FINANCIAL REPORT
REMUNERATION REPORT
CORPORATE GOVERNANCE
2010

Key Facts and Figures

Full-year results in a snapshot

The 2010 business year was characterized by persistent macro-economic uncertainties, changes in customers' ordering behavior, with an increased focus on net working capital and cash conservation, and a continuation of the stringent regulatory approval processes for new pharmaceutical drugs.

Sales of CHF 2 680 million (2009: CHF 2 690 million), up 3.3 % at constant exchange rates. EBIT of CHF 374 million (2009: CHF 380 million), up 5.8 % at constant exchange rates.

Stable EBITDA margins (24.0 %), despite the volatile environment.

Free cash flow from operating activities increased significantly to CHF 336 million (+ 559 %).

Capital expenditure in ongoing strategic growth projects was reduced substantially to CHF 300 million (2009: CHF 520 million).

Lonza's debt gearing came down to 46 % (2009: 49 %).

The Board of Directors is proposing a cash dividend of CHF 2.15 per share.

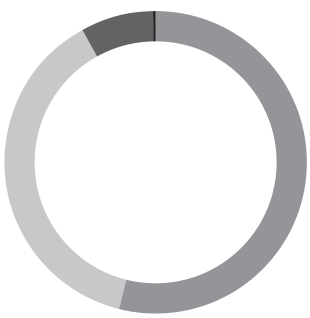
Key figures Lonza million CHF	2009 before special charges	2009 after [1] special charges	2010	Change before special charges %	Change after [1] special charges %
Sales	2 690	2 690	2 680	(0.4)	(0.4)
EBITDA	658	601	643	(2.3)	7.0
EBIT	380	239	374	(1.6)	56.5
Core [2] EBIT	397	397	387	(2.5)	(2.5)
Profit for the period	279	159	284	1.8	78.6
Core [2] profit for the period	295	295	299	1.4	1.4
Cash flow before change in net working capital	472	468	530	12.3	13.2
Capital expenditures (net of customer financing)	511	511	300	(41.3)	(41.3)
Net debt	1 166	1 166	1 108	(5.0)	(5.0)
Net debt-equity ratio	0.46	0.49	0.46		
Total equity	2 509	2 389	2 387	(4.9)	(0.1)

[1] **Special charges**

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

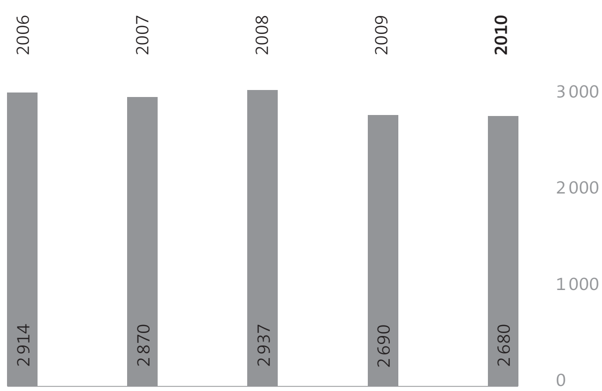
[2] **Core results for:**
Result from operating activities (EBIT), profit for the period and earnings per share eliminate the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, result from the associate TL Biopharmaceutical Ltd and other special charges / income from restructuring (see reconciliation of IFRS results to core results on page 93).

Sales by operating segments 2010
million CHF



Custom Manufacturing	CHF 1 445 mn
Life Science Ingredients	CHF 1 020 mn
Bioscience	CHF 211 mn
Corporate	CHF 4 mn

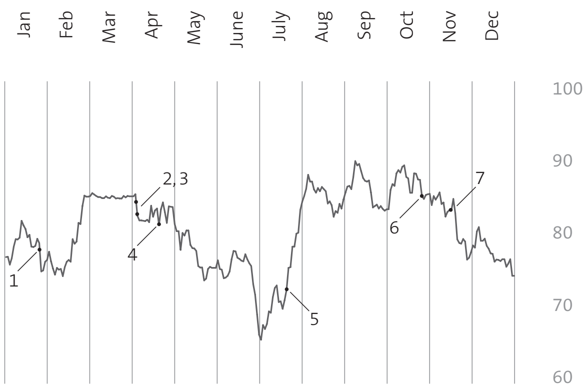
Sales progression
million CHF



Share information CHF	2009 before special charges	2009 after [1] special charges	2010
Basic earnings per share	5.55	3.19	5.55
Diluted earnings per share	5.51	3.17	5.53
Dividend payout ratio %	33	57	39
Core [2] basic earnings per share	5.87	5.87	5.84
Core [2] diluted earnings per share	5.83	5.83	5.81

	2009	2010
Ordinary dividend paid per share	1.75	1.75
Ordinary dividend declared per share	1.75	2.15
Book value per share	45.74	45.49
Number of shares (par value CHF 1.00)	52 920 140	52 920 140
Share price high	120.10	90.85
Share price low	71.50	66.00
Share price at year-end	73.00	74.95
Market capitalization (31 December) in mn CHF	3 863	3 966

Share price development 2010

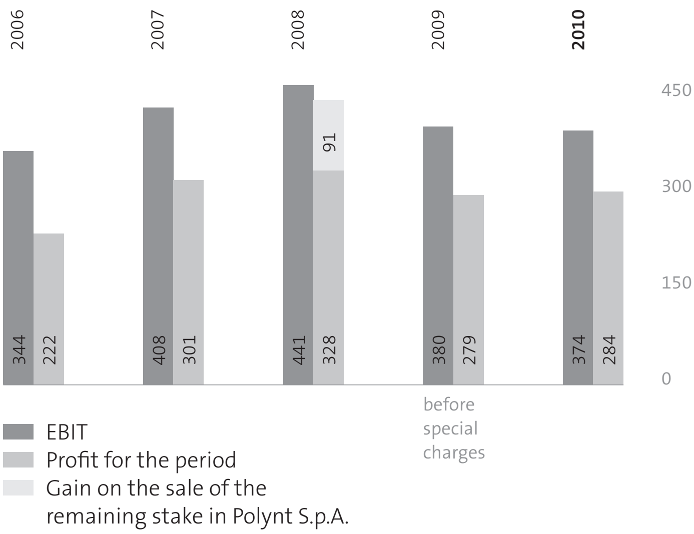


1 Full-year 2009 results
2 Lonza Annual General Meeting (AGM)
3 Dividend payment
4 First-quarter business update
5 Half-year 2010 results
6 Third-quarter business update
7 Lonza 2010 investor event

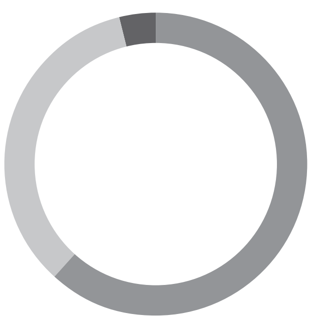
Profitability %	2009 before special charges	2009 after [1] special charges	2010
EBITDA	24.5	22.3	24.0
EBIT	14.1	8.9	14.0
Core [2] EBIT	14.8	14.8	14.4
RONOA	10.7	6.7	10.8

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.

EBIT and profit for the period
million CHF



EBIT by operating segments 2010
million CHF



Besides the Financial Report, which includes the Remuneration Report as well as Corporate Governance, Lonza also publishes an Activities 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 Financial Report of Lonza Group Ltd follows the guidelines issued by the OECD for multinational corporations.

LONZA FINANCIAL REPORT
REMUNERATION REPORT
CORPORATE GOVERNANCE
2010

Dear Shareholders, Customers, Employees and Friends of Lonza

Overview Lonza delivered a robust business performance in 2010, with sales and EBIT increasing 3.3 % and 5.8 % respectively at constant exchange rates. The company continued to benefit from pharmaceutical and biotechnology companies outsourcing more of their manufacturing and development activities.

During the year, we achieved a number of important successes. We improved capacity utilization, particularly in Biological Manufacturing in the second half of the year. The Microbial Control business generated strong growth. Our project pipeline was increased significantly through the signing of new contracts and multi-product deals, especially in Chemical and Biological Manufacturing and Cell Therapy.

However, these operating positives were offset by slower pharmaceutical product approvals as a result of the more stringent regulatory environment, as well as rising raw material costs, which affected the profitability of our non-pharma businesses. The appreciation of the Swiss franc against nearly all important trading currencies during 2010 led to a transactional and translational reduction of CHF 28 million in EBIT.

The outsourcing trend has significantly contributed to an increased pipeline of new products from innovative customers across the various clinical phases. This positions Lonza as the leading supplier for innovators in the pharmaceutical industry, but also links the business closer to the success of our customers' pipelines.

In 2010, Lonza further improved its balance sheet structure and significantly increased free cash flow to CHF 336 million. As a result, gearing was reduced to 46 %.

Re-engineering program At the end of 2009, Lonza launched a re-engineering program aimed at reducing its fixed costs by CHF 70–80 million per annum, while maintaining growth projects. All the measures needed to achieve this level of savings have been defined and all the targeted cost reductions will be achieved by the end of the first quarter of 2011. CHF 55 million, approximately 75 % of the total savings, was realized during 2010. As part of this project, the Wokingham (UK) site was closed in the second quarter and the Shawinigan (CA) facility at the end of July. The plant at Conshohocken (Riverside), PA (USA) was successfully divested at the end of October. The planned reduction in staff by 470 due to the re-engineering project was completed by the end of 2010.

In biopharmaceutical manufacturing, the measures to increase production flexibility in order to meet the needs of customers more effectively were completed at both our Slough (UK) and Porriño (ES) plants. The chemical R&D organizations were successfully merged and at the same time we placed a stronger emphasis on our R&D activities in Asia.

Strategic growth projects In parallel with its robust operating performance, Lonza made progress in a range of activities designed to underpin future growth. At Group level, continued investment in R&D led to an increasing pipeline of promising product developments.

The key developments in the individual businesses were as follows:

Life Science Ingredients
– L-carnitine, niacin and PMDA expansion in China remains on track, with start-up in 2011.
– Expansion of the agrochemical plant in Visp (CH) progressing as planned.

Custom Manufacturing
– Build-out of the large-scale mammalian biopharmaceutical facility in Singapore is progressing well, with start-up planned for the third quarter of 2011.
– TL Biopharmaceuticals (Teva / Lonza joint venture) began phase-I clinical trials with its lead biosimilar product.

Bioscience
– Expansion of Cell Therapy facilities in Walkersville, MD (USA) and Singapore.
– Acquisition of MODA Technology Partners (paperless quality-control solutions) strengthened the Rapid Testing Solutions platform.
– Acquisition of Vivante GMP Solutions, Inc. enabled us to enter the viral-based manufacturing market.

Financial summary
– Net cash provided by operating activities increased from CHF 422 million in 2009 to CHF 502 million in 2010.
– Free cash flow increased to CHF 336 million (CHF 51 million in 2009).
– Net working capital in relation to sales decreased on average from 28.1 % in 2009 to 25.7 % in 2010.
– Capital expenditure decreased to CHF 300 million, with no resulting delays in achieving growth project milestones.
– Net debt amounted to CHF 1 108 million (CHF 1 166 million in 2009), resulting in gearing of 46 %. The majority of Lonza's debt is financed on a long-term basis, with average fixed-interest rates under 3.5 %.
– A CHF 400 million straight bond, with a coupon of 3 % maturing in 2016, has been issued, ensuring long-term financing of the announced growth projects at attractive conditions.

Senior management changes Lukas Utiger, previously COO of the Life Science Ingredients business unit, became the new COO of Lonza Bioscience on 1 June 2010, following the resignation of Anja Fiedler. Also on 1 June 2010, Stefan Borgas, CEO, took over the leadership of the Life Science Ingredients business on a temporary basis, in addition to his CEO responsibilities. On 29 December 2010, Harry Boot was announced as the new COO of Life Science Ingredients, beginning 1 March 2011. Stefan Borgas will pass on the leadership of the Life Science Ingredients business to Harry Boot upon his arrival.

Board of Directors The Board of Directors has revised the dividend policy with an increased pay-out ratio of up to 40 % to reflect the Group's positive outlook and cash generation. The Board proposes an increased cash dividend of CHF 2.15 per share for 2010.

The Lonza Board of Directors is proposing to elect Jean-Daniel Gerber as a new member of the Lonza Board of Directors at the next annual general meeting on 12 April 2011. Jean-Daniel Gerber brings a broad range of experiences to the Lonza Board having served in various positions for the Swiss government. Among others, he has been chairing the State Secretary for Economic Affairs (SECO) since 2004. From 1993 to 1997 he served as Executive Director and Dean (1997) of the Board of the World Bank Group. He will retire from Government service on 31 March 2011. The Board of Directors will increase from six to seven members.

Outlook Lonza expects to continue to benefit from pharmaceutical and biotechnology companies outsourcing an increasing proportion of their manufacturing and development activities. This, combined with our stronger product pipelines, improved capacity utilization and a more appropriate cost base, provides a good platform for a solid performance in 2011. The degree to which these operating positives will be reflected in our reported results will depend on a number of external factors, including the strength of the Swiss franc, increasing raw material prices and the more stringent approval processes for new pharmaceuticals.

In the longer term, Lonza is well-positioned to meet the challenges ahead and deliver shareholder value on the strength of the current product offering, combined with our strategic growth projects.

The full effect of the re-engineering project will result in significant generation of free cash flow in 2011, before acquisitions. Capital expenditure is again forecast to be below CHF 400 million in 2011, which will further strengthen the balance sheet structure. This increased financial flexibility will open up specific, selected expansion possibilities for Lonza across our life-science-focused value chain.

Strategic growth projects, planned expansions and new contracts will deliver solid additional EBIT potential in the mid term.

Lonza remains fully committed to its vision and long-term objectives. We strive to be the leading supplier using science and technology to improve the quality of life. We would like to thank our customers for their continued trust, our employees for all their efforts throughout another challenging year and our shareholders for their ongoing support.

Rolf Soiron Chairman of the Board of Directors	Stefan Borgas Chief Executive Officer

We set demanding standards

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS

« Lonza employees are committed to setting the highest standards when it comes to the research, development and production of our products and services. As one of the world's leading suppliers to the pharmaceutical, healthcare and life-science industries, we aim to create new possibilities in the life sciences day by day, so that we can provide our customers with high-quality, cutting-edge solutions. The picture shows Carolina López, Microbiology Quality Control Analyst, monitoring a cell culture growth at our Lonza Custom Manufacturing facility in Porriño (Spain). »

Consolidated Balance Sheet

Assets[1] million CHF	[2]Note		2009		2010
Fixed assets					
Property, plant and equipment	6	5 005		4 874	
Accumulated depreciation and accumulated impairment losses	6	(2 415)	2 590	(2 404)	2 470
Intangible assets	7		275		244
Goodwill	7		445		410
Other non-current assets			24		49
Deferred tax assets	22		139		103
Investments in associates / joint ventures	8		13		19
Other investments			0		6
Long-term loans and advances	14		32		43
Total fixed assets			**3 518**		**3 344**
Current assets					
Inventories	9	660		552	
Value adjustments	9	(83)	577	(57)	495
Trade receivables, net	10	528		488	
Current tax receivables		23		32	
Other receivables, prepaid expenses and accrued income	11	157		170	
Short-term advances	14	1	709	1	691
Cash and cash equivalents	12, 14		140		248
Total current assets			**1 426**		**1 434**
Total assets			**4 944**		**4 778**

Total equity and liabilities[1] million CHF	[2]Note	2009	2010
Equity			
Share capital		53	53
Share premium		316	311
Treasury shares		(68)	(44)
Retained earnings and reserves		2 024	2 067
Total equity attributable to equity holders of the parent	see page 13	**2 325**	**2 387**
Non-controlling interest		**64**	**0**
Total equity		**2 389**	**2 387**
Liabilities			
Deferred tax liabilities	22	341	321
Long-term provisions	13	14	19
Employee benefit liability		61	43
Other long-term liability		155	60
Long-term debt	14	824	850
Total long-term liabilities and provisions		**1 395**	**1 293**
Other short-term liabilities	15	401	351
Current tax payables		48	38
Trade payables	16	196	159
Short-term debt: Due to bank and other financial institutions	14	515	550
Total current liabilities and deferred items		**1 160**	**1 098**
Total liabilities		**2 555**	**2 391**
Total equity and liabilities		**4 944**	**4 778**

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

Consolidated Income Statement

million CHF	[1]Note	2009	2010
Sales (see segment information)	32	**2 690**	**2 680**
Cost of goods sold		[2](2 145)	(1 969)
Gross profit		**545**	711
Marketing and distribution		(144)	(155)
Research and development	23	[3](103)	(99)
Administration and general overheads		[4](166)	(152)
Other operating income	20	136	100
Other operating expenses	20	(29)	(31)
Result from operating activities (EBIT)		**239**	**374**
Financial income	21.1	10	6
Financial expenses	21.2	(63)	(49)
Net financing costs		**(53)**	**(43)**
Share of profit / (loss) of associates / joint ventures	21.3	0	(1)
Profit before income taxes		**186**	**330**
Income taxes	22	(27)	(46)
Profit for the period		**159**	**284**
Attributable to:			
Equity holders of the parent		162	291
Non-controlling interest		(3)	(7)
Profit for the period		**159**	**284**
		CHF	CHF
Basic earnings per share	27	3.19	5.55
Diluted earnings per share	27	3.17	5.53

Consolidated Statement of Comprehensive Income

million CHF		2009		2010
Profit for the period		**159**		**284**
Exchange differences on translating foreign operations		(49)		(230)
Cash flow hedges:				
Gains / (losses) arising during the year	12		3	
Reclassification adjustments for (gains) / losses included in profit or loss	37	49	5	8
Income tax relating to components of other comprehensive income		(7)		7
Other comprehensive income for the period, net of tax		**(7)**		**(215)**
Total comprehensive income for the period		**152**		**69**
Total comprehensive income attributable to:				
Equity holders of the parent		157		76
Non-controlling interest		(5)		(7)
Total comprehensive income for the period		**152**		**69**

