Lonza

Lonza Swiss Finanz AG

Basel, Switzerland

0.700 per cent Bonds 2017–2024 of CHF 110,000,000

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 Managers have purchased the Bonds at the price of 100.222 per cent. of the aggregate principal amount of the Bonds (before commissions).
Placement Price:	According to demand
Interest Rate:	0.700 per cent per annum, payable annually in arrears on 12 July, first interest payment on 12 July 2018. Interest payments are subject to the Swiss Federal Withholding Tax of currently 35 per cent.
Payment Date:	12 July 2017
Maturity Date:	12 July 2024
Duration:	7 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 (*Wertrechte*) 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 10 July 2017. Application will be made for the Bonds to be listed in accordance with the Standard for Bonds on the SIX Swiss Exchange. The last day of trading is expected to be 10 July 2024.
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 **BNP Paribas (Suisse) SA** **UBS Investment Bank** **Zürcher Kantonalbank**

Swiss Security Number: 36 720 674 ISIN: CH0367206742 Common Code: 163428024

Prospectus dated 10 July 2017

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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 Manager 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 Manager 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 Manager 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 Manager 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) to any legal entity which is a qualified investor as defined in the Prospectus Directive; or

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the other Managers; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

provided that no such offer of Bonds referred to in (i) to (iii) 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 (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

General

Neither the Issuer nor any of the Managers 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**) 110,000,000 (in words: one hundred and ten 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 (and including) 12 July 2017 (the **Issue Date**) until (but excluding) the Maturity Date (as defined below) at the rate of 0.700 per cent of their Aggregate Principal Amount per annum, payable annually in arrears on 12 July of each year (the **Interest Payment Date**), for the first time on 12 July 2018. 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 12 July 2024 (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 Issue 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 (except any Subsidiaries); 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 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 **Holders' 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 reasonable 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 Material 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 0.700 per cent Bonds (hereinafter called the **Bonds**) in the aggregate principal amount of CHF 110,000,000 due 12 July 2024, 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 **Holders**) 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 AG, 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) 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 (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/en/home/publications//official-notices.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 principles, 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 29 May 1961 and is registered with the Commercial Register of the Canton of Basel-Stadt under the number CHE-102.739.418. As of 28 April 2009, the Issuer changed its name to "Lonza Swiss Finanz AG (Lonza Swiss Finance Ltd)".

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
Rodolfo Savitzky, Member of the Board

Independent Statutory Auditors

The auditors appointed by the Issuer for the financial years ended 31 December 2015 and 2016 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 2016 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 and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. We harness science and technology to create products that support safer and healthier living and that enhance the overall quality of life.

Not only are we a custom manufacturer and developer, Lonza also offers services and products ranging from active pharmaceutical ingredients and stem-cell therapies to drinking water sanitizers, from the vitamin B3 compounds and organic personal care ingredients to agricultural products, and from industrial preservatives to microbial control solutions that combat dangerous viruses, bacteria and other pathogens.

Founded in 1897 in the Swiss Alps, Lonza today is a well-respected global company with more than 53 major manufacturing and R&D facilities and approximately 13,600 employees worldwide (including Capsugel as of July 6, 2017). The company generated sales of about CHF 4.13 billion in 2016 and is organized into two market-focused segments: Pharma&Biotech and Specialty Ingredients.

Lonza's stock is publicly traded on the Swiss and the Singapore stock exchanges. Further information can be found at www.lonza.com.

Board of Directors

Rolf Soiron (1945)	Chairman
Albert M. Baehny (1952)	Vice Chairman
Patrick Aebischer (1954)	Member
Werner J. Bauer (1950)	Member
Jean-Daniel Gerber (1946)	Member
Christoph Mäder (1959)	Member
Barbara Richmond (1960)	Member
Margot Scheltema (1954)	Member
Jürgen B. Steinemann (1958)	Member
Antonio Trius (1955)	Member

(as of April 2017)

Executive Committee

Richard Ridinger (1958)	Chief Executive Officer
Rodolfo Savitzky (1962)	Chief Financial Officer
Marc Funk (1960)	Chief Operating Officer
Sven Abend (1968)	Chief Operating Officer
Fridtjof Helemann (1954)	Chief Human Resource Officer

(as of February 2017)

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 74,468,752, divided into 74,468,752 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 4bis
Contingent Capital

[1] The share capital of the Company may be increased through the issuance of a maximum of 7,500,000 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 7,500,000 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 the 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 4ter
Authorized Capital

[1] The Board of Directors shall be authorized to increase, at any time until 25 April 2019, the share capital of the Company through the issuance of a maximum of 7,500,000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 7,500,000.

[2] The issue price, the beginning of the entitlement to dividends and the kind of 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 conditions,

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 4quater

The capital increases according to Articles 4bis and 4ter over a respective maximum of 7,500,000 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 7,500,000.

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 June 2017 the Guarantor held 11,505 of its own registered shares with a par value of CHF 1 each.

Independent Statutory Auditors

The auditors appointed by the Guarantor for the financial years ended 31 December 2015 and 2016 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 18 June 2017 and in accordance with a bond purchase agreement dated 10 July 2017 made between the Issuer and the Guarantor on the one hand, and Credit Suisse AG, BNP Paribas (Suisse) SA, UBS AG and Zürcher Kantonalbank (the **Managers**) on the other hand, the Issuer has determined to issue 0.700 per cent. Bonds due 12 July 2024 (the **Bonds**) in the aggregate principal amount of CHF 110,000,000.

Pursuant to a resolution of the Board of Directors of the Guarantor dated 18 June 2017, 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 109,823,200, will be utilised by the Issuer for the partial refinancing of the Capsugel acquisition and general financing purposes. Proceeds from the issue of the Bonds may also be used to repay loans provided by the Managers. None of the Managers 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) and subject to information previously publicly disclosed and in the public domain including but not limited to the Offering Circular of 16,548,612 registered shares dated April 25, 2017 and the closing of the Capsugel acquisition as per the press release issued by the Guarantor on July 6, 2017, there has been no material adverse change in the financial position of the Issuer or the Guarantor

since 31 December 2016, and there has been no material adverse change in the consolidated financial position or results of operations of the Guarantor since 31 December 2016, 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 Issuer and the Guarantor accepts responsibility accordingly.

Basel, 10 July 2017

For: **Lonza Swiss Finanz AG**

By: ________________________ By: ________________________

For: **Lonza Group Ltd**

By: ________________________ By: ________________________

Annual Financial Statements 2016 of the Issuer

Audited financial statements of Lonza Swiss Finanz AG for the year ended 31 December 2016 prepared in accordance with the Swiss Code of Obligations, including the notes to the financial statements and the report of the statutory auditor.

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Statutory Auditor's Report

To the General Meeting of Lonza Swiss Finanz Ltd, Basel

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lonza Swiss Finanz Ltd, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Zurich, 24 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zürich [6]

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Financial statements of Lonza Swiss Finance Ltd, Basel

Balance sheet - Lonza Swiss Finance Ltd, Basel

Assets (1) CHF	**2016**	**2015**
Current assets		
Cash and cash equivalents	14 555	649
Short-term financial assets:		
- from shareholders	273 517 151	0
Prepaid expenses and accrued income		
- from third parties	2 785 227	2 882 071
- from group companies	16 339 247	8 471 236
- from shareholders	2 334 659	2 912 089
Total current assets	**294 990 839**	**14 266 045**
Non-current assets		
Long-term financial assets		
- from group companies	1 132 874 915	1 110 951 370
- from shareholders	0	180 000 000
Total non-current assets	**1 132 874 915**	**1 290 951 370**
Total assets	**1 427 865 754**	**1 305 217 415**

Liabilities and shareholders' equity (1) CHF	**2016**	**2015**
Current liabilities		
Trade accounts payables		
- from third parties	1 531 250	3 421 250
Short-term interest bearing liabilities		
- from third parties	43 627 890	0
- from shareholders	0	150 934 502
Short-term provisons		
- from third parties	266 862	1 929 373
Accrued expenses and deferred income		
- from third parties	6 773 588	6 733 375
- from shareholders	47 830 270	19 404 383
Total current liabilities	**100 029 860**	**182 422 883**
Non-current liabilities		
Long-term interest bearing liabilities		
- from third parties	1 325 094 250	1 118 673 300
Total non-current liabilities	**1 325 094 250**	**1 118 673 300**
Total liabilities	**1 425 124 110**	**1 301 096 183**
Shareholders' equity		
Share capital	100 000	100 000
Legal retained earnings reserves		
- General legal retained earnings	50 000	50 000
Voluntary retained earnings		
- Available earnings		
- Profit brought forward	3 971 232	280 472
- (Loss) / Profit for the year	(1 379 588)	3 690 759
Total shareholders' equity	**2 741 644**	**4 121 232**
Total liabilities and shareholders' equity	**1 427 865 754**	**1 305 217 415**

(1) At 31 December

Income Statement - Lonza Swiss Finance Ltd, Basel

CHF	2016	2015
Income		
Interest income	45 167 655	45 870 552
Other financial income	7 426	78 913
Total income	**45 175 081**	**45 949 465**
Expenses		
Interest expenses	43 288 261	36 943 461
Other financial expenses	3 011 668	3 191 587
Other operating expenses	293 952	1 156 613
Direct taxes	(39 212)	967 045
Total expenses	**46 554 669**	**42 258 706**
(Loss) / Profit for the year	**(1 379 588)**	**3 690 759**

Notes to the Financial Statements - Lonza Swiss Finance Ltd, Basel

1. Principles

1.1 General aspects

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

1.2 Financial assets

Financial assets include short- / long-term loans to group companies and shareholders. Loans granted in foreign currencies are translated at the rate at the balance sheet date.

1.3 Short- / Long-term interest-bearing liabilities

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

1.4 Foregoing a cash flow statement and additional disclosures in the notes

Lonza Swiss Finance Ltd is exempt from the requirement to prepare a cash flow statement and additional disclosures in the notes on the grounds that is a wholly owned subsidiary and meets all of the conditions for exemption as a wholly owned subsidiary.

2. Information on balance sheet and income statement items

2.1 Financial assets

Lonza Swiss Finance Ltd signed subordination agreements of CHF 55 million (2015: CHF 55 million) on loans to group companies.

2.2 Short-term interest-bearing liabilities

in CHF	Maturity	31.12.2016	31.12.2015
Bank loans	25.09.2017	43 627 890	0
Total		43 627 890	0

2.3 Long-term interest-bearing liabilities

in CHF	Interest rate	Maturity	31.12.2016	31.12.2015
Bond	2.000%	11.10.2018	200 000 000	200 000 000
Bond	3.125%	07.12.2018	140 000 000	140 000 000
Bond	1.750%	10.04.2019	300 000 000	300 000 000
Bond	0.625%	22.09.2020	150 000 000	150 000 000
Bond	0.125%	01.11.2021	250 000 000	0
Bond	3.000%	11.10.2022	105 000 000	105 000 000
Bond	1.250%	22.09.2023	175 000 000	175 000 000
Total bonds			1 320 000 000	1 070 000 000
Bank loans			5 094 250	48 673 300
Total			1 325 094 250	1 118 673 300

2.4 Other financial expenses

Other financial expenses includes guarantees fees to Lonza Group Ltd of CHF 3 011 668 587 (2015: CHF 3 191 587).

2.5 Other financial income

Other financial income includes net exchange rate gains of CHF 7 426 (2015: CHF 78 913).

3. Other information

3.1 Full-time equivalents

At 31 December 2016, Lonza Swiss Finance Ltd has no employees.

3.2 Contingent liabilites

The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

3.3 Majors shareholders

At 31 December 2016, Lonza Group Ltd, Basel holds 100% of the share capital (2015: 100%).

3.4 Significant events after the balance sheet date

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

Proposal of the Board of Directors - Lonza Swiss Finance Ltd, Basel
concerning the appropriation of available earnings

CHF	2016
Available earnings brought forward	3 971 232
Loss for the year	(1 379 588)
Available earnings at the disposal of the Annual General Meeting	**2 591 644**
Payment of a dividend on the share capital eligible for dividend	**0**
Available earnings carry-forward	**2 591 644**
	2 591 644

The Board of Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016.

Annual Report 2016 of the Guarantor

Annual Report 2016 of Lonza Group Ltd, including the audited consolidated financial statements for the year ended 31 December 2016 (pages 65 to 175), the audited financial statements for the year ended 31 December 2016 (pages 176 to 188), the Remuneration Report (pages 195 to 220) and the Corporate Governance Report (pages 221 to 248).

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Financial Report

Consolidated Balance Sheet
Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Consolidated Cash Flow Statement
Consolidated Statement of Changes in Equity
Notes to the Consolidated Financial Statements
Report of the Statutory Auditor
Financial Statements of Lonza Group Ltd, Basel
Supplementary Financial Information

Consolidated Balance Sheet AUDITED ✓

Assets[1]

million CHF	Note[2]	2016	2015[3]
Non-current assets			
Property, plant and equipment	6	2,412	2,366
Intangible assets	5	968	833
Goodwill	5	1,287	1,118
Other non-current assets		26	19
Deferred tax assets	21	38	47
Investments in associates / joint ventures	7	18	13
Other investments		13	7
Non-current loans and advances	14	1	1
Total non-current assets		**4,763**	**4,404**
Current assets			
Inventories	8	897	893
Trade receivables	10	612	538
Current tax receivables		16	21
Other receivables, prepaid expenses and accrued income	11	174	115
Current advances	14	1	0
Cash and cash equivalents	12, 14	274	277
Assets held for sale	4	91	0
Total current assets		**2,065**	**1,844**
Total assets		**6,828**	**6,248**

[1] At 31 December
[2] See the accompanying notes to the consolidated financial statements
[3] Restated to reflect final purchase accounting for Zelam Ltd (reclassification of CHF 3 million from goodwill to intangible assets)

Total Equity and Liabilities[1]

million CHF	Note[2]	2016	2015
Equity			
Share capital	25	53	53
Share premium		311	311
Treasury shares	25	(10)	(51)
Retained earnings and reserves		2,001	1,822
Total equity attributable to equity holders of the parent		**2,355**	**2,135**
Total equity		**2,355**	**2,135**
Liabilities			
Deferred tax liabilities	21	329	255
Non-current provisions	13	90	68
Employee benefit liability	23	717	738
Other non-current liabilities		134	62
Non-current debt	14	1,571	1414
Total non-current liabilities		**2,841**	**2537**
Current provisions	13	49	33
Other current liabilities	15	882	638
Current tax payables		88	89
Trade payables	16	284	292
Current debt	14	289	524
Liabilities held for sale	4	40	0
Total current liabilities		**1,632**	**1,576**
Total liabilities		**4,473**	**4,113**
Total equity and liabilities		**6,828**	**6,248**

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

Consolidated Income Statement [1] AUDITED ✓

million CHF	Note [2]	2016	2015
Sales	2	**4,132**	**3,803**
Cost of goods sold		(2,731)	(2,704)
Gross profit		**1,401**	**1,099**
Marketing and distribution		(281)	(239)
Research and development	22	(84)	(103)
Administration and general overheads		(478)	(313)
Other operating income	19	32	55
Other operating expenses	19	(104)	(71)
Result from operating activities (EBIT) [3]		**486**	**428**
Financial income	20.1	2	4
Financial expenses	20.2	(114)	(89)
Net financing costs		**(112)**	**(85)**
Share of loss of associates / joint ventures	7	(1)	(2)
Profit before income taxes		**373**	**341**
Income taxes	21	(72)	(64)
Profit for the period		**301**	**277**
Attributable to:			
Equity holders of the parent		301	277
Non-controlling interest		0	0
Profit for the period		**301**	**277**
		CHF	CHF
Basic earnings per share	26	5.73	5.30
Diluted earnings per share	26	5.69	5.26

[1] For the year ended 31 December
[2] See the accompanying notes to the consolidated financial statements
[3] Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related (see note 20) and Lonza's share of profit/loss from associates and joint ventures.

Consolidated Statement of Comprehensive Income [1] AUDITED ✓

million CHF	Note [2]	2016		2015	
Profit for the period			**301**		**277**
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurements of net defined benefit liability	23	(37)		(58)	
Income tax on items that will not be reclassified to profit or loss	21.2	10	(27)	8	(50)
Items that are or may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations		4		(113)	
Cash flow hedges – effective portion of changes in fair value		(2)		10	
Cash flow hedges – reclassified to profit or loss		1		(3)	
Income tax on items that are or may be reclassified to profit or loss	21.2	(2)	1	(1)	(107)
Other comprehensive income for the period, net of tax			**(26)**		**(157)**
Total comprehensive income for the period			**275**		**120**
Total comprehensive income attributable to:					
Equity holders of the parent			275		120
Non-controlling interest			0		0
Total comprehensive income for the period			**275**		**120**

[1] For the year ended 31 December
[2] See the accompanying notes to the consolidated financial statements

Consolidated Cash Flow Statement [1] AUDITED ✓

million CHF	Note [2]	2016	2015
Profit for the period		**301**	**277**
Adjustments for non-cash items:			
– Income taxes	21	72	64
– Net financing costs	20	112	85
– Share of loss of associates / joint ventures	7	1	2
– Depreciation of property, plant and equipment (excl. impairment)	6	249	249
– Amortization of intangibles	5	58	51
– Reversal of impairment	3, 6	(2)	(1)
– Impairment losses on property, plant, equipment and intangibles	3, 5, 6	57	53
– Increase in provisions	13	56	37
– Increase / (decrease) in employee benefit liability		7	(44)
– Loss on disposal of property, plant and equipment		9	6
– Amortization of other liabilities / assets		6	(2)
– Share-based payments	24	28	17
Income taxes paid		(54)	(61)
Interest paid		(63)	(60)
Total before change in net working capital		**837**	**673**
Increase in inventories		(19)	(15)
(Increase) / decrease in trade receivables		(60)	68
Increase / (decrease) in trade payables		(15)	36
Decrease in other net working capital		172	50
Use of provisions	13	(21)	(21)
Decrease in other payables, net		(142)	(50)
Net cash provided by operating activities		**752**	**741**
Purchase of property, plant and equipment	6	(355)	(256)
Purchase of intangible assets	5	(11)	(8)
Proceeds from sale of tangible and intangible assets		2	2
Acquisition of subsidiaries, net of cash acquired	4	(230)	(30)
Disposal of subsidiaries, net of cash disposed of		0	4
Purchase of unconsolidated investments		(11)	0
Proceeds from sale of other assets		2	0
Interest received		2	1
Dividends received		0	5
Net cash used for investing activities		**(601)**	**(282)**
Repayment of straight bond	14	(400)	(240)
Repayment of German private placement	14	0	(155)
Issue of straight bond	14	249	324
Issue of syndicated loan	14	100	0
Repayment of syndicated loan	14	0	(125)
Repayment of borrowings	14	(82)	(83)
Increase in other non-current liabilities		66	30
Decrease in other non-current liabilities		(1)	(1)
Dividends paid	26	(131)	(131)
Sale of treasury shares		48	0
Net cash used for financing activities		**(151)**	**(381)**
Effect of currency translation on cash		1	(10)
Net increase in cash and cash equivalents		**1**	**68**
Cash and cash equivalents at 1 January		277	209
Cash and cash equivalents at 31 December		**278**	**277**
Cash and cash equivalents classified as held for sale	4.3	(4)	0
Cash and cash equivalents at 31 December (as reported)		**274**	**277**

[1] For the year ended 31 December
[2] See the accompanying notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Equity

AUDITED ✓

million CHF	Note [1]	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total	Total equity
		Attributable to equity holders of the parent							
At 31 December 2014		**53**	**311**	**2,301**	**(9)**	**(449)**	**(77)**	**2,130**	**2,130**
Profit for the period		0	0	277	0	0	0	277	277
– Remeasurement of defined benefit liability		0	0	(50)	0	0	0	(50)	(50)
– Exchange differences on translating foreign operations		0	0	0	0	(113)	0	(113)	(113)
– Cash flow hedges		0	0	0	6	0	0	6	6
Other comprehensive income, net of tax		0	0	(50)	6	(113)	0	(157)	(157)
Total comprehensive income for the period		**0**	**0**	**227**	**6**	**(113)**	**0**	**120**	**120**
Dividends	26	0	0	(131)	0	0	0	(131)	(131)
Recognition of share-based payments	24	0	0	15	0	0	0	15	15
Movements in treasury shares		0	0	(25)	0	0	26	1	1
At 31 December 2015		**53**	**311**	**2,387**	**(3)**	**(562)**	**(51)**	**2,135**	**2,135**
Profit for the period		0	0	301	0	0	0	301	301
– Remeasurement of defined benefit liability		0	0	(27)	0	0	0	(27)	(27)
– Exchange differences on translating foreign operations		0	0	0	0	3	0	3	3
– Cash flow hedges		0	0	0	(2)	0	0	(2)	(2)
Other comprehensive income, net of tax		0	0	(27)	(2)	3	0	(26)	(26)
Total comprehensive income for the period		**0**	**0**	**274**	**(2)**	**3**	**0**	**275**	**275**
Dividends	26	0	0	(131)	0	0	0	(131)	(131)
Recognition of share-based payments	24	0	0	26	0	0	0	26	26
Movements in treasury shares		0	0	9	0	0	41	50	50
At 31 December 2016		**53**	**311**	**2,565**	**(5)**	**(559)**	**(10)**	**2,355**	**2,355**

[1] See the accompanying notes to the consolidated financial statements

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.

Notes to the Consolidated Financial Statements AUDITED ✓

Note 1 – Accounting Principles

Note 2 – Operating Segments

Note 3 – Restructuring

Note 4 – Business Combinations & Sale of Businesses

Note 5 – Intangible Assets and Goodwill

Note 6 – Property, Plant and Equipment

Note 7 – Investments in Associates and Joint Ventures

Note 8 – Inventories

Note 9 – Development Contracts

Note 10 – Trade Receivables

Note 11 – Other Receivables, Prepaid Expenses and Accrued Income

Note 12 – Cash and Cash Equivalents

Note 13 – Provisions

Note 14 – Net Debt

Note 15 – Other Current Liabilities

Note 16 – Trade Payables

Note 17 – Material and Energy Costs

Note 18 – Personnel Expenses

Note 19 – Other Operating Income and Expenses

Note 20 – Financial Results

Note 21 – Taxes

Note 22 – Research and Development Costs

Note 23 – Employee Benefit Liabilites

Note 24 – Share-Based Payments

Note 25 – Changes in Shares and Share Capital Movements

Note 26 – Earnings Per Share

Note 27 – Related Parties

Note 28 – Financial Risk Management

Note 29 – Share Ownership of the members of the Board of Directors and the Executive Committee

Note 30 – Enterprise Risk Management

Note 31 – Events after Balance Sheet Date

Note 32 – Principal Subsidiaries and Joint Ventures

Note 1 – Accounting Principles AUDITED ✓

Lonza Group

Lonza Group Ltd and its subsidiaries (hereafter "the Group" or "Lonza") operate under the name Lonza. Lonza Group Ltd is a limited liability company incorporated and domiciled in Switzerland. The Group is headquartered in Basel, Switzerland. Lonza is one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets. It harnesses science and technology to create products that support safer and healthier living and that enhance the overall quality of life. Not only is Lonza a custom manufacturer and developer, the company also offers services and products ranging from active pharmaceutical ingredients to drinking water sanitizers, from nutritional and personal care ingredients to agricultural products, and from industrial preservatives to microbial control solutions that combat dangerous viruses, bacteria and other pathogens.

Basis of Preparation

The consolidated financial statements for 2016 and 2015 are reported in Swiss francs (CHF), rounded to millions, and based on the annual accounts of Lonza Group Ltd (Company) and its subsidiaries at 31 December, which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments and contingent considerations are stated at their fair values. The employee benefit liability is stated at the fair value of plan assets less the present value of the defined-benefit obligation.

Changes in Accounting Standards

There were no new standards or amendments to existing standards that had a significant impact on the Group's consolidated financial statements.The following new and revised standards have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements of Lonza has not yet been comprehensively analyzed. The expected effects as disclosed below reflect a first assessment by Group management.

Standard / Interpretation		Effective date	Planned application by Lonza
Amendments to IAS7 – Disclosure Initiative	*	1 January 2017	Reporting year 2017
Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses	*	1 January 2017	Reporting year 2017
Annual Improvements to IFRS Standards 2014–2016 Cycle	*	1 January 2017 / 1 January 2018	1 January 2017 / 1 January 2018
IFRS 15 – Revenue from Contracts with Customers	**	1 January 2018	Reporting year 2018
IFRS 9 – Financial Instruments	**	1 January 2018	Reporting year 2018
Amendments to IFRS2 – Classification and Measurement of Share-based Payment Transactions	*	1 January 2018	Reporting year 2018
IFRIC 22 – Foreign Currency Transactions and Advance Consideration	*	1 January 2018	Reporting year 2018
IFRS 16 – Leases	**	1 January 2019	Reporting year 2019
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	*	To be determined	To be determined

* No or no significant impact is expected on the consolidated financial statements
** The Group is currently assessing the impacts of adopting these standards

IFRS 15 Revenue from Contracts with Customers amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. Based on the Group's assessment the adoption of the new standard will primarily impact its long-term contracts of the custom manufacturing business and will result in recognition of contract assets for costs incurred during the pre-manufacturing phase as well as additional deferred income related to payments from customers before supply of goods. The Group has not yet finally quantified this impact.

IFRS 16 Leases substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The current operating lease commitments of CHF 95 million as of 31 December 2016 (see note 6) provide, subject to the provision of the standard, an indicator of the impact of the implementation of IFRS 16 on the Group's consolidated balance sheet.

Principles of Consolidation

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

The full consolidation method is used, whereby the assets, liabilities, income and expenses are incorporated in full, irrespective of the extent of any non-controlling interest. Payables, receivables, income and expenses between Lonza-consolidated companies are eliminated. Intercompany profits included in year-end inventories of goods produced within Lonza are

eliminated, as well as unrealized gains on transactions between subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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

Segment Reporting

For the purpose of segment reporting, the Group's Executive Committee (EC) is considered to be the Group's Chief Operating Decision Maker. The determination of the Group's operating segments is based on the organizational units for which information is reported to the EC on a regular basis. The information provided is used as the basis of the segment revenue and profit disclosures reported in note 2. Selected segment balance sheet information and performance measures are also routinely provided to the EC.

The Group has two segments, Pharma&Biotech and Specialty Ingredients. Revenues are primarily generated from the sale of products. The Pharma&Biotech segment also derives revenues from the sale or licensing of products or technology to third parties. Residual operating activities from certain global activities are reported as "Corporate". These include the EC and global group functions for communications, human resources, finance (including treasury and taxes), legal, environmental and safety services. Transfer prices between operating segments are set on an arm's-length basis. Operating assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables / payables, inventories and other assets and liabilities, such as provisions, which can be reasonably attributed to the reported operating segments. Non-operating assets and liabilities mainly include current and deferred income tax balances, post-employment benefit assets / liabilities and financial assets / liabilities such as cash, investments and debt.

Revenue Recognition

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

Foreign Currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF), which is the Group's presentation currency. For consolidation purposes the balance sheet of foreign

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

Derivative Financial Instruments and Hedging

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

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

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

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

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

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

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

Property, Plant and Equipment

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

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

Leases

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

Intangible Assets

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

Goodwill and Business Combinations

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

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

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

Inventories

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

Receivables

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

Financial Assets

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

Cash and Cash Equivalents

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

Impairment

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

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

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

Assets held for sale – Disposal groups comprising assets and liabilities are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such disposal groups are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata bases, except that no loss is allocated to inventories, financial assets or deferred tax assets, which continue to be recognized in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

Deferred Taxes

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

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

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

Employee Benefits

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

Defined-Benefit Plans (Pension and Medical Plans)

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

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

Provisions

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

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

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

Debt

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

Share Capital

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

Dividend

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

Share-Based Compensation

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

Research and Development

Research and development costs are generally charged against income as incurred. Development costs are only capitalized when the related products meet the recognition criteria of an internally generated intangible asset, which mainly require the technical feasibility of completing the intangible asset, the probability of future economic benefits, the reliable measurement of costs

and the ability and intention of the Group to use or sell the intangible asset. Fixed assets (buildings, machinery, plant, equipment) used for research purposes are valued similarly to other fixed assets. Such assets are capitalized and depreciated over their estimated useful lives. Expenses for research and development include associated wages and salaries, material costs, depreciation on fixed assets, as well as overhead costs.

Other Operating Income and Other Operating Expenses

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

Net Financing Costs

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

Significant Accounting Estimates and Judgements

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, liabilities, revenue and expenses. Actual results could differ from those estimates. Estimates are used in impairment tests, accounting for allowances for doubtful receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. The key assumptions about the future key sources of estimation uncertainty that entail a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are described below.

Impairment Test of Property, Plant and Equipment, Intangible Assets and Goodwill

The Group has carrying values with regard to property, plant and equipment of CHF 2,412 million (2015: CHF 2,366 million), goodwill of CHF 1,287 million (2015: CHF 1,118 million) and intangible assets of CHF 968 million (2015: CHF 833 million) (see note 5 and note 6). The intangible assets include trademarks acquired through business combinations with a carrying value of CHF 387 million (2015: CHF 384 million), which have an indefinite useful life and are not systematically amortized. Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors

such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower-than-anticipated sales for products with capitalized rights could result in shortened useful lives or impairment. The impairment analysis as explained in note 5 is most sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash-inflows and the growth rate used for calculation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in note 5.2.

Pensions

Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined-benefit obligation is influenced by assumptions on discount rates used to arrive at the present value of future pension liabilities and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent external actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2016, the present value of the Group's defined-benefit obligation was CHF 3,145 million (2015: CHF 3,066 million). The plan assets at fair value amounted to CHF 2,472 million (2015: CHF 2,372 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 673 million (2015: CHF 694 million) (see note 23). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter lifespans of participants and other changes in the factors being assessed. These differences could affect the fair value of assets or liabilities recognized in the balance sheet in future periods.

Business Combinations

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

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

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

Environmental Provisions

Lonza is exposed to environmental liabilities and risks relating to its operations, principally in respect of provisions for remediation costs, which at 31 December 2016 amounted to CHF 92 million (2015: CHF 73 million), as disclosed in note 13. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties that include, but are not limited to, the method and extent of remediation and the responsibility attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures. Lonza believes that its provisions are adequate, based upon currently available information; however, given the inherent

difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred beyond the amounts provided. Due to the uncertainty both of the amount and timing of future expenses, the provisions provided for environmental-remediation costs could be affected in future periods.

Income Taxes

At 31 December 2016, deferred tax assets of CHF 38 million (2015: CHF 47 million), current tax receivables of CHF 16 million (2015: CHF 21 million), deferred tax liabilities of CHF 329 million (2015: CHF 255 million) and current tax payables of CHF 88 million (2015: CHF 89 million) are included in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the actual amounts of estimated income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

Critical Accounting Judgments in Applying the Group's Accounting Policies

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

Revenue Recognition

The Group has recognized revenue for sales of goods during 2016 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experience with similar transactions, the quality delivered will be accepted. Therefore, it is appropriate to recognize revenue on these transactions during 2016. Moreover, the Group has various contractual agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to management's judgment, risks and rewards have been transferred to the customer and no future performance obligation exists. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

Intangible Assets

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

Note 2 – Operating Segments AUDITED ✓

2.1 General Information

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

Pharma&Biotech

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

Specialty Ingredients

In the Specialty Ingredients segment, Lonza is an innovative supplier of solutions that promote health, wellness, beauty, nutrition, hygiene and materials protection. Lonza's Consumer Care business is a global leader in several important chemical ingredient categories that provide health, wellness, beauty and protection claims for our fast-moving consumer goods customers. These ubiquitous materials include actives for antidandruff shampoos, cosmetic ingredients, vitamin B3 compounds (niacin and niacinamide), L-Carnitine and microbial control solutions such as disinfectants and sanitizers that help protect us from dangerous and unwanted microbes. Lonza's Agro Ingredients business offers – in addition to active ingredients for mollusk control – custom agricultural manufacturing services designed to improve crop yields and food quality. Additional offers include preservatives and additives for crop protection formulations, as well as animal feed additives. Coatings and Composites globally offers a wide array of specialty solutions for the protection, enhanced performance and modification of the end-use characteristics of various materials including carbon, fibers, fabrics, leather, metals, plastics, stone and wood. The Water Treatment business is one of the world's largest suppliers of sanitizers and other treatment chemicals for pools, spas and water parks, surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications.

