Half-Year Report 2014

Lonza

Half-Year Financial Highlights

Core[1] Earnings million CHF		2014	Change in %	2013
Core result from operating activities (EBIT)		241	13.1	213
Margin in %		13.4		12.2
Core EBITDA		368	6.4	346
Margin in %		20.4		19.8
Core profit for the period		162	27.6	127
Core EPS basic	CHF	3.12	27.3	2.45
Core EPS diluted	CHF	3.10	27.0	2.44
Core RONOA in %		14.5	22.9	11.8

IFRS Results million CHF		2014	Change in %	2013
Sales		1 800	3.2	1 744
EBITDA		362	8.4	334
Margin in %		20.1		19.2
Result from operating activities (EBIT)		215	92.0	[2]112
Margin in %		11.9		6.4
Profit for the period		140	241.5	41
EPS basic	CHF	2.69	240.5	0.79
EPS diluted	CHF	2.68	239.2	0.79
Operational free cash flow		124	82.4	68
RONOA in %		10.5	59.1	6.6
Net debt		2 113	(12.6)	2 417
Debt-equity ratio		1.02	(9.7)	1.13
Number of employees		9 761	(5.0)	10 274

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 acquisitions-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges/income from restructuring are eliminated. "Core RONOA" does not include acquisition related intangible assets. See also page 7.

2 Includes impairment of CHF 69 million related to the phasedown of the Hopkinton site.

- Business is fully on track with a CORE EBIT growth of 13.1% compared with the first half of 2013 despite currency headwinds
- Revenue grew by 7.0% in constant exchange rates, 3.2% in the reported currency
- Pharma&Biotech made good progress in all three Business Units in the first half of 2014
- Specialty Ingredients had a good performance with an especially strong contribution from Consumer Care and Industrial Solutions
- Ongoing transformational initiatives towards a leaner and more market-driven organization show positive impact, and we have identified further upside potential from all Business Units
- Net debt has been reduced by CHF 304 million compared with the first half of 2013

Overview

In the first half of 2014, both segments delivered a sound performance despite currency headwinds and are fully on track to deliver on the growth targets. Compared with the same period 2013, sales growth of 3.2% to CHF 1.8 billion and CORE EBIT growth of 13.1% to CHF 241 million are coming from the implementation of growth projects and from restructuring activities. With Lonza still in the midst of an ongoing transformational process, this is a satisfying result.

The businesses also managed to deliver strong performances against external obstacles like unfavorable exchange rates, lower-than-anticipated GDP growth rates worldwide, adverse weather conditions and different order patterns by our customers. This positive overall development is supported by the rigorous implementation of our transformational initiatives, namely Go-To-Market-Excellence, Manufacturing Footprint Optimization and Business Services Excellence, which are delivering the anticipated results.

Our Pharma&Biotech segment reported a strong first half of the year with substantially higher sales and increased profitability. While different technologies in the three Business Units showed good progress, the segment experienced particularly strong momentum from the demand for mammalian biopharma and Antibody Drug Conjugates (ADCs). These positive developments were supported by a solid project pipeline across the board in our unique technology offerings.

The capacity utilization across the entire network was at budgeted levels in the first half of 2014 and is expected to improve going forward. Lonza continues to benefit from a good market positioning and our ability to meet growing customer interest in future technologies such as ADCs, Cell Therapy and Viral Therapy. Our continuous quality updating supports our productivity targets and fulfills our customers' requirements.

The Specialty Ingredients segment had a solid performance in the first half of 2014 with the strongest contribution coming from Consumer Care, which includes Personal Care & Preservation, Nutrition and Hygiene. Industrial Solutions and Agro Ingredients both have developed well and achieved a result above last year's level. In the Northern Hemisphere, weather conditions did not improve over last year; consequently, the Water Treatment business performed on similar levels as 2013.

The Specialty Ingredients segment continues to benefit from the ongoing positive impact of cost reductions and productivity improvements. Sound market demand in the major markets resulted in continued high asset utilization in most technologies. Some innovative new product launches across Specialty Ingredients that answer to the needs and requirements in our markets are expected to contribute positively in the future.

