Annual Report 2011

Activities

—

Financial Report
Remuneration Report
Corporate Governance

Lonza Key Facts and Figures

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

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

Full-year Results in a Snapshot

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

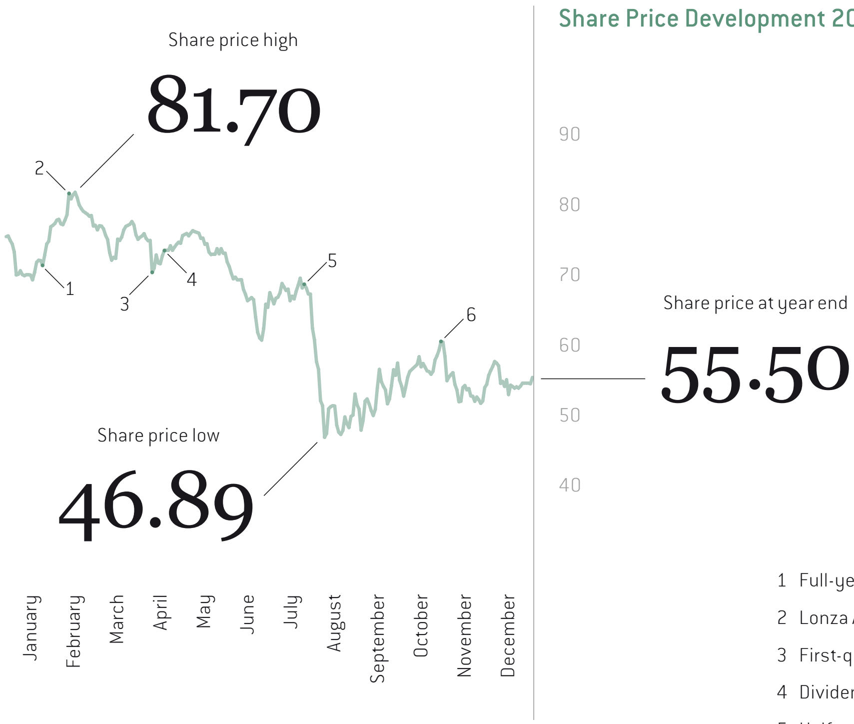
- Before acquisition: revenues at CHF 2 505 million (2010: 2 680 million), up by 5.6 % in constant exchange rates. EBIT of CHF 292 million (2010: CHF 374 million), up 0.5 % in constant currencies
- CHF 84 million negative exchange rate impact on EBIT
- Solid EBITDA margins before acquisition of 22.3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

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

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

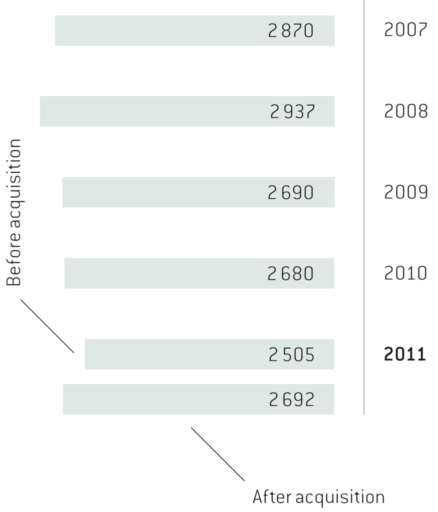
[1] In the core results for the items: result from operating activities (EBIT), profit for the period and earnings per share, the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income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

Share Price Development 2011

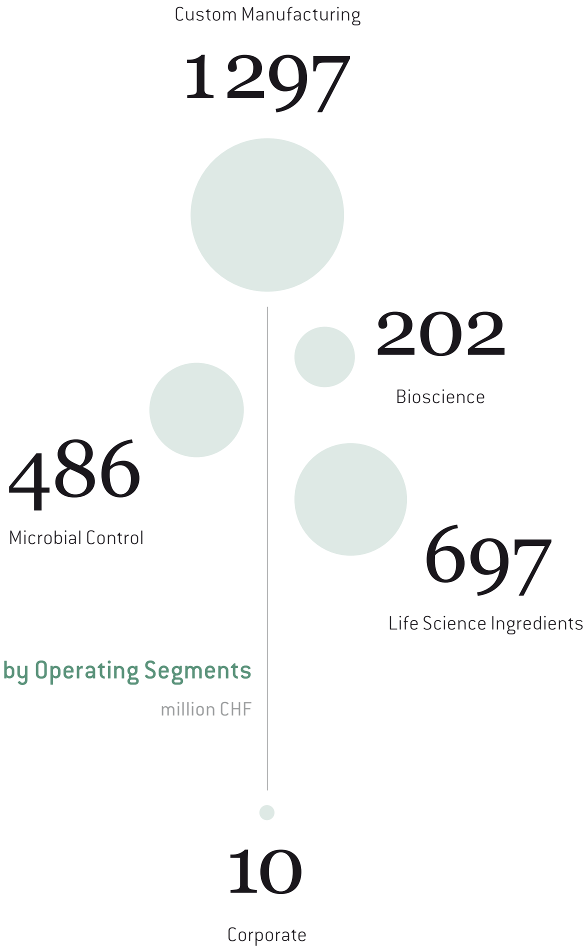


1 Full-year 2010 results
2 Lonza Annual General Meeting (AGM)
3 First-quarter business update
4 Dividend payment
5 Half-year 2011 results
6 Third-quarter business update

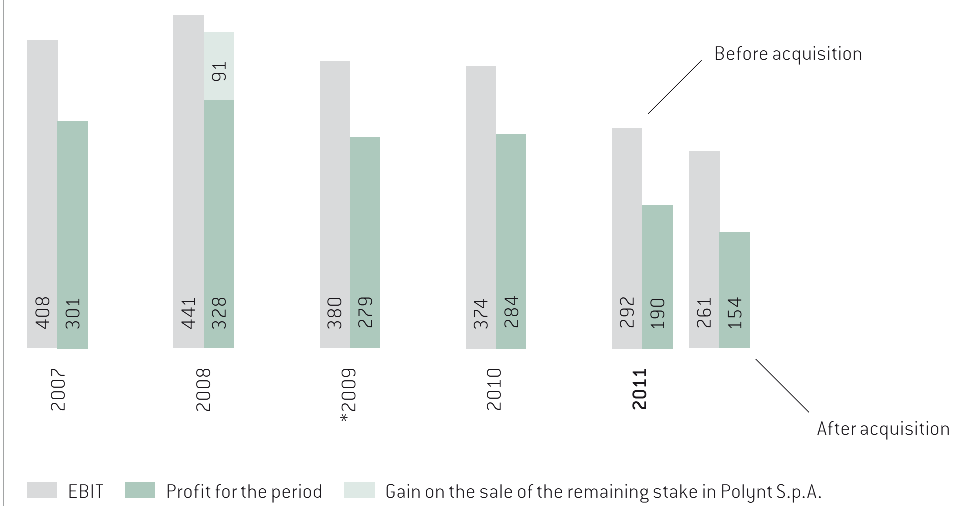
Sales Progression
million CHF



Sales by Operating Segments
million CHF



EBIT and Profit for the Period
million CHF



* Before special charges

Lonza

Annual Report 2011

Lonza is a leading supplier to the pharmaceutical, healthcare and life-science industry. Since 2011, Lonza has been market leader in the area of Microbial Control. Our products and services span customers' needs from research to final product manufacturing. Lonza is headquartered in Basel, Switzerland, and is listed on the SIX Swiss Exchange. Since October 2011, we have had a secondary listing on the SGX Singapore Exchange.

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

Lonza Quality Assurance Photo Reportage

Quality is a term – unlike safety, for example – which is not always clear and well-defined, but often open to different interpretations, in particular in the production of chemicals, drugs and biotechnology products. If you find a fault or a fracture in a porcelain object, the quality aspect is plain for all to see. In drug manufacturing, things are different. The quality of such products is not immediately evident. Quality deficiencies only become evident through use, in other words in the efficacy achieved. This is a field in which the quality aspect is especially critical. It is not surprising, therefore, that more and more quality criteria have been added for certain drug products over the last few decades.

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

Lonza Annual Report 2011

Activities

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

Dear Shareholders

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

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

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

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

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

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

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

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

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

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

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

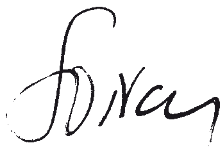
As I have already mentioned, Focus and Delivery is the motto guiding our management teams across the world. Of course, the Board also has to play its part. A pointer in this direction is given by the two candidatures for seats on the Board, which you will find on the agenda for the Annual General Meeting.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

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

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

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

With best regards



Rolf Soiron
Chairman of the Board of Directors

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

Lonza Highlights

Secondary Listing in Singapore

In October, Lonza's shares made their trading debut on the Singapore stock exchange. Lonza is the first SIX-listed company to have a secondary listing, by way of an introduction, on the Singapore Exchange (SGX-ST). The listing will help enhance our profile in the region and offers options for accessing capital.

Operational Highlights

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

—

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

—

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

—

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

—

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

—

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

—

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

—

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

—

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

Arch Acquisition

With the completion of the Arch acquisition in October, Lonza became the global leader in microbial control, providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms.
The Arch business has been combined with Lonza's existing Microbial Control business to create the new Lonza Microbial Control sector.

Awards

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

—

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

—

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

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

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

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

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

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

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

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

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

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

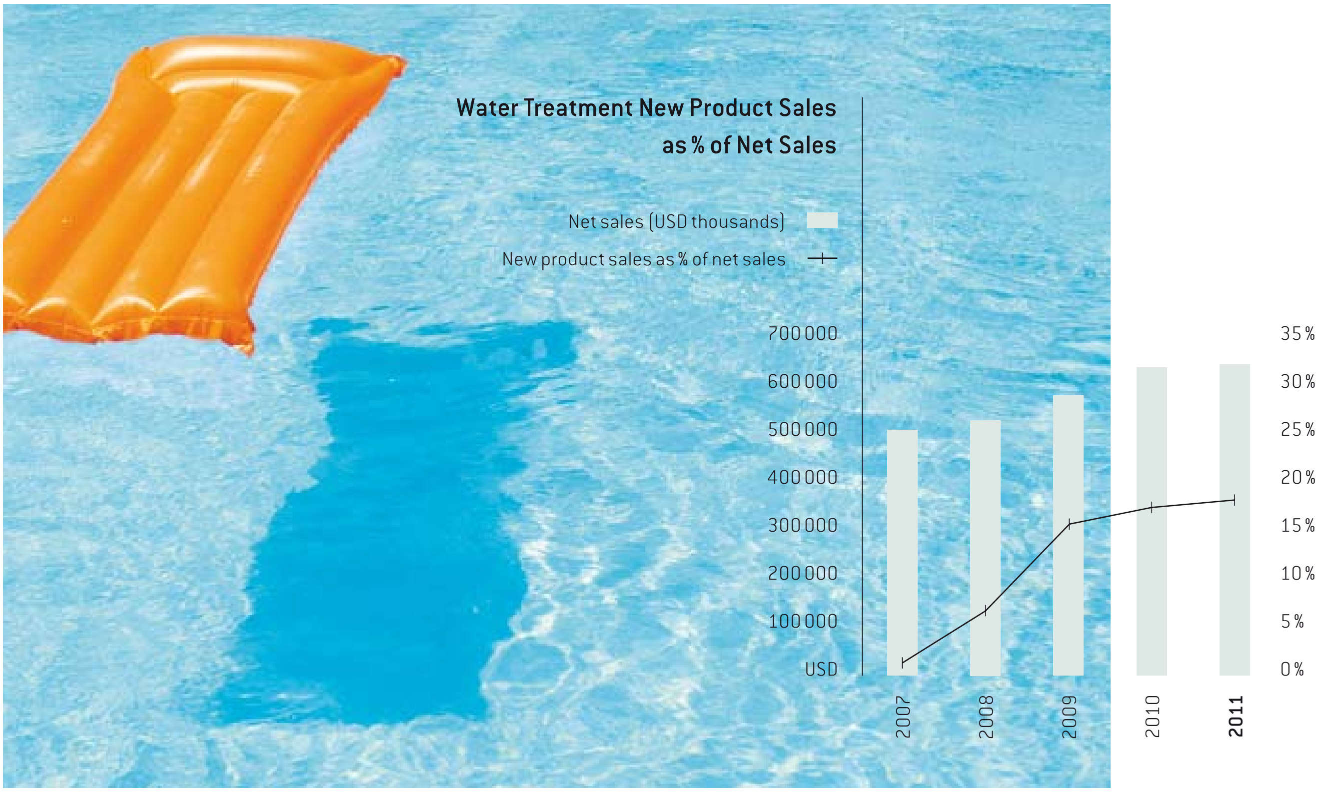
Water Treatment
In an interesting synergy, even before the Arch acquisition, Lonza provided halogenated hydantoins to Arch as ingredients in some pool and spa products. Our Water Treatment business (including the world renowned HTH™ family of pool treatments) is the world's largest supplier of swimming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

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

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

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

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



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

Materials Protection
This business unit is an innovative leader in antimicrobial control technologies for use in paints, coatings and other building products, adhesives and sealants, marine antifouling hull paints and aquaculture nets, polymer emulsions, metalworking fluids, textiles and plastics. As an example, the biocidal actives and formulated products that we supply to the building products market deter the growth of mold and mildew on painted surfaces, wallboard, ceiling tiles and related building materials, helping protect human health and safety.

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

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


7
Lonza Quality Assurance

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

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

Integration: Becoming One Team

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

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

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

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

1. **Showing Up**
   Lonza's top management visits sites and offices to be acquired

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

2. **Setting Priorities**
   Defining clear and consistent targets

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

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

Integration: Becoming One Team

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

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

2000

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

3. **Clear Roles & Responsibilities**
   Early positioning of a dedicated integration team

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

4. **Open, Continuous Communication**
   Sharing information and ideas as soon as possible

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

5. Day-One Activities

Taking the first step together

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

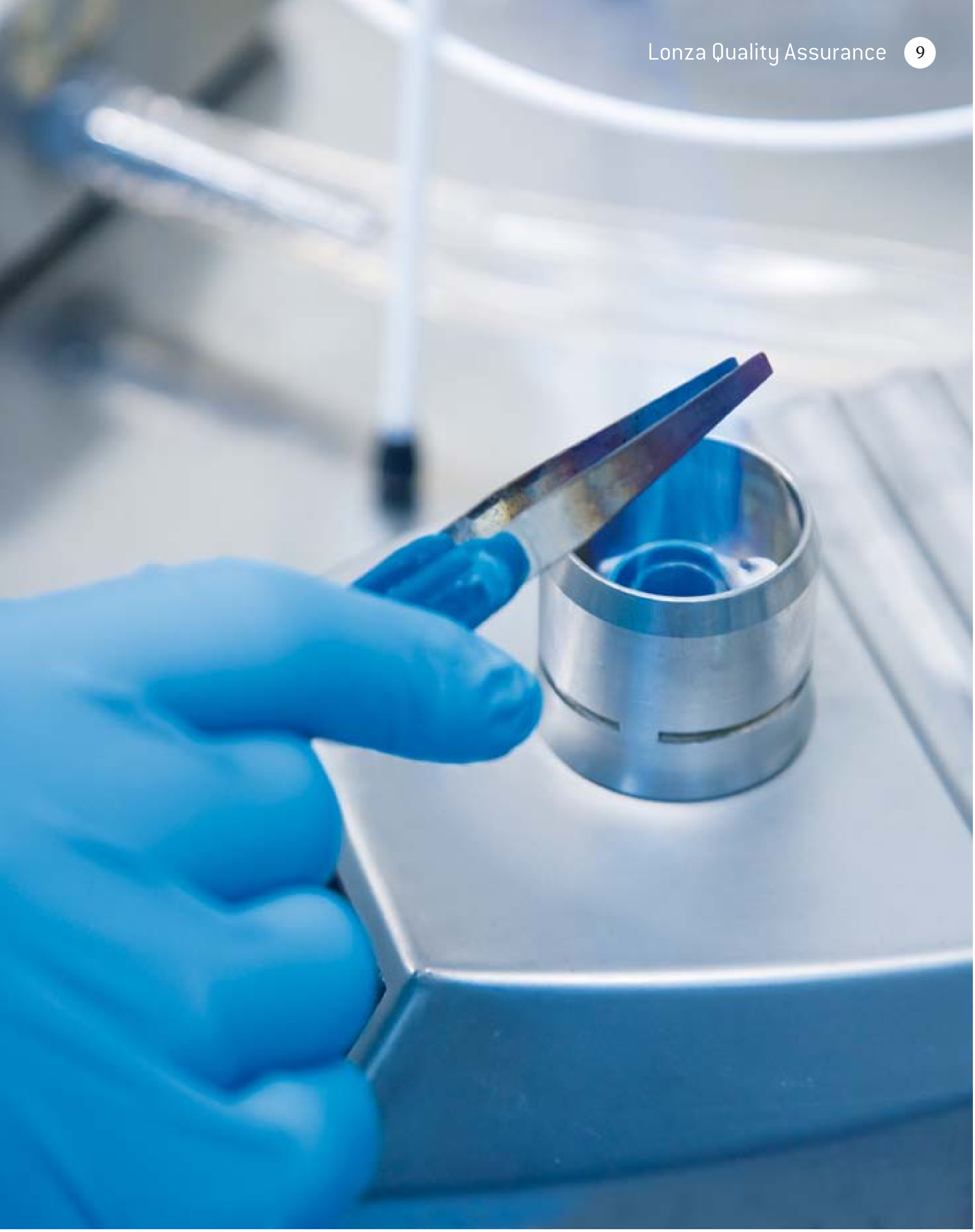
6. Demonstrating Cultural Awareness

Identifying, accepting and managing differences

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

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

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



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

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

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

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

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

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

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

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

12 000

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

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

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

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

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

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

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

Company Profile

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

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

Organized Around Customers

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

Products and Services for Our Customer

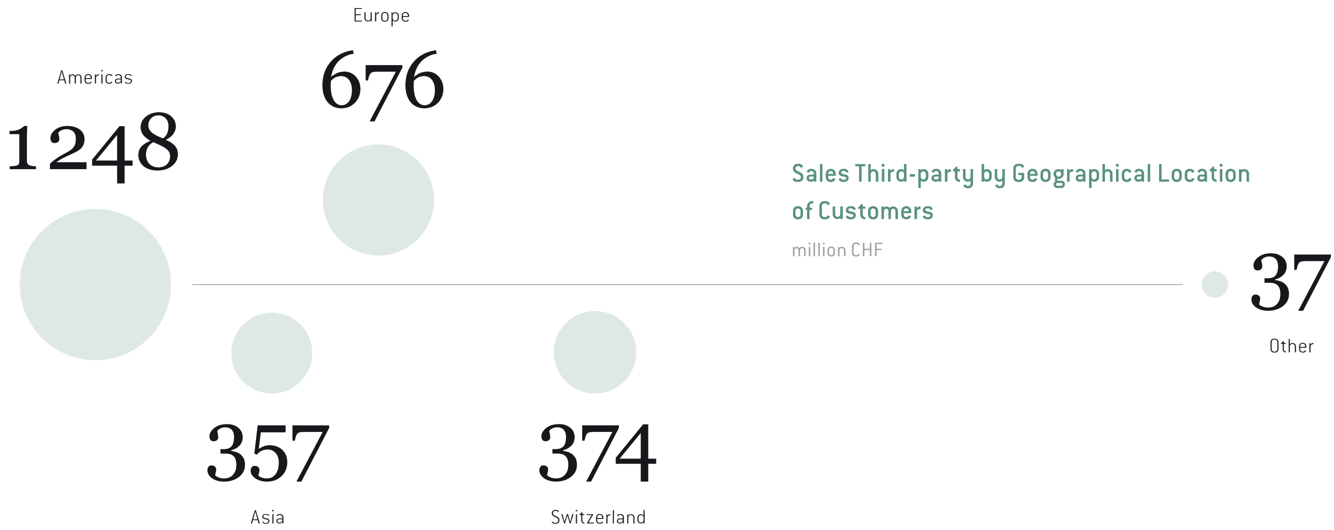
Our strategy is to target the life-science industry with two fundamental technologies: chemistry and biotechnology. Using these two technologies, we offer both products and custom manufacturing services to the pharmaceutical, biotech, and life-science industries.