Corporate

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

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

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

Year ended 31 December 2016 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations	Group total
Sales third-party	**2,250**	**1,849**	**4,099**	**33**	**4,132**
Intersegment sales [1]	43	23	66	(66)	0
Total sales	**2,293**	**1,872**	**4,165**	**(33)**	**4,132**
Result from operating activities (EBIT)	**273**	**325**	**598**	**(112)**	**486**
– Percentage return on sales in %	12.1	17.6	14.6	n.a.	11.8
Financial income					2
Financial expenses					(114)
Net financing costs					**(112)**
Share of loss of associates / joint ventures					(1)
Profit before income taxes					**373**
Income taxes					(72)
Profit for the period					**301**
Included in result from operating activities (EBIT):					
Other operating income [2]	12	10	22	9	31
Other operating expenses [2]	(18)	(24)	(42)	(4)	(46)
Research and development	(49)	(95)	(144)	0	(144)
Depreciation and amortization	(123)	(140)	(263)	(44)	(307)
Impairment, net of reversal of impairment	(5)	(50)	(55)	0	(55)
Restructuring expenses	(9)	(16)	(25)	(2)	(27)
Environmental expenses	0	0	0	(28)	(28)
CORE result from operating activities (EBIT) [5]	**322**	**400**	**722**	**(71)**	**651**
Total assets	4,041	3,638	7,679	(851)	6,828
Total liabilities	618	1,476	2,094	2,379	4,473
Total equity	3,423	2,162	5,585	(3,230)	2,355
Net financial liabilities	(400)	(71)	(471)	3,142	2,671
Net capital invested [3]	3,023	2,091	5,114	(88)	5,026
Return on net capital invested (RONOA) [4] in %	13.3	17.8	15.4	n.a.	12.7
Included in total assets:					
Total property, plant and equipment	922	1,426	2,348	64	2,412
– Additions to property, plant and equipment	96	232	328	27	355
– Additions to property, plant and equipment from acquisitions	1	0	1	0	1
Total goodwill and intangible assets	1,712	512	2,224	31	2,255
– Additions to intangible assets	0	6	6	5	11
– Additions to goodwill and intangible assets from acquisitions	332	12	344	0	344
Investments in associates / joint ventures	7	3	10	8	18
Headcount	3,495	4,771	8,266	1,864	10,130
Average headcount	3,484	4,680	8,164	1,815	9,979

[1] Intersegment sales were based on prevailing market prices.
[2] Excluding restructuring- and environment-related income/expenses (CHF 15 million), as well as the Braine-related impairments (CHF 42 million)
[3] Net capital invested comprises all operating assets and goodwill less operating liabilities.
[4] Calculated at historical monthly average rates based on net capital invested excluding goodwill.
[5] See reconciliation of IFRS to CORE Results in the Supplementary Financial Information section.

Year ended 31 December 2015 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations	Group total
Sales third-party	**2,167**	**1,596**	**3,763**	**40**	**3,803**
Intersegment sales [1]	62	27	89	(89)	0
Total sales	**2,229**	**1,623**	**3,852**	**(49)**	**3,803**
Result from operating activities (EBIT)	**271**	**216**	**487**	**(59)**	**428**
– Percentage return on sales in %	12.5	13.5	12.9	n.a.	11.3
Financial income					4
Financial expenses					(89)
Net financing costs					**(85)**
Share of loss of associates / joint ventures					(2)
Profit before income taxes					**341**
Income taxes					(64)
Profit for the period					**277**
Included in result from operating activities (EBIT):					
Other operating income [2]	23	16	39	14	53
Other operating expenses [2]	(23)	(16)	(39)	(26)	(65)
Research and development	(51)	(134)	(185)	0	(185)
Depreciation and amortization	(113)	(143)	(256)	(44)	(300)
Impairment, net of reversal of impairment	(3)	(47)	(50)	(2)	(52)
Restructuring (expenses) / income	(2)	(9)	(11)	(1)	(12)
Environmental (expenses) / income	(1)	0	(1)	(30)	(31)
CORE result from operating activities (EBIT) [5]	**298**	**284**	**582**	**(58)**	**524**
Total assets	3,554	3,596	7,150	(902)	6,248
Total liabilities	462	1,340	1,802	2,311	4,113
Total equity	3,092	2,256	5,348	(3,213)	2,135
Net financial liabilities	(362)	(11)	(373)	3,097	2,724
Net capital invested [3]	2,730	2,245	4,975	(116)	4,859
Return on net capital invested (RONOA) [4] in %	13.1	10.9	12.0	n.a.	10.8
Included in total assets:					
Total property, plant and equipment	936	1,406	2,342	24	2,366
– Additions to property, plant and equipment	86	145	231	25	256
– Additions to property, plant and equipment from acquisitions	2	0	2	1	3
Total goodwill and intangible assets	1,375	546	1,921	30	1,951
– Additions to intangible assets	3	0	3	5	8
– Additions to goodwill and intangible assets from acquisitions	27	0	27	0	27
Investments in associates / joint ventures	2	2	4	9	13
Headcount	3,474	4,590	8,064	1,765	9,829
Average headcount	3,349	4,710	8,059	1,759	9,818

[1] Intersegment sales were based on prevailing market prices.
[2] Excluding restructuring- and environment-related income/expenses (CHF 5 million)
[3] Net capital invested comprises all operating assets and goodwill less operating liabilities.
[4] Calculated at historical monthly average rates based on net capital invested excluding goodwill.
[5] See reconciliation of IFRS to CORE Results in the Supplementary Financial Information section.

2.3 Measurement of Operating Segment Profit or Loss

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

2.4 Geographical Information

Year ended 31 December 2016 million CHF	Revenue from external customers (sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	332	910	11	15	10	946
Germany	197	4	27	62	0	93
Ireland	146	1	0	0	0	1
United Kingdom	173	68	57	8	0	133
France	110	1	4	9	0	14
Netherlands	48	0	0	0	0	0
Belgium	19	9	0	54	0	63
Sweden	101	0	0	0	0	0
Italy	37	0	0	10	0	10
Spain	20	117	0	0	0	117
Czech Republic	7	26	0	0	0	26
Rest of Europe	106	3	0	11	0	14
Europe	**1,296**	**1,139**	**99**	**169**	**10**	**1,417**
United States	1,915	745	765	1,099	9	2,618
Canada	67	0	8	4	0	12
Rest of North and Central America	21	0	0	0	0	0
North and Central America	**2,003**	**745**	**773**	**1,103**	**9**	**2,630**
Brazil	104	15	10	0	4	29
Rest of Latin America	25	0	0	0	0	0
Latin America	**129**	**15**	**10**	**0**	**4**	**29**
China	143	216	10	4	0	230
Singapore	139	280	51	0	3	334
Japan	104	0	2	0	0	2
India	67	4	0	2	0	6
Rest of Asia	112	1	0	0	0	1
Asia	**565**	**501**	**63**	**6**	**3**	**573**
South Africa	**57**	**7**	**4**	**0**	**0**	**11**
New Zealand	**41**	**4**	**14**	**8**	**0**	**26**
Other countries	**41**	**1**	**5**	**1**	**0**	**7**
Total	**4,132**	**2,412**	**968**	**1,287**	**26**	**4,693**

Year ended 31 December 2015 million CHF	Revenue from external customers (sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	344	938	27	15	2	982
Germany	223	4	30	63	0	97
Ireland	170	1	0	0	0	1
United Kingdom	155	88	65	10	0	163
France	109	2	4	10	0	16
Netherlands	65	0	0	0	0	0
Belgium	51	61	0	85	0	146
Sweden	46	0	0	0	0	0
Italy	32	0	0	10	0	10
Spain	18	119	0	0	0	119
Czech Republic	6	26	0	0	0	26
Rest of Europe	124	2	0	9	0	11
Europe	**1,343**	**1,241**	**126**	**202**	**2**	**1,571**
United States	1,581	579	601	897	9	2,086
Canada	78	0	8	4	0	12
Rest of North and Central America	27	0	0	0	0	0
North and Central America	**1,686**	**579**	**609**	**901**	**9**	**2,098**
Brazil	96	8	9	0	3	20
Rest of Latin America	34	0	0	0	0	0
Latin America	**130**	**8**	**9**	**0**	**3**	**20**
China	149	246	11	4	0	261
Singapore	102	278	52	0	3	333
Japan	99	1	2	0	0	3
India	61	4	0	2	0	6
Rest of Asia	109	0	0	0	1	1
Asia	**520**	**529**	**65**	**6**	**4**	**604**
South Africa	**55**	**4**	**3**	**0**	**0**	**7**
New Zealand	**30**	**4**	**15**	**7**	**0**	**26**
Other countries	**39**	**1**	**6**	**2**	**1**	**10**
Total	**3,803**	**2,366**	**833**	**1,118**	**19**	**4,336**

2.5 Information About Major Customers

In 2016 Lonza's largest customer accounted for 5.3% and the second, third, fourth and fifth largest customers for 5.2%, 4.9%, 4.7% and 3.3% in relation to total Group sales, respectively. No other customer accounted for 3.2% or more of Lonza's total sales. Out of the five largest customers, the second-largest customer relates to the Specialty Ingredients segment, whereas the other largest customers related to the Pharma&Biotech segment.

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

Note 3 – Restructuring AUDITED ✓

Year ended 31 December 2016 million CHF	Specialty Ingredients	Pharma& Biotech	Corporate	Total
Impairment of property, plant and equipment, intangible assets and goodwill [1]	5	50	0	55
Restructuring charges	9	16	2	27
Total	**14**	**66**	**2**	**82**

Year ended 31 December 2015 million CHF	Specialty Ingredients	Pharma& Biotech	Corporate	Total
Impairment of property, plant and equipment [1]	3	47	2	52
Restructuring charges	2	9	1	12
Total	**5**	**56**	**3**	**64**

[1] Net of reversal of impairment (2016: CHF 2 million; 2015: CHF 1 million)

In 2016 the Special Ingredients segment redefined the strategy of its U.S. Water Treatment business. This led to an impairment of dedicated assets (CHF 1 million) and restructuring charges resulting from the write-off and disposal of inventories (CHF 8 million). In addition, Lonza further optimized its product portfolio of the Visp (CH) site, which resulted in impairment losses of CHF 3 million. The costs for these measures are included within cost of goods sold.

The impairment losses within Pharma&Biotech segment include CHF 42 million related to Peptides assets as disclosed in note 4.3, while the restructuring loss of this segment comprise the expected lease termination cost (CHF 13 million) of Lonza's former manufacturing site in Hopkinton, MA (USA). These costs are included in other operating expenses.

The restructuring activities in 2015 reflect the transfer of Lonza's microbial manufacturing from the Kouřim (CZ) site to the Visp (CH) site that resulted in an impairment charge of CHF 39 million and restructuring costs of CHF 8 million. In addition, Lonza recognized an impairment loss of CHF 13 million on property, plant and equipment related to Walkersville, MD (USA). All of these costs were included within cost of goods sold.

Note 4 – Business Combinations & Sale of Businesses AUDITED ✓

4.1 Acquisitions – 2016

Acquisition of InterHealth Nutraceuticals Inc.

Effective 12 September 2016, Lonza acquired 100% of the shares of InterHealth Nutraceuticals Inc. ("InterHealth") for a total consideration of USD 246 million (CHF 240 million), of which USD 229 million was paid in cash and USD 17 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 27.5 million. In addition, Lonza assumed InterHealth's net debt of USD 39 million (debt of USD 46 million net of cash & cash equivalents of USD 7 million) and repaid InterHealth's debt after the acquisition date.

InterHealth is a leader in research, development, manufacture and marketing of proprietary, value-added nutritional ingredients for use in dietary supplements, based in Benicia, CA (USA). The InterHealth business will become part of Lonza's Consumer Care Business Unit, but will retain its facilities and employees. The combination of the two businesses allows Lonza to offer InterHealth's more than 15 branded ingredients, including its cornerstone ingredient, UC-II®.

The InterHealth business is reported within the Specialty Ingredients segment.

From 12 September 2016 to 31 December 2016, the acquired business contributed sales of CHF 21 million and a result from operating activities of CHF 3 million to the Group[1]. If the acquisition had occurred on 1 January 2016, Group sales in 2016 would have been CHF 4,170 million (+ CHF 38 million) and the Group result from operating activities CHF 498 million (+ CHF 12 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 2016.

[1] The result from operating activities 2016 includes the impact of the fair value adjustment of acquired inventories (CHF 3 million increased cost of goods sold) as well as the complete amortization of the acquired order backlog (CHF 5 million).

The InterHealth identifiable assets acquired and liabilities assumed are set out in the table below and have been determined on a provisional basis:

million CHF	
Intangible assets	
– Products	57
– Customer relationships	114
– Order backlog	5
Property, plant & equipment	1
Inventories	9
Trade receivables	8
Cash & cash equivalents	7
Deferred tax liabilities	(63)
Debt	(44)
Provisions	(2)
Trade payables	(5)
Other net liabilities	(3)
Net identifiable assets	84
Goodwill	156
Total consideration	240
Cash consideration	223
Contingent consideration	17
Total consideration transferred	240

The fair value of the customer relationships was determined using an excess earning method while the fair value of the products was determined using a relief from royalty method. Both methods are based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value was calculated using a risk-adjusted discount rate of 11%. Portions of the valuation of the acquired assets and liabilities of InterHealth was performed by an independent valuation provider.

Goodwill includes the acquired workforce, expected synergies from integrating InterHealth into Lonza's existing business as well as the expected future product development. None of the goodwill recognized is expected to be deductible for income tax purposes. The acquisition has been accounted for using the acquisition method.

Directly attributable transaction costs of CHF 2 million are reported in the Specialty Ingredients segment within administration and general overhead expenses.

Acquisition of Triangle Research Labs

Effective 27 April 2016, Lonza Group acquired Triangle Research Labs for a total consideration of USD 16 million (CHF 15 million), resulting in a goodwill of CHF 12 million. The U.S. – based company manufactures and supplies high-quality hepatocytes for medical and biomedical research in pre-clinical applications. This acquisition supports Lonza's strategy to continue developing its life-science platform and expanding its global cell-biology portfolio.

The acquisition is reported within the Pharma&Biotech segment and does not have a significant impact on the consolidated financial statements for the twelve-month period ended 31 December 2016.

4.2 Acquisitions – 2015

Acquisition of Zelam Holdings Ltd

On 3 August 2015, the Lonza Group acquired 100% of the shares of Zelam Holdings Ltd, based in New Zealand (NZ). Zelam is a research-focused chemical company based in New Zealand (NZ), which develops and manufactures products for crop protection, specializing in fungicides, insecticides, herbicides, foliar nutrients and additives. Zelam also develops and manufactures products for wood protection. Based on the completed purchase price accounting, previously reported fair values of the acquired assets and liabilities were adjusted, which resulted in goodwill of CHF 7 million (2015: CHF 10 million).

Acquisition of Diacon Technologies Ltd

Effective 1 October 2015, Lonza Group acquired 100% of the shares of Diacon Technologies Ltd for a total consideration of CAD 17 million (CHF 12 million), resulting in a goodwill of CHF 4 million. Diacon is a leading formulator and supplier of anti-sapstain chemicals and ancillary sawmill products.

Both 2015 acquisitions are reported within the Specialty Ingredients segment and did not have a significant impact on the consolidated financial statements for the 12-month period ended 31 December 2015.

4.3 Assets Held for Sale – 2016

On 7 December 2016 Lonza announced that it entered into a definitive agreement with PolyPeptide Laboratories Holding (PPL) to sell the peptides business and operations of Lonza in Braine-l'Alleud, Belgium. Lonza's Braine facility, with approximately 280 employees, is the center for peptide chemical development and manufacturing within Lonza. The agreement was subject to customary closing conditions and legally closed on 3 January 2017.

As IFRS 5 held for sale criteria were met in 2016, the Lonza Braine-related assets and liabilities are classified as a disposal group in assets held for sale and liabilities held for sale in the 2016 consolidated balance sheet.

An impairment loss of CHF 42 million has been included in 'Other operating expenses' for the write-down of the Lonza Braine disposal group to its estimated fair value less costs to sell. The impairment loss has been recorded to fully impair the Lonza Braine related goodwill of CHF 31 million as well as to reduce the carrying amount of property, plant & equipment (CHF 9 million) and intangible assets (CHF 2 million).

The agreed sales price (and estimated fair value of the disposal group) consists of an upfront payment from PPL as well as a contingent consideration, which is a percentage of the Lonza Braine net sales of the next five years.

At 31 December 2016 the assets held for sale and liabilities held for sale related to the Lonza Braine disposal are the following:

million CHF	
Property, plant & equipment	39
Customer relationships	10
Deferred tax assets	4
Inventories	34
Cash and cash equivalents	4
Assets held for sale	**91**
Employee benefit liability	16
Trade payables	3
Other current operating liabilities	21
Liabilities held for sale	**40**

The cumulative income or expense recognized in other comprehensive income related to the Lonza Braine operations is as follows:

million CHF	
Re-measurements of net defined benefit liability, net of taxes	6
Exchange differences on translating foreign operations, net of taxes	29
Cumulative expense recognized in other comprehensive income	**35**

As a result of the closing of the transaction on 3 January 2017, the accumulated exchange rate translation reserve losses of CHF 29 million will be reclassified to the income statement in 2017.

4.4 Planned Acquisition of Capsugel

On 15 December 2016, Lonza announced that it has entered into a definitive agreement with KKR under which Lonza will acquire Capsugel S.A. ("Capsugel") for USD 5.5 billion (CHF 5.60 billion at 2016 year-end rates) in cash, including refinancing of existing Capsugel debt of approximately USD 2 billion (CHF 2.04 billion at 2016 year-end rates), through a transaction that has been approved by the Boards of Directors of both Lonza and Capsugel.

Capsugel designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health and nutrition industries.

The USD 5.5 billion all-cash acquisition of Capsugel is expected to be financed with a combination of debt and equity financing. Lonza has committed debt financing for the full acquisition amount from Bank of America Merrill Lynch and UBS and plans to raise equity which is fully underwritten by UBS and Bank of America Merrill Lynch for an amount up to CHF 3.3 billion.

Lonza Group Ltd has successfully placed 5 million new shares (from Lonza Group Ltd's authorized capital as described in note 25) by way of an accelerated book building procedure with selected investors in Switzerland (private placement) and outside of Switzerland to institutional investors and qualified institutional buyers. The shares were placed at CHF 173.00 per new shares and the gross proceeds from the Placement amount are equal to CHF 865 million, which are intended to partially finance the acquisition of Capsugel. The new shares have been listed and are admitted to trading on the SIX Swiss Exchange on 3 February 2017.

Lonza's Board intends to seek approval for additional share capital at its upcoming annual general meeting (AGM) in April 2017. The transaction is expected to close in the second quarter of 2017 and is subject to certain regulatory approvals and other customary closing conditions.

The impact from this transaction on the 2016 consolidated financial statements is limited to transaction related costs of CHF 11 million, paid fees of CHF 26 million for credit facilities committed by banks (whereof CHF 18 million classified as current and CHF 8 million as non-current) as well as derivative financial instruments to manage Lonza's foreign currency exposure (see note 28.5).

Note 5 – Intangible Assets and Goodwill AUDITED ✓

5.1 Cost and Accumulated Amortization and Impairment

Year ended 31 December 2016 million CHF	Goodwill	Arch Chemicals Inc. / Cambrex trademarks	Patents, trademarks, client relationship	Computer software	Development cost	Construction in progress	Total
Cost							
At 1 January	**1,124**	**384**	**574**	**129**	**93**	**3**	**2,307**
Additions	0	0	1	10	0	0	11
Disposals	0	0	0	(3)	0	0	(3)
Acquisition of subsidiaries	168	0	176	0	0	0	344
Transfer to assets held for sale (note 4)	(36)	0	(34)	(2)	0	0	(72)
Transfers / reclassification	0	0	0	2	0	(2)	0
Currency translation differences	31	4	16	2	2	0	55
At 31 December	**1,287**	**388**	**733**	**138**	**95**	**1**	**2,642**
Accumulated amortization and impairment							
At 1 January	**(6)**	**0**	**(217)**	**(99)**	**(34)**	**0**	**(356)**
Amortization	0	0	(38)	(13)	(7)	0	(58)
Disposals	0	0	0	2	0	0	2
Impairment losses	(31)	(1)	(2)	0	0	0	(34)
Transfer to assets held for sale (note 4)	36	0	24	2	0	0	62
Currency translation differences	1	0	(2)	(1)	(1)	0	(3)
At 31 December	**0**	**(1)**	**(235)**	**(109)**	**(42)**	**0**	**(387)**
Net carrying amount 31 December	**1,287**	**387**	**498**	**29**	**53**	**1**	**2,255**

Year ended 31 December 2015 million CHF	Goodwill [1]	Arch Chemicals Inc. / Cambrex trademarks	Patents, trademarks, client relationship [1]	Computer software	Development cost	Construction in progress	Total
Cost							
At 1 January	**1,137**	**386**	**593**	**118**	**98**	**6**	**2,338**
Additions	0	0	1	4	0	3	8
Disposals	0	0	(14)	(1)	(6)	0	(21)
Acquisition of subsidiaries	11	0	15	0	1	0	27
Disposal of subsidiary	(4)	0	0	0	0	0	(4)
Transfers / reclassification	0	0	(3)	9	0	(6)	0
Currency translation differences	(20)	(2)	(18)	(1)	0	0	(41)
At 31 December	**1,124**	**384**	**574**	**129**	**93**	**3**	**2,307**
Accumulated amortization and impairment							
At 1 January	**(7)**	**0**	**(205)**	**(86)**	**(33)**	**0**	**(331)**
Depreciation charge	0	0	(36)	(8)	(7)	0	(51)
Disposals	0	0	14	1	6	0	21
Transfers / reclassification	0	0	6	(6)	0	0	0
Currency translation differences	1	0	4	0	0	0	5
At 31 December, as reported	**(6)**	**0**	**(217)**	**(99)**	**(34)**	**0**	**(356)**
Net carrying amount 31 December	**1,118**	**384**	**357**	**30**	**59**	**3**	**1,951**

[1] Restated to reflect final purchase accounting for Zelam Ltd (reclassification of CHF 3 million from goodwill to intangible assets)

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

Trademarks acquired through the Arch Chemicals Inc. (2011) and Cambrex (2007) acquisitions are considered to have indefinite useful lives. As a result, these intangible assets with a carrying amount of CHF 387 million as of 31 December 2016 (2015: CHF 384 million) are not systematically amortized.

Development costs as of 31 December 2016 include technology acquired with the Arch Chemical Inc. acquisition of CHF 49 million (2015: CHF 54 million), the Cambrex aquisition of CHF 3 million (2015: CHF 3 million) and the Diacon acquisition of CHF 1 million (2015: CHF 1 million).

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

The Group has identified the following cash-generating units:

Specialty Ingredients

The segment's business units are the cash-generating units used for the impairment testing of goodwill and intangible assets with indefinite useful lives, with the exception that the Wood Protection business continues to be considered as a separate cash-generating unit due to its independent cash flows, despite the fact that this business was integrated into the Coating & Composites business unit, effective for the 2016 financial year.

Pharma&Biotech

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

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

million CHF	2016	2015 [1]
Specialty Ingredients (representing a group of cash-generating units)	743	722
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	341	324
Consumer Products Ingredients	[2] 163	0
Mammalian (custom manufacturing and related development services)	24	26
Chemical (custom manufacturing and related development services)	0	31
Agro Ingredients	12	11
Wood Protection	4	4
Total carrying amounts of goodwill	**1,287**	**1,118**

[1] Restated to reflect final purchase accounting for Zelam Ltd (reclassification of CHF 3 million from goodwill to intangible assets)
[2] Amount reflects goodwill acquired in connection with the acquisition of InterHealth Nutraceuticals (see note 4.1)

The Chemical cash-generating unit does not maintain goodwill anymore, as a result of the impairment due to the sale of Lonza's Braine (BE) site (see note 4.3).

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

million CHF	2016	2015
Specialty Ingredients (representing a group of cash-generating units)	360	357
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	27	27
Total carrying amounts of intangible assets with indefinite useful life	**387**	**384**

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. These cash flow projections for 2017 to 2021 are based on the business strategy review and exclude any future cash inflows and outflows expected to arise from growth potential of future capital expenditures.

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

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

The Specialty Ingredients business includes the cash-generating units of Consumer Products Ingredients, Agro Ingredients, Coatings and Composites (excluding Wood Protection), Wood Protection and Water Treatment. These cash-generating units are the combination of the activities acquired through the Arch Chemicals acquisition in 2011, as well as the former Life Science Ingredients activities of Lonza. The cash flow projections for 2017–2021 are based on a 4.5% (2015: 4.2%) average sales growth. The cash flow projections beyond the five-year period are based on a 1% growth rate (2015: 1%). A pre-tax discount rate of 8.5% (2015: 9.4%) has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The Bioscience Solutions / Cell Therapy / Viral Therapeutics businesses include the Cambrex Corporation, acquired in 2007, the amaxa business, acquired in 2008, MODA Technology Partners and Vivante GMP Solutions, acquired in 2010, as well as Triangle Research Labs, acquired in April 2016, respectively. The cash flow projections for 2017–2021 are based on a 9.4% (2015: 11.2%) average sales growth. The cash flow projections beyond the five-year period are extrapolated using a 0.5% growth rate (2015: 0.5%). A pre-tax discount rate of 7.7% (2015: 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 goodwill arising from the acquisition of InterHealth Nutraceuticals in September 2016 is allocated to the Consumer Products Ingredients business. The cash flow projections for 2017–2021 are based on a 7.6% average sales growth with growing EBIT margins. The cash flow projections beyond the five-year period are based on a 1% growth rate. A pre-tax discount rate of 8.1% has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

In addition, the following table summarizes the assumptions applied for the other cash-generating units:

in %	2016	2015
Mammalian CGU		
Pre-tax discount rate	8.0	7.7
Sales growth rate during forecast period	5.0	7.5
Sales growth rate after forecast period	0.0	0.0
Agro Ingredients CGU		
Pre-tax discount rate	7.8	8.4
Sales growth rate during forecast period	3.9	4.1
Sales growth rate after forecast period	1.0	1.0
Wood Protection CGU		
Pre-tax discount rate	8.3	9.5
Sales growth rate during forecast period	3.7	6.4
Sales growth rate after forecast period	1.0	1.0

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

Note 6 – Property, Plant and Equipment AUDITED ✓

Year ended 31 December 2016 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**48**	**1,728**	**3,915**	**225**	**5,916**
Additions	0	13	70	272	355
Disposals	0	(12)	(120)	(1)	(133)
Acquisition of subsidiaries	0	0	1	0	1
Transfer to assets held for sale (note 4.3)	(8)	(19)	(65)	0	(92)
Transfers / reclassification	0	22	105	(127)	0
Currency translation differences	0	9	(3)	5	11
At 31 December	**40**	**1,741**	**3,903**	**374**	**6,058**
Accumulated depreciation and impairment					
At 1 January	**(3)**	**(858)**	**(2,689)**	**0**	**(3,550)**
Depreciation charge	0	(60)	(189)	0	(249)
Disposals	0	9	114	0	123
Impairment losses (note 3)	0	(3)	(20)	0	(23)
Reversal of impairment losses (note 3)	0	0	2	0	2
Transfer to assets held for sale (note 4.3)	0	9	44	0	53
Currency translation differences	0	(3)	1	0	(2)
At 31 December	**(3)**	**(906)**	**(2,737)**	**0**	**(3,646)**
Net carrying amount 31 December	**37**	**835**	**1,166**	**374**	**2,412**

Year ended 31 December 2015 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**49**	**1,693**	**3,898**	**161**	**5,801**
Additions	0	15	69	172	256
Disposals	(1)	(5)	(45)	0	(51)
Acquisition of subsidiaries	1	1	1	0	3
Transfers / reclassification	0	45	62	(107)	0
Currency translation differences	(1)	(21)	(70)	(1)	(93)
At 31 December	**48**	**1,728**	**3,915**	**225**	**5,916**
Accumulated depreciation and impairment					
At 1 January	**(2)**	**(788)**	**(2,545)**	**0**	**(3,335)**
Depreciation charge	0	(59)	(190)	0	(249)
Disposals	0	4	39	0	43
Impairment losses (note 3)	0	(17)	(36)	0	(53)
Reversal of impairment losses (note 3)	0	0	1	0	1
Transfers / reclassification	0	(4)	4	0	0
Currency translation differences	(1)	6	38	0	43
At 31 December	**(3)**	**(858)**	**(2,689)**	**0**	**(3,550)**
Net carrying amount 31 December	**45**	**870**	**1,226**	**225**	**2,366**

Commitments for capital expenditure in property, plant and equipment amounted to CHF 165 million at year-end 2016 (2015: CHF 72 million), mainly related to capital expenditures at the US sites in Portsmouth and Houston as well as for the Swiss-based operations. The carrying amount of property, plant and equipment under finance lease contracts at year-end 2016 amounted to CHF 5 million (2015: CHF 5 million). Depreciation relating to property, plant and equipment under finance lease amounted to CHF 0.3 million (2015: CHF 0.2 million). No assets were pledged for security of own liabilities in 2016 and 2015. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Leases

1. Lessee

million CHF	2016	2015
Finance lease liabilities – minimum lease payments		
Not later than 1 year	0	0
Later than 1 year and not later than 5 years	3	2
Later than 5 years	8	8
Total future minimum finance lease payments	**11**	**10**
Future finance charges on finance lease payments	(5)	(5)
Present value of minimum finance lease payments	**6**	**5**
Present value of finance lease liabilities		
Not later than 1 year	0	0
Later than 1 year and not later than 5 years	1	1
Later than 5 years	5	4
Present value of minimum finance lease payments	**6**	**5**
Operating lease liabilities – minimum lease payments		
Not later than 1 year	15	13
Later than 1 year and not later than 5 years	38	35
Later than 5 years	42	39
Total future minimum operating lease payments	**95**	**87**

Lonza leases a number of vehicles, buildings, warehouses, factory and office facilities under operating leases. These leases run for periods between one and 20 years, all with an option to renew the lease after that date. None of the leases include contingent rentals.

During the year ended 31 December 2016, CHF 19 million (2015: CHF 16 million) was recognized as an expense in the consolidated income statement in respect of operating leases.

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

2. Lessor

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

Note 7 – Investments in Associates and Joint Ventures AUDITED ✓

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

million CHF	2016	2015
Balance sheet value		
Interests in joint ventures	5	3
Interests in associates	13	10
Total	**18**	**13**
Net income statement effect		
Share of profit / (loss) of joint ventures	1	(3)
Share of profit / (loss) of associates	(2)	1
Total	**(1)**	**(2)**

7.1 Joint Ventures

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

million CHF	2016	2015
Carrying amount of interests in joint ventures	5	3
Share of profit / (loss)	1	(3)
Share of other comprehensive income	0	0

In 2016 the Group received dividends of CHF 0 (2015: CHF 1 million) from these joint ventures.