Corporate Initiatives

Our three corporate transformational initiatives are becoming increasingly interlocked and are continuing to contribute positively to the overall Group performance. Specifically the Go-to-Market-Excellence initiative is gaining traction with a wider reach into the organization as it provides vital tools and processes to manage more efficiently our sales processes, our assets and our offers, as well as how we segment our portfolio of existing and potential new markets and customers. Our Manufacturing Footprint Optimization and Business Services Excellence initiatives are in full motion and are gaining traction.

Optimizing Our Portfolio

The strategic evaluation process of the Wood Protection business is on its way. We will update the financial markets as soon as a decision has been made to either divest the business or to go for other strategic options. From a business perspective, Wood Protection continued to improve performance as expected compared with the first half of 2013.

Financial Summary

- CORE EBIT growth of 13.1% to CHF 241 million
- Sales increased by 7.0% in constant exchange rates (3.2% in reported currency) to CHF 1.8 billion
- Profit for the period increased by 242% to CHF 140 million
- Capital expenditure of CHF 70 million (18.6% lower than in the first half of 2013)
- Operational free cash flow grew by 82.4% to CHF 124 million
- Net debt reduction of CHF 304 million to CHF 2,113 million. This resulted in a gearing of 102% and a net debt/EBITDA ratio of 2.81× (3.33× end of June 2013)
- CORE RONOA at 14.5% compared with 11.8% in the first half of 2013

Outlook

Our ongoing transformational initiatives towards a more market-driven organization are having a positive impact, and we have identified additional upside potential from all Business Units going forward. We will now also increase our focus on exploiting these opportunities systematically. All businesses have a solid product and project pipeline supporting future growth. The broad technology toolbox we have available enables us to serve our markets and customers with market-leading solutions.

Based on a positive performance in the first half of 2014 and based on current market conditions and constant exchange rates, Lonza reiterates its Full-Year 2014 outlook with a CORE EBIT growth of ~10% and sales growth of ~5%. The capital expenditure in 2014 will remain well below CHF 300 million.

We thank you, our internal and external stakeholders, for your continuous support for and engagement in Lonza.

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Specialty Ingredients
Segment

Specialty Ingredients million CHF	2014	Change in %	2013
Sales	**1 106**	(2.3)	1 132
Core result from operating activities (EBIT)	**161**	5.2	153
Core EBIT margin in %	14.6		13.5
Core EBITDA	**201**	3.1	195
Core EBITDA margin in %	18.2		17.2

Our Lonza Specialty Ingredients (LSI) segment had a solid performance in the first half of 2014 despite currency headwinds. The segment includes our consumer-oriented offerings, with Consumer Care encompassing our Personal Care & Preservation, Nutrition and Hygiene businesses. Specialty Ingredients benefits from solid market positions also in Agro Ingredients, Water Treatment, Industrial Solutions and Wood Protection.

Consumer Care
Consumer Care delivered a solid performance during the first half of 2014 on continued strength in Nutrition and Hygiene while highlighting the path forward for Personal Care & Preservation with new product launches.

Personal Care & Preservation
In the first half of 2014, Personal Care & Preservation experienced a good start to the antidandruff business as our participation with industry-leading brands strengthened and our efforts to capture sales with other multinational customers were successful. Demand is expected to remain strong throughout the balance of 2014 with global business continuity being assured by two mirror plants in Rochester, NY (USA) and Suzhou (CN).

Personal Care & Preservation sales remained strong in the first six months. In line with our commitment as one of the global microbial control leaders to advocate for the industry and support our products, Consumer Care's ongoing legislative and advocacy efforts are having a favorable impact on several legislative efforts in key U.S. states through product defense and information campaigns conducted in conjunction with trade associations and customers.

Three new product introductions in the first half of 2014 highlighted Consumer Care's strategic path forward into hair conditioning and skin-care leave-ons. The skin-care product complements our well-established position in skin-care actives. Favorable customer acceptance has resulted in immediate sales of our skin-care emollient Lonzest DC™ in Asia.

Nutrition
For the first half of 2014, increased market pricing in animal feed applications for vitamin B3 and stable raw material costs in major feedstocks buttressed performance in Nutrition. While weaker demand in animal feed resulting from the avian bird flu had a negative impact on shipments, this impact was offset in the first six months by price increases and robust shipments of vitamin B3 and derivative products in chemical applications. L-Carnitine sales were according to plan and budget, with stable market demand from both the nutrition and the pharmaceutical markets.

