Half-Year Report 2018

Lonza

Pro-Forma Results million CHF	2018	Change in %	2017 (Pro-Forma)[1]
Sales	3,079	8.2	2,845
CORE EBITDA	802	10.9	723
Margin in %	26.0		25.4
Result from operating activities (CORE EBIT)	626	12.4	557
Margin in %	20.3		19.6

CORE[2] Earnings million CHF		2018	Change in %	2017 (Restated)[3]
CORE EBITDA		802	40.7	570
Margin in %		26.0		24.7
Result from operating activities (CORE EBIT)		626	42.3	440
Margin in %		20.3		19.0
CORE Profit for the period		493	62.2	304
CORE EPS basic	CHF	6.60	33.3	4.95
CORE EPS diluted	CHF	6.56	33.1	4.93
CORE RONOA in %		31.5	1.0	31.2

IFRS Results million CHF		2018	Change in %	2017 (Restated)[3]
Sales		3,079	33.3	2,310
EBITDA		779	49.2	522
Margin in %		25.3		22.6
Result from operating activities (EBIT)		519	41.8	366
Margin in %		16.9		15.8
Profit for the period		405	78.4	227
EPS basic	CHF	5.41	46.2	3.70
EPS diluted	CHF	5.39	46.5	3.68

Other Performance Measures million CHF	2018	Change in %	2017 (Restated)[3]
Operational free cash flow (before acquisitions)	351	4.8	335
Operational free cash flow	351	16.2	302[4]
ROIC in %	7.9		NC[5]
RONOA in %	13.7	(30.5)	19.7
Net debt	3,715	133.9	1,588[6]
Debt-equity ratio	0.58	(18.6)	0.71[6]
Net debt / CORE EBITDA ratio[7]	2.52		1.53
Number of employees	14,882	43.9	10,342

Highlights

- Lonza reported strong momentum with organic growth of 8% (like-for-like) sales and 11% CORE EBITDA in H1 2018 – Double-digit organic sales growth for businesses along the healthcare continuum
- Outperformance in Pharma & Biotech in H1 2018 in sales, with margins up 270 bps, was combined with strong positive momentum in the newly formed Consumer Health division
- Legacy Capsugel businesses, now well integrated into Lonza, exceeded expectations for performance and synergistic potential in H1 2018
- Growth drivers in Consumer & Resources Protection added to favorable momentum, but H1 2018 was negatively impacted by more mature, cyclical parts of the portfolio
- Water business only gained momentum only in May and June with positive outlook from H2 2018 onward
- Full-Year 2018 sales outlook was upgraded, and double-digit ROIC Mid-Term Guidance 2022 target was announced

1 Reported Lonza Half-Year 2017 financial results (restated for IFRS 15) include Capsugel Half-Year 2017 financial results. This explanation applies to the terms "pro-forma," "like-for-like" and "organic," which are used as synonyms throughout this report.
2 In the CORE results for the items "EBITDA," "Result from operating activities (EBIT)," "Profit for the period" and "Earnings per share," the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. "CORE RONOA" does not include acquisition-related intangible assets (see note 2 "Supplementary Financial Information" of this report on page 24).
3 Restated to reflect adoption of IFRS 15, as of 1 Jan. 2018, refer to Note 2 of the condensed consolidated financial statements.
4 Including the acquisition of PharmaCell B.V. (NL) on 3 May 2017; excluding the acquisition of Capsugel on 5 July 2017.
5 Not calculated, as ROIC for the first six months 2018 is not comparable with the 2017 comparative period, due to the Capsugel acquisition (see note 4 "Supplementary Financial Information" of this report, with details on the ROIC calculation for the full financial year 2017).
6 Net debt and equity at 30 June 2017, which exclude the cash resulting from the capital increase of CHF 3,061 million.
7 Net debt/CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months.

Dear Stakeholders,

On 5 July 2018, Lonza celebrated one year since the closing of the acquisition of Capsugel – a major transformational step for the company. We are now in a position to look back at a successful first year with legacy Capsugel businesses, now well integrated into Lonza, exceeding expectations for performance and synergistic potential, and with Lonza's healthcare continuum offerings becoming even stronger.

Lonza reported a strong first half of 2018 as a combined company with Capsugel, as well as on a like-for-like basis. Such organic growth and profitability are cornerstones of Lonza's success and will remain our focus. Half-Year 2018 saw robust momentum with 8.2% organic (like-for-like) sales growth, double-digit organic CORE EBITDA and CORE EBIT growth. Sales amounted to CHF 3.1 billion and margins for Lonza further improved, resulting in a CORE EBITDA margin of 26% and CORE EBIT margin of 20.3% in reported currency.

With one year of Capsugel as part of the Lonza family, we would like to thank Capsugel's former CEO Guido Driesen for his important contribution to the successful integration activities. Guido Driesen is now winding down his work on the integration, but he will stay close to Lonza in other projects globally. He leaves behind a strong organization, and we are even more positive about our joint forces and synergistic potential than we were one year ago. The former Capsugel teams are an integral part of the Lonza family now, and the cultural fit that we anticipated has already been confirmed. Capsugel adds to Lonza's offerings from molecule-to-patient in Pharma & Biotech and from ingredient-to-consumer in Consumer Health, as well as complementing our value proposition along the healthcare continuum.

Pharma & Biotech contributed significantly to Lonza's robust H1 2018 performance with 14.7% organic sales growth and a further improved 33.1% CORE EBITDA margin. Pharma & Biotech's Clinical Development & Manufacturing and Commercial Manufacturing services across all technologies and assets continued to build on buoyant demand for Lonza's offerings along the entire value chain.

All major investments in Pharma & Biotech that have already been announced are progressing as planned, including expansions in single-use bioreactors in Singapore (SG), in hybrid mid-scale technologies in Portsmouth, NH (USA), in cell and gene therapy in Portsmouth and in Houston, TX (USA), in biological manufacturing in IBEX® Solutions in Visp (CH), and in encapsulation capabilities in Tampa, FL (USA).

Expansion of production capacity in Lonza's Greenwood, SC (USA) site to combine capsule production, ingredient production and finished dosage form development is progressing as planned.

Within Lonza's Specialty Ingredients segment, the newly formed Consumer Health division performed extremely well, driven by robust momentum for nutritional ingredients for supplements and functional foods and delivery forms. We also had strong positive momentum for offerings for institutional and household hygiene applications.

Innovative and highly specialized solutions offerings for composite materials, engineered wood and crop protection within Specialty Ingredient's Consumer & Resources Protection division showed sustainable growth momentum but could not fully compensate for the soft performance in more mature, cyclical parts of the portfolio like basic materials and intermediates.

Operational and commercial excellence initiatives in Consumer & Resources Protection are ongoing. The evaluation of strategic options for the Water Care business unit continues as planned. At the upcoming Capital Markets Day in September this year, we will provide further granularity on how the company is creating value along and beyond the healthcare continuum.

