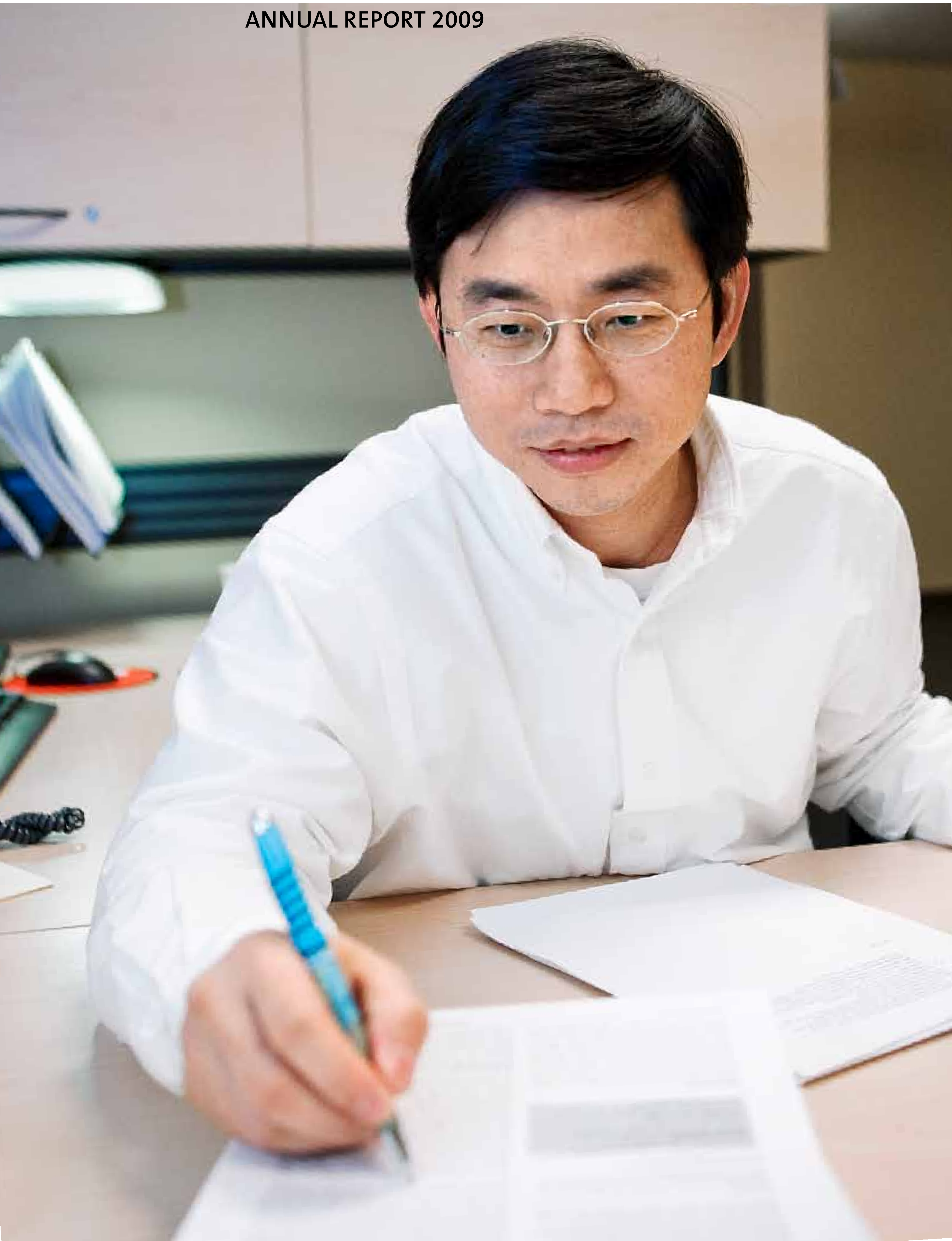
ANNUAL REPORT 2009



Key Facts and Figures

Full-year results in a snapshot

The 2009 business year was characterized by lower demand across all businesses, reflecting consumer and industry responses to the changed economic environment in 2009.

Sales of CHF 2 690 million (CHF 2 937 million in 2008), with EBIT of CHF 380 million before special charges[1] (CHF 441 million in 2008).

Stable EBITDA margins (24.5 %) despite more volatile environment.

Comprehensive package of measures, including cost reductions of CHF 60–80 million within two years, triggering special charges of CHF 141 million.

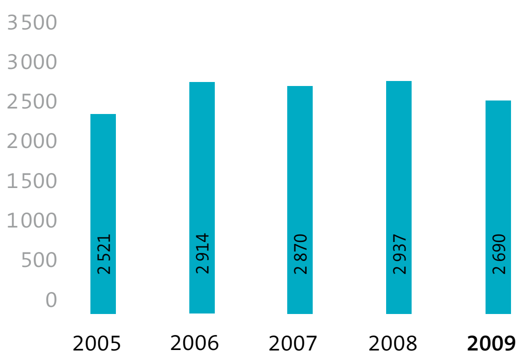
Despite the difficult environment, Lonza's debt gearing was reduced to 49 % (76 % in 2008).

The Board of Directors is proposing a cash dividend of CHF 1.75 per share.

Key figures Lonza million CHF	2008	2009 before special charges	2009 after special charges[1]	Change before special charges	Change after special charges[1]
Sales	2 937	2 690	2 690	(8.4)	(8.4)
EBITDA	691	658	601	(4.8)	(13.0)
EBIT	441	380	239	(13.8)	(45.8)
Profit for the period	419	279	159	(33.4)	(62.1)
Cash flow before change in net working capital	530	472	468	(10.9)	(11.7)
Capital expenditures (net of customer financing)	420	511	511	21.7	21.7
Net debt	1 469	1 166	1 166	(20.6)	(20.6)
Net debt-equity ratio	0.76	0.46	0.49		
Total equity	1 934	2 509	2 389	29.7	23.5

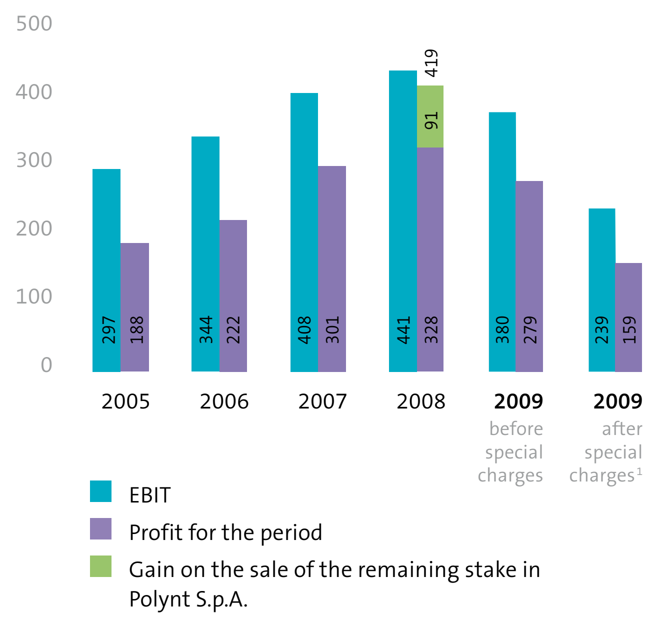
Sales progression

million CHF



EBIT and profit for the period

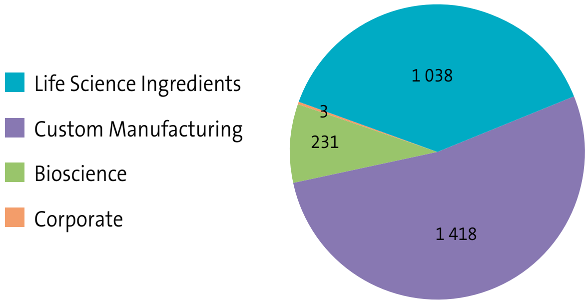
million CHF



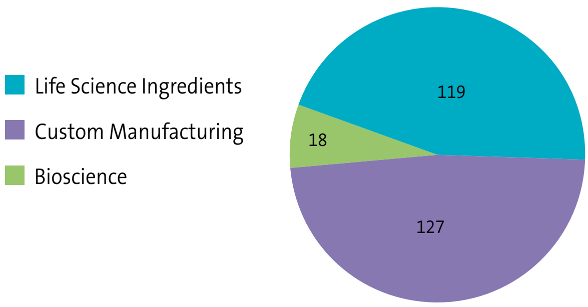
[1] **Special charges:**

– Impairment of assets	(83)
– Write-down of inventories	(22)
– Restructuring expenses	(25)
– Environmental expenses	(11)
– Total special charges	**(141)**

Sales by operating segments 2009
million CHF



EBIT by operating segments 2009
million CHF



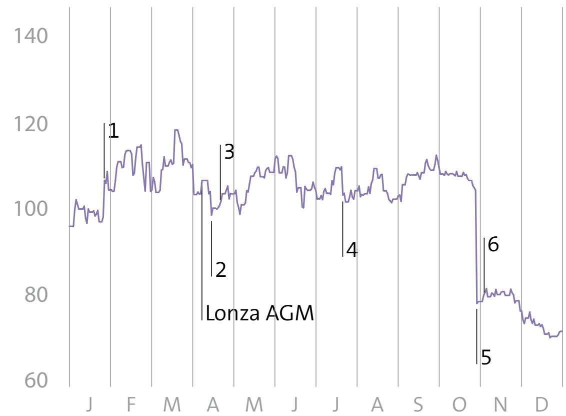
Profitability %	2008	2009 before special charges	2009 after special charges[1]
EBITDA	23.5	24.5	22.3
EBIT	15.0	14.1	8.9
RONOA	13.8	10.7	6.7

Share information CHF		2008	2009 before special charges	2009 after special charges[1]
Basic earnings per share		8.81	5.55	3.19
Diluted earnings per share		8.15	5.51	3.17
Dividend payout ratio	%	25[2]	33	57

	2008	2009
Ordinary dividend paid / declared per share	1.75	1.75
Book value per share	40.47	45.74
Number of shares (par value CHF 1.00)	50 450 000	52 920 140
Share price (high / low)	158.30 / 83.95	120.10 / 71.50
Share price at year-end	97.55	73.00
Market capitalization (31 December)	4 921	3 863

[2] Excluding gain on the sale of the remaining stake in Polynt S.p.A. in 2008

Share price development 2009



1 Full-year 2008 results
2 Dividend payment
3 First-quarter business update
4 Half-year 2009 results
5 Third-quarter business update
6 Lonza 2009 investor event

Lonza AGM: Lonza Annual General Meeting

Lonza in a nutshell

Lonza is a leading supplier to the pharmaceutical, healthcare and life-science industry. Our products and services span customers' needs from research to final product manufacture. Lonza is headquartered in Basel, Switzerland, and is listed on the SIX Swiss Exchange.

LONZA ANNUAL REPORT 2009

Besides the Annual Report, which includes the Financial Report, the Remuneration Report and Corporate Governance, Lonza also publishes an Activity Report. Both publications are accessible online at www.lonza.com and are also available in German. The English version prevails. In this report, "Lonza" and "the Group" refer to the whole group of Lonza companies, "Lonza Group Ltd" refers to Lonza Holding. The Annual Report of Lonza Group Ltd follows the guidelines issued by the OECD for multinational corporations.

Dear Shareholders, Customers, Employees and Friends of Lonza,

Overview The 2009 business year was characterized by lower demand across all businesses. This was reflected in order reductions driven by clinical results, affecting large-scale biopharmaceutical projects in Custom Manufacturing, and recession-related lower demand in Life Science Ingredients. Lonza reacted to the volatile business environment by implementing a re-engineering project. Despite the difficult environment, Lonza's debt gearing was reduced to 49 % (76 % in 2008). Net profit of CHF 159 million was disproportionately lower due to restructuring costs. All businesses are profitable and remain strategically sound. The employee base remained stable.

Re-engineering Lonza The main countermeasures adopted are the streamlining of Lonza's structures, reduction of fixed costs, and improvement of our product and project pipelines. Announced at the end of October 2009, the measures aim to reduce fixed costs by CHF 60–80 million over a period of 18–24 months. Around 40 % of the planned reductions were already in the process of implementation by the end of December 2009. The re-engineering project also entails a reduction in staff of approximately 450 employees, which corresponds to the normal attrition rate.

The cornerstones of the re-engineering project are:

- Increasing flexibility in biopharmaceutical manufacturing to meet our customers' needs for more small and mid-size capacities and multiple-site sourcing. These changes will be implemented by the end of 2010.
- Structural changes in chemical manufacturing: strengthening of our platform in Asia and closure of the sites in Conshohocken (Riverside), PA (USA) and Shawinigan (CA). This step opens up an opportunity to enter the market for mature regulated products, a new market activity for Lonza.
- Merging chemical R&D organizations into one platform, with a stronger emphasis on Asia.
- Further increasing resources in sales and business development and aligning the entire organization to customer projects.

Strategic projects

Lonza continued with the execution of its strategy in 2009:

- Further build-out of the large scale mammalian biopharmaceutical facility in Singapore, with targeted utilization rate of 60% at start-up in 2011
- Start-up of the new custom manufacturing facilities in Nansha (CN) (chemical APIs) and the 2000-liter microbial manufacturing facility (biological APIs) in Hopkinton, MA (USA)
- Development of activities in India with an acquisition (Symbiosis)
- Groundbreaking for a new Cell Therapy facility in Singapore
- Opening of the new Microbial Control formulations plant in Nanjing (CN)
- Strengthening of our technology platform through the acquisition of Algonomics, a contract research organization supporting the Development Services Business Unit of Lonza Custom Manufacturing
- All businesses have an increasing pipeline of promising product developments
- Strategic partnership with Teva to become a leading global provider of biosimilars
- Introduction of the Lonza Promoter Score across all businesses, enabling customer satisfaction to be measured as reliably as financial performance
- New strategic opportunities have been evaluated during the course of 2009 and will be pursued over the next 12–24 months.

Financial summary

- The decrease in net profit after special charges of 62.1 % resulted from the decline in EBIT and the special charges for restructuring costs, along with the booking in 2008 of a CHF 91 million gain realized on the remaining stake in Polynt S.p.A.
- Cash flow before changes in net working capital decreased by 11.7 %, from CHF 530 million in 2008 to CHF 468 million, due to lower results from operations.
- Net working capital in relation to sales increased on average from 19.9 % in 2008 to 28.1 %.
- Capital expenditure, excluding customer-financed projects, increased to CHF 511 million, with no resulting delays to any growth project milestones.
- Net debt amounted to CHF 1 166 million (CHF 1 469 million in 2008). Over 80 % of Lonza's debt is financed on a long-term basis, with an average fixed-interest rate below 3.5 %.
- The four-year CHF 430 million convertible bond was fully converted. In addition, a CHF 300 million straight bond, with a coupon of 3.75 % maturing in 2013, has been secured, ensuring long-term financing of the announced growth projects at attractive conditions.
- On 31 August 2009, the first biopharmaceutical manufacturing plant in Singapore was sold to Roche / Genentech for a consideration of USD 290 million.

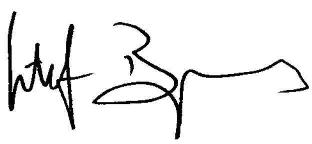
Senior management changes Effective 15 April 2009, Anja Fiedler joined Lonza as a Management Committee member and COO of the Bioscience business. Uwe H. Böhlke, previously COO Custom Manufacturing, Exclusive Synthesis, took over as the new Chief Officer Human Resources / Corporate Services. Lonza Custom Manufacturing is headed by Stephan Kutzer. With this reorganization the Management Committee was reduced from seven to six members effective 1 November 2009.

Outlook Although the environment remains unstable, we continue to be optimistic about our ability to deal with the situation. Lonza's life sciences growth strategy will continue to deliver long-term growth. The effect of the re-engineering project will result in significant generation of free operational cash flow in 2010. Capital expenditure will be reduced from the original target of CHF 500 million for 2010, to below CHF 400 million, with a similar target for 2011. This will further strengthen cash flow generation and the balance sheet structure. The increased financial flexibility will open up specific expansion possibilities in our life-science-focused value chain.

We remain fully committed to our vision and long-term strategy. We continue to invest significantly in science and technology to create new business opportunities. We work with passion to transform life science into new possibilities for our customers, whom we thank for their continued trust.

We would especially like to thank our employees for all their commitment and dedication in the past year, and our shareholders for their continued support.

Rolf Soiron
Chairman of the Board of Directors



Stefan Borgas
Chief Executive Officer

Soundness pays off

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

« We make sure our work flows are sound and meet all legal, regulatory and customer requirements. After a glance at the camera, Fiona Chen, who works at the Regulatory Affairs department at our site in Guangzhou (China), concentrates her attention on a careful review of the registration dossiers. »

Consolidated Balance Sheet

Assets[1] million CHF	Note[2]		2008		2009
Fixed assets					
Property, plant and equipment	6	4 881		5 005	
Accumulated depreciation and accumulated impairment losses	6	(2 158)	2 723	(2 415)	2 590
Intangible assets	7		292		275
Goodwill	7		448		445
Other non-current assets			14		24
Deferred tax assets	22		139		139
Investments in associates	8		12		13
Long-term loans and advances	14		9		32
Total fixed assets			**3 637**		**3 518**
Current assets					
Inventories	9	772		660	
Value adjustments	9	(64)	708	(83)	577
Trade receivables, net	10	452		528	
Current tax receivables		26		23	
Other receivables, prepaid expenses and accrued income	11	231		157	
Short-term advances and other financial assets	14	2	711	1	709
Cash and cash equivalents	12, 14		566		140
Assets held for sale	4		4		0
Total current assets			**1 989**		**1 426**
Total assets			**5 626**		**4 944**

Total equity and liabilities[1] million CHF	Note[2]	2008	2009
Equity			
Share capital		50	53
Share premium		148	316
Treasury shares		(301)	(68)
Retained earnings and reserves		1 968	2 024
Total equity attributable to equity holders of the parent	see page 13	**1 865**	**2 325**
Non-controlling interest		**69**	**64**
Total equity		**1 934**	**2 389**
Liabilities			
Deferred tax liabilities	22	369	341
Long-term provisions	13	18	14
Employee benefit liability		70	61
Other long-term liability		287	155
Long-term debt	14	894	824
Total long-term liabilities and provisions		**1 638**	**1 395**
Other short-term liabilities	15	638	401
Current tax payables		52	48
Trade payables	16	212	196
Short-term debt: Due to bank and other financial institutions	14	1 152	515
Total current liabilities and deferred items		**2 054**	**1 160**
Total liabilities		**3 692**	**2 555**
Total equity and liabilities		**5 626**	**4 944**

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

Consolidated Income Statement

million CHF	Note[1]	2008	2009
Sales			
(see segment information)	32	**2 937**	**2 690**
Cost of goods sold[2]		(2 098)	(2 145)
Gross profit		**839**	**545**
Marketing and distribution		(135)	(144)
Research and development[3]	23	(110)	(103)
Administration and general overheads[4]		(189)	(166)
Other operating income	20	87	136
Other operating expenses	20	(51)	(29)
Result from operating activities (EBIT)		**441**	**239**
Financial income	21.1	32	10
Financial expenses	21.2	(88)	(63)
Net financing costs		**(56)**	**(53)**
Share of profit of associates	21.3	(1)	0
Gain on sale of assets held for sale	4	91	0
Profit before income taxes		**475**	**186**
Income taxes	22	(56)	(27)
Profit for the period		**419**	**159**
Attributable to:			
Equity holders of the parent		420	162
Non-controlling interest		(1)	(3)
Profit for the period		**419**	**159**
		CHF	CHF
Basic earnings per share	27	8.81	3.19
Diluted earnings per share	27	8.15	3.17

Consolidated Statement of Comprehensive Income

million CHF		2008		2009
Profit for the period		**419**		**159**
Exchange differences on translating foreign operations		(205)		(49)
Cash flow hedges:				
Gains (losses) arising during the year	(78)		12	
Less: Reclassification adjustments for gains (losses) included in profit or loss	9	(69)	37	49
Income tax relating to components of other comprehensive income		13		(7)
Other comprehensive income for the period, net of tax		**(261)**		**(7)**
Total comprehensive income for the period		**158**		**152**
Total comprehensive income attributable to:				
Equity holders of the parent		162		157
Non-controlling interest		(4)		(5)
Total comprehensive income for the period		**158**		**152**

[1] See the accompanying notes to the consolidated financial statements
[2] 2009 includes impairment and restructuring costs of CHF 131 million
[3] 2009 includes restructuring costs allocated to research and development of CHF 7 million
[4] 2009 includes restructuring costs allocated to administration and general overheads of CHF 3 million

Consolidated Cash Flow Statement

million CHF	Note[1]	2008		2009	
Profit for the period		**419**		**159**	
Adjustments for non-cash items:					
– Income taxes	22	56		27	
– Net financing costs	21	56		53	
– Share of profit of associates	21.3	1		0	
– Depreciation of property, plant and equipment (excl. impairment)	6	225		250	
– Amortization of intangibles	7	25		28	
– Impairment losses on property, plant, equipment and intangibles	6, 7	0		83	
– Release of negative goodwill	3.2	(14)		0	
– (Decrease) / increase of provisions		(15)		7	
– (Decrease) / increase of employee benefit liability		(10)		0	
– (Gain) / loss on disposal of property, plant and equipment		(5)		3	
– (Gain) / loss on sale of subsidiary	3.3	0		(30)	
– (Gain) / loss on sale of assets held for sale	4	(91)		0	
– Reversal amortization of other liabilities / assets		(6)		(6)	
– Share-based payments		12		(3)	
Income taxes paid		(44)		(54)	
Interest paid		(79)		(49)	
Cash flow before change in net working capital		**530**		**468**	
(Increase) / decrease inventories		(135)		113	
(Increase) / decrease trade receivables		(25)		(124)	
Increase / (decrease) trade payables		(34)		(17)	
(Increase) / decrease other net working capital		(87)		(65)	
Increase / (decrease) of other payables net		(74)		47	
Net cash (used for) / provided by operating activities			**175**		**422**
Purchase of property, plant and equipment	6	(622)		(505)	
Purchase of intangible assets	7	(26)		(15)	
Proceeds from sale of tangible and intangible assets		22		6	
Acquisition of subsidiaries, net of cash acquired	3.1, 3.2	(157)		(1)	
Disposal of subsidiaries, net of cash disposed of	3.3	0		84	
Purchase of unconsolidated investments		0		(1)	
Proceeds from assets held for sale	4	188		5	
Purchase of other assets		(1)		(6)	
Decrease in loans and advances		19		1	
Increase in loans and advances		0		(23)	
Interest received		32		9	
Dividends received		0		0	
Net cash (used for) / provided by investing activities			**(545)**		**(446)**
Issue of straight bond		0		297	
Proceeds from/ (repayment of) borrowings		421		(623)	
Capital injection from non-controlling interest		41		0	
Increase in other liabilities		229		9	
Decrease in other liabilities		(1)		0	
Dividends paid		(83)		(87)	
Company contribution of purchased shares		(2)		0	
Purchase of treasury shares		(44)		(8)	
Sale of treasury shares		17		8	
Net cash (used for) / provided by financing activities			**578**		**(404)**
Effect of currency translation on cash			(14)		2
Net (decrease) / increase in cash and cash equivalents			**194**		**(426)**
Cash and cash equivalents at 1 January			372		566
Cash and cash equivalents at 31 December			566		140

Due to the entire conversion of the convertible bond by 1 July 2009, a non-cash transaction was recognized which increased total equity and decreased total debt by each CHF 393 million.

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

Consolidated Statement of Changes in Equity

million CHF	Attributable to equity holders of the parent Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Translation reserve	Treasury shares	Total	Non-controlling interest	Total equity
At 31 December 2007	**50**	**158**	**1 912**	**3**	**(10)**	**(324)**	**1 789**	**0**	**1 789**
Total comprehensive income for the year	0	0	420	(59)	(199)	0	162	(4)	158
Dividends	0	0	(83)	0	0	0	(83)	0	(83)
Recognition of share-based payments	0	0	11	0	0	0	11	0	11
Transfer of employee shares	0	0	(5)	0	0	3	(2)	0	(2)
Part-conversion of convertible bond	0	(10)	0	0	0	47	37	0	37
Capital injection from non-controlling interest	0	0	0	0	0	0	0	41	41
Acquisition of subsidiary (step acquisition)	0	0	38	0	0	0	38	32	70
Recognition of put option	0	0	(60)	0	0	0	(60)	0	(60)
Acquisition of treasury shares	0	0	0	0	0	(44)	(44)	0	(44)
Sale of treasury shares less taxes	0	0	0	0	0	17	17	0	17
At 31 December 2008	**50**	**148**	**2 233**	**(56)**	**(209)**	**(301)**	**1 865**	**69**	**1 934**
Total comprehensive income for the year	0	0	162	40	(45)	0	157	(5)	152
Dividends	0	0	(87)	0	0	0	(87)	0	(87)
Recognition of share-based payments	0	0	(3)	0	0	0	(3)	0	(3)
Transfer of employee shares	0	(4)	(11)	0	0	15	0	0	0
Conversion of convertible bond	3	175	0	0	0	215	393	0	393
Acquisition of treasury shares	0	0	0	0	0	(8)	(8)	0	(8)
Sale of treasury shares less taxes	0	(3)	0	0	0	11	8	0	8
At 31 December 2009	**53**	**316**	**2 294**	**(16)**	**(254)**	**(68)**	**2 325**	**64**	**2 389**

The share capital on 31 December 2009 comprised 52 920 140 registered shares with a par value of CHF 1 each (2008: 50 450 000 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2008: CHF 50 450 000).

Reserves in the amount of CHF 26 460 070 (2008: CHF 25 225 000) included in the financial statements of the parent company cannot be distributed.