[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]	2009	2009	2010	2010
Profit for the period		**159**		**284**	
Adjustments for non-cash items:					
– Income taxes	22	27		46	
– Net financing costs	21	53		43	
– Share of (profit) / loss of associates / joint ventures	21.3	0		1	
– Depreciation of property, plant and equipment (excl. impairment)	6	250		246	
– Amortization of intangibles	7	28		27	
– Reversal of impairment		0		(4)	
– Impairment losses on property, plant, equipment and intangibles	6, 7	83		0	
– (Decrease) / increase of provisions		7		(27)	
– (Decrease) / increase of employee benefit liability		0		(1)	
– (Gain) / loss on disposal of property, plant and equipment		3		(17)	
– (Gain) / loss on sale of subsidiary	3.3	(30)		0	
– Reversal amortization of other liabilities / assets		(6)		(3)	
– Share-based payments		(3)		7	
Income taxes paid		(54)		(43)	
Interest paid		(49)		(29)	
Cash flow before change in net working capital		**468**		**530**	
(Increase) / decrease inventories		113		45	
(Increase) / decrease trade receivables		(124)		(7)	
Increase / (decrease) trade payables		(17)		(44)	
(Increase) / decrease other net working capital		(65)		23	
Increase / (decrease) of other payables net		47		(45)	
Net cash (used for) / provided by operating activities			**422**		**502**
Purchase of property, plant and equipment	6	(505)		(285)	
Purchase of intangible assets	7	(15)		(15)	
Proceeds from sale of tangible and intangible assets		6		26	
Acquisition of subsidiaries, net of cash acquired	3.1, 3.2	(1)		(26)	
Disposal of subsidiaries, net of cash disposed of	3.3	84		0	
Purchase of unconsolidated investments		(1)		(5)	
Proceeds from unconsolidated investments		0		2	
Proceeds from assets held for sale		5		0	
Purchase of other assets		(6)		(47)	
Proceeds from sale of other assets		0		12	
Decrease in loans and advances		1		2	
Increase in loans and advances		(23)		(28)	
Interest received		9		5	
Dividends received		0		1	
Net cash (used for) / provided by investing activities			**(446)**		**(358)**
Repayment of straight bond		0		(300)	
Issue of straight bond		297		397	
Proceeds from / (repayment of) borrowings		(623)		15	
Acquisition of non-controlling interests	4	0		(57)	
Increase in other liabilities		9		0	
Decrease in other liabilities		0		(3)	
Dividends paid		(87)		(92)	
Purchase of treasury shares		(8)		(4)	
Sale of treasury shares		8		14	
Net cash (used for) / provided by financing activities			**(404)**		**(30)**
Effect of currency translation on cash			2		(6)
Net (decrease) / increase in cash and cash equivalents			**(426)**		**108**
Cash and cash equivalents at 1 January			566		140
Cash and cash equivalents at 31 December			140		248

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						Total	Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Translation reserve	Treasury shares			
At 31 December 2008	**50**	**148**	**2 233**	**(56)**	**(209)**	**(301)**	**1 865**	**69**	**1 934**
Profit for the period	0	0	162	0	0	0	162	(3)	159
Other comprehensive income, net of tax	0	0	0	40	(45)	0	(5)	(2)	(7)
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**
Profit for the period	0	0	291	0	0	0	291	(7)	284
Other comprehensive income, net of tax	0	0	0	8	(223)	0	(215)	0	(215)
Total comprehensive income for the year	**0**	**0**	**291**	**8**	**(223)**	**0**	**76**	**(7)**	**69**
Dividends	0	0	(92)	0	0	0	(92)	0	(92)
Recognition of share-based payments	0	0	8	0	0	0	8	0	8
Transfer of employee shares	0	(3)	(7)	0	0	10	0	0	0
Acquisition of non-controlling interests	0	0	1	0	(1)	0	0	(57)	(57)
Derecognition of put-option	0	0	59	0	0	0	59	0	59
Acquisition of treasury shares	0	0	0	0	0	(4)	(4)	0	(4)
Sale of treasury shares less taxes	0	(2)	(1)	0	0	18	15	0	15
At 31 December 2010	**53**	**311**	**2 553**	**(8)**	**(478)**	**(44)**	**2 387**	**0**	**2 387**

The share capital on 31 December 2010 comprised 52 920 140 registered shares with a par value of CHF 1 each (2009: 52 920 140 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2009: CHF 52 920 140).

Reserves in the amount of CHF 26 460 070 (2009: CHF 26 460 070) included in the financial statements of the parent company cannot be distributed.

Notes to the Consolidated Financial Statements

1 Accounting Principles

Basis of preparation The consolidated financial statements for 2010 and 2009 are reported in Swiss francs (CHF) and are based on the annual accounts of the individual subsidiaries at 31 December which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments and short-term financial assets available for sale are stated at their fair value.

Changes in accounting policies The following new and revised standards and interpretations have been issued, being effective for the reporting year 2010:
- IFRS 3 revised – Business combinations
- IAS 27 amended – Consolidated and separate financial statements
- Amendment to IAS 39 – Financial instruments: recognition and measurement – Eligible hedged items
- IFRIC 17 – Distributions of non-cash assets to owners
- Improvements to IFRSs – Amendments to IFRS 5 non-current assets held for sale and discontinued operations
- Improvements to IFRSs (April 2009)
- Amendments to IFRS 2 Group cash-settled share-based payment transactions

With the exception of additional disclosures, the new and revised standards and interpretations had no material impact on the consolidated financial statements for the year 2010.

From 1 January 2010, the functional currency of all subsidiaries in China was changed from US dollar to renminbi. This accounting change was implemented because the Chinese subsidiaries changed the focus of their operations more and more towards delivering their goods and services to the local markets.

In 2010, the Group decided to disclose development costs as separate position in the notes. The tables in note 7 were adjusted accordingly and the prior year information was restated.

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

Standard / Interpretation		Effective date	Planned application by Lonza
Amendment to IAS 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
Improvements to IFRS (issued in May 2010)	*	1 January 2011	Reporting year 2011
Amendment to IFRS 7 – Transfers of financial assets	*	1 July 2011	Reporting year 2012
Amendment to IAS 12 – Recovery of underlying assets	*	1 January 2012	Reporting year 2012
IFRS 9 – Financial instruments	**	1 January 2013	Reporting year 2013

* 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

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill and business combinations Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition and includes the cash paid plus the fair value at the date of exchange of assets, liabilities incurred or assumed and equity instruments issued by the Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within administration and general overhead expenses. At the date of acquisition, the Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the Group does not acquire 100 % ownership of the acquired business, non-controlling interests are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets/liabilities of the acquired business in the functional currency of that business. When the initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are used. During the measurement period, the provisional amounts are retrospectively adjusted and additional assets and liabilities may be recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date which, had they been known, would have affected the measurement of the amounts recognized at that date. The measurement period does not exceed twelve months from the date of acquisition. Goodwill is not amortized, but is tested annually for impairment. Goodwill may also arise upon investments in associates, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

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

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

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

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 and intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the assets may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

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

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

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

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

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

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

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

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

Retirement benefits Most of Lonza's subsidiaries operate their own pension plans. Generally, they are funded by employees' and employer's contributions. The net asset or liability recognized in the balance sheet is the present value of the benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service gains and costs. A policy has been established whereby actuarial valuations are performed on a yearly basis. Actuarial gains and losses are recognized over a period not exceeding the expected remaining working lives of the participating employees if the accumulated gains and losses exceed the corridor of 10 % of the greater of plan assets and projected 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 (i) the Group has a legal or constructive obligation as a result of a past event, (ii) it is probable that an outflow of economic benefits will be required to settle the obligation and (iii) a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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

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

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

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

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

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

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

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

2 Principal subsidiaries[1]

In 2010, entered Lonza the viral-based manufacturing market by acquiring Vivante GMP Solutions, Inc. (Houston, USA) and strengthened the Rapid Testing Solutions platform of its Bioscience division by acquiring MODA Technology Partners (Wayne, USA). The prinicpal subsidiaries are shown below.

Company	Town / Country	Purpose	Currency[2]	Share capital in 000	Holding direct %	Holding indirect %
Lonza Australia Pty Ltd	Mt. Waverly, AU	Sales Office	AUD	90		100%
Algonomics NV	Gent, BE	Research & Development	EUR	374		100%
Lonza Braine SA	Braine-l'Alleud, BE	Research & Development, Production, Sales Office	EUR	40 000		100%
Lonza Verviers Sprl	Verviers, BE	Production, Sales Office	EUR	19		100%
Lonza Canada Inc.	Shawinigan, CA	Production	CAD	1	100%	
Lonza AG	Visp, CH	Research & Development, Production, Sales Office	CHF	60 000	100%	
Lonza Sales AG	Basel, CH	Sales Office	CHF	2 000	100%	
Lonza Swiss Licences AG	Basel, CH	Service / Financing	CHF	100	100%	
Lonza BioPharma AG	Visp, CH	Research & Development, Production, Sales Office	CHF	550	100%	
Lonza Bioproducts AG	Basel, CH	Service / Financing	CHF	100	100%	
Lonza Engineering AG	Basel, CH	Service / Financing	CHF	2 000	70%	
TL Biopharmaceutical Ltd	Visp, CH	Research & Development, Production, Sales Office	CHF	1 000	50%	
Lonza Finance Limited	St. Helier, Jersey, GB	Service / Financing	USD	16	100%	
			CHF	132		
Lonza Biotec sro	Kouřim, CZ	Research & Development, Production, Sales Office	CZK	282 100		100%
Lonza Guangzhou Ltd	Guangzhou, CN	Production, Sales Office	USD	12 000		100%
Lonza Guangzhou Nansha Ltd	Guangzhou, CN	Production	USD	80 500		100%
Lonza (China) Investments Co. Ltd	Guangzhou, CN	Service / Financing	USD	75 500	100%	
Lonza Guangzhou Research and Development Center Ltd	Guangzhou, CN	Research & Development	USD	4 100		100%
Lonza Liyang Chemical Company Ltd	Liyang, CN	Production	USD	3 000		100%
Lonza Nanjing Ltd	Nanjing, CN	Production	USD	14 000		100%
Lonza Group GmbH	Waldshut-Tiengen, DE	Service / Financing	EUR	25		100%
Gewerbepark Hochrhein GmbH	Waldshut-Tiengen, DE	Service / Financing	EUR	10 400		100%
Lonza Cologne GmbH	Cologne, DE	Research & Development, Production, Sales Office	EUR	1 502		100%
Lonza Copenhagen ApS	Vallensbaek Strand, DK	Production, Sales Office	DKK	150		100%
Lonza Biologics Porriño, S.L.	Porriño, ES	Production	EUR	10 296		100%
Lonza Ibérica S.A.U.	Barcelona, ES	Sales Office	EUR	60		100%
Lonza Bioscience Sàrl	Paris, FR	Service / Financing	EUR	8 849		100%
Lonza France Sàrl	Levallois-Perret, FR	Sales Office	EUR	132		100%
Lonza Biologics plc	Slough, GB	Research & Development, Production, Sales Office	GBP	14 500		100%
Lonza Wokingham Limited	Wokingham, GB	Sales Office	GBP	1		100%
Lonza Group UK Limited	Slough, GB	Service / Financing	GBP	17 000		100%
Lonza India Private Ltd	Mumbai, IN	Sales Office, Service / Financing	INR	16 296		100%
Lonza Milano S.r.l.	Treviglio, IT	Sales Office	EUR	52		100%
Lonza Japan Ltd	Tokio, JP	Research & Development, Sales Office	JPY	200 000	100%	
Lonza Mexico S. de R.L. de C.V.	Mexico City, MX	Sales Office	MXN	3	100%	
Lonza Europe BV	Breda, NL	Service / Financing	EUR	19		100%
Lonza Benelux BV	Breda, NL	Sales Office	EUR	112		100%
Lonza Group Investments BV	Breda, NL	Service / Financing	EUR	50	100%	
OOO Lonza Rus	Moscow, RU	Sales Office	RUB	10		100%
Lonza Biologics Tuas Pte Ltd	Singapore, SG	Production	USD	25 000		100%
			SGD	172 000		
Lonza Bioscience Singapore Pte Ltd	Singapore, SG	Production	USD	1		100%
Lonza Holding Singapore Pte Ltd	Singapore, SG	Service / Financing	USD	100 000		100%
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore, SG	Sales Office	SGD	183		100%
Lonza America Inc.	Allendale, US	Service / Financing	USD	8	100%	
Lonza Inc.	Allendale, US	Research & Development, Production, Sales Office	USD	697		100%
Lonza Biologics Inc.	Portsmouth, US	Production	USD	1		100%
Lonza Walkersville Inc.	Walkersville, US	Research & Development, Production, Sales Office	USD	1		100%
Lonza Rockland Inc.	Rockland, US	Production, Sales Office	USD	1		100%
Lonza Houston Inc.	Houston, US	Production	USD	1		100%
Lonza Wayne Inc.	Wayne, US	Sales Office	USD	1		100%

■ Research & Development
■ Production
■ Sales Office
■ Service / Financing

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

3 Business combination

3.1 Acquisition of MODA Technology Partners

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

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

Net assets acquired and goodwill are shown as follows:

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

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

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

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

3.2 **Acquisition of Vivante GMP Solutions Inc.**

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

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

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

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 liters 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 **Acquisition of non-controlling interests**

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

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

5 **Restructuring and impairment**

The 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).

In 2010, impairment losses of CHF 4 million for the Walkersville plant (Bioscience) and restructuring provisions of CHF 5 million, mainly related to the Conshohocken plant (Customer Manufacturing), were reversed, which are disclosed as “other operating income”. Restructuring provisions were increased by CHF 9 million (Life Science Ingredients: CHF 6 million and Corporate: CHF 3 million) for which the related expenses are disclosed within “administration and general overheads”. The environmental provision of CHF 7 million for the Visp plant was reversed (Life Science Ingredients) and is reported as deduction in “research and development” costs.

6 Property, plant and equipment

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

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**

In 2010, impairment losses of CHF 4 million recognized in 2009 for the Walkersville plant (Bioscience) were reversed, as a result of an improved market environment. Impairment losses of CHF 83 million were recognized in 2009 due to the restructuring program outlined in note 5.

Commitments for capital expenditure in property, plant and equipment amounted to CHF 177 million at year-end 2010 (2009: CHF 128 million), mainly related to capital expenditure for the Chinese units.

The carrying amount of fixed assets under finance lease contracts at year-end 2010 amounted to CHF 3.1 million (2009: CHF 6.1 million). Depreciation relating to fixed assets under finance lease amounted to CHF 1.8 million (2009: CHF 1.6 million). The exchange rate impact between ending and opening balance is CHF - 0.3 million (2009: CHF 0.9 million). In 2010, leased fixed assets of CHF 0.8 million were disposed of.

No assets were pledged for security of own liabilities in 2010 and 2009. 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	2009	2010
Not later than 1 year	4	4
Later than 1 year and not later than 5 years	8	3
Later than 5 years	0	0
Total future minimum finance lease payments	**12**	**7**
Future finance charges on finance lease payments	(2)	(1)
Present value of minimum finance lease payments	**10**	**6**

Present value of finance lease liabilities million CHF	2009	2010
Not later than 1 year	3	3
Later than 1 year and not later than 5 years	7	3
Later than 5 years	0	0
Present value of minimum finance lease payments	**10**	**6**

Operating lease liabilities – minimum lease payments million CHF	2009	2010
Not later than 1 year	11	8
Later than 1 year and not later than 5 years	34	23
Later than 5 years	36	23
Total future minimum operating lease payments	**81**	**54**

The finance lease agreements in 2010 and 2009 are related to buildings and production facilities in the USA expiring in 2012 and are based on an interest rate of 8.7 %. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates to their carrying amount. The Group's obligation under finance leases is secured by the lessors' title to the leased assets.

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

During the year ended 31 December 2010, CHF 9.1 million (2009: CHF 10.8 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

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

2009 million CHF	Goodwill	[1] Patents, trademarks, client relationship	Computer software	Develop-ment cost	Construction in progress	Total
Cost						
At 1 January	**457**	**322**	**53**	**15**	**0**	**847**
Additions	0	1	8	0	6	15
Disposals	0	0	(1)	0	0	(1)
Acquisition of subsidiaries	0	1	0	0	0	1
Disposal of subsidiary	0	0	(1)	0	0	(1)
Currency translation differences	(4)	(6)	2	0	0	(8)
At 31 December	**453**	**318**	**61**	**15**	**6**	**853**
Accumulated amortization and impairment						
At 1 January	**(9)**	**(58)**	**(36)**	**(4)**	**0**	**(107)**
Amortization	0	(15)	(11)	(2)	0	(28)
Currency translation differences	1	1	0	0	0	2
At 31 December	**(8)**	**(72)**	**(47)**	**(6)**	**0**	**(133)**
Net carrying amount 31 December	**445**	**246**	**14**	**9**	**6**	**720**

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

Patents, trade marks and client relationship include intangible assets with indefinite useful lives of CHF 25.5 million (2009: CHF 28.3 million).

[1] Reclassification due to introduction of development cost as new category in 2010

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	2009	2010
Lonza Biologics (Biopharmaceuticals business)	27	25
Lonza Guangzhou (Nicotinates business)	4	4
Lonza Inc. Microbial Control (Biocidal Quats business)	9	8
Lonza Braine SA (Peptide business)	42	36
Lonza Bioscience	363	337
Total carrying amounts of goodwill	**445**	**410**

The change in the carrying amounts of goodwill between 2010 and the previous year results from MODA Technology Partners and Vivante GMP Solution, both acquired in 2010 and integrated in the Bioscience segment, as well as 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 on average by 1.6 % p.a. and the other expenses by 5.0 % p.a. The cash flow projections beyond the five-year period are based on a zero growth rate. A pre-tax discount rate of 8.6 % (2009: 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 strong decrease in gross margin in 2011, due to an expected decrease in selling price, and thereafter an unchanged margin until 2015. 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 10.6 % (2009: 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 prices. Overhead costs are anticipated to grow in line with sales between 2010–2015. No major regulatory changes will have an unfavorable impact on the volumes. Management believes this to be a fair and reasonable assumption. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate. The cash flows are discounted at a pre-tax discount rate of 10.0 % (2009: 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 one year. Sales are projected on the current portfolio of peptides, with production costs varying in line with sales increase. Sales between 2011 and 2012 will drop by 14% due to a delay in approval for one product. From 2012 until 2015, sales are assumed to grow on average by 6.4% p.a. and fixed costs by 2.4% p.a. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate (2009: 0%). The cash flows are discounted at a pre-tax discount rate of 8.7% (2009: 9.3%), resulting in a recoverable amount exceeding the carrying amount by CHF 4 million. If sales dropped (grew) at a 0.1%-point higher (lower) yearly growth rate over the five-year period, or if the pre-tax discount rate were 0.2% points higher, the recoverable amount would agree with the carrying amount.

The **Bioscience** business includes the Cambrex Corporation, acquired on 6 February 2007, the amaxa business, acquired on 2 July 2008, which was integrated into the Cell Discovery business, as well as MODA Technology Partners and Vivante GMP Solutions, acquired on 18 Mai 2010 and 27 August 2010 respectively. MODA Technology Partners was integrated in the Testing Solutions business and Vivante GMP Solutions in the Cell Therapy business. Therefore, the impairment analysis is based on the combined cash-generating unit of the Bioscience segment. The cash flow projections from 2010–2015 are based on a 10.7% average sales growth with growing EBIT margin, as the Bioscience segment is operating in growing markets and economic recovery continues on a low level. The cash flow projections beyond the five-year period are extrapolated using a 0.5% growth rate (2009: 0.5%), which is in line with the current business strategy review. The cash flows are discounted at a pre-tax discount rate of 7.6% (2009: 8.7%). If sales grew at a 10%-point lower yearly growth rate over the five-year period, or if the pre-tax discount rate were 2.4% points higher, the recoverable amount would agree with the carrying amount.