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

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

Sales Third-party by Geographical Location of Customers

million CHF



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

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

Lonza

Life Science Ingredients	Microbial Control	Custom Manufacturing	Bioscience
Nutrition Ingredients	Hygiene & Preservation	Chemical Manufacturing	Therapeutic Cell Solutions
Performance Intermediates	Water Treatment	Biological Manufacturing	Testing Solutions
	Materials Protection	Development Services	Research Solutions
	Personal Care		
	Wood Treatment		

Seven Markets

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

Pharma&Biotech

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

MicrobialControl

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

Agriculture

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

BioResearch

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

Nutrition

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

MaterialsScience

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

PersonalCare

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

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

Lonza Helps Biopharma Customers Bring Their Products to Market Faster

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

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

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

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

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

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

Lonza Helps Biopharma Customers Bring Their Products to Market Faster

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

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

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

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

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

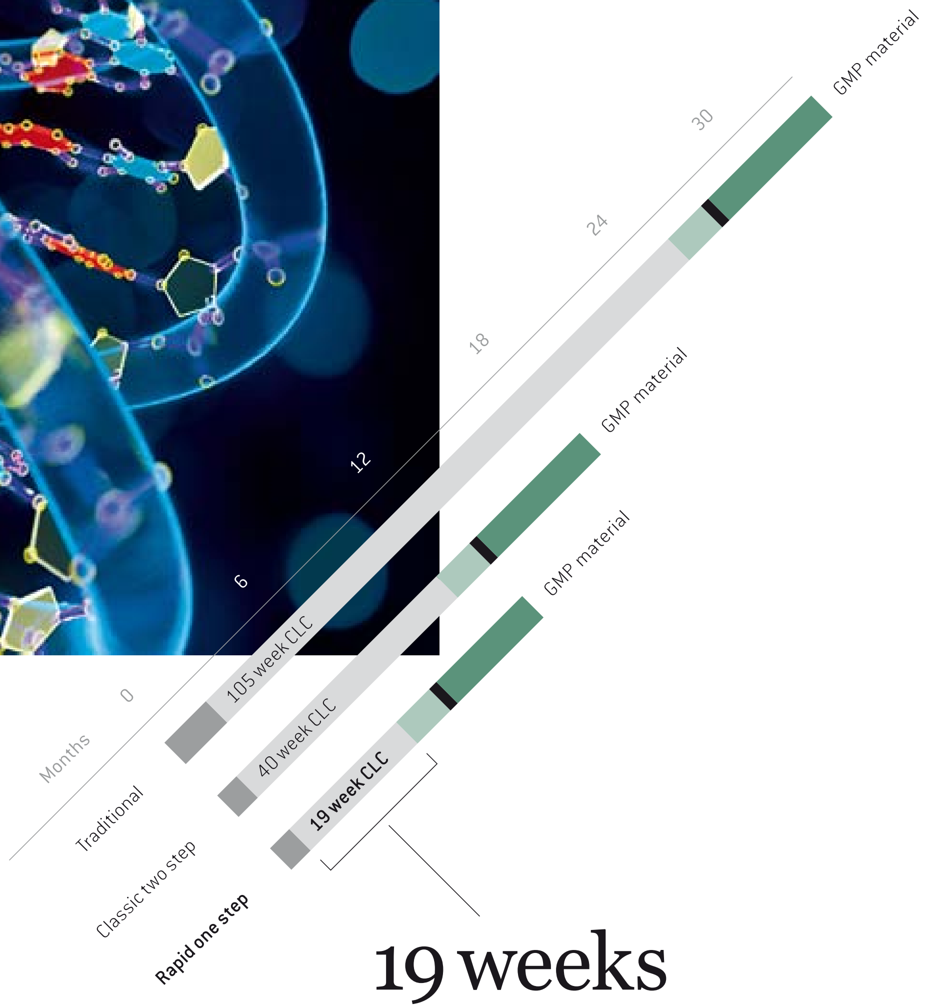
The One-Step Cell Line Construction Program has been further automated through the incorporation of two new dedicated robots. This required a major investment in the R&D cell culture facilities in Slough (UK). For our customers, it means many more cell lines can be progressed and screened during a cell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

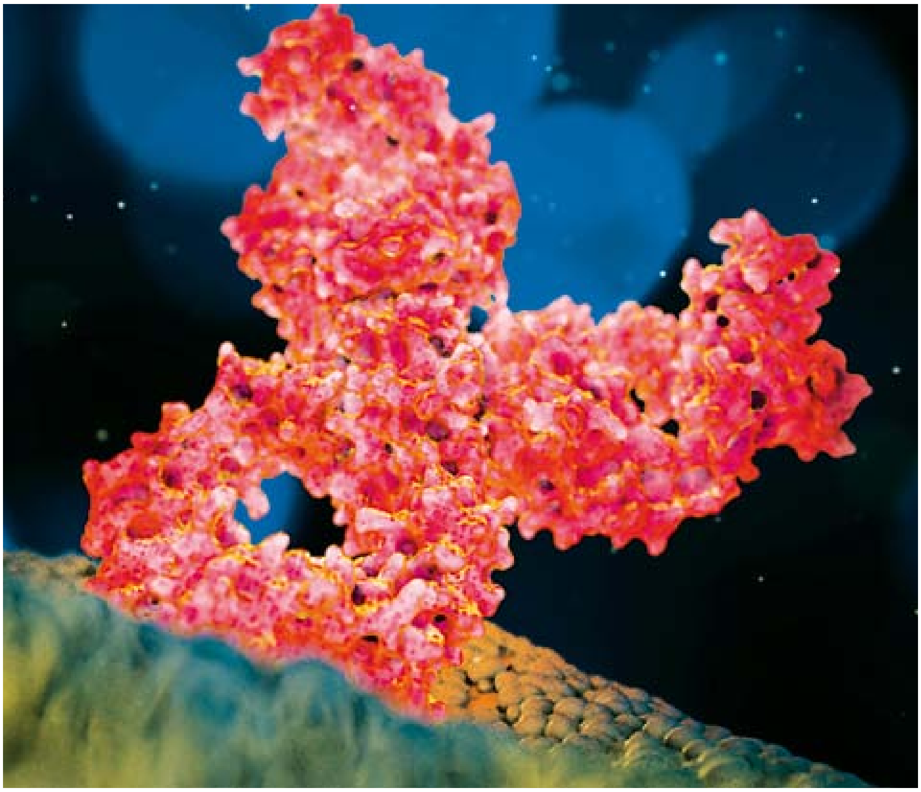
DNA Sequence to Clinical Supply

Effect of shortening cell line construction

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

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





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

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

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

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

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

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

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

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

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

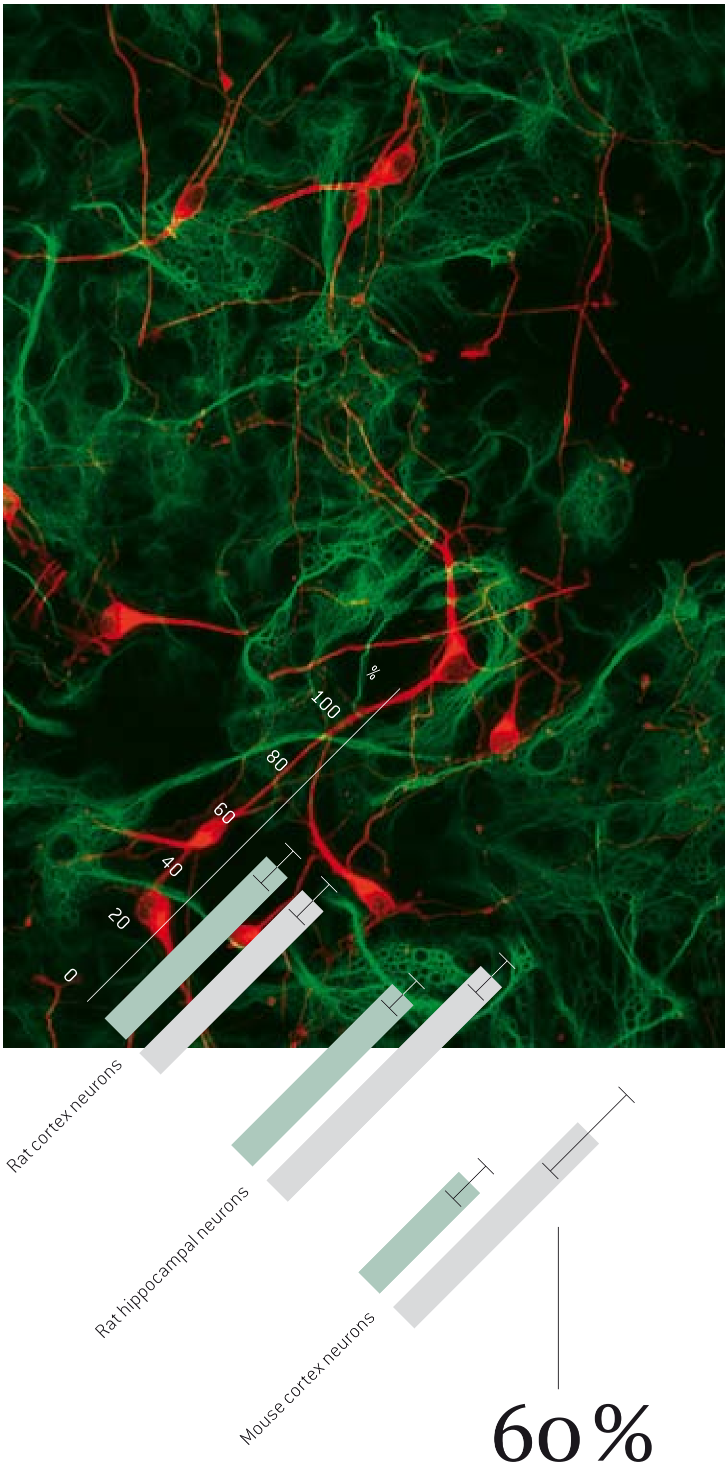
Lonza's Nucleofector™ Technology has been well recognized by the market for years as a technique for specifically addressing cell types that are hard to transfect using other methods, such as primary cells derived from human tissues. Among the unique advantages of Nucleofection™ is its success in delivering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

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

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

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

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



60%

Efficiency

Highly Efficient Genetic Modification in Neurons

Picture: Rat hypothalamus neurons

Transfection efficiency

Viability

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

A Regenerative Medicine Partnership

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

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

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

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

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

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

—

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

David Smith: I would add that the biggest trend we see is toward the industrialization of cell therapies. Over the years, most patients have been treated with cell therapies at university hospitals. At the same time, Lonza has industrialized the manufacture of mesenchymal stem cells. Using these methods developed by Lonza, Mesoblast can manufacture sufficient quantities of cells to treat these diseases, at a much lower cost than before. In this way, stem cells can become a standard treatment for these larger indications.

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

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Silviu Itescu

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

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

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

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

David Smith: Absolutely. Mesoblast's expertise is much broader in translational medicine. And Lonza is much stronger in cGMP production and navigating the regulatory aspects of manufacturing. One of the things really unique about Mesoblast's approach is how they approach manufacturing in their partnership. I think the market recognizes this unique aspect and rewards it with a fair company value.

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

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

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Silviu Itescu: Mesoblast is a global regenerative medicine company. The major markets for us in the mid term are going to be the USA, Europe, Japan and Asia. And of course we see the emerging markets of China, India, and Southeast Asia as a clear growth opportunity. We see Mesoblast – even though we are a US-centric company – also as an Asia-Pacific story. From Australia we are in a very interesting position to take strategic advantage of the strength of the USA and the emerging strength of Asia. Our base in Singapore simplifies our ability to target US, European and Asian markets. This location was a major driver for us in entering this alliance. I have to take my hat off to Lonza for having seen the importance of establishing a major manufacturing hub in Singapore several years ago.

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

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

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

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

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

David Smith

—

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

—

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

Life Science Ingredients

(Excluding Microbial Control 2010 and 2011)

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

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

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

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

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

– **Nicotinates** (vitamin B3) Based on strong overall market demand, feed and food volume sales were buoyant; however, pharma-grade volumes were slightly weaker. Overall, vitamin B3 prices were maintained at the target level, though this was lower than last year. Increasing raw material prices and a strong currency effect had a negative influence on margins.

– **Carniking™** feed-grade L-carnitine 2011 sales of the Carniking™ product portfolio to the animal feed industry continued to be strong in terms of volume. The first deliveries of Carniking™ products from our new production facility in Nansha (CN) were well received by the customers.

- **Meta™** metaldehyde is a specific active ingredient, acting as a molluscicide, used for slug and snail control in agriculture and the home and garden markets. Sales were behind plan in 2011 because of unfavorable weather conditions in most parts of Europe, leading to a low slug population and reduced sales of metaldehyde in the key markets of the EU. The long-term perspective for the Meta™ metaldehyde business is promising thanks to the positive listing of metaldehyde in Annex 1 (EU registration of active substances) and Lonza's strategic decision to move up the value chain, creating our own formulated product range.

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

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

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

- Underlying demand for **diketene derivatives** was strong all year. Our primary focus for these products continues to be the European markets. Acetic acid prices peaked in the second and third quarters, but have since dropped to normal levels. The strong Swiss franc continued to put pressure on our margins. Asset utilization remained high.

- **HCN derivatives** sales were also strong due to robust demand in Europe and the Far East. Asset utilization remained high, although margins suffered under the strong Swiss franc.

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

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

Microbial Control

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

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

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

The integration of Arch has moved forward following the closure of the deal. The integration team and business leadership team were announced at the close. The teams have confirmed the following targets, announced at the time of the acquisition:
– Sustainable savings of $50 million in cost synergies to be delivered by the end of 2013
– $85 million in one-time integration costs over two years
– Increased sales of $40 million up to December 2014 through cross-selling of the combined portfolio

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

2011 Results

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

As with Lonza overall, the Microbial Control business faced a number of strong headwinds in 2011. Impact from foreign exchange rates and volatility in the raw material markets continued throughout the year. The increase in raw material prices was partially offset by price increases. The business also experienced strong competitive pressure in the EU and Asia, particularly in the water, hygiene and preservation markets. The natural and nuclear disaster in Japan also had an impact.

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

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

Lonza Microbial Control is based on five key business units:

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

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

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

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

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

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

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

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

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

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

Custom Manufacturing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bioscience

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

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

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

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

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

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

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

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

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

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

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

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

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

14

Lonza Quality Assurance

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

Goals

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

Safety[1] per 1 million hours worked	Basis 2000	Status end 2006	**Goal 2010**	Status end 2011	**Goal 2015**
LTIFR[2] Frequency of accidents	9.5	3.1	**2.0**	1.7	**1.0**
LTISR[3] Severity of accidents	1 460	556	**330**	157	**250**

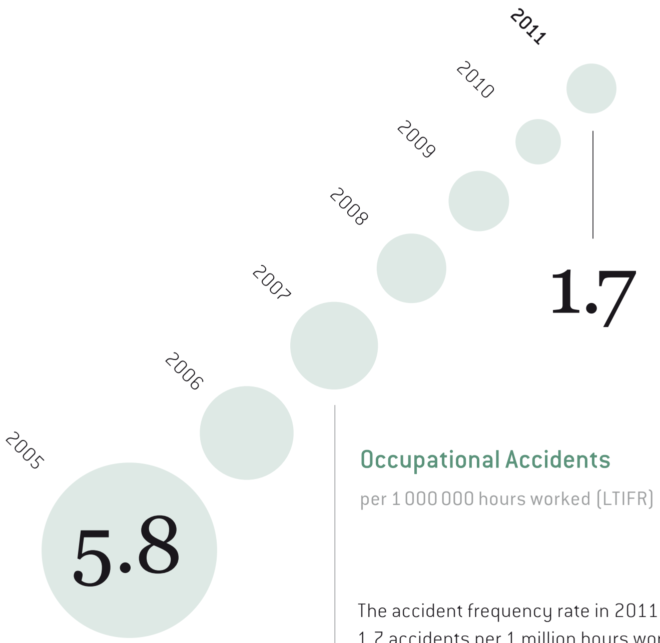
Environment[1]	Basis 2000	Status end 2006	**Goal 2010**	Status end 2011	**Goal 2015**
CO_2 emissions[4] in 1 000 metric tons	930	418	**400**	337	**360**
VOC emissions[5] in metric tons	759	576	**300**	639	**270**
Air impurities[6] in metric tons	1 485	1 180	**900**	1 051	**810**

1 Includes all active non-legacy Arch production and R&D sites as well as headquarters in the referenced years.
2 Lost-time injury frequency rate: number of accidents per 1 million hours worked
3 Lost-time injury severity rate: number of hours lost through accidents per 1 million hours worked
4 Carbon dioxide (fossil- as well as non-fossil-based)
5 Volatile organic compounds
6 Air impurities comprise VOC, nitrogen oxides (NO_x), sulphur dioxide (SO_2) and particulate matter
7 Intensity: Consumption of a resource or emission of a pollutant in relation to the production of one metric ton of finished goods

Indicators

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

Intensities 2011[7]		Change on 2010
Energy intensity	25.3 GJ/t	+ 9.6 %
Industrial water intensity	15.7 m^3/t	+ 10 %
CO_2 intensity	1 073 kg/t	– 2.0 %
Air impurity intensity	3.3 kg/t	+ 20 %
Hazardous waste intensity	225 kg/t	+ 9.1 %



Occupational Accidents

per 1 000 000 hours worked (LTIFR)

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

Environment, Health and Safety

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

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

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

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

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

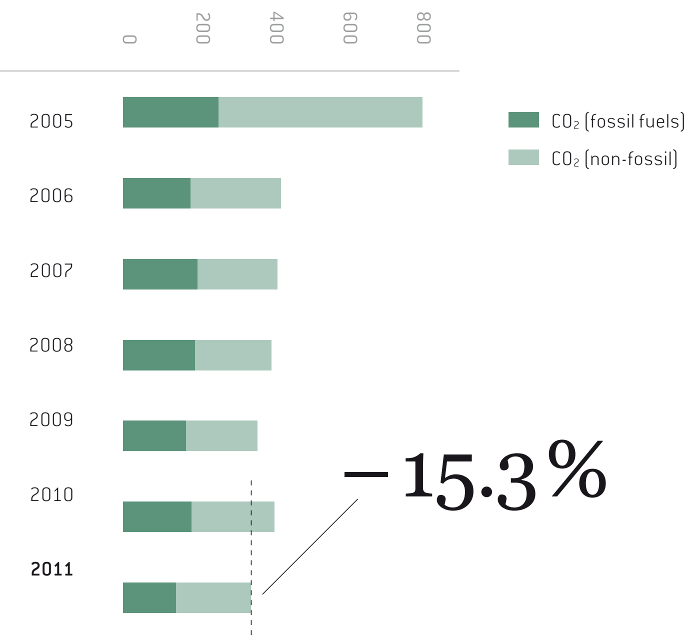
We will continue to pursue our goal of 1.0 by 2015, which we are confident of achieving through the planned group-wide initiatives.