7.2 Associates

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

million CHF	2016	2015
Carrying amount of interests in associates	13	10
Share of profit / (loss)	(2)	1
Share of other comprehensive income	0	0

In 2016 the Group received dividends of CHF 0 (2015: CHF 4 million) from associates.

Note 8 – Inventories AUDITED ✓

million CHF	2016	2015
Inventories	1,006	993
Value adjustments	(109)	(100)
Total	**897**	**893**

million CHF		2016		2015
Raw materials	22%	200	23%	203
Work in progress	6%	58	3%	30
Finished goods	49%	439	51%	455
Other	22%	200	23%	205
Total	**100%**	**897**	**100%**	**893**

By Operating Segments

million CHF		2016		2015
Specialty Ingredients	47%	421	52%	461
Pharma&Biotech	53%	476	48%	432
Total	**100%**	**897**	**100%**	**893**

The development of inventory value adjustments in 2016 is shown as follows:

Inventory Write-Downs

million CHF				2016	2015
	Raw materials	Work in progress and finished goods	Other	Total	Total
At 1 January	**14**	**50**	**36**	**100**	**90**
Increase	29	238	6	273	214
Reversal / Utilization of write-downs	(28)	(226)	(6)	(260)	(202)
Transfer to assets held for sale	(2)	(6)	0	(8)	0
Currency translation differences	0	3	1	4	(2)
At 31 December	**13**	**59**	**37**	**109**	**100**

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 2,633 million (2015: CHF 2,569 million).

Note 9 – Development Contracts AUDITED ✓

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

million CHF	2016	2015
Contract revenue recognized as revenue in the period	**59**	**98**
– Contract costs incurred	7	8
– Recognized profits less recognized losses	1	8
Contract costs incurred plus recognized profits / less recognized losses	**8**	**16**
Less progress billings	(2)	0
Total net amount due from customers	**6**	**16**
Gross amount due from customers for contract work	**6**	**16**

Note 10 – Trade Receivables AUDITED ✓

million CHF	2016	2015
Receivables from customers	623	545
Allowances for credit losses	(11)	(7)
Total	**612**	**538**

The Group's credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2016, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Aging of Trade Receivables

million CHF	2016	2015
Not past due	515	429
Past due 1–30 days	76	89
Past due 31–120 days	28	16
Past due more than 120 days	4	11
Total	**623**	**545**

Reconciliation of changes in allowance accounts for credit losses

million CHF	2016	2015
Balance at the beginning of the year	7	7
Write-offs	(3)	(1)
Increase in provision for credit losses	9	5
Decrease in provision for credit losses	(2)	(4)
Balance at the end of the year	**11**	**7**

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

Accounts Receivable Securitization Program

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

The amount of funding that Lonza can obtain under the program is subject to change based upon the level of eligible receivables, with a maximum funding amount of USD 28 million (2015: USD 47 million).

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

As of 31 December 2016, the consolidated balance sheet includes receivables of USD 73 million (2015: USD 79 million) which Lonza sold to Market Street Funding LLC and for which it obtained funds of USD 22 million (2015: USD 30 million). These are disclosed as "Other current liabilities" (note 15).

Note 11 – Other Receivables, Prepaid Expenses and Accrued Income AUDITED ✓

million CHF	2016	2015
Other receivables	73	58
Prepaid taxes and social security payments	13	7
Prepaid expenses and accrued income	54	47
Derivative financial instruments (see note 28.5)	16	3
Fees paid for debt facilities (see note 4.4)	18	0
Total	**174**	**115**

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

Note 12 – Cash and Cash Equivalents AUDITED ✓

million CHF	2016	2015
Cash	222	264
Time deposits	52	13
Total	**274**	**277**

Note 13 – Provisions AUDITED ✓

Non-Current Provisions

million CHF	Environmental	Restructuring	Other	Total
At 1 January 2016	**61**	**2**	**5**	**68**
Increase	25	1	0	26
Used	(4)	0	0	(4)
Discount effect	1	0	0	1
Reclassification (to current provisions)	0	(1)	0	(1)
Currency translation differences	(1)	0	1	0
At 31 December 2016	**82**	**2**	**6**	**90**

Current Provisions

million CHF	Environmental	Restructuring	Other	Total
At 1 January 2016	**12**	**11**	**10**	**33**
Increase	3	19	12	34
Used	(4)	(8)	(5)	(17)
Reversed	0	(1)	(3)	(4)
Reclassification (from non-current provisions)	0	1	0	1
Currency translation differences	(1)	1	2	2
At 31 December 2016	**10**	**23**	**16**	**49**

Environmental

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

Restructuring

The restructuring provision primarily contains the expected lease termination costs related to the phasedown of the Hopkinton, MA (USA) site amounting to CHF 17 million (2015: CHF 8 million) as well as CHF 6 million (2015: CHF 4 million) in relation to the VispChallenge restructuring program. The implementation of the planned measures is expected to be completed in 2017.

Other

Other provisions are mainly associated with customer claims and the asset retirement obligations of the Singapore-based operations.

Note 14 – Net Debt AUDITED ✓

The net debt comprises:

million CHF	2016	2015
Debt		
Non-current debt	1,571	1,414
Current debt	289	524
Total debt	**1,860**	**1,938**
Loans and advances (floating interest rates)		
Non-current loans and advances	(1)	(1)
Current advances	(1)	0
Cash and cash equivalents	(274)	(277)
Total loans and advances and cash and cash equivalents	**(276)**	**(278)**
Net debt	**1,584**	**1,660**

Non-current debt

million CHF	2016	2015
Straight bonds	1,317	1,067
Syndicated loan (2011–2018)	99	0
German private placement	5	49
Other long-term debt	144	293
Finance lease liabilities	6	5
Total non-current debt	**1,571**	**1,414**

Straight Bonds – Fixed Interest Rates

million CHF	2016	2015
3% CHF 400 million, 2010/2016, due 2 June 2016, issued at 100.721%	0	400
3.125% CHF 140 million, 2011/2018, due 7 December 2018, issued at 100.56%	139	139
2% CHF 200 million, 2012/2018, due 11 October 2018, issued at 100.21%	200	199
3% CHF 105 million, 2012/2022, due 11 October 2022, issued at 100.74%	105	105
1.75% CHF 300 million, 2013/2019, due 10 April 2019, issued at 100.45%	299	299
0.625% CHF 150 million, 2015/2020, due 22 September 2020, issued at 100.135%	150	150
1.25% CHF 175 million, 2015/2023, due 22 September 2023, issued at 100.133%	175	175
0.125% CHF 250 million, 2016/2021, due 1 November 2021, issued at 100.037%	249	0
Total including current portion	**1,317**	**1,467**
Less current portion of straight bonds	0	(400)
Total non-current straight bonds	**1,317**	**1,067**

Syndicated Loan

The Syndicated loan facility of CHF 700 million, of which CHF 100 million (2015: not used) was used as of 31 December 2016, has floating interest rates (CHF LIBOR + margin, depending on margin grid). Lonza has not hedged the related interest rate risk. The entire loan facility is granted until 2016, CHF 637 million until 2017 and CHF 614 million until 9 September 2018.

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

German Private Placement

Dual-currency German private placement (Schuldscheindarlehen) of EUR 34 million (2015: EUR 34 million) and USD 12 million (2015: USD 12 million) tranches carry fixed and floating interest rates (LIBOR / EURIBOR + margin) and are repayable in 2017 and 2019. The carrying amount is CHF 49 million as of 31 December 2016 (2015: CHF 49 million), of which CHF 44 million is disclosed as current debt. There were no repayments in 2016 (2015: CHF 155 million).

Others

Other non-current debt comprises industrial revenue bonds of USD 142 million issued by governmental institutions in the United States (repayable in 2020, 2022, 2025 and 2030). The private placement of senior notes amounting to USD 158 million with certain institutional investors is classified as current as of 31 December 2016.

Current Debt

million CHF		2016		2015
Due to banks and other financial institutions		68		80
Others		16		44
Non-current debt due within one year				
– Straight bond (2010–2016)	0		400	
– German private placement	44		0	
– US private placement	161	205	0	400
Total current debt		**289**		**524**

Breakdown of Total Debt by Currencies

million CHF			2016			2015
	Average interest rate %	%		Average interest rate %	%	
CHF	1.41	80	1,494	1.92	78	1,508
EUR	2.12	2	37	2.13	2	37
USD	2.63	18	327	2.88	20	393
Other	0	0	2	0.00	0	0
Total		**100**	**1,860**		**100**	**1,938**

Note 15 – Other Current Liabilities AUDITED ✓

million CHF	2016	2015
Accrued liabilities and other payables	551	401
Derivative financial instruments (see note 28.5)	87	34
Liability related to securitization program (see note 10)	22	30
Other financial liabilities	212	158
Accrued interest payables	10	15
Total	**882**	**638**

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

Note 16 – Trade Payables AUDITED ✓

million CHF	2016	2015
Payable to third parties	284	292
Total	**284**	**292**

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

Note 17 – Material and Energy Costs AUDITED ✓

million CHF	2016	2015
Material costs	1,386	1,396
Energy costs	69	75
Total	**1,455**	**1,471**

Note 18 – Personnel Expenses AUDITED ✓

million CHF	2016	2015
Wages and salaries	898	778
Operating expenses defined benefit pension plans (note 23)	45	8
Other social security contributions	188	166
Other personnel expenses	70	43
Total	**1,201**	**995**

Note 19 – Other Operating Income and Expenses AUDITED ✓

19.1 Other Operating Income

million CHF	2016	2015
Gain from foreign exchange rate differences and other operating derivative instruments	8	24
Release of provisions	4	5
Research & development tax credits	6	3
Sundry income	14	23
Total	**32**	**55**

19.2 Other Operating Expenses

million CHF	2016	2015
Loss from disposal of property, plant and equipment	9	7
Loss from foreign exchange rate differences and other operating derivative instruments	5	22
Increase in provisions	28	3
Impairment of assets (see note 4.3)	42	0
Sundry expense	20	39
Total	**104**	**71**

Note 20 – Financial Result AUDITED ✓

20.1 Interest and Other Financial Income

million CHF	2016	2015
Interest income	2	4
Total	**2**	**4**

20.2 Interest and Other Financial Expenses

million CHF	2016	2015
Interest expenses	(76)	(80)
Foreign exchange rate differences, including impact from currency-related financial derivative instruments	(29)	(2)
Other financial expenses	(9)	(7)
Total	**(114)**	**(89)**

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

Note 21 – Taxes AUDITED ✓

21.1 Income Taxes

Major Components of Tax Expenses

million CHF	2016	2015
Current taxes	(54)	(58)
Deferred tax expense relating to the origination and reversal of temporary differences	(16)	(7)
Deferred tax income resulting from tax rate changes	(2)	1
Total	**(72)**	**(64)**

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% (2015: 8%) for holding companies and 22% for operating companies in the Canton of Valais (2015: 22%).

Since the Group operates across the world, it is subject to income taxes in several different tax jurisdictions. Lonza uses, as the Group's tax rate, the ordinary tax rate for a legal entity in the Canton of Valais in Switzerland. The Group's effective tax rate for 2016 is 19% (2015: 19%).

Capital taxes of CHF 12 million (2015: CHF 16 million) are included in "Administration and general overheads".

Reconciliation of Tax Expense

million CHF	2016	2015
Profit before income taxes	373	341
Tax at the group rate (2016: 22 % / 2015: 22 %)	82	75
Deviation from average group tax rate	3	14
Non-deductible expenses	4	4
Tax-free earnings	(17)	(13)
Deferred tax effect from tax rate changes	(2)	1
Changes in prior year estimates (including valuation allowances)	9	(11)
Tax on unremitted earnings	(9)	(13)
Effect of non-recognition of deferred tax assets	3	7
Other	(1)	0
Total	**72**	**64**
Deferred tax expenses (charged) / credited directly to equity	**0**	**0**
Current tax expenses (charged) / credited directly to equity	**(2)**	**0**

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

Components of Deferred Income Tax Balances

million CHF	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Current provisions	6	17	4	12
Non-current provisions / Employee benefit liability	305	86	283	65
Intangible assets	1	357	0	291
Inventories, net	6	29	4	30
Property, plant and equipment	12	156	14	154
Other assets	8	23	21	43
Tax loss carry-forwards	39	0	61	0
Netting of deferred tax assets and deferred tax liabilities	(339)	(339)	(340)	(340)
Total	**38**	**329**	**47**	**255**

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

million CHF	2016	2015
Deferred tax assets	38	47
Deferred tax liabilities	(329)	(255)
Net deferred tax liability, at 31 December	**(291)**	**(208)**
Less deferred tax liabilities net, at 1 January	208	209
(Increase) / decrease in deferred tax liabilities, net	**(83)**	**1**
Currency translation differences	7	(3)
Acquisition of subsidiaries	64	4
Movements of deferred (tax assets) / liabilities recognized in other comprehensive income	(10)	(8)
Reclassification to assets held for sale	4	0
Expense recognized in income statement	**(18)**	**(6)**

Unrecognized Tax Losses: Expiry

million CHF	2016	2015
Within 1 year	0	0
Between 2 to 5 years	72	37
After 5 years	32	75
Unlimited	168	173
Total	**272**	**285**

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

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the remittance of earnings of foreign subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group, regarded as permanently reinvested, were CHF 543 million at 31 December 2016 (2015: CHF 451 million).

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

million CHF	2016			2015		
	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	4	(1)	3	(113)	0	(113)
Cash flow hedges	(1)	(1)	(2)	7	(1)	6
Remeasurement of defined-benefit liability	(37)	10	(27)	(58)	8	(50)
Other comprehensive income	**(34)**	**8**	**(26)**	**(164)**	**7**	**(157)**

Note 22 – Research and Development Costs

AUDITED ✓

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

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

The research and development costs amounted to CHF 144 million (2015: CHF 185 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 84 million (2015: CHF 103 million), as the remainder of such costs are absorbed in "Cost of goods sold" for R&D products and services sold.

Note 23 – Employee Benefit Liabilities AUDITED ✓

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

million CHF	2016	2015
Defined benefit pension plans (see note 23.1)	673	694
Post-employment medical benefits (see note 23.2)	40	38
Non-current vacation accrual (Swiss entities)	3	3
Other employee benefit liabilities	1	3
Total	**717**	**738**

million CHF	2016	2015
Remeasurement for:		
Defined-benefit pension plans (see note 23.1)	36	60
Post-employment medical benefits (see note 23.2)	1	(2)
Total	**37**	**58**

23.1 Defined-Benefit Pension Plans

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

Pension Plan in Switzerland

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

The plan contains a cash balance benefit formula, accounted for as a defined-benefit plan. Employer and employee contributions are defined in the pension fund rules in terms of an age-related sliding scale of percentages of pay. Under Swiss law, the company guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the Board of Trustees. The risks linked to retirement benefits (disability and death) have been reinsured until 31 December 2017. The investment risk is not reinsured.

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

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

Pension Plan in the UK

The Group operates two major plans in the UK, the Hickson UK Group Pension Scheme and the Lonza Biologics Pension Scheme. Both plans are closed to new entrants. In addition, both schemes are registered schemes under UK legislation, are contracted out of the State Second Pension and are subject to the scheme funding requirements outlined in UK legislation.

The Hickson UK Group Pension Scheme is the defined-benefit pension plan of the UK Arch Chemicals business. Pensions are linked to final salaries and service, and statutory inflation increases apply, except where contractually different. Ongoing contributions are sufficient to fund current accrual rates, and a deficit recovery plan has been in place for a number of years to recover any shortfall in funding. The fund is managed by a corporate trustee body, which oversees investment strategy and general regulatory compliance. It also maintains a set of assumptions around mortality and returns on investments as well as cost inflation.

The Lonza Biologics Pension Scheme provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement and their length of service. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Employer.

Pension Plans in the United States

Lonza currently sponsors three qualified defined-benefit pension plans in the United States. In recent years, two existing pension plans were merged into the Employees' Retirement Plan of Lonza Inc., thereby reducing the number of stand-alone defined-benefit pension plans from five to three. All of the defined-benefit pension plans are fully frozen with respect to future benefit accruals (with the exception of a small group of participants in the collectively bargained pension plan for Williamsport union employees who had attained age 50 as of June 30, 2010 who continue to accrue benefits under the plan). All eligible U.S. employees currently participate in a defined-contribution retirement plan.

As of December 31, 2016, the Pension Plan of Arch Chemicals and the Employees' Retirement Plan of Lonza Inc. purchased a Group Annuity Contract and transferred the related liability and plan assets for a selected group of retirees (approximately 1,500) from two of the pension plans to Voya Retirement Insurance and Annuity Company, resulting in a settlement gain of CHF 1 million.

Pension benefits for the majority of U.S. pension plan participants are generally based on final average pay and credited service as of the date of termination or as of the date benefit accruals were frozen (if earlier), and are payable as a lifetime pension. The collectively bargained pension plan for the Williamsport Union employees is a multiplier plan which uses a flat dollar amount multiplied by a years-of-service formula. Participants in the Cash Balance formula under the Pension Plan of Arch Chemicals are covered under an account-based formula that is credited each year with interest based on the yield on ten-year U.S. Treasury securities. Participants in these plans may commence benefit payments upon attainment of normal retirement age or, if applicable, as of an early retirement age (usually age 55) provided the criteria for early retirement have been met as of the participant's termination of employment with the Company. Participants in the Cash Balance plan may elect to commence benefits upon termination of employment either in a single lump sum or as a lifetime annuity, or they may defer payment to a later date.

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

The movement in the net defined-benefit liability over 2015–2016 is as follows:

million CHF	Defined-benefit obligation	Fair value of plan assets	Net defined-benefit liability
At 1 January 2015	**3,033**	**(2,359)**	**674**
Included in profit or loss			
Current service cost	49	0	49
Past service credit	(41)	0	(41)
Interest expense / (income)	66	(50)	16
Included in other comprehensive income			
Actuarial loss / (gain) arising from:			
– Demographic assumptions	(9)	0	(9)
– Financial assumptions	(17)	0	(17)
– Experience adjustment	123	0	123
Return on plan assets excluding interest income	0	(37)	(37)
Remeasurements loss / (gain)	97	(37)	60
Effect of movements in exchange rates	(40)	30	(10)
Other			
Contributions paid:			
– Employers	0	(54)	(54)
– Plan participants	17	(17)	0
Benefits paid	(115)	115	0
At 31 December 2015	[1] **3,066**	**(2,372)**	**694**
Included in profit or loss			
Current service cost	46	0	46
Gains on settlements	(58)	57	(1)
Interest expense / (income)	63	(48)	15
Included in other comprehensive income			
Actuarial loss / (gain) arising from:			
– Demographic assumptions	(19)	0	(19)
– Financial assumptions	202	0	202
– Experience adjustment	44	0	44
Return on plan assets excluding interest income	0	(191)	(191)
Remeasurements loss / (gain)	227	(191)	36
Effect of movements in exchange rates	(75)	71	(4)
Other			
Contributions paid:			
– Employers	0	(97)	(97)
– Plan participants	18	(18)	0
Benefits paid	(117)	117	0
Reclassification to liabilities held for sale	(25)	9	(16)
At 31 December 2016	[2] **3,145**	**(2,472)**	**673**

[1] Thereof present value of funded defined-benefit obligation of CHF 3,045 million and present value of unfunded defined-benefit obligation of CHF 21 million
[2] Thereof present value of funded defined-benefit obligation of CHF 3,123 million and present value of unfunded defined-benefit obligation of CHF 20 million

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

The Group expects to pay CHF 62 million in contributions to defined-benefit pension plans in 2017.

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

million CHF					2016					2015
	CH	US	UK	Rest of the world	Total	CH	US	UK	Rest of the world	Total
Present value of defined-benefit obligation	1,847	563	712	23	3,145	1,761	602	666	37	3,066
Fair value of plan assets	(1,516)	(375)	(572)	(9)	(2,472)	(1,409)	(401)	(550)	(12)	(2,372)
Total net defined-benefit liability	331	188	140	14	673	352	201	116	25	694

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

in %			2016			2015
	CH	US	UK	CH	US	UK
Discount rate	0.69	3.99	2.72	0.80	4.27	3.85
Future salary increases	1.00	0.00	3.42	1.00	0.00	3.29
Future pension increases	n.a.	0.00	2.45	n.a.	0.00	2.33

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

in years			2016			2015
	CH	US	UK	CH	US	UK
Retiring at the end of the reporting period						
– Male	22.3	21.0	21.7	21.5	21.0	21.7
– Female	24.3	23.0	24.5	24.0	23.0	24.6
Retiring 20 years after the end of the reporting period						
– Male	24.2	23.0	23.5	23.2	23.0	23.4
– Female	26.2	24.0	26.4	25.7	25.0	26.3

[1] For the Pension Plan in Switzerland BVG 2015 mortality tables were applied.

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

effect in million CHF		31 12 2016		31 12 2015	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(119)	128	(109)	116
Future salary increases	0.25%	14	(14)	22	(21)
Life expectancy	1 year	89	(90)	76	(78)

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

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

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

in years	2016	2015
Group	15.8	14.8
CH	14.8	13.8
UK	20.8	19.2
US	12.1	12.2

Plan assets comprise:

million CHF				2016				2015
	Quoted	Unquoted	Total	%	Quoted	Unquoted	Total	%
Equity instruments	708	0	708	28	703	0	703	30
Debt instruments								
Investment-grade (AAA to BBB)	1,007	0	1,007		946	102	1,048	
Non-investment-grade (below BBB-)	39	0	39		40	0	40	
	1,046	0	1,046	42	986	102	1,088	46
Real-estate	112	78	190	8	109	75	184	8
Cash and cash equivalents	90	0	90	4	81	0	81	3
Other	420	18	438	18	311	5	316	13
Total	**2,376**	**96**	**2,472**	**100%**	**2,190**	**182**	**2,372**	**100%**

23.2 Post-Employment Medical Benefits

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

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

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

million CHF	2016	2015
At 1 January	**38**	**47**
Included in profit or loss		
Current service cost	1	1
Past service credit	0	(6)
Interest expense	1	1
Included in other comprehensive income		
Remeasurements loss / (gain)		
Actuarial loss / (gain) arising from:		
– Demographic assumptions	(1)	(1)
– Financial assumptions	1	0
– Experience adjustment	1	(1)
Total remeasurements loss / (gain)	1	(2)
Effect of movements in exchange rates	1	0
Other		
Contributions paid by:		
– Plan participants	0	2
Benefits paid	(2)	(5)
At 31 December	**40**	**38**

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

The significant actuarial assumptions were as follows:

in %	2016	2015
Discount rate	3.99	4.27
Medical-cost trend rate	6.60	7.00

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

effect in million CHF		31 12 2016		31 12 2015	
	Change in assumption	Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(1)	1	(1)	1
Medical-cost trend rate	1.00%	4	(4)	4	(3)
Life expectancy	1 year	1	(1)	1	(1)

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

Note 24 – Share-Based Payments AUDITED ✓

Equity-Settled Share Schemes

Employee Share Purchase Plan (ESPP)

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

In 2014, the former Employee Share Purchase Plan was updated. During November of 2014, the ESPP was offered to the majority of active permanent employees (including Executive Committee members). Under the terms of the 2014 ESPP, employees were given the opportunity to purchase shares of Lonza stock at a price of CHF 77.99. This price represents a discount of 30% from the average weighted price of Lonza shares on the SIX Swiss Stock Exchange for the period from 24 November 2014 to 5 December 2014, which was CHF 111.42. The minimum investment amount is CHF 500 and the maximum CHF 3,000. All shares purchased under the 2014 ESPP are blocked from any disposal for a three-year period. During the blocking period, participants are the entitled beneficiaries of the shares and all attached rights. The ESPP 2014 does not include any additional free shares. This plan was not offered in 2015 and 2016.

The purchase conditions to participate in the ESPP Plus were as follows:

- 2011: ranging from 6 shares to 198 shares
- 2012: ranging from 9 shares to 318 shares
- 2014: ranging from CHF 500 to CHF 3,000

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

Details of Share Purchase Plans

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

Development Within 2016 of the ESPP Plus

	Share awards outstanding 01 01 2016	Share awards granted during 2016	Share awards forfeited during 2016	Shares vested during 2016	Share awards lapsed during 2016	Share awards outstanding 31 12 16
ESPP 2011 Plus	17,543	0	0	(14,799)	(2,744)	0
ESPP 2012 Plus	58,603	0	(14,017)	(220)	0	44,366
Total shares	**76,146**	**0**	**(14,017)**	**(15,019)**	**(2,744)**	**44,366**

Development Within 2015 of the ESPP Plus

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

No share awards were granted in 2016. The weighted average share price of the vested shares in 2016 was CHF 75.21 (2015: CHF 76.81). The outstanding share awards on 31 December 2016 had a weighted average share price of CHF 38.34 (2015: CHF 46.96) and a remaining weighted average contractual life of 5 months (2015: 14 months).

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

Fair Value at Grant Date

in CHF

ESPP 2011	1,505,624
ESPP 2011 discount	1,693,827
ESPP 2012	2,053,000
ESPP 2012 discount	2,309,625
ESPP 2014 discount	2,484,666

Long-Term Incentive (LTIP)

History and Participation

The LTIP is an equity-based plan introduced in 2006 for the Executive Committee and a segment of key employees (see Section 4.6 – Long-Term Incentive (LTIP) in the Remuneration Report).

Objective

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

Equity Awards

Under the LTIP, participants are awarded the right to receive a number of registered shares of Lonza in the future. Depending on the level of the job, the target equity award grant is between 10% and 100% of the annual base salary. The grant is made at target and the payout level can be between 0% and 200%. The Executive Committee members, including the CEO, have a target of 100% of base salary with payout levels between 0% and 200% maximum. Any proration is applied against the entire length of the three-year performance period.

The LTIP plan design is determined at the beginning of the three-year performance period. For 2016 the plan design included minimum, target and stretch goals. The 2016 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2016 and administered in accordance with this approval.

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

Restriction and Vesting

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

Vesting Targets

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

For the 2015 and 2016 LTIP, the performance metrics are CORE EPS and CORE RONOA with 50% weight for each measure.

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

Overview of Vesting Conditions for LTIP

For the years 2015 and 2016, the vesting of up to 50% of the granted equity awards depends on growth of CORE EPS achieved during Lonza's three fiscal years and the vesting of up to 50% of the granted equity awards depends on growth of CORE RONOA achieved during Lonza's three fiscal years.

Performance Metrics for CORE EPS Approved at AGM 2016 (LTIP 2016)

- The minimum threshold to be reached at year-end 2018 was determined by the NCC to be significantly higher than the CORE EPS achieved on 31 December 2015 (which was CHF 6.81). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE EPS will vest.
- If the target is reached, 100% of the equity awards granted under CORE EPS will vest. CORE EPS is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 115% of the CORE EPS at target. If such a level of CORE EPS is reached, 200% of the equity awards granted under CORE EPS will vest.

Performance Metrics for CORE RONOA Approved at AGM 2016 (LTIP 2016)

- The minimum threshold to be reached at year-end 2018 was determined by the NCC to be significantly higher than the CORE RONOA achieved on 31 December 2015 (which was 16.4%). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE RONOA will vest.
- If the target is reached, 100% of the equity awards granted under CORE RONOA will vest. CORE RONOA is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 117.5% of the CORE RONOA at target. If such a level of CORE RONOA is reached, 200% of the equity awards granted under CORE RONOA will vest.

Treatment of LTIP of Change of Control Situations

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

Actual Performance and Payout for the LTIP 2014 and 2013

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

Performance under the 2014 LTIP exceeded the target for CORE EPS generating a 100% payout on 50% of the total award. Performance under the 2014 LTIP exceeded the target for CORE RONOA generating a 100% payout on the remaining 50% of the total award. The total 2014 LTIP payout equals 100%.

Overview of Vesting Conditions for the LTIP

2014 LTIP

	Actual performance	Payout in %
CORE EPS (Earnings Per Share)[1]	CHF 8.15	100
CORE RONOA (Return on Net Operating Assets)[1]	20.97%	100
Total payout		**100**

[1] CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ from year to year.

Details of Long-Term Incentive Plans

	Grant date	Share price CHF	Granted equity awards	Fair value at grant date	Vesting date
LTIP 2013	01 02 2013	53.60	204,653	5,484,728	31 01 2016
LTIP 2014	01 02 2014	91.15	137,180	6,251,978	31 01 2017
LTIP 2015	01 02 2015	109.20	116,907	12,766,244	31 01 2018
LTIP 2016	01 02 2016	156.30	108,744	24,730,180	31 01 2019

Vesting Conditions at Grant Date

	Market price CHF	Granted equity awards	Fair value of equity awards	Expected EVA / EPS / RONOA at grant date	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2013 TSR	53.60	102,327	26.80		100%	3%	97%	2,660,093
LTIP 2013 EPS	53.60	102,327	53.60	50%	100%	3%	97%	2,660,093
LTIP 2014 CORE RONOA	91.15	68,590	91.15	50%	100%	3%	97%	3,032,210
LTIP 2014 CORE EPS	91.15	68,590	91.15	50%	100%	3%	97%	3,032,210
LTIP 2015 CORE RONOA	109.20	58,453	109.20	100%	100%	3%	97%	6,191,576
LTIP 2015 CORE EPS	109.20	58,454	109.20	100%	100%	3%	97%	6,191,681
LTIP 2016 CORE RONOA	156.30	54,372	156.30	150%	150%	3%	97%	12,365,090
LTIP 2016 CORE EPS	156.30	54,372	156.30	150%	150%	3%	97%	12,365,090

Development within 2016 of the LTIP

	Equity awards outstanding 01 01 2016	Equity awards granted during 2016	Equity awards forfeited during 2016	Vested equity awards during 2016	Equity awards lapsed during 2016	Equity awards outstanding 31 12 2016
LTIP 2013	189,672	0	0	(183,985)	(5,687)	0
LTIP 2014	137,411	0	(12,731)	0	0	124,680
LTIP 2015	116,907	0	(1,998)	0	0	114,909
LTIP 2016	0	108,744	0	0	0	108,744
Total equity awards	**443,990**	**108,744**	**(14,729)**	**(183,985)**	**(5,687)**	**348,333**

Development within 2015 of the LTIP

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

The estimated fair value of the granted equity awards in 2016 was CHF 227.42 (2015: CHF 108.66). The weighted average share price of the vested shares in 2016 was CHF 53.60 (2015: CHF 49.69). The outstanding granted equity awards on 31 December 2016 had a weighted average share price of CHF 123.33 (2015: CHF 54.31) and a remaining weighted average contractual life of 12 months (2015: 11 months). The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for equity awards are expensed on a straight-line basis over the vesting period, based on estimates of equity awards that will eventually vest.

Fair Value at Grant Date

CHF	
LTIP 2013	5,484,728
LTIP 2014	6,251,978
LTIP 2015	12,766,244
LTIP 2016	24,730,180

Extended Short-Term Incentive Plan (E-STIP)

Relationship to STIP

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

E-STIP

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

Alignment on Share Price

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

Grant Timing

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

Dividend and Voting Rights

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

Treatment of E-STIP RSUs in Change of Control Situation

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

Non-Vested RSUs

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

Development Within 2016 of E-STIP

	Share units outstanding 01 01 2016	Share units granted during 2016	Share units forfeited during 2016	Share units vested during 2016	Share units lapsed during 2016	Share units outstanding 31 12 2016
E-STIP 2012	28,445	0	0	(29,437)	992	0
E-STIP 2013	17,829	0	(380)	(530)	0	16,919
E-STIP 2014	19,718	0	(356)	(405)	0	18,957
Total	**65,992**	**0**	**(736)**	**(30,372)**	**992**	**35,876**

Development Within 2015 of E-STIP

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

No RSUs were granted in 2016. The estimated fair value of the RSUs 2014 granted in 2015 was CHF 121.50. The weighted average share price of the vested share unit in 2016 was CHF 62.90 (2015: CHF 54.41). The outstanding share units on 31 December 2016 had a weighted average share price of CHF 106.72 (2015: CHF 87.21) and a remaining weighted average contractual life of 9 months (2015: 13 months).

