introduced Light Path™ program, a customized program offering streamlined process development, cell line development and custom material supply, from discovery to early clinical development.

In response to increasing customer demand, Lonza began expanding its Development Services platform in Slough and Singapore.

The continuously improved XS Microbial Expression™ platform, the new pDNA production platform, and the new fast-track program for strain development and clinical material supply continue to strengthen Lonza's leading position in the microbial biopharmaceuticals market.

Life Science Ingredients

Life Science Ingredients million CHF	2012	Change in %	2011
Sales	**742**	6.5	697
Change due to			
Volume and prices	32		
Currency translation	13		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**40**		40
Margin in %	5.4		5.7
Restructuring expenses	9		0
Result from operating activities (EBIT)	**31**	(22.5)	40
Margin in %	4.2		5.7
EBITDA	**100**	(4.8)	105
Margin in %	13.5		15.1
Margin in % before special items	14.7		15.1

In 2012, Life Science Ingredients realized increased net sales over 2011. The Agrochemical business turned in a strong performance and grew considerably compared with 2011, driven by a global increase in food demand. L-carnitine and the High Performance Materials business delivered solid growth. The Nicotinates business remained difficult, especially for feed applications, due to aggressive competition. All other market segments were in line with targets or grew well compared with last year.

In 2012, Life Science Ingredients' positive business results were underpinned by strong production plant capacity utilization. Also, the effects of the VispChallenge project were evident and contributed to the first positive results in 2012. The new Carniking™ / Carnipure™ plant in Nansha (CN) and the pyromellitic dianhydryde (PMDA) plant in Nanjing (CN) went on stream and started delivering in line with expectations. The outlook is for an improved performance in 2013 since the new assets in place will deliver throughout the year. In addition, the majority of the VispChallenge measures in this sector will be implemented in 2013, delivering efficiency benefits during the year.

Performance Intermediates experienced solid demand despite macro-economic uncertainties. The High Performance Materials business' Primaset™ cyanate esters performed well in spite of the generally weak global economy, which led to uncertainty in parts of the electronics industry. Strong demand continued for Lonzacure® and Primaset™ cyanate esters in the aerospace and construction industries. Sales of PMDA from the new production plant in Nanjing continued to grow in all markets.

Demand for agrochemical actives and intermediates as well as ISO-regulated custom manufacturing was strong throughout the year. Plant utilization was very high throughout 2012 and will continue to be so into 2013. The project portfolio for agrochemical actives and ISO-regulated intermediates is still growing. A further significant investment in capacity in the multi-purpose assets in Visp (CH), which was approved by the Board of Directors, is on track to start up at the end of 2013.

Demand for diketene and HCN derivatives softened somewhat in the fourth quarter of 2012 as customers managed year-end net working capital. Overall, the Basic Chemicals business delivered higher-than-expected sales and gross margins thanks to the excellent performance in the first half of 2012.

Nutrition Ingredients In 2012, the Nicotinates (vitamin B3) business faced a difficult market environment, especially for feed applications, due to reduced demand in certain regions and strong competition from China and India. The price level in vitamin B3 for feed applications was below that of previous years. Volumes and prices in food applications were steadier due to longer contract cycles and more specific quality requirements.

High raw-material costs were a further negative influence on margins. Despite this, growth in emerging markets was strong in the first half of 2012. First indications of market consolidation were seen in 2012 as some vitamin B3 manufacturers stopped production and left the market.

Carnipure™ (food/pharma grade L-carnitine) and Carniking™(feed grade L-carnitine) showed strong growth in volumes due to healthy demand from existing customers, and new business in current and emerging markets. The new site in Nansha came on stream and was able to provide additional volumes to meet growing demand. Several major global customers ran successful audits in our Nansha facility during 2012.

L-carnitine margins were squeezed in both food and feed applications due to the increasing presence of low-cost competitor products in the market.

Meta™ (metaldehyde) sales in 2012 were stronger compared with previous years due to high slug infestation in the UK. In other key markets (France, Germany, Italy, Spain) the slug population in the first half of 2012 was very low due to unfavorable weather conditions. However, Meta™ sales in the fourth quarter were extremely strong. Production of formulated products was successfully initiated at the new plant in Visp (CH), and the first sales of formulated Lonza slug pellets took place in the second half of 2012. Market launch in major European markets is expected in the first half of 2013.