Notes to the Consolidated Financial Statements

1 Accounting Principles

Basis of preparation The consolidated financial statements for 2009 and 2008 are reported in Swiss francs (CHF) and are based on the annual accounts of the individual subsidiaries at 31 December which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments are stated at their fair value.

Changes in accounting policies The following new and revised standards and interpretations have been issued, being effective for the reporting year 2009:

- IAS 1 revised – Presentation of financial statements
- IAS 23 revised – Borrowing costs
- IFRS 8 – Operating segments
- Amendment to IFRS 2 – Share-based payment – Vesting conditions and cancellations
- Amendments to IAS 32 – Financial instruments: Presentation and IAS 1 – Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation
- IFRIC 13 – Customer loyalty programmes
- IFRIC 15 – Agreements for the construction of real estate
- IFRIC 16 – Hedges of a net investment in a foreign operation
- IFRIC 18 – Transfer of assets from customers
- Improvements to IFRSs (May 2008)
- Amendment to IFRS 7 – Disclosures

With the exception of additional disclosures, the new and revised standards as well as interpretations had no material impact on the consolidated financial statements for the year 2009.

Borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Previously, the Group immediately recognized all borrowing costs as an expense. This change in accounting policy was adapted in accordance with the transitional provisions of that standard.

In 2009, no qualifying assets for capitalizing borrowing costs were identified, so that the revised IAS 23 had no impact on the consolidated financial statements ended 31 December 2009.

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

Standard / Interpretation		Effective date	Planned application by Lonza
IFRS 3 revised – Business combinations	*	1 July 2009	Reporting year 2010
IAS 27 amended – Consolidated and separate financial statements	*	1 July 2009	Reporting year 2010
Amendment to IAS 39 – Financial instruments: recognition and measurement – Eligible hedged items	*	1 July 2009	Reporting year 2010
IFRIC 17 – Distributions of non-cash assets to owners	*	1 July 2009	Reporting year 2010
Improvements to IFRSs 2008 – Amendments to IFRS 5 Non-current assets held for sale and discontinued operations	*	1 July 2009	Reporting year 2010
Improvements to IFRSs (April 2009)	*	1 July 2009 1 January 2010	Reporting year 2010
Amendments to IFRS 2 Group cash-settled share-based payment transactions	*	1 January 2010	Reporting year 2010
Amendment to IAS 32 – Financial instruments: Presentation – Classification of rights issues	*	1 February 2010	Reporting year 2011
IFRIC 19 – Extinguishing financial liabilities with equity instruments	*	1 July 2010	Reporting year 2011
IAS 24 revised – Related party disclosures	*	1 January 2011	Reporting year 2011
Amendment to IFRIC 14 – Prepayments of a minimum funding requirement	**	1 January 2011	Reporting year 2011
IFRS 9 – Financial instruments	**	1 January 2013	Reporting year 2013

Principles of consolidation The consolidated financial statements represent the accounts for the year ended 31 December of Lonza Group Ltd and its subsidiaries.

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

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

* No or no significant impact is expected on the consolidated financial statements
** The impacts on the consolidated financial statements cannot yet be determined with sufficient reliability

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

Revenue recognition Sales are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Provisions for rebates to customers are recognized in the same period that the related sales are recorded. Revenue from termination fees is recorded in the income statement in the period in which the termination occurs. The POC (percentage of completion) method is applied for development projects as well as for projects in relation to the construction of manufacturing facilities for customers. The stage of completion of a contract is determined on the basis of the estimated total contract costs. Interest income is recognized on a time-proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Foreign currencies Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF) which is the Group's presentation currency. For consolidation purposes the balance sheet of foreign consolidated companies is translated to CHF with the rate on the balance sheet date. Income, expenses and cash flows of the foreign consolidated companies are translated into CHF using the yearly average exchange rates (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 allocated to reserves.

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

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

Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. The Group hedges certain net investments in foreign entities with currency forward contracts. All foreign exchange gains or losses arising on translation are recognized in equity and included in cumulative translation differences.

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 equity 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 equity 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.

Fixed assets Fixed assets (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.

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

Intangible assets Intangible assets with a definite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Intangibles include software, licenses, patents, trademarks and similar rights granted by third parties, capitalized product development costs and capitalized computer software development costs. Costs associated with internally developed or maintained computer software programmes 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 but not exceeding five years. All intangible assets in Lonza have finite useful lives.

Goodwill Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. When the excess is negative (negative goodwill) it is recognized immediately in profit or loss. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is treated as an asset in the acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Borrowings Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Straight bond Interest-bearing borrowings are recognized initially at their fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost, with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective-interest basis.

Convertible bond The convertible bond is separately shown in the balance sheet by the liability component and the equity component. The fair value of the liability component is determined on the basis of the present value of the principal plus the present value of the interest payable over the contractual period using a rate of interest applied by the market at the time. The value of the equity component is calculated by deducting the liability component from the total proceeds of the bond issue. The difference between the initial liability component and the notional amount is amortized over the contractual period of the bond and treated as a financial expense.

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

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

Share-based compensation The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of options 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 options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

Research and Development Research and development costs are charged against income as incurred. Development costs are only capitalized when the related products will generate probable future economic benefits. 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.

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

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

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

2 Principal subsidiaries[1]

In 2009, Lonza strengthened its protein design technology offering for biopharmaceutical development by acquiring Algonomics NV (Gent, Belgium). Algonomics is a contract research organization providing integrated immunogenicity prediction services to support companies in the development of biotherapeutics. The principal subsidiaries are shown below:

Company	Town / Country	Purpose: Research & Development	Purpose: Production	Purpose: Sales Office	Purpose: Service / Financing	Currency[2]	Share capital in 000	Holding direct %	Holding indirect %
Lonza Australia Pty Ltd	Mt. Waverly, AU			■		AUD	90		100 %
Algonomics NV	Gent, BE	■				EUR	374		100 %
Lonza Braine SA	Braine-l'Alleud, BE	■	■	■		EUR	40 000		100 %
Lonza Verviers SPRL	Verviers, BE		■	■		EUR	19		100 %
Lonza Canada Inc.	Shawinigan, CA		■			CAD	1	100 %	
Lonza Ltd	Visp, CH	■	■	■		CHF	60 000	100 %	
Lonza Sales Ltd	Basel, CH			■		CHF	2 000	100 %	
Lonza BioPharma Ltd	Visp, CH	■	■	■		CHF	550	100 %	
Lonza Bioproducts Ltd	Basel, CH				■	CHF	100	100 %	
Lonza Engineering Ltd	Basel, CH				■	CHF	2 000	70 %	
TL Biopharmaceutical Ltd	Visp, CH	■	■	■		CHF	1 000	50 %	
Lonza Finance Limited	St. Helier, Jersey, GB				■	USD	15	100 %	
						CHF	335		
Lonza Biotec sro	Kouřim, CZ	■	■	■		CZK	282 100		100 %
Lonza Guangzhou Ltd	Guangzhou, CN		■	■		USD	12 000		100 %
Lonza Guangzhou Nansha Ltd	Guangzhou, CN		■			USD	79 486		100 %
Lonza (China) Investments Co. Ltd	Guangzhou, CN				■	USD	75 500	100 %	
Lonza Guangzhou Research and Development Center Ltd	Guangzhou, CN	■				USD	4 100		100 %
Lonza Nanjing Ltd	Nanjing, CN		■			USD	14 000		100 %
Lonza Group GmbH	Waldshut-Tiengen, DE				■	EUR	25		100 %
Gewerbepark Hochrhein GmbH	Waldshut-Tiengen, DE				■	EUR	10 400		100 %
Lonza GmbH	Cologne, DE			■		EUR	511		100 %
Lonza Cologne AG	Cologne, DE	■	■	■		EUR	1 502		100 %
Lonza Copenhagen ApS	Vallensbaek Strand, DK		■	■		DKK	150		100 %
Lonza Biologics Porriño, S.L.	Porriño, ES		■			EUR	10 296		100 %
Lonza Ibérica S.A.U.	Barcelona, ES			■		EUR	60		100 %
Lonza Bioscience Sàrl	Paris, FR				■	EUR	8 849		100 %
Lonza France Sàrl	Levallois-Perret, FR			■		EUR	132		100 %
Lonza Biologics plc	Slough, GB	■	■	■		GBP	14 500		100 %
Lonza Wokingham Limited	Wokingham, GB			■		GBP	1		100 %
Lonza Group UK Limited	Slough, GB				■	GBP	17 000		100 %
Lonza India Private Ltd	Mumbai, IN			■	■	INR	4 249		100 %
Lonza Milano S.r.l.	Treviglio, IT			■		EUR	52		100 %
Lonza Japan Ltd	Tokyo, JP	■		■		JPY	200 000	100 %	
Lonza Mexico S. de R.L. de C.V.	Mexico City, MX			■		MXN	3	100 %	
Lonza Europe BV	Breda, NL				■	EUR	19		100 %
Lonza Benelux BV	Breda, NL			■		EUR	112		100 %
Lonza Group Investments BV	Breda, NL				■	EUR	50	100 %	
OOO Lonza Rus	Moscow, RU			■		RUB	10		100 %
Lonza Biologics Tuas Pte Ltd	Singapore, SG		■			USD	25 000		70 %
						SGD	172 000		
Lonza Bioscience Singapore Pte Ltd	Singapore, SG		■			USD	1		100 %
Lonza Holding Singapore Pte Ltd	Singapore, SG				■	USD	100 000		100 %
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore, SG			■		SGD	183		100 %
Lonza America Inc.	Allendale, US				■	USD	8	100 %	
Lonza Inc.	Allendale, US	■	■	■		USD	697		100 %
Lonza Biologics Inc.	Portsmouth, US		■			USD	1		100 %
Lonza Walkersville Inc.	Walkersville, US	■	■	■		USD	1		100 %
Lonza Rockland Inc.	Rockland, US		■	■		USD	1		100 %

[1] All companies belonging to Lonza Group are non-listed entities
[2] Abbreviation of currencies in accordance with ISO standards

Research & Development
Production
Sales Office
Service / Financing

3 Business combination

3.1 Acquisition of amaxa

On 27 May 2008, Lonza announced that it was to acquire amaxa and all its activities. The deal was subject to the approval of the anti-trust authorities and was closed on 2 July 2008. This business became part of the Cell Discovery unit within Bioscience.

amaxa is a supplier to the cell discovery market with leading-edge technologies in well-defined market niches of transfection systems. As a global leader in transfection technologies, the company is dedicated to enhancing the speed and quality of basic and pharmaceutical research in academia and industry, and aspires to make a significant contribution to the development of causal therapies for the treatment of severe diseases. amaxa pursues this goal by providing cutting-edge products to the R&D and clinical markets. The company, which was founded in 1998, is located in Cologne (Germany) and in Gaithersburg, MD (USA) and employs 160 people.

From 2 July 2008 to 31 December 2008, the acquired business contributed sales of CHF 15 million and a result from operating activities of minus CHF 5 million to the Group. If the acquisition had occurred on 1 January 2008, Group sales would have been CHF 2 947 million (CHF +10 million) and the Group result from operating activities CHF 440 million (CHF -1 million). These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortization that would have been charged if the fair value adjustments to property, plant and equipment and intangible assets had applied from January 2008.

Net assets acquired and goodwill are shown as follows:

million CHF	
– Purchase price in cash	153.4
– Direct costs relating to the acquisition	0.1
Total purchase consideration	**153.5**
Fair value of net assets acquired	(54.7)
Goodwill	**98.8**

The goodwill included expected synergies from the acquisition, the labor force and potentially intangible assets that could not be valued separately.

The acquisition has been accounted for using the purchase method. The following amounts of assets and liabilities acquired have been included:

million CHF	Assets and liabilities included at acquisition date	Adjustment through purchase price allocation	Assets and liabilities immediately before the combination
Property, plant and equipment	2.2	0.0	2.2
Intangible assets (patents)	71.1	71.0	0.1
Other non-current assets	0.1	0.0	0.1
Inventories	1.3	0.0	1.3
Trade receivables, net	3.7	0.0	3.7
Other receivables, prepaid expenses and accrued income	0.3	0.0	0.3
Current tax receivables	0.6	0.0	0.6
Cash and cash equivalents	2.1	0.0	2.1
Trade payables	(0.3)	0.0	(0.3)
Other short-term liabilities	(4.0)	0.0	(4.0)
Deferred tax liabilities	(22.4)	(22.4)	0.0
Fair value of net assets acquired	**54.7**	**48.6**	**6.1**
Goodwill	98.8		
Cost of the business combination	**153.5**		
Purchase consideration settled in cash	153.5		
Cash and cash equivalents of subsidiary acquired	(2.1)		
Cash outflow on acquisition	**151.4**		

3.2 Step acquisition of additional 20 % of Lonza Biologics Tuas Pte Ltd

On 15 February 2006, Lonza Group and Singapore's Bio*One Capital announced the creation of a joint venture company, Lonza Biologics Tuas Pte Ltd, to build a large-scale mammalian cell culture facility in Singapore for the manufacture of commercial biopharmaceuticals. Construction of the first phase started in May 2007.

This jointly controlled entity was recognized in the consolidated statements so far using the proportionate consolidation method. On 27 August 2008, Lonza acquired a further 20 % of the share capital, increasing its stake to 70 % and giving it full control of Lonza Biologics Tuas Pte Ltd. As of 27 August 2008, Lonza Biologics Tuas Pte Ltd was recognized as a fully consolidated subsidiary, with a minority share of 30 %, in the group financial statements.

As the plant was under construction in 2008, with the expected final build-out scheduled for 2011, a loss of CHF 4.8 million was incurred in 2008, with a minority loss of CHF 1.4 million.

The purchase of the additional share of 20 % of net assets and the respective negative goodwill are shown as follows:

million CHF	
– Purchase price in cash	7.0
Total purchase consideration	**7.0**
Fair value of net assets acquired for 20 %	(21.2)
Goodwill (badwill)	**(14.2)**

The additional share of 20 % in Lonza Biologics Tuas Pte Ltd is stated at fair value, based on the present value of agreements signed with customers.

The negative goodwill occurred because Bio*One, the partner and financial branch of the Economic Development Board (EDB) of Singapore, invested in Lonza Biologics Tuas Pte Ltd on the basis of a pre-determined financing agreement, excluding sharing in profit or loss or participation in any fair value revaluations. The main objective of Bio*One is to build and expand a life-science industry in Singapore through investments in joint ventures based on a modest fixed return on their invested capital.

Lonza granted to Bio*One a put option at a predetermined price. This option is exercisable from the earlier of 1 July 2011 or 12 months after Lonza's call option start date. The present value of the future cash outflows from a potential exercise of the put option of CHF 60 million was recognized as a credit in financial liability and a debit to equity.

The step acquisition has been accounted for using the purchase method. The following amounts of assets and liabilities acquired have been included:

million CHF	Assets and liabilities included at acquisition date	Adjustment through purchase price allocation	Assets and liabilities immediately before the combination
Property, plant and equipment	46.4	0.0	46.4
Intangible assets (customer relationship)	77.6	77.6	0.0
Other receivables, prepaid expenses and accrued income	0.7	0.0	0.7
Cash	3.2	0.0	3.2
Trade payables	(12.5)	0.0	(12.5)
Other short-term liabilities	(9.4)	0.0	(9.4)
Current tax payables	(0.1)	0.0	(0.1)
Fair value of net assets (100 %)	**105.9**	**77.6**	**28.3**
Fair value of net asset acquired in 2008 (20 %)	**21.2**		
Goodwill recognized on that 20 % (badwill)	(14.2)		
Cost of the business combination of additional 20 %	**7.0**		
Purchase consideration settled in cash	7.0		
Cash and cash equivalents of subsidiary acquired (50 %)	(1.6)		
Cash outflow on step acquisition	**5.4**		

The step acquisition has been accounted as follows:

million CHF	
Increase of intangible assets	77.6
Increase of net assets	14.2
Credit revaluation reserve	38.8
Credit minorities	32.0
Credit badwill	14.0
Credit investment	7.0

3.3 Sale of Lonza Biologics Singapore Pte Ltd, Singapore

On August 31 2009, Genentech Singapore Pte Ltd exercised the option to purchase from Lonza its cell culture biologic manufacturing facility that Lonza built in Singapore (Lonza Biologics Singapore Pte Ltd). The facility, which is mechanically complete, was merged with Genentech Singapore's existing biologic manufacturing facility. The Singapore manufacturing facility was acquired for a purchase price of USD 290 million. It is expected to produce Avastin (bevacizumab), a bulk drug substance, with 80 000 litres of fermentation capacity. With the exercise of this option, approximately 230 Lonza employees joined Genentech Singapore Technical Operations.

The net assets sold and the gain on disposal of the subsidiary are as follows:

million CHF	
Property, plant and equipment	268.7
Intangible assets	0.8
Goodwill	0.0
Other non-current assets	3.4
Inventories	16.0
Trade receivables, net	7.7
Other receivables, prepaid expenses and accrued income	0.4
Cash and cash equivalents	0.9
Total assets sold	**297.9**
Other short-term liabilities	(155.2)
Trade payables	(1.6)
Current tax payables	(2.4)
Other long-term liabilities	(86.1)
Total liabilities sold	**(245.3)**
Total net assets sold	**52.6**
Consideration for sale	307.0
Purchase price adjustment	16.4
Less customer-funded assets	(238.2)
Less stamp duties	(0.3)
Less provisions	(2.6)
Gain on disposal of subsidiary	**29.7**

The net cash inflow from sale is determined as follows:

million CHF	
Consideration for sale	307.0
Purchase price adjustment	16.4
Less customer-funded assets	(238.2)
Less stamp duties	(0.3)
Less cash and cash equivalents in subsidiary sold	(0.9)
Net cash inflow from sale	**84.0**

4 Assets held for sale

The property, plant and equipment of Lonza Gewerbepark GmbH, disclosed as assets held for sale in 2008 (CHF 4.3 million), was sold during 2009 for a consideration of CHF 4.6 million.

On 12 February 2008, Lonza sold 27.6 % (28.5 million shares) of its holding in Polynt S.p.A. for EUR 3.67 per share to Polimeri Speciali S.p.A., an Italian company, indirectly controlled by Investindustrial. On 28 April 2008, the sale of the remaining 3.4 % stake in Polynt S.p.A. to Polimeri Speciali S.p.A. for EUR 3.67 per share followed. The two transactions resulted in proceeds of CHF 188 million at a gain of CHF 91 million.

5 Restructuring and impairment

The consolidated income statement 2009 is charged with impairment costs, inventory write-downs and restructuring costs amounting to CHF 141 million as a result of the restructuring program, as follows:

million CHF	Total Lonza	Custom Manu-facturing	Life Science Ingredients	Bioscience	Corporate
Impairment costs	83	71	8	4	0
Write-down of inventories	22	20	1	1	0
Restructuring costs	25	17	2	3	3
Environmental costs	11	4	7	0	0
Total restructuring program	**141**	**112**	**18**	**8**	**3**

The impairment costs of CHF 83 million are related to the decision to close the sites at Conshohocken (Riverside), PA (USA) (CHF 61 million, Custom Manufacturing) and Shawinigan (CA) (CHF 3 million, Life Science Ingredients). Further impairment charges are recognized in the Visp plant with regard to the launch plant in Custom Manufacturing (CHF 10 million) and arylide production (CHF 3 million), as well as in the Liyang plant (CHF 2 million), both belonging to Life Science Ingredients, and in the Walkersville plant (CHF 4 million) in Bioscience. For all reviewed assets, the recoverable value was assumed as zero, so that the entire carrying amount of those assets needed to be impaired. The impairment needs resulted from the announced re-engineering project Bond to adjust the organization to the current market environment.

The write-down of inventories of CHF 22 million included write-down of unsalable products from the sites at Conshohocken (Riverside), PA (USA) (CHF 20 million), Shawinigan (CA) (CHF 1 million) and Walkersville (USA) (CHF 1 million) for cell therapy products. The cost of all mentioned inventories are no longer recoverable as they have become entirely obsolete.

The restructuring costs of CHF 25 million are recognized for the closure of the sites at Conshohocken (Riverside), PA (USA) (CHF 12 million), Shawinigan (CA) (CHF 1 million) and Wokingham (UK) (CHF 1 million). With a greater focus on concentration of lean processes, additional restructuring costs of CHF 11 million were recorded for a variety of locations in Lonza Group (Custom Manufacturing: CHF 5 million, Life Science Ingredients: CHF 1 million, Bioscience: CHF 2 million and Corporate: CHF 3 million). The restructuring measures will affect 175 employees for which a comprehensive severance package will be put in place. An amount of CHF 21 million was set up as restructuring provisions and the remaining CHF 4 million was expensed in 2009.

As a result of the restructuring program, additional environmental costs of CHF 11 million were recognized relating to the Conshohocken (Riverside) site in Custom Manufacturing (CHF 4 million), as well as the Visp plant of Life Science Ingredients (CHF 7 million).

6 Property, plant and equipment

2009 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**59**	**1 288**	**2 908**	**626**	**4 881**
Additions	2	50	122	331	505
Disposals	(5)	(15)	(51)	0	(71)
Disposal of subsidiary	0	(156)	(116)	0	(272)
Transfers / reclassification	0	209	183	(392)	0
Currency translation differences	0	(14)	(15)	(9)	(38)
At 31 December	**56**	**1 362**	**3 031**	**556**	**5 005**
Accumulated depreciation and impairment					
At 1 January	**(2)**	**(534)**	**(1 622)**	**0**	**(2 158)**
Depreciation charge	0	(47)	(203)	0	(250)
Disposals	0	14	48	0	62
Impairment losses	(1)	(23)	(59)	0	(83)
Disposal of subsidiary	0	1	2	0	3
Currency translation differences	0	2	9	0	11
At 31 December	**(3)**	**(587)**	**(1 825)**	**0**	**(2 415)**
Net carrying amount 31 December	**53**	**775**	**1 206**	**556**	**2 590**
Insurance value 31 December	**0**	**1 164**	**3 566**	**130**	**4 860**

2008 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**64**	**1 197**	**2 716**	**536**	**4 513**
Additions	9	52	119	442	622
Disposals	(6)	(6)	(34)	0	(46)
Reclassification to assets held for sale	(3)	0	0	0	(3)
Acquisition of subsidiaries	0	0	2	9	11
Change of scope of consolidation [1]	0	0	0	14	14
Transfers / reclassification	0	84	261	(345)	0
Currency translation differences	(5)	(39)	(156)	(30)	(230)
At 31 December	**59**	**1 288**	**2 908**	**626**	**4 881**
Accumulated depreciation and impairment					
At 1 January	**0**	**(501)**	**(1 546)**	**0**	**(2 047)**
Depreciation charge	(2)	(43)	(180)	0	(225)
Disposals	0	2	27	0	29
Currency translation differences	0	8	77	0	85
At 31 December	**(2)**	**(534)**	**(1 622)**	**0**	**(2 158)**
Net carrying amount 31 December	**57**	**754**	**1 286**	**626**	**2 723**
Insurance value 31 December	**0**	**1 094**	**3 426**	**568**	**5 088**

Impairment losses of CHF 83 million were recognized in 2009 due to the restructuring program outlined in note 5.

[1] The change of scope of consolidation in 2008 was recognized because of the step acquisition of Lonza Biologics Tuas Pte Ltd, after which Lonza had 70 % of the equity and full control over the company.

Commitments for capital expenditure in property, plant and equipment amounted to CHF 128 million at year-end 2009 (2008: CHF 374 million), mostly related to capital expenditure in the Biopharmaceuticals business.

The carrying amount of fixed assets under finance lease contracts at year-end 2009 amounted to CHF 6.1 million (2008: CHF 6.8 million). Depreciation relating to fixed assets under finance lease amounted to CHF 1.6 million (2008: CHF 2.0 million). The exchange rate impact between ending and opening balance is CHF 0.9 million (2008: CHF 0.3 million).

No assets were pledged for security of own liabilities in 2009 and 2008. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Leases

1. Lessee

Finance lease liabilities – minimum lease payments million CHF	2008	2009
Not later than 1 year	4	4
Later than 1 year and not later than 5 years	12	8
Later than 5 years	0	0
Total future minimum finance lease payments	**16**	**12**
Future finance charges on finance lease payments	(3)	(2)
Present value of minimum finance lease payments	**13**	**10**

Present value of finance lease liabilities million CHF	2008	2009
Not later than 1 year	3	3
Later than 1 year and not later than 5 years	10	7
Later than 5 years	0	0
Present value of minimum finance lease payments	**13**	**10**

Operating lease liabilities – minimum lease payments million CHF	2008	2009
Not later than 1 year	12	11
Later than 1 year and not later than 5 years	38	34
Later than 5 years	46	36
Total future minimum operating lease payments	**96**	**81**

Finance lease agreements in Switzerland expired in 2008. In the USA, assets under finance lease agreement were disposed in 2008 with regard to the closure of the Baltimore plant. The remaining lease agreements in 2009 are related to buildings and production facilities in the USA expiring in 2012. The finance lease agreement in the USA is based on an interest rate of 8.7 %. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

Lonza leases a number of buildings, warehouses, factory and office facilities, vehicles, as well as land under operating leases. The leases for buildings, warehouses, factory and office facilities and vehicles run for periods between one and thirteen years and for the land up to five 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 2009, CHF 10.8 million (2008: CHF 11.9 million) was recognized as an expense in the consolidated income statement in respect of operating leases, of which none was due to sublease payments.

