

Lonza

Lonza Swiss Finanz AG

Basel, Switzerland

3.00 per cent. Bonds 2012–2022 of CHF 105,000,000

unconditionally and irrevocably guaranteed by

Lonza Group Ltd

Basel, Switzerland

Issuer:	Lonza Swiss Finanz AG, Münchensteinerstrasse 38, CH-4002 Basel, Switzerland
Guarantor:	Lonza Group Ltd, Münchensteinerstrasse 38, CH-4002 Basel, Switzerland
Issue Price:	The Syndicate Banks have purchased the Bonds at the price of 100.735 per cent. of the aggregate principal amount of the Bonds (before commissions).
Placement Price:	According to demand
Interest Rate:	3.00 per cent. per annum, payable annually in arrear on 11 October, first interest payment on 11 October 2013. Interest payments are subject to the Swiss Federal Withholding Tax of currently 35 per cent.
Payment Date:	11 October 2012
Maturity Date:	11 October 2022
Duration:	10 years
Reopening:	The Issuer reserves the right to reopen this issue at any time before maturity of the Bonds (for details see Condition 1 of the Terms and Conditions).
Assurances:	Change of control clause, pari passu clause, negative pledge clause and cross default clause (for details see Conditions 3(c), 7(a), 7(b) and 8(c) of the Terms and Conditions, respectively)
Form of Bonds:	The Bonds are issued as uncertificated securities (<i>Wertrechte</i>) in accordance with art. 973c of the Swiss Code of Obligations. No physical delivery of individually certificated Bonds shall be made (for details see Condition 1 of the Terms and Conditions).
Status:	The Bonds constitute direct, unconditional and unsubordinated obligations of the Issuer (for details see Condition 7(a) of the Terms and Conditions).
Guarantee:	Unconditional and irrevocable guarantee in accordance with art. 111 of the Swiss Code of Obligations (for details see Condition 9 of the Terms and Conditions)
Denomination:	CHF 5,000 and multiples thereof
Trading and Listing:	The Bonds have been admitted to trading on the SIX Swiss Exchange with effect from 9 October 2012 until 6 October 2022. Application will be made for the Bonds to be listed in accordance with the Standard for Bonds on the SIX Swiss Exchange.
Law and Jurisdiction:	The Bonds and the Guarantee shall be governed by Swiss law. Any dispute which might arise in connection with the Bonds or the Guarantee shall fall within the jurisdiction of the courts of the city of Zurich, Switzerland, place of jurisdiction being Zurich 1 (for details see Conditions 9 and 12 of the Terms and Conditions).
Selling Restrictions:	United States of America and United States Persons, European Economic Area and general selling restrictions (for details see pages 3 and 4 herein)

Credit Suisse

UBS Investment Bank

Zürcher Kantonalbank

Swiss Security Number: 19506203

ISIN: CH0195062036

Common Code: 083232170

Prospectus dated 9 October 2012

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Selling Restrictions

United States of America and United States Persons

No substantial U.S. market interest: The Issuer reasonably believes that at the time the offering of the Bonds began, there was no substantial U.S. market interest in its debt securities in the meaning of Rule 902.(j) (2) of Regulation S under the Securities Act of 1933 of the United States of America.

A) The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold within the United States or to or for the account or benefit of United States persons (except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act).

Each Syndicate Bank has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, any Bonds constituting part of their allotment within the United States or to or for the account or benefit of United States persons except in accordance with Rule 903 of Regulation S under the Securities Act.

Each Syndicate Bank has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any selling efforts directed to the United States with respect to the Bonds.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

B) Each Syndicate Bank has represented, warranted and agreed that it has not entered and will not enter into any contractual arrangement with respect to the distribution or delivery of the Bonds, except with their affiliates or with the prior written consent of the Issuer.

European Economic Area

In relation to each Member State of the European Economic Area, which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Syndicate Bank has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Bonds to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (i) in the period beginning on the date of publication of a prospectus in relation to the Bonds which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, and ending on the date which is 12 months after the date of such publication; or
- (ii) to any legal entity which is a qualified investor as defined in the Prospectus Directive; or
- (iii) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the joint-lead managers; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Bonds referred to in (ii) to (iv) above shall require the Issuer or the joint lead managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Bonds to the public** in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the **Prospectus Directive** in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

General

Neither the Issuer nor any of the Syndicate Banks has represented that Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumed any responsibility for facilitating such sale. The distribution of this Prospectus and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer to inform themselves about and to observe any such restrictions. This Prospectus does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken in any jurisdiction that would permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Terms and Conditions

The terms and conditions of the bonds (each a **Condition**, and together the **Terms of the Bonds**) issued by the Issuer and unconditionally and irrevocably guaranteed by the Guarantor, are as follows:

1 Amount and Reopening, Form of the Bonds, Denomination, Custodianship and Transfer of the Bonds

- (a) The initial aggregate principal amount of the Bonds of Swiss francs (**CHF**) 105,000,000 (in words: one hundred and five million Swiss francs) (the **Aggregate Principal Amount**) is divided into bonds (each a **Bond** and collectively the **Bonds**) with denominations of CHF 5,000 (five thousand Swiss francs) per Bond and integral multiples thereof.

The Issuer reserves the right to reopen (the **Reopening**) and increase the Aggregate Principal Amount at any time and without prior consultation of or permission of the holders of the bonds (the **Holders** and, individually, a **Holder**) through the issuance of further bonds which will be fungible with the Bonds (i.e. identical especially in respect of the Terms of the Bonds, security number, final maturity and interest rate).

- (b) The Bonds are issued as uncertificated securities (*Wertrechte*) in accordance with art. 973c of the Swiss Code of Obligations.

Such uncertificated securities (*Wertrechte*) will then be entered by the Principal Paying Agent into the main register (*Hauptregister*) of SIX SIS or any other intermediary in Switzerland recognised for such purposes by SIX Swiss Exchange (SIX SIS or any such other intermediary, the **Intermediary**). Once the uncertificated securities (*Wertrechte*) are registered in the main register (*Hauptregister*) of the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Bonds will constitute intermediated securities (*Bucheffekten*) (**Intermediated Securities**) in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*).

- (c) So long as the Bonds are Intermediated Securities (*Bucheffekten*), the Bonds may only be transferred by the entry of the transferred Bonds in a securities account of the transferee.
- (d) The records of the Intermediary will determine the number of Bonds held through each participant of that Intermediary. In respect of Bonds held in the form of Intermediated Securities, the Holders will be the persons holding the Bonds in a securities account (*Effektenkonto*) which is in their name, or in case of intermediaries (*Verwahrungsstellen*), the intermediaries (*Verwahrungsstellen*) holding the Bonds for their own account in a securities account (*Effektenkonto*) which is in their name.
- (e) The conversion of the uncertificated securities (*Wertrechte*) into a permanent global certificate (*Globalurkunde*) or individually certificated bonds (*Wertpapiere*) is excluded. Neither the Issuer nor the Holders nor the Principal Paying Agent nor any third party shall at any time have the right to effect or demand the conversion of the uncertificated securities (*Wertrechte*) into, or the delivery of a permanent global certificate (*Globalurkunde*) or individually certificated securities (*Wertpapiere*). No physical delivery of the Bonds shall be made.

2 Interest

The Bonds bear interest from (but excluding) 11 October 2012 (the **Closing Date**) until (and including) the Maturity Date (as defined below) at the rate of 3.00 per cent. of their Aggregate Principal Amount per annum, payable annually in arrear on 11 October of each year (the **Interest Payment Date**), for the first time on 11 October 2013. Interest on the Bonds is computed on the basis of a 360-day year of twelve 30-day months.

3 Redemption, Purchase and Cancellation

- (a) Redemption at Maturity

Unless previously redeemed, the Issuer undertakes to repay all outstanding Bonds at par, without further notice on 11 October 2022 (the **Maturity Date**).

(b) Redemption at the Option of the Issuer

Subject to a period of not less than thirty (30) nor more than sixty (60) days' prior notice to the Principal Paying Agent, the Issuer may redeem the Bonds at any time after the Closing Date and prior to the Maturity Date, in whole, but not in part only, at par of their Aggregate Principal Amount plus accrued interest, if any, on the date determined by the Issuer for early redemption, if eighty-five (85) per cent. or more of the Aggregate Principal Amount have been redeemed or purchased and cancelled at the time of such notice.

(c) Redemption at the Option of the Holders upon Change of Control with regard to the Guarantor

(A) A **Change of Control** occurs when:

- (a) an offer to acquire issued and fully paid Shares, whether expressed as a public takeover offer, a merger or similar scheme with regard to such acquisition, or in any other way, is made in circumstances where (i) such offer is available to (a) all holders of Shares, (b) all holders of Shares other than the offeror and any persons acting in concert with such offeror or (c) all holders of Shares other than persons who are excluded from the offer by reason of being connected with one or more specific jurisdictions, and (ii) such offer having become or been declared unconditional in all respects, the Guarantor becomes aware that the right to cast more than 50 per cent. of all the voting rights (whether exercisable or not) of the Guarantor has become unconditionally vested in the offeror and any persons acting in concert with the offeror; or
- (b) the Guarantor consolidates with or merges into any other company; or
- (c) the legal or beneficial ownership of all or substantially all of the assets owned by the Guarantor, either directly or indirectly, are acquired by one or more other persons.

Shares pursuant to this section means issued and fully paid registered shares of the Guarantor (and all other (if any) shares or stock resulting from any subdivision, consolidation or reclassification of such shares) which as between themselves have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor.

(B) Upon a Change of Control:

the Guarantor shall forthwith, or, if it is not clear at that point in time whether the Holders are entitled to exercise their redemption rights pursuant to sub-clause (C) below because the Guarantor's BBB+ rating is not yet available, immediately following the receipt of the rating decision of the relevant rating agency or after two months, whatever is earlier, give notice of that fact to the Holders (the **Change of Control Notice**) in the form set out in Condition 11. The Change of Control Notice shall:

- (a) inform the Holders of their right to either require redemption of the Bonds pursuant to sub-clause (C) below;
- (b) specify the date (the **Change of Control Redemption Date**), being not more than sixty (60) and not less than thirty (30) days after giving such notice, on which the Bonds may be redeemed at the option of the Holders pursuant to sub-clause (C) below; and
- (c) provide details concerning the Change of Control, including to specify the relevant office of the Principal Paying Agent (the **Specified Office**) for the purposes of sub-clause (C) below.

(C) Early Redemption at the Option of Holders upon Change of Control

Upon the occurrence of a Change of Control, the Guarantor will at the option of a Holder, redeem such Bond at its Principal Amount on, together with interest accrued up to, the Change of Control Redemption Date unless,

- (a) in the event of a merger or consolidation of the Guarantor, (i) the surviving entity has or receives a rating of at least BBB+ by Standard & Poor's or the equivalent by Moody's for its senior unsecured long-term debt on a consolidated basis, (ii) assumes or keeps, as the case may be, the Guarantor's obligations under the Bonds pari passu with its own senior obligations, or

- (b) in the event of an offer to acquire the Guarantor's Shares as described in sub-clause (A) above, the acquirer (i) has a rating of at least BBB+ by Standard & Poor's or the equivalent by Moody's for its senior unsecured long-term debt or receives such a rating on a consolidated basis after giving effect to the acquisition, (ii) the acquirer assumes the Guarantor's obligations under the Bonds *pari passu* with its own senior obligations.

It is understood that where no rating exists for the senior unsecured long term debt of the surviving entity, the acquiring entity or the Guarantor, as the case may be, or a rating is not received within a period of two months since the occurrence of a Change of Control, respectively, then the Holders shall have a redemption right as described in the first sentence of this sub-clause (C).

To exercise such option, a Holder must present at the Specified Office a duly completed redemption notice in the form obtainable at the Specified Office of the Principal Paying Agent (a **Change of Control Redemption Notice**), together with clearing instructions in a form satisfactory to the Principal Paying Agent allowing for the transfer of the relevant Bond(s) through SIX SIS to the Principal Paying Agent by not later than fourteen (14) days prior to the Change of Control Redemption Date. No Bond or Change of Control Redemption Notice so deposited may be withdrawn without the consent of the Issuer.

- (d) Purchases

The Issuer, the Guarantor or any of their respective Subsidiaries may, either directly or indirectly, at any time purchase Bonds at any price, in the open market or otherwise. Any purchase shall be made in accordance with applicable laws or regulations, including applicable stock exchange regulations. Such Bonds may be held, resold or, at the option of the Issuer, surrendered to the Principal Paying Agent for cancellation as set out below.

- (e) Cancellation

All Bonds which are redeemed or surrendered to the Principal Paying Agent for cancellation shall forthwith be cancelled. All Bonds so cancelled cannot be reissued or resold.

- (f) Notice

Where the provisions of this Condition 3 provide for the giving of notice by the Issuer to the Principal Paying Agent, such notice shall be deemed to be validly given if made in writing with all required information to the Principal Paying Agent within the prescribed time limit. Such notices shall be announced to the Holders as soon as practicable pursuant to Condition 11. Such notices shall be irrevocable.

4 **Payments**

The amounts required for payments with respect to the Bonds will be made available in good time in freely disposable CHF which will be placed at the free disposal of the Principal Paying Agent on behalf of the Holders. If the due date for any payment by the Issuer does not fall on a Business Day, the Issuer undertakes to effect payment for value the Business Day immediately following such due date and the Holders will not be entitled to any additional sum in relation thereto. All payments with respect to the Bonds will be made to the Holders in CHF without collection costs.

The receipt by the Principal Paying Agent of the due and punctual payment of the funds in CHF as above provided shall release the Issuer of its payment obligations under the Bonds to the extent of such payments.

If the Bonds are not redeemed when due, interest shall continue to accrue until (and including) the day when the Bonds are redeemed.

5 **Statute of Limitations**

In accordance with Swiss law, claims for interest payments shall become timebarred after a period of five (5) years and claims for the repayment or redemption of Bonds after a period of ten (10) years, calculated from their respective due dates.

6 Taxation

All payments in respect of the Bonds are subject to all applicable taxes, including the deduction of the Swiss Federal Withholding Tax (*Verrechnungssteuer*), currently levied at a rate of thirty-five (35) per cent.

7 Status of the Bonds and Negative Pledge

(a) Status

The Bonds constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer, rank *pari passu* among themselves and with all other present or future unsecured and unsubordinated obligations of the Issuer, except for such preferences as are provided for by any mandatorily applicable provision of law.

(b) Negative Pledge

So long as any of the Bonds remain outstanding, neither the Issuer nor the Guarantor will, and the Guarantor will procure that no Material Subsidiary of the Guarantor will, create or have outstanding any mortgage, charge, pledge, lien or other form of encumbrance or security interest, upon the whole or any part of its assets or revenues, present or future, to secure any Relevant Debt or to secure any guarantee or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Issuer's or, as the case may be, the Guarantor's obligations under the Bonds (in the case of the Issuer) or the Guarantee (in the case of the Guarantor) (i) are secured equally and rateably therewith by such encumbrance or security interest or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an extraordinary resolution of the Holders.

For the purposes of this Section 7, **Relevant Debt** means any present or future indebtedness of the Issuer, the Guarantor and its Material Subsidiaries, in the form of, or represented by, notes, bonds, debentures, loan stock or other securities, which are for the time being, or are capable of being, quoted, listed or ordinarily dealt with on any stock exchange, over-the-counter or other securities market.

8 Events of Default

If any of the following events (each event an **Event of Default**) shall occur, Credit Suisse in its capacity as Holders' representative (the **Holdings' Representative**) has the right but not the obligation, on behalf of the Holders, to declare all outstanding Bonds immediately due and repayable at par plus accrued interest:

- (a) there is a failure by the Issuer or the Guarantor to pay principal and/or interest on any of the Bonds, if and when due and such failure continues for a period of twenty (20) calendar days; or
- (b) a default is made in the performance or observance of any material covenant, condition or provision which is to be performed by the Issuer under the Terms of the Bonds or by the Guarantor under the Guarantee and (except where the Holders' Representative certifies in writing that, in its opinion, such default is not capable of remedy, when no such notice or continuation as is mentioned below shall be required) such default continues for a period of twenty (20) calendar days following the service by the Holders' Representative on the Issuer or the Guarantor, of notice requiring such default to be remedied; or
- (c) any other present or future indebtedness of the Issuer or the Guarantor or of any other Material Subsidiary for or in respect of monies borrowed is not paid when due (otherwise than, where permitted under the terms of the relevant indenture or agreement, at the option of the relevant debtor) or, as the case may be, within any applicable grace period, or becomes due and payable prior to its stated maturity as a result of an event of default (howsoever described), or any security in respect of any such indebtedness become enforceable or any guarantee of, or indemnity in respect of, any such indebtedness given by the Issuer or the Guarantor or any other Subsidiary is not honoured when due and called upon or, as the case may be, within any applicable grace period, provided that no such event shall be taken into account for the purposes of this paragraph (c) unless the relative indebtedness, either alone or when aggregated with other indebtedness relative to all, if any, other such events which shall have occurred and are continuing shall at any time have an outstanding nominal value of at least

CHF 60,000,000 or its equivalent in any other currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against CHF as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates); or

- (d) any mortgage, lien or other encumbrance, present or future, created or assumed by the Issuer, the Guarantor or any other Material Subsidiary becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person but not the serving of a payment order (*Zahlungsbefehl*) provided that the aggregate amount of the relevant indebtedness in respect of which such mortgage, lien or other encumbrance was created or permitted to subsist equals or exceeds CHF 60,000,000 or its equivalent in another currency or currencies (calculated on the basis of the middle spot rate for the relevant currency against CHF as quoted by any leading bank at the place of payment of such debt on the day on which this paragraph operates), and any such steps taken are not abandoned or discontinued within thirty (30) days of being taken; or
- (e) the Issuer, the Guarantor or a Material Subsidiary is (or is deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops or suspends payment of all or a material part of its debts, proposes or makes a stay of execution, a postponement of payments (*Stillhaltevereinbarung*), a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium or postponement of payments (*Stillhaltevereinbarung*) is agreed or declared in respect of or affecting all or a substantial part of (or a particular type of) the debts of the Issuer, the Guarantor or a Material Subsidiary; or
- (f) the Issuer, the Guarantor or a Material Subsidiary alters its legal or commercial structure through bankruptcy, liquidation, disposal of all or substantially all of its assets, change in the objects of the legal entity and/or commercial activities or merger, in so far as the relevant action, in the Holders' Representative's reasonable opinion, has a material adverse effect on the capacity of (i) the Issuer to meet its obligations under the Terms of the Bonds and/or (ii) the Guarantor to meet its obligations under the Guarantee, unless the Holders' Representative considers the situation of the Holders as adequately protected based on securities created or other steps taken by the Issuer and/or the Guarantor; or
- (g) a dissolution or merger involving the Issuer or the Guarantor as result of which the Issuer or the Guarantor, as the case may be, is not the surviving legal entity, unless the successor legal entity assumes all the Issuer's or the Guarantor's liabilities in respect of the Bonds; or
- (h) the Guarantee ceases to be, or is claimed by the Guarantor not to be, in full force and effect.

The Issuer and the Guarantor undertake to inform the Holders' Representative without delay if any event mentioned under paragraph (b) through (h) has occurred and to provide the Holders' Representative with all necessary documents and information in connection therewith.

If an Event of Default occurs, the Holders' Representative has the right but not the obligation to serve a written notice of default (**Default Notice**), such notice having the effect that the Bonds shall become immediately due and payable at the Aggregate Principal Amount plus accrued interest, if any, on the day the Default Notice is given.

Upon the occurrence of an Event of Default, the Holders' Representative may invite the Holders in accordance with art. 1157 seq. of the Swiss Code of Obligations to a Holders' meeting for the taking of a resolution on the serving of a Default Notice, provided the Holders' Representative has not served such Default Notice itself. The legally valid resolution of the Holders' meeting to serve a Default Notice, shall replace the right reserved by the Holders' Representative according to these Terms of the Bonds to serve a Default Notice on behalf of the Holders. If the Holders' meeting votes against the serving of a Default Notice, the right to serve such Default Notice shall revert to the Holders' Representative whereby the Holders' Representative shall not be bound by the resolution of the Holders' meeting if and to the extent that new circumstances arise or become known which require a revised assessment of the facts.

9 Guarantee

- (A) As security for the Bonds, the Guarantor has issued the following unconditional and irrevocable Guarantee:

Quote

GUARANTEE

(in the meaning of art. 111 of the Swiss Code of Obligations, hereinafter called the **Guarantee**)

- (a) Being informed that Lonza Swiss Finanz AG, Münchensteinerstrasse 38, CH-4002 Basel, (hereinafter called the **Issuer**), issued and sold 3.00 per cent. Bonds (hereinafter called the **Bonds**) in the aggregate principal amount of CHF 105,000,000 due 11 October 2022, Lonza Group Ltd, Münchensteinerstrasse 38, CH-4002 Basel (hereinafter called the Guarantor) herewith irrevocably and unconditionally guarantees to the holders of the Bonds (hereinafter called the **Holder**s) in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Bonds, the Bond Purchase Agreement and the Paying Agency Agreement prepared in relation to the Bonds (hereinafter called the **Agreements**) and waiving all rights of objection and defence arising from the Bonds and the Agreements, the due payment of the amounts payable by the Issuer under and pursuant to the Terms of the Bonds (including, without limitation, any Additional Amounts). Accordingly, the Guarantor agrees to pay to Credit Suisse, Paradeplatz 8, CH-8001 Zurich, Switzerland, in its capacity as Principal Paying Agent, on behalf of the Holders, within 7 days after the receipt by the Guarantor of the Principal Paying Agent's first written demand for payment and the Principal Paying Agent's confirmation in writing that an amount has become due and payable under the Bonds which is equivalent to the amount claimed under the Guarantee and has remained unpaid on the due date, or any amount due and payable by the Issuer under and pursuant to the Terms of the Bonds.
- (b) All payments in respect of the Bonds by the Guarantor under this Guarantee to the Principal Paying Agent acting on behalf of the Holders shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Switzerland, as the case may be, or any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event that any payments by or on behalf of the Guarantor to the Principal Paying Agent shall be made subject to withholding or deduction for any such relevant taxes, duties, assessments or governmental charges so required by law, such additional amounts (the **Additional Amounts**) shall be payable by the Guarantor as may be necessary in order that the net amounts received by the Principal Paying Agent on behalf of a Bondholder after such withholding or deduction shall equal the respective amounts which would otherwise have been receivable by the Principal Paying Agent in respect of the relevant Bonds in the absence of such withholding or deduction. However, no such Additional Amounts shall be payable on account of any taxes, duties or governmental charges which:
- (i) are duly disclosed in a prospectus in relation to the Bonds, including the Swiss Federal Withholding Tax (*Verrechnungssteuer*), currently levied at a rate of thirty-five (35) per cent; or
 - (ii) are payable otherwise than by deduction or withholding from payments under this Guarantee; or
 - (iii) are payable by reason of a Bondholder having, or having had, some personal or business connection with Switzerland and not merely by reason of the holding of the Bonds; or
 - (iv) are payable by reason of a change in law that becomes effective more than thirty (30) days after the relevant payment becomes due, or is duly provided for and notice thereof is published in accordance with Condition 11 of the Terms of the Bonds, whichever occurs later.
- (c) The Guarantee constitutes a direct, unconditional, unsecured and unsubordinated obligation of the Guarantor and ranks and will rank *pari passu* with all other unsecured and unsubordinated obligations of the Guarantor except for such preferences as are provided by any mandatory applicable provision of law.
- (d) So long as any Bond remains outstanding, the Guarantor will not and the Guarantor procures that no Material Subsidiary of the Guarantor will, create or have outstanding any mortgage, charge, pledge, lien

or other form of encumbrance or security interest, upon the whole or any part of its assets or revenues, present or future, to secure any Relevant Debt or to secure any guarantee or indemnity in respect of any Relevant Debt unless, at the same time or prior thereto, the Guarantee (i) is secured equally and rateably therewith by such encumbrance or security interest or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) has the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by an extraordinary resolution at a bondholders' meeting pursuant to the Swiss code of obligations.

For the purposes of this Guarantee, **Relevant Debt** means any present or future indebtedness of the Guarantor and its Material Subsidiaries in the form of, or represented or evidenced by notes, bonds, debentures, loan stock or other securities, which are for the time being, or are capable of being, quoted, listed or ordinarily dealt with on any stock exchange, over-the-counter or other securities market.

For the purposes of this Guarantee, **Material Subsidiary** means any operating Subsidiary of the Guarantor whose assets, net revenues, operating profit or profit after tax at any time, represent five (5) percent or more of the consolidated assets or the consolidated operating profit, as the case may be, of the Guarantor and its consolidated Subsidiaries at any time, ascertained by reference to (a) the financial statements of such Subsidiary at the date to which the last audited consolidated financial statements of the Guarantor and its consolidated Subsidiaries have been prepared, or (b) if such corporate body becomes a Subsidiary of the Guarantor after that date, the latest financial statements of such Subsidiary adjusted to take into account subsequent acquisitions and disposals or other changes in circumstances.

For the purposes of this Guarantee, **Subsidiary** of the Issuer or of the Guarantor means a company the financial statements of which are, in accordance with applicable law or generally accepted accounting principles, consolidated with those of the Issuer or Guarantor (as the case may be).

- (e) Payments under the Guarantee shall be made in Swiss francs. The Guarantor undertakes to pay to Credit Suisse in its role as principal paying agent in respect of the Bonds (the **Principal Paying Agent**) on behalf of the Holders without costs to be borne by the Principal Paying Agent, without any restrictions, and whatever the circumstances may be, irrespective of nationality or domicile of the beneficiary of such payments and without requiring any affidavit or the fulfilment of any other formality, any sums due pursuant to the Guarantee in freely disposable Swiss francs.

The receipt by the Principal Paying Agent of funds in Swiss francs in Switzerland from the Guarantor shall release the Guarantor from its obligations under this Guarantee to the extent of the amounts received by the Principal Paying Agent.

- (f) The Guarantee shall give rise to a separate and independent cause of action of the Principal Paying Agent acting on behalf of the Holders against the Guarantor and shall apply irrespective of any indulgence granted to the Issuer by the Principal Paying Agent or any Holders from time to time and shall continue in full force and effect notwithstanding any judgment or order against the Issuer and/or the Guarantor.
- (g) The Guarantee shall be governed by and construed in accordance with the substantive laws of Switzerland (i.e. without regard to the principles of conflict of laws).
- (h) Any dispute which might arise based on the Guarantee shall be settled in accordance with Swiss law and shall fall within the exclusive jurisdiction of the courts of the city of Zurich, and if permitted, the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich 1. The Guarantor hereby irrevocably submits for any such action or proceeding to the jurisdiction of the aforesaid courts.
- (i) Terms and expressions not otherwise defined in the Guarantee shall have the same meaning as defined in the Terms of the Bonds.

Unquote

- (B) The Principal Paying Agent undertakes to call on the Guarantee and to claim from the Guarantor pursuant to the Guarantee any unpaid amount by the Issuer. Upon receipt, the Principal Paying Agent undertakes to forward such amount to the Holders, waiving all rights of set off with respect to such Holders. The Principal Paying Agent is, however, entitled to deduct from the received amount all costs and expenses related to the collection of said amount, including court fees and legal fees.

10 Substitution of the Issuer

The Issuer may, upon the decision of the Guarantor but without the consent of the Holders, at any time substitute itself in respect of all rights and obligations arising under or in connection with the Bonds with any Swiss legal entity of which all shares carrying voting rights are directly or indirectly held by the Issuer or the Guarantor (the **New Issuer**), provided that:

- (a) the New Issuer is in the opinion of the Holders' Representative in a position to fulfil all payment obligations arising from or in connection with the Bonds, and
- (b) the Guarantor has issued an irrevocable and unconditional guarantee as per art. 111 of the Swiss Code of Obligations in respect to the obligations of the New Issuer under the Bonds in form and content satisfactory to the Holders' Representative.

In the event of a substitution of the Issuer, notice of such substitution shall be made in accordance with the provisions of Condition 11 and any reference to the Issuer shall be deemed to refer to the New Issuer.

11 Notices

All notices regarding the Bonds shall be published by Credit Suisse on behalf and at the expense of the Issuer (i) on the internet site of SIX Swiss Exchange (where notices are currently published under the address www.six-exchange-regulation.com/publications/communiqués/official_notices_en.html) or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange.

12 Listing

Application will be made for the admission to trading and listing of the Bonds on the SIX Swiss Exchange for the whole duration of the Bonds.

13 Governing Law and Jurisdiction

The Terms of the Bonds and the Bonds shall be governed by and construed in accordance with the substantive laws of Switzerland (i.e. without regard to the principles of conflict of laws).

Any dispute which might arise based on the Terms of the Bonds and the Bonds shall be settled in accordance with Swiss law and shall fall within the exclusive jurisdiction of the courts of the city of Zurich, and if permitted, the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich 1.

The above-mentioned jurisdiction is also exclusively valid for the declaration of cancellation of Bonds.

14 Amendment to the Terms of the Bonds

The Terms of the Bonds may be amended by agreement between the Issuer and/or the Guarantor and the Holders' Representative provided that in the sole opinion of the Holders' Representative, such amendment is of a formal, minor or technical nature, is made to correct a manifest error and is not prejudicial to the interests of the Holders. Notice of any such amendment shall be published in accordance with Condition 11.

15 Role of Credit Suisse

Credit Suisse has been appointed by the Issuer and the Guarantor as the Principal Paying Agent and as the Listing Agent with respect to the Bonds and it will or may also act on behalf of or for the benefit of the Holders as Holders' Representative, but only in such cases stated explicitly in these Terms of the Bonds. In any other cases, the Holders' Representative is not obliged to take or to consider any actions on behalf of or for the benefit of the Holders.

16 Severability

If at any time one or more of the provisions of the Terms of Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

17 Definitions

Business Day means any day (other than Saturday or Sunday) on which banks are open the whole day for business in Zurich.

Credit Suisse means Credit Suisse AG, Paradeplatz 8, 8001 Zurich, Switzerland.

Guarantor means Lonza Group Ltd, Münchensteinerstrasse 38, CH-4002 Basel, Switzerland.

Issuer means Lonza Swiss Finanz AG, Münchensteinerstrasse 38, CH-4002 Basel, Switzerland.

Listing Agent means Credit Suisse AG, appointed as recognised representative pursuant to art. 43 of the listing rules of the SIX Swiss Exchange to file the listing application (including the application for provisional admission to trading) for the Bonds with the SIX Swiss Exchange.

Material Subsidiary in respect to these Terms of the Bonds means any operating Subsidiary of the Guarantor whose assets, net revenues, operating profit or profit after tax at any time, represent five (5) per cent or more of the consolidated assets or the consolidated operating profit, as the case may be, of the Guarantor and its consolidated Subsidiaries at any time, ascertained by reference to (i) the financial statements of such Subsidiary at the date to which the last audited consolidated financial statements of the Guarantor and its consolidated Subsidiaries have been prepared, or (ii) if such corporate body becomes a Subsidiary of the Guarantor after that date, the latest financial statements of such Subsidiary adjusted to take into account subsequent acquisitions and disposals or other changes in circumstances.

Principal Paying Agent means Credit Suisse AG in its function as principal paying agent.

If, at any time during the life of the Bonds, the Principal Paying Agent shall resign or become incapable of acting as Principal Paying Agent or as Holders' Representative as contemplated by these Terms of the Bonds or shall be adjudged bankrupt or insolvent, the Principal Paying Agent may be substituted by a duly licensed major Swiss bank or Swiss branch of a major foreign bank chosen by the Issuer. In the event of such a replacement of the Principal Paying Agent, all references to the Principal Paying Agent shall be deemed to refer to such replacement.

Notice of such a replacement shall be made in accordance with the provisions of Condition 11.

SIX SIS means SIX SIS Ltd, the Swiss clearing and settlement organisation, Baslerstrasse 100, 4600 Olten, or any successor organisation accepted by the SIX Swiss Exchange.

SIX Swiss Exchange means SIX Swiss Exchange Ltd, Selnaustrasse 30, 8001 Zurich (P.O. Box 1758, 8021 Zurich) or any successor organisation.

Subsidiary of the Issuer or of the Guarantor in respect to these Terms of the Bonds means a company the financial statements of which are, in accordance with applicable law or generally accepted accounting principals, consolidated with those of the Issuer or the Guarantor (as the case may be).

Information on Lonza Swiss Finanz AG (Issuer)

Name, Registered Office, Incorporation, Duration and Legislation

Lonza Swiss Finanz AG (the **Issuer**) was incorporated under Swiss Law as a stock corporation (*Aktiengesellschaft*) under the name “Cheminvesta AG für Chemiebeteiligungen” on 23 December 1974 in Basel, Switzerland, and is registered with the Commercial Register of the Canton of Basel-Stadt under the number CH-270.3.000.773-4. As of 28 April 2009, the Issuer changed its name to “Lonza Swiss Finanz AG (Lonza Swiss Finance Ltd)”. The legal domicile is Basel.

The duration of the Issuer shall be indefinite.

The registered office of Lonza Swiss Finanz AG and its principal place of business are located at Münchensteinerstrasse 38, CH-4002 Basel, Switzerland.

Business Purpose and Financial Year

Article 2 of the Issuer's Articles of Association states (translation):

The purpose of the Issuer is the financing and providing of services, in particular within the Lonza Group Ltd companies, as well as participating in domestic and foreign industrial and trading companies of all types. The Issuer has also the power to acquire and utilise real estate properties and intangible rights.

The financial year-end of the Issuer is 31 December.

Position within the Lonza Group Ltd

The Issuer is a direct wholly-owned subsidiary of the Guarantor. It has no subsidiaries of its own.

Corporate Information

Board of Directors

The Issuer is managed by a board of directors. The names and business occupations of the directors of the Issuer are set out below:

Markus Funk, Chairman
Dr. Toralf Haag, Member of the Board

Independent Statutory Auditors

The auditors appointed by the Issuer for the financial years ended 31 December 2010 and 2011 and for the current financial year are KPMG Ltd, Viaduktstrasse 42, CH-4002 Basel.

Business Activities

Net Turnover

For information on the net turnover, please refer to the Annual Financial Statements 2011 of the Issuer included herein as Annex A.

Patents and Licences

The Issuer is not dependent on any patent, license, or commercial contract. It will enter into material financing agreements with or on behalf of certain companies of the Guarantor or with financial institutions in connection with the use of the proceeds from this issue.

Principal Establishments and Real Estate

The Issuer does not have establishments other than at its registered office as stated above. It does not own real estate.

Interruption of Business

The Issuer is not an operating company and it has therefore not experienced any interruptions of its business since its formation.

Investment Policy

The Issuer is a wholly-owned subsidiary of the Guarantor providing financing services to the Group. No investments are planned or approved other than for general finance purposes of the Group.

Litigation

Save as disclosed in this Prospectus (including the annexes), the Issuer is not involved in any litigation, arbitration or administrative proceedings which are likely to have a material adverse impact on the economic situation of the Issuer, nor are there, to the knowledge of the Issuer, any such proceedings pending.

Capital Structure

As of date of this Prospectus the issued and fully paid up share capital of the Issuer is CHF 100'000. It is divided into 100 bearer shares of CHF 1'000 each.

The Issuer has no authorised or conditional share capital.

Information on Lonza Group Ltd (Guarantor)

Name, Registered Office, Head Office

A company limited by shares is registered, in accordance with Article 620ff of the Swiss Code of Obligations, under the name of Lonza Group Ltd (Lonza Group AG) (Lonza Group SA) (Lonza Group SA) with legal domicile in Basel (the **Company** or the **Guarantor**).

The registered office and the place of business of the Guarantor are located at Münchensteinerstrasse 38, CH-4002 Basel, Switzerland.

Position of Lonza Group Ltd

Lonza Group Ltd is the holding company of the Lonza Group (together with its subsidiaries, **Lonza** or the **Group**).

Profile

Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life science industries. Products and services span its customers' needs from research to final product manufacture. It is the global leader in the production and support of chemical and biological active pharmaceutical ingredients.

Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries. Lonza has strong capabilities in large and small molecules, peptides, antibody drug conjugates (ADCs), amino acids and niche bioproducts, which play an important role in the development of novel medicines and healthcare products. Lonza is also the world leader in microbial control providing innovative, chemistry-based and related solutions to destroy or to selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. In addition, Lonza is a leader in cell-based research, endotoxin detection and cell therapy manufacturing. Furthermore, the company is a leading provider of value chemical and biotech ingredients to the nutrition and agro markets.

Lonza is headquartered in Basel, Switzerland and is listed on the SIX Swiss Exchange and secondary listed on the Singapore Exchange Securities Trading Limited.

In 2011, the company had sales of CHF 2.692 billion.

Board of Directors

Rolf Soiron (1945)	Chairman
Sir Richard Sykes (1942)	Vice-Chairman
Patrick Aebischer (1954)	Member
Jean-Daniel Gerber (1949)	Member
Gerhard Mayr (1946)	Member
Jörg Reinhard (1956)	Member
Margot Scheltema (1954)	Member
Peter Wilden (1957)	Member

(as of 9 October 2012)

Management Committee

Richard Ridinger (1958)	Chief Executive Officer (since May 2012)
Uwe H. Böhlke (1964)	COO Global Human Resources / Corporate Services
Toralf Haag (1966)	Chief Financial Officer
Marc Funk (1960)	Group General Counsel and Board Secretary
Beat In-Albon (1952)	COO Life Science Ingredients Division (since June 2012)
Stephan Kutzer (1965)	COO Custom Manufacturing APIs division
Jeanne Thoma (1959)	COO Microbial Control division
Lukas Utiger (1963)	COO Bioscience division

(as of 9 October 2012)

Capital Structure

The share capital according to the Articles of Association is as follows:

Article 4 Share Capital

¹ The share capital of the Company amounts to CHF 52,920,140, divided into 52,920,140 registered shares, fully paid-up, each with a par value of CHF 1.

² By decisions of the Shareholders' Meeting, registered shares may be converted into bearer shares, and bearer shares into registered shares.

Article 4^{bis} Contingent Capital

¹ The share capital of the Company may be increased through the issuance of a maximum of 5,029,860 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5,029,860 through the exercise of conversion rights and/or warrants granted in connection with the issuance of bonds or similar debt instruments of the Company or one of its Group companies. The subscription rights of the shareholders shall be excluded. The current owners of conversion rights and/or warrants shall be entitled to subscribe for the new shares. The conditions of the conversion rights and/or warrants shall be determined by the Board of Directors.

² In connection with the issuance of convertible or warrant-bearing bonds or any similar debt instruments, the Board of Directors shall be authorized to restrict or deny the pre-emptive rights of the shareholders if such instruments shall serve

a) to finance (including refinance) the acquisition of enterprises, divisions thereof, of participations or of newly planned investments of the Company or

b) to issue convertible bonds and/or warrants on the national and international capital markets.

³ To the extent that the pre-emptive right is excluded,

a) the bonds or similar debt instruments are to be placed with the public at market conditions (including standard dilution protection clauses in accordance with market practice),

b) the term to exercise conversion rights may not exceed ten years and the term to exercise option rights may not exceed five years from the date of the bond issue and

c) the exercise price for the new shares must at least correspond to the market conditions at the time of the bond issue.

⁴ The acquisition of shares through the exercise of conversion rights and or warrants as well as each subsequent transfer of the shares shall be subject to the restrictions of Article 6 of these Articles of Association.

Article 4^{ter} **Authorized Capital**

¹ The Board of Directors shall be authorized to increase, at any time until 12 April 2013, the share capital of the Company through the issuance of a maximum of 5,000,000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5,000,000.

² The issue price, the beginning of the entitlement to dividends and the kind of non-cash contributions shall be determined by the Board of Directors.

³ The Board of Directors is authorized to restrict or to suspend the subscription rights of the shareholders wholly or in part

a) in the event of issuance of shares for the participation of strategic partners,

b) for the takeover of companies, parts of companies, participations or intellectual property rights or for the financing and/or refinancing of such transactions,

c) for granting an over-allotment option ("greenshoe") of up to 20% of the preceding offer to the lead managers in connection with a placement of shares at market price,

d) for raising capital in a fast and flexible manner, which would hardly be achievable without the exclusion of the statutory subscription rights of the existing shareholders or

e) for other valid reasons in the sense of Art. 652b, para 2, of the Swiss Code of Obligations.

If subscription rights are granted, but not exercised, the Board of Directors may use the respective shares in the interest of the Company.

⁴ The new shares shall be subject to the restrictions of Article 6 of these Articles of Association.

Article 4^{quater}

The capital increases according to Articles 4^{bis} and 4^{ter} over a respective maximum of 5,029,860 and 5,000,000 fully paid-in registered shares with a par value of CHF 1 each may increase the share capital of the Company only by a maximum aggregate amount of CHF 5,029,860.

Article 5 **Shares**

¹ Under the reservation of para 2 the registered shares of the Company will be constructed as uncertified securities (in the sense of Swiss Code of Obligations) and book entry securities (in the sense of the Federal Law on Book Entry Securities). As far as Swiss law is applicable they may only be transferred in accordance with the Federal Law on Book Entry Securities.

² After entry in the share register the shareholder may at any time request from the Company a confirmation on the owned registered shares. Nevertheless, the shareholder is not entitled to receive printed documents of the registered shares. The Company is at any time free to print and deliver documents of the registered shares (as single documents, certificates or in the form of a global certificate). The Company may withdraw registered shares in the form of book entry securities from the respective safe-keeping system. With consent of the shareholder the Company may without substitution invalidate issued documents.

Article 6 **Share Register, Nominees**

¹ The Company shall keep a share register in which the owners and usufructuaries of the registered shares are entered with name, address and nationality. Only those with valid entries in the share register are recognized by the Company as shareholders or usufructuaries.

² Purchasers of registered shares may submit a request to be entered, without limitation, as shareholders with voting rights in the share register, provided they expressly declare that they have acquired these shares in their own name and on their own account.

³ Persons who do not expressly declare in the entry application that they hold the shares on their own account (hereafter "nominees") will, without further ado, be entered with voting rights in the share register up to a maximum of 2% of the share capital entered in the Register of Commerce. Over and above this limit, registered shares held by nominees will only be entered with voting rights when the nominee concerned reveals the names, addresses, nationalities and shareholdings of those persons on whose account he holds 0.5% or more of the share capital entered in the Register of Commerce.

⁴ After interviewing registered shareholders or nominees, the Board of Directors is entitled to delete entries from the share register, with retroactive effect from the date of entry, should these have been obtained by misrepresentation. The affected shareholder or nominee must be immediately informed of the deletion.

⁵ The Board of Directors settles the details and issues the necessary instructions to ensure compliance with the provisions set out above. The Board is authorized to conclude agreements with nominees about their duties of notification.

⁶ The provisions of this Article 6 apply also to shares underwritten or acquired through the exercise of subscription or conversion rights or rights to exercise warrants.

Own Shares

As at 30 September 2012, the Guarantor held 1,016,359 of its own registered shares with a par value of CHF 1 each, resulting in a reserve for own shares of CHF 94,142,988.30.

Independent Statutory Auditors

The auditors appointed by the Guarantor for the financial years ended 31 December 2010 and 2011 and for the current financial year are KPMG Ltd, Badenerstrasse 172, CH-8026 Zurich.

Litigation

Save as disclosed in this Prospectus (including the annexes), there are no litigation or arbitration proceedings against or affecting the Guarantor or any of its subsidiaries or any of its assets, nor is the Guarantor aware of any pending or threatened proceedings, which, in each case, are or might be material in the context of the issue of the Bonds.

Additional Information and Responsibility Statement

Authorisation

Pursuant to a resolution of the Board of Directors of the Issuer dated 5 October 2012 and in accordance with a bond purchase agreement dated 8 October 2012 made between the Issuer and the Guarantor on the one hand, and Credit Suisse AG, UBS AG, acting through its business division UBS Investment Bank, and Zürcher Kantonalbank (together, the **Syndicate Banks** or **Joint-Lead Managers**) on the other hand, the Issuer has determined to issue 3.00 per cent. Bonds due 11 October 2022 (the **Bonds**) in the aggregate principal amount of CHF 105,000,000.

Pursuant to a resolution of the Board of Directors of the Guarantor dated 5 October 2012, the Guarantor has determined to guarantee the payments of the obligations of the Issuer in relation to the Bonds.

Use of Net Proceeds

The net proceeds from the issue of the Bonds, amounting to CHF 104,686,250, will be utilised by the Issuer for refinancing part of the bridge loans entered into for acquiring the shares of Arch Chemicals, Inc. None of the Syndicate Banks shall have any responsibility for or be obliged to concern itself within the application of the net proceeds of the issue of the Bonds.

Representative

In accordance with Article 43 of the listing rules of the SIX Swiss Exchange, Credit Suisse AG has been appointed by the Issuer and the Guarantor as representative to lodge the listing application with SIX Exchange Regulation.

Notice to Investors

The financial institutions involved in the issuance and offering of these Bonds are banks, which directly or indirectly have participated, or will participate, in financing transactions and/or other banking business with the Issuer and/or the Guarantor, which are not disclosed herein.

Forward-Looking Statements

This Prospectus contains or incorporates by reference certain forward-looking statements and information relating to Lonza that are based on the current expectations, estimates, plans, strategic aims, vision statements, and projections of its management and information currently available to Lonza.

These forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results of operations, financial condition, performance or achievements of Lonza to be materially different from any future results, financial condition, performance or achievements expressed or implied by such forward-looking statements. Terms and phrases such as “will”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “predict”, “estimate”, “project”, “target”, “assume”, “may” and “could”, and variations of these words and similar expressions, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

These statements reflect current views of Lonza’s management (the **Management**) with respect to future events and are not a guarantee of future performance. Various factors could cause actual results or performance to differ materially from the expectations reflected in these forward-looking statements. These factors include, among others:

- Market and interest rate fluctuations;
- The strength of the global economy in general and the strength of the economies of the countries in which Lonza conducts its operations in particular;
- The ability of counterparties to meet their obligations to Lonza;
- The effects of, and changes in, fiscal, monetary, trade and tax policies, and currency fluctuations;
- Political and social developments, including war, civil unrest or terrorist activity;
- The possibility of foreign exchange controls, expropriation, nationalisation or confiscation of assets in countries in which Lonza conducts its operations;
- The ability to maintain sufficient liquidity and access capital markets;
- Operational factors such as systems failure, human error, or the failure to properly implement procedures, contamination in plants or sites;
- Actions taken by regulators with respect to Lonza's business and practices in one or more of the countries in which Lonza conducts its operations;
- The effects of changes in laws, regulations or accounting policies or practices;
- The competition in geographic and business areas in which Lonza conducts its operations;
- The ability to retain and recruit qualified personnel;
- The ability to maintain Lonza's reputation and promote its brands;
- The ability to increase market share and control expenses;
- Technological changes;
- The timely development of and acceptance of new products and services and the perceived overall value of these products and services by users;
- Acquisitions, including the ability to integrate successfully acquired businesses;
- Lonza's ability to successfully pursue its growth and operating strategies;
- Risks related to claims and litigation, environmental, health and safety matters;
- Instability in domestic and foreign financial markets;
- Lonza's ability to obtain commercial credit;
- The influence of significant shareholders;
- Lonza's success at managing the risks involved in the foregoing.

Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein. Therefore, no undue reliance should be placed on forward-looking statements and investors should assess and take into account these risks as part of their investment decision. Neither Lonza nor the Management undertake an obligation to update any forward-looking statement, even if new information, future events or other circumstances have made them incorrect or misleading.

All subsequent written and oral forward-looking statements attributable to Lonza or any other entity of Lonza are qualified in their entirety by the foregoing factors.

No Material Change

Save as disclosed in this Prospectus (including the annexes), there has been no material adverse change in the financial position of the Issuer or the Guarantor since 31 December 2011, and there has been no material adverse change in the consolidated financial position or results of operations of the Guarantor since 31 December 2011, which would materially affect the Issuer's or the Guarantor's ability to carry out its obligations under the Bonds.

Responsibility

Each of the Issuer and the Guarantor confirms that this Prospectus contains all information regarding the Issuer, the Guarantor and the Bonds which is (in the context of the issue of the Bonds) material; such information is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer and the other part of the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and reasonable enquiries have been made to ascertain and to verify the foregoing.

The Company and the Guarantor accepts responsibility accordingly.

Basel, 9 October 2012

For: **Lonza Swiss Finanz AG**

By: _____

By: _____

For: **Lonza Group Ltd**

By: _____

By: _____

Annual Financial Statements 2011 of the Issuer

Audited financial statements of Lonza Swiss Finanz AG for the year ended 31 December 2011 prepared in accordance with the Swiss Code of Obligations, including the notes to the financial statements and the report of the statutory auditor.

Lonza Swiss Finanz AG, Basel
Bericht der Revisionsstelle
zur Jahresrechnung
an die Generalversammlung
Jahresrechnung 2011



KPMG AG
Audit
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Bericht der Revisionsstelle zur Jahresrechnung an die Generalversammlung der

Lonza Swiss Finanz AG, Basel

Als Revisionsstelle haben wir die beiliegende Jahresrechnung der Lonza Swiss Finanz AG, Basel bestehend aus Bilanz, Erfolgsrechnung und Anhang, für das am 31. Dezember 2011 abgeschlossene Geschäftsjahr geprüft.

Verantwortung des Verwaltungsrates

Der Verwaltungsrat ist für die Aufstellung der Jahresrechnung in Übereinstimmung mit den gesetzlichen Vorschriften und den Statuten verantwortlich. Diese Verantwortung beinhaltet die Ausgestaltung, Implementierung und Aufrechterhaltung eines internen Kontrollsystems mit Bezug auf die Aufstellung einer Jahresrechnung, die frei von wesentlichen falschen Angaben als Folge von Verstössen oder Irrtümern ist. Darüber hinaus ist der Verwaltungsrat für die Auswahl und die Anwendung sachgemässer Rechnungslegungsmethoden sowie die Vornahme angemessener Schätzungen verantwortlich.

Verantwortung der Revisionsstelle

Unsere Verantwortung ist es, aufgrund unserer Prüfung ein Prüfungsurteil über die Jahresrechnung abzugeben. Wir haben unsere Prüfung in Übereinstimmung mit dem schweizerischen Gesetz und den Schweizer Prüfungsstandards vorgenommen. Nach diesen Standards haben wir die Prüfung so zu planen und durchzuführen, dass wir hinreichende Sicherheit gewinnen, ob die Jahresrechnung frei von wesentlichen falschen Angaben ist.

Eine Prüfung beinhaltet die Durchführung von Prüfungshandlungen zur Erlangung von Prüfungsnachweisen für die in der Jahresrechnung enthaltenen Wertansätze und sonstigen Angaben. Die Auswahl der Prüfungshandlungen liegt im pflichtgemässen Ermessen des Prüfers. Dies schliesst eine Beurteilung der Risiken wesentlicher falscher Angaben in der Jahresrechnung als Folge von Verstössen oder Irrtümern ein. Bei der Beurteilung dieser Risiken berücksichtigt der Prüfer das interne Kontrollsystem, soweit es für die Aufstellung der Jahresrechnung von Bedeutung ist, um die den Umständen entsprechenden Prüfungshandlungen festzulegen, nicht aber um ein Prüfungsurteil über die Wirksamkeit des internen Kontrollsystems abzugeben. Die Prüfung umfasst zudem die Beurteilung der Angemessenheit der angewandten Rechnungslegungsmethoden, der Plausibilität der vorgenommenen Schätzungen sowie eine Würdigung der Gesamtdarstellung der Jahresrechnung. Wir sind der Auffassung, dass die von uns erlangten Prüfungsnachweise eine ausreichende und angemessene Grundlage für unser Prüfungsurteil bilden.

Prüfungsurteil

Nach unserer Beurteilung entspricht die Jahresrechnung für das am 31. Dezember 2011 abgeschlossene Geschäftsjahr dem schweizerischen Gesetz und den Statuten.

Berichterstattung aufgrund weiterer gesetzlicher Vorschriften

Wir bestätigen, dass wir die gesetzlichen Anforderungen an die Zulassung gemäss Revisionsaufsichtsgesetz (RAG) und die Unabhängigkeit (Art. 728 OR und Art. 11 RAG) erfüllen und keine mit unserer Unabhängigkeit nicht vereinbaren Sachverhalte vorliegen.

In Übereinstimmung mit Art. 728a Abs. 1 Ziff. 3 OR und dem Schweizer Prüfungsstandard 890 bestätigen wir, dass ein gemäss den Vorgaben des Verwaltungsrates ausgestaltetes internes Kontrollsystem für die Aufstellung der Jahresrechnung existiert.

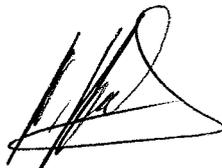
Wir empfehlen, die vorliegende Jahresrechnung zu genehmigen.

Wir machen darauf aufmerksam, dass die Lonza Swiss Finanz AG im Sinne von Art. 725 Abs. 2 OR überschuldet ist. Da Gläubiger der Gesellschaft im Betrag von CHF 6,500,000 Rangrücktritt erklärt haben, hat der Verwaltungsrat von der Benachrichtigung des Richters abgesehen.