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 I, L.P., is USD 18.2 million of which USD 17.7 million (2009: USD 16.7 million) was drawn up until 31 December 2010. The investment in Aravis Venture I, L.P., is accounted for using the equity method.

In Lonza's 2010 financial statements, the investment in the associate relating to Aravis Ventures I, L.P., amounted to CHF 19 million (2009: CHF 13.2 million). The net capital contribution to Aravis Venture I, L.P., was CHF 0.8 million in 2010 (2009: CHF 0.6 million). An equity income of CHF 4.0 million in 2010 (2009: CHF 0.3 million) and a currency gain of CHF 1 million (2009: currency loss of CHF 0.3) million were disclosed.

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.

In 2009, the original investment in TL Biopharmaceuticals Ltd was entirely offset by an equity loss of CHF 0.5 million. In 2010 an equity loss of CHF 4.8 million was recognized, which includes Lonza's share of the joint venture's 2010 loss of CHF 4.5 million, as well as a loss of CHF 0.3 for 2009. The equity loss is recognized as value adjustment to the loan, as the loan partially has the substance of an equity contribution. As of 31 December 2010, Lonza financed the joint venture with a loan of CHF 44.5 million nominal value, of which CHF 9.8 million is subordinated.

The sales of goods and services from Lonza to TL Biopharmaceuticals Ltd in 2010 amounted to CHF 25 million (2009: CHF 3 million).

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

million CHF	2009	2010
Current assets	0.1	0.1
Fixed assets	31.2	46.5
Current liabilities	7.9	7.2
Long-term liabilities	23.7	44.3
Revenues	0.0	0.0
Profit / (loss)	(0.8)	(4.5)

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

- 2011: USD 52 million
- 2012: USD 68 million
- 2013: USD 84 million

9 Inventories

million CHF	%	2009	%	2010
Raw materials	19	109	18	89
Work in progress	15	90	10	48
Finished goods	48	275	51	252
Other	18	103	21	106
Total	**100**	**577**	**100**	**495**

By operating segments million CHF	%	2009	%	2010
Custom Manufacturing	62	359	54	270
Life Science Ingredients	29	164	37	182
Bioscience	9	54	9	43
Total	**100**	**577**	**100**	**495**

The reported inventories are net of a total value adjustment amounting to CHF 57 million (2009: CHF 83 million). In 2009, 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 2010	**17**	**39**	**27**	**83**
Increase	36	57	16	109
Reversal / Utilization of write-downs	(42)	(75)	(14)	(131)
Currency translation differences	(1)	(2)	(1)	(4)
At 31 December 2010	**10**	**19**	**28**	**57**

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 1 795 million (2009: CHF 1 821 million).

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

million CHF	2009	2010
Contract revenue recognized as revenue in the period	**38**	**36**
– Contract costs incurred	29	22
– Recognized profits less recognized losses	9	11
Contract costs incurred plus recognized profits less recognized losses	**38**	**33**
Less progress billings	(20)	(10)
Total net amount due from / (to) customers	**18**	**23**
Gross amount due from customers for contract work	**18**	**23**
Gross amount due to customers for contract work	**0**	**0**
Advances received	**38**	**33**
Retentions held by customers for contract work	**0**	**0**

10 Trade receivables

million CHF	2009	2010
Receivables from customers	534	490
Allowances for credit losses	(6)	(2)
Total	**528**	**488**

The credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2010, 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	2009	2010
Not past due	450	401
Past due 1–30 days	36	47
Past due 31–120 days	30	30
Past due more than 120 days	12	10
Total	**528**	**488**

Reconciliation of changes in allowance accounts for credit losses million CHF	2009	2010
Balance at the beginning of the year	6	6
Write-offs	(1)	(4)
Increase in provision for credit losses	1	2
Decrease in provision for credit losses	0	(2)
Translation differences	0	0
Balance at the end of the year	**6**	**2**

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

11 Other receivables, prepaid expenses and accrued income

million CHF	2009	2010
Other receivables	97	98
Prepaid taxes and social security payments	5	7
Prepaid expenses and accrued income	55	65
Total	**157**	**170**

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

12 Cash and cash equivalents

million CHF	2009	2010
Cash	129	237
Time deposits	11	11
Total	**140**	**248**

13 Provisions

Long-term provisions million CHF	Environ-mental	Restruc-turing	Other	Total
At 1 January 2010	**12**	**1**	**1**	**14**
Increase	6	1	3	10
Used	(2)	0	0	(2)
Reclassification (to short-term provisions)	(1)	(1)	0	(2)
Currency translation differences	(1)	0	0	(1)
At 31 December 2010	**14**	**1**	**4**	**19**

Short-term provisions (see note 15) million CHF	Environ-mental	Restruc-turing	Other	Total
At 1 January 2010	**13**	**19**	**7**	**39**
Increase	0	8	1	9
Used	(1)	(19)	(1)	(21)
Reversed	(11)	(5)	(6)	(22)
Reclassification (from long-term provisions)	1	1	0	2
Currency translation differences	0	(1)	0	(1)
At 31 December 2010	**2**	**3**	**1**	**6**

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. Long-term environmental provision for Lonza Inc. (USA) was increased by CHF 6 million. In 2009 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). For Conshohocken CHF 1 million of the provision was used and CHF 2 million was reversed due to the sale of that plant. The provision for the Visp plant was fully reversed as plans to dismantle a building were changed in 2010. Additional short-term provisions of CHF 2 million were reversed for the Visp plant. In addition, provisions were used for Gewerbepark GmbH (CHF 1 million).

Restructuring 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). Additional measures which were defined in 2010 led to an increase in restructuring provisions of CHF 9 million. Restructuring provisions of CHF 19 million were used in 2010 while CHF 5 million was reversed. The reversal is mainly a result of the sale of the Conshohocken (Riverside) plant.

Other Other long-term provisions were provided for Lonza Biologics Tuas Pte Ltd for asset retirement obligations (CHF 2 million) and for development costs at Gewerbepark Hochrhein GmbH (CHF 1 million). Other short-term provisions decreased, mainly due to the reversal of provisions related to the sale of Lonza Biologics Singapore Pte Ltd (CHF 2 million) and the Algonomics integration (CHF 3 million).

14 Net debt

The net debt comprises:

million CHF		2009		2010
Long-term debt				
Straight bond (2009–2013)		297		298
Straight bond (2010–2016)		0		397
Syndicated loan		497		0
Due to banks and others:				
– Banks	22		16	
– Other	1	23	136	152
Leasing		7		3
Total		**824**		**850**

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

Straight bond (2009–2013) On 28 April 2009, a 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.

Straight bond (2005–2010) The straight bond (2005–2010) of CHF 300 million at an interest rate of 2.625 % became due for repayment on 2 June 2010.

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, with repayment of the loan in December 2011. It is based on floating rates (libor + margin depending on a margin grid). Lonza hedged the interest rate for the whole five years via an interest rate swap.

Short-term debt million CHF	2009	2010
Due to banks and other financial institutions	46	45
Others	166	3
Leasing	3	3
Long-term debt due within one year		
– Straight bond (2005 – 2010)	300	0
– Syndicated loan	0	499
Total	**515**	**550**
Total debt	**1 339**	**1 400**

Loans and advances (floating interest rates) million CHF	2009	2010
Long-term loans and advances	(32)	(43)
Short-term loans and advances	(1)	(1)
Cash and cash equivalents	(140)	(248)
Total	**(173)**	**(292)**
Net debt	**1 166**	**1 108**

Loans and advances increased in 2010 compared with the prior year, mainly due to the loan granted to the TL Biopharmaceutical Ltd joint venture.

Breakdown of debt by currencies			2009			2010
million CHF	Average interest rates %	%		Average interest rates %	%	
CHF	2.54	83	1 108	3.19	85	1 199
CNY	0.00	0	0	4.37	1	16
EUR	1.95	0	1	1.45	0	1
USD	2.70	16	221	2.15	13	175
Other	1.20	1	9	0.90	1	9
Total		**100**	**1 339**		**100**	**1 400**

Breakdown of loans and advances by currencies			2009			2010
million CHF	Average interest rates %	%		Average interest rates %	%	
CZK	8.00	3	1	0.00	0	0
GBP	0.00	0	0	1.05	2	1
USD	2.50	97	32	1.95	98	43
Total		**100**	**33**		**100**	**44**

Interest rates are floating rates.

15 Other short-term liabilities

million CHF	2009	2010
Short-term provisions (see note 13)	39	6
Accrued liabilities and other payables	265	201
Other interest-free liabilities	85	128
Accrued interest payables	12	16
Total	**401**	**351**

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

16 Trade payables

million CHF	2009	2010
Payables to third parties	196	159
Total	**196**	**159**

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

17 Contingent liabilities

No contingent liabilities exist for 2010 and 2009.

18 Material and energy costs

million CHF	2009	2010
Material costs	836	855
Energy costs	73	87
Total	**909**	**942**

19 Personnel expenses

million CHF	2009	2010
Wages and salaries	663	644
Pensions (IAS 19)	27	23
Other social security contributions	140	130
Other personnel expenses	15	26
Total personnel cost	**845**	**823**

20 Other operating income and expenses

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

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

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.

21 Financial result

21.1 Interest and other financial income

million CHF	2009	2010
Interest income	9	5
Other financial income	1	1
Total	**10**	**6**

21.2 Interest and other financial expenses

million CHF	2009	2010
Interest expenses	(54)	(40)
Other financial expenses	(9)	(9)
Total	**(63)**	**(49)**

"Other financial expenses" are primarily composed of financing costs for the straight bonds, currency differences and the emission duty for the increase in capital in 2009.

21.3 Income from investments

million CHF	2009	2010
Share of (loss) / profit of associates / joint ventures	0	(1)
Other investment income / (loss)	0	0
Total	0	**(1)**

"Share of (loss) / profit of associates / joint ventures" in 2010 comprises an income of CHF 4.0 million (2009: CHF 0.3 million) from Aravis Ventures I, L.P., and a loss of CHF 4.8 million (2009: CHF 0.5 million) from the TL Biopharmaceutical Ltd joint venture.

22 Taxes

22.1 Income taxes

Major components of tax expenses million CHF	2009	2010
Current taxes	(51)	(32)
Deferred tax expense relating to the origination and reversal of temporary differences	23	(15)
Deferred tax (expense) / income resulting from tax rate changes	1	1
Total	**(27)**	**(46)**

Lonza Group Ltd and the operating company Lonza Ltd are domiciled in Switzerland. The maximum rate of all income taxes on companies domiciled in Switzerland is 8% (2009: 8%) for holding companies and 23% for operating companies (2009: 23%).

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Lonza calculates the average tax rate as a weighted average of the rates applying in the tax jurisdictions in which it operates. The average tax rate for 2010 is 21% (2009: 14%). The effective tax rate for 2010 is 14% (2009: 15%). The change of the tax rate reflects mostly the capitalization of tax incentives in Europe as deferred tax assets and other tax free income in Asia, Europe and Switzerland.

Reconciliation of tax expense million CHF	2009	2010
Profit before income taxes	186	330
Tax at the domestic rates applicable to the profits earned in the country concerned (2009: 14% / 2010: 21%)	26	68
Expenses that are not deductible for tax purposes	3	4
Tax-free earnings	(26)	(27)
Deferred tax benefit from tax rate changes	(1)	(1)
Under- / (overprovided) in prior years	(1)	(1)
Not recognized potential deferred tax assets of current year	26	2
Change of value adjustment of previously capitalized deferred taxes	0	2
Other	0	(1)
Total	**27**	**46**
Deferred tax expenses (charged) / credited directly to equity	**(7)**	**0**
Current tax expenses (charged) / credited directly to equity	**(5)**	**7**

Capital taxes of CHF 10 million (2009: CHF 9 million) are contained in "Administration and general overheads".

Components of deferred income tax balances million CHF	2009 Assets	2009 Liabilities	2010 Assets	2010 Liabilities
Short-term operating provisions	1	6	2	15
Long-term operating provisions / Employee benefit liability	23	65	36	110
Inventory	29	27	1	24
Property, plant and equipment	9	232	2	172
Other assets	37	11	13	0
Tax loss carry-forwards	40	0	49	0
Total	**139**	**341**	**103**	**321**

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

million CHF	2009	2010
Deferred tax assets	139	103
Deferred tax liabilities	(341)	(321)
Net deferred tax liability	**(202)**	**(218)**
Less deferred tax (assets) / liabilities net opening balance	230	202
(Increase) / decrease in deferred tax liabilities, net	**28**	**(16)**
Currency translation differences	3	(1)
Change in scope of consolidation	0	3
Movements of deferred tax assets / (liabilities) charged to equity	(7)	0
(Expense) / income recognized in income statement	**24**	**(14)**

Years of expiration of tax loss carry-forwards million CHF	2009	2010
Expiring in 2011	11	9
Expiring in 2012	29	14
Expiring in 2013	0	0
Expiring in 2014	0	0
Expiring from 2015	244	349
Unlimited	125	147
Total	**409**	**519**

At 31 December 2010, Lonza had loss carry-forwards of CHF 209 million (2009: CHF 166 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 2011 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

	2009			2010		
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	(49)	2	(47)	(230)	7	(223)
Cash flow hedges	49	(9)	40	8	0	8
Other comprehensive income	**0**	**(7)**	**(7)**	**(222)**	**7**	**(215)**

23 Research and development

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

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

The research and development costs amounted to CHF 141 million (2009: CHF 145 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 99 million (2009: CHF 103 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 2010, 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 %	2009	2010
Discount rate	3.7	2.9
Expected return on plan assets at 1 January	4.5	4.5
Future salary increases	2.1	2.1
Future pension increases	0.2	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 % (2009: 4.5 %). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

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

million CHF	2009	2010
Present value of unfunded obligations	18	16
Present value of funded obligations	1 520	1 592
Total present value of obligations	**1 538**	**1 608**
Fair value of plan assets	(1 408)	(1 409)
Funded status (surplus) / deficit	**130**	**199**
Unrecognized actuarial gains / (losses)	(169)	(257)
Unrecognized past service gains / (costs)	45	39
Net liability / (asset) recognized in the balance sheet	**6**	**(19)**

Assets of CHF 33 million (2009: CHF 11 million) and liabilities of CHF 14 million (2009: CHF 17 million) are included in the financial statements.

Plan assets consist of the following:

million CHF	2009	2010
Equity securities	314	290
Bonds	363	404
Property occupied by the Group	0	0
Property	108	121
Cash	623	594
Company's own ordinary shares	0	0
Total fair value of plan assets	**1 408**	**1 409**

Movement in the defined benefit obligations million CHF	2009	2010
Opening defined benefit obligation at 1 January	**1 443**	**1 538**
Interest cost	58	56
Current service cost (employer)	32	35
Contributions by plan participants	18	17
Benefits paid	(61)	(73)
Curtailments and settlements	0	(38)
Actuarial (gains) / losses on obligation	50	104
Impact of exchange rate changes	(2)	(32)
Adjustment	0	1
Closing defined benefit obligation at 31 December	**1 538**	**1 608**

Movement in plan assets million CHF	2009	2010
Opening fair value of plan assets at 1 January	**1 301**	**1 408**
Expected return on plan assets	59	64
Contributions by the employer	45	47
Contributions by plan participants	18	17
Benefits (paid) / deposited	(61)	(73)
Curtailments and settlements	0	(34)
Actuarial gains / (losses) on plan assets	47	2
Impact of exchange rate changes	0	(23)
Adjustment	(1)	1
Closing fair value of plan assets at 31 December	**1 408**	**1 409**

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

million CHF	2009	2010
Current service cost (employer)	32	35
Interest cost	58	56
Expected return on plan assets	(59)	(64)
Actuarial (gains) / losses recognized in current year	3	5
Past service cost / (gain)	(7)	(7)
Effect of curtailments and settlements	0	(2)
Total recognized pension costs	**27**	**23**

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

Actual return on plan assets million CHF	2009	2010
Expected return on plan assets	59	64
Actuarial gains / (losses) on plan assets	47	2
Actual return on plan assets	**106**	**66**

Historical information million CHF	2006	2007	2008	2009	2010
Present value of defined benefit obligation	1 574	1 450	1 443	1 538	1 608
Fair value of plan assets	(1 387)	(1 450)	(1 301)	(1 408)	(1 409)
(Surplus) / deficit	**187**	**0**	**142**	**130**	**199**
Experience adjustments on defined benefit obligation (gains) / losses			48	(18)	11
Experience adjustments on plan assets gains / (losses)			(200)	47	2

The Group expects to pay CHF 42 million in contributions to defined benefit plans in 2011.

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 %	2009	2010
Discount rate	5.80	5.20
Medical-cost trend rate	7.00	8.00

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

%	+1 %-point increase	+1 %-point decrease
Effect on the aggregate service and interest cost	15.1	-12.4
Effect on defined benefit obligation	12.2	-10.2

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

million CHF	2009	2010
Present value of unfunded benefit obligations	33	37
Unrecognized actuarial gains / (losses)	4	(4)
Unrecognized prior service cost	0	0
Liability recognized in the balance sheet	**37**	**33**

Movement in the defined benefit obligations million CHF	2009	2010
Opening defined benefit obligation at 1 January	**31**	**33**
Interest cost	2	2
Current service cost (employer)	0	0
Contributions by plan participants	0	1
Benefits (paid) / deposited	(2)	(3)
Actuarial (gains) / losses on obligation	2	9
Impact of exchange rate changes	(1)	(4)
Adjustment	1	(1)
Closing defined benefit obligation at 31 December	**33**	**37**

Movement in the liability recognized in the balance sheet million CHF	2009	2010
Liability as of 1 January	**38**	**37**
Expenses recognized in income statement	(1)	(3)
Benefits (paid) / deposited	2	2
Impact of exchange rate changes	(2)	(2)
Adjustment	0	(1)
Liability as of 31 December	**37**	**33**

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

million CHF	2009	2010
Current service cost (employer)	0	0
Interest cost	2	2
Actuarial (gains) / losses recognized in current year	(1)	0
Past service cost	0	0
Adjustment	1	1
Total post-retirement cost	**2**	**3**

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

Historical information of other post-retirement benefits million CHF	2006	2007	2008	2009	2010
Present value of defined benefit obligation	40	34	31	33	37
Experience adjustments on defined benefit obligation (gains) / losses			0	0	3

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
2005	1 435 000	73.80	10:1	25 05 08 / 25 05 10

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

Development option plans 2010	Outstanding 01 01 2010	Granted during 2010	Forfeited during 2010	Exercised during 2010	Expired during 2010	Outstanding 31 12 2010	Exercisable 31 12 2010
LOSOP 2005	1 375 000	0	0	(1 375 000)	0	0	0
Total options	**1 375 000**	**0**	**0**	**(1 375 000)**	**0**	**0**	**0**

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**

No share options were outstanding at 31 December 2010. The weighted average share price of the share options outstanding at 31 December 2009 was CHF 73.80 . The options outstanding at 31 December 2009 had a remaining weighted average contractual life of 5 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 2010 (2009: 0 %).