ResistAid™ and DHAid™ vegetarian omega-3 from algae performed according to expectations.

Bioscience

Bioscience million CHF	2012	Change in %	2011
Sales	**228**	12.9	202
Change due to			
Volume and prices	21		
Currency translation	5		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**17**		13
Margin in %	7.5		6.4
Restructuring expenses	2		0
Result from operating activities (EBIT)	**15**	15.4	13
Margin in %	6.6		6.4
EBITDA	**34**	21.4	28
Margin in %	14.9		13.9
Margin in % before special items	15.8		13.9

Bioscience achieved significant sales and EBIT growth compared with 2011. Revenue growth was driven mainly by the Cell and Viral Therapy business, with strong increases in therapeutic cell culture media sales. Start-up delays in cell therapy operations restricted further growth. The Research and Testing Solutions businesses grew slightly, but below expectations, mainly due to the weak economic environment in the USA and Europe.

Therapeutic Cell Solutions posted a strong sales performance in spite of the divestiture of the Drug Discovery Service business. The increase was driven by higher cell/viral therapy process development and manufacturing revenues. Therapeutic media sales grew worldwide, with bottom-line results still below expectations but above last year's level, mainly due to start-up issues in Walkersville, MD (USA) and Singapore Cell Therapy operations. Process development was running at very high capacity, which is reflected in the increased number of pipeline projects.

The clinical pipeline is also growing strongly due to increased investment in cell and viral therapy by large pharmaceutical companies.

Clinical phase-III production started up in the Singapore Cell Therapy facility. To meet increased demand for viral manufacturing, the capacity expansion projects in Houston, TX (USA) were brought on line as planned.

Corporate

In 2012, Lonza and Sartorius Stedim Biotech established an exclusive collaboration in the area of therapeutic media. As a combined total solution provider for biotech production systems, media and buffer sales should outperform the competition significantly in the period ahead.

Research and Testing Solutions sales grew moderately compared with 2011, but delivered below expectations. The recession in Europe and persistently conservative spending in US governmental and academic institutes contributed to a reduction in Research sales growth. This was partially offset by growth in the Asia region.

Research products sales were higher compared with 2011 and ended slightly above target, driven by the introduction of new products and product-line extensions in the field of cell biology, transfection (the Nucleofector™ offering) and molecular biology, as well as strong sales development in Asia. In the Testing Solutions segment, endotoxin sales developed well in Europe and Asia, but stagnated in the USA on a high level. Overall, Testing products sales were slightly higher compared with 2011, but significantly below expectations, which was mainly due to the delay in the launch of microCompass™ II platform (microbiology testing). Significant progress was seen in the assay business, but because of the delay in equipment development at our collaboration partner, the launch is expected in 2014.

Investment projects in Singapore, Houston, TX (USA) and Walkersville (Cell/Viral Therapy) and the Hyderabad (IN) (R&D Center) are on schedule. Clinical phase-III manufacturing started up following complete validation of the Singapore Cell Therapy facility.

In January 2012, the Innovation group was reorganized and all R&D projects reviewed. Together, with the implementation of a solid portfolio management system, the number of R&D projects was reduced from 78 to 20 projects. Programs supporting the strategic initiative to focus on regenerative medicine and specific areas in the Research and Testing field were implemented. Our induced pluripotent stem cell (iPSC) programs progressed well, leading to sizeable projects funded by the National Institutes of Health (NIH). Proof of concept for suspension culture of adult stem cells was completed, allowing a possible approach to commercial scale-up of cell therapies. Technology Development projects also continued to consolidate our leadership positions in endotoxin and nucleofection technologies.

Corporate million CHF	2012	2011
Sales	**10**	10
Result from operating activities (EBIT) before special items	**(22)**	(12)
Restructuring expenses	9	0
Result from operating activities (EBIT)	**(31)**	(12)
EBITDA	**(19)**	(3)