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

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

7 Intangible assets and goodwill

7.1 Cost and accumulated amortization and impairment

2009 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Construction in progress	Total
Cost					
At 1 January	**457**	**337**	**53**	**0**	**847**
Additions	0	1	8	6	15
Disposals	0	0	(1)	0	(1)
Acquisition of subsidiaries	0	1	0	0	1
Disposal of subsidiary	0	0	(1)	0	(1)
Currency translation differences	(4)	(6)	2	0	(8)
At 31 December	**453**	**333**	**61**	**6**	**853**
Accumulated amortization and impairment					
At 1 January	**(9)**	**(62)**	**(36)**	**0**	**(107)**
Amortization	0	(17)	(11)	0	(28)
Currency translation differences	1	1	0	0	2
At 31 December	**(8)**	**(78)**	**(47)**	**0**	**(133)**
Net carrying amount 31 December	**445**	**255**	**14**	**6**	**720**

2008 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Total
Cost				
At 1 January	**403**	**192**	**42**	**637**
Additions	0	15	11	26
Acquisition of subsidiaries	99	149	0	248
Disposal of subsidiary	0	0	0	0
Currency translation differences	(45)	(19)	0	(64)
At 31 December	**457**	**337**	**53**	**847**
Accumulated amortization and impairment				
At 1 January	**(9)**	**(48)**	**(28)**	**(85)**
Amortization	0	(17)	(8)	(25)
Currency translation differences	0	3	0	3
At 31 December	**(9)**	**(62)**	**(36)**	**(107)**
Net carrying amount 31 December	**448**	**275**	**17**	**740**

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

7.2 Impairment tests for cash-generating units containing goodwill

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

million CHF	2008	2009
Lonza Biologics (Biopharmaceuticals business)	26	27
Lonza Guangzhou (Nicotinates business)	4	4
Lonza Inc. Microbial Control (Biocidal Quats business)	9	9
Lonza Braine SA (Peptide business)	42	42
Lonza Bioscience (ex Cambrex) including amaxa	367	363
Total carrying amounts of goodwill	**448**	**445**

The change in the carrying amounts of goodwill between 2009 and the previous year results from changes in the year-end exchange rates.

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. The cash flow projections include the actual operating results and a five-year business plan approved by management.

These cash flow projections are based on the yearly business strategy review and exclude any future cash inflows and outflows expected to arise from growth potential of future capital expenditures.

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

The Biopharmaceutical business is primarily located in the United States as well as in Great Britain. Sales are based on existing contracts and planned utilization of equipment based on customer demand over the five-year period. Prices are as per contracts realized and are assumed to stay at current levels. Cost developments are based on individual assumptions per cost element. Personnel costs are assumed to increase by 3.0 % p.a. and the other expenses by 2.0 % p.a. The cash flow projections beyond the five-year period are based on a zero growth rate. A pre-tax discount rate of 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 Nicotinates (Vitamin B3) business plan relates to the site in Guangzhou in China. The cash flow projections are based on a slight decrease in gross margin in 2010, due to an expected decrease in selling price, and thereafter an unchanged margin until 2014. According to the Strategy Review for the nicotinates market, sales volume will be assumed to grow by 2.0 % p.a. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate due to limitation of capacity. The cash flows are discounted at a pre-tax discount rate of 14.9 %. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The Biocidal Quats business is located in the United States. The cash flow projections are based on constant expected gross margins during the five-year planning period, with a 3.0 % p.a. increase in sales. Selling price changes are assumed to offset changes in raw material price. Overhead costs are anticipated to grow in line with sales between 2010–2014. No major regulatory changes will have an unfavorable impact on the volumes. Management believes this to be a fair and reasonable assumption. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 11.5 %. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The Peptides business represents the cash-generating unit of Lonza Braine SA, Belgium, including Lonza Sales Ltd, Switzerland. The cash flow projections include the five-year plan based on current headcount and a patented life-span of two years. Sales are projected on the current portfolio of peptides, with production costs varying in line with sales increase. Sales between 2010 and 2014 are assumed to grow on average by 9.3 % p.a. and fixed costs by 3.0 % p.a. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 9.3 %, resulting in a recoverable amount exceeding the carrying amount by CHF 27 million. If sales grew at a 1 %-point lower average growth rate, the recoverable amount would agree with the carrying amount. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The Bioscience business includes the Cambrex Corporation, acquired on 6 February 2007, and the amaxa business, acquired on 2 July 2008, which was integrated into the Cell Discovery business of Bioscience. Therefore, the impairment analysis is based on the combined cash-generating unit of the Bioscience segment. The cash flow projections from 2010–2014 are based on a 10 % average sales growth at growing EBIT-margin, as the Bioscience segment is operating in growing markets. The cash flow projections beyond the five-year period are extrapolated using a 0.5 % growth rate, which is in line with the current business strategy review. The cash flows are discounted at a pre-tax discount rate of 8.7 %. If sales grew at a 1.4 %-point lower average growth rate, the recoverable amount would agree with the carrying amount. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

8 Investments in associates and joint ventures

8.1 Associates

Lonza holds a 31 % stake in Aravis Ventures I, L.P., an international venture capital fund under Cayman Islands jurisdiction focusing on early-stage companies in biotechnology and drug development industry sectors. The total capital commitment of Lonza in Aravis Ventures is USD 18.2 million of which USD 16.7 million (2008: USD 15.8 million) was drawn up until 31 December 2009. The investment in Aravis Venture I, L.P. is accounted for using the equity method.

In Lonza's 2009 financial statements, the investment in the associate relating to Aravis Ventures I, L.P. amounted to CHF 13.2 million (2008: CHF 12.6 million). The net capital contribution to Aravis Venture was CHF 0.6 million in 2009 (2008: CHF 0.4 million). An equity income of CHF 0.3 million in 2009 (2008: equity loss of CHF 0.6 million) and a currency loss of CHF 0.3 million (2008: CHF 0.7) million were disclosed.

In the previous year, Lonza sold 27.6 % of its holding in Polynt S.p A. on 12 February 2008 and the remaining 3.4 % on 28 April 2008 for EUR 3.67 per share to Polimeri Speciali S.p.A., an Italian company, indirectly controlled by Investindustrial. The two transactions resulted in proceeds of CHF 188 million at a gain of CHF 91 million.

8.2 Joint venture

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

At 31 December 2009, the original investment in TL Biopharmaceuticals Ltd was entirely offset by an equity loss of CHF 0.5 million. In 2009, Lonza financed the joint venture with a loan of CHF 23.6 million, whereof CHF 1.1 million is subordinated.

The following aggregate amounts were disclosed for Lonza's interest in the joint venture:

million CHF	2009
Current assets	0.1
Total fixed assets	31.2
Current liabilities	7.9
Long-term liabilities	23.7
Revenues	0.0
Profit	(0.8)

According to the joint venture agreement as of January 2009, each party agreed on minimum contributions (as a subscription for company securities or as a loan) for the first five years following the effective date:

– First year: USD 36 million
– Second year: USD 33 million
– Third year: USD 52 million
– Fourth year: USD 68 million
– Fifth year: USD 84 million

9 Inventories

million CHF	%	2008	%	2009
Raw materials	23	161	19	109
Work in progress	7	53	15	90
Finished goods	55	387	48	275
Other	15	107	18	103
Total	**100**	**708**	**100**	**577**

By operating segments million CHF	%	2008	%	2009
Custom Manufacturing	60	421	62	359
Life Science Ingredients	31	220	29	164
Bioscience	9	67	9	54
Total	**100**	**708**	**100**	**577**

The reported inventories are net of a total value adjustment amounting to CHF 83 million (2008: CHF 64 million). An amount of CHF 22 million was recognized due to the restructuring program (see note 5).

The movement of inventory value adjustments is shown as follows:

Inventory write-downs million CHF	Raw materials	Work in progress and finished goods	Other	Total
At 1 January 2009	**10**	**33**	**21**	**64**
Increase	10	17	6	33
Reversal / Utilization of write-downs	(2)	(10)	0	(12)
Currency translation differences	(1)	(1)	0	(2)
At 31 December 2009	**17**	**39**	**27**	**83**

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 1 821 million (2008: CHF 1 914 million).

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

million CHF	2008	2009
Contract revenue recognized as revenue in the period	**16**	**38**
– Contract costs incurred	12	29
– Recognized profits less recognized losses	3	9
Contract costs incurred plus recognized profits less recognized losses	**15**	**38**
Less progress billings	(4)	(20)
Total net amount due from / (to) customers	**11**	**18**
Gross amount due from customers for contract work	**11**	**18**
Gross amount due to customers for contract work	**0**	**0**
Advances received	**12**	**38**
Retentions held by customers for contract work	**0**	**0**

10 Trade receivables

million CHF	2008	2009
Receivables from customers	458	534
Allowances for credit losses	(6)	(6)
Total	**452**	**528**

The credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2009, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Ageing of trade receivables million CHF	2008	2009
Not past due	347	450
Past due 1–30 days	67	36
Past due 31–120 days	27	30
Past due more than 120 days	11	12
Total	**452**	**528**

Reconciliation of changes in allowance accounts for credit losses million CHF	2008	2009
Balance at the beginning of the year	10	6
Write-offs	0	(1)
Increase in provision for credit losses	4	1
Decrease in provision for credit losses	(7)	0
Translation differences	(1)	0
Balance at the end of the year	**6**	**6**

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

11 Other receivables, prepaid expenses and accrued income

million CHF	2008	2009
Other receivables	161	97
Prepaid taxes and social security payments	6	5
Prepaid expenses and accrued income	63	55
Accrued interest income	1	0
Total	**231**	**157**

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

12 Cash and cash equivalents

million CHF	2008	2009
Cash	341	129
Time deposits	225	11
Total	**566**	**140**

13 Provisions

Long-term provisions million CHF	Environ-mental	Restruc-turing	Other	Total
At 1 January 2009	**16**	**1**	**1**	**18**
Increase	0	1	2	3
Used	(3)	0	(1)	(4)
Reversed	0	0	0	0
Disposal of subsidiary	0	0	(1)	(1)
Reclassification (to short-term provisions)	(1)	(1)	0	(2)
Currency translation differences	0	0	0	0
At 31 December 2009	**12**	**1**	**1**	**14**

Short-term provisions (see note 15) million CHF	Environ-mental	Restruc-turing	Other	Total
At 1 January 2009	**2**	**2**	**17**	**21**
Increase	11	20	6	37
Used	(1)	(3)	(10)	(14)
Reversed	0	0	(9)	(9)
Disposal of subsidiary	0	0	3	3
Reclassification (from long-term provisions)	1	1	0	2
Currency translation differences	0	(1)	0	(1)
At 31 December 2009	**13**	**19**	**7**	**39**

Environmental The long-term environmental provision reflects the future expenses for environmental protection for the plants in Waldshut (Germany), in Visp (Switzerland) and Lonza Inc. (USA) and is expected to be utilized within 10 years. An increase in short-term environmental provisions was provided in Conshohocken (Riverside), PA (USA) (CHF 4 million) and in the Visp plant (CHF 7 million) as a result of the restructuring program (see note 5). Provisions were used for Gewerbepark GmbH (CHF 3 million) and Lonza Ltd (CHF 1 million).

Restructuring The opening balance of short- and long-term provisions of CHF 3 million represents the remaining amount of pre-pension costs of Lonza Ltd with regard to a reduction in headcount of 149 employees, relating to the 2003 restructuring program (CHF 2 million), as well as the provision for the closure of the Baltimore plant with 250 employees (CHF 1 million). In 2009, restructuring provisions of CHF 21 million (CHF 1 million long-term provisions and CHF 20 million short-term provisions) were recognized for the closure of the sites at Conshohocken (Riverside), PA, (USA), Shawinigan (CA) and Wokingham (UK), and further restructuring activity in a variety of locations in Lonza Group (see note 5). Provisions were used by CHF 3 million for restructuring expenses of Lonza Ltd and for the Baltimore plant.

Other Other long-term provisions were provided in Lonza Biologics Singapore Pte Ltd for operating activity and for development costs at Gewerbepark Hochrhein GmbH (CHF 2 million). An increase in short-term provisions of CHF 4 million resulted from the integration of Algonomic's business within Biopharmaceuticals as well as CHF 2 million due to contractual obligations at Lonza AG (CH) and Lonza Sales AG (CH). Other short-term provisions decreased, mainly due to provisions used for the vitamin proceedings (CHF 9 million). Provisions in total of CHF 9 million were reversed due to the release of the contractual obligation (CHF 7 million) and relating to R&D activities (CHF 2 million), both recognized in the Visp plant.

14 Net debt

The net debt comprises:

million CHF		2008		2009
Long-term debt				
Bonds		299		297
Syndicated loan		498		497
Due to banks and others:				
– Banks	13		22	
– Other	74	87	1	23
Leasing		10		7
Total		**894**		**824**

Straight bond (2009 – 2013) On 28 April 2009, a new bond was issued at the following terms: Amount: CHF 300 million, due 27 May 2013. Interest: 3.75 % p.a. payable on 27 May, for the first time on 27 May 2010. The net proceeds of the bond amount to CHF 297.0 million per 27 May 2009 after considering upfront fees of CHF 3.770 million and an agio of CHF 0.750 million.

Convertible bond (2005 – 2009) On or after 25 August 2005 up to and including 1 July 2009, the bonds with a principal amount of CHF 430 million were convertible at an adjusted conversion price of CHF 91.67 per share. The convertible bond was determined to be redeemed on 15 July 2009. A nominal amount of CHF 37 million had been converted into Lonza shares by 31 December 2008 and the remaining amount of CHF 393 million was converted by 1 July 2009.

Straight bond (2005 – 2010) Amount: CHF 300 million, due 2 June 2010. Interest: 2.625% p.a. payable on 2 June, for the first time on 2 June 2006. The annual interest expenses amount to CHF 7.9 million.

Syndicated loan In order to finance the acquisition of the Biopharma and Bioproducts businesses from Cambrex, Lonza signed a syndicated loan of CHF 500 million with a consortium of banks in December 2006; the contract term is five years. It is based on floating rates (libor + margin depending on a margin grid) and was drawn down in February 2007. Lonza hedged the interest rate for the whole five years via an interest rate swap.

Short-term debt (floating interest rates) million CHF	2008	2009
Due to banks and other financial institutions	585	46
Others	173	166
Leasing	3	3
Long-term debt due within one year		
– Convertible bond (2005 – 2009)	391	0
– Straight bond (2005 – 2010)	0	300
Total	**1 152**	**515**
Total debt	**2 046**	**1 339**

Loans and advances (floating interest rates) million CHF	2008	2009
Long-term loans and advances	(9)	(32)
Short-term loans and advances	(2)	(1)
Cash and cash equivalents	(566)	(140)
Total	**(577)**	**(173)**
Net debt	**1 469**	**1 166**

Loans and advances increased in 2009 compared with the prior year, mainly due to the loan granted to the TL Biopharmaceutical Ltd joint venture.

Breakdown of debt by currencies million CHF	Average interest rates %	 %	2008	Average interest rates %	 %	2009
CHF	2.63	83	1 706	2.54	83	1 108
EUR	4.60	0	1	1.95	0	1
USD	3.30	12	249	2.70	16	221
Other	3.75	5	90	1.20	1	9
Total		**100**	**2 046**		**100**	**1 339**

Breakdown of loans and advances by currencies million CHF	Average interest rates %	 %	2008	Average interest rates %	 %	2009
CZK	8.00	18	2	8.00	3	1
USD	3.00	82	9	2.50	97	32
Total		**100**	**11**		**100**	**33**

Interest rates are floating rates.

15 Other short-term liabilities

million CHF	2008	2009
Short-term provisions (see note 13)	21	39
Accrued liabilities and other payables	368	265
Other interest-free liabilities	238	85
Accrued interest payables	11	12
Total	**638**	**401**

"Accrued liabilities and other payables" include accruals and deferred income, such as down-payments from customers and the fair values of financial instruments (see note 31). In other interest-free liabilities, payments received from customer funding are included. The decrease in "Other interest-free liabilities" is due to the decrease in the customer funding liabilities relating to the sale of Lonza Singapore Biologics Pte Ltd to Genentech.

16 Trade payables

million CHF	2008	2009
Payables to third parties	212	196
Total	**212**	**196**

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

17 Contingent liabilities

No contingent liabilities exist for 2009 and 2008.

18 Material and energy costs

million CHF	2008	2009
Material costs	1 043	836
Energy costs	71	73
Total	**1 114**	**909**

19 Personnel expenses

million CHF	2008	2009
Wages and salaries	684	663
Pensions (IAS 19)	31	27
Other social security contributions	136	140
Other personnel expenses	23	15
Total personnel cost	**874**	**845**

20 Other operating income and expenses

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

Major elements of "Other operating income" in 2009 include: milestone payments received from Genentech, the gain on sale of Lonza Biologics Singapore Pte Ltd to Genentech, exchange rate gains, amortization of customer-funded assets and reversal of provisions. "Other operating expenses" in 2009 comprise mainly exchange rate losses.

Major elements of "Other operating income" in 2008 include: exchange rate gains, amortization of customer-funded assets, insurance compensation and the release of negative goodwill due to the step acquisition of Lonza Biologics Tuas Pte. "Other operating expenses" in 2008 comprise mainly exchange rate losses.

21 Financial result

21.1 Interest and other financial income

million CHF	2008	2009
Interest income	31	9
Other financial income	1	1
Total	**32**	**10**

21.2 Interest and other financial expenses

million CHF	2008	2009
Interest expenses	(82)	(54)
Other financial expenses	(6)	(9)
Total	**(88)**	**(63)**

"Other financial expenses" are primarily composed of financing costs for the convertible and straight bonds and the emission duty for the increase in capital.

21.3 Income from investments

million CHF	2008	2009
Share of (loss) / profit of associates	(1)	0
Other investment income / (loss)	0	0
Total	**(1)**	**0**

"Share of (loss) / profit of associates" in 2009 comprises an income of CHF 0.3 million (2008: a loss of CHF 0.6 million) from Aravis Ventures I, L.P., and a loss of CHF 0.5 million (2008: none) from the TL Biopharmaceutical Ltd joint venture.

22 Taxes

22.1 Income taxes

Major components of tax expenses million CHF	2008	2009
Current taxes	(53)	(51)
Deferred tax expense relating to the origination and reversal of temporary differences	(14)	23
Deferred tax (expense) / income resulting from tax rate changes	11	1
Total	**(56)**	**(27)**

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 % (2008: 8 %) for holding companies and 23 % for operating companies (2008: 22 %).

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Lonza calculates the average tax rate as a weighted average of the rates applying in the tax jurisdictions in which it operates. The average tax rate for 2009 is 14 % (2008: 16 %). The effective tax rate for 2009 is 15 % (2008: 12 %). The change of the tax rate reflects mostly the disposal of a subsidiary in 2009 as well as the increase in valuation allowances on deferred tax assets.

Reconciliation of tax expense million CHF	2008	2009
Profit before income taxes	475	186
Tax at the domestic rates applicable to the profits earned in the country concerned (2008: 16 % / 2009: 14 %)	76	26
Expenses that are not deductible for tax purposes	5	3
Tax-free earnings	(30)	(26)
Deferred tax benefit from tax rate changes	(11)	(1)
Under- / (overprovided) in prior years	(1)	(1)
Not recognized potential deferred tax assets of current year	15	26
Change of value adjustment of previously activated deferred taxes	2	0
Other	0	0
Total	**56**	**27**
Deferred tax expenses (charged) / credited directly to equity	**0**	**(7)**
Current tax expenses (charged) / credited directly to equity	**13**	**(5)**

Capital taxes of CHF 9 million (2008: CHF 8 million) are contained in “Administration and general overheads”.

Components of deferred income tax balances million CHF	2008 Assets	2008 Liabilities	2009 Assets	2009 Liabilities
Short-term operating provisions	1	7	1	6
Long-term operating provisions / Employee benefit liability	25	61	23	65
Inventory	13	37	29	27
Property, plant and equipment	4	254	9	232
Other assets	19	10	37	11
Tax loss carry-forwards	77	0	40	0
Total	**139**	**369**	**139**	**341**

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

million CHF	2008	2009
Deferred tax assets	139	139
Deferred tax liabilities	(369)	(341)
Net deferred tax liability	**(230)**	**(202)**
less deferred tax (assets) / liabilities net opening balance	208	230
(Increase) / decrease in deferred tax liabilities, net	**(22)**	**28**
Currency translation differences	(3)	3
Change in scope of consolidation	22	0
Movements of deferred tax assets / (liabilities) charged to equity	(0)	(7)
(Expense) / income recognized in income statement	**(3)**	**24**

Years of expiration of tax loss carry-forwards million CHF	2008	2009
Expiring in 2010	4	4
Expiring in 2011	13	11
Expiring in 2012	17	29
Expiring in 2013	0	0
Expiring from 2014	284	244
Unlimited	135	125
Total	**453**	**413**

At 31 December 2009, Lonza had loss carry-forwards of CHF 166 million (2008: CHF 266 million), for which no deferred tax asset was recognized due to uncertainty regarding utilization of these loss carry-forwards. These loss carry-forwards will expire in 2010 and subsequent years.

In assessing whether it is probable that future taxable profit will be available against which the Group can utilize the potential benefit of 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.

22.2 Disclosure of tax effects to each component of other comprehensive income

	2008			2009		
million CHF	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	(205)	3	(202)	(49)	2	(47)
Cash flow hedges	(69)	10	(59)	49	(9)	40
Other comprehensive income	**(274)**	**13**	**(261)**	**0**	**(7)**	**(7)**

23 Research and development

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

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

The research and development costs amounted to CHF 145 million (2008: CHF 152 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 103 million (2008: CHF 110 million), because of costs absorbed in “Cost of goods sold” by R&D products and services sold.

24 Pension benefits

Defined benefit pension plans Lonza sponsors pension plans set up according to the regulations of the countries in which it operates. For pension accounting purposes, these plans are considered as defined benefit plans. During 2009, actuarial valuations were performed for all significant defined benefit plans using the Projected Unit Credit Valuation Method. The principal assumptions, expressed as a weighted average for Lonza, are the result of the underlying national economic conditions of the respective countries.

Actuarial assumptions %	2008	2009
Discount rate	4.0	3.7
Expected return on plan assets at 1 January	5.5	4.5
Future salary increases	2.1	2.1
Future pension increases	0.1	0.2

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

The overall expected long-term rate of return on assets is 4.5 % (2008: 5.5 %). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The funded status of the defined benefit pension plans is as follows:

million CHF	2008	2009
Present value of unfunded obligations	18	18
Present value of funded obligations	1 425	1 520
Total present value of obligations	**1 443**	**1 538**
Fair value of plan assets	(1 301)	(1 408)
Funded status (surplus) / deficit	**142**	**130**
Unrecognized actuarial gains / (losses)	(171)	(169)
Unrecognized past service costs	52	45
Limitation on recognition of assets	0	0
Net liability recognized in the balance sheet	**23**	**6**

Assets of CHF 11 million (2008: CHF 0 million) and liabilities of CHF 17 million (2008: CHF 23 million) are included in the financial statements.

Plan assets consist of the following:

million CHF	2008	2009
Equity securities	280	314
Bonds	221	363
Property occupied by the Group	0	0
Property	94	108
Cash	706	623
Company's own ordinary shares	0	0
Total fair value of plan assets	**1 301**	**1 408**

Movement in the defined benefit obligations million CHF	2008	2009
Opening defined benefit obligation at 1 January	**1 450**	**1 443**
Interest cost	56	58
Current service cost (employer)	36	32
Contributions by plan participants	17	18
Benefits paid	(55)	(61)
Curtailments and settlements	(3)	0
Actuarial (gains) / losses on obligation	(21)	50
Impact of exchange rate changes	(37)	(2)
Adjustment	0	0
Closing defined benefit obligation at 31 December	**1 443**	**1 538**

Movement in plan assets million CHF	2008	2009
Opening fair value of plan assets at 1 January	**1 450**	**1 301**
Expected return on plan assets	78	59
Contributions by the employer	44	45
Contributions by plan participants	17	18
Benefits (paid) / deposited	(55)	(61)
Actuarial gains / (losses) on plan assets	(200)	47
Impact of exchange rate changes	(33)	0
Adjustment	0	(1)
Closing fair value of plan assets at 31 December	**1 301**	**1 408**

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

million CHF	2008	2009
Current service cost (employer)	36	32
Interest cost	56	58
Expected return on plan assets	(78)	(59)
Actuarial (gains) / losses recognized in current year	27	3
Past service cost	(7)	(7)
Effect of curtailments and settlements	(3)	0
Total pension costs	**31**	**27**
Impact from limitation on recognition of assets	0	0
Total recognized pension costs	**31**	**27**

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

Actual return on plan assets million CHF	2008	2009
Expected return on plan assets	78	59
Actuarial gains / (losses) on plan assets	(200)	47
Actual return on plan assets	**(122)**	**106**

Historical information million CHF	2005	2006	2007	2008	2009
Present value of defined benefit obligation	1 523	1 574	1 450	1 443	1 538
Fair value of plan assets	(1 320)	(1 387)	(1 450)	(1 301)	(1 408)
(Surplus) / deficit	**203**	**187**	**0**	**142**	**130**
Experience adjustments on defined benefit obligation (gains) / losses			145	48	(18)
Experience adjustments on plan assets gains / (losses)			14	(200)	47

The Group expects to pay CHF 41 million in contributions to defined benefit plans in 2010.