Based on the strong performance in the first half of 2018 – and particularly of the businesses along the healthcare continuum – Lonza is upgrading Full-Year 2018 sales outlook to mid- to high-single-digit growth on a comparable basis. The CORE EBITDA margin for Full-Year 2018 is expected to be comparable to the CORE EBITDA margin of 26% for Half-Year 2018.

We are dedicating our energy in the second half of 2018 to continue our growth trajectory along the healthcare continuum while restructuring and enhancing value in other parts of the portfolio. Our focus on innovation and Research & Development is ongoing; and we continue to invest for future, profitable growth. We thank our customers, shareholders and employees for their commitment to Lonza's long-term growth path.

Albert M. Baehny
Chair of the Board of Directors

Richard Ridinger
Chief Executive Officer

Financial Summary

In the first half of 2018, Lonza saw strong organic sales growth and further margin improvements. The former Capsugel business, now fully integrated into Lonza Pharma & Biotech and the Consumer Health division of Specialty Ingredients, performed above expectations and complemented the strong performance of Lonza's businesses along the healthcare continuum. Comparability of actual results relative to HY 17 were only margainally impacted by changes in actual exchange rates. Further information about constant exchange rates is provided in note 1 "Supplementary Financial Information" of this report (page 22). Leverage and operational free cash flow development were as expected and in line with Lonza's financial objectives.

- Sales growth of 33.3% in reported currency to CHF 3,079 million (32.5% in constant exchange rates)
- CORE EBITDA growth of 40.7% in reported currency to CHF 802 million (39.1% in constant exchange rates)
- CORE EBIT growth of 42.3% in reported currency to CHF 626 million (40.5% in constant exchange rates)
- ROIC (return on invested capital) of 7.9%, which was newly introduced in 2018 as one of Lonza's key performance indicators (KPI); further information is provided in note 4 "Supplementary Financial Information" of this report (page 27)
- CORE RONOA (return on net operating assets) improved to 31.5% from 31.2% in H1 2017
- Net debt of CHF 3,715 million and a net debt/CORE EBITDA ratio of 2.52x (last twelve-month basis)
- Operational free cash flow up 16.2% to CHF 351 million (Half-Year 2017 comparable figure includes the acquisition of PharmaCell B.V. on 3 May 2017 and excludes the acquisition of Capsugel on 5 July 2017)

On 1 January 2018, the new comprehensive revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers," took effect. Lonza is applying the full retrospective methodology to adopt IFRS 15 and enhance comparability. As a result, Lonza published restated financial results for Half-Year Results 2017 as part of the Half-Year Results 2018 in accordance with IFRS 15. The IFRS 15 restatement only has an impact on Lonza's Pharma & Biotech segment. Further information is provided in note 2 "Selected Explanatory Notes" of this report (pages 14–16).

Financial Summary – Lonza Pro-Forma

To provide enhanced transparency and comparability to the capital markets, Lonza is providing pro-forma Half-Year 2017 results (reported Lonza Half-Year 2017 for certain key financial results including Capsugel Half-Year 2017 financial results) for Lonza's KPIs of sales, CORE EBITDA and CORE EBIT:

- Sales grew by 8.2% in reported currency to CHF 3,079 million (7.6% in constant exchange rates)
- CORE EBITDA growth of 10.9% in reported currency to CHF 802 million (9.7% in constant exchange rates)
- CORE EBIT growth of 12.4% in reported currency to CHF 626 million (11% in constant exchange rates)

These pro-forma KPIs are presented as if the acquisition of Capsugel occurred as of 1 January 2017 to enhance comparability of the financial statements of HY18. The acquisition of Capsugel was completed on 5 July 2017.

Outlook 2018

Based on the strong performance in Half-Year 2018 – of the overall company and particularly of the businesses along the healthcare continuum:

- Lonza is upgrading its Full-Year 2018 sales outlook to mid- to high-single-digit growth on a comparable basis.
- The CORE EBITDA margin for Full-Year 2018 is expected to be comparable to the CORE EBITDA margin of 26% for Half-Year 2018.

All major investments that have already been announced are progressing as planned, including expansions in single-use bioreactors in Singapore (SG), in hybrid mid-scale technologies in Portsmouth, NH (USA), in cell and gene therapy in Portsmouth and in Houston, TX (USA), in biological manufacturing in IBEX® Solutions in Visp (CH), in dosage form and ingredient production in Greenwood, SC (USA) and in encapsulation capabilities in Tampa, FL (USA).

At the upcoming Capital Markets Day from 24-26 September 2018 in Zurich (CH), Lonza will provide further granularity on its growth trajectory toward Mid-Term Guidance 2022 and its ongoing portfolio and business composition review, as well as explore initiatives to grow beyond 2022.

Mid-Term Guidance 2022

As previously communicated on 4 May 2018 with the publication of the Q1 Qualitative Business Update 2018, CORE RONOA (return on net operating assets) will be complemented by ROIC (return on invested capital) as a KPI. Therefore, Lonza is now updating its Mid-Term Guidance 2022 by including an attractive ROIC target:

- Sales CHF 7.5 billion
- CORE EBITDA margin 30%
- CORE RONOA 35%
- Double-digit ROIC

ROIC is defined as net operating profit after tax (NOPAT) divided by year-to-date average invested capital. NOPAT measures the after-tax operating profit from Lonza's core operations, including operating lease adjustments, results from investments in joint ventures and amortization of intangible assets from acquisitions. Invested capital represents the full capital deployed in Lonza's core operations, including capitalized operating leases, investments in joint ventures, and goodwill and intangible assets from acquisitions.

Lonza's definition and calculation of its ROIC approach is displayed in note 4 "Supplementary Financial Information" (page 27) of this report.

The Outlook 2018 and Mid-Term Guidance 2022 are based on the current business composition, the present macro-economic environment, current visibility and constant exchange rates for the most important currencies in which Lonza is trading.

Pharma & Biotech
Segment

Pharma & Biotech million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	1,563	50.6	1,038	14.7	1,363
CORE EBITDA	517	60.1	323	24.9	414
CORE EBITDA margin in%	33.1		31.1		30.4
CORE result from operating activities (EBIT)	425	62.2	262	29.6	328
CORE EBIT margin in%	27.2		25.2		24.1

Lonza Pharma & Biotech continued to outperform with 14.7% organic sales growth (50.6% sales growth on a reported basis), and an outstanding 33.1% CORE EBITDA margin driven by its Clinical Development & Manufacturing and Commercial Manufacturing services.

This segment delivered approximately CHF 1.6 billion sales for H1 2018; and CORE EBITDA amounted to CHF 517 million, a pro-forma increase of 24.9% (60.1% CORE EBITDA growth on a reported basis). Excellent organic CORE EBIT growth of 29.6% (62.2% on a reported basis) resulted in a record CORE EBIT of CHF 425 million.

1 Restated to reflect the transfer of a business from Pharma & Biotech to Specialty Ingredients (Sales CHF -13 million, unfavorable impacts on CORE EBIT CHF 4 million and CORE EBITDA CHF 5 million) and to reflect the impact from the adoption of IFRS 15 (unfavorable impacts on sales CHF 13 million, CORE EBIT CHF 7 million and CORE EBITDA CHF 7 million).
2 Reported Lonza Half-Year 2017 financial results (restated for IFRS 15) include Capsugel Half-Year 2017 financial results.