KPMG AG



Regula Wallimann
*Zugelassene Revisionsexpertin
Leitende Revisorin*



Norbert Strub
Zugelassener Revisionsexperte

Zürich, 26. März 2012

Beilagen:

- Jahresrechnung bestehend aus Bilanz, Erfolgsrechnung und Anhang

Jahresrechnung der Lonza Swiss Finanz AG, Basel

Bilanz	31.12.2011	31.12.2010
	CHF	CHF
Aktiven		
Anlagevermögen		
Langfristige Finanzforderungen gegenüber Konzerngesellschaften	1'354'671'748.83	295'000'000.00
Total Anlagevermögen	1'354'671'748.83	295'000'000.00
Umlaufvermögen		
Aktive Rechnungsabgrenzungen gegenüber Dritten	15'030'087.38	1'871'562.00
Aktive Rechnungsabgrenzungen gegenüber Konzerngesellschaften	10'630'331.84	8'160'625.00
Kurzfristige Finanzforderungen gegenüber Konzerngesellschaften	35'780'800.00	0.00
Kurzfristige Finanzforderungen gegenüber Aktionär	189'978'013.74	2'248'334.80
Flüssige Mittel	14'099.29	0.00
Total Umlaufvermögen	251'433'332.25	12'280'521.80
Total Aktiven	1'606'105'081.08	307'280'521.80
Passiven		
Eigenkapital		
Aktienkapital	100'000.00	100'000.00
Gesetzliche Reserve	50'000.00	50'000.00
Gewinnvortrag	3'864.80	7'747.42
(Verlust) / Reingewinn	(6'466'124.51)	346'117.38
Total Eigenkapital	(6'312'259.71)	503'864.80
Fremdkapital		
Langfristiges Fremdkapital		
Langfristige Finanzverbindlichkeiten gegenüber Dritten	1'550'980'000.00	300'000'000.00
Total langfristiges Fremdkapital	1'550'980'000.00	300'000'000.00
Kurzfristiges Fremdkapital		
Passive Rechnungsabgrenzungen gegenüber Dritten	7'793'274.71	6'776'639.00
Passive Rechnungsabgrenzungen gegenüber Aktionär	17'863'266.08	0.00
Kurzfristige Finanzverbindlichkeiten gegenüber Dritten	35'780'800.00	18.00
Total kurzfristiges Fremdkapital	61'437'340.79	6'776'657.00
Total Fremdkapital	1'612'417'340.79	306'776'657.00
Total Passiven	1'606'105'081.08	307'280'521.80

Jahresrechnung der Lonza Swiss Finanz AG, Basel

Erfolgsrechnung	2011	2010
	CHF	CHF
Zinsertrag	18'779'244.20	13'278'705.38
Übriger Finanzertrag	3'704'942.86	0.00
Total Ertrag	22'484'187.06	13'278'705.38
Verwaltungskosten	(18'159.15)	(20'181.00)
Kapitalsteuern	(720.00)	(808.00)
Zinsaufwand	(18'896'831.01)	(11'977'829.00)
Übriger Finanzaufwand	(10'034'601.41)	(780'074.00)
Total Aufwand	(28'950'311.57)	(12'778'892.00)
Ergebnis vor Ertragssteuern	(6'466'124.51)	499'813.38
Ertragssteuern	0.00	(153'696.00)
(Jahresverlust) / Jahresgewinn	(6'466'124.51)	346'117.38

Jahresrechnung der Lonza Swiss Finanz AG, Basel

Anhang	2011	2010
	CHF	CHF
Eventualverbindlichkeiten	p.m.	p.m.

Die Gesellschaft gehört der LonzaGroup Mehrwertsteuer-Gruppe an und haftet somit solidarisch für die Mehrwertsteuerschulden dieser Gruppe gegenüber der Eidgenössischen Steuerverwaltung.

Lang- / kurzfristige Finanzverbindlichkeiten

Im Mai 2009 hat die Lonza Swiss Finanz AG eine 3.75 % Obligation über CHF 300 Millionen zum Emissionspreis von 100.25 % mit Fälligkeitsdatum 27. Mai 2013 ausgegeben.

Im Oktober 2011 hat die Lonza Swiss Finanz AG den zur Verfügung stehenden syndizierten Kredit beansprucht, um die Akquisition von Arch zu finanzieren. Der syndizierte Kredit wurde im September 2011 unterzeichnet und beläuft sich auf einen Betrag von USD 1'375 Millionen, basiert auf variablen Zinsen und hat folgende Laufzeiten: Facility A1 USD 450 Millionen fällig am 9. Juni 2012; Facility A2 USD 500 Millionen fällig am 9. März 2013; Facility B USD 425 Millionen am 20. Oktober 2014. Im Dezember 2011 hat die Lonza Swiss Finanz USD 412 Millionen von Facility A1 zurückbezahlt. Total bezogene Kreditlinie per 31. Dezember 2011: USD 963 Millionen

Im Dezember 2011 hat die Lonza Swiss Finanz AG eine 2.25 % Obligation über CHF 240 Millionen zum Emissionspreis von 100.469 % mit Fälligkeitsdatum 7. Dezember 2015 und eine 3.125 % Obligation über CHF 140 Millionen zum Emissionspreis von 100.557 % mit Fälligkeitsdatum 7. Dezember 2018 ausgegeben, um die Facility A1 teilweise abzulösen.

Fremdwährungsverluste

Der übrige Finanzaufwand 2011 enthält netto Fremdwährungsverluste von CHF 8 303 510,35 (2010: CHF 0,00).

Angaben über die Durchführung einer Risikobeurteilung gemäss Art. 663b Abs. 12 OR

Im konzernweiten Risk Management Prozess der Lonza Group ist die Lonza Swiss Finanz AG vollumfänglich integriert. Die spezifischen Risiken resultierend aus Art und Umfang der Geschäftstätigkeiten der Lonza Swiss Finanz AG sind im konzernweiten Risk Management Prozess mitberücksichtigt. Die detaillierte Beschreibung des Risk Management Prozesses ist im Anhang zur Konzernrechnung der Lonza Group AG erläutert.

Wichtige Ereignisse

Im Mai 2009 hat die Lonza Swiss Finanz AG ein 4.50 % langfristiges Darlehen über CHF 295 Millionen an die Lonza AG mit Fälligkeitsdatum 27. Mai 2013 gewährt.

Im Dezember 2011 hat die Lonza Swiss Finanz AG ein kurzfristiges Darlehen von USD 38 Millionen und ein langfristiges Darlehen von USD 1'125.4 Millionen an Lonza America Inc. sowie ein kurzfristiges Darlehen von USD 200 Million an die Lonza Group AG gewährt, um die Arch-Akquisition zu finanzieren.

Rangrücktritt

Die Gesellschaft ist per 31. Dezember 2011 überschuldet. Damit gemäss Art. 725 Abs. 2 OR nicht der Richter benachrichtigt werden muss, sind vom Gläubiger Forderungen in der Höhe von CHF 6'500'000.00 im Rang zurück gestellt worden.

Annual Report 2011 of the Guarantor

Annual Report 2011 of Lonza Group Ltd, including the audited consolidated financial statements for the year ended 31 December 2011 (pages 74 to 167), the audited financial statements for the year ended 31 December 2011 (pages 168 to 175), the Remuneration Report (pages 186 to 205) and the Corporate Governance (pages 208 to 238).



Lonza

Annual Report 2011

Activities

—

Financial Report
Remuneration Report
Corporate Governance

Lonza Key Facts and Figures

Key figures Lonza million CHF	2011 before Arch acquisition	2011 after Arch acquisition	2010
Sales	2 505	2 692	2 680
EBITDA	559	537	643
EBIT	292	261	374
Core ¹ EBIT	306	326	387
Profit for the period	190	154	284
Core ¹ profit for the period	216	225	299
Free cash flow before acquisitions	171	127	362
Capital expenditure	256	267	300
Net debt	1 111	2 647	1 108
Net debt-equity ratio	0.46	1.12	0.46
Total equity	2 403	2 356	2 387

¹ In the core results for the items: result from operating activities (EBIT), profit for the period and earnings per share, the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges/income from restructuring/acquisition is eliminated (see reconciliation of IFRS results to core results on pages 182 / 183).

Full-year Results in a Snapshot

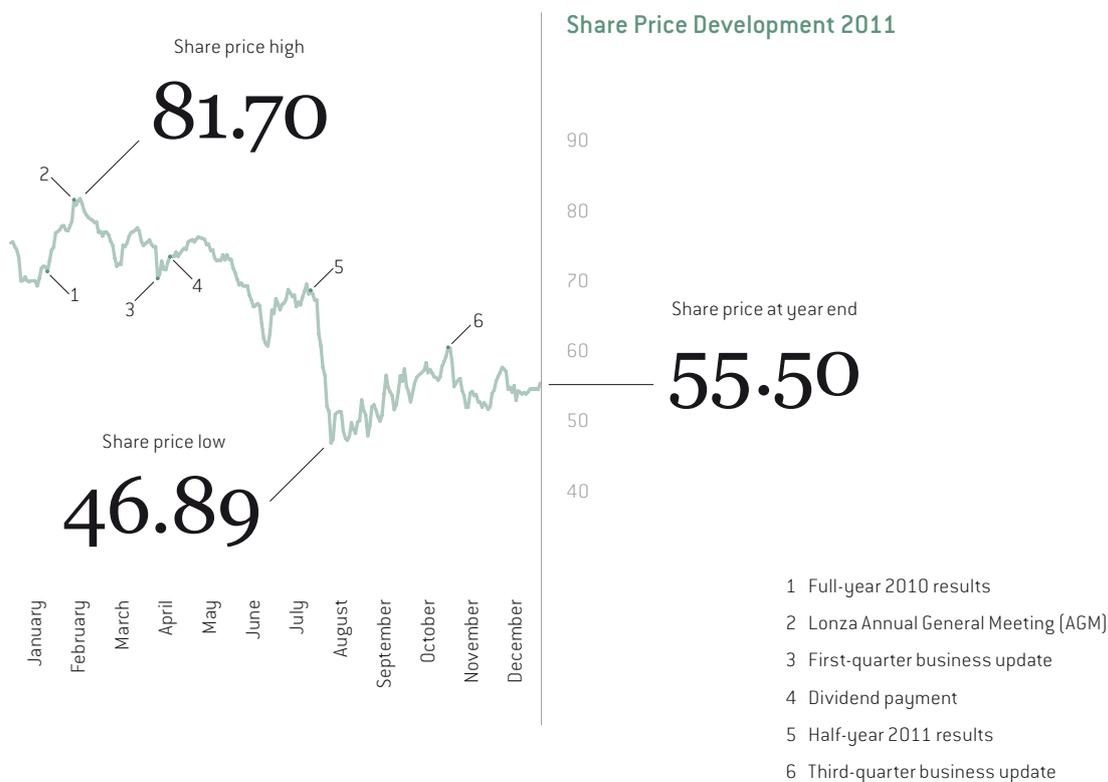
In 2011, Lonza completed a number of major strategic initiatives that established the company as the clear global leader in Microbial Control and Custom Manufacturing, two attractive sectors in the life-science markets. Lonza delivered underlying growth in sales and EBITDA, despite significant external challenges – for example, the foreign exchange impact of CHF 84 million due to the strong Swiss franc, higher and more volatile raw material prices especially in Life Science Ingredients, and the effect of an FDA warning letter on our Hopkinton, MA (USA), site (CHF 15 million).

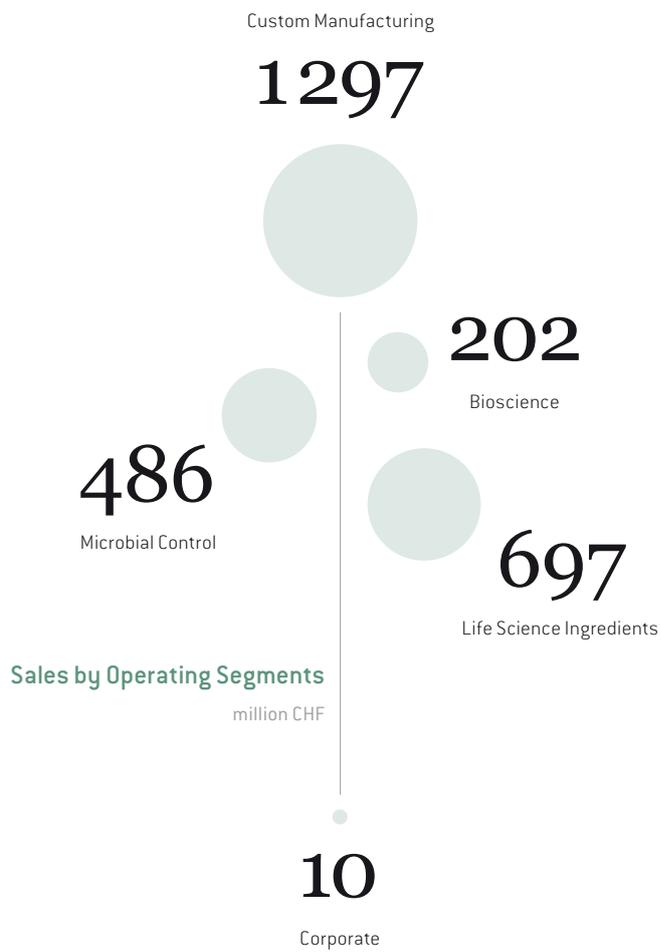
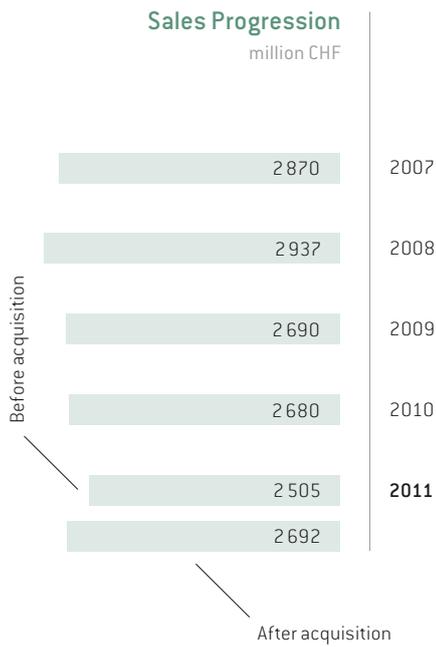
- Before acquisition: revenues at CHF 2 505 million (2010: 2 680 million), up by 5.6% in constant exchange rates.
- EBIT of CHF 292 million (2010: CHF 374 million), up 0.5% in constant currencies
- CHF 84 million negative exchange rate impact on EBIT
- Solid EBITDA margins before acquisition of 22.3% (24.0% in 2010)
- Capital expenditure in ongoing strategic growth projects was reduced substantially to CHF 267 million (CHF 300 million in 2010) after acquisition
- With the fully debt-financed acquisition of Arch, gearing came up to 112% by the end of 2011 (46% at the end of 2010)
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share

Share information	2011	2011	2010
CHF	before Arch acquisition	after Arch acquisition	
Basic earnings per share	3.68	2.98	5.55
Diluted earnings per share	3.67	2.97	5.53
Dividend payout ratio %	58	72	39
Core ¹ basic earnings per share	4.19	4.36	5.84
Core ¹ diluted earnings per share	4.17	4.34	5.81
Ordinary dividend declared per share	2.15	2.15	2.15

Profitability	2011	2011	2010
%	before Arch acquisition	after Arch acquisition	
EBITDA	22.3	19.9	24.0
EBIT	11.7	9.7	14.0
Core ¹ EBIT	12.2	12.1	14.4
RONOA	9.0	6.9	10.8

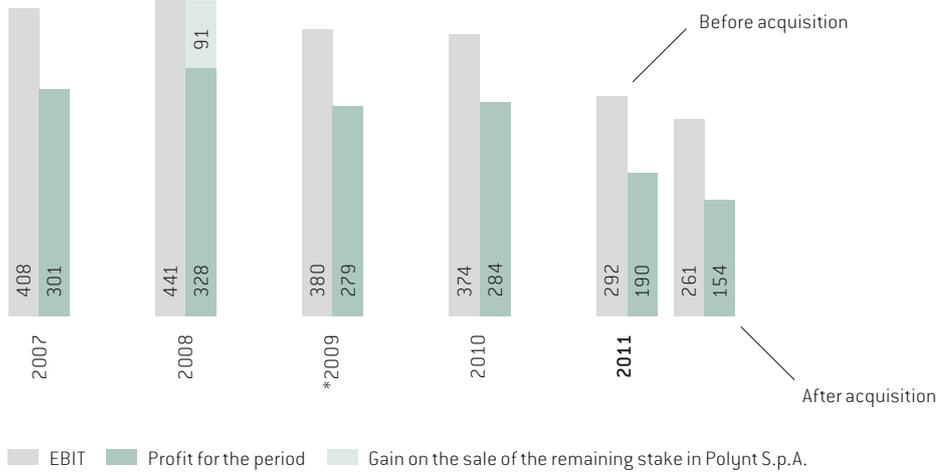
¹ In the core results for the items: result from operating activities (EBIT), profit for the period and earnings per share, the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring / acquisition is eliminated (see reconciliation of IFRS results to core results on pages 182 / 183).





EBIT and Profit for the Period

million CHF



* Before special charges

Annual Report 2011

*Lonza is a leading supplier to the pharmaceutical,
healthcare and life-science industry.*

*Since 2011, Lonza has been market leader in
the area of Microbial Control.*

*Our products and services span customers' needs from
research to final product manufacturing.*

*Lonza is headquartered in Basel, Switzerland,
and is listed on the SIX Swiss Exchange.*

*Since October 2011, we have had a secondary listing
on the SGX Singapore Exchange.*



Control and review of production parameters are key for a successful product delivered on time and in the quality required by the customer. Electronic or handwritten documentation is essential for Lonza and the customer.

Lonza Quality Assurance Photo Reportage

Quality is a term – unlike safety, for example – which is not always clear and well-defined, but often open to different interpretations, in particular in the production of chemicals, drugs and biotechnology products. If you find a fault or a fracture in a porcelain object, the quality aspect is plain for all to see. In drug manufacturing, things are different. The quality of such products is not immediately evident. Quality deficiencies only become evident through use, in other words in the efficacy achieved. This is a field in which the quality as-

pect is especially critical. It is not surprising, therefore, that more and more quality criteria have been added for certain drug products over the last few decades.

The photo reportage running through this Annual Report uses the example of pharmaceutical products at the Visp (CH) site to illustrate the different quality aspects which are a top priority in the manufacture of drugs for our customers. Picture no. 1 of the photo reportage is on the title page.

Lonza Annual Report 2011

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Sample preparation is one of the most challenging procedures. Compliance with standard operating procedures ensures results of consistent quality.



Dear Shareholders

Once again, you have the Lonza Annual Report in your hands. But before I speak about Lonza, I would like to say a word of thanks to you, to express my gratitude for the fact that you hold Lonza shares! They are a token of your trust in our company, of the interest and appreciation you show, also in uncertain times, in some cases over many years. The Board of Directors, Management Committee and employees know that this places the onus of responsibility on us. Rest assured: We take it very seriously.

This year's Annual Report from Lonza is more compact than in recent years. It is intended to give a clear and comprehensive picture of all that Lonza has achieved in the past year, and show you where we stand, both strategically and financially. In 2011 Lonza again earned praise from various quarters for the transparency of its reporting. Wherever we see an opportunity, we try to raise the level even further, one step at a time.

This year, we are placing a particular emphasis on the presentation of our new business sector: Lonza Microbial Control. The acquisition of Arch for around CHF 1.4 billion was one of the striking events of 2011. It was carried out in a most professional and efficient way: We announced our intention in July; by 20 October 2011 all the legal formalities had been completed, and on the same day the new management team was put in place. Since then, the integration has proceeded according to plan. Through this acquisition, we have become the world's leading supplier of solutions for the control of unwanted microbes. This is an exciting business sector with great potential in both mature and new markets. Thanks to Lonza's expertise in the relevant fields, it is well positioned to exploit the areas

of development, particularly at a time when the regulatory environment is becoming increasingly strict. Through genuine innovations and its global presence, Lonza aims to ensure that the sector becomes a cornerstone of the Group.

Needless to say, this acquisition was not the only step we took to consolidate and expand the basis of our business. Notable projects included:

- In Visp (CH), the building of additional capacity for cytotoxic active ingredients for pharmaceuticals and a new production plant for crop protection intermediates.
- In the USA, we extended the infrastructure in Hopkinton, MA, the cell therapy capacities in Walkersville, MD, and inaugurated the Innovation Center for Microbial Control in Alpharetta, GA.
- In Singapore, the mammalian cell culture facility came on stream, while the cell therapy facility is scheduled to be completed in 2012.
- In China, we invested in the L-carnitine plant in Nansha and the production facility for pyromellitic dianhydride in Nanjing.

The last two examples show one thing: Lonza takes Asia seriously. This is further underlined by the secondary listing in Singapore. We are the first Swiss and only the second European company to be listed on the Singapore Exchange! This direct presence in one of the most important financial centers on this vast continent will open up new opportunities in the medium term.

This all goes to show how Lonza is striving, step by step, to balance out its traditionally strong position in Switzerland. There are certain realities we have to accept: The Swiss franc has gotten strong within an extremely short period of time which ultimately also let the Swiss National Bank to set a minimum exchange rate for the Swiss franc. Productivity gains of up to 25% to offset the strong Swiss franc cannot be achieved at the same pace as the movements in exchange rates, even more so when your company was working efficiently in the first place which has been the dilemma of the entire Swiss industry. Also, the level of cost for labor, energy, and certain raw materials in Switzerland is still high. The question how and what we can manufacture competitively in Visp will always be on the agenda. We greatly respect and appreciate the way our employees and their representatives have accepted this and are making a constructive contribution to the search for a pragmatic and effective entrepreneurial response. Accompanying this strategic drive to maintain the competitiveness of our Swiss plants, we have to redouble our efforts to strengthen our positions in the growth markets. As you know, reshaping the company step by step is nothing new in Lonza's history. As in the past, the solutions will be responsible ones, based on sound judgement.

Regarding the underlying business, we were able to improve both sales and EBITDA – at least when measured at constant exchange rates – with high capacity utilization in most business segments. Custom Manufacturing benefited from sustained demand for outsourcing from pharma and biotech customers. This was particularly the case in Biological Manufacturing, where capacity utilization was over 85% – not including the new plant in

Singapore! New contracts were signed in all business areas, reflected in a solid improvement in the project pipeline. In Asia, we took further steps to expand our market presence, including the relocation of our Life Science Ingredients division to Beijing (CN). This sector faces a serious challenge in the niacin segment, which is subject to increasing competition and pressure on margins: Lonza is determined to find smart solutions and take vigorous action to defend its leading position. From the third quarter on, the Microbial Control business experienced a slowdown in the so-called mature markets, but this was partly offset by new products and the opening up of new markets. The Bioscience sector suffered under the budget limitations of many customers, both large and small, but strengthened its position in some of its business fields.

Lonza has initiated various strategic steps in recent years. These were substantially shaped by CEO Stefan Borgas, to whom we wish to express our gratitude. However, the results achieved in recent years have not measured up to expectations, the 2011 result included. External factors beyond our control certainly played their part. But the fact is: the outcome is still unsatisfactory, and Lonza has to do better. That is why the Board of Directors has decided to initiate a change of CEO, a move that was announced on 25 January 2012. This decision is not the outward sign of a fundamental new orientation of the business activities: Lonza is in a strong position, both strategically and financially. From now on, "Focus and Delivery" must be the motto that guides our company, our teams and our work.

The Board of Directors has adjusted the expectations to the extent that it "put back the clock" in January. The 2011 result is the starting point. There is nothing we can do to change that. But from now on realistic and solid growth is our goal. This will be possible in 2012 thanks to the acquisition of Arch. As you know, the deal was not financed by way of an increase in capital, but with capital borrowed on favorable terms. The EPS, which is of particular interest to you as a shareholder, will benefit significantly from this growth.

As I have already mentioned, Focus and Delivery is the motto guiding our management teams across the world. Of course, the Board also has to play its part. A pointer in this direction is given by the two candidatures for seats on the Board, which you will find on the agenda for the Annual General Meeting. Margot Scheltema and Jörg Reinhardt bring experience and expertise which will be invaluable for our company: on the one hand, experience in industry and management; on the other – more vital than ever – specialized knowledge in the areas of audit and compliance.

There are good reasons why Corporate Social Responsibility is a fact of life in the business world of today. One way Lonza recognizes this is through membership of the UN Global Compact. The UN principles are not just something written on paper that we pay lip service to, but part of day-to-day life at Lonza, involving all our locations. Safety at work is the number-one priority. It is heartening to report that, after good progress in previous years, we were able to keep the accident rate in 2011 at a low level; it is currently 1.7 per million hours worked (lost-time injuries frequency rate).

The 2012 business year will not be an easy ride. Many of the countries in which we operate are not in the best of shape. However, the current year – starting from the result Lonza achieved in 2011 – will have to bring overall growth in both sales and income. This will be possible in the Microbial Control sector thanks to the acquisition of Arch. Synergies from that acquisition and improvements in productivity, particularly in Switzerland, will contribute to the growth. The Group is in good shape. The project pipeline is growing in all sectors, and further growth projects are lined up: antibody drug conjugates, cell therapy and biosimilars, to name but a few. Capital expenditure, including maintenance, is forecast to be below CHF 400 million in 2012. The free cash flow generated will enable Lonza to reduce its net debt. The course is set for an improved performance in 2012!

I started by thanking our shareholders. Now I also wish to thank our customers, who rely on our services and spur us on to give of our best. Finally, last but by no means least, I want to express heartfelt thanks to all our employees. They are the ones who do the work. Their commitment and skills are the basis for our success. Without them, we could achieve nothing.

With best regards

A handwritten signature in black ink, appearing to read 'R. Soiron', written in a cursive style.

Rolf Soiron
Chairman of the Board of Directors



The sampling of our raw materials is a vital starting point for a high-quality product. Manufacturing under GMP conditions requires rigorous control of raw material quality.

Secondary Listing in Singapore

In October, Lonza's shares made their trading debut on the Singapore stock exchange.

Lonza is the first SIX-listed company to have a secondary listing, by way of an introduction, on the Singapore Exchange (SGX-ST).

The listing will help enhance our profile in the region and offers options for accessing capital.

Operational Highlights

New agrochemical plant in Visp (CH), running at high capacity utilizations

—

Start-up of the new L-carnitine plant in Nansha (CN)

—

Start-up of the new production plant for pyromellitic dianhydride in Nanjing (CN)

—

Opening of the Innovation and Technology Center in Alpharetta, GA (USA)

—

Successful start of investment in additional capacity for cytotoxic active pharmaceutical ingredients in Visp

—

Very successful year for the business unit Biological Manufacturing with a capacity utilization of above 85%

—

Start-up of the large-scale mammalian facility in Singapore

—

Completion of equipment additions and infrastructure changes in Hopkinton, MA (USA)

—

Strategic alliance with Mesoblast (Australia) for clinical and long-term commercial production of Mesoblast's off-the-shelf (allogeneic) adult stem cell products

Lonza Highlights

16.5 %

Asia

Employees by Region

in %

34.6 %

Americas

48.9 %

EMEA
(Europe, Middle East, Africa)

Arch Acquisition

With the completion of the Arch acquisition in October, Lonza became the global leader in microbial control, providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms.

The Arch business has been combined with Lonza's existing Microbial Control business to create the new Lonza Microbial Control sector.

2011

Awards

Best Ingredient Award at the in-cosmetics Asia for ReGeniStem™ Red Rice, a sustainable anti-aging active, derived from a meristematic culture of Himalayan red rice, which finds application in skin care products

—
2011 Frost & Sullivan Asia Pacific Green Excellence Award for Lonza Biologics Tuas, Singapore

—
2011 Excellence in EHS management by Nanjing Chemical Industry Park for the Lonza site in Nanjing (CN)

Custom Manufacturing

4 220

3 047

Microbial Control

1 017

Bioscience

2 212

Life Science Ingredients

Employees by Division

505

Corporate Functions

11 001

Total

*Microbial testing and environmental monitoring
are part of the quality-related requirements that ensure
the potency and safety of drugs for patients.*







*The maintenance and qualification of increasingly
complicated and sophisticated instruments always fall within the scope
of regulatory and customer inspections.*

New Microbial Control Sector Is the World Leader with Exciting Growth Prospects

The acquisition of Arch Chemical Inc. gives Lonza Microbial Control a well-balanced set of business-to-business and business-to-consumer products and applications, combined with a broad geographic footprint.

Lonza has a new business sector: Lonza Microbial Control. This fourth business sector was created on 20 October 2011 when Lonza acquired Arch Chemicals, Inc., a global leader in the control of unwanted microbes, with annual revenues of about USD 1.3 billion. On day one of its creation, it became the world leader in Microbial Control Solutions, with a global market of USD 10 billion. Together with the former Lonza Microbial Control business unit, which prior to the acquisition had been part of the Life Science Ingredients sector, our new Microbial Control sector had 2010 pro-forma sales of approximately USD 1.6 billion, comprising more than 40 % of overall Group sales.

Our new sector is led by Chief Operating Officer Jeanne Thoma, who previously served as head of the Lonza Microbial Control businesses and is now a member of Lonza's Management Committee. With approximately 3 000 employees and 26 major manufacturing and R&D locations worldwide, the new Microbial Control sector offers compelling competitive advantages, including:

- The broadest portfolio of approved, active microbial ingredients and formulations in the world
- Market-leading positions in water treatment, wood protection, health and hygiene applications
- Excellent growth opportunities in materials protection and personal care products, and
- A strong presence in fast-growing markets such as China, India, Brazil and South Africa.

Moreover, having a significant portion of its sales in North America, the sector provides a currency hedge against the strong Swiss franc. With the integration of Arch well underway, the sector is on track to achieve an estimated USD 50 million in cost-saving synergies by year-end 2013 and incremental sales of at least USD 40 million by the third year. The sector is expected to be EPS accretive in year one and EVA positive in year two, generating sustainable advantages for our shareholders.

New Microbial Control Sector Is the World Leader with Exciting Growth Prospects

Water Treatment

In an interesting synergy, even before the Arch acquisition, Lonza provided halogenated hydantoin to Arch as ingredients in some pool and spa products. Our Water Treatment business (including the world renowned HTH™ family of pool treatments) is the world's largest supplier of swimming pool and spa treatment products. In addition, we offer treatment chemicals, formulations, feeder systems and support services for the treatment of potable and drinking water, surface waters and water used in papermaking, industrial cooling and other industrial applications.

One of our exciting growth stories in water treatment is Lonza Microbial Control's oil and gas production treatment business. It is growing rapidly as we serve customers engaged in shale gas and oil extraction and other exciting new forms of energy production. We provide biocides, corrosion inhibitors, surfactants, and other products used to prevent corrosion and the growth of bacteria and biofilms in production wells, pipelines and other energy equipment. In late 2011, we launched the Dantogard™ 2000 biodegradable, environmentally responsible biocidal solution for preserving and protecting water used in shale gas hydraulic fracturing – a “green” solution that helps protect human health, drinking water quality, and the environment.

Hygiene & Preservation

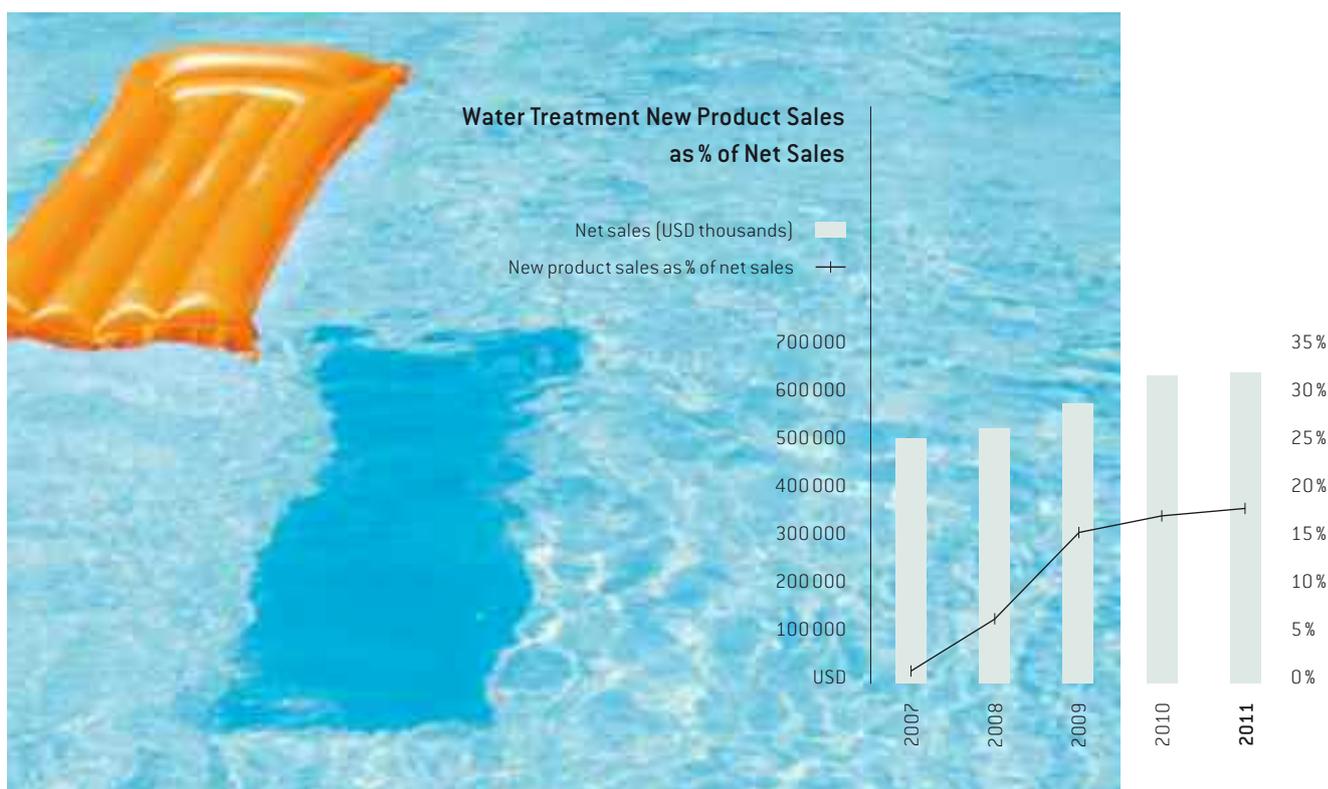
Lonza Microbial Control is the leader in registered formulations for the hygiene and preservation markets, where our products are used in hard surface disinfectants, sanitizers and cleaning products; in the institutional healthcare markets, hotel and restaurants markets, in health care applications such as gauze bandages and topical wound treatments; in cleaning and sanitizing applications for Pharmaceutical Clean Room manufacturing and in food hygiene treatments such as beverage bottle sanitizing and the post-harvest cleansing of fruits, vegetables and poultry.

Personal Care

With a strong biotechnology platform and many certified organic products which distinguish us from competitors, the expanded Lonza Personal Care business is a comprehensive solutions provider to global personal care and cosmetic companies. Our portfolio includes biotechnological actives, delivery systems, natural and traditional preservatives, botanicals, antidandruff agents and functional ingredients. Our zinc Omadine® biocide, for example, is the most popular antidandruff shampoo active in the world, and it is enjoying strong demand growth in China and India.

Wood Treatment

The Lonza wood treatment businesses is a world leader in providing advanced, formulated products and support services to our customers. Our products make wood resistant to termites, fungi, mold, fire and moisture. Key wood brands and treatments have earned “green building” awards and certifications worldwide for their sustainability and other environmental advantages.



With its acquisition of Arch Chemicals, Lonza became the world's largest supplier of swimming pool and spa sanitizers and related treatment products, such as the world-famous HTH® brand of chemicals.

Materials Protection

This business unit is an innovative 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. As an example, the biocidal actives and formulated products that we supply to the building products market deter the growth of mold and mildew on painted surfaces, wallboard, ceiling tiles and related building materials, helping protect human health and safety.

Supplementing the offerings above, our oleochemical derivatives business is a high quality supplier of key additives, primarily emulsifiers, for use in foods, plastics, textiles, metalworking, water treatment, oil-field and personal care products.

All in all, Lonza Microbial Control provides a well-balanced range of business-to-business and business-to-consumer products and applications. With our broader geographic footprint, abundant cross-selling opportunities, and a commitment to significant R&D investments, this exciting new sector will generate profitable global growth by bringing life-enhancing microbial control solutions to customers and consumers.

Lonza Quality Assurance 7



Packaging and labeling of our products also ensure their integrity and quality. Lonza invests significant time and resources in testing the stability of active pharmaceutical ingredients.





*In early-phase projects with many manual operations,
written procedures, training and knowledge of the equipment are
essential to obtaining a high-quality product.*

Integration: Becoming One Team

In October 2011, we completed the acquisition of Arch Chemicals, which represented our largest acquisition ever and created the global leader in Microbial Control solutions.

From a business perspective, the acquisition strengthens our global footprint, adding infrastructure in the fast-growing markets of South America, South Africa and Asia, which will accelerate our growth in these markets. The combined business also gives us the broadest portfolio of registered microbial control actives and formulations in the world. The Microbial Control business with over 3 000 people, provides a strong business pillar for Lonza.

From a personnel perspective, we were looking forward to integrating our new colleagues from the beginning. Like most global organizations, the team is quite diverse. However, the first thing we realized was how much we had in common. Still, we made no assumptions that this would be an easy process. So we developed a strategy which included the Global Human Resources team, Corporate Communications, the business and opinion leaders, as well as external consultants.

We are still at an early stage of the integration process but have enjoyed some initial successes. Our focus throughout the process is summarized in the following six points:

1. Showing Up

Lonza's top management visits sites and offices to be acquired

Right after announcing the offer to buy Arch, the senior management from Lonza visited all of the larger sites (with 20 employees and more). These personal visits, which included opportunities for Arch employees to pose questions and share their concerns, gave the employees a voice in the process. In addition, this enabled the teams to learn the rationale behind Lonza's acquisition decision. It was important for everyone to understand that this is a story about growth, not consolidation. In four weeks, Lonza management hosted more than 25 "town hall meetings" throughout the world, reaching two-thirds of the new colleagues!

2. Setting Priorities

Defining clear and consistent targets

From the first meeting, the targets of the deal and its priorities were explained. The first priority of the integration was to keep our eye on the business, with the target of not losing a single customer. To do this we focused on stabilizing the organization and therefore the business. Once the business is stabilized, we can begin to optimize it. In order to settle the teams, the new organization was rolled out quickly. We announced the new sector team on day one. The next level of management was announced six weeks later.

Parallel to the integration, we began the detailed task of identifying immediate cost savings, primarily from overlapping corporate functions.

Integration: Becoming One Team

Business synergies are the next step. Our goal is to achieve USD 40 million in additional sales from cross-selling synergies within the first three years.

Also within the next three years, we will start to benefit from our broad innovation pipeline, optimizing both companies' R&D and innovation capabilities and activities to create a strong, forward-looking portfolio of products, technologies and services.

3. Clear Roles & Responsibilities

Early positioning of a dedicated integration team

Two weeks after Lonza announced its plans to acquire Arch, the integration team was defined. The team comprises five senior managers from both organizations. It was important to all of us that we had an open, shared approach from the start. The integration team was expanded to include experts from corporate functions including: Finance, Human Resources, Information Technologies (IT), Communications, Regulatory and Supply Chain. Especially important in phase one is that the integration team serves as a bridgehead for all internal and external questions and drives the transformational process. The team is focused on drawing the best elements from both companies.

4. Open, Continuous Communication

Sharing information and ideas as soon as possible

In keeping with Lonza's culture, we approached the integration process with a commitment to open, frequent and clear communication. One step in this process was the issue of weekly updates, via broadcast e-mails, intranet messages and other methods, about integration timelines, synergy goals, planning processes and decisions made. This included clear information regarding headcount reductions planned at the former Arch corporate headquarters. The commercial teams have also provided regular updates to other critical groups – namely our customers and suppliers!

2000

More than 25 town hall meetings were held around the world, reaching around 2000 new employees.

5. Day-One Activities

Taking the first step together

On day one, when the acquisition deal was officially closed, all new employees received detailed information which was communicated via e-mail, the Lonza intranet and in “town hall meetings”. These meetings took place at every Microbial Control site (former Arch and Lonza Microbial Control sites). The presentations were given by teams which included people from both legacy organizations. Proceedings began with videotaped messages from the CEO and the newly positioned COO of Microbial Control. The presentations also highlighted the scope and resources of our new business and gave important information about Lonza’s systems and businesses. That day we also issued letters to our customers and suppliers, assuring them of our dedication to ensuring a smooth transition for all of our stakeholders.

We are very excited about the progress that we have made to date and look forward, over the next few years, to a successful conclusion to the integration processes.

The early achievements are the result of much hard work and enthusiastic support from all of our colleagues. Lonza management is very thankful to them for all of their support and commitment.

6. Demonstrating Cultural Awareness

Identifying, accepting and managing differences

According to expert opinion, one of the key reasons that integrations fail is the lack of cultural fit. We saw cultural fit as one of the strengths in favor of the acquisition. Our two organizations had important overlaps in culture with regard to the focus on safety, innovation and customers. However, we did not assume that all aspects of our organizations would be the same. The integration plan therefore includes a strategy for cultural integration.



*Quality assurance is no easy task.
The parameters of cost and time have to be
balanced with quality requirements.*

Lonza at the Olympics: New Metal-Free Wood Preservative Used on Pedestrian Bridge

Many visitors to the 2012 Olympic Games in London will pass over a wood-clad pedestrian bridge that uses innovative wood preservative Tanalith® M. This is akin to a gold-medal triumph for Arch Timber Protection (UK), a Lonza company.

The development of this breakthrough wood preservative was in many ways similar to Lonza's process of developing innovative pharmaceutical ingredients for life-saving medicines. In the case of the wood treatment industry, however, the "patients" are the spruce, larch, pine and western red cedar woods on which new treatments have to be tested in real-world environments.

Now a part of the Lonza Microbial Control business sector, Arch Timber Protection and its sister businesses recently introduced a cutting-edge new product family – metal-free wood preservatives that not only provide effective protection against wood decay and insect attack, but also leave the treated timber with a longer-lasting, bright and clear natural appearance. In Europe, the formulation of this new Tanalith® M preservative, for which a patent application is pending, includes the high-performance triazole products that have traditionally been used in Arch's world-renowned Tanalith® E preservatives, along with an insecticide and a unique conditioning agent to ensure superior protection against weathering.

Tanalith® M has been fully tested in laboratories and – more importantly – in rigorous field-test programs required by British and European regulations. In these stringent tests, Tanalised® Clear pressure-treated timber (the term coined to describe timber treated with Tanalith® M) exceeded regulatory requirements for exterior, above-ground and uncoated wood applications, offering a service life of 30 years' protection for cladding and cedar shingles and 15 years for decking, playground equipment and garden buildings.

In North America, the Wolman® AG preservative system for wood treatment is another member of this specially formulated, metal-free preservative family. Wood treated with this preservative is known as Wolmanized® EraWood™ pressure-treated lumber. Listed as an environmentally preferable product in the widely respected GreenSpec® directory, this lumber is used for decking, molding and trim, among other applications.

Lonza at the Olympics: New Metal-Free Wood Preservative Used on Pedestrian Bridge



12 000

*12 000 meters of FSC-certified
Siberian larch cladding
louvers and 200 meters of special
laminated larch sections
for the Olympic bridge.*

The most impressive outcome from the field testing was the weathering performance of the treated timber. Tanalith® M preservative has an innovative active surface conditioner that helps to protect the surface of the wood and improve its weathering characteristics. Consequently, the treated timber stays clearer and brighter for a long time. It slowly softens to a sun-bleached appearance, particularly in cladding, and, in the longer term to a pale gray appearance. In short, Tanalised® Clear pressure-treated timber now enables architects to confidently specify timber for its natural beauty and color, a design breakthrough enabled by our revolutionary new product.

In addition to Arch's own rigorous field testing, independent experts such as EcoBuild, a testing center for eco-efficient, innovative, and durable wood-based materials hosted by SP Technical Research Institute in Sweden, conducted their own field tests, beginning back in 2009. A recent report by EcoBuild stated: "A remarkable observation is that the rings treated with Tanalised® Clear product more or less retain their original appearance, and do not have the typical grayish color of untreated, thermally treated or CCA-treated (CCA: chromated copper arsenate) wood after two years' exposure."

Further testing was conducted by MPA Eberswalde, which concluded that: "... after twelve months, untreated larch, spruce and pine all showed very bad stains, but the test product (Tanalith® M), on the contrary, provided perfect or almost perfect protection for the entire period of eighteen months. This is remarkable, as the vertical set-up, with unprotected board ends, represents a worst-case simulation."

Tanalith® M also offers special aesthetic benefits when used with cedar shingles. Traditional preservative treatments for cedar can leave the product quite dark in color, but the new treatment, when used in roofing and cladding applications such as for the Olympic bridge, allows the natural coloration to appear. In addition to these benefits, when colored stains have been added to the treated timber, the natural coloration of the substrate gives a truer, brighter result to the final coating.

In response to strong customer interest, Arch Timber Protection recently converted its high-pressure treatment facilities in Preston, England, and now offers the timber trade the alternative of Tanalised® Clear pressure-treated wood. One of the first major projects completed at the Preston center was the treatment of 12 000 meters of FSC-certified Siberian larch cladding louvers and 200 meters of special laminated larch sections for the Olympic bridge. The pedestrian bridge has a span of 55 meters and will connect the car and bus park with the underpass that leads into the Olympic Park.



After the release is granted, the logistics and warehouse employees make sure that the right product and the corresponding certificates are shipped to the customer under the correct conditions.



Company Profile

Lonza is a global company serving the needs of the life-science industry. From 1897 to the present day, the company has had an enterprising character, adapting its offerings and services to the needs of customers and to changing technologies.

Over a century ago, Lonza began as a small Swiss electricity company, making a few chemicals on the banks of the river Lonza in the Valais region of the Swiss Alps. Now, more than 110 years later, Lonza is a leading supplier to the pharmaceutical, healthcare, and life-science industries. Throughout our history, we have maintained a strong culture of performance, results, and dependability that is valued by all of our diverse customers.

Organized Around Customers

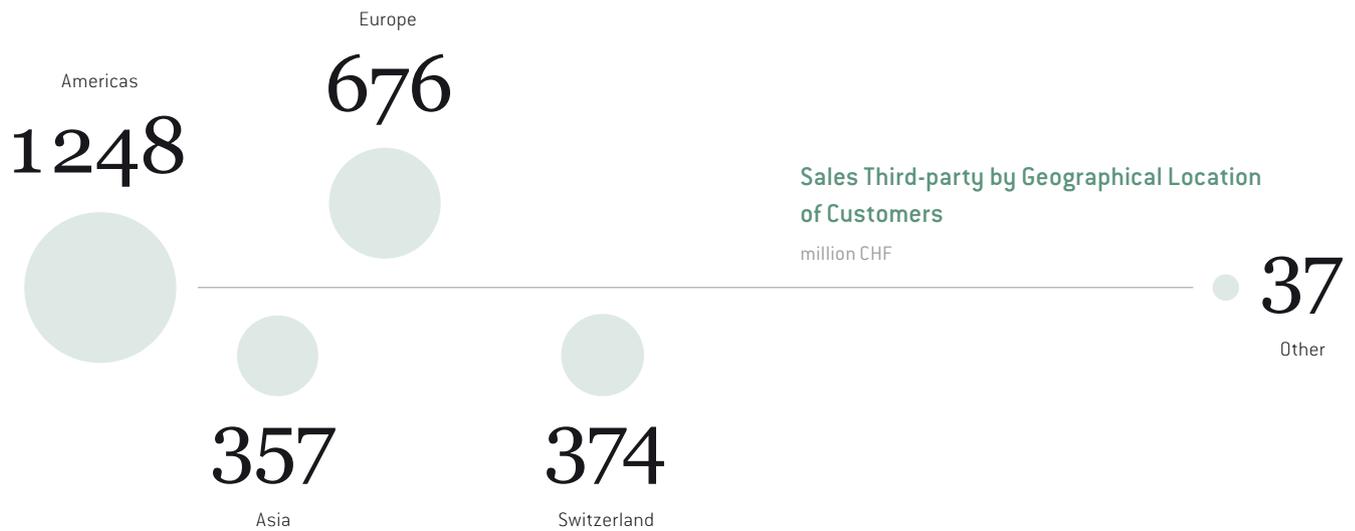
To provide optimal support for our customers, we are organized in businesses and markets that focus on specific sets of customers and their exact needs. We operate as four divisions and serve the following seven markets: BioResearch, Pharma&Biotech, Nutrition, MicrobialControl, Agriculture, MaterialsScience and PersonalCare. Our customers are located across the globe. To ensure the close connection necessary to serve their needs to best effect, we have production and R&D activities at 45 major sites around the world.

Products and Services for Our Customer

Our strategy is to target the life-science industry with two fundamental technologies: chemistry and biotechnology. Using these two technologies, we offer both products and custom manufacturing services to the pharmaceutical, biotech, and life-science industries.

In our Life Science Ingredients division, we offer products used in nutrition and in selected industrial markets. In these businesses, we produce the ingredients that make our customers' products effective. Our customers are manufacturers of consumer and health products, distributors, formulators, and service companies. Our ingredients range from nutritional ingredients that support improved health to complex chemical intermediates for the agricultural industry.

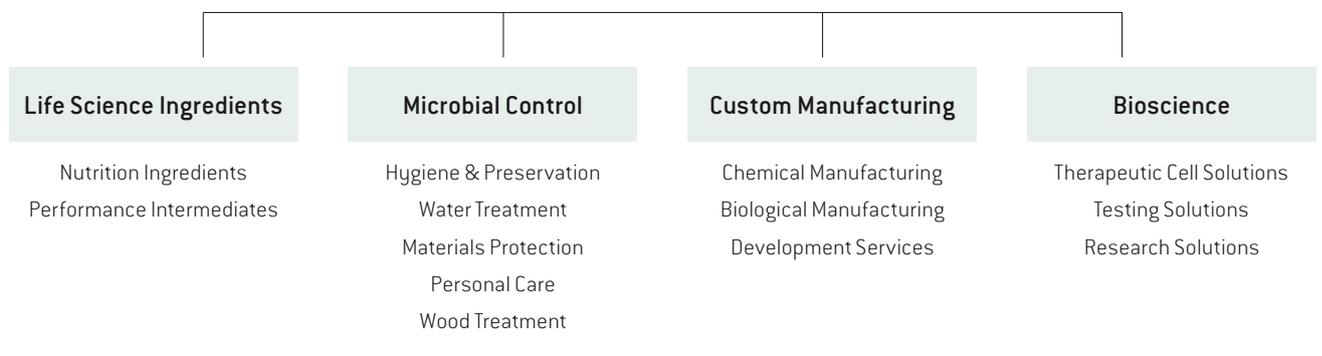
Our Microbial Control division is the world leader, providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Our activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. Our product range includes swimming pool and spa treatment chemicals, active biocides for hospital disinfectants as well as metal-free wood preservatives.



In our Custom Manufacturing division, we are a partner to our pharmaceutical and biopharmaceutical customers for their manufacturing needs. Using a variety of technologies, we make the ingredients that are ultimately used in many critical drugs, treating patients in areas such as cardiovascular diseases, cancer, neurological and infectious diseases. Our product capabilities include both small and large molecules, resulting from technology processes such as advanced chemical synthesis, peptide synthesis, microbial fermentation and mammalian cell culture.

In our Bioscience division, we make the tools that life-science customers use to discover, develop, make and test therapeutics. Our customers are worldwide, in pharmaceutical and biotechnology companies, as well as in academic and government research organizations. Our products range from cell culture and molecular biology tools for life-science research to media used in the production of therapeutics and tests for microbial detection. We also offer custom manufacturing services to cell therapy companies.

Lonza



Seven Markets

To be close to our customers and to meet the requirements of our broad customer base, our brand communication is focused on the major markets we serve. This way, we address the specific market needs by presenting innovative solutions for each market.

Pharma&Biotech

With innovations in life-science technology, development and manufacturing platforms, Lonza is well positioned to meet the latest demands in the pharmaceutical and biotechnology markets. We continue to seize strategic opportunities allowing for targeted growth and change with the market. We are committed to emerging and established customers alike, mitigating their risks and taking them to the next level of success. Lonza's expertise in mammalian and microbial fermentation, advanced chemical and peptide synthesis, as well as modern cellular and gene therapies, allows customers to bring their products to market faster and more efficiently.

MicrobialControl

A long-time industry leader, Lonza's Microbial Control business provides innovative antimicrobial formulations, finished products, regulatory, analytical and microbiological expertise, and a full range of support services around the world. Lonza is the world leader in microbial control, providing innovative, chemical and related solutions for destroying or selectively inhibiting the growth of harmful microorganisms. Lonza's offerings include active ingredients, preservatives and formulated products for the following areas: hygiene, oil and gas, water treatment, wood treatment, industrial preservation, polymers, metal powder, and metal protection, providing sustainable solutions for healthy homes and workplaces.

Agriculture

Many innovative agrochemical companies throughout the world rely on Lonza's highly complex, ISO-certified custom manufacturing services for their modern herbicides, insecticides, and fungicides. The continuous expansion of our core technologies is the basis for our success in ISO custom manufacturing. Together with our key customers, we continually expand our technical offerings, steadily reinventing ourselves in the process. Furthermore, Lonza has an outstanding reputation in the agrochemical industry for manufacturing active ingredients and complex intermediates. Lonza leads the world in the production of Meta™ metaldehyde and is dedicated to the highest standards in human, animal and environmental safety in regard to application in the field.

BioResearch

Lonza provides the BioResearch market with the tools life-science researchers use to develop and test therapeutics, from basic research through to final product release. Our products and services range from cell culture and discovery technologies for research to quality control tests and software for ensuring product quality. We deliver physiologically relevant cell biology solutions, biomarker discovery services, technologies for understanding compound action and complete solutions for rapid microbiological testing. We serve research customers in pharmaceutical, biopharmaceutical, biotechnology and personal care companies worldwide, as well as academic and government research institutions.

Nutrition

Lonza produces high-quality, branded nutritional ingredients for both human and animal applications. Many years of experience, as well as extensive marketing and regulatory support, make Lonza a preferred supplier to the industry. The world's largest manufacturer of vitamin B3, Lonza offers this vitamin in the form of niacin as well as niacinamide. Lonza's L-carnitine products include Carnipure™ for human nutrition and Carniking™, Carnifeed™, and Carnichrome™ for animal nutrition. ResistAid™ is an immune support ingredient for human nutrition that contains polyphenols, while LaraFeed™ is a prebiotic used in feed products. DHAid™ is a purely vegetarian source of omega-3 fatty acids, which is made from naturally occurring microalgae.

MaterialsScience

MaterialsScience unifies Lonza's entire materials and services business, including the High Performance Materials (HPM), Materials Protection, and Performance Intermediates segments valued by many different key industries. Our HPM business serves the materials science market, including high-tech industries such as aerospace, electronics, telecommunications, and coatings. At Lonza, the Materials Protection segment provides solutions by enhancing the properties of plastics and powdered metals. The Performance Intermediates product portfolio consists of hydrocyanic acid (HCN), diketene derivatives, and basic chemicals that are key starting materials and intermediates in many sophisticated applications such as dyestuffs, optical brighteners, and adhesives.

PersonalCare

Lonza offers unique solutions to meet a wide range of personal care development needs, from innovation to formulation and preservation. Utilizing the latest advances in biotechnology, Lonza interacts with manufacturers of personal care products to realize the full potential of product lines, create new formulations, and expand product claims. Our breakthroughs include customer-friendly preservatives permitted by ECOCERT, NATRUE and The Soil Association for use in certified organic cosmetics, and Laracare™, an aqueous extract of the larch tree, which reduces the appearance of fine lines and wrinkles. Other products include surfactants, natural emulsifiers and active ingredients used in sunscreens and nutricosmetics.