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

CO_2 Emissions

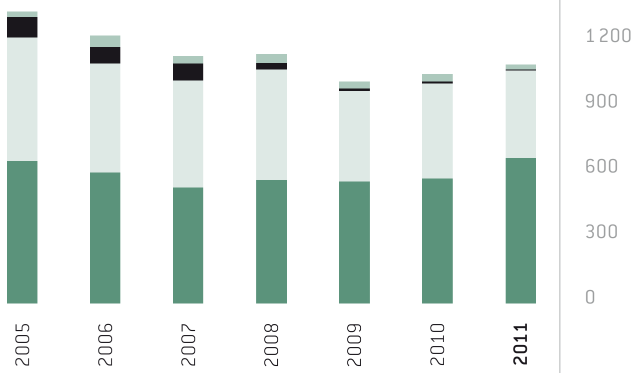
in 1 000 metric tons

Total output of carbon dioxide in 2011 was 337 000 metric tons, 15.3 % down on the previous year (the fossil-based fraction decreased by 22 %). Fossil fuel substitution and energy efficiency measures are the main contributors, in addition to the economic slowdown and the biannual maintenance shutdown in Visp. CO_2 generated by the incineration of fossil fuels was 41 % of total CO_2 emissions in 2011. Carbon dioxide equivalents from other greenhouse gases amounted to 16 % of direct CO_2 emissions and are not reflected in the graph.



Air Impurities

in metric tons

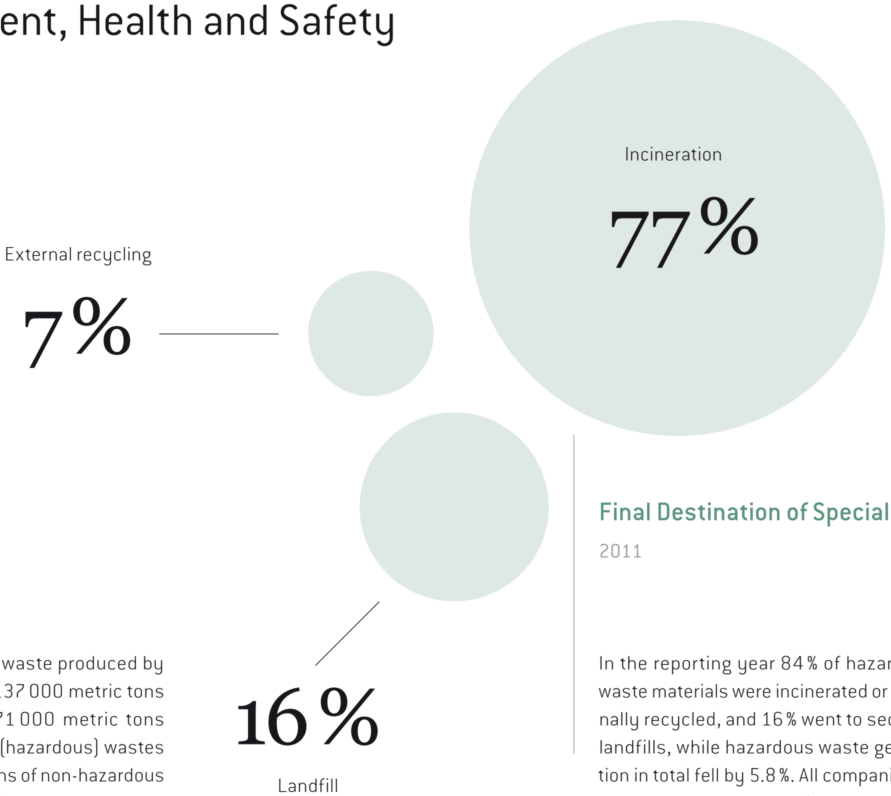


Volatile organic compounds (VOC) and nitrogen oxides (NO_x) were responsible for 98 % of all air impurities, totaling 1 051 metric tons in 2011, up 4 % on the previous year. While NO_x are generated essentially by incineration processes, VOC emissions are the result of solvent use in production and cleaning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

- Particulate matter
- SO_2
- NO_x
- VOC

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

Environment, Health and Safety



Final Destination of Special Waste

2011

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

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

Waste Categories

in 1 000 metric tons

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

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

Tuas, Singapore
2011 Annual Workplace Safety and Health Performance Award
2011 Frost & Sullivan Asia Pacific Green Excellence Award

—

Nanjing (CN)
2011 Excellence in EHS management from Nanjing Chemical Industry Park

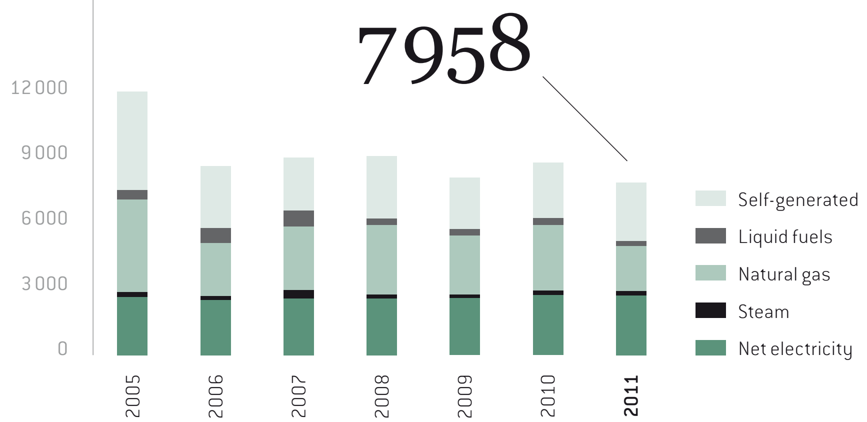
—

Williamsport (US)
2011 Recognition of Safety Performance by the Metal Powder Producers Association

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

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

Energy
in terajoules

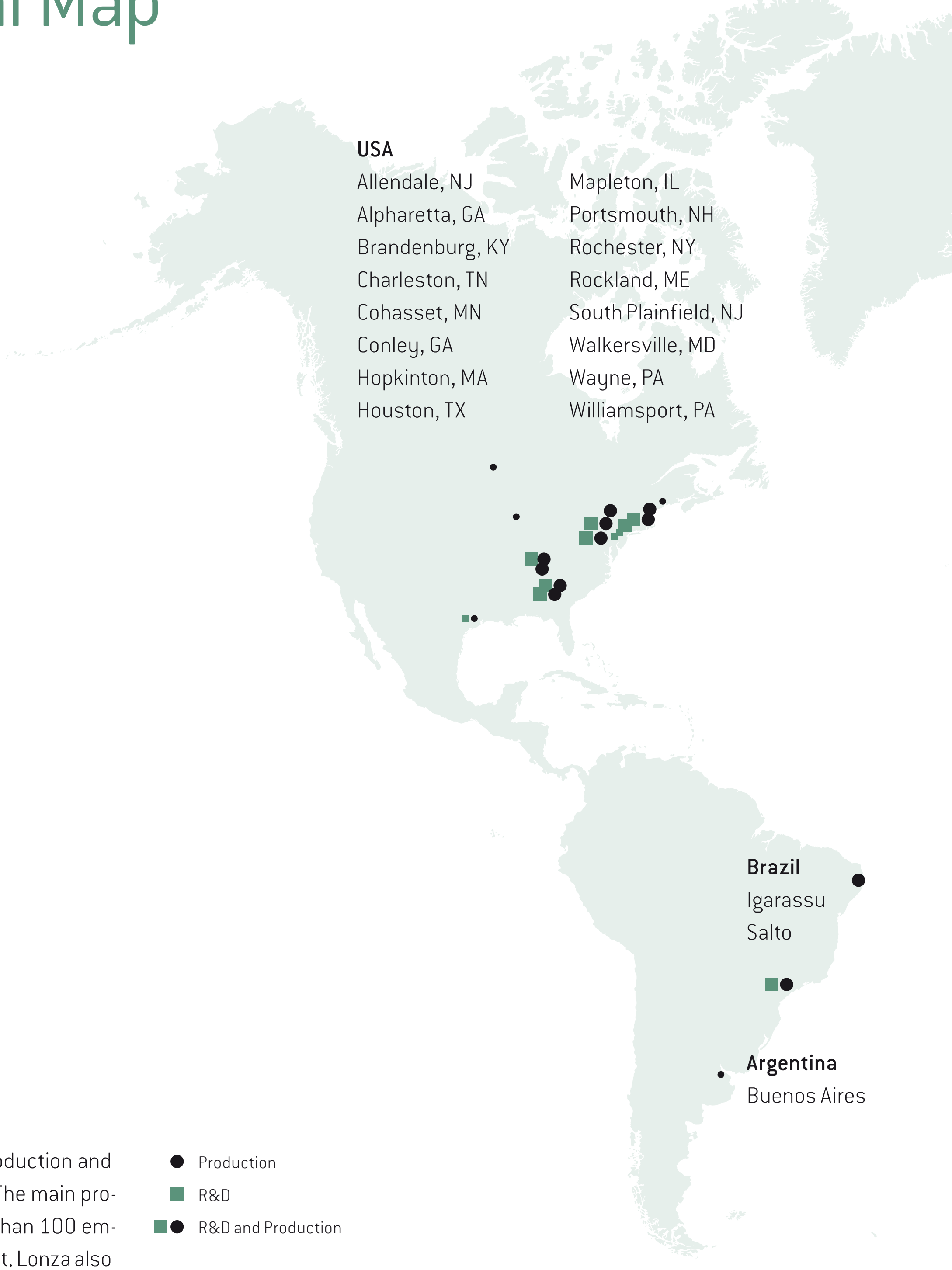


Even minor changes to the equipment are first documented and then reviewed by the quality units before they are approved and implemented.

Lonza Global Map

106

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



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


Belgium
Braine-l'Alleud
Verviers
Czech Republic
Kouřim
France
Amboise
Saint-Beauzire
Germany
Cologne
Ireland
Swords
Spain
Porriño
Switzerland
Basel (HQ)
Visp
United Kingdom
Blackley
Castleford
Huddersfield
Slough
China
Guangzhou
Nanjing
Nansha
Suzhou
Japan
Tokyo
India
Hyderabad
Singapore
Tuas
South Africa
Kempton Park
Port Elizabeth
New Zealand
Auckland
Basel

Lonza's Trademarks

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

Lonza Trademarks

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

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

600

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

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

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

Arch Trademarks

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

Aqua Plan
Aqua Sense
Aqua Silk
Aqua-Prep
Aquachlor
Aquaframe
Aquapool
Aquashade
Aquashadow
Aquatrac
Aqua Enhancers
Arch
Archcoatings
Autofeed
Autofix
Auto-Treater
Awaken
—
β-Gel
Bahia
Balyos
Bacti-Klear
Baq Out
Baqua
Baqua Brite
Baqua Burst
Baqua Check
Baqua Clean
Baqua Floc
Baqua Shock
Baqua Spa
Baqua Start
Baqua-Acid
Baquacare
Baquacheck
Baquacil
Baquaflock
Baquaguard
Baquapil
Baquaplus
Baquashock
Baquastart
Baquatop
Baquazul

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

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

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

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Consolidated Balance Sheet

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

[1] At 31 December

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

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

[1] At 31 December

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

Consolidated Income Statement

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

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

Consolidated Statement of Comprehensive Income

million CHF		2011		2010
Profit for the period		**154**		**284**
Exchange differences on translating foreign operations		(14)		(230)
Cash flow hedges:				
Gains / (losses) arising during the year	(2)		3	
Reclassification adjustments for (gains) / losses included in profit or loss	9	7	5	8
Income tax relating to components of other comprehensive income		0		7
Other comprehensive income for the period, net of tax		**(7)**		**(215)**
Total comprehensive income for the period		**147**		**69**
Total comprehensive income attributable to:				
Equity holders of the parent		148		76
Non-controlling interest		(1)		(7)
Total comprehensive income for the period		**147**		**69**

Consolidated Cash Flow Statement

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

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

(Consolidated Cash Flow Statement continued)

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

Consolidated Statement of Changes in Equity

million CHF	Attributable to equity holders of the parent							Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Trans-lation reserve	Treasury shares	Total		
At 31 December 2009	**53**	**316**	**2 294**	**(16)**	**(254)**	**(68)**	**2 325**	**64**	**2 389**
Profit for the period	0	0	291	0	0	0	291	(7)	284
Other comprehensive income, net of tax	0	0	0	8	(223)	0	(215)	0	(215)
Total comprehensive income for the year	**0**	**0**	**291**	**8**	**(223)**	**0**	**76**	**(7)**	**69**
Dividends	0	0	(92)	0	0	0	(92)	0	(92)
Recognition of share-based payments	0	0	8	0	0	0	8	0	8
Transfer of employee shares	0	(3)	(7)	0	0	10	0	0	0
Acquisition of non-controlling interests	0	0	1	0	(1)	0	0	(57)	(57)
Derecognition of put-option	0	0	59	0	0	0	59	0	59
Acquisition of treasury shares	0	0	0	0	0	(4)	(4)	0	(4)
Sale of treasury shares less taxes	0	(2)	(1)	0	0	18	15	0	15
At 31 December 2010	**53**	**311**	**2 553**	**(8)**	**(478)**	**(44)**	**2 387**	**0**	**2 387**
Profit for the period	0	0	154	0	0	0	154	0	154
Other comprehensive income, net of tax	0	0	0	7	(13)	0	(6)	(1)	(7)
Total comprehensive income for the year	**0**	**0**	**154**	**7**	**(13)**	**0**	**148**	**(1)**	**147**
Dividends	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	0	0	4	0	0	0	4	0	4
Transfer of employee shares	0	(1)	(4)	0	0	5	0	0	0
Acquisition of treasury shares	0	0	0	0	0	(77)	(77)	0	(77)
Sale of treasury shares less taxes	0	0	0	0	0	6	6	0	6
At 31 December 2011	**53**	**310**	**2 596**	**(1)**	**(491)**	**(110)**	**2 357**	**(1)**	**2 356**

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

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

Notes to the Consolidated Financial Statements

1 **Accounting Principles**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Subsequent expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. Borrowing costs incurred with respect to qualifying assets are capitalized and included in the carrying value of the assets. All other expenditure is recognized in the income statement as an expense as incurred. The residual values and the useful life of items of property, plant and equipment are reviewed and adjusted, if appropriate, at each balance sheet date.

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

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

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

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

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

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

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

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

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

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

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

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

A disposal group is a group of assets that are to be disposed of as a group in a single transaction, together with the liabilities directly associated with those assets that will be transferred in the transaction. The assets and liabilities in a disposal group are reclassified as held for sale if their carrying amount will be recovered principally through a sale rather than through continuing use. The disposal group must be available for sale in its present condition and the sale must be highly probable. Immediately before classification as held for sale, the measurement of all assets and liabilities in a disposal group is updated in accordance with applicable accounting policies. Then, on initial classification as held for sale, disposal groups are recognized at the lower of carrying value and fair value less the cost of disposal. Impairment losses on initial classification as held for sale are included in the income statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 **Principal Subsidiaries**[1]

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

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

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

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

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

■ Research & Development
◆ Production
● Sales Office
▲ Service/Financing

[2] Abbreviation of currencies in accordance with ISO standards
[3] Rounded
[4] No par value or not provided by law
[5] No shares issued; capital is registered
[6] Limited partnership

3 Business Combination

3.1 Acquisition of Arch Chemicals Inc.

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

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

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

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

Net assets acquired and goodwill are shown as follows:

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

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

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

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

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

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

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

3.2 Acquisition of MODA Technology Partners

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

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

Net assets acquired and goodwill are shown as follows:

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

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

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

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

3.3 Acquisition of Vivante GMP Solutions Inc.

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

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

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

4 **Acquisition of Non-controlling Interests**

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

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

5 **Restructuring and Impairment**

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

6 Property, Plant and Equipment

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

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

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

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

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

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

Leases
1. Lessee

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

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

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

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

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

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

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

2. Lessor

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

7 Intangible Assets and Goodwill

7.1 Cost and Accumulated Amortization and Impairment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8 Investments in Associates and Joint Ventures

8.1 Associates

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

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

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

8.2 Joint Ventures

TL Biopharmaceutical Ltd

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

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

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

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

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

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

Proteccion de Madera Ltda

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

9 Inventories

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

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

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

The movement of inventory value adjustments is shown as follows:

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

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

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

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

10 Trade Receivables

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

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

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

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

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

11 Other Receivables, Prepaid Expenses and Accrued Income

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

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

12 Cash and Cash Equivalents

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

13 Provisions

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

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

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

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

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

14 Net Debt

The net debt comprises:

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

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

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

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

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

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

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

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

Total debt	**2 901**	**1 400**

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

Net debt	**2 647**	**1 108**

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

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

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

Interest rates are floating rates.

15 Other Short-term Liabilities

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

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

16 Trade Payables

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

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

17 Contingent Liabilities

No contingent liabilities exist for 2011 and 2010.

18 Material and Energy Costs

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

19 Personnel Expenses

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

20 Other Operating Income and Expenses

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

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

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

21 Financial Result

21.1 Interest and Other Financial Income

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

21.2 Interest and Other Financial Expenses

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

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

"Other financial income" includes mainly currency differences.

21.3 Income from Investments, Associates and Joint Ventures

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

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

22 Taxes

22.1 Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

	2011			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	(14)	0	(14)	(230)	7	(223)
Cash flow hedges	7	0	7	8	0	8
Other comprehensive income	**(7)**	**0**	**(7)**	**(222)**	**7**	**(215)**

23 **Research and Development**

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

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

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

24 **Pension Benefits**

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

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

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

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

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

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

Assets of CHF 62 million[1] (2010: CHF 33 million) and liabilities of CHF 138 million (2010: CHF 14 million) are included in the financial statements.

Plan assets consist of the following:

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

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

[1] Included in "Other non-current assets"

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

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

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

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

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

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

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

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

The principal assumptions are as follows:

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

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

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

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

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

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

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

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

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

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

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

25 Share-based Payments

Equity-settled share option scheme

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

The minimum conditions to participate in the ESPP Plus were in:
2006: ranging from 9 shares to 270 shares
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares

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

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

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

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

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

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

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

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

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

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during the three fiscal years of Lonza before the end of the vesting period compared with a peer group. For the share entitlements granted under the LTIP 2008 to 2010, the peer group consisted of MSCI Chemicals, DSM, UCB, Crucell, Genentech / Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, and Thermo Fisher Scientific. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health, and SPI. This change in the peer group was also recommended by the external compensation consultant (Kepler Associates) due to the experience that some companies diversified their business or merged during the relevant vesting period of the LTIP. In such cases the company may no longer be relevant as a peer group. The TSR target is fully reached in the event that Lonza outperforms the peer group on an annualized basis by 9 % (LTIP 2008, 2009, 2010: 5 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

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

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA[1]) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target for share entitlements awarded in 2011 is reached if Lonza increases its EVA within the vesting period from CHF 15.9 million up to CHF 114.4 million (for share entitlements awarded in 2010: from CHF 34.25 million up to CHF 137.0 million). If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA at the level of the beginning of the fixed period. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

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

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

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

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

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

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

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

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

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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date CHF	Probability minimum targets	Volatility employees	Tota 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
LTIP 2011 TSR	74.35	76 038	50 %		2 826 713	100 %	3 %	97 %	2 741 911
LTIP 2011 EVA	74.35	76 039		50 %	2 826 750	100 %	3 %	97 %	2 741 947

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[1] Excluding social security and withholding tax

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

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

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

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

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

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

[1] Excluding social security and withholding tax

26 Changes in Shares and Share Capital Movements

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

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

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

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

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

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

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

27 Earnings per Share

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

28 Related Parties

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

Transactions with Key Management Personnel

Board of Directors In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million[1] (2010: CHF 2.503 million[1]), 63.56 % (2010: 65.96 %) of which was received in the form of shares. The compensation system for Board members allows them to choose either a payment in shares or a combination of cash and shares. Shares granted are rated at the relevant market price at grant date. Free access to these shares is only available in the fourth and later years.