The niacin plant in Guangzhou (CN) ceased operations in the second quarter of 2014 as planned. Throughout the first half of 2014, we remained on schedule for the full-commissioning and commercial start-up of the Nansha (CN) facility in the third quarter of 2014.

Hygiene
The Hygiene business delivered impressive results given the difficult start to the year with challenging North American weather conditions. This year's long wintry weather conditions had a negative impact on logistics and shipments from our manufacturing plants for on-time delivery.

The launch of our registered cleaning solutions (Lonzagard RCS™) portfolio has been well received and has gained broad industry acceptance. Preparation for our first targeted launch (formulated solution "CE-50" for EMEA) in the medical-instrument disinfection market was completed in the second quarter and is now scheduled for introduction in the third quarter of 2014.

Our parallel thrust into disinfecting wipes for consumer retail brands continues to strengthen with business building in private-label wipe applications for rapid-kill formulations. This business is expected to grow significantly going forward based on the institutional and consumer need for convenience and assured cleanliness.

One of our customers in North America launched an important sanitizer for food and beverages that contained our Lonzabac 12™, which provides us a major platform for growth among our offerings for hotels and restaurants.

Also in the first half of 2014, the U.S. Environmental Protection Agency (EPA) approved our liquid disinfection cleaner and wipes for H7N9 (avian bird flu). Lonza is the first organization globally to provide a comprehensive solution to combat this crisis.

Agro Ingredients

The chemical and biotechnological custom manufacturing of our Agro Ingredients business experienced a good performance as originally anticipated. However, imbalances in the product mix and postponements of sales into the second half of this year had a slightly negative impact on sales in the first half of 2014.

Our manufacturing facilities were highly utilized, and capacity expansion projects are underway in order to secure the growing market demand. The growing capacity utilization and the project pipeline in biopesticide development and manufacturing services reflect the increased interest in this sector. We also have observed strong and ongoing demand for our fermentation capacities.

Meta™, Lonza's own branded slug- and snail-control active ingredient (molluscicide) in agriculture and home-and-garden applications, experienced similar sales in the first half as in the same period last year due to favorable wet weather conditions that resulted in strong slug infestation in our main markets in Europe. The number of countries where we have obtained the registration for our own branded, formulated product Axcela™ is growing steadily; and the product was successfully launched in each of these countries. Strategic geographic expansion with the active substance and with specific formulations is progressing according to plan in NAFTA, South America, Asia and South Africa.

As a result of the continued growing demand for crop protection, Lonza's specialty chemicals for agrochemical solutions experienced a strong market demand leading to an overall significant increase in sales compared with the same period last year. These agrochemical solutions include formulation ingredients like the ready-to-use preservation agents (Proxel™) and pre- and post-harvest treatments for the agro industry (Frexus™ line).

Water Treatment

Long, wintry weather conditions and the late start of the season in the Northern Hemisphere had an impact on the Recreational Water Treatment business. However, towards the end of the second quarter of 2014, demand picked up well. Overall, the business performed better than the same period last year.

In South America the warmest summer in 75 years boosted sales in the Recreational Water Treatment business. Due to the unfavorable foreign exchange rate, however, these gains are not visible in the reporting currency. The newly launched "10 in 1 Mineral Brilliance™" products were well accepted by clients in South America. The introduction of this innovative product in the Northern Hemisphere has started, too.

Going forward, increased emphasis on the industrial, commercial and municipal (ICM) markets will help to counter-balance the dependency on the weather in the Recreational Water Treatment business. First inroads are being made, for example, in the Middle East where our new feeder installations in commercial (hotel) pools and municipalities (treatment of drinking water and post-chlorination) are first contributors. Interest is increasing in North America for Lonza's product Clearigate™ as a primary chemical to control water weeds and algae in canal systems.

Industrial Solutions

In the first half of this year, Industrial Solutions experienced strong market demand for coatings and composites such as ship antifouling solutions and biocides for consumer paints. New formulations for Proxel™ and Densil™ brands have gained traction in the market. Proxel™ formulations are designed to be effective against bacteria, fungi and yeasts in a wide range of industrial, aqueous-based products. Densil™ formulations are also effective in a wide range of industrial, aqueous-based products and act as dry-film fungicides and/or wet-state preservatives.