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

Fair Value at Grant Date

CHF

E-STIP 2012	2,474,032
E-STIP 2013	1,728,885
E-STIP 2014	2,406,363

Compensation of the Board of Directors

Objective and Benchmarks

The NCC determined that they would again use benchmark data of Swiss companies (various sectors) that are comparable in type of business, complexity, size and global presence to Lonza in determining competitive Board of Directors' Compensation. Lonza's objective is to pay the members of the Board of Directors at the median of this benchmark group in accordance with their respective duties and responsibilities [1].

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

For the period from the Annual General Meeting (AGM) 2016 to the AGM 2017, the members of the Board of Directors receive fixed gross compensation for Board of Directors membership and additional compensation for committee chairperson and committee memberships as described below:

Compensation for Board of Directors AGM 2016 to AGM 2017 [2]

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

[2] Refer to Section 3.3 regarding total compensation (including national employer social contributions) provided to the Board of Directors in financial year 2016. The above table represents the period from AGM 2016 to AGM 2017 and does not include social contributions of the employer.

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

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

Board of Directors' compensation for 2016 is paid quarterly; 50% of the compensation is paid in cash and 50% in performance shares. The number of shares granted for Board of Directors' compensation is based on the average closing share price of the last five business days of each quarter. Share restrictions lapse after three years from the grant date. Shares are eligible for a dividend. This structure of Board of Directors compensation is closely aligned with our shareholders' interests.

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

Development of Compensation for Board of Directors in 2016

	Grant date	Total number of shares	Share price in CHF	Fair values of shares	Cash [1] CHF	Total CHF	Blocked until
	31 03 2016	1,930	160.98	310,690	311,250	621,940	31 03 2019
	30 06 2016	2,149	158.38	340,359	341,250	681,609	30 06 2019
	30 09 2016	1,847	184.14	340,107	341,250	681,357	30 09 2019
	31 12 2016	1,937	175.48	339,905	341,250	681,155	31 12 2019
Total		**7,863**	**169.28**	**1,331,061**	**1,335,000**	**2,666,061**	

[1] Excluding social security and withholding tax.

The amount of CHF 2,666,061 was recognized as an expense in the year 2016.

Development of Compensation for Board of Directors in 2015

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

[1] Excluding social security and withholding tax.

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

Development of Compensation for Board of Directors in 2014

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

[1] Excluding social security and withholding tax.

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

Development of Compensation for Board of Directors in 2013

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

[1] Excluding social security and withholding tax.

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

Recognition in the Consolidated Financial Statements

All the equity-settled share-based payments had an impact on the 2016 "Profit before income taxes" amounting to an expense of CHF 28 million (2015: CHF 17 million).

Note 25 – Changes in Shares and Share Capital Movements AUDITED ✓

	31 12 2016	Change in year	31 12 2015	Change in year	31 12 2014
Total number of shares	**52,920,140**	**0**	**52,920,140**	**0**	**52,920,140**
Treasury shares					
Shares reserved for share purchase plan (ESPP)	0	0	0	(86,785)	86,785
Shares reserved for long-term incentive plan (LTIP)	0	0	0	(113,845)	113,845
Free shares	128,891	508,614	637,505	(67,493)	704,998
Total treasury shares	**128,891**	**508,614**	**637,505**	**(268,123)**	**905,628**
Total shares ranking for dividend at 31 December	**52,791,249**	**(508,614)**	**52,282,635**	**268,123**	**52,014,512**
Transferred shares between January and date of dividend payment of following year	n.a.		218,280		244,780
Total shares ranking for dividend at date of dividend payment	**n.a.**		**52,500,915**		**52,259,292**
Share capital movements					
Share capital in CHF	**52,920,140**	**0**	**52,920,140**	**0**	**52,920,140**

The share capital on 31 December 2016 and 2015 comprised 52,920,140 registered shares with a par value of CHF 1 each, amounting to CHF 52,920,140.

Contingent Capital

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

Authorized Capital [1]

The Board of Directors shall be authorized to increase, at any time until 8 April 2017, the share capital of Lonza Group Ltd through the issuance of a maximum of 5,000,000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5,000,000. 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 2016, Lonza Group Ltd had a fully paid-in registered capital of CHF 52,920,140 and a contingent capital of CHF 5,029,860.

Reserves in the amount of CHF 26,460,070 (2015: CHF 26,460,070) included in the financial statements of the parent company cannot be distributed.

[1] Lonza has successfully placed 5 million new shares (Authorized Capital), which were listed and admitted to trading on the SIX Swiss Exchange on 3 February 2017 (see note 4.4 of the Financial Report) – Article 4[ter] "Authorized Capital" of the Lonza Articles of Association was thereafter deleted.

Dividend

A dividend payment per share of CHF 2.75 (2015: CHF 2.50) is proposed to be made after the balance sheet date.

Note 26 – Earnings per Share AUDITED ✓

million CHF	2016	2015
Basic earnings per share		
Profit for the period (equity holders of the parent)	301	277
Weighted average number of outstanding shares	52,538,465	52,268,315
Basic earnings per share in CHF	**5.73**	**5.30**
Diluted earnings per share		
Profit for the period (equity holders of the parent)	301	277
– Impact from dilution	0	0
Diluted profit for the period	301	277
Weighted average number of outstanding shares	52,538,465	52,268,315
– Adjustments for dilutive share units and shares	327,407	424,924
Weighted average number of shares for diluted earnings per share	52,865,872	52,693,239
Diluted earnings per share in CHF	**5.69**	**5.26**
Dividends paid for the period	**131**	**131**
Dividends per share for the period in CHF	**2.50**	**2.50**
Dividends declared after the balance sheet date	**159**	**131**
Dividends per share declared after the balance sheet date in CHF	**2.75**	**2.50**

Issuance of Shares After Balance Sheet Date

Lonza Group Ltd has successfully placed 5 million new shares, which have been listed and are admitted to trading on the SIX Swiss Exchange on 3 February 2017 (see note 4.4).

The new shares will be entitled to dividend distributions for the financial year 2016 and are consequently included in the amount of dividends declared after the balance sheet date of CHF 159 million, as stated above.

Note 27 – Related Parties AUDITED ✓

Identity of Related Parties

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

Transactions with Key Management Personnel

Board of Directors

In 2016 payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.860 million[1] (2015: CHF 2.658 million[1]), 46.53% (2015: 46.39%) of which was received in the form of shares. The Director's fees are paid 50% in cash and 50% in shares; the value of the employer's social security contributions is added to the cash payments. The value of the granted shares is determined at the relevant market price at grant date. The shares are blocked for three years from the grant date and are eligible for a dividend. Members of the Board of Directors and their immediate relatives control 135,180 (2015: 129,815) or 0.26% (2015: 0.25%) of the voting shares of Lonza Group Ltd. None of the Directors owns shares in the Group's subsidiaries or associates.

Executive Committee Compensation

The acting members of the Executive Committee received, for their contributions and time served in 2016, CHF 7.726 million[1] (2015: CHF 7.227 million[1]) in cash and additional benefits. Share-based compensation includes 18,872 LTIP shares granted (2015: 27,930 shares), the value of share-based STIP payments, equivalent to a total value of CHF 3.390 million (2015: CHF 3.807 million). No termination benefits were paid in 2015 or 2016.

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

million CHF	2016	2015
Short-term benefits[2]	7.904	7.598
Post-employment benefits and other benefits[3]	1.351	1.054
Share-based payments	4.721	5.040
Total	**13.976**	**13.692**

The remuneration is included in "Personnel expenses" (see note 18). For additional information, please refer to the 2016 Lonza Remuneration Report.

[1] Including social security and withholding tax
[2] Including incentive pay-out in March of the following year
[3] Including contribution for social security and pension fund

Note 28 – Financial Risk Management AUDITED ✓

28.1 Overall Risk Management Policy

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

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

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

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

28.2 Credit Risk

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

Accounts 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 are reviewed regularly. For customers domiciled in specific countries with high risk, Lonza has credit risk insurance covering the maximum exposure.

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

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

Financial Instruments and Cash Deposits

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

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

million CHF	2016	2015
Loans and receivables		
Trade receivables, net	612	538
Other receivables	73	58
Current advances	1	0
Non-current loans and advances	1	1
Cash and cash equivalents	274	277
Total loans and receivables	**961**	**874**
Financial assets at fair value		
Financial assets at fair value through profit or loss – held for trading:		
– Currency-related instruments[1]	12	2
– Interest-related instruments[1]	0	1
Total financial assets at fair value through profit or loss – held for trading	**12**	**3**
Financial assets effective for hedge accounting purposes:		
Commodity-related instruments[1]	4	0
Total financial assets effective for hedge accounting purposes	**4**	**0**
Total financial assets at fair value	**16**	**3**
Total	**977**	**877**

[1] included in 'Other receivables, prepaid expenses and accrued income' (see note 11)

28.3 Liquidity Risk

Liquidity risk is the risk that Lonza will not be able to meet its financial obligations as they fall due. Lonza's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza's reputation. Group Treasury maintains flexibility in funding also using bilateral and syndicated credit lines. Lonza has concluded the following lines of credit: Committed credit lines of CHF 909 million (CHF 162 million used as of 31 December 2016), which are committed for up to two years and uncommitted credit lines of CHF 60 million (CHF 0 used as of 31 December 2016). In addition, Lonza has committed debt financing for the full Capsugel acquisition amount of USD 5.5 billion from Bank of America Merrill Lynch and UBS (see note 4.4).

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

Year ended 31 December 2016 million CHF	Carrying amount	[1]Contractual cash flows	Between 0 and 6 months	Between 7 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Straight bond (2011–2018)	139	149	0	4	145	0	0	0
Straight bond (2012–2018)	200	208	0	4	204	0	0	0
Straight bond (2012–2022)	105	124	0	3	3	3	6	109
Straight bond (2013–2019)	299	316	5	0	5	306	0	0
Straight bond (2015–2020)	150	154	0	1	1	1	151	0
Straight bond (2015–2023)	175	190	0	2	2	2	4	180
Straight bond (2016–2021)	249	252	0	0	0	0	252	0
Syndicated loan (2011–2018)	99	100	0	0	100	0	0	0
German private placement	49	50	0	45	0	5	0	0
Other debt due to banks and financial institutions	68	68	68	0	0	0	0	0
Other debt due to others	321	361	22	169	3	3	40	124
Finance lease liabilities	6	11	0	0	0	1	2	8
Total debt	**1,860**	**1,983**	**95**	**228**	**463**	**321**	**455**	**421**
Trade payables	284	284	284	0	0	0	0	0
Other current liabilities[2]	570	570	570	0	0	0	0	0
Contingent consideration	18	18	11	0	7	0	0	0
Total financial liabilities	**2,732**	**2,855**	**960**	**228**	**470**	**321**	**455**	**421**

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

Year ended 31 December 2015 million CHF	Carrying amount	Contractual cash flows[1]	Between 0 and 6 months	Between 7 and 12 months	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years
Straight bond (2010–2016)	400	412	412	0	0	0	0	0
Straight bond (2011–2018)	139	153	0	4	4	145	0	0
Straight bond (2012–2018)	199	212	0	4	4	204	0	0
Straight bond (2012–2022)	105	127	0	3	3	3	6	112
Straight bond (2013–2019)	299	321	5	0	5	5	306	0
Straight bond (2015–2020)	150	155	0	1	1	1	152	0
Straight bond (2015–2023)	175	193	0	2	2	2	4	183
Syndicated loan (2011–2018)	0	0	0	0	0	0	0	0
German private placement	49	51	0	1	45	0	5	0
Other debt due to banks and financial institutions	80	83	8	75	0	0	0	0
Other debt due to others	337	378	48	4	165	3	39	119
Finance lease liabilities	5	10	0	0	0	0	2	8
Total debt	**1,938**	**2,095**	**473**	**94**	**229**	**363**	**514**	**422**
Trade payables	292	292	292	0	0	0	0	0
Other current liabilities[2]	405	405	405	0	0	0	0	0
Total financial liabilities	**2,635**	**2,792**	**1,170**	**94**	**229**	**363**	**514**	**422**

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

28.4 Market Risk

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

Foreign Exchange Risk

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

In managing its exposure regarding the fluctuation in foreign currency exchange rates, Lonza has entered into a variety of currency swaps and forward contracts. These agreements generally include the exchange of one currency against another currency at a future date. Lonza adopts a policy of considering hedging for all the committed contractual exposure. The planned exposure is hedged within certain ranges. Hedge ratios are determined by the risk committee and depend on market expectation, risk bearing ability and risk appetite.

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

Currency million CHF	Sensitivity	Post-tax profit				Other comprehensive income			
		2016		2015		2016		2015	
		+	–	+	–	+	–	+	–
USD	+ / – 10%	0.2	(0.2)	1.8	(1.8)	36.0	(36.0)	(4.8)	4.8
EUR	+ / – 10%	(4.0)	4.0	(0.1)	0.1	(2.7)	2.7	(2.1)	2.2
GBP	+ / – 10%	1.3	(1.3)	3.2	(3.2)	0.0	0.0	0.0	0.0

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

Year ended 31 December 2016

million CHF	USD	GBP	EUR	SGD	DKK	AUD	Other	Total
Trade receivables, net	113	25	59	2	2	0	1	202
Other receivables, prepaid expenses and accrued income	0	8	14	2	0	0	0	24
Current advances and financial assets	5	0	0	0	0	0	0	5
Cash and cash equivalents	63	4	18	3	0	0	5	93
Non-current debt	(25)	0	0	0	0	0	0	(25)
Other non-current liabilities	0	0	0	(3)	0	0	0	(3)
Other current liabilities	(73)	(21)	(30)	(7)	0	0	(1)	(132)
Trade payables	(19)	(1)	(33)	(8)	0	0	(1)	(62)
Current debt	0	0	(37)	0	0	0	0	(37)
Gross balance sheet exposure	**64**	**15**	**(9)**	**(11)**	**2**	**0**	**4**	**65**
Currency-related instruments	(61)	1	(40)	0	0	0	0	(100)
Net exposure	**3**	**16**	**(49)**	**(11)**	**2**	**0**	**4**	**(35)**

Year ended 31 December 2015

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

The following exchange rates were applied during the year:

Balance Sheet Year-End Rates

		2016	2015
EU	Euro	1.0734	1.0821
USA	Dollar	1.0189	0.9903
Great Britain	Pound sterling	1.2520	1.4684
Singapore	Singapore dollar	0.7042	0.7010
China	Renminbi	0.1467	0.1525

Income Statement Year-Average Rates

		2016	2015
EU	Euro	1.0901	1.0684
USA	Dollar	0.9852	0.9627
Great Britain	Pound sterling	1.3348	1.4712
Singapore	Singapore dollar	0.7136	0.7003
China	Renminbi	0.1483	0.1532

Interest Rate

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

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

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

million CHF	2016	2015
Net debt (note 14)	1,584	1,660
Net debt at fixed interest rates [1]	(1,374)	(1,595)
Interest risk exposure	210	65

[1] Including effects from cross-currency interest rate swaps

If the interest rates had increased /decreased by 1% in 2016, with all other variables held constant, post-tax profit would have been CHF 1.7 million lower / higher (2015: CHF 0.5 million lower / higher).

Commodity Price Risk

Lonza needs liquefied petroleum gas (LPG) as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110,000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the commodity price risk via swaps. At 31 December 2016, if the propane / naphtha price had weakened / strengthened by 10%, with all other variables held constant, other comprehensive income would have been CHF 2 million lower / higher (2015: CHF 1 million lower / higher).

28.5 Overview of Derivative Financial Instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2016 and 2015. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by using the difference of the prices fixed in the outstanding derivative contracts from the actual market conditions which would have been applied at the year-end if we had to recover these trades.

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

million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2016	2015	2016	2015	2016	2015	2016	2015
Currency-related instruments								
– Forward foreign exchange rate contracts	111	39	0	0	(4)	(1)	(4)	(1)
– Currency swaps	597	529	5	2	(21)	(10)	(16)	(8)
– FX Options [1]	1,426	0	7	0	(9)	0	(2)	0
Total currency-related instruments	**2,134**	**568**	**12**	**2**	**(34)**	**(11)**	**(22)**	**(9)**
Interest-related instruments								
– Cross-currency interest rate swaps	444	444	0	1	(35)	(19)	(35)	(18)
Total interest-related instruments	**444**	**444**	**0**	**1**	**(35)**	**(19)**	**(35)**	**(18)**
Total financial instruments at fair value through profit or loss – held for trading	**2,578**	**1,012**	**12**	**3**	**(69)**	**(30)**	**(57)**	**(27)**

Financial Instruments Effective for Hedge-Accounting Purposes

million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2016	2015	2016	2015	2016	2015	2016	2015
Currency-related instruments								
– Forward foreign exchange rate contracts [2]	481	85	0	0	(6)	(1)	(6)	(1)
– Deal contingent forward foreign exchange rate contracts [3]	611	0	0	0	(12)	0	(12)	0
Total currency-related instruments	1,092	85	0	0	(18)	(1)	(18)	(1)
Commodity-related instruments								
– Naphtha swap	5	6	1	0	0	(1)	1	(1)
– Propane swap	12	12	3	0	0	(2)	3	(2)
Total commodity-related instruments	**17**	**18**	**4**	**0**	**0**	**(3)**	**4**	**(3)**
Total financial instruments effective for hedge-accounting purposes	**1,109**	**103**	**4**	**0**	**(18)**	**(4)**	**(14)**	**(4)**

[1] FX options equivalent to USD 1,400 million to manage the foreign exchange rate exposure related to the Capsugel acquisition (see note 4.4)
[2] Includes forward contracts to buy USD 500 million to manage the foreign exchange rate exposure related to the Capsugel acquisition (see note 4.4)
[3] Forward to terminate in case transaction to acquire Capsugel (see note 4.4) will not close.

Offsetting of Financial Asset and Financial Liabilities

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

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

million CHF	Assets		Liabilities	
	2016	2015	2016	2015
Forward foreign exchange rate contracts	0	0	(22)	(2)
Currency swaps	5	2	(21)	(10)
FX Options	7	0	(9)	0
Cross-currency interest rate swaps	0	1	(35)	(19)
Commodity-related instruments	4	0	0	(3)
Carrying value of derivative financial instruments	**16**	**3**	**(87)**	**(34)**
Derivatives subject to master netting agreements	(9)	(2)	9	2
Collateral arrangements [1]	0	0	0	0
Net amount	**7**	**1**	**(78)**	**(32)**

[1] The Group has not entered into any collateral arrangements

Financial Instruments by Type / Currency

million CHF	2016	2015
Forward foreign exchange rate contracts, currency swaps and FX options		
USD [1]	3,089	561
EUR	67	58
GBP	44	13
SGD	12	11
JPY	6	2
DKK	4	4
CZK	2	3
AUD	1	1
NZD	1	0
Total	**3,226**	**653**
Commodity swap	17	18
Cross-currency interest rate swap	444	444
Total financial instruments	**3,687**	**1,115**

[1] USD denominated forward foreign exchange contracts, currency swaps and FX options of CHF 2,547 to manage the foreign exchange rate exposure related to the Capsugel acquisition (see note 4.4)

Positive fair values of derivatives are included as part of "Other receivables, prepaid expenses and accrued income". Negative fair values of derivatives are included as part of "Other current liabilities".

Hedge accounting was applied to cash flow hedges on highly probable payments in foreign currencies and for raw materials (butane / naphtha / propane).

28.6 Financial Instruments Carried at Fair Value

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

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

million CHF				2016				2015
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	16	0	16	0	3	0	3
Liabilities								
Derivative financial instruments	0	(87)	0	(87)	0	(34)	0	(34)
Contingent consideration	0	0	(18)	(18)	0	0	0	0
Net assets and liabilities measured at fair value	**0**	**(71)**	**(18)**	**(89)**	**0**	**(31)**	**0**	**(31)**

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

Details of the determination of Level 3 fair value measurements are set out below.

Contingent consideration arrangements

million CHF	2016	2015
At 1 January	**0**	**0**
Arising from business combinations	18	0
At 31 December	**18**	**0**

Lonza is party to certain contingent consideration arrangements arising from business combinations. The fair values are determined considering the expected payments. The expected payments are determined by considering the possible scenarios of forecast gross profit and sales, which are the most significant unobservable inputs. The estimated fair value would increase if the forecast gross profits and sales were higher. At 31 December 2016 the total potential payments under contingent consideration arrangements could be up to CHF 30 million, primarily related to the InterHealth Nutraceuticals Inc acquisition (see note 4.1). There were no such arrangements in 2015.

28.7 Carrying Amounts and Fair Values of Financial Instruments by Category

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

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

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

Carrying Amounts and Fair Values of Financial Instruments by Category

million CHF	Carrying amount		Fair value	
	31 12 2016	31 12 2015	31 12 2016	31 12 2015
Financial assets – available for sale				
Other investments – available for sale – carried at cost	13	7	13	7
Total financial assets – available for sale	**13**	**7**	**13**	**7**
Loans and receivables				
Trade receivables, net	612	538	612	538
Other receivables	73	58	73	58
Current advances	1	0	1	0
Non-current loans	1	1	1	1
Cash and cash equivalents	274	277	274	277
Total loans and receivables	**961**	**874**	**961**	**874**
Financial assets at fair value				
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	12	2	12	2
Interest-related instruments	0	1	0	1
Total financial assets at fair value through profit or loss – held for trading	**12**	**3**	**12**	**3**
Financial assets effective for hedge accounting purposes				
Commodity-related instruments	4	0	4	0
Total financial assets effective for hedge accounting purposes	**4**	**0**	**4**	**0**
Total financial assets at fair value	**16**	**3**	**16**	**3**
Financial liabilities at amortized cost				
Debt:				
– Straight bonds [1]	1,317	1,467	1,365	1,529
– Other debt	543	471	543	471
Current liabilities	465	371	465	371
Trade payables	284	292	284	292
Total financial liabilities at amortized cost	**2,609**	**2,601**	**2,657**	**2,663**
Financial liabilities at fair value				
Financial liabilities at fair value through profit or loss – held for trading:				
Currency-related instruments	34	11	34	11
Interest-related instruments	35	19	35	19
Total financial liabilities at fair value through profit or loss – held for trading	**69**	**30**	**69**	**30**
Financial liabilities at fair value through profit or loss – designated				
Contingent consideration	18	0	18	0
Total financial liabilities at fair value through profit or loss – designated	**18**	**0**	**18**	**0**
Financial liabilities effective for hedge accounting purposes				
Currency-related instruments	18	1	18	1
Commodity-related instruments	0	3	0	3
Total financial liabilities effective for hedge accounting purposes	**18**	**4**	**18**	**4**
Total financial liabilities at fair value	**105**	**34**	**105**	**34**

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

28.8 Capital Management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10% and 15%; in 2016, the return was 12.7% (2015: 10.8%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 1.6% (2015: 2.1%).

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 issuing shares under Lonza's share programs. Lonza does not have a defined share buy-back plan.

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

Note 29 – Share Ownership of the Members of the Board of Directors and the Executive Committee AUDITED ✓

Based on information available to Lonza, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2016, a total of 135,180 (2015: 129,815) registered shares in Lonza Group Ltd and controlled 0.26% (2015: 0.25%) of the share capital. None of the members of the Board of Directors or Executive Committee owns shares in the Group's subsidiaries or associates.

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

The members of the Executive Committee and parties closely associated with them held 67,335 (2015: 60,095) shares and controlled 0.13% (2015: 0.11%) of the share capital. The individual control rights are proportional to the holdings shown below.

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

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2016:

Board of Directors

Lonza shares (numbers)	2016	2015
Rolf Soiron, Chairman	69,683	68,324
Patrick Aebischer	10,574	12,229
Werner Bauer	19,180	18,456
Thomas Ebeling	4,255	3,531
Jean-Daniel Gerber	12,840	11,995
Christoph Mäder	351	n.a.
Barbara Richmond	2,184	1,460
Margot Scheltema	7,561	6,716
Jürgen Steinemann	4,356	3,632
Antonio Trius	4,196	3,472

Executive Committee

Lonza shares (numbers)	2016	2015
Richard Ridinger, CEO	41,564	25,906
Sven Abend	1,373	0
Marc Funk	24,398	12,049
Toralf Haag	n.a.	15,736
Beat In-Albon	n.a.	6,404
Rodolfo Savitzky	0	n.a.

Note 30 – Enterprise Risk Management AUDITED ✓

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

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

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

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

- The probability of occurrence is assessed for the period until year-end 2019, with a risk range from unlikely to highly probable.
- Any potential negative effect of a risk is assessed according to its impact on the annual Group's EBIT, the Group's reputation and the Group's operations.

Through the above-described process, we have drawn up a Lonza-specific risk universe. Risks have been identified for each segment and for the corporate functions, and they are tracked if there is a year-on-year increase or decrease. These risks scenarios were presented to the Executive Committee and to the Board of Directors at their meetings in October 2016 with a follow-up of status of mitigation actions during the first quarter of 2017.

Financial risk management is disclosed in note 28.

Note 31 – Events After the Balance Sheet Date

AUDITED ✓

Lonza Group Ltd has successfully placed 5 million new shares, which were listed and admitted to trading on the SIX Swiss Exchange on 3 February 2017 (see note 4.4).

On 27 February 2017 Lonza announced that it entered into a strategic partnership (in the form of a joint venture) with Sanofi to build and operate a large-scale mammalian cell culture facility for monoclonal antibody production in Visp, Switzerland. The initial investment will be around CHF 290 million (€ 270 million), to be split equally between each company.

The Consolidated Financial Statements for 2016 were approved for issue by the Board of Directors on 8 March 2017 and are subject to approval by the Annual General Meeting on 25 April 2017.

Note 32 – Principal Subsidiaries and Joint Ventures AUDITED ✓

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

Lonza Companies	Town/Country	Currency [1]	Share capital in 000	Holding direct	Holding indirect
Arch Chemicals Canada Inc.	Toronto CA	CAD	10,000		100%
Arch Chemicals Limited	Castleford GB	GPB	1,000		100%
Arch Chemicals Inc.	Allendale US	USD	0.1		[2] 100%
Arch Chemicals Receivables LLC	Wilmington US	USD	n.a.		100%
Arch Personal Care Products L.P.	South Plainfield US	USD	0.1		[3] 100%
Arch Protection Chemicals Private Limited	Mumbai IN	INR	1,300		[2] 100%
Arch Quimica Argentina S.R.L.	Buenos Aires AR	ARS	9,911		100%
Arch Quimica Brasil Ltda	Salto BR	BRL	30,388		100%
Arch Quimica Colombia S.A.	Bogotá CO	COP	5,301		[5] 97%
Arch Quimica S.A. de C.V	Naucalpan MX	MXN	109.25	[2] 28%	[2] 72%
Arch Timber Protection B.V.	Wijchen NL	EUR	27.3		100%
Arch Treatment Technologies Inc.	Atlanta US	USD	0.1		[4] 100%
Arch UK Biocides Limited	Castleford GB	GBP	1,644		100%
Arch Water Products France S.A.S.	Amboise FR	EUR	460		100%
Arch Water Products South Africa (Proprietary) Limited	Kempton Park SA	ZAR	100		100%
Arch Wood Protection (Aust) Pty Limited	Trentham AU	AUD	0.08		[4] 100%
Arch Wood Protection (M) Sdn. Bhd.	Kuala Lumpur MY	MYR	500		100%
Arch Wood Protection (NZ) Limited	Auckland NZ	NZD	6,100		100%
Arch Wood Protection Canada Corp.	Mississauga CA	CAD	0.1		[4] 100%
Arch Wood Protection (SA) (Proprietary) Limited	Port Shepstone SA	ZAR	3		100%
Arch Wood Protection Inc.	Atlanta US	USD	0.1		[4] 100%
Diacon Technologies Ltd	Vancouver CA	CAD	[2] 0.6		[2] 100%
Gewerbepark Hochrhein GmbH	Waldshut-Tiengen DE	EUR	10,400		100%
Hickson Ltd	Castleford GB	GBP	108,161		100%
InterHealth Nutraceuticals Inc.	Benicia US	USD	15.2		100%
Lonza AG	Visp CH	CHF	60,000	100%	
Lonza America Inc.	Allendale US	USD	8	100%	
Lonza Australia Pty Ltd	Mt. Waverley AU	AUD	90		100%
Lonza Benelux BV	Breda NL	EUR	112		100%
Lonza Biologics Inc.	Portsmouth US	USD	1		100%
Lonza Biologics plc	Slough GB	GBP	14,500		100%
Lonza Biologics Porriño S.L.	Porriño ES	EUR	10,296		100%
Lonza Biologics Tuas Pte Ltd	Singapore SG	USD	25,000		100%
		SGD	172,000		
Lonza BioPharma AG [8]	Visp CH	CHF	550	100%	
Lonza Bioproducts AG	Basel CH	CHF	100	100%	
Lonza Bioscience SARL	Saint-Beauzire FR	EUR	8,849		100%
Lonza Bioscience Singapore Pte Ltd	Singapore SG	USD	1		100%
Lonza Biotec sro	Kouřim CZ	CZK	282,100		100%

Lonza Braine SA [7]	Braine-l'Alleud BE	EUR	40,000		100%
Lonza (China) Investments Co. Ltd	Guangzhou CN	USD	84,000	100%	
Lonza Cologne GmbH	Cologne DE	EUR	1,502		100%
Lonza Copenhagen ApS	Vallensbaek Strand DK	DKK	150		100%
Lonza do Brasil Especialidades Quimicas Ltda.	São Paulo BR	BRL	[2] 18,387	[2] 99.9%	[2] 0.1%
Lonza Europe BV	Breda NL	EUR	20.5	[2] 32%	[2] 68%
Lonza Finance Limited	St. Helier Jersey GB	CHF	335	100%	
Lonza France Sàrl	Levallois-Perret FR	EUR	132		100%
Lonza Group GmbH	Waldshut-Tiengen DE	EUR	25	0.4%	99.6%
Lonza Group UK Limited	Slough GB	GBP	17,000		100%
Lonza Guangzhou Ltd	Guangzhou CN	USD	12,000		100%
Lonza Guangzhou Nansha Ltd	Guangzhou CN	USD	135,500		100%
Lonza Holding Singapore Pte Ltd	Singapore SG	USD	100,000		100%
Lonza Houston Inc.	Houston US	USD	1		100%
Lonza Inc.	Allendale US	USD	697		100%
Lonza India Private Ltd	Mumbai IN	INR	23,459		[1] 100%
Lonza Japan Ltd	Tokyo JP	JPY	200,000	100%	
Lonza Licences AG	Basel CH	CHF	100	100%	
Lonza Liyang Chemical Co. Ltd	Liyang CN	USD	3,000		100%
Lonza Luxembourg S.à r.l	Luxembourg LU	EUR	12	100%	
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore SG	USD	183		100%
Lonza Milano S.r.l.	Treviglio IT	EUR	52		100%
Lonza Nanjing Ltd	Nanjing CN	USD	14,000		100%
Lonza Rockland Inc.	Rockland US	USD	0.1		100%
Lonza Sales AG	Basel CH	CHF	2,000	100%	
Lonza Shanghai International Trading Ltd	Shanghai CN	USD	200		100%
Lonza Swiss Finanz AG	Basel CH	CHF	100	100%	
Lonza Swiss Licences AG	Basel CH	CHF	100	100%	
Lonza Suzhou Ltd	Suzhou CN	USD	19		[6] 100%
Lonza Verviers Sprl	Verviers BE	EUR	19		100%
Lonza Walkersville Inc.	Walkersville US	USD	1		100%
Lonza Wokingham Limited	Wokingham GB	GBP	1		100%
OOO Lonza Rus	Moscow RU	RUB	10		100%
TL Biopharmaceutical Ltd	Visp CH	CHF	1,000		50%
Triangle Research Labs, LLC	North Carolina US	USD	n.a.		100%
Zelam Holdings Ltd	New Plymouth NZ	NZD	1,000		100%
Zelam Ltd	New Plymouth NZ	NZD	1,000		100%

[1] Abbreviation of currencies in accordance with ISO standards.
[2] Rounded.
[3] Limited partnership.
[4] No par value or not provided by law.
[5] 3% are held by individuals.
[6] No shares issued; capital is registered.
[7] Disposal in 2017.
[8] Lonza BioPharma AG was merged into Lonza AG as of 1 January 2017 (entry into commercial registry 31 January 2017).