Fair value at grant date	CHF	Grant date
LOSOP 2005	2 209 900	May 2005

[1] Acting and former members

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

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
2010: ranging from 6 shares to 177 shares

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

Details of share purchase plans	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date
					CHF
ESPP 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
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81

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

Development share purchase plans 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 61.45. The weighted average share price of the vested shares in 2010 was CHF 77.13 (2009: CHF 104.72). The outstanding share awards at 31 December 2010 had a weighted average share price of CHF 101.79 (2009: CHF 101.66) and a remaining weighted average contractual life of 28 months (2009: 21 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20 % in 2010 (2009: between 20 % and 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
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985

A total of 61 055 treasury shares with a par value of CHF 1 each (31 December 2009: 53 794 shares) is reserved for the share purchase plans.

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

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during the three fiscal years of Lonza compared with a defined industry peer group before the end of the vesting period. In 2008, the peer group[2] was adapted to the new stock index classification. The TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis by 5 % (LTIP 2007: 12 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to hold the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

1 TSR measures growth in share price with dividends reinvested. This measure is based on an external market view of the company's success.
2 The peer group consists of: MSCI Chemicals, DSM, UCB, Crucell, Genentech/Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific.

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

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA[1]) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target is reached if Lonza increases its EVA within the vesting period from CHF 34.25 million up to CHF 137.0 million. If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA on the level at the beginning of the fixed period, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

The following table shows historical data on vesting conditions for LTIP share awards in the years 2007–2010, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

Details of long-term incentive plans	Grant date	Share price CHF	Granted share awards	TSR	EPS/EVA	Vesting date
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
LTIP 2010	01 02 2010	75.65	147 711	5 %	137 mn	31 01 2013

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 %

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

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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Fair value of share awards at grant date CHF	Expected vesting EPS	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date CHF	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2010 TSR	75.65	73 855	50 %		2 793 565	100 %	n.a.	100.00 %	2 793 565
LTIP 2010 EVA	75.65	73 856		50 %	2 793 603	100 %	0 %	100.00 %	2 793 603

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

Development of long-term incentive plan 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 37.82 (2009: CHF 53.05). The weighted average share price of the vested shares in 2010 was CHF 77.10 (2009: CHF 105.97). The outstandig share awards at 31 December 2010 had a weighted average share price of CHF 50.45 (2009: CHF 59.33) and a remaining weighted average contractual life of 15 months (2009: 15 months).

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

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

Fair value at grant date	CHF
LTIP 2007	4 749 489
LTIP 2008	5 848 757
LTIP 2009	6 437 936
LTIP 2010	5 587 168

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

Non-vested shares	Grant date	Share price	Granted share awards	Vesting date
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 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
MC shares 2010	01 04 2010	85.95	1 242	01 04 2010
MC shares 2010	01 04 2010	85.95	1 242	31 01 2011

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

Development of long-term incentive plan for Management Committee 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 85.95 (2009: CHF 105.90). The weighted average share price of the vested shares in 2010 was CHF 118.92 (2009: CHF 105.97). The outstanding share awards at 31 December 2010 had a weighted average share price of CHF 126.08 (2009: CHF 128.20) and a remaining weighted average contractual life of 2 months (2009: 6 months).

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

Fair value at grant date	CHF
MC shares 2007	1 393 686
MC shares 2008	1 418 794
MC shares 2009	49 985
MC shares 2010	213 500

Other share plans In recognition of the extraordinary efforts by employees to ensure successful integration of new 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 share awards	Vesting date
Integration Team Canada	30 04 2007	118.70	1 406	30 04 2010
Integration Team Hopkinton	31 03 2009	112.50	1 800	31 03 2010
Award Sandmeyer Price	29 01 2010	75.65	40	29 01 2010
Award other 2010	05 02 2010	75.90	50	05 02 2010
Award other 2010	01 03 2010	86.05	233	01 03 2010
Award other 2010	07 04 2010	83.25	60	07 04 2010
Award other 2010	28 07 2010	78.95	3 000	30 09 2010
Award other 2010	29 11 2010	77.20	750	29 11 2010

Development of the other share plans 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
Integration Team Canada	1 406	0	0	0	(1 406)	0
Integration Team Hopkinton	1 800	0	0	(1 800)	0	0
Award Sandmeyer Price	0	40	0	(40)	0	0
Awards others 2010	0	4 093	0	(4 093)	0	0
Total non-vested shares	**3 206**	**4 133**	**0**	**(5 933)**	**(1 406)**	**0**

Development of the other share plans 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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
Award LIFT	0	20	0	(20)	0	0
Award others 2009	0	50	0	(50)	0	0
Total non-vested shares	**8 037**	**1 870**	**0**	**(5 976)**	**(725)**	**3 206**

The estimated fair value of the share awards granted in 2010 was CHF 79.03 (2009: CHF 111.40). The weighted average share price of the vested shares in 2010 was CHF 89.18 (2009: CHF 102.55). No share awards were outstanding at 31 December 2010.

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 60% in 2010 (2009: between 0% and 42%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Integration Team Canada	150 037
Integration Team Hopkinton	202 500
Award Sandmeyer Price	3 026
Award others 2010	323 590

In order to satisfy the exercise of the long-term incentive plans, Lonza acquired 50 000 shares during 2010 (2009: 100 000 shares), at an average market value of CHF 77.60 (2009: 81.29). A total of 381 648 treasury shares (2009: 484 215) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

Compensation for Board of Directors The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount 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.

Development of compensation for Board of Directors 2007	Grant date	Total shares	Share price CHF	Fair values shares	[1]Cash CHF	Total CHF	Blocked until
	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	[1]Cash CHF	Total CHF	Blocked until
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		**13 985**	**123.94**	**1 733 264**	**670 000**	**2 403 264**	

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

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

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

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

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

[1] Excluding social security and withholding tax

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

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

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

Recognition in the Consolidated Financial Statements The equity-settled share-based payments had an impact on the 2010 "Result from operating activities" amounting to an expense of CHF 8.9 million and to an income of CHF 3.3 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 2008	Change in year	31 12 2009	Change in year	31 12 2010
Total number of shares		**50 450 000**	**2 470 140**	**52 920 140**	**0**	**52 920 140**
Treasury shares						
Shares reserved for convertible bonds		1 824 221	(1 824 221)	0	0	0
Shares reserved for share option plan (LOSOP)		268 849	(120 500)	148 349	(148 349)	0
Shares reserved for share purchase plan (ESPP)		57 358	(3 564)	53 794	7 261	61 055
Shares reserved for long-term incentive plan (LTIP)		313 169	(107 323)	205 846	(37 816)	168 030
Shares reserved for other plans		103	(103)	0	0	0
Free shares		200 000	78 369	278 369	(64 751)	213 618
Total treasury shares		**2 663 700**	**(1 977 342)**	**686 358**	**(243 655)**	**442 703**
Total shares ranking for dividend at 31 December		**47 786 300**	**4 447 482**	**52 233 782**	**243 655**	**52 477 437**
Transferred shares between January and date of dividend payment of following year		2 049 741		177 116		n.a.
Total shares ranking for dividend at date of dividend payment		**49 836 041**		**52 410 898**		**n.a.**
Share capital movements						
Share capital	CHF	**50 450 000**	**2 470 140**	**52 920 140**	**0**	**52 920 140**

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

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

Dividend A dividend per share of CHF 2.15 (2009: 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 2010, 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		2009	2010
Profit for the period (equity holders of the parent)		162	291
Weighted average number of shares		50 773 075	52 410 459
Basic earnings per share	CHF	**3.19**	**5.55**
Diluted earnings per share			
Profit for the period (equity holders of the parent)		162	291
– Impact from dilution		0	0
Diluted profit for the period		162	291
Weighted average of numbers of shares		50 773 075	52 410 459
– Adjustments for dilutive options and shares		369 810	226 400
Weighted average number of shares for diluted earnings per share		51 142 885	52 636 859
Diluted earnings per share	CHF	**3.17**	**5.53**
Dividends paid of the period		**87**	**92**
Dividends per share of the period	CHF	**1.75**	**1.75**
Dividends declared after the balance sheet date		**91**	**113**
Dividends per share declared after the balance sheet date	CHF	**1.75**	**2.15**

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 2010, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.503 million[1] (2009: CHF 2.766 million[1]), 65.96 % (2009: 65.57 %) 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 85 799 or 0.17 % (2009: 0.12 %) of the voting shares of Lonza Group Ltd. None of the directors owns 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 2010, CHF 5.195 million[1] (2009: CHF 5.264 million[1]) in cash and additional benefits and 62 923 shares (2009: 51 817 shares), equivalent to a value of CHF 2.5 million (2009: CHF 2.766 million).

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

million CHF	2009	2010
Short-term benefits[1]	4.455	4.569
Post-employment benefits[2]	0.399	0.375
Other benefits	0.750	0.727
Severance payments	0.613	0.376
Share- / option-based payments	4.579	4.151
Total	**10.796**	**10.198**

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 2010 amounted to CHF 16 million (2009: CHF 25 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 paid in March of the following year
[2] Including contribution for social security and pension fund

Income taxes At 31 December 2010, deferred tax assets of CHF 103 million (2009: CHF 139 million), current tax receivables of CHF 32 million (2009: CHF 23 million), deferred tax liabilities of CHF 321 million (2009: CHF 341 million) and current tax payables of CHF 38 million (2009: CHF 48 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 2010, the present value of the Group's defined benefit obligation is CHF 1 592 million (2009 CHF 1 520 million) for funded plans and CHF 16 million (2009: CHF 18 million) for unfunded plans. The plan assets at fair value amount to CHF 1 409 million (2009: CHF 1 408 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 199 million (2009: CHF 130 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 2 470 million (2009: CHF 2 590 million), goodwill of CHF 410 million (2009: CHF 445 million) and intangible assets of CHF 244 million (2009: CHF 275 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 2010 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experiences with similar transactions, the quality delivered will be accepted. Therefore it is appropriate to recognize revenue on these transactions during 2010. 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 4 March 2011

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	2009	2010
Financial assets – available for sale		
Other investments – available for sale – carried at cost	0	6
Short-term financial assets – available for sale – at fair value[1]	0	33
Total financial assets – available for sale	**0**	**39**
Loans and receivables		
Trade receivables, net	528	488
Other receivables and accrued income	87	43
Short-term advances	1	1
Long-term loans	32	43
Cash and cash equivalents	140	248
Total loans and receivables	**788**	**823**
Financial assets at fair value through profit or loss – held for trading		
Currency-related instruments	10	22
Total financial assets at fair value through profit or loss – held for trading	**10**	**22**
Total	**798**	**884**

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 440 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 2010	Carrying Amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	298	333	11	11	311	0
Straight bond (2005–2010)	397	472	12	12	36	412
Syndicated loan	499	515	515	0	0	0
Due to banks	61	63	46	17	0	0
Due to others	139	193	3	3	9	178
Leasing	6	7	4	3	0	0
Total debt	**1 400**	**1 583**	**591**	**46**	**356**	**590**
Trade payables	159	159	159	0	0	0
Other short-term liabilities	307	307	307	0	0	0
Total financial liabilities	**1 866**	**2 049**	**1 057**	**46**	**356**	**590**

[1] Included in "other receivables" (see note 11)

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**

31.4 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 2010, 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 7.1 million (2009: CHF 7.2 million) lower / higher, mainly as a result of foreign exchange losses / gains on translation of USD-denominated trade receivables, cash and cash equivalents and short-term liabilities. Equity would have been CHF 0.1 million (2009: CHF 1.2 million higher / lower) lower / higher.

At 31 December 2010, 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 0.1 million (2009: CHF 2.9 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. Equity would have been CHF 0.01 million (2009: no impact) higher / lower.

At 31 December 2010, 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 0.5 million (2009: CHF 0.8 million higher / lower) lower / higher, 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 for 2009 and 2010.

At 31 December 2010, 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 (2009: CHF 0.2 million lower / higher) higher / lower, mainly as a result of foreign exchange losses / gains on translation of JPY-denominated trade payables, other short-term liabilities and currency-related instruments. There is no impact on equity for 2009 and 2010.

At 31 December 2010, 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 not have changed (2009: CHF 1.4 million higher / lower) due to the change of the functional currency of the Chinese subsidiaries.

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

31 December 2010 million CHF	USD	GBP	EUR	CHF	JPY	CNY	SGD	CZK	Other	Total
Other investments	0	0	0	0	0	0	0	0	0	0
Long-term loans and advances	40	0	0	0	0	0	0	0	0	40
Trade receivables, net	115	26	57	1	0	0	0	0	1	200
Other receivables, prepaid expenses and accrued income	1	0	3	0	0	0	0	1	2	7
Short-term advances	1	0	0	0	0	0	0	0	0	1
Cash and cash equivalents	59	3	5	0	0	0	0	0	0	67
Long-term debt	(16)	0	0	0	0	0	0	0	0	(16)
Other long-term liabilities	0	0	0	0	0	0	0	0	(2)	(2)
Other short-term liabilities	(25)	(22)	(27)	0	(3)	0	0	(2)	(5)	(84)
Trade payables	(10)	(1)	(13)	0	(2)	0	0	0	(8)	(34)
Short-term debt	(16)	0	0	0	0	0	0	0	0	(16)
Gross balance sheet exposure	**149**	**6**	**25**	**1**	**(5)**	**0**	**0**	**(1)**	**(12)**	**163**
Estimated forecast purchases	(41)	0	0	0	0	0	0	0	0	(41)
Currency-related instruments	(25)	0	(24)	0	1	0	2	12	0	(34)
Net exposure	**83**	**6**	**1**	**1**	**(4)**	**0**	**2**	**11**	**(12)**	**88**

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	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
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**

The following exchange rates were applied during the year:

Balance sheet year-end rates		2009	2010
EU	Euro	1.4849	1.2511
USA	Dollar	1.0297	0.9369
Great Britain	Pound sterling	1.6617	1.4489
Singapore	Singapore dollar	0.7354	0.7309
China	Renminbi	0.1508	0.1421
Income statement year-average rates			
EU	Euro	1.5097	1.3824
USA	Dollar	1.0858	1.0427
Great Britain	Pound sterling	1.6948	1.6105
Singapore	Singapore dollar	0.7463	0.7647
China	Renminbi	0.1589	0.1540

Interest rate risk Lonza's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose Lonza to cash flow interest rate risk. 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 2010, if interest rates on CHF-denominated short-term borrowings had been 100 basis points higher / lower with all other variables held constant, there would have been no impact on post-tax profit for the year (2009: 1.8 million). Other components of equity would have been CHF 12.2 million (2009: CHF 9.9 million) lower / higher.

At 31 December 2010, 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 1.5 million (2009: CHF 1.9 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 for 2009 and 2010.

Commodity price risk Lonza needs LPG as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the butane price risk via swaps. At 31 December 2010, if the Butane price had weakened / strengthened by 10 %, with all other variables held constant, the impact on equity would have been CHF 0.7 million (2009: CHF 1.6 million) lower / higher.

31.5 Overview of derivative financial instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2010 and 2009. 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 million CHF	2009	2010	2009	2010	2009	2010	2009	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	64	15	0	1	0	0	0	1
– Currency swaps	702	502	10	20	(6)	(3)	4	17
– FX Options	0	45	0	1	0	0	0	1
Total currency-related instruments	**766**	**562**	**10**	**22**	**(6)**	**(3)**	**4**	**19**
Total financial instruments at fair value through profit or loss – held for trading	**766**	**562**	**10**	**22**	**(6)**	**(3)**	**4**	**19**

Financial instruments effective for hedge-accounting purposes million CHF	2009	2010	2009	2010	2009	2010	2009	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– US dollar cash deposit	26	41	0	0	(1)	(1)	(1)	(1)
– Forward foreign exchange rate contracts	9	23	0	1	0	0	0	1
Total currency-related instruments	**35**	**64**	**0**	**1**	**(1)**	**(1)**	**(1)**	**0**
Interest-related instruments								
– Interest rate swaps	500	500	0	0	(18)	(12)	(18)	(12)
Total interest-related instruments	**500**	**500**	**0**	**0**	**(18)**	**(12)**	**(18)**	**(12)**
Commodity-related instruments								
– Butane swap	20	7	2	1	0	0	2	1
– Naphtha swap	0	7	0	2	0	0	0	2
Total commodity-related instruments	**20**	**14**	**2**	**3**	**0**	**0**	**2**	**3**
Total financial instruments effective for hedge-accounting purposes	**555**	**578**	**2**	**4**	**(19)**	**(13)**	**(17)**	**(9)**

Financial instruments by currency Forward foreign exchange rate contracts and currency swaps million CHF	2009	2010
USD	453	498
GBP	36	17
EUR	141	67
CZK	116	34
JPY	10	2
DKK	10	6
SGD	21	2
CAD	14	0
Total	**801**	**626**
Commodity swap	20	14
Interest rate swap	500	500
Total financial instruments	**1 321**	**1 140**

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

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

31.6 Financial instruments carried at fair value

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

	2009				2010			
million CHF	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	12	0	12	0	26	0	26
Short-term financial assets	0	0	0	0	33	0	0	33
Liabilities								
Derivative financial instruments	0	(24)	0	(24)	0	(15)	0	(15)
Net assets and liabilities measured at fair value	**0**	**(12)**	**0**	**(12)**	**33**	**11**	**0**	**44**

In 2010, 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 2009	31 12 2010	31 12 2009	31 12 2010
	Carrying amount		Fair value	
Financial assets – available for sale				
Other investments – available for sale – carried at cost	0	6	0	6
Short-term financial assets – available for sale – at fair value[1]	0	33	0	33
Total financial assets – available for sale	**0**	**39**	**0**	**39**
Loans and receivables				
Trade receivables, net	528	488	528	488
Other receivables and accrued income	87	43	87	43
Short-term advances	1	1	1	1
Long-term loans	32	43	32	43
Cash and cash equivalents	140	248	140	248
Total loans and receivables	**788**	**823**	**788**	**823**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	10	22	10	22
Total financial assets at fair value through profit or loss – held for trading	**10**	**22**	**10**	**22**
Financial liabilities at amortized cost				
Long-term debt	824	850	839	880
Other short-term liabilities	321	304	321	304
Trade payables	196	159	196	159
Short-term debt	515	550	515	550
Total financial liabilities at amortized cost	**1 856**	**1 863**	**1 871**	**1 893**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	6	3	6	3
Total financial liabilities at fair value through profit or loss – held for trading	**6**	**3**	**6**	**3**

[1] Included in "other receivables" (see note 11)

31.8 **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, 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 2010, the return was 11.7 % (2009: 7 % after special charges, 12.3 % before special charges). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 3.2 % (2009: 3.2 %).