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

Management Committee compensation None of the acting members of the Management Committee gave up his or her function in the year under review, two new members joined the Management Committee. The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million[1] (2010: CHF 5.195 million[1]) in cash and additional benefits and 73 107 shares (2010: 62 923 shares), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million).

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

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

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

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

1 Including incentive payout in March of the following year
2 Including contribution for social security and pension fund

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

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

Income taxes At 31 December 2011, deferred tax assets of CHF 167 million (2010: CHF 103 million), current tax receivables of CHF 41 million (2010: CHF 32 million), deferred tax liabilities of CHF 711 million (2010: CHF 321 million) and current tax payables of CHF 28 million (2010: CHF 38 million) were disclosed in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and / or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

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

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

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

Business combinations Where the Group enters into a business combination, the consideration transferred has to be allocated to the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business, with any residual recorded as goodwill. The process of assessing fair values requires in particular management involvement and judgment in the recognition and measurement of the following items:
– Intellectual property such as patents, licenses, trademarks, customer relations and similar rights
– Contingencies such as legal and environmental matters
– Contingent consideration arrangements
– The recoverability of any accumulated tax losses previously incurred by the acquired company

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

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

Revenue recognition The Group has recognized revenue for sales of goods during 2011 to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experiences with similar transactions, the quality delivered will be accepted. Therefore it is appropriate to recognize revenue on these transactions during 2011. Moreover, the Group has various contract agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to Management's judgments, risks and rewards have been transferred to the customer. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

30 Events after the Balance Sheet Date

On 25 January 2012, the Group announced a change in the Chief Executive Officer position, and that during the transition the Chairman will co-ordinate the Management Committee.The Board of Directors authorized the consolidated financial statements for issue on 24 February 2012.

31 Financial Risk Management

31.1 Overall Risk Management Policy

Lonza is exposed in particular to credit and liquidity risk as well as to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities, and forecasted transactions.

Lonza's overall risk management policy aims to limit these risks through operational and finance activities.

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

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

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

31.2 Credit Risk

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

Accounts Receivables

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

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

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

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

Financial Instruments and Cash Deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's treasury policy. The credit rating of Lonza Group's counterparties must be at least:

– Standard & Poor's: A
– Moody's: A1

Counterparty credit ratings are reviewed regularly.

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

million CHF	2011	2010
Financial assets – available for sale		
Other investments – available for sale – carried at cost	6	6
Short-term financial assets – available for sale – at fair value[1]	26	33
Total financial assets – available for sale	**32**	**39**
Loans and receivables		
Trade receivables, net	695	488
Other receivables and accrued income	69	43
Short-term advances	2	1
Long-term loans and advances	56	43
Cash and cash equivalents	196	248
Total loans and receivables	**1 018**	**823**
Financial assets at fair value through profit or loss – held for trading		
Currency-related instruments	4	22
Total financial assets at fair value through profit or loss – held for trading	**4**	**22**
Total	**1 054**	**884**

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

31.3 **Liquidity Risk**

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

- Committed credit lines of CHF 382 million. Lines are committed for up to two years
- Uncommitted credit lines of CHF 319 million with a maturity of one year

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

31 December 2011 million CHF	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	299	322	11	311	0	0
Straight bond (2010–2016)	398	460	12	12	436	0
Straight bond (2011–2015)	238	262	5	5	252	0
Straight bond (2011–2018)	138	171	4	4	13	150
Syndicated loan (2011–2016)	491	550	10	10	530	0
Arch acquisition bridge financing	897	974	71	490	413	0
Due to banks and financial institutions	141	160	51	24	85	0
Due to others	296	370	19	9	26	316
Leasing	3	3	3	0	0	0
Total debt	**2 901**	**3 272**	**186**	**865**	**1 755**	**466**
Trade payables	294	294	294	0	0	0
Other short-term liabilities	407	407	407	0	0	0
Total financial liabilities	**3 602**	**3 973**	**887**	**865**	**1 755**	**466**

31 December 2010 million CHF	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	298	333	11	11	311	0
Straight bond (2010–2016)	397	472	12	12	36	412
Syndicated loan (2006–2011)	499	515	515	0	0	0
Due to banks	61	63	46	17	0	0
Due to others	139	193	3	3	9	178
Leasing	6	7	4	3	0	0
Total debt	**1 400**	**1 583**	**591**	**46**	**356**	**590**
Trade payables	159	159	159	0	0	0
Other short-term liabilities	307	307	307	0	0	0
Total financial liabilities	**1 866**	**2 049**	**1 057**	**46**	**356**	**590**

31.4 **Market Risk**

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

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

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

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

Currency million CHF	Sensitivity	Post-tax profit				Equity			
		2011		2010		2011		2010	
		+	–	+	–	+	–	+	–
USD	+/–10 %	4.8	(4.8)	7.1	(7.1)	0.3	(0.3)	0.1	(0.1)
EUR	+/–5 %	1.2	(1.2)	0.1	(0.1)	0.1	(0.1)	0.0	0.0
GBP	+/–10 %	(0.2)	0.2	0.5	(0.5)	0.0	0.0	0.0	0.0
JPY	+/–5 %	0.0	0.0	(0.2)	0.2	0.0	0.0	0.0	0.0
BRL	+/–10 %	1.8	(1.8)	0.0	0.0	0.0	0.0	0.0	0.0

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

31 December 2011 million CHF	USD	GBP	EUR	CHF	JPY	BRL	SGD	CZK	Other	Total
Other investments	0	0	0	0	0	0	0	0	0	0
Long-term loans and advances	53	0	0	0	0	0	0	0	2	55
Trade receivables, net	208	28	79	1	0	23	0	0	6	345
Other receivables, prepaid expenses and accrued income	7	11	11	0	0	0	2	0	0	31
Short-term advances	0	0	0	0	0	0	0	0	0	0
Cash and cash equivalents	35	1	24	0	0	7	1	0	5	73
Long-term debt[1]	(22)	0	(2)	0	0	0	0	0	0	(24)
Other long-term liabilities	0	0	0	0	0	(1)	(2)	0	0	(3)
Other short-term liabilities	(92)	(46)	(34)	(11)	0	(4)	(2)	0	0	(189)
Trade payables	(13)	(2)	(25)	0	0	(4)	(9)	0	0	(53)
Short-term debt[1]	(14)	0	0	0	0	0	0	0	0	(14)
Gross balance sheet exposure	**162**	**(8)**	**53**	**(10)**	**0**	**21**	**(10)**	**0**	**13**	**221**
Currency-related instruments	(106)	6	(26)	0	0	0	0	0	0	(126)
Net exposure	**56**	**(2)**	**27**	**(10)**	**0**	**21**	**(10)**	**0**	**13**	**95**

31 December 2010 million CHF	USD	GBP	EUR	CHF	JPY	BRL	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**

[1] The acquisition bridge financing was raised in USD by Lonza Swiss Finance Ltd, which granted a USD loan of the same amount to Lonza America Inc. As a result, there is no foreign currency exposure in the consolidated income statement associated to the acquisition bridge financing.

The following exchange rates were applied during the year:

Balance sheet year-end rates		2011	2010
EU	Euro	1.2163	1.2511
USA	Dollar	0.9416	0.9369
Great Britain	Pound sterling	1.4517	1.4489
Singapore	Singapore dollar	0.7243	0.7309
China	Renminbi	0.1496	0.1421

Income statement year-average rates		2011	2010
EU	Euro	1.2329	1.3824
USA	Dollar	0.8866	1.0427
Great Britain	Pound sterling	1.4213	1.6105
Singapore	Singapore dollar	0.7047	0.7647
China	Renminbi	0.1372	0.1540

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

Lonza's exposure to interest risk was as follows, based on significant carrying amounts outlined in note 14:

Borrowings denominated in: million CHF	Total debt		Debt at fixed interest rates		Interest risk exposure	
	2011	2010	2011	2010	2011	2010
CHF	1 580	1 199	1 564	1 193	16	6
USD	1 296	175	234	0	1 062	175

The table below shows the impact on post-tax profit and equity, if at 31 December interest rates had been 100 basis points higher (+) or lower (–) with all other variables held constant:

Borrowings denominated in: million CHF	Sensitivity	Post-tax profit[1]				Equity			
		2011		2010		2011		2010	
		+	–	+	–	+	–	+	–
CHF	+/–1 %	0.0	0.0	0.0	0.0	0.0	0.0	(12.2)	12.2
USD	+/–1 %	(9.1)	9.1	(1.5)	1.5	0.0	0.0	0.0	0.0

Commodity price risk Lonza needs LPG as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the butane price risk via swaps. At 31 December 2011, if the Butane price had weakened / strengthened by 10 %, with all other variables held constant, there would have been no impact on equity (2010: CHF 0.7 million lower / higher).

31.5 Overview of Derivative Financial Instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2011 and 2010. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by using the difference of the prices fixed in the outstanding derivative contracts from the actual market conditions which would have been applied at the year-end if we had to recover these trades.

Financial instruments at fair value through profit or loss – held for trading million CHF	2011	2010	2011	2010	2011	2010	2011	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	92	15	2	1	(1)	0	1	1
– Currency swaps	581	502	2	20	(15)	(3)	(13)	17
– FX Options	0	45	0	1	0	0	0	1
Total currency-related instruments	**673**	**562**	**4**	**22**	**(16)**	**(3)**	**(12)**	**19**
Interest-related instruments								
– Interest rate swaps	528	0	0	0	(3)	0	(3)	0
– Cross currency interest rate swaps	380	0	0	0	(18)	0	(18)	0
Total interest-related instruments	**908**	**0**	**0**	**0**	**(21)**	**0**	**(21)**	**0**
Total financial instruments at fair value through profit or loss – held for trading	**1 581**	**562**	**4**	**22**	**(37)**	**(3)**	**(33)**	**19**

[1] Impact on post-tax profit from CHF borrowings is not disclosed as it is not material

Financial instruments effective for hedge-accounting purposes million CHF	2011	2010	2011	2010	2011	2010	2011	2010
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– US dollar cash deposit	0	41	0	0	0	(1)	0	(1)
– Forward foreign exchange rate contracts	143	23	0	1	(3)	0	(3)	1
Total currency-related instruments	**143**	**64**	**0**	**1**	**(3)**	**(1)**	**(3)**	**0**
Interest-related instruments								
– Interest rate swaps	0	500	0	0	0	(12)	0	(12)
Total interest-related instruments	**0**	**500**	**0**	**0**	**0**	**(12)**	**0**	**(12)**
Commodity-related instruments								
– Butane swap	10	7	0	1	0	0	0	1
– Naphtha swap	18	7	0	2	0	0	0	2
Total commodity-related instruments	**28**	**14**	**0**	**3**	**0**	**0**	**0**	**3**
Total financial instruments effective for hedge-accounting purposes	**171**	**578**	**0**	**4**	**(3)**	**(13)**	**(3)**	**(9)**

Financial instruments by currency Forward foreign exchange rate contracts and currency swaps million CHF	2011	2010
USD	638	498
GBP	29	17
EUR	111	67
CZK	29	34
JPY	1	2
DKK	6	6
SGD	2	2
Total	**816**	**626**
Commodity swap	28	14
Interest rate swap	528	500
Cross currency interest rate swap	380	0
Total financial instruments	**1 752**	**1 140**

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

The following hedges were included:

– Cash flow hedges on highly probable payments in foreign currency
– Cash flow hedges on highly probable payments for raw materials (butane)
– Fair value hedges on firm commitments for raw materials (naphtha)

31.6 **Financial Instruments Carried at Fair Value**

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

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

	2011				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	4	0	4	0	26	0	26
Short-term financial assets	26	0	0	26	33	0	0	33
Liabilities								
Derivative financial instruments	0	(40)	0	(40)	0	(15)	0	(15)
Net assets and liabilities measured at fair value	**26**	**(36)**	**0**	**(10)**	**33**	**11**	**0**	**44**

In 2011, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

31.7 **Carrying Amounts and Fair Values of Financial Instruments by Category**

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

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

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

Carrying amounts and fair values of financial instruments by category million CHF	31 12 2011 Carrying amount	31 12 2010	31 12 2011 Fair value	31 12 2010
Financial assets – available for sale				
Other investments – available for sale – carried at cost	6	6	6	6
Short-term financial assets – available for sale – at fair value[1]	26	33	26	33
Total financial assets – available for sale	**32**	**39**	**32**	**39**
Loans and receivables				
Trade receivables, net	695	488	695	488
Other receivables and accrued income	69	43	69	43
Short-term advances	2	1	2	1
Long-term loans and advances	56	43	56	43
Cash and cash equivalents	196	248	196	248
Total loans and receivables	**1 018**	**823**	**1 018**	**823**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	4	22	4	22
Total financial assets at fair value through profit or loss – held for trading	**4**	**22**	**4**	**22**
Financial liabilities at amortized cost				
Long-term debt	2 725	850	2 764	880
Other short-term liabilities	391	304	391	304
Trade payables	294	159	294	159
Short-term debt	176	550	176	550
Total financial liabilities at amortized cost	**3 586**	**1 863**	**3 625**	**1 893**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	16	3	16	3
Interest-related instruments	21	0	21	0
Total financial liabilities at fair value through profit or loss – held for trading	**37**	**3**	**37**	**3**

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

31.8 **Capital Management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital and the level of dividends to ordinary shareholders.

At present, employees hold one percent of ordinary shares, or just under three percent, assuming that all outstanding share awards vest.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10 % and 15 %; in 2011, the return was 6.9 % (2010: 11.7 %). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.8 % (2010: 3.2 %).

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

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

32 **Segment Information**

32.1 **General Information**

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

- Custom Manufacturing
- Life Science Ingredients
- Microbial Control
- Bioscience

which are described as follows:

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

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

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

The **Microbial Control** segment formed by the acquisition of Arch Chemicals will provide customers with complete solutions for their microbial control needs. Microbial control deals with hygiene and preservation, water treatment, materials protection, personal care and wood treatment.

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

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

32.2 Information about Reportable Segments

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

Year ended 31 December 2011 million CHF	Custom Manu-facturing	Life Science Ingredients	Microbial Control	Bioscience	Total operating segments	Corporate / Eliminations	Group total
Sales third-party	**1 297**	**697**	**486**	**202**	**2 682**	**10**	**2 692**
Inter-segment sales [1]	52	65	12	11	140	(140)	0
Total sales	**1 349**	**762**	**498**	**213**	**2 822**	**(130)**	**2 692**
Result from operating activities (EBIT)	**228**	**40**	**(8)**	**13**	**273**	**(12)**	**261**
– Percentage return on sales %	17.6	5.7	(1.6)	6.4	10.2	n.a.	9.7
Financial income							18
Financial expenses							(91)
Net financing costs							**(73)**
Share of profit / (loss) of associates / joint ventures							(13)
Profit before income taxes							**175**
Income taxes							(21)
Profit for the period							**154**
Included in result from operating activities (EBIT):							
– Other operating income	15	18	3	2	38	4	42
– Other operating expenses	(9)	(2)	(5)	(2)	(18)	(4)	(22)
– Research and development	118	24	11	15	168	3	171
– Depreciation and amortization	165	65	22	15	267	9	276
Total assets	2 852	1 035	2 692	780	7 359	(339)	7 020
Total liabilities	1 433	878	1 304	519	4 134	530	4 664
Total equity	1 419	157	1 388	261	3 225	(869)	2 356
Net financial (assets) / liabilities	620	739	657	414	2 430	881	3 311
Net capital invested [2]	2 039	896	2 045	675	5 655	12	5 667
Return on net capital invested (RONOA) [3] %	12.2	4.6	1.3	4.3	7.3	n.a.	6.9
Included in total reportable segment assets:							
Total property, plant and equipment	1 448	720	350	153	2 671	30	2 701
– Additions to property, plant and equipment	86	92	21	44	243	5	248
– Additions to property, plant and equipment from acquisitions	0	0	227	0	227	0	227
Total goodwill and intangible assets	139	8	1 432	468	2 047	15	2 062
– Additions to intangible assets	1	4	1	6	12	7	19
– Additions to goodwill and intangible assets from acquisitions	0	0	1 366	0	1 366	0	1 366
Investments in associates / joint ventures	0	0	2	0	2	12	14
– Additions to investment in associates / joint ventures	0	0	0	0	0	0	0
– Additions to investment in associates / joint ventures from acquisitions	0	0	2	0	2	0	2
Headcount	4 220	2 212	3 047	1 017	10 496	505	11 001
Average headcount	4 144	2 193	1 767	1 002	9 106	535	9 641

1 Inter-segment sales were based on prevailing market prices.
2 Net capital invested comprises all operating assets and goodwill less operating liabilities.
3 Calculated at historical monthly average rates based on net capital invested excluding goodwill.

Year ended 31 December 2010 million CHF	Custom Manu-facturing	*Life Science Ingredients	*Microbial Control	Bioscience	Total operating segments	Corporate / Eliminations	Group total
Sales third-party	**1 445**	**707**	**313**	**211**	**2 676**	**4**	**2 680**
Inter-segment sales [1]	35	146	11	11	203	(203)	0
Total sales	**1 480**	**853**	**324**	**222**	**2 879**	**(199)**	**2 680**
Result from operating activities (EBIT)	**253**	**93**	**38**	**14**	**398**	**(24)**	**374**
– Percentage return on sales %	17.5	13.2	12.1	6.6	14.9	n.a.	14.0
Financial income							6
Financial expenses							(49)
Net financing costs							**(43)**
Share of profit / (loss) of associates / joint ventures							(1)
Profit before income taxes							**330**
Income taxes							(46)
Profit for the period							**284**
Included in result from operating activities (EBIT):							
– Other operating income	77	16	1	6	100	0	100
– Other operating expenses	(10)	(10)	(5)	(2)	(27)	(4)	(31)
– Research and development	87	25	10	15	137	4	141
– Depreciation and amortization	173	61	14	16	264	9	273
– Reversal of impairment	0	0	0	4	4	0	4
– Restructuring (expenses) / income	5	(6)	0	0	(1)	(3)	(4)
– Environmental (expenses) / income	0	7	0	0	7	0	7
Total assets	2 816	965	437	744	4 962	(184)	4 778
Total liabilities	1 445	796	296	459	2 996	(605)	2 391
Total equity	1 371	169	141	285	1 966	421	2 387
Net financial (assets) / liabilities	654	657	37	357	1 705	(404)	1 301
Net capital invested [2]	2 025	826	178	642	3 671	17	3 688
Return on net capital invested (RONOA) [3] %	12.1	11.3	19.2	4.2	11.6	n.a.	10.8
Included in total reportable segment assets:							
Total property, plant and equipment	1 532	683	108	114	2 437	33	2 470
– Additions to property, plant and equipment	128	114	12	28	282	3	285
– Additions to property, plant and equipment from acquisitions	0	0	0	1	1	0	1
Total goodwill and intangible assets	144	5	14	477	640	14	654
– Additions to intangible assets	1	0	1	5	7	8	15
– Additions to goodwill and intangible assets from acquisitions	0	0	0	29	29	0	29
Investments in associates / joint ventures	0	0	0	0	0	19	19
– Additions to investment in associates / joint ventures	0	0	0	0	0	1	1
Headcount	4 069	2 174	485	987	7 715	565	8 280
Average headcount	4 096	2 255	462	967	7 780	553	8 333

[1] Inter-segment sales were based on prevailing market prices.
[2] Net capital invested comprises all operating assets and goodwill less operating liabilities.
[3] Calculated at historical monthly average rates based on net capital invested excluding goodwill.
* Due to the introduction of "Microbial Control" as a new business segment in 2011, the disclosure of the segment information in 2010 was restated, accordingly.