Segment Overview

The Commercial Mammalian and Microbial Manufacturing business continues to benefit from a robust customer base and strong demand, enabling the business to secure additional contracts in the mid- and long-term. The Portsmouth, NH (USA) mid-scale capacity expansion, which was announced with the Q1 Qualitative Business Update, is receiving positive customer interest as expected. In addition, the IBEX® Solutions program in Visp (CH) and the operationalization of the Singapore (SG) single-use bioreactor facility are developing as planned.

Demand for Lonza's development services and clinical manufacturing in all technologies remains strong, further fueled by increasing pressure to shorten time to the clinic and to the market, which creates new fast-track approval pathways initiated by regulatory authorities. Lonza is extending its clinical development and manufacturing services in Slough (UK) with new hires, and the transfer of new and existing customers to Lonza's Hayward, CA (USA) site is progressing well. The expansion of Drug Product Services in Basel (CH) is getting uptake and contributes to Lonza's gene-to-patient offerings.

The opening of the world's largest dedicated cell-and-gene-therapy manufacturing facility in Pearland, Greater Houston, TX (USA) in April 2018 was well received; and the transfer of existing and new customers into the facility is making good progress. Market demand for cell and gene therapies continues to be strong, and Lonza re-defined its asset strategy to focus on four Centers of Excellence to provide seamless services to customers; and centers in Portsmouth, NH (USA) and Geleen/Maastricht (NL) were expanded. Lonza is actively investing in key innovation technologies in viral vector manufacturing, allogeneic manufacturing in 3D bioreactors, and autologous manufacturing in the Cocoon™ system.

Lonza Pharma & Biotech's small-molecule businesses reported continued operational and commercial improvements. Also firm demand continued for Lonza's offerings in active pharmaceutical ingredients (API) development and manufacturing for clinical and commercial, as well as in dosage forms and delivery solutions and services to enhance bioavailability and efficacy of drugs. Dosage form and delivery system services added to the positive first half of 2018 by securing several projects with new and existing customers and by strengthening the overall portfolio.

First synergistic projects have been captured that either leverage Lonza's network to extend the value chain or that cross-sell to customers. Innovation projects are ongoing and dealing with continuous manufacturing and automation, bioavailability and efficacy enhancements through the introduction of new formulations, modulated-release mechanisms and new approaches to the manufacturing of high-potency substances.

The hard-capsule business reported a robust H1 2018 and saw increasing demand for Lonza's specialty polymer capsules by pharmaceutical companies to enhance bioavailability and to provide a wider choice for customers. Geographic expansion programs have been implemented to strengthen the business's global presence; and operational excellence programs, as well as expansions across its sites, are ongoing to meet customer demand.

Demand for Lonza's research media and testing products continues to be robust in H1 2018 with strong customer order placements. New research products have been launched and agreements for endotoxin testing solutions signed, further responding to customer demand. Continuous improvements in production availability and output have increased supply to meet demands of existing and new customers.

In the first half of 2018, all of Lonza Pharma & Biotech regulatory cGMP inspections have been successful. In addition to the 16 regulatory audits, the continuing high number of customer audits in all sites of the network plays an integral part of Lonza Pharma & Biotech's operations.

Specialty Ingredients
Segment

Specialty Ingredients million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	1,497	19.7	1,251	2.5	1,461
CORE EBITDA	316	18.8	266	(3.7)	328
CORE EBITDA margin in%	21.1		21.3		22.5
CORE result from operating activities (EBIT)	254	17.1	217	(5.2)	268
CORE EBIT margin in%	17.0		17.3		18.3

Specialty Ingredients delivered strong results for the businesses along the healthcare continuum but was negatively impacted by the soft performance in more mature, cyclical parts of the portfolio like basic materials and intermediates. This segment delivered CHF 1.5 billion sales for Half-Year 2018, a 2.5% organic growth (19.7% sales growth on a reported basis). CORE EBITDA amounted to CHF 316 million, a pro-forma decrease of 3.7% (18.8% CORE EBITDA growth on a reported basis), with a 21.1% CORE EBITDA margin. CORE EBIT was CHF 254 million, a pro-forma decrease of 5.2% (17.1% CORE EBIT growth on a reported basis).

As of 1 January 2018, the Specialty Ingredients segment began operating in three distinct units: a Consumer Health division, a Consumer & Resources Protection division and a Water Care business unit. The new Consumer Health division addresses the fast-moving consumer goods markets in nutritional ingredients for supplements and functional food, hygiene and personal care. The new Consumer & Resources Protection division addresses the coatings, composites and agricultural markets. The Water Care business unit offers a broad range of products and solutions for residential and industrial water treatment globally.

1 Restated to reflect the transfer of a business from Pharma & Biotech to Specialty Ingredients (Sales CHF +13 million, favorable impacts on CORE EBIT CHF 4 million and CORE EBITDA CHF 5 million).
2 Reported Lonza Half-Year 2017 financial results (no impact from IFRS 15 restatement) include Capsugel Half-Year 2017 financial results.

Consumer Health

Consumer Health million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	536	86.1	288	7.6	498
CORE EBITDA	153	150.8	61	24.4	123
CORE EBITDA margin in %	28.5		21.2		24.7

The newly formed Consumer Health division performed extremely well, driven by robust momentum for nutritional ingredients for supplements and functional foods and supplement delivery forms, as well as offerings for institutional and household hygiene applications. Consumer Health organically grew 7.6% in sales to CHF 536 million for Half-Year 2018 (86.1% growth on a reported basis). CORE EBITDA amounted to CHF 153 million, a 24.4% increase like-for-like (150.8% growth on a reported basis) with an outstanding 28.5% CORE EBITDA margin, an improvement of 380 bps on a pro-forma basis (assuming the acquisition of Capsugel occurred as of 1 January 2017).

Strong momentum in the consumer health and nutrition businesses is expected to continue, fueled by the strengthened global reach of the combined companies, further geographic expansions and innovative product offerings. The fully integrated global sales force has already begun capitalizing on the synergistic sales opportunities in the consumer health and nutrition markets. Uniquely combined portfolio offerings from dosage forms and nutritional ingredients added further momentum to the growing business pipeline, leveraging Lonza's advanced application know-how in supplements.

The expansion of production capacity in Lonza's Greenwood, SC (USA) site to combine capsule production, ingredient production and finished dosage form development is progressing as planned.

Lonza's leading position in disinfection solutions is expected to remain a growth pillar, reaching from institutional hygiene into household applications. Leveraging its global expertise in microbial control, Lonza is developing the next generation of preservative solutions in consumer products, anticipating latest and upcoming regulatory challenges and changing consumer preferences.

1 Restated to reflect the transfer of a business from Pharma & Biotech to Specialty Ingredients (Sales CHF +13 million, favorable impacts on CORE EBIT CHF 4 million and CORE EBITDA CHF 5 million).
2 Reported Lonza Half-Year 2017 financial results (no impact from IFRS 15 restatement) include Capsugel Half-Year 2017 financial results.