*A lecture on avoidance of human error is given.
The positive feedback from employees shows that quality
influences day-to-day work at Lonza on all levels.*



Lonza Helps Biopharma Customers Bring Their Products to Market Faster

The healthcare industry is under tremendous pressure to reduce product development costs and shorten the time to clinical trials. Lonza's One-Step Cell Line Construction Program uses science and technology to support our customers by addressing both challenges.

In fact, Lonza's creation of the One-Step Cell Line Construction Program has reduced the cell line construction timelines to just 19 weeks. That is a dramatic improvement, offering enormous benefits to our customers. It's worth explaining just how we achieved this breakthrough.

The One-Step Cell Line Construction Program is based on Lonza's GS Gene Expression System™ (GS: glutamine synthetase), which has been used successfully by more than 100 pharmaceutical and biotechnology companies worldwide to achieve rapid development of high-yielding and stable mammalian cell lines. Together with the newly introduced cell culture medium and feed platform known as "Version 8", the GS Gene Expression System™ achieves product yields up to 10 g/L. Nine therapeutics that use the GS Gene Expression System™ have been approved, including Zenapax® (Roche), Synagis® (Medimmune) and Solaris® (Alexion).

To help the pharmaceutical industry improve efficiency and increase the likelihood of a successful outcome to clinical trials, Lonza is continuously upgrading the GS Gene Expression System™. Recent improvements focused on three areas:

1. Shortening cell line construction timelines;
2. Improving the quantity and quality of product produced; and
3. Increasing supply chain security by enabling GS licensees to manufacture products in the same geographical region as their patient populations.

These improvements have enabled Lonza to reduce cell line construction timelines to just 19 weeks, compared with earlier construction programs of 105 weeks.

Lonza Helps Biopharma Customers Bring Their Products to Market Faster

How did we reduce this time frame so dramatically? The engineering of a cell line to produce a desired therapeutic protein for initial clinical trials is the first stage in developing a drug manufacturing process. Historically, this has always been the longest single part of the process. That's why we focused on reducing the time required for cell line engineering, and, by so doing, significantly shortened the time to produce cGMP (current good manufacturing practice) products suitable for clinical trials. Initial improvements were achieved through two critical steps:

- First, chemically defined media (non-protein containing and animal-component-free) were used throughout the manufacturing process. This resulted in a streamlined purification process and simplified regulatory filings.
- Second, further efficiencies were achieved through the use of Lonza's capillary-aided cloning method, in which very small droplets of culture fluid containing single cells are deposited on a microtiter plate for further analysis.

The combination of these improvements enabled Lonza to offer a 40-week cell line construction process and provide cGMP material for clinical trials in approximately 18 months.

Three years ago, we initiated a project with the objective of cutting this development time in half. The 40-week process that we targeted consisted of two stages: generation of uncloned cell lines, followed by the generation of cloned cell lines from the uncloned ones. The project aimed to combine these two processes into a single step, giving rise to the new One-Step Cell Line Construction Program.

To accomplish this, Lonza utilized a fluorescence-activated cell sorter (FACS) and invested in state-of-the-art automated imaging technology. This combination enabled early detection of clonal cell lines and miniaturization of some cell culture steps. Lonza was amongst the first in the bioprocessing field to use 96-well shaking plate technology. The resulting process enabled Lonza to generate cell lines in 19 weeks and provide cGMP products within 13 months of starting the project. Dozens of commercial projects have used this faster one-step approach.

The One-Step Cell Line Construction Program has been further automated through the incorporation of two new dedicated robots. This required a major investment in the R&D cell culture facilities in Slough (UK). For our customers, it means many more cell lines can be progressed and screened during a cell line construction program, without affecting the time it takes for them to reach the clinical stage. This novel development service for advancing more cell lines through to the predictive screening stages of the program ensures the greatest chance for our customers to have the product they need when they are ready to enter the clinical phase.

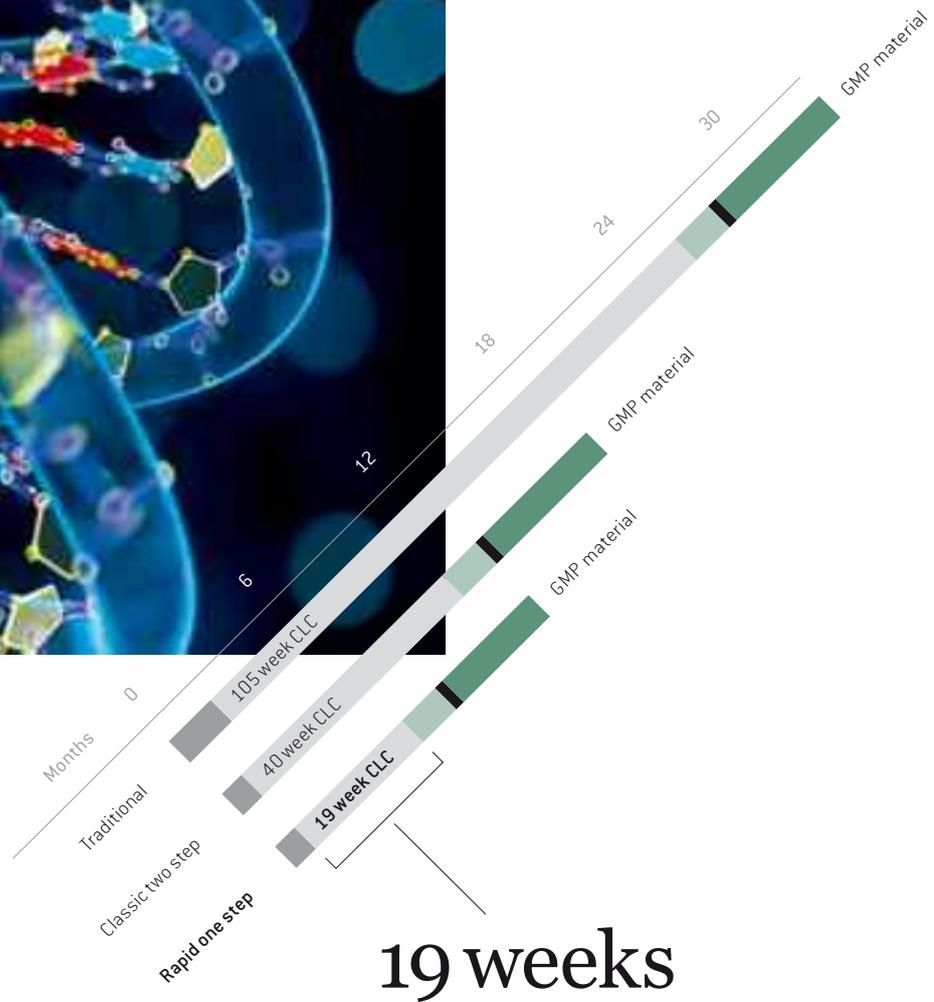


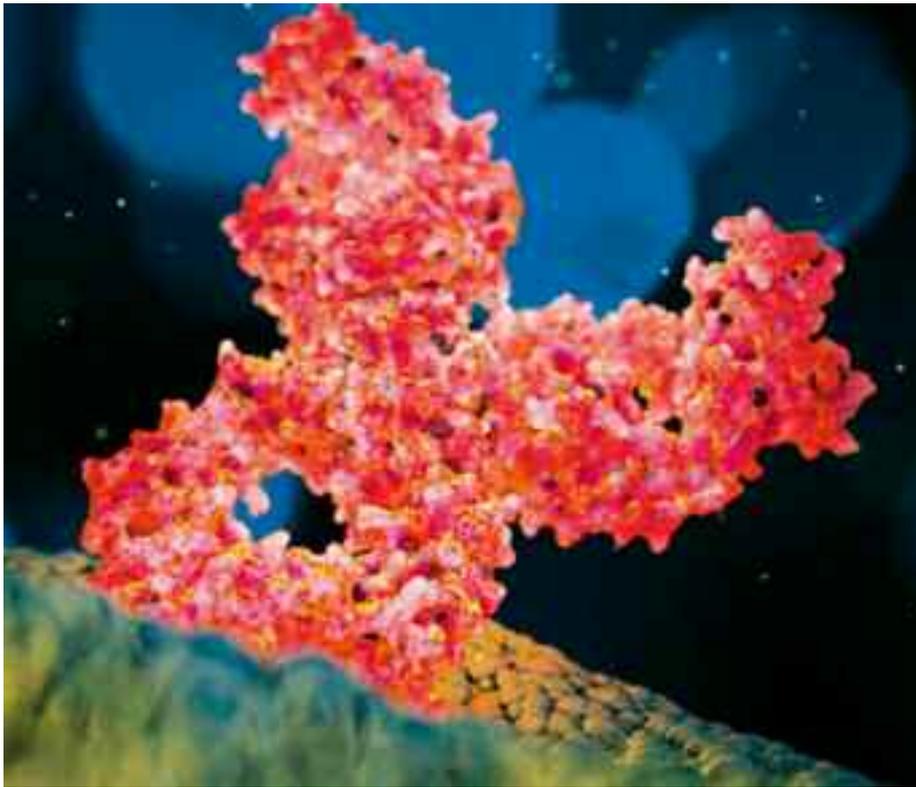
DNA Sequence to Clinical Supply

Effect of shortening cell line construction

Graphic illustration of DNA double helix. Timeline illustrates the effect of shortening One-Step Cell Line Construction Program to 19 weeks over traditional method.

- DNA seq. optimization and rep.
- Cell line construction (CLC)
- Cell line stability studies
- MCB
- Process development and pilot / GMP manufacture





Graphic illustration of a monoclonal antibody bound to a protein on the cell membrane.

Since the One Step-Cell Line Construction Program became available, numerous cell lines have been created for the production of recombinant proteins. Products manufactured using the One-Step Cell Line Construction Program are currently in early-phase clinical trials or at the preclinical stage of development. Customers for this program extend from the range of large pharma to small biotech companies.

The One-Step Cell Line Construction Program allows our customers to obtain the first cGMP product suitable for early clinical trials in less than 13 months – saving more than six months compared with traditional cell line construction technologies. In addition, we leverage our process development experience and expertise to successfully scale up the manufacturing process from early clinical supply to full commercial-scale production, with a high probability of success. Our enhanced development programs are not just relevant in the early stages: they form a robust foundation for the full development path of each customer's drug candidates. The reliability of the GS Gene Expression System™ as a consistent means of rapidly generating highly productive cell lines reduces product costs and time to market.

The 4D-Nucleofector™ System: Pushing the Limits of Transfection

Lonza's recent improvements to its Nucleofector™ Gene Transfection Technology offer customers heightened potential for developing breakthrough treatments for diseases such as Alzheimer's and biotherapies designed to instruct an individual patient's unique immune system to fight cancers.

Among other benefits, the improved Nucleofector™ Technology provides greater flexibility and speed by enabling researchers to use different vessels and formats in which cells can be transfected. The new HT Nucleofector™ Device can process thousands of samples in a matter of minutes, allowing high-throughput experimentation in a diverse range of applications. Another new feature is the ability to transfect cells while they are growing adherently on a matrix – a breakthrough that is especially valuable in the field of neurobiology.

All living organisms are composed of cells, the smallest units capable of living independently. Some life-forms are composed of singular cells, while others, like our own bodies, encompass trillions of individual cells. There are hundreds of different cell types with very distinct properties and functions in the human body. They are the building blocks that underlie the whole complexity of the human body, allowing us to eat, think, walk, drive cars – or read and process information like this. This is why cells are at the center of biomedical research seeking to understand the functions of tissues, organs, and finally the entire human body, both normal and diseased.

The genes present in every cell may be compared to software instructing them how to execute certain routines. Genes affect both the cell's function and fate. So understanding the role individual genes play and how they interact is at the heart of biomedical research. Inserting genetic information such as DNA, RNA, siRNA and other molecules into living cells – a process called transfection – is a widely used technology. For example, it is essential in exploring the functions and interactions of genes and cells, and has already helped to explain an enormous number of mechanisms involved in disease progression. Transfection helps investigate the mode of action of drugs being developed for the treatment of various diseases, such as neurodegenerative disorders or cancer. Moreover, genetic elements such as certain types of RNA can be inserted into human cells to engineer specific responses, e.g. in biotechnology, basic and pharmaceutical research, and gene therapy.

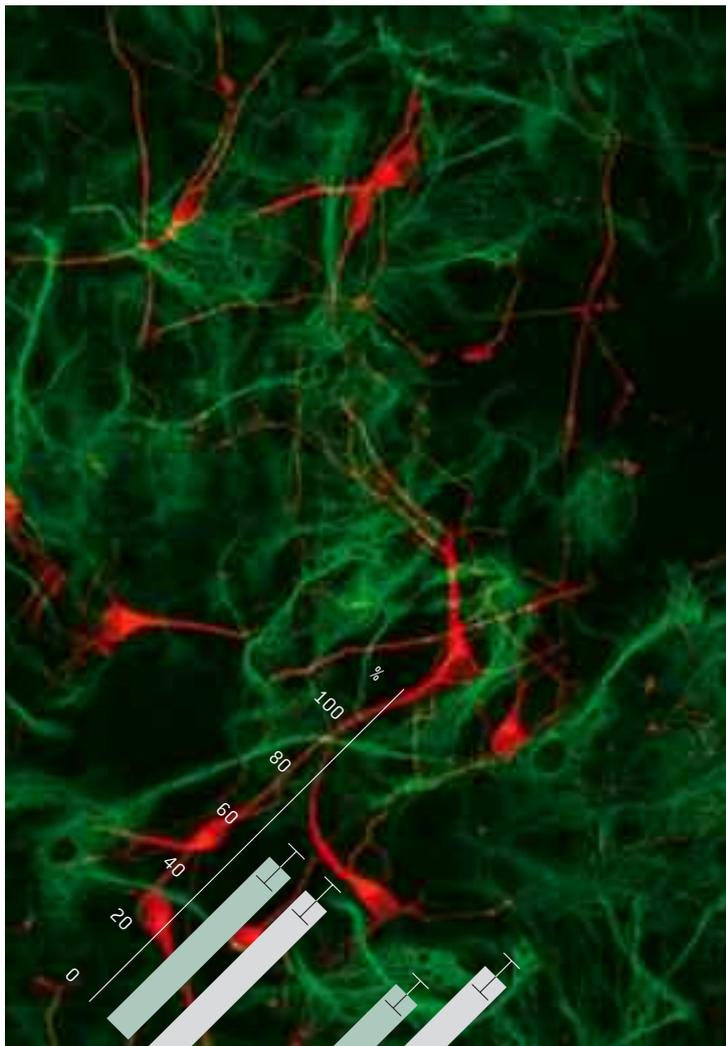
The 4D-Nucleofector™ System: Pushing the Limits of Transfection

Lonza's Nucleofector™ Technology has been well recognized by the market for years as a technique for specifically addressing cell types that are hard to transfect using other methods, such as primary cells derived from human tissues. Among the unique advantages of Nucleofection™ is its success in delivering diverse biomolecules into essentially every human cell type studied so far. In recent years, thousands of independent scientific publications have proven the suitability as well as the unique benefits of this powerful technology.

Compared with earlier technologies, Nucleofection™ ensures high survival rates and functionality in cells, providing researchers with a tool for studying isolated cells that exhibit behavior more similar to their normal functions in their natural environment, the human body. In particular, genes can be delivered directly into the cell's nucleus, where genes are actually read by the cell's molecular machinery. Although viruses can be used to deliver genes inserted into their genomes, the generation of these tools is still quite complex, and in many cases can change the natural behavior of the affected cell. In addition, genetically modified viruses made to target human cells pose a significant safety risk, both for the researcher handling them in the lab and for patients in therapeutic applications. Nucleofection™ offers a safer way to perform genetic research and proceed to clinical application.

The new 4D-Nucleofector™ System offers our customers even more unique capabilities. The device allows greater flexibility and speed, with different vessels and formats in which cells can be transfected.

One new feature is the ability to transfect cells while they are growing adherently on a matrix. This is especially important for researching cell properties, since cells need to be attached to a substrate, as in the body, in order to survive and maintain their biological functions. This novel feature allows even tissue slices or complex networks composed of different cell types to be addressed in conditions more closely resembling the *in vivo* situation. One medical research area specifically benefitting from this capability is neurobiology. Neuronal cells are difficult to maintain in culture, and transfecting them has always been a challenge. "The newly developed Nucleofector™ concept now allows efficient transfection of these cells, while maintaining their growth environment and functionality," said Dr. Herbert Müller-Hartmann, Head of R&D in Discovery Technologies at Lonza Bioscience. "This application will support ongoing efforts to develop treatments for neurodegenerative diseases such as Alzheimer's."



Future applications of Nucleofector™ Technology may include therapeutically relevant gene transfer, thus supporting cell-based regenerative medicine with potential applications in immunotherapy. If a cancer patient's own immune cells can be modified, they could be guided to initiate a specific immune response, killing cancer cells while leaving normal cells unaffected. Cancer immunotherapy has the potential to become a standard treatment in oncology, and could replace today's standard, still largely non-specific chemotherapies. The new-generation Nucleofector™ Platform could be an ideal technology for the support of novel, personalized biotherapy treatments, offering greater specificity and fewer adverse reactions.

Highly Efficient Genetic Modification in Neurons

Picture: Rat hypothalamus neurons

- Transfection efficiency
- Viability



*Production of biopharmaceuticals places
great demands on safety, contamination prevention, processes,
equipment qualification and validation.*

A Regenerative Medicine Partnership

In 2011, Mesoblast and Lonza announced a strategic alliance for the clinical and long-term commercial production of Mesoblast's off-the-shelf (allogeneic) adult stem cell products. Mesoblast's CEO, Silviu Itescu, and Lonza's Global Head of Therapeutic Cell Solutions, David Smith, offer their insights.

What are the fields of application for Mesoblast's stem cell products?

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Silviu Itescu: At this point in time, our focus is on a number of clinical application areas. We are most advanced in the cardiovascular and orthopedic fields. In the cardiovascular field we focus on congestive heart failure, heart attacks and chronic angina. In the orthopedic space we focus on bone repair. Additionally, we are moving forward with an intravenous formulation that could be used to target a number of systemic diseases including inflammation and immune conditions and in particular diabetes.

You mentioned a lot of interesting applications. Are there even more applications expected over the next couple of years?

—
Silviu Itescu: Absolutely, I mentioned the areas which are in the latest stage of clinical development. In addition, through our partnership with our distributor Teva Pharmaceuticals, we are also focusing on some broad new areas in neurological diseases, including Parkinson's disease, multiple sclerosis, and stroke. These are areas of major medical need where existing therapies are either inefficient or insufficient to provide appropriate improvements in clinical outcomes. So, we anticipate that our stem cells are going to have a major impact in the way these degenerative diseases will be treated over the next five or ten years.

And what about the outsourcing trend in the cell therapy industry?

—
Silviu Itescu: There are two very different approaches to regenerative medicine stem cell therapy. One is a sort of personalized medicine and the other is a more industrialized, scalable approach. To be able to deliver these kinds of therapies, you need to be a real leader in manufacturing capability, in scalability and in technology trends. We made an important strategic decision to partner with Lonza because we think that Lonza is the best in the field in terms of its ability to industrialize the manufacturing process.

David Smith: I would add that the biggest trend we see is toward the industrialization of cell therapies. Over the years, most patients have been treated with

A Regenerative Medicine Partnership

cell therapies at university hospitals. At the same time, Lonza has industrialized the manufacture of mesenchymal stem cells. Using these methods developed by Lonza, Mesoblast can manufacture sufficient quantities of cells to treat these diseases, at a much lower cost than before. In this way, stem cells can become a standard treatment for these larger indications.

Silviu Itescu: What this change in manufacturing approach means is that you can now produce cell-based products with significant lot sizes, appropriately tested within the parameters that regulators have already established for other therapies.

Coming back to the collaboration between Mesoblast and Lonza: How does this concept work exactly?

David Smith: This is a true collaboration. We were able to write a contract that allows both parties to benefit. Together we can move the scaled manufacturing process forward to meet the projected therapeutic market demands.

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The partnership with Lonza further allows Mesoblast to underpin it's growth.
—



Silviu Itescu

Silviu Itescu: That's right. Each company has its own particular strength, I would say. Mesoblast is particularly strong in the science behind its proprietary stem cell technology and the ability to innovate manufacturing through science. Lonza brings the much broader know-how and technical capabilities from a biologics and cell therapy perspective. And of course, Mesoblast's further strength is at the level of translational medicine in clinical trials.

David Smith: Absolutely. Mesoblast's expertise is much broader in translational medicine. And Lonza is much stronger in cGMP production and navigating the regulatory aspects of manufacturing. One of the things really unique about Mesoblast's ap-

proach is how they approach manufacturing in their partnership. I think the market recognizes this unique aspect and rewards it with a fair company value.

Silviu Itescu: Mesoblast is the leading stem-cell company in the world and our manufacturing strategy is a key to this success. The first reason for this is the fact that we have positive results in late-phase clinical trials and we are advancing to phase-three studies. Secondly, we bring to the table two of the largest and most creative pharmaceutical companies – Cephalon and Teva – that will facilitate our ability to penetrate major global markets. And third is the amount of cash we have on-hand to deploy for clinical programs and manufacturing of

our products, something to which the market has paid attention. The partnership with Lonza further allows Mesoblast to underpin its growth.

How important was the Singapore location of Lonza's cell therapy facility for Australia-based Mesoblast?

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Silviu Itescu: Mesoblast is a global regenerative medicine company. The major markets for us in the mid term are going to be the USA, Europe, Japan and Asia. And of course we see the emerging markets of China, India, and Southeast Asia as a clear growth opportunity. We see Mesoblast – even though we are a US-centric company – also as an Asia-Pacific story. From Australia we are in a very interesting position to take strategic advantage of the strength of the USA and

the emerging strength of Asia. Our base in Singapore simplifies our ability to target US, European and Asian markets. This location was a major driver for us in entering this alliance. I have to take my hat off to Lonza for having seen the importance of establishing a major manufacturing hub in Singapore several years ago.

David Smith: Our cell therapy facility in Singapore leverages the relationship Lonza has already established with the Singapore government, along with Lonza's existing engineering and start-up expertise at the Tuas bioproduction site.

To what extent does this alliance differ from previous strategic partnerships Lonza has previously entered in the cell therapy field?

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David Smith: In the cell therapy field this is unique. Because the Singapore plant is the first large-scale facility for cell therapy, we were able to set the standard and write a unique agreement creating a partnership of mutual benefit.

To come back to the start of the discussion: What role does the field of adult stem cells play for Lonza? And what is the benefit resulting for Lonza from this alliance?

—
David Smith: Over the last ten years, Lonza has been building core expertise and technology around production of allogeneic stem cells – basically in industrializing stem cell production. Mesoblast is a perfect partner because they are well capitalized, well accepted in the market, very strong in clinical development and have great partnerships. We can be more successful, with better growth, by working together, rather than individually.



David Smith

—
**We can be more successful,
with better growth,
by working together, rather
than individually.**
—



*Changeover in multipurpose plants is a
challenging task that requires accuracy, knowledge,
training and quality-related planning.*



Life Science Ingredients

(Excluding Microbial Control 2010 and 2011)

Life Science Ingredients million CHF	2011	Change in %	Change CER ¹ in %	2010
Sales	697	(1.4)	9.3	707
Change due to				
Volume and prices	66			
Currency translation	(76)			
Scope of consolidation	0			
Result from operating activities (EBIT)	40	(57.0)	(22.6)	93
Margin in %	5.7			13.2
Margin in % at CER¹	9.3			
EBITDA	104	(32.5)	(10.4)	154
Margin in %	14.9			21.8
Margin in % at CER¹	17.9			

¹ Change from current to prior year, based on constant exchange rates (CER).

Life Science Ingredients experienced a high capacity utilization. Results were negatively influenced by the strong Swiss franc, volatile raw material prices and competitive pressure in certain areas.

In 2011, we streamlined our Life Science Ingredients project pipeline, concentrating on the most advanced and promising product candidates.

Nutrition Ingredients generated high volumes in 2011, as demand for nicotinates (vitamin B3 for food, feed and pharmaceutical applications) grew according to expectations, despite a slight softening affecting feed-grade products in the second half.

- **Nicotinates** (vitamin B3) Based on strong overall market demand, feed and food volume sales were buoyant; however, pharma-grade volumes were slightly weaker. Overall, vitamin B3 prices were maintained at the target level, though this was lower than last year. Increasing raw material prices and a strong currency effect had a negative influence on margins.
- **Carniking™** feed-grade L-carnitine 2011 sales of the Carniking™ product portfolio to the animal feed industry continued to be strong in terms of volume. The first deliveries of Carniking™ products from our new production facility in Nansha (CN) were well received by the customers.

- **Meta™** metaldehyde is a specific active ingredient, acting as a molluscicide, used for slug and snail control in agriculture and the home and garden markets. Sales were behind plan in 2011 because of unfavorable weather conditions in most parts of Europe, leading to a low slug population and reduced sales of metaldehyde in the key markets of the EU. The long-term perspective for the Meta™ metaldehyde business is promising thanks to the positive listing of metaldehyde in Annex 1 (EU registration of active substances) and Lonza's strategic decision to move up the value chain, creating our own formulated product range.
- Underlying demand for **diketene derivatives** was strong all year. Our primary focus for these products continues to be the European markets. Acetic acid prices peaked in the second and third quarters, but have since dropped to normal levels. The strong Swiss franc continued to put pressure on our margins. Asset utilization remained high.
- **HCN derivatives** sales were also strong due to robust demand in Europe and the Far East. Asset utilization remained high, although margins suffered under the strong Swiss franc.

Work on the construction of a new niacinamide (vitamin B3) plant in Nansha is going according to plan.

Performance Intermediates saw good demand for its products, resulting in high capacity utilization.

- **The High Performance Materials** business enjoyed strong demand in the electronics, aerospace and construction industries. Customer demand for our Primaset™ cyanate esters and our Lonzacure™ products continued to be strong. The new PMDA (pyromellitic dianhydride) production plant in Nanjing (CN) is up and running. We improved the efficiency of our alkylation plant in Visp (CH) in response to increased demand for ortho-alkylated anilines for the polymer and crop protection industries.

- Underlying demand for **agrochemical actives and ISO-regulated custom manufacturing** enjoyed a significant increase. We started up our new production plant for a plant protection intermediate in Visp in mid-year. Plant utilization was high through to the year-end and on into 2012. We continued to grow our project portfolio for agrochemical actives and ISO-regulated intermediates.

The Life Science Ingredients headquarters has moved to Beijing (CN) to further strengthen its Asian footprint.

Microbial Control

Microbial Control million CHF	2011	Change in %	Change ¹ CER in %	2010
Sales	486	55.3	80.8	313
Change due to				
Volume and prices	66			
Currency translation	(80)			
Scope of consolidation	187			
Result from operating activities (EBIT)	(8)	(121.1)	(115.8)	38
Margin in %	(1.6)			12.1
Margin in % at CER¹	(1.1)			
EBITDA	14	(73.1)	(63.5)	52
Margin in %	2.9			16.6
Margin in % at CER¹	3.4			

¹ Change from current to prior year, based on constant exchange rates (CER).

Lonza completed the acquisition of Arch Chemicals on 20 October 2011. The Arch business has been combined with Lonza's existing Microbial Control business to create the new Lonza Microbial Control sector.

The integration of Arch has moved forward following the closure of the deal. The integration team and business leadership team were announced at the close. The teams have confirmed the following targets, announced at the time of the acquisition:

- Sustainable savings of \$50 million in cost synergies to be delivered by the end of 2013
- \$85 million in one-time integration costs over two years
- Increased sales of \$40 million up to December 2014 through cross-selling of the combined portfolio

During the next 18 to 24 months, Lonza Microbial Control's innovation efforts will be focused on developing new formulations from the combined portfolio.

2011 Results

The combined Microbial Control business performed at the expected levels. The business enjoyed a strong first quarter across all markets and sectors. However, the faltering economic environment, especially in the USA and EU, had an impact on demand in the third and fourth quarter. This slowdown in the established markets was partially offset by sales of new products and sales in new markets.

As with Lonza overall, the Microbial Control business faced a number of strong headwinds in 2011. Impact from foreign exchange rates and volatility in the raw material markets continued throughout the year. The increase in raw material prices was partially offset

by price increases. The business also experienced strong competitive pressure in the EU and Asia, particularly in the water, hygiene and preservation markets. The natural and nuclear disaster in Japan also had an impact.

Other business highlights for the Microbial Control business during 2011 include:

- The opening of a new oil and gas lab in Houston, TX (USA), emphasizing our long-term commitment to this market
- The opening of the Alpharetta, GA (USA), Innovation and Technology Center, which will focus on the innovative new formulations needed to achieve our longer-term targets
- The Suzhou plant (CN) was awarded Best Supplier Award for 2011 by a major customer
- Receipt of the InCosmetics Asia award for Regenistem™ Red Rice products

Lonza Microbial Control is based on five key business units:

- Hygiene & Preservation
- Water Treatment
- Materials Protection
- Personal Care
- Wood Treatment

The **Hygiene & Preservation** business offers solutions for environmental hygiene, including household and commercial, healthcare, pharmaceutical, veterinary, agriculture, food protection, wipes and hand care. Lonza offers the largest portfolio of efficacious, registered formulations for these markets.

Lonza's **Water Treatment** business includes recreational water treatment products sold directly to consumers for use in pools and spas, including the industry's leading brand, HTH™. The business also provides products to treat surface water, municipal water, beverages, cooling water, pulp and paper processing, and for other industrial applications. Two of the main growth areas in this segment are potable water, and oil and gas.

The **Materials Protection** business unit offers products and services for industrial preservatives, mold control, water repellants, fire retardants, textiles and colorants. The business offers solutions for paint and coatings, marine antifouling, polymer emulsions, metalworking fluids, plastics, textiles and construction materials.

Wood Treatment provides microbial control products for pressure-treated wood and anti-sapstains. The portfolio includes the well-respected brands Wolman® E, Lumbrella® and Chemonite®.

The **Personal Care** business offers a unique portfolio of products that leverages the full range of technologies in the Lonza portfolio, from chemical to biological solutions, creating a broad offering of solutions for our customers in the areas of anti-dandruff, personal cleansing and cosmetic preservatives, including py-rithiones (Omadine®), Glydant™, agarose and PHMB (Vantocil®/Cosmocil®).

Regulatory At Lonza we view the global regulatory agencies as our partners. We see their focus on continuous improvement through better regulation as providing increased opportunities for more sustainable microbial control solutions.

Regulators provide our customers with peace of mind, and through registration we ensure the efficacy of our active ingredients and formulated products.

We will continue to support the efforts of the global agencies, world health organizations and trade associations to promote the advancement of the microbial control industry.

Innovation The Lonza Microbial Control innovation pipeline will leverage our knowledge across the life-science businesses, and our relationships with universities and other innovators to develop new solutions, including active ingredients, formulated products, delivery systems, detection and diagnostics.

Custom Manufacturing

Custom Manufacturing million CHF	2011	Change in %	Change ¹ CER in %	2010
Sales	1 297	(10.2)	0.8	1 445
Change due to				
Volume and prices	12			
Currency translation	(160)			
Scope of consolidation	0			
Result from operating activities (EBIT)	228	(9.9)	7.9	253
Margin in %	17.6			17.5
Margin in % at CER¹	18.8			
EBITDA	393	(7.7)	7.0	426
Margin in %	30.3			29.5
Margin in % at CER¹	31.3			

¹ Change from current to prior year, based on constant exchange rates (CER).

Driven by the continuing outsourcing trend in 2011, Lonza Custom Manufacturing experienced increasing demand across all three business units.

Chemical Manufacturing In 2011, Lonza's "Total Life Cycle Management" – offering development and manufacturing services, from early product development through the post-patent generic stage – continued to strengthen our product pipeline to over 330 projects across all clinical phases and to deliver capacity utilization of over 80%. Another important factor in building our pipeline is our leadership in new differentiating technologies – cytotoxics, antibody drug conjugates (ADC), highly active pharmaceutical ingredients (HAPI) and our microreactor technology (flow chemistry).

Lonza Chemical Manufacturing continued to implement its strategy for growth, adding capacity and investing in facilities to support new technology platforms. All of these major investment projects were initiated in response to customer demand and are on schedule:

- In Nansha (CN), the first two expansion phases of the large-scale multipurpose cGMP API (active pharmaceutical ingredients) plant continued to be utilized for multiple customer projects. Demand for this capacity increased in the first half of 2011 following FDA approval of the site.
- Also in Nansha, a new cGMP kilo lab and an additional small-scale manufacturing train were successfully brought on stream in the second half of 2011.
- In Visp (CH), five additional HAPI labs with the capability to handle cytotoxic substances are now fully operational.
- Investment in additional cytotoxic API manufacturing capacity at the Visp site has started successfully.

Biological Manufacturing Lonza's Biological Manufacturing business unit had a very successful year, with multiple new products and production campaigns increasing mid- and large-scale asset utilization to above 85%. Business also benefitted from high batch success rates, above the industry average.

In 2011, we were also able to increase our current product pipeline to more than 300 active projects. This was the result of numerous marketing initiatives as well as portfolio additions across our mammalian and microbial services and manufacturing offerings.

The business unit made further progress with the execution of its planned expansion projects, with a number of important milestones being reached in 2011:

- The large-scale mammalian facility in Singapore began operations with engineering and validation batches for multiple customers, achieving a start-up utilization above 70%.
- The expansion of development labs and manufacturing capacities in Slough (UK) facility started in the first half of 2011.
- Equipment additions and infrastructure changes in Hopkinton, MA (USA), were completed and all manufacturing lines and development laboratories are fully operational.
- Harmonization programs in all mid- and large-scale mammalian manufacturing facilities now allow us to provide tailor-made capacity offerings from multiple sites.

In September 2011, the Hopkinton site received an FDA warning letter related to aspects of analytical methods for one product (Ontak™). These issues have been addressed and the site is preparing for the FDA re-approval audit in February 2012.

Development Services The Development Services business unit continued to experience strong customer demand. This was driven by interest in our AggreSolve™ technology, our highly potent cell lines (strategic collaboration with BioWa, Potelligent®) and the new media and feed systems that we now offer (sourced from Lonza Bioscience).

In 2011, Lonza's technologies and expertise enabled new yield records to be set. The new GS Gene Expression System™ Version 8 medium and feed platform achieved yields of up to 10 g/l and the Singapore large-scale manufacturing site was able to harvest final product at 4.6 g/l.

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

Lonza's leading position in the microbial biopharmaceuticals market has been strengthened by continuous efforts to improve our XS Microbial Expression™ platform, the new pDNA production platform, and the new fast-track program for strain development and clinical material supply.

Lonza began expanding its Development Services platform in Singapore to meet increasing customer demand in the region.

Bioscience

Bioscience million CHF	2011	Change in %	Change ¹ CER in %	2010
Sales	202	(4.3)	11.8	211
Change due to				
Volume and prices	24			
Currency translation	(33)			
Scope of consolidation	0			
Result from operating activities (EBIT)	13	(7.1)	0.0	14
Margin in %	6.4			6.6
Margin in % at CER¹	5.9			
EBITDA	28	7.7	19.2	26
Margin in %	13.9			12.3
Margin in % at CER¹	13.1			

¹ Change from current to prior year, based on constant exchange rates (CER).

The sales increase at constant exchange rates (CER) in Lonza Bioscience was mainly due to strongly increased Cell Therapy sales. A lower level of academic research spending in the USA and southern Europe was only partially offset by stronger growth development in Asia-Pacific, where sales increased by more than 20% in Swiss francs. Margins were slightly lower than 2010, mainly because of the impact of the overall business mix and pre-investments in future business. Measures taken to offset this margin pressure included operational excellence projects and delayed hiring.

Lonza's Bioscience division is focused on becoming the leading supplier to the regenerative health industry, with an emphasis on cell and viral therapy. This follows a strategic review that took place in the first quarter of 2011.

Therapeutic Cell Solutions sales increased significantly from 2010 due to higher cell/viral therapy sales. Media sales grew well in the USA and Asia, but declined in the EU. Profits from Therapeutic Cell Solutions were higher than in 2010, but were constrained by short-notice cancellations and delays in the production of clinical products.

A significant manufacturing contract was signed with Mesoblast (Australia) for its most advanced allogeneic pharmaceutical project (cardiovascular, phase III) and an orthopedic project (phase II). Clinical production for Mesoblast is due to start at Lonza in Singapore and Walkersville, MD (USA), in 2012.

Cell therapy continues to attract growing interest from both pharma and biotech companies. This is reflected in an increased number of pipeline projects, with process development also running at very high capacity.

To meet increased demand for viral manufacturing, we are expanding capacity at our facility in Houston, TX (USA). This will come on line in the first half of 2012 as anticipated. The new viral therapy sterile filling line in Houston was validated and became operational in the third quarter of 2011.

Testing Solutions sales increased by over 5% in local currencies in the EU and USA, and at a double-digit rate in Asia.

A slowdown of endotoxin sales was observed in the fourth quarter of 2011 because of destocking by major pharmaceutical customers. Sales of the MODA™ real-time, point-of-testing, environmental monitoring system grew more slowly than anticipated owing to stringent CAPEX restrictions, mainly from pharmaceutical customers. This led to resources being refocused on cell/viral therapy production, the division's most important strategic segment.

The launch of the microCompass™ II platform (microbiology testing) has been postponed until the first half of 2012. Hardware development is still delayed by our partner. Assay developments are on track and first applications are being tested by lead customers.

Research Solutions revenue declined slightly in 2011. In Europe, sales grew nicely in local currencies due to higher bulk agarose (chromatography) and transfection, cell biology and cell assay sales. However, sales growth was constrained by a clear slowdown in academic and research spending in southern Europe in the second half of the reporting year.

Sales in the USA were slightly below 2010 levels, mainly due to the late release of federal funding and conservative spending by US academic and government institutions.





Once the analytical test methods have been developed,
validated and approved in the quality control laboratories,
the results are needed for official batch release.

Goals

The good result of 1.7 in the reporting year is in line with the safety performance goal of 1.0 LTIFR by 2015. Lonza is progressing toward its goals by systematic application of high safety standards and sustained motivation of all employees worldwide. The environmental goals will be reviewed in 2012 in light of the impact of the acquisition of Arch Chemicals in late 2011.

Safety¹	Basis	Status end	Goal	Status end	Goal
per 1 million hours worked	2000	2006	2010	2011	2015
LTIFR²					
Frequency of accidents	9.5	3.1	2.0	1.7	1.0
LTISR³					
Severity of accidents	1 460	556	330	157	250

Environment¹	Basis	Status end	Goal	Status end	Goal
	2000	2006	2010	2011	2015
CO₂ emissions⁴					
in 1 000 metric tons	930	418	400	337	360
VOC emissions⁵					
in metric tons	759	576	300	639	270
Air impurities⁶					
in metric tons	1 485	1 180	900	1 051	810

¹ Includes all active non-legacy Arch production and R&D sites as well as headquarters in the referenced years.

² Lost-time injury frequency rate: number of accidents per 1 million hours worked

³ Lost-time injury severity rate: number of hours lost through accidents per 1 million hours worked

⁴ Carbon dioxide (fossil- as well as non-fossil-based)

⁵ Volatile organic compounds

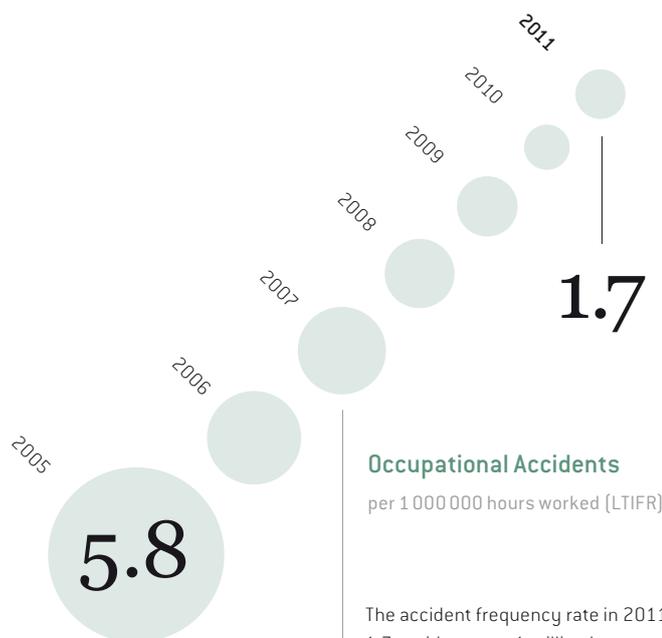
⁶ Air impurities comprise VOC, nitrogen oxides (NO_x), sulphur dioxide (SO₂) and particulate matter

⁷ Intensity: Consumption of a resource or emission of a pollutant in relation to the production of one metric ton of finished goods

Indicators

In 2011, the intensity indicators were adversely affected by a 13% decrease in finished goods production, while overall plant operation did not change proportionally.

Intensities 2011⁷		Change on 2010
Energy intensity	25.3 GJ/t	+9.6%
Industrial water intensity	15.7 m ³ /t	+10%
CO ₂ intensity	1 073 kg/t	-2.0%
Air impurity intensity	3.3 kg/t	+20%
Hazardous waste intensity	225 kg/t	+9.1%



Occupational Accidents

per 1 000 000 hours worked (LTIFR)

The accident frequency rate in 2011 was 1.7 accidents per 1 million hours worked, 10% up on the previous year. Although not as successful as in 2010, Lonza is on track to meet its ambitious medium-term goal of 1.0 in 2015. Continued strict adherence to existing safety guidelines, the corresponding training, and the incorporation of the issue in the personal goals of each co-worker are key. Since 2005 Lonza improved its safety performance by a factor of 3.4.

Environment, Health and Safety

We are committed to delivering a safe and healthy working environment, and safe, risk-assessed processes and products, making sustainable use of natural resources, continuously improving the Environment, Health and Safety (EHS) performance, and being recognized as a reliable and sustainable partner by our stakeholders.

At the end of October 2011, Arch Chemicals, a US-based company active in the microbial control business, with more than 40 facilities and 2 500 employees worldwide, was acquired by Lonza. Data for the present EHS annual report 2011 do not include any Arch activities and are thus comparable with previous years.

As leading supplier to our life-science partners, we actively manage EHS as an integral part of our business in order to prevent harm to people and damage to the environment and property. Lonza commits substantial financial and human resources to EHS activities. At the end of the reporting year, a total of 213 people, 2.5 % of our 8 500 employees, worked in the EHS field, including the regulatory department. EHS cost reporting was centralized and redefined in 2010 and we are now able to compare numbers for the first time in a consistent manner. The EHS area was not exempt from the operational efficiency measures adopted by the Group and we are proud to contribute with a decrease of –2.2 % on the previous year, recording total EHS operational costs of CHF 53 million. At the same time, we were able to keep up with ambitious EHS challenges and maintain our level of performance. Capital expenditure on SHE was CHF 56 million, equivalent to 1.7 % of sales and 22 % of the Group's total investment in fixed assets. The capital projects with the largest EHS expenditure in 2011 were cytotoxics production (Visp, CH), air emissions handling (Braine, BE), and the cell therapy

expansion (Singapore). We expect significant contributions towards increasing EHS performance in the areas of air impurities and safety at work.

A central element in the Lonza EHS management system is systematic and regular performance auditing of all research and production sites. Auditors with many years of experience in the chemical industry ensure that the sites have an appropriate EHS organization in place, and compliance with standards is enforced throughout the Group. EHS performance audits provide a comprehensive review of safety, security, hygiene, environmental protection and resources management. Conducting regular audits allows us to assess the level of EHS performance at the group locations. In addition, audits provide valuable EHS information to both local and corporate management. This type of monitoring and control activity makes it possible to target local site support and contributes to the management cycle of continual improvement. The audit intervals are specific to each site and take into account the size of the company and its strategic importance, risk potential, changes in organization and the sensitivity of its neighborhood. In 2011, sixteen comprehensive EHS system, performance and support audits were conducted. A full cycle of audits, which includes all Lonza facilities at least once, typically takes three to four years. Summarizing the 2011 auditing experi-

Environment, Health and Safety

ence, we feel reassured that Lonza companies are safe and in good shape. Most of the deviations from accepted standards tend to center on the areas of good housekeeping, change management, and the level of acceptance of personal responsibility for safety at work.

As a lead indicator for safety performance, we follow the trend in lost-time occupational accidents at all production, research and development, and headquarter sites. Accident frequency significantly decreased over the past few years, showing the sustained effect of our efforts in safety awareness training, installation of safety coaches, setting yearly safety-related incentive targets, and other site-specific programs to enhance safety at work. Accident frequency in 2011 was 1.7 per million hours worked, a slight rise compared with the previous year.

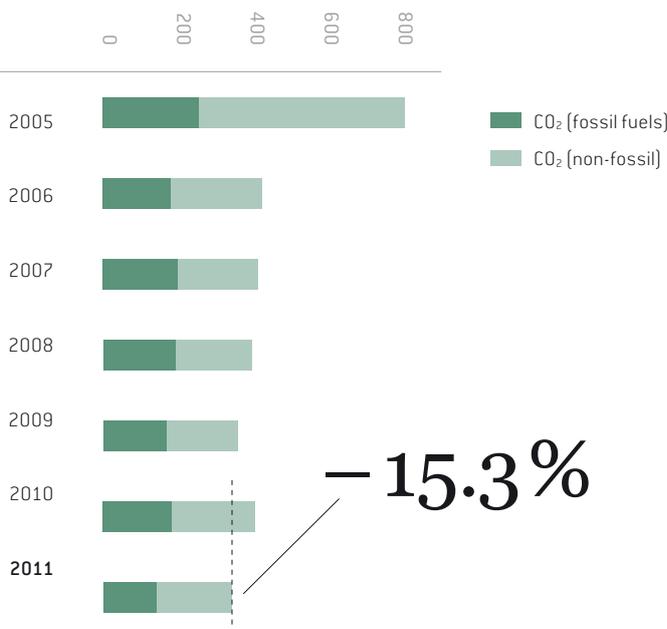
We will continue to pursue our goal of 1.0 by 2015, which we are confident of achieving through the planned group-wide initiatives.

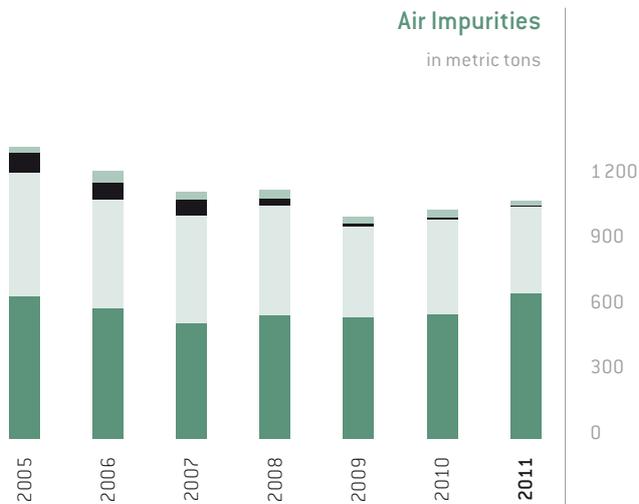
Stakeholders are continually increasing the demands they place on industry to operate in a sustainable way and to pay special attention to energy efficiency and climate-related questions. Providing information about our progress is of greater value than ever before. We demonstrate our commitment as a responsible corporate citizen in a number of ways: by publishing EHS performance data on our corporate website, in the context of our membership of the UN Global Compact; by reporting climate-relevant information in the framework of the Carbon Disclosure Project; and by responding openly to numerous stakeholder queries. We are aware that being good is never good enough, so we try harder.

CO₂ Emissions

in 1 000 metric tons

Total output of carbon dioxide in 2011 was 337 000 metric tons, 15.3% down on the previous year (the fossil-based fraction decreased by 22%). Fossil fuel substitution and energy efficiency measures are the main contributors, in addition to the economic slowdown and the biannual maintenance shutdown in Visp. CO₂ generated by the incineration of fossil fuels was 41% of total CO₂ emissions in 2011. Carbon dioxide equivalents from other greenhouse gases amounted to 16% of direct CO₂ emissions and are not reflected in the graph.



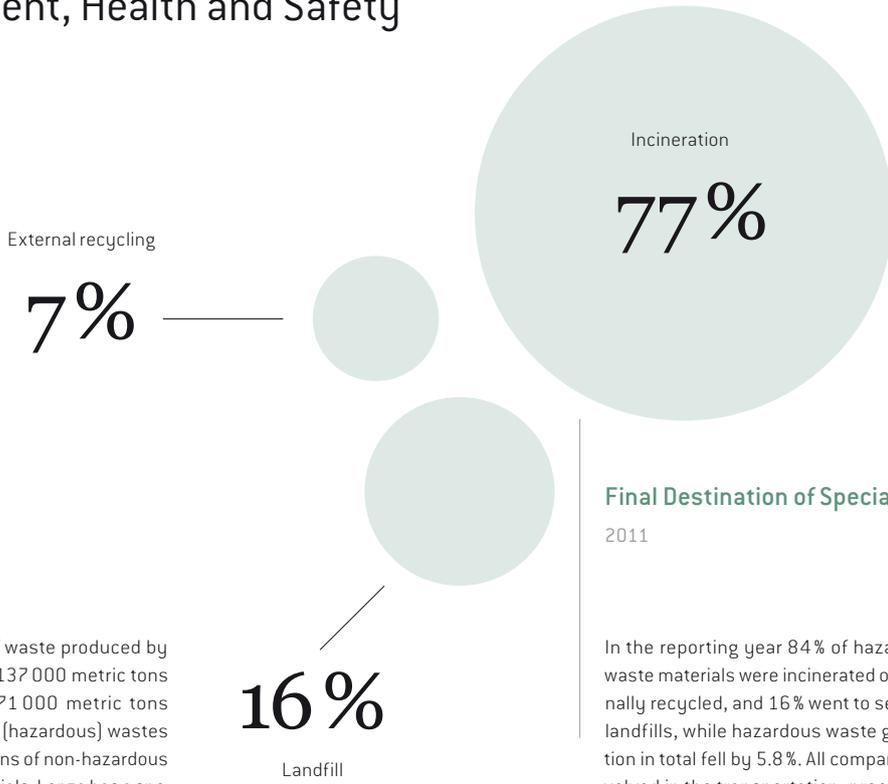


Volatile organic compounds (VOC) and nitrogen oxides (NO_x) were responsible for 98% of all air impurities, totaling 1 051 metric tons in 2011, up 4% on the previous year. While NO_x are generated essentially by incineration processes, VOC emissions are the result of solvent use in production and cleaning processes. The three main emitting sites, Braine, Visp and Nanjing, represent 83% of total VOC emissions. At 137 metric tons, halogenated VOC represent 21% of total VOC output. Lonza expects a significant improvement in the emissions situation by 2015, in particular by the start-up of the thermal oxidizer at Braine in 2012.

- Particulate matter
- SO₂
- NO_x
- VOC

Safe working needs constant training to heighten awareness. Several sites have introduced or enhanced their behavioral safety training; for example, management of stress and monthly departmental safety campaigns at Verviers (BE); and an EHS program about expected behavior, including eco-safe driving, at different hierarchical levels in Porriño (ES). Behavioral safety programs are generally very well attended by employees and were successfully rolled out at other locations: Hopkinton, MA (USA), Portsmouth, NH (USA), Walkersville, MD (USA), and Slough (UK). At Visp the safety coach program is anchored in the production environment, and an interactive theater event was organized to address the “human factor” in the role of safety coaches. Workplace safety, another important feature in our industry, received specific attention and was improved throughout the Group. At Visp, for example, through the introduction of the new containment strategy linked to the internal banding system for occupational exposure limits; and in Verviers, with new cryogenic vessels that significantly reduce the risk of cryogenic burns. At several site locations, fall risks received special attention and were further reduced by mounting handrails on terrace platforms (Porriño), and roof-edge protection at Cohasset, MN (USA) and Walkersville, and by covering floor and sewer grates in production areas with an improved non-slip surface in Copenhagen (DK). Many more EHS issues, often detected by audits, are being corrected and improved at all sites, thus contributing to our goal of having every employee leave the workplace at the end of the day as healthy as when he or she arrived at the gate in the morning. The discussion on climate change and energy efficiency is in full swing, and action is required. We are continuing our global CoPE (community practice in energy) initiative, which includes nearly 70 energy efficiency projects, ranging from large, technologically complex challenges, like the steam and heat compound system in Visp, to small but significant individual measures, like the replacement of conventional fluorescent with LED lighting. The latter has, for example, reduced energy use for office lighting by one-third at Walkersville.

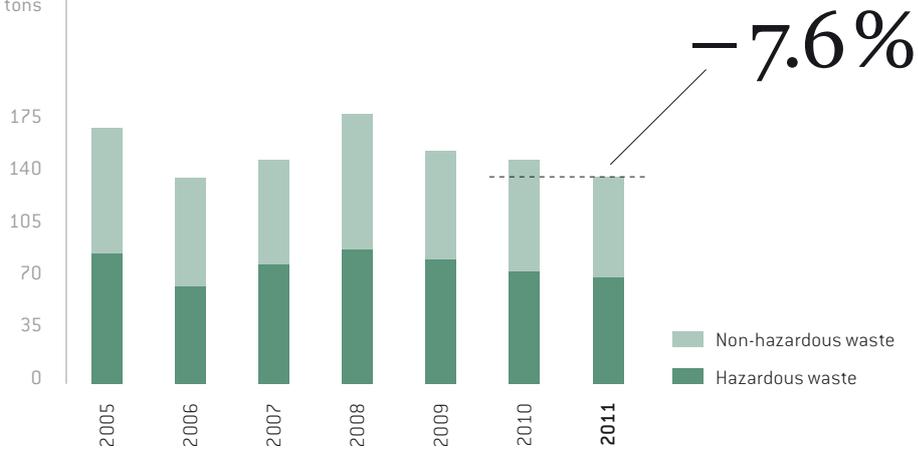
Environment, Health and Safety



The total quantity of waste produced by Lonza in 2011 was 137 000 metric tons (-7.6%), of which 71 000 metric tons consisted of special (hazardous) wastes and 66 000 metric tons of non-hazardous wastes or inert materials. Lonza has a specialized waste disposal concept at all its sites, dedicated to the principle of avoidance, recycling and environmentally sound disposal. The categorization into special (hazardous) waste and non-hazardous waste conforms at all sites to the applicable national legislation.