From time to time, Lonza purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under Lonza's share option program. Lonza does not have a defined share buy-back plan.[1]

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

[1] On 27 January 2011 Lonza announced the purchase of up to one million Lonza shares within a period of one year.

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 technologies, ingredients are manufactured for ultimate use in many critical drugs, treating patients in areas such as cardiovascular diseases, cancer, neurological and infectious diseases. Its product capabilities include both small and large molecules, resulting from technology processes such as chemical synthesis, peptide synthesis, biotransformation, microbial fermentation and mammalian cell culture.

The **Life Science Ingredients** segment offers products used in nutrition, 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 2010 million CHF		Custom Manu-facturing	Life Science Ingredients	Bioscience	Total operating segments	Corporate / Eliminations	Group total
Sales third-party		**1 445**	**1 020**	**211**	**2 676**	**4**	**2 680**
Inter-segment sales [1]		35	150	11	196	(196)	0
Total sales		**1 480**	**1 170**	**222**	**2 872**	**(192)**	**2 680**
Result from operating activities (EBIT)		**253**	**131**	**14**	**398**	**(24)**	**374**
– Percentage return on sales	%	17.5	12.8	6.6	14.9	n.a.	14.0
Financial income							6
Financial expenses							(49)
Other investment income / (loss)							0
Net financing costs							**(43)**
Share of profit / (loss) of associates / joint ventures							(1)
Profit before income taxes							**330**
Income taxes							(46)
Profit for the period							**284**
Included in result from operating activities (EBIT):							
– Other operating income		77	17	6	100	0	100
– Other operating expenses		(10)	(15)	(2)	(27)	(4)	(31)
– Research and development		87	35	15	137	4	141
– Depreciation and amortization		173	75	16	264	9	273
– Reversal of impairment		0	0	4	4	0	4
– Restructuring (expenses) / income		5	(6)	0	(1)	(3)	(4)
– Environmental (expenses) / income		0	7	0	7	0	7
Total assets		2 816	1 239	744	4 799	(21)	4 778
Total liabilities		1 445	929	459	2 833	(442)	2 391
Total equity		1 371	310	285	1 966	421	2 387
Net financial (assets) / liabilities		654	694	357	1 705	(404)	1 301
Net capital invested [2]		2 025	1 004	642	3 671	17	3 688
Return on net capital invested (RONOA) [3]	%	12.1	12.8	4.2	11.6	n.a.	10.8
Included in total reportable segment assets:							
Total property, plant and equipment		1 532	791	114	2 437	33	2 470
– Additions to property, plant and equipment [4]		128	126	28	282	3	285
Total goodwill and intangible assets		144	19	477	640	14	654
– Additions to goodwill and intangible asset		1	1	28	30	8	38
Investments in associates / joint ventures		0	0	0	0	19	19
– Additions to investment in associates / joint ventures [4]		0	0	0	0	1	1
Headcount		4 069	2 659	987	7 715	565	8 280
Average headcount		4 096	2 717	967	7 780	553	8 333

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 2009 million CHF		Custom Manu-facturing	Life Science Ingredients	Bioscience	Total operating segments	Corporate / Eliminations	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 / (loss) of associates / joint ventures							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 asset		2	2	7	11	4	15
Investments in associates / joint ventures		0	0	0	0	12	12
– Additions to investment in associates / joint ventures [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

32.3 Measurement of operating segment profit or loss

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

32.4 Geographical information

Year ended 31 December 2010 million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	339	1 023	45	15	25	1 108
Spain	29	179	1	0	8	188
Czech Republic	5	132	0	0	0	132
Belgium	25	64	1	88	0	153
United Kingdom	147	46	1	17	0	64
Germany	194	17	49	73	0	139
France	170	0	1	11	0	12
Rest of Europe	283	2	3	24	0	29
Europe	**1 192**	**1 463**	**101**	**228**	**33**	**1 825**
United States	1 019	521	80	173	3	777
Rest of North America	31	0	0	0	0	0
North America	**1 050**	**521**	**80**	**173**	**3**	**777**
Latin America	**42**	**0**	**0**	**0**	**0**	**0**
Singapore	42	281	61	0	4	346
China	109	203	1	4	8	216
Japan	93	0	1	0	1	2
India	85	2	0	3	0	5
Rest of Asia	45	0	0	0	0	0
Asia	**374**	**486**	**63**	**7**	**13**	**569**
Other countries	22	0	0	2	0	2
Total	**2 680**	**2 470**	**244**	**410**	**49**	**3 173**

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
India	64	1	0	3	0	4
Rest of Asia	46	0	0	0	1	1
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**

32.5 Information about major customers

In 2010, Lonza's largest customer accounts for 7.0 % and the second, third and fourth largest ones for 5.8 %, 5.4 % and 4.6 % in relation to sales. No other customer accounts for 4.0 % or more of Lonza's sales.

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 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 (Kepler Associates).

A new plan was implemented for the members of the Management Committee effective 1 January 2006, and remained unchanged again in 2010. Under the new plan, base salary targets levels around the average of the annual benchmark data, with the potential for executives to earn above-average compensation 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 cash. 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 puts a weight of at least 80 % on the financial target of Economic Value Added (EVA). Economic Value Added is calculated on both the Group level and on the Sector level, and each component is weighted equally as half the total weight put on EVA. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. For the overall STIP amount, a percentage of base salary ranging from 50 % to 70 % is targeted, and the overall payout depends on 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 by 5 % per year on average over three years. The second target is Economic Value Added (EVA) to increase up to 137 million over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 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. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. The share awards were granted from January 2006 until January 2008 and will vest over a one- to three-year period (title and ownership of the shares will only be received after the respective vesting period). The MC shares are subject to a restriction period. During the restriction period, a MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period. New entrants have a pro-rata share entitlement with partially shortened restriction 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 2010, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.503 million[1] (2009: CHF 2.766 million[1]), 65.96 % (2009: 65.57 %) 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. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

Board of Directors' compensation	2009				2010			
	[1]Cash payment CHF	Number of shares	[2]Value of shares CHF	Total CHF	[1]Cash payment CHF	Number of shares	[2]Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	204 145	3 632	354 949	559 094	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	96 875	3 733	363 093	459 968	100 000	4 672	374 864	474 864
Julia Higgins Member of the Board	185 625	1 951	189 620	375 245	192 500	2 452	196 743	389 243
Peter Kalantzis Member of the Board	31 036	466	52 854	83 890				
Gerhard Mayr Member of the Board	88 029	2 665	260 546	348 575	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	144 145	2 538	248 073	392 218	144 218	3 098	248 541	392 759
Patrick Aebischer Member of the Board	124 145	2 174	212 505	336 650	123 956	2 656	213 078	337 034
Frits van Dijk[3] Member of the Board	78 109	1 413	131 949	210 058				
Total	**952 109**	**18 572**	**1 813 589**	**2 765 698**	**851 811**	**20 578**	**1 650 991**	**2 502 802**

In 2010, one member of the Board of Directors gave up his function, no new member was elected at the Annual General Meeting (2009: one member gave up his function, but a new member joined the Board of Directors).

[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 Lonza Financial Report 2010.
[3] Remained member of the Board of Directors in the first quarter 2010 but did not receive compensation for the year 2010.

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 2010, CHF 5.195 million[1] (2009: CHF 5.264 million[1]) in cash and additional benefits, and 62 923 shares (2009: 51 817 shares), equivalent to a value of CHF 2.5 million (2009: CHF 2.766 million). The ratio of fixed compensation to the performance-related components of compensation was 123.6 % (2009: 145.6 %)

Management Committee's compensation million CHF	2009	2010
Base salary[2]	3.234	2.861
Incentive[3]	0.554	1.156
Post-employment benefits[4]	0.385	0.349
Other benefits[5]	0.478	0.453
Severance payments	0.613	0.376
Share- / option-based payments[6]		
Value of LTIP Bridge the Gap Shares (number of shares 2009: 472; 2010: 2 484)	0.050	0.214
Value of LTIP shares (number of shares 2009: 51 345; 2010: 60 439)	2.716	2.286
Total	**8.030**	**7.695**
Ratio of fixed compensation to the performance-related components of compensation	**145.6 %**	**123.6 %**

The highest compensation conferred on a member of the Management Committee was paid to Mr. Stefan Borgas. Mr. Borgas received CHF 1 634 593 (2009: CHF 1 272 218) paid in cash and shares to a value of CHF 891 390 (2009: CHF 891 505). This includes the shares of the LTIP, which are subject to vesting conditions of between one and three years. The vesting of these shares is linked to performance conditions and the value at maturity will be higher, lower or even zero.

Compensation of the highest-paid individual (Mr. Stefan Borgas) million CHF	2009	2010
Base salary	0.891	0.898
Incentive[3]	0.125	0.472
Post-employment benefits[4]	0.112	0.106
Other benefits[5]	0.144	0.159
Severance payments	0.0	0.0
Share- / option-based payments[6]		
Value of LTIP Bridge the Gap Shares	0.0	0.0
Value of LTIP shares (number of shares 2009: 16 805; 2010: 23 569)	0.892	0.891
Total	**2.164**	**2.526**
Ratio of fixed compensation to the performance-related components of compensation	**112.9 %**	**85.3 %**

In 2010, there were 6 members (2009: 7 members) on the Management Committee. The average number of Management Committee members during the year was 5.4 full-time equivalents (2009: 6.5 full-time equivalents). One acting member of the Management Committee gave up her function.

1 Including social security and incentive paid in March of the following year
2 2009: 7 members; 2010: 6 members
3 Incentive (STIP) of the reporting year, paid in March of the following year
4 Social security and pension fund
5 Company car, health insurance and tuition
6 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2010 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value at maturity is higher or lower (or even zero).

The members of the Board of Directors and the Management Committee who gave up their functions in 2010 did not receive any credits or loans (2009: ditto). In 2010 a severance payment, based on the work contract, was made to one member of the Management Committee who gave up her function (2009: one severance payment). In 2010, 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. In case of change in control or if the company gives notice, the notice period can increase up to a maximum of 18 months.

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 0.479 million was paid to a former member of the governing bodies (2009: CHF 0.196 million); this was contained in the personnel expenses 2009 and 2010.

33.3 Share allotment

In the reporting year 2010, 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 of 31 December 2010, a total of 85 799 (2009: 65 943) registered shares in Lonza Group Ltd and controlled 0.17 % (2009: 0.12 %) 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 64 841 (2009: 44 482) registered shares in Lonza Group Ltd as per 31 December 2010.

Share ownership of Board of Directors and Management Committee as of 31 December 2010:

Board of Directors Lonza shares (numbers)	2009	2010	Management Committee Lonza shares (numbers)	2009	2010
Rolf Soiron	26 491	30 992	**Stefan Borgas**	28 389	36 548
Richard Sykes	11 427	16 170	**Uwe Böhlke**	597	3 719
Julia Higgins	7 484	9 774	**Anja Fiedler**	472	
Gerhard Mayr	7 878	11 175	**Toralf Haag**	6 717	10 493
Peter Wilden	9 121	12 260	**Stephan Kutzer**	5 640	8 987
Patrick Aebischer	2 738	5 428	**Lukas Utiger**	2 667	5 094
Frits van Djik	804				

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 2010, no more options were held (2009: ditto).

Details on the development of the Lonza Option Plan are published in note 25 in the Lonza Financial Report 2010.

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, 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.

[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

34 Risk management process

The risk management review, now an established procedure, was conducted again in the first half of the reporting year.

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

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

In October, we carried out a selective verification of the risks within the activities of certain Corporate Functions (Supply Chain Management, Global Quality and Audit Services), as well as the business risks relating to substantial investment projects.

At their meetings in May and November, 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 accompanying consolidated financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes on pages 10 to 78 for the year ended 31 December 2010.

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 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

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

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

KPMG AG

Regula Wallimann Licensed Audit Expert Auditor in Charge	Norbert Strub Licensed Audit Expert

Zurich, 4 March 2011

We care about details

FINANCIAL REPORT

FINANCIAL STATEMENTS OF LONZA GROUP LTD

« We are dedicated to quality-oriented work and precision, while meeting our customers' needs and requirements. The picture shows Sunil Achrekar, Regional Sales Manager (left) and Satish Gangwar, Area Sales Manager (right) who work at our Mumbai site in India, handling new accounts and purchase orders. »

Balance Sheet – Holding

Assets[1] CHF	2009	2010
Fixed assets		
Property, plant and equipment	1 389 890	1 486 936
Investments	1 421 734 293	1 422 961 446
Long-term loans to subsidiaries and associates	1 067 135 751	1 082 509 817
Total fixed assets	**2 490 259 934**	**2 506 958 199**
Current assets		
Receivables:		
– From third parties	9 083	33 403
– From subsidiaries and associates	15 437 157	11 769 002
Prepaid expenses:		
– Third parties	13 704 375	30 542 765
– Subsidiaries and associates	5 363 150	3 005 606
Short-term advances:		
– Subsidiaries and associates	310 886 127	238 088 222
Marketable securities:		
– Own shares	50 104 134	33 180 590
Cash	46 204 139	165 230 749
Total current assets	**441 708 165**	**481 850 337**
Total assets	**2 931 968 099**	**2 988 808 536**

Liabilities and shareholders' equity[1] CHF	2009	2010
Shareholders' equity		
Share capital	52 920 140	52 920 140
Legal reserve:		
– General legal reserve	227 776 480	25 225 000
– Reserve from capital contribution	0	202 551 480
– Reserve for own shares	68 061 133	44 491 517
Available earnings brought forward	1 495 985 580	1 524 326 393
Profit for the year	96 490 269	74 229 225
Total shareholders' equity	**1 941 233 602**	**1 923 743 755**
Liabilities		
Long-term liabilities		
Long-term debt:		
– Due to third parties	500 000 000	400 000 000
Long-term provisions:		
– Due to third parties	1 027 583	574 445
Total long-term liabilities	**501 027 583**	**400 574 445**
Current liabilities		
Payables and other liabilities:		
– Due to third parties	1 183 891	706 482
– Due to subsidiaries and associates	283 569	143 482
Accrued expenses:		
– Due to third parties	39 500 082	32 494 859
– Due to subsidiaries and associates	327 748	317 010
Short-term provisions:		
– Due to third parties	719 709	108 444
Short-term debt:		
– Due to third parties	300 000 000	500 000 000
– Due to subsidiaries and associates	147 691 915	130 720 059
Total current liabilities	**489 706 914**	**664 490 336**
Total liabilities	**990 734 497**	**1 065 064 781**
Total liabilities and shareholders' equity	**2 931 968 099**	**2 988 808 536**
Shareholders' equity as a percentage of total assets %	**66.2**	**64.4**

[1] At 31 December

Income Statement – Holding

CHF	2009	2010
Income		
Income from investments	158 741 819	135 741 562
Interest income	48 086 634	31 182 763
Other financial income	2 850 490	7 397 661
Other income	1 046 142	1 077 963
Total income	**210 725 085**	**175 399 949**
Expenses		
Personnel expenses	25 231 872	9 159 060
Other administrative expenses	6 564 695	5 355 760
Interest expenses	36 231 526	24 508 512
Other financial expenses	41 943 482	43 650 783
Taxes	1 956 942	1 876 538
Other expenses	2 152 811	1 434 719
Write-offs on property, plant and equipment	153 488	434 895
Write-offs on loans	0	14 750 457
Total expenses	**114 234 816**	**101 170 724**
Profit for the year	**96 490 269**	**74 229 225**

Notes to the Financial Statements – Holding

1 **Contingent liabilities**

At 31 December 2010, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 437 204 027 (31 December 2009: CHF 424 879 760). 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 2010: CHF 142 088 (31 December 2009: CHF 276 956).

3 **Investments**

See list of principal subsidiaries, page 22.

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

See 1.2 Principal Shareholders in Corporate Governance, page 115.

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

See note 33 in Consolidated Financial Statements, page 73.

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 78.

7 **Own shares**

At 31 December 2010, Lonza Group Ltd held 442 703 of its registered shares with a par value of CHF 1 each (31 December 2009: 686 358), resulting in a reserve for own shares of CHF 44 491 517 (31 December 2009: CHF 68 061 133).

In 2010, Lonza Group Ltd acquired 50 000 registered shares, at an average market value of CHF 77.60. In order to satisfy the exercise of the different share and option plans in 2010, Lonza Group Ltd delivered 293 655 registered shares, at an average market value of CHF 75.32. A total of 442 703 of the registered shares with a par value of CHF 1 each (31 December 2009: 686 358) are reserved for the different share and option plans. At 31 December 2010, the total number of registered shares not entitled to a dividend was 442 703, with a par value of CHF 1 each (2009: 686 358).

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 2010, 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 **Amount in reserve from capital contribution**

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contribution established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle have to be filed at the Swiss Federal Tax Authority. Prior to written approval from the Swiss Federal Tax Authority, the amount of CHF 202 551 480 which qualifies for the capital contribution principle could be affected by adjustments.

10 **Long- / short-term debts**

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

In June 2010, Lonza Group Ltd issued a 3 % bond of CHF 400 million at an issue price of 100.721 %, with maturity date 2 June 2016.

11 **Additional notes**

Exchange gains / losses Other financial expenses in 2010 include net exchange rate losses of CHF 38 320 731 (2009: CHF 21 698 789).

Own shares Other financial income in 2010 includes a revaluation for own shares of CHF 6 646 071 (2009: Other financial expenses CHF 14 291 901).

Long-term loans to subsidiaries and associates Lonza Group Ltd signed subordination agreements of CHF 54 million (2009: 54 million).

Proposal of the Board of Directors
concerning the appropriation of available earnings

CHF	2009	2010
Available earnings brought forward	1 495 985 580	1 524 326 393
Profit for the year	96 490 269	74 229 225
Available earnings at the disposal of the Annual General Meeting	**1 592 475 849**	**1 598 555 618**
Payment of dividend for 2009 of CHF 1.75 per share on the share capital eligible for dividend of CHF 52 410 898	91 719 072	0
Increase of general legal reserve in 2010	0	1 235 070
Available earnings carry-forward	**1 500 756 777**	**1 597 320 548**
Decrease of reserve for own shares in the 2010 business year	23 569 616	
Available earnings brought forward after creation of reserve for own shares	**1 524 326 393**	

CHF	2010
General legal reserve qualified as reserve from capital contribution	202 551 480
Reserve from capital contribution [1]	**202 551 480**
Increase of free reserves and payment of dividend (out of reserve from capital contribution) of CHF 2.15 per share on the share capital eligible for dividend of CHF 52 477 437 from free reserves	112 826 490
Available reserve from capital contribution carry-forward	**89 724 990**

CHF	2010
Available earnings carry-forward	1 597 320 548
Available reserve from capital contribution carry-forward	89 724 990
Reserve and earnings carry-forward available for distribution	**1 687 045 538**

If the Annual General Meeting approves the above proposal from the Board of Directors, the dividend of CHF 2.15 per registered share, net of withholding tax (as per article 5 Abs 1 bis VStG), will be paid as of 19 April 2011 at the offices designated in the publication organ of the company and in selected daily newspapers.