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

The principal assumptions are as follows:

Actuarial assumptions %	2008	2009
Discount rate	6.50	5.80
Medical-cost trend rate	7.00	7.00

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

%	+1%-point increase	+1%-point decrease
Effect on the aggregate service and interest cost	14.4	(11.7)
Effect on defined benefit obligation	12.2	(10.2)

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

million CHF	2008	2009
Present value of unfunded benefit obligations	31	33
Unrecognized actuarial gains / (losses)	7	4
Unrecognized prior service cost	0	0
Liability recognized in the balance sheet	**38**	**37**

Movement in the defined benefit obligations million CHF	2008	2009
Opening defined benefit obligation at 1 January	**34**	**31**
Interest cost	2	2
Current service cost (employer)	1	0
Contributions by plan participants	0	0
Benefits (paid) / deposited	(2)	(2)
Actuarial (gains) / losses on obligation	(2)	2
Impact of exchange rate changes	(2)	(1)
Adjustment	0	1
Closing defined benefit obligation at 31 December	**31**	**33**

Movement in the liability recognized in the balance sheet million CHF	2008	2009
Liability as of 1 January	**38**	**38**
Expenses recognized in income statement	2	(1)
Benefits (paid) / deposited	(2)	2
Impact of exchange rate changes	(2)	(2)
Adjustment	2	0
Liability as of 31 December	**38**	**37**

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

million CHF	2008	2009
Current service cost (employer)	1	0
Interest cost	2	2
Actuarial (gains) / losses recognized in current year	0	(1)
Past service cost	0	0
Adjustment	0	1
Total post-retirement cost	**3**	**2**

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

Historical information of other post-retirement benefits million CHF	2005	2006	2007	2008	2009
Present value of defined benefit obligation	42	40	34	31	33
Experience adjustments on defined benefit obligation (gains) / losses			7	0	0

25 Share-based payments

Equity-settled share option scheme

Options (LOSOP) In 2000, the Board of Directors of Lonza Group Ltd implemented a Share Option Plan (LOSOP) for a selected segment of the Group's employees. These options are exercisable at a price equal to the average market closing price of the Company's shares during the period starting thirty business days and ending ten business days prior to grant date. The options are issued by a bank and listed on the SIX Swiss Exchange. The vesting period is three years. If the options remain unexercised after a period of five years from grant date, the options expire. Options are forfeited if the employees leave the Group before the options vest.

Details of the share options outstanding during the year are as follows:

Year	Number of options	Strike price CHF	Exercise ratio	Vesting / Expiry Date
2004	1 245 000	64.25	10:1	30 03 07 / 30 03 09
2005	1 435 000	73.80	10:1	25 05 08 / 25 05 10

Participants	Issue 2004	Issue 2005
Management Committee[1]	350 000	395 000
Key employees	895 000	1 040 000
Total options granted	**1 245 000**	**1 435 000**

Development option plans 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009	Exercisable 31 12 2009
LOSOP 2004	1 205 000	0	0	(1 205 000)	0	0	0
LOSOP 2005	1 375 000	0	0	0	0	1 375 000	1 375 000
Total options	**2 580 000**	**0**	**0**	**(1 205 000)**	**0**	**1 375 000**	**1 375 000**

Development option plans 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008	Exercisable 31 12 2008
LOSOP 2003	1 196 370	0	0	(1 196 370)	0	0	0
LOSOP 2004	1 205 000	0	0	0	0	1 205 000	1 205 000
LOSOP 2005	1 375 000	0	0	0	0	1 375 000	1 375 000
Total options	**3 776 370**	**0**	**0**	**(1 196 370)**	**0**	**2 580 000**	**2 580 000**

The weighted average share price of the share options outstanding at 31 December 2009 was CHF 73.80 (2008: CHF 69.34). The options outstanding at year-end have a remaining weighted average contractual life of 5 months (2008: 10 months).

Their fair values were calculated using the market price at grant date. The amounts for options are expensed on a straight-line basis over the vesting period, based on estimates of options that will eventually vest. The expected volatility was 0 % in 2009 (2008: 0 %).

[1] Acting and former members

Fair value at grant date	CHF	Grant date
LOSOP 2004	1 207 899	March 2004
LOSOP 2005	2 209 900	May 2005

148 349 treasury shares with a par value of CHF 1 each (31 December 2008: 268 849 shares) are reserved for the option plans.

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

The minimum conditions to participate in the ESPP Plus were in:
2005: ranging from CHF 500 to CHF 15 000
2006: ranging from 9 shares to 270 shares
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares

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

Details of share purchase plans	Purchased	Ratio	Allocated	Expiry date	Price at grant date CHF
ESPP 2005	71 181	3:1	23 727	15 05 2010	73.80
ESPP 2006	64 266	3:1	21 422	15 05 2011	87.90
ESPP 2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP 2008	51 000	3:1	17 000	13 05 2013	138.54

Development share purchase plans 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
ESPP 2005	23 283	0	0	(890)	0	22 393
ESPP 2006	20 890	0	0	(1 008)	0	19 882
ESPP 2007	17 194	0	0	(651)	0	16 543
ESPP 2008	17 000	0	0	(1 015)	0	15 985
Total shares	**78 367**	**0**	**0**	**(3 564)**	**0**	**74 803**

Development share purchase plans 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
ESPP 2005	23 283	0	0	0	0	23 283
ESPP 2006	20 890	0	0	0	0	20 890
ESPP 2007	17 194	0	0	0	0	17 194
ESPP 2008	0	17 000	0	0	0	17 000
Total shares	**61 367**	**17 000**	**0**	**0**	**0**	**78 367**

The weighted average share price at 31 December 2009 of the allocated shares was CHF 101.66 (2008: CHF 101.80).

The shares outstanding at the end of the year have a remaining weighted average contractual life of 21 months (2008: 33 months). Due to cost-saving measures the reissue of the share purchase plan was interrupted in 2009. The estimated fair value of the shares granted in 2008 was CHF 96.98.

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was between 20 % and 30 % in 2009 (2008: 30 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2005	1 225 737
ESPP 2005 discount	1 574 666
ESPP 2006	1 318 096
ESPP 2006 discount	1 694 694
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662

A total of 53 794 treasury shares with a par value of CHF 1 each (31 December 2008: 57 358 shares) is reserved for the share purchase plans.

Long-Term Incentive Plan (LTIP) In 2006, 2007, 2008 and 2009, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. Under the LTIP, selected key employees will be awarded the right to receive a number of registered shares of Lonza in the future, provided that certain service-related conditions are achieved. Depending on the level of the job category, the entitlement shall be between 10 % and 200 % of their annual base salary.

The key employees will only receive title and ownership of the shares after a three-year vesting period and only if the conditions of vesting are fully or partially met. Conditions of vesting of the shares are as follows: The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR) achieved during the three fiscal years of Lonza compared with a defined industry peer group before the end of the vesting period. TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis of the percentage. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly. The vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual earnings per share (EPS) of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. EPS target is reached if Lonza increases its EPS within the vesting period by the percentage as set out. If the EPS target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly. If TRS and / or EPS minimum targets are not met, the share entitlement expires unconditionally.

In 2008, the peer group[1] was adapted to the new stock index classification.

[1] The peer group consists of: MSCI Chemicals, DSM, UCB, Crucell, Genentech, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific.

Details of long-term incentive plans	Grant date	Share price CHF	Granted shares	TSR	EPS	Vesting date
LTIP 2006	01 02 2006	80.50	102 131	12 %	50 %	31 01 2009
LTIP 2007	01 02 2007	117.70	80 705	12 %	50 %	31 01 2010
LTIP 2008	01 02 2008	137.60	85 011	5 %	50 %	31 01 2011
LTIP 2009	01 02 2009	106.10	121 356	5 %	50 %	31 01 2012

Conditions of vesting 2006	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	12 %	50.00 %
EPS	25 %	100 %	50 %	98.24 %
Volatility employees				3.00 %

Conditions of vesting 2007	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	12 %	50.00 %
EPS	25 %	100 %	50 %	100.00 %
Volatility employees				3.00 %

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

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

Market conditions	Market price CHF	Granted shares	Fair value TSR	Fair value of shares at grant date CHF	Expected vesting EPS	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2006	80.50	102 131	50 %	4 110 773	98.24 %	100 %	3 %	95.29 %	3 917 142
LTIP 2007	117.70	80 705	50 %	4 749 489	100.00 %	100 %	3 %	97.00 %	4 607 005
LTIP 2008	137.60	85 011	50 %	5 848 757	100.00 %	100 %	3 %	97.00 %	5 673 294
LTIP 2009	106.10	121 356	50 %	6 437 936	45.40 %	100 %	3 %	44.04 %	2 835 138

Development of long-term incentive plan 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
LTIP 2006	92 939	0	0	(92 939)	0	0
LTIP 2007	80 705	0	0	(605)	0	80 100
LTIP 2008	85 011	0	0	(594)	0	84 417
LTIP 2009	0	121 356	0	0	0	121 356
Total shares	**258 655**	**121 356**	**0**	**(94 138)**	**0**	**285 873**

Development of long-term incentive plan 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
LTIP 2006	98 932	0	(4 658)	(1 335)	0	92 939
LTIP 2007	80 705	0	0	0	0	80 705
LTIP 2008	0	85 011	0	0	0	85 011
Total shares	**179 637**	**85 011**	**(4 658)**	**(1 335)**	**0**	**258 655**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 105.97 (2008: CHF 141.00).

The weighted average share price of the allocated shares at 31 December 2009 was CHF 59.33 (2008: CHF 55.17). The shares outstanding at the end of the year had a remaining weighted average contractual life of 15 months (2008: 12 months). The estimated fair value of the shares granted in 2009 was CHF 53.05 (2008: CHF 68.80).

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

Fair value at grant date	CHF
LTIP 2006	4 110 733
LTIP 2007	4 749 489
LTIP 2008	5 848 757
LTIP 2009	6 437 936

Long-Term Incentive Plan for Members of the Management Committee named “Bridge the Gap (MC shares)” The LTIP plan did not provide any compensation for the Management Committee until 2009. As a result, a “Bridge the Gap” plan was also launched in 2006. This plan provides share grants for the Management Committee. The MC shares are subject to a restriction period. During the restriction period, an MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period.

Non-vested shares	Grant date	Share price	Granted shares	Vesting date
MC shares 2006	23 01 2006	85.55	4 158	31 12 2009
MC shares 2006	31 01 2006	80.50	10 226	31 01 2009
MC shares 2007	31 01 2007	117.70	2 960	31 01 2009
MC shares 2007	31 01 2007	117.70	5 921	31 01 2010
MC shares 2008	31 01 2008	137.60	2 578	31 01 2009
MC shares 2008	31 01 2008	137.60	2 578	31 01 2010
MC shares 2008	31 01 2008	137.60	5 155	31 01 2011
MC shares 2009	31 07 2009	105.90	472	31 07 2012

Development of long-term incentive plan for Management Committee 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
MC shares 2006	7 647	0	0	(7 647)	0	0
MC shares 2007	8 881	0	0	(2 960)	0	5 921
MC shares 2008	10 311	0	0	(2 578)	0	7 733
MC shares 2009	0	472	0	0	0	472
Total non-vested shares	**26 839**	**472**	**0**	**(13 185)**	**0**	**14 126**

Development of long-term incentive plan for Management Committee 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
MC shares 2006	19 497	0	(6 737)	(4 491)	(622)	7 647
MC shares 2007	11 841	0	0	(2 960)	0	8 881
MC shares 2008	0	10 311	0	0	0	10 311
Total non-vested shares	**31 338**	**10 311**	**(6 737)**	**(7 451)**	**(622)**	**26 839**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 106.10 (2008: CHF 141.00).

The weighted average share price at 31 December 2009 of the allocated shares was CHF 128.20 (2008: CHF 108.50). The shares outstanding at the end of the year had a remaining weighted average contractual life of 6 months (2008: 9 months). The estimated fair value of the shares granted in 2009 was 105.90 (2008: CHF 137.60).

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 0 % (2008: 0 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
MC shares 2006	2 002 127
MC shares 2007	1 393 686
MC shares 2008	1 418 794
MC shares 2009	49 985

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

In recognition of extraordinary efforts on the part of employees for successful completion of projects or successful settlements, the Lonza Management Committee has the ability to provide a one-time award of Lonza shares.

Non-vested shares	Grant date	Share price	Granted shares	Vesting date
Integration Team Cambrex	31 01 2007	116.00	5 396	31 01 2009
Integration Team Canada	30 04 2007	118.70	469	30 04 2009
Integration Team Canada	30 04 2007	118.70	1 406	30 04 2010
Integration Team amaxa	02 07 2008	135.00	766	01 08 2009
Integration Team Hopkinton	31 03 2009	112.50	1 800	31 03 2010
Awards LIFT	15 01 2009	101.60	20	15 01 2009
Awards others	08 12 2009	75.65	50	08 12 2009

Development of the other share plans 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
Integration Team Cambrex	5 396	0	0	(4 967)	(429)	0
Integration Team Canada	1 875	0	0	(270)	(199)	1 406
Integration Team amaxa	766	0	0	(669)	(97)	0
Integration Team Hopkinton	0	1 800	0	0	0	1 800
Awards LIFT	0	20	0	(20)	0	0
Awards others	0	50	0	(50)	0	0
Total non-vested shares	**8 037**	**1 870**	**0**	**(5 976)**	**(725)**	**3 206**

Development of the other share plans 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
Integration Team Cambrex	0	5 396	0	0	0	5 396
Integration Team Canada	0	2 344	0	(216)	(253)	1 875
Integration Team amaxa	0	766	0	0	0	766
Total non-vested shares	**0**	**8 506**	**0**	**(216)**	**(253)**	**8 037**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 102.55 (2008: CHF 141.60).

The weighted average share price at 31 December 2009 of the allocated shares was CHF 115.22 (2008: CHF 118.44). The shares outstanding at the end of the year had a remaining weighted average contractual life of 3 months (2008: 4 months). The estimated fair value of the shares granted in 2009 was CHF 111.40 (2008: CHF 118.45).

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was between 0 % and 42 % in 2009 (2008: between 0 % and 50 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Integration Team Cambrex	625 936
Integration Team Canada	150 037
Integration Team amaxa	103 410
Integration Team Hopkinton	202 500
Awards LIFT	2 032
Awards others	3 783

In order to satisfy the exercise of the long-term incentive plans, Lonza acquired 100 000 shares during 2009 (2008: 322 097 shares), at an average market value of CHF 81.29 (2008: 109.74). A total of 484 215 treasury shares (2008: 513 272) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

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

Development of compensation for Board of Directors 2006	Grant date	Total shares	Share price CHF	Fair values shares	Cash [1] CHF	Total CHF	Expiry date
	31 03 2006	3 773	88.65	334 476	145 000	479 476	31 03 2009
	30 06 2006	4 815	82.87	399 019	145 000	544 019	30 06 2009
	30 09 2006	4 687	85.14	399 051	145 000	544 051	30 09 2009
	31 12 2006	4 012	106.44	427 037	115 000	542 037	31 12 2009
Total		**17 287**	**90.22**	**1 559 583**	**550 000**	**2 109 583**	

The amount of CHF 2 109 583 was recognized as an expense in the year 2006.

Development of compensation for Board of Directors 2007	Grant date	Total shares	Share price CHF	Fair values shares	Cash [1] CHF	Total CHF	Expiry date
	31 03 2007	3 699	114.86	424 867	115 000	539 867	31 03 2010
	30 06 2007	3 843	111.13	427 073	115 000	542 073	30 06 2010
	30 09 2007	3 139	127.11	398 998	145 000	543 998	30 09 2010
	31 12 2007	2 941	135.60	398 800	145 000	543 800	31 12 2010
Total		**13 622**	**121.11**	**1 649 738**	**520 000**	**2 169 738**	

The amount of CHF 2 169 738 was recognized as an expense in the year 2007.

Development of compensation for Board of Directors 2008	Grant date	Total shares	Share price CHF	Fair values shares	Cash [1] CHF	Total CHF	Expiry date
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		**13 985**	**123. 94**	**1 733 264**	**670 000**	**2 403 264**	

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

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

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

Recognition in the Consolidated Financial Statements The equity-settled share-based payments had an impact on the 2009 “Result from operating activities” amounting to an income of CHF 3.3 million and to an expense of CHF 11.8 million before taxes on the prior year’s result.

[1] Excluding social security and withholding tax

26 Changes in shares and share capital movements

Number of shares		31 12 2007	Change in year	31 12 2008	Change in year	31 12 2009
Total number of shares		**50 450 000**	**0**	**50 450 000**	**2 470 140**	**52 920 140**
Treasury shares						
Shares reserved for convertible bonds		2 222 222	(398 001)	1 824 221	(1 824 221)	0
Shares reserved for share option plan (LOSOP)		388 470	(119 621)	268 849	(120 500)	148 349
Shares reserved for share purchase plan (ESPP)		45 455	11 903	57 358	(3 564)	53 794
Shares reserved for long-term incentive plan (LTIP)		197 201	115 968	313 169	(107 323)	205 846
Shares reserved for other plans		24 939	(24 836)	103	(103)	0
Free shares		0	200 000	200 000	78 369	278 369
Total treasury shares		**2 878 287**	**(214 587)**	**2 663 700**	**(1 977 342)**	**686 358**
Total shares ranking for dividend at 31 December		**47 571 713**	**214 587**	**47 786 300**	**4 447 482**	**52 233 782**
Transferred shares between January and date of dividend payment of following year		140 864		2 049 741		n.a.
Total shares ranking for dividend at date of dividend payment		**47 712 577**		**49 836 041**		**n.a.**
Share capital movements						
Share capital	CHF	**50 450 000**	**0**	**50 450 000**	**2 470 140**	**52 920 140**

Translation reserve The translation reserve of the consolidated statement of changes in equity comprises all foreign exchange differences arising from the translation of the financial statements of foreign entities.

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

Dividend A dividend per share of CHF 1.75 (2008: CHF 1.75) is proposed after the balance sheet date.

Conditional capital At the Annual General Meeting held on 11 April 2005, the creation of conditional capital up to a maximum of CHF 2.5 million was approved. The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 2 500 000 fully paid-in registered shares with a par value of CHF 1 each, up to a maximum aggregate amount of CHF 2.5 million, through the exercise of conversion rights and / or warrants granted in connection with the issuance of bonds or similar debt instruments of the Group.

On 21 December 2009, Lonza Group Ltd created 2 470 140 fully paid-in registered shares with a par value of CHF 1 each.

At the Annual General Meeting held on 8 April 2009, the creation of conditional capital up to a maximum of CHF 5 million was approved. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association. At 31 December 2009, Lonza Group Ltd had an authorized capital of CHF 52 920 140 and a conditional capital of CHF 5 029 860.

27 Earnings per share

Basic earnings per share million CHF		2008	2009
Profit for the period (equity holders of the parent)		420	162
Weighted average numbers of shares		47 696 400	50 773 075
Basic earnings per share	CHF	**8.81**	**3.19**
Diluted earnings per share			
Profit for the period (equity holders of the parent)		420.0	162.0
– Elimination of interest expenses on convertible bond		6.2	0.0
– Reversing other convertible cost items		4.8	0.0
– Minus tax effect on dilution costs		(1.3)	0.0
Diluted profit for the period		429.7	162.0
Weighted average of numbers of shares		47 696 400	50 773 075
– Adjustment for assumed conversion of convertible debt		4 586 139	0
– Adjustments for dilutive options and shares		437 085	369 810
Weighted average numbers of shares for diluted earnings per share		52 719 624	51 142 885
Diluted earnings per share	CHF	**8.15**	**3.17**
Dividends paid of the period		**83**	**87**
Dividends per share of the period	CHF	**1.75**	**1.75**
Dividends declared after the balance sheet date		**84**	**91**
Dividends per share declared after the balance sheet date	CHF	**1.75**	**1.75**

28 Related parties

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

Transactions with key management personnel

Board of Directors In 2009, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.766 million [1] (2008: CHF 2.629 million [1]), 65.57 % (2008: 65.93 %) of which was received in the form of shares. The compensation system for Board members allows them to choose either a payment in shares or a combination of cash and shares. Shares granted are rated at the relevant market price at grant date. Free access to these shares is only available in the fourth and later years.

Members of the Board of Directors and their immediate relatives control 65 943 or 0.12 % (2008: 0.13 %) of the voting shares of Lonza Group Ltd. None of the directors own shares in the Group's subsidiaries or associates.

[1] Including social security and withholding tax

Management Committee Compensation One acting member of the Management Committee gave up her function in the year under review. The acting members of the Management Committee received, for their contributions and time served in 2009, CHF 5.264 million[1] (2008: CHF 5.742 million[1]) in cash and additional benefits and 51 817 shares (2008: 43 733 shares), equivalent to a value of CHF 2.766 million (2008: CHF 3.656 million).

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

million CHF	2008	2009
Short-term benefits[1]	5.650	4.455
Post-employment benefits[2]	0.354	0.399
Other benefits	0.635	0.750
Termination benefits	0.000	0.613
Share- / option-based payments	5.389	4.579
Total	**12.028**	**10.796**

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

29 Accounting estimates and judgments

Key assumptions and sources of estimation uncertainty

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

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

Environmental provisions Lonza is exposed to environmental liabilities and risks relating to its past operations, principally in respect of provisions for remediation costs, which at 31 December 2009 amounted to CHF 25 million (2008: CHF 18 million), as disclosed in note 13. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures.

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

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

Income taxes At 31 December 2009, deferred tax assets of CHF 139 million (2008: CHF 139 million), current tax receivables of CHF 23 million (2008: CHF 26 million), deferred tax liabilities of CHF 341 million (2008: CHF 369 million) and current tax payables of CHF 48 million (2008: CHF 52 million) were disclosed in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and / or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

Pensions Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined benefit obligation is influenced by assumptions, on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2009, the present value of the Group's defined benefit obligation is CHF 1 520 million (2008 CHF 1 425 million) for funded plans and CHF 18 million (2008: CHF 18 million) for unfunded plans. The plan assets at fair value amount to CHF 1 408 million (2008: CHF 1 301 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 130 million (2008: CHF 142 million) (see note 24).

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

Impairment test of property, plant and equipment, intangible assets and goodwill The Group has carrying values with regard to property, plant and equipment of CHF 2 590 million (2008: CHF 2 723 million), goodwill of CHF 445 million (2008: CHF 448 million) and intangible assets of CHF 275 million (2008: CHF 292 million) (see notes 6 and 7). All of these assets are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

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 2009 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experiences with similar transactions, the quality delivered will be accepted. Therefore it is appropriate to recognize revenue on this transaction during 2009. Moreover, the Group has various contract agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to Management's judgments, risks and rewards have been transferred to the customer. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

30 Events after the balance sheet date

No noteworthy events occurred after the balance sheet date.
The Board of Directors authorized the consolidated financial statements for issue on 25 February 2010.

31 Financial risk management

31.1 Overall risk management policy

Lonza is exposed in particular to credit and liquidity risk as well as to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities, and forecasted transactions.
Lonza's overall risk management policy aims to limit these market 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 co-operation with Lonza's business units. Group Treasury also has the sole responsibility for carrying out foreign exchange transactions and executing financial derivative transactions with third parties.

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

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

31.2 Credit risk

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

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

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

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

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

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	2008	2009
Financial assets – available for sale		
Other investments – available for sale – carried at cost	0	0
Total financial assets – available for sale	**0**	**0**
Loans and receivables		
Trade receivables, net	452	528
Other receivables and accrued income	95	87
Short-term advances and other financial assets	2	1
Long-term loans	9	32
Cash and cash equivalents	566	140
Total loans and receivables	**1 124**	**788**
Financial assets at fair value through profit or loss – held for trading		
Currency-related instruments	67	10
Total financial assets at fair value through profit or loss – held for trading	**67**	**10**
Total	**1 191**	**798**

31.3 Liquidity risk

Liquidity risk is the risk that Lonza will not be able to meet its financial obligations as they fall due. Lonza's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza's reputation. Group Treasury maintains flexibility in funding also using bilateral credit lines. Lonza concludes the following lines of credit:

Committed credit lines of CHF 405 million. Lines are committed for up to two years.

Uncommitted credit lines of CHF 410 million with a maturity of one year.

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

31 December 2009	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	297	344	11	11	322	0
Straight bond (2005–2010)	300	308	308	0	0	0
Syndicated loan	497	530	15	515	0	0
Due to banks	68	68	46	22	0	0
Due to others	167	167	166	1	0	0
Leasing	10	10	3	0	7	0
Total debt	**1 339**	**1 427**	**549**	**549**	**329**	**0**
Trade payables	196	196	196	0	0	0
Other short-term liabilities	327	327	327	0	0	0
Total financial liabilities	**1 862**	**1 950**	**1 072**	**549**	**329**	**0**

31 December 2008	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2005–2010)	299	316	8	308	0	0
Convertible bonds	391	400	400	0	0	0
Syndicated loan	498	545	15	15	515	0
Due to banks	598	604	601	0	3	0
Due to others	247	257	181	76	0	0
Leasing	13	13	3	0	0	10
Total debt	**2 046**	**2 135**	**1 208**	**399**	**518**	**10**
Trade payables	212	212	212	0	0	0
Other short-term liabilities	492	492	492	0	0	0
Total financial liabilities	**2 750**	**2 839**	**1 912**	**399**	**518**	**10**

31.4 Market risk

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

Foreign exchange risk Lonza is exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities. The currencies in which these transactions are primarily denominated are USD, EUR, GBP, SGD, JPY and CNY.

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

At 31 December 2009, if the US dollar had weakened / strengthened versus the Swiss franc by 10 %, with all other variables held constant, post-tax profit for the year would have been CHF 7.2 million (2008: CHF 3.0 million higher / lower) lower / higher, mainly as a result of foreign exchange losses / gains on translation of US dollar-denominated trade receivables, cash and cash equivalents and short-term liabilities. Equity would have been CHF 1.2 million higher / lower.

At 31 December 2009, if the Euro had weakened / strengthened versus the Swiss franc by 5 %, with all other variables held constant, post-tax profit for the year would have been CHF 2.9 million (2008: CHF 1.7 million) lower / higher, mainly as a result of foreign exchange losses / gains on translation of EUR-denominated trade receivables, cash and cash equivalents, other short-term liabilities and trade payables. There is no impact on equity.

At 31 December 2009, if the pound sterling had weakened / strengthened versus Swiss franc by 10 %, with all other variables held constant, post-tax profit for the year would have been CHF 0.8 million (2008: CHF 1.7 million lower / higher) higher / lower, mainly as a result of foreign exchange losses / gains on translation of GBP-denominated trade receivables and other short-term liabilities. There is no impact on equity.