32.3 **Measurement of Operating Segment Profit or Loss**

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

32.4 **Geographical Information**

Year ended 31 December 2011 million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	374	1 007	47	15	39	1 108
Spain	16	151	0	0	7	158
Czech Republic	5	110	0	0	0	110
Belgium	22	64	1	86	0	151
United Kingdom	151	61	1	17	0	79
Germany	150	13	45	71	0	129
France	136	1	3	11	0	15
Rest of Europe	196	7	2	23	0	32
Europe	**1 050**	**1 414**	**99**	**223**	**46**	**1 782**
United States	1 141	689	770	900	60	2 419
Rest of North America	60	0	0	0	0	0
North America	**1 201**	**689**	**770**	**900**	**60**	**2 419**
Latin America	**47**	**14**	**0**	**0**	**4**	**18**
Singapore	29	302	60	0	4	366
China	110	268	1	4	8	281
Japan	83	1	0	0	0	1
India	75	4	0	3	0	7
Rest of Asia	60	0	0	0	0	0
Asia	**357**	**575**	**61**	**7**	**12**	**655**
Other countries	37	9	0	2	0	11
Total	**2 692**	**2 701**	**930**	**1 132**	**122**	**4 885**

Year ended 31 December 2010 million CHF	Revenue from external customers (Sales)	Non-current assets				
		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**

32.5 Information about Major Customers

In 2011, Lonza's largest customer accounts for 8.5 % and the second, third, fourth and fifth largest ones for 6.5 %, 4.8 %, 3.7 % and 3.6 % in relation to sales. No other customer accounts for 3.0 % or more of Lonza's sales. All of the five largest customers relate to the Custom Manufacturing segment, except for the second largest which relates to Life Science Ingredients.

In 2010, Lonza's largest customer accounts for 7.0 % and the second, third and fourth largest ones for 5.8 %, 5.4 % and 4.6 % in relation to sales. No other customer accounts for 4.0 % or more of Lonza's sales. All of the four largest customers relate to the Custom Manufacturing segment, except for the second largest which relates to Life Science Ingredients.

33 Disclosures on Board and Management Compensation

33.1 Method of Determining Compensation and the Shareholding Programs

The overall structure of compensation for the Management Committee originally implemented in 2006 remained largely unchanged again in 2011. Base salary targets levels around the average for the market as described below, with the potential for executives to earn above-average compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry.The comparison data reflect the compensation of the Senior Management and the members of the Management Committee in Switzerland and the northeast coast of the USA in the pharma and chemical industry and general industry in multinational organizations of a size comparable with Lonza. The reference data represent a direct market comparison in terms of the samples and the functions of the analyzed manager positions. At least two benchmark providers (in the year 2011: Towers Watson and Mercer) are used to draw the comparisons.

In 2011 the Board of Directors decided to reappraise the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of the same benchmark data as in 2006 (see above). It found that the Senior Management total compensation package was below the median of the relevant comparison market. For the management Committee Kepler Associates benchmarked the compensation against Swiss-listed companies of a similar size (peer group of 18 companies) and international sector comparators (peer group of 37 companies of the pharma and chemical industry). This survey showed that the remuneration of the members of the Management Committee is between median and lower quartile (50 percentile and 25 percentile of the benchmark). As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented.

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

For the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA) of the Group. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. (An exception, described in last year's report concerned the STIP 2010, which put a higher weight on the individual targets. In 2011, the STIP again puts a weight of at least 80 % on the EVA target). For the members of the Management Committee the overall STIP amount is targeted as a percentage of base salary ranging from 50 % to 70 %, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash.

The Extended Short-Term Incentive (E-STIP) was introduced because of the need to establish even more long-term orientation of the incentive system as well as with the aim of increasing the retention power of the compensation system. Senior Management as well as the members of the Management Committee are included in this plan. The value of the plan is strongly dependent on Lonza's and the executive's past as well as future performance. Specifically, first an amount equal to half of the STIP 2011 (which depends on financial and individual goals) is awarded to each member of the Management Committee in the form of restricted share units entitlements. Second, these restricted share units are subject to three-year vesting conditions. The grant of the restricted share units under the E-STIP 2011 will take place on 31 March 2012, at which date the number of restricted share units will be determined based on the closing stock price on that date. During the three-years vesting period, theses restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

The LTIP is a stock bonus plan. The plan establishes targets for Total Shareholder Return (TSR) to exceed an index of industry peers by 9 % per year on average over three years. The second target is Economic Value Added (EVA) to increase up to CHF 114.4 million over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 150 % to 200 % of base salary. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. Besides the members of the Management Committee, the upper management, as well as specialists and experts, are also included in this program and therefore in the company's mid-term and long-term goals.

The LTIP did not provide any compensation for the Management Committee until 2009, therefore a three-year "Bridge the Gap" plan was also launched in 2006. This plan provides share grants for the Management Committee. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. The share awards were granted from January 2006 until January 2008 and will vest over a one- to three-year period (title and ownership of the shares will only be received after the respective vesting period). The MC shares are subject to a restriction period. During the restriction period, an MC member may not sell, pledge or grant any other rights to any third party with respect to the MC shares. Shares will become unconditional after lapse of the restriction period. New entrants have a pro-rata share entitlement with partially shortened restriction period. This plan was terminated in 2010.

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

Board of Directors The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. The decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2011. The overall structure and level of compensation of the Board of Director has not changed since 2005. The high portion of the shares aligns significantly with the share price development. Our aim is to pay the members of the Board of Directors at the industry market average, drawing on data from studies on Swiss Leader Index (SLI) companies. In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million[1] (2010: CHF 2.503 million[1]), 63.56 % (2010: 65.96 %) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20 %. They are blocked for a period of three years and are eligible for a dividend. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

Board of Directors' compensation	2011				2010			
	[2]Cash payment CHF	Number of shares	[3]Value of shares CHF	Total CHF	[2]Cash payment CHF	Number of shares	[3]Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	194 350	5 806	356 288	550 638	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	116 875	4 898	306 885	423 760	100 000	4 672	374 864	474 864
Patrick Aebischer Member of the Board	117 222	3 448	211 592	328 814	123 956	2 656	213 078	337 034
Jean-Daniel Gerber Member of the Board	88 332	2 777	159 514	247 846				
Julia Higgins Member of the Board	192 500	3 207	196 797	389 297	192 500	2 452	196 743	389 243
Gerhard Mayr Member of the Board	120 763	3 332	207 155	327 918	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	136 161	4 027	247 116	383 277	144 218	3 098	248 541	392 759
Total	**966 203**	**27 495**	**1 685 347**	**2 651 550**	**851 811**	**20 578**	**1 650 991**	**2 502 802**

1 Including social security and withholding tax

2 All compensation amounts given in the Remuneration Report (both for the Board of Directors and the Management Committee) refer to gross payments, including social security and with-holding tax, except where stated otherwise. The accrual principle is applied.

3 The fair values were calculated using the market price at grant date, see note 25 in the Lonza Financial Report 2011.

In 2011, no member of the Board of Directors gave up his or her function, one new member was elected at the Annual General Meeting (2010: one member gave up his function, and no new member joined the Board of Directors). In 2011, there were 7 members on the Board (2010: 6 members). The average number of Board members during the year was 6.75 full-time equivalents (2010: 6.25 full-time equivalents).

Management Committee No member of the Management Committee gave up his or her function in the year under review. The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million[1] (2010: CHF 5.195 million[1]) in cash and additional benefits, and 73 107 conditional LTIP shares (2010: 62 923 shares) and a number of restricted share units (the exact number will be determined in March 2012), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million). The restricted share units of the E-STIP and the conditional shares of the LTIP are subject to vesting conditions of three years. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 114.0 % (2010: 123.6 %)

Management Committee's compensation million CHF	2011	2010
Base salary[2]	3.197	2.861
Incentive[3]	0.942	1.156
Post-employment benefits[4]	0.374	0.349
Other benefits[5]	0.814	0.453
Severance payments[6]	0.113	0.376
Share- / option-based payments		
Value of E-STIP restricted share units (number of share units 2011: will be determined in March 2012; 2010: n / a;)	0.421	0.0
Value of LTIP Bridge the Gap Shares (number of shares 2011: 0; 2010: 2 484)	0.0	0.214
Value of LTIP shares[7] (number of shares 2011:73 107; 2010: 60 439)	2.583	2.286
Total	**8.444**	**7.695**
Ratio of fixed compensation to the performance-related components of compensation	**114.0 %**	**123.6 %**

1 Including social security and incentive paid in March of the following year
2 2010: 6 members, CEO included; 2011: 7 members, CEO included
3 Incentive (STIP) of the reporting year, paid in March of the following year
4 Social security and pension fund
5 Company car, health insurance and tuition. The table shows the fair value of these benefits. In 2011 two members of the MC moved to Asia and the USA. Therefore, the costs for insurances, tuition and housing (in case of international assignments) are higher than in the year before. Furthermore, two new members joined the MC.
6 This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the remuneration report.
7 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

The employment agreements of the members of the Management Committee provide for notice periods between 12 and 18 months, except in one case where the notice period is 60 days.

In case of termination by the company without cause or due to the disability of a member of the Management Committee other than the CEO (who was terminated in January 2012, see page 194 of the remuneration report) or of resignation by the relevant member of the Management Committee for good reason (such as reduction of remuneration or demotion), such member of the Management Committee is entitled to a payment corresponding to a maximum of 18 months' base salary, and outplacement support and additional health insurance until a new employment is found, under the condition that the relevant member of the Management Committee executes a release in favor of the company.

In case of termination by the company without cause, the CEO and the Head of Human Resources (and the Nomination and Compensation Committee as regards E-STIP shares) may, at their discretion, decide the immediate vesting of the LTIP and E-STIP shares.

In case of termination due to the disability, death or retirement of a member of the Management Committee, the E-STIP and ESPP shares vest immediately. As far as the LTIP shares are concerned, a termination of the employment agreement due to disability or death results in 50 % of the shares being forfeited and the remaining 50 % shares vesting immediately.

Other than with respect to the CEO (see remuneration report page 194), the applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee as a result of a change of control, or if a member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) in such a context. All the shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately in such a case. In addition, the relevant member of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period, a cash amount equal to 100 % of the LTIP compensation during the notice period; and an outplacement support up to an amount of CHF 50 000.

The highest compensation of a member of the Management Committee in 2011 was paid to Stefan Borgas. Mr. Borgas received CHF 1 283 884 (2010: CHF 1 634 593) paid in cash and additional benefits and 24 220 conditional LTIP shares based on the performance of 2011 (2010: 23 569) equivalent to a fair value of CHF 900 500 (2010: 891 380). The conditional shares of the LTIP are subject to vesting conditions of three years. The vesting of these shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of the compensation was 118.3 % (2010: 85.3 %).

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2011	2010
Base salary	0.917	0.898
Incentive [1]	0.100	0.472
Post-employment benefits [2]	0.113	0.106
Other benefits [3]	0.153	0.159
Severance payments [4]	0.0	0.0
Share- / option-based payments		
Value of E-STIP share units	0.0	0.0
Value of LTIP Bridge the Gap Shares	0.0	0.0
Value of LTIP shares [5] (number of shares 2011: 24 220; 2010: 23 569)	0.901	0.891
Total	**2.184**	**2.526**
Ratio of fixed compensation to the performance-related components of compensation	**118.3 %**	**85.3 %**

In 2011, there were 7 members (2010: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.1 full-time equivalents (2010: 5.4 full-time equivalents).

On 25 January 2012, the company announced the termination of Stefan Borgas' role as CEO of the Group. The financial consequences of the termination of Mr. Borgas' employment with the company are set forth in the remuneration report on page 194.

In 2010 one severance payment was made to a member of the Management Committee, who gave up her function. In 2011, as no member left the Management Committee, no new severance payment was made to a member of the Management Committee. In 2011, no member of the Board of Directors and no member of the Management Committee gave up their function.

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

1 Incentive (STIP) of the reporting year, paid in March of the following year
2 Social security and pension fund
3 Company car, health insurance and tuition. The table shows the fair value of these benefits.
4 This table discloses the actual amount paid for the year 2010 and 2011. The severance agreements are discussed in the remuneration report.
5 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions on the shares, the eventual value is higher or lower (or even zero).

33.2 **Compensation for Former Members of Governing Bodies**

Compensation of CHF 0.113 million was paid to a former member of the governing bodies (2010: 0.479 millions); this was contained in the personnel expenses 2010.

33.3 **Share Allotment**

In the reporting year 2011, the members of the Board of Directors received shares as part of their total remuneration. There were no further share allotments, except as stated in note 33.1 of this report. In note 33.1, the allotment of the LTIP shares for the Management Committee is included. These shares are only granted if the targets are met. As described in note 33.1, this plan did not provide any income before 2009.

33.4 **Share Ownership**

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2011, a total of 112 574 (2010: 85 799) registered shares in Lonza Group Ltd and controlled 0.21 % (2010: 0.17 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them[1] held 71 950 (2010: 64 841) registered shares in Lonza Group Ltd as per 31 December 2011.

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

Board of Directors Lonza shares (numbers)	2011	2010
Rolf Soiron	36 339	30 992
Richard Sykes	22 240	16 170
Jean-Daniel Gerber	2 031	
Julia Higgins	12 726	9 774
Gerhard Mayr	14 655	11 175
Peter Wilden	15 974	12 260
Patrick Aebischer	8 609	5 428

Management Committee Lonza shares (numbers)	2011	2010
Stefan Borgas	35 402	36 548
Uwe Böhlke	5 084	3 719
Toralf Haag	11 213	10 493
Stephan Kutzer	10 000	8 987
Jeanne Thoma	4 091	
Lukas Utiger	6 037	5 094
Harry Boot	123	

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

Additional Remuneration

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

33.6 Loans Granted by Governing Bodies

In 2011, the CEO, Stefan Borgas, was granted a loan of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of the grant and repayment upon termination of employment. The out-payment was in March 2011 and in early 2012. This loan will fully offset against payments due to Mr Stefan Borgas according to the separation agreement with the company (2010: the members of the Management Committee did not receive any credits or loans).

33.7 After Closing Event

The employment agreement of Stefan Borgas has been terminated in January 2012. The conditions about his leave are described on page 194 of the remuneration report.

34 Risk Management Process

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

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

At their meeting in December, the Management Committee and Board of Directors have been informed about the results of the risk management process and the findings have been approved. The risk management process, which has been conducted for several years, ensures a common basis of understanding between operational management and the Board of Directors in regard to the existing risks and the measures to be adopted.

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

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

Financial Risk Management is disclosed in note 31.

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes on pages 74 to 165 for the year ended 31 December 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

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

Zurich, 24 February 2012

Balance Sheet – Lonza Group Ltd

Assets[1] CHF	2011	2010
Fixed assets		
Property, plant and equipment	1 128 908	1 486 936
Investments	1 717 063 573	1 422 961 446
Long-term loans to subsidiaries and associates	1 179 039 769	1 082 509 817
Total fixed assets	**2 897 232 250**	**2 506 958 199**
Current assets		
Receivables:		
– From third parties	129 800	33 403
– From subsidiaries and associates	16 225 550	11 769 002
Prepaid expenses:		
– Third parties	18 307 638	30 542 765
– Subsidiaries and associates	3 434 719	3 005 606
Short-term advances:		
– Third parties	1 190 000	0
– Subsidiaries and associates	192 484 255	238 088 222
Marketable securities:		
– Own shares	72 557 592	33 180 590
Cash	5 287	165 230 749
Total current assets	**304 334 841**	**481 850 337**
Total assets	**3 201 567 091**	**2 988 808 536**

[1] At 31 December

Liabilities and shareholders' equity[1] CHF		2011	2010
Shareholders' equity			
Share capital		52 920 140	52 920 140
Legal reserve:			
– General legal reserve		26 460 070	25 225 000
– Reserve from capital contribution		839 727 980	202 551 480
– Reserve for own shares		110 550 603	44 491 517
Available earnings brought forward		783 334 935	1 524 326 393
Profit for the year		97 106 559	74 229 225
Total shareholders' equity		**1 910 100 287**	**1 923 743 755**
Liabilities			
Long-term liabilities			
Long-term debt:			
– Due to third parties		900 000 000	400 000 000
Long-term provisions:			
– Due to third parties		495 837	574 445
Total long-term liabilities		**900 495 837**	**400 574 445**
Current liabilities			
Payables and other liabilities:			
– Due to third parties		816 309	706 482
– Due to subsidiaries and associates		22 405	143 482
Accrued expenses:			
– Due to third parties		44 691 187	32 494 859
– Due to subsidiaries and associates		1 316 700	317 010
Short-term provisions:			
– Due to third parties		0	108 444
Short-term debt:			
– Due to third parties		5 600 000	500 000 000
– Due to subsidiaries and associates		338 524 366	130 720 059
Total current liabilities		**390 970 967**	**664 490 336**
Total liabilities		**1 291 466 804**	**1 065 064 781**
Total liabilities and shareholders' equity		**3 201 567 091**	**2 988 808 536**
Shareholders' equity as a percentage of total assets	%	**59.7**	**64.4**

[1] At 31 December

Income Statement – Lonza Group Ltd

CHF	2011	2010
Income		
Income from investments	152 945 781	135 741 562
Interest income	24 924 693	31 182 763
Other financial income	10 407 891	7 397 661
Other income	1 993 258	1 077 963
Total income	**190 271 623**	**175 399 949**
Expenses		
Personnel expenses	9 006 106	9 159 060
Other administrative expenses	5 288 324	5 355 760
Interest expenses	28 456 357	24 508 512
Other financial expenses	46 366 428	43 650 783
Taxes	2 064 592	1 876 538
Other expenses	1 474 563	1 434 719
Write-offs on property, plant and equipment	508 694	434 895
Write-offs on loans	0	14 750 457
Total expenses	**93 165 064**	**101 170 724**
Profit for the year	**97 106 559**	**74 229 225**

Notes to the Financial Statements – Lonza Group Ltd

1 **Contingent Liabilities**

At 31 December 2011, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 1 732 592 318 (31 December 2010: CHF 437 204 027). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.

2 **Liabilities to Personnel Welfare Institutions**

31 December 2011: CHF 92 539 (31 December 2010: CHF 142 088).

3 **Investments**

See list of principal subsidiaries, page 92 and 93.

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

See 1.2 Principal Shareholders in Corporate Governance, page 210.

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

See note 33 in Consolidated Financial Statements, page 157.

6 **Information about the Risk Assessment Process in Accordance with Art. 663b para. 12 CO**

Lonza Group Ltd is fully integrated into the Group-wide risk management process of Lonza Group. The specific risks arising from the type and scope of Lonza Group Ltd's business activities are covered in the Group-wide risk management process. A detailed description of the risk management process can be found in note 34 of the Consolidated Financial Statements, page 164.

7 **Own Shares**

At 31 December 2011, Lonza Group Ltd held 1 307 344 of its registered shares with a par value of CHF 1 each (31 December 2010: 442 703), resulting in a reserve for own shares of CHF 110 550 603 (31 December 2010: CHF 44 491 517).

In 2011, Lonza Group Ltd acquired 1 000 000 registered shares at an average market value of CHF 77.29. In order to satisfy the exercise of the different share and option plans in 2011, Lonza Group Ltd delivered 135 359 registered shares at an average market value of CHF 72.35. A total of 228 143 of the registered shares with a par value of CHF 1 each (31 December 2010: 442 703) are reserved for the different share and option plans. Therefore 1 079 201 of the registered shares have no special restriction. At 31 December 2011, the total number of registered shares not entitled to a dividend was 1 307 344, with a par value of CHF 1 each (2010: 442 703).