Consumer & Resources Protection

Consumer & Resources Protection million CHF	2018	Change in %	2017
Sales	678	1.3	669
CORE EBITDA	130	(19.3)	161
CORE EBITDA margin in%	19.2		24.1

This division delivered CHF 678 million of sales for Half-Year 2018 (1.3% growth on a reported basis). CORE EBITDA amounted to CHF 130 million (-19.3% on a reported basis) with a CORE EBITDA margin of 19.2%. A downward cycle for basic feed ingredients and raw-material price increases had a negative impact on this division. Also the weather-related delayed construction season in North America affected the results of the wood businesses, for instance. Operational and commercial excellence initiatives are ongoing.

However, Consumer & Resources Protection benefited from ongoing robust growth momentum in Lonza's innovative composite materials, especially in the electronics and aerospace industries. Market penetration in various industrial applications continued by leveraging Lonza's leading position and expertise in microbial control solutions.

Newly launched solutions to address regulatory changes and related market uncertainty in technical evaluations resonated well with all major customers, e.g. ongoing strong customer interest in applying Lonza's solutions to replace methylisothiazolinone (MIT), a widely used preservative for water-based paint systems. Despite being a market leader in marine antifouling ingredients, growth remained soft in line with lower demand in global shipbuilding and maintenance. Some positive momentum is related to tightened regulatory frameworks in emerging markets.

Growth initiatives in the innovative and highly specialized solutions portfolios of engineered wood, crop protection and mold control to some extent balanced soft demand and the effects of discontinuations in some of the mature parts of the portfolio across Consumer & Resources Protection, like basic materials and intermediates.

Water Care

Water Care million CHF	2018	Change in %	2017
Sales	283	(3.7)	294
CORE EBITDA	33	(25.0)	44
CORE EBITDA margin in%	11.7		15.0

Although the recreational pool season in North America had an extremely delayed start due to weather, the Water Care business gained good momentum in May and June. Also, the outlook for the remainder of the year is positive, and strong results are expected from H2 2018 onward.

In H1 2018 this business unit delivered CHF 283 million of sales, a decrease of 3.7% in comparison to Half-Year 2017 due to unfavorable weather and the late start of the pool season in key regions. CORE EBITDA amounted to CHF 33 million with a CORE EBITDA margin of 11.7%. CORE EBITDA was negatively impacted in H1 2018 and declined by 25% compared with the same period 2017 due to ongoing restructuring activities and investments in product innovation and commercial excellence programs.

These significant investments in innovative new offerings and the related brand restaging are strengthening the short- and mid-term outlook, supported by sales initiatives and expected new business in recreational water. Significant growth is expected for 2019. In addition, new business development efforts within the e-commerce space are fully on track and show accelerating growth momentum.

Water Care's industrial, commercial, municipal and surface water (ICMS) business is expected to be stronger in H2 2018, too.

The restructuring, business model redesign and review of strategic options are progressing as planned.

Corporate

Corporate million CHF	2018	2017
Sales	19	21
CORE EBITDA	(31)	(19)
CORE result from operating activities (EBIT)	(53)	(39)

CORE Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of the company because the CORE results enable better comparison across years.

CORE results exclude exceptional expenses and income related to e.g. restructuring, environmental-remediation, acquisitions and divestitures, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

Condensed Interim Financial Statements

Condensed consolidated balance sheet at 31 December 2017 and 30 June 2018 (unaudited) million CHF	2018	2017 (restated)[1]
Total non-current assets	**11,012**	**11,098**
Current assets	2,505	2,254
Cash and cash equivalents	488	479
Total current assets	**2,993**	**2,733**
Total assets	**14,005**	**13,831**
Equity attributable to equity holders of the parent	6,357	6,133
Non-controlling interest	50	48
Total equity	**6,407**	**6,181**
Non-current liabilities	1,687	1,747
Non-current debt	3,273	3,730
Total non-current liabilities	**4,960**	**5,477**
Current liabilities	1,692	1,657
Current debt	946	516
Total current liabilities	**2,638**	**2,173**
Total equity and liabilities	**14,005**	**13,831**
Net debt	**3,715**	**3,762**

Condensed consolidated income statement for the six months ended 30 June (unaudited) million CHF		2018	2017 (restated)[1]
Sales		**3,079**	**2,310**
Cost of goods sold		(1,888)	(1,434)
Gross profit		**1,191**	**876**
Operating expenses		(672)	(510)
Result from operating activities (EBIT)[2]		**519**	**366**
Net financing costs		(22)	(83)
Share of loss of associates/joint ventures		(1)	(1)
Profit before income taxes		**496**	**282**
Income taxes		(91)	(55)
Profit for the period		**405**	**227**
Profit attributable to:			
Equity holders of the parent		403	227
Non-controlling interest		2	0
Profit for the period		**405**	**227**
Basic earnings per share – EPS basic	CHF	5.41	3.70
Diluted earnings per share – EPS diluted	CHF	5.39	3.68

1 Restated to reflect adoption of IFRS 15 (see note 2)
2 Result from operating activities (EBIT) excludes interest income and expenses, as well as financial income and expenses that are not interest related and Lonza's share of profit/loss from associates and joint ventures.

Condensed consolidated statement of comprehensive income for the six months ended 30 June (unaudited) million CHF	2018	2017 (restated)[1]
Profit for the period	**405**	**227**
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of net defined benefit liability	90	28
Income tax on items that will not be reclassified to profit or loss	(20)	(8)
	70	**20**
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(54)	(63)
Cash flow hedges	(1)	(108)[2]
Income tax on items that are or may be reclassified to profit or loss	(1)	6
	(56)	**(165)**
Other comprehensive income for the period, net of tax	**14**	**(145)**
Total comprehensive income for the period	**419**	**82**
Total comprehensive income attributable to:		
Equity holders of the parent	417	82
Non-controlling interest	2	0
Total comprehensive income for the period	**419**	**82**

Condensed consolidated cash flow statement for the six months ended 30 June (unaudited) million CHF	2018	2017 (Restated)[1]
Profit for the period	**405**	**227**
Adjustment for non-cash items	404	352
Income tax and interest paid	(110)	(72)
Increase of net working capital	(285)	(57)
Use of provisions	(30)	(6)
Increase/(decrease) of other payables, net	43	(36)
Net cash provided by operating activities	**427**	**408**
Purchase of property, plant & equipment and intangible assets	(180)	(163)
Acquisition of subsidiaries, net of cash acquired	0	(33)
Sale of assets held for sale	0	20
Net purchase of other assets and disposals	(13)	(13)
Interest and dividend received	2	10
Net cash used for investing activities	**(191)**	**(179)**
Increase of capital	0	3,061[3]
Repayment of syndicated loan	0	(100)
Decrease in debt	(46)	(34)
Increase in other non-current liabilities	31	36
Purchase of treasury shares	(5)	(14)
Sale of treasury shares	0	3
Dividends paid	(205)	(159)
Net cash provided by/(used for) financing activities	**(225)**	**2,793**
Effect of currency translation on cash	(2)	(109)[4]
Net increase in cash and cash equivalents	**9**	**2,913**
Cash and Cash equivalents at 1 January	479	274
Cash and Cash equivalents at 30 June	488	3,187

1 Restated to reflect the adoption of IFRS 15 (see note 2)
2 Includes primarily the impact from derivative financial instruments and USD cash balances to manage Lonza's foreign currency exposure related to the Capsugel transaction.
3 Excludes expenses of CHF 37 million associated with the rights offering that were not paid as of 30 June 2017.
4 Includes exchange rate losses on USD cash balances to finance the Capsugel acquisition (resulting from the CHF proceeds from the captial increases, subsequently converted to USD).