At 31 December 2009, if the Japanese yen had weakened / strengthened versus the Swiss franc by 5 %, with all other variables held constant, post-tax profit for the year would have been CHF 0.2 million (2008: CHF 0.5 million) lower / higher, mainly as a result of foreign exchange gains on currency-related instruments. Equity would have been CHF 0.4 million higher / lower.

At 31 December 2009, if the Renminbi had weakened / strengthened versus the Swiss franc by 10 %, with all other variables held constant, post-tax profit for the year would have been CHF 1.4 million (2008: CHF 3.4 million) higher / lower, mainly as a result of foreign exchange losses / gains on translation of CNY-denominated borrowings and other short-term liabilities. There is no impact on equity.

Commodity price risk Lonza needs LPG as raw material for a cracker in Visp. Butane, naphta or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the butane price risk via swaps. At 31 December 2009, if the Butane price had weakened / strengthened by 10 %, with all other variables held constant, the impact on equity would have been CHF 1.6 million (2008: CHF 1.8 million higher / lower) lower / higher.

Lonza's exposure to foreign currency risk was as follows based on notional amounts:

31 December 2009 million CHF	USD	GBP	EUR	CHF	JPY	CNY	SGD	CZK	Other	Total
Other investments	0	0	0	0	0	0	0	0	0	0
Trade receivables, net	120	36	86	0	1	3	0	0	0	246
Other receivables, prepaid expenses and accrued income	7	11	4	0	0	3	1	0	0	26
Short-term advances and other financial assets	0	0	0	0	0	0	0	1	0	1
Cash and cash equivalents	27	5	21	0	0	4	0	0	1	58
Long-term debt	0	0	0	0	0	0	0	0	0	0
Other short-term liabilities	(63)	(70)	(36)	(1)	0	(14)	(11)	1	0	(194)
Trade payables	(15)	0	(30)	(1)	0	(3)	(9)	0	0	(58)
Short-term debt	(1)	0	0	0	0	(9)	0	0	0	(10)
Gross balance sheet exposure	**75**	**(18)**	**45**	**(2)**	**1**	**(16)**	**(19)**	**2**	**1**	**69**
Estimated forecast purchases	25	0	0	0	0	0	0	0	0	25
Gross exposure	**25**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**25**
Currency-related instruments	4	9	24	0	10	0	20	6	0	73
Net exposure	**104**	**(9)**	**69**	**(2)**	**11**	**(16)**	**1**	**8**	**1**	**167**

31 December 2008 million CHF	USD	GBP	EUR	CHF	JPY	CNY	SGD	CZK	Other	Total
Other investments	0	0	0	0	0	0	0	0	0	0
Trade receivables, net	89	21	89	4	1	6	1	0	2	213
Other receivables, prepaid expenses and accrued income	2	7	8	0	0	7	2	2	0	28
Short-term advances and other financial assets	0	0	0	0	0	0	0	2	0	2
Cash and cash equivalents	301	11	35	1	0	4	10	0	1	363
Long-term debt	(74)	0	0	0	0	0	0	0	0	(74)
Other short-term liabilities	(112)	(56)	(20)	0	0	(5)	(13)	0	0	(206)
Trade payables	(15)	(1)	(32)	(1)	0	(4)	(16)	0	0	(69)
Short-term debt	0	0	0	0	0	(46)	0	0	0	(46)
Gross balance sheet exposure	**191**	**(18)**	**80**	**4**	**1**	**(38)**	**(16)**	**4**	**3**	**211**
Estimated forecast purchases	(170)	0	0	0	0	0	0	0	0	(170)
Gross exposure	**(170)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(170)**
Currency-related instruments	(52)	0	(42)	0	0	0	6	0	0	(88)
Net exposure	**(31)**	**(18)**	**38**	**4**	**1**	**(38)**	**(10)**	**4**	**3**	**(47)**

The following exchange rates were applied during the year:

Balance sheet year-end rates		2008	2009
EU	Euro	1.4896	1.4849
USA	Dollar	1.0571	1.0297
Great Britain	Pound sterling	1.5321	1.6617
Singapore	Singapore Dollar	0.7360	0.7354
China	Renminbi	0.1551	0.1508
Income statement year-average rates			
EU	Euro	1.5868	1.5097
USA	Dollar	1.0824	1.0858
Great Britain	Pound sterling	1.9969	1.6948
Singapore	Singapore Dollar	0.7646	0.7463
China	Renminbi	0.1559	0.1589

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

Based on the outstanding debt at 31 December 2009, if interest rates on CHF-denominated short-term borrowings had been 100 basis points higher / lower with all other variables held constant, the impact on post-tax profit for the year would have been CHF 1.8 million (2008: 2.7 million) lower / higher. Other components of equity would have been CHF 9.9 million (2008: CHF 14.0 million) lower / higher.

At 31 December 2009, if interest rates on USD-denominated borrowings at that date had been 100 basis points higher / lower with all other variables held constant, the impact on post-tax profit for the year would have been CHF 1.9 million (2008: CHF 2.2 million) lower / higher, mainly as a result of higher / lower interest expense on floating-rate borrowings. No impact is evaluated for a change in equity.

31.5 Overview of derivative financial instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2009 and 2008. 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 had to recover these trades.

Financial instruments at fair value through profit or loss – held for trading	2008	2009	2008	2009	2008	2009	2008	2009
million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	121	64	6	0	(1)	0	5	0
– Currency swaps	714	702	61	10	(6)	(6)	55	4
Total currency-related instruments	**835**	**766**	**67**	**10**	**(7)**	**(6)**	**60**	**4**
Total financial instruments at fair value through profit or loss – held for trading	**835**	**766**	**67**	**10**	**(7)**	**(6)**	**60**	**4**

Financial instruments effective for hedge-accounting purposes	2008	2009	2008	2009	2008	2009	2008	2009
million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– US dollar time deposit	170	0	0	0	(19)	0	(19)	0
– US dollar cash deposit	0	26	0	0	0	(1)	0	(1)
– Forward foreign exchange rate contracts	132	9	9	0	0	0	9	0
Total currency-related instruments	**302**	**35**	**9**	**0**	**(19)**	**(1)**	**(10)**	**(1)**
Interest-related instruments								
– Interest rate swaps	500	500	0	0	(19)	(18)	(19)	(18)
Total interest-related instruments	**500**	**500**	**0**	**0**	**(19)**	**(18)**	**(19)**	**(18)**
Commodity-related instruments								
– Butane swap	56	20	0	2	(37)	0	(37)	2
Total commodity-related instruments	**56**	**20**	**0**	**2**	**(37)**	**0**	**(37)**	**2**
Total financial instruments effective for hedge-accounting purposes	**858**	**555**	**9**	**2**	**(75)**	**(19)**	**(66)**	**(17)**

Financial instruments by currency Forward foreign exchange rate contracts and currency swaps million CHF	2008	2009
USD	736	453
GBP	27	36
EUR	123	141
CZK	125	116
JPY	5	10
DKK	5	10
SGD	116	21
CAD	0	14
Total	**1 137**	**801**
Commodity swap	56	20
Interest rate swap	500	500
Total financial instruments	**1 693**	**1 321**

Positive fair values of derivatives are included in the balance sheet caption “Other receivables, prepaid expenses and accrued income”. Negative fair values of derivatives are included in the balance sheet caption “Other short-term liabilities”.

The following hedges were included:
– Cash flow hedges on highly probable payments in foreign currency in 2009 and 2010
– Cash flow hedges on highly probable payments for raw materials (butane)

31.6 Financial instruments carried at fair value

The Group applied the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
– Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
– Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
– Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	2009				2008
million CHF	Level 1	Level 2	Level 3	Total fair value	Fair value
Assets					
Derivative financial instruments	0	12	0	12	76
Liabilities					
Derivative financial instruments	0	(24)	0	(24)	(63)
Net assets and liabilities measured at fair value	**0**	**(12)**	**0**	**(12)**	**13**

In 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

31.7 Carrying amounts and fair values of financial instruments by category

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

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

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

Carrying amounts and fair values of financial instruments by category million CHF	31 12 2008	31 12 2009	31 12 2008	31 12 2009
	Carrying amount		Fair value	
Financial assets – available for sale				
Other investments – available for sale – carried at cost	0	0	0	0
Total financial assets – available for sale	**0**	**0**	**0**	**0**
Loans and receivables				
Trade receivables, net	452	528	452	528
Other receivables and accrued income	95	87	95	87
Short-term advances and other financial assets	2	1	2	1
Long-term loans	9	32	9	32
Cash and cash equivalents	566	140	566	140
Total loans and receivables	**1 124**	**788**	**1 124**	**788**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	67	10	67	10
Total financial assets at fair value through profit or loss – held for trading	**67**	**10**	**67**	**10**
Financial liabilities at amortized cost				
Long-term debt	894	824	879	839
Other short-term liabilities	485	321	485	321
Trade payables	212	196	212	196
Short-term debt	1 152	515	1 152	515
Total financial liabilities at amortized cost	**2 743**	**1 856**	**2 728**	**1 871**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	7	6	7	6
Total financial liabilities at fair value through profit or loss – held for trading	**7**	**6**	**7**	**6**

31.8 Capital management

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

At present, employees hold one percent of ordinary shares, or just under three percent assuming that all outstanding share options vest and / or are exercised.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10 % and 15 %; in 2009, the return was 7.0 % after special charges (2008: 22.0 %). The return on shareholders' equity before special charges would have been 12.3 %. In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 3.2 % (2008: 3.0 %).

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 option programme. Lonza does not have a defined share buy-back plan.

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

32 Segment information

32.1 General information

According to the requirements of the standard IFRS 8 "Operating Segments", Lonza identified the following three operating segments:

- Custom Manufacturing
- Life Science Ingredients
- Bioscience

which are described as follows:

The Custom Manufacturing segment is the partner to pharmaceutical and biopharmaceutical customers for their manufacturing needs. Using a variety of technology, ingredients are manufactured for ultimate use in many critical drugs, treating patients in areas such as cardiovascular diseases, cancer, neurological and infectious diseases. Its product capabilities include both small and large molecules, resulting from technology processes such as chemical synthesis, peptide synthesis, biotransformation, microbial fermentation and mammalian cell culture.

The Life Science Ingredients segment offers products used in nutrition, microbial control and in selected industrial markets. The customers of this business segment are manufacturers of consumer and health products, distributors, formulators and service companies. The ingredients range from active biocides to nutritional ingredients and include complex chemical intermediates for the agricultural industry.

The Bioscience segment offers tools that life-science customers use to discover, develop, make and test therapeutics. Its customers are worldwide pharmaceutical and biotechnology companies, as well as academic and government research organizations. Bioscience's products range from cell culture and molecular biology tools for life-science research, to media used in the production of therapeutics and tests for microbial detection.

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

32.2 Information about reportable segment profit or loss, assets and liabilities including reconciliations

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

Year ended 31 December 2009 million CHF		Custom Manu-facturing	Life Science Ingredients	Bioscience	Total operating segments	Corpo-rate / Elimi-nations	Group total
Sales third-party		**1 418**	**1 038**	**231**	**2 687**	**3**	**2 690**
Inter-segment sales[1]		34	149	6	189	(189)	0
Total sales		**1 452**	**1 187**	**237**	**2 876**	**(186)**	**2 690**
Result from operating activities (EBIT)		**127**	**119**	**18**	**264**	**(25)**	**239**
– Percentage return on sales	%	9.0	11.5	7.8	9.8	n.a.	8.9
Financial income							10
Financial expenses							(63)
Other investment income / (loss)							0
Net financing costs							**(53)**
Share of profit of associates							0
Gain on sale of assets held for sale							0
Profit before income taxes							**186**
Income taxes							(27)
Profit for the period							**159**
Included in result from operating activities (EBIT):							
– Other operating income		109	19	5	133	3	136
– Other operating expenses		(19)	(5)	(1)	(25)	(4)	(29)
– Research and development		92	37	12	141	4	145
– Depreciation and amortization		181	71	17	269	9	278
– Impairment losses on intangible and fixed assets		71	8	4	83	0	83
– Write-down of inventories		20	1	1	22	0	22
– Restructuring expenses		17	2	3	22	3	25
– Environmental expenses		4	7	0	11	0	11
Total assets		3 095	1 175	779	5 049	(105)	4 944
Total liabilities		1 769	858	447	3 074	(519)	2 555
Total equity		1 326	317	332	1 975	414	2 389
Net financial (assets) / liabilities		883	661	352	1 896	(385)	1 511
Net capital invested[2]		2 209	978	684	3 871	29	3 900
Return on net capital invested (RONOA)[3]	%	5.8	11.9	5.4	6.6	n.a.	6.7
Included in total reportable segment assets:							
Total property, plant and equipment		1 705	748	97	2 550	40	2 590
– Additions to property, plant and equipment[4]		318	138	40	496	9	505
Total goodwill and intangible assets		165	22	521	708	12	720
– Additions to goodwill and intangible assets[4]		2	2	7	11	4	15
Investments in associates		0	0	0	0	12	12
– Additions to investment in associates[4]		0	0	0	0	1	1
Headcount		4 122	2 774	948	7 844	542	8 386
Average headcount		4 183	2 834	969	7 986	438	8 424

[1] Inter-segment sales were based on prevailing market prices.
[2] Net capital invested comprises all operating assets less operating liabilities.
[3] Calculated at historical monthly average rates
[4] Excluding impact of business combinations, calculated at average rates

Year ended 31 December 2008 million CHF		Custom Manu-facturing	Life Science Ingredients	Bioscience	Total operating segments	Corpo-rate / Elimi-nations	Group total
Sales third-party		**1 512**	**1 196**	**222**	**2 930**	**7**	**2 937**
Inter-segment sales[1]		26	158	2	186	(186)	0
Total sales		**1 538**	**1 354**	**224**	**3 116**	**(179)**	**2 937**
Result from operating activities (EBIT)		**279**	**163**	**19**	**461**	**(20)**	**441**
– Percentage return on sales	%	18.5	13.6	8.6	15.7	n.a.	15.0
Financial income							32
Financial expenses							(88)
Other investment income / (loss)							0
Net financing costs							**(56)**
Share of profit of associates							(1)
Gain on sale of assets held for sale						91	91
Profit before income taxes							**475**
Income taxes							(56)
Profit for the period							**419**
Included in result from operating activities (EBIT):							
– Other operating income		57	11	2	70	17	87
– Other operating expenses		(26)	(22)	(3)	(51)	0	(51)
– Research and development		85	38	29	152	0	152
– Depreciation and amortization		157	67	15	239	11	250
– Release of negative goodwill		(14)	0	0	(14)	0	(14)
Total assets[2]		3 204	1 154	781	5 139	487	5 626
Total liabilities[3]		2 206	796	114	3 116	576	3 692
Total equity		998	358	667	2 023	(89)	1 934
Net financial (assets) / liabilities		1 129	613	9	1 751	83	1 834
Net capital invested[4]		2 127	971	676	3 774	(6)	3 768
Return on net capital invested (RONOA)[5]	%	13.9	17.9	6.9	12.8	n.a.	13.8
Included in total assets:							
Total property, plant and equipment		1 920	694	71	2 685	38	2 723
– Additions to property, plant and equipment[6]		485	113	8	606	16	622
Total goodwill and intangible assets		172	23	531	726	14	740
– Additions to goodwill and intangible assets[6]		3	3	8	14	12	26
Investments in associates		0	0	0	0	12	12
Assets held for sale		0	0	0	0	4	4
Headcount		4 244	2 894	989	8 127	335	8 462
Average headcount		4 121	2 769	888	7 778	309	8 087

32.3 Measurement of operating segment profit or loss

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

[1] Inter-segment sales were based on prevailing market prices.
[2] Total assets disclosed; in previous year's annual report, operating assets were shown.
[3] Total liabilities disclosed ; in previous year's annual report, operating liabilities were shown.
[4] Net capital invested comprises all operating assets less operating liabilities.
[5] Calculated at historical monthly average rates
[6] Excluding impact of business combinations, calculated at average rates

32.4 Geographical information

Year ended 31 December 2009 million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	341	1 037	45	15	1	1 098
Spain	21	239	1	0	9	249
Czech Republic	3	165	0	0	0	165
Belgium	28	75	2	105	0	182
United Kingdom	194	50	0	20	0	70
Germany	177	22	62	86	0	170
France	200	1	1	13	0	15
Rest of Europe	267	2	4	29	1	36
Europe	**1 231**	**1 591**	**115**	**268**	**11**	**1 985**
United States	939	579	89	169	1	838
Rest of North America	26	1	0	0	0	1
North America	**965**	**580**	**89**	**169**	**1**	**839**
Latin America	**51**	**0**	**0**	**0**	**0**	**0**
Singapore	96	240	69	0	4	313
China	111	178	1	4	7	190
Japan	111	0	1	0	0	1
Rest of Asia	110	1	0	3	1	5
Asia	**428**	**419**	**71**	**7**	**12**	**509**
Other countries	15	0	0	1	0	1
Total	**2 690**	**2 590**	**275**	**445**	**24**	**3 334**

Year ended 31 December 2008 million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	388	1 019	47	15	0	1 081
Spain	25	255	2	0	0	257
Czech Republic	6	182	0	0	0	182
Belgium	36	74	1	106	0	181
United Kingdom	221	47	0	18	0	65
Germany	169	24	64	87	0	175
France	232	0	0	13	0	13
Rest of Europe	294	2	4	28	0	34
Europe	**1 371**	**1 603**	**118**	**267**	**0**	**1 988**
United States	1 058	607	98	173	1	879
Rest of North America	34	4	0	0	0	4
North America	**1 092**	**611**	**98**	**173**	**1**	**883**
Latin America	**47**	**0**	**0**	**0**	**0**	**0**
Singapore	106	360	74	0	4	438
China	95	149	1	4	8	162
Japan	110	0	0	0	0	0
Rest of Asia	101	0	0	3	0	3
Asia	**412**	**509**	**75**	**7**	**12**	**603**
Other countries	15	0	1	1	1	3
Total	**2 937**	**2 723**	**292**	**448**	**14**	**3 477**

32.5 Information about major customers

In 2009, Lonza's largest customer accounts for 7.6 % and the second, third and fourth largest ones for 6.1 %, 5.2 % and 4.9 % in relation to sales. No other customer accounts for 3.5 % or more of Lonza's sales.

33 Disclosures on Board and Management compensation

33.1 Method of determining compensation and the shareholding programs

In 2005, the Board of Directors analyzed the Management's compensation package based on a market study of comparable companies and concluded that the Management's compensation was not competitive enough to continue to attract and retain the talents required for the successful implementation of the ambitious strategic goals of the company. As a consequence, the Nomination and Compensation Committee restructured the compensation plans for the Management Committee as of 2006. To elaborate the new compensation plans, the Nomination and Compensation Committee was supported by the analysis conducted by external consultants.

A new plan was implemented for the members of the Management Committee effective 1 January 2006, and remained unchanged again in 2009. Under the new plan, base salary targets market-average levels, with the potential for executives to earn above the market average through a combination of attractive short- and long-term incentive programs. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders.

The members of the Management Committee receive an annual base salary. In addition, they are eligible for an annual incentive, the Short-Term Incentive (STIP), and the Long-Term Incentive for Senior Management and Key Employees (LTIP).

For the Management Committee, the STIP is weighted at a minimum of 80 % of the financial target of Economic Value Added (EVA), and a maximum of 20 % of individual qualitative targets, linked to the delivery of strategic milestones. A percentage of base salary ranging from 40 % to 70 % is targeted. Depending upon achievement against the targets, the incentive is paid in cash.

The LTIP is a stock bonus plan. The plan establishes targets for Total Shareholder Return (TSR) to exceed an index of industry peers by 5 % per year on average over three years. The second target is Earnings Per Share (EPS) to increase by 50 % over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 100 % to 200 % of base salary. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. Besides the members of the Management Committee, the upper management, as well as specialists and experts, are also included in this program and therefore in the company's mid-term and long-term goals.

The LTIP did not provide any compensation for the Management Committee until 2009, therefore a three-year "Bridge the Gap" plan was also launched in 2006. This plan provides share grants for the Management Committee. The shares were granted from January 2006 until January 2008 and will vest over a one- to three-year period.

Members of the Management Committee receive customary additional benefits such as a company car, health insurance and in some cases contributions to children's education.

Board of Directors The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. In 2009, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.766 million[1] (2008: CHF 2.629 million[1]), 65.57 % (2008: 65.93 %) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are rated at the market price at grant date, with a discount rate of 20 %. They are blocked for a period of three years. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza.

[1] Including social security and withholding tax

Board of Directors' compensation	2008				2009			
	Cash payment[1] CHF	Number of shares	Value of shares[2] CHF	Total CHF	Cash payment[1] CHF	Number of shares	Value of shares[2] CHF	Total CHF
Rolf Soiron Chairman of the Board	204 018	2 856	354 398	558 416	204 145	3 632	354 949	559 094
Richard Sykes Vice-Chairman of the Board	87 500	2 643	327 885	415 385	96 875	3 733	363 093	459 968
Julia Higgins Member of the Board	165 000	1 358	168 458	333 458	185 625	1 951	189 620	375 245
Peter Kalantzis Member of the Board	124 018	1 707	211 858	335 876	31 036	466	52 854	83 890
Gerhard Mayr Member of the Board	78 013	2 130	264 493	342 506	88 029	2 665	260 546	348 575
Peter Wilden Member of the Board	144 018	1 995	247 585	391 603	144 145	2 538	248 073	392 218
Patrick Aebischer Member of the Board	93 013	1 296	158 587	251 600	124 145	2 174	212 505	336 650
Frits van Dijk Member of the Board					78 109	1 413	131 949	210 058
Total	**895 580**	**13 985**	**1 733 264**	**2 628 844**	**952 109**	**18 572**	**1 813 589**	**2 765 698**

In 2009, one member of the Board of Directors has given up his function and a new member was elected at the Annual General Meeting on 08 April 2009. (2008: no members gave up their function, but a new member joined the Board of Directors).

Management Committee One member of the Management Committee gave up her function in the year under review. The acting members of the Management Committee received, for their contributions and time served in 2009, CHF 5.264 million[3] (2008: CHF 5.742 million) in cash and additional benefits, and 51 817 shares (2008: 43 733 shares), equivalent to a value of CHF 2.766 million (2008: CHF 3.656 million).

Management Committee's compensation million CHF	2008	2009
Base salary[4]	2.962	3.234
Incentive[3]	2.047	0.554
Post-employment benefits[5]	0.334	0.385
Other benefits[6]	0.399	0.478
Severance payments	0.000	0.613
Share-/option-based payments[7]		
Value of LTIP Bridge the Gap shares (number of shares 2008: 9 401; 2009: 472)	1.294	0.050
Value of LTIP shares (number of shares 2008: 34 332; 2009: 51 345)	2.362	2.716
Total	**9.398**	**8.030**

The highest compensation conferred on a member of the Management Committee was paid to Mr. Stefan Borgas. Mr. Borgas received CHF 1 272 218 (2008: CHF 1 855 722) paid in cash and shares to a value of CHF 891 505 (2008: CHF 1 466 747). This includes the shares of the LTIP, which are blocked between one and three years.

[1] Including social security and withholding tax
[2] The fair values were calculated using the market price at grant date, see note 25 in the financial part of the Lonza Annual Report 2009.
[3] Includes incentive 2009, paid in March 2010
[4] 2008: 6 members; 2009: 7 members
[5] Social security and pension fund
[6] E.g. company car, health insurance and tuition
[7] The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the financial part of the Lonza Annual Report 2009.

In 2009, there were 7 members (2008: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.5 full-time equivalents (2008: 6.0 full-time equivalents). One acting member of the Management Committee has given up her function.

The members of the Board of Directors and the Management Committee who gave up their functions in 2009 did not receive any credits or benefits in kind (2008: ditto). In 2009, a severance payment, based on the work contract, was made to one member of the Management Committee who gave up her function (2008: no severance payment). In 2009, one member of the Board of Directors and one of the Management Committee gave up their function.

The Management Committee has variable notice periods up to a maximum of 12 months. There is no special regulation in the event of change of control.

Conflict of interest No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

33.2 Compensation for former members of governing bodies

Compensation of CHF 0.085 million was paid to a former member of governing bodies (2008: CHF 0.540 million); this was already contained in the personnel expenses 2006.

33.3 Share allotment

In the reporting year 2009, the members of the Board of Directors received shares as part of their total remuneration. There were no further share allotments, except as stated in note 33.1 of this report. In note 33.1, the allotment of the LTIP shares for the Management Committee is included. These shares are only granted if the targets are met. As described in note 33.1, this plan did not provide any income before 2009.

33.4 Share ownership

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as per 31 December 2009, a total of 65 943 (2008: 66 154) registered shares in Lonza Group Ltd and controlled 0.12 % (2008: 0.13 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates. The members of the Management Committee and parties closely associated with them[1] held 44 482 (2008: 17 130) registered shares in Lonza Group Ltd as per 31 December 2009.

Share ownership of Board of Directors and Management Committee as of 31 December 2009:

Board of Directors Lonza shares (numbers)	2008	2009
Rolf Soiron	21 348	26 491
Richard Sykes	11 104	11 427
Julia Higgins	5 577	7 484
Gerhard Mayr	6 109	7 878
Peter Wilden	7 438	9 121
Patrick Aebischer	1 296	2 738
Frits van Dijk		804

Management Committee Lonza shares (numbers)	2008	2009
Stefan Borgas	10 251	28 389
Uwe Böhlke	357	597
Anja Fiedler		472
Toralf Haag	3 215	6 717
Stephan Kutzer	500	5 640
Lukas Utiger	2 222	2 667

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

33.5 Options

Under various option schemes instituted from 2000 to 2005, options were granted to the members of the Board of Directors and the members of the Management Committee. As of 31 December 2009, no more options were held (2008: Stefan Borgas held 100 000 options).

Details on the development of the Lonza Option Plan are published in note 25.