Basel, 4 March 2011

Rolf Soiron
Chairman of the Board

Stefan Borgas
Chief Executive Officer

[1] Refer to note 9

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

As statutory auditor, we have audited the accompanying financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement and notes on pages 82 to 86 for the year ended 31 December 2010.

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 2010 comply with Swiss law and the company's articles of incorporation.

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

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

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

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

KPMG AG

Regula Wallimann Licensed Audit Expert Auditor in Charge	Norbert Strub Licensed Audit Expert

Zurich, 4 March 2011

Investor Information

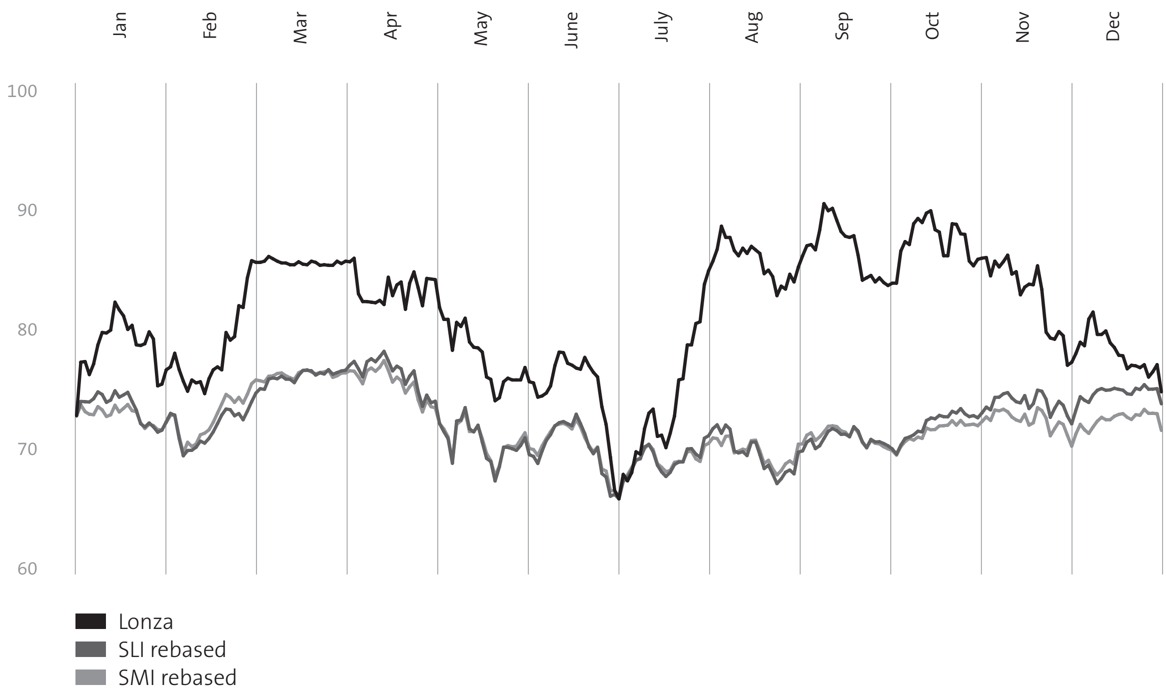
Lonza Group Ltd shares are listed on the SIX Swiss Exchange and included in the Swiss Market Index (SMI). The nominal value of the Lonza Group Ltd share is CHF 1. Lonza Group Ltd shares closed at the end of 2010 at a price of CHF 74.95, which represents an increase of 2.7% in 2010.

The most significant news releases, other than results publications, during the course of 2010 were the following:

- 12 January: Lonza streamlines its operations in Chemical Manufacturing
- 10 February: Jonathan Knowles gained as scientific advisor for Lonza
- 19 February: Lonza and Ehrfeld Mikrotechnik BTS cooperate in the Microreactor Technology
- 9 March: Lonza announces alliance with Odyssey Thera
- 25 March: Cost cutting measures in Visp and Basel (CH)
- 30 March: Lonza invests in new manufacturing facility for L-carnitine product Carnipure™ and Carniking™
- 31 March: Demission of COO Bioscience
- 31 March: Annual General Meeting of Lonza Group Ltd
- 11 May: Lonza issues new CHF 400 million bond
- 11 May: Lonza selects Nansha (China) for its new plant for vitamin B3 (nicotinates)
- 12 May: Lonza agree to acquire MODA, a global leader in paperless quality control
- 21 May: Lonza announces new head of Lonza Bioscience
- 7 June: Lonza announces licensing and supply agreement with California Stem Cells, Inc.
- 8 June: Cellectis bioresearch and Lonza enter development and commercial manufacturing agreement
- 10 June: Lonza introduces Applied Protein Services Preclinical platform to improve biologic development success
- 13 July: Human Genome Sciences and Lonza enter commercial manufacturing agreement for BENLYSTA®, a potential new treatment for Systemic Lupus Erythematosus
- 15 July: Elusys Therapeutics and Lonza extend manufacturing agreement for Anthim®, a new Anthrax treatment in late-stage development
- 26 July: Daiichi Sankyo selects POTELLIGENT® CHOK1SV cell line for the research, development and manufacture of recombinant antibodies
- 5 August: Lonza announces collaboration with Roslin Cells for pluripotent stem cell media development
- 30 August: Lonza acquires viral vaccine and vector manufacturer Vivante GMP Solutions
- 8 September: GSK signs agreement with Lonza to secure capacity and expertise in biological manufacturing to support ongoing development of GSK's biopharmaceutical portfolio
- 22 September: Lonza launches Scarab Genomics' high-yielding Clean Genome® E. coli biologics production
- 25 October: BD Diagnostics and Lonza collaborate to commercialize the Lonza microCompass™ molecular assays on the BD Max™ system
- 3 November: Lonza and BKW enter into partnership for energy procurement
- 15 November: Lonza and Dalton Pharma Services enter into a co-operation agreement
- 18 November: Lonza and California peptide Research form strategic alliance
- 1 December: Price increase for Niacin and Niacinamide
- 2 December: General price increase for microbial control products in Europe
- 16 December: Stason and Lonza sign agreement to license the GS Gene Expression System™ to develop and manufacture TNT antibodies
- 28 December: Lonza announces new head of Lonza Life Science Ingredients

For a comprehensive review of the media releases issued during 2010, refer to www.lonza.com

Lonza Group Ltd 2010 share price development versus the Swiss Leader Index and the Swiss Market Index, rebased



The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2010 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 2010.

Registered shares CHF		2009	2010
Number of shares issued		52 920 140	52 920 140
Number of shares ranking for dividend[1]		52 233 782	52 477 437
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	162	291
Diluted net income[2]	million CHF	162	291

Ratios per security[2]		2009	2010
Weighted average number of shares		50 773 075	52 410 459
Diluted weighted average number of shares		51 142 855	52 636 859
Basic earnings per share	CHF	3.19	5.55
Diluted earnings per share	CHF	3.17	5.53

Historical overview:

Ten-year overview of major highlights million CHF		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Sales		2 521	2 536	2 242	2 182	2 521	2 914	2 870	2 937	2 690	2 680
Result from operating activities (EBIT)		542	302	139	212	297	344	408	441	239	374
Net capital invested		2 499	2 430	2 473	2 574	2 786	2 608	3 277	3 768	3 900	3 688
Return on net capital invested (RONOA)	%	16.8	16.8	12.2	8.4	11.0	12.4	14.1	13.8	6.7	10.8
Headcount		6 210	6 216	5 938	5 664	4 992	6 146	6 929	8 462	8 386	8 280

1 See note 26
2 See note 27

Statement of Value Added

	[1]Note		2009 million CHF	%		2010 million CHF	%
Origin of value added							
Income from production			2 825			2 793	
Dividend earned	21.3		0			0	
Total income			**2 825**	**100.0**		**2 793**	**100.0**
Services bought from third parties:							
– Material costs	18		(836)			(855)	
– Energy costs	18		(73)			(87)	
– Other operating expenses excl. capital taxes			(462)			(375)	
Gross value added			**1 454**			**1 476**	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment	6, 7		(361)			(269)	
Income from application of the equity method	21.3		0			(1)	
Total net value added			**1 093**	**38.7**		**1 206**	**43.2**
Distribution of value added							
To staff:							
– Wages and salaries	19	663			644		
– Pensions	19	27			23		
– Other social security contributions	19	140			130		
– Other personnel expenses	19	15			26		
Total personnel cost			**845**	**77.3**		**823**	**68.3**
To public authorities:							
– Income and capital taxes	22		36	3.3		56	4.6
To lenders:							
– Financial expenses net	21.1, 21.2		53	4.8		43	3.6
To shareholders:							
– Dividends paid	page 13		87	8.0		92	7.6
To the company:							
– Profit for the period		159			284		
– Dividends paid	page 13	(87)	72	6.6	(92)	192	15.9
Total			**1 093**	**100.0**		**1 206**	**100.0**
Distribution of value added per employee			CHF			CHF	
Wages and salaries			78 704			77 283	
Pensions			3 205			2 760	
Other social security contributions			16 619			15 601	
Other personnel expenses			1 781			3 120	
Total per employee			**100 309**			**98 764**	

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

Free Cash Flow

The following is a summary of the free cash flow, using Lonza's definition. It includes earnings before interest, taxes and depreciation (EBITDA) and subtracts / adds the increase / decrease of operating net working capital, subtracts capital expenditures, acquisitions and adds disposal of fixed assets and subsidiaries as well as adds changes of other long-term operating assets / liabilities. This key measure is the same as reported monthly to the management committee.

million CHF	2009	2010
EBITDA	601	643
Change of operating net working capital	(93)	47
Capital expenditures in tangible and intangible assets	(520)	(300)
Disposal of tangible assets	14	9
Acquisition of subsidiaries	(1)	(26)
Disposal of subsidiaries	54	0
Change of other assets and liabilities	(4)	(37)
Free cash flow	**51**	**336**

Core Results

Reconciliation of IFRS results to core results 2010 million CHF	IFRS results	Amortization of intangible assets from acquisition	Impairments	Reversal of Impairments	Restructuring costs / income	Results associate TL Biopharmaceutical Ltd	[1]Core results
Sales (see segment information)	**2 680**	**0**	**0**	**0**	**0**	**0**	**2 680**
Cost of goods sold	(1969)	17	0	0	0	0	(1952)
Gross profit	**711**	**17**	**0**	**0**	**0**	**0**	**728**
Marketing and distribution	(155)	0	0	0	0	0	(155)
Research and development	(99)	0	0	0	(7)	0	(106)
Administration and general overheads	(152)	0	0	0	9	0	(143)
Other operating income	100	0	0	(4)	(5)	0	91
Other operating expenses	(31)	0	0	0	3	0	(28)
Result from operating activities (EBIT)	**374**	**17**	**0**	**(4)**	**0**	**0**	**387**
Financial income	6	0	0	0	0	0	6
Financial expenses	(49)	0	0	0	0	0	(49)
Other investment income / (loss)	0	0	0	0	0	0	0
Net financing costs	**(43)**	**0**	**0**	**0**	**0**	**0**	**(43)**
Share of profit / (loss) of associates	(1)	0	0	0	0	5	4
Profit before income taxes	**330**	**17**	**0**	**(4)**	**0**	**5**	**348**
Income taxes[2]	(46)	(2)	0	0	0	(1)	(49)
Profit for the period	**284**	**15**	**0**	**(4)**	**0**	**4**	**299**
Non-controlling interests	7	0	0	0	0	0	7
Equity holders of the parent	**291**	**15**	**0**	**(4)**	**0**	**4**	**306**
Number of Shares Basic weighted	52 410 459						52 410 459
Number of Shares Diluted weighted	52 636 859						52 636 859
Basic earnings per share	5.55						5.84
Diluted earnings per share	5.53						5.81

Reconciliation of IFRS results to core results 2009 million CHF	IFRS results	Amortization of intangible assets from acquisition	Impairments	Reversal of Impairments	Restructuring costs / income	Results associate TL Biopharmaceutical Ltd	[1]Core results
Sales (see segment information)	**2 690**	**0**	**0**	**0**	**0**	**0**	**2 690**
Cost of goods sold	(2145)	17	83	0	48	0	(1997)
Gross profit	**545**	**17**	**83**	**0**	**48**	**0**	**693**
Marketing and distribution	(144)	0	0	0	0	0	(144)
Research and development	(103)	0	0	0	7	0	(96)
Administration and general overheads	(166)	0	0	0	3	0	(163)
Other operating income	136	0	0	0	0	0	136
Other operating expenses	(29)	0	0	0	0	0	(29)
Result from operating activities (EBIT)	**239**	**17**	**83**	**0**	**58**	**0**	**397**
Financial income	10	0	0	0	0	0	10
Financial expenses	(63)	0	0	0	0	0	(63)
Other investment income / (loss)	0	0	0	0	0	0	0
Net financing costs	**(53)**	**0**	**0**	**0**	**0**	**0**	**(53)**
Share of profit / (loss) of associates	0	0	0	0	0	1	1
Profit before income taxes	**186**	**17**	**83**	**0**	**58**	**1**	**345**
Income taxes[2]	(27)	(3)	(12)	0	(8)	0	(50)
Profit for the period	**159**	**14**	**71**	**0**	**50**	**1**	**295**
Non-controlling interests	3	0	0	0	0	0	3
Equity holders of the parent	**162**	**14**	**71**	**0**	**50**	**1**	**298**
Number of Shares Basic weighted	50 773 075						50 773 075
Number of Shares Diluted weighted	51 142 885						51 142 885
Basic earnings per share	3.19						5.87
Diluted earnings per share	3.17						5.83

1 Core results for: result from operating activities (EBIT), profit for the period and earnings per share eliminate the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, result from the associate TL Biopharmaceutical Ltd and other special charges / income from restructuring.
2 Tax impact calculated based on average Group tax rate

We help to develop tomorrow’s treatments

REMUNERATION REPORT

« Some years ago, Lonza started stem cell research and therapy activities, a field of high potential for the future treatment of disease. With our Cell Therapy business and our broad stem cell research, we are helping to develop the advanced treatments of tomorrow. To provide customers and patients with high-quality solutions, we work precisely and act responsibly throughout the manufacturing process. Catherine Hanley is pictured at our site in Walkersville, MD (USA), analyzing cells in a cell factory through a microscope to check how quickly they are growing. »

This Remuneration Report has been included to provide an overview of Lonza's compensation programs. In addition to a description of the compensation programs, it includes the compensation levels of the Board of Directors and the Management Committee. Some information from Notes 25, 28 and 33 of the Financial Report is repeated here.

Structure of the Report

This remuneration report begins with a general discussion of the compensation philosophy at Lonza, outlining the major elements of compensation for all employees. The remainder of the remuneration report then focuses on the compensation of the Board of Directors and the Management Committee. First, the architecture of the pay-setting process is described. Second, the report turns to the compensation of the Board of Directors. Third, the report discusses the compensation of the Management Committee. At the end of the report, additional information on special share awards and the Employee Share Purchase Plan (ESPP) is given.

Compensation Philosophy

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

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

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

Benefits Benefit programs are defined regionally, to meet local regulations and to take into consideration the competitive situation. These programs are designed to offer 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. The guiding principle for these plans is to motivate and reward employees on the company's long-term financial success as well as on the individuals' performance of specific goals. The incentive programs include a Short-Term Incentive Plan (STIP), a Long-Term Incentive Plan (LTIP), and share plans for recognizing extraordinary achievements (e.g. strategic projects). More details on the workings of the STIP and LTIP are provided in the discussion of the compensation of the Management Committee below.

Architecture of the Pay-setting Process

The compensation policy is set by the Board of Directors. In order to ensure effective governance, the Board tasks the Nomination and Compensation Committee with preparing the decision-making. Specifically, the meetings of the Nomination and Compensation Committee relevant to compensation matters take place regularly, in January, April, July, October, and December. In the October meeting, the overall compensation strategy is reviewed. In the December meeting, the conceptual designs of the Short-Term Incentive Plan (STIP), the Long-Term Incentive Plan (LTIP), and the Employee Stock Purchase Program (ESPP) are discussed. This allows for a periodic review of the compensation and share-ownership programs. In general, the details of the STIP for the coming year are fixed. In the January meeting of the Nomination and Compensation Committee, the specific list of names of participants in the LTIP is drawn up, the STIP results for the company are reviewed, the achievement levels for the prior year for the Management Committee LTIP are established, and the compensation targets for the new year are finalized. The objectives of CEO and Management Committee members for the current year are also fixed. The April meeting of the Nomination and Compensation Committee reviews the total compensation and the base salaries of the CEO and the members of the Management Committee, as well as the compensation of the Board of Directors.

The Nomination and Compensation Committee also meets at other times throughout the year to discuss other topics the Board of Directors has delegated to it. After each meeting, the Nomination and Compensation Committee informs the Board of Directors and, where necessary, submits proposals for decision by the Board of Directors. The Board of Directors makes the ultimate decisions on all matters related to the pay of the Board of Directors and the Management Committee. The payment relevant materials for the Nomination and Compensation meetings are provided by the Head of Global Human Resources and the Head of Compensation and Benefits. The Head of Global Human Resources attends all the relevant meetings, the Head of Compensation and Benefits those concerning the Management Committee's compensation, or when required. Both individuals are there to advise the Nomination and Compensation Committee, but do not have a vote. Management Committee members generally attend Board of Directors meetings, but do not have a vote.

An external advisor (Kepler Associates) was consulted by Lonza with respect to the structuring of the compensation and share-ownership programs. This advisor has no additional mandates at Lonza.

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

The remuneration report is subject to consultative voting on the occasion of the Annual General Meeting.