Condensed consolidated statement of changes in equity for the six months ended 30 June (unaudited)

million CHF

	Attributable to equity holders of the parent							Non-con-trolling interest	Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
Six months ended 30 June 2017									
Balance at 1 January 2017, as previously reported	53	311	2,565	(5)	(559)	(10)	2,355	0	2,355
Impact of change in accounting policies[1]	0	0	(53)	0	0	0	(53)	0	(53)
Restated balance at 1 January 2017	53	311	2,512	(5)	(559)	(10)	2,302	0	2,302
Profit for the period (restated)	0	0	227	0	0	0	227	0	227
Other comprehensive income, net of tax (restated)	0	0	20	(99)	(66)	0	(145)	0	(145)
Total comprehensive income for the period (restated)	0	0	247	(99)	(66)	0	82	0	82
Dividends	0	0	(159)	0	0	0	(159)	0	(159)
Issuance of share capital	21	3,003	0	0	0	0	3,024	0	3,024
Recognition of share–based payments	0	0	11	0	0	0	11	0	11
Movements in treasury shares	0	0	(16)	0	0	8	(8)	0	(8)
Restated balance at 30 June 2017	74	3,314	2,595	(104)	(625)	(2)	5,252	0	5,252
Six months ended 30 June 2018									
Balance at 1 January 2018, as previously reported	74	3,314	3,211	3	(338)	(59)	6,205	48	6,253
Impact of change in accounting policies[1]	0	0	(72)	0	0	0	(72)	0	(72)
Restated balance at 1 January 2018	74	3,314	3,139	3	(338)	(59)	6,133	48	6,181
Profit for the period	0	0	403	0	0	0	403	2	405
Other comprehensive income, net of tax	0	0	70	(1)	(55)	0	14	0	14
Total comprehensive income for the period	0	0	473	(1)	(55)	0	417	2	419
Dividends	0	0	(205)	0	0	0	(205)	0	(205)
Recognition of share–based payments	0	0	17	0	0	0	17	0	17
Movements in treasury shares	0	0	(64)	0	0	59	(5)	0	(5)
Balance at 30 June 2018	74	3,314	3,360	2	(393)	0	6,357	50	6,407

1 Restated to reflect adoption of IFRS 15 (see note 2)

Selected Explanatory Notes

1 Basis of Preparation of Financial Statements

These condensed consolidated financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2018 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting." These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2017 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below. The interim financial statements do not include all of the information required for a complete set of IFRS financial statements.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

As a result of the acquisition of Capsugel SA in July 2017, the comparability of the consolidated six-month income statement 2018 and 2017 is limited.

Capsugel's consumer health and nutrition business has been combined with Lonza's existing Health & Nutrition business, which is included in Lonza's Consumer Health division, whereas Capsugel's bio-pharmaceutical business is integrated into Lonza's existing Pharma & Biotech business.

New Standards, Interpretations and Amendments

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The impact of the adoption of IFRS 15 Revenue from Contracts with Customers is disclosed in note 2 below. The adoption of the other standards do not have s significant impact on the Group's financial statements.

2 Changes in Accounting Policies

The Group has adopted the new IFRS 15 standard, which resulted in changes of accounting policies.

Revenue recognition

In accordance with IFRS 15 revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The adoption of the new standard primarily affected Lonza's long-term contracts in the custom manufacturing business.

In the custom manufacturing business, customer agreements may foresee payments at or near inception of contracts, which typically relate to set-up efforts for new customer dedicated production facilities. Previously in certain cases, and in alignment with IFRS, Lonza recognized such up-font or one-time payments immediately.

Under IFRS 15 set-up efforts typically do not represent separate performance obligations, as no good or service is transferred to the customer. The payments for these setup efforts comprise part of the expected transaction price and are deferred as contract liabilities (non-current deferred income) until performance obligations are satisfied.

Accounting for cost to fulfill a customer contract

Contractual costs in relation to activities for commissioning, qualification and startup, as well as for activities relating to process development and technology transfer for customer dedicated production facilities were expensed as incurred. In prior years, these type of costs did not qualify for recognition as an asset prior to the adoption of IFRS 15.

Following the adoption of IFRS 15, costs that relate directly to a contract, generate resources used in satisfying the contract and are expected to be recovered, are capitalized as costs to fulfill a contract.

IFRS 15 has been implemented retrospectively and comparatives for the 2017 financial year have been restated. In summary, the following adjustments were made to the amounts recognized in the balance sheet at the date of initial application (1 January 2018).

million CHF	31 December 2017 as originally published	Restatements resulting from IFRS 15	31 December 2017 restated
Capitalized contract cost	0	31	31
Deferred tax assets	33	10	43
Other non-current assets	11,024	0	11,024
Total non-current assets	**11,057**	**41**	**11,098**
Current assets	2,254	0	2,254
Cash and cash equivalents	479	0	479
Total current assets	**2,733**	**0**	**2,733**
Total assets	**13,790**	**41**	**13,831**
Equity attributable to equity holders of the parent	6,205	(72)	6,133
Non-controlling interest	48	0	48
Total equity	**6,253**	**(72)**	**6,181**
Deferred revenues	0	113	113
Non-current debt	3,730	0	3,730
Other non-current liabilities	1,634	0	1,634
Total non-current liabilities	**5,364**	**113**	**5,477**
Current liabilities	1,657	0	1,657
Current debt	516	0	516
Total current liabilities	**2,173**	**0**	**2,173**
Total equity and liabilities	**13,790**	**41**	**13,831**

The following IFRS 15 restatement adjustments were made to the consolidated income statement for the six months ended 30 June 2017:

million CHF		30 June 2017 as originally published	Restatements resulting from IFRS 15	30 June 2017 restated
Sales		**2,323**	**(13)**	**2,310**
Cost of goods sold		(1,440)	6	(1,434)
Gross profit		**883**	**(7)**	**876**
Operating expenses		(510)	0	(510)
Result from operating activities (EBIT)		**373**	**(7)**	**366**
Total non-operating income/expense		(84)	0	(84)
Profit before income taxes		**289**	**(7)**	**282**
Income taxes		(56)	1	(55)
Profit for the period		**233**	**(6)**	**227**
Basic earnings per share - EPS basic	CHF	3.80	(0.10)	3.70
Diluted earnings per share - EPS diluted	CHF	3.78	(0.10)	3.68

The impact of IFRS 15 adoption on the Group's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

million CHF	2018	2017
Retained earnings as originally published	**3,211**	**2,565**
Recognition of capitalized contract cost	31	20
Recognition of deferred contractual revenues	(113)	(80)
Increase of deferred tax assets	10	7
Adjustment to retained earnings from changes in accounting policies	**(72)**	**(53)**
Restated retained earnings	**3,139**	**2,512**

3 Exchange Rates

Balance sheet period-end rate CHF	30.06.2018	31.12.2017
US dollar	1.00	0.98
Pound sterling	1.31	1.32
Euro	1.16	1.17

Income statement half year average rate CHF	2018	2017
US dollar	0.97	0.99
Pound sterling	1.33	1.25
Euro	1.17	1.08

4 Seasonality of Operations

Most Lonza businesses operate in areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year, except for some businesses within the Specialty Ingredients segment. In particular the water products business is seasonal in nature. Therefore, the results of the Specialty Ingredients segment for the six-month period ended 30 June 2018 are not indicative of the results to be expected for the entire financial year.