33.6 Additional remuneration

During the year under review, none of the members of the Board of Directors or the Management Committee, or parties closely linked to such persons, has billed honoraria or other remunerations to Lonza Group Ltd or any subsidiaries for additional services performed.

33.7 Loans granted by governing bodies

No loans were granted to the Governing Bodies nor to parties closely linked to such persons, nor are there any loans outstanding from previous years.

34 Risk management process

Also in the reporting year 2009, the risk management review, which is now an established part of the process, was conducted during the first half of the year. The assessment of selected risks was re-appraised or adjusted in October.

The process of identifying and evaluating the risks involved the following steps:

- Identification and description of possible operational risks, carried out by the risk management officers in the business units and corporate functions
- Valuation of risks in terms of probability of occurrence and likely impact should they occur
- Development and initiation of measures for risk reduction (reducing the probability or impact), including assignment of responsibilities for implementation
- Verification and consolidation of results by the risk management officers at Group level
- Creation of a Group risk map, providing an overview of the most significant risks and a basis for detailed discussion and analysis.

At their meetings in May, the Management Committee and Board of Directors discussed the risk management process in detail and approved its findings. The risk management process, which has been conducted for several years, ensures a common basis of understanding between operational management and the Board of Directors in regard to the existing risks and the measures to be adopted.

For an innovative company, which is a technology leader in a number of fields, effective risk management is a key issue. Changes in personnel in the strategic business fields, operations involving critical chemicals, highly potent compounds, complex information systems and rapid technological advances, as well as the dynamic nature of the relevant markets, demand a critical assessment of the attendant risks on an ongoing basis.

This risk comprehension not only corresponds to our ethical principles, but is also clearly expected from us, particularly by our worldwide customers in the Custom Manufacturing area. The protection of employees, production facilities, raw material supplies, distribution channels and information systems from imminent negative influences and the preparation of alternative production capacity in case of unforeseen events are prerequisites for the selection of Lonza as a partner.

Financial Risk Management is disclosed in note 31.

Report of the Statutory Auditor

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

As statutory auditor, we have audited the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes on pages 10 to 74) of Lonza Group Ltd for the year ended 31 December 2009.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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

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

KPMG Ltd

Regula Wallimann
Licensed Audit Expert
Auditor in Charge

Norbert Strub
Licensed Audit Expert

Zurich, 25 February 2010

Personal approach for professional results

FINANCIAL REPORT

FINANCIAL STATEMENTS OF LONZA GROUP LTD

« Personal communication with our customers and stakeholders, but also within our teams, is an integral part of our culture. Constant exchange of information is critical to make sure that safety and quality requirements are known and applied by all responsible parties. Patrick Bayard, who works in the production of intermediates and active ingredients in the launch plant of our Visp site (Switzerland), is seen here sharing his know-how with a colleague. »

Balance Sheet – Holding

Assets[1] CHF		2008	2009
Fixed assets			
Property, plant and equipment		379 578	1 389 890
Investments		1 199 497 969	1 421 734 293
Long-term loans to subsidiaries and associates		967 737 514	1 067 135 751
Total fixed assets		**2 167 615 061**	**2 490 259 934**
Current assets			
Receivables:			
– From third parties		311 646	9 083
– From subsidiaries and associates		7 913 598	15 437 157
Prepaid expenses:			
– Third parties		84 073 816	13 704 375
– Subsidiaries and associates		6 638 058	5 363 150
Short-term advances:			
– Subsidiaries and associates		685 329 573	310 886 127
Marketable securities:			
– Own shares		81 891 176	50 104 134
Cash		352 246 553	46 204 139
Total current assets		**1 218 404 420**	**441 708 165**
Total assets		**3 386 019 481**	**2 931 968 099**

Liabilities and shareholders' equity[1] CHF		2008	2009
Shareholders' equity			
Share capital		50 450 000	52 920 140
Legal reserve:			
– General legal reserve		25 225 000	227 776 480
– Reserve for own shares		301 137 239	68 061 133
Available earnings brought forward		1 142 037 042	1 495 985 580
Profit for the year		208 085 503	96 490 269
Total shareholders' equity		**1 726 934 784**	**1 941 233 602**
Liabilities			
Long-term liabilities			
Long-term debt:			
– Due to third parties		800 000 000	500 000 000
Long-term provisions:			
– Due to third parties		867 830	1 027 583
Total long-term liabilities		**800 867 830**	**501 027 583**
Current liabilities			
Payables and other liabilities:			
– Due to third parties		11 488 399	1 183 891
– Due to subsidiaries and associates		41 052	283 569
Accrued expenses:			
– Due to third parties		69 869 545	39 500 082
– Due to subsidiaries and associates		2 547 706	327 748
Short-term provisions:			
– Due to third parties		0	719 709
Short-term debt:			
– Due to third parties		505 000 000	300 000 000
– Due to subsidiaries and associates		269 270 165	147 691 915
Total current liabilities		**858 216 867**	**489 706 914**
Total liabilities		**1 659 084 697**	**990 734 497**
Total liabilities and shareholders' equity		**3 386 019 481**	**2 931 968 099**
Shareholders' equity as a percentage of total assets	%	**51.0**	**66.2**

[1] At 31 December

Income Statement – Holding

CHF	2008	2009
Income		
Income from investments	237 665 547	158 741 819
Interest income	101 898 923	48 086 634
Other financial income	5 154 602	2 850 490
Other income	1 091 174	1 046 142
Income from sales of equipment	26 647	0
Total income	**345 836 893**	**210 725 085**
Expenses		
Personnel expenses	8 234 771	25 231 872
Other administrative expenses	6 676 703	6 564 695
Interest expenses	86 431 988	36 231 526
Other financial expenses	23 001 865	41 943 482
Taxes	5 353 850	1 956 942
Other expenses	2 555 354	2 152 811
Write-offs on property, plant and equipment	146 859	153 488
Write-offs on debts	5 350 000	0
Total expenses	**137 751 390**	**114 234 816**
Profit for the year	**208 085 503**	**96 490 269**

Notes to the Financial Statements – Holding

1 Contingent liabilities

At 31 December 2009, indemnity liabilities, guarantees and pledges in favour of third parties totaled CHF 424 879 760 (31 December 2008: CHF 558 202 772). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

2 Liabilities to personnel welfare institutions

31 December 2009: CHF 276 956 (31 December 2008: CHF 68 259).

3 Investments

See list of principal subsidiaries, page 22.

4 Major shareholders in accordance with Art. 663c of the Swiss Code of Obligation

See 1.2 Principal Shareholders in Corporate Governance, page 105.

5 Disclosures on Board and Management compensation in accordance with Art. 663b bis and Art. 663c para. 3 of the Swiss Code of Obligation

See note 33 in Consolidated Financial Statements, page 71.

6 Information about the risk assessment process in accordance with Art. 663b para. 12 CO

Lonza Group Ltd is fully integrated into the Group-wide risk management process of Lonza Group. The specific risks arising from the type and scope of Lonza Group Ltd's business activities are covered in the Group-wide risk management process. A detailed description of the risk management process can be found in note 34 of the Consolidated Financial Statements, page 74.

7 Own shares

At 31 December 2009, Lonza Group Ltd held 686 358 of its own registered shares with a par value of CHF 1 each (31 December 2008: 2 663 700), resulting in a reserve for own shares of CHF 68 061 133 (31 December 2008: CHF 301 137 239).

In 2009, Lonza Group Ltd acquired 101 676 registered shares, at an average market value of CHF 81.76. At the same time, Lonza Group Ltd sold 54 registered shares to third parties at an average market value of CHF 92.59. In order to satisfy the exercise of the different share and option plans in 2009, Lonza Group Ltd delivered 254 743 registered shares, at an average market value of CHF 85.89. A total of 686 358 of the registered shares with a par value of CHF 1 each (31 December 2008: 839 479) are reserved for the different share and option plans. In order to satisfy the conditions of the convertible bond in 2009, Lonza Finance Ltd delivered 1 822 545 registered shares at a convertible price of CHF 91.67 and sold 1 676 registered shares at a market value of CHF 109.70 to Lonza Group Ltd. At 31 December 2009, Lonza Finance Ltd no longer held any shares (31 December 2008: 1 824 221). At 31 December 2009, the total number of registered shares not entitled to a dividend was 686 358, with a par value of CHF 1 each (2008: 2 663 700).

8 Conditional capital

At the Annual General Meeting held on 11 April 2005, the creation of conditional capital up to a maximum of CHF 2.5 million was approved. The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 2 500 000 fully paid-in registered shares with a par value of CHF 1 each, up to a maximum aggregate amount of CHF 2.5 million through the exercise of conversion rights and / or warrants granted in connection with the issuance of bonds or similar debt instruments of the Group.

On 21 December 2009, Lonza Group Ltd created 2 470 140 fully paid-in registered shares with a par value of CHF 1 each and increased the general legal reserve in the amount of CHF 202 551 480.
At the Annual General Meeting held on 8 April 2009, the creation of conditional capital up to a maximum of CHF 5 million was approved. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association.
At 31 December 2009, Lonza Group Ltd had a fully paid-in registered capital of CHF 52 920 140 and a conditional capital of CHF 5 029 860.

9 Long / short-term debts

In May 2005, Lonza Group Ltd issued a 2.625 % bond of CHF 300 million, Tranche A CHF 250 million at an issue price of 100.27 % and Tranche B CHF 50 million at an issue price of 100.70 %, with maturity date 2 June 2010.

In February 2007, Lonza Group Ltd used the available syndicated loan facility in order to finance the acquisition of the Biopharma and Bioscience businesses from Cambrex. The facility was set up in December 2006 in an amount of CHF 500 million, with a maturity of five years and floating interest rates.

10 Additional notes

Exchange gains / losses Other financial expenses in 2009 include net exchange rate losses of CHF 21 698 789 (2008: CHF 18 478 531).

Own shares Other financial expenses in 2009 include a revaluation for own shares of CHF 14 291 901 (2008: CHF 3 665 097).

Long-term loans to subsidiaries and associates Lonza Group Ltd signed a subordination agreement of CHF 54 million (2008: 15 million).

Proposal of the Board of Directors

concerning the appropriation of available earnings

CHF	2008	2009
Available earnings brought forward	1 142 037 042	1 495 985 580
Profit for the year	208 085 503	96 490 269
Available earnings at the disposal of the Annual General Meeting	**1 350 122 545**	**1 592 475 849**
Payment of a dividend of CHF 1.75 (2008: CHF 1.75) per share on the share capital eligible for dividend of CHF 52 233 782 (2008: CHF 49 836 041)	87 213 072	91 409 119
Available earnings carry-forward	**1 262 909 473**	**1 501 066 730**
Decrease of reserve for own shares in the 2009 business year	233 076 107	
Available earnings brought forward after creation of reserve for own shares	**1 495 985 580**	

If the Annual General Meeting approves the above proposal from the Board of Directors, the dividend of CHF 1.75 per registered share, less 35 % withholding tax, will be paid as of 12 April 2010 at the offices designated in the publication organ of the company and in selected daily newspapers.

Basel, 25 February 2010

Rolf Soiron
Chairman of the Board

Stefan Borgas
Chief Executive Officer

Report of the Statutory Auditor

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

As statutory auditor, we have audited the financial statements (balance sheet, income statement and notes on pages 78 to 82) of Lonza Group Ltd for the year ended 31 December 2009.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

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

KPMG Ltd

Regula Wallimann
Licensed Audit Expert
Auditor in Charge

Norbert Strub
Licensed Audit Expert

Zurich, 25 February 2010

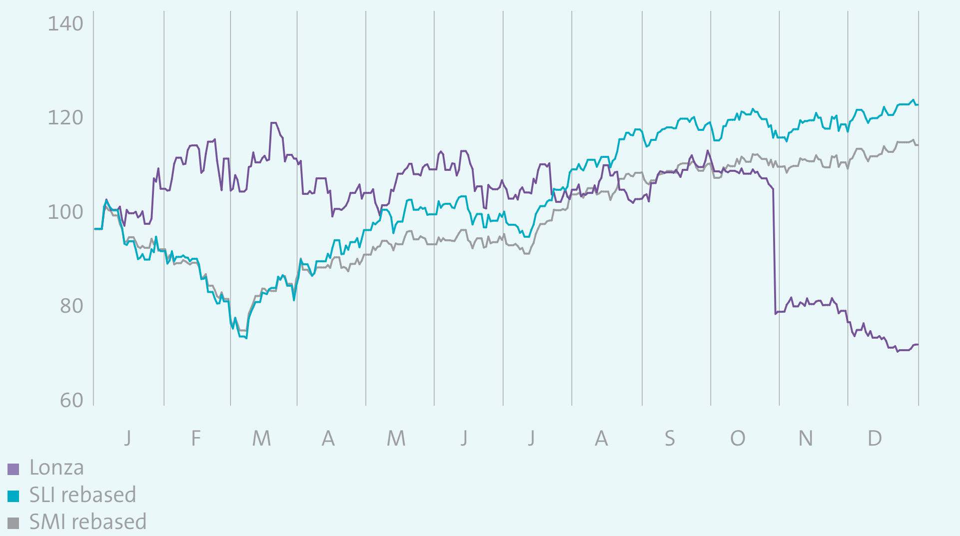
Investor Information

Lonza Group Ltd shares are listed on the SIX Swiss Exchange and included in the Swiss Market Index (SMI). The nominal value of the Lonza Group Ltd share amounts to CHF 1. Lonza Group Ltd shares closed at the end of 2009 at a price of CHF 73.00, which represents a decline of 25.2 % in 2009.

The most significant news releases, other than results publications, during the course of 2009 were the following:
– 20 January 2009: Teva and Lonza announce strategic partnership to become a leading global provider of biosimilars
– 23 January 2009: Lonza successfully starts up Nansha API facility
– 24 March 2009: Lonza participates in the United Nations Global Compact
– 23 April 2009: Lonza brings 2 000-liter microbial facility on stream in Hopkinton
– 29 April 2009: Lonza prices CHF 300 million 4-year straight bond
– 15 May 2009: Lonza expands Cell Therapy business with new facility in Singapore
– 22 June 2009: DSM and Lonza strengthen their partnership and renew the collaboration in Visp / Lalden Switzerland
– 1 July 2009: 4-year convertible bond fully converted
– 9 July 2009: Medarex and Lonza sign collaboration agreement for the supply of antibody-based products
– 6 August 2009: Lonza successfully starts up second phase of Nansha API facility
– 31 August 2009: Roche and Lonza announce opt-in for Singapore manufacturing facility
– 9 September 2009: Lonza opens new microbial control formulations plant in Nanjing
– 13 October 2009: Lonza expands cell-biology platform by acquiring Simbiosys Biowares' preclinical cell and molecular biology group
– 22 October 2009: Lonza acquires stake in Cilian AG
– 3 November 2009: Lonza acquires biotech service provider Algonomics

For a comprehensive review of the media releases issued during 2009, refer to www.lonza.com.

Lonza Group Ltd 2009 share price development versus the Swiss Leader Index and the Swiss Market Index, rebased



As a result of the SIX Swiss Exchange's decision to adjust the composition of its indices effective 21 September 2009, Lonza has become part of the SMI (Swiss Market Index) again.

The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2009 can be viewed at www.lonza.com/group/en/company/investor_relations.html.

The free float in Lonza Group Ltd registered shares reached 98.70 % at the year-end and the average daily trade volume was 364 652 shares in 2009.

Registered shares CHF		2008	2009
Number of shares issued		50 450 000	52 920 140
Number of shares ranking for dividend[1]		47 786 300	52 233 782
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	420	162
Diluted net income[2]	million CHF	430	162

Ratios per security[2]		2008	2009
Weighted average number of shares		47 696 400	50 773 075
Diluted weighted average number of shares		52 719 624	51 142 855
Basic earnings per share	CHF	8.81	3.19
Diluted earnings per share	CHF	8.15	3.17

Historical overview:

Ten-year overview of major highlights million CHF		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sales		1 703	2 521	2 536	2 242	2 182	2 521	2 914	2 870	2 937	2 690
Result from operating activities (EBIT)		406	542	302	139	212	297	344	408	441	239
Net capital invested		1 695	2 499	2 430	2 473	2 574	2 786	2 608	3 277	3 768	3 900
Return on net capital invested (RONOA)	%	20.2	16.8	16.8	12.2	8.4	11.0	12.4	14.1	13.8	6.7
Headcount		5 987	6 210	6 216	5 938	5 664	4 992	6 146	6 929	8 462	8 386

[1] See note 26
[2] See note 27

Statement of Value Added

	Note [1]		2008 million CHF	%		2009 million CHF	%
Origin of value added							
Income from production			3 138			2 825	
Dividend earned	21.3		0			0	
Total income			**3 138**	**100.0**		**2 825**	**100.0**
Services bought from third parties:							
– Material costs	18		(1 043)			(836)	
– Energy costs	18		(71)			(73)	
– Other operating expenses excl. capital taxes			(451)			(462)	
Gross value added			**1 573**			**1 454**	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment	6, 7		(250)			(361)	
Income from application of the equity method and gain on sale of assets held for sale	21.3		90			0	
Total net value added			**1 413**	**45.0**		**1 093**	**38.7**
Distribution of value added							
To staff:							
– Wages and salaries	19	684			663		
– Pensions	19	31			27		
– Other social security contributions	19	136			140		
– Other personnel expenses	19	23			15		
Total personnel cost			**874**	**61.8**		**845**	**77.3**
To public authorities:							
– Income and capital taxes	22		64	4.5		36	3.3
To lenders:							
– Financial expenses net	21.1, 21.2		56	4.0		53	4.8
To shareholders:							
– Dividends paid	page 13		83	5.9		87	8.0
To the company:							
– Profit for the period		419			159		
– Dividends paid	page 13	(83)	336	23.8	(87)	72	6.6
Total			**1 413**	**100.0**		**1 093**	**100.0**
Distribution of value added per employee			CHF				
Wages and salaries			84 580			78 704	
Pensions			3 834			3 205	
Other social security contributions			16 817			16 619	
Other personnel expenses			2 844			1 781	
Total per employee			**108 075**			**100 309**	

[1] See the accompanying Notes to the Consolidated Financial Statements

Free Cash Flow

The following is a summary of the free cash flow, using Lonza's definition. It includes earnings before interest, taxes and depreciation (EBITDA) and subtracts / adds the increase / decrease of operating net working capital, subtracts capital expenditures and adds disposal of fixed assets. It can be derived from the cash flow statement as follows:

million CHF		2008		2009
Profit for the period		**419**		**159**
Adjustments for:				
– Income taxes		56		27
– Net financing costs [1]		(34)		53
Result from operating activities (EBIT)		**441**		**239**
– Goodwill impairment		0		0
– Depreciation of property, plant and equipment		225		250
– Amortization of intangible assets		25		28
– Release of negative goodwill		(14)		0
– Impairment losses on property, plant, equipment and intangibles		0		83
– (Gain) / loss on disposal of assets		(5)		3
– (Gain) / loss on sale of subsidiary		0		(30)
– (Increase) / decrease in inventories	(135)		113	
– (Increase) / decrease in trade receivables	(25)		(124)	
– Increase / (decrease) in trade payables	(34)		(17)	
– (Increase) / decrease in other net working capital	(87)		(65)	
Change of operating net working capital		**(281)**		**(93)**
– Purchase of property, plant and equipment	(622)		(505)	
– Purchase of intangible assets	(26)		(15)	
– Proceeds from sale of tangible and intangible assets	22		6	
– Proceeds from assets held for sale	188		5	
– (Purchase) / proceeds from sale of other assets	(1)		(6)	
– Acquisition of subsidiaries, net of cash acquired	(157)		(1)	
– Disposal of subsidiaries, net of cash disposed of	0		84	
– (Decrease) / increase in other liabilities, net	222		3	
Operating investment net		**(374)**		**(429)**
Free cash flow		**17**		**51**

[1] Including share of profit of associates and gain on sale of assets held for sale

Ready to react
to customer requests

REMUNERATION REPORT

« Our employees respond quickly to requests and provide customers with tailor-made solutions. They cooperate with each other to make the most of their expertise, embodying the enterprising spirit that has been a characteristic of Lonza since its foundation in 1897. In our office in Mumbai (India), Anupama Shastry (left) from Human Resources, and Jyoti Vaz (right) from Marketing, work closely together to provide our internal and external customers with the best possible service. »

This Remuneration Report has been included to provide an overview of Lonza's compensation programs. In addition to a description of general compensation programs, it includes the compensation levels of the Board of Directors and the Management Committee. Some information from Notes 25, 26 and 33 of the Financial Report is repeated here.

Compensation Philosophy

Lonza's compensation philosophy is designed to serve two goals: to enable Lonza to become the employer of choice in our industry, and to motivate and reward employees based on the company's long-term financial success. Our culture is performance-oriented, with rewards based on the achievement of specific goals. All employees have the opportunity to profit from Lonza's financial success.

With regard to executive compensation, Lonza's philosophy is to compensate at an average level in base pay, combined with a variable component to encourage performance, but also with a defined upper limit. By putting a significant amount of total compensation "at risk", the company encourages its executives to take actions and make decisions with consideration for both short- and long-term performance, and in line with strategic objectives. By putting a defined upper limit in place in combination with long-term programs, the company discourages short-term actions that risk the health and financial stability of the company in the long term.

Base pay The base pay of Lonza employees and senior management is established by assessing the scope of the individual's job within the context of the relevant market, as well as personal experience, skills, abilities and ongoing performance. The base pay is comparable to the average level for a similar position in the industry. Potential increases in base pay are evaluated on an annual basis, and are based on the market situation along with the individual's performance.

Benefits Benefit programs are defined regionally, to meet local regulations and to take into consideration the competitive situation. These programs are designed to offer somewhat above-average benefits in comparison with the industry. The benefit packages are reviewed on a yearly basis.

Variable compensation and other programs Variable compensation and other programs are designed to provide employees with the opportunity to participate in the company's overall success and earn above-average total compensation. The Employee Share Purchase Plan is a share-savings plan open to all employees. The Incentive Programs are performance-oriented, and have both individual and company performance elements. The guiding principle for these plans is to motivate and reward employees on the company's long-term financial success as well as on the individuals' performance of specific goals. These plans include:

– Employee Share Purchase Plan (ESPP)
– Short-Term Incentive Plan (STIP)
– Long-Term Incentive Plan (LTIP)
– Share plans for recognizing extraordinary achievements (e.g. strategic projects)

Description of Compensation Plans

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

The minimum conditions to participate in ESPP Plus were in:
2005: ranging from CHF 500 to CHF 15 000
2006: ranging from 9 shares to 270 shares
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares

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

Details of share purchase plans		Purchased	Ratio	Allocated	Expiry date	Price at grant date CHF
ESPP	2005	71 181	3:1	23 727	15 05 2010	73.80
ESPP	2006	64 266	3:1	21 422	15 05 2011	87.90
ESPP	2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP	2008	51 000	3:1	17 000	13 05 2013	138.54

Development share purchase plans 2009		Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
ESPP	2005	23 283	0	0	(890)	0	22 393
ESPP	2006	20 890	0	0	(1 008)	0	19 882
ESPP	2007	17 194	0	0	(651)	0	16 543
ESPP	2008	17 000	0	0	(1 015)	0	15 985
Total shares		**78 367**	**0**	**0**	**(3 564)**	**0**	**74 803**

Development share purchase plans 2008		Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
ESPP	2005	23 283	0	0	0	0	23 283
ESPP	2006	20 890	0	0	0	0	20 890
ESPP	2007	17 194	0	0	0	0	17 194
ESPP	2008	0	17 000	0	0	0	17 000
Total shares		**61 367**	**17 000**	**0**	**0**	**0**	**78 367**

The weighted average share price at 31 December 2009 of the allocated shares was CHF 101.66 (2008: CHF 101.80).

The shares outstanding at the end of the year have a remaining weighted average contractual life of 21 months (2008: 33 months). Due to cost-saving measures the reissue of the share purchase plan was interrupted in 2009. The estimated fair value of the shares granted in 2008 was CHF 96.98.

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was between 20 % and 30 % in 2009 (2008: 30 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2005	1 225 737
ESPP 2005 discount	1 574 666
ESPP 2006	1 318 096
ESPP 2006 discount	1 694 694
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662

A total of 53 794 treasury shares with a par value of CHF 1 each (31 December 2008: 57 358 shares) is reserved for the share purchase plans.

Short-Term Incentive Plan (STIP) In 2005, the Board of Directors of Lonza Group Ltd implemented the current Short-Term Incentive Plan (STIP) for the majority of the Group's employees, including the Management Committee. This program provides the potential for an annual incentive based on the performance and job category of the individual, and the financial performance of their business unit and / or the Group. The amount of the potential incentive is expressed as a percentage of the salary, and varies by level, up to a maximum of 70 % for the chief executive officer. In this plan, every individual is assigned specific yearly financial and personal goals in writing. The weight of the financial goals increases with the level of the employee, up to 80 % of the total potential incentive. The personal goals are generally linked to strategic projects that Lonza must deliver in the year in order to build its growth for the future. Each goal is assessed for achievement at the end of the year. The assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.5 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is therefore capped at a maximum of 2.3 times the potential incentive amount. Based on the achievement of the goals against the targets, the incentive is paid in cash during the first half of the following year. About 90 % of our employees did participate in one of our short-term plans, either in the STIP or in the local bonus program.

Long-Term Incentive Plan (LTIP) In 2006, 2007, 2008 and 2009, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. Under the LTIP, selected key employees will be awarded the right to receive a number of registered shares of Lonza in the future, provided that certain service-related conditions are achieved. Depending on the level of the job category, the entitlement shall be between 10 % and 200 % of their annual base salary. This program is capped; under no condition can the incentive exceed the set percentage, even if the performance exceeds the set targets. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

The key employees will only receive title and ownership of the shares after a three-year vesting period and only if the conditions of vesting are fully or partially met. Conditions of vesting of the shares are as follows: The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR) achieved during the three fiscal years of Lonza compared with a defined industry peer group before the end of the vesting period. TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis of the percentage. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly. The vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual earnings per share (EPS) of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. EPS target is reached if Lonza increases its EPS within the vesting period by the percentage as set out. If the EPS target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly. If TRS and / or EPS minimum targets are not met, the share entitlement expires unconditionally.