Primaset™ resins for high-tech composites in the electronics and aerospace industries experienced good demand in the first half of 2014. Several new and innovative Primaset™ products designed for specific applications in electronics and industrial composite materials found good market acceptance. The Pyromellitic Dianhydride (PMDA) plant in Nanjing, (CN), is now fully qualified at all major export customers. Healthy demand, driven by generally favorable end-user markets like electronics, delivered positive results. The shale oil and gas business is delivering as expected.

Wood Protection

The strategic evaluation process of the Wood Protection business is on its way.

On a global basis, sales were above the same period last year with EMEA and APAC showing the strongest increase.

Prolonged wintry weather and large customer pre-buys in December 2013 had an impact on overall volumes in North America in the first half of 2014. Housing starts in the United States in the first quarter were lower than expected; but conditions improved towards the end of the second quarter, with big-box retailers, commercial dealers and industrial cooperatives starting to release their shipments of treated wood and other materials.

EMEA sales started the year slowly but have improved in the second quarter with sales above target and better than the first half of 2013. The first half of the year was particularly good for Portugal, Spain, Sweden and the UK, who saw sales for timber well ahead of the same period last year.

After several months of instability, conditions in South Africa are much improved and look to be stabilizing. Overall sales for APAC were on target for the first half of 2014, driven by strong sales in Australia and New Zealand with more favorable construction markets despite weaker foreign exchange rates.

Pharma&Biotech
Segment

Pharma&Biotech million CHF	2014	Change in %	2013
Sales	674	10.7	609
Core result from operating activities (EBIT)	100	37.0	73
Core EBIT margin in %	14.8		12.0
Core EBITDA	167	15.2	145
Core EBITDA margin in %	24.8		23.8

Known as one of the world's leading service and manufacturing providers with a broad range of offerings to the pharmaceutical and biotechnology industry, Lonza continued to expand its market presence in the first half of 2014. As a contract manufacturer, we remain an attractive partner for the industry, which continues to emphasize its dual-sourcing strategies in order to mitigate risks and secure supplies, particularly among pharmaceutical and biotechnological companies that have in-house manufacturing capabilities.

Despite the more stringent behavior of regulatory authorities, Lonza is highly regarded in the industry as a reliable source with a proven regulatory track record. Our continuous quality updating supports our productivity targets and fulfills our customers' requirements.

Custom Manufacturing

During the first half of 2014, Lonza was able to sign several long-term commercial product agreements with new customers. In addition, we signed contracts with our customers for new early- and late-phase projects across all technologies.

Capacity utilization of most of our facilities was at planned and anticipated levels. The future order book in the mammalian cell culture business has improved substantially in the first half of 2014. Further productivity improvements for all technologies in 2014 and following years are expected to result in higher output per plant and ultimately in an increase in our top and bottom line. This will be realized with our existing production network.

In the first quarter, Lonza announced that it had established an agreement with Pharmacyclics, Inc., to support the commercial and clinical production of its first-in-class oral oncology drug, Imbruvica™ (Ibrutinib). This agreement follows a successful multi-year relationship, including the development and clinical manufacturing processes utilized for Pharmacyclics' NDA submission, resulting in its first FDA approval of their lead product for oncology treatment.

The second large-scale cGMP Antibody Drug Conjugates (ADC) facility in Visp (CH) started manufacturing on time in the second quarter of this year. Based on a rapidly increasing project pipeline and subsequent demand for Active Pharmaceutical Ingredients (API) for projects included in clinical trials, this new facility will help to meet market demand.

In addition, Lonza has announced that it will invest in single-use technology and facility upgrades for clinical manufacturing. With this investment Lonza is able to accommodate existing and novel ADC platforms and will reduce the risk of potential product contamination.

The Lonza Cell Therapy business pipeline is driven by increased innovation, our broad technological toolbox and our expertise. The demand in Viral Therapy remained strong, driven by the ongoing high level of investment in viral gene therapies by the pharmaceutical industry. Lonza's Viral Therapy growth is being driven by both existing and new customers.

Custom Development

Custom Development achieved a solid half-year performance. Our core technology platforms have been strengthened further to address industry challenges. With the miniaturization and automation implemented in mammalian and microbial process development, we are improving process robustness and speed of development programs for our customers.