Compensation of the Board of Directors

The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. In 2010, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.503 million[1] (2009: CHF 2.766 million[1]), 65.96 % (2009: 65.57 %) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount 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. Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

Board of Directors' compensation	2009				2010			
	[2]Cash payment CHF	Number of shares	[3]Value of shares CHF	Total CHF	[2]Cash payment CHF	Number of shares	[3]Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	204 145	3 632	354 949	559 094	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	96 875	3 733	363 093	459 968	100 000	4 672	374 864	474 864
Julia Higgins Member of the Board	185 625	1 951	189 620	375 245	192 500	2 452	196 743	389 243
Peter Kalantzis Member of the Board	31 036	466	52 854	83 890				
Gerhard Mayr Member of the Board	88 029	2 665	260 546	348 575	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	144 145	2 538	248 073	392 218	144 218	3 098	248 541	392 759
Patrick Aebischer Member of the Board	124 145	2 174	212 505	336 650	123 956	2 656	213 078	337 034
Frits van Dijk[4] Member of the Board	78 109	1 413	131 949	210 058				
Total	**952 109**	**18 572**	**1 813 589**	**2 765 698**	**851 811**	**20 578**	**1 650 991**	**2 502 802**

In 2010 one member of the Board of Directors gave up his function, no new member was elected at the Annual General Meeting (2009: one member gave up his function, but a new member joined the Board of Directors).

The members of the Board of Directors did not receive any credits or loans in 2010 (2009: ditto).

Regarding conflicts of interest, note that no member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

[1] Including social security and withholding tax
[2] All compensation amounts given in this Remuneration Report (both for the Board of Directors and the Management Committee) refer to gross payments, including social security and withholding tax, except where stated otherwise. The accrual principle is applied.
[3] The fair values were calculated using the market price at grant date, see note 25 in the Lonza Financial Report 2010.
[4] Remained member of the Board of Directors in the first quarter 2010 but did not receive compensation for the year 2010.

Development of compensation

Development of compensation for Board of Directors 2007	Grant date	Total shares	Share price CHF	Fair values shares	[1]Cash CHF	Total CHF	Blocked until
	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	[1]Cash CHF	Total CHF	Blocked until
	31 03 2008	3 060	129.45	396 117	145 000	541 117	31 03 2011
	30 06 2008	3 174	140.66	446 455	175 000	621 455	30 06 2011
	30 09 2008	3 172	140.57	445 888	175 000	620 888	30 09 2011
	31 12 2008	4 579	97.14	444 804	175 000	619 804	31 12 2011
Total		**13 985**	**123. 94**	**1 733 264**	**670 000**	**2 403 264**	

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

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

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

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

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

[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 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.

A new plan was implemented for the members of the Management Committee effective 1 January 2006 and remained unchanged again in 2010. Under the new plan, base salary targets levels around the average of the market described below, with the potential for executives to earn above-average compensation 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 total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry. At least two benchmark providers are used to draw the comparisons. The comparison data reflect the compensation of the members of the Management Committee in Switzerland and the northeast coast of the USA in the pharma / chemical industry and general industry in multinational organizations of a size comparable with Lonza. The reference data represent a direct market comparison in terms of the samples and the functions of the analyzed executive positions.

Overview of Management Committee Compensation The members of the Management Committee receive an annual base salary in cash. In addition, they are eligible for an annual incentive, the Short-Term Incentive Plan (STIP), and the Long-Term Incentive Plan for Senior Management and Key Employees (LTIP). These plans set certain performance targets. A formula that takes into account the achievement level determines how much is paid out, without further discretion by the Board. The mechanics of these plans, as well as the targets and their levels, are discussed further below. All equity-based pay is performance-related (except the Bridge the Gap Program).

Management Committee's compensation million CHF	2009	2010
Base salary [1]	3.234	2.861
Incentive [2]	0.554	1.156
Post-employment benefits [3]	0.385	0.349
Other benefits [4]	0.478	0.453
Severance payments	0.613	0.376
Share- / option-based payments [5]		
Value of LTIP Bridge the Gap shares (number of shares 2009: 472; 2010: 2 484)	0.050	0.214
Value of LTIP shares (number of shares 2009: 51 345; 2010: 60 439)	2.716	2.286
Total	**8.030**	**7.695**
Ratio of fixed compensation to the performance-related components of compensation	**145.6 %**	**123.6 %**

[1] 2009: 7 members; 2010: 6 members
[2] Incentive (STIP) of the reporting year, paid in March of the following year
[3] Social security and pension fund
[4] Company car, health insurance and tuition
[5] The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2010 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

In 2010, there were 6 members (2009: 7 members) on the Management Committee. The average number of Management Committee members during the year was 5.4 full-time equivalents (2009: 6.5 full-time equivalents). One acting member of the Management Committee gave up her function.

The acting members of the Management Committee received, for their contributions and time served in 2010, CHF 5.195 million [1] (2009: CHF 5.264 million [1]) in cash and additional benefits and 62 923 shares (2009: 51 817 shares), equivalent to a value of CHF 2.5 million (2009: CHF 2.766 million). The ratio of fixed compensation to the performance-related components of compensation was 123.6 % (2009: 145.6 %)

In 2010, a severance payment, based on the work contract, was made to one member of the Management Committee who gave up her function (2009: one severance payment). This severance payment, which amounted to CHF 376 433 (2009: CHF 613 081), included the purchase of consulting services valued at CHF 133 467. The total severance payments correspond to 30.8 % (2009: 80.0 %) of the yearly compensation of this Management Committee member.

The members of the Management Committee did not receive any credits or loans in 2010 (2009: ditto).

The Management Committee has variable notice periods, up to a maximum of 12 months. In the case of change in control or if the company gives notice, the notice period can increase up to a maximum of 18 months.

The highest compensation conferred on a member of the Management Committee was paid to Mr. Stefan Borgas. Mr. Borgas received CHF 1 634 593 (2009: CHF 1 272 218) paid in cash and shares to a value of CHF 891 380 (2009: CHF 891 505). This includes the shares of the LTIP, which are subject to vesting conditions of between one and three years. The vesting of these shares is linked to performance conditions and the value at maturity will be higher, lower or even zero.

Compensation of the highest-paid individual (Mr. Stefan Borgas) million CHF	2009	2010
Base salary	0.891	0.898
Incentive [2]	0.125	0.472
Post-employment benefits [3]	0.112	0.106
Other benefits [4]	0.144	0.159
Severance payments	0.0	0.0
Share- / option-based payments [5]		
Value of LTIP Bridge the Gap shares	0.0	0.0
Value of LTIP shares (number of shares 2009: 16 805; 2010: 23 569)	0.892	0.891
Total	**2.164**	**2.526**
Ratio of fixed compensation to the performance-related components of compensation	**112.9 %**	**85.3 %**

1 Including social security and incentive paid in March of the following year
2 Incentive (STIP) of the reporting year, paid in March of the following year
3 Social security and pension fund
4 Company car, health insurance and tuition
5 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2010 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

Details of Management Committee Compensation

This subsection describes the workings of the Short-Term Incentive Plan (STIP) and the Long-Term Incentive Plan (LTIP).

Short-Term Incentive Plan (STIP) In 2005, the Board of Directors of Lonza Group Ltd implemented the current Short-Term Incentive Plan (STIP) for the majority of the Group's employees, including the Management Committee. This program provides the potential for an annual incentive based on the performance and job category of the individual, and the financial performance of their business unit and / or the Group. The amount of the potential incentive is stated as a percentage of the base salary and varies by level, up to a maximum of 70 % for the chief executive officer. In this plan, every individual is assigned specific yearly financial and personal goals in writing. The weight of the financial goals (which are measured at the Group and Sector levels) increases with the level of the employee, up to 80 % of the total potential incentive. The personal goals are generally linked to strategic projects that Lonza must deliver in the year in order to build its growth for the future. Each goal is assessed for achievement at the end of the year. The assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.5 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is, therefore, capped at 2.3 (= 80 % × 2.5 + 20 % × 1.5) times the potential incentive amount. 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 participated in one of our short-term plans, either in the STIP or in a local bonus program.

For members of the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA). Economic Value Added is calculated on both the Group level and the Sector level, and each component is weighted equally as half the total weight put on EVA. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. For the overall STIP amount, a percentage of base salary ranging from 50 % to 70 % is targeted, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash.

In general, details of the STIP for the coming year are fixed in the December meeting of the Nomination and Compensation Committee. The STIP targets for 2008, 2009, and 2010 had been fixed in advance already in January 2008. As an exception in November 2009, because of extraordinary market developments, the STIP details for 2010 were adjusted by the Nomination and Compensation Committee for all STIP participants, including the Management Committee. Specifically, it was decided that the Group and Sector EVA target achievement would be rated as zero already, but that in turn the weight placed on individual target achievement would be increased to 60 %, including a common cost saving target of 15 % for all STIP participants. The average actual target attainment for the Management Committee led to a payout factor of 118.5 %. For the CEO, it was 125 %. For the years ahead, the Nomination and Compensation Committee plans on setting STIP targets for one year at a time.

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

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during the three fiscal years of Lonza compared with a defined industry peer group before the end of the vesting period. In 2008, the peer group[2] was adapted to the new stock index classification. The TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis by 5 % (LTIP 2007: 12 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to hold the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA[3]) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target is reached if Lonza increases its EVA within the vesting period from CHF 34.25 million up to CHF 137.0 million. If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA on the level at the beginning of the fixed period. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

1 TSR measures growth in share price with dividends reinvested. This measure is based on an external market view of the company's success.
2 The peer group consists of: MSCI Chemicals, DSM, UCB, Crucell, Genentech / Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific.
3 EVA or Economic Value Added is an estimate of true "economic" profit, or the amount by which earnings exceed or fall short of the required minimum rate of return that shareholders and lenders could get by investing in other securities of comparable risk. The EVA is calculated as follows: Net operating profit after taxes minus cost of capital of net operating assets.

The following table shows historical data on vesting conditions for LTIP share awards in the years 2007–2010, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

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

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

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

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

Vesting conditions	Market price CHF	Granted shares	Fair value TSR	Fair value of share awards at grant date CHF	Expected vesting EPS	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date CHF	Probability min. targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2010 TSR	75.65	73 855	50 %		2 793 565	100 %	n.a.	100.00 %	2 793 565
LTIP 2010 EVA	75.65	73 856		50 %	2 793 603	100 %	0 %	100.00 %	2 793 603

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

Development of long-term incentive plan 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Share vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 37.82 (2009: CHF 53.05). The weighted average share price of the vested shares in 2010 was CHF 77.10 (2009: CHF 105.97). The outstanding share awards at 31 December 2010 have a weighted average share price of CHF 50.45 (2009: CHF 59.33) and a remaining weighted average contractual life of 15 months (2009: 15 months).

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

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

Fair value at grant date	CHF
LTIP 2007	4 749 489
LTIP 2008	5 848 757
LTIP 2009	6 437 936
LTIP 2010	5 587 168

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

MC shares	Grant date	Share price	Granted share awards	Vesting date
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 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
MC shares 2010	01 04 2010	85.95	1 242	01 04 2010
MC shares 2010	01 04 2010	85.95	1 242	31 01 2011

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

Development of long-term incentive plan for Management Committee 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 85.95 (2009: CHF 105.90). The weighted average share price of the vested shares in 2010 was CHF 118.92 (2009: CHF 105.97). The outstanding share awards at 31 December 2010 have a weighted average share price of CHF 126.08 (2009: CHF 128.20) and a remaining weighted average contractual life of 2 months (2009: 6 months).

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

Fair value at grant date	CHF
MC shares 2007	1 393 686
MC shares 2008	1 418 794
MC shares 2009	49 985
MC shares 2010	213 500

Other Share Plans

In recognition of the extraordinary efforts by employees to ensure successful integration of new 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 share awards	Vesting date
Integration Team Canada	30 04 2007	118.70	1 406	30 04 2010
Integration Team Hopkinton	31 03 2009	112.50	1 800	31 03 2010
Award Sandmeyer Price	29 01 2010	75.65	40	29 01 2010
Award other 2010	05 02 2010	75.90	50	05 02 2010
Award other 2010	01 03 2010	86.05	233	01 03 2010
Award other 2010	07 04 2010	83.25	60	07 04 2010
Award other 2010	28 07 2010	78.95	3 000	30 09 2010
Award other 2010	29 11 2010	77.20	750	29 11 2010

Development of the other share plans 2010	Share awards outstanding 01 01 2010	Share awards granted during 2010	Share awards forfeited during 2010	Shares vested during 2010	Share awards lapsed during 2010	Share awards outstanding 31 12 2010
Integration Team Canada	1 406	0	0	0	(1 406)	0
Integration Team Hopkinton	1 800	0	0	(1 800)	0	0
Award Sandmeyer Price	0	40	0	(40)	0	0
Awards others 2010	0	4 093	0	(4 093)	0	0
Total non-vested shares	**3 206**	**4 133**	**0**	**(5 933)**	**(1 406)**	**0**

Development of the other share plans 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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
Award LIFT	0	20	0	(20)	0	0
Award others 2009	0	50	0	(50)	0	0
Total non-vested shares	**8 037**	**1 870**	**0**	**(5 976)**	**(725)**	**3 206**

The estimated fair value of the share awards granted in 2010 was CHF 79.03 (2009: CHF 111.40). The weighted average share price of the vested shares in 2010 was CHF 89.18 (2009: CHF 102.55). No share awards are outstanding at 31 December 2010.

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 60% in 2010 (2009: between 0% and 42%). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
Integration Team Canada	150 037
Integration Team Hopkinton	202 500
Award Sandmeyer Price	3 026
Award others 2010	323 590

In order to satisfy the exercise of the long-term incentive plans, Lonza acquired 50 000 shares during 2010 (2009: 100 000 shares), at an average market value of CHF 77.60 (2009: 81.29). A total of 381 648 treasury shares (2009: 484 215) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

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

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2010, 85 799 (2009: 65 943) registered shares in Lonza Group Ltd and controlled 0.17 % (2009: 0.12 %) 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 64 841 (2009: 44 482) registered shares in Lonza Group Ltd as of 31 December 2010.

Share ownership of acting members of the Board of Directors and Management Committee as of 31 December 2010:

Board of Directors Lonza shares (numbers)	2009	2010
Rolf Soiron	26 491	30 992
Richard Sykes	11 427	16 170
Julia Higgins	7 484	9 774
Gerhard Mayr	7 878	11 175
Peter Wilden	9 121	12 260
Patrick Aebischer	2 738	5 428
Frits van Djik	804	

Management Committee Lonza shares (numbers)	2009	2010
Stefan Borgas	28 389	36 548
Uwe Böhlke	597	3 719
Anja Fiedler	472	
Toralf Haag	6 717	10 493
Stephan Kutzer	5 640	8 987
Lukas Utiger	2 667	5 094

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 2010, no options were held from these plans (2009: ditto).

Details of the development of the Lonza option plan are published in note 25 in the Lonza Financial Report.

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

Employee Share Purchase Plan (ESPP)

In keeping with our vision and culture, Lonza has continuously encouraged employee participation in the company through stock ownership. In 2005, the former Employee Share Purchase Plan was updated. Under the new plan, ESPP Plus, the employees have the opportunity – but not the obligation – to acquire Lonza shares in multiples of three at a price reduction of 30 %. The shares purchased in this manner remain blocked for three years. After this blocking period, participants are entirely free to do as they wish with the shares. If participants keep their shares for 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. In 2010, it has then been continued.

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
2010: ranging from 6 shares to 177 shares

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

Details of share purchase plans	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date CHF
ESPP 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
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81

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

Development share purchase plans 2009	Share awards outstanding 01 01 2009	Share awards granted during 2009	Share awards forfeited during 2009	Shares vested during 2009	Share awards lapsed during 2009	Share awards 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**

The estimated fair value of the share awards granted in 2010 was CHF 61.45. The weighted average share price of the vested shares in 2010 was CHF 77.13 (2009: CHF 104.72). The outstanding share awards at 31 December 2010 have a weighted average share price of CHF 101.79 (2009: CHF 101.66) and a remaining weighted average contractual life of 28 months (2009: 21 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20 % in 2010 (2009: between 20 % and 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
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985

A total of 61 055 treasury shares with a par value of CHF 1 each (31 December 2009: 53 794 shares) is reserved for the share purchase plans.

We train our
employees
for the future

CORPORATE GOVERNANCE

« As a forward-thinking employer, Lonza attaches great importance to the further education of its employees. The company training center for chemistry and pharma technology at our site in Visp (Switzerland), trains specialists in the improvement of current processes and the development of new processing technologies, while emphasizing team work as an indispensable factor for success. Michel Bregy (at the back) and Waldimir Abgottspon (in front) are pictured in their third year of training, taking a sample from the reaction mixture, which will be analyzed at a later date. »

1 Group Structure and Shareholders

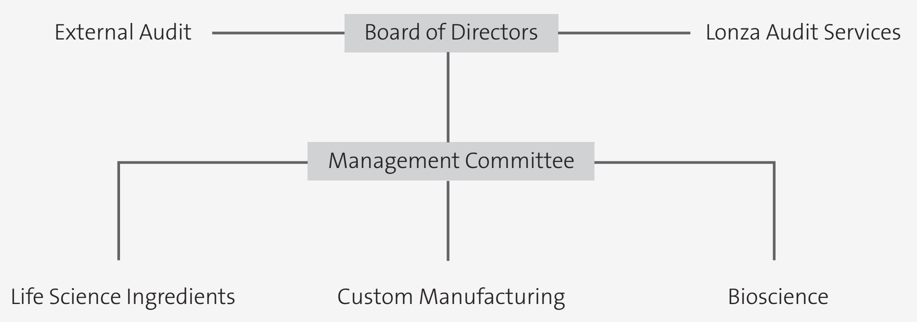
Lonza Group Ltd, a holding company under Swiss law, is fully committed to good corporate governance. As an internationally active company, Lonza complies with the local rules and regulations of all countries in which it does business. Lonza's corporate governance is measured against the SIX Swiss Exchange's "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, as the "Swiss Code of Best Practice" issued by the Swiss Business Federation. In March 2009, Lonza Group Ltd joined the United Nations Global Compact, a strategic policy initiative for businesses[4]. In 2010, as a consequence of the decision taken on 18 December 2009 by the Sanction Commission of SIX Exchange Regulation[5], the internal instructions and procedures that should ensure compliance with the stock exchange rules and regulations were thoroughly analyzed together with an external consultant and any flaws detected were corrected by adapting directives and procedures.

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

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
4 www.unglobalcompact.org
5 www.six-exchange-regulation.com/enforcement/sanction_decisions/adhoc_publicity_en.html

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 the Group's website: www.lonza.com/group/en/company/about/businesses.html

Holding Company, Principal Subsidiaries and Affiliates Lonza owns, directly or indirectly, all companies worldwide belonging to its Group, except Lonza Engineering AG (70 %) and TL Biopharmaceutical Ltd (50 %).