Statutory Auditor's Report

To the General Meeting of Lonza Group Ltd, Basel

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lonza Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Revenue recognition

Goodwill and acquired intangible assets impairment

Income taxes

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key Audit Matter

Lonza's recognition of revenue in a complete and accurate manner is exposed to various risks. There are two distinct risk factors that trigger revenue recognition as a key audit matter:

- comprehensive and complex custom manufacturing agreements in the Pharma & Biotech segment, and
- linkage of certain of management's incentive compensation to annual revenue targets.

Due to current market forces, the relevance of long-term product supply agreements with Lonza's Pharma & Biotech customers continues to increase. Under these agreements Lonza constructs and launches new or reworked suites dedicated to client specific manufacturing, which are owned and operated by Lonza. Extending over multiple periods such agreements often combine milestone and upfront payments during a construction phase, the rendering of project management services and the delivery of goods. To a certain degree the identification of these different components as separable revenue streams as well as their relative fair value is subject to management's judgment and interpretation of the customer contract. This gives rise to the risk that revenue could be misstated due to the incorrect identification, separation and valuation of components resulting in an inappropriate timing of revenue recognition.

Lonza regularly publishes forecasted financial results. Performance targets embedded in management's short and long-term compensation incentive plans based on targeted results and achievement of such targets are partially contingent on the timing of revenue recognition. There is a risk of fraud in revenue recognition due to the incentives management may feel to achieve the forecasted results.

Our response

For significant new or amended customer manufacturing agreements in the Pharma & Biotech segment we assessed the appropriateness of the identification, separation and valuation of contract elements and the timing of revenue recognition by making our own independent assessment, with reference to the relevant accounting standards.
Furthermore, we challenged and assessed the qualification of separable components of significant new contracts and their valuation with Lonza management.

As a response to the risk of fraud in revenue recognition, we performed substantive sample testing of revenue recorded during the year and focused on revenue transactions taking place before and after year-end as well as bill-and-hold transactions to determine that revenue was recognized in the correct period. We tested the accuracy of the sales recorded, based on inspection of customer acceptance certificates, shipping documents and delivery notes. Furthermore, we have assessed the appropriateness of management's response to indications of improper revenue recognition, tested manual journal entries on a sample basis and tested controls over the recording of revenue in the relevant IT systems.

We also assessed the adequacy of the revenue recognition disclosures contained in accounting principles and in the note addressing information about reportable segments by sector and country.

For further information on revenue recognition refer to the following:

— Note 1 Accounting principles

— Note 2 Operating segments

Goodwill and acquired intangible assets impairment

Key Audit Matter

As a result of historical business combinations the Group maintains significant amounts of goodwill and acquired intangible assets on the balance sheet (approximately 33% of total assets).

There is uncertainty in estimating the recoverable amount of goodwill and intangible assets, which principally arises from the inputs used in both forecasting and discounting future cash flows. A combination of the significance of the asset balances and the inherent uncertainty in the assumptions supporting the valuations of goodwill and intangible assets, means that an assessment of their carrying value is one of the key judgmental areas.

At the end of 2016, continued risk of impairment exists due to the following factors:

- Dependency on certain significant technologies and customers
- Potential difficulties in securing long-term profitable contracts
- Market demand and competition
- Failure to adapt and comply with regulatory matters

Our response

We evaluated the process by which managements' future cash flow forecasts were prepared, including testing the underlying calculations and reconciling them to the latest Board of Directors approved financial targets. We analyzed the Group's previous ability to forecast cash flows accurately and challenged the reasonableness of current forecasts by comparing key assumptions to historical results, economic and industry forecasts (external market assumptions) and internal planning data.

Furthermore we performed a sensitivity analysis around the key drivers of the cash flow forecasts, in particular discount rates and long term growth rates and discussed potential shifts in key drivers with management. We assessed how management incorporated the specific risk factors in their cash flow forecasts.

We assessed the appropriateness of the Group's valuation methodology applied and its derivation of discount rates by using our own valuation specialists. Having ascertained the extent of change in the assumptions that either individually or collectively would be required for the goodwill and intangible assets to be potentially impaired, we assessed the likelihood of such a movement in those key assumptions and the related disclosures of the sensitivity analyses.

For further information on goodwill and acquired intangible assets impairment refer to the following:

— Note 1 Accounting principles

— Note 5 Intangible assets and goodwill

Income taxes

Key Audit Matter

Lonza Group operates across a number of different tax jurisdictions (primarily Europe, the US and China) giving rise to a high level of cross-border transactions and complex taxation arrangements being subject to various country specific tax laws. During the normal course of business local tax authorities may challenge financing arrangements between Lonza entities, transfer pricing arrangements relating to the Group's manufacturing and supply chain and the ownership of intellectual property rights.

The Group has recognized provisions against uncertain tax positions, the estimation of which is subject to management's judgement.

Judgment is also required in the measurement of other taxation assets and liabilities, in particular in relation to those that support the income tax provision and the recognition of deferred tax assets.

Our response

Our audit approach included the use of local tax specialists in all key jurisdictions to evaluate tax provisions and potential exposures for the year ended 31 December 2016. We challenged the Group's assumptions and judgments through our knowledge of the tax circumstances and local law, as well as, the assessment of relevant tax documentation.

We obtained explanations from management regarding the known uncertain tax positions and analyzed existing correspondence with taxation authorities to identify uncertain tax positions. We assessed the adequacy of management's taxation provisions by considering country specific direct tax risks, transfer-pricing risks, compliance risks and potential penalties and fines.
We challenged and evaluated the judgements made by management in assessing the quantification and likelihood of significant exposures and the level of liability required for specific cases.

In respect of deferred tax assets, we have considered the appropriateness of management's assumptions and estimates. We have assessed management's view of the likelihood of generating suitable future taxable profits to support the recognition of deferred tax assets, including a consideration of whether the operational plans of the Group support the related conclusions.

We also evaluated whether the income tax related items were appropriately disclosed in the consolidated financial statements.

For further information on goodwill and acquired intangible assets impairment refer to the following:

— Note 1 Accounting principles
— Note 21 Taxes

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the Company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Zurich, 16 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Financial Statements of Lonza Group Ltd, Basel AUDITED ✓

Balance Sheet Lonza Group Ltd, Basel

Income Statement Lonza Group Ltd, Basel

Notes to the Financial Statements Lonza Group Ltd, Basel

Proposal of the Board of Directors

Report of the Statutory Auditor

Balance Sheet – Lonza Group Ltd, Basel AUDITED ✓

Assets [1]

CHF	Note	2016	2015
Current assets			
Cash and cash equivalents		9,123,135	114,849,217
Short term financial assets:			
– from subsidiaries and associates		16,553,500	187,436,735
Other short-term receivables:			
– from third parties		56,947	56,549
– from subsidiaries and associates		11,039,220	8,015,552
Prepaid expenses and accrued income:			
– from third parties		31,578,917	6,317,297
– from subsidiaries and associates		51,277,028	22,530,356
Total current assets		**119,628,747**	**339,205,706**
Non-current assets			
Long-term financial assets:			
– from subsidiaries and associates	2.2	1,310,663,541	1,028,768,838
Investments	2.1	1,731,612,237	1,732,090,237
Property, plant and equipment		480,446	321,677
Prepaid expenses and accrued income:			
– from third parties		8,075,000	–
Total non-current assets		**3,050,831,224**	**2,761,180,752**
Total assets		**3,170,459,971**	**3,100,386,458**

[1] At 31 December

Liabilities and Shareholders' Equity [1]

CHF	Note	2016	2015
Current liabilities			
Trade accounts payables:			
– from third parties	2.3	3,710,607	1,596,983
– from subsidiaries and associates		230,934	166,145
Short-term interest bearing liabilities:			
– from third parties	2.4	61,995,056	400,000,000
– from subsidiaries and associates		849,999,635	433,425,051
Short-term provisions:			
– from third parties		4,914,626	790,990
Accrued expenses and deferred income:			
– from third parties		144,530,339	60,252,160
– from subsidiaries and associates		2,359,728	3,046,433
Total current liabilities		**1,067,740,925**	**899,277,762**
Non-current liabilities			
Long-term interest bearing liabilities:			
– from third parties	2.5	100,471,250	–
– from subsidiaries and associates		5,538,259	185,421,820
Long-term provisions:			
– from third parties		256,499	346,342
Total non-current liabilities		**106,266,008**	**185,768,162**
Total liabilities		**1,174,006,933**	**1,085,045,924**
Shareholders' equity			
Share capital	2.6	52,920,140	52,920,140
Legal capital reserves:			
– Reserves from capital contributions	2.7	243,393,025	374,645,313
Legal retained earnings reserves:			
– General legal retained earnings	2.6	26,460,070	26,460,070
Voluntary retained earnings:			
– Available earnings:			
– Profit brought forward		1,639,126,780	1,517,771,183
– Profit for the year		44,768,760	94,071,700
Treasury shares		(10,215,737)	(50,527,872)
Total shareholders' equity		**1,996,453,038**	**2,015,340,534**
Total liabilities and shareholders' equity		**3,170,459,971**	**3,100,386,458**
Shareholders' equity as a percentage of total assets in %		**63.0**	**65.0**

[1] At 31 December

Income Statement – Lonza Group Ltd, Basel

AUDITED ✓

CHF	Note	2016	2015
Income			
Dividend income		34,509,237	67,843,041
Royalties income		103,494,862	81,701,673
Other financial income	2.9	25,232,322	21,791,378
Other operating income		1,199,302	1,084,933
Total income		**164,435,723**	**172,421,025**
Expenses			
Other financial expenses	2.10	42,849,149	23,930,727
Personnel expenses		40,716,256	39,006,047
Other operating expenses	2.11	31,833,372	9,004,507
Impairment losses on investments		478,000	6,531,747
Depreciation on equipment		212,690	188,645
Direct taxes		3,577,496	(312,348)
Total expenses		**119,666,963**	**78,349,325**
Profit for the year		**44,768,760**	**94,071,700**

Notes to the Financial Statements – Lonza Group Ltd, Basel AUDITED ✓

Note 1 – Principles

1.1 General Aspects

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

1.2 Financial Assets

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

1.3 Treasury Shares

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

1.4 Share-Based Payments

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

1.5 Short- / Long-Term Interest-Bearing Liabilities

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

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

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

Note 2 – Information on Balance Sheet and Income Statement Items

2.1 Investments

Lonza Group Ltd holds the following direct subsidiaries as of 31 December 2016. For indirect principal subsidiaries, please see the list in Note 32.

Direct subsidiaries	Place	Capital in 1,000		Share in capital and voting rights in %	
		31.12.2016	31.12.2015	31.12.2016	31.12.2015
Arch Quimica, S.A. de C.V.	Mexico, MX	MXN 109	MXN 109	28%	28%
Lonza AG	Visp, CH	CHF 60,000	CHF 60,000	100%	100%
Lonza America Inc.	Allendale, US	USD 8	USD 8	100%	100%
Lonza BioPharma AG [1]	Visp, CH	CHF 550	CHF 550	100%	100%
Lonza Bioproducts AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza do Brasil Especialidades Quimicas Ltda.	Sao Paulo, BR	BRL 18,387	BRL 18,387	99.9%	99.9%
Lonza (China) Investments Co. Ltd	Guangzhou, CN	USD 75,500	USD 75,500	100%	100%
Lonza Europe BV	Breda, NL	EUR 21	EUR 21	68%	68%
Lonza Finance Limited	St. Helier, Jersey, GB	CHF 335	CHF 335	100%	100%
Lonza Japan Ltd	Tokyo, JP	JPY 200,000	JPY 200,000	100%	100%
Lonza Licences AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza Luxembourg S.à r.l.	Luxembourg, LU	EUR 12	n.a.	100%	n.a.
Lonza Sales AG	Basel, CH	CHF 2,000	CHF 2,000	100%	100%
Lonza Swiss Finanz AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza Swiss Licences AG	Basel, CH	CHF 100	CHF 100	100%	100%
International School of Basel AG	Reinach, CH	CHF 20,525	CHF 20,525	1.6%	1.6%

[1] Lonza BioPharma AG was merged into Lonza AG as of 1 January 2017 (entry into commercial registry 31 January 2017).

An impairment loss of CHF 478,000 was recognized in financial year 2016 (2015: CHF 6,531,747) for Lonza do Brasil Especialidades Quimicas Ltda.

2.2 Financial Assets

Lonza Group Ltd had issued subordination agreements of CHF 170 million (2015: CHF 170 million) on loans to subsidiaries and associates.

2.3 Trade Accounts Payables

Trade accounts payables include liabilities to personnel welfare institutions of CHF 846,464 at 31 December 2016 (2015: CHF 193,109).

2.4 Short-Term Interest-Bearing Liabilities

in CHF	31.12.2016	31.12.2015
Bonds due within 1 year	0	400,000,000
Bank loans	61,995,056	0

2.5 Long-Term Interest-Bearing Liabilities

in CHF	31.12.2016	31.12.2015
Bank loans	100,471,250	0

2.6 Share Capital, Authorized and Contingent Capital

The share capital on 31 December 2016 and 2015 comprised 52,920,140 registered shares with a par value of CHF 1 each, amounting to CHF 52,920,140.

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

Authorized Capital[1]: The Board of Directors shall be authorized to increase, at any time until 8 April 2017, the share capital of Lonza Group Ltd through the issuance of a maximum of 5,000,000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5,000,000. 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 4bis to 4^{quater} of the Company's Articles of Association.

At 31 December 2016, Lonza Group Ltd had a fully paid-in registered capital of CHF 52,920,140 and a contingent capital of CHF 5,029,860.

Reserves in the amount of CHF 26,460,070 (2015: CHF 26,460,070) included in the financial statements of the parent company cannot be distributed.

[1] Lonza has successfully placed 5 million new shares (Authorized Capital), which were listed and admitted to trading on the SIX Swiss Exchange on 3 February 2017 (see note 4.4 of the Financial Report) – Article 4ter "Authorized Capital" of the Lonza Articles of Association was thereafter deleted.

2.7 Reserves from Capital Contributions

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contributions established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle of CHF 839,727,980 were approved by the Swiss Federal Tax Authority on 6 December 2011. The amount of CHF 747,926,528 was reclassified from "Available earnings brought forward" to "Reserves from capital contributions" as per 31 December 2011 to reflect the approved amount as "Reserves from capital contributions". As of 31 December 2016 the reserves from capital contributions amounted to CHF 243,393,025 (31 December 2015: CHF 374,645,313).

2.8 Treasury Shares

	Total shares	Average rate in CHF	Number of transactions
Treasury shares at 01.01.2015, weighted average price	**905,628**	**84.63**	
Acquisitions 2015	1,855	110.94	5
Distribution to board members	(10,401)	121.54	4
Distribution to E-STIP share plans	(16,656)	125.61	5
Distribution to LTIP share plans	(222,677)	100.08	3
Distribution to ESPP share plans	(15,354)	128.66	5
Distribution to other share plans	(4,890)	109.20	1
Treasury shares at 31.12.2015, weighted average price	**637,505**	**79.26**	
Acquisitions 2016	0	0.00	0
Distribution to board members	(7,865)	165.55	4
Distribution to E-STIP share plans	(30,372)	162.75	2
Distribution to LTIP share plans	(183,985)	156.30	1
Distribution to ESPP share plans	(15,019)	170.50	6
Distribution to other share plans	(1,373)	162.70	1
Sale Treasury shares	(270,000)	180.31	3
Treasury shares at 31.12.2016, weighted average price	**128,891**	**79.26**	

2.9 Other Financial Income

Other financial income in 2016 includes net exchange rate gains of CHF 0 (2015: CHF 5,264,468) and interest income from loans to subsidiaries and associates of CHF 16,454,499 (2015: CHF 13,369,342).

2.10 Other Financial Expenses

CHF	2016	2015
Bank interest and fees	4,015,518	4,130,671
Interest on bonds	5,066,667	12,000,000
Interest on deposits subsidiaries	4,873,153	5,932,265
Amortization of discounts and issue costs	1,491,304	1,867,791
Premium paid on finance instruments	9,563,203	–
Net exchange rate loss	17,839,304	–
Total financial expenses	**42,849,149**	**23,930,727**

2.11 Other Operating Expenses

CHF	2016	2015
Consulting expenses	7,834,312	6,152,133
Administrative expenses	3,250,738	2,595,753
Other operating expenses	20,748,322	256,621
Total other operating expenses	**31,833,372**	**9,004,507**

Other operating expenses include transaction-related costs incurred for acquisition projects.

Note 3 – Other Information

3.1 Full-Time Equivalents

At 31 December 2016, Lonza Group Ltd had 61 employees (2015: 47).

3.2 Contingent Liabilities, Guarantees and Pledges

At 31 December 2016, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 1,517,927,309 (2015: CHF 1,263,697,474). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

3.3 Majors Shareholders

In accordance with Art. 663c of the Swiss Code of Obligations: See 1.2. Significant Shareholders in the Group Structure and Shareholder section of the Corporate Governance Report.

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

In accordance with Art. 663c para. 3 of the Swiss Code of Obligations: See note 29 in the Consolidated Financial Statements and Remuneration Report.

3.5 Shares for Members of the Board and Employees

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

	2016		2015	
	Number of shares	Value in CHF	Number of shares	Value in CHF
Allocated to members of the Board of Directors	7,865	1,302,017	10,401	1,264,168
Allocated to members of the Executive Committee	11,657	1,821,989	21,056	2,330,336
Allocated to other employees	12,351	1,930,461	10,820	1,200,941
Total	**31,873**	**5,054,467**	**42,277**	**4,795,445**

In 2016 Lonza Group Ltd employed two members of the Executive Committee (2015: 2).

Significant Events After the Balance Sheet Date

Lonza Group Ltd has successfully placed 5.0 million new shares by way of an accelerated bookbuilding procedure with selected investors in Switzerland (private placement) and outside of Switzerland to institutional investors and qualified institutional buyers.

The shares were placed at CHF 173.00 per new share and the gross proceeds from the placement amount are equal to CHF 865 million. The new shares were listed and admitted to trading on the SIX Swiss Exchange on 3 February 2017. Payment and settlement occured on the same date.

Proposal of the Board of Directors AUDITED ✓

Concerning the Appropriation of Available Earnings and Reserve from Capital Contributions

CHF	2016
Available earnings brought forward[1]	1,639,126,780
Profit for the year	44,768,760
Available earnings at the disposal of the Annual General Meeting	**1,683,895,540**
Available earnings carry-forward	**1,683,895,540**

CHF	2016
Legal capital reserves qualified as reserves from capital contributions	243,393,025
Reserves from capital contributions	**243,393,025**
Payment of a dividend (out of reserves from capital contributions) in 2016 of CHF 2.75 (2015: CHF 2.50) per share on the share capital eligible for dividend of CHF 57,901,832 (2015: CHF 52,500,915)	(159,230,038)
Available reserves from capital contributions carry-forward	**84,162,987**

[1] Includes the gain of sale of Treasury shares CHF 27,283,897

If the General Annual Meeting approves the above proposal from the Board of Directors, the dividend of CHF 2.75 per registered share, net of withholding tax (as per Article 5 Abs 1[bis] VStG), will be paid as of 3 May 2017.

Basel, 8 March 2017

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Statutory Auditor's Report

To the General Meeting of Lonza Group Ltd, Basel

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lonza Group Ltd, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

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

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Zurich, 16 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Remuneration Report

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

Compensation and Performance Overview 2016
Compensation-Setting Process
Compensation Components
Compensation of the Board of Directors
Compensation of the Executive Committee
Share Ownership of the Members of the Board of Directors and the Executive Committee
Report of the Statutory Auditor

Compensation and Performance Overview 2016

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

For 2016 Lonza's overall financial performance vs. short-term incentive plan (STIP) targets was as follows:

2016 STIP Payout [1]: Financial Targets [2]

million CHF	Actual performance in 2016	Target weighting in %	Achieved in %	Proposed 2016 payout % (weighted)
CORE EBIT	635.9	50.0	200.00	100.00
Sales (at target FX rates)	3,979.5	15.0	116.14	17.42
Operational cash flow	626.8	15.0	154.26	23.14

[1] See Section 4.3 – Performance-Related vs. Fixed Compensation

[2] Financial targets account for 80% of the total STIP weighting; individual performance accounts for the remaining 20% weight. For Executive Committee members, the overall target achievement was 2016: 174.08% (2015: 117.34%).

Lonza's overall financial performance in 2016 vs. long-term incentive plan (LTIP) targets for 2014 was determined by the Nomination and Compensation Committee (NCC) to approximate the financial performance required to meet Lonza's challenging strategic goals and support Lonza's three-year plan. The 2014 LTIP performance was as follows (plan vested on 31 January 2017):

2014 LTIP Financial Performance [3]

	Actual performance	Payout in %
CORE EPS (Earnings Per Share)	CHF 8.15	100
CORE RONOA (Return on Net Operating Assets)	20.97%	100

[3] Three-year cycle completed 31 December 2016. See Section 4.6 – Long-Term Incentive (LTIP) for more details.

As illustrated above, Lonza's financial performance is benefiting from the measurable progress that our teams are making by implementing strategic and transformational initiatives. Lonza's compensation programs closely align the short- and long-term targets of the company and the remuneration of our executives. We have seen outstanding financial performance in 2016, which allowed us to achieve and, in some cases, surpass our short-term incentive targets. We are continuing to see the benefits of the longer-term initiatives with a 2014 LTIP payout.

The Company feels strongly that our Executive Committee and other senior managers should have a defined shareholding in Lonza to strengthen their alignment with our shareholders' interests. Starting in 2016 we therefore established minimum shareholding requirements for the Executive Committee and other senior managers based on level in the organization and specified a five-year period to achieve these minimum requirements[4]. Shareholding levels are reviewed annually beginning in January 2016.

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[4] See Section 5 – Minimum Shareholding Requirements

1 – Compensation-Setting Process

1.1 Rules in the Articles of Association Relating to Remuneration

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

1.2 Responsibilities of Company Bodies Relating to Remuneration

Board of Directors

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

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

Nomination and Compensation Committee

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

1. To recommend and review compensation policies and plans for approval by the full Board of Directors;
2. To review periodically and make recommendations to the Board of Directors regarding any variable incentive and the extent to which the plans meet their objectives;
3. To advise the Board of Directors on the compensation of its members;
4. To review and approve the objectives relevant to the CEO's compensation, to evaluate the performance on a regular basis and to determine the CEO's remuneration based on performance, subject to approval of the compensation of the Executive Committee by the Shareholders' Meeting pursuant to the Articles of Association;
5. To review and approve the remuneration proposals for members of the Executive Committee subject to approval by the Shareholders' Meeting pursuant to the Articles of Association;
6. To recommend to the Board of Directors proposals to be submitted to the Annual Shareholders' Meeting for approval regarding total amounts of compensation of the Board and the Executive Committee pursuant to the Articles of Association;
7. To support the Board of Directors in preparing the remuneration report;
8. To inform the Board of Directors about compensation policies and programs as well as benchmark compensation of key peer companies; and
9. To inform the Board of Directors about the terms of employment for the members of the Executive Committee, based on the proposal of the NCC.

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

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

Shareholders' Meeting

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

1.3 Nomination and Compensation Committee and Board of Directors Meetings

The 2016 meetings of the NCC and the Board of Directors relating to compensation took place in January, February, April, July, October and December. A meeting dealing with 2016 compensation matters was held in January 2017.

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

- Plan provisions, grants, financial targets and target achievements for the STIP and LTIP plans;
- Progress report outlining interim ownership guidelines achievement for the Executive Committee;
- Recommendations relating to compensation motions to be submitted to the Annual General Meeting.

The NCC held six meetings in 2016. All members of the NCC participated in all meetings, with the exception of two meetings where one member was excused from participating. The NCC informs the Board of Directors on a regular basis about its activities and decisions. The discussions and the decisions of the Board of Directors and the NCC regarding compensation of the members of the Executive Committee are resolved in the absence of the affected members of the Executive Committee. All members of the Board of Directors are non-executive members. All members of the Board of Directors took part and voted at its meetings regarding compensation matters.

1.4 External Advisers and Benchmarks

As part of the ongoing commitment to review the competitive environment for 2016 compensation, Lonza reviews compensation for all employees including the Board of Directors and Executive Committee through regular competitive benchmarking. Lonza continues to engage with New Bridge Street (NBS) as needed. The benchmark companies used for the Board of Directors and the Executive Committee are described in greater details in Section 3.1 and Section 4.1.

NBS is part of AON Hewitt's Performance, Reward and Talent Group. AON Hewitt has further consulting arrangements with Lonza Human Resources.

2 – Compensation Components

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

2.1 Base Pay

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

2.2 Variable Compensation

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

2.3 Benefits

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

3 – Compensation of the Board of Directors

3.1 Principles

Objective and Benchmarks

The NCC determined that they would again use benchmark data of Swiss companies (various sectors) that are comparable in type of business, complexity, size and global presence to Lonza in determining competitive Board of Directors' Compensation. Lonza's objective is to pay the members of the Board of Directors at the median of this benchmark group in accordance with their respective duties and responsibilities [1].

Overall Structure and Level of Compensation

The overall structure and level of compensation of the Board of Directors remained unchanged between 2015 and 2016.

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

3.2 Compensation Components

For the period from the Annual General Meeting (AGM) 2016 to the AGM 2017, the members of the Board of Directors receive fixed gross compensation for Board of Directors membership and additional compensation for committee chairperson and committee memberships as described below:

Compensation Board of Directors AGM 2016 to AGM 2017 [2]

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

[2] Refer to Section 3.3 regarding total compensation (including national employer social contributions) provided to the Board of Directors in financial year 2016. The above table represents the period from AGM 2016 to AGM 2017 and does not include social contributions of the employer.

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

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

Board of Directors' compensation for 2016 is paid quarterly; 50% of the compensation is paid in cash and 50% in performance shares. The number of shares granted for Board of Directors' compensation is based on the average closing share price of the last five business days of each quarter. Share restrictions lapse after three years from the grant date. Shares are eligible for a dividend. This structure of Board of Directors compensation is closely aligned with our shareholders' interests.

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

3.3 Aggregate Compensation of the Board of Directors

Board of Directors' Compensation

	2016					2015				
	Net cash payment	Number of shares	Value of shares[4]	Social security and taxes[5]	Total[6]	Net cash payment	Number of shares	Value of shares[4]	Social security and taxes[5]	Total[6]
	CHF		CHF	CHF	CHF	CHF		CHF	CHF	CHF
Rolf Soiron Chairman [3]	204,648	1,329	224,723	40,704	470,075	206,801	1,776	235,316	41,976	484,093
Patrick Aebischer [7]	124,624	826	139,683	28,576	292,883	126,510	1,101	145,926	29,114	301,550
Werner Bauer	109,547	707	119,539	20,905	249,991	108,352	943	124,997	25,054	258,403
Thomas Ebeling	106,693	707	119,539	24,620	250,852	108,352	943	124,997	25,054	258,403
Jean-Daniel Gerber [7]	127,662	826	139,683	24,677	292,022	128,935	1,105	146,414	25,519	300,868
Christoph Mäder	80,094	521	89,596	18,391	188,081					
Barbara Richmond	60,011	707	119,538	93,109	272,658	68,770	898	119,503	81,147	269,420
Margot Scheltema [7]	75,613	826	139,684	64,386	279,683	82,960	1,032	137,502	65,791	286,253
Jürgen Steinemann[8]	61,411	707	119,538	61,418	242,367	44,775	581	80,160	128,168	253,103
Antonio Trius[9]	64,812	707	119,538	137,515	321,865	71,109	885	117,916	56,391	245,416
Total	**1,015,115**	**7,863**	**1,331,061**	**514,301**	**2,860,477**	**946,564**	**9,264**	**1,232,731**	**478,214**	**2,657,509**

[3] This compensation includes Mr. Soiron's committee membership. Mr. Soiron is a member of the Innovation and Technology Committee.
[4] The fair values were calculated using the average closing share price of the last five business days of each quarter, see note 24 in the Lonza Financial Report 2016.
[5] The social security amounts disclosed in this column represent the full costs of the employer and employee social security contributions and withholding tax.
[6] Total compensation amounts refer to gross payments, including social security and withholding tax, except where stated otherwise.
[7] Patrick Aebischer, Jean-Daniel Gerber and Margot Scheltema are Chairpersons of a Board of Directors Committee.
[8] Social security and taxes 2015 for Jürgen Steinemann include 2014 and 2015 tax liability.
[9] Includes additional social security provision for Antonio Trius.

The increase in Board of Directors compensation in 2016 was due primarily to the addition of Christoph Mäder to the Board of Directors in April 2016.

No loans or credits were granted to current or former members of the Board of Directors during 2016 (nor in 2015). No loans or credits were outstanding as of 31 December 2016. During 2016, no payments (or waiver of claims) were made to current or former Board members nor to persons closely linked to them. No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

For a full review of the historical development of compensation for the Board of Directors, see note 24 in the Lonza Financial Report.

4 – Compensation of the Executive Committee

Principles

Remuneration Components

Aggregate Compensation of the Executive Committee

Highest Compensation Paid to a Member of the Executive Committee

Compensation to Departing Members of the Executive Committee

Details of Incentive Plans

Compensation in Case of Termination

4.1 – Principles

Objective and Benchmarks

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

The following peer groups continued to be used in 2016 to assess total compensation for the Executive Committee.

Peer Groups

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

[1] Actelion Ltd, BASF SE, Bayer AG, Clariant AG, Croda International Plc, Evonik Industries AG, Givaudan SA, Novartis AG, Roche Holding Ltd, Sika AG, SGS SA, STADA Arzneimittel AG, Syngenta AG, Wacker Chemie AG.
[2] ARYZTA AG, Barry Callebaut AG, Emmi AG, Forbo Holding AG, Geberit AG, Georg Fischer AG, Logitech International S.A., OC Oerlikon Corporation AG, Panalpina Welttransport (Holding) AG, Sonova Holding AG, Sulzer
[3] Allergan plc, Alere Inc., Endo Health Solutions Inc., Mylan Inc., Perrigo Company, Zoetis Inc.
[4] Cabot Corporation, Celanese Corporation, Chemtura Corporation, The Clorox Company, Coty Inc., Eastman Chemical Company, FMC Corporation, International Flavors and Fragrances Inc., Methanex Corporation, Westlake Chemical Corporation, W.R. Grace and Company.

The overall structure of compensation for the Executive Committee remained largely unchanged in 2016. For the alignments made to the base salary of the EC and the CEO please refer to the applicable charts in Section 4.3 and Section 4.4.