8 **Share Capital**

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

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

9 **Amount in Reserve from Capital Contribution**

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contribution established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle of CHF 839 727 980 were finally approved by the Swiss Federal Tax Authority on 6 December 2011. The amount of CHF 747 926 528 was reclassified from Available earnings brought forward to Reserve from capital contribution as per 31 December 2011 to reflect the approved amount as Reserve from capital contribution.

10 **Long-/Short-term Debts**

In February 2007, Lonza Group Ltd used the available syndicated loan facility in order to finance the acquisition of the Biopharma and Bioscience businesses from Cambrex. The facility was set up in December 2006 in an amount of CHF 500 million, with a maturity of five years and floating interest rates. In October 2011, Lonza Group Ltd replaced this facility. The new facility was set up in an amount of CHF 700 million, with a maturity of five years and floating interest rates.

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

11 **Additional Notes**

Exchange gains / losses Other financial expenses in 2011 include net exchange rate losses of CHF 12 492 586 (2010: CHF 38 320 731).

Own shares Other financial expenses in 2011 includes a depreciation for own shares of CHF 26 682 084 (2010: Other financial income CHF 6 646 071).

Long-term loans to subsidiaries and associates Lonza Group Ltd signed subordination agreements of CHF 48 million (2010: CHF 54 million).

Proposal of the Board of Directors

concerning the appropriation of available earnings

CHF	2011	2010
Available earnings brought forward	783 334 934	1 524 326 393
Profit for the year	97 106 559	74 229 225
Available earnings at the disposal of the Annual General Meeting	**880 441 493**	**1 598 555 618**
Increase in general legal reserve in 2010	0	(1 235 070)
Available earnings carry-forward	**880 441 493**	**1 597 320 548**
Increase reserve for own shares in the 2011 business year		(66 059 086)
Increase in general legal reserve qualified as reserve from capital contribution in the 2011 business year		(747 926 528)
Available earnings brought forward after creation of reserve for own shares		783 334 934

CHF	2011	2010
General legal reserve qualified as reserve from capital contribution	91 801 452	202 551 480
Earnings brought forward qualified for reserve from capital contribution	747 926 528	0
Reserve from capital contribution [1]	**839 727 980**	**202 551 480**
Payment of a dividend in 2011 of CHF 2.15 (2010: CHF 2.15) per share on the share capital eligible for dividend of CHF 51 612 796 (2010: CHF 51 511 641)	(110 967 511)	(110 750 028)
Available reserve from capital contribution carry-forward	**728 760 469**	91 801 452

If the Annual General Meeting approves the above proposal from the Board of Directors, the dividend of CHF 2.15 per registered share, net of withholding tax (as per Article 5 Abs 1bis VStG), will be paid as of 12 April 2012 at the offices designated in the publication organ of the company and in selected daily newspapers.

Basel, 24 February 2012

Rolf Soiron
Chairman of the Board

Toralf Haag
Chief Financial Officer

[1] Refer to note 9

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying financial statements of Lonza Group Ltd, which comprise the balance sheet, income statement and notes on pages 168 to 173 for the year ended 31 December 2011.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

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

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

KPMG AG

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

Zurich, 24 February 2012

Investor Information

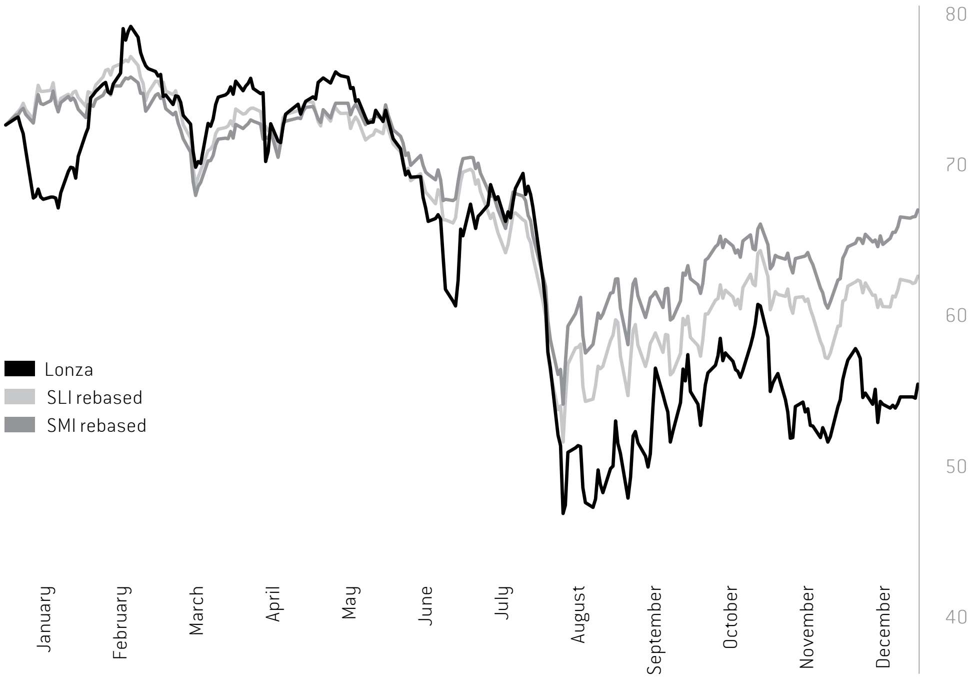
Lonza Group Ltd shares are listed on the SIX Swiss Exchange and were included in the Swiss Market Index (SMI) until September 2011. As of 19 September 2011, Lonza changed from the SMI to the Swiss Leader Index (SLI). Since 21 October 2011, Lonza has a secondary listing on the SGX Singapore Exchange. The nominal value of the Lonza Group Ltd share is CHF 1. Lonza Group shares closed at the end of 2011 at a price of CHF 55.50, which represents a decrease of 26.0 % in 2011.

The most significant news releases, other than results publications, during the course of 2011 were the following:
- 5 January: Lonza Selects IDBS to Optimize Bioprocess Execution & Knowledge Management
- 27 January: Lonza Starts Share Purchase Program
- 2 March: Lonza Introduces New Branding
- 15 March: Lonza Signs Commercial Manufacturing Deal with Enobia for Orphan Drug Candidate
- 17 March: Lonza Signs Development and Manufacturing Agreement with Emerging Biotech Company Athera
- 29 March: Lonza to invest £16 million to expand its Slough facility
- 11 April: Lonza and Roche enter into MycoTOOL® distribution agreement for rapid mycoplasma testing solutions
- 12 April: Annual General Meeting of Lonza Group Ltd
- 19 April: Lonza and ORGANOBALANCE Enter Global License Agreement to Develop and Market Unique Probiotic, *Lactobacillus anti-H. pylori*
- 12 May: Lonza to Expand Cytotoxic Manufacturing to Serve Growing Oncology API Market
- 18 May: Lonza to expand viral production capacity; Construction of new cGMP clean room will support large-scale viral vaccine, gene therapy projects
- 7 June: Lonza to expand in Singapore to meet increasing demand for biopharma development services from preclinical to commercial
- 16 June: Lonza to refinance revolving credit facility
- 30 June: Temporary 43 hour work week instituted to ensure long-term strengthening of Visp site
- 11 July: Lonza to acquire Arch Chemicals to create the world's leading Microbial Control business
- 15 July: Lonza commences tender offer to acquire all of the outstanding shares of Arch Chemicals, Inc. for USD 47.20 per share
- 19 July: Lonza signs manufacturing deal with IMMUNE Pharmaceuticals for Bertilimumab (iCo-008)
- 10 August: Lonza to invest in long-term growing Meta™ metaldehyde business
- 11 August: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 12 September 2011

- 19 August: Lonza to appoint Jeanne Thoma as future COO of the Microbial Control sector
- 24 August: Lonza, JFC Technologies and Novoset LLC announce a strategic collaboration to advance high performance materials offerings
- 1 September: Lonza celebrates 40 years as leading producer of vitamin B3
- 2 September: Oxford BioTherapeutics licenses Lonza's GS Gene Expression System™
- 12 September: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 30 September 2011
- 15 September: Lonza enters manufacturing agreement with Pasteuria Bioscience for production of a novel bio-nematicide
- 16 September: Lonza Group Ltd plans secondary listing on the Main Board of the Singapore Stock Exchange
- 26 September (Switzerland) / 27 September (Australia): Mesoblast and Lonza establish strategic global manufacturing alliance
- 29 September: Lonza receives antitrust clearance in France
- 30 September: Lonza extends tender offer for all outstanding shares of Arch Chemicals common stock to 14 October 2011
- 11 October: Lonza announces key partnership with Lipogen for phosphatidylserine; Bolstering nutrition ingredient portfolio and cognitive health offering
- 17 October: Lonza completes tender offer for Arch Chemicals; announces subsequent offering period
- 20 October: Lonza completes acquisition of Arch Chemicals
- 20 October: Lonza to make trading debut on the Singapore Exchange
- 25 October: Lonza enters development and manufacturing agreement with Genmab A/S for a novel antibody drug conjugate (ADC), HuMax-TF™
- 15 November: Lonza Prices CHF 350 Million Dual Tranche Straight Bonds
- 18 November: Change in Visp Site Management
- 8 December: Lonza Signs Applied Protein Services Agreement with ImmuneMed for Immunogenicity Risk Assessment and Deimmunization of Novel Protein
- 15 December: Lonza to Expand Early Phase Manufacturing Capacity to Serve Small Molecules Market

For a comprehensive review of the media releases issued during 2011, refer to www.lonza.com

Lonza Group Ltd 2011 share price development versus the Swiss Leader Index and the Swiss Market Index, rebased



The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2011 can be viewed at www.lonza.com/en/about-lonza/investor-relations/investor-information/major-shareholders-and-changes-in-disclosed-shareholdings.aspx

The free float in Lonza Group Ltd registered shares reached 97.53 % at the year-end and the average daily trade volume was 326 387 shares in 2011.

Registered shares CHF		2011	2010
Number of shares issued		52 920 140	52 920 140
Number of shares ranking for dividend [1]		51 612 796	52 477 437
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	154	291
Diluted net income [2]	million CHF	154	291

Ratios per security [2]		2011	2010
Weighted average number of shares		51 632 876	52 410 459
Diluted weighted average number of shares		51 852 749	52 636 859
Basic earnings per share	CHF	2.98	5.55
Diluted earnings per share	CHF	2.97	5.53

Historical overview:

Ten-year overview of major highlights million CHF		2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Sales		2 692	2 680	2 690	2 937	2 870	2 914	2 521	2 182	2 242	2 536
Result from operating activities (EBIT)		261	374	239	441	408	344	297	212	139	302
Net capital invested		5 667	3 688	3 900	3 768	3 277	2 608	2 786	2 574	2 473	2 430
Return on net capital invested (RONOA)	%	6.9	10.8	6.7	13.8	14.1	12.4	11.0	8.4	12.2	16.8
Headcount		11 001	8 280	8 386	8 462	6 929	6 146	4 992	5 664	5 938	6 216

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

Statement of Value Added

	[1] Note		2011 million CHF	%		2010 million CHF	%
Origin of value added							
Income from production			2 798			2 793	
Dividend earned	21.3		0			0	
Total income			**2 798**	**100.0**		**2 793**	**100.0**
Services bought from third parties:							
– Material costs	18		(914)			(855)	
– Energy costs	18		(85)			(87)	
– Other operating expenses excl. capital taxes			(396)			(375)	
Gross value added			**1 403**			**1 476**	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment	6, 7		(276)			(269)	
Income from application of the equity method	21.3		(13)			(1)	
Total net value added			**1 114**	**39.8**		**1 206**	**43.2**
Distribution of value added							
To staff:							
– Wages and salaries	19	654			644		
– Pensions	19	26			23		
– Other social security contributions	19	123			130		
– Other personnel expenses	19	52			26		
Total personnel cost			**855**	**76.7**		**823**	**68.3**
To public authorities:							
– Income and capital taxes	22		32	2.9		56	4.6
To lenders:							
– Financial expenses net	21.1, 21.2		73	6.6		43	3.6
To shareholders:							
– Dividends paid	page 80		111	10.0		92	7.6
To the company:							
– Profit for the period		154			284		
– Dividends paid	page 80	(111)	43	3.8	(92)	192	15.9
Total			**1 114**	**100.0**		**1 206**	**100.0**
Distribution of value added per employee			CHF			CHF	
Wages and salaries			67 835			77 283	
Pensions			2 697			2 760	
Other social security contributions			12 758			15 601	
Other personnel expenses			5 394			3 120	
Total per employee			**88 684**			**98 764**	

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

Free Cash Flow

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

million CHF	2011	2010
EBITDA	537	643
Change of operating net working capital	(88)	47
Capital expenditures in tangible and intangible assets	(267)	(300)
Disposal of tangible assets	6	9
Change of other assets and liabilities	(61)	(37)
Free cash flow before acquisition	**127**	**362**
Acquisition of subsidiaries	(918)	(26)
Free cash flow	**(791)**	**336**

Core Results

Reconciliation of IFRS results to core results 2011 million CHF	IFRS results	Amortization of intangible assets from acquisition	Impact of Arch integration costs	Results associates	[1] Core results
Sales (see segment information)	**2 692**	**0**	**0**	**0**	**2 692**
Cost of goods sold	(1 992)	18	12	0	(1 962)
Gross profit	**700**	**18**	**12**	**0**	**730**
Marketing and distribution	(160)	0	0	0	(160)
Research and development	(94)	0	0	0	(94)
Administration and general overheads	(205)	0	35	0	(170)
Other operating income	42	0	0	0	42
Other operating expenses	(22)	0	0	0	(22)
Result from operating activities (EBIT)	**261**	**18**	**47**	**0**	**326**
Financial income	18	0	0	0	18
Financial expenses	(91)	0	0	0	(91)
Other investment income / (loss)	0	0	0	0	0
Net financing costs	**(73)**	**0**	**0**	**0**	**(73)**
Share of profit / (loss) of associates / joint ventures	(13)	0	0	16	3
Profit before income taxes	**175**	**18**	**47**	**16**	**256**
Income taxes[2]	(21)	(2)	(6)	(2)	(31)
Profit for the period	**154**	**16**	**41**	**14**	**225**
Non-controlling interests	0	0	0	0	0
Equity holders of the parent	**154**	**16**	**41**	**14**	**225**
Number of Basic Shares, weighted	5 1632 876				51 632 876
Number of Diluted Shares, weighted	5 1852 749				51 852 749
Basic earnings per share	2.98				4.36
Diluted earnings per share	2.97				4.34

[1] In the core results for the items: "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring / acquisition is eliminated.

[2] Tax impact calculated based on average Group tax rate

Reconciliation of IFRS results to core results 2010 million CHF	IFRS results	Amortization of intangible assets from acquisition	Reversal of Impairments	Restructuring costs/income	Results associates	[1] Core results
Sales (see segment information)	**2 680**	**0**	**0**	**0**	**0**	**2 680**
Cost of goods sold	(1 969)	17	0	0	0	(1 952)
Gross profit	**711**	**17**	**0**	**0**	**0**	**728**
Marketing and distribution	(155)	0	0	0	0	(155)
Research and development	(99)	0	0	(7)	0	(106)
Administration and general overheads	(152)	0	0	9	0	(143)
Other operating income	100	0	(4)	(5)	0	91
Other operating expenses	(31)	0	0	3	0	(28)
Result from operating activities (EBIT)	**374**	**17**	**(4)**	**0**	**0**	**387**
Financial income	6	0	0	0	0	6
Financial expenses	(49)	0	0	0	0	(49)
Other investment income/(loss)	0	0	0	0	0	0
Net financing costs	**(43)**	**0**	**0**	**0**	**0**	**(43)**
Share of profit/(loss) of associates/joint ventures	(1)	0	0	0	5	4
Profit before income taxes	**330**	**17**	**(4)**	**0**	**5**	**348**
Income taxes[2]	(46)	(2)	0	0	(1)	(49)
Profit for the period	**284**	**15**	**(4)**	**0**	**4**	**299**
Non-controlling interests	7	0	0	0	0	7
Equity holders of the parent	**291**	**15**	**(4)**	**0**	**4**	**306**
Number of Basic Shares, weighted	52 410 459					52 410 459
Number of Diluted Shares, weighted	52 636 859					52 636 859
Basic earnings per share	5.55					5.84
Diluted earnings per share	5.53					5.81

[1] In the core results for the items: "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges/income from restructuring/acquisition is eliminated.

[2] Tax impact calculated based on average Group tax rate

Lonza Annual Report 2011

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

Structure of the Report

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

Compensation Philosophy

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

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

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

Benefits Benefit programs are defined regionally to meet local regulations and to take into consideration the competitive situation. These programs are designed to offer benefits similar to the relevant market. The benefit packages are reviewed on a yearly basis.

Variable compensation and other programs Variable compensation and other programs are designed to provide employees with the opportunity to participate in the company's overall success and earn total compensation that is in line with the industry. The Employee Share Purchase Plan is a share-savings plan open to all employees. The Incentive Programs are performance-oriented. The guiding principle for these plans is to motivate and reward employees on the company's long-term financial success as well as on the individuals' performance of specific goals. The incentive programs include a Short-Term Incentive Plan (STIP), a Long-Term Incentive Plan (LTIP), and share plans for recognizing extraordinary achievements (e.g. strategic projects). More details on the workings of the STIP and LTIP are provided in the discussion of the compensation of the Management Committee below.

Architecture of the Pay-setting Process

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

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

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

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

The remuneration report is subject to an advisory shareholder vote on the occasion of the Annual General Meeting.

Compensation of the Board of Directors

The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. The decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2011. The overall structure and level of compensation of the Board of Directors has not changed since 2005. The high portion of the shares aligns it significantly with the share price development. Our aim is to pay the members of the Board of Directors at the industry market average, drawing on data from studies on Swiss Leader Index (SLI) companies. In 2011, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.652 million[1] (2010: CHF 2.503 million[1]), 63.56 % (2010: 65.96 %) of which was distributed in the form of shares. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. Shares granted are valued at the market price at grant date, based on the average of the last five business days of each quarter, with a discount of 20 %. They are blocked for a period of three years and are eligible for a dividend. Access to these shares is only available in the fourth or later years. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

1 Including social security and withholding tax

Board of Directors' compensation	2011				2010			
	[1]Cash payment CHF	Number of shares	[2]Value of shares CHF	Total CHF	[1]Cash payment CHF	Number of shares	[2]Value of shares CHF	Total CHF
Rolf Soiron Chairman of the Board	194 350	5 806	356 288	550 638	204 145	4 442	356 401	560 546
Richard Sykes Vice-Chairman of the Board	116 875	4 898	306 885	423 760	100 000	4 672	374 864	474 864
Patrick Aebischer Member of the Board	117 222	3 448	211 592	328 814	123 956	2 656	213 078	337 034
Jean-Daniel Gerber Member of the Board	88 332	2 777	159 514	247 846				
Julia Higgins Member of the Board	192 500	3 207	196 797	389 297	192 500	2 452	196 743	389 243
Gerhard Mayr Member of the Board	120 763	3 332	207 155	327 918	86 992	3 258	261 364	348 356
Peter Wilden Member of the Board	136 161	4 027	247 116	383 277	144 218	3 098	248 541	392 759
Total	**966 203**	**27 495**	**1 685 347**	**2 651 550**	**851 811**	**20 578**	**1 650 991**	**2 502 802**

In 2011 no member of the Board of Directors gave up his or her function, one new member was elected at the Annual General Meeting (2010: one member gave up his function, and no new member joined the Board of Directors). In 2011, there were 7 members on the Board (2010: 6 members). The average number of Board members during the year was 6.75 full-time equivalents (2010: 6.25 full-time equivalents)

The members of the Board of Directors did not receive any credits or loans in 2011 (2010: ditto).