In the reporting year 84% of hazardous waste materials were incinerated or externally recycled, and 16% went to secured landfills, while hazardous waste generation in total fell by 5.8%. All companies involved in the transportation, processing and final disposal of wastes are known to Lonza. Waste treatment is a matter of trust. The selection of the vendors is based on quality and EHS criteria as well as on economic factors. As a matter of principle, they are reputable firms which comply with all legal requirements.

Waste Categories
in 1 000 metric tons



Improvements to process and emission control equipment, such as measures to reduce the level of active pharmaceutical ingredients in the outfall of the waste water treatment plant in Visp, the start-up of a new scrubber for efficient odor elimination in Kouřim (CZ), and completion of the thermal oxidizer project to handle solvent air emissions at Braine (BE), led to a decrease in emissions to the environment, or will do so in the near future.

Several Lonza companies received awards and were recognized by third-party stakeholders:

Tuas, Singapore

2011 Annual Workplace Safety and Health Performance Award

2011 Frost & Sullivan Asia Pacific Green Excellence Award

—

Nanjing (CN)

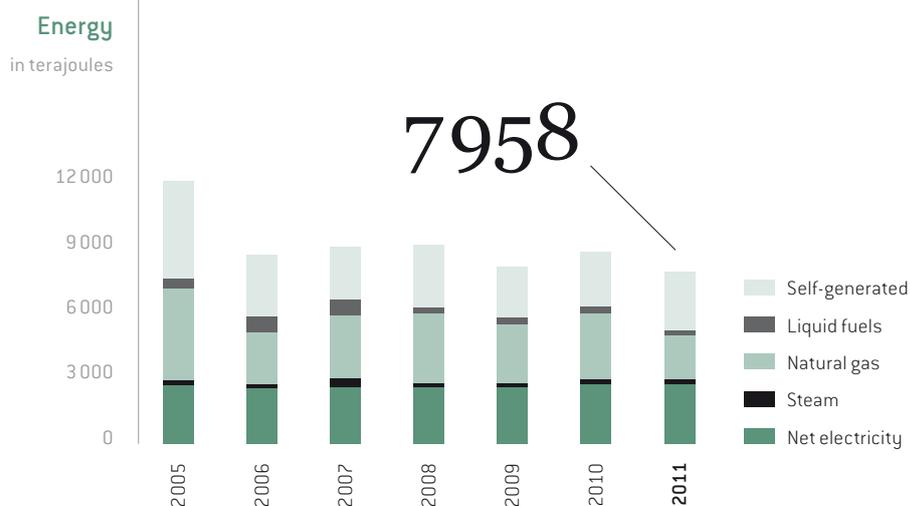
2011 Excellence in EHS management from Nanjing Chemical Industry Park

—

Williamsport (US)

2011 Recognition of Safety Performance by the Metal Powder Producers Association

The total energy requirement in the year under review was 7 958 terajoules (2 200 GWh), 5.4% down on the previous year. The main energy sources used by Lonza in 2011 were: utilization of waste (33%), electricity (33%) and natural gas (29%). Liquid fossil fuels accounted for 3% of the overall energy consumption. Energy from renewable sources accounted for 7% of the electrical energy consumed.



EHS integration of the Arch Chemicals company will be a major challenge in 2012. We will review our absolute medium-term EHS goals, reflecting the new company's size and manufacturing processes. Lonza will strengthen its EHS performance by rolling out Vision 'Zero' – zero injuries, zero process incidents, zero distribution incidents, and zero environmental incidents.



*Even minor changes to the equipment are first
documented and then reviewed by the quality units before
they are approved and implemented.*



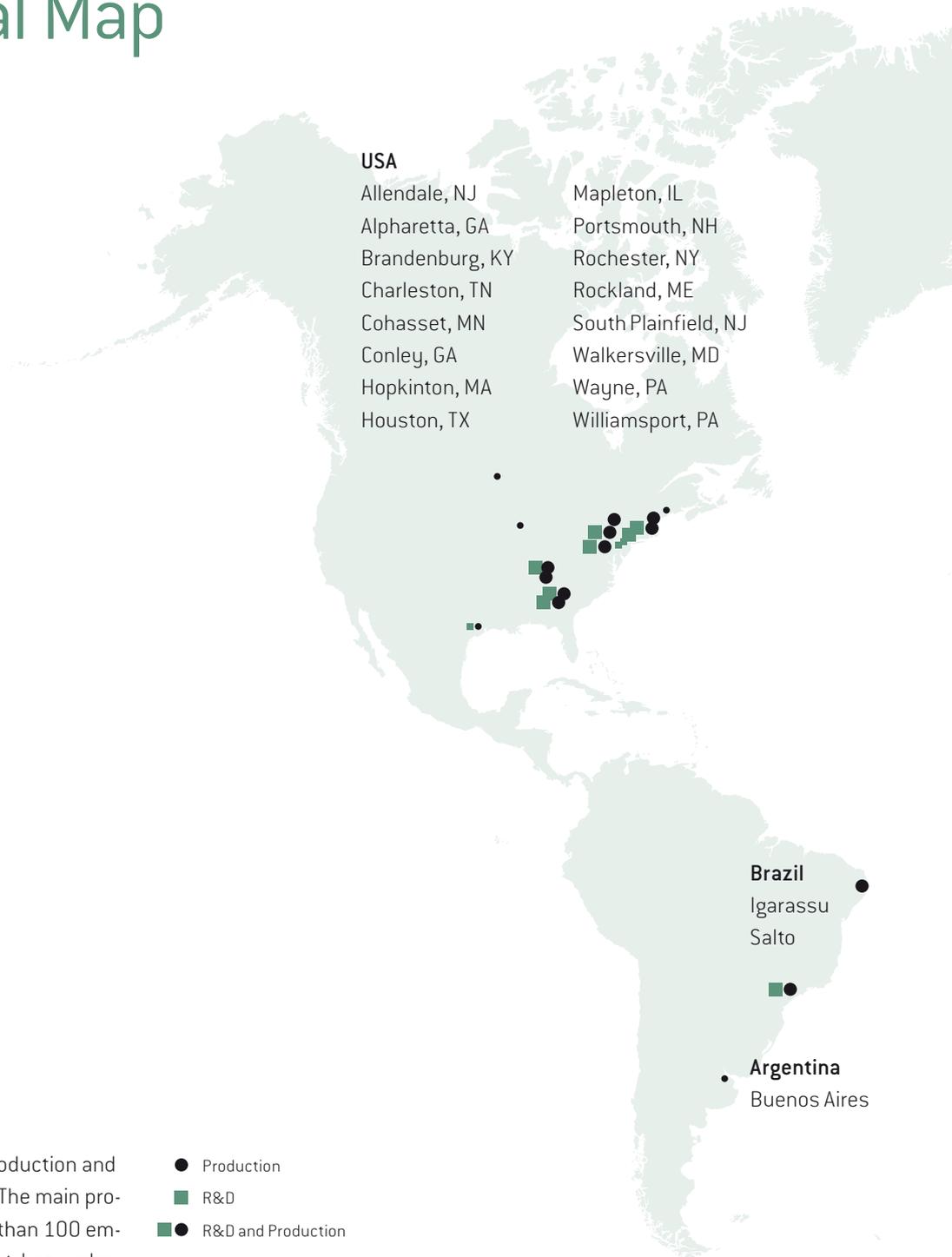
Lonza Global Map

106

Like our customers, we have a global reach, with representatives on every continent. Lonza operates 106 sites in 33 countries, providing production, research and development (R&D), and sales services to customers worldwide.

This world map shows every Lonza production and R&D site with 15 employees or more. The main production and R&D locations with more than 100 employees are highlighted with a bigger dot. Lonza also has a sophisticated network of sales offices around the world where Lonza representatives are close to our customers, understand their needs and speak their language.

- Production
- R&D
- R&D and Production





Lonza's Trademarks

This is not a complete listing of all trademarks owned by Lonza, but rather those trademarks currently being used in connection with active sales products.

Lonza Trademarks			
4D-Nucleofector	Cells on Demand	Glycacil	Lonzaine
96-Well Shuttle	Ceramid	Glychlor	Lonzamon
—	CLB-Transfection	Glyco	Lonzaserve
Accugene	Clonetics	Glycolube	Lonzastab
Acrawax	CHO-1	Glycomul	Lonzest
Aldo	—	Glyconol	Lore
Aldosperse	D-Nucleofector	Glycoserve	Lucetta
Amphoterge	Dantobrom	Glycosperse	—
Axcela	Dantochlor	Glycostat	M Moda
—	Dantocol	Glydant	Maxfp
Barchlor	Dantogard	Glydant Plus	Maxgfp
Bardac	Dantosperse	GS Gene Expression System	MBM
Bardap	DHAid	—	Meta
Barlene	—	Hifect	Meta The Molluscicide
Barlox	EasyAccess	Hyamine	MEBM
Barquat	EBM	—	MEGM
Bio-Surf	EGM	Immunostat	MGM
Biowhittaker	Epibase	Immunotuning	microCompass
Bulletkit	Equinox	Incert	MODA
—	—	Isocil	MODA-EM
Carboquat	Fastlane	—	MODA-FDC
Carbosan	FBM	KBM	MODA-VIP
Carboserve	FGM	KGM	More Science. Less Paper.
Carboshield	Flashgel	Kinetic-QCL	Mycoalert
Carnichrome	Flowplate	—	Mytoxygen
Carnifeed	FMB	LaraCare	—
Carniking	—	LaraFeed	Natrulon
Carnipass	Gadlizo	Long Ranger	Niamax
Carnipure	Gamozo	Lonza	Nodesensor
Carsoquat	Gatlezo	Lonzabac	Nucleocuvette
Cellsep	Geogard	Lonzacure	Nucleofection
	Geogard Ultra	Lonzagard	Nukleofektion

Nucleofector
 Nusieve
 —
 Pager
 Pdelight
 Pegospense
 Phenocide
 Pklight
 Poietics
 Polyaldo
 Powercho
 Ppilight
 Primaset
 Prosieve
 Pylopass

Spectradyne
 Spinbind
 —
 Therapeak
 Toxilight
 Tri-Dye
 Tripole
 Truband
 Twin Chain
 Unamine
 Unihib
 Uniquat
 —
 Vialight
 Vinylube
 —
 Winkqcl
 —
 Xiren
 X-Vivo
 XI-1000
 Xpressnow
 XS Technologies
 Xtreme

Aqua Plan
 Aqua Sense
 Aqua Silk
 Aqua-Prep
 Aquachlor
 Aquaframe
 Aquapool
 Aquashade
 Aquashadow
 Aquatrac
 Aqua Enhancers
 Arch
 Archcoatings
 Autofeed
 Autofix
 Auto-Treater
 Awaken

Being
 Biocycle
 Biodynes
 Biolumen
 Biovert
 Black Algaetrine
 Black Out
 Blackal Choc
 Blackwatch
 Blue Bayou
 Blue Dolphin
 Blue Tech
 Bois Plein Air
 Brilliance
 Brite Stix
 Bug-Out
 —
 Carefree
 Carral
 CCH
 Cedartone
 Cedartone Classic
 Cedartone Plus
 Cedartone Wood
 Celcure
 Cell Saver
 Cellon
 Chemonite
 Chrome King
 Citrabright
 Claris
 Clarmax
 Clean Shock
 Clear 4 Weeks
 Clear Blue
 Clear Guard
 Clearcare
 Clearcare Expert
 Clearigate
 Clo-Rotec
 Comchlor
 Computreat
 Constant Chlor
 Cosmocol

600

*Lonza has approximately
 600 trademarks and
 over 4500 active filings
 worldwide.*

Pyrogen
 Pyrogene
 Pyrosense
 Pyrospense
 Pyrotec
 —
 QCL-1000
 Q Meta Quality
 —
 Reliant
 Reselute
 ResistAid
 —
 Seaag
 Seaplaque
 Seaprep
 Seapure
 Simax
 Singel
 Singlequots

Arch Trademarks

AB
 Accudose
 Action 5
 Active Cleaning
 Active Clear
 Algae-X
 Algae Free
 Algaebloc
 Algaebomb
 Algaetrine
 Algi-Cure
 Algimycin
 Algi-Plus
 Ama HTH Empilo
 Ambol
 Antiblu
 Antiborer
 Applied Biochemists

β-Gel
 Bahia
 Balyos
 Bacti-Klear
 Baq Out
 Baqua
 Baqua Brite
 Baqua Burst
 Baqua Check
 Baqua Clean
 Baqua Floc
 Baqua Shock
 Baqua Spa
 Baqua Start
 Baqua-Acid
 Baquacare
 Baquacheck
 Baquacil
 Baquaflock
 Baquaguard
 Baquapil
 Baquaplus
 Baquashock
 Baquastart
 Baquatop
 Baquazul

—
 Carefree
 Carral
 CCH
 Cedartone
 Cedartone Classic
 Cedartone Plus
 Cedartone Wood
 Celcure
 Cell Saver
 Cellon
 Chemonite
 Chrome King
 Citrabright
 Claris
 Clarmax
 Clean Shock
 Clear 4 Weeks
 Clear Blue
 Clear Guard
 Clearcare
 Clearcare Expert
 Clearigate
 Clo-Rotec
 Comchlor
 Computreat
 Constant Chlor
 Cosmocol

Creol	Fi-Gard	HTH Scientific	Navigate
Citrine	Filter Fresh	HTH Super Shock	Navitrol
Cycl'eau	Fipac	HTH Ultra	NCX
—	Fire Away	HTHcare	NCX-Blue
Defend	Fitab	Hydro-Floc	Neutral Clean
Delcide	Flamtard	Hydromide	Non Com
Densil	Flocmax	Hypocal	Norclor
Dermaflux	Framecoat	—	Nordesclor
Detex PS	Frameguard	Imersol	Nutri-Sorb
Diffusol	Frame seal	Immutan	—
Dirty Duck	Fresch-Clor	Indoor Wood	Omacide
Dissolve	Frexus	Info-Treater	Omadine
Down & Out	FRX	Instant Clear	Outdoor
Dricon	—	—	Oxiclor
Drifix	Garantor	Kiwideck	Oxy-Brite
Drop-Vac	Gigatab	—	—
Drytec	GLB	L3	Pace
Duration	Gold-n-Clear	Leisure Time	Pace Agropec
—	Granufast	Leisure Time Boost	Party Blue
ET	Granules	Leisure Time Citrabright	Peptamide
Easiflo	Granulong	Leisure Time Control	Perfect PH
Easyclic	Green Science	Leisure Time Free	PH Magic
Ecoboard	—	Les Essentiels HTH	PH-Plus
Ecodeck	Harpoon	Les Experts HTH	PHdown
Ecohive	Harvester	Life Club HTH	PHup
Eco seal	Hcl Advantage	Lumbrella	Phycomycin
Ecowood	Hickson	Luxveil	Phytonutridyne
Endure	Hickson Antibl	—	Phytopurics
Enblu	Hickson Antiborer	Magi'clic	Phytoterra
Enbora	Hickson Decor	Marina	Pink Cure
End-Seal	Hickson Timbercare	Marine Biochemists	Plug 'n Go
Enhance	Hi-Fix	Maxfloc	Plumbcare
Ensele	Homecare	Maxitab	Pod
Enviomark	Hose Master	Maxi-Clear	Poly-A
Esscents	HTH	Maxi-Tabs	Poly-CD
Express Check	HTH Advanced	Metabiotics	Poly-Chill
Extra	HTH Algicida	Metal King	Poly-G
E-Z Drum	HTH Blue Magic	Metal Master	Poly-G Hqee
Eyepro	HTH Clear Blu	Mikrokill	Poly-L
—	HTH Controller	Minitab	Poly-Q
Fencedec	HTH Lifestyle	Mismavi	Poly-Solv
Fi-Buoy	HTH On-Call	Multifruit	Poly-T
Fi-Chem	HTH Pop Up Pool	Natural Clear	Pond Cycle Science
Fi-Clor	HTH Quick Test	Natural Select	Pool Assist

Pool Breeze	Sayerlack	Tanadapta	Vacsolizada
Pool Care	Scav-0X	Tanadeck	Vactrol
Poolife	Scum Digester	Tanalised	Vac-Vac
Pooltrine	Scumshield	Tanalith	Vag'
Power Blast	Septictrine	Tanaltith	Vanquis
Powerclean	Sequa-Sol	Tanamine	Vanquish
Predec	Shock	Tanapile	Vantoc
Prefen	Shock-It	Tanapost	Vantocil
Prevent Plus	Shocktrine	Tanatone	Vantropol
Pro Chlor	Shore-Klear	Tanalised	Velvet Touch
Promexal	Shoreklear-Plus	Tanalised Ecoseal	Velvet Touch
Prosynergen	Shoxidizer	Tanalised Ecowood	Vestoply
Proxel	Silky Scents	Tanalised Enseal	Vestos
Pulsar	Sillbor	Tanalith	Viscup
Purista	Simple Spa Care	Tanalog	—
Purjavel	Silver King	Tanamine	Wayhib
Pyrolith	Sock It	Tantrim	Waterchemist
—	Soft Soak	Tempo	Weed-Trine
Quantum Biochemical	Soft Spa	Tile Buster	Week-Easi
Qwik Dip	Soundwood	Timbercare	Wolman
—	Spa Lustre	TLC	Wolman CCA
Rapid Shock	Spa Selections	Treat Water-4L	Wolman E
Rapid Water Pro	Spa Specialties	Triadine	Wolman Natural Select
Rapidfloc	Sparkle-It	Tri-Tabs	Wolmanac
Reflect	Splashes	Turbo Blue	Wolmanizada
Regenistem	Stain-Tamer	Turbo Illusion	Wolmanized
Regularfloc	Stocktrine	Turbo XP	Wolmanized Eraward
Removit	Strike-Out	Turboblu Clarifier	Wolmanized Natural Select
Rendezvous	Suds-X	Turboshock	Wolmanized Yard Guard
Renew	Super Algi-Gon	Ultima	Wood Works Outdoors
Reputain	Super Blue	Ultima Nix	—
Reputex	Super Noxtane	Ultima Platinum Plus	Xtrawood
Reserve & Renew	Super Shock	Ultra Brite Stix	Yardguard
Resist	Super Shock & Design	Ultra Clear	Yello Free
Resistol	Super Sock It	Ultra Drastic	Yellowrid
Restol	Supersystem	Ultra Durastix	Yellowtrine
RestoreS.M.A.R.T.	Swamp to Swim	Ultra Quick Swim	—
Richer, Deeper, Wetter...	Swimmer's Choice	Unifloc	Zefyr
Robarb	Swimtrine	—	Zinc Omadine
—	Synaptodyne	Vac Sol	Zoe
Salt-Boost	—	Vac Vac	Zymbiozome
Salt Solutions by Ultima	Tan	Vac/Vac	
Sanikit	Tana	Vacsele	
Saniklar	Tanacoat	Vacsol	

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Lonza Annual Report 2011

5 Activities

Financial Report

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Consolidated Balance Sheet

Assets ¹			2011	2010	
million CHF	² Note				
Fixed assets					
Property, plant and equipment	6	5313		4 874	
Accumulated depreciation and accumulated impairment losses	6	(2 612)	2 701	(2 404)	2 470
Intangible assets	7		930		244
Goodwill	7		1 132		410
Other non-current assets			122		49
Deferred tax assets	22		167		103
Investments in associates/joint ventures	8		14		19
Other investments			6		6
Long-term loans and advances	14		56		43
Total fixed assets			5 128		3 344
Current assets					
Inventories	9	830		552	
Value adjustments	9	(57)	773	(57)	495
Trade receivables, net	10	695		488	
Current tax receivables		41		32	
Other receivables, prepaid expenses and accrued income	11	185		170	
Short-term advances	14	2	923	1	691
Cash and cash equivalents	12, 14		196		248
Total current assets			1 892		1 434
Total assets			7 020		4 778

¹ At 31 December

² See the accompanying notes to the consolidated financial statements

Total equity and liabilities¹		2011	2010
million CHF	² Note		
Equity			
Share capital		53	53
Share premium		310	311
Treasury shares		(110)	(44)
Retained earnings and reserves		2 104	2 067
Total equity attributable to equity holders of the parent	see page 80	2 357	2 387
Non-controlling interest		(1)	0
Total equity		2 356	2 387
Liabilities			
Deferred tax liabilities	22	711	321
Long-term provisions	13	51	19
Employee benefit liability		197	43
Other long-term liability		30	60
Long-term debt	14	2 725	850
Total long-term liabilities and provisions		3 714	1 293
Other short-term liabilities	15	452	351
Current tax payables		28	38
Trade payables	16	294	159
Short-term debt:			
Due to bank and other financial institutions	14	176	550
Total current liabilities and deferred items		950	1 098
Total liabilities		4 664	2 391
Total equity and liabilities		7 020	4 778

¹ At 31 December

² See the accompanying notes to the consolidated financial statements

Consolidated Income Statement

million CHF		2011	2010
	¹ Note		
Sales (see segment information)	32	2 692	2 680
Cost of goods sold		(1 992)	(1 969)
Gross profit		700	711
Marketing and distribution		(160)	(155)
Research and development	23	(94)	(99)
Administration and general overheads		(205)	(152)
Other operating income	20	42	100
Other operating expenses	20	(22)	(31)
Result from operating activities (EBIT)		261	374
Financial income	21.1	18	6
Financial expenses	21.2	(91)	(49)
Net financing costs		(73)	(43)
Share of profit/ (loss) of associates/ joint ventures	21.3	(13)	(1)
Profit before income taxes		175	330
Income taxes	22	(21)	(46)
Profit for the period		154	284
Attributable to:			
Equity holders of the parent		154	291
Non-controlling interest		0	(7)
Profit for the period		154	284
		CHF	CHF
Basic earnings per share	27	2.98	5.55
Diluted earnings per share	27	2.97	5.53

¹ See the accompanying notes to the consolidated financial statements

Consolidated Statement of Comprehensive Income

		2011	2010
million CHF			
Profit for the period		154	284
Exchange differences on translating foreign operations		(14)	(230)
Cash flow hedges:			
Gains/ (losses) arising during the year	(2)		3
Reclassification adjustments for (gains)/ losses included in profit or loss	9	7	5
Income tax relating to components of other comprehensive income		0	7
Other comprehensive income for the period, net of tax		(7)	(215)
Total comprehensive income for the period		147	69
Total comprehensive income attributable to:			
Equity holders of the parent		148	76
Non-controlling interest		(1)	(7)
Total comprehensive income for the period		147	69

Consolidated Cash Flow Statement

million CHF	¹ Note	2011	2010
Profit for the period		154	284
Adjustments for non-cash items:			
– Income taxes	22	21	46
– Net financing costs	21	73	43
– Share of (profit)/loss of associates / joint ventures	21.3	13	1
– Depreciation of property, plant and equipment (excl. impairment)	6	248	246
– Amortization of intangibles	7	28	27
– Reversal of impairment		0	(4)
– (Decrease) / increase of provisions		(4)	(27)
– (Decrease) / increase of employee benefit liability		0	(1)
– (Gain) / loss on disposal of property, plant and equipment		(1)	(17)
– Reversal amortization of other liabilities / assets		(12)	(3)
– Share-based payments		5	7
Income taxes paid		(33)	(43)
Interest paid		(44)	(29)
Cash flow before change in net working capital		448	530
(Increase) / decrease inventories		(26)	45
(Increase) / decrease trade receivables		(97)	(7)
Increase / (decrease) trade payables		43	(44)
(Increase) / decrease other net working capital		(46)	23
Increase / (decrease) of other payables net		(101)	(45)
Net cash (used for) / provided by operating activities		221	502
Purchase of property, plant and equipment	6	(248)	(285)
Purchase of intangible assets	7	(19)	(15)
Proceeds from sale of tangible and intangible assets		7	26
Acquisition of subsidiaries, net of cash acquired	3.1, 3.2, 3.3	(918)	(26)
Purchase of unconsolidated investments		0	(5)
Proceeds from unconsolidated investments		0	2
Purchase of other assets		(5)	(47)
Proceeds from sale of other assets		9	12
Decrease in loans and advances		1	2
Increase in loans and advances		(24)	(28)
Interest received		4	5
Dividends received		0	1
Net cash (used for) / provided by investing activities		(1 193)	(358)

¹ See the accompanying notes to the consolidated financial statements

(Consolidated Cash Flow Statement continued)

Net cash (used for) / provided by investing activities		(1 193)	(358)
Repayment of straight bond	0		(300)
Issue of straight bonds	376		397
Issue of syndicated loan	491		0
Repayment of syndicated loan	(500)		0
Raising of acquisition bridge financing	1 185		0
Repayment of acquisition bridge financing	(381)		0
Proceeds from / (repayment of) borrowings	(62)		15
Acquisition of non-controlling interests	4	0	(57)
Increase in other liabilities		1	0
Decrease in other liabilities		(3)	(3)
Dividends paid		(111)	(92)
Purchase of treasury shares		(77)	(4)
Sale of treasury shares		4	14
Net cash (used for) / provided by financing activities		923	(30)
Effect of currency translation on cash		(3)	(6)
Net (decrease) / increase in cash and cash equivalents		(52)	108
Cash and cash equivalents at 1 January		248	140
Cash and cash equivalents at 31 December		196	248

Consolidated Statement of Changes in Equity

million CHF	Attributable to equity holders of the parent						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Trans- lation reserve	Treasury shares			
At 31 December 2009	53	316	2 294	(16)	(254)	(68)	2 325	64	2 389
Profit for the period	0	0	291	0	0	0	291	(7)	284
Other comprehensive income, net of tax	0	0	0	8	(223)	0	(215)	0	(215)
Total comprehensive income for the year	0	0	291	8	(223)	0	76	(7)	69
Dividends	0	0	(92)	0	0	0	(92)	0	(92)
Recognition of share-based payments	0	0	8	0	0	0	8	0	8
Transfer of employee shares	0	(3)	(7)	0	0	10	0	0	0
Acquisition of non-controlling interests	0	0	1	0	(1)	0	0	(57)	(57)
Derecognition of put-option	0	0	59	0	0	0	59	0	59
Acquisition of treasury shares	0	0	0	0	0	(4)	(4)	0	(4)
Sale of treasury shares less taxes	0	(2)	(1)	0	0	18	15	0	15
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 year	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 less taxes	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

The share capital on 31 December 2011 comprised 52 920 140 registered shares with a par value of CHF 1 each (2010: 52 920 140 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2010: CHF 52 920 140).

Reserves in the amount of CHF 26 460 070 (2010: CHF 26 460 070) included in the financial statements of the parent company cannot be distributed.

Notes to the Consolidated Financial Statements

1 Accounting Principles

Basis of preparation The consolidated financial statements for 2011 and 2010 are reported in Swiss francs (CHF) and are based on the annual accounts of the individual subsidiaries at 31 December which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments and short-term financial assets available for sale are stated at their fair value.

Changes in accounting policies The following new and revised standards and interpretations have been issued, being effective for the reporting year 2011:

- Amendment to IAS 32 – Financial instruments: Presentation – Classification of rights issues
- IFRIC 19 – Extinguishing financial liabilities with equity instruments
- IAS 24 revised – Related party disclosures
- Amendment to IFRIC 14 – Prepayments of a minimum funding requirement
- Improvements to IFRS (issued in May 2010)

With the exception of additional disclosures, the new and revised standards and interpretations had no material impact on the consolidated financial statements for the year 2011.

As a result of the acquisition of Arch Chemicals Inc. some of the financial statement positions have changed significantly compared to the previous financial year. Therefore, the comparability of the consolidated balance sheet positions as of the end of 2011 and 2010 as well as the consolidated income statement 2011 and 2010 is limited.

The Arch business has been combined with Lonza's existing Microbial Control business to create the new Lonza Microbial Control sector. All tables in the notes to the consolidated financial statements containing segment information such as note 32 Segment information have been changed to reflect the additional sector and prior year information has been restated accordingly.

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

Standard/ Interpretation		Effective date	Planned application by Lonza
Amendment to IAS 12 – Recovery of underlying assets	*	1 January 2012	Reporting year 2012
Amendment to IFRS 7 – Transfers of financial assets	*	1 July 2011	Reporting year 2012
Amendment to IAS 1 – Presentation of items of other comprehensive income	*	1 July 2012	Reporting year 2013
Amendment to IAS 19 – Employee benefits	***	1 January 2013	Reporting year 2013
IAS 27 revised – Separate financial statements	*	1 January 2013	Reporting year 2013
IAS 28 revised – Investments in associates and joint ventures	*	1 January 2013	Reporting year 2013
Amendment to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities	*	1 January 2013	Reporting year 2013
IFRS 10 – Consolidated financial statements	*	1 January 2013	Reporting year 2013
IFRS 11 – Joint arrangements	*	1 January 2013	Reporting year 2013
IFRS 12 – Disclosure of interests in other entities	*	1 January 2013	Reporting year 2013
IFRS 13 – Fair value measurement	*	1 January 2013	Reporting year 2013
Amendment to IAS 32 – Offsetting financial assets and financial liabilities	*	1 January 2014	Reporting year 2014
IFRS 9 – Financial instruments	**	1 January 2015	Reporting year 2015

Group management expects that from the changes in accounting standards outlined above, the following amendments to IAS 19 will have the most significant impact on the consolidated financial statements:

- The option to defer the recognition of actuarial gains and losses from defined benefit plans (corridor method), as currently applied by Lonza, will be eliminated. Lonza will retrospectively adopt the standard for the reporting year 2013. The expected pre-tax impact on retained earnings and the liability related to pension and other post-employment benefit plans as of 1 January 2012 is approximately equal to the amount of “Unrecognized actuarial gains and losses” as of 31 December 2011 disclosed in note 24.
- The concept of including the expected return on plan assets at an estimated rate of return would be replaced by calculating interest on the net of the defined benefit obligation and plan assets using the discount rate that is used to discount the defined benefit obligation. As a result of the current underfunded status of Lonza’s defined benefit plans (see note 24) the post-tax income would have been negatively impacted had Lonza early applied the standard in 2011.

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

** The impacts on the consolidated financial statements cannot yet be determined with sufficient reliability.

*** The final assessment on the impact on the consolidated financial statements is not yet completed.

Principles of consolidation The consolidated financial statements represent the accounts for the year ended 31 December of Lonza Group Ltd, its subsidiaries and the group's interest in associates and jointly controlled entities.

Subsidiaries acquired during the year are included in the consolidated accounts from the date of acquisition, while any subsidiaries sold are excluded from the accounts from the date of sale. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. The full consolidation method is used, whereby the assets, liabilities, income and expenses are incorporated in full, irrespective of the extent of any non-controlling interest. Payables, receivables, income and expenses between Lonza-consolidated companies are eliminated. Inter-company profits included in year-end inventories of goods produced within Lonza are eliminated. Transactions between subsidiaries are concluded under market conditions. Unrealized gains on transactions between subsidiaries are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates and interests in joint ventures are valued in the consolidated financial statements using the equity method of accounting. Under this method, the investment is initially recorded at cost, and is increased or decreased by the proportionate share of the associate's profits or losses and other comprehensive income after the date of acquisition, adjusted for any impairment in the interest in the associate and depreciation of fair market value increments/decrements recognized at that time. Dividends paid during the year reduce the carrying value of the investments. The significant subsidiaries included in the financial statements are shown in note 2.

Definition of subsidiary and associates A subsidiary is an enterprise controlled by Lonza Group Ltd. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An associate is an enterprise in which the Group has the ability to exercise significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date it ceases.

Revenue recognition Sales are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Provisions for rebates to customers are recognized in the same period that the related sales are recorded. Revenue from termination fees is recorded in the income statement in the period in which the termination occurs. The POC (percentage of completion) method is applied for development projects as well as defined long-term contracts in the Custom Manufacturing segment, which have the economic substance of a construction contract. The stage of completion of a contract is determined on the basis of the estimated total contract costs. Revenue from the sale of rights is recognized upon transfer of rights or on an accrual basis, depending on whether the transaction in substance

is a sale or a licensing arrangement. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Foreign currencies Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF) which is the Group's presentation currency. For consolidation purposes the balance sheet of foreign consolidated companies is translated to CHF with the rate on the balance sheet date. Income, expenses and cash flows of the foreign consolidated companies are translated into CHF using the monthly average exchange rates during the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange rate differences arising from the different exchange rates applied in balance sheets and income statements are recognized in other comprehensive income.

In the individual company's financial statements, transactions in foreign currencies are translated at the foreign exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. All resulting foreign exchange gains and losses are recognized in the individual company's profit or loss statement, except when they arise on monetary items that form a part of the Group's net investment in a foreign entity. In such case the gains and losses are recognized in other comprehensive income.

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

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

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

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

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

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

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

Property, plant and equipment Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated on a component basis over their estimated useful lives, which vary from 10 to 50 years for buildings and structures, and 5 to 16 years for production facilities, machinery, plant, equipment and vehicles. Fixed assets are depreciated using the straight-line method over their estimated useful lives.

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases

the future economic benefits embodied in the item of property, plant and equipment. Borrowing costs incurred with respect to qualifying assets are capitalized and included in the carrying value of the assets. All other expenditure is recognized in the income statement as an expense as incurred. The residual values and the useful life of items of property, plant and equipment are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

Goodwill and business combinations Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition and includes the cash paid plus the fair value at the date of exchange of assets, liabilities incurred or assumed and equity instruments issued by the Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within administration and general overhead expenses. At

the date of acquisition, the Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired business, non-controlling interests are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets/liabilities of the acquired business in the functional currency of that business. When the initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are used. During the measurement period, the provisional amounts are retrospectively adjusted and additional assets and liabilities may be recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date which, had they been known, would have affected the measurement of the amounts recognized at that date. The measurement period does not exceed twelve months from the date of acquisition. Goodwill is not amortized, but is tested annually for impairment. Goodwill may also arise upon investments in associates, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets.

Such goodwill is recorded within investments in associates. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

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

Receivables Trade receivables are recognized at the original invoice amount less allowances made for doubtful accounts. An allowance is recorded for the difference between the carrying amount and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due. A reconciliation of changes in the allowance accounts for credit losses is provided.

Financial assets Loans and advances and other financial assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are classified as short-term with maturities not longer than 12 months and as long-term with maturities greater than 12 months after the balance sheet date. Loans and advances are carried at amortized costs using the effective

interest method. Realized and unrealized gains and losses are recorded in the income statement in the period in which they arise. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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

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

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

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

Discontinued operations and non-current assets held for sale A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Reclassification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

A disposal group is a group of assets that are to be disposed of as a group in a single transaction, together with the liabilities directly associated with those assets that will be transferred in the transaction. The assets and liabilities in a disposal group are reclassified as held for sale if their carrying amount will be recovered principally through a sale rather than through continuing use. The disposal group must be available for sale in its present

condition and the sale must be highly probable. Immediately before classification as held for sale, the measurement of all assets and liabilities in a disposal group is updated in accordance with applicable accounting policies. Then, on initial classification as held for sale, disposal groups are recognized at the lower of carrying value and fair value less the cost of disposal. Impairment losses on initial classification as held for sale are included in the income statement.

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

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

Deferred tax assets and liabilities are measured using substantially enacted tax rates in the respective jurisdictions in which Lonza operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. For transactions and other events recognized directly in other comprehensive income or in equity, any related tax effect is recognized in other comprehensive income or in equity.

Retirement benefits Most of Lonza's subsidiaries operate their own pension plans. Generally, they are funded by employees' and employer's contributions. The net asset or liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service gains and costs. A policy has been established whereby actuarial valuations are performed on a yearly basis. Actuarial gains and losses are recognized over a period not exceeding the expected remaining working lives of the participating employees if the accumulated gains and losses exceed the corridor of 10% of the greater of plan assets and projected defined benefit obligation.

Termination benefits Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

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

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

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

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

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

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

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

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

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

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

Net financing costs Net financing costs comprise interest payable on borrowings calculated using the effective interest method, the finance charge for finance leases, dividend income, foreign exchange gains and losses arising on financial assets and liabilities, gains and losses on hedging instruments that are recognized in the income statement and gain/losses of sale of financial assets. Interest income/expense is recognized in the income statement as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Dividend income is recognized in the income statement on the date that the dividend is declared.

Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Segment reporting IFRS 8 requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Such components (operating segments) are identified on the basis of internal reports that the entity's chief operating decision maker (CODM) reviews regularly in allocating resources to segments and in assessing their performance. Lonza's operating segments represent business sectors that offer different products and services.

2 Principal Subsidiaries¹

In 2011, Lonza acquired Arch Chemicals Inc. to create the world's leading Microbial Control business. In 2010, Lonza entered the viral-based manufacturing market by acquiring Vivante GMP Solutions, Inc. (Houston, USA) and strengthened the Rapid Testing Solutions platform of its Bioscience division by acquiring MODA Technology Partners (Wayne, USA). The principal subsidiaries and joint ventures are shown on the following pages.

Lonza Companies	Town/Country	Purpose	Currency ²	¹ Share Capital in 000	Holding direct %	Holding indirect %
Lonza Australia Pty Ltd	Mt. Waverly, AU	■◆●▲	AUD	90		100%
Algonomics NV	Gent, BE	■◆●▲	EUR	374		100%
Lonza Braine SA	Braine-l'Alleud, BE	■◆●▲	EUR	40 000		100%
Lonza Verviers Sprl	Verviers, BE	■◆●▲	EUR	19		100%
Lonza AG	Visp, CH	■◆●▲	CHF	60 000	100%	
Lonza Sales AG	Basel, CH	■◆●▲	CHF	2 000	100%	
Lonza Swiss Licences AG	Basel, CH	■◆●▲	CHF	100	100%	
Lonza BioPharma AG	Visp, CH	■◆●▲	CHF	550	100%	
Lonza Bioproducts AG	Basel, CH	■◆●▲	CHF	100	100%	
Lonza Engineering AG	Basel, CH	■◆●▲	CHF	2 000	70%	
TL Biopharmaceutical Ltd	Visp, CH	■◆●▲	CHF	1 000	50%	
			USD	16		
Lonza Finance Limited	St. Helier, Jersey, GB	■◆●▲	CHF	335	100%	
Lonza Biotec sro	Kouřim, CZ	■◆●▲	CZK	282 100		100%
Lonza Guangzhou Ltd	Guangzhou, CN	■◆●▲	USD	12 000		100%
Lonza Guangzhou Nansha Ltd	Guangzhou, CN	■◆●▲	USD	135 500		100%
Lonza (China) Investments Co. Ltd	Guangzhou, CN	■◆●▲	USD	75 500	100%	
Lonza Guangzhou Research and Development Center Ltd	Guangzhou, CN	■◆●▲	USD	4 100		100%
Lonza Liyang Chemical Company Ltd	Liyang, CN	■◆●▲	USD	3 000		100%
Lonza Nanjing Ltd	Nanjing, CN	■◆●▲	USD	14 000		100%
Lonza Group GmbH	Waldshut-Tiengen, DE	■◆●▲	EUR	25		100%
Gewerbepark Hochrhein GmbH	Waldshut-Tiengen, DE	■◆●▲	EUR	10 400		100%
Lonza Cologne GmbH	Cologne, DE	■◆●▲	EUR	1 502		100%
Lonza Copenhagen ApS	Vallensbaek Strand, DK	■◆●▲	DKK	150		100%
Lonza Biologics Porriño, S.L.	Porriño, ES	■◆●▲	EUR	10 296		100%
Lonza Ibérica S.A.U.	Barcelona, ES	■◆●▲	EUR	60		100%
Lonza Bioscience Sàrl	Paris, FR	■◆●▲	EUR	8 849		100%
Lonza France Sàrl	Levallois-Perret, FR	■◆●▲	EUR	132		100%
Lonza Biologics plc	Slough, GB	■◆●▲	GBP	14 500		100%
Lonza Wokingham Limited	Wokingham, GB	■◆●▲	GBP	1		100%
Lonza Group UK Limited	Slough, GB	■◆●▲	GBP	17 000		100%
Lonza India Private Ltd	Mumbai, IN	■◆●▲	INR	23 459		100%
Lonza Milano S.r.l.	Treviglio, IT	■◆●▲	EUR	52		100%
Lonza Japan Ltd	Tokyo, JP	■◆●▲	JPY	200 000	100%	
Lonza Mexico S. de R.L. de C.V.	Mexico City, MX	■◆●▲	MXN	3	100%	
Lonza Europe BV	Breda, NL	■◆●▲	EUR	19		100%
Lonza Benelux BV	Breda, NL	■◆●▲	EUR	112		100%
OOO Lonza Rus	Moscow, RU	■◆●▲	RUB	10		100%

¹ All companies belonging to Lonza Group are non-listed entities

Lonza Biologics Tuas Pte Ltd	Singapore, SG	■◆●▲	USD	25 000		
Lonza Bioscience Singapore Pte Ltd	Singapore, SG	■◆●▲	USD	172 000		100%
Lonza Holding Singapore Pte Ltd	Singapore, SG	■◆●▲	USD	1		100%
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore, SG	■◆●▲	USD	100 000		100%
Lonza America Inc.	Allendale, US	■◆●▲	USD	183	100%	
Lonza Inc.	Allendale, US	■◆●▲	USD	8		100%
Lonza Biologics Inc.	Portsmouth, US	■◆●▲	USD	697		100%
Lonza Walkersville Inc.	Walkersville, US	■◆●▲	USD	1		100%
Lonza Rockland Inc.	Rockland, US	■◆●▲	USD	1		100%
Lonza Houston Inc.	Houston, US	■◆●▲	USD	1		100%

Legacy Arch Companies	Town/Country	Purpose	Currency ²	³ Share Capital in 000	Holding direct %	Holding indirect %
Arch Chemicals, Inc.	Norwalk, US	■◆●▲	USD	1		³ 100%
Arch UK Biocides Limited	Castleford, GB	■◆●▲	GBP	1 644		100%
Arch Quimica Brasil Ltda.	Salto, BR	■◆●▲	BRL	30 388		100%
Hickson Limited	Castleford, GB	■◆●▲	GBP	108 161		100%
Arch Water Products South Africa (Proprietary) Limited	Kempton Park, SA	■◆●▲	ZAR	100		100%
Arch Treatment Technologies, Inc.	Atlanta, US	■◆●▲	USD			⁴ 100%
Arch Wood Protection, Inc.	Atlanta, US	■◆●▲	USD	1		⁴ 100%
Arch Chemicals (China) Co., Ltd	Suzhou, CN	■◆●▲	CNY			⁵ 100%
Arch Water Products France S.A.S.	Amboise, FR	■◆●▲	EUR	460		100%
Arch Personal Care Products, L.P.	South Plainfield, US	■◆●▲	USD			⁶ 100%
Arch Chemicals Japan, Inc.	Tokyo, JP	■◆●▲	JPY			⁴ 100%
Arch Wood Protection (NZ) Limited	Auckland, NZ	■◆●▲	NZD	6 100		100%
Arch Wood Protection (Aust) Pty Limited	Trentham, AU	■◆●▲	AUD			⁴ 100%
Arch Chemicals Limited	Castleford, GB	■◆●▲	GBP	1 000		100%
Arch Wood Protection Canada Corp.	Mississauga, CA	■◆●▲	CAD			⁴ 100%
Arch Chemicals BV	Swords, IE	■◆●▲	EUR	281		100%

- Research & Development
- ◆ Production
- Sales Office
- ▲ Service/Financing

² Abbreviation of currencies in accordance with ISO standards

³ Rounded

⁴ No par value or not provided by law

⁵ No shares issued; capital is registered

⁶ Limited partnership

3 Business Combination

3.1 Acquisition of Arch Chemicals Inc.

On 10 July 2011, Lonza entered into a merger agreement with Arch Chemicals Inc. (“Arch”) pursuant to which Lonza made a successful tender offer to purchase all of the shares of Arch for USD 47.20 per share in cash. As a result, Lonza acquired 100% of the shares for a total cash consideration of USD 1.2 billion and Arch became a wholly owned subsidiary of the Group, effective 20 October 2011.

Arch is a global Biocides company and provides innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Arch is concentrated in the areas of water treatment, personal care, health and hygiene, industrial preservation and protection, and wood treatment. Arch operates in two segments: Biocides Products and Performance Products. Together with its subsidiaries, Arch has approximately 3 000 employees and manufacturing and customer-support facilities in North and South America, Europe, Asia, Australia and Africa.

The Arch business has been combined with Lonza’s existing Microbial Control business to create the new Lonza Microbial Control sector.

From 20 October 2011 to 31 December 2011, the acquired business contributed sales of CHF 187 million and a result from operating activities of CHF – 15 million to the Group. If the acquisition had occurred on 1 January 2011, Group sales in 2011 would have been CHF 3 759 million (+ CHF 1 067 million) and the Group result from operating activities CHF 319 million (+ CHF 58 million). These amounts were calculated using the Group’s accounting policies and by adjusting the results of the subsidiary to reflect the additional amortization and depreciation that would have been charged if the fair value adjustments to intangible assets and property, plant and equipment had applied from January 2011.

Net assets acquired and goodwill are shown as follows:

million CHF	
Total purchase consideration	1 085
Fair value of net assets acquired	(388)
Goodwill	697

The goodwill includes expected synergies from the acquisition, the labor force and intangible assets that could not be recognized separately. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition has been accounted for using the acquisition method.

The following amounts of assets and liabilities acquired have been included in the financial statements:

million CHF	¹ Assets and liabilities included at acquisition date
Property, plant and equipment	227
Intangible assets (customer relations, technologies, trademarks)	669
Other non-current assets	32
Investment in associates/joint ventures	2
Deferred tax assets	34
Inventories	242
Trade receivables	141
Other receivables, prepaid expenses and accrued income	40
Tax receivables	12
Cash and cash equivalents	167
Total assets	1 566
Deferred tax liabilities	(353)
Long-term provisions	(34)
Other long-term liabilities and employee benefit obligations	(233)
Long-term debt	(147)
Other short-term liabilities	(130)
Taxes payable	(1)
Short-term debt	(190)
Trade payables	(90)
Total liabilities	(1 178)
Fair value of net assets acquired	388
Goodwill	697
Cost of the business combination	1 085
Purchase consideration settled in cash	1 085
Cash and cash equivalents of subsidiary acquired	(167)
Cash outflow on acquisition	918

The fair value of the trade receivables amounts to CHF 141 million. The gross amount of trade receivables is CHF 146 million. The fair value includes a deduction of CHF 5 million for trade receivables for which it is expected that the full contractual amounts cannot be collected.

Transaction costs of CHF 7 million have been expensed and are included in "Administration and general overheads".

¹ The fair values have been determined on a provisional basis.

3.2 Acquisition of MODA Technology Partners

Effective 18 May 2010, Lonza Group acquired 100% of the shares of MODA Technology Partners ("MODA") for a cash consideration of CHF 24 million. MODA provides a mobile data acquisition platform that enables quality assurance and quality control organizations in the life-science industry to automate their regulated manufacturing processes, including environmental monitoring (EM), utility testing, and product testing. MODA is headquartered in Wayne, PA (USA), with authorized resellers and technology integration partners throughout North America. Lonza will integrate this company into its Bioscience segment.

From 18 May 2010 to 31 December 2010, the acquired business contributed sales of CHF 2.5 million and a result from operating activities of CHF –0.3 million to the Group. If the acquisition had occurred on 1 January 2010, Group sales 2010 would have been CHF 2 681 million (CHF +1 million) and the Group result from operating activities CHF 373 million (CHF –0.4 million). These amounts were calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional amortization that would have been charged if the fair value adjustments to intangible assets had applied from January 2010.

Net assets acquired and goodwill are shown as follows:

million CHF	
Total purchase consideration	24.3
Fair value of net assets acquired	(3.9)
Goodwill	20.4

The goodwill includes expected synergies from the acquisition, the labor force and intangible assets that could not be recognized separately. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition has been accounted for using the acquisition method.

The following amounts of assets and liabilities acquired have been included in the financial statements:

million CHF	Assets and liabilities included at acquisition date
Intangible assets (technology, trademark)	6.1
Trade receivables, net	0.6
Other receivables, prepaid expenses and accrued income	0.1
Other short-term liabilities	(0.4)
Deferred tax liabilities	(2.5)
Fair value of net assets acquired	3.9
Goodwill	20.4
Cost of the business combination	24.3
Purchase consideration settled in cash	24.3
Cash and cash equivalents of subsidiary acquired	0.0
Cash outflow on acquisition	24.3

3.3 Acquisition of Vivante GMP Solutions Inc.

Effective 27 August 2010, Lonza Group acquired 100 % of the shares of Vivante GMP Solutions, Inc. ("Vivante"). The acquisition advances Lonza's strategy to broaden its biologics custom service offering for the growing viral vaccine and gene therapy markets. Based in Houston, Texas, Vivante is a custom manufacturing organization dedicated to producing GMP viral-based therapeutics. The company's viral-vaccine production services will be enhanced by Lonza's established expertise in expression technologies and large-scale manufacturing platforms. Additionally, Vivante's experience with pre-clinical through late-stage supply of viral-vector-based products will complement Lonza's growing cellular and gene therapy process development and manufacturing capabilities. Lonza will integrate this company into its Bioscience segment.

The total purchase consideration was CHF 2.2 million, of which CHF 1.2 million was paid in cash and CHF 1 million arises from a contingent consideration arrangement. The payment from this arrangement is based on the achievement of two separate performance milestones. A liability of CHF 1 million was recognized at the acquisition date, based on management's best estimate of the expected cash outflow from the arrangement. As at 31 December 2010, the amount recognized for this arrangement was unchanged, based on the most recent management estimates. Vivante's identified net liabilities were CHF 0.6 million, resulting in a goodwill of CHF 2.8 million.

From 27 August 2010 to 31 December 2010, the acquired business contributed sales of CHF 1 million and a result from operating activities of CHF –0.8 million to the Group. If the acquisition had occurred on 1 January 2010, Group sales would have been CHF 2 681 million (CHF + 1.5 million) and the Group result from operating activities CHF 373 million (CHF –0.9 million). These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged if the fair value adjustments to property, plant and equipment and intangible assets had applied from January 2010.

4 **Acquisition of Non-controlling Interests**

On 15 February 2006, Lonza Group and Singapore's Bio*One Capital announced the creation of a joint venture company, Lonza Biologics Tuas Pte Ltd, to build a large-scale mammalian cell culture facility in Singapore for the manufacture of commercial biopharmaceuticals. On 27 August 2008, Lonza acquired a further 20 % of the share capital, increasing its stake to 70 % and giving it full control of Lonza Biologics Tuas Pte Ltd. In 2008 Lonza granted to Bio*One a put option to sell its non-controlling interests of 30 % at a predetermined price. The present value of the future cash outflows from a potential exercise of the put option of CHF 60 million was recognized as a credit in financial liability and a debit to equity. In addition Bio*One granted Lonza a call option to acquire the non-controlling interests at a predetermined price.

On 15 December 2010, Lonza exercised its call option to acquire 30 % of the share capital of Lonza Biologics Tuas Pte Ltd from Bio*One Capital for CHF 57 million in cash, increasing its stake to 100 %. The group recognized a decrease in non-controlling interests of CHF 57 million. The acquisition of non-controlling interests resulted in the derecognition of the put-option Lonza granted to Bio*One Capital by derecognizing the financial liability related to the put-option against equity.

5 **Restructuring and Impairment**

The re-engineering project launched in 2009 resulted in charges to the consolidated income statement 2009 of CHF 141 million for impairments (CHF 83 million), write-down of inventories (CHF 22 million), restructuring costs (CHF 25 million) and environmental costs (CHF 11 million). In 2010, impairment losses of CHF 4 million for the Walkersville plant (Bioscience) and restructuring provisions of CHF 5 million, mainly related to the Conshohocken plant (Customer Manufacturing), were reversed; these are disclosed as "Other operating income". Restructuring provisions were increased by CHF 9 million (Life Science Ingredients: CHF 6 million and Corporate: CHF 3 million) for which the related expenses are disclosed within "Administration and general overheads". The environmental provision of CHF 7 million for the Visp plant was reversed (Life Science Ingredients) and is reported as a deduction in "Research and development" costs.

6 Property, Plant and Equipment

2011 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	48	1 333	2 955	538	4 874
Additions	1	0	6	241	248
Disposals	(3)	(14)	(26)	(1)	(44)
Acquisition of subsidiaries	16	36	128	47	227
Transfers / reclassification	0	129	325	(454)	0
Currency translation differences	0	6	20	(18)	8
At 31 December	62	1 490	3 408	353	5 313
Accumulated depreciation and impairment					
At 1 January	(1)	(590)	(1 813)	0	(2 404)
Depreciation charge	0	(50)	(198)	0	(248)
Disposals	0	13	25	0	38
Currency translation differences	0	0	2	0	(2)
At 31 December	(1)	(627)	(1 984)	0	(2 612)
Net carrying amount 31 December	61	863	1 424	353	2 701
Insurance value 31 December	0	1 371	4 602	159	6 132

2010 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	56	1 362	3 031	556	5 005
Additions	2	0	4	279	285
Disposals	(4)	(32)	(134)	(1)	(171)
Acquisition of subsidiaries	0	0	1	0	1
Transfers / reclassification	0	56	196	(252)	0
Currency translation differences	(6)	(53)	(143)	(44)	(246)
At 31 December	48	1 333	2 955	538	4 874
Accumulated depreciation and impairment					
At 1 January	(3)	(587)	(1 825)	0	(2 415)
Depreciation charge	0	(48)	(198)	0	(246)
Disposals	1	29	131	0	161
Reversal of impairment losses	0	4	0	0	4
Currency translation differences	1	12	79	0	92
At 31 December	(1)	(590)	(1 813)	0	(2 404)
Net carrying amount 31 December	47	743	1 142	538	2 470
Insurance value 31 December	0	1 166	3 494	56	4 716

In 2010, impairment losses of CHF 4 million recognized in 2009 for the Walkersville plant (Bioscience) were reversed, as a result of an improved market environment.

Commitments for capital expenditure in property, plant and equipment amounted to CHF 28 million at year-end 2011 (2010: CHF 177 million), mainly related to capital expenditures for the Swiss units.

The carrying amount of fixed assets under finance lease contracts at year-end 2011 amounted to CHF 1.9 million (2010: CHF 3.1 million). Depreciation relating to fixed assets under finance lease amounted to CHF 1.6 million (2010: CHF 1.8 million). The exchange rate impact between ending and opening balance is CHF –0.2 million (2010: CHF –0.3 million). In 2010, leased fixed assets of CHF 0.8 million were disposed of.