4.2 – Remuneration Components

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

Base Salary

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

Short-Term Incentive (STIP)

The company provides the members of the Executive Committee with a Short-Term Incentive Plan. Performance metrics are defined for each financial year; achievement determines the payout of STIP. The STIP in principle pays out in cash, though it is conveyed in 50% shares when shareholding requirements are not met. For details regarding the STIP, please refer to Section 4.6 – Short-Term Incentive Plans (STIP).

Long-Term Incentive (LTIP)

The LTIP is designed to align the interests of the Executive Committee with those of Lonza's shareholders and to serve as a retention incentive for the executives. The LTIP is a 100% equity-based plan with conditional equity awards vesting after three years according to performance conditions. Executive Committee members are awarded the right to receive a number of shares in Lonza in the future, provided that certain performance-related conditions are achieved. For more details regarding the LTIP, please refer to Section 4.6 – Long-Term Incentive (LTIP).

Benefits

The Executive Committee's compensation package also includes certain benefits, e.g. pension plans and other benefits, such as a car, expenses allowance, health insurance and (if applicable) tuition fees. Please note for 2016, pension benefits reflect the adoption of Lonza's retirement plans based on a Swiss-specific pension review to ensure market competitiveness and retention of executives and the increase in employer pension contributions. These plans were approved by shareholders at the AGM 2016 as part of the total compensation budget.

4.3 – Aggregate Compensation of the Executive Committee

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

Executive Committee's Compensation [1]

million CHF	2016	2015
Cash payments and benefits		
Base salary	2.708	3.101
Short-term incentive (cash)[2]	3.573	2.844
Post-employment benefits / other benefits [3]	1.444	1.282
Share-based payments		
Value of STIP paid out in shares [4]	0.441	0.223
Corrective One-Time True-Up for CEO [5]		0.534
Value of LTIP equity at market value [6] (number of equity awards 2016: 18,872 / 2015: 27,930)	2.950	3.050
Total	**11.116**	**11.034**
Ratio of fixed compensation to the performance-related components of compensation (without termination payment)	**50.11%**	**69.36%**

[1] Average of 4 members in 2016 and average of 5 members in 2015. Rodolfo Savitzky succeeded Toralf Haag as CFO as of October 2016.
[2] STIP 2015: paid in April 2016. The achievement for 2016 was 174.08% (2015: 117.34%) and will be paid out in April 2017 after the approval of the Shareholders' Meeting.
[3] Social security, pension fund and other benefits (see Section 4.2). The social security and pension fund amounts disclosed on this line represent the full costs of the employer contributions for 2016. The table shows the fair value of the other benefits.
[4] Actual number of shares relating to the STIP payout will be determined in March 2017. This STIP payout in shares was made in application of the new minimum shareholding requirement according to which the STIP payout will be 50% in shares if an EC member does not meet the minimum shareholding requirement (see Section 4.6).
[5] As approved by AGM 2016.
[6] The fair value in 2015 and 2016 was calculated using the market value at grant date. It is possible that the eventual value at vesting date in 2018 and 2019 will be higher or lower (or even zero).

The decrease in base salary in the aggregate is due to a reduction in the number of EC members in 2016 compared with 2015 offset by salary increases to current Executive Committee members as approved by shareholders at the AGM 2016.

Throughout 2016 Lonza continued to deliver record financial results with outstanding improvements across all key performance indicators, leading to the best-ever full-year results in Lonza's history. The strong sales growth and high margin improvement are the result of diligent and disciplined application of Lonza's successful strategy, resulting in a STIP 2016 payout increase of 31% compared to 2015. This increase in its entirety is attributable to the improved business performance and underlines the sustained overall performance of the past years.

The number of LTIP Equity Awards decreased in 2016 (2016: 18,872 versus 2015: 27,930) due to a reduction in the number of EC members as well as the increase in share price on the date of grant of CHF 156.30 (2015: CHF 109.20). Note that the value of LTIP Equity Awards in CHF decreased from CHF 3.050 million in 2015 to CHF 2.950 million in 2016. The 2016 LTIP Equity Award budget was approved by shareholders in April 2016.

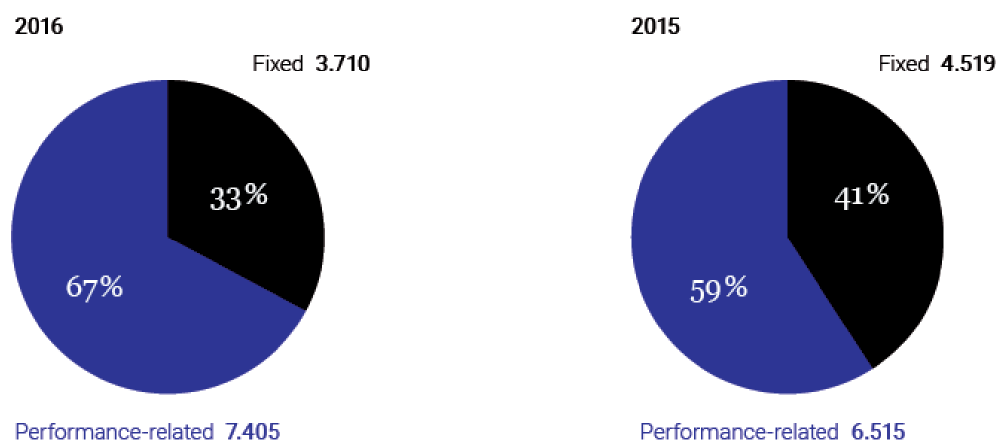
The 2016 LTIP value represented a decrease of 3.3% compared with the 2015 LTIP. This decrease is mainly due to the reduction in the number of Executive Committee Members from 5 to 4. A potential vesting of 200% of the LTIP equity awards would require CORE EPS / CORE RONOA performance at very challenging levels. As indicated by the performance of the LTIP in recent years, Lonza has consistently set challenging LTIP targets in application of the pay for performance principle.

Effective October 2015 the NCC made the decision to introduce shareholding requirements for the Executive Committee to further align the Executive Committee with the interests of shareholders (See Section 5). In support of this strategy, it was decided that the STIP will pay out 50% in cash and 50% in stock as long as the minimum shareholding requirements (See Section 4.2) are not met.

No loans or credits were granted to current or former members of the Executive Committee during 2016 (nor in 2015). No loans or credits were outstanding as of 31 December 2016. During 2016 no payments (or waiver of claims) were made to current or former members of the Executive Committee nor to persons closely linked to them. No member of the Executive Committee benefits materially from any contract between a Lonza company and a third party.

Performance-Related vs. Fixed Compensation

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



4.4 – Highest Compensation Paid to a Member of the Executive Committee

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

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

million CHF	2016	2015
Cash payments and benefits		
Base salary	1.005	0.965
Short-term incentive (cash)[1]	1.758	1.173
Post-employment benefits / other benefits [2]	0.489	0.339
Share-based payments		
Corrective One-Time True-Up for CEO [3]		0.534
Value of LTIP equity at market value [4] (number of equity awards 2016: 6,398 / 2015: 8,516)	1.000	0.930
Total	**4.252**	**3.941**
Ratio of fixed compensation to the performance-related components of compensation (without termination payment)	**46.60%**	**87.35%**

[1] Incentive (STIP) for the reporting year. The 2015 STIP was paid in April 2016; the 2016 STIP will be paid in April 2017 after AGM shareholders' approval. The CEO has met his shareholding requirement and will therefore receive full cash payout of STIP 2016.
[2] Social security and pension fund as well as company car and health insurance. The social security amounts disclosed on this line represent the full costs of the employer social security contribution for 2015 and 2016. The table shows the fair value of the other benefits.
[3] As approved by AGM 2016.
[4] The fair value in 2015 and 2016 was calculated using the market value at grant date. It is possible that the eventual value at vesting date in 2018 and 2019 will be higher or lower (or even zero).

The proposed STIP payment for 2016 reflects Lonza's outstanding improvements across all key performance indicators, leading to the best-ever full year-results in Lonza's history. Compared with the STIP payout for the financial year 2015, the proposed STIP amount for the financial year 2016 represents an increase of 50%. The strong sales growth and high margin improvement are the result of diligent and disciplined application of Lonza's successful strategy.

4.5 – Compensation to Departing Members of the Executive Committee

One member of the Executive Committee, Beat In-Albon stepped down to assume a non-Executive Committee role at the end of 2015.

In 2016, Toralf Haag, CFO and member of the Executive Committee, left the company, receiving benefits and payments in accordance with his Executive Agreement. His LTIP equity awards for 2014, 2015, and 2016 are treated according to the applicable LTIP plan rules, with vesting, where applicable, occurring according to the achievement of performance conditions.

4.6 – Details of Incentive Plans

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

Short-Term Incentive (STIP)

History and Participation

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

Effective 2015 the NCC made the decision to introduce shareholding requirements for the Executive Committee and further align the Executive Committee with the interests of shareholders. In support of this strategy, the STIP will pay out in cash or in shares based on the Executive's individual holdings of Lonza shares.

The 2016 STIP Program operates for Executive Committee Members as follows:

Objective

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

Definition of Targets

The performance criteria are set annually based on the company's short-term objectives and assessed for achievement at the end of the year against the defined financial performance results. Defined financial performance results are derived from the audited financial results 2016.

STIP	CEO	Other Executive Committee members
STIP target as % of base salary [1]	100%	75%
Performance targets	• 50% CORE [2] EBIT • 15% Lonza sales • 15% Operational free cash flow • 20% Individual targets for Executive Committee members (for 2016: CORE EBIT 10%, sales 5% and operational free cash flow 5%)	
Form of payout	• 100% in cash if CEO holds shares equivalent to 2 times base salary (CEO) and other Executive Committee members 1 times base salary [3] in shares of Lonza • 50% in cash and 50% in Lonza shares if Executive Committee member does not meet minimum requirements	
Payment timing	The STIP is paid to the members of the Executive Committee in April 2017 after the approval of the Shareholders' Meeting	

[1] Payout range equals 0% – 200%.
[2] CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ from year to year.
[3] As measured on 31 December of the plan year.

Long-Term Incentive (LTIP)

History and Participation

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

Objective

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

Equity Awards

Under the LTIP, participants are awarded the right to receive a number of registered shares of Lonza in the future. Depending on the level of the job, the target equity award grant is between 10% and 100% of the annual base salary. The grant is made at target and the payout level can be between 0% and 200%. The Executive Committee members, including the CEO, have a target of 100% of base salary with payout levels between 0% and 200% maximum. Any proration is applied in relation to the entire length of the three-year performance period.

The LTIP plan design is determined at the beginning of the three-year performance period. For 2016 the plan design included minimum, target and stretch goals. The 2016 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2016 and administered in accordance with this approval.

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

Restriction and Vesting

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

Vesting Targets

For the 2014 LTIP, the performance metrics were CORE EPS and CORE RONOA with 50% weight for each measure. For more details, see note 24 in the Financial Report.

For the 2015 and 2016 LTIP, the performance metrics are CORE EPS and CORE RONOA with 50% weight for each measure.

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

Overview of Vesting Conditions for LTIP

For the years 2015 and 2016, the vesting of up to 50% of the granted equity awards depends on growth of CORE[1] EPS achieved during Lonza's three fiscal years and the vesting of up to 50% of the granted equity awards depends on growth of CORE RONOA achieved during Lonza's three fiscal years.

Performance Metrics for CORE EPS Approved at AGM 2016 (LTIP 2016)

- The minimum threshold to be reached at year-end 2018 was determined by the NCC to be significantly higher than the CORE EPS achieved on 31 December 2015 (which was CHF 6.81). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE EPS will vest.
- If the target is reached, 100% of the equity awards granted under CORE EPS will vest. CORE EPS is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 115% of the CORE EPS at target. If such level of CORE EPS is reached, 200% of the equity awards granted under CORE EPS will vest.

Performance Metrics for CORE RONOA Approved at AGM 2016 (LTIP 2016)

- The minimum threshold to be reached at year-end 2018 was determined by the NCC to be significantly higher than the CORE RONOA achieved on 31 December 2015 (which was 16.4%). If this minimum threshold is not reached, the payout will be zero. If this threshold is reached, 50% of the equity awards granted under CORE RONOA will vest.
- If the target is reached, 100% of the equity awards granted under CORE RONOA will vest. CORE RONOA is an internal, sensitive financial target which is not disclosed at this time.
- The maximum was determined to approximate 117.5% of the CORE RONOA at target. If such level of CORE RONOA is reached, 200% of the equity awards granted under CORE RONOA will vest.

Treatment of LTIP in Change of Control Situations

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

Actual Performance and Payout for the LTIP 2014 and 2013

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

Performance under the 2014 LTIP exceeded the target for CORE EPS, generating a 100% payout on 50% of the total award. Performance under the 2014 LTIP exceeded the target for CORE RONOA, generating a 100% payout on the remaining 50% of the total award. The total 2014 LTIP payout equals 100%.

2014 LTIP

	Actual performance	Payout in %
CORE EPS (Earnings Per Share)[1]	CHF 8.15	100
CORE RONOA (Return on Net Operating Assets)[1]	20.97%	100
Total payout		**100**

[1] CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ from year to year.

4.7 – Compensation in Case of Termination [1]

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

Notice Period

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

Base Pay and Benefits

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

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

STIP Payouts in the Event of Termination [2]

Resignation by the Executive

Subject to applicable law, if a member of the Executive Committee resigns at any time prior to distribution of STIP awards such member will not be entitled to any award with respect to the plan year in which their employment is terminated, except if (i) the termination as a result of such resignation occurs after 31 December of the plan year and (ii) the executive was not released from his obligation to work.

Termination by the Company Without Cause

Any member of the Executive Committee whose employment is terminated by the Company without cause will be entitled to a prorated STIP payment relating to the notice period.

Termination by the Company for Cause

Any member of the Executive Committee whose employment is terminated by the Company for cause will not be entitled to the STIP payment relating to the current year (year of termination).

STIP in Change of Control

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

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2 This summary of consequences in case of termination is based on plan rules applicable to STIP 2016.

LTIP Payouts in the Event of Termination

Resignation by the Executive

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

Termination by the Company Without Cause

Any member of the Executive Committee whose employment is terminated by the Company without cause and has unvested shares vest on a pro rata basis based on the number of months worked (including the notice period) during the 36-month performance period for grants 2015 and 2016.

Termination by the Company for Cause

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

LTIP in Change of Control

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

Non-Compete Clause

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

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

Claw-Back

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

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

Based on information available to Lonza, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2016, a total of 135,180 (2015: 129,815) registered shares in Lonza Group Ltd and controlled 0.26% (2015: 0.25%) of the share capital. None of the members of the Board of Directors or Executive Committee owns shares in the Group's subsidiaries or associates.

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

The members of the Executive Committee and parties closely associated with them held 67,335 (2015: 60,095) shares and controlled 0.13% (2015: 0.11%) of the share capital. The individual control rights are proportional to the holdings shown below.

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

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2016:

Board of Directors

Lonza shares (numbers)	2016	2015
Rolf Soiron, Chairman	69,683	68,324
Patrick Aebischer	10,574	12,229
Werner Bauer	19,180	18,456
Thomas Ebeling	4,255	3,531
Jean-Daniel Gerber	12,840	11,995
Christoph Mäder	351	n.a.
Barbara Richmond	2,184	1,460
Margot Scheltema	7,561	6,716
Jürgen Steinemann	4,356	3,632
Antonio Trius	4,196	3,472

Executive Committee

Lonza shares (numbers)	2016	2015
Richard Ridinger, CEO	41,564	25,906
Sven Abend	1,373	0
Marc Funk	24,398	12,049
Toralf Haag	n.a.	15,736
Beat In-Albon	n.a.	6,404
Rodolfo Savitzky	0	n.a.

Minimum Shareholding Requirements:

- CEO: 2 times base salary
- Other Executive Committee: 1 times base salary
- Other senior managers: Annual LTIP grant value
- Shareholdings measured at the end of January in each calendar year
- Five years to achieve minimum requirements

Report of the Statutory Auditor

To the General Meeting of Lonza Group Ltd, Basel

We have audited the remuneration report dated 31 December 2016 of Lonza Group Ltd for the year ended 31 December 2016. The audit was limited to the information according to articles 14-16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections 3.3, 4.3, 4.4 and 4.5 of the remuneration report.

Responsibility of the Board of Directors

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Lonza Group Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Florin Janine Krapp
Licensed Audit Expert

Zurich, 16 March 2017

KPMG AG, Badenerstrasse 172, PO Box, CH-8036 Zurich

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Corporate Governance Report

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

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

Group Structure and Shareholders
Capital Structure
Board of Directors
Executive Committee
Compensation, Shareholdings and Loans
Shareholders' Participation Rights
Changes of Control and Defense Measures
Auditors
Information Policy and Key Reporting Dates

Group Structure and Shareholders

Operational Group Structure

Board of Directors (BoD)

- Audit and Compliance Committee
- Nomination and Compensation Committee
- Innovation and Technology Committee

Executive Committee (EC) CEO – CFO[1] – COO – COO – CHRO[2]

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

Segments

Lonza's activities are organized into two segments:

The Pharma&Biotech segment covers Custom Development and Manufacturing offerings directed to pharmaceutical markets, as well as offerings from Lonza's Bioscience Solutions business for the bioresearch market. It includes five business units: Mammalian Manufacturing, Chemical and Microbial Manufacturing, Clinical Development Licensing, Emerging Technologies and Bioscience Solutions. This all-encompassing segment offers pharmaceutical and biotech industries Lonza's recognized development and manufacturing know-how and broad technology platform.

The Specialty Ingredients segment includes consumer-oriented offerings with four business units: Consumer Care, Agro Ingredients, Coatings and Composites, and Water Treatment.

Operational Units

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

Corporate Functions

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

Global Business Service Organization

The Global Business Service Organization (GBSO) supports our market activities by implementing corporate guidelines and driving service excellence. The GBSO is helping to facilitate Lonza's profitable growth by establishing standardized and harmonized solutions that enable the implementation of innovations at pace and scale. Key focus areas are on the critical business support functions.

Holding Company and Listed Companies

Lonza Group Ltd, with registered office in Basel (CH), is the ultimate parent company of the Lonza Group. Except for Lonza Group Ltd, no company belonging to the Lonza Group is listed. Please refer to the Shares and Participation Certificates section, for information on the listed shares, the stock exchanges on which Lonza Group Ltd is listed and the market capitalization.

Principal Subsidiaries and Joint Ventures

The principal subsidiaries and joint ventures of the Lonza Group are shown in Note 32: Principal Subsidiaries and Joint Ventures.

Significant Shareholders

According to disclosure notifications filed with Lonza, the following shareholders held more than 3% of the Lonza share capital as of 31 December 2016.

Principal shareholders	%
BlackRock, Inc., New York, NY (USA)	10.34
Massachusetts Mutual Life Insurance Company, Springfield, MA (USA)	4.51
Norges Bank (the Central Bank of Norway), Oslo (NOR)	3.78

Lonza knows of no other shareholder(s) that owned more than 3% of its share capital as of 31 December 2016. To Lonza's best knowledge, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza or the exercise of shareholders' rights. For a full review of the individual disclosure notifications made during 2016, please refer to the SIX Swiss Exchange disclosure platform.

Cross-Shareholdings

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

Capital Structure

Share Capital

As of 31 December 2016, Lonza's share capital amounted to CHF 52,920,140, fully paid-in and divided into 52,920,140 registered shares with a par value of CHF 1 each.

Shareholder Structure

	31 December 2016		31 December 2015	
	Shareholders in %	Shares in %	Shareholders in %	Shares in %
Switzerland	85.61	20.82	85.66	24.29
United Kingdom	1.12	21.28	1.13	19.1
USA	3.98	3.62	4.03	6.12
Others	9.28	12.61	9.17	9.5
Shares in transit		41.43		39.79
Treasury shares without voting rights	0.01	0.24	0.01	1.2
Total	**100**	**100**	**100**	**100**
Total number of shares		52,920,140		52,920,140

Share Register

	31 December 2016	31 December 2015
Registered shareholders	11,596	11,947
Registered shares	30,996,771	31,865,033
Share distribution:		
1–100	4,933	4,832
101–1,000	5,681	6,078
1,001–50,000	920	845
50,001– 100,000	31	144
100,001– 1,000,000	28	44
over 1,000,000	3	4
Total registered shareholders	11,596	11,947

Authorized Conditional Capital [1]

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

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

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

[1] Lonza has successfully placed 5 million new shares (Authorized Capital), which were listed and admitted to trading on the SIX Swiss Exchange on 3 February 2017 (see note 4.4 of the Financial Report) – Article 4ter "Authorized Capital" of the Lonza Articles of Association was thereafter deleted.

Changes in Capital

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

as of 31 December	2016	2015	2014	2013
Share capital in CHF	52,920,140	52,920,140	52,920,140	52,920,140
Registered shares	52,920,140	52,920,140	52,920,140	52,920,140
Par value in CHF / share	1	1	1	1

Shares and Participation Certificates

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

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

Stock Exchange Listing / Trading:

- SIX Swiss Exchange
- SGX Singapore Exchange

Common Stock Symbols

- Bloomberg LONN VX
- Reuters LONN VX
- Telekurs LONN
- SGX O6Z

Security Number

- Valor 001384101
- ISIN CH0013841017

On 31 December 2016, Lonza had a market capitalization of CHF 9,330 billion (2015: CHF 8,631 billion).

Profit-Sharing Certificates

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

Limitations on Transferability and Nominee Registrations

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

Convertible Bonds

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

Options

As of 31 December 2016, no options or warrants to acquire shares issued by or on behalf of Lonza Group Ltd were outstanding.

Board of Directors

The Board of Directors is made up of ten non-executive members.

Name	Nationality	Year of birth	Year of initial appointment	Expiration of current term of office	Independence
Rolf Soiron	Swiss	1945	2005	2017	Independent
Patrick Aebischer	Swiss	1954	2008	2017	Independent
Werner Bauer	Swiss	1950	2013	2017	Independent
Thomas Ebeling[1]	German	1959	2013	2017	Independent
Jean-Daniel Gerber	Swiss	1946	2011	2017	Independent
Christoph Mäder	Swiss	1959	2016	2017	Independent
Barbara Richmond	British	1960	2014	2017	Independent
Margot Scheltema	Dutch	1954	2012	2017	Independent
Jürgen Steinemann	German	1958	2014	2017	Independent
Antonio Trius	Spanish	1955	2013	2017	Independent

[1] Thomas Ebeling will not stand for re-election at the AGM this year (see Letter to Shareholders)

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

Limitation of Number of Mandates

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

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

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

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

Elections and Terms of Office

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

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

Internal Organizational Structure

The Board of Directors consists of the Chairperson, the Vice Chairperson and the other Board members. In accordance with Lonza's Articles of Association, the number of members must be at least five.

The members of the Board of Directors sat on the following committees in 2016:

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

Audit and Compliance Committee

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

Nomination and Compensation Committee

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

Innovation and Technology Committee

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

Number of Meetings, Duration and Attendance

	Board of Directors	Audit and Compliance Committee (ACC)	Nomination and Compensation Committee (NCC)	Innovation and Technology Committee (ITC)
Number of meetings	10 (5 ordinary meetings and 5 extraordinary conference calls)	6 (5 ordinary and 1 extraordinary meeting)	6	5
Average duration	Conference calls: 1 hour Ordinary meetings: 6.5 hours	2:15 hours	2:15 hours	2 hours
Overall attendance	96%	100%	93%	100%

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

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

Areas of Responsibility

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

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

Information and Control Instruments

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

Board Information

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

Regular Reports to the Board

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

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

Internal Audit

The Board of Directors, through the Audit and Compliance Committee, is supported by Lonza Audit Services. The Lonza Audit Services group comprises nine internal audit positions, reviewing financial, operational and information technology-related activities of the entire Lonza Group with a risk-based audit program.

They continually evaluate the adequacy and effectiveness of the system of internal controls as well as company policies and procedures; and they recommend appropriate actions to correct deficiencies identified. In 2016, they delivered 45 internal audit reports to the Audit and Compliance Committee.

Internal Control System

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

Compliance Instruments

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

Risk Assessment

The Board of Directors carries out risk assessments at least on an annual basis. The objective of the risk assessments is to make the principal risks to which Lonza is exposed more transparent and to improve the risk mitigations. In its 2016 assessment of Group risk, the Board of Directors of Lonza identified as the main risks: the dependency on a few large products /customers in specific businesses of the Specialty Ingredient segment, the increasing challenges in the quality requirements, the operational execution and the securing of long-term contracts in the Pharma&Biotech segment.

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

Rolf Soiron

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

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

Current activities and functions:

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

Former activities and functions:

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

Patrick Aebischer

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

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

Current activities and functions:

- Senate member of the "Deutsches Zentrum für Neurodegenerative Erkrankungen (DZNE)" (since 2016)
- Member of the Board of Directors of Logitech SA (since 2016)
- Member of the Board of Directors of Nestlé SA (since 2015)
- Scientific technical committee member of the Italian Institute of Technology (since 2015)
- Chairman of the Advisory Board of the Novartis Venture Fund (since 2014)
- Member of the Singapore Biomedical Sciences International Advisory Council (since 2013)
- Chairman of the Board of Amazentis SA (since 2007)
- Professor of Neurosciences, Swiss Federal Institute of Technology Lausanne (EPFL) (since 2000)

Former activities and functions:

- President of the Swiss Federal Institute of Technology of Lausanne (EPFL) (2000–2016)
- Representative of the EPFL on the boards of various Swiss foundations
- Member of the Foundation Board of the World Economic Forum (2013–2016)

Werner Bauer

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

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

Current activities and functions:

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

Former activities and functions:

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

Thomas Ebeling

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

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

Current activities and functions:

- Member of the Advisory Board / MPM Oncology Investments LLC (since January 2016)
- Member of the Advisory Board /Auris Luxembourg III S.à r.l. (since 2015)
- Founder of Better Life Healthcare (since 2015)
- Member of the Supervisory Board of Bayer AG (since 2012)
- CEO of ProSiebenSat1. Media SE (since 2009)

Former activities and functions:

- Adviser to TPG Biotech Fund (2011–2015)
- CEO of the Novartis Consumer Health Division (2007–2008)
- CEO of the global Novartis pharmaceuticals business (2000–2007)
- Head of Novartis Nutrition Division (1998–2000)
- General Manager of Novartis Nutrition for Germany and Austria (1997–1998)

Jean-Daniel Gerber

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

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

Current activities and functions:

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

Former activities and functions:

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

Christoph Mäder

Christoph Mäder (1959) holds a Master's degree in Law from the University of Basel and is admitted to the Swiss Bar.

Member of the Board of Directors of Lonza Group Ltd (since April 2016)

Current activities and functions:

- Vice Chairman of economiesuisse (since 2011)
- Member of the Board of scienceindustries (since 2003)
- Member of the Board of the Basel Chamber of Commerce (since 2002)
- Member of the Group Executive Committee of Syngenta (since 2000)

Former activities and functions:

- Member of the Executive Board of the Business and Industry Advisory Committee (BIAC) for the Organization for Economic Co-operation and Development (OECD) (2012–2016)
- Head of Legal & Public Affairs for Novartis Crop Protection AG (1999–2000)
- Senior Corporate Counsel for Novartis International AG (1992–1998)

Barbara Richmond

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

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

Current activities and functions:

- Group CFO of Redrow plc (since 2010)

Former activities and functions:

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

Margot Scheltema

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

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

Current activities and functions:

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

Former activities and functions:

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

Jürgen Steinemann

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

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

Current activities and functions:

- Investor in food and agri businesses
- Member of the Board of Directors of Barry Callebaut AG (since 2015)
- Chairman of the Supervisory Board of Metro Group AG (since 2015)
- Member of the Supervisory Board of Big Dutchman AG (since 2015)
- Member of the Supervisory Board of Ewald Dörken AG (since 2002)
- Member of the Board of the Swiss-American Chamber of Commerce (since 2011)

Former activities and functions:

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

Antonio Trius

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

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

Current activities and functions:

- Member of the Board of Directors of Mauser Group BV (since 2015)
- Member of the Board of Directors of Cuantum Medical & Cosmetics S.L. (since 2015)
- Member of the Board of Directors of MaxamCorp Holding S.L. (since 2014)
- Member of the Board of Directors of Azelis SA (since 2014)
- Member of the Supervisory Board of Altana AG (since 2012)

Former activities and functions:

- Member of the Board of Directors of Nubiola SL (2011–2015)
- CEO of Cognis GmbH (2001–2010)
- Executive Vice President Care Chemicals North America Cognis BV (1999–2001)
- Vice President Care Chemicals at Henkel KGa A (1997–1999)

Executive Committee

The members of the Executive Committee are appointed by the Board of Directors. Lonza's Executive Committee performs the duties assigned to it by the Board of Directors under the terms of the Regulations Governing Internal Organization and Board Committees. It is responsible for managing Lonza worldwide and for implementing policies and strategies as defined by the Board of Directors. The Executive Committee supports and coordinates the activities of the segments, the operational units, the corporate functions and the global business service organization. The Executive Committee is also responsible for leadership development.

Members of the Executive Committee

New Composition of Executive Committee

On 10 May 2016, Lonza announced that Toralf Haag will leave Lonza after 11 years with the company. As result he stepped down from his role as Chief Financial Officer and his position on the Executive Committee with effect from 30 September 2016. Lonza further announced the appointment of Rodolfo Savitzky as Chief Financial Officer, to replace Toralf Haag with effect from 1 October 2016. As of 1 February 2017 Fridtjof Helemann joined the Executive Committee as Chief Human Resources Officer, extending the Executive Committee to five members.

As of 31 December 2016, the Executive Committee consisted of four members.

Name	Nationality	Year of Birth	Function
Richard Ridinger	German	1958	Chief Executive Officer
Rodolfo Savitzky	Swiss	1962	Chief Financial Officer
Sven Abend	German	1968	Chief Operating Officer Specialty Ingredients Segment
Marc Funk	Swiss	1960	Chief Operating Officer Pharma&Biotech Segment

Limitation of Number of Mandates

According to Article 26 of the Lonza Articles of Association, no member of the Executive Committee may hold more than:

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

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

Management Contracts

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

Richard Ridinger

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

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

Current activities and functions:

- Member of the Board of Firmenich International SA (since October 2016)

Former activities and functions:

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

Toralf Haag

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

Chief Financial Officer (CFO) and Member of the Executive Committee (August 2005–September 2016)

Current activities and functions:

- Chief Financial Officer of the Voith Group (since October 2016)
- Member of the Board of Fr. Sauter AG, Basel (since February 2014)
- Member of the Board of scienceindustries (since 2012)
- Member of the Board of Vereinigung Schweizer Finanzchefs (VSF) (since 2009)

Former activities and functions:

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

Rodolfo Savitzky

Rodolfo Savitzky holds a degree in Industrial and Systems Engineering from the Monterrey Institute of Technology and an MBA in Finance and Economics from the University of Chicago

Chief Financial Officer (CFO) and Member of the Executive Committee (since October 2016)

Former activities and functions:

- Vice President, Controller Lonza Pharma&Biotech (2015–2016)
- Division CFO, Novartis Animal Health (2011–2015)
- Business Unit Head of Finance Novartis Animal Health (2006–2011)
- Head of Strategy Planning and Analysis, Novartis Pharmaceuticals (2004–2005)
- Head of Business Planning and Analysis, Novartis Pharmaceuticals (2003–2004)
- Head of Finance Ophthalmic Business Unit, Novartis Pharmaceuticals (2002–2003)
- Various positions at P&G (1990–2001)

Sven Abend

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

Chief Operating Officer (COO) Specialty Ingredients Segment (since January 2016) and Member of the Executive Committee (since July 2014)

Former activities and functions:

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

Marc Funk

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

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

Former activities and functions:

- Group General Counsel and Board Secretary Lonza Group Ltd (2009–2014)
- Associate General Counsel of Merck Serono (formerly Serono) (2004–2008)
- Co-CEO and General Counsel of GeneProt (2000–2004)

Fridtjof Helemann

Fridtjof Helemann holds a degree in Engineering from the University of Siegen (DE)

Chief Human Resource Officer (CHRO) (since 2016) and Member of the Executive Committee (since February 2017)

Former activities and functions:

- Managing Partner and President of Oxford Leadership (2014–2016)
- Partner and CEO Mercer Inc. Central Europe (2011–2014)
- Vice President and General Manager Central and Eastern Europe at Right Management (2010–2011)
- Corporate Vice President HR Henkel AG (2003–2009)
- Various HR consulting roles: Partner Hay Group and MD Kienbaum

Risk Factors

(extracted from the Offering Circular dated 25 April 2017 in relation to the Offering of 16,548,612 registered shares)

Material Changes since 25 April 2017

The Guarantor has successfully completed the Offering in May 2017, as per the press release issued on 10 May 2017, resulting in gross proceeds of approximately CHF 2.251 billion, which were used for the partial financing of the Capsugel acquisition. All required approvals from regulatory authorities for the Capsugel acquisition have been received without condition as per the press release dated 27 June 2017. As per the press release issued by Guarantor on 6 July 2017 (see Annex D), the closing of the Capsugel acquisition has in the meanwhile been completed. The Risk Factors stated herein have to be interpreted taking these subsequent events into consideration.