5 Dividends Paid

On 4 May 2018, the Annual General Meeting approved the distribution of a dividend of CHF 2.75 (financial year 2016: CHF 2.75) per share in respect of the 2017 financial year. The distribution to holders of outstanding shares totaled CHF 205 million (2017: CHF 159 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

6 Operating Segments

Lonza operated with two segments in the first half of 2017. When Capsugel was acquired on 5 July 2017, it remained a separate operating segment for the balance of the year.

From 1 January 2018, Capsugel has been fully integrated into Lonza Pharma & Biotech and Lonza Specialty Ingredients at which time the Group adjusted its operating segments.

Description of Operating Segments

Pharma & Biotech

In the Pharma & Biotech segment, Lonza is one of the world's leading integrated service providers for custom development and manufacturing of active pharmaceutical ingredients (APIs) for biopharmaceuticals, as well as supplier for related research and testing products and services. Following the integration of Capsugel in 2018, the Pharma & Biotech segment extended its service offering to the development and manufacturing of a wide range of capsules and innovative dosage forms for pharma markets.

Specialty Ingredients

The Specialty Ingredients segment consists of the two divisions Consumer Health and Consumer Resources & Protection as well as the Water Care business unit. Out of this segment, Lonza provides solutions that promote health, wellness, beauty, nutrition, hygiene, materials protection and performance.

Lonza's Consumer Health division serves the fast-moving consumer goods industry by providing nutritional and dietary supplement ingredients and delivery systems, hygiene and preservation products, and personal-care offerings. In 2018 the former Consumer Health and Nutrition business of Capsugel was integrated into the Consumer Health Division.

Lonza's Consumer Resources & Protection division addresses the coatings, composites and agricultural markets by offering products and specialty solutions for the protection, enhanced performance and modification of the end-use characteristics of various materials including carbon, fibers, fabrics, leather, metals, plastics, stone and wood, as well as for agricultural ingredients.

The Water Care business unit is one of the world's largest suppliers of sanitizers and other treatment chemicals for pools, spas and water parks, surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications.

Six months ended 30 June 2018 million CHF	Specialty Ingredients	Pharma & Biotech	Total operating segments	Corporate/ Eliminations[1]	Total Group
Sales third-party	**1,497**	**1,563**	**3,060**	**19**	**3,079**
Inter-segment sales	13	37	50	(50)	0
Total sales	**1,510**	**1,600**	**3,110**	**(31)**	**3,079**
Result from operating activities (EBIT)[2]	**204**	**384**	**588**	**(69)**	**519**
Return on sales %	13.6	24.6	19.2	n.a.	16.9
Net financing costs					(22)
Share of loss of associates/joint ventures					(1)
Profit before income taxes					**496**
Income taxes					(91)
Profit for the period					**405**

Six months ended 30 June 2017 (restated)[3] million CHF	Specialty Ingredients	Pharma & Biotech	Total operating segments	Corporate/ Eliminations[1]	Total Group
Sales third-party	**1,251**	**1,038**	**2,289**	**21**	**2,310**
Inter-segment sales	11	3	14	(14)	0
Total sales	**1,262**	**1,041**	**2,303**	**7**	**2,310**
Property, plant and equipment (impairment)/reversal of impairment	(1)	(4)	(5)	0	(5)
Result from operating activities (EBIT)[2]	**199**	**253**	**452**	**(86)**	**366**
Return on sales %	15.9	24.4	19.7	n.a.	15.8
Net financing costs					(83)
Share of loss of associates/joint ventures					(1)
Profit before income taxes					**282**
Income taxes					(55)
Profit for the period					**227**

Disaggregation of Third-Party Revenues

Lonza derives revenue in its business models of Contract Development and Manufacturing (primarily in the Pharma & Biotech segment) and sale of products (primarily in the Specialty Ingredients segment). These business models and the markets Lonza operates in are the basis to disaggregate revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Pharma & Biotech business derives its revenues primarily from long-term supply agreements with pharmaceutical customers. The Group provides its customers with biological and chemical manufacturing services from early development through to the commercial phase. Revenues in the Pharma & Biotech market served by the Group underlie broadly the same economic factors independent of the production technology, e.g. the regulatory

1 The "Corporate / Eliminations" column represents the corporate function, including eliminations for reconciliation of the Group total.
2 Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related and Lonza's share of profit/loss from associates and joint ventures.
3 Restated to reflect adoption of IFRS 15 (see note 2)

environment as well as the life cycles (due to patent expiration) of the customers' drug substances are comparable.

The Specialty Ingredients segment supplies innovative solutions through product sales that promote health, wellness, beauty, nutrition, hygiene and materials protection.

The businesses of the Specialty Ingredients segment generate sales primarily from the sale of products, but are exposed to different economic factors:

1) The Consumer Health business includes nutrition and dietary supplement ingredients and delivery systems, hygiene and preservation products, and personal-care offerings. The revenues from these types of products are not cyclical in nature.
2) The Consumer & Resources Protection business provides specialty solutions for the protection, enhanced performance and modification of the end-¬use characteristics of various materials, including carbon fibers, fabrics, leather, metals, plastics, stone and wood as well as products and custom agricultural manufacturing services designed to improve crop yields and food quality. The revenues from these products are exposed to the cyclicality of the customer's markets.
3) The Water Care business supplies sanitizers and other treatment chemicals for pools, spas and water parks. Furthermore, Water Care generates revenue in the treatment of surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications. The revenues from most of these products are seasonal in nature and are dependent on weather conditions.