No assets were pledged for security of own liabilities in 2011 and 2010. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Leases

1. Lessee

	2011	2010
Finance lease liabilities – minimum lease payments million CHF		
Not later than 1 year	3	4
Later than 1 year and not later than 5 years	0	3
Later than 5 years	0	0
Total future minimum finance lease payments	3	7
Future finance charges on finance lease payments	0	(1)
Present value of minimum finance lease payments	3	6

	2011	2010
Present value of finance lease liabilities million CHF		
Not later than 1 year	3	3
Later than 1 year and not later than 5 years	0	3
Later than 5 years	0	0
Present value of minimum finance lease payments	3	6

	2011	2010
Operating lease liabilities – minimum lease payments million CHF		
Not later than 1 year	13	8
Later than 1 year and not later than 5 years	43	23
Later than 5 years	20	23
Total future minimum operating lease payments	76	54

The finance lease agreements in 2011 and 2010 are related to buildings and production facilities in the USA expiring in 2012 and are based on an interest rate of 8.7%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Lonza leases a number of buildings, warehouses, factory and office facilities, vehicles, as well as land under operating leases. The leases for buildings, warehouses, factory and office facilities and vehicles run for periods between one and twelve years and for the land up to five years, all with an option to renew the lease after that date. None of the leases includes contingent rentals.

During the year ended 31 December 2011, CHF 11.4 million (2010: CHF 9.1 million) was recognized as an expense in the consolidated income statement in respect of operating leases, of which none was due to sublease payments.

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

2. Lessor

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

7 Intangible Assets and Goodwill

7.1 Cost and Accumulated Amortization and Impairment

2011 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Development cost	Construction in progress	Total
Cost						
At 1 January	417	293	75	13	8	806
Additions	0	10	7	0	2	19
Disposals	0	0	(2)	0	0	(2)
Acquisition of subsidiaries	697	596	3	70	0	1 366
Transfers/reclassification	0	0	0	7	(7)	0
Currency translation differences	25	24	0	3	0	52
At 31 December	1 139	923	83	93	3	2 241
Accumulated amortization and impairment						
At 1 January	(7)	(86)	(52)	(7)	0	(152)
Amortization	0	(16)	(10)	(2)	0	(28)
Disposals	0	0	2	0	0	2
Transfers/reclassification	0	0	0	0	0	0
Currency translation differences	0	0	0	(1)	0	(1)
At 31 December	(7)	(102)	(60)	(10)	0	(179)
Net carrying amount 31 December	1 132	821	23	83	3	2 062

2010 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Development cost	Construction in progress	Total
Cost						
At 1 January	453	318	61	15	6	853
Additions	0	1	11	0	3	15
Disposals	0	(1)	(1)	0	0	(2)
Acquisition of subsidiaries	23	6	0	0	0	29
Transfers/reclassification	0	(6)	6	0	0	0
Currency translation differences	(59)	(25)	(2)	(2)	(1)	(89)
At 31 December	417	293	75	13	8	806
Accumulated amortization and impairment						
At 1 January	(8)	(72)	(47)	(6)	0	(133)
Amortization	0	(14)	(11)	(2)	0	(27)
Disposals	0	1	1	0	0	2
Transfers/reclassification	0	(6)	6	0	0	0
Currency translation differences	1	5	(1)	1	0	6
At 31 December	(7)	(86)	(52)	(7)	0	(152)
Net carrying amount 31 December	410	207	23	6	8	654

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

Patents, trade marks and client relationships include intangible assets with indefinite useful lives of CHF 369 million (2010: CHF 25.5 million).

7.2 Impairment Tests for Cash-generating Units Containing Goodwill and Intangible Assets with Indefinite Useful Life

The following units show carrying amounts of goodwill (at year-end exchange rates):

	2011	2010
million CHF		
Lonza Biologics (Biopharmaceuticals business)	26	25
Lonza Guangzhou (Nicotinates business)	4	4
Lonza Inc. Microbial Control (Biocidal Quats business)	8	8
Lonza Braine SA (Peptide business)	35	36
Lonza Bioscience	333	337
Arch (Microbial Control business)	726	0
Total carrying amounts of goodwill	1 132	410

The following units show carrying amounts of intangible assets (trademarks) with indefinite useful life (at year-end exchange rates):

	2011	2010
million CHF		
Lonza Bioscience	25	25
Arch (Microbial Control business)	344	0
Total carrying amounts of intangible assets with indefinite useful life	369	25

The change in the carrying amounts of goodwill and intangible assets with indefinite useful life between 2011 and the previous year results primarily from the acquisition of Arch, acquired on 20 October 2011, representing the Microbial Control business.

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. The cash flow projections include the actual operating results and a five-year business plan approved by management. These cash flow projections are based on the yearly business strategy review and exclude any future cash inflows and outflows expected to arise from growth potential of future capital expenditures.

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

The **Biopharmaceutical** business is primarily located in the United States as well as in Great Britain. Sales are based on existing contracts and planned utilization of equipment based on customer demand over the five-year period. Prices are as per contracts realized and are assumed to stay at current levels. Cost developments are based on individual assumptions per cost element. Personnel costs are assumed to increase on average by 4.4% p.a. and the other expenses by 3.6% p.a. The cash flow projections beyond the five-year period are based on a zero growth rate. A pre-tax discount rate of 7.5% (2010: 8.6%) has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The **Nicotinates** (vitamin B3) business plan relates to the site in Guangzhou in China. The cash flow projections are based on a strong decrease in gross margin in 2012 and a slight decrease in 2013, due to an expected decrease in selling price, and thereafter an unchanged margin until 2016. According to the strategy review for the nicotinates market, sales volume will be assumed to grow by 2.0% p.a. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate due to limitation of capacity. The cash flows are discounted at a pre-tax discount rate of 12.5% (2010: 10.6%). Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The **Biocidal Quats** business is located in the United States. The cash flow projections are based on constant expected gross margins during the five-year planning period, with a 3.0% p.a. increase in sales. Selling price changes are assumed to offset changes in raw material prices. Overhead costs are anticipated to grow in line with sales from 2012–2016. No major regulatory changes will have an unfavorable impact on the volumes. Management believes this to be a fair and reasonable assumption. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 10.0% (2010: 10.0%). Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The **Peptides** business represents the cash-generating unit of Lonza Braine SA, Belgium, including Lonza Sales Ltd, Switzerland. Sales are projected on the current portfolio of peptides, with production costs varying in line with sales increase. From 2012 until 2016, sales are assumed to grow on average by 8.6% p.a. Fixed costs are planned to be reduced by 2.2% in 2012, kept constant for the following two years and increased by 5.0% in 2015. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate (2010: 0%). The cash flows are discounted at a pre-tax discount rate of 9.8% (2010: 8.7%), resulting in a recoverable amount exceeding the carrying amount by CHF 26 million. If sales grew at a 1.0%-point-lower yearly growth rate over the five-year period, or if the pre-tax discount rate were 1.6% points higher, the recoverable amount would agree with the carrying amount.

The **Bioscience** business includes the Cambrex Corporation, acquired on 6 February 2007, the amaxa business, acquired on 2 July 2008, which was integrated into the Cell Discovery business, as well as MODA Technology Partners and Vivante GMP Solutions, acquired on 18 May 2010 and 27 August 2010 respectively. MODA Technology Partners was integrated in the Testing Solutions business and Vivante GMP Solutions in the Cell Therapy business. Therefore, the impairment analysis is based on the combined cash-generating unit of the Bioscience segment. The cash flow projections from 2012–2016 are based on a 11.9% average sales growth with growing EBIT margin, as the Bioscience segment is operating in growing markets and economic recovery continues on a low level. The cash flow projections beyond the five-year period are extrapolated using a 0.5% growth rate (2010: 0.5%), which is in line with the current business strategy review. The cash flows are discounted at a pre-tax discount rate of 7.8% (2010: 7.6%) what results in a recoverable amount exceeding the carrying amount. If sales grew at a 0.9%-point-lower yearly average growth rate over the five-year period, or if the pre-tax discount rate were 1.6% points higher, the recoverable amount would agree with the carrying amount.

The **Microbial Control Business** includes Arch Chemicals, acquired on 20 October 2011. The impairment analysis is based on the combined cash-generating unit comprising all Arch subsidiaries. The cash flow projections from 2012–2016 are based on the target 2012 and on a 2% growth rate in sales and overhead for the following four years. The operating margins are kept constant over the planning period. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 7.9%. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

8 Investments in Associates and Joint Ventures

8.1 Associates

Lonza holds a 31 % stake in **Aravis Ventures I, L.P.**, an international venture capital fund under Cayman Islands jurisdiction focusing on early-stage companies in biotechnology and drug development industry sectors. The total capital commitment of Lonza in Aravis Ventures is USD 18.2 million of which USD 17.9 million (2010: USD 17.7 million) was drawn up until 31 December 2011. The investment in Aravis Venture I, L.P. is accounted for using the equity method.

In Lonza's 2011 financial statements, the investment in the associate relating to Aravis Ventures I, L.P. amounted to CHF 11.4 million (2010: CHF 19.0 million). The net capital contribution to Aravis Venture was CHF 0.3 million in 2011 (2010: CHF 0.8 million). An equity loss of CHF 4.9 million in 2011 (2010: equity income of CHF 4.0 million) and a currency loss of CHF 2.9 million (2010: currency gain of CHF 1 million) were disclosed.

In addition, Lonza holds a 33 % stake in **Hemel Emprenye Sanayi de Ticaret A.S.** (Turkey), acquired through the Arch business combination. The investment as of 31 December 2011 amounts to CHF 0.6 million. No equity income or loss was recognized in Lonza's financial statements 2011.

8.2 Joint Ventures

TL Biopharmaceutical Ltd

On 14 May 2009, the Biotechnology company TL Biopharmaceutical Ltd, a joint venture between Lonza and Teva, was established to develop, manufacture and market a portfolio of biosimilars. Through this joint venture, Lonza and Teva will bring together highly complementary capabilities to reach a leading position in the emerging biosimilars market. The company received a capital injection of CHF 0.5 million from both parties. Lonza recognized its interest in the joint venture using the equity method. In 2009, the original investment in TL Biopharmaceutical Ltd was entirely offset by an equity loss of CHF 0.5 million.

In 2011 an equity loss of CHF 8.8 million (2010: CHF 4.8 million) was recognized. The equity loss is recognized as value adjustment to the loan, as the loan partially has the substance of an equity contribution. As of 31 December 2011, Lonza financed the joint venture with a loan of CHF 66.4 million (2010: CHF 44.5 million) nominal value, of which CHF 9.9 million is subordinated.

The sales of goods and services from Lonza to TL Biopharmaceutical Ltd in 2011 amounted to CHF 34.6 million (2010: CHF 25 million).

The following aggregate amounts were disclosed for Lonza's interest in TL Biopharmaceutical Ltd:

million CHF	2011	2010
Current assets	0.3	0.1
Fixed assets	72.2	46.5
Current liabilities	19.6	7.2
Long-term liabilities	66.5	44.3
Revenues	0.0	0.0
Profit/ (loss)	(8.8)	(4.5)

According to the joint venture agreement as of January 2009, each party agreed on minimum contributions (as a subscription for company securities or as a loan) for the following years:
 2012: USD 68 million
 2013: USD 84 million

Proteccion de Madera Ltda

Through the business combination with Arch, Lonza acquired a 50 % stake in Proteccion de Madera Ltda (Chile). The investment as of 31 December 2011 amounts to CHF 1.6 million. An equity income of CHF 0.15 million was recognized in Lonza's financial statements 2011.

9 Inventories

million CHF	%	2011	%	2010
Raw materials	21	164	18	89
Work in progress	7	56	10	48
Finished goods	56	434	51	252
Other	16	119	21	106
Total	100	773	100	495

By operating segments million CHF	%	2011	%	2010
Custom Manufacturing	38	289	55	270
Life Science Ingredients	21	164	28	141
Microbial Control	35	273	8	41
Bioscience	6	47	9	43
Total	100	773	100	495

The reported inventories are net of a total value adjustment amounting to CHF 57 million (2010: CHF 57 million).

The movement of inventory value adjustments is shown as follows:

Inventory write-downs million CHF	Raw materials	Work in progress and finished goods	Other	Total
At 1 January 2011	10	19	28	57
Increase	26	52	4	82
Reversal / Utilization of write-downs	(27)	(52)	(3)	(82)
Currency translation differences	0	0	0	0
At 31 December 2011	9	19	29	57

The cost of inventories recognized as expenses during the period and included in “Cost of goods sold” amounted to CHF 1 840 million (2010: CHF 1 795 million).

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

million CHF	2011	2010
Contract revenue recognized as revenue in the period	66	36
– Contract costs incurred	23	22
– Recognized profits less recognized losses	20	11
Contract costs incurred plus recognized profits less recognized losses	43	33
Less progress billings	(9)	(10)
Total net amount due from / (to) customers	34	23
Gross amount due from customers for contract work	34	23
Gross amount due to customers for contract work	0	0
Advances received	8	33
Retentions held by customers for contract work	0	0

10 **Trade Receivables**

	2011	2010
million CHF		
Receivables from customers	697	490
Allowances for credit losses	(2)	(2)
Total	695	488

The credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2011, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Ageing of trade receivables	2011	2010
million CHF		
Not past due	601	401
Past due 1–30 days	69	47
Past due 31–120 days	12	30
Past due more than 120 days	13	10
Total	695	488

Reconciliation of changes in allowance accounts for credit losses	2011	2010
million CHF		
Balance at the beginning of the year	2	6
Write-offs	(1)	(4)
Increase in provision for credit losses	2	2
Decrease in provision for credit losses	(1)	(2)
Translation differences	0	0
Balance at the end of the year	2	2

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

11 Other Receivables, Prepaid Expenses and Accrued Income

million CHF	2011	2010
Other receivables	99	98
Prepaid taxes and social security payments	7	7
Prepaid expenses and accrued income	79	65
Total	185	170

“Other receivables” include accruals and receivables for taxes (other than income taxes), the positive fair values of derivative financial instruments and short-term financial assets available for sale (see note 31).

12 Cash and Cash Equivalents

million CHF	2011	2010
Cash	186	237
Time deposits	10	11
Total	196	248

13 Provisions

Long-term provisions million CHF	Environ- mental	Restruc- turing	Other	Total
At 1 January 2011	14	1	4	19
Increase	0	0	0	0
Used	(1)	0	0	(1)
Reversed	0	0	(1)	(1)
Acquisition of subsidiaries	33	0	1	34
Reclassification (to short-term provisions)	(1)	(1)	0	(2)
Currency translation differences	2	0	0	2
At 31 December 2011	47	0	4	51

Short-term provisions (see note 15) million CHF	Environ- mental	Restruc- turing	Other	Total
At 1 January 2011	2	3	1	6
Increase	0	1	0	1
Used	0	(2)	0	(2)
Reversed	(1)	(1)	0	(2)
Acquisition of subsidiaries	1	2	0	3
Reclassification (from long-term provisions)	1	1	0	2
Currency translation differences	0	(1)	0	(1)
At 31 December 2011	3	3	1	7

Environmental The long-term environmental provision reflects the future expenses for environmental protection for the plants in Waldshut (Germany), in Visp (Switzerland), Lonza Inc. (USA) as well as for the various Arch plants and is expected to be utilized within 10 years. The provision for Arch includes environmental risks for existing as well as divested plants. Long-term environmental provisions were used for Lonza Inc. (USA) (CHF 1 million) and short-term provisions for the Visp plant were reversed (CHF 1 million).

Restructuring In 2011, restructuring provisions of CHF 2 million related to the re-engineering project launched in 2009 were used. Minor restructuring activities in a variety of locations in Lonza Group led to an increase of CHF 1 million. The increase in provisions (CHF 2 million) as a result of the acquisition of subsidiaries reflects restructuring activities of Arch independent of the merger with Lonza.

Other Other long-term provisions are mainly associated with asset retirement obligations of Lonza Biologics Tuas PTE Ltd. (CHF 2 million) and Arch (CHF 1 million). Provisions for development costs at Gewerbepark Hochrhein GmbH (CHF 1 million) were reversed.

14 Net Debt

The net debt comprises:

Long-term debt million CHF		2011		2010
Straight bond (2009–2013)		299		298
Straight bond (2010–2016)		398		397
Straight bond (2011–2015)		238		0
Straight bond (2011–2018)		138		0
Syndicated loan (2011–2016)		491		0
Arch acquisition bridge financing		861		0
Due to banks and others:				
– Banks	14		16	
– Other	286	300	136	152
Leasing		0		3
Total long-term debt		2 725		850

Straight bond (2009–2013) On 28 April 2009, a bond was issued with the following terms: Amount: CHF 300 million, due 27 May 2013. Interest: 3.75 % p.a. payable on 27 May. The net proceeds of the bond amount to CHF 297.0 million per 27 May 2009 after considering upfront fees of CHF 3.770 million and an agio of CHF 0.750 million.

Straight bond (2010–2016) On 2 June 2010, a bond was issued with the following terms: Amount CHF 400 million, due 2 June 2016; interest 3.00 % p.a., payable on 2 June, for the first time on 2 June 2011. The net proceeds of the bond amount to CHF 396.9 million as of 2 June 2010 after considering up-front fees of CHF 5.970 million and an agio of CHF 2.884 million.

The **Syndicated loan** of CHF 500 million, which became due for repayment in December 2011, was refinanced by signing a new syndicated loan with a consortium of banks based on the following terms: Credit facility of CHF 700 million, of which CHF 500 million was used as of 31 December 2011, due 9 September 2016, at floating interest rates (libor + margin, depending on margin grid). Lonza hedged the interest rate until 13 February 2012. The net proceeds of the syndicated loan amount to CHF 490.9 million after considering up-front fees of CHF 9.1 million.

Acquisition bridge financing The acquisition of Arch is completely debt-financed. A consortium of banks committed credit facilities of USD 1 550 million to Lonza, of which USD 1 375 million was raised in October 2011 to acquire the Arch shares and prepay part of the debt. The facilities are at floating interest rates (libor + margin, depending on margin grid). The first facility would have been originally repayable in June 2012 (USD 450 million) and the other facilities are repayable in March 2013 (USD 500 million) and October 2014 (USD 425 million). USD 412 million of the facility due in 2012 (USD 450 million) was repaid in December 2011 and refinanced by the issuance of two straight bonds on the following terms:

- CHF 240 million, due 7 December 2015. Interest: 2.25 % p.a., payable on 7 December, for the first time on 7 December 2012. The net proceeds of the bond amount to CHF 238.1 million per 7 December 2011, after considering up-front fees of CHF 3.001 million and an agio of CHF 1.131 million.
- CHF 140 million, due 7 December 2018. Interest: 3.125 % p.a., payable on 7 December, for the first time on 7 December 2012. The net proceeds of the bond amount to CHF 138.2 million per 7 December 2011, after considering upfront fees of CHF 2.615 million and an agio of CHF 0.780 million.

The syndicated loan as well as the acquisition bridge financing agreements contain a financial covenant which is based on net debt/EBITDA ratio. The Group is in compliance with the covenant.

Short-term debt million CHF	2011	2010
Due to banks and other financial institutions	127	45
Arch acquisition bridge financing	36	0
Others	10	3
Leasing	3	3
Long-term debt due within one year		
– Syndicated loan (2006–2011)	0	499
Total short-term debt	176	550

Total debt	2 901	1 400
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Loans and advances (floating interest rates) and cash million CHF	2011	2010
Long-term loans and advances	(56)	(43)
Short-term loans and advances	(2)	(1)
Cash and cash equivalents	(196)	(248)
Total loans and advances / cash and cash equivalents	(254)	(292)
Net debt	2 647	1 108

Loans and advances increased in 2011 compared with the prior year, mainly due to the loan granted to the TL Biopharmaceutical Ltd joint venture.

Breakdown of total debt by currencies million CHF	Average interest rates		2011		2010	
	%	%				
CHF	2.91	54	1 580	3.19	85	1 199
CNY	6.50	1	19	4.37	1	16
EUR	0.00	0	0	1.45	0	1
USD	2.63	45	1 296	2.15	13	175
Other	0.90	0	6	0.90	1	9
Total		100	2 901		100	1 400

Breakdown of loans and advances by currencies million CHF	Average interest rates		2011		2010	
	%	%				
CHF	1.00	2	1	0.00	0	0
GBP	1.00	2	1	1.05	2	1
USD	1.80	96	56	1.95	98	43
Total		100	58		100	44

Interest rates are floating rates.

15 Other Short-term Liabilities

million CHF	2011	2010
Short-term provisions (see note 13)	7	6
Accrued liabilities and other payables	273	201
Other interest-free liabilities	152	128
Accrued interest payables	20	16
Total	452	351

“Accrued liabilities and other payables” include accruals and deferred income, such as down-payments from customers and the negative fair values of derivative financial instruments (see note 31). In “Other interest-free liabilities”, payments received from customer funding are included. The increase in “Other interest-free liabilities” is due to the increase of personnel related liabilities for severance payments and accruals for salaries and vacation.

16 Trade Payables

million CHF	2011	2010
Payables to third parties	294	159
Total	294	159

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

17 Contingent Liabilities

No contingent liabilities exist for 2011 and 2010.

18 Material and Energy Costs

million CHF	2011	2010
Material costs	914	855
Energy costs	85	87
Total	999	942

19 **Personnel Expenses**

	2011	2010
million CHF		
Wages and salaries	654	644
Pensions (IAS 19)	26	23
Other social security contributions	123	130
Other personnel expenses	52	26
Total personnel cost	855	823

20 **Other Operating Income and Expenses**

“Other operating income” and “Other operating expenses” include items not assignable to the other functions of the consolidated income statement.

Major elements of “Other operating income” in 2011 include: compensation from local authorities for the relocation of the Lyiang (CN) plant, exchange rate gains, amortization of customer-funded assets and reversal of provisions. “Other operating expenses” in 2011 comprise mainly exchange rate losses and increase of provisions.

Major elements of “Other operating income” in 2010 include: milestone payments received from Genentech, the gain on sale of the Conshohocken (Riverside) plant, exchange rate gains, amortization of customer-funded assets and reversal of provisions. “Other operating expenses” in 2010 comprise mainly exchange rate losses and increase of provisions.

21 **Financial Result**

21.1 **Interest and Other Financial Income**

	2011	2010
million CHF		
Interest income	4	5
Other financial income	14	1
Total	18	6

21.2 Interest and Other Financial Expenses

million CHF	2011	2010
Interest expenses	(49)	(40)
Other financial expenses	(42)	(9)
Total	(91)	(49)

In 2011, "Other financial expenses" include financing cost as well as currency differences and the cost for the secondary listing of Lonza's shares on the Singapore stock exchange. "Other financial expenses" in 2010 are primarily composed of financing costs and currency differences.

"Other financial income" includes mainly currency differences.

21.3 Income from Investments, Associates and Joint Ventures

million CHF	2011	2010
Share of (loss)/profit of associates/joint ventures	(13)	(1)
Other investment income/(loss)	0	0
Total	(13)	(1)

"Share of (loss)/profit of associates/joint ventures" in 2011 comprises a loss of CHF 4.9 million (2010: income of CHF 4.0 million) from Aravis Ventures I, L.P., and a loss of CHF 8.8 million (2010: CHF 4.8 million) from the TL Biopharmaceutical Ltd joint venture.

22 Taxes

22.1 Income Taxes

Major components of tax expenses million CHF	2011	2010
Current taxes	(26)	(32)
Deferred tax expense relating to the origination and reversal of temporary differences	5	(15)
Deferred tax (expense)/income resulting from tax rate changes	0	1
Total	(21)	(46)

Lonza Group Ltd and the operating company Lonza Ltd are domiciled in Switzerland. The maximum rate of all income taxes on companies domiciled in Switzerland is 8% (2010: 8%) for holding companies and 23% for operating companies (2010: 23%).

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Lonza calculates the average tax rate as a weighted average of the rates applying in the tax jurisdictions in which it operates. The average tax rate for 2011 is 21% (2010: 21%). The effective tax rate for 2011 is 12% (2010: 14%). The change of the tax rate reflects the capitalization of tax incentives in Europe as deferred tax assets, other tax-free income in Asia, Europe and Switzerland, and the first time recognition of deferred tax assets on tax losses in the USA based on a reassessment in relation with the acquisition of Arch Chemicals Inc. (CHF 29 million).

Reconciliation of tax expense million CHF	2011	2010
Profit before income taxes	175	330
Tax at the domestic rates applicable to the profits earned in the country concerned (2011: 21% / 2010: 21%)	37	68
Expenses that are not deductible for tax purposes	2	4
Tax-free earnings	(19)	(27)
Deferred tax benefit from tax rate changes	0	(1)
Under- / (overprovided) in prior years	0	(1)
Not recognized potential deferred tax assets of current year	3	2
Other ¹	(2)	1
Total	21	46
Deferred tax expenses (charged) / credited directly to equity	0	0
Current tax expenses (charged) / credited directly to equity	0	7

Capital taxes of CHF 11 million (2010: CHF 10 million) are contained in "Administration and general overheads".

Components of deferred income tax balances million CHF	Assets	2011 Liabilities	Assets	¹ 2010 Liabilities
Short-term operating provisions	23	124	2	12
Long-term operating provisions / Employee benefit liability	176	225	46	106
Intangible assets	2	285	1	18
Inventory	19	56	1	24
Property, plant and equipment	2	182	2	172
Other assets	18	0	13	0
Tax loss carry-forwards	88	0	49	0
Netting of deferred tax assets and deferred tax liabilities (IAS 12.74b)	(161)	(161)	(11)	(11)
Total	167	711	103	321

¹ The table has changed in 2011 and 2010 information was adjusted accordingly

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

	2011	2010
million CHF		
Deferred tax assets	167	103
Deferred tax liabilities	(711)	(321)
Net deferred tax liability	(544)	(218)
Less deferred tax (assets) / liabilities net opening balance	218	202
(Increase) / decrease in deferred tax liabilities, net	(326)	(16)
Currency translation differences	12	(1)
Acquisition of subsidiaries	319	3
Movements of deferred tax assets / (liabilities) charged to equity	0	0
(Expense) / income recognized in income statement	5	(14)

Unrecognized tax losses: expiry	2011	2010
million CHF		
Within 1 year	1	10
Between 2 to 5 years	20	7
After 5 years	264	84
Unlimited	77	108
Total	362	209

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

22.2 Disclosure of Tax Effects to each Component of Other Comprehensive Income

million CHF	2011			2010		
	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	(14)	0	(14)	(230)	7	(223)
Cash flow hedges	7	0	7	8	0	8
Other comprehensive income	(7)	0	(7)	(222)	7	(215)

23 Research and Development

Research and development costs include all primary costs directly related to this function, as well as internal services and imputed depreciation. These costs are incurred for:

- Development of new products and services
- Improvement of existing products and services
- Development of new production processes
- Improvement of existing production processes
- Cost for patents
- Purchase price for product and process know-how as far as it has not been capitalized

The research and development costs amounted to CHF 171 million (2010: CHF 141 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 94 million (2010: CHF 99 million), because of costs absorbed in “Cost of goods sold” by R&D products and services sold.

24 Pension Benefits

Defined benefit pension plans Lonza sponsors pension plans set up according to the regulations of the countries in which it operates. For pension accounting purposes, these plans are considered as defined benefit plans. During 2011, actuarial valuations were performed for all significant defined benefit plans using the Projected Unit Credit Valuation Method. The principal assumptions, expressed as a weighted average for Lonza, are the result of the underlying national economic conditions of the respective countries.

Actuarial assumptions	2011	2010
%		
Discount rate	3.4	2.9
Expected return on plan assets at 1 January	4.2	4.5
Future salary increases	2.1	2.1
Future pension increases	0.5	0.2

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 18 for males and 21 for females.

The overall expected long-term rate of return on assets is 4.2% (2010: 4.5%). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The funded status of the defined benefit pension plans and the related net position in the balance sheet is as follows:

	2011	2010
million CHF		
Present value of unfunded obligations	19	16
Present value of funded obligations	2 375	1 592
Total present value of obligations	2 394	1 608
Fair value of plan assets	(2 001)	(1 409)
Funded status (surplus) / deficit	393	199
Unrecognized actuarial gains / (losses)	(350)	(257)
Unrecognized past service gains / (costs)	32	39
Limitation on recognition of assets	1	0
Net liability / (asset) recognized in the balance sheet	76	(19)

Assets of CHF 62 million¹ (2010: CHF 33 million) and liabilities of CHF 138 million (2010: CHF 14 million) are included in the financial statements.

Plan assets consist of the following:

	2011	2010
million CHF		
Equity securities	845	290
Bonds	265	404
Property occupied by the Group	0	0
Property	77	121
Cash	814	594
Company's own ordinary shares	0	0
Total fair value of plan assets	2 001	1 409

	2011	2010
million CHF		
Movement in the defined benefit obligations		
Opening defined benefit obligation at 1 January	1 608	1 538
Interest cost	53	56
Current service cost (employer)	39	35
Contributions by plan participants	16	17
Benefits (paid) / deposited, net	(133)	(73)
Acquisition of subsidiaries	765	0
Curtailments and settlements	0	(38)
Actuarial (gains) / losses on obligation	0	104
Impact of exchange rate changes	46	(32)
Adjustment	0	1
Closing defined benefit obligation at 31 December	2 394	1 608

¹ Included in "Other non-current assets"

Movement in plan assets million CHF	2011	2010
Opening fair value of plan assets at 1 January	1 409	1 408
Expected return on plan assets	69	64
Contributions by the employer	121	47
Contributions by plan participants	16	17
Benefits (paid)/deposited, net	(133)	(73)
Acquisition of subsidiaries	585	0
Curtailments and settlements	0	(34)
Actuarial gains/(losses) on plan assets	(101)	2
Impact of exchange rate changes	35	(23)
Adjustment	0	1
Closing fair value of plan assets at 31 December	2 001	1 409

The net periodic pension costs for Lonza's significant benefit plans consist of the following:

million CHF	2011	2010
Current service cost (employer)	39	35
Interest cost	53	56
Expected return on plan assets	(69)	(64)
Actuarial (gains)/losses recognized in current year	9	5
Past service cost/(gain)	(6)	(7)
Effect of curtailments and settlements	0	(2)
Total recognized pension costs	26	23

Pension costs are recognized in personnel expenses (see note 19) and allocated to the individual functions of the consolidated financial income statement.

Actual return on plan assets million CHF	2011	2010
Expected return on plan assets	69	64
Actuarial gains/(losses) on plan assets	(101)	2
Actual return on plan assets	(32)	66

Historical information million CHF	2011	2010	2009	2008	2007
Present value of defined benefit obligation	2 394	1 608	1 538	1 443	1 450
Fair value of plan assets	(2 001)	(1 409)	(1 408)	(1 301)	(1 450)
(Surplus) / deficit	393	199	130	142	0
Experience adjustments on defined benefit obligation (gains) / losses	(44)	11	(18)		
Experience adjustments on plan assets gains / (losses)	(101)	2	47		

The Group expects to pay CHF 116 million in contributions to defined benefit plans in 2012.

Other post-retirement benefits Lonza's post employment benefits other than pensions are not funded. They consist mainly of post-retirement healthcare benefits in the USA, which are provided under a defined benefit plan.

The principal assumptions are as follows:

Actuarial assumptions %	2011	2010
Discount rate	4.59	5.20
Medical-cost trend rate	8.16	8.00

Assumed healthcare-cost trend rates have a significant effect on the amounts recognized in profit and loss. A one-percentage-point change in assumed healthcare-cost trend rates would have the following effects:

%	1%-point increase	1%-point decrease
Effect on the aggregate service and interest cost	2.8	-2.3
Effect on defined benefit obligation	1.8	-1.7

The funded status of the post-retirement benefit plans is as follows:

million CHF	2011	2010
Present value of unfunded benefit obligations	57	37
Unrecognized actuarial gains / (losses)	(7)	(4)
Unrecognized prior service cost	0	0
Liability recognized in the balance sheet	50	33

Movement in the defined benefit obligations million CHF	2011	2010
Opening defined benefit obligation at 1 January	37	33
Interest cost	2	2
Current service cost (employer)	0	0
Contributions by plan participants	1	1
Benefits (paid) / deposited, net	(3)	(3)
Actuarial (gains) / losses on obligation	3	9
Acquisition of subsidiaries	16	0
Impact of exchange rate changes	1	(4)
Adjustment	0	(1)
Closing defined benefit obligation at 31 December	57	37

Movement in the liability recognized in the balance sheet million CHF	2011	2010
Liability as of 1 January	33	37
Expenses recognized in income statement	2	2
Benefits (paid) / deposited, net	(2)	(2)
Acquisition of subsidiaries	16	0
Impact of exchange rate changes	1	(3)
Adjustment	0	(1)
Liability as of 31 December	50	33

Net periodic costs for the post-retirement benefit plans are the following:

million CHF	2011	2010
Current service cost (employer)	0	0
Interest cost	2	2
Actuarial (gains) / losses recognized in current year	0	0
Past service cost	0	0
Adjustment	0	1
Total post-retirement cost	2	3

These expenses are recognized in personnel expenses (see note 19).

Historical information of other post-retirement benefits million CHF	2011	2010	2009	2008	2007
Present value of defined benefit obligation	57	37	33	31	34
Experience adjustments on defined benefit obligation (gains) / losses	(2)	3	0		

25 Share-based Payments

Equity-settled share option scheme

Employee Share Purchase Plan (ESPP) In keeping with our vision and culture, Lonza has continuously encouraged employee participation in the company through stock ownership. In 2005, the former Employee Share Purchase Plan was updated. Under the new plan, ESPP Plus, the employees have the opportunity – but not the obligation – to acquire Lonza shares in multiples of three at a price reduction of 30%. The shares purchased in this manner remain blocked for three years. After this blocking period, participants are entirely free to do as they wish with the shares. If participants keep their shares for a further two years in a blocked deposit, they will then – after this holding period is over – receive one additional free share for every three shares purchased. Due to cost-saving measures, the reissue of the share purchase plan was interrupted in 2009, but resumed in 2010.

The minimum conditions to participate in the ESPP Plus were in:

2006: ranging from 9 shares to 270 shares

2007: ranging from 6 shares to 195 shares

2008: ranging from 3 shares to 162 shares

2010: ranging from 6 shares to 177 shares

2011: ranging from 6 shares to 198 shares

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

Details of share purchase plans	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date CHF
ESPP 2006	64 266	3:1	21 422	15 05 2011	87.90
ESPP 2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP 2008	51 000	3:1	17 000	15 05 2013	138.54
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81
ESPP 2011	74 526	3:1	24 842	30 05 2016	75.76

Development of share purchase plans 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
ESPP 2006	19 493	0	0	(15 462)	(4 031)	0
ESPP 2007	16 154	0	0	(22)	0	16 132
ESPP 2008	15 492	0	0	(27)	0	15 465
ESPP 2010	23 914	0	0	(35)	0	23 879
ESPP 2011	0	24 842	0	0	0	24 842
Total shares	75 053	24 842	0	(15 546)	(4 031)	80 318

Development of share purchase plans 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
ESPP 2005	22 393	0	0	(15 382)	(7 011)	0
ESPP 2006	19 882	0	0	(389)	0	19 493
ESPP 2007	16 543	0	0	(389)	0	16 154
ESPP 2008	15 985	0	0	(493)	0	15 492
ESPP 2010	0	23 955	0	(41)	0	23 914
Total shares	74 803	23 955	0	(16 694)	(7 011)	75 053

The estimated fair value of the share awards granted in 2011 was CHF 60.61 (2010: CHF 61.45). The weighted average share price of the vested shares in 2011 was CHF 88.01 (2010: CHF 77.13). The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 97.10 (2010: CHF 101.79) and a remaining weighted average contractual life of 33 months (2010: 28 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20% in 2011 (2010: 20%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2006	1 318 096
ESPP 2006 discount	1 694 694
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985
ESPP 2011	1 505 624
ESPP 2011 discount	1 693 827

A total of 66 509 treasury shares with a par value of CHF 1 each (31 December 2010: 61 055 shares) is reserved for the share purchase plans.

Long-Term Incentive Plan (LTIP) In 2007, 2008, 2009, 2010 and 2011, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees. The LTIP is a stock bonus plan, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. The general idea of the LTIP is that selected key employees are awarded the right to receive a number of registered shares of Lonza in the future, provided that certain service- and performance-related conditions are achieved. Depending on the level of the job category, the entitlement is between 10% and 200% of the annual base salary. For the CEO the entitlement is 200% based on the full share value, for Management Committee members it is 150%. The maximum number of shares to be granted is capped at the start of the plan. Under no condition can the incentive exceed the set percentage, even if the performance exceeds the set targets. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

The central feature of the plan is that key employees will only receive title and ownership of the shares after a three-year vesting period and only if the conditions of vesting are fully or partially met. The conditions of vesting of the shares are as follows:

The vesting of up to 50% of the awarded share entitlement is based on the total shareholder return (TSR¹) achieved during the three fiscal years of Lonza before the end of the vesting period compared with a peer group. For the share entitlements granted under the LTIP 2008 to 2010, the peer group consisted of MSCI Chemicals, DSM, UCB, Crucell, Genentech / Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, and Thermo Fisher Scientific. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health, and SPI. This change in the peer group was also recommended by the external compensation consultant (Kepler Associates) due to the experience that some companies diversified their business or merged during the relevant vesting period of the LTIP. In such cases the company may no longer be relevant as a peer group. The TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis by 9% (LTIP 2008, 2009, 2010: 5%) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25% of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

For shares initially granted up to and including 2009, the vesting of up to 50% of the remaining awarded share entitlement is based on the average annual earnings per share (EPS) of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EPS target is reached if Lonza increases its EPS within the vesting period by 50%. If the EPS target is not fully reached, the percentage of the vested shares, from the share entitlement will be reduced linearly, down to the minimum target of EPS. The minimum target is to hold EPS on the level at the beginning of the fixed period. If this minimum target is met, then 25% of the shares will vest. If the minimum target is not met, no shares in this section will vest.

From 2010 onwards, the vesting of up to 50% of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA¹) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target for share entitlements awarded in 2011 is reached if Lonza increases its EVA within the vesting period from CHF 15.9 million up to CHF 114.4 million (for share entitlements awarded in 2010: from CHF 34.25 million up to CHF 137.0 million). If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA at the level of the beginning of the fixed period. If this minimum target is met, then 25% of the shares will vest. If the minimum target is not met, no shares in this section will vest.

If TRS and EPS/EVA minimum targets are not met, the share entitlement expires unconditionally.

For the LTIP 2008 no payout was made in January 2011 and for the LTIP 2009 no payout will be made in January 2012.

The following table shows historical data on vesting conditions for LTIP share awards in the years 2008 – 2011, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

Details of long-term incentive plans	Grant date	Share price	Granted share awards	TSR	EPS growth/ EVA level targets	Vesting date
		CHF				
LTIP 2008	01 02 2008	137.60	85 011	5%	50%	31 01 2011
LTIP 2009	01 02 2009	106.10	121 356	5%	50%	31 01 2012
LTIP 2010	01 02 2010	75.65	147 711	5%	137.0 mn	31 01 2013
LTIP 2011	01 02 2011	74.35	152 077	9%	114.4 mn	31 01 2014

¹ EVA or Economic Value Added is an estimate of true "economic" profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk. The EVA is calculated as follows: Net operating profit after taxes minus cost of capital of net operating assets.

Conditions of vesting 2011	Minimum	Maximum	Target	Probability
TSR	25%	100%	9%	50.00%
EVA	25%	100%	114.4 mn	50.00%
Turnover of employees				3.00%

Conditions of vesting 2010	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EVA	25%	100%	137 mn	50.00%
Turnover of employees				0.00%

Conditions of vesting 2009	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EPS	25%	100%	50%	45.40%
Turnover of employees				3.00%

Conditions of vesting 2008	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EPS	25%	100%	50%	100.00%
Turnover of employees				3.00%

Vesting conditions	Market price	Granted share awards	Fair value TSR	Fair value of share awards at grant date	Expected vesting EPS	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date
	CHF			CHF					CHF
LTIP 2008	137.60	85 011	50%	5 848 757	100.00%	100%	3%	97.00%	5 673 294
LTIP 2009	106.10	121 356	50%	6 437 936	45.40%	100%	3%	44.04%	2 835 138

Vesting conditions	Market price	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date
	CHF				CHF				CHF
LTIP 2010 TSR	75.65	73 855	50%		2 793 565	100%	n.a.	100.00%	2 793 565
LTIP 2010 EVA	75.65	73 856		50%	2 793 603	100%	0%	100.00%	2 793 603
LTIP 2011 TSR	74.35	76 038	50%		2 826 713	100%	3%	97%	2 741 911
LTIP 2011 EVA	74.35	76 039		50%	2 826 750	100%	3%	97%	2 741 947

Development of long-term incentive plan 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
LTIP 2008	84 417	0	0	0	(84 417)	0
LTIP 2009	121 356	0	0	0	0	121 356
LTIP 2010	147 711	0	0	0	0	147 711
LTIP 2011	0	152 077	0	0	0	152 077
Total shares	353 484	152 077	0	0	(84 417)	421 144

Development of long-term incentive plan 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
LTIP 2007	80 100	0	0	(28 076)	(52 024)	0
LTIP 2008	84 417	0	0	0	0	84 417
LTIP 2009	121 356	0	0	0	0	121 356
LTIP 2010	0	147 711	0	0	0	147 711
Total shares	285 873	147 711	0	(28 076)	(52 024)	353 484

The estimated fair value of the share awards granted in 2011 was CHF 37.18 (2010: CHF 37.82). No share awards were vested in 2011. The weighted average share price of the vested shares in 2010 was CHF 77.10. The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 41.98 (2010: CHF 50.45) and a remaining weighted average contractual life of 15 months (2010: 15 months).

The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected dividend was not incorporated in the calculation of fair value.

In January 2010, the Nomination and Compensation Committee reviewed the interpretation of the conditions for minimum vesting under the LTIP 2007, 2008 and 2009. It was not stated precisely if both the minimum targets for the TSR section of the LTIP and the EPS section of the LTIP needed to be met for any vesting at all to occur in either of the two sections of the LTIP. The Nomination and Compensation Committee clarified that attainment of the minimum target in one of the two sections was sufficient for vesting to begin in the respective section, irrespective of target attainment in the other section. That is, the two sections based on TSR and EPS targets are independent. This clarification resulted in a fair value adjustment of CHF 3 304 536 for the LTIP 2007 and none for the LTIP 2008 and 2009. These costs were fully expensed in 2010.

Fair value at grant date	CHF
LTIP 2008	5 848 757
LTIP 2009	6 437 936
LTIP 2010	5 587 168
LTIP 2011	5 653 463

Long-Term Incentive Plan for members of the Management Committee named “Bridge the Gap (MC shares)” The LTIP plan did not provide any payouts for the Management Committee until 2009. Therefore, a three-year “Bridge the Gap” plan was also launched in 2006. This plan provides share grants for the Management Committee. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. The share awards were granted from January 2006 until January 2008 and will vest over a one- to three-year period (title and ownership of the shares will only be received after the respective vesting periods). The MC shares are subject to a restriction period. During the restriction period, a MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period. New entrants have a pro-rata share entitlement with a partially shortened restriction period.

Non-vested shares	Grant date	Share price	Granted share awards	Vesting date
MC shares 2008	31 01 2008	137.60	5 155	31 01 2011
MC shares 2009	31 07 2009	105.90	472	31 07 2012
MC shares 2010	01 04 2010	85.95	1 242	31 01 2011

Development of long-term incentive plan for Management Committee 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
MC shares 2008	5 155	0	0	(5 154)	(1)	0
MC shares 2009	472	0	0	0	0	472
MC shares 2010	1 242	0	0	(1 242)	0	0
Total non-vested shares	6 869	0	0	(6 396)	(1)	472

Development of long-term incentive plan for Management Committee 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
MC shares 2007	5 921	0	0	(5 920)	(1)	0
MC shares 2008	7 733	0	0	(2 578)	0	5 155
MC shares 2009	472	0	0	0	0	472
MC shares 2010	0	2 484	0	(1 242)	0	1 242
Total non-vested shares	14 126	2 484	0	(9 740)	(1)	6 869

No share awards were granted in 2011. The estimated fair value of the share awards granted in 2010 was CHF 85.95. The weighted average share price of the vested shares in 2011 was CHF 127.57 (2010: CHF 118.92). The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 105.90 (2010: CHF 126.08) and a remaining weighted average contractual life of 7 months (2010: 2 months).

The fair value was calculated using the market price at grant date. The amounts for shares were expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 0% (2010: 0%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
MC shares 2008	1 418 794
MC shares 2009	49 985
MC shares 2010	213 500

Other share plans In recognition of the extraordinary efforts by employees to ensure successful integration of new businesses, the Lonza Management Committee has decided to provide a one-time award of Lonza shares if certain service-related conditions are achieved. The employees will only receive title and ownership of the shares after a minimum one-year vesting period and only if the conditions of vesting are fully or partially met. In addition, in recognition of extraordinary efforts on the part of employees for successful completion of projects or successful settlements, the Lonza Management Committee has the ability to provide a one-time award of Lonza shares.

Non-vested shares	Grant date	Share price	Granted share awards	Vesting date
Arch Acquisition Team	21 10 2011	56.40	9 576	21 10 2011
Other awards 2011	20 01 2011	69.95	458	20 01 2011
Other awards 2008	01 09 2008	156.70	479	01 09 2011

Development of the other share plans 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
Arch Acquisition Team	0	9 576	0	(9 576)	0	0
Other awards 2011	0	458	0	(458)	0	0
Other awards 2008	0	479	0	(479)	0	0
Total non-vested shares	0	10 513	0	(10 513)	0	0

The estimated fair value of the share awards granted in 2011 was CHF 61.56. The weighted average share price of the vested shares in 2011 was CHF 61.56. No share awards were outstanding at 31 December 2011.

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 0% in 2011. The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Arch Acquisition Team	540 086
Other awards 2011	32 037
Other awards 2008	75 059

A total of 161 634 treasury shares (2010: 381 648) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

Compensation for Board of Directors The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40%. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20%. They are blocked for a period of three years and are eligible for a dividend. Access to these shares is only available in the fourth or later years.

Development of compensation for Board of Directors 2011	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2011	5 334	77.12	411 358	150 000	561 358	31 03 2014
	30 06 2011	6 845	62.34	426 717	230 000	656 717	30 06 2014
	30 09 2011	8 118	55.78	452 822	180 000	632 822	30 09 2014
	31 12 2011	7 198	54.80	394 450	245 000	639 450	31 12 2014
Total		27 495	61.30	1 685 347	805 000	2 490 347	

The amount of CHF 2 490 347 was recognized as an expense in the year 2011.

Development of compensation for Board of Directors 2010	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2010	4 781	86.02	411 262	150 000	561 262	31 03 2013
	30 06 2010	5 494	75.22	413 259	150 000	563 259	30 06 2013
	30 09 2010	4 899	84.36	413 280	150 000	563 280	30 09 2013
	31 12 2010	5 404	76.46	413 190	150 000	563 190	31 12 2013
Total		20 578	80.23	1 650 991	600 000	2 250 991	

The amount of CHF 2 250 991 was recognized as an expense in the year 2010.

Development of compensation for Board of Directors 2009	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2009	3 922	113.42	444 833	175 000	619 833	31 03 2012
	30 06 2009	4 282	106.70	456 889	175 000	631 889	30 06 2012
	30 09 2009	4 073	112.20	456 990	175 000	631 990	30 09 2012
	31 12 2009	6 295	72.26	454 877	175 000	629 877	31 12 2012
Total		18 572	97.65	1 813 589	700 000	2 513 589	

The amount of CHF 2 513 589 was recognized as an expense in the year 2009.

Development of compensation for Board of Directors 2008	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		13 985	123.94	1 733 264	670 000	2 403 264	

The amount of CHF 2 403 264 was recognized as an expense in the year 2008.

¹ Excluding social security and withholding tax

Other share-based payments A consulting agreement was signed by Lonza Ltd in 2010. The agreement allows the consultant to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40%. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20%. They are blocked for a period of three years and are eligible for a dividend. Access to these shares is only available in the fourth and later years.

Development of compensation for consulting agreement 2011	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2011	571	77.12	44 036	25 000	69 036	31 03 2014
	30 06 2011	707	62.34	44 074	25 000	69 074	30 06 2014
	30 09 2011	790	55.78	44 066	25 000	69 066	30 09 2014
	31 12 2011	804	54.80	44 059	25 000	69 059	31 12 2014
Total		2 872	61.36	176 235	100 000	276 235	

The amount of CHF 276 235 was recognized as an expense in the year 2011.

Development of compensation for consulting agreement 2010	Grant date	Total number of shares	Share price CHF	Fair values of shares	¹ Cash CHF	Total CHF	Blocked until
	31 03 2010	514	86.02	44 214	25 000	69 214	31 03 2013
	30 06 2010	588	75.22	44 229	25 000	69 229	30 06 2013
	30 09 2010	524	84.36	44 205	25 000	69 205	30 09 2013
	31 12 2010	579	76.46	44 270	25 000	69 270	31 12 2013
Total		2 205	80.23	176 918	100 000	276 918	

The amount of CHF 276 918 was recognized as an expense in the year 2010.

Recognition in the Consolidated Financial Statements The equity-settled share-based payments had an impact on the 2011 "Profit before income taxes" amounting to an expense of CHF 4.5 million (2010: CHF 8.9 million).

¹ Excluding social security and withholding tax

26 **Changes in Shares and Share Capital Movements**

	31 12 2011	Change in year	31 12 2010	Change in year	31 12 2009
Number of shares					
Total number of shares	52 920 140	0	52 920 140	0	52 920 140
Treasury shares					
Shares reserved for share option plan (LOSOP)	0	0	0	(148 349)	148 349
Shares reserved for share purchase plan (ESPP)	66 509	5 454	61 055	7 261	53 794
Shares reserved for long-term incentive plan (LTIP)	161 634	(6 396)	168 030	(37 816)	205 846
Free shares	1 079 201	865 583	213 618	(64 751)	278 369
Total treasury shares	1 307 344	864 641	442 703	(243 655)	686 358
Total shares ranking for dividend at 31 December	51 612 796	(864 641)	52 477 437	243 655	52 233 782
Transferred shares between January and date of dividend payment of following year	n.a.		(965 796)		177 116
Total shares ranking for dividend at date of dividend payment	n.a.		51 511 641		52 410 898
Share capital movements					
Share capital	CHF 52 920 140	0	52 920 140	0	52 920 140

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

Hedging reserve The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred at the balance sheet date.

Dividend A dividend per share of CHF 2.15 (2010: CHF 2.15) is proposed after the balance sheet date.

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

Authorized capital The Board of Directors shall be authorized to increase, at any time until 12 April 2013, the share capital of Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 5 029 860. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association.

At 31 December 2011, Lonza Group Ltd had a fully paid in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860.

27 Earnings per Share

Basic earnings per share million CHF		2011	2010
Profit for the period (equity holders of the parent)		154	291
Weighted average number of outstanding shares		51 632 876	52 410 459
Basic earnings per share	CHF	2.98	5.55
Diluted earnings per share			
Profit for the period (equity holders of the parent)		154	291
– Impact from dilution		0	0
Diluted profit for the period		154	291
Weighted average number of outstanding shares		51 632 876	52 410 459
– Adjustments for dilutive options and shares		219 873	226 400
Weighted average number of shares for diluted earnings per share		51 852 749	52 636 859
Diluted earnings per share	CHF	2.97	5.53
Dividends paid of the period		111	92
Dividends per share of the period	CHF	2.15	1.75
Dividends declared after the balance sheet date		111	113
Dividends per share declared after the balance sheet date	CHF	2.15	2.15

28 **Related Parties**

Identity of related parties The Group has a related-party relationship with associates, joint ventures (see note 8) as well as with the Board of Directors and the members of the Management Committee.

Transactions with Key Management Personnel

Board of Directors In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million¹ (2010: CHF 2.503 million¹), 63.56% (2010: 65.96%) of which was received in the form of shares. The compensation system for Board members allows them to choose either a payment in shares or a combination of cash and shares. Shares granted are rated at the relevant market price at grant date. Free access to these shares is only available in the fourth and later years.

Members of the Board of Directors and their immediate relatives control 112 574 or 0.21% (2010: 0.17%) of the voting shares of Lonza Group Ltd. None of the directors owns shares in the Group's subsidiaries or associates.

Management Committee compensation None of the acting members of the Management Committee gave up his or her function in the year under review, two new members joined the Management Committee. The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million¹ (2010: CHF 5.195 million¹) in cash and additional benefits and 73 107 shares (2010: 62 923 shares), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million).

The compensation for the Board of Directors and the Management Committee was as follows:

million CHF	2011	2010
Short-term benefits ¹	4.832	4.569
Post-employment benefits ²	0.390	0.375
Other benefits	1.072	0.727
Severance payments	0.113	0.376
Share- / option-based payments	4.689	4.151
Total	11.096	10.198

The remuneration is included in "Personnel expenses", see note 19. For detailed information, please refer to Note 33.

In 2011 Lonza granted a loan of CHF 1.19 million to a member of the Management Committee, for which Lonza charges floating interest rates at market conditions.

¹ Including incentive payout in March of the following year

² Including contribution for social security and pension fund

Key Assumptions and Sources of Estimation Uncertainty

Use of estimates The preparation of the financial statements and related disclosures in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for allowances for uncollectible receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

The key assumptions about the future key sources of estimation uncertainty that entail a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are described below.

Environmental provisions Lonza is exposed to environmental liabilities and risks relating to its past operations, principally in respect of provisions for remediation costs, which at 31 December 2011 amounted to CHF 50 million (2010: CHF 16 million), as disclosed in note 13. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures.

Lonza believes that its provisions are adequate, based upon currently available information; however, given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred beyond the amounts provided. Due to the uncertainty both of the amount and timing of future expenses, the provisions provided for environmental remediation costs could be affected in future periods.

Income taxes At 31 December 2011, deferred tax assets of CHF 167 million (2010: CHF 103 million), current tax receivables of CHF 41 million (2010: CHF 32 million), deferred tax liabilities of CHF 711 million (2010: CHF 321 million) and current tax payables of CHF 28 million (2010: CHF 38 million) were disclosed in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities

for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

Pensions Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined benefit obligation is influenced by assumptions, on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2011, the present value of the Group's defined benefit obligation is CHF 2 375 million (2010: CHF 1 592 million) for funded plans and CHF 19 million (2010: CHF 16 million) for unfunded plans. The plan assets at fair value amount to CHF 2 001 million (2010: CHF 1 409 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 393 million (2010: CHF 199 million) (see note 24).

The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants and other changes in the factors being assessed. These differences could affect the assets or liabilities recognized in the balance sheet in future periods.