Risks Related to the Group, Capsugel and their Businesses

Adverse developments in worldwide economic conditions could negatively impact Capsugel's and the Group's customers, and therefore have an adverse impact on the Group's business, results of operations, financial condition and prospects.

Worldwide economic conditions impact the industries in which the Group's and Capsugel's direct and indirect customers are active, including the biotech and pharmaceuticals, agrochemicals, water treatment, health, wellness, beauty, nutrition, hygiene and materials protection industries. A weak economic climate in the relevant customer industries may result in lower sales volumes and price decreases for the products, services and technologies supplied by the Group or Capsugel, which in turn may adversely affect its or their results of operations. In addition, certain of the Group's and Capsugel's customers operate in cyclical and volatile industries, which may lead to cyclical and volatile demand for the Group's or Capsugel's products from these customers, sometimes amplified by de- and re-stocking effects. Therefore, the Group's business and results of operations will be sensitive to global and regional economic downturns, credit market tightness, declining consumer and business confidence and spending habits, fluctuating commodity prices, volatile exchange rates, changes in interest rates, sovereign debt defaults, disruptive political changes and other challenges, including those related to international sanctions, acts of aggression or threatened aggression and climate conditions that can affect the global economy.

For the year ended 31 December 2016, North and Central America and Europe accounted for 48.5% and 31.4% of the Group's sales, respectively. Capsugel's revenues are also weighted towards the Americas and the region comprising Europe, the Middle East and Africa ("**EMEA**"), in particular Europe. Accordingly, the Group's results of operations will be particularly affected by macroeconomic conditions in North America and Europe. While the US economy has been growing steadily in recent years, there can be no assurance that this will continue to be the case. In particular, there can be no assurance that actions by central banking authorities or government policies, including those introduced by the new presidential administration in the United States will not have an adverse impact on the U.S. economy. In Europe, while the effects of the sovereign debt crisis in the Eurozone have abated to a certain extent, there can be no assurance that concerns surrounding Greece and other countries in the Eurozone will not reemerge. The vote in favor of Brexit in the United Kingdom in the summer of 2016 and the British government's formal initiation of withdrawal proceedings in March 2017 have created significant economic uncertainty concerning the UK's future economic relationship with the EU and the economic impact that Brexit and its consequences could have on both. More generally, a rise in nationalist and protectionist sentiment has been noted in the United States, the United Kingdom and a number of other developed economies around the world, raising concerns about economic growth and the future of free trade. Finally, in recent years, various emerging market economies where the Group and Capsugel operate have experienced severe economic and financial disruptions, including significant devaluations of their currencies and low or negative economic growth rates.

If economic conditions in the markets in which the Group sells its products deteriorate, its customers may experience deterioration of their businesses, reduced demand for their products, cash flow shortages and difficulty obtaining financing. As a result, existing or potential customers might delay or cancel plans to purchase products, services or technologies and may not be able to make payments to the Group in a timely fashion or at all. A weakening or reversal of the current recovery in the global economy or a substantial part of it could negatively impact the Group's business, results of operations, financial condition and prospects.

The Group and Capsugel are dependent on, and the Group will be dependent on, the availability of raw materials and any shortages or price increases may lead to production interruptions and/or increases in production costs, and may also limit the Group's ability to grow its business.

The Group's production processes are dependent on the availability of various raw materials, including some APIs. Capsugel is also dependent upon the availability of raw materials, including for example some APIs, gelatin and hydroxypropyl methylcellulose ("**HPMC**") for its biopharmaceutical and consumer health and nutrition businesses. Each of the Group and Capsugel rely on a number of third-party suppliers and other business partners to provide it with these raw materials and this will continue to be the case in relation to the Group. Although the Group and Capsugel source most of their raw materials from multiple suppliers, some of their raw materials are sourced from either very few suppliers or single suppliers. Supply problems with one or more of these suppliers may lead to specific raw materials becoming unavailable for some time and could jeopardize the Group's business.

Furthermore, the Group may not be able to successfully manage price fluctuations for certain components and materials and increases in the cost of raw materials and semi-finished products that cannot be passed on to customers through corresponding price increases or otherwise compensated for may result in reduced margins for the Group. Even if cost increases are passed on to customers, the Group may face decreased demand and lower

sales volumes if customers seek substitutes for the Group's products, services or technologies or if demand for those customers' products is impacted by any price increases that are passed on to end users.

In addition, certain of the Group's and Capsugel's customers supply APIs and health and nutrition product ingredients to the Group and Capsugel which are required for completion of such customers' products. If there are delays in receipt of APIs or health and nutrition product ingredients, or if APIs and health and nutrition ingredients fail to satisfy applicable quality standards, the Group's results of operations may be impacted.

The challenges and risks the Group will face may become even more significant as the Group endeavors to expand its business, requiring additional and new raw materials. Decisions to invest in new production facilities may be delayed due to sourcing and supply chain problems. The Group may also be unable to find or establish relationships with new suppliers in locations where it plans to ramp up production and may otherwise be prevented from growing its business as desired.

In addition to these risks, governmental regulations, environmental laws and regulations, increasing demand for raw materials from competitors and the effects of supplier consolidation may also lead to temporary or permanent shortages of raw materials. Any such shortages may lead to production interruptions, increases in production costs or even structural change within the industries in which the Group operates. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

The Group and Capsugel each spend significant amounts on research and development in order to develop new products, services and technologies and the lack of customer acceptance, any failure to successfully develop such products, services and technologies, or any delays in development, could adversely affect the Group's business, results of operations, financial condition and prospects.

The Group and Capsugel each depend on their continued ability to develop new products, services and technologies and to then successfully commercialize and market such products, services and technologies to their customers. However, the Group's new products, services and technologies may not gain acceptance among its customers, for example due to lack of acceptance among the end-consumers, such as patients, physicians, healthcare payers or the medical community, in general, of the customers' products containing the Group's products, services and technologies. The degree of market acceptance of any new product, service or technology will depend on a number of factors, any of which could cause any new product or technology not to receive market acceptance, including, but not limited to, the effectiveness of the Group's or its customers' marketing strategy, demonstration of the clinical efficacy and safety of the product, service or technology, pricing and cost-effectiveness, shift in patient or consumer preferences, the strength of offerings by competitors of the Group or its customers and the distribution support such offerings receive.

The Group may also fail to successfully expand or improve its portfolio of products, services and technologies or may lack the capacity to invest the required level of human, financial or other resources in the development of new products, services and technologies. In addition, although the Group and Capsugel each seek to maintain close and cooperative relationships with their respective customers, they may be unable to maintain these relationships in the future at a level that would enable the Group to effectively identify customer needs and to develop customized solutions.

Without successful research and development activities, the Group could lose a significant portion of its sales. The Group may commit errors or misjudgments in its planning and may misallocate resources, for instance, by developing products, services and technologies that require large investments in research and development but that are not commercially viable.

Furthermore, the Group's competitors may develop new products, services and technologies, or may improve on existing products, services and technologies to the detriment of the Group. In addition, given the rapidly changing regulatory environment in which the Group will operate, the market for a newly developed product, service or technology may cease to exist. For example, actions by the U.S. Food and Drug Administration ("**FDA**") or other regulators, including the banning of certain ingredients, may render the Group's products, services and technologies obsolete. The Group's or Capsugel's customers may also fail to obtain marketing authorization for products as a result of regulatory changes or otherwise. Further, technological developments or improvements in processes may permit competitors to offer products, services and technologies at lower prices or on a faster timetable than the Group. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Demand for the Group's products, services and technologies within its Pharmaceutical and Biotechnology ("Pharma & Biotech") segment and for Capsugel's products, services and technologies within its Biopharma and consumer health and nutrition businesses depends, and demand for the Group's products, services and technologies will depend, significantly on their customers' research and development activities and the market success of their products, as well as outsourcing trends in the pharmaceuticals and biotech industries.

The Group's Pharma & Biotech segment engages in the custom development and manufacturing of chemical and biological APIs, advanced cell culture therapies and other life-saving and life-enhancing treatments for its customers. Capsugel's biopharma and consumer health and nutrition businesses engage in the development and manufacturing of a wide range of innovative dosage forms. The level of research and development spending of the Group's customers within the Pharma & Biotech segment and Capsugel's customers within the biopharma and consumer health and nutrition businesses may influence the Group's results of operations. Customer spending on research and development is dependent on, among other things, available resources, including relative levels of demand for customers' existing products and the relevant customer's need to develop new products, which is driven by factors such as competitors' research and development initiatives and the anticipated market uptake for specific products. The Group faces risks that:

- The Group's customers may not develop new commercial products incorporating the Group's products, services or technologies, and
- The Group may not be able to successfully develop new products, services or technologies that would be attractive to its existing or future customers.

In addition, consolidation in the industries in which the Group's customers operate may have an impact on such spending as customers integrate acquired operations, including research and development departments, and budgets. A reduction in spending by customers could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Successful research and development of pharmaceutical products is difficult, expensive and time-consuming. Many product candidates fail to reach the market. The Group's success will depend in part on the discovery and the successful commercialization of products by its customers that can utilize the Group's products, services or technologies. However, the Group does not control the efforts of its customers to successfully commercialize their products such as, for example, the Group's customers' decision to invest sufficient capital in those products or to abandon the marketing of those products. If such products fail to reach the commercial market, the Group's revenues will be adversely affected. The Group's ongoing investments in research and development could result in higher costs without a proportionate increase in revenues.

Even if products using the Group's products, services or technologies appear promising during various stages of development, there may not be successful commercial applications developed for them for a number of reasons, including:

- the FDA, the European Medicines Agency ("**EMA**"), the Chinese Food and Drug Administration ("**CFDA**"), the Pharmaceuticals and Medical Devices Agency of Japan ("**PMDA**"), another regulatory body or an institutional review board, or the Group's pharmaceutical company customers may delay or halt clinical trials;
- the Group's pharmaceutical company customers may face a slower than expected rate of patient recruitment and enrollment in clinical trials;
- the Group's customers' products may be found to be ineffective or cause harmful side effects, or may fail during any stage of pre-clinical testing or clinical trials;
- the Group's customers may find that certain products using the Group's products, services or technologies cannot be manufactured on a commercial scale and, therefore, may not be economically viable to produce;
- the Group's customers may determine that third-party payers, such as government programs or private insurance plans and healthcare networks, are unwilling or unable to provide coverage and reimbursement at an economically attractive level, if at all, for products under development; and/or
- products that use the Group's products, services or technologies could fail to obtain regulatory approval or, if approved, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

Furthermore, the business models and sales of the Group's Pharma & Biotech segment and Capsugel's biopharma and consumer health and nutrition businesses depend on dual-sourcing and outsourcing trends in their respective industries. If the current industry trend towards dual-sourcing and outsourcing certain drug development, manufacturing and delivery technologies were to slow or reverse, this could adversely affect the sales of the Group's Pharma & Biotech and Capsugel's biopharma and consumer health and nutrition businesses, which could in turn have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Failure to provide quality offerings to customers could have an adverse effect on the Group's business and could subject it to regulatory actions, product recalls and costly litigation.

The Group and Capsugel depend on, and the Group will depend on, the ability to execute and improve when necessary their quality management strategies and systems, and effectively train and maintain their employee bases with respect to quality management. Quality management plays an essential role in determining and meeting customer requirements, preventing defects, compliance with current Good Manufacturing Practices ("**cGMP**") and improving product offerings. While the Group and Capsugel each has, and the Group will have, a network of quality systems applicable across their respective business units and facilities that relate to the design, formulation, development, manufacturing, packaging, sterilization, handling, distribution and labeling of customers' products, quality and safety issues may occur and have in the past occurred with respect to their offerings.

The Group and Capsugel have each had quality issues at certain of their facilities and any further issues may subject the Group to regulatory actions, including product recalls, product seizures, injunctions to halt manufacture or distribution, restrictions on its operations, or civil sanctions, including monetary sanctions and criminal actions. For example, in May 2016, following its inspections in 2015 and 2016, Swedish authorities withdrew the EU-GMP certificate for Capsugel's Bend Research facilities citing good manufacturing practices ("**GMP**") violations, including data integrity issues. More recently, Lonza experienced quality issues at its Walkersville, Maryland facility in the United States with respect to one of the Group's Pharma & Biotech media products. This resulted in an FDA inspection as well as a voluntary cessation of production in the affected media manufacturing area and on 24 April 2017 Lonza received a warning letter from the FDA relating to technical issues involving for example validation and aseptic process simulations. Lonza takes this issue seriously, and has already started to address all issues raised by the FDA. Although Lonza expects minimal financial impact on its overall 2017 Pharma & Biotech segment performance, and does not expect the incident to have a material impact on its business or financial condition, or to give rise to a significant liability risk, there can be no assurance that this is the case. Such quality issues as these could be the basis for an equivalent non-U.S. regulatory authority to issue a warning letter or initiate other regulatory actions. Further, the FDA may not be satisfied with the steps Lonza takes to address its concerns, resulting in further FDA action. Quality or safety issues could subject the Group to costly litigation, including claims from customers for reimbursement for the cost of lost or damaged APIs, the cost of which could be significant. Any major quality or regulatory issue with capsule products, for example, could translate into quality or regulatory issues for the customer's product, potentially resulting in significant damage to the customer's sales, regulatory compliance standing and reputation.

The Group and Capsugel depend, and the Group will depend, on their ability to secure and maintain profitable long-term commercial relationships and contracts with customers.

The Group and Capsugel depend, and the Group will depend, on their continued ability to secure and maintain profitable long-term commercial relationships and contracts with customers. For example, the Group's Specialty Ingredients segment in particular depends on contracts with a relatively small number of customers for a large percentage of its revenues. Capsugel, particularly for its hard capsule products, may not always have long term contracts with its customers and may rely instead on maintaining strong commercial relationships with those customers. Unfavorable industry trends, market conditions or regulatory regimes may impede the Group's ability to secure profitable long-term contracts with existing and new customers, to maintain profitable commercial relationships or to renew existing contracts as they expire. Any difficulties in securing or renewing such contracts or maintaining such strong customer relationships on favorable terms or at all could have an adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group and Capsugel rely on a limited number of products for a substantial portion of their revenues and any changes in the market for these products could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group relies on a limited number of products for a substantial portion of its revenues. In particular, the Group's Specialty Ingredients segment depends on a relatively small number of products for a large percentage of its

revenues. If there is any disruption in the demand for these products, whether as a result of changes in its customer base, alternative products being developed, the entry of significant competitors to the marketplace or otherwise, the Group's business, financial condition and results of operations could be materially and adversely affected. Similarly, a substantial portion of Capsugel's revenues comes from the sale of hard capsules and any technological development or change in consumer preferences that reduces the demand for hard capsules or increases the demand for other dosage forms could negatively impact the Group's results of operations.

Changes in market access or healthcare reimbursement for the products of the Group's and Capsugel's customers in the United States or internationally could adversely affect the Group's business, results of operations, financial condition and prospects.

The U.S. healthcare industry has changed significantly over time and is expected to continue to evolve and potentially experience further disruptive change. Some of these changes, such as ongoing implementation of healthcare reform, adverse changes in governmental or private funding of healthcare products, services and technologies, legislation or regulations governing patient access to care and privacy, or the delivery, pricing or reimbursement approval of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to change the amount of the Group's or Capsugel's offerings they purchase or the price they are willing to pay for such offerings. Changes in the healthcare industry's pricing, selling, inventory, distribution or supply policies or practices could therefore negatively affect the Group's sales. In particular, volatility in individual product demand may result from changes in public or private payer reimbursement or coverage. Any of the foregoing could have a material adverse effect on the business, results of operations, financial conditions or prospects of the Group.

The Group plans to continue to make investments in additional production capacity in order to implement its growth strategy and there can be no assurance that it will achieve the return it expects in connection with these investments.

Production facilities in the industry in which the Group operates require significant capital expenditure and continuous investment in modernization and expansion measures. The Group expects to complete several major investment projects in different regions throughout the world in the near future and is planning to make additional investments in order to expand its existing production facilities. For example, in 2015 and 2016, based on strong market demand, the Group invested significant amounts in the capacity expansion at the production site in Visp, Switzerland, and the construction or capacity expansion of various other plants, including in Portsmouth, New Hampshire, and Houston, Texas, in the United States, and in Singapore. More recently, Sanofi and Lonza announced on 27 February 2017 that they have entered into a strategic partnership to build and operate a large-scale mammalian cell culture facility for monoclonal antibody production in Visp, Switzerland. The strategic partnership is in the form of a joint venture, with the initial investment of around CHF 290 million (A270 million) to be split equally between each company.

The Group may require additional financial resources to fund its planned investments in the medium to long term, which may be difficult to obtain, or may result in higher costs. Furthermore, it takes time for newly constructed facilities or the expansion of existing facilities to become fully operational, as supply chains need to be established, logistics need to be built up, potential customers need to audit production quality and customer relationships need to be established. Any new facilities or expansions of existing facilities may add significant fixed costs to the Group's cost base and may reduce the Group's margins and profitability over the longer term to the extent such facilities are unable to reach and maintain a sufficiently high rate of utilization.

The Group's actual capital expenditure requirements as result of the Proposed Acquisition may be higher than expected and there can be no assurance that the Group will achieve the return it expects in connection with these investments. Moreover, if the Group misjudges market developments or the life cycles of its products, services and technologies or the products of its customers, or if it underestimates the rate at which its competitors are expanding their production capacity, this may create excess production capacity that cannot be utilized as planned. Any such excess capacity may have negative consequences on product pricing or volumes. In addition, investments in production capacity may be unsuccessful if the Group's products, services and technologies turn out to be uncompetitive or if research and development expenditures fail to generate the anticipated results. Any unnecessary increase in production capacity and any inefficiencies resulting from the expansion of its production capacity could materially decrease the Group's margins and require substantial impairments. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

The Group may face capacity constraints, driven by strong demand, disruptions at its production facilities or other factors, which could compromise its ability to meet customer demand for its products, services and technologies.

The Group may face capacity constraints to the extent it is unable to anticipate customer demand for its products, services and technologies. The Group may also experience disruptions at its production facilities, which could result in shortfalls in production or an increase in the Group's costs. In the case of equipment malfunctions, sterility variances or failures, failure to follow specific protocols and procedures, problems with raw materials, microbial contamination, environmental factors and damage to, or loss of, manufacturing operations due to fire, flood, or other catastrophic events, the Group may be required to halt production of certain batches or products or shut down the affected production facilities. This has in the past led to, and in the future could lead, among other things, to damage to customer relations, lost revenue, increased costs, reimbursements to customers for lost profits, additional time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. Recently, Lonza voluntarily ceased production of one of the Group's media products in the affected manufacturing area of its facility in Walkersville, Maryland in the United States, after experiencing quality issues with the product in question and on 24 April 2017 Lonza received a warning letter from the FDA relating to technical issues involving for example validation and aseptic process simulations. Lonza takes this issue seriously, and has already started to address all issues raised by the FDA. However, there is no guarantee that Lonza will be able to resume production in the affected manufacturing area as soon as it expects. In addition, although Lonza is taking substantial remedial steps to resolve the issue, the incident may lead to potential claims or other demands from customers and other costs and expenses as described above.

Any of the foregoing could cause the Group to lose market share, which could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

The Group's markets, in particular those with higher profit margins, may become more intensely competitive, and may be characterized by significant pricing and margin pressure.

The Group and Capsugel each faces, and the Group will face, significant competition in each of its market segments. Competition is driven by proprietary technologies and know-how, as well as quality and performance, consistency, price, ability to scale manufacturing and customer support, such as with regulatory approvals, new product development and marketing.

The Group's markets, in particular those with higher profit margins, may become more intensely competitive, which could lead to significant pricing and margin pressure. The Group believes that the major factors influencing the relative competitive situation of companies in the industries in which the Group will operate are competitors' relative ability to innovate and improve production processes and technologies and deploy research and development expenditures effectively, the results of their efforts to do so and the effects of a range of regional factors on production costs, including lower wages in developing countries, less stringent environmental and labor regulations, and favorable exchange rates.

The Group's existing competitors could intensify efforts to increase their respective market shares by reducing their margin expectations and/or by increasing their capacity, which may result in higher supply and lower price levels, and may enable competitors to offer products, services and technologies at lower prices, leading in turn to downward pressure on the Group's margins. Some of the Group's competitors may be able to manufacture products more economically or may have greater financial resources than the Group, which may enable them to invest significantly more capital into their businesses, including expenditures on research and development. If these investments prove successful, they could result in a competitive disadvantage for the Group.

Furthermore, new competitors may enter the markets in which the Group operates. Generally, both new and existing competitors may offer their products, services and technologies at lower prices to defend or gain market share, which could put pressure on the Group's margins. Changes in exchange rates could also facilitate market entry for competitors with functional currencies other than the Swiss franc or could adversely affect the Group's cost position vis-à-vis its competitors. In addition, competitors could benefit from favorable tax regimes or additional governmental grants and subsidies. Further, substitute products, services and technologies may become more attractive, for example due to a price decrease or better availability of the substitute product, service or technology, and lead to reduced demand for the Group's products, services and technologies.

The Group's business may also be affected by increasing competition at the level of its customers. For instance, competition faced by the Group's customers may lead to declining prices for their products, which may in turn lead

them to pressure the Group to reduce its prices or may cause the customers to discontinue certain products for which the Group provides inputs. This could result in excess capacity at the Group's production facilities and could adversely affect its sales and margins. Any of the foregoing could have material adverse effects on the Group's business, results of operations, financial condition and prospects.

Certain markets in which the Group and Capsugel offer their products and services are, or may become, characterized by a small number of major customers, leading to increased negotiating power among the Group's customers.

Certain markets in which the Group and Capsugel offer their products, services and technologies are characterized by a small number of major customers. The Group's Specialty Ingredients segment in particular depends on contracts with a relatively small number of customers for a large percentage of its revenues. For example, in 2016, the Group's largest customer accounted for 5.3% of sales and the second, third, fourth and fifth largest customers accounted for 5.2%, 4.9%, 4.7% and 3.3% of sales, respectively. Moreover, the markets in which the Group and Capsugel currently operate may evolve, for example as a result of consolidation among customers, which could result in increasing customer concentration. Customer concentration may result in customers using their power to exert pressure on the Group's prices, which could adversely affect its profitability. As a result, any increase in customer concentration could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Changes in foreign exchange rates may have a material adverse effect on the Group's results of operations and may affect demand for its products and services.

The Group is exposed to foreign exchange risk because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates (transaction exposures) and because the foreign currency denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss-franc-denominated Group financial statements (translation exposures). In relation to the Group, foreign exchange risks arise primarily in connection with transactions that are denominated in USD, euro and British pounds sterling. Following the acquisition of Capsugel, the Group's exposure to the USD and euro will increase significantly.

As a general matter, the effect of foreign exchange fluctuations is minimized through the natural hedge the Group enjoys as a result of its matching of currencies in relation to sales and costs in the jurisdictions in which it operates. In managing its exposure regarding the fluctuation in foreign currency exchange rates, the Group has entered into a variety of currency swaps and forward contracts. Notwithstanding these efforts, however, the strength of the Swiss franc has had an adverse impact on its results of operations in recent periods and may continue to do so.

Furthermore, as a company with many international subsidiaries, certain revenues, costs, assets and liabilities of Capsugel are denominated in currencies other than the USD. As a result, changes in the exchange rates of these currencies or any other applicable currencies to the USD have in the past affected and will continue to affect Capsugel's revenues, earnings and cash flow and could result in unrealized and realized exchange losses for the Group as well as decreases in the value of the Group's long-term financial instruments such as swaps. The Group will continue to be exposed to the risk of foreign exchange rate fluctuations, and if it is unable to manage this risk effectively, through hedging or otherwise, its business, results of operations, financial condition and prospects could be materially adversely affected.

Chemicals manufacturing, storage, and transportation are inherently hazardous and may lead to personal injury, damage to property or other damage and any hazardous incidents that the Group may face could result in disruptions to its production facilities, claims for damages and fines.

The Group faces risks associated with chemicals manufacturing and the related storage and transportation of raw materials, products and wastes. These risks include, but are not limited to, accidents, explosions, fires, lightning, transport risks, terrorist attacks, natural disasters, mechanical or other operational failure, pipeline leaks and ruptures, storage tank leaks, chemical spills, and other discharges or releases of toxic or hazardous substances or gases. These events could lead to personal injury, loss of life, environmental or property damage, or a material interruption or suspension of operations, and may result in increased mitigation expenses, a reduction in profitability, and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities, employees or other third parties. In many jurisdictions, such as in the United States, these risks are amplified by the frequency of class actions and high damages awards.

In addition, the occurrence of any such event could be seriously detrimental to the Group's reputation and could harm its ability to obtain or maintain its existing licenses or its key commercial, regulatory, and governmental relationships. Disruptions at one or more production facilities may also interrupt production further down the production chain and lead to lower volumes and sales, and potentially the loss of market share. The costs associated with any of these events may be substantial and could exceed or otherwise not be covered by the Group's insurance coverage. Furthermore, improper handling of hazardous substances by the Group or its customers may lead to the release of toxic or hazardous substances, which may in turn result in stricter regulation or a prohibition of the use of such substances. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Local conditions, events, adverse weather conditions, natural disasters and terrorist attacks could adversely affect the Group's business.

The Group and Capsugel have manufacturing sites around the world. Their manufacturing operations may be subject to disruptions within or beyond their control, including: adverse local conditions, climate change, adverse weather conditions, floods, fire, natural disaster, civil unrest, labor stoppages and terrorist activity. Certain of the countries in which the Group and Capsugel operate, such as Belgium, France, Germany and Great Britain, have recently been subject to terrorist attacks, which could affect the Group's operations. Several of the countries in which the Group operates, such as India and Indonesia, are subject to border or internal civil conflicts or unrest, which could also affect the Group's operations. Any disruption of the Group's operations resulting from any of these events or factors could limit its ability to quickly shift production to other sites. For example, capacity constraints or regulatory requirements could cause significant delays in manufacturing and the loss of sales and customers. In addition, the Group could suffer a loss of sales or other negative impact on its business as a result of its customers or suppliers being affected by any of these events.

The Group is subject to risks arising from legal disputes, including contractual claims and product liability claims relating to product defects.

The Group's business may be adversely affected by the detrimental outcome of legal disputes and investigations by government agencies, the outcomes of which are not certain. Litigation risks include, among others, risks in the areas of competition and antitrust law, pharmaceutical law, patent law, tax law, and environmental protection.

In addition, companies in the chemicals and pharmaceuticals industries are subject, in particular to the risk of lawsuits, including class actions, alleging negligence, product liability, violations of warranty obligations and other contractual or statutory claims relating to product defects. Such lawsuits may include claims based on personal injury or death alleged to be caused by a product, service or technology of the Group, in particular pharmaceuticals products, or by products incorporating the Group's products, services or technologies which are marketed or distributed by customers of the Group. These lawsuits often involve claims for substantial amounts of damages, including compensation for consequential damage and substantial costs for legal representation. In addition, chemical, pharmaceutical and other healthcare products may be the subject of recalls or patent infringement suits. For this reason, there can be no assurance that extensive claims will not be asserted against the Group in the future or that large scale product recall measures will not be necessary. The Group may not have sufficient insurance to mitigate for such a contingency. Accordingly, the Group cannot assure that the risks inherent to any potential product liability claim or product recall will be mitigated in all circumstances. See also "*—Failure to provide quality offerings to customers could have an adverse effect on the Group's business and could subject it to regulatory actions, product recalls and costly litigation*".

Certain countries in which the Group will operate have a special legal framework for pharmaceutical products that could increase the risk of product liability claims being asserted and/or the ultimate costs of defending against such claims. In addition, the Group could incur significant expenses based on product liability claims, other violations of duties of care or contractual provisions, recall measures or penalties imposed for these reasons by public authorities. These events could also adversely affect the Group's reputation and therefore reduce market acceptance of its products, services or technologies.

Certain of the Group's products contain or contained substances that are generally toxic or otherwise hazardous to health. The health of persons, including the Group's employees, who come into contact with such substances or with the Group's products directly or through products of the Group's customers may be impaired, especially as a result of exposure to such hazardous substances, the incorrect use of such products or because of product characteristics that are as yet unknown, and such health impairments may even be life-threatening. These factors, either individually or in aggregate, have resulted and may result in actions being brought against the Group and may have a material adverse effect on its business, results of operations, financial condition and prospects.

The products, services and technologies the Group and Capsugel provide are highly exacting and complex, and if the Group encounters problems providing them or any support that is required, its business could suffer.

The products, services and technologies the Group and Capsugel provide are highly exacting and complex. From time to time, problems may arise in connection with facility operations or during preparation or provision of a product, service or technology, in each case for a variety of reasons including, but not limited to, equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials or environmental factors and damage to, or loss of, manufacturing operations. Such problems could affect production of a particular batch or series of batches, requiring the destruction of product, or could halt facility production altogether. These failures could, among other things, lead to increased costs, lost revenue, damage to customer relations, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before a product is released to the market, recall and product liability costs may also be incurred. In addition, such risks may be greater at facilities that are new or going through significant expansion or renovation. See also "*—The Group may face capacity constraints, driven by strong demand, disruptions at its production facilities or other factors, which could compromise its ability to meet customer demand for its products, services and technologies*".

Tax legislation initiatives or challenges to the Group's tax positions could adversely affect its business, results of operations, financial condition and prospects.

The Group will have operations in EMEA and North America, as well as South America and the Asia Pacific region. As such, it will be subject to the tax laws and regulations of the European and United States federal, state and local governments and of many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect the Group's tax position. There can be no assurance that the Group's effective tax rate or tax payments will not be adversely affected by these initiatives. Despite the rejection of the Swiss Corporate Tax Reform III by public vote on 12 February 2017, it should be assumed that certain cantonal tax privileges shall be abolished and certain cantonal tax rate reductions will be introduced in the long run. The overall Swiss tax effect per annum for the Group might be slightly negative compared to the current tax burden. In addition, United States federal, state and local, as well as international tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that the Group's tax position will not be challenged by relevant tax authorities or that it would be successful in any such challenge.