The table below shows the segment information provided to the Group's Executive Committee and also illustrates the disaggregation of recognized revenues for the interim periods 2018 and 2017:

million CHF	2018	2017 (Restated)[1]
Pharma & Biotech	**1,563**	**1,038**
Consumer Health	536	288
Consumer & Resources Protection	678	669
Water Care	283	294
Specialty Ingredients	**1,497**	**1,251**
Other Revenues	19	21
Total Group	**3,079**	**2,310**

1 Restated to reflect adoption of IFRS 15 (see note 2)

7 Financial Instruments

Carrying amounts and fair values of financial instruments by category million CHF	Carrying amount 30 06 2018	Fair value 30 06 2018	Carrying amount 31 12 2017	Fair value 31 12 2017
Financial assets – not measured at fair value				
Trade receivables, net	953	953	825	825
Other receivables	69	69	67	67
Non-current loans	16	16	5	5
Cash and cash equivalents	488	488	479	479
Total financial assets – not measured at fair value	**1,526**	**1,526**	**1,376**	**1,376**
Financial assets – measured at fair value through profit and loss				
Other investments	12	12	16	16
Currency-related instruments - held for trading	4	4	5	5
Interest-related instruments - held for trading	0	0	3	3
Commodity-related hedging instruments effective for hedge accounting purposes	3	3	4	4
Contingent consideration	32	32	40	40
Total financial assets – measured at fair value through profit and loss	**51**	**51**	**68**	**68**
Financial liabilities - not measured at fair value				
Debt				
Straight bonds[1]	1,553	1,578	1,553	1,590
Other debt	2,666	2,666	2,693	2,693
Current liabilities	524	524	595	595
Trade payables	398	398	400	400
Total financial liabilities – not measured at fair value	**5,141**	**5,166**	**5,241**	**5,278**
Financial liabilities - measured at fair value through profit and loss				
Currency-related instruments – held for trading	10	10	7	7
Interest-related instruments – held for trading	17	17	13	13
Total financial liabilities – measured at fair value through profit and loss	**27**	**27**	**20**	**20**

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

Financial Instruments Carried at Fair Value

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

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

million CHF				30 06 2018				31 12 2017
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Investments	0	0	12	12	0	0	16	16
Derivative financial instruments	0	7	0	7	0	12	0	12
Contingent consideration	0	0	32	32	0	0	40	40
Liabilities								
Derivative financial instruments	0	(27)	0	(27)	0	(20)	0	(20)
Net assets and liabilities measured at fair value	**0**	**(20)**	**44**	**24**	**0**	**(8)**	**56**	**48**

In 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements.

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

Contingent consideration arrangements related to sale of business million CHF	2018
At 1 January 2018	**40**
Payments	(8)
Currency translation effects	0
At 30 June 2018	**32**

Effective 3 January 2017, the transaction closed to sell the Peptides business and operations of Lonza in Braine-l'Alleud, Belgium to PolyPeptide Laboratories Holding. The agreement to sell the Peptides business includes contingent consideration arrangement under which Lonza will receive a defined percentage of the net sales of the disposed business for the financial years 2017 – 2021 (estimated to be CHF 32 million at half-year 2018 exchange rates). Lonza's estimate of the net present value of these future payments is reflected as a receivable in the consolidated balances sheet as of 30 June 2018.

8 Events After the Balance Sheet Date

On 24 July 2018, the Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2018 for issue.

Supplementary Financial Information

1 Results at Constant Exchange Rates (CER)

The tables below compare the 2018 financial results based on constant exchange rates (i.e. 2017 exchange rates) with the actual 2017 financial results.

Lonza Group

Lonza Group million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	3,061	32.5	2,310	7.6	2,845
CORE EBITDA	793	39.1	570	9.7	723
CORE EBITDA margin in%	25.9		24.7		25.4
CORE result from operating activities (EBIT)	618	40.5	440	11.0	557
CORE EBIT margin in%	20.2		19.0		19.6

Pharma & Biotech Segment

Pharma & Biotech million CHF	2018	Change in %	2017 (Restated)[3]	Change in %	2017 (Pro-Forma)[2]
Sales	1,548	49.1	1,038	13.6	1,363
CORE EBITDA	510	57.9	323	23.2	414
CORE EBITDA margin in%	32.9		31.1		30.4
CORE result from operating activities (EBIT)	418	59.5	262	27.4	328
CORE EBIT margin in%	27.0		25.2		24.1

1 Restated to reflect adoption of IFRS 15 (see note 2)
2 Reported Lonza Half-Year 2017 financial results (restated for IFRS 15) include Capsugel Half-Year 2017 financial results.
3 Restated to reflect the transfer of a business from Pharma & Biotech to Specialty Ingredients (Sales CHF -13 million, unfavorable impacts on CORE EBIT CHF 4 million and CORE EBITDA CHF 5 million) and to reflect the impact from the adoption of IFRS 15 (unfavorable impacts on sales CHF 13 million, CORE EBIT CHF 7 million and CORE EBITDA CHF 7 million).

Specialty Ingredients Segment

Specialty Ingredients million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	1,494	19.4	1,251	2.3	1,461
CORE EBITDA	312	17.3	266	(4.9)	328
CORE EBITDA margin in%	20.9		21.3		22.5
CORE result from operating activities (EBIT)	250	15.2	217	(6.7)	268
CORE EBIT margin in%	16.7		17.3		18.3

Consumer Health million CHF	2018	Change in %	2017 (Restated)[1]	Change in %	2017 (Pro-Forma)[2]
Sales	536	86.1	288	7.6	498
CORE EBITDA	152	149.2	61	23.6	123
CORE EBITDA margin in%	28.4		21.2		24.7

Consumer & Resources Protection million CHF	2018	Change in %	2017
Sales	674	0.7	669
CORE EBITDA	130	(19.3)	161
CORE EBITDA margin in%	19.3		24.1

Water Care million CHF	2018	Change in %	2017
Sales	284	(3.4)	294
CORE EBITDA	30	(31.8)	44
CORE EBITDA margin in%	10.6		15.0

1 Restated to reflect the transfer of a business from Pharma & Biotech to Specialty Ingredients (Sales CHF +13 million, favorable impacts on CORE EBIT CHF 4 million and CORE EBITDA CHF 5 million).
2 Reported Lonza Half-Year 2017 financial results including Capsugel Half-Year 2017 financial results.

2 CORE Results

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of the company because the CORE results enable better comparison across years.

CORE results exclude exceptional expenses and income related to e.g. restructuring, environmental-remediation, acquisitions and divestitures, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

Reconciliation of IFRS Results to CORE Half-Year Results 2018

million CHF	IFRS results	Amortization of intangible assets from acquisitions	Restructuring costs / income	Income / expense resulting from acquisition[2]	Environmental-related expenses	Other	CORE result[1]
Result from operating activities (EBIT)	**519**	**84**	**4**	**12**	**7**	**0**	**626**
Net financing costs	(22)	0	0	0	0	0	(22)
Share of loss of associates / joint ventures	(1)	0	0	0	0	1	0
Profit before income taxes	**496**	**84**	**4**	**12**	**7**	**1**	**604**
Income taxes[3]	(91)	(15)	(1)	(2)	(2)	0	(111)
Profit for the period	**405**	**69**	**3**	**10**	**5**	**1**	**493**
Non-controlling interest	2	0	0	0	0	0	2
Profit for the period, attributable to the equity holders of the parent	**403**	**69**	**3**	**10**	**5**	**1**	**491**
Number of Shares Basic	74,426,703						74,426,703
Number of Shares Diluted	74,831,559						74,831,559
Basic earnings per share – EPS basic (CHF)	**5.41**						**6.60**
Diluted earnings per share – EPS diluted (CHF)	**5.39**						**6.56**