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

[1] All compensation amounts given in this Remuneration Report (both for the Board of Directors and the Management Committee) refer to gross payments, including social security and withholding tax, except where stated otherwise. The accrual principle is applied.

[2] The fair values were calculated using the market price at grant date, see note 25 in the Lonza Financial Report 2011.

Development of compensation

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

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

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

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

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

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

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

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

[1] Excluding social security and withholding tax

Compensation of the Management Committee

Method of determining compensation and the shareholding programs The overall structure of compensation for the Management Committee originally implemented in 2006 remained largely unchanged again in 2011. Base salary targets levels around the average for the market as described below, with the potential for executives to earn above-average compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry. The comparison data reflect the compensation of the Senior Management and members of the Management Committee in Switzerland and the northeast coast of the USA in the pharma and chemical industry and general industry in multinational organizations of a size comparable with Lonza. The reference data represent a direct market comparison in terms of the samples and the functions of the analyzed manager positions. At least two benchmark providers (in the year 2011: Towers Watson and Mercer) are used to draw the comparisons.

In 2011 the Board of Directors decided to reappraise the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of the same benchmark data as in 2006 (see above). It found that the Senior Management total compensation package was below the median of the relevant comparison market. For the Management Committee Kepler Associates benchmarked the compensation against Swiss-listed companies of a similar size (peer group of 18 companies) and international sector comparators (peer group of 37 companies of the pharma and chemical industry).This survey showed that the remuneration of the members of the Management Committee is between median and lower quartile (50 percentile and 25 percentile of the benchmark). As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented.

Overview of Management Committee compensation The members of the Management Committee receive an annual base salary in cash. In addition, they are eligible for an annual incentive, the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan for Senior Management and Key Employees (LTIP). These plans set certain performance targets. A formula that takes into account the achievement level determines how much is paid out, without further discretion by the Board. The mechanics of these plans, as well as the targets and their levels, are discussed further below. All equity-based pay is performance-related (except the Bridge the Gap Program, which was implemented in 2006 and terminated in 2010).

Management Committee's compensation million CHF	2011	2010
Base salary [1]	3.197	2.861
Incentive [2]	0.942	1.156
Post-employment benefits [3]	0.374	0.349
Other benefits [4]	0.814	0.453
Severance payments [5]	0.113	0.376
Share- / option-based payments		
Value of E-STIP restricted share units (2011: will be determined in March 2012: number of share units 2010: n/a)	0.421	0.0
Value of LTIP Bridge the Gap shares (number of shares 2011: 0; 2010: 2 484)	0.0	0.214
Value of conditional LTIP shares [6] (number of shares 2011: 73 107; 2010: 60 439)	2.583	2.286
Total	**8.444**	**7.695**
Ratio of fixed compensation to the performance-related components of compensation	**114.0 %**	**123.6 %**

In 2011, there were 7 members (2010: 6 members) on the Management Committee. The average number of Management Committee members during the year was 6.1 full-time equivalents (2010: 5.4 full-time equivalents).

The acting members of the Management Committee received, for their contributions and time served in 2011, CHF 5.440 million[7] (2010: CHF 5.195 million[7]) in cash and additional benefits, 73 107 conditional LTIP shares (2010: 62 923 shares) and a number of restricted share units (the exact number will be determined in March 2012; no such restricted share units were granted in 2010), equivalent to a value of CHF 3.004 million (2010: CHF 2.500 million). The restricted share units of the E-STIP and the conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 114.0 % (2010: 123.6 %).

1 2010: 6 members, CEO included; 2011: 7 members, CEO included
2 Incentive (STIP) of the reporting year, paid in March of the following year
3 Social security and pension fund
4 Company car, health insurance and tuition. The table shows the fair value of these benefits. In 2011 two members of the MC moved to Asia and the USA respectively. Therefore, the costs for insurances, tuition and housing (in the case of international assignments) are higher than in the year before. Furthermore, two new members joined the MC.
5 This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the text.
6 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero).
7 Including post-employment benefits and incentive paid in March of the following year

The employment agreements of the members of the Management Committee provide for notice periods of between 12 and 18 months, except in one case where the notice period is 60 days.

In case of termination by the company without cause or due to the disability of a member of the Management Committee other than the CEO (who was terminated in January 2012), or of resignation by the relevant member of the Management Committee for good reason (such as reduction of remuneration or demotion), such member of the Management Committee is entitled to a payment corresponding to a maximum of 18 months' base salary, outplacement support and additional health insurance until a new employment is found, under the condition that the relevant member of the Management Committee executes a release in favor of the company.

In case of termination by the company without cause, the CEO and the Head of Human Resources (and the Nomination and Compensation Committee as regards E-STIP shares) may, at their discretion, decide the immediate vesting of the LTIP and E-STIP shares.

In case of termination due to the disability, death or retirement of a member of the Management Committee, the E-STIP and ESPP shares vest immediately. As far as the LTIP shares are concerned, termination of the employment agreement due to disability or death results in 50 % of the shares being forfeited and the remaining 50 % shares vesting immediately.

Other than with respect to the CEO (see below), the applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee as a result of a change of control, or if a member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) in such a context. All the shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately in such a case. In addition, the relevant member of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period; a cash amount equal to 100 % of the LTIP compensation during the notice period; and outplacement support up to an amount of CHF 50 000.

In 2010, one severance payment was made to a member of the Management Committee. This payment amounted to CHF 376 433 (corresponding to 30.8 % of the yearly compensation of this Management Committee member) and included the purchase of consulting services valued at CHF 133 467. In 2011, as no member left the Management Committee, no new severance payment was made to a member of the Management Committee. The table above shows the payments for the purchase of consulting services, valued at CHF 113 062, that were made to the individual who had left the Management Committee the previous year.

The highest compensation of a member of the Management Committee in 2011 was paid to Stefan Borgas. Mr. Borgas received CHF 1 283 884 (2010: CHF 1 634 593) paid in cash and additional benefits and 24 220 conditional LTIP shares based on the performance in 2010 (2010: 23 569), equivalent to a fair value of CHF 900 500 (2010: CHF 891 380). The conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 118.3 % (2010: 85.3 %).

The employment agreement of Stefan Borgas was terminated in January 2012, with effect on 31 May 2012. Until then, Stefan Borgas will receive his base salary and STIP at target (pro rata temporis) and other contractual benefits. In addition, he will be paid severance equal to two years' base salary, STIP at target and an outplacement contribution of CHF 50 000. His STIP for 2011 was set at CHF 100 000 and he is to keep the shares that were granted to him under the company's Long-Term Incentive plan for 2010 and 2011, as well as ESPP shares (no bonus shares).

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2011	2010
Base salary	0.917	0.898
Incentive [1]	0.100	0.472
Post-employment benefits [2]	0.113	0.106
Other benefits [3]	0.153	0.159
Severance payments [4]	0.0	0.0
Share- / option-based payments Value of E-STIP restricted share units	0.0	0.0
Value of LTIP Bridge the Gap shares	0.0	0.0
Value of conditional LTIP shares [5] (number of shares 2011: 24 220; 2010: 23 569)	0.901	0.891
Total	**2.184**	**2.526**
Ratio of fixed compensation to the performance-related components of compensation	**118.3 %**	**85.3 %**

1 Incentive (STIP) of the reporting year, paid in March of the following year
2 Social security and pension fund
3 Company car, health insurance and tuition. The table shows the fair value of these benefits.
4 This table discloses the actual amounts paid for the years 2010 and 2011. The severance agreements are discussed in the text.
5 The fair values were calculated using the market price at grant date according to IFRS 2, see note 25 in the Lonza Financial Report 2011 and the more detailed comments further below. In particular, the fair values are not actual payouts made, but provide information about the expected value of the shares. It is possible that, given the performance conditions placed on the shares, the eventual value will be higher or lower (or even zero).

In 2011, the CEO, Stefan Borgas, was granted a loan of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of granting and repayment is set upon termination of employment. The payment was in March 2011 and in early 2012. This loan will be fully offset against payments due to Mr. Borgas according to the separation agreement (2010: the members of the Management Committee did not receive any credits or loans).

After Closing Event
The employment agreement of Stefan Borgas was terminated in January 2012. The conditions of his leaving are described on page 194.

Details of Management Committee Compensation
This subsection describes the workings of the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan (LTIP).

Short-Term Incentive Plan (STIP) In 2005, the Board of Directors of Lonza Group Ltd implemented the current Short-Term Incentive Plan (STIP) for the majority of the Group's employees, including the Management Committee. This program provides the potential for an annual incentive based on the performance and job category of the individual, and the financial performance of their business sector and / or the Group. The targeted incentive amount is stated as a percentage of the base salary and varies by level up to a maximum of 70 % for the chief executive officer. In this plan, every individual is assigned specific yearly financial and personal goals in writing. The weight of the financial goals (which are measured at the Group and Sector levels) increases with the level of the employee, up to 80 % of the total potential incentive. The personal goals are generally linked to strategic projects that Lonza must deliver in the year in order to build its growth for the future. Each goal is assessed for achievement at the end of the year. The assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.5 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is, therefore, capped at 2.3 (= 80 % × 2.5 + 20 % × 1.5) times the potential incentive amount. The incentive is paid in cash during the first half of the following year. About 90 % of our employees participated in one of our short-term plans, either in the STIP or in a local bonus program.

For members of the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA) of the Group. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. (An exception, described in last year's report, concerned the STIP 2010, which put a higher weight on the individual targets. In 2011, the STIP again put a weight of at least 80 % on the EVA target.) The goals are set on a yearly basis. The individual targets of the members of the Management Committee are also aligned with the strategic targets and the overall success of the company. In general, the CEO had two individual targets; one was linked to the improvement of the customer-related "promoter score" (an internal, quantitative and objective measure of how customers rate Lonza as a supplier) and the other one to the implementation of the strategy. For the members of the Management Committee, the overall STIP amount, is targeted as a percentage of base salary ranging from 50 % to 70 %, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash. The average actual target attainment for the Management Committee (CEO excluded) led to a payout factor of 72.9 % (2010: 118.5 %). For the CEO, the STIP payment was regulated in a special separation agreement. The payout was CHF 100 000.

Extended Short-Term Incentive Plan (E-STIP) Based on the benchmark analysis for 2011 and recognizing the need to establish even more long-term orientation of the incentive system as well as the aim of increasing the retention power of the compensation system, the Board of Directors of Lonza Group Ltd implemented in 2011 an Extended Short-Term Incentive Plan (E-STIP) for senior managers, including the Management Committee members. The value of the plan is strongly dependent on Lonza's and the executive's past as well as future performance (see on page 191). Specifically, first, an amount equal to half of the STIP 2011 (which depends on financial and individual goals as described above) is awarded to each Management Committee member in the form of restricted share units entitlements. Second, these restricted share units are subject to a three-year vesting condition. The grant of the restricted share units under the E-STIP 2011 will take place on 31 March 2012, at which date the number of restricted share units will be determined based on the closing stock price of that date. During the three-year vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

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

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during the three fiscal years of Lonza before the end of the vesting period compared with a peer group consisting in MSCI Chemicals, DSM, UCB, Crucell, Genentech/Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific for the share entitlements granted under the LTIP 2008, 2009 and 2010. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health, SPI. This change of the peer group was also recommended by the external compensation consultant (Kepler Associates) due to the experience that some companies diversified their business or merged during the relevant vesting period of the LTIP. In such cases the company may no longer be relevant as a member of the peer group. The TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2008, 2009, 2010: 5 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA[2]) growth of Lonza achieved during the three fiscal years of Lonza before the end of the vesting period. The EVA target for share entitlements awarded in 2011 is reached if Lonza increases its EVA within the vesting period from CHF 15.9 million up to CHF 114.4 million (for share entitlements awarded in 2010: from CHF 34.25 million up to CHF 137.0 million). If the EVA target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of EVA. The minimum target is to hold EVA

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

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

at the level of the beginning of the fixed period. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

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

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

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

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

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

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

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

Vesting conditions	Market price 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 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
LTIP 2011 TSR	74.35	76 038	50 %		2 826 713	100 %	3 %	97.00 %	2 741 911
LTIP 2011 EVA	74.35	76 039		50 %	2 826 750	100 %	3 %	97.00 %	2 741 947

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

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

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

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

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

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

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

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

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

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

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

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

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

Other Share Plans

The following plans do not presently include Management Committee members, but are reported here for completeness. In recognition of the extraordinary efforts by employees to ensure successful integration of new businesses, the Lonza Management Committee has decided to provide a one-time award of Lonza shares if certain service-related conditions are achieved. The employees will only receive title and ownership of the shares after a minimum one-year vesting period and only if the conditions of vesting are fully or partially met. In addition, in recognition of extraordinary efforts on the part of employees for successful completion of projects or successful settlements, the Lonza Management Committee has the ability to provide a one-time award of Lonza shares.

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

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

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

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

Fair value at grant date	CHF
Arch Acquisition Team	540 086
Other awards 2010	32 037
Other awards 2008	75 059

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

Share Ownership for the Board of Directors and Management Committee

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2011, 112 574 (2010: 85 799) registered shares in Lonza Group Ltd and controlled 0.21 % (2010: 0.17 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them[1] held 71 950 (2010: 64 841) registered shares in Lonza Group Ltd as of 31 December 2011.

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

Board of Directors Lonza shares (numbers)	2011	2010
Rolf Soiron	36 339	30 992
Richard Sykes	22 240	16 170
Jean-Daniel Gerber	2 031	
Julia Higgins	12 726	9 774
Gerhard Mayr	14 655	11 175
Peter Wilden	15 974	12 260
Patrick Aebischer	8 609	5 428

Management Committee Lonza shares (numbers)	2011	2010
Stefan Borgas	35 402	36 548
Uwe Böhlke	5 084	3 719
Toralf Haag	11 213	10 493
Stephan Kutzer	10 000	8 987
Jeanne Thoma	4 091	
Lukas Utiger	6 037	5 094
Harry Boot	123	

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

Employee Share Purchase Plan (ESPP)

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

The minimum conditions to participate in the ESPP Plus were in:
2006: ranging from 9 shares to 270 shares
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares

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

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

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

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

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

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

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

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

Lonza Annual Report 2011

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.

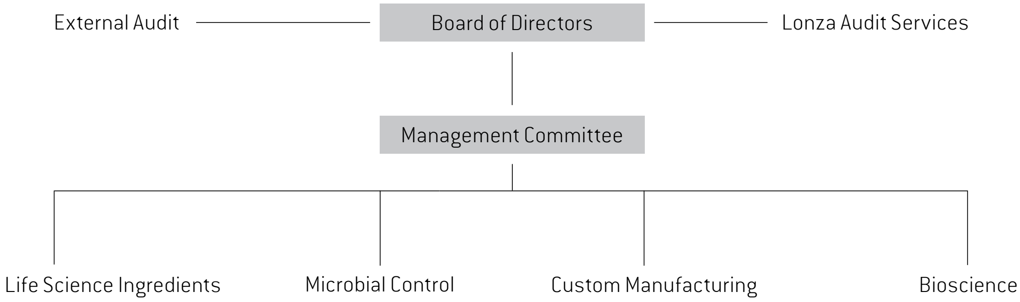
Detailed information on governance matters is also displayed on the company's website: www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx

1.1 Operational Group Structure

Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life-science industries. Its products and services span customers' needs, from research to final product manufacture. It is the global leader in the production and support of active pharmaceutical ingredients, both chemically and biotechnologically. Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries. Lonza has strong capabilities in large and small molecules, peptides, amino acids and niche bioproducts which play an important role in the development of novel medicines and healthcare products. Lonza is also the world leader in microbial control providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. In addition, Lonza is a leader in cell-based research, endotoxin detection and cell therapy manufacturing. Furthermore, the company is a leading provider of value-added chemical and biotech ingredients to the nutrition and agro markets.

1 www.lonza.com/article-of-association
2 www.lonza.com/bylaws
3 www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx
4 www.unglobalcompact.org
5 www.six-exchange-regulation.com/enforcement/sanction_decisions/adhoc_publicity_en.html

Organizational Structure



Lonza is headquartered in Basel, Switzerland. Its activities are organized in four divisions. The divisions function as profit centers and bear full responsibility for their respective business activities. A detailed description of Lonza's worldwide activities is available on the Group's website: www.lonza.com/en/about-lonza/company-profile/organization/business-structure.aspx

Holding company, principal subsidiaries and affiliates Lonza owns, directly or indirectly, all companies worldwide belonging to its Group, except Lonza Engineering AG (70 %) and TL Biopharmaceutical Ltd (50 %).

Principal subsidiaries[1] In 2011, Lonza acquired Arch Chemicals, Inc., a company with more than 70 affiliates, and integrated it in the new Microbial Control business sector, thereby creating the world's leading microbial control business. The new division will provide customers with complete solutions for their microbial control needs and will be perfectly positioned to offer a complementary range of products and activities to a broader range of customers in both established and emerging markets. The principal subsidiaries are shown on pages 92 and 93 of the Lonza Financial Report 2011.

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

1.2 **Principal Shareholders**

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

Principal Shareholders Number of shares at CHF 1 par value	31 12 2011	%	31 12 2010	%
Manning & Napier Advisors, Inc., Fairport (USA)	7 006 770	13.24	2 545 279	4.81
Franklin Resources, Inc., Fort Lauderdale (USA)	5 267 936	9.95	5 267 936	9.95
Affiliated Managing Group, Inc., Prides Crossing (USA)	1 912 949	3.61	n.a.	n.a.
Bank of New York Mellon, New York (USA)	1 737 479	3.28	n.a.	n.a.
BlackRock, Inc., New York (USA)	1 588 649	3.00	1 592 590	3.01
Grupo Plafin SA, Barcelona (ES)	n.a.	n.a.	4 120 364	7.79
FMR LLC, Boston (USA)	n.a.	n.a.	2 673 056	5.05
The Capital Group Companies, Inc., Los Angeles (USA)	n.a.	n.a.	2 512 994	4.75

Lonza Group Ltd knows of no other shareholder(s) that owned more than 3 % of the total share capital of Lonza Group Ltd as of 31 December 2011. To the best knowledge of Lonza Group Ltd, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza Group Ltd or the exercise of shareholders' rights. The company's 2011 reports in accordance with Art. 20 SESTA (Federal Act on Stock Exchange and Securities Trading) are published on the SIX Swiss Exchange Ltd disclosure platform[1] and on the company's website[2].

1.3 **Cross-shareholdings**

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

[1] www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.html

[2] www.lonza.com/about-lonza/investor-relations/investor-information/major-shareholders-and-changes-in-disclosed-shareholdings.aspx

2 Capital Structure

2.1 Share Capital

The share capital of Lonza Group Ltd as of 31 December 2011 was CHF 52 920 140, fully paid-in and divided into 52 920 140 registered shares with a par value of CHF 1 each.