In particular, transfer pricing for intercompany transactions may be challenged by local tax authorities, which may result in additional taxes payable and interest or penalties. Most jurisdictions in which the Group operates have transfer pricing regulations that require transactions involving associated companies to be made on arm's length terms. If the tax authorities in any relevant jurisdiction do not regard such intercompany transactions of the Group as being made on an arm's length basis or being properly documented and successfully challenge those arrangements, the amount of tax payable, in respect of both current and previous years, may increase materially and penalties or interest may be payable. The same applies in case of changes in the transfer pricing system, including for example upon the Proposed Acquisition, which may result in challenges of the past or new set-up.

Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group may not be able to adequately protect its intellectual property, proprietary manufacturing technology and know-how.

The Group and Capsugel own a large number of patents and other intellectual property rights which may be invalidated, circumvented or challenged. Although there is a general legal presumption that patents are valid, this does not necessarily mean that a patent or any other intellectual property right will ultimately be upheld as valid or that any related claims can be enforced as necessary or desired. Third parties may infringe on the Group's patents or other intellectual property rights, and the Group may not be able to prevent any such infringement. Furthermore, some of Capsugel's development contracts with customers contain clauses allowing for technology transfer and license of process developed for customers, along with the related know-how and patents, to others, including Capsugel's competitors. If the Group fails to adequately protect its intellectual property rights, technology and know-how, competitors may use such rights, technology and know-how to manufacture and offer similar products or services, which could adversely affect the Group's competitive position and results of operations. In addition, the Group cannot guarantee that all of the patents it has applied for, or plans to apply for, will be granted in each of the countries in which it seeks protection. Furthermore, patents generally expire after a certain period, allowing competitors to freely use the patented technology.

Non-patentable or non-patented business secrets and non-confidential and confidential know-how including processes, apparatuses, technology, trade secrets and proprietary manufacturing expertise, methods and compounds are also crucial to the success of the Group's business, in particular in areas with technically sophisticated products and production processes. For example, propriety manufacturing technology and know-how is particularly important for some of Capsugel's product lines and failure to protect this proprietary manufacturing technology and know-how may significantly impair Capsugel's competitive position. To protect its trade secrets, intellectual property and proprietary technologies and processes, the Group and Capsugel rely and the Group expects to continue to rely, in part, on confidentiality and non-disclosure agreements with their employees, consultants, advisors and third parties. These agreements may be breached, or the Group or Capsugel may not be able to prevent their business secrets and know-how from otherwise being disclosed, and they cannot guarantee that third parties will not independently develop or gain access to the same or similar business know-how, for example as a result of industrial espionage activities or hacking attacks. See also "*The Group and Capsugel rely on the proper functioning of their computer and data processing systems, and a large scale malfunction or potential unauthorized access to critical and sensitive information could result in disruptions to the Group's business.*" In addition, the Group may incur substantial costs for litigation concerning intellectual property. Even if the validity and enforceability of the Group's intellectual property is upheld, a court might construe the Group's intellectual property not to cover the alleged infringement. In addition, intellectual property enforcement may be limited or unavailable in some countries.

If the Group is unable to protect its intellectual property, its ability to profit from its research and development may be limited or its future profits may decrease as a result, insofar as other manufacturers can make or market products that are similar to the products developed by the Group. This could affect the Group's competitive position, and any resulting decrease in sales could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group may infringe on the intellectual property rights of third parties and, as a result, may have to pay fees for the use of third-party intellectual property, may be exposed to claims for damages, may be prevented from selling its products, or may be forced to stop its production.

The Group cannot guarantee that the Group will not infringe on, or be alleged to have infringed on, third-party patents or other third-party intellectual property rights, since its competitors also apply for, and obtain, numerous patents to protect their inventions. In the event that the Group identifies third-party patent rights that conflict with its business processes, it will generally attempt to either challenge the patentability or the validity of the patent or to look for technical alternatives. Nevertheless, patent holders may approach the Group from time to time to allege that it has infringed on their intellectual property rights. Regardless of the merit or resolution of these claims, the Group may be prevented from making or marketing products, and it may be forced to acquire licenses or modify or even stop its production, even though it may have already been using these technologies in a lawful manner in these or other jurisdictions. This may be the case, for example, if the Group has chosen not to file a patent on a particular technology in order to keep it confidential. In addition, the Group could be exposed to liability for damages.

The Group may have to obtain third-party licenses to gain access to technology, which could entail considerable costs. It may be unable to acquire licenses that it will need for its future business with the appropriate scope, under acceptable conditions or at all. In addition, licenses the Group holds may expire or otherwise not continue to be effective, and it may be prevented from making or marketing products.

Any restrictions or disruptions in supply and production that result from actual or alleged patent infringements, whether as a result of a reorganization of production processes or for other reasons, or the subsequent acquisition of any relevant licenses, could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The Group and Capsugel rely on the proper functioning of their computer and data processing systems, and a large scale malfunction or potential unauthorized access to critical and sensitive information could result in disruptions to the Group's business.

The Group's and Capsugel's ability to keep their businesses operating depends on the functional and efficient operation of its computer and data processing and telecommunications systems around the world. Computer and data processing systems are susceptible to malfunctions and interruptions (including due to equipment damage, power outages, fire, natural disasters, breakdowns, malicious attacks, computer viruses, and a range of other hardware, software and network problems), and the Group may be unable to prevent malfunctions or interruptions. A significant or large scale malfunction or interruption of its computer or data processing systems could disrupt the

Group's operations, for example by causing delays or the cancellation of customer orders, impeding the manufacture or shipment of products, the processing of transactions and the reporting of financial results, or could damage the Group's reputation.

In addition, the Group faces the risk of potential unauthorized access to, and the loss of, critical and sensitive information, for example as a result of industrial espionage activities or hacking attacks. A leak of confidential information or the loss of critical and sensitive information could reveal trade secrets or know-how of the Group or its customers to competitors and harm the Group's business, competitive position and reputation. The Group's insurance may not adequately compensate it for all losses or failures that may occur. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. See "*The Group may not be able to adequately protect its intellectual property, proprietary manufacturing technology and know-how.*"

The Group and Capsugel have engaged in acquisitions and divestitures of businesses, companies and equity interests in companies in the past, and the Group may engage in acquisition activities or divestitures in the future, and there can be no assurance that such acquisitions or divestitures will yield the desired results.

In the past, the Group and Capsugel have engaged in acquisitions and divestitures of businesses, companies and equity interests in companies, and the Group may engage in acquisition activities or divestitures in the future. Corporate acquisitions typically involve significant investments and risks, including but not limited to tax liabilities and legal claims, such as third-party liability claims and tort claims, the failure to secure the necessary financing on reasonable terms or at all, regulatory compliance issues, claims for breach of contract, employment-related claims, environmental liabilities, conditions or damage, liability for hazardous materials, or claims relating to potential illegal activity by the acquired company. There is a possibility that the acquired companies, or future acquisitions will not be successfully integrated, that key customers will be lost, or that anticipated cost savings, synergies or other benefits will not be realized, which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

Furthermore, the Group may not identify all of the risks related to a transaction in advance or may not be able to adequately protect itself against such risks through indemnities, representations and warranties, or otherwise. Target companies may also be located in countries where the underlying legal, economic, political or cultural conditions are different from those customary in Europe or North America. In addition, preparing for the acquisition and integration of companies may result in the diversion of management attention and resources.

Technology or other acquired or licensed assets may not be legally valid or may be less valuable than initially thought, and the Group may be unable to use them as planned or at all. In addition, the Group may not succeed in retaining, maintaining and integrating the key employees and business relationships of newly acquired companies, businesses or divisions. Further, corporate actions after an acquisition may expose the Group to monetary claims, and this exposure may continue for a long time.

As a result of acquisition-related risks, the Group may not achieve the strategic goals it seeks from any such acquisition, or may be able to do so only to a limited extent due to timing or budgetary constraints. In addition, the Group's growth prospects depend, to a certain extent, on its ability to identify suitable acquisition opportunities and successfully integrate the businesses it acquires. The success of corporate acquisitions is associated with many uncertainties. For instance, anticipated synergies may not materialize, the purchase price may later prove to have been too high, the acquired company or participation may not perform to the Group's expectations or may fail, it may prove difficult to control operating costs, or unforeseen restructuring expenses and impairment charges may become necessary. Moreover, in many countries and regions, planned acquisitions are subject to review by competition authorities, which may impede or delay a planned transaction or require changes to be made to the acquired or combined business that could reduce its profitability or that may limit the Group's ability to grow.

In addition, the Group may also engage in divestitures from time to time. To the extent the Group fails to successfully complete divestitures, it may have to expend substantial amounts of cash, incur debt and continue to absorb loss-making or under-performing divisions. Any divestitures that the Group is unable to complete may involve a number of risks, including diversion of management's attention, a negative impact on its customer relationships, costs associated with retaining the targeted divestiture, closing and disposing of the impacted business or transferring business to other facilities.

The occurrence of any of these risks, the incorrect assessment of risks by the Group, or any other failure in relation to acquisitions and investments by the Group may have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group is subject to risks, including reputational, financial and legal risks associated with joint ventures and joint venture partners.

The Group and Capsugel have both entered, and may continue to enter, into arrangements subject to joint control, such as joint ventures. For example, Lonza announced on 27 February 2017 that it had entered into a strategic partnership in the form of a joint venture with Sanofi. The Group is regularly in discussions with a number of pharmaceutical companies for the purpose of exploring new business models and concepts, including but not limited to strategic joint ventures and other joint arrangements by which it may share control with another entity (collectively for the purposes of this risk factor, "**joint ventures**"). There is no guarantee, however, that such discussions will result in binding agreements, when those binding agreements may be entered into, or what the ultimate terms of such agreements will be.

Joint ventures involve risk and uncertainties and can present a number of challenges, including:

- Joint ventures may require an investment of considerable management, financial and operational resources to establish sufficient infrastructure such as risk management, compliance or other processes;

- Joint ventures may be structurally complicated by the necessity of the parties anticipating and addressing issues of governance, control, dispute resolution and ownership of intellectual property and other assets, among many other matters;

- The Group may not have the level of strategic control over the joint venture that it requires in order to fulfill its long-term goals, or may find it is restricted by the other partner in the products it can produce or the customers to whom it can sell products or services such as manufacturing capacity;

- The Group may find it lacks sufficient control over the operations of the joint venture, resulting in problems with quality control, inefficiency or other operational problems;

- Joint ventures may have complex governance issues arising from shared control and split ownership models;

- Joint ventures may have trouble attracting or retaining customers who prefer, for historical, branding or other reasons, to buy products from one of the joint venture partners rather than the joint venture;

- Joint ventures may experience delays or other timing problems prior to launch, exacerbated by disagreements between the parties;

- A joint venture partner may sell its stake in the joint venture to a buyer who is unattractive to the Group;

- Joint ventures may expire, potentially leading to disagreements between the parties over the ownership or future of the joint venture's business or assets; and

- Joint ventures may have flaws in their design that cause them to experience losses and lead to their termination.

In addition, the Group and Capsugel may be dependent on a joint venture counterparty for capital, product distribution, local market knowledge or other resources. Furthermore, the Group's or Capsugel's joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of the Group; (ii) take actions contrary to the Group's instructions or requests or contrary to its policies or objectives; (iii) be unable or unwilling to fulfill their obligations under the relevant joint venture agreement, including compliance with reporting obligations and anti-corruption laws; or (iv) have financial difficulties.

In addition, entering into joint ventures with companies and individuals based in foreign countries may subject the Group to changes in economic and political conditions in those foreign countries, as well as relevant laws and regulations. For example, Capsugel has a Chinese joint venture partner and laws, rules and business practices in China differ from those in Switzerland or the United States. Operating a joint venture in China may subject the

Group to changes in economic and political conditions in China, as well as relevant laws and regulations regarding foreign-invested enterprises, including foreign currency exchange rules. In addition, the Group's intellectual property and proprietary rights may be exposed.

Moreover, as laws and regulations in China are evolving gradually, their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to the Group. The administrative and court authorities in China also have significant discretion in interpreting and implementing statutory terms. Thus, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection the Group has in the legal system in China than in more developed legal systems. As a result, the Group may encounter difficulties when bringing legal claims against its joint venture partner in China.

A serious dispute with one of the Group's joint venture partners or serious problems arising in one of its joint ventures may cause the loss of business opportunities or disruption to or termination of the relevant project or business venture. A dispute may also give rise to litigation or other legal proceedings, which would divert the Group's management's attention and other resources. Any of the above may have a material and adverse effect on the Group's reputation, business, results of operations, financial condition and prospects.

The Group will be dependent upon its key personnel for its growth.

The Group's economic success will depend in part on its ability to retain or employ highly qualified executives and technical experts, in particular in the area of research and development. The competition for qualified employees in the life sciences industry is intense and the Group will compete for employees with companies both in and outside the life sciences industry. Accordingly, the termination of the employment or the loss of the services of any key personnel without a timely and suitable replacement or the inability to attract and retain qualified personnel may have a material and adverse effect on the Group's business, results of operations, financial condition and prospects.

Legal and regulatory changes in the jurisdictions in which it operates and trades may have an adverse effect on the Group.

Due to the international nature of its business, the Group must comply with, and is affected by, a large number of different legal and regulatory frameworks, including tax laws. There is a risk that changes in these frameworks may materially adversely affect the Group's legal and regulatory environment. The risks faced by the Group include, but are not limited to:

- foreign currency control regulations and other regulations related to exchange rates and foreign currencies (such as the abandonment of exchange rate pegs);
- measures to counter foreign trade imbalances;
- restrictions on the ability to repatriate funds from subsidiaries;
- restrictions on the ability to own or operate subsidiaries or acquire new businesses in certain countries, including rules on local ownership of businesses;
- differences in legal and administrative systems, which could lead to insufficient protection of intellectual property, impair the Group's ability to enforce contracts or jeopardize its ability to collect accounts receivable and other claims outstanding;
- nationalizations;
- difficulties finding qualified managers and employees;
- taxes, such as the imposition of a financial transaction tax in Europe;
- increasingly protectionist sentiment in many countries leading to embargoes, trade restrictions, tariffs and other trade barriers; and
- the imposition of withholding taxes and transfer pricing regulations.

Changes in the regulatory environment may prevent the Group from marketing certain of its products or may negatively affect demand for its products, which could in turn have a material adverse effect on its business, results of operations, financial condition and prospects. In addition, to the extent laws and regulations applicable to the Group are uncertain and evolving, it may be difficult for the Group to determine the exact requirements applicable to it, or to structure its transactions in such a way that the results it expects to achieve are legally enforceable in all cases.

The Group's leverage and debt service obligations could adversely affect its business.

As at 31 December 2016, the Group had net debt of CHF 1.6 billion. In connection with the Proposed Acquisition, the Group also received financing commitments in an aggregate principal amount of $5.5 billion and CHF 700 million for general corporate purposes. Even after accounting for the accelerated bookbuilding completed in February 2017 raising CHF 865 million gross proceeds and the Offering, as well as the reduction of available borrowings under the financing commitments of USD 859 million following the accelerated bookbuilding, the amount of additional indebtedness incurred by the Group in connection with the Proposed Acquisition is expected to be significant. The degree to which the Group remains leveraged could have important consequences for its business. See "*Risks related to the Proposed Acquisition—The Group faces risk from financing the Proposed Acquisition including as a result of increased levels of debt.*"

The Group's balance sheet includes significant goodwill and intangible assets, which could become impaired.

The Group has significant goodwill and intangible assets on its balance sheet, both of which it expects to increase as a result of the Proposed Acquisition. The intangible assets included trademarks acquired through business combinations, which have an indefinite useful life and are not systematically amortised. Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. Impairment charges could become necessary in the future if, for example, the Group's future prospects deteriorate such that the carrying values of its goodwill or intangible assets are no longer sustainable under applicable accounting rules. A significant impairment of the Group's goodwill or intangible assets could have a material adverse effect on its business, results of operations, financial condition and prospects.

The Group may be exposed to pension risk in relation to its defined benefit pension plans.

The Group operates defined benefit pension plans in various countries, with the major plans being in Switzerland, Great Britain and the United States. In addition, certain of Capsugel's current and former employees in Belgium, Japan and Mexico are eligible to participate in defined benefit pension plans that it sponsors. In the United States, certain of Capsugel's employees are eligible to participate in a defined contribution plan. Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

The primary sources of pension risk include:

- a mismatch in the duration of the assets relative to the liabilities of the pension schemes;
- market-driven asset price volatility; and
- increased life expectancy of individuals leading to increased liabilities.

As a result of these factors, the Group faces the risk that the funding position of its defined benefit pension schemes will deteriorate to such an extent that it would be required to make additional contributions above what is already planned to cover its pension obligations. Following the Proposed Acquisition, the Group will assume Capsugel's pension and other post-employment benefit plans. Any failure by the Group to manage its pension deficit could have a material adverse effect on its business, results of operations, financial condition and prospects.

Risks Related to the Regulatory Environment of the Group and Capsugel

The stringent regulatory environments for the chemical and healthcare industries could have an adverse effect on the Group and Capsugel's business, results of operations, financial condition and prospects.

The specialty chemical and pharmaceuticals industries in which the Group and Capsugel operate are generally subject to stringent and increasing government regulation. A continued trend toward increased regulation will likely result in increased capital expenditures and operating costs for compliance.

The Group and Capsugel are subject to various local, state, federal, foreign and transnational laws and regulations, which include, as applicable, the operating and security standards of the FDA, the U.S. Drug Enforcement Administration ("**DEA**"), various U.S. state boards of pharmacy, state health departments, the European Union member states and other comparable agencies and, in the future, any changes to such laws and regulations could adversely affect the Group. The Group's and Capsugel's manufacturing facilities are subject to inspection by the foregoing entities. In particular, the Group and Capsugel are subject to, and the Group will be subject to, laws and regulations concerning good manufacturing practices and drug safety, including cGMP mandated by the FDA and European Union standards for quality assurance and manufacturing process control.

Failure by the Group or Capsugel or by their customers to comply with the requirements of these regulatory authorities could result in warning letters, supervision by regulators, product recalls or seizures, monetary sanctions, injunctions to halt manufacture and distribution, restrictions on their operations, civil or criminal sanctions, or withdrawal of existing or denial of pending approvals, including those relating to products or facilities. In addition, such a failure could expose them to contractual or product liability claims as well as contractual claims from their customers, including claims for reimbursement for lost or damaged APIs, which cost could be significant. Furthermore, failure by the Group, Capsugel or their customers or suppliers to comply with the requirements of regulatory authorities could result in reputational damage for the Group.

Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In addition, any new offering or product classified as a pharmaceutical product must undergo lengthy and rigorous clinical testing and other extensive, costly and time-consuming procedures mandated by the FDA, the EMA and other equivalent local, state, federal and foreign regulatory authorities. The Group's customers may elect to delay or cancel anticipated regulatory submissions for current or proposed new products for any number of reasons and such a delay or cancellation could have a material negative impact on the Group's business, financial condition, results of operations and prospects. Although the Group believes that it complies in all material respects with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of the Group's operations with applicable laws and regulations.

In its Specialty Ingredients segment, the Group and its suppliers are required to adhere to a multitude of regulatory specifications regarding the manufacture, testing and marketing of many of its products. More stringent regulations worldwide or more stringent interpretation of existing laws or regulations, could have a negative impact on the Group's production costs and product portfolio. These developments could require additional testing and/or reformulation of products to meet new standards or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation or other new requirements or enforcement actions. In particular, in the European Union, the Group is subject to the European Regulation (EC) No. 1907/2006 on the Registration, Evaluation, Authorisation and Restriction of Chemicals ("**REACH**") and to the European Regulation (EU) 528/2012 on making available on the market and use of biocidal products ("**BPR**"), which both are designed to ensure a high level of protection for people and the environment and demands comprehensive tests for chemical products and biocides. Test procedures required by REACH and the BPR can be costly and time-intensive, and may lead to a rise in production costs. Moreover, the use of chemicals in production could be restricted, which would make it impossible to continue manufacturing certain products. While the Group constantly pursues research and development in substance characterization and in the possible substitution of critical substances, the inability to use certain chemicals under REACH and certain biocidal products under the BPR could have a negative impact on the Group's business, financial condition, results of operations and prospects.

Regulatory reforms may adversely affect the Group and Capsugel's ability to sell their products, services or technologies.

From time to time, various national and transnational governmental and regulatory bodies, including the

U.S. Congress and the Council of the EU and the European Parliament, adopt changes to the statutes that the agencies that oversee or regulate the industries in which the Group and Capsugel operate, and in which the Group will operate, such as FDA, the EMA, the CFDA and the PMDA enforce in ways that could significantly affect the Group's business. In addition, the FDA, the EC, the CFDA and the PMDA, among others, often issue new regulations or guidance, or revise or reinterpret their current regulations and guidance in ways that may significantly affect the Group's business and products.

Furthermore, governmental agencies throughout the world, including in the United States, strictly regulate the drug development process. Part of the Group's and Capsugel's business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that the Group or Capsugel have difficulty satisfying or that make their services less competitive, could eliminate or substantially reduce the demand for the Group's products, services or technologies.

It is impossible to predict whether legislative changes will be enacted or whether the regulations, guidance or interpretations will be changed and what the impact of any such changes may be on the Group. It is possible, for example, that such changes could have a significant impact on the path to approval of products incorporating the Group's technologies, services or products. Furthermore, additional regulatory frameworks that currently do not exist in the United States, Europe or elsewhere may develop in the future and have an adverse impact on the Group's business.

Additionally, numerous proposals to curb rising pharmaceutical prices have also been introduced or proposed in the U.S. Congress and in some state legislatures. There have been public hearings in the U.S. Congress concerning pharmaceutical product pricing. The Group cannot predict the initiatives that may be adopted in the future or their impact on the Group's business.

The Group and Capsugel require, and the Group will require, various licenses and permits to operate their business.

The Group and Capsugel require various licenses and permits in the jurisdictions in which they operate. These licenses and permits are generally subject to conditions stipulated in the licenses and permits and/or relevant laws or regulations under which such licenses and permits are issued. Any actual or alleged failure to comply with the stipulated conditions could result in the revocation or non-renewal of the relevant license or permit. For example, in May 2016, following its inspections in 2015 and 2016, Swedish authorities withdrew the EU-GMP certificate for Capsugel's Bend Research facilities citing GMP violations, including data integrity issues. See "*Risks Related to the Group, Capsugel and their Businesses— Failure to provide quality offerings to customers could have an adverse effect on the Group's business and could subject it to regulatory actions, product recalls, and costly litigation.*"

The Group and Capsugel constantly monitor and ensure their compliance with such conditions. Should there be any revocation of any of the licenses and permits, or the failure to obtain or procure any necessary licenses and permits, the Group may not be able to carry out its operations in the relevant jurisdiction. In such an event, the business, results of operations, financial condition and prospects of the Group could be materially and adversely affected.

The Group will be subject to environmental, health and safety laws and regulations and could therefore be exposed to heightened compliance costs and the risk of liability due to non-compliance.

The Group will be subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which it operates. In particular, the Group will be subject to a number of continually changing and increasingly stringent local, state, and international environmental and health protection requirements with regard to, among other things, air emissions, wastewater discharges and the use, handling and disposal of chemicals and hazardous substances. Compliance with such regulations can require significant expenditures and a breach may result in the limitation or suspension of production or subject the Group to material monetary fines and penalties, civil or criminal sanctions, or other liabilities. Furthermore, environmental laws may expose the Group to liability for

the conduct of or conditions caused by others, and some environmental laws provide for joint and several strict liability for releases of hazardous substances into the environment, which could result in liability for environmental damage without regard to negligence or fault. Environmental legislation is evolving in a manner that is expected to result in stricter standards and enforcement, larger fines and increased liability, and potentially increased capital expenditures and operating costs for compliance. Environmental laws and regulations may result in an increase in the costs of the operations of the Group.

Certain of the Group's and Capsugel's production facilities have been operating and using chemicals that could contaminate soil and groundwater for many years. Certain of the Group's facilities have been operating using landfills to store chemical waste for which the Group may have monitoring and/or remediation obligations. For example, Lonza used the Gamsenried landfill close to its Visp site in the upper Valais in Switzerland from 1923 to 2011 to store slaked lime (calcium hydroxide) and other waste. The Group has an obligation, pursuant to an agreement with the local authorities, to monitor the groundwater. The authorities have also asked Lonza to carry out a detailed investigation with the purpose of defining a suitable remediation project. The remediation costs cannot be estimated at this stage and could be material. The Group has established the appropriate accounting reserves for environmental liabilities, which the Group reviews and may adjust periodically.

Soil and groundwater contamination has occurred in the past at certain sites, and might occur or be discovered at other sites in the future. In particular, the Group's Visp, Switzerland, facility used large amounts of mercury as a catalyst in chemical processes, and the facility discharged industrial wastewater with mercury-containing effluent into a wastewater discharge canal between 1930 and the mid-1970s. The Group has investigated the mercury contamination in areas around the canal and has initiated remediation activities. According to the currently available data, the mercury contamination has not had adverse health effects on humans or animals in the region. Nonetheless, the discharge of chemical substances or other pollutants into the air or water may give rise to liability to governments and third parties and may require the Group to incur costs to remedy such discharge. Such costs would include costs to fully clean and refurbish contaminated sites and to treat and contain contamination at such sites.

The costs of the remediation of pollution for which the Group is held liable, or the reputational damage associated with any such pollution, could materially adversely affect its business, results of operations, financial condition and prospects.

Regulatory developments with respect to use of personal data and public records could have a material adverse effect on the Group's business, financial condition and results of operations.

Because the Group's databases and the databases of third party service providers that it works with include certain non-public personal or commercial information concerning its employees, vendors and customers, the Group is subject to government regulation concerning the improper storage, transmission and use of this data. Failure to comply with these laws by the Group could result in substantial regulatory penalties, litigation expense, adverse publicity and loss of revenue. In addition, if such information were compromised as a result of a hacking incident or other cyber breach of the Group's systems, the Group could also be found liable for such breach if the Group did not have appropriate safeguards in place to protect such data and records. Further, many consumer advocates, privacy advocates and government regulators believe that existing laws and regulations do not adequately protect privacy. As a result, they are seeking further restrictions on the dissemination and commercial use of personal information to the public and private sectors. Regulations regarding privacy and data protection may also become stricter in the future. For example, the European Union has adopted a General Data Protection Regulation, Regulation (EU) 2016/679 (the "**GDPR**") that will supersede the EU Data Protection Directive 95/46/EC. The GDPR will go into effect on 25 May 2018 and introduces significant changes to the data protection regime of the EU, for example, higher potential liabilities for certain data protection violations.

Any such restrictions may increase compliance burdens on the Group and reduce the Group's ability to market its products, services and technologies, which could have a material adverse effect on its business, financial condition and results of operations.

Doing business in foreign countries requires the Group and Capsugel to comply with U.S. and other anti-corruption laws, economic sanctions programs and anti-boycott regulation.

The Group's and Capsugel's international operations are subject to U.S. and other anti-corruption laws and regulations, such as the Foreign Corrupt Practices Act of 1977 ("**FCPA**"), economic sanction programs administered by the US Treasury Department's Office of Foreign Assets Control ("**OFAC**") and the anti-boycott regulations administered by the U.S. Department of Commerce's Office of Antiboycott Compliance. As a result of doing

business in foreign countries, the Group and Capsugel are exposed to a heightened risk of violating anti-corruption laws, OFAC regulations and anti-boycott regulations. The FCPA prohibits the Group and Capsugel offering or providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of their business, the Group and Capsugel must regularly deal with foreign officials for regulatory purposes and may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the provisions of the UK Bribery Act 2010 extend beyond bribery of foreign public officials and are more onerous than the FCPA in a number of other respects, including in terms of jurisdiction, non-exemption of facilitation payments and penalties. Some of the international locations in which the Group and Capsugel operate lack a developed legal system and have higher than normal levels of corruption. Economic sanctions programs restrict business dealings with certain sanctioned countries and other sanctioned individuals and entities. For example, the Group may be subject to heightened reputational and legal risks from affiliations with Capsugel's joint venture partner in China where laws, rules and business practices may differ from those in the United States and Europe. See "*Risks Related to the Group, Capsugel and their Businesses—The Group is subject to risks, including reputational, financial and legal risks associated with joint ventures and joint venture partners.*" The Group would aim to work to ensure that an appropriate business culture exists within the venture to minimize and mitigate the Group's risk, but cannot provide assurance that it will be able to successfully do so.

Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. There can be no assurance that the Group's policies and procedures will effectively prevent it from violating these laws and regulations in every transaction in which it may engage, and such a violation could materially and adversely affect the Group's reputation, business, results of operations, financial condition and prospects. In addition, various U.S. state and municipal governments, universities and other investors maintain prohibitions or restriction on investments in companies that do business with sanctioned countries.

The Group and Capsugel are subject to labor and employment laws and regulations, which could increase their costs and restrict the Group's operations in the future.

Certain of the Group's and Capsugel's employees are represented by labor organizations, and national works councils and/or labor organizations are active at certain of its European facilities consistent with labor environments/laws in European countries. Similar relationships with labor organizations or national works councils exist at all of the Group's and Capsugel's facilities in India, Mexico, Japan, China, Indonesia, Belgium and France. The Group's management believes that its and Capsugel's employee relations are satisfactory. However, further organizing activities or collective bargaining may increase its employment-related costs and the Group may be subject to work stoppages and other labor disruptions. Moreover, as employers are subject to various employment-related claims, such as individual and class actions relating to alleged employment discrimination, wage-hour and labor standards issues, such actions, if brought against the Group and successful in whole or in part, may affect its ability to compete or have a material adverse effect on its business, financial condition and results of operations.

News Release dated 6 July 2017

Lonza Completes Acquisition of Capsugel to Create Leading Integrated Solutions Provider to the Global Pharma and Consumer Healthcare Industries

- Acquisition aligns closely with Lonza›s strategy to accelerate Lonza›s growth and ability to deliver value along the healthcare continuum

- Transaction price of USD 5.5 billion, including refinancing of existing Capsugel debt of approximately USD 2 billion

Basel, Switzerland, 6 July 2017 – Lonza announced today that following the receipt of all required regulatory approvals, it has completed the acquisition of Capsugel S.A. (“Capsugel”) from KKR for USD 5.5 billion in cash, including refinancing of existing Capsugel debt of approximately USD 2 billion. The acquisition of Capsugel, a world leader in advanced oral dosage delivery technologies with a leading position in hard capsules, is expected to be accretive to Lonza’s core earnings per share in the first full year post closing.

This acquisition is in line with Lonza’s stated strategy to accelerate growth and deliver value along the healthcare continuum by complementing its existing offerings and by opening up new market opportunities in the pharma and consumer healthcare and nutrition industries.

With the acquisition of Capsugel, Lonza adds a trusted brand with a large breadth of technologies that it believes will expand the market reach of both companies’ contract development and manufacturing organization (CDMO) and products businesses. It also supports Lonza’s strategic ambition of getting closer to the patient and end consumer.

Richard Ridinger, Lonza›s Chief Executive Officer, said, “Lonza and Capsugel have a highly synergistic customer base and market approach, complementary business models and closely aligned corporate cultures with a strong commitment to ethics and compliance. All of these aspects will facilitate a seamless integration.”

Capsugel’s business will continue to operate in its existing structure until the full integration has been completed.

The acquisition was financed partially through the net proceeds of the successful placement of 5 million new shares at CHF 173.00 per share with total gross proceeds of CHF 865 million, which was completed in February 2017, as well as the issuance of 16,548,612 fully paid registered shares, with gross proceeds in the amount of CHF 2.26 billion, which was completed in May 2017. The balance of the acquisition price was financed through indebtedness.

Lonza