Condensed consolidated balance sheet at 31 December million CHF	2012	2011 1)
Fixed assets	5 051	5 113
Long-term loans and advances	83	56
Total non-current assets	**5 134**	**5 169**
Current assets	1 605	1 693
Short-term advances and other financial assets	2	2
Cash and cash equivalents	429	196
Total current assets	**2 036**	**1 891**
Total assets	**7 170**	**7 060**
Equity attributable to owners of the parent	2 407	2 357
Non-controlling interests	(1)	(1)
Total equity	**2 406**	**2 356**
Long-term liabilities	962	954
Long-term debt	2 427	2 725
Total long-term liabilities and provisions	**3 389**	**3 679**
Short-term liabilities	987	849
Short-term debt	388	176
Total current liabilities and deferred items	**1 375**	**1 025**
Total liabilities and equity	**7 170**	**7 060**

[1] Restated to reflect final acquisition accounting of the Arch Chemicals Inc. acquisition

Condensed consolidated income statement million CHF	2012	2011
Sales	**3 925**	**2 692**
Cost of goods sold	(2 920)	(1 992)
Gross profit	**1 005**	**700**
Other operating expenses	(670)	(439)
Result from operating activities (EBIT)	**335**	**261**
Net financing costs	(95)	(73)
Share of profit of associates / joint ventures	(19)	(13)
Profit before income taxes	**221**	**175**
Income taxes	(39)	(21)
Profit for the period	**182**	**154**
Profit attributable to:		
Owners of the parent	182	154
Non-controlling interests	0	0
Profit for the period	**182**	**154**
Basic earnings per share – EPS basic (CHF)	3.52	2.98
Diluted earnings per share – EPS diluted (CHF)	3.50	2.97

Condensed consolidated statement of comprehensive income million CHF	2012	2011
Profit for the period	**182**	**154**
Other comprehensive income:		
Exchange differences on translating foreign operations	(42)	(14)
Cash flow hedges	2	7
Income tax relating to components of other comprehensive income	1	0
Other comprehensive income for the period, net of tax	**(39)**	**(7)**
Total comprehensive income for the period	**143**	**147**
Total comprehensive income attributable to:		
Owners of the parent	143	148
Non-controlling interests	0	(1)
Total comprehensive income for the period	**143**	**147**

Condensed consolidated cash flow statement million CHF	2012	2011
Profit for the period	**182**	**154**
Adjustment for non-cash items	457	371
Income taxes and interest paid	(93)	(77)
Cash flow before change in net working capital	**546**	**448**
(Increase) / decrease of net working capital	154	(126)
Increase / (decrease) of other payables net	10	(101)
Net cash (used for) / provided by operating activities	**710**	**221**
Purchase of fixed assets	(310)	(267)
Disposal of fixed assets	39	7
Acquisition of subsidiaries, net of cash acquired	0	(918)
Net purchase of other assets and disposals	(20)	(19)
Interest and dividend received	9	4
Net cash (used for) / provided by investing activities	**(282)**	**(1 193)**
Issue of straight bond	304	376
Issue of German private placement	206	0
Issue of syndicated loan	0	491
Repayment of syndicated loan	(50)	(500)
Raise of acquisition bridge financing	0	1 185
Repayment of acquisition bridge financing	(542)	(381)
Increase / (decrease) in debt	(1)	(62)
Increase / (decrease) in other liabilities	(3)	(2)
Purchase of treasury shares	0	(77)
Sale of treasury shares	5	4
Dividends paid	(111)	(111)
Net cash (used for) / provided by financing activities	**(192)**	**923**
Effect of currency translation on cash	(3)	(3)
Net (decrease) / increase in cash and cash equivalents	**233**	**(52)**
Cash and cash equivalents at 1 January	196	248
Cash and cash equivalents at 31 December	429	196

Condensed consolidated statement of changes in equity million CHF	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Translation reserve	Treasury shares	Total		
At 31 December 2010	**53**	**311**	**2 553**	**(8)**	**(478)**	**(44)**	**2 387**	**0**	**2 387**
Profit for the period	0	0	154	0	0	0	154	0	154
Other comprehensive income, net of tax	0	0	0	7	(13)	0	(6)	(1)	(7)
Total comprehensive income for the period	**0**	**0**	**154**	**7**	**(13)**	**0**	**148**	**(1)**	**147**
Dividends	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	0	0	4	0	0	0	4	0	4
Transfer of employee shares	0	(1)	(4)	0	0	5	0	0	0
Acquisition of treasury shares	0	0	0	0	0	(77)	(77)	0	(77)
Sale of treasury shares	0	0	0	0	0	6	6	0	6
At 31 December 2011	**53**	**310**	**2 596**	**(1)**	**(491)**	**(110)**	**2 357**	**(1)**	**2 356**
Profit for the period	0	0	182	0	0	0	182	0	182
Other comprehensive income, net of tax	0	0	0	1	(40)	0	(39)	0	(39)
Total comprehensive income for the period	**0**	**0**	**182**	**1**	**(40)**	**0**	**143**	**0**	**143**
Dividends	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	0	0	13	0	0	0	13	0	13
Transfer of employee shares	0	0	(15)	0	0	15	0	0	0
Sale of treasury shares	0	0	(6)	0	0	11	5	0	5
At 31 December 2012	**53**	**310**	**2 659**	**0**	**(531)**	**(84)**	**2 407**	**(1)**	**2 406**