Principal Subsidiaries[1] In 2010, Lonza acquired (i) Vivante GMP Solutions, Inc., Houston, TX (USA), and entered therewith the viral-based manufacturing market, broadening Lonza's biologics custom service offering for the growing viral vaccine and gene therapy markets, and (ii) MODA Technology Partners, Wayne, PA (USA), a software company providing paperless control solutions that will strengthen the Rapid Testing Solutions platform of Lonza's Bioscience division by adding a complementary product offering for quality assurance and quality control organizations in the life-science industry. The principal subsidiaries are shown on page 22 of the Lonza Financial Report 2010.

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 2009	%	31 12 2010	%
Franklin Resources, Inc., Fort Lauderdale (USA)	5 123 388	9.68	5 267 936	9.95
Grupo Plafin SA, Barcelona (ES)	4 120 364	7.79	4 120 364	7.79
FMR LLC, Boston (USA)	n.a.	n.a.	2 673 056	5.05
Manning & Napier Advisors, Inc., Fairport (USA)	2 545 279	4.81	2 545 279	4.81
The Capital Group Companies, Inc., Los Angeles (USA)	2 512 994	4.75	2 512 994	4.75
BlackRock, Inc., New York (USA)	n.a.	n.a.	1 592 590	3.01

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 2010. To the best knowledge of Lonza Group Ltd, the abovementioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza Group Ltd or the exercise of shareholders' rights. The company's 2010 reports in accordance with Art. 20 SESTA (Federal Act on Stock Exchange and Securities Trading) are published on the SIX Swiss Exchange Ltd disclosure platform[2] and on the company's website[3].

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] www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.html
[3] www.lonza.com/group/en/company/Investor_relations/share/changes_in_disclosed.html

2 Capital Structure

2.1 Share Capital

The share capital of Lonza Group Ltd as of 31 December 2010 was CHF 52 920 140, fully paid-in and divided into 52 920 140 registered shares with a par value of CHF 1 each.

Shareholder Structure	Shareholders %	2009[1] Shares %	Shareholders %	2010[1] Shares %
Switzerland	92.09	20.96	91.62	20.14
United Kingdom	0.78	25.78	0.75	26.75
Spain	0.40	7.83	0.45	7.81
USA	1.89	7.17	1.95	8.12
Others	4.83	5.85	5.22	5.73
Shares in transit		31.11		30.61
Treasury shares without voting rights	0.01	1.30	0.01	0.84
Total	**100.00**	**100.00**	**100.00**	**100.00**
Total number of shares		52 920 140		52 920 140

Share Register	2009[1]	2010[1]
Registered shareholders	18 435	17 366
Registered shares	36 459 043	36 722 975
Share distribution		
1 – 100	7 504	6 845
101 – 1 000	9 532	9 224
1 001 – 50 000	1 189	1 108
50 001 – 100 000	179	161
100 001 – 1 000 000	26	23
over 1 000 000	5	5
Total registered shareholders	18 435	17 366

2.2 Authorized and Conditional Capital

As of 31 December 2010, Lonza Group Ltd had conditional capital of CHF 5 029 860 and authorized capital of CHF 5 000 000 at its disposal. This conditional / authorized capital was created by the Annual General Meetings held 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

	2008[1]	2009[1]	2010[1]
Share capital in CHF	50 450 000	52 920 140	52 920 140
Registered shares	50 450 000	52 920 140	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 2008	Financial year 2009	Financial year 2010
Share capital	50 450 000	52 920 140	52 920 140
General legal reserve	25 225 000	227 776 480	25 225 000
Reserve from capital contribution	0	0	202 551 480
Reserve for own shares	301 137 239	68 061 133	44 491 517
Available earnings brought forward	1 142 037 042	1 495 985 580	1 524 326 393
Total capital and reserves	1 518 849 281	1 844 743 333	1 849 514 530
Net income for the year	208 085 503	96 490 269	74 229 225

For additional information, please refer to the consolidated statement of shareholders' equity, displayed on page 13 in the Lonza Financial Report 2010.

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 2010 Lonza had a market capitalization of CHF 3 966 million (2009: CHF 3 863 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 **Bonds and Options**
Bonds In April 2009, Lonza Swiss Finance Ltd, Basel, Switzerland, raised a CHF 300 million 3.75 % bond due 2013 and in 2010 Lonza Group Ltd, Basel, Switzerland, raised a CHF 400 million 3.00 % bond due 2016.

Options Options granted to the members of the Board of Directors and the members of the Management Committee are contained in the consolidated Lonza Financial Report 2010 (note 33). Disclosure of all options outstanding is provided in the notes to the consolidated financial statements, as specified in the Lonza Financial Report 2010. 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 four non-Swiss members.

The members of the Board of Directors as of 1 January 2011 were as follows:

Name	Nationality	Year of birth	Position held	Year of initial appoint-ment	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	2011
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	2011
Patrick Aebischer	Swiss	1954	Member of the Board of Directors and Member of the Innovation and Technology Committee	2008	2011
Dame Julia Higgins	British	1942	Member of the Board of Directors and Chairwoman of the Innovation and Technology Committee	2006	2011
Gerhard Mayr	Austrian	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2006	2011
Peter Wilden	German	1957	Member of the Board of Directors and Chairman of the Audit and Compliance Committee	2004	2011

All 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)

Current activities and functions:
- Member of the Council of the Foundation of the Graduate Institute of International and Development Studies, Geneva (since 2010)
- Member of the Council of the International Committee of the Red Cross, Geneva (since 2010) and Member of the International Committee of the Red Cross, Geneva (since 2009)
- Chairman of the Foundation Council of Avenir Suisse (since 2009)
- Member of the Board of economiesuisse (since 2009)
- Chairman of the Board of Directors of Holcim Ltd, Jona (since 2003) and member of the Board (since 1994)
- Member of the Board of Directors of Jungbunzlauer Group, Basel (since 1993)

Former activities and functions:
- Chairman of the Board of Directors of Nobel Biocare Holding Ltd, Zurich (2003–2010)
- Chairman of the Basel University Council (1995–2005)
- Managing Director of Jungbunzlauer Group, Basel (2001–2003)
- CEO of Jungbunzlauer Group, Basel (1993–2001)
- Sandoz Group–COO and Head of Pharma in Basel (1992–1993), Group Vice-President Agribusiness USA in New York (1988–1992)
- Protek Group (orthopedic implants) President and CEO in Berne (1983–1987)
- Sandoz Group–various functions in Human Resources, Finance and Corporate in Basel (1972–1983)

Sir Richard Sykes 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)

Current activities and functions:
- Chairman of the Royal Institution of Great Britain (since 2010)
- Member of the Board of Directors of ENRC plc, London (since 2007)

Former activities and functions:
- Chairman of NHS London (2008 – 2010)
- 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 a doctorate in medicine from the University of Geneva. Has received numerous honors, including the Robert Bing Prize of the Swiss Academy of Medicine and the Pfizer Foundation Prize for Clinical Neurosciences.

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

Current activities and functions:
- President of the Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Professor of Neurosciences, Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Fellow of the American Institute for Medical and Biological Engineering (since 2000)
- Fellow of the Swiss Academy of Medical Sciences (since 1998)

Former activities and functions:
- Founder of three biotechnology companies

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

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

Current activities and functions:
- Chairwoman of the Advisory Committee for Mathematics Education (since 2008)
- Trustee of the Daphne Jackson Memorial Fellowships (since 1994)
- Professor of Polymer Science, Imperial College London, Department of Chemical Engineering and Chemical Technology (since 1989); Emeritus and Senior Research Investigator (from 2007)

Former activities and functions:
- Trustee of The National Gallery (2001 – 2010)
- President of the Association for Science Education (2007 – 2008)
- Principal of the Faculty of Engineering, Imperial College, London (2006 – 2007)
- Chairwoman of the Engineering and Physical Sciences Research Council (2003 – 2007)
- Foreign Secretary and Vice-President of The Royal Society (2001 – 2006)

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

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

Current activities and functions:
- Member of the Board of UCB SA, Brussels (since 2005)
- Member of the Board of Project Hope, USA (since 2002)
- Member of the Board of the Vienna Science, Research and Technology Foundation (since 2002)
- Member of the circle of patrons of INSEAD Business School (since 2000)

Former activities and functions:
- Member of the Board of Alcon, Inc., Hüneberg (2007–2010)
- Member of the Board of OMV AG, Vienna (2002–2009)
- Member of the Board of Bank Austria AG, Vienna (1998–2006)
- Executive Vice-President of Eli Lilly & Company with responsibility for global pharmaceutical operations (1999–2004)
- Member of the US-Egypt President's Council (1999–2004)
- Member of the Board of the European Federation of the Pharmaceutical Industry (1995–1997 and 2000–2002)
- President of Eli Lilly Intercontinental (1997–1999)
- President of Eli Lilly International (1993–1997)
- Joined Eli Lilly in 1972 as Sales Representative

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

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

Current activities and functions:
- Executive Vice-President Finance and Chief Financial Officer of Ferring Pharmaceuticals in Lausanne, Switzerland (since 2000)
- Member of various scientific research organizations in Germany, the United States and the Netherlands

Former activities and functions:
- Member of the Board of Trace Biotech AG, Braunschweig, Germany (1999–2002)
- Held various managerial positions in the Ferring Group (1991–2000)
- Consultant for Mak Data System, Kiel, Germany, and the Krupp network (1988–1991)
- Management Assistant with Krupp MaK Maschinenbau GmbH, Kiel, Germany (1986–1988)
- Scientific Assistant of the Kiel Institute of World Economics (1983–1986)

3.3 **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[1], 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[1], the number of members must be at least three.

The members of the Board of Directors sat on the following committees in 2010:

	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		
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.

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

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 2010, the members of the Board of Directors spent their annual learning day at the Lonza premises in Slough (GB), accompanied by reviews and presentations on current technological developments at Lonza Biologics plc, Lonza Walkersville Inc. and Lonza Cologne AG.

Attendance and Main Topics Detailed information on attendance at Board and Committee meetings in 2010 is provided in the following table:

	Board of Directors	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Number of meetings	7 [1]	6	6	6
Overall attendance	84%	94%	100%	100%
Main topics	Discussions on M&A plan and projects	Review of 2010 audit findings and financial results	Monitoring of compensation and incentive structure	Monitoring of trends in research and development
	Discussions on next five-year strategic plan	Discussions on M&A, internal audits and controlling	Review of short-term incentive objective and calculation basis	Review of developments in LIFT (Lonza Innovation for Future Technology)
	Innovation update and review	Discussion on the financing strategy	Reassessment of the long-term incentive program	Support of the innovation process
	Review of LBS strategy	Review 2010 forecast, hard close and 2011 budget	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.

[1] One by way of telephone conference, three half-day and three full-day meetings (all with members of the Management Committee attending)

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 [1] and (ii) the Regulations Governing Internal Organization and Board Committees [2]. 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 [1] of Lonza Group Ltd, the Board of Directors has – with the exception of non-delegable and inalienable duties – delegated the management of the Company to the Management Committee,

Organizational Structures and Control Instruments The Board of Directors continues to commit itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. On an annual basis, the Board undertakes a self-assessment process and also participates in an assessment by the Management Committee. The aim is to achieve continuous improvement in the functioning of the Board. The Regulations Governing Internal Organization and Board Committees [2] 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 [3] 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 [2] confer on the CEO the duty to inform the Management Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. The Board of Directors meets periodically with the Management Committee or its subcommittees for business updates and decisions to be taken.

[1] www.lonza.com/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

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 2010, 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; they are designed to provide the Board with a consistent, Group-wide perspective of key risks according to specific criteria.

4 Management Committee

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board Committees [1] 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 2010, Anja Fiedler resigned as COO Bioscience division and member of the Management Committee; Lukas Utiger, formerly COO Life Science Ingredients division, assumed the position of COO Bioscience division, and Stefan Borgas, CEO, assumed ad interim the position of COO Life Science Ingredients division.

4.1 Members of the Management Committee

At 1 January 2011, the Management Committee consisted of five active members.

Name	Nationality	Year of birth	Current function
Stefan Borgas	German	1964	Chief Executive Officer / COO Life Science Ingredients division (ad interim since 1 June 2010)
Uwe H. Böhlke	German	1964	Chief Officer Human Resources / Corporate Services
Toralf Haag	German	1966	Chief Financial Officer
Stephan Kutzer	German	1965	COO Custom Manufacturing division
Lukas Utiger	Swiss	1963	COO Bioscience division (since 1 June 2010 – previously COO Life Science Ingredients division)

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

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; since June 2010, also COO Life Science Ingredients division ad interim)

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

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

Member of the Management Committee (since January 2007)

Functions within Lonza:
- Chief Officer Human Resources / Corporate Services (since November 2009)
- COO Custom Manufacturing – Exclusive Synthesis (July 2009 – October 2009)
- Head of Exclusive Synthesis business sector (January 2007 – July 2009)

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

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

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

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

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

Member of the Management Committee (since July 2005)

Functions within Lonza:
- COO Custom Manufacturing division (since November 2009)
- COO Custom Manufacturing – 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)

Functions within Lonza:
- COO Bioscience division (since June 2010)
- COO Life Science Ingredients division (August 2006 – May 2010)
- Head of the Exclusive Synthesis business sector (August 2001 – December 2006)
- Head of Research and Development for Exclusive Synthesis (October 2000 – July 2001)
- Joined Lonza as R&D chemist in 1992 and became R&D group leader for fine chemicals in 1998

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

4.3 Management Contracts

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

5 Compensation, Shareholdings and Loans

Details of Board and Management compensation are contained in the Consolidated Financial Statements (page 73, note 33) and in the Remuneration Report (page 95).

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 [1]. 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.

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

6.5 **Entry in the Share Register**

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

There are no special statutory rules in the Company's Articles of Association [1] concerning a deadline for entry in the share register. The share register will this year be closed on 1 April 2011 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 [1].

7.2 **Clauses on Changes of Control**

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

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

8 Auditors

8.1 Duration of the Mandate and Term of Office of the Auditor in Charge

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

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

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

The Board of Directors proposes that KPMG Ltd be re-elected as statutory auditors for the business year 2011.

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

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 2.048 million (2009: CHF 2.345 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 0.01 million (2009: CHF 0.115 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 [1]. 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.

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

9 Information and Key Reporting Dates

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

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

Lonza Group Ltd provides shareholders entered in the share register 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 has an electronic version of the annual report named Financial Report – Remuneration Report – Corporate Governance 2010.

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 2010 financial year
12 April 2011, 10.30 am
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2011, analysts' meeting
27 July 2011

Full-year Report 2011, analysts' meeting
January 2012

Annual General Meeting for the 2011 financial year
3 April 2012
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

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

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Listing and security information

Stock exchange listing / trading
SIX Swiss Exchange

Common stock symbols
Bloomberg LONN:VX
Reuters LONN.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.

The Lonza Financial Report – Remuneration Report – Corporate Governance 2010 is printed on non-chlorine-bleached, FSC-certified paper.

Imprint
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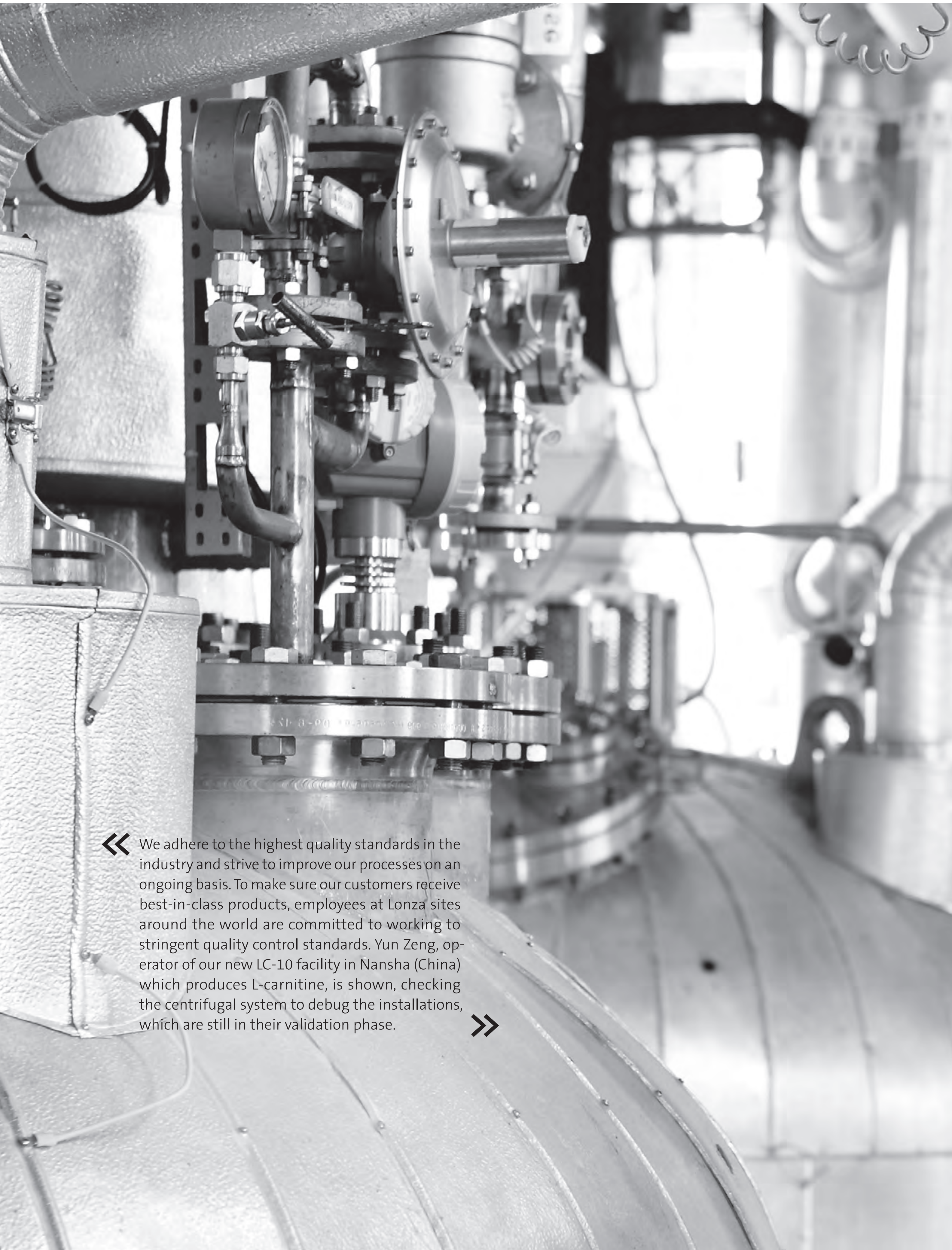

« We adhere to the highest quality standards in the industry and strive to improve our processes on an ongoing basis. To make sure our customers receive best-in-class products, employees at Lonza sites around the world are committed to working to stringent quality control standards. Yun Zeng, operator of our new LC-10 facility in Nansha (China) which produces L-carnitine, is shown, checking the centrifugal system to debug the installations, which are still in their validation phase. »