Impairment test of property, plant and equipment, intangible assets and goodwill The Group has carrying values with regard to property, plant and equipment of CHF 2 701 million (2010: CHF 2 470 million), goodwill of CHF 1 132 million (2010: CHF 410 million) and intangible assets of CHF 930 million (2010: CHF 244 million) (see notes 6 and 7). The intangible assets include trademarks acquired through a business combination with a carrying value of CHF 369 million (2010: CHF 25 million) which have an indefinite useful life and are not systematically amortized. All of these assets are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment. The impairment calculation as explained in note 7 is sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in note 7.

Business combinations Where the Group enters into a business combination, the consideration transferred has to be allocated to the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business, with any residual recorded as goodwill. The process of assessing fair values requires in particular management involvement and judgment in the recognition and measurement of the following items:

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

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

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

Revenue recognition The Group has recognized revenue for sales of goods during 2011 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experiences with similar transactions, the quality delivered will be accepted. Therefore it is appropriate to recognize revenue on these transactions during 2011. Moreover, the Group has various contract agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to Management's judgments, risks and rewards have been transferred to the customer. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

30 **Events after the Balance Sheet Date**

On 25 January 2012, the Group announced a change in the Chief Executive Officer position, and that during the transition the Chairman will co-ordinate the Management Committee. The Board of Directors authorized the consolidated financial statements for issue on 24 February 2012.

31 **Financial Risk Management**

31.1 **Overall Risk Management Policy**

Lonza is exposed in particular to credit and liquidity risk as well as to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities, and forecasted transactions.

Lonza's overall risk management policy aims to limit these risks through operational and finance activities.

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

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

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

31.2 **Credit Risk**

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

Accounts Receivables

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

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

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

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

Financial Instruments and Cash Deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's treasury policy. The credit rating of Lonza Group's counterparties must be at least:

- Standard & Poor's: A
- Moody's: A1

Counterparty credit ratings are reviewed regularly.

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

million CHF	2011	2010
Financial assets – available for sale		
Other investments – available for sale – carried at cost	6	6
Short-term financial assets – available for sale – at fair value ¹	26	33
Total financial assets – available for sale	32	39
Loans and receivables		
Trade receivables, net	695	488
Other receivables and accrued income	69	43
Short-term advances	2	1
Long-term loans and advances	56	43
Cash and cash equivalents	196	248
Total loans and receivables	1 018	823
Financial assets at fair value through profit or loss – held for trading		
Currency-related instruments	4	22
Total financial assets at fair value through profit or loss – held for trading	4	22
Total	1 054	884

¹ Included in "Other receivables" (see note 11)

31.3 Liquidity Risk

Liquidity risk is the risk that Lonza will not be able to meet its financial obligations as they fall due. Lonza's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza's reputation. Group Treasury maintains flexibility in funding also using bilateral credit lines. Lonza concludes the following lines of credit:

- Committed credit lines of CHF 382 million. Lines are committed for up to two years
- Uncommitted credit lines of CHF 319 million with a maturity of one year

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

31 December 2011 million CHF	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	299	322	11	311	0	0
Straight bond (2010–2016)	398	460	12	12	436	0
Straight bond (2011–2015)	238	262	5	5	252	0
Straight bond (2011–2018)	138	171	4	4	13	150
Syndicated loan (2011–2016)	491	550	10	10	530	0
Arch acquisition bridge financing	897	974	71	490	413	0
Due to banks and financial institutions	141	160	51	24	85	0
Due to others	296	370	19	9	26	316
Leasing	3	3	3	0	0	0
Total debt	2 901	3 272	186	865	1 755	466
Trade payables	294	294	294	0	0	0
Other short-term liabilities	407	407	407	0	0	0
Total financial liabilities	3 602	3 973	887	865	1 755	466

31 December 2010 million CHF	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	298	333	11	11	311	0
Straight bond (2010–2016)	397	472	12	12	36	412
Syndicated loan (2006–2011)	499	515	515	0	0	0
Due to banks	61	63	46	17	0	0
Due to others	139	193	3	3	9	178
Leasing	6	7	4	3	0	0
Total debt	1 400	1 583	591	46	356	590
Trade payables	159	159	159	0	0	0
Other short-term liabilities	307	307	307	0	0	0
Total financial liabilities	1 866	2 049	1 057	46	356	590

31.4 Market Risk

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

Foreign exchange risk Lonza is exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions are primarily denominated are USD, EUR, GBP, SGD and BRL.

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

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

Currency million CHF	Sensitivity	Post-tax profit				Equity			
		2011		2010		2011		2010	
		+	-	+	-	+	-	+	-
USD	+/-10%	4.8	(4.8)	7.1	(7.1)	0.3	(0.3)	0.1	(0.1)
EUR	+/-5%	1.2	(1.2)	0.1	(0.1)	0.1	(0.1)	0.0	0.0
GBP	+/-10%	(0.2)	0.2	0.5	(0.5)	0.0	0.0	0.0	0.0
JPY	+/-5%	0.0	0.0	(0.2)	0.2	0.0	0.0	0.0	0.0
BRL	+/-10%	1.8	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0

Lonza's exposure to foreign currency risk was as follows, based on notional amounts:

31 December 2011	USD	GBP	EUR	CHF	JPY	BRL	SGD	CZK	Other	Total
million CHF										
Other investments	0	0	0	0	0	0	0	0	0	0
Long-term loans and advances	53	0	0	0	0	0	0	0	2	55
Trade receivables, net	208	28	79	1	0	23	0	0	6	345
Other receivables, prepaid expenses and accrued income	7	11	11	0	0	0	2	0	0	31
Short-term advances	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	35	1	24	0	0	7	1	0	5	73
Long-term debt ¹	(22)	0	(2)	0	0	0	0	0	0	(24)
Other long-term liabilities	0	0	0	0	0	(1)	(2)	0	0	(3)
Other short-term liabilities	(92)	(46)	(34)	(11)	0	(4)	(2)	0	0	(189)
Trade payables	(13)	(2)	(25)	0	0	(4)	(9)	0	0	(53)
Short-term debt ¹	(14)	0	0	0	0	0	0	0	0	(14)
Gross balance sheet exposure	162	(8)	53	(10)	0	21	(10)	0	13	221
Currency-related instruments	(106)	6	(26)	0	0	0	0	0	0	(126)
Net exposure	56	(2)	27	(10)	0	21	(10)	0	13	95

31 December 2010	USD	GBP	EUR	CHF	JPY	BRL	SGD	CZK	Other	Total
million CHF										
Other investments	0	0	0	0	0	0	0	0	0	0
Long-term loans and advances	40	0	0	0	0	0	0	0	0	40
Trade receivables, net	115	26	57	1	0	0	0	0	1	200
Other receivables, prepaid expenses and accrued income	1	0	3	0	0	0	0	1	2	7
Short-term advances	1	0	0	0	0	0	0	0	0	1
Cash and cash equivalents	59	3	5	0	0	0	0	0	0	67
Long-term debt	(16)	0	0	0	0	0	0	0	0	(16)
Other long-term liabilities	0	0	0	0	0	0	0	0	(2)	(2)
Other short-term liabilities	(25)	(22)	(27)	0	(3)	0	0	(2)	(5)	(84)
Trade payables	(10)	(1)	(13)	0	(2)	0	0	0	(8)	(34)
Short-term debt	(16)	0	0	0	0	0	0	0	0	(16)
Gross balance sheet exposure	149	6	25	1	(5)	0	0	(1)	(12)	163
Estimated forecast purchases	(41)	0	0	0	0	0	0	0	0	(41)
Currency-related instruments	(25)	0	(24)	0	1	0	2	12	0	(34)
Net exposure	83	6	1	1	(4)	0	2	11	(12)	88

¹ The acquisition bridge financing was raised in USD by Lonza Swiss Finance Ltd, which granted a USD loan of the same amount to Lonza America Inc. As a result, there is no foreign currency exposure in the consolidated income statement associated to the acquisition bridge financing.

The following exchange rates were applied during the year:

Balance sheet year-end rates		2011	2010
EU	Euro	1.2163	1.2511
USA	Dollar	0.9416	0.9369
Great Britain	Pound sterling	1.4517	1.4489
Singapore	Singapore dollar	0.7243	0.7309
China	Renminbi	0.1496	0.1421

Income statement year-average rates		2011	2010
EU	Euro	1.2329	1.3824
USA	Dollar	0.8866	1.0427
Great Britain	Pound sterling	1.4213	1.6105
Singapore	Singapore dollar	0.7047	0.7647
China	Renminbi	0.1372	0.1540

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

Lonza's exposure to interest risk was as follows, based on significant carrying amounts outlined in note 14:

Borrowings denominated in: million CHF	Total debt		Debt at fixed interest rates		Interest risk exposure	
	2011	2010	2011	2010	2011	2010
CHF	1 580	1 199	1 564	1 193	16	6
USD	1 296	175	234	0	1 062	175

The table below shows the impact on post-tax profit and equity, if at 31 December interest rates had been 100 basis points higher (+) or lower (-) with all other variables held constant:

Borrowings denominated in: million CHF	Sensitivity	Post-tax profit ¹				Equity			
		2011		2010		2011		2010	
		+	-	+	-	+	-	+	-
		CHF	+/-1%	0.0	0.0	0.0	0.0	0.0	(12.2)
USD	+/-1%	(9.1)	9.1	(1.5)	1.5	0.0	0.0	0.0	0.0

Commodity price risk Lonza needs LPG as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the butane price risk via swaps. At 31 December 2011, if the Butane price had weakened/strengthened by 10%, with all other variables held constant, there would have been no impact on equity (2010: CHF 0.7 million lower/higher).

31.5 Overview of Derivative Financial Instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2011 and 2010. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by using the difference of the prices fixed in the outstanding derivative contracts from the actual market conditions which would have been applied at the year-end if we had to recover these trades.

Financial instruments at fair value through profit or loss – held for trading million CHF	2011	2010	2011	2010	2011	2010	2011	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	92	15	2	1	(1)	0	1	1
– Currency swaps	581	502	2	20	(15)	(3)	(13)	17
– FX Options	0	45	0	1	0	0	0	1
Total currency-related instruments	673	562	4	22	(16)	(3)	(12)	19
Interest-related instruments								
– Interest rate swaps	528	0	0	0	(3)	0	(3)	0
– Cross currency interest rate swaps	380	0	0	0	(18)	0	(18)	0
Total interest-related instruments	908	0	0	0	(21)	0	(21)	0
Total financial instruments at fair value through profit or loss – held for trading	1 581	562	4	22	(37)	(3)	(33)	19

¹ Impact on post-tax profit from CHF borrowings is not disclosed as it is not material

Financial instruments effective for hedge-accounting purposes million CHF	2011	2010	2011	2010	2011	2010	2011	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– US dollar cash deposit	0	41	0	0	0	(1)	0	(1)
– Forward foreign exchange rate contracts	143	23	0	1	(3)	0	(3)	1
Total currency-related instruments	143	64	0	1	(3)	(1)	(3)	0
Interest-related instruments								
– Interest rate swaps	0	500	0	0	0	(12)	0	(12)
Total interest-related instruments	0	500	0	0	0	(12)	0	(12)
Commodity-related instruments								
– Butane swap	10	7	0	1	0	0	0	1
– Naphtha swap	18	7	0	2	0	0	0	2
Total commodity-related instruments	28	14	0	3	0	0	0	3
Total financial instruments effective for hedge-accounting purposes	171	578	0	4	(3)	(13)	(3)	(9)

Financial instruments by currency Forward foreign exchange rate contracts and currency swaps million CHF	2011	2010
USD	638	498
GBP	29	17
EUR	111	67
CZK	29	34
JPY	1	2
DKK	6	6
SGD	2	2
Total	816	626
Commodity swap	28	14
Interest rate swap	528	500
Cross currency interest rate swap	380	0
Total financial instruments	1 752	1 140

Positive fair values of derivatives are included in the balance sheet caption “Other receivables, prepaid expenses and accrued income”. Negative fair values of derivatives are included in the balance sheet caption “Other short-term liabilities”.

The following hedges were included:

- Cash flow hedges on highly probable payments in foreign currency
- Cash flow hedges on highly probable payments for raw materials (butane)
- Fair value hedges on firm commitments for raw materials (naphtha)

31.6 Financial Instruments Carried at Fair Value

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

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

million CHF	2011				2010			
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	4	0	4	0	26	0	26
Short-term financial assets	26	0	0	26	33	0	0	33
Liabilities								
Derivative financial instruments	0	(40)	0	(40)	0	(15)	0	(15)
Net assets and liabilities measured at fair value	26	(36)	0	(10)	33	11	0	44

In 2011, 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.

31.7 Carrying Amounts and Fair Values of Financial Instruments by Category

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

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

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

Carrying amounts and fair values of financial instruments by category million CHF	31 12 2011	31 12 2010	31 12 2011	31 12 2010
	Carrying amount		Fair value	
Financial assets – available for sale				
Other investments – available for sale – carried at cost	6	6	6	6
Short-term financial assets – available for sale – at fair value ¹	26	33	26	33
Total financial assets – available for sale	32	39	32	39
Loans and receivables				
Trade receivables, net	695	488	695	488
Other receivables and accrued income	69	43	69	43
Short-term advances	2	1	2	1
Long-term loans and advances	56	43	56	43
Cash and cash equivalents	196	248	196	248
Total loans and receivables	1 018	823	1 018	823
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	4	22	4	22
Total financial assets at fair value through profit or loss – held for trading	4	22	4	22
Financial liabilities at amortized cost				
Long-term debt	2 725	850	2 764	880
Other short-term liabilities	391	304	391	304
Trade payables	294	159	294	159
Short-term debt	176	550	176	550
Total financial liabilities at amortized cost	3 586	1 863	3 625	1 893
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	16	3	16	3
Interest-related instruments	21	0	21	0
Total financial liabilities at fair value through profit or loss – held for trading	37	3	37	3

¹ Included in "Other receivables" (see note 11)

31.8 **Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital and the level of dividends to ordinary shareholders.

At present, employees hold one percent of ordinary shares, or just under three percent, assuming that all outstanding share awards vest.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10% and 15%; in 2011, the return was 6.9% (2010: 11.7%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.8% (2010: 3.2%).

From time to time, Lonza purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for Lonza's share programs. Lonza does not have a defined share buy-back plan¹.

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

32 **Segment Information**

32.1 **General Information**

According to the requirements of the standard IFRS 8 "Operating Segments", Lonza identified the following four operating segments:

- Custom Manufacturing
- Life Science Ingredients
- Microbial Control
- Bioscience

which are described as follows:

¹ On 27 January 2011, Lonza announced the purchase of up to one million Lonza shares within a period of one year.

The **Custom Manufacturing** segment is the partner to pharmaceutical and biopharmaceutical customers for their manufacturing needs. Using a variety of technologies, ingredients are manufactured for ultimate use in many critical drugs, treating patients in areas such as cardiovascular diseases, cancer, neurological and infectious diseases. Its product capabilities include both small and large molecules, resulting from technology processes such as chemical synthesis, peptide synthesis, biotransformation, microbial fermentation and mammalian cell culture.

The **Life Science Ingredients** segment offers products used in nutrition and in selected industrial markets. The customers of this business segment are manufacturers of consumer and health products, distributors, formulators and service companies. The ingredients range from nutritional ingredients to complex chemical intermediates for the agricultural industry.

The **Microbial Control** segment formed by the acquisition of Arch Chemicals will provide customers with complete solutions for their microbial control needs. Microbial control deals with hygiene and preservation, water treatment, materials protection, personal care and wood treatment.

The **Bioscience** segment offers tools that life-science customers use to discover, develop, make and test therapeutics. Its customers are worldwide pharmaceutical and biotechnology companies, as well as academic and government research organizations. Bioscience's products range from cell culture and molecular biology tools for life-science research, to media used in the production of therapeutics and tests for microbial detection.

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

32.2 **Information about Reportable Segments**

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

Year ended 31 December 2011 million CHF	Custom Manu- facturing	Life Science Ingredients	Microbial Control	Bioscience	Total operating segments	Corporate / Eliminations	Group total
Sales third-party	1 297	697	486	202	2 682	10	2 692
Inter-segment sales ¹	52	65	12	11	140	(140)	0
Total sales	1 349	762	498	213	2 822	(130)	2 692
Result from operating activities (EBIT)	228	40	(8)	13	273	(12)	261
– Percentage return on sales %	17.6	5.7	(1.6)	6.4	10.2	n.a.	9.7
Financial income							18
Financial expenses							(91)
Net financing costs							(73)
Share of profit/ (loss) of associates/ joint ventures							(13)
Profit before income taxes							175
Income taxes							(21)
Profit for the period							154
Included in result from operating activities (EBIT):							
– Other operating income	15	18	3	2	38	4	42
– Other operating expenses	(9)	(2)	(5)	(2)	(18)	(4)	(22)
– Research and development	118	24	11	15	168	3	171
– Depreciation and amortization	165	65	22	15	267	9	276
Total assets	2 852	1 035	2 692	780	7 359	(339)	7 020
Total liabilities	1 433	878	1 304	519	4 134	530	4 664
Total equity	1 419	157	1 388	261	3 225	(869)	2 356
Net financial (assets)/liabilities	620	739	657	414	2 430	881	3 311
Net capital invested ²	2 039	896	2 045	675	5 655	12	5 667
Return on net capital invested (RONOA) ³ %	12.2	4.6	1.3	4.3	7.3	n.a.	6.9
Included in total reportable segment assets:							
Total property, plant and equipment	1 448	720	350	153	2 671	30	2 701
– Additions to property, plant and equipment	86	92	21	44	243	5	248
– Additions to property, plant and equipment from acquisitions	0	0	227	0	227	0	227
Total goodwill and intangible assets	139	8	1 432	468	2 047	15	2 062
– Additions to intangible assets	1	4	1	6	12	7	19
– Additions to goodwill and intangible assets from acquisitions	0	0	1 366	0	1 366	0	1 366
Investments in associates/ joint ventures	0	0	2	0	2	12	14
– Additions to investment in associates/ joint ventures	0	0	0	0	0	0	0
– Additions to investment in associates / joint ventures from acquisitions	0	0	2	0	2	0	2
Headcount	4 220	2 212	3 047	1 017	10 496	505	11 001
Average headcount	4 144	2 193	1 767	1 002	9 106	535	9 641

¹ Inter-segment sales were based on prevailing market prices.

² Net capital invested comprises all operating assets and goodwill less operating liabilities.

³ Calculated at historical monthly average rates based on net capital invested excluding goodwill.

Year ended 31 December 2010 million CHF	Custom Manu- facturing	*Life Science Ingredients	*Microbial Control	Bioscience	Total operating segments	Corporate / Eliminations	Group total
Sales third-party	1 445	707	313	211	2 676	4	2 680
Inter-segment sales ¹	35	146	11	11	203	(203)	0
Total sales	1 480	853	324	222	2 879	(199)	2 680
Result from operating activities (EBIT)	253	93	38	14	398	(24)	374
– Percentage return on sales %	17.5	13.2	12.1	6.6	14.9	n.a.	14.0
Financial income							6
Financial expenses							(49)
Net financing costs							(43)
Share of profit/ (loss) of associates/joint ventures							(1)
Profit before income taxes							330
Income taxes							(46)
Profit for the period							284
Included in result from operating activities (EBIT):							
– Other operating income	77	16	1	6	100	0	100
– Other operating expenses	(10)	(10)	(5)	(2)	(27)	(4)	(31)
– Research and development	87	25	10	15	137	4	141
– Depreciation and amortization	173	61	14	16	264	9	273
– Reversal of impairment	0	0	0	4	4	0	4
– Restructuring (expenses)/income	5	(6)	0	0	(1)	(3)	(4)
– Environmental (expenses)/income	0	7	0	0	7	0	7
Total assets	2 816	965	437	744	4 962	(184)	4 778
Total liabilities	1 445	796	296	459	2 996	(605)	2 391
Total equity	1 371	169	141	285	1 966	421	2 387
Net financial (assets)/liabilities	654	657	37	357	1 705	(404)	1 301
Net capital invested ²	2 025	826	178	642	3 671	17	3 688
Return on net capital invested (RONOA) ³ %	12.1	11.3	19.2	4.2	11.6	n.a.	10.8
Included in total reportable segment assets:							
Total property, plant and equipment	1 532	683	108	114	2 437	33	2 470
– Additions to property, plant and equipment	128	114	12	28	282	3	285
– Additions to property, plant and equipment from acquisitions	0	0	0	1	1	0	1
Total goodwill and intangible assets	144	5	14	477	640	14	654
– Additions to intangible assets	1	0	1	5	7	8	15
– Additions to goodwill and intangible assets from acquisitions	0	0	0	29	29	0	29
Investments in associates/joint ventures	0	0	0	0	0	19	19
– Additions to investment in associates/joint ventures	0	0	0	0	0	1	1
Headcount	4 069	2 174	485	987	7 715	565	8 280
Average headcount	4 096	2 255	462	967	7 780	553	8 333

¹ Inter-segment sales were based on prevailing market prices.

² Net capital invested comprises all operating assets and goodwill less operating liabilities.

³ Calculated at historical monthly average rates based on net capital invested excluding goodwill.

* Due to the introduction of "Microbial Control" as a new business segment in 2011, the disclosure of the segment information in 2010 was restated, accordingly.

32.3 Measurement of Operating Segment Profit or Loss

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

32.4 Geographical Information

Year ended 31 December 2011 million CHF	Revenue from external customers (Sales)	Non-current assets				Total
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	
Switzerland	374	1 007	47	15	39	1 108
Spain	16	151	0	0	7	158
Czech Republic	5	110	0	0	0	110
Belgium	22	64	1	86	0	151
United Kingdom	151	61	1	17	0	79
Germany	150	13	45	71	0	129
France	136	1	3	11	0	15
Rest of Europe	196	7	2	23	0	32
Europe	1 050	1 414	99	223	46	1 782
United States	1 141	689	770	900	60	2 419
Rest of North America	60	0	0	0	0	0
North America	1 201	689	770	900	60	2 419
Latin America	47	14	0	0	4	18
Singapore	29	302	60	0	4	366
China	110	268	1	4	8	281
Japan	83	1	0	0	0	1
India	75	4	0	3	0	7
Rest of Asia	60	0	0	0	0	0
Asia	357	575	61	7	12	655
Other countries	37	9	0	2	0	11
Total	2 692	2 701	930	1 132	122	4 885

Year ended 31 December 2010 million CHF	Revenue from external customers (Sales)	Non-current assets				Total
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	
Switzerland	339	1 023	45	15	25	1 108
Spain	29	179	1	0	8	188
Czech Republic	5	132	0	0	0	132
Belgium	25	64	1	88	0	153
United Kingdom	147	46	1	17	0	64
Germany	194	17	49	73	0	139
France	170	0	1	11	0	12
Rest of Europe	283	2	3	24	0	29
Europe	1 192	1 463	101	228	33	1 825
United States	1 019	521	80	173	3	777
Rest of North America	31	0	0	0	0	0
North America	1 050	521	80	173	3	777
Latin America	42	0	0	0	0	0
Singapore	42	281	61	0	4	346
China	109	203	1	4	8	216
Japan	93	0	1	0	1	2
India	85	2	0	3	0	5
Rest of Asia	45	0	0	0	0	0
Asia	374	486	63	7	13	569
Other countries	22	0	0	2	0	2
Total	2 680	2 470	244	410	49	3 173

32.5 Information about Major Customers

In 2011, Lonza's largest customer accounts for 8.5% and the second, third, fourth and fifth largest ones for 6.5%, 4.8%, 3.7% and 3.6% in relation to sales. No other customer accounts for 3.0% or more of Lonza's sales. All of the five largest customers relate to the Custom Manufacturing segment, except for the second largest which relates to Life Science Ingredients.

In 2010, Lonza's largest customer accounts for 7.0% and the second, third and fourth largest ones for 5.8%, 5.4% and 4.6% in relation to sales. No other customer accounts for 4.0% or more of Lonza's sales. All of the four largest customers relate to the Custom Manufacturing segment, except for the second largest which relates to Life Science Ingredients.

33 **Disclosures on Board and Management Compensation**

33.1 **Method of Determining Compensation and the Shareholding Programs**

The overall structure of compensation for the Management Committee originally implemented in 2006 remained largely unchanged again in 2011. Base salary targets levels around the average for the market as described below, with the potential for executives to earn above-average compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry. The comparison data reflect the compensation of the Senior Management and the members of the Management Committee in Switzerland and the northeast coast of the USA in the pharma and chemical industry and general industry in multinational organizations of a size comparable with Lonza. The reference data represent a direct market comparison in terms of the samples and the functions of the analyzed manager positions. At least two benchmark providers (in the year 2011: Towers Watson and Mercer) are used to draw the comparisons.

In 2011 the Board of Directors decided to reappraise the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of the same benchmark data as in 2006 (see above). It found that the Senior Management total compensation package was below the median of the relevant comparison market. For the management Committee Kepler Associates benchmarked the compensation against Swiss-listed companies of a similar size (peer group of 18 companies) and international sector comparators (peer group of 37 companies of the pharma and chemical industry). This survey showed that the remuneration of the members of the Management Committee is between median and lower quartile (50 percentile and 25 percentile of the benchmark). As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented.

The members of the Management Committee receive an annual base salary in cash. In addition, they are eligible for an annual incentive, the Short-Term Incentive (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive for Senior Management and Key Employees (LTIP).

For the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA) of the Group. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. (An exception, described in last year's report concerned the STIP 2010, which put a higher weight on the individual targets. In 2011, the STIP again puts a weight of at least 80 % on the EVA target). For the members of the Management Committee the overall STIP amount is targeted as a percentage of base salary ranging from 50 % to 70 %, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash.

The Extended Short-Term Incentive (E-STIP) was introduced because of the need to establish even more long-term orientation of the incentive system as well as with the aim of increasing the retention power of the compensation system. Senior Management as well as the members of the Management Committee are included in this plan. The value of the plan is strongly dependent on Lonza's and the executive's past as well as future performance. Specifically, first an amount equal to half of the STIP 2011 (which depends on financial and individual goals) is awarded to each member of the Management Committee in the form of restricted share units entitlements. Second, these restricted share units are subject to three-year vesting conditions. The grant of the restricted share units under the E-STIP 2011 will take place on 31 March 2012, at which date the number of restricted share units will be determined based on the closing stock price on that date. During the three-years vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

The LTIP is a stock bonus plan. The plan establishes targets for Total Shareholder Return (TSR) to exceed an index of industry peers by 9% per year on average over three years. The second target is Economic Value Added (EVA) to increase up to CHF 114.4 million over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 150% to 200% of base salary. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. Besides the members of the Management Committee, the upper management, as well as specialists and experts, are also included in this program and therefore in the company's mid-term and long-term goals.

The LTIP did not provide any compensation for the Management Committee until 2009, therefore a three-year "Bridge the Gap" plan was also launched in 2006. This plan provides share grants for the Management Committee. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. The share awards were granted from January 2006 until January 2008 and will vest over a one- to three-year period (title and ownership of the shares will only be received after the respective vesting period). The MC shares are subject to a restriction period. During the restriction period, an MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period. New entrants have a pro-rata share entitlement with partially shortened restriction period. This plan was terminated in 2010.

Members of the Management Committee receive customary additional benefits such as a company car, health insurance and in some cases contributions to children's education.

Board of Directors The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. The decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2011. The overall structure and level of compensation of the Board of Director has not changed since 2005. The high portion of the shares aligns significantly with the share price development. Our aim is to pay the members of the Board of Directors at the industry market average, drawing on data from studies on Swiss Leader Index (SLI) companies. In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million¹ (2010: CHF 2.503 million¹), 63.56% (2010: 65.96%) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40%. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20%. They are blocked for a period of three years and are eligible for a dividend. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

Board of Directors' compensation	2011				2010			
	² Cash payment CHF	Number of shares	³ Value of shares CHF	Total CHF	² Cash payment CHF	Number of shares	³ Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	194 350	5 806	356 288	550 638	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	116 875	4 898	306 885	423 760	100 000	4 672	374 864	474 864
Patrick Aebischer Member of the Board	117 222	3 448	211 592	328 814	123 956	2 656	213 078	337 034
Jean-Daniel Gerber Member of the Board	88 332	2 777	159 514	247 846				
Julia Higgins Member of the Board	192 500	3 207	196 797	389 297	192 500	2 452	196 743	389 243
Gerhard Mayr Member of the Board	120 763	3 332	207 155	327 918	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	136 161	4 027	247 116	383 277	144 218	3 098	248 541	392 759
Total	966 203	27 495	1 685 347	2 651 550	851 811	20 578	1 650 991	2 502 802

¹ Including social security and withholding tax

² All compensation amounts given in the Remuneration Report (both for the Board of Directors and the Management Committee) refer to gross payments, including social security and with-holding tax, except where stated otherwise. The accrual principle is applied.

³ The fair values were calculated using the market price at grant date, see note 25 in the Lonza Financial Report 2011.

In 2011, no member of the Board of Directors gave up his or her function, one new member was elected at the Annual General Meeting (2010: one member gave up his function, and no new member joined the Board of Directors). In 2011, there were 7 members on the Board (2010: 6 members). The average number of Board members during the year was 6.75 full-time equivalents (2010: 6.25 full-time equivalents).

Management Committee No member of the Management Committee gave up his or her function in the year under review. The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million¹ (2010: CHF 5.195 million¹) in cash and additional benefits, and 73 107 conditional LTIP shares (2010: 62 923 shares) and a number of restricted share units (the exact number will be determined in March 2012), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million). The restricted share units of the E-STIP and the conditional shares of the LTIP are subject to vesting conditions of three years. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 114.0% (2010: 123.6%)

Management Committee's compensation million CHF	2011	2010
Base salary ²	3.197	2.861
Incentive ³	0.942	1.156
Post-employment benefits ⁴	0.374	0.349
Other benefits ⁵	0.814	0.453
Severance payments ⁶	0.113	0.376
Share- / option-based payments		
Value of E-STIP restricted share units (number of share units 2011: will be determined in March 2012; 2010: n/a;)	0.421	0.0
Value of LTIP Bridge the Gap Shares (number of shares 2011: 0; 2010: 2 484)	0.0	0.214
Value of LTIP shares ⁷ (number of shares 2011:73 107; 2010: 60 439)	2.583	2.286
Total	8.444	7.695
Ratio of fixed compensation to the performance-related components of compensation	114.0%	123.6%

¹ Including social security and incentive paid in March of the following year

² 2010: 6 members, CEO included; 2011: 7 members, CEO included

³ Incentive (STIP) of the reporting year, paid in March of the following year

⁴ Social security and pension fund

⁵ Company car, health insurance and tuition. The table shows the fair value of these benefits. In 2011 two members of the MC moved to Asia and the USA. Therefore, the costs for insurances, tuition and housing (in case of international assignments) are higher than in the year before. Furthermore, two new members joined the MC.

⁶ This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the remuneration report.

⁷ The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

The employment agreements of the members of the Management Committee provide for notice periods between 12 and 18 months, except in one case where the notice period is 60 days.

In case of termination by the company without cause or due to the disability of a member of the Management Committee other than the CEO (who was terminated in January 2012, see page 194 of the remuneration report) or of resignation by the relevant member of the Management Committee for good reason (such as reduction of remuneration or demotion), such member of the Management Committee is entitled to a payment corresponding to a maximum of 18 months' base salary, and outplacement support and additional health insurance until a new employment is found, under the condition that the relevant member of the Management Committee executes a release in favor of the company.

In case of termination by the company without cause, the CEO and the Head of Human Resources (and the Nomination and Compensation Committee as regards E-STIP shares) may, at their discretion, decide the immediate vesting of the LTIP and E-STIP shares.

In case of termination due to the disability, death or retirement of a member of the Management Committee, the E-STIP and ESPP shares vest immediately. As far as the LTIP shares are concerned, a termination of the employment agreement due to disability or death results in 50 % of the shares being forfeited and the remaining 50 % shares vesting immediately.

Other than with respect to the CEO (see remuneration report page 194), the applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee as a result of a change of control, or if a member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) in such a context. All the shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately in such a case. In addition, the relevant member of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period, a cash amount equal to 100 % of the LTIP compensation during the notice period; and an outplacement support up to an amount of CHF 50 000.

The highest compensation of a member of the Management Committee in 2011 was paid to Stefan Borgas. Mr. Borgas received CHF 1 283 884 (2010: CHF 1 634 593) paid in cash and additional benefits and 24 220 conditional LTIP shares based on the performance of 2011 (2010: 23 569) equivalent to a fair value of CHF 900 500 (2010: 891 380). The conditional shares of the LTIP are subject to vesting conditions of three years. The vesting of these shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of the compensation was 118.3 % (2010: 85.3 %).

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2011	2010
Base salary	0.917	0.898
Incentive ¹	0.100	0.472
Post-employment benefits ²	0.113	0.106
Other benefits ³	0.153	0.159
Severance payments ⁴	0.0	0.0
Share- / option-based payments		
Value of E-STIP share units	0.0	0.0
Value of LTIP Bridge the Gap Shares	0.0	0.0
Value of LTIP shares ⁵ (number of shares 2011: 24 220; 2010: 23 569)	0.901	0.891
Total	2.184	2.526
Ratio of fixed compensation to the performance-related components of compensation	118.3%	85.3%

In 2011, there were 7 members (2010: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.1 full-time equivalents (2010: 5.4 full-time equivalents).

On 25 January 2012, the company announced the termination of Stefan Borgas' role as CEO of the Group. The financial consequences of the termination of Mr. Borgas' employment with the company are set forth in the remuneration report on page 194.

In 2010 one severance payment was made to a member of the Management Committee, who gave up her function. In 2011, as no member left the Management Committee, no new severance payment was made to a member of the Management Committee. In 2011, no member of the Board of Directors and no member of the Management Committee gave up their function.

Conflict of interest No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

¹ Incentive (STIP) of the reporting year, paid in March of the following year

² Social security and pension fund

³ Company car, health insurance and tuition. The table shows the fair value of these benefits.

⁴ This table discloses the actual amount paid for the year 2010 and 2011. The severance agreements are discussed in the remuneration report.

⁵ The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

33.2 Compensation for Former Members of Governing Bodies

Compensation of CHF 0.113 million was paid to a former member of the governing bodies (2010: 0.479 millions); this was contained in the personnel expenses 2010.

33.3 Share Allotment

In the reporting year 2011, the members of the Board of Directors received shares as part of their total remuneration. There were no further share allotments, except as stated in note 33.1 of this report. In note 33.1, the allotment of the LTIP shares for the Management Committee is included. These shares are only granted if the targets are met. As described in note 33.1, this plan did not provide any income before 2009.

33.4 Share Ownership

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them¹ held, as of 31 December 2011, a total of 112 574 (2010: 85 799) registered shares in Lonza Group Ltd and controlled 0.21 % (2010: 0.17 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them¹ held 71 950 (2010: 64 841) registered shares in Lonza Group Ltd as per 31 December 2011.

Share ownership of Board of Directors and Management Committee as of 31 December:

Board of Directors Lonza shares (numbers)	2011	2010
Rolf Soiron	36 339	30 992
Richard Sykes	22 240	16 170
Jean-Daniel Gerber	2 031	
Julia Higgins	12 726	9 774
Gerhard Mayr	14 655	11 175
Peter Wilden	15 974	12 260
Patrick Aebischer	8 609	5 428

Management Committee Lonza shares (numbers)	2011	2010
Stefan Borgas	35 402	36 548
Uwe Böhlke	5 084	3 719
Toralf Haag	11 213	10 493
Stephan Kutzer	10 000	8 987
Jeanne Thoma	4 091	
Lukas Utiger	6 037	5 094
Harry Boot	123	

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

Additional Remuneration

During the year under review, none of the members of the Board of Directors or the Management Committee, or parties closely linked to such persons, billed honoraria or other remunerations to Lonza Group Ltd or any subsidiaries for additional services performed.

33.6 Loans Granted by Governing Bodies

In 2011, the CEO, Stefan Borgas, was granted a loan of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of the grant and repayment upon termination of employment. The out-payment was in March 2011 and in early 2012. This loan will fully offset against payments due to Mr Stefan Borgas according to the separation agreement with the company (2010: the members of the Management Committee did not receive any credits or loans).

33.7 After Closing Event

The employment agreement of Stefan Borgas has been terminated in January 2012. The conditions about his leave are described on page 194 of the remuneration report.

34 Risk Management Process

The risk management review, now an established procedure, was conducted in the second half of the reporting year.

The process of identifying and evaluating the risks involved the following steps:

- Identification and description of possible operational risks, carried out by the risk management officers in the business units and corporate functions
- Valuation of risks in terms of probability of occurrence and likely impact should they occur
- Development and initiation of measures for risk reduction (reducing the probability or impact), including assignment of responsibilities for implementation
- Verification and consolidation of results by the risk management officers at Group level
- Creation of a Group risk map, providing an overview of the most significant risks and a basis for detailed discussion and analysis.

At their meeting in December, the Management Committee and Board of Directors have been informed about the results of the risk management process and the findings have been approved. The risk management process, which has been conducted for several years, ensures a common basis of understanding between operational management and the Board of Directors in regard to the existing risks and the measures to be adopted.

For an innovative company, which is a technology leader in a number of fields, effective risk management is a key issue. Changes in personnel in the strategic business fields, operations involving critical chemicals, highly potent compounds, complex information systems and rapid technological advances, as well as the dynamic nature of the relevant markets, demand a critical assessment of the attendant risks on an ongoing basis.

This risk comprehension not only corresponds to our ethical principles, but is also clearly expected from us, particularly by our worldwide customers in the Custom Manufacturing area. The protection of employees, production facilities, raw material supplies, distribution channels and information systems from imminent negative influences and the preparation of alternative production capacity in case of unforeseen events are prerequisites for the selection of Lonza as a partner.

Financial Risk Management is disclosed in note 31.

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes on pages 74 to 165 for the year ended 31 December 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Regula Wallimann
Licensed Audit Expert
Auditor in Charge

Norbert Strub
Licensed Audit Expert

Zurich, 24 February 2012

Balance Sheet – Lonza Group Ltd

Assets ¹	2011	2010
CHF		
Fixed assets		
Property, plant and equipment	1 128 908	1 486 936
Investments	1 717 063 573	1 422 961 446
Long-term loans to subsidiaries and associates	1 179 039 769	1 082 509 817
Total fixed assets	2 897 232 250	2 506 958 199
Current assets		
Receivables:		
– From third parties	129 800	33 403
– From subsidiaries and associates	16 225 550	11 769 002
Prepaid expenses:		
– Third parties	18 307 638	30 542 765
– Subsidiaries and associates	3 434 719	3 005 606
Short-term advances:		
– Third parties	1 190 000	0
– Subsidiaries and associates	192 484 255	238 088 222
Marketable securities:		
– Own shares	72 557 592	33 180 590
Cash	5 287	165 230 749
Total current assets	304 334 841	481 850 337
Total assets	3 201 567 091	2 988 808 536

¹ At 31 December

Liabilities and shareholders' equity ¹	2011	2010
CHF		
Shareholders' equity		
Share capital	52 920 140	52 920 140
Legal reserve:		
– General legal reserve	26 460 070	25 225 000
– Reserve from capital contribution	839 727 980	202 551 480
– Reserve for own shares	110 550 603	44 491 517
Available earnings brought forward	783 334 935	1 524 326 393
Profit for the year	97 106 559	74 229 225
Total shareholders' equity	1 910 100 287	1 923 743 755
Liabilities		
Long-term liabilities		
Long-term debt:		
– Due to third parties	900 000 000	400 000 000
Long-term provisions:		
– Due to third parties	495 837	574 445
Total long-term liabilities	900 495 837	400 574 445
Current liabilities		
Payables and other liabilities:		
– Due to third parties	816 309	706 482
– Due to subsidiaries and associates	22 405	143 482
Accrued expenses:		
– Due to third parties	44 691 187	32 494 859
– Due to subsidiaries and associates	1 316 700	317 010
Short-term provisions:		
– Due to third parties	0	108 444
Short-term debt:		
– Due to third parties	5 600 000	500 000 000
– Due to subsidiaries and associates	338 524 366	130 720 059
Total current liabilities	390 970 967	664 490 336
Total liabilities	1 291 466 804	1 065 064 781
Total liabilities and shareholders' equity	3 201 567 091	2 988 808 536
Shareholders' equity as a percentage of total assets	% 59.7	64.4

¹ At 31 December

Income Statement – Lonza Group Ltd

CHF	2011	2010
Income		
Income from investments	152 945 781	135 741 562
Interest income	24 924 693	31 182 763
Other financial income	10 407 891	7 397 661
Other income	1 993 258	1 077 963
Total income	190 271 623	175 399 949
Expenses		
Personnel expenses	9 006 106	9 159 060
Other administrative expenses	5 288 324	5 355 760
Interest expenses	28 456 357	24 508 512
Other financial expenses	46 366 428	43 650 783
Taxes	2 064 592	1 876 538
Other expenses	1 474 563	1 434 719
Write-offs on property, plant and equipment	508 694	434 895
Write-offs on loans	0	14 750 457
Total expenses	93 165 064	101 170 724
Profit for the year	97 106 559	74 229 225

Notes to the Financial Statements – Lonza Group Ltd

1 **Contingent Liabilities**

At 31 December 2011, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 1 732 592 318 (31 December 2010: CHF 437 204 027). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

2 **Liabilities to Personnel Welfare Institutions**

31 December 2011: CHF 92 539 (31 December 2010: CHF 142 088).

3 **Investments**

See list of principal subsidiaries, page 92 and 93.

4 **Major shareholders in accordance with Art. 663c of the Swiss Code of Obligations**

See 1.2 Principal Shareholders in Corporate Governance, page 210.

5 **Disclosures on Board and Management Compensation in Accordance with Art. 663b bis and Art. 663c para. 3 of the Swiss Code of Obligations**

See note 33 in Consolidated Financial Statements, page 157.

6 **Information about the Risk Assessment Process in Accordance with Art. 663b para. 12 CO**

Lonza Group Ltd is fully integrated into the Group-wide risk management process of Lonza Group. The specific risks arising from the type and scope of Lonza Group Ltd's business activities are covered in the Group-wide risk management process. A detailed description of the risk management process can be found in note 34 of the Consolidated Financial Statements, page 164.

7 **Own Shares**

At 31 December 2011, Lonza Group Ltd held 1 307 344 of its registered shares with a par value of CHF 1 each (31 December 2010: 442 703), resulting in a reserve for own shares of CHF 110 550 603 (31 December 2010: CHF 44 491 517).

In 2011, Lonza Group Ltd acquired 1 000 000 registered shares at an average market value of CHF 77.29. In order to satisfy the exercise of the different share and option plans in 2011, Lonza Group Ltd delivered 135 359 registered shares at an average market value of CHF 72.35. A total of 228 143 of the registered shares with a par value of CHF 1 each (31 December 2010: 442 703) are reserved for the different share and option plans. Therefore 1 079 201 of the registered shares have no special restriction. At 31 December 2011, the total number of registered shares not entitled to a dividend was 1 307 344, with a par value of CHF 1 each (2010: 442 703).

8 Share Capital

Contingent capital: The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 5 029 860 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 029 860. Authorized capital: The Board of Directors shall be authorized to increase, at any time until April 12 2013, the share capital of the Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 5 029 860. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association.

At 31 December 2011, Lonza Group Ltd had a fully paid-in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860.

9 Amount in Reserve from Capital Contribution

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contribution established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle of CHF 839 727 980 were finally approved by the Swiss Federal Tax Authority on 6 December 2011. The amount of CHF 747 926 528 was reclassified from Available earnings brought forward to Reserve from capital contribution as per 31 December 2011 to reflect the approved amount as Reserve from capital contribution.

10 Long- /Short-term Debts

In February 2007, Lonza Group Ltd used the available syndicated loan facility in order to finance the acquisition of the Biopharma and Bioscience businesses from Cambrex. The facility was set up in December 2006 in an amount of CHF 500 million, with a maturity of five years and floating interest rates. In October 2011, Lonza Group Ltd replaced this facility. The new facility was set up in an amount of CHF 700 million, with a maturity of five years and floating interest rates.

In June 2010, Lonza Group Ltd issued a 3% bond of CHF 400 million at an issue price of 100.721%, with maturity date 2 June 2016.

11 Additional Notes

Exchange gains/losses Other financial expenses in 2011 include net exchange rate losses of CHF 12 492 586 (2010: CHF 38 320 731).

Own shares Other financial expenses in 2011 includes a depreciation for own shares of CHF 26 682 084 (2010: Other financial income CHF 6 646 071).

Long-term loans to subsidiaries and associates Lonza Group Ltd signed subordination agreements of CHF 48 million (2010: CHF 54 million).

Proposal of the Board of Directors

concerning the appropriation of available earnings

CHF	2011	2010
Available earnings brought forward	783 334 934	1 524 326 393
Profit for the year	97 106 559	74 229 225
Available earnings at the disposal of the Annual General Meeting	880 441 493	1 598 555 618
Increase in general legal reserve in 2010	0	(1 235 070)
Available earnings carry-forward	880 441 493	1 597 320 548
Increase reserve for own shares in the 2011 business year		(66 059 086)
Increase in general legal reserve qualified as reserve from capital contribution in the 2011 business year		(747 926 528)
Available earnings brought forward after creation of reserve for own shares		783 334 934

CHF	2011	2010
General legal reserve qualified as reserve from capital contribution	91 801 452	202 551 480
Earnings brought forward qualified for reserve from capital contribution	747 926 528	0
Reserve from capital contribution¹	839 727 980	202 551 480
Payment of a dividend in 2011 of CHF 2.15 (2010: CHF 2.15) per share on the share capital eligible for dividend of CHF 51 612 796 (2010: CHF 51 511 641)	(110 967 511)	(110 750 028)
Available reserve from capital contribution carry-forward	728 760 469	91 801 452

If the Annual General Meeting approves the above proposal from the Board of Directors, the dividend of CHF 2.15 per registered share, net of withholding tax (as per Article 5 Abs 1bis VStG), will be paid as of 12 April 2012 at the offices designated in the publication organ of the company and in selected daily newspapers.

Basel, 24 February 2012

Rolf Soiron
Chairman of the Board

Toralf Haag
Chief Financial Officer

¹ Refer to note 9

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement and notes on pages 168 to 173 for the year ended 31 December 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

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

KPMG AG

Regula Wallimann
Licensed Audit Expert
Auditor in Charge

Norbert Strub
Licensed Audit Expert

Zurich, 24 February 2012

Investor Information

Lonza Group Ltd shares are listed on the SIX Swiss Exchange and were included in the Swiss Market Index (SMI) until September 2011. As of 19 September 2011, Lonza changed from the SMI to the Swiss Leader Index (SLI). Since 21 October 2011, Lonza has a secondary listing on the SGX Singapore Exchange. The nominal value of the Lonza Group Ltd share is CHF 1. Lonza Group shares closed at the end of 2011 at a price of CHF 55.50, which represents a decrease of 26.0% in 2011.

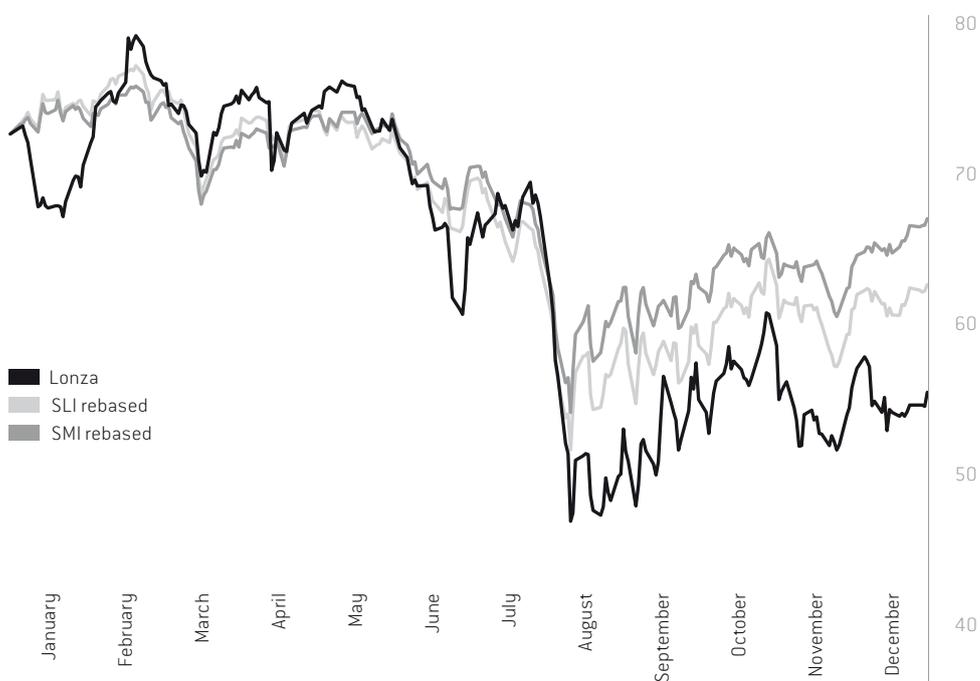
The most significant news releases, other than results publications, during the course of 2011 were the following:

- 5 January: Lonza Selects IDBS to Optimize Bioprocess Execution & Knowledge Management
- 27 January: Lonza Starts Share Purchase Program
- 2 March: Lonza Introduces New Branding
- 15 March: Lonza Signs Commercial Manufacturing Deal with Enobia for Orphan Drug Candidate
- 17 March: Lonza Signs Development and Manufacturing Agreement with Emerging Biotech Company Athera
- 29 March: Lonza to invest £16 million to expand its Slough facility
- 11 April: Lonza and Roche enter into MycoTOOL® distribution agreement for rapid mycoplasma testing solutions
- 12 April: Annual General Meeting of Lonza Group Ltd
- 19 April: Lonza and ORGANOBALANCE Enter Global License Agreement to Develop and Market Unique Probiotic, *Lactobacillus anti-H. pylori*
- 12 May: Lonza to Expand Cytotoxic Manufacturing to Serve Growing Oncology API Market
- 18 May: Lonza to expand viral production capacity; Construction of new cGMP clean room will support large-scale viral vaccine, gene therapy projects
- 7 June: Lonza to expand in Singapore to meet increasing demand for biopharma development services from preclinical to commercial
- 16 June: Lonza to refinance revolving credit facility
- 30 June: Temporary 43 hour work week instituted to ensure long-term strengthening of Visp site
- 11 July: Lonza to acquire Arch Chemicals to create the world's leading Microbial Control business
- 15 July: Lonza commences tender offer to acquire all of the outstanding shares of Arch Chemicals, Inc. for USD 47.20 per share
- 19 July: Lonza signs manufacturing deal with IMMUNE Pharmaceuticals for Bertilimumab (iCo-008)
- 10 August: Lonza to invest in long-term growing Meta™ metaldehyde business
- 11 August: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 12 September 2011

- 19 August: Lonza to appoint Jeanne Thoma as future COO of the Microbial Control sector
- 24 August: Lonza, JFC Technologies and Novoset LLC announce a strategic collaboration to advance high performance materials offerings
- 1 September: Lonza celebrates 40 years as leading producer of vitamin B3
- 2 September: Oxford BioTherapeutics licenses Lonza's GS Gene Expression System™
- 12 September: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 30 September 2011
- 15 September: Lonza enters manufacturing agreement with Pasteuria Bioscience for production of a novel bio-nematicide
- 16 September: Lonza Group Ltd plans secondary listing on the Main Board of the Singapore Stock Exchange
- 26 September (Switzerland) / 27 September (Australia): Mesoblast and Lonza establish strategic global manufacturing alliance
- 29 September: Lonza receives antitrust clearance in France
- 30 September: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 14 October 2011
- 11 October: Lonza announces key partnership with Lipogen for phosphatidylserine; Bolstering nutrition ingredient portfolio and cognitive health offering
- 17 October: Lonza completes tender offer for Arch Chemicals; announces subsequent offering period
- 20 October: Lonza completes acquisition of Arch Chemicals
- 20 October: Lonza to make trading debut on the Singapore Exchange
- 25 October: Lonza enters development and manufacturing agreement with Genmab A/S for a novel antibody drug conjugate (ADC), HuMax-TF™
- 15 November: Lonza Prices CHF 350 Million Dual Tranche Straight Bonds
- 18 November: Change in Visp Site Management
- 8 December: Lonza Signs Applied Protein Services Agreement with ImmuneMed for Immunogenicity Risk Assessment and Deimmunization of Novel Protein
- 15 December: Lonza to Expand Early Phase Manufacturing Capacity to Serve Small Molecules Market

For a comprehensive review of the media releases issued during 2011, refer to www.lonza.com

Lonza Group Ltd 2011 share price development versus the Swiss Leader Index and the Swiss Market Index, rebased



The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2011 can be viewed at www.lonza.com/en/about-lonza/investor-relations/investor-information/major-shareholders-and-changes-in-disclosed-shareholdings.aspx

The free float in Lonza Group Ltd registered shares reached 97.53 % at the year-end and the average daily trade volume was 326 387 shares in 2011.