Selected Explanatory Notes

1. Accounting Principles

Basis of Preparation of Financial Statements These condensed financial statements are based on the audited consolidated financial statements for the twelve-month period ended 31 December 2012 that will be prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

As a result of the acquisition of Arch Chemicals Inc. in October 2011 the comparability of the consolidated income statement 2012 and 2011 is limited. The Arch business has been combined with Lonza's existing Microbial Control business to create the new Lonza Microbial Control sector.

The accounting for the Arch Chemicals Inc. acquisition was finalized in 2012. The prior-year information in the consolidated financial statements 2012 has been restated to reflect changes compared with the provisional acquisition accounting published in the 2011 financial reporting.

Changes in Accounting Policies

The following new and revised standards and interpretations have been issued, being effective for the 2012 reporting year:

– Amendment to IAS 12 – Recovery of underlying assets
– Amendment to IFRS 7 – Transfers of financial assets

These new accounting standards and interpretations did not have a significant impact on the Group's consolidated financial statements.

2. Exchange Rates

Balance sheet period-end rate CHF	31 12 2012	31 12 2011
US dollar	0.92	0.94
Pound sterling	1.48	1.45
Euro	1.21	1.22

Income statement average rate CHF	2012	2011
US dollar	0.94	0.89
Pound sterling	1.49	1.42
Euro	1.21	1.23

3. Debt

USD 583 million of the Arch Chemicals Inc. acquisition bridge financing was repaid in 2012 and refinanced by the issuance of two straight bonds and a dual-currency German private placement on the following terms:

– Straight bond of CHF 200 million, due 11 October 2018. Interest: 2 % p.a., payable on 11 October, for the first time on 11 October 2013. The net proceeds of the bond amount to CHF 198.9 million per 11 October 2012, after considering upfront fees of CHF 1.5 million and an agio of CHF – 0.4 million.

– Straight bond of CHF 105 million, due 11 October 2022. Interest: 3 % p.a., payable on 11 October, for the first time on 11 October 2013. The net proceeds of the bond amount to CHF 104.7 million per 11 October 2012, after considering upfront fees of CHF 1.1 million and an agio of CHF – 0.8 million.

– Dual-currency German private placement of EUR 67.5 million and USD 133 million at fixed and floating interest rates (Libor / EURIBOR + margin), repayable in 2015, 2017 and 2019.

Long-term debt as of 31 December 2012 includes USD 380 million of the Arch acquisition bridge financing facility repayable in October 2014.

4. Business Combinations

Effective 20 October 2011, Lonza Group acquired 100% of the shares of Arch Chemicals Inc . Based on the final valuation of Arch's acquired net assets, the identifiable net assets were determined to be CHF 351 million, which resulted in goodwill of CHF 734 million.

5. Operational Free Cash Flow

In 2011 and 2012, the development of operational free cash flow by component was as follows:

Components of operational free cash flow million CHF	**2012**	2011	Change
EBITDA	640	537	103
Change of operating net working capital	154	(126)	280
Capital expenditures in tangible and intangible assets	(310)	(267)	(43)
Disposal of tangible assets	17	6	11
Change of other assets and liabilities	5	(23)	28
Operational free cash flow (before acquisition)	**506**	**127**	**379**
Acquisition of subsidiaries	0	(918)	918
Operational free cash flow	**506**	**(791)**	**1297**

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. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers, and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. 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 Full-year Report 2012 is also available in German. The English version prevails.

Full-year Report 2012
24 January 2013

Annual General Meeting
for the 2012 financial year
9 April 2013
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2013
25 July 2013

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