1 In the CORE results for the items "EBITDA," "Result from operating activities (EBIT)," "Profit for the period" and "Earnings per share," the impacts of exceptional expenses and income related to e.g. restructuring, environmental-remediation, acquisitions and divestitures, impairments and amortization of acquisition-related intangible assets are eliminated.
2 Income / expense resulting from acquisition
– Capsugel: CHF 11 million for integration-related costs
– Others: CHF 1 million for integration-related costs
3 Tax impact calculated based on the estimated average Group tax rate of: 18.3%

Reconciliation of IFRS Results to CORE Half-Year Results 2017

million CHF	IFRS results[1]	Amortization of intangible assets from acquisitions	Impairments	Reversal of impairments	Restructuring costs / income	Income / expense resulting from acquisition and divestitures[4]	Environmental-related expenses	Other	CORE result[2]
Result from operating activities (EBIT)	**366**	**21**	**6**	**(1)**	**2**	**44**	**2**	**0**	**440**
Net financing costs	(83)	0	0	0	0	20	0	0	(63)
Share of loss of associates / joint ventures	(1)	0	0	0	0	0	0	1	0
Profit before income taxes	**282**	**21**	**6**	**(1)**	**2**	**64**	**2**	**1**	**377**
Income taxes[3]	(55)	(4)	(1)	0	0	(13)	0	0	(73)
Profit for the period	**227**	**17**	**5**	**(1)**	**2**	**51**	**2**	**1**	**304**
Non-controlling interest	0	0	0	0	0	0	0	0	0
Profit for the period, attributable to the equity holders of the parent	**227**	**17**	**5**	**(1)**	**2**	**51**	**2**	**1**	**304**
Number of Shares Basic	61,361,327								61,361,327
Number of Shares Diluted	61,704,613								61,704,613
Basic earnings per share – EPS basic (CHF)	**3.70**								**4.95**
Diluted earnings per share – EPS diluted (CHF)	**3.68**								**4.93**

1 Restated to reflect adoption of IFRS 15 (see note 2)
2 In the CORE results for the items "EBITDA," "Result from operating activities (EBIT)," "Profit for the period" and "Earnings per share," the impacts of exceptional expenses and income related to e.g. restructuring, environmental-remediation, acquisitions and divestitures, impairments and amortization of acquisition-related intangible assets are eliminated.
3 Tax impact calculated based on average Group tax rate of: 19.5%
4 Income / expense resulting from acquisition and divestitures
Result from operating activities (EBIT):
– Capsugel: CHF 16 million for acquisition and integration-related costs
– Peptides business: accumulated exchange rate translation reserve losses of CHF 28 million recognized in connection with the sale of the Peptides business
Net financing costs:
– Capsugel: Option premium paid of CHF 19 million for derivative financial instrument to manage foreign currency exposure
– Others: CHF 1 million

Reconciliation of EBITDA to CORE EBITDA

million CHF	2018	2017 (restated)[1]
Earnings before interests, taxes and depreciation (EBITDA)	779	522
Restructuring costs / income	4	2
Income / expense resulting from acquisition and divestitures	12	44
Environmental-related expenses	7	2
CORE EBITDA	**802**	**570**

1 Restated to reflect adoption of IFRS 15 (see note 2)

3 Operational Free Cash Flow

In 2018 and 2017, the development of operational free cash flow by component was as follows:

Components of Operational Free Cash Flow million CHF	2018	Change	2017 (restated)[1]
Earnings before interests, taxes and depreciation (EBITDA)	**779**	**257**	**522**
Change of operating net working capital	(285)	(228)	(57)
Capital expenditures in tangible and intangible assets	(179)	(16)	(163)
Disposal of tangible and intangible assets	1	(1)	2
Change of other assets and liabilities	35	4	31
Operational free cash flow (before acquisitions)	**351**	**16**	**335**
Acquisition of subsidiaries	0	33	(33)
Operational free cash flow	**351**	**49**	**302**

1 Restated to reflect adoption of IFRS 15 (see note 2)

4 Return on Invested Capital

The return on invested capital (ROIC) is defined as net operating profit after taxes (NOPAT) divided by the average invested capital of Lonza Group.

The acquisition of Capsugel had a significant impact on Lonza's consolidated financial statements. Therefore, comparative ROIC information for 2017 is provided below for the full year 2017 only.

In 2018 and 2017, the development of ROIC by component was as follows:

Components of net operating profit after taxes for
– the six months ended 30 June 2018
– the twelve months ended 31 December 2017

million CHF	2018	2017
CORE result from operating activities (CORE EBIT)	**626**	**936**[1]
Amortization of acquisition-related intangibles assets	(84)	(104)
Share of result of associates / joint ventures and interest on operating leases	1	2
Net operating profit before taxes	**543**	**834**
Taxes[2]	(100)	(55)
Net operating profit after taxes (NOPAT)	**443**	**779**
Net operating profit after taxes (NOPAT), annualized[3]	**887**	**850**
Average invested capital	**11,196**	**10,524**
ROIC (in %)	**7.9**	**8.1**

1 Restated to reflect adoption of IFRS 15 (see note 2)
2 Group tax rate of 18.3% for 2018 and 6.6% for 2017 (restated for IFRS 15 adoption and exluding the favorable impacts from the estimated U.S. and Belgian tax reforms).
3 Full-year 2017: Annualized to reflect full year for Capsugel
Half-year 2018: NOPAT for the six months ended 30 June 2018 multiplied by 2 to reflect the full year.

The invested capital represent the average of the monthly balances of the following components:

Components of average invested capital for
– the six months of HY 2018 ended 30 June 2018
– the twelve months of FY 2017 ended 31 December 2017

million CHF	2018	2017
CORE net operating assets	3,973	3,688
Goodwill	4,148	3,943
Acquisition-related intangible assets	3,587	3,659
Other assets[1]	346	299
Net current and deferred tax liabilities	(858)	(1,065)
Average invested capital	**11,196**	**10,524**

1 Investments in associates / joint ventures, operating cash, present value of operating leases

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "outlook," "guidance," "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty.

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

In particular, the assumptions underlying Outlook 2018 and Mid-Term Guidance 2022 herein may not prove to be correct. The statements in Outlook 2018 and Mid-Term Guidance 2022 constitute forward-looking statements and are not guarantees of future financial performance. Lonza's actual results of operations could deviate materially from those set forth in Outlook 2018 and Mid-Term Guidance 2022 as a result of the factors described above or other factors. Investors should not place undue reliance on the statements in Outlook 2018 and Mid-Term Guidance 2022. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this report was made.

The Half-Year Report 2018 is also available in German. The English version prevails.

Q3 2018 Business Update
25 October 2018

Full-Year Report 2018
30 January 2019

Annual General Meeting
for the 2018 Financial Year
18 April 2019
Congress Center Basel, Switzerland

Q1 2019 Business Update
18 April 2019

Half-Year Report 2019
24 July 2019

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