Registered shares		2011	2010
CHF			
Number of shares issued		52 920 140	52 920 140
Number of shares ranking for dividend ¹		51 612 796	52 477 437
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	154	291
Diluted net income ²	million CHF	154	291

Ratios per security ²		2011	2010
Weighted average number of shares		51 632 876	52 410 459
Diluted weighted average number of shares		51 852 749	52 636 859
Basic earnings per share	CHF	2.98	5.55
Diluted earnings per share	CHF	2.97	5.53

Historical overview:

Ten-year overview of major highlights	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
million CHF										
Sales	2 692	2 680	2 690	2 937	2 870	2 914	2 521	2 182	2 242	2 536
Result from operating activities (EBIT)	261	374	239	441	408	344	297	212	139	302
Net capital invested	5 667	3 688	3 900	3 768	3 277	2 608	2 786	2 574	2 473	2 430
Return on net capital invested (RONOA)	% 6.9	10.8	6.7	13.8	14.1	12.4	11.0	8.4	12.2	16.8
Headcount	11 001	8 280	8 386	8 462	6 929	6 146	4 992	5 664	5 938	6 216

¹ See note 26

² See note 27

Statement of Value Added

	¹ Note	2011 million CHF	%	2010 million CHF	%
Origin of value added					
Income from production		2 798		2 793	
Dividend earned	21.3	0		0	
Total income		2 798	100.0	2 793	100.0
Services bought from third parties:					
– Material costs	18	(914)		(855)	
– Energy costs	18	(85)		(87)	
– Other operating expenses excl. capital taxes		(396)		(375)	
Gross value added		1 403		1 476	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment	6,7	(276)		(269)	
Income from application of the equity method	21.3	(13)		(1)	
Total net value added		1 114	39.8	1 206	43.2
Distribution of value added					
To staff:					
– Wages and salaries	19	654		644	
– Pensions	19	26		23	
– Other social security contributions	19	123		130	
– Other personnel expenses	19	52		26	
Total personnel cost		855	76.7	823	68.3
To public authorities:					
– Income and capital taxes	22	32	2.9	56	4.6
To lenders:					
– Financial expenses net	21.1, 21.2	73	6.6	43	3.6
To shareholders:					
– Dividends paid	page 80	111	10.0	92	7.6
To the company:					
– Profit for the period		154		284	
– Dividends paid	page 80	(111)	3.8	(92)	15.9
Total		1 114	100.0	1 206	100.0
Distribution of value added per employee					
Wages and salaries		CHF 67 835		CHF 77 283	
Pensions		2 697		2 760	
Other social security contributions		12 758		15 601	
Other personnel expenses		5 394		3 120	
Total per employee		88 684		98 764	

¹ See the accompanying notes to the Consolidated Financial Statements

Free Cash Flow

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

million CHF	2011	2010
EBITDA	537	643
Change of operating net working capital	(88)	47
Capital expenditures in tangible and intangible assets	(267)	(300)
Disposal of tangible assets	6	9
Change of other assets and liabilities	(61)	(37)
Free cash flow before acquisition	127	362
Acquisition of subsidiaries	(918)	(26)
Free cash flow	(791)	336

Core Results

Reconciliation of IFRS results to core results 2011 million CHF	IFRS results	Amortization of intangible assets from acquisition	Impact of Arch integration costs	Results associates	¹ Core results
Sales (see segment information)	2 692	0	0	0	2 692
Cost of goods sold	(1 992)	18	12	0	(1 962)
Gross profit	700	18	12	0	730
Marketing and distribution	(160)	0	0	0	(160)
Research and development	(94)	0	0	0	(94)
Administration and general overheads	(205)	0	35	0	(170)
Other operating income	42	0	0	0	42
Other operating expenses	(22)	0	0	0	(22)
Result from operating activities (EBIT)	261	18	47	0	326
Financial income	18	0	0	0	18
Financial expenses	(91)	0	0	0	(91)
Other investment income / (loss)	0	0	0	0	0
Net financing costs	(73)	0	0	0	(73)
Share of profit / (loss) of associates / joint ventures	(13)	0	0	16	3
Profit before income taxes	175	18	47	16	256
Income taxes ²	(21)	(2)	(6)	(2)	(31)
Profit for the period	154	16	41	14	225
Non-controlling interests	0	0	0	0	0
Equity holders of the parent	154	16	41	14	225
Number of Basic Shares, weighted	5 1632 876				5 1632 876
Number of Diluted Shares, weighted	5 1852 749				5 1852 749
Basic earnings per share	2.98				4.36
Diluted earnings per share	2.97				4.34

¹ In the core results for the items: "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring / acquisition is eliminated.

² Tax impact calculated based on average Group tax rate

Reconciliation of IFRS results to core results 2010 million CHF	IFRS results	Amortization of intangible assets from acquisition	Reversal of Impairments	Restructuring costs/income	Results associates	¹ Core results
Sales (see segment information)	2 680	0	0	0	0	2 680
Cost of goods sold	(1 969)	17	0	0	0	(1 952)
Gross profit	711	17	0	0	0	728
Marketing and distribution	(155)	0	0	0	0	(155)
Research and development	(99)	0	0	(7)	0	(106)
Administration and general overheads	(152)	0	0	9	0	(143)
Other operating income	100	0	(4)	(5)	0	91
Other operating expenses	(31)	0	0	3	0	(28)
Result from operating activities (EBIT)	374	17	(4)	0	0	387
Financial income	6	0	0	0	0	6
Financial expenses	(49)	0	0	0	0	(49)
Other investment income/ (loss)	0	0	0	0	0	0
Net financing costs	(43)	0	0	0	0	(43)
Share of profit/ (loss) of associates / joint ventures	(1)	0	0	0	5	4
Profit before income taxes	330	17	(4)	0	5	348
Income taxes ²	(46)	(2)	0	0	(1)	(49)
Profit for the period	284	15	(4)	0	4	299
Non-controlling interests	7	0	0	0	0	7
Equity holders of the parent	291	15	(4)	0	4	306
Number of Basic Shares, weighted	52 410 459					52 410 459
Number of Diluted Shares, weighted	52 636 859					52 636 859
Basic earnings per share	5.55					5.84
Diluted earnings per share	5.53					5.81

¹ In the core results for the items: "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges/ income from restructuring/ acquisition is eliminated.

² Tax impact calculated based on average Group tax rate

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Lonza Annual Report 2011

5 Activities

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Remuneration Report

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207 Corporate Governance

This Remuneration Report has been included to provide an overview of Lonza's compensation programs. In addition to a description of the compensation programs, it includes the compensation levels of the Board of Directors and the Management Committee. Some information from Notes 25, 28 and 33 of the Financial Report is repeated here.

Structure of the Report

This remuneration report begins with a general discussion of the compensation philosophy at Lonza, outlining the major elements of compensation for all employees. The remainder of the remuneration report then focuses on the compensation of the Board of Directors and the Management Committee. First, the architecture of the pay-setting process is described. Second, the report turns to the compensation of the Board of Directors. Third, the report discusses the compensation of the Management Committee. At the end of the report, additional information on special share awards and the Employee Share Purchase Plan (ESPP) is given.

Compensation Philosophy

Lonza's compensation philosophy is designed to serve two goals: to enable Lonza to become the employer of choice in our industry, and to motivate and reward employees based on the company's long-term financial success. Our culture is performance-oriented, with rewards based on the achievement of specific goals. All employees have the opportunity to profit from Lonza's financial success.

With regard to executive compensation, Lonza's philosophy is to compensate at an average level in base pay, combined with a variable component to encourage performance, but also with a defined upper limit. By putting a significant amount of total compensation "at risk" the company encourages its executives to take actions and make decisions with consideration for both short- and long-term performance, and in line with strategic objectives. By putting a defined upper limit in place in combination with long-term programs, the company discourages short-term actions that risk the health and financial stability of the company in the long term.

Base pay The base pay of Lonza employees and senior management is established by assessing the scope of the individual's job within the context of the relevant market, as well as personal experience, skills, abilities and ongoing performance. The base pay is comparable with the average level for a similar position in the industry. Potential increases in base pay are evaluated on an annual basis and are based on the market situation along with the individual's performance.

Benefits Benefit programs are defined regionally to meet local regulations and to take into consideration the competitive situation. These programs are designed to offer benefits similar to the relevant market. The benefit packages are reviewed on a yearly basis.

Variable compensation and other programs Variable compensation and other programs are designed to provide employees with the opportunity to participate in the company's overall success and earn total compensation that is in line with the industry. The Employee Share Purchase Plan is a share-savings plan open to all employees. The Incentive Programs

are performance-oriented. The guiding principle for these plans is to motivate and reward employees on the company's long-term financial success as well as on the individuals' performance of specific goals. The incentive programs include a Short-Term Incentive Plan (STIP), a Long-Term Incentive Plan (LTIP), and share plans for recognizing extraordinary achievements (e.g. strategic projects). More details on the workings of the STIP and LTIP are provided in the discussion of the compensation of the Management Committee below.

Architecture of the Pay-setting Process

The compensation policy is set by the Board of Directors. In order to ensure effective governance, the Board tasks the Nomination and Compensation Committee with preparing the decision-making. Specifically, the meetings of the Nomination and Compensation Committee relevant to compensation matters take place regularly, typically in January, April, July, October, and December. In the October meeting, the overall compensation strategy is reviewed. In the December meeting, the conceptual designs of the Short-Term Incentive Plan (STIP), the Long-Term Incentive Plan (LTIP), and the Employee Stock Purchase Program (ESPP) are discussed. This allows for a periodic review of the compensation and share-ownership programs. In general, the details of the STIP for the coming year are fixed. In the January meeting of the Nomination and Compensation Committee, the specific list of names of participants in the LTIP is drawn up, the STIP results for the company are reviewed, the achievement levels for the prior year for the Management Committee LTIP are established, and the compensation targets for the new year are finalized. The objectives of CEO and Management Committee members for the current year are also fixed. The April meeting of the Nomination and Compensation Committee reviews the total compensation and the base salaries of the CEO and the members of the Management Committee, as well as the compensation of the Board of Directors.

The Nomination and Compensation Committee also meets at other times throughout the year to discuss other topics the Board of Directors has delegated to it. After each meeting, the Nomination and Compensation Committee informs the Board of Directors and, where necessary, submits proposals for decision by the Board of Directors. The Board of Directors makes the ultimate decisions on all matters related to the pay of the Board of Directors and the Management Committee. The payment-relevant materials for the Nomination and Compensation meetings are provided by the Head of Global Human Resources and the Head of Compensation and Benefits. The Head of Global Human Resources attends all the relevant meetings, the Head of Compensation and Benefits those concerning the Management Committee's compensation, or when required. Both individuals are there to advise the Nomination and Compensation Committee, but do not have a vote. Management Committee members generally attend Board of Directors meetings, but do not have a vote.

An external advisor (Kepler Associates) was consulted by Lonza with respect to the structuring of the compensation and share-ownership programs. This advisor has no additional mandates at Lonza.

During the year under review, none of the members of the Board of Directors or the Management Committee or parties closely linked to such persons billed honoraria or other remunerations to Lonza Group Ltd or any subsidiaries for additional services performed.

The remuneration report is subject to an advisory shareholder vote on the occasion of the Annual General Meeting.

Compensation of the Board of Directors

The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. The decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2011. The overall structure and level of compensation of the Board of Directors has not changed since 2005. The high portion of the shares aligns it significantly with the share price development. Our aim is to pay the members of the Board of Directors at the industry market average, drawing on data from studies on Swiss Leader Index (SLI) companies. In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million¹ (2010: CHF 2.503 million¹), 63.56% (2010: 65.96%) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40%. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20%. They are blocked for a period of three years and are eligible for a dividend. Access to these shares is only available in the fourth or later years. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

¹ Including social security and withholding tax

Board of Directors' compensation	2011				2010			
	¹ Cash payment CHF	Number of shares	² Value of shares CHF	Total CHF	¹ Cash payment CHF	Number of shares	² Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	194 350	5 806	356 288	550 638	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	116 875	4 898	306 885	423 760	100 000	4 672	374 864	474 864
Patrick Aebischer Member of the Board	117 222	3 448	211 592	328 814	123 956	2 656	213 078	337 034
Jean-Daniel Gerber Member of the Board	88 332	2 777	159 514	247 846				
Julia Higgins Member of the Board	192 500	3 207	196 797	389 297	192 500	2 452	196 743	389 243
Gerhard Mayr Member of the Board	120 763	3 332	207 155	327 918	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	136 161	4 027	247 116	383 277	144 218	3 098	248 541	392 759
Total	966 203	27 495	1 685 347	2 651 550	851 811	20 578	1 650 991	2 502 802

In 2011 no member of the Board of Directors gave up his or her function, one new member was elected at the Annual General Meeting (2010: one member gave up his function, and no new member joined the Board of Directors). In 2011, there were 7 members on the Board (2010: 6 members). The average number of Board members during the year was 6.75 full-time equivalents (2010: 6.25 full-time equivalents)

The members of the Board of Directors did not receive any credits or loans in 2011 (2010: ditto).

Regarding conflicts of interest, note that no member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

¹ All compensation amounts given in this Remuneration Report (both for the Board of Directors and the Management Committee) refer to gross payments, including social security and withholding tax, except where stated otherwise. The accrual principle is applied.

² The fair values were calculated using the market price at grant date, see note 25 in the Lonza Financial Report 2011.

Development of compensation

Development of compensation for Board of Directors 2011	Grant date	Total number of shares	Share price	Fair values of shares	¹ Cash	Total	Blocked until
			CHF		CHF	CHF	
	31 03 2011	5 334	77.12	411 358	150 000	561 358	31 03 2014
	30 06 2011	6 845	62.34	426 717	230 000	656 717	30 06 2014
	30 09 2011	8 118	55.78	452 822	180 000	632 822	30 09 2014
	31 12 2011	7 198	54.80	394 450	245 000	639 450	31 12 2014
Total		27 495	61.30	1 685 347	805 000	2 490 347	

The amount of CHF 2 490 347 was recognized as an expense in the year 2011.

Development of compensation for Board of Directors 2010	Grant date	Total number of shares	Share price	Fair values of shares	¹ Cash	Total	Blocked until
			CHF		CHF	CHF	
	31 03 2010	4 781	86.02	411 262	150 000	561 262	31 03 2013
	30 06 2010	5 494	75.22	413 259	150 000	563 259	30 06 2013
	30 09 2010	4 899	84.36	413 280	150 000	563 280	30 09 2013
	31 12 2010	5 404	76.46	413 190	150 000	563 190	31 12 2013
Total		20 578	80.23	1 650 991	600 000	2 250 991	

The amount of CHF 2 250 991 was recognized as an expense in the year 2010.

Development of compensation for Board of Directors 2009	Grant date	Total number of shares	Share price	Fair values of shares	¹ Cash	Total	Blocked until
			CHF		CHF	CHF	
	31 03 2009	3 922	113.42	444 833	175 000	619 833	31 03 2012
	30 06 2009	4 282	106.70	456 889	175 000	631 889	30 06 2012
	30 09 2009	4 073	112.20	456 990	175 000	631 990	30 09 2012
	31 12 2009	6 295	72.26	454 877	175 000	629 877	31 12 2012
Total		18 572	97.65	1 813 589	700 000	2 513 589	

The amount of CHF 2 513 589 was recognized as an expense in the year 2009.

Development of compensation for Board of Directors 2008	Grant date	Total number of shares	Share price	Fair values of shares	¹ Cash	Total	Blocked until
			CHF		CHF	CHF	
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		13 985	123.94	1 733 264	670 000	2 403 264	

The amount of CHF 2 403 264 was recognized as an expense in the year 2008.

¹ Excluding social security and withholding tax

Compensation of the Management Committee

Method of determining compensation and the shareholding programs The overall structure of compensation for the Management Committee originally implemented in 2006 remained largely unchanged again in 2011. Base salary targets levels around the average for the market as described below, with the potential for executives to earn above-average compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry. The comparison data reflect the compensation of the Senior Management and members of the Management Committee in Switzerland and the northeast coast of the USA in the pharma and chemical industry and general industry in multinational organizations of a size comparable with Lonza. The reference data represent a direct market comparison in terms of the samples and the functions of the analyzed manager positions. At least two benchmark providers (in the year 2011: Towers Watson and Mercer) are used to draw the comparisons.

In 2011 the Board of Directors decided to reappraise the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of the same benchmark data as in 2006 (see above). It found that the Senior Management total compensation package was below the median of the relevant comparison market. For the Management Committee Kepler Associates benchmarked the compensation against Swiss-listed companies of a similar size (peer group of 18 companies) and international sector comparators (peer group of 37 companies of the pharma and chemical industry). This survey showed that the remuneration of the members of the Management Committee is between median and lower quartile (50 percentile and 25 percentile of the benchmark). As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented.

Overview of Management Committee compensation The members of the Management Committee receive an annual base salary in cash. In addition, they are eligible for an annual incentive, the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan for Senior Management and Key Employees (LTIP). These plans set certain performance targets. A formula that takes into account the achievement level determines how much is paid out, without further discretion by the Board. The mechanics of these plans, as well as the targets and their levels, are discussed further below. All equity-based pay is performance-related (except the Bridge the Gap Program, which was implemented in 2006 and terminated in 2010).

Management Committee's compensation million CHF	2011	2010
Base salary ¹	3.197	2.861
Incentive ²	0.942	1.156
Post-employment benefits ³	0.374	0.349
Other benefits ⁴	0.814	0.453
Severance payments ⁵	0.113	0.376
Share- / option-based payments		
Value of E-STIP restricted share units (2011: will be determined in March 2012; number of share units 2010: n/a)	0.421	0.0
Value of LTIP Bridge the Gap shares (number of shares 2011: 0; 2010: 2 484)	0.0	0.214
Value of conditional LTIP shares ⁶ (number of shares 2011: 73 107; 2010: 60 439)	2.583	2.286
Total	8.444	7.695
Ratio of fixed compensation to the performance-related components of compensation	114.0%	123.6%

In 2011, there were 7 members (2010: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.1 full-time equivalents (2010: 5.4 full-time equivalents).

The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million⁷ (2010: CHF 5.195 million⁷) in cash and additional benefits, 73 107 conditional LTIP shares (2010: 62 923 shares) and a number of restricted share units (the exact number will be determined in March 2012; no such restricted share units were granted in 2010), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million). The restricted share units of the E-STIP and the conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 114.0% (2010: 123.6%).

¹ 2010: 6 members, CEO included; 2011: 7 members, CEO included

² Incentive (STIP) of the reporting year, paid in March of the following year

³ Social security and pension fund

⁴ Company car, health insurance and tuition. The table shows the fair value of these benefits. In 2011 two members of the MC moved to Asia and the USA respectively. Therefore, the costs for insurances, tuition and housing (in the case of international assignments) are higher than in the year before. Furthermore, two new members joined the MC.

⁵ This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the text.

⁶ The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero).

⁷ Including post-employment benefits and incentive paid in March of the following year

The employment agreements of the members of the Management Committee provide for notice periods of between 12 and 18 months, except in one case where the notice period is 60 days.

In case of termination by the company without cause or due to the disability of a member of the Management Committee other than the CEO (who was terminated in January 2012), or of resignation by the relevant member of the Management Committee for good reason (such as reduction of remuneration or demotion), such member of the Management Committee is entitled to a payment corresponding to a maximum of 18 months' base salary, outplacement support and additional health insurance until a new employment is found, under the condition that the relevant member of the Management Committee executes a release in favor of the company.

In case of termination by the company without cause, the CEO and the Head of Human Resources (and the Nomination and Compensation Committee as regards E-STIP shares) may, at their discretion, decide the immediate vesting of the LTIP and E-STIP shares.

In case of termination due to the disability, death or retirement of a member of the Management Committee, the E-STIP and ESPP shares vest immediately. As far as the LTIP shares are concerned, termination of the employment agreement due to disability or death results in 50 % of the shares being forfeited and the remaining 50 % shares vesting immediately.

Other than with respect to the CEO (see below), the applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee as a result of a change of control, or if a member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) in such a context. All the shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately in such a case. In addition, the relevant member of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period; a cash amount equal to 100 % of the LTIP compensation during the notice period; and outplacement support up to an amount of CHF 50 000.

In 2010, one severance payment was made to a member of the Management Committee. This payment amounted to CHF 376 433 (corresponding to 30.8 % of the yearly compensation of this Management Committee member) and included the purchase of consulting services valued at CHF 133 467. In 2011, as no member left the Management Committee, no new severance payment was made to a member of the Management Committee. The table above shows the payments for the purchase of consulting services, valued at CHF 113 062, that were made to the individual who had left the Management Committee the previous year.

The highest compensation of a member of the Management Committee in 2011 was paid to Stefan Borgas. Mr. Borgas received CHF 1 283 884 (2010: CHF 1 634 593) paid in cash and additional benefits and 24 220 conditional LTIP shares based on the performance in 2010 (2010: 23 569), equivalent to a fair value of CHF 900 500 (2010: CHF 891 380). The conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 118.3% (2010: 85.3%).

The employment agreement of Stefan Borgas was terminated in January 2012, with effect on 31 May 2012. Until then, Stefan Borgas will receive his base salary and STIP at target (pro rata temporis) and other contractual benefits. In addition, he will be paid severance equal to two years' base salary, STIP at target and an outplacement contribution of CHF 50 000. His STIP for 2011 was set at CHF 100 000 and he is to keep the shares that were granted to him under the company's Long-Term Incentive plan for 2010 and 2011, as well as ESPP shares (no bonus shares).

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2011	2010
Base salary	0.917	0.898
Incentive ¹	0.100	0.472
Post-employment benefits ²	0.113	0.106
Other benefits ³	0.153	0.159
Severance payments ⁴	0.0	0.0
Share- / option-based payments		
Value of E-STIP restricted share units	0.0	0.0
Value of LTIP Bridge the Gap shares	0.0	0.0
Value of conditional LTIP shares ⁵ (number of shares 2011: 24 220; 2010: 23 569)	0.901	0.891
Total	2.184	2.526
Ratio of fixed compensation to the performance-related components of compensation	118.3%	85.3%

¹ Incentive (STIP) of the reporting year, paid in March of the following year

² Social security and pension fund

³ Company car, health insurance and tuition. The table shows the fair value of these benefits.

⁴ This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the text.

⁵ The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero).

In 2011, the CEO, Stefan Borgas, was granted a loan of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of granting and repayment is set upon termination of employment. The payment was in March 2011 and in early 2012. This loan will be fully offset against payments due to Mr. Borgas according to the separation agreement (2010: the members of the Management Committee did not receive any credits or loans).

After Closing Event

The employment agreement of Stefan Borgas was terminated in January 2012. The conditions of his leaving are described on page 194.

Details of Management Committee Compensation

This subsection describes the workings of the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan (LTIP).

Short-Term Incentive Plan (STIP) In 2005, the Board of Directors of Lonza Group Ltd implemented the current Short-Term Incentive Plan (STIP) for the majority of the Group's employees, including the Management Committee. This program provides the potential for an annual incentive based on the performance and job category of the individual, and the financial performance of their business sector and/or the Group. The targeted incentive amount is stated as a percentage of the base salary and varies by level up to a maximum of 70% for the chief executive officer. In this plan, every individual is assigned specific yearly financial and personal goals in writing. The weight of the financial goals (which are measured at the Group and Sector levels) increases with the level of the employee, up to 80% of the total potential incentive. The personal goals are generally linked to strategic projects that Lonza must deliver in the year in order to build its growth for the future. Each goal is assessed for achievement at the end of the year. The assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.5 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is, therefore, capped at 2.3 (= 80% × 2.5 + 20% × 1.5) times the potential incentive amount. The incentive is paid in cash during the first half of the following year. About 90% of our employees participated in one of our short-term plans, either in the STIP or in a local bonus program.

For members of the Management Committee, the STIP puts a weight of at least 80% on the financial target of Economic Value Added (EVA) of the Group. A weight of at most 20% is put on individual qualitative targets, linked to the delivery of strategic milestones. (An exception, described in last year's report, concerned the STIP 2010, which put a higher weight on the individual targets. In 2011, the STIP again put a weight of at least 80% on the EVA target.) The goals are set on a yearly basis. The individual targets of the members of the Management Committee are also aligned with the strategic targets and the overall success of the company. In general, the CEO had two individual targets; one was linked to the improvement of the customer-related "promoter score" (an internal, quantitative and objective measure of how customers rate Lonza as a supplier) and the other one to the implementation of the strategy. For the members of the Management Committee, the

overall STIP amount, is targeted as a percentage of base salary ranging from 50% to 70%, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash. The average actual target attainment for the Management Committee (CEO excluded) led to a payout factor of 72.9% (2010: 118.5%). For the CEO, the STIP payment was regulated in a special separation agreement. The payout was CHF 100 000.

Extended Short-Term Incentive Plan (E-STIP) Based on the benchmark analysis for 2011 and recognizing the need to establish even more long-term orientation of the incentive system as well as the aim of increasing the retention power of the compensation system, the Board of Directors of Lonza Group Ltd implemented in 2011 an Extended Short-Term Incentive Plan (E-STIP) for senior managers, including the Management Committee members. The value of the plan is strongly dependent on Lonza's and the executive's past as well as future performance (see on page 191). Specifically, first, an amount equal to half of the STIP 2011 (which depends on financial and individual goals as described above) is awarded to each Management Committee member in the form of restricted share units entitlements. Second, these restricted share units are subject to a three-year vesting condition. The grant of the restricted share units under the E-STIP 2011 will take place on 31 March 2012, at which date the number of restricted share units will be determined based on the closing stock price of that date. During the three-year vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

Long-Term Incentive Plan (LTIP) In 2007, 2008, 2009, 2010 and 2011, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees. The LTIP is a stock bonus plan, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. The general idea of the LTIP is that selected key employees are awarded the right to receive a number of registered shares of Lonza in the future, provided that certain service- and performance-related conditions are achieved. Depending on the level of the job category, the entitlement is between 10% and 200% of the annual base salary. For the CEO, the entitlement is 200% based on the full share value, for Management Committee members it is 150%. The maximum number of shares to be granted is capped at the start of the plan. Under no condition can the incentive exceed the set percentage, even if the performance exceeds the set targets. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

The central feature of the plan is that key employees will only receive title and ownership of the shares after a three-year vesting period and only if the conditions of vesting are fully or partially met. The conditions of vesting of the shares are as follows:

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR¹) achieved during the three fiscal years of Lonza before the end of the vesting period compared with a peer group consisting in MSCI Chemicals, DSM, UCB, Crucell, Genentech/Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific for the share entitlements granted under the LTIP 2008, 2009 and 2010. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health, SPI. This change of the peer group was also recommended by the external compensation consultant (Kepler Associates) due to the experience that some companies diversified their business or merged during the relevant vesting period of the LTIP. In such cases the company may no longer be relevant as a member of the peer group. The TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2008, 2009, 2010: 5 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

For shares initially granted up to and including 2009, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual earnings per share (EPS) of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EPS target is reached if Lonza increases its EPS within the vesting period by 50 %. If the EPS target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EPS. The minimum target is to hold EPS on the level at the beginning of the fixed period. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA²) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target for share entitlements awarded in 2011 is reached if Lonza increases its EVA within the vesting period from CHF 15.9 million up to CHF 114.4 million (for share entitlements awarded in 2010: from CHF 34.25 million up to CHF 137.0 million). If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA

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

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

at the level of the beginning of the fixed period. If this minimum target is met, then 25% of the shares will vest. If the minimum target is not met, no shares in this section will vest.

If TSR and EPS/ EVA minimum targets are not met, the share entitlement expires unconditionally.

For the LTIP 2008, no payout was made in January 2011 and for the LTIP 2009 no payout will be made in January 2012.

The following table shows historical data on vesting conditions for LTIP share awards in the years 2008–2011, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

Details of long-term incentive plans	Grant date	Share price CHF	Granted share awards	TSR	EPS growth/ EVA level targets	Vesting date
LTIP 2008	01 02 2008	137.60	85 011	5%	50%	31 01 2011
LTIP 2009	01 02 2009	106.10	121 356	5%	50%	31 01 2012
LTIP 2010	01 02 2010	75.65	147 711	5%	137.0 mn	31 01 2013
LTIP 2011	01 02 2011	74.35	152 077	9%	114.4 mn	31 01 2014

Conditions of vesting 2011	Minimum	Maximum	Target	Probability
TSR	25%	100%	9%	50.00%
EVA	25%	100%	114.4 mn	50.00%
Turnover of employees				3.00%

Conditions of vesting 2010	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EVA	25%	100%	137 mn	50.00%
Turnover of employees				0.00%

Conditions of vesting 2009	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EPS	25%	100%	50%	45.40%
Turnover of employees				3.00%

Conditions of vesting 2008	Minimum	Maximum	Target	Probability
TSR	25%	100%	5%	50.00%
EPS	25%	100%	50%	100.00%
Turnover of employees				3.00%

Vesting conditions	Market price	Granted shares	Fair value TSR	Fair value of share awards at grant date	Expected vesting EPS	Probability min. targets	Volatility employees	Total probability	Total cost at grant date
	CHF			CHF					CHF
LTIP 2008	137.60	85 011	50%	5 848 757	100.00%	100%	3%	97.00%	5 673 294
LTIP 2009	106.10	121 356	50%	6 437 936	45.40%	100%	3%	44.04%	2 835 138

Vesting conditions	Market price	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date	Probability min. targets	Volatility employees	Total probability	Total cost at grant date
	CHF				CHF				CHF
LTIP 2010 TSR	75.65	73 855	50%		2 793 565	100%	n.a.	100.00%	2 793 565
LTIP 2010 EVA	75.65	73 856		50%	2 793 603	100%	0%	100.00%	2 793 603
LTIP 2011 TSR	74.35	76 038	50%		2 826 713	100%	3%	97.00%	2 741 911
LTIP 2011 EVA	74.35	76 039		50%	2 826 750	100%	3%	97.00%	2 741 947

Development of long-term incentive plan 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Share vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
LTIP 2008	84 417	0	0	0	(84 417)	0
LTIP 2009	121 356	0	0	0	0	121 356
LTIP 2010	147 711	0	0	0	0	147 711
LTIP 2011	0	152 077	0	0	0	152 077
Total shares	353 484	152 077	0	0	(84 417)	421 144

Development of long-term incentive plan 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Share vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
LTIP 2007	80 100	0	0	(28 076)	(52 024)	0
LTIP 2008	84 417	0	0	0	0	84 417
LTIP 2009	121 356	0	0	0	0	121 356
LTIP 2010	0	147 711	0	0	0	147 711
Total shares	285 873	147 711	0	(28 076)	(52 024)	353 484

The estimated fair value of the share awards granted in 2011 was CHF 37.18 (2010: CHF 37.82). No share awards vested in 2011. The weighted average share price of the vested shares in 2010 was CHF 77.10. The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 41.98 (2010: CHF 50.45) and a remaining weighted average contractual life of 15 months (2010: 15 months).

The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected dividend was not incorporated in the calculation of fair value.

In January 2010, the Nomination and Compensation Committee reviewed the interpretation of the conditions for minimum vesting under the LTIP 2007, 2008 and 2009. It was not stated precisely that both the minimum targets for the TSR section of the LTIP and the EPS section of the LTIP needed to be met for any vesting at all to occur in either of the two sections of the LTIP. The Nomination and Compensation Committee clarified that attainment of the minimum target in one of the two sections was sufficient for vesting to begin in the respective section, irrespective of target attainment in the other section. That is, the two sections based on TSR and EPS target are independent. This clarification resulted in a fair value adjustment of CHF 3 304 536 for the LTIP 2007 and none for the LTIP 2008 and 2009. These costs were fully expensed in 2010.

Fair value at grant date	CHF
LTIP 2008	5 848 757
LTIP 2009	6 437 936
LTIP 2010	5 587 168
LTIP 2011	5 653 463

Long-Term Incentive Plan for Members of the Management Committee named “Bridge the Gap (MC shares)” The LTIP plan did not provide any payouts for the Management Committee until 2009. Therefore, a three-year “Bridge the Gap” plan was also launched in 2006. This plan provides share grants for the Management Committee. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. The share awards were granted from January 2006 until January 2008 and will vest over a one- to three-year period (title and ownership of the shares will only be received after the respective vesting periods). The MC shares are subject to a restriction period. During the restriction period, an MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period. New entrants have a pro-rata share entitlement with a partially shortened restriction period.

MC shares	Grant date	Share price	Granted share awards	Vesting date
MC shares 2008	31 01 2008	137.60	5 155	31 01 2011
MC shares 2009	31 07 2009	105.90	472	31 07 2012
MC shares 2010	01 04 2010	85.95	1 242	31 01 2011

Development of long-term incentive plan for Management Committee 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
MC shares 2008	5 155	0	0	(5 154)	(1)	0
MC shares 2009	472	0	0	0	0	472
MC shares 2010	1 242	0	0	(1 242)	0	0
Total non-vested shares	6 869	0	0	(6 396)	(1)	472

Development of long-term incentive plan for Management Committee 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
MC shares 2007	5 921	0	0	(5 920)	(1)	0
MC shares 2008	7 733	0	0	(2 578)	0	5 155
MC shares 2009	472	0	0	0	0	472
MC shares 2010	0	2 484	0	(1 242)	0	1 242
Total non-vested shares	14 126	2 484	0	(9 740)	(1)	6 869

No share awards were granted in 2011. The estimated fair value of the share awards granted in 2010 was CHF 85.95. The weighted average share price of the vested shares in 2011 was CHF 127.57 (2010: CHF 118.92). The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 105.90 (2010: CHF 126.08) and a remaining weighted average contractual life of 7 months (2010: 2 months).

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected turnover was 0% (2010: 0%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
MC shares 2008	1 418 794
MC shares 2009	49 985
MC shares 2010	213 500

Other Share Plans

The following plans do not presently include Management Committee members, but are reported here for completeness. In recognition of the extraordinary efforts by employees to ensure successful integration of new businesses, the Lonza Management Committee has decided to provide a one-time award of Lonza shares if certain service-related conditions are achieved. The employees will only receive title and ownership of the shares after a minimum one-year vesting period and only if the conditions of vesting are fully or partially met. In addition, in recognition of extraordinary efforts on the part of employees for successful completion of projects or successful settlements, the Lonza Management Committee has the ability to provide a one-time award of Lonza shares.

Non-vested shares	Grant date	Share price	Granted share awards	Vesting date
Arch Acquisition Team	21 10 2011	56.40	9 576	21 10 2011
Other awards 2011	20 01 2011	69.95	458	20 01 2011
Other awards 2008	01 09 2008	156.70	479	01 09 2011

Development of the other share plans 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
Arch Acquisition Team	0	9 576	0	(9 576)	0	0
Other awards 2011	0	458	0	(458)	0	0
Other awards 2008	0	479	0	(479)	0	0
Total non-vested shares	0	10 513	0	(10 513)	0	0

The estimated fair value of the share awards granted in 2011 was CHF 61.56. The weighted average share price of the vested shares in 2011 was CHF 61.56. No share awards were outstanding at 31 December 2011.

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected turnover was 0% in 2011. The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Arch Acquisition Team	540 086
Other awards 2010	32 037
Other awards 2008	75 059

A total of 161 634 treasury shares (2010: 381 648) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

Share Ownership for the Board of Directors and Management Committee

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them¹ held, as of 31 December 2011, 112 574 (2010: 85 799) registered shares in Lonza Group Ltd and controlled 0.21 % (2010: 0.17 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them¹ held 71 950 (2010: 64 841) registered shares in Lonza Group Ltd as of 31 December 2011.

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

Board of Directors Lonza shares (numbers)	2011	2010	Management Committee Lonza shares (numbers)	2011	2010
Rolf Soiron	36 339	30 992	Stefan Borgas	35 402	36 548
Richard Sykes	22 240	16 170	Uwe Böhlke	5 084	3 719
Jean-Daniel Gerber	2 031		Toralf Haag	11 213	10 493
Julia Higgins	12 726	9 774	Stephan Kutzer	10 000	8 987
Gerhard Mayr	14 655	11 175	Jeanne Thoma	4 091	
Peter Wilden	15 974	12 260	Lukas Utiger	6 037	5 094
Patrick Aebischer	8 609	5 428	Harry Boot	123	

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

Employee Share Purchase Plan (ESPP)

In keeping with our vision and culture, Lonza has continuously encouraged employee participation in the company through stock ownership. In 2005, the former Employee Share Purchase Plan was updated. Under the new plan, ESPP Plus, the employees have the opportunity – but not the obligation – to acquire Lonza shares in multiples of three at a price reduction of 30%. The shares purchased in this manner remain blocked for three years. After this blocking period, participants are entirely free to do as they wish with the shares. If participants keep their shares for a further two years in a blocked deposit, they will then – after this holding period is over – receive one additional free share for every three shares purchased. Due to cost-saving measures, the reissue of the share purchase plan was interrupted in 2009, but resumed in 2010.

The minimum conditions to participate in the ESPP Plus were in:

2006: ranging from 9 shares to 270 shares

2007: ranging from 6 shares to 195 shares

2008: ranging from 3 shares to 162 shares

2010: ranging from 6 shares to 177 shares

2011: ranging from 6 shares to 198 shares

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

Details of share purchase plans	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date CHF
ESPP 2006	64 266	3:1	21 422	15 05 2011	87.90
ESPP 2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP 2008	51 000	3:1	17 000	15 05 2013	138.54
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81
ESPP 2011	74 526	3:1	24 842	30 05 2016	75.76

Development of share purchase plans 2011	Share awards outstanding 01 01 2011	Share awards granted during 2011	Share awards forfeited during 2011	Shares vested during 2011	Share awards lapsed during 2011	Share awards outstanding 31 12 2011
ESPP 2006	19 493	0	0	(15 462)	(4 031)	0
ESPP 2007	16 154	0	0	(22)	0	16 132
ESPP 2008	15 492	0	0	(27)	0	15 465
ESPP 2010	23 914	0	0	(35)	0	23 879
ESPP 2011	0	24 842	0	0	0	24 842
Total shares	75 053	24 842	0	(15 546)	(4 031)	80 318

Development of share purchase plans 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
ESPP 2005	22 393	0	0	(15 382)	(7 011)	0
ESPP 2006	19 882	0	0	(389)	0	19 493
ESPP 2007	16 543	0	0	(389)	0	16 154
ESPP 2008	15 985	0	0	(493)	0	15 492
ESPP 2010	0	23 955	0	(41)	0	23 914
Total shares	74 803	23 955	0	(16 694)	(7 011)	75 053

The estimated fair value of the share awards granted in 2011 was CHF 60.61 (2010: CHF 61.45). The weighted average share price of the vested shares in 2011 was CHF 88.01 (2010: CHF 77.13). The outstanding share awards at 31 December 2011 had a weighted average share price of CHF 97.10 (2010: CHF 101.79) and a remaining weighted average contractual life of 33 months (2010: 28 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20% in 2011 (2010: 20%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2006	1 318 096
ESPP 2006 discount	1 694 694
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985
ESPP 2011	1 505 624
ESPP 2011 discount	1 693 827

A total of 66 509 treasury shares with a par value of CHF 1 each (31 December 2010: 61 055 shares) is reserved for the share purchase plans.

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1 Group Structure and Shareholders

Lonza Group Ltd, a holding company under Swiss law, is fully committed to good corporate governance. As an internationally active company, Lonza complies with the local rules and regulations of all countries in which it does business. Lonza's corporate governance is measured against the SIX Swiss Exchange's "Directive on Information relating to Corporate Governance" (Corporate Governance Directive, DCG). The principles and rules of Lonza Group Ltd are laid down in the Company's Articles of Association¹, the Regulations Governing Internal Organization and Board Committees, including their Charters², and the Code of Conduct³. The Board of Directors reviews these principles and rules regularly in the light of prevailing best practices, as the "Swiss Code of Best Practice" issued by the Swiss Business Federation. In March 2009, Lonza Group Ltd joined the United Nations Global Compact, a strategic policy initiative for businesses⁴. In 2010, as a consequence of the decision taken on 18 December 2009 by the Sanction Commission of SIX Exchange Regulation⁵, the internal instructions and procedures that should ensure compliance with the stock exchange rules and regulations were thoroughly analyzed together with an external consultant and any flaws detected were corrected by adapting directives and procedures.

Detailed information on governance matters is also displayed on the company's website: www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx

1.1 Operational Group Structure

Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life-science industries. Its products and services span customers' needs, from research to final product manufacture. It is the global leader in the production and support of active pharmaceutical ingredients, both chemically and biotechnologically. Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries. Lonza has strong capabilities in large and small molecules, peptides, amino acids and niche bioproducts which play an important role in the development of novel medicines and healthcare products. Lonza is also the world leader in microbial control providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. In addition, Lonza is a leader in cell-based research, endotoxin detection and cell therapy manufacturing. Furthermore, the company is a leading provider of value-added chemical and biotech ingredients to the nutrition and agro markets.

¹ www.lonza.com/about-lonza/investor-relations/~/media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

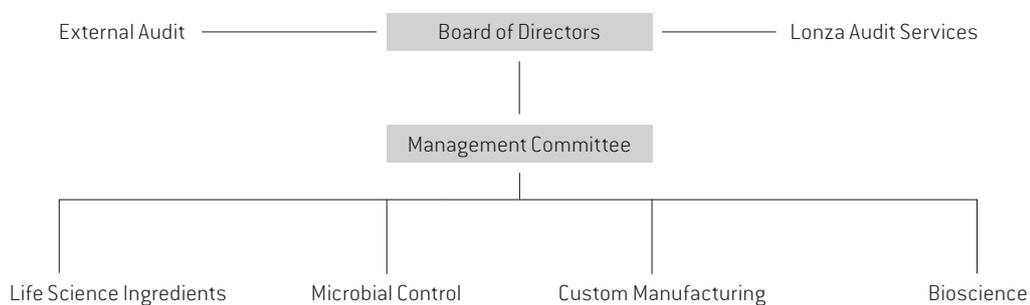
² www.lonza.com/about-lonza/investor-relations/~/media/Assets/about-lonza/Corporate%20Governance/By-Laws%20Webfassung_7%20April%202009.ashx

³ www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx

⁴ www.unglobalcompact.org

⁵ www.six-exchange-regulation.com/enforcement/sanction_decisions/adhoc_publicity_en.html

Organizational Structure



Lonza is headquartered in Basel, Switzerland. Its activities are organized in four divisions. The divisions function as profit centers and bear full responsibility for their respective business activities. A detailed description of Lonza's worldwide activities is available on the Group's website: www.lonza.com/en/about-lonza/company-profile/organization/business-structure.aspx

Holding company, principal subsidiaries and affiliates Lonza owns, directly or indirectly, all companies worldwide belonging to its Group, except Lonza Engineering AG (70%) and TL Biopharmaceutical Ltd (50%).

Principal subsidiaries¹ In 2011, Lonza acquired Arch Chemicals, Inc., a company with more than 70 affiliates, and integrated it in the new Microbial Control business sector, thereby creating the world's leading microbial control business. The new division will provide customers with complete solutions for their microbial control needs and will be perfectly positioned to offer a complementary range of products and activities to a broader range of customers in both established and emerging markets. The principal subsidiaries are shown on pages 92 and 93 of the Lonza Financial Report 2011.

¹ All companies belonging to Lonza Group are non-listed entities.

1.2 Principal Shareholders

The following table outlines the identities of those Lonza Group Ltd shareholders and their respective shareholdings with more than 3% of voting rights (according to information received from these shareholders):

Principal Shareholders Number of shares at CHF 1 par value	31 12 2011		31 12 2010	
		%		%
Manning & Napier Advisors, Inc., Fairport (USA)	7 006 770	13.24	2 545 279	4.81
Franklin Resources, Inc., Fort Lauderdale (USA)	5 267 936	9.95	5 267 936	9.95
Affiliated Managing Group, Inc., Prides Crossing (USA)	1 912 949	3.61	n.a.	n.a.
Bank of New York Mellon, New York (USA)	1 737 479	3.28	n.a.	n.a.
BlackRock, Inc., New York (USA)	1 588 649	3.00	1 592 590	3.01
Grupo Plafin SA, Barcelona (ES)	n.a.	n.a.	4 120 364	7.79
FMR LLC, Boston (USA)	n.a.	n.a.	2 673 056	5.05
The Capital Group Companies, Inc., Los Angeles (USA)	n.a.	n.a.	2 512 994	4.75

Lonza Group Ltd knows of no other shareholder(s) that owned more than 3% of the total share capital of Lonza Group Ltd as of 31 December 2011. To the best knowledge of Lonza Group Ltd, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza Group Ltd or the exercise of shareholders' rights. The company's 2011 reports in accordance with Art. 20 SESTA (Federal Act on Stock Exchange and Securities Trading) are published on the SIX Swiss Exchange Ltd disclosure platform¹ and on the company's website².

1.3 Cross-shareholdings

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

¹ www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.html

² www.lonza.com/en/about-lonza/investor-relations/investor-information/major-shareholders-and-changes-in-disclosed-shareholdings.aspx

2 Capital Structure

2.1 Share Capital

The share capital of Lonza Group Ltd as of 31 December 2011 was CHF 52 920 140, fully paid-in and divided into 52 920 140 registered shares with a par value of CHF 1 each.

Shareholder Structure	Shareholders %	¹ 2011	Shareholders %	¹ 2010
		Shares %		Shares %
Switzerland	90.77	26.64	91.62	20.14
United Kingdom	0.77	29.36	0.75	26.75
Spain	0.42	0.04	0.45	7.81
USA	2.07	7.94	1.95	8.12
Others	5.96	3.12	5.22	5.73
Shares in transit		30.43		30.61
Treasury shares without voting rights	0.01	2.47	0.01	0.84
Total	100.00	100.00	100.00	100.00
Total number of shares		52 920 140		52 920 140

Share Register	¹ 2011	¹ 2010
Registered shareholders	18 328	17 366
Registered shares	36 815 534	36 722 975
Share distribution:		
1 – 100	6 756	6 845
101 – 1 000	10 100	9 224
1 001 – 50 000	1 418	1 108
50 001 – 100 000	27	161
100 001 – 1 000 000	21	23
over 1 000 000	6	5
Total registered shareholders	18 238	17 366

2.2 Authorized and Conditional Capital

As of 31 December 2011 Lonza Group Ltd had conditional capital of CHF 5 029 860 and authorized capital of CHF 5 000 000 at its disposal. This conditional/authorized capital was created by the Annual General Meetings held respectively on 11 April 2005 and 12 April 2011. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association².

¹ As of 31 December

² www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

2.3 Changes in Capital

2.3.1 Share Capital and Registered Shares

	¹ 2011	¹ 2010	¹ 2009
Share capital in CHF	52 920 140	52 920 140	52 920 140
Registered shares	52 920 140	52 920 140	52 920 140
Par value in CHF /share	1	1	1

2.3.2 Changes in Lonza Group Ltd Capital and Reserves

CHF	Financial year 2011	Financial year 2010	Financial year 2009
Share capital	52 920 140	52 920 140	52 920 140
General legal reserve	26 460 070	25 225 000	227 776 480
Reserve from capital contribution	839 727 980	202 551 480	0
Reserve for own shares	110 550 603	44 491 517	68 061 133
Available earnings brought forward	783 334 935	1 524 326 393	1 495 985 580
Total capital and reserves	1 812 993 728	1 849 514 530	1 844 743 333
Net income for the year	97 196 559	74 229 225	96 490 269

For additional information, please refer to the consolidated statement of shareholders' equity on page 80 in the Lonza Financial Report 2011.

2.4 Shares and Participation Certificates

Lonza Group Ltd registered shares, with a par value of CHF 1 each, are listed /traded on the SIX Swiss Exchange (SIX) and on the Singapore Exchange Securities Trading Limited (SGX-ST). In Switzerland they are included in the SIX SMI mid Index (SMIM).

Lonza Group Ltd has not issued any participation certificates (non-voting shares).

Security number: (i) SIX: 001384101 (valor), ISIN CH0013841017,
stock symbol: LONN VX (Telekurs); (ii) SGX-ST stock code: 06Z

On 31 December 2011, Lonza had a market capitalization of CHF 2 937 million (2010: CHF 3 966 million).

2.5 Bonus Certificates

Lonza Group Ltd has not issued any non-voting equity security (Genussscheine, bonus certificates).

¹ As of 31 December

2.6 **Limitations on Transferability and Nominee Registrations**

Purchasers of registered shares declaring that they have acquired these shares in their own name and for their own account will be entered without limitation as shareholders with voting rights in the share register. Persons who do not declare to have acquired the respective shares in their own name and for their own account are considered “nominees” and will be entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Company’s Articles of Association¹.

2.7 **Bonds and Options**

Bonds In April 2009, Lonza Swiss Finance Ltd, Basel, Switzerland, raised a CHF 300 million 3.75 % bond due 2013 and in November 2011 CHF 380 million (CHF 240 million at 2.25 % due in 2015 and CHF 140 million at 3.125 % due in 2018) and in 2010 Lonza Group Ltd, Basel, Switzerland, raised a CHF 400 million 3.00 % bond due 2016.

Options The members of the Board of Directors and the members of the Management Committee have no longer any rights to outstanding options.

¹ [www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate %20Governance/Articles_of_Association_D_E.ashx](http://www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx)

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is made up of non-executive members and comprises three Swiss and four non-Swiss members.

The members of the Board of Directors as of 1 January 2012 were as follows:

Name	Nationality	Year of birth	Position held	Year of initial appointment	Expiration of current term of office
Rolf Soiron	Swiss	1945	Chairman of the Board of Directors and Member of the Nomination and Compensation Committee	2005	2012
Sir Richard Sykes	British	1942	Vice-Chairman of the Board of Directors and Chairman of the Nomination and Compensation Committee	2003	2012
Patrick Aebischer	Swiss	1954	Member of the Board of Directors and Member of the Innovation and Technology Committee	2008	2012
Jean-Daniel Gerber	Swiss	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2011	2012
Dame Julia Higgins	British	1942	Member of the Board of Directors and Chairwoman of the Innovation and Technology Committee	2006	2012
Gerhard Mayr	Austrian	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2006	2012
Peter Wilden	German	1957	Member of the Board of Directors and Chairman of the Audit and Compliance Committee	2004	2012

With the exception of Dame Julia Higgins, all other members of the Board of Directors will stand for re-election for a further term of one year.

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



Rolf Soiron

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

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

Current activities and functions:

- Member of the Council of the Foundation of the Graduate Institute of International and Development Studies, Geneva (since 2010)
- Member of the Council of the International Committee of the Red Cross, Geneva (since 2010) and Member of the International Committee of the Red Cross, Geneva (since 2009)
- Chairman of the Foundation Council of Avenir Suisse (since 2009)
- Member of the Board of *economiesuisse* (since 2009)
- Chairman of the Board of Directors of Holcim Ltd, Jona (since 2003) and member of the Board (since 1994)
- Member of the Board of Directors of Jungbunzlauer Group, Basel (since 1993)

Former activities and functions:

- Chairman of the Board of Directors of Nobel Biocare Holding Ltd, Zurich (2003–2010)
- Chairman of the Basel University Council (1995–2005)
- Managing Director of Jungbunzlauer Group, Basel (2001–2003)
- CEO of Jungbunzlauer Group, Basel (1993–2001)
- Sandoz Group – COO and Head of Pharma in Basel (1992–1993), Group Vice-President Agribusiness USA in New York (1988–1992)
- Protek Group (orthopedic implants) President and CEO in Berne (1983–1987)
- Sandoz Group – various functions in Human Resources, Finance and Corporate in Basel (1972–1983)



Sir Richard Sykes

Sir Richard Sykes holds a number of degrees and awards from Institutions both in the UK and overseas. He is a Fellow of the Royal Society and Academy of Medical Sciences, and an Honorary Fellow of the Royal Academy of Engineering, Royal Society of Chemistry, Royal Pharmaceutical Society, Royal College of Pathologists and the Royal College of Physicians. He is also President of the R and D Society, a position he has held since 2002. He is president of the Institute for Employment Studies (IES) and President of the Medical and Dental Students' Association. He is a Fellow of Imperial College London and the Imperial College School of Medicine, King's College London and Honorary Fellow of the Universities of Wales and Central Lancashire. Sir Richard received a Knighthood in the 1994 New Year's Honours list for services to the pharmaceutical industry. He was awarded Honorary Citizenship of Singapore in 2004 for his contribution to the development of the country's biomedical sciences industry. He has over 30 years' experience within the biotechnology and pharmaceutical industries field.

Vice-Chairman of the Board of Directors of Lonza Group Ltd, Basel (since April 2005), Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2003)

Current activities and functions:

- Chairman of Imperial College Healthcare NHS Trust (since 2012)
- Chairman of the Royal Institution of Great Britain (since 2010)
- Chairman of the UK Stem Cell Foundation (since 2004)
- Chairman of CRAC, the Careers and Research Advisory Council (since 2008)
- Chairman of Toumaz UK Ltd, Oxford, UK (since 2005); Circassia UK, Oxford, UK (since 2007); Omnicyte Ltd, London (since 2006)
- Sits on the advisory boards of Siemens Holdings plc and the Virgin Group (since 2010)
- Chairman of the International Advisory Board, A*Star Biomedical Research Council, Singapore (since 2002)
- Board member of EDBI (since 2004)

Former activities and functions:

- Senior Independent Director and non executive Chairman of ENRC plc, London (2007–2011)
- Chairman of NHS London (2008–2010)
- Rector of Imperial College, London from (2000–2008)
- Non executive director of Rio Tinto plc, London (1997–2007) and senior independent director (2004–2007).
- Chief Executive and Chairman of Glaxo Wellcome plc, London (1995–2000) and then Chairman of GlaxoSmithkline plc, Middlesex, UK (until 2002)



Patrick Aebischer

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

Member of the Board of Directors of Lonza Group Ltd, Basel
(since March 2008)

Current activities and functions:

- Member of the Board of Directors of Nestlé Health Science SA (since 2011)
- President of the Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Professor of Neurosciences, Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Fellow of the American Institute for Medical and Biological Engineering (since 2000)
- Fellow of the Swiss Academy of Medical Sciences (since 1998)

Former activities and functions:

- Founder of three biotechnology companies



Jean-Daniel Gerber

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

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

Former activities and functions:

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



Dame Julia Higgins

Dame Julia Higgins Holds a B.A. Honours in Physics and a D. Phil. from the Department of Physical Chemistry at the University of Oxford. Fellow and member of a number of scientific institutions in the UK and overseas, e.g. Royal Society, Royal Academy of Engineering, Royal Society of Chemistry and the American Chemical Society. Honored with the DBE [Dame Commander of the Order of the British Empire].

Member of the Board of Directors of Lonza Group Ltd, Basel
(since March 2006)

Current activities and functions:

- Chairwoman of the Advisory Committee for Mathematics Education (since 2008)
- Trustee of the Daphne Jackson Memorial Fellowships (since 1994)
- Professor of Polymer Science, Imperial College London, Department of Chemical Engineering and Chemical Technology (since 1989); Emeritus and Senior Research Investigator (from 2007)

Former activities and functions:

- Trustee of The National Gallery (2001 – 2010)
- President of the Association for Science Education (2007–2008)
- Principal of the Faculty of Engineering, Imperial College, London (2006–2007)
- Chairwoman of the Engineering and Physical Sciences Research Council (2003–2007)
- Foreign Secretary and Vice-President of The Royal Society (2001–2006)



Gerhard Mayr

Gerhard Mayr Holds a Masters Degree in Chemical Engineering from the Swiss Federal Institute of Technology (ETH), Zurich, and a Master of Business Administration from Stanford University.

Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2006)

Current activities and functions:

- Member of the Board of UCB SA, Brussels (since 2005)
- Member of the Board of Project Hope, USA (since 2002)
- Member of the Board of the Vienna Science, Research and Technology Foundation (since 2002)
- Member of the circle of patrons of INSEAD Business School (since 2000)

Former activities and functions:

- Member of the Board of Alcon, Inc., Hüneberg (2007–2010)
- Member of the Board of OMV AG, Vienna (2002–2009)
- Member of the Board of Bank Austria AG, Vienna (1998–2006)
- Executive Vice-President of Eli Lilly & Company with responsibility for global pharmaceutical operations (1999–2004)
- Member of the US-Egypt President's Council (1999–2004)
- Member of the Board of the European Federation of the Pharmaceutical Industry (1995–1997 and 2000–2002)
- President of Eli Lilly Intercontinental (1997–1999)
- President of Eli Lilly International (1993–1997)
- Joined Eli Lilly in 1972 as Sales Representative



Peter Wilden

Peter Wilden Holds a degree in business administration and information technology, as well as a PhD in business administration from the University of Kiel.