In 2008, the peer group[1] was adapted to the new stock index classification.

[1] The peer group consists of: MSCI Chemicals, DSM, UCB, Crucell, Genentech, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific.

Details of long-term incentive plans	Grant date	Share price CHF	Granted shares	TSR	EPS	Vesting date
LTIP 2006	01 02 2006	80.50	102 131	12 %	50 %	31 01 2009
LTIP 2007	01 02 2007	117.70	80 705	12 %	50 %	31 01 2010
LTIP 2008	01 02 2008	137.60	85 011	5 %	50 %	31 01 2011
LTIP 2009	01 02 2009	106.10	121 356	5 %	50 %	31 01 2012

Conditions of vesting 2006	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	12 %	50.00 %
EPS	25 %	100 %	50 %	98.24 %
Volatility employees				3.00 %

Conditions of vesting 2007	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	12 %	50.00 %
EPS	25 %	100 %	50 %	100.00 %
Volatility employees				3.00 %

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

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

Market conditions	Market price CHF	Granted shares	Fair value TSR	Fair value of shares at grant date CHF	Expected vesting EPS	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2006	80.50	102 131	50 %	4 110 773	98.24 %	100 %	3 %	95.29 %	3 917 142
LTIP 2007	117.70	80 705	50 %	4 749 489	100.00 %	100 %	3 %	97.00 %	4 607 005
LTIP 2008	137.60	85 011	50 %	5 848 757	100.00 %	100 %	3 %	97.00 %	5 673 294
LTIP 2009	106.10	121 356	50 %	6 437 936	45.40 %	100 %	3 %	44.04 %	2 835 138

Development of long-term incentive plan 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
LTIP 2006	92 939	0	0	(92 939)	0	0
LTIP 2007	80 705	0	0	(605)	0	80 100
LTIP 2008	85 011	0	0	(594)	0	84 417
LTIP 2009	0	121 356	0	0	0	121 356
Total shares	**258 655**	**121 356**	**0**	**(94 138)**	**0**	**285 873**

Development of long-term incentive plan 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
LTIP 2006	98 932	0	(4 658)	(1 335)	0	92 939
LTIP 2007	80 705	0	0	0	0	80 705
LTIP 2008	0	85 011	0	0	0	85 011
Total shares	**179 637**	**85 011**	**(4 658)**	**(1 335)**	**0**	**258 655**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 105.97 (2008: CHF 141.00).

The weighted average share price at 31 December 2009 of the allocated shares was CHF 59.33 (2008: CHF 55.17). The shares outstanding at the end of year had a remaining weighted average contractual life of 15 months (2008: 12 months). The estimated fair value of the shares granted in 2009 was CHF 53.05 (2008: CHF 68.80).

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

Fair value at grant date	CHF
LTIP 2006	4 110 733
LTIP 2007	4 749 489
LTIP 2008	5 848 757
LTIP 2009	6 437 936

Long-Term Incentive Plan for Members of the Management Committee named “Bridge the Gap (MC shares)” The LTIP plan did not provide any compensation for the Management Committee until 2009. As a result, “Bridge the Gap” plan was also launched in 2006. This plan provides share grants for the Management Committee. The MC shares are subject to a restriction period. During the restriction period, an MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period.

Non-vested shares	Grant date	Share price	Granted shares	Vesting date
MC shares 2006	23 01 2006	85.55	4 158	31 12 2009
MC shares 2006	31 01 2006	80.50	10 226	31 01 2009
MC shares 2007	31 01 2007	117.70	2 960	31 01 2009
MC shares 2007	31 01 2007	117.70	5 921	31 01 2010
MC shares 2008	31 01 2008	137.60	2 578	31 01 2009
MC shares 2008	31 01 2008	137.60	2 578	31 01 2010
MC shares 2008	31 01 2008	137.60	5 155	31 01 2011
MC shares 2009	31 07 2009	105.90	472	31 07 2012

Development of long-term incentive plan for Management Committee 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
MC shares 2006	7 647	0	0	(7 647)	0	0
MC shares 2007	8 881	0	0	(2 960)	0	5 921
MC shares 2008	10 311	0	0	(2 578)	0	7 733
MC shares 2009	0	472	0	0	0	472
Total non-vested shares	**26 839**	**472**	**0**	**(13 185)**	**0**	**14 126**

Development of long-term incentive plan for Management Committee 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
MC shares 2006	19 497	0	(6 737)	(4 491)	(622)	7 647
MC shares 2007	11 841	0	0	(2 960)	0	8 881
MC shares 2008	0	10 311	0	0	0	10 311
Total non-vested shares	**31 338**	**10 311**	**(6 737)**	**(7 451)**	**(622)**	**26 839**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 106.10 (2008: CHF 141.00).

The weighted average share price at 31 December 2009 of the allocated shares was CHF 128.20 (2008: CHF 108.50). The shares outstanding at the end of the year had a remaining weighted average contractual life of 6 months (2008: 9 months). The estimated fair value of the shares granted in 2009 was 105.90 (2008: CHF 137.60).

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 0% (2008: 0%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
MC shares 2006	2 002 127
MC shares 2007	1 393 686
MC shares 2008	1 418 794
MC shares 2009	49 985

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

In recognition of extraordinary efforts on the part of employees for successful completion of projects or successful settlements, the Lonza Management Committee has the ability to provide a one-time award of Lonza shares.

Non-vested shares	Grant date	Share price	Granted shares	Vesting date
Integration Team Cambrex	31 01 2007	116.00	5 396	31 01 2009
Integration Team Canada	30 04 2007	118.70	469	30 04 2009
Integration Team Canada	30 04 2007	118.70	1 406	30 04 2010
Integration Team amaxa	02 07 2008	135.00	766	01 08 2009
Integration Team Hopkinton	31 03 2009	112.50	1 800	31 03 2010
Awards LIFT	15 01 2009	101.60	20	15 01 2009
Awards others	08 12 2009	75.65	50	08 12 2009

Development of the other share plans 2009	Outstanding 01 01 2009	Granted during 2009	Forfeited during 2009	Exercised during 2009	Expired during 2009	Outstanding 31 12 2009
Integration Team Cambrex	5 396	0	0	(4 967)	(429)	0
Integration Team Canada	1 875	0	0	(270)	(199)	1 406
Integration Team amaxa	766	0	0	(669)	(97)	0
Integration Team Hopkinton	0	1 800	0	0	0	1 800
Awards LIFT	0	20	0	(20)	0	0
Awards others	0	50	0	(50)	0	0
Total non-vested shares	**8 037**	**1 870**	**0**	**(5 976)**	**(725)**	**3 206**

Development of the other share plans 2008	Outstanding 01 01 2008	Granted during 2008	Forfeited during 2008	Exercised during 2008	Expired during 2008	Outstanding 31 12 2008
Integration Team Cambrex	0	5 396	0	0	0	5 396
Integration Team Canada	0	2 344	0	(216)	(253)	1 875
Integration Team amaxa	0	766	0	0	0	766
Total non-vested shares	**0**	**8 506**	**0**	**(216)**	**(253)**	**8 037**

The weighted average share price at the date of exercise for the non-vested shares exercised during the year was CHF 102.55 (2008: CHF 141.60).

The weighted average shares price at 31 December 2009 of allocated shares was CHF 115.22 (2008: CHF 118.44). The shares outstanding at the end of the year had a remaining weighted average contractual life of 3 months (2008: 4 months). The estimated fair value of the shares granted in 2009 was CHF 111.40 (2008: CHF 118.45)

The fair value was calculated using the market price at grant date. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was between 0 % and 42 % in 2009 (2008: between 0 % and 50 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Integration Team Cambrex	625 936
Integration Team Canada	150 037
Integration Team amaxa	103 410
Integration Team Hopkinton	202 500
Awards LIFT	2 032
Awards others	3 783

In order to satisfy the exercise of the long-term incentive plans, Lonza acquired 100 000 shares during 2009 (2008: 322 097 shares), at an average market value of CHF 81.29 (2008: CHF 109.74). A total of 484 215 treasury shares (2008: 513 272) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

Compensation of the Board of Directors

Board of Directors compensation The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. In 2009, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.766 million [1] (2008: CHF 2.629 million [1]), 65.57 % (2008: 65.93 %) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are rated at the market price at grant date, based on the average of the last five business days of each quarter, with a discount rate of 20 %. They are blocked for a period of three years and are eligible for a dividend. Access to these shares is only available in the fourth or later years. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza.

Board of Directors' compensation	2008				2009			
	Cash payment [1] CHF	Number of shares	Value of shares [2] CHF	Total CHF	Cash payment [1] CHF	Number of shares	Value of shares [2] CHF	Total CHF
Rolf Soiron Chairman of the Board	204 018	2 856	354 398	558 416	204 145	3 632	354 949	559 094
Richard Sykes Vice-Chairman of the Board	87 500	2 643	327 885	415 385	96 875	3 733	363 093	459 968
Julia Higgins Member of the Board	165 000	1 358	168 458	333 458	185 625	1 951	189 620	375 245
Peter Kalantzis Member of the Board	124 018	1 707	211 858	335 876	31 036	466	52 854	83 890
Gerhard Mayr Member of the Board	78 013	2 130	264 493	342 506	88 029	2 665	260 546	348 575
Peter Wilden Member of the Board	144 018	1 995	247 585	391 603	144 145	2 538	248 073	392 218
Patrick Aebischer Member of the Board	93 013	1 296	158 587	251 600	124 145	2 174	212 505	336 650
Frits van Dijk Member of the Board					78 109	1 413	131 949	210 058
Total	**895 580**	**13 985**	**1 733 264**	**2 628 844**	**952 109**	**18 572**	**1 813 589**	**2 765 698**

In 2009, one member of the Board of Directors gave up his function and a new member was elected at the Annual General Meeting on 08 April 2009 (2008: no members gave up their function, but a new member joined the Board of Directors).

The members of the Board of Directors did not receive any credits or benefits in kind in 2009 (2008: ditto).

Conflict of interest No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

[1] Including social security and withholding tax
[2] The fair values were calculated using the market price at grant date, see note 25 in the financial part of the Lonza Annual Report 2009.

Development of compensation

Development of compensation for Board of Directors 2006	Grant date	Total shares	Share price CHF	Fair values shares	Cash[1] CHF	Total CHF	Expiry date
	31 03 2006	3 773	88.65	334 476	145 000	479 476	31 03 2009
	30 06 2006	4 815	82.87	399 019	145 000	544 019	30 06 2009
	30 09 2006	4 687	85.14	399 051	145 000	544 051	30 09 2009
	31 12 2006	4 012	106.44	427 037	115 000	542 037	31 12 2009
Total		**17 287**	**90.22**	**1 559 583**	**550 000**	**2 109 583**	

The amount of CHF 2 109 583 was recognized as an expense in the year 2006.

Development of compensation for Board of Directors 2007	Grant date	Total shares	Share price CHF	Fair values shares	Cash[1] CHF	Total CHF	Expiry date
	31 03 2007	3 699	114.86	424 867	115 000	539 867	31 03 2010
	30 06 2007	3 843	111.13	427 073	115 000	542 073	30 06 2010
	30 09 2007	3 139	127.11	398 998	145 000	543 998	30 09 2010
	31 12 2007	2 941	135.60	398 800	145 000	543 800	31 12 2010
Total		**13 622**	**121.11**	**1 649 738**	**520 000**	**2 169 738**	

The amount of CHF 2 169 738 was recognized as an expense in the year 2007.

Development of compensation for Board of Directors 2008	Grant date	Total shares	Share price CHF	Fair values shares	Cash[1] CHF	Total CHF	Expiry date
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		**13 985**	**123. 94**	**1 733 264**	**670 000**	**2 403 264**	

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

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

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

Recognition in the Consolidated Financial Statements The equity-settled share-based payments had an impact on the 2009 "Results from operating activities" amounting to an income of CHF 3.3 million, and to an expense of CHF 11.8 million before taxes on the prior year's results.

[1] Excluding social security and withholding tax

Compensation of the Management Committee

Method of determining compensation and the shareholding programs In 2005, the Board of Directors analyzed the Management's compensation package based on a market study of comparable companies and concluded that the Management compensation was not competitive enough to continue to attract and retain the talents required for the successful implementation of the ambitious strategic goals of the company. As a consequence, the Nomination and Compensation Committee restructured the compensation plans for the Management Committee as of 2006. To develop the new compensation plans, the Nomination and Compensation Committee was supported by the analysis conducted by external consultants.

A new plan was implemented for the members of the Management Committee effective 1 January 2006 and remained unchanged again in 2009. Under the new plan, base salary targets market-average levels, with the potential for executives to earn above the market average through a combination of attractive short- and long-term incentive programs. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders.

The members of the Management Committee receive an annual base salary. In addition, they are eligible for an annual incentive, the Short-Term Incentive Plan (STIP), and the Long-Term Incentive Plan for Senior Management and Key Employees (LTIP).

For the Management Committee, the STIP is weighted at a minimum of 80 % of the financial target of Economic Value Added (EVA) and a maximum of 20 % of individual qualitative targets, linked to the delivery of strategic milestones. A percentage of base salary ranging from 40 % to 70 % is targeted. Depending upon the achievement of the goals against the targets, the incentive is paid in cash.

The LTIP is a stock bonus plan. The plan establishes targets for Total Shareholder Return (TSR) to exceed an index of industry peers [1] by 5 % per year, on average over three years. The second target is Earnings Per Share (EPS) to increase by 50 % over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 100 % to 200 % of base salary. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

The LTIP did not provide any compensation for the Management Committee until 2009, therefore a three-year "Bridge the Gap" plan was also launched in 2006. This plan provides share grants for the Management Committee. The shares were granted from January 2006 until January 2008 and will vest over a one- to three-year period.

Members of the Management Committee receive customary additional benefits such as a company car, health insurance and in some cases contributions to children's education.

[1] The peer group consists of: MSCI Chemicals, DSM, UCB, Crucell, Genentech, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific.

Management Committee Compensation One acting member of the Management Committee gave up her function in the year under review. The acting members of the Management Committee received, for their contributions and time served in 2009, CHF 5.264 million[1] (2008: CHF 5.742 million) in cash and additional benefits and 51 817 shares (2008: 43 733 shares), equivalent to a value of CHF 2.766 million (2008: CHF 3.656 million).

Management Committee's compensation million CHF	2008	2009
Base salary[2]	2.962	3.234
Incentive[1]	2.047	0.554
Post-employment benefits[3]	0.334	0.385
Other benefits[4]	0.399	0.478
Severance payments	0.000	0.613
Share- / option-based payments[5]		
Value of LTIP Bridge the Gap Shares (number of shares 2008: 9 401; 2009: 472)	1.294	0.050
Value of LTIP shares (number of shares 2008: 34 332; 2009: 51 345)	2.362	2.716
Total	**9.398**	**8.030**

The highest compensation conferred on a member of the Management Committee was paid to Mr. Stefan Borgas. Mr. Borgas received CHF 1 272 218 (2008: CHF 1 855 722) paid in cash and shares to a value of CHF 891 505 (2008: CHF 1 466 747). This includes the shares of the LTIP, and the "Bridge the Gap" plan, which are blocked between one and three years.

In 2009, there were 7 members (2008: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.5 full-time equivalents (2008: 6.0 full-time equivalents). One acting member of the Management Committee has given up her function.

The members of the Management Committee did not receive any credits or benefits in kind in 2009 (2008: ditto). In 2009, a severance payment, based on the work contract, was made to one member of the Management Committee who gave up her function (2008: no severance payment).

The Management Committee has variable notice periods, up to a maximum of 12 months. There is no special regulation in the event of change of control.

[1] Includes incentive 2009, paid in March 2010
[2] 2008: 6 members; 2009: 7 members
[3] Social security and pension fund
[4] E.g., company car, health insurance and tuition
[5] The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the financial part of the Lonza Annual Report 2009

Share Ownership and Options for the Board of Directors and Management Committee

Share Ownership Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2009, 65 943 (2008: 66 154) registered shares in Lonza Group Ltd and controlled 0.12 % (2008: 0.13 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them[1] held 44 482 (2008: 17 130) registered shares in Lonza Group Ltd as of 31 December 2009.

Share ownership of acting members of the Board of Directors and Management Committee as of 31 December 2009:

Board of Directors Lonza shares (numbers)	2008	2009
Rolf Soiron	21 348	26 491
Richard Sykes	11 104	11 427
Julia Higgins	5 577	7 484
Gerhard Mayr	6 109	7 878
Peter Wilden	7 438	9 121
Patrick Aebischer	1 296	2 738
Frits van Djik		804

Management Committee Lonza shares (numbers)	2008	2009
Stefan Borgas	10 251	28 389
Uwe Böhlke	357	597
Anja Fiedler		472
Toralf Haag	3 215	6 717
Stephan Kutzer	500	5 640
Lukas Utiger	2 222	2 667

Options Under various option schemes instituted from 2000 up to 2005, options were granted to the members of the Board of Directors and the members of the Management Committee. As of 31 December 2009, no options were held from these plans (2008: Stefan Borgas held 100 000 options).

Details of the development of the Lonza option plan are published in note 25 in the financial part of the Lonza Annual Report.

Additional Remuneration During the year under review, none of the members of the Board of Directors or the Management Committee or parties closely linked to such persons has billed honoraria or other remunerations to Lonza Group Ltd or any subsidiaries for additional services performed.

[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.

Learning for the future

CORPORATE GOVERNANCE

« As we think sustainably, ongoing training for our employees has become indispensable in order to be prepared for future opportunities and challenges. Markus Nobis (left), Plant Chemist at the small-molecule large-scale launch plant of our Visp (Switzerland) site, and Alfred Imoberdorf (right), also Plant Chemist, who was working at the same plant before joining the Process Safety department in 2009, are pictured attending the "Process Safety, Risk Analysis" course. »

1. Group Structure and Shareholders

Lonza Group Ltd, a holding company under Swiss law, is fully committed to good corporate governance. As an internationally active company, Lonza complies with the local rules and regulations of all countries in which it does business. Lonza's corporate governance is measured against the SIX Swiss Exchange's "Directive on Information relating to Corporate Governance" (Corporate Governance Directive, DCG). The principles and rules of Lonza Group Ltd are laid down in the Company's Articles of Association [1], the Regulations Governing Internal Organization and Board Committees, including their Charters [2], and the Code of Conduct [3]. The Board of Directors reviews these principles and rules regularly in the light of prevailing best practices, e.g. the "Swiss Code of Best Practice" issued by the Swiss Business Federation.

Detailed information on governance matters is also displayed on the company's website: www.lonza.com/group/en/company/about/governance.html

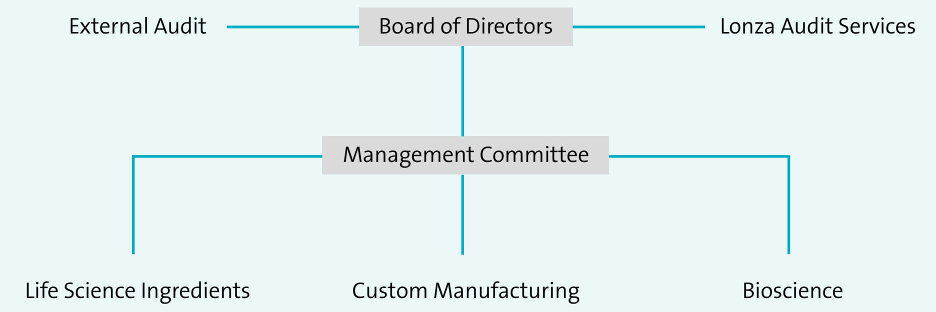
1.1 Operational Group Structure

Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life-science industries. Its products and services span its customers' needs, from research to final product manufacture. Lonza is the global leader in the production and support of active pharmaceutical ingredients, both chemically and biotechnologically. Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries. Lonza has strong capabilities in large and small molecules, peptides, amino acids and niche bioproducts, which play an important role in the development of novel medicines and healthcare products. Lonza is a leader in cell-based research, endotoxin detection and cell therapy manufacturing. Lonza is also a leading provider of value-added chemical and biotech ingredients to the nutrition, hygiene, preservation, agro and personal care markets.

Lonza is headquartered in Basel, Switzerland. Its activities are organized in three divisions. The divisions function as profit centers and bear full responsibility for their respective business activities.

A detailed description of Lonza's worldwide activities is available on Lonza's website: www.lonza.com/group/en/company/about/businesses.html

Organizational structure



[1] www.lonza.com/group/en/company/about/governance/articles.html
[2] www.lonza.com/group/en/company/about/governance/bylaws.html
[3] www.lonza.com/group/en/company/about/governance/policies.html

Holding Company, Principal Subsidiaries and Affiliates Lonza owns, directly or indirectly, all companies worldwide belonging to its Group. They represent 99.7% of the revenue of the Group. In 2009, Lonza established Lonza Bioscience Singapore Pte Ltd, which will provide custom manufacturing services for cellular therapeutics.

Principal Subsidiaries[1] In 2009, Lonza acquired (i) Algonomics NV, Gent, a contract research organisation providing integrated immunogenicity prediction services, and (ii) the preclinical cell and molecular biology assets of Simbiosys Biowares India Pvt Ltd. With these acquisitions, Lonza has strengthened its position as a worldwide leader in cell discovery and complemented its portfolio of services and technologies for the creation, optimization and development of biopharmaceuticals. Further, Genentech Singapore Pte Ltd elected to exercise an option to purchase from Lonza its cell culture biologics manufacturing company, Lonza Biologics Singapore Pte Ltd. The principal subsidiaries are shown on page 22 of the financial part of the Lonza Annual Report 2009.

1.2 Principal Shareholders

The following table outlines the identities of those Lonza Group Ltd shareholders and their respective shareholdings with more than 3% of voting rights (according to information received from these shareholders):

Principal Shareholders Number of shares at CHF 1 par value*	31 12 2008	%	31 12 2009	%
Franklin Resources, Inc., Fort Lauderdale (USA)	4 885 792	9.68	5 123 388	9.68
The Capital Group Companies, Inc., Los Angeles (USA)	n.a.	n.a.	2 512 994	4.75
Lonza Group Ltd, Basel (Switzerland), and Lonza Finance Limited, St. Helier, Jersey (GB)	2 663 700	5.28	n.a.	n.a.
Marsico Capital Management, LLC, Denver (USA)	2 464 969	4.89	n.a.	n.a.
Manning & Napier Advisors, Inc., Fairport (USA)	n.a.	n.a.	2 545 279	4.81
Grupo Plafin SA, Barcelona (ES)	4 120 364	8.17	4 120 364	7.79

* Share capital end 2008: CHF 50 450 000
Share capital end 2009: CHF 52 920 140

Lonza Group Ltd knows of no other shareholder(s) that owned more than 3% of the total share capital of Lonza Group Ltd as of 31 December 2009. To the best knowledge of Lonza Group Ltd, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza Group Ltd or the exercise of shareholders' rights.

1.3 Cross-shareholdings

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

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

2. Capital Structure

2.1 Share Capital

The share capital of Lonza Group Ltd as of 31 December 2009 is 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	2008[1] Shareholders %	2008[1] Shares %	2009[1] Shareholders %	2009[1] Shares %
Switzerland	88.87	17.41	92.09	20.96
United Kingdom	1.21	24.31	0.78	25.78
Spain	0.60	8.17	0.40	7.83
USA	2.85	6.16	1.89	7.17
Others	6.45	8.17	4.83	5.85
Shares in transit		30.50		31.11
Treasury shares without voting rights	0.02	5.28	0.01	1.30
Total	**100.00**	**100.00**	**100.00**	**100.00**
Total number of shares		50 450 000		52 920 140

Share Register	2008[1]	2009[1]
Registered shareholders	12 266	18 435
Registered shares	35 063 363	36 459 043
Share distribution		
1 – 100	5 395	7 504
101 – 1 000	5 880	9 532
1 001 – 50 000	799	1 189
50 001 – 100 000	154	179
100 001 – 1 000 000	32	26
over 1 000 000	6	5
Total registered shareholders	12 266	18 435

2.2 Authorized and Conditional Capital

As of 31 December 2009, Lonza Group Ltd has conditional capital of CHF 5 029 860 and authorized capital of CHF 5 000 000 at its disposal. This conditional / authorized capital was created by the Annual General Meetings held on 11 April 2005 and 8 April 2009. The details and conditions are set out in Articles 4bis to 4^{quater} of the Company's Articles of Association[2].

2.3 Changes in Capital

2.3.1 Share Capital and Registered Shares

	2007[1]	2008[1]	2009[1]
Share capital in CHF	50 450 000	50 450 000	52 920 140
Registered shares	50 450 000	50 450 000	52 920 140
Par value in CHF / share	1	1	1

[1] As of 31 December
[2] www.lonza.com/group/en/company/about/governance/articles.html

2.3.2 Changes in Lonza Group Ltd Capital and Reserves

CHF	Financial year 2007	Financial year 2008	Financial year 2009
Share capital	50 450 000	50 450 000	52 920 140
General legal reserve	25 225 000	25 225 000	227 776 480
Reserve for own shares	324 375 279	301 137 239	68 061 133
Available earnings brought forward	937 737 963	1 142 037 042	1 495 985 580
Total capital and reserves	1 337 788 242	1 518 849 281	1 844 743 333
Net income for year	264 558 049	208 085 503	96 490 269

For additional information, please refer to the consolidated statement of shareholders' equity, displayed on page 13 in the financial part of the Lonza Annual Report 2009.