We are actively improving cell therapy processes, including bioreactor development, to be able to support client projects as they move into later stages of clinical development to provide our clients scalability and reduced time for development. Lonza's developability assessment toolbox de-risks early candidates, as well as reducing R&D costs, saving time and increasing the chance of a candidate's clinical success. Our Microreactor technology is enabling the development of complex small molecules otherwise unable to be made using conventional batch technology.

During the first half of 2014, Lonza signed an exclusive agreement with Index Ventures LLP, a leading venture-capital investment firm, for the development and manufacture of biologics for portfolio companies. This five-year exclusive agreement for process development and cGMP manufacturing for all biological products in the portfolio includes all companies where Index Ventures will be the majority shareholder.

Lonza and AMYRA Biotech AG, a biotech company developing novel enzyme-based treatments for celiac disease (gluten intolerance), announced in the second quarter of 2014 an agreement for the development and manufacture of AMYRA's two proprietary enzymes that target gluten. The XS™ Commercial License provides access to Lonza's multi-host XS™ Microbial Expression Technology Platform.

Corporate

Bioscience Solutions

Bioscience Solutions turned in a solid performance in the first half of 2014. A strong recovery of the European research business, with improved spending by institutional, governmental and research organizations, contributed to that result. However, conservative spending in the U.S. research markets partially off-set this good performance. The business enjoyed a steadily improving Cell Biology & Transfection business.

New Japanese cell therapy regulations were passed that will lead to the opportunity to commercialize stem cells based on Phase II clinical data; first approval under this law will occur within the next six months. As market leader Lonza will benefit from the early commercialization by our customers. The first induced Pluripotent Stem Cell (iPSC) project for a Japanese company that will utilize new regulatory pathway has already been signed.

We launched the first product dedicated to the promising Pluripotent Stem Cell market: L7™ hPSC Culture System. Further product launches in 2014 are planned to serve our customers with tailored Pluripotent Stem Cell research solutions.

In the second quarter, Lonza Bioscience Singapore received cGMP certification from the Singapore Health Sciences Authority (HSA) for our Cell Therapy facilities.

The collaboration with Sartorius on our bulk and custom media offerings continues to develop well on the back of solid market demand. Moda™, the paperless QC solution, experienced a strong first half of the year from an ordering perspective. New customers were developed in North America and Japan, and various new prospects have been identified.

Corporate million CHF	2014	2013
Sales	20	3
Core result from operating activities (EBIT)	(20)	(13)
Core EBITDA	0	6

Core Results as Defined by Lonza

Lonza believes that understanding in the financial markets of the Group's performance is enhanced by emphasizing the core results of performance because the core results enable better comparison over a period of years. Therefore, the core results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these core results, in addition to IFRS, as important factors in assessing the Group's performance. See also footnote in Financial Highlights on page 1.

Condensed Financial Reports

Condensed consolidated balance sheet at 31 December 2013 and 30 June 2014 (unaudited) million CHF	2014	2013
Non-current assets	4 570	4 658
Non-current loans and advances	72	69
Total non-current assets	**4 642**	4 727
Current assets	1 684	1 505
Current advances	0	3
Cash and cash equivalents	275	306
Total current assets	**1 959**	1 814
Total assets	**6 601**	6 541
Equity attributable to equity holders of the parent	2 078	2 126
Non-controlling interest	0	0
Total equity	**2 078**	2 126
Non-current liabilities	1 119	1 035
Non-current debt	2 321	2 221
Total non-current liabilities	**3 440**	3 256
Current liabilities	944	899
Current debt	139	260
Total current liabilities	**1 083**	1 159
Total equity and liabilities	**6 601**	6 541

Condensed consolidated income statement for the six months ended 30 June (unaudited) million CHF		2014	2013
Sales		**1 800**	1 744
Cost of goods sold		(1 253)	(1 331)
Gross profit		**547**	413
Operating expenses		(332)	(301)
Result from operating activities (EBIT)		**215**	112
Net financing costs		(40)	(58)
Share of loss of associates/joint ventures		(1)	(5)
Profit before income taxes		**174**	49
Income taxes		(34)	(8)
Profit for the period, attributable to the equity holder of the parent		**140**	41
Basic earnings per share – EPS basic	CHF	2.69	0.79
Diluted earnings per share – EPS diluted	CHF	2.68	0.79

Condensed consolidated statement of comprehensive income for the six months ended 30 June (unaudited)

million CHF

	2014	2013
Profit for the period	**140**	41
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of net defined benefit liability	(97)	107
Income tax on items that will not be reclassified to profit or loss	23	(33)
	(74)	74
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(6)	46
Cash flow hedges	(1)	(2)
Income tax on items that are or may be reclassified to profit or loss	1	(2)
	(6)	42
Other comprehensive income for the period, net of tax	**(80)**	116
Total comprehensive income for the period, attributable to the equity holders of the parent	**60**	157

Condensed consolidated cash flow statement for the six months ended 30 June (unaudited)

million CHF

	2014	2013
Profit for the period	**140**	41
Adjustment for non-cash items	236	301
Income tax and interest paid	(48)	(79)
Increase of net working capital	(173)	(182)
Use of provisions	(20)	(3)
Increase of other payables net	28	23
Net cash provided by operating activities	**163**	101
Purchase of property, plant & equipment and intangible assets	(70)	(86)
Net purchase of other assets	(4)	(9)
Interest and dividend received	9	2
Net cash used for investing activities	**(65)**	(93)
Issue of straight bond	0	299
Repayment of straight bond	0	(300)
Decrease in debt	(19)	(48)
Increase/(decrease) in other liabilities	1	(3)
Dividends paid	(112)	(112)
Net cash used for financing activities	**(130)**	(164)
Effect of currency translation on cash	1	2
Net decrease in cash and cash equivalents	**(31)**	(154)
Cash and Cash equivalents at 1 January	306	429
Cash and Cash equivalents at 30 June	275	275

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

million CHF

	Attributable to owners of the parent							Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
Six months ended 30 June 2013									
Balance at 1 January 2013	**53**	**310**	**2 352**	**1**	**(529)**	**(84)**	**2 103**	**(1)**	**2 102**
Profit for the period	0	0	41	0	0	0	41	0	41
Other comprehensive income, net of tax	0	0	74	(2)	44	0	116	0	116
Total comprehensive income for the period	**0**	**0**	**115**	**(2)**	**44**	**0**	**157**	**0**	**157**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	0	0	4	0	0	0	4	0	4
Transfer of employee shares	0	0	(3)	0	0	3	0	0	0
Changes in non-controlling interest	0	0	0	0	0	0	0	1	1
Balance at 30 June 2013	**53**	**310**	**2 356**	**(1)**	**(485)**	**(81)**	**2 152**	**0**	**2 152**
Six months ended 30 June 2014									
Balance at 1 January 2014	**53**	**310**	**2 416**	**1**	**(574)**	**(80)**	**2 126**	**0**	**2 126**
Profit for the period	0	0	140	0	0	0	140	0	140
Other comprehensive income, net of tax	0	0	(73)	(1)	(6)	0	(80)	0	(80)
Total comprehensive income for the period	**0**	**0**	**67**	**(1)**	**(6)**	**0**	**60**	**0**	**60**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	0	0	4	0	0	0	4	0	4
Transfer of employee shares	0	0	(1)	0	0	1	0	0	0
Balance at 30 June 2014	**53**	**310**	**2 374**	**0**	**(580)**	**(79)**	**2 078**	**0**	**2 078**

Selected Explanatory Notes

1 Accounting Principles

Basis of Preparation of Financial Statements These condensed consolidated financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2014 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2013 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements for the year ended 31 December 2013, except for accounting policy changes made after the closing date of the annual financial statements. However, they do not include all the information required for a complete set of IFRS financial statements.

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

Changes in Accounting Policies
There were no new standards or amendments to existing standards that have a material effect on Lonza's financial statements.

2 Exchange Rates

Balance sheet period-end rate CHF	30 06 2014	31 12 2013
US dollar	0.89	0.89
Pound sterling	1.52	1.47
Euro	1.22	1.23

Income statement half year average rate CHF	2014	2013
US dollar	0.89	0.94
Pound sterling	1.49	1.45
Euro	1.22	1.23

3 Seasonality of Operations

Most businesses operate in business areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year, except for some businesses within the Specialty Ingredients segment. In particular the water products business is seasonal in nature as its products are primarily used in the United States. Therefore, the results of the Specialty Ingredients segment for the six-month period