Shareholder Structure	[1]2011 Shareholders %	[1]2011 Shares %	[1]2010 Shareholders %	[1]2010 Shares %
Switzerland	90.77	26.64	91.62	20.14
United Kingdom	0.77	29.36	0.75	26.75
Spain	0.42	0.04	0.45	7.81
USA	2.07	7.94	1.95	8.12
Others	5.96	3.12	5.22	5.73
Shares in transit		30.43		30.61
Treasury shares without voting rights	0.01	2.47	0.01	0.84
Total	**100.00**	**100.00**	**100.00**	**100.00**
Total number of shares		52 920 140		52 920 140

Share Register	[1]2011	[1]2010
Registered shareholders	18 328	17 366
Registered shares	36 815 534	36 722 975
Share distribution:		
1 – 100	6 756	6 845
101 – 1 000	10 100	9 224
1 001 – 50 000	1 418	1 108
50 001 – 100 000	27	161
100 001 – 1 000 000	21	23
over 1 000 000	6	5
Total registered shareholders	18 238	17 366

2.2 Authorized and Conditional Capital

As of 31 December 2011 Lonza Group Ltd had conditional capital of CHF 5 029 860 and authorized capital of CHF 5 000 000 at its disposal. This conditional/authorized capital was created by the Annual General Meetings held respectively on 11 April 2005 and 12 April 2011. The details and conditions are set out in Articles 4^bis^ to 4^quater^ of the Company's Articles of Association [2].

[1] As of 31 December
[2] www.lonza.com/article-of-association

2.3 **Changes in Capital**

2.3.1 **Share Capital and Registered Shares**

	2011[1]	2010[1]	2009[1]
Share capital in CHF	52 920 140	52 920 140	52 920 140
Registered shares	52 920 140	52 920 140	52 920 140
Par value in CHF / share	1	1	1

2.3.2 **Changes in Lonza Group Ltd Capital and Reserves**

CHF	Financial year 2011	Financial year 2010	Financial year 2009
Share capital	52 920 140	52 920 140	52 920 140
General legal reserve	26 460 070	25 225 000	227 776 480
Reserve from capital contribution	839 727 980	202 551 480	0
Reserve for own shares	110 550 603	44 491 517	68 061 133
Available earnings brought forward	783 334 935	1 524 326 393	1 495 985 580
Total capital and reserves	1 812 993 728	1 849 514 530	1 844 743 333
Net income for the year	97 196 559	74 229 225	96 490 269

For additional information, please refer to the consolidated statement of shareholders' equity on page 80 in the Lonza Financial Report 2011.

2.4 **Shares and Participation Certificates**

Lonza Group Ltd registered shares, with a par value of CHF 1 each, are listed / traded on the SIX Swiss Exchange (SIX) and on the Singapore Exchange Securities Trading Limited (SGX-ST). In Switzerland they are included in the SIX SMI mid Index (SMIM).

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

Security number: (i) SIX: 001384101 (valor), ISIN CH0013841017,
stock symbol: LONN VX (Telekurs); (ii) SGX-ST stock code: O6Z

On 31 December 2011, Lonza had a market capitalization of CHF 2 937 million (2010: CHF 3 966 million).

2.5 **Bonus Certificates**

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

[1] As of 31 December

2.6 Limitations on Transferability and Nominee Registrations

Purchasers of registered shares declaring that they have acquired these shares in their own name and for their own account will be entered without limitation as shareholders with voting rights in the share register. Persons who do not declare to have acquired the respective shares in their own name and for their own account are considered “nominees” and will be entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Company’s Articles of 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 November 2011 CHF 380 million (CHF 240 million at 2.25 % due in 2015 and CHF 140 million at 3.125 % due in 2018) and in 2010 Lonza Group Ltd, Basel, Switzerland, raised a CHF 400 million 3.00 % bond due 2016.

Options The members of the Board of Directors and the members of the Management Committee have no longer any rights to outstanding options.

[1] www.lonza.com/article-of-association

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is made up of non-executive members and comprises three Swiss and four non-Swiss members.

The members of the Board of Directors as of 1 January 2012 were as follows:

Name	Nationality	Year of birth	Position held	Year of initial appointment	Expiration of current term of office
Rolf Soiron	Swiss	1945	Chairman of the Board of Directors and Member of the Nomination and Compensation Committee	2005	2012
Sir Richard Sykes	British	1942	Vice-Chairman of the Board of Directors and Chairman of the Nomination and Compensation Committee	2003	2012
Patrick Aebischer	Swiss	1954	Member of the Board of Directors and Member of the Innovation and Technology Committee	2008	2012
Jean-Daniel Gerber	Swiss	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2011	2012
Dame Julia Higgins	British	1942	Member of the Board of Directors and Chairwoman of the Innovation and Technology Committee	2006	2012
Gerhard Mayr	Austrian	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2006	2012
Peter Wilden	German	1957	Member of the Board of Directors and Chairman of the Audit and Compliance Committee	2004	2012

With the exception of Dame Julia Higgins, all other members of the Board of Directors will stand for re-election for a further term of one year.

Rolf Soiron

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

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

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

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

Sir Richard Sykes

Sir Richard Sykes holds a number of degrees and awards from Institutions both in the UK and overseas. He is a Fellow of the Royal Society and Academy of Medical Sciences, and an Honorary Fellow of the Royal Academy of Engineering, Royal Society of Chemistry, Royal Pharmaceutical Society, Royal College of Pathologists and the Royal College of Physicians. He is also President of the R and D Society, a position he has held since 2002. He is president of the Institute for Employment Studies (IES) and President of the Medical and Dental Students' Association. He is a Fellow of Imperial College London and the Imperial College School of Medicine, King's College London and Honorary Fellow of the Universities of Wales and Central Lancashire. Sir Richard received a Knighthood in the 1994 New Year's Honours list for services to the pharmaceutical industry. He was awarded Honorary Citizenship of Singapore in 2004 for his contribution to the development of the country's biomedical sciences industry. He has over 30 years' experience within the biotechnology and pharmaceutical industries field.

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

Current activities and functions:
- Chairman of Imperial College Healthcare NHS Trust (since 2012)
- Chairman of the Royal Institution of Great Britain (since 2010)
- Chairman of the UK Stem Cell Foundation (since 2004)
- Chairman of CRAC, the Careers and Research Advisory Council (since 2008)
- Chairman of Toumaz UK Ltd, Oxford, UK (since 2005); Circassia UK, Oxford, UK (since 2007); Omnicyte Ltd, London (since 2006)
- Sits on the advisory boards of Siemens Holdings plc and the Virgin Group (since 2010)
- Chairman of the International Advisory Board, A*Star Biomedical Research Council, Singapore (since 2002)
- Board member of EDBI (since 2004)

Former activities and functions:
- Senior Independent Director and non executive Chairman of ENRC plc, London (2007–2011)
- Chairman of NHS London (2008–2010)
- Rector of Imperial College, London from (2000–2008)
- Non executive director of Rio Tinto plc, London (1997–2007) and senior independent director (2004–2007).
- Chief Executive and Chairman of Glaxo Wellcome plc, London (1995–2000) and then Chairman of GlaxoSmithkline plc, Middlesex, UK (until 2002)

Patrick Aebischer

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

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

Current activities and functions:
- Member of the Board of Directors of Nestlé Health Science SA (since 2011)
- President of the Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Professor of Neurosciences, Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Fellow of the American Institute for Medical and Biological Engineering (since 2000)
- Fellow of the Swiss Academy of Medical Sciences (since 1998)

Former activities and functions:
- Founder of three biotechnology companies

Jean-Daniel Gerber

Jean-Daniel Gerber Holds a lic. rer. pol in economics from the University of Bern. Awarded an honorary doctorate by the Faculty of Economics and Social Sciences of the University of Bern.

Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2011)

Former activities and functions:

- Director of the State Secretariat for Economic Affairs (SECO) with the title of State Secretary (2004–2011)
- Director of the Federal Office for Migration (then Federal Office for Refugees) in the Federal Department of Justice and Police (1997–2004)
- Executive Director at the World Bank (1993–1997) and Dean of the Executive Directors of the World Bank Group (1996–1997)
- Chief of Section for Developing Countries in the former Federal Office for Foreign Economic Affairs (1991–1992)

Dame Julia Higgins

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

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

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

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

Gerhard Mayr

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

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

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

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

Peter Wilden

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

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

Current activities and functions:

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

Former activities and functions:

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

3.3 **Elections and Terms of Office**

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

3.4 **Internal Organizational Structure**

In accordance with the law and the Articles of 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 2011:

	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Rolf Soiron		Member	
Sir Richard Sykes		Chairman	
Patrick Aebischer			Member
Jean-Daniel Gerber	Member		
Dame Julia Higgins			Chairwoman
Gerhard Mayr	Member		
Peter Wilden	Chairman		

[1] www.lonza.com/article-of-association

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

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

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

In 2011, the members of the Board of Directors spent their annual learning day in Singapore on the topic of "Lonza's presence in Asia".

Attendance and main topics Detailed information on attendance and main topics at Board and Committee meetings in 2011 is provided in the following table:

	Board of Directors	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Number of meetings	8 [1]	5	6 [2]	4 [3]
Overall attendance	93 %	100 %	100 %	100 %
Main topics	Discussions on Secondary Listing at SGX-ST	Review of 2011 audit findings, financial results and 2012 budget	Monitoring of compensation and incentive structure	Monitoring of trends in research and development
	Discussions on Arch Chemicals, Inc. acquisition; M&A review	Review of internal audit reports	Review of short-term incentive objectives and calculation basis	Review of developments in LIFT (Lonza Innovation for Future Technology)
	Discussions on site profitability improvements	Review of quarterly and half-year results/ outlooks	Reassessment of the long-term incentive program	Support of the innovation process
	Review of quarterly and half-year results 2011 and planning 2012	Review of VAT situation and transfer pricing	Review of succession plans and talent development program	Providing and facilitating scientific contacts

In 2011, an ad-hoc committee of the Board of Directors (R. Soiron, R. Sykes and P. Wilden) held four meetings (one as a telephone conference) to discuss and provide support for the acquisition of Arch Chemicals, Inc. In addition, members of the Board of Directors supported the Management Committee through regular individual contacts.

[1] Three as telephone conferences and five full-day meetings (all with members of the Management Committee attending)

[2] One as telephone conference

[3] At one meeting with the presence of an external consultant

3.5 **Areas of Responsibility**

The Board of Directors is responsible for the tasks assigned to it according to (i) Article 18 of the Company's Articles of 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 [1], 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 behavior, and provides assistance in recognizing, understanding and complying with the laws and ethical standards that govern Lonza's business activities.

Broad supervisory and reviewing powers are held by the Board of Directors, which is directly supported by the Lonza Audit Services. The Regulations Governing Internal Organization and Board 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/article-of-association
[2] www.lonza.com/bylaws
[3] www.lonza.com/about-lonza/investor-relations/corporate-governance.aspx

3.6 Information and Control Instruments

Lonza has a system of internal financial and accounting policies, procedures and controls to provide a reasonable assurance, given the inherent limitations of all internal control systems, at appropriate cost, that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded. Lonza Audit Services comprise 6.5 experts who oversee the finance, operational and process activities of the Group with a risk-based audit program. They continually evaluate the adequacy and effectiveness of the system of internal accounting policies, procedures and controls, and take appropriate action to correct deficiencies as they are identified. In 2011, they delivered 66 internal audit reports to the Audit and Compliance Committee.

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

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

4 Management Committee

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board 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 March 2011, Harry Boot was appointed COO Life Science Ingredients division and member of the Management Committee, and in October 2011 Jeanne Thoma was appointed COO Microbial Control division and member of the Management Committee.

4.1 Members of the Management Committee

At 1 January 2012, the Management Committee consisted of seven active members.

Name	Nationality	Year of birth	Current function
Stefan Borgas	German	1964	Chief Executive Officer (since June 2004*/COO Life Sciences Ingredients division (ad interim since June 2010 until March 2011)
Uwe H. Böhlke	German	1964	Chief Officer Human Resources/Corporate Services
Harry Boot	Dutch	1967	COO Life Science Ingredients division (as from March 2011)
Toralf Haag	German	1966	Chief Financial Officer
Stephan Kutzer	American	1965	COO Custom Manufacturing division
Jeanne Thoma	American	1959	COO Microbial Control division (as from October 2011)
Lukas Utiger	Swiss	1963	COO Bioscience division

[1] www.lonza.com/article-of-association

* Change of CEO was announced in January 2012

4.2 Activities and Functions of the Members of the Management Committee

Stefan Borgas

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

Chief Executive Officer (since June 2004*);
since June 2010 until March 2011 also ad interim COO Life Science Ingredients division

Former activities and functions:

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

* Change of CEO was announced in January 2012

Uwe H. Böhlke

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

Member of the Management Committee (since January 2007)

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

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

Harry Boot

Harry Boot Holds a masters degree in mechanical engineering from the Technical University of Delft, Holland

Member of the Management Committee (since March 2011)

Functions within Lonza:
- COO Life Science Ingredients division (since March 2011)

Former activities and functions:
- Chief Commercial Officer of Bluestar / Blackstone, Beijing (2009 – February 2011)
- Chief Commercial Officer Europe, Middle East & Africa at GE Consumer & Industrial (C&I), Budapest (2007 – 2009)
- Held various positions at GE Plastics (GEP) in Shanghai, Stockholm and Bergen op Zoom:
  Polymers Director Pacific and GE Industrial Growth Leader Pacific (2006 – 2007) / Marketing Director Pacific (2005 – 2007) / Marketing Director Europe (2002 – 2005) / European Commercial Director (2000 – 2002) / Global & Pan European Sales Leader (1998 – 2000)

Toralf Haag

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

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

Former activities and functions:

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

Stephan Kutzer

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

Member of the Management Committee (since July 2005)

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

Jeanne Thoma

Jeanne Thoma Holds a Bachelor of Science from Montclair State University and a Master in Business Administration (MBA) from Fairleigh Dickinson University

Member of the Management Committee (since October 2011)

Functions within Lonza:
- COO Microbial Control division (since October 2011)
- Head of the Microbial Control business unit (June 2007–October 2011)
- Member of the Management Committee (August 2005–June 2007)
- Joined Lonza as Head of Global Human Resources (December 2004)

Former activities and functions:
- Held various positions with BASF Corporation (1990–August 2004) in Sales, Marketing and Logistics.
- Worked as a Sales and Marketing Consultant to Fortune 500 companies (1985–1989)

Lukas Utiger

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

Member of the Management Committee (since August 2001)

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

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

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

5 Compensation, Shareholdings and Loans

Details of Board and Management compensation are contained in the Consolidated Financial Statements (page 157, note 33) and in the Remuneration Report (page 185).

6 Shareholders' Participation Rights

6.1 **Voting-rights Restrictions and Representation**

Only persons with valid entries in the share register are recognized as shareholders or usufructuaries. A shareholder may only be represented at the Annual General Meeting by a legal representative or – by way of written proxy – by another shareholder entitled to vote, the appointed representative of the corporate body, the independent proxy or an assignee of proxy votes for deposited shares. Persons who do not declare to have acquired their shares in their own name and for their own account are considered "nominees" and will be only entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Company's Articles of Association[1].

Each share has the right to one vote.

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

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

6.2 **Statutory Quora**

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

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

[1] wwww.lonza.com/article-of-association

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.

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 23 March 2012 at 5 pm.

7 Changes of Control and Defense Measures

7.1 **Duty to Make an Offer**

An offer to acquire all shares must be made in accordance with Art. 32 SESTA (Federal Act on Stock Exchange and Securities Trading) if the threshold of 33 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**

The employment agreements / pension plans of the Management Committee Members contain certain clauses on changes of control, which are outlined in the Remuneration Report (page 185 ss).

[1] www.lonza.com/article-of-association

8 Auditors

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

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

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

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

The Board of Directors proposes that KPMG Ltd be re-elected as statutory and Group auditors for the business year 2012.

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

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 4.212 million (2010: CHF 2.048 million) for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities.

8.3 Additional Honorarium

KPMG Ltd received a total fee of CHF 0.125 million (2010: CHF 0.01 million) for other services rendered to Lonza.

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

The Audit and Compliance Committee is responsible for evaluating the external auditors on behalf of the Board of Directors. In the reporting year, there were two joint meetings with the representatives of the external auditors. The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Audit and Compliance Committee is also responsible for overseeing the conduct of the activities by Lonza management and the external auditors.

The independent statutory auditor, KPMG Ltd, is responsible for expressing an opinion on the accounting records and the financial statements prepared in accordance with Swiss law and the Company's Articles of 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.

[1] www.lonza.com/article-of-association

9 Information and Key Reporting Dates

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

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

Lonza Group Ltd provides shareholders entered in the share register (on request only) with an annual report as well as with the half-year and full-year results. These reports are also available on the company's website www.lonza.com. The website is regularly updated and provides relevant information such as share price development, news releases and presentations. It also contains an electronic version of the Annual Report 2011 .

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

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

Anticipated Key Reporting Dates

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

Annual General Meeting for the 2011 financial year
3 April 2012, 10.30 am
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2012, analysts' meeting
25 July 2012

Full-year Report 2012, analysts' meeting
January 2013

Annual General Meeting for the 2012 financial year
9 April 2013
Congress Center Basel, MCH Swiss Exhibition (Basel) Ltd

Dividend Transfer to Banks

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

This publication is accessible online at www.lonza.com and is also available in German. The English version prevails. In this report, “Lonza” and “the Group” refer to the whole group of Lonza companies, “Lonza Group Ltd” refers to Lonza Holding. Lonza is listed on the SIX Swiss Exchange, with a secondary listing on the Singapore Exchange Securities Trading Limited (“SGX-ST”). Lonza is not subject to the SGX-ST’s continuing listing requirements. Lonza is subject to the listing rules of the SIX Swiss Exchange. By publishing this Annual Report, Lonza fulfills its obligations under the SIX Swiss Exchange as well as its obligation towards SGX-ST.

Forward-looking statements

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

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1 Marie-Madlen Amstutz, Operator: temperature control while sterilizing the sampling system at the main fermenter.

2 Stefan Walker, shift worker, at the control panel of a centrifuge.

3 Benjamin Burk, biology lab assistant at QC BioPharma Microbiology: aseptic preparation of an active pharmaceutical ingredient for contamination control.

4 Heinz Locher, logistics assistant: sampling of raw materials at the reception control.

5 Deborah Venetz, biology lab assistant at QC BioPharma Microbiology: membrane filtration of an active pharmaceutical ingredient for contamination control.

6 QC BioPharma Microbiology: identification of microorganisms on the genomic level.

7 Andreas Hänni, operator: packaging and labeling of products.

8 Andreas Hänni, operator: monitoring activities.

9 Deborah Venetz, biology lab assistant at QC BioPharma Microbiology, flaming forceps tips for aseptic transfer of membranes onto growing media.

Pictures for Photo Reportage:
Thomas Andenmatten, Brig, Switzerland

10 At the table, Erich Truffer, logistics employee, shipping department, checking and labeling pallets with the necessary shipment and customer labels. On the vehicle, Benjamin Summermatter, logistics employee, shipping department, receiving the packed and labeled pallets from the conveyor system.

11 Carsten Meininghaus, former Head of QA Visp Custom Manufacturing: Training in the auditorium.

12 Daniela Grand, QA manager: visual check through the inspection glass.

13 Urs Abgottspon, operator, connecting a water hose.

14 Janick Haene, laboratory assistant, changing the sample plate of an HPLC chromatograph.

15 Technical adjustment of a Lonza microreactor.

16 Matthias Schnydrig, logistics employee, technical goods reception, taking delivery of a consignment for inspection.

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Anticipated Key Reporting Dates

Annual General Meeting
for the financial year 2011
3 April 2012, 10.30 am
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2012: **25 July 2012**
Full-year Report 2012: **January 2013**

Annual General Meeting
for the financial year 2012
9 April 2013
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

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

Listing and Security Information

Stock Exchange Listing / Trading
SIX Swiss Exchange, SGX Singapore Exchange

Common Stock Symbols
Bloomberg LONN:VX
Reuters LONN.VX
Telekurs LONN

Security Number
Valor 001384101
ISIN CH0013841017

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The quality manager optimizes quality-oriented processes in line with the goal of continuous improvement. Ensuring quality standards is not just a matter for the Quality Units. Everyone is responsible for product quality in his or her field.