2.4 Shares and Participation Certificates

Lonza Group Ltd registered shares, with a par value of CHF 1 each, are listed / traded on the SIX Swiss Exchange and included in the Swiss Market Index (SMI).

Lonza Group Ltd has not issued any participation certificates (non-voting shares).

Security number: 001384101 (valor), ISIN CH0013841017, stock symbol: LONN (Telekurs)

On 31 December 2009 Lonza had a market capitalization of CHF 3 863 million (2008: CHF 4 921 million).

2.5 Bonus Certificates

Lonza Group Ltd has not issued any non-voting equity security (Genussscheine, bonus certificates).

2.6 Limitations on Transferability and Nominee Registrations

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

2.7 Convertible Bonds and Options

Convertible Bond In July 2005, Lonza Finance Limited, St. Helier, Jersey (Great Britain), raised CHF 430 million via a convertible bond. In 2009, and in accordance with its terms and conditions, this convertible bond was fully converted into 2 470 140 new shares with a par value of CHF 1 each.

Options Options granted to the members of the Board of Directors and the members of the Management Committee are contained in the consolidated financial part of the Lonza Annual Report 2009 (note 33). Disclosure of all options outstanding is provided in the notes to the consolidated financial statements, as specified in the financial part of the Lonza Annual Report 2009. No further options or similar instruments have been issued by Lonza Group Ltd or any of the Group entities.

[1] www.lonza.com/group/en/company/about/governance/articles.html

3. Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is made up of non-executive members and comprises two Swiss and five non-Swiss members.

The members of the Board of Directors as of 1 January 2010 were as follows:

Name	Nationality	Year of birth	Position held	Year of initial appointment	Expiration of current term of office
Rolf Soiron	Swiss	1945	Chairman of the Board of Directors and Member of the Nomination and Compensation Committee	2005	2010
Sir Richard Sykes	British	1942	Vice-Chairman of the Board of Directors, Chairman of the Nomination and Compensation Committee and Member of the Audit and Compliance Committee	2003	2010
Patrick Aebischer	Swiss	1954	Member of the Board of Directors and Member of the Innovation and Technology Committee	2008	2010
Dame Julia Higgins	British	1942	Member of the Board of Directors and Chairwoman of the Innovation and Technology Committee	2006	2010
Gerhard Mayr	Austrian	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2006	2010
Frits van Dijk	Dutch	1947	Member of the Board of Directors	2009	2010
Peter Wilden	German	1957	Member of the Board of Directors and Chairman of the Audit and Compliance Committee	2004	2010

With the exception of Frits van Dijk, the current members of the Board of Directors will stand for re-election for a further term of one year.

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

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

– Chairman of the Board of Directors of Lonza Group Ltd, Basel (since April 2005)

– Chairman of the Board of Directors of Nobel Biocare Holding Ltd, Zurich (2003–2010)
– Chairman of the Board of Directors of Holcim Ltd, Jona (since 2003) and member of the Board (since 1994)
– Member of the Board of Directors of Jungbunzlauer Group, Basel (since 1993)
– Managing Director of Jungbunzlauer Group, Basel (2001–2003)
– CEO of Jungbunzlauer Group, Basel (1993–2001)
– Sandoz Group–COO and Head of Pharma in Basel (1992–1993), Group Vice-President Agribusiness USA in New York (1988–1992)
– Protek Group (orthopedic implants) President and CEO in Berne (1983–1987)
– Sandoz Group–various functions in Human Resources, Finance and Corporate in Basel (1972–1983)
– Chairman of the Foundation Council of Avenir Suisse (since 2009)
– Member of the International Committee of the Red Cross (since 2009)
– Member of the Board of economiesuisse (since 2009)
– Chairman of the Basel University Council (1995–2005)

Sir Richard Sykes Holds a PhD in Microbial Biochemistry from Bristol University and DSc from the University of London. Fellow of The Royal Society and Fellow of the Academy of Medical Sciences. Member of a number of government and scientific committees. Holds a number of honorary degrees and awards from institutions both in the UK and overseas. Received his knighthood in the New Year Honours List for services to the pharmaceutical industry (1994).

– Vice-Chairman of the Board of Directors of Lonza Group Ltd, Basel (since April 2005)
– Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2003)

– Chairman of NHS London (since December 2008)
– Member of the Board of Directors of ENRC plc, London (since 2007)
– Rector of Imperial College, London (2001–2008)
– Member of the Board of Directors of Rio Tinto plc, London (1997–2008)
– Chairman and Chief Executive of Glaxo Wellcome plc, London (1997–2002)
– Served as President of the British Association for the Advancement of Science (1998–1999)
– Deputy Chairman and Chief Executive of Glaxo plc, London (1993–1997)
– Deputy Chief Executive of Glaxo Group Research Ltd, London, and Group Research and Development
– Director of Glaxo plc, London, and Chairman and Chief Executive of Glaxo Group Research Ltd, London (1987–1993)
– Vice-President, Infectious and Metabolic Diseases, Squibb Institute for Medical Research, Princeton, New Jersey (1983–1986)
– Director of Microbiology and Associate Director, Squibb Institute for Medical Research, Princeton, New Jersey (1979–1982)
– Head of the Antibiotic Research Unit of Glaxo Research Ltd, London (1972–1978)

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

– Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2008)

– President of the Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
– Professor of Neurosciences, Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
– Fellow of the American Institute for Medical and Biological Engineering (since 2000)
– Fellow of the Swiss Academy of Medical Sciences (since 1998)
– Founder of three biotechnology companies

Dame Julia Higgins Holds a B.A. Honours in Physics and a D.Phil. from the Department of Physical Chemistry at the University of Oxford. Fellow and member of a number of scientific institutions in the UK and overseas, e.g. Royal Society, Royal Academy of Engineering, Royal Society of Chemistry and the American Chemical Society. Honored with the DBE (Dame Commander of the Order of the British Empire).

– Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2006)

– President of the Association for Science Education (2007–2008)
– Principal of the Faculty of Engineering, Imperial College, London (2006–2007)
– Chairwoman of the Engineering and Physical Sciences Research Council (2003–2007)
– Foreign Secretary and Vice-President of The Royal Society (2001–2006)
– Trustee of The National Gallery (since 2001)
– Trustee of the Daphne Jackson Memorial Fellowships (since 1994)
– Professor of Polymer Science, Imperial College London, Department of Chemical Engineering and Chemical Technology (since 1989); Emeritus and Senior Research Investigator (from 2007)

Gerhard Mayr Holds a Masters Degree in Chemical Engineering from the Swiss Federal Institute of Technology (ETH), Zurich, and a Master of Business Administration from Stanford University.

– Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2006)

– Member of the Board of Alcon, Inc., Hüneberg (2007–2010)
– Member of the Board of UCB SA, Brussels (since 2005)
– Member of the Board of OMV AG, Vienna (2002–2009)
– Member of the Board of Bank Austria AG, Vienna (1998–2004)
– Executive Vice-President of Eli Lilly & Company with responsibility for global pharmaceutical operations (1999–2004)
– President of Eli Lilly Intercontinental (1997–1999)
– President of Eli Lilly International (1993–1997)
– Joined Eli Lilly in 1972 as Sales Representative
– Member of the Board of Project Hope, USA (since 2002)
– Member of the Board of the Vienna Science, Research and Technology Foundation (since 2002)
– Member of the circle of patrons of INSEAD Business School (since 2000)
– Member of the US-Egypt President's Council (1999–2004)
– Member of the Board of the European Federation of the Pharmaceutical Industry (1995–1997 and 2000–2002)

Frits van Dijk studied Economics in Rotterdam, The Netherlands.

– Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2009)

– Spent his entire career with Nestlé (since 1970), of which 28 years in Asia (1972–2000: India, Philippines, Sri Lanka, Malaysia, China, Japan). Was Chairman & CEO of Nestlé Waters Worldwide (2000–2005), after which he took on his current responsibility as Head of Nestlé operations in Asia, Oceania, Africa and the Middle East, based at the Nestlé Headquarters in Vevey, Switzerland
– Member of the Nestlé Executive Board (since 2001)
– Member of the Board of several Nestlé operations / joint ventures
– Chair of the Consumer Industry Steering Board at the WEF

Peter Wilden Holds a degree in business administration and information technology, as well as a PhD in business administration from the University of Kiel.

– Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2004)

– Executive Vice-President Finance and Chief Financial Officer of Ferring Pharmaceuticals in Lausanne, Switzerland (since 2000)
– Member of the Board of Trace Biotech AG, Braunschweig, Germany (1999–2002)
– Held various managerial positions in the Ferring Group (1991–2000)
– Consultant for Mak Data System, Kiel, Germany, and the Krupp network (1988–1991)
– Management Assistant with Krupp MaK Maschinenbau GmbH, Kiel, Germany (1986–1988)
– Scientific Assistant of the Kiel Institute of World Economics (1983–1986)
– Member of various scientific research organizations in Germany, the United States and the Netherlands.

3.3 Cross-involvement

Besides their mandate for Lonza Group, none of the members of the Board of Directors or parties closely linked to such persons had any cross-involvement or important business connections with Lonza in the period under review.

3.4 Elections and Terms of Office

Each member of the Board of Directors is individually elected by the Annual General Meeting for a term of one year. Re-election is possible with a maximum incumbency of nine years and an age limit of 70. The Board constitutes itself and elects from amongst its members the Chairman, the Vice-Chairman and the Board Committees.

3.5 Internal Organizational Structure

In accordance with the law and the Articles of Association, the Board of Directors is the supreme management body of the Group. It consists of the Chairman, the Vice-Chairman and the other members. In accordance with the Articles of Association, the number of members must be at least three.

The members of the Board of Directors sat on the following committees in 2009:

	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Rolf Soiron		Member	
Sir Richard Sykes	Member	Chairman	
Patrick Aebischer			Member
Dame Julia Higgins			Chairwoman
Gerhard Mayr	Member		
Frits van Dijk			
Peter Wilden	Chairman		

Audit and Compliance Committee The Audit and Compliance Committee meets and consults regularly with the Management Committee, the Lonza Audit Services and the independent auditors to review the scope and results of their work and their performance according to the Audit and Compliance Committee Charter. Internal and external auditors have full and free access to the Audit and Compliance Committee. The Audit and Compliance Committee reviews the systems of internal control and financial reporting, and compliance with laws and regulations. The Audit and Compliance Committee also oversees the Lonza Audit Services. The Audit and Compliance Committee is fully empowered to decide the tasks assigned to it and it regularly informs the Board of Directors on all matters discussed and decided in its meetings.

Nomination and Compensation Committee The Nomination and Compensation Committee is entrusted, for example, with the review and recommendation of compensation policies and programs (e.g. incentive compensation and equity plans), the Chairman's and the CEO's compensation based on their performance, as well as the compensation of the members of the Management Committee and key executives. This Committee also makes an assessment to ensure that the area of Nomination and Compensation is in compliance with the standards set forth in the associated Charter. Further, the Nomination and Compensation Committee is continuously evaluating potential members for the Board of Directors. With regard to the tasks assigned to it, the Nomination and Compensation Committee regularly informs the Board of Directors on all matters discussed in its meetings and submits proposals for decision by the Board in accordance with the Nomination and Compensation Committee Charter.

Innovation and Technology Committee The main tasks of the Innovation and Technology Committee are to support the LIFT (Lonza Innovation for Future Technology) Initiative, to monitor potential technology breakthroughs, to support management in driving innovation projects and to provide and facilitate contacts, e.g. with academia and research institutions. With regard to the tasks assigned to it, the Innovation and Technology Committee regularly informs the Board of Directors on all matters discussed and decided in its meetings.

In 2009, the members of the Board of Directors attended an executive seminar on "Life Sciences for the Future", organized by EPFL, Lausanne.

Attendance and Main Topics Detailed information on attendance at Board and Committee meetings in 2009 is provided in the following table:

	Board of Directors	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Number of meetings	10[1]	6	4	5
Overall attendance	92 %	94 %	100 %	100 %
Main topics	Discussions on acquisition projects	Implementation of SIX policy	Monitoring of compensation and incentive structure	Monitoring of trends in research and development
	Implementation of organizational changes	Review of transfer pricing policy	Review of short-term incentive objective and calculation basis	Review of developments in LIFT (Lonza Innovation for Future Technology)
	Review of innovation activities	Review of risk management / positions	Reassessment of the long-term incentive program	Support of the innovation process
	Adaptation of Articles of Association (capital change due to conversion of convertible bonds)	Meetings / discussions with internal and external Auditors	Review of succession plans and talent development program	Providing and facilitating scientific contacts

In addition, members of the Board of Directors supported the Management Committee through regular individual contacts.

3.6 Areas of Responsibility

The Board of Directors is responsible for the tasks assigned to it according to (i) Article 18 of the Company's Articles of Association[2] and (ii) the Regulations Governing Internal Organization and Board Committees[3]. The Board of Directors defines the strategic direction and is responsible for the ultimate management of Lonza as well as the supervision of the persons entrusted with Group management, especially with regard to compliance with the law, the Articles of Association, the regulations and the directives, and it is obliged and entitled to issue the necessary instructions. In compliance with the law and the Articles of Association, the Board of Directors has – with the exception of non-delegable and inalienable duties – delegated the management of the Company to the Management Committee,

[1] Four by way of telephone conferences, four half-day meetings and two full-day meetings (all with members of the Management Committee attending)
[2] www.lonza.com/group/en/company/about/governance/articles.html
[3] www.lonza.com/group/en/company/about/governance/bylaws.html

Organizational Structures and Control Instruments The Board of Directors continues to commit itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. On an annual basis, the Board undertakes a self-assessment process and also participates in an assessment by the Management Committee. The aim is to achieve continuous improvement in the functioning of the Board. The Regulations Governing Internal Organization and Board Committees set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Management Committee. The standing Board Committees in the areas of audit / compliance, nomination / compensation and innovation / technology provide modern corporate governance guidance and support to the Board of Directors. The Code of Conduct expresses Lonza's core principles and values in professional business conduct, and provides assistance in recognizing, understanding and complying with the laws and ethical standards that govern Lonza's business activities.

Broad supervisory and reviewing powers are held by the Board of Directors, which is directly supported by the Lonza Audit Services. The Regulations Governing Internal Organization and Board Committees confer on the CEO the duty to inform the Management Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions including risk issues. The Board of Directors meets periodically with the Management Committee or its subcommittees for business updates and decisions to be taken.

3.7 Information and Control Instruments

Lonza has a system of internal financial and accounting policies, procedures and controls to provide a reasonable assurance, given the inherent limitations of all internal control systems, at appropriate cost, that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded. Lonza Audit Services comprise six experts who oversee the finance, operational and process activities of the Group with a risk-based audit program. They continually evaluate the adequacy and effectiveness of this system of internal accounting policies, procedures and controls, and take appropriate action to correct deficiencies as they are identified. In 2009, they delivered 59 internal audit reports to the Audit and Compliance Committee.

In addition to the documents required to pass resolutions, the Board of Directors receives the following reports at its regular meetings:

- Reports on the sales and earnings performance of the company, with the relevant market information in the same period since the beginning of the year, structured by divisions / business sectors, with the main sales areas and key product groups
- Reports on the cash flows, debt and debt-equity ratio, plus other relevant key figures for the Group
- Qualitative assessments of the divisions / business sectors and major subsidiaries
- Audit reports prepared by the internal and external auditors
- Analysis of the shareholder structure
- Annual overview of the Group's key staff benefit schemes, including pension funds
- In cases involving extraordinary events of considerable commercial relevance, the Board of Directors receives direct, immediate information.
- Reports encompassing the subject of risk assessment are submitted at least once per year, designed to provide the Board with a consistent, Group-wide perspective of key risks according to specific criteria.

4. Management Committee

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board Committees or additional tasks as delegated. It is responsible for leading Lonza and for developing and implementing the Lonza policy and strategy after approval by the Board of Directors. It supports and coordinates the activities of the divisions and corporate functions. The Management Committee is also responsible for leadership development and succession planning. In 2009, Marcela Čechová resigned as Head of Global Human Resources and member of the Management Committee.

4.1 Members of the Management Committee

At 1 January 2010, the Management Committee consisted of six active members.

Name	Nationality	Year of birth	Current function
Stefan Borgas	German	1964	Chief Executive Officer
Uwe H. Böhlke	German	1964	Chief Officer Human Resources / Corporate Services
Anja Fiedler	German	1966	COO Bioscience division
Toralf Haag	German	1966	Chief Financial Officer
Stephan Kutzer	German	1965	COO Custom Manufacturing division
Lukas Utiger	Swiss	1963	COO Life Science Ingredients division

4.2 Activities and Functions of the Members of the Management Committee

Stefan Borgas Holds a degree in business administration from the University of Saarbruecken and a lic. oec. HSG degree (MBA) from the University of St. Gallen

– Chief Executive Officer (since June 2004)

– Worked in various functions for the BASF Group (1990 – May 2004):
  Group Vice-President, Regional Business Unit Fine Chemicals North America, BASF Corp. (2003 – May 2004)
  Group Vice-President, Regional Business Unit Fine Chemicals Europe, Africa, Middle East, BASF AG, Ludwigshafen (2001 – 2003)
  Director Strategic Marketing Animal Nutrition, Fine Chemicals Division, BASF AG, Ludwigshafen (1998 – 2001)
  Group Logistics Manager, Engineering Plastics, BASF Corp. (1995 – 1998)

Uwe H. Böhlke Holds a degree and a PhD in mechanical engineering as well as a degree in economics from RWTH Aachen University

– Member of the Management Committee (since January 2007)
– Chief Officer Human Resources / Corporate Services (since November 2009)
– COO Custom Manufacturing – Exclusive Synthesis (July 2009 – October 2009)
– Head of Exclusive Synthesis business sector (January 2007 – July 2009)

– Held various positions at SCHOTT AG, Mainz (1996 – 2006):
  Executive Vice-President of the global business unit “Home Tech” (2003 – 2006)
  Vice-President Global “Research and Development” (1998 – 2003)
  Additional global assignment “Intellectual Properties” (2001 – 2003)
  Vice-President “Corporate Engineering and Special Machines” (1996 – 1998)
– Worked in various functions for Fraunhofer-Gesellschaft, Munich; Institute of Production Technology, Aachen (1990 – 1996):
  Chief engineer and member of Institute Management (1994 – 1996)
  Consultant in Technology and Innovation Management (1990 – 1994)

Anja Fiedler Holds a degree in economics from the European Business School, Oestrich-Winkel (Germany)

– Member of the Management Committee (since April 2009)
– COO Bioscience division (since April 2009)

– Held various positions at Philip Morris International:
  Managing Director Czech Republic, Slovak Republic & Hungary (2006 – June 2008)
  Vice President Business Development & Planning EEMA (2005 – 2006)
– Held various marketing positions with increasing responsibilities at Unilever in Germany, Switzerland, Thailand and South Africa (1990 – 2005)

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

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

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

Stephan Kutzer Holds a PhD in chemical engineering from the Technical University of Munich

– Member of the Management Committee (since July 2005)
– COO Custom Manufacturing division (since November 2009)
– COO Custom Manufacturing – Biopharmaceuticals (July 2009–October 2009)
– Head of Biopharmaceuticals business sector (June 2005–July 2009)
– Head of Performance Chemicals (2003–2005)
– Site manager of Lonza Bayport, TX, facilities (November 1999–2002)
– Assistant production manager in Lonza Guangzhou Ltd, Guangzhou, China (July–September 1999)
– Joined Lonza in 1996 as assistant production manager at Visp and became production manager nicotinates in 1998.

Lukas Utiger Holds a PhD in chemical engineering from Imperial College, London

– Member of the Management Committee (since August 2001)
– COO Life Science Ingredients division (since August 2006)
– Head of the Exclusive Synthesis business sector (August 2001–December 2006)
– Head of Research and Development for Exclusive Synthesis (October 2000–July 2001)
– Joined Lonza as R&D chemist in 1992 and became R&D group leader for fine chemicals in 1998

– Acquired his business experience at ICI Chemicals & Polymers Division in Runcorn (1988–1992)

4.3 Management Contracts

Lonza Group Ltd and its subsidiaries have not entered into management contracts with third parties.

5. Compensation, Shareholdings and Loans

Details of Board and Management compensation (Compensation Report) are contained in the Consolidated Financial Report (page 71, note 33) and in the Remuneration Report (page 89).

6. Shareholders' Participation Rights

6.1 Voting-rights Restrictions and Representation

Only persons with valid entries in the share register are recognized as shareholders or usufructuaries. A shareholder may only be represented at the Annual General Meeting by a legal representative or – by way of written proxy – by another shareholder entitled to vote, the appointed representative of the corporate body, the independent proxy or an assignee of proxy votes for deposited shares.

Each share has the right to one vote.

The shares held by Lonza Group Ltd are not entitled to vote at the Annual General Meeting and bear no dividend.

Lonza may use an electronic voting system for all the resolutions to be taken at its Annual General Meetings.

6.2 Statutory Quora

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

For certain important matters such as a change of the company purpose and domicile, the dissolution of the company without liquidation, and matters relating to capital changes, Article 704 of the Swiss Code of Obligation provides for a two-thirds majority of votes cast, representing an absolute majority of nominal values of shares represented.

6.3 Convocation of Shareholders' Meetings

Ordinary Shareholders' Meetings are called in accordance with the law and the Company's Articles of Association. Extraordinary Shareholders' Meetings must be called upon resolution of a Shareholders' Meeting or if demanded by one or more shareholders representing at least 5 % of the share capital.

Lonza posts the invitations to shareholders at least 20 working days before the Annual General Meeting and publishes it on its website as well as in the Swiss Official Gazette of Commerce and several newspapers.

6.4 Agenda

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

6.5 Entry in the Share Register

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

There are no special statutory rules concerning a deadline for entry in the share register. The share register will this year be closed on 18 March 2010 at 5 pm.

7. Changes of Control and Defense Measures

7.1 Duty to Make an Offer

An offer to acquire all shares must be made in accordance with Art. 32 SESTA (Federal Act on Stock Exchange and Securities Trading) if the threshold of 33 ⅓ of the voting rights is exceeded. No special opting-out or opting-up dispositions are contained in the Company's Articles of Association.

7.2 Clauses on Changes of Control

Clauses on changes of control are not part of any employment agreements or pension plans.

8. Auditors

8.1 Duration of the Mandate and Term of Office of the Head Auditor

Since 1999, KPMG Ltd, Badenerstrasse 172, CH-8026 Zurich 4, Switzerland, has held the mandate as the external statutory auditors of Lonza Group Ltd and the Group.

The auditing company is elected for a term of one year.

Regula Wallimann from KPMG Ltd has been the auditor in charge since 8 April 2009.

The Board of Directors proposes that KPMG Ltd be re-elected as statutory auditors for the business year 2010.

Head of Lonza Audit Services: Emilio Rubio, Basel (Switzerland)

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 2.345 million (2008: CHF 2.334 million) for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities.

8.3 Additional Honorarium

KPMG Ltd received a total fee of CHF 0.115 million (2008: CHF 0.097 million) for other services rendered to Lonza.

8.4 Supervisory and Control Instruments vis-à-vis the Auditors

The Audit and Compliance Committee is responsible for evaluating the external auditors on behalf of the Board of Directors. In the reporting year, there were three joint meetings with the representatives of the external auditors.

The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls.

The independent statutory auditor, KPMG Ltd, is responsible for expressing an opinion on the accounting records and the financial statements prepared in accordance with Swiss law and the Company's Articles of Association. KPMG Ltd is also responsible for expressing an opinion on the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes) prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and Swiss law.

The Audit and Compliance Committee is responsible for overseeing the conduct of these activities by Lonza management and the external auditors.

9. Information and Key Reporting Dates

Lonza pursues a proactive and professional communication policy. Lonza Group Ltd publishes price-sensitive information in accordance with the obligation to disclose price-sensitive facts as required by the SIX Swiss Exchange.

Corporate Communications reports directly to the Chief Executive Officer, while Investor Relations reports to the Chief Financial Officer. On basic matters of general corporate policy, Corporate Communications receives its guidelines from the Management Committee.

Lonza Group Ltd provides shareholders entered in the share register with an annual report (on request only) as well as with the half-year and full-year results. These reports are also available on the company's website www.lonza.com. The website is regularly updated and provides relevant information such as share price development, news releases and presentations. It also contains an electronic version of the annual report.

Media conferences and analyst meetings take place at the Company's headquarters or by conference call. Lonza manages an annual program of investor meetings.

Investors, potential investors, as well as financial analysts, are also welcomed at the Company's headquarters in Basel.

Anticipated Key Reporting Dates

The list of all corporate events of special interest is subject to change during the year as dates are adjusted and added.

Annual General Meeting for the financial year 2009
31 March 2010, 10.30 am
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2010, analysts' meeting
22 July 2010

Full-year Report 2010, analysts' meeting
26 January 2011

Annual General Meeting for the financial year 2011
12 April 2011
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Dividend Transfer to Banks
As a rule, Lonza Group pays the dividend to its shareholders on the sixth business day following the Annual General Meeting.

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Listing and security information

Stock exchange listing / trading
SIX Swiss Exchange

Common stock symbols
Bloomberg LONN VX
Reuters LONZn.VX
Telekurs LONN

Security number
Valor 001384101
ISIN CH0013841017

Forward-looking statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainty. In addition to those discussed above, factors that could cause actual results to differ materially include: the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

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« Our employees are committed to meeting all customer and regulatory requirements. John Zeng (front cover), Head of Purification R&D, at Lonza's site in Hopkinton, MA (USA) is reading scientific literature. The R&D department works with business development and sales representatives as well as customers to ensure their needs are satisfactorily met. Stefanie Imboden (back cover), lab assistant in the Microbiology Quality Control department at the Lonza Visp (Switzerland) site, is entering analysis data in the LIMS (Laboratory Information Management Systems). The compliance with GMP rules requires careful work. »