Member of the Board of Directors of Lonza Group Ltd, Basel
(since March 2004)

Current activities and functions:

- Executive Vice-President Finance and Chief Financial Officer of Ferring Pharmaceuticals in Lausanne, Switzerland (since 2000)
- Member of various scientific research organizations in Germany, the United States and the Netherlands

Former activities and functions:

- Member of the Board of Trace Biotech AG, Braunschweig, Germany (1999–2002)
- Held various managerial positions in the Ferring Group (1991–2000)
- Consultant for Mak Data System, Kiel, Germany, and the Krupp network (1988–1991)
- Management Assistant with Krupp MaK Maschinenbau GmbH, Kiel, Germany (1986–1988)
- Scientific Assistant of the Kiel Institute of World Economics (1983–1986)

3.3 Elections and Terms of Office

Each member of the Board of Directors is individually elected by the Annual General Meeting for a term of one year. Re-election is possible with a maximum incumbency of nine years and an age limit of 70. The Board constitutes itself and elects from amongst its members the Chairman, the Vice-Chairman and the Board Committees.

3.4 Internal Organizational Structure

In accordance with the law and the Articles of Association¹, the Board of Directors is the supreme management body of the Group. It consists of the Chairman, the Vice-Chairman and the other members. In accordance with the Articles of Association¹, the number of members must be at least three.

The members of the Board of Directors sat on the following committees in 2011:

	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Rolf Soiron		Member	
Sir Richard Sykes		Chairman	
Patrick Aebischer			Member
Jean-Daniel Gerber	Member		
Dame Julia Higgins			Chairwoman
Gerhard Mayr	Member		
Peter Wilden	Chairman		

¹ www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

Audit and Compliance Committee The Audit and Compliance Committee meets and consults regularly with the Management Committee, the Lonza Audit Services and the independent auditors to review the scope and results of their work and their performance according to the Audit and Compliance Committee Charter. Internal and external auditors have full and free access to the Audit and Compliance Committee. The Audit and Compliance Committee reviews the systems of internal control and financial reporting, and compliance with laws and regulations. The Audit and Compliance Committee also oversees the Lonza Audit Services. The Audit and Compliance Committee is fully empowered to decide the tasks assigned to it and it regularly informs the Board of Directors on all matters discussed and decided in its meetings.

Nomination and Compensation Committee The Nomination and Compensation Committee is entrusted, for example, with the review and recommendation of compensation policies and programs (e.g. incentive compensation and equity plans), the Chairman's and the CEO's compensation based on their performance, as well as the compensation of the members of the Management Committee and key executives. This Committee also makes an assessment to ensure that the area of Nomination and Compensation is in compliance with the standards set forth in the associated Charter. Further, the Nomination and Compensation Committee is continuously evaluating potential members for the Board of Directors. With regard to the tasks assigned to it, the Nomination and Compensation Committee regularly informs the Board of Directors on all matters discussed in its meetings and submits proposals for decision by the Board in accordance with the Nomination and Compensation Committee Charter.

Innovation and Technology Committee The main tasks of the Innovation and Technology Committee are to support the LIFT (Lonza Innovation for Future Technology) Initiative, to monitor potential technology breakthroughs, to support management in driving innovation projects and to provide and facilitate contacts, e.g. with academia and research institutions. With regard to the tasks assigned to it, the Innovation and Technology Committee regularly informs the Board of Directors on all matters discussed and decided in its meetings.

In 2011, the members of the Board of Directors spent their annual learning day in Singapore on the topic of "Lonza's presence in Asia".

Attendance and main topics Detailed information on attendance and main topics at Board and Committee meetings in 2011 is provided in the following table:

	Board of Directors	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Number of meetings	8 ¹	5	6 ²	4 ³
Overall attendance	93 %	100 %	100 %	100 %
Main topics	Discussions on Secondary Listing at SGX-ST	Review of 2011 audit findings, financial results and 2012 budget	Monitoring of compensation and incentive structure	Monitoring of trends in research and development
	Discussions on Arch Chemicals, Inc. acquisition; M&A review	Review of internal audit reports	Review of short-term incentive objectives and calculation basis	Review of developments in LIFT (Lonza Innovation for Future Technology)
	Discussions on site profitability improvements	Review of quarterly and half-year results/ outlooks	Reassessment of the long-term incentive program	Support of the innovation process
	Review of quarterly and half-year results 2011 and planning 2012	Review of VAT situation and transfer pricing	Review of succession plans and talent development program	Providing and facilitating scientific contacts

In 2011, an ad-hoc committee of the Board of Directors (R. Soiron, R. Sykes and P. Wilden) held four meetings (one as a telephone conference) to discuss and provide support for the acquisition of Arch Chemicals, Inc. In addition, members of the Board of Directors supported the Management Committee through regular individual contacts.

¹ Three as telephone conferences and five full-day meetings (all with members of the Management Committee attending)

² One as telephone conference

³ At one meeting with the presence of an external consultant

3.5 Areas of Responsibility

The Board of Directors is responsible for the tasks assigned to it according to (i) Article 18 of the Company's Articles of Association¹ and (ii) the Regulations Governing Internal Organization and Board Committees². The Board of Directors defines the strategic direction and is responsible for the ultimate management of Lonza as well as the supervision of the persons entrusted with Group management, especially with regard to compliance with the law, the Articles of Association¹, the regulations and the directives, and it is obliged and entitled to issue the necessary instructions. In compliance with the law and the Articles of Association¹ of Lonza Group Ltd, the Board of Directors has – with the exception of non-delegable and inalienable duties – delegated the management of the company to the Management Committee.

Organizational structures and control instruments The Board of Directors continues to commit itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. On an annual basis, the Board undertakes a self-assessment process and also participates in an assessment by the Management Committee. The aim is to achieve continuous improvement in the functioning of the Board. The Regulations Governing Internal Organization and Board Committees² set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Management Committee. The standing Board Committees in the areas of audit/compliance, nomination/compensation and innovation/technology provide modern corporate governance guidance and support to the Board of Directors. The Code of Conduct³ expresses Lonza's core principles and values in professional business behavior, and provides assistance in recognizing, understanding and complying with the laws and ethical standards that govern Lonza's business activities.

Broad supervisory and reviewing powers are held by the Board of Directors, which is directly supported by the Lonza Audit Services. The Regulations Governing Internal Organization and Board Committees² confer on the CEO the duty to inform the Management Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. The Board of Directors meets periodically with the Management Committee or its subcommittees for business updates and decisions to be taken.

¹ www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

² www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/By-Laws%20Webfassung_7%20April%202009.ashx

³ www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx

3.6 Information and Control Instruments

Lonza has a system of internal financial and accounting policies, procedures and controls to provide a reasonable assurance, given the inherent limitations of all internal control systems, at appropriate cost, that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded. Lonza Audit Services comprise 6.5 experts who oversee the finance, operational and process activities of the Group with a risk-based audit program. They continually evaluate the adequacy and effectiveness of the system of internal accounting policies, procedures and controls, and take appropriate action to correct deficiencies as they are identified. In 2011, they delivered 66 internal audit reports to the Audit and Compliance Committee.

In addition to the documents required to pass resolutions, the Board of Directors receives the following reports at its regular meetings:

- Reports on the sales and earnings performance of the company, with the relevant market information in the same period since the beginning of the year, structured by divisions / business sectors, with the main sales areas and key product groups
- Reports on the cash flows, debt and debt-equity ratio, plus other relevant key figures for the Group
- Qualitative assessments of the divisions / business sectors and major subsidiaries
- Audit reports prepared by the internal and external auditors
- Analysis of the shareholder structure
- Annual overview of the Group's key staff benefit schemes, including pension funds
- In cases involving extraordinary events of considerable commercial relevance, the Board of Directors receives direct, immediate information.
- Reports encompassing the subject of risk assessment are submitted at least once per year; they are designed to provide the Board with a consistent, Group-wide perspective of key risks according to specific criteria.

4 Management Committee

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board Committees¹ or additional tasks as delegated. It is responsible for leading Lonza and for developing and implementing the Lonza policy and strategy after approval by the Board of Directors. It supports and coordinates the activities of the divisions and corporate functions. The Management Committee is also responsible for leadership development and succession planning. In March 2011, Harry Boot was appointed COO Life Science Ingredients division and member of the Management Committee, and in October 2011 Jeanne Thoma was appointed COO Microbial Control division and member of the Management Committee.

4.1 Members of the Management Committee

At 1 January 2012, the Management Committee consisted of seven active members.

Name	Nationality	Year of birth	Current function
Stefan Borgas	German	1964	Chief Executive Officer (since June 2004* / COO Life Sciences Ingredients division (ad interim since June 2010 until March 2011))
Uwe H. Böhlke	German	1964	Chief Officer Human Resources/ Corporate Services
Harry Boot	Dutch	1967	COO Life Science Ingredients division (as from March 2011)
Toralf Haag	German	1966	Chief Financial Officer
Stephan Kutzer	American	1965	COO Custom Manufacturing division
Jeanne Thoma	American	1959	COO Microbial Control division (as from October 2011)
Lukas Utiger	Swiss	1963	COO Bioscience division

¹ www.lonza.com/about-lonza/investor-relations/~/_/media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

* Change of CEO was announced in January 2012

4.2 **Activities and Functions of the Members of the Management Committee**



Stefan Borgas

Stefan Borgas Holds a degree in business administration from the University of Saarbruecken and a lic. oec. HSG degree (MBA) from the University of St. Gallen

Chief Executive Officer (since June 2004*);
since June 2010 until March 2011 also ad interim COO Life Science Ingredients division

Former activities and functions:

- Worked in various functions for the BASF Group (1990–May 2004)
Group Vice-President, Regional Business Unit Fine Chemicals North America, BASF Corp. (2003–May 2004) / Group Vice-President, Regional Business Unit Fine Chemicals Europe, Africa, Middle East, BASF AG, Ludwigshafen (2001–2003) / Director Strategic Marketing Animal Nutrition, Fine Chemicals Division, BASF AG, Ludwigshafen (1998–2001) / Group Logistics Manager, Engineering Plastics, BASF Corp. (1995–1998)

* Change of CEO was announced in January 2012



Uwe H. Böhlke

Uwe H. Böhlke Holds a degree and a PhD in mechanical engineering as well as a degree in economics from RWTH Aachen University

Member of the Management Committee (since January 2007)

Functions within Lonza:

- Chief Officer Human Resources / Corporate Services (since November 2009)
- COO Custom Manufacturing / Head of the business sector – Exclusive Synthesis (January 2007 – October 2009)

Former activities and functions:

- Held various positions at SCHOTT AG, Mainz (1996–2006): Executive Vice-President of the global business unit “Home Tech” (2003–2006) / Vice-President Global “Research and Development” (1998–2003) / Additional global assignment “Intellectual Properties” (2001–2003) / Vice-President “Corporate Engineering and Special Machines” (1996–1998)
- Worked in various functions for Fraunhofer-Gesellschaft, Munich; Institute of Production Technology, Aachen (1990–1996): Chief engineer and member of Institute Management (1994–1996) / Consultant in Technology and Innovation Management (1990–1994)



Harry Boot

Harry Boot Holds a masters degree in mechanical engineering from the Technical University of Delft, Holland

Member of the Management Committee (since March 2011)

Functions within Lonza:

- COO Life Science Ingredients division (since March 2011)

Former activities and functions:

- Chief Commercial Officer of Bluestar/Blackstone, Beijing (2009–February 2011)
- Chief Commercial Officer Europe, Middle East & Africa at GE Consumer & Industrial (C&I), Budapest (2007–2009)
- Held various positions at GE Plastics (GEP) in Shanghai, Stockholm and Bergen op Zoom:
Polymers Director Pacific and GE Industrial Growth Leader Pacific (2006–2007) / Marketing Director Pacific (2005–2007) / Marketing Director Europe (2002–2005) / European Commercial Director (2000–2002) / Global & Pan European Sales Leader (1998–2000)



Toralf Haag

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

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

Former activities and functions:

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



Stephan Kutzer

Stephan Kutzer Holds a PhD in chemical engineering from the Technical University of Munich

Member of the Management Committee (since July 2005)

Functions within Lonza:

- COO Custom Manufacturing division (since November 2009)
- COO Custom Manufacturing / Head of the business sector – Biopharmaceuticals (June 2005–October 2009)
- Head of Performance Chemicals (2003–2005)
- Site manager of Lonza Bayport, TX, facilities (November 1999–2002)
- Assistant production manager in Lonza Guangzhou Ltd, Guangzhou, China (July–September 1999)
- Joined Lonza in 1996 as assistant production manager at Visp and became production manager nicotinates in 1998.



Jeanne Thoma

Jeanne Thoma Holds a Bachelor of Science from Montclair State University and a Master in Business Administration (MBA) from Fairleigh Dickinson University

Member of the Management Committee (since October 2011)

Functions within Lonza:

- COO Microbial Control division (since October 2011)
- Head of the Microbial Control business unit (June 2007–October 2011)
- Member of the Management Committee (August 2005–June 2007)
- Joined Lonza as Head of Global Human Resources (December 2004)

Former activities and functions:

- Held various positions with BASF Corporation (1990–August 2004) in Sales, Marketing and Logistics.
- Worked as a Sales and Marketing Consultant to Fortune 500 companies (1985–1989)



Lukas Utiger

Lukas Utiger Holds a PhD in chemical engineering from Imperial College, London

Member of the Management Committee (since August 2001)

Functions within Lonza:

- COO Bioscience division (since June 2010)
- COO Life Science Ingredients division (August 2006–May 2010)
- Head of the Exclusive Synthesis business sector (August 2001–December 2006)
- Head of Research and Development for Exclusive Synthesis (October 2000–July 2001)
- Joined Lonza as R&D chemist in 1992 and became R&D group leader for fine chemicals in 1998
- Acquired his business experience at ICI Chemicals & Polymers Division in Runcorn (1988–1992)

4.3 Management Contracts

Lonza Group Ltd and its subsidiaries have not entered into management contracts with third parties.

5 Compensation, Shareholdings and Loans

Details of Board and Management compensation are contained in the Consolidated Financial Statements (page 157, note 33) and in the Remuneration Report (page 185).

6 Shareholders' Participation Rights

6.1 Voting-rights Restrictions and Representation

Only persons with valid entries in the share register are recognized as shareholders or usufructuaries. A shareholder may only be represented at the Annual General Meeting by a legal representative or – by way of written proxy – by another shareholder entitled to vote, the appointed representative of the corporate body, the independent proxy or an assignee of proxy votes for deposited shares. Persons who do not declare to have acquired their shares in their own name and for their own account are considered “nominees” and will be only entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Company's Articles of Association¹.

Each share has the right to one vote.

The shares held by Lonza Group Ltd are not entitled to vote at the Annual General Meeting and bear no dividend.

Lonza may use an electronic voting system for all the resolutions to be taken at its Annual General Meetings.

6.2 Statutory Quora

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

For certain important matters such as a change of the company purpose and domicile, the dissolution of the company without liquidation, and matters relating to capital changes, Article 704 of the Swiss Code of Obligations provides for a two-thirds majority of votes cast, representing an absolute majority of nominal values of shares represented.

¹ [www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate %20Governance/Articles_of_Association_D_E.ashx](http://www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx)

6.3 Convocation of Shareholders' Meetings

Ordinary Shareholders' Meetings are called in accordance with the law and the Company's Articles of Association¹. Extraordinary Shareholders' Meetings must be called upon resolution of a Shareholders' Meeting or if demanded by one or more shareholders representing at least 5% of the share capital.

Lonza posts the invitations to shareholders at least 20 working days before the Annual General Meeting and publishes it on its website as well as in the Swiss Official Gazette of Commerce and several newspapers.

6.4 Agenda

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

6.5 Entry in the Share Register

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

There are no special statutory rules in the Company's Articles of Association¹ concerning a deadline for entry in the share register. The share register will this year be closed on 23 March 2012 at 5 pm.

7 Changes of Control and Defense Measures

7.1 Duty to Make an Offer

An offer to acquire all shares must be made in accordance with Art. 32 SESTA (Federal Act on Stock Exchange and Securities Trading) if the threshold of 33 ¹/₃ of the voting rights is exceeded. No special opting-out or opting-up dispositions are contained in the Company's Articles of Association¹.

7.2 Clauses on Changes of Control

The employment agreements/pension plans of the Management Committee Members contain certain clauses on changes of control, which are outlined in the Remuneration Report (page 185 ss).

¹ www.lonza.com/about-lonza/investor-relations/-/media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx

8 Auditors

8.1 Duration of the Mandate and Term of Office of the Auditor in Charge

Since 1999, KPMG Ltd, Badenerstrasse 172, 8026 Zurich 4, Switzerland, has held the mandate as the external statutory auditors of Lonza Group Ltd and the Group.

The auditing company is elected for a term of one year.

Regula Wallimann from KPMG Ltd has been the auditor in charge since 8 April 2009.

The Board of Directors proposes that KPMG Ltd be re-elected as statutory and Group auditors for the business year 2012.

Head of Lonza Audit Services is Emilio Rubio, Basel (Switzerland).

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 4.212 million (2010: CHF 2.048 million) for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities.

8.3 Additional Honorarium

KPMG Ltd received a total fee of CHF 0.125 million (2010: CHF 0.01 million) for other services rendered to Lonza.

8.4 Supervisory and Control Instruments vis-à-vis the Auditors

The Audit and Compliance Committee is responsible for evaluating the external auditors on behalf of the Board of Directors. In the reporting year, there were two joint meetings with the representatives of the external auditors. The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Audit and Compliance Committee is also responsible for overseeing the conduct of the activities by Lonza management and the external auditors.

The independent statutory auditor, KPMG Ltd, is responsible for expressing an opinion on the accounting records and the financial statements prepared in accordance with Swiss law and the Company's Articles of Association¹. KPMG Ltd is also responsible for expressing an opinion on the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes) prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and Swiss law.

¹ [www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate %20Governance/Articles_of_Association_D_E.ashx](http://www.lonza.com/about-lonza/investor-relations/~/_media/Assets/about-lonza/Corporate%20Governance/Articles_of_Association_D_E.ashx)

9 Information and Key Reporting Dates

Lonza pursues a proactive and professional communication policy. Lonza Group Ltd publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts as required by the SIX Swiss Exchange.

Corporate Communications reports directly to the Chief Executive Officer, while Investor Relations reports to the Chief Financial Officer. On basic matters of general corporate policy, Corporate Communications receives its directives from the Management Committee.

Lonza Group Ltd provides shareholders entered in the share register (on request only) with an annual report as well as with the half-year and full-year results. These reports are also available on the company's website www.lonza.com. The website is regularly updated and provides relevant information such as share price development, news releases and presentations. It also contains an electronic version of the Annual Report 2011 .

Media conferences and analyst meetings take place at the Company's headquarters or by conference call. Lonza manages an annual program of investor meetings.

Investors, potential investors, as well as financial analysts, are also welcomed at the Company's headquarters in Basel.

Anticipated Key Reporting Dates

The list of all corporate events of special interest is subject to change during the year as dates are adjusted and added.

Annual General Meeting for the 2011 financial year

3 April 2012, 10.30 am

Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2012, analysts' meeting

25 July 2012

Full-year Report 2012, analysts' meeting

January 2013

Annual General Meeting for the 2012 financial year

9 April 2013

Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Dividend Transfer to Banks

As a rule, Lonza Group pays the dividend to its shareholders on the fifth business day following the Annual General Meeting.

This publication is accessible online at www.lonza.com and is also available in German. The English version prevails. In this report, “Lonza” and “the Group” refer to the whole group of Lonza companies, “Lonza Group Ltd” refers to Lonza Holding. Lonza is listed on the SIX Swiss Exchange, with a secondary listing on the Singapore Exchange Securities Trading Limited (“SGX-ST”). Lonza is not subject to the SGX-ST’s continuing listing requirements. Lonza is subject to the listing rules of the SIX Swiss Exchange. By publishing this Annual Report, Lonza fulfills its obligations under the SIX Swiss Exchange as well as its obligation towards SGX-ST.

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. Investors are cautioned that all forward-looking statements involve risks and uncertainties. In addition to those discussed above, factors that could cause actual results to differ materially include: the timing and strength of new product offerings; pricing strategies of competitors; the company’s ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

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Lithography Birkhäuser+GBC AG, Reinach, Switzerland

Print Veenman+, Rotterdam, The Netherlands

- 1 Marie-Madlen Amstutz, Operator: temperature control while sterilizing the sampling system at the main fermenter.
- 2 Stefan Walker, shift worker, at the control panel of a centrifuge.
- 3 Benjamin Burk, biology lab assistant at QC BioPharma Microbiology: aseptic preparation of an active pharmaceutical ingredient for contamination control.
- 4 Heinz Locher, logistics assistant: sampling of raw materials at the reception control.
- 5 Deborah Venetz, biology lab assistant at QC BioPharma Microbiology: membrane filtration of an active pharmaceutical ingredient for contamination control.
- 6 QC BioPharma Microbiology: identification of microorganisms on the genomic level.
- 7 Andreas Hänni, operator: packaging and labeling of products.
- 8 Andreas Hänni, operator: monitoring activities.
- 9 Deborah Venetz, biology lab assistant at QC BioPharma Microbiology, flaming forceps tips for aseptic transfer of membranes onto growing media.
- 10 At the table, Erich Truffer, logistics employee, shipping department, checking and labeling pallets with the necessary shipment and customer labels. On the vehicle, Benjamin Summermatter, logistics employee, shipping department, receiving the packed and labeled pallets from the conveyor system.
- 11 Carsten Meininghaus, former Head of QA Visp Custom Manufacturing: Training in the auditorium.
- 12 Daniela Grand, QA manager: visual check through the inspection glass.
- 13 Urs Abgottspon, operator, connecting a water hose.
- 14 Janick Haene, laboratory assistant, changing the sample plate of an HPLC chromatograph.
- 15 Technical adjustment of a Lonza microreactor.
- 16 Matthias Schnydrig, logistics employee, technical goods reception, taking delivery of a consignment for inspection.

Pictures for Photo Reportage:
Thomas Andenmatten, Brig, Switzerland

Legal Domicile

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Anticipated Key Reporting Dates

Annual General Meeting
for the financial year 2011

3 April 2012, 10.30 am

Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2012: **25 July 2012**

Full-year Report 2012: **January 2013**

Annual General Meeting
for the financial year 2012

9 April 2013

Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Dividend Transfer to Banks

As a rule, Lonza Group Ltd pays the dividend to its shareholders on the fifth business day following the Annual General Meeting.

Listing and Security Information

Stock Exchange Listing / Trading

SIX Swiss Exchange, SGX Singapore Exchange

Common Stock Symbols

Bloomberg LONN:VX
Reuters LONN.VX
Telekurs LONN

Security Number

Valor 001384101
ISIN CH0013841017

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The quality manager optimizes quality-oriented processes in line with the goal of continuous improvement. Ensuring quality standards is not just a matter for the Quality Units. Everyone is responsible for product quality in his or her field.



16

Lonza Quality Assurance



1

Lonza Quality Assurance

Half-Year Report 2012 of the Guarantor

Unaudited financial statements of Lonza Group Ltd for the half-year ended 30 June 2012.

(This page has been left blank intentionally.)

- Lonza delivered solid results despite a difficult macroeconomic environment
- Sales of CHF 1 964 million up by 64.6% (mainly due to the acquisition of Arch)
- Strong performance from Microbial Control, driven by the US Water Treatment business and emerging markets
- Custom Manufacturing operated in a volatile environment with high capacity utilization and a strong project pipeline
- Life Science Ingredients with above-target performance
- Arch integration fully on track, confirming cost synergies from end of year 2 of USD 50 million and revenues from cross-selling of USD 40 million as of year 3 and EPS-accretive as of this year
- “Focus and Deliver” implemented as guiding management principle
- VispChallenge project encompasses cost reductions, productivity enhancements and new businesses and is set to contribute CHF 100 million of profit improvement over three years
- Net debt reduction on track even after dividend payment
- New CEO started on 1 May 2012

Financial Highlights for First Half-Year

Financial highlights million CHF	2012	Change in %	2011
Sales	1 964	64.6	1 193
EBITDA	327	23.4	265
Margin in %	16.6		22.2
Result from operating activities (EBIT)	168	23.5	136
Margin in %	8.6		11.4
Profit for the period	94	(3.1)	97
EPS basic (CHF)	1.82	(4.2)	1.90
EPS diluted (CHF)	1.81	(4.2)	1.89
CORE¹			
Result from operating activities (EBIT)	199	39.2	143
Margin in %	10.1		12.0
Profit for the period	125	16.8	107
EPS basic (CHF)	2.42	15.8	2.09
EPS diluted (CHF)	2.41	15.9	2.08
Operational free cash flow	289	337.9	66
RONOA in %	7.4		8.4
Net debt	2 531	102.6	1 249
Debt-equity ratio	1.08		0.58
Number of employees	11 084	33.4	8 306

Overview Following the change of leadership early in 2012, Lonza committed to “Focus and Deliver”, including delivery of an improved return on capital. Lonza aims to strengthen its global market positions in relevant markets, reinforce competitive strengths, and achieve productivity improvements, such as those embodied in the “VispChallenge” project, which are expected to contribute CHF 100 million in profit improvements over three years. The company is fully committed to the stepwise improvement of growth, EBITDA margin and return on capital.

In the first half of 2012, Lonza continued to build upon its leading positions in Custom Manufacturing and Microbial Control. Lonza delivered solid results in all sectors despite some ongoing difficulties in the macroeconomic environment and persistent uncertainties regarding a possible recession.

Demand in Custom Manufacturing was firm, resulting in high capacity utilization in both chemical and biological plants, as well as a strong project pipeline. The outsourcing trend is considered to be solid. A full response to the FDA regarding the 2011 warning letter received at our Hopkinton, MA (USA) plant was submitted. Corrective action has been taken. The qualification and compulsory validation campaigns of our large-scale Custom Manufacturing Biologics facility in Singapore had an impact on

¹ In the core results for the items: result from operating activities (EBIT), profit for the period and earnings per share, the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring/ acquisition is eliminated.

the capacity utilization and EBIT contribution. At our Hopkinton, MA (USA) site, quality upgrades were required. Lastly, Lonza initiated the efforts in Formulated Products (generics), which we consider investments for the future.

Microbial Control delivered a solid performance in the first half of 2012 in all sectors. Sector activities in emerging markets continued to be built out. Integration of the business is on track to deliver synergies of USD 50 million as of the end of year 2 and additional revenues of USD 40 million from cross-selling activities; 50% of the synergies will be delivered in 2012. Innovation projects based on the newly combined portfolio are making good progress.

Capacity utilization in the Life Science Ingredients sector remained high. Sales of agrochemical intermediates increased substantially due to strong food demand worldwide. Price increases were successfully initiated in order to offset volatile raw material prices which persisted in the first half of the year. Nutrition Ingredients continued to suffer from strong price and margin pressure on niacin. However, the situation started to stabilize in certain product areas in the second quarter, though still on a rather low level.

Bioscience delivered a good performance, with major growth in Therapeutic Services and in Asian markets. Cell therapy operations in Singapore were started successfully.

Capital expenditure was slightly above the same period a year ago. Benefitting from significant investments in past years, capital expenditure for 2012 as a whole will remain on a reduced level. Growth projects are continuing, with a focus on the most promising technologies required by customers. All construction work on new facilities (e.g. cytotoxic capacity in Visp (CH), Cell Therapy in Walkersville, MD (USA) and Singapore, the build-out of the small scale mammalian cell capacity in Slough (UK) and the niacin plant in Nansha (CN)) is on schedule.

Financial Summary

- Revenue increased to CHF 1 964 million (+ 64.6%) due to the acquisition in Microbial Control
- EBIT increased from CHF 136 million in the first half of 2011 to CHF 168 million (+ 23.5%)
- Operational free cash flow: CHF 289 million or + 337.9%, compared with CHF 66 million in the first half 2011
- Capital expenditure increased to CHF 141 million from CHF 117 million in the first half of 2011, with growth-project milestones on track
- Net debt amounted to CHF 2 531 million, resulting in gearing of 108%

Board of Directors At the Annual General Meeting on 3 April 2012, shareholders elected Margot Scheltema and Dr. Jörg Reinhardt to the Board of Directors. Dame Julia Higgins left the Board in line with internal guidelines.

Senior Management Changes On 3 April 2012, Lonza announced that Marc Funk, Group General Counsel and Board Secretary, became a member of the Management Committee. Effective 1 May 2012, Richard Ridinger became CEO. On 1 June 2012, Dr. Beat In-Albon became COO of the Life Science Ingredients sector and a member of the Management Committee, replacing Harry Boot in this function.

Outlook Lonza's target for 2012 is to deliver growth on an EBIT level of between 10 and 15% compared with fiscal year 2011. Major projects aiming at a sustainable market and profit performance, like the Arch integration, VispChallenge and the review of corporate structures, are on track. Board and Management will continue to emphasize the principles of "Focus and Deliver". However, it goes without saying that the volatility of the current macroeconomic situation in some parts of the world can always have a negative effect on all strategic and operational efforts.

The outlook for Custom Manufacturing through the end of this year can be qualified as healthy and in line with budgets thanks in part to the visibility of short- and medium-term contracts, as well as their volumes. The Microbial Control sector has solid order books and market demand continues to be in line with predictions. Increased demand for agrochemicals might become an important driver for Life Science Ingredients. Nutrition Ingredients needs to remain cautious as there is no prospect of increases in prices and margins this year. Bioscience should deliver the budgeted results, but still on a rather low level due to reduced governmental and institutional spending.

A key priority for 2012 remains a strong focus on the balance sheet structure and debt reduction. Necessary measures to reduce capital expenditure and rigorous efforts to reduce net working capital have been initiated and will continue. Refinancing of the bridging loans relating to the acquisition of Arch is progressing as planned.

We would like to thank our customers and partners for their continued trust and support and our employees for their tremendous efforts in another challenging year. We would also like to thank our shareholders for their ongoing support.



Rolf Soiron
Chairman of the
Board of Directors



Richard Ridinger
Chief Executive Officer

Microbial Control

Microbial Control million CHF	2012	Change in %	2011
Sales	865	451.0	157
Change due to			
Volume and prices	(8)		
Currency translation	17		
Scope of consolidation	699		
Result from operating activities (EBIT)	87	383.3	18
Margin in %	10.1		11.5
EBITDA	118	372.0	25
Margin in %	13.6		15.9

Sales for the first half of 2012 came in above target despite headwinds from the economies in Europe and Asia. The strong sales performance in the reporting period 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 Oil and Gas and growth in our Hygiene and Material Protection businesses.

The integration of the former Arch business also progresses ahead of plan. Close management of the integration processes and the associated costs enabled us to complete projects ahead of schedule.

Water Treatment

The Recreational Water business in North America had a good start to the season, while Europe experienced a slower order intake. Both regions are influenced primarily by the weather, but business in Europe was also affected to some degree by the softer economy. Our Water Treatment business (including the world-renowned HTH® family of pool treatments) is the world's largest supplier of swimming pool and spa treatment products.

Sales in the Industrial Water business were as forecast. Lonza's Industrial Water business includes treatment chemicals, formulations, feeder systems and support services for the treatment of drinking water, surface waters and water used in papermaking, industrial cooling and other industrial applications.

One of the exciting growth stories in the Industrial Water Treatment segment is our Oil and Gas Production Treatment business, which serves customers engaged in shale gas and oil extraction, as well as other forms of energy production. We provide biocides, corrosion inhibitors, surfactants, and other products used to prevent corrosion and the growth of bacteria and biofilms in production wells, pipelines and other energy equipment. In late 2011, we launched the Dantogard® 2000 biodegradable, environmentally responsible biocidal solution for preserving and protecting water used in shale gas hydraulic fracturing – a solution that helps protect human health, drinking water quality, and the environment.

Hygiene & Preservation

The Hygiene & Preservation business reported brisk sales of disinfectants and sanitizers. Our formulated product portfolio also developed well. The Hygiene business in our primary markets, the USA and Europe, is focused on HI&I (home, institutional and industrial), with the majority of our business in traditional bulk active sales. The growth area for these regions is in new formulated products offering greater efficacy and/or faster kill times (shorter contact time).

In India and China we have entered the market with a primary focus on formulated products, rather than bulk actives. Our focus markets are hospitals, pharmaceutical manufacturing and hospitality. These markets are developing at the same pace as the evolving local regulatory framework. The developing markets of South America and South Africa gained momentum thanks to the local footprint provided by the acquisition.

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.

Personal Care

The Personal Care business performed on target, with robust sales in North America and Asia offsetting weaker sales in Europe. The Antidandruff and Preservation business performed very well, especially in North America and most of the Asian markets. Growing population is one of the main growth drivers. Lonza Personal Care offers a strong biotechnology platform and many certified organic products with a competitive edge. The business provides comprehensive solutions to global personal care and cosmetic companies. Our portfolio includes biotechnological actives, delivery systems, natural and traditional preservatives, botanicals, antidandruff agents and functional ingredients. Our zinc Omadine® biocide, for example, is the most popular active ingredient for antidandruff shampoo in the world.

Wood Treatment

Lonza's Wood Treatment business was slightly ahead of target for the first half of 2012, benefiting from increased demand in North America, its largest market. Business was also buoyant in Europe, South Africa and the Australia / New Zealand regions.

Lonza's Wood Treatment business is a world leader in advanced, formulated products and support services. Our products make wood resistant to termites, fungi, mold, fire and moisture. Key wood brands and treatments have earned "green building" awards and certifications worldwide for their sustainability and other environmental advantages.

Materials Protection

Marine antifouling is a key market for Materials Protection. This market is contracting as a result of the economic downturn combined with the overproduction of ships in recent years. Weaker sales in marine antifouling were offset by an upturn in our other Materials Protection markets. In June 2012, the US Environmental Protection Agency (EPA) approved our copper Omadine® antimicrobial for use as an antifouling agent on vessels larger than 25 meters.

Our 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. The biocidal actives and formulated products that Lonza Microbial Control supply to the building products market deter the growth of mold and mildew on painted surfaces, wall-board, ceiling tiles and related building materials, helping protect human health and safety.

Our Oleo Chemical Derivatives business is a high-quality supplier of key additives, primarily emulsifiers, for use in foods, plastics, textiles, metalworking, water treatment, the oil and gas industry, and personal care products.

Integration Update

Building the world leader in Microbial Control: 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 after two years is completely on track, with 80 % of the cost-saving measures initiated; 50 % of the synergies will already be 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 consolidation in the Americas, Europe and Asia was largely completed, including the corporate center in Norwalk, CT (USA), which is set to be closed in August. The approximate reduction in headcount through corporate duplication and natural attrition was 160 overall. Consolidation of supplier agreements continued. An important aspect of the integration work is to keep a steadfast eye on business stabilization with the goal of avoiding any loss of customers through integration, while at the same time building a common culture.

The project team is currently reviewing several key business processes (e.g. HR, Finance, CRM and IT) to assess where enhancements or improvements are needed and where there are strengths that can be consolidated in the integrated Resource Management platform. This evaluation will take the best from each organization to create a more advanced way of doing business for the sector overall. Ultimately, if one process is deemed superior, it will be harmonized across the sector, while business processes that have shortcomings will be re-engineered to create a desirable new approach.

The acquisition remains EPS-accretive from year 1 at more than CHF 0.40 per share and is expected to be EVA-positive from year 2. The next priorities include consolidation of legal entities, SAP integration and exploiting cross-selling opportunities.

Custom Manufacturing

Custom Manufacturing million CHF	2012	Change in %	2011
Sales	597	5.1	568
Change due to			
Volume and prices	19		
Currency translation	10		
Scope of consolidation	0		
Result from operating activities (EBIT)	59	(39.8)	98
Margin in %	9.9		17.3
EBITDA	140	(21.8)	179
Margin in %	23.5		31.5

In the first half of 2012, the sector experienced strong demand for product manufacturing, for new technology offerings and especially for development services for early-stage products. The outsourcing trend continued undiminished and customers maintained inventories at normalized levels. Many clients indicated that they regard Lonza's broad technology offering combined with manufacturing capabilities for all clinical stages and on all scales as a competitive advantage. The business development activities in Asia, especially in Japan, were very productive, resulting in an expanded pipeline and a diversified geographical footprint. A robust project pipeline brought a further increase in visibility. However, some volatility remained as a result of generally more stringent product approval procedures. Our business model was adapted accordingly.

The new large-scale Custom Manufacturing Biologics facility in Singapore made very good progress with the introduction of various products. The qualification process, followed by the compulsory and consecutive validation campaigns for each product, had an influence on capacity utilization and subsequently on EBIT contribution. We expect the FDA audits and subsequent approvals for the products manufactured at this site to be carried out in 2012. The warning letter received at the Hopkinton, MA (USA) site, was addressed with refocused processes and investments. This and the initiated investments in formulated products had an adverse effect on the financial results.

Chemical Manufacturing

Lonza's Chemical Manufacturing business made a promising start to 2012, recovering from various product delays and cancelled projects in 2011. In the first half of 2012, Lonza's "Total Life Cycle Management" concept, which offers chemical development and manufacturing services from the early phase of product development to the post-patent generic stage, contributed to the overall strengthening of the Chemical Manufacturing product pipeline in all clinical phases to more than 300 active projects, delivering capacity utilization of over 75%. The number of late-stage products increased significantly, with qualification and validation campaigns successfully completed. The dedicated peptide facility in Braine (BE) passed a pre-approval inspection by the FDA, with no observations. Lonza's newest differentiating technologies – cytotoxics, conjugates, highly active pharmaceutical ingredients (HAPI) and microreactor technology (MRT) – attracted many new customers and will continue to underpin Lonza's outstanding competitive position in the future.

The Chemical Manufacturing business unit continued to pursue a growth strategy, strengthening its 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 being utilized by multiple customer projects, especially after FDA approval of the site in 2011
- The new cGMP kilo lab and an additional small-scale manufacturing train, also in Nansha, have been brought on line successfully
- The large-scale antibody drug conjugates project in Visp (CH) is on schedule and a second expansion is under review, prompted by increasing market demand and the anticipated regulatory approval of a number of phase-III products
- Five additional HAPI labs with capabilities for cytotoxic substances are now fully operational in Visp

Biological Manufacturing

The Biological Manufacturing business unit continued to operate at high batch success rates, above the industry average. Multiple new products and production campaigns pushed mid- and large-scale asset utilization in the first half of 2012 to above 75%, including the new large-scale facility in Singapore.

Numerous initiatives and portfolio additions across our mammalian and microbial services and manufacturing offerings got off to a good start. The current pipeline has more than 250 active projects.

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

- The new Singapore facility successfully performed its first engineering and validation campaigns for numerous customers
- The expansion of the laboratories and manufacturing suites of our Slough (UK) facility is on track and will be operational by the end of 2012
- The Hopkinton, MA (USA) site was fully operational and manufactured multiple early-phase and commercial products for various customers. In close cooperation with the FDA and customers, the site made significant progress with its quality systems and equipment performance. A detailed response to the FDA findings was submitted.
- The harmonization programs for all our mid- and large-scale mammalian manufacturing facilities continued. These programs enabled our facilities to provide tailor-made capacity offerings for our customers, from 20 liters up to 20 000 liters.

Development Services

The next-generation GS Gene Expression System™ was launched. The GS Xceed™ shortens cell line construction times by up to six weeks, allowing faster generation of clonal cell lines and ultimately cutting the clinical lead time. The GS Xceed™ system is the latest generation of Lonza's industry-leading gene expression system, achieving titers of up to 6 g/L.

The AggreSolve™ technology, comprising highly potent cell lines derived from our strategic collaboration with BioWa, POTELLIGENT®, as well as the new media and feed systems (sourced from Lonza Bioscience), continued to attract strong customer interest.

Lonza's new Light Path™ service package is a customized program for streamlined process development, cell line development and custom material supply, from discovery to early clinical development. To meet increasing customer demand Lonza is expanding its Development Services platform in Slough and Singapore.

The expanded XS Microbial Expression™ toolbox, 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, meeting diverse customer requirements for the growing vaccine and therapeutic markets.

Life Science Ingredients

Life Science Ingredients ¹ million CHF	2012	Change in %	2011
Sales	379	4.7	362
Change due to			
Volume and prices	17		
Currency translation	0		
Scope of consolidation	0		
Result from operating activities (EBIT)	25	8.7	23
Margin in %	6.6		6.4
EBITDA	59	11.3	53
Margin in %	15.6		14.6

¹ Excluding Microbial Control 2011 and 2012

Performance Intermediates and Nutrition Ingredients experienced good demand in the first half of 2012. Net sales and EBIT increased compared with the previous year, outperforming the budget targets for the year. The flattening of the Niacin business was mainly offset by higher demand for agrochemical products. Effective management of fixed costs and capital expenditure contributed to the positive results for the first half of 2012. Asset utilization was very high in all plants. The outlook for the year-end remains on last year's level, with high demand expected to continue in almost all market segments.

Performance Intermediates

The High Performance Materials business continued to enjoy brisk demand for Primaset™ cyanate esters and Lonzacure® products from the electronics, aerospace and construction industries. The production site for pyromellitic dianhydride (PMDA) in Liyang (CN) has been closed and products are now completely manufactured at the new Nanjing (CN) facility. Products from this new facility are now qualified for all major markets and output is ramping up.

Demand for agrochemical actives and intermediates, as well as ISO-regulated custom manufacturing, remained strong. Several debottlenecking initiatives were implemented to increase output and meet rising demand. Our new production facility for a plant protection intermediate in Visp (CH), which we started up last year, experienced a high level of interest from customers. Plant utilization was high in the first half of 2012 and looks set

to continue into 2013. In the reporting period, we also expanded our project portfolio for agrochemical actives and ISO-regulated intermediates.

Nutrition Ingredients

The market environment in the area of nicotinates (vitamin B3), especially for feed applications, remained difficult due to reduced demand in certain regions and strong competition from India and China. Volume sales in food applications were slightly above target, while pharmaceutical sales were lower than in the same period last year. Marked currency effects had a further negative influence on margins. Despite these facts, growth in emerging markets was above expectations for the first half of 2012.

Our new Carnitine production facility was well received by customers. Several successful customer audits took place at our site in Nansha (CN) in the first half of 2012.

Carnipure™ (food-grade L-carnitine) volumes were higher than in previous years. The favorable results were driven mainly by growth in the supplements and beverage categories, and sales realized via activity expansion in new regions.

Carniking™ (feed-grade L-carnitine) demand remained buoyant, especially in the pet food market. Demand is expected to be sustained in the second half of the year due to new projects.

Meta™ (metaldehyde) is a specific active ingredient used as a molluscicide for slug and snail control in the agricultural and home and garden markets. Demand was low at the start of the year because of low slug populations and high inventory levels at customers. Sales in May and June were strong thanks to favorable weather conditions in most European markets. In the first half of 2012, production of formulated products at the new plant in Visp (CH) started up successfully and ahead of schedule. First sales are expected in July 2012. Product registration in key markets should follow later in the year.

Bioscience

Bioscience million CHF	2012	Change in %	2011
Sales	116	12.6	103
Change due to			
Volume and prices	13		
Currency translation	0		
Scope of consolidation	0		
Result from operating activities (EBIT)	8	14.3	7
Margin in %	6.9		6.8
EBITDA	17	21.4	14
Margin in %	14.7		13.6

Bioscience sales increased substantially compared with the first half of 2011, with market growth in the Therapeutic Services segment and in Asia. Margins were also stronger than in the first half of 2011 on the back of increased asset utilization and operational optimization. Process Development Services increased its contribution and there was general sales growth in Asia. The sector outperformed budget targets, despite the fact that governmental and institutional spending in Western countries remained at a low level. The clear growth drivers were Therapeutic Services and increased activities in the Asian markets.

Further strategic steps in Bioscience included the operational start-up of cell therapy in Singapore and the successful completion of a new GMP clean room at Houston, TX (USA) to support viral vector and viral vaccine projects.

Therapeutic Services

Therapeutic Services significantly increased revenue year on year thanks to higher cell and viral therapy sales. Media sales saw double-digit growth rates worldwide, but were slightly lower than forecast in Europe. The bottom-line results were well above last year's performance, in line with expectations. As anticipated, EBIT was adversely affected in the first half of 2012 by the start-up activities for the new cell and viral suites in Singapore, Walkersville, MD (USA) and Houston, TX (USA). However, the new facilities are expected to start making a positive contribution in the second half of the year. Process development is running at full capacity, focusing on the major late-phase projects in the portfolio.

Good progress in the Viral Therapy area was reflected in an increased number of pipeline projects. A new GMP manufacturing suite was started up during the second quarter of 2012 to cope with the strong increase in demand. New viral collaborations (e.g. Avalanche) experienced increased demand for viral production capacity in gene and cancer therapy.

Research & Testing Solutions

Research & Testing Solutions revenue was on target, nearly on a par with 2011. The research business grew in comparable terms, taking into account the discontinuation of a significant European research distribution collaboration at the end of 2011. Geographically, growth in Asia was strong and there was also solid growth in the USA. Sales in Europe declined mainly as a result of the sovereign debt crisis in Southern Europe.

In Research Solutions, there was strong growth in the Media and Sera businesses and solid progress in Cell Biology. Molecular Biology at target despite challenging market environment.

In the Transfection business, there was a marked increase in volume sales of transfection kits. Japan achieved significant year-on-year growth in Transfection sales, both in kits and instruments. Sales failed to meet the overall target for new transfection instruments, mainly due to a difficult market environment in capital equipment for research in Europe and the USA.

Testing Solutions sales were slightly below the corresponding period of 2011 due to a slowdown in endotoxin sales in Europe and a reduced growth rate in Asia and the USA. New MycoTOOL™ (mycoplasma testing) sales were below expectations, but a strong sales pipeline was developed. The launch of the microCompass™ II system (microbiology testing) was further delayed until 2013 due to instrument supply issues. Lonza still has not received satisfactory beta instruments from Becton, Dickinson and Company, the supplier of its instrument platform. Lonza believes the instruments received to date lack robustness, do not meet the necessary specifications and exhibit unacceptable hardware failures. As a result of repeated failures to obtain acceptable instruments from Becton Dickinson, the collaboration with Becton Dickinson is under review. Softer top-line revenue will be partially offset by increased activities in Asia and stringent measures to reduce fixed costs.

Corporate

Corporate million CHF	2012	2011
Sales	7	3
Result from operating activities (EBIT)	(11)	(10)
EBITDA	(7)	(6)

Condensed consolidated balance sheet at 31 December 2011 and 30 June 2012 (unaudited) million CHF	2012	2011
Fixed assets	4 983	5 072
Long-term loans and advances	79	56
Total non-current assets	5 062	5 128
Current assets	1 673	1 694
Short-term advances and other financial assets	0	2
Cash and cash equivalents	278	196
Total current assets	1 951	1 892
Total assets	7 013	7 020
Equity attributable to equity holders of the parent	2 353	2 357
Non-controlling interests	(1)	(1)
Total equity	2 352	2 356
Long-term liabilities	885	989
Long-term debt	2 063	2 725
Total non-current liabilities	2 948	3 714
Short-term liabilities	888	774
Short-term debt	825	176
Total current liabilities	1 713	950
Total liabilities and equity	7 013	7 020

Condensed consolidated income statement first half-year (unaudited) million CHF	2012	2011
Sales	1 964	1 193
Cost of goods sold	(1 460)	(874)
Gross profit	504	319
Other operating expenses	(336)	(183)
Result from operating activities (EBIT)	168	136
Net financing costs	(46)	(19)
Share of profit/(loss) of associates/joint ventures	(6)	(4)
Profit before income taxes	116	113
Income taxes	(22)	(16)
Profit for the period	94	97
Profit attributable to:		
Equity holders of the parent	94	98
Non-controlling interests	0	(1)
Profit for the period	94	97
Basic earnings per share – EPS basic (CHF)	1.82	1.90
Diluted earnings per share – EPS diluted (CHF)	1.81	1.89

Condensed consolidated statement of comprehensive income for the period first half-year (unaudited) million CHF	2012	2011
Profit for the period	94	97
Other comprehensive income:		
Exchange differences on translating foreign operations	11	(163)
Cash flow hedges	(3)	5
Income tax relating to components of other comprehensive income	0	5
Other comprehensive income for the period, net of tax	8	(153)
Total comprehensive income for the period	102	(56)
Total comprehensive income attributable to:		
Equity holders of the parent	102	(55)
Non-controlling interests	0	(1)
Total comprehensive income for the period	102	(56)

Condensed consolidated cash flow statement first half-year (unaudited) million CHF	2012	2011
Profit for the period	94	97
Adjustment for non-cash items	229	166
Income tax and interest paid	(63)	(50)
Cash flow before change in net working capital	260	213
(Increase) / decrease of net working capital	95	(84)
Increase / (decrease) of other payables net	4	(13)
Net cash (used for) / provided by operating activities	359	116
Purchase of fixed assets	(141)	(117)
Net purchase of other assets and disposals	15	(4)
Interest and dividend received	13	2
Net cash (used for) / provided by investing activities	(113)	(119)
Increase / (decrease) in debt	(47)	48
Increase / (decrease) in other liabilities	(7)	(3)
Purchase of treasury shares	0	(77)
Dividends paid	(111)	(111)
Net cash (used for) / provided by financing activities	(165)	(143)
Effect of currency translation on cash	1	(4)
Net (decrease) / increase in cash and cash equivalents	82	(150)
Cash and cash equivalents at 1 January	196	248
Cash and cash equivalents at 30 June	278	98

Condensed consolidated statement of changes in equity first half-year (unaudited) million CHF	Attributable to equity holders of the parent						Total	Non-con- trolling interest	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Trans- lation reserve	Treasury shares			
Six months ended 30 June 2011									
At 31 December 2010	53	311	2 553	(8)	(478)	(44)	2 387	0	2 387
Profit for the period	0	0	98	0	0	0	98	(1)	97
Other comprehensive income, net of tax	0	0	0	5	(158)	0	(153)	0	(153)
Total comprehensive income for the period	0	0	98	5	(158)	0	(55)	(1)	(56)
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	(1)	(2)	0	0	3	0	0	0
Acquisition of treasury shares	0	0	0	0	0	(77)	(77)	0	(77)
At 30 June 2011	53	310	2 540	(3)	(636)	(118)	2 146	(1)	2 145
Six months ended 30 June 2012									
At 31 December 2011	53	310	2 596	(1)	(491)	(110)	2 357	(1)	2 356
Profit for the period	0	0	94	0	0	0	94	0	94
Other comprehensive income, net of tax	0	0	0	(3)	11	0	8	0	8
Total comprehensive income for the period	0	0	94	(3)	11	0	102	0	102
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
At 30 June 2012	53	306	2 580	(4)	(480)	(102)	2 353	(1)	2 352

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 2012 (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 2011 (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 2011, 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.

As a result of the acquisition of Arch Chemicals Inc. in October 2011, the comparability of the condensed consolidated six-month 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 segment information table below has been changed to reflect the additional sector and prior-year information has been restated accordingly.

Changes in Accounting Policies

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

- 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 interim financial statements.

2. Exchange Rates

Balance sheet	30 06 2012	31 12 2011
period-end rate CHF		
US dollar	0.96	0.94
Pound sterling	1.49	1.45
Euro	1.20	1.22

Income statement	2012	2011
half-year		
average rate CHF		
US dollar	0.93	0.91
Pound sterling	1.46	1.46
Euro	1.20	1.27

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 Microbial Control segment. In particular the water products business is seasonal in nature as its products are primarily used in the USA. Therefore, the results of the Microbial Control segment for the six months ended 30 June 2012 are not indicative of the results to be expected for the entire financial year.

4. Debt

The straight bond (2009–2013) of CHF 300 million and USD 500 million of the acquisition bridge financing facility repayable in March 2013 are disclosed as short-term debt due to their contractual repayment date within one year of 30 June 2012.

5. Dividends Paid

On 3 April 2012, the Annual General Meeting approved the distribution of a dividend of CHF 2.15 (2011: CHF 2.15) per share in respect of the 2011 financial year. The distribution to holders of outstanding shares totaled CHF 111 million (2011: CHF 111 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

6. Operating Segments

First half-year 30 June 2012 million CHF	Microbial Control	Custom Manufacturing	Life Science Ingredients	Bioscience	Total operating segments	Corporate/ Eliminations ¹	Group total
Sales third-party	865	597	379	116	1 957	7	1 964
Inter-segment sales	6	20	33	6	65	(65)	0
Total sales	871	617	412	122	2 022	(58)	1 964
Goodwill impairment	0	0	0	0	0	0	0
Result from operating activities (EBIT)	87	59	25	8	179	(11)	168
Return on sales %	10.1	9.9	6.6	6.9	9.1	n.a.	8.6
Net financing costs							(46)
Share of profit/ (loss) of associates/joint ventures							(6)
Profit before income taxes							116
Income taxes							(22)
Profit for the period							94

First half-year 30 June 2011 million CHF	Microbial Control ²	Custom Manufacturing	Life Science Ingredients ²	Bioscience	Total operating segments	Corporate/ Eliminations ¹	Group total
Sales third-party	157	568	362	103	1 190	3	1 193
Inter-segment sales	6	25	29	5	65	(65)	0
Total sales	163	593	391	108	1 255	(62)	1 193
Goodwill impairment	0	0	0	0	0	0	0
Result from operating activities (EBIT)	18	98	23	7	146	(10)	136
Return on sales %	11.5	17.3	6.4	6.8	12.3	n.a.	11.4
Net financing costs							(19)
Share of profit/ (loss) of associates/joint ventures							(4)
Profit before income taxes							113
Income taxes							(16)
Profit for the period							97

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

² Due to the introduction of "Microbial Control" as a new business segment, the disclosure of the segment information in 2011 was restated accordingly.

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

No material events occurred after the end of the interim period on 30 June 2012. The Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2012 for issue on 23 July 2012.

8. **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 first half-year million CHF	2012	2011	Change
EBITDA	327	265	62
Change of operating net working capital	95	(68)	163
Purchase of fixed assets	(141)	(117)	(24)
Disposal of tangible and intangible assets	6	2	4
Change of other assets and liabilities	2	(16)	18
Operational free cash flow	289	66	223

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 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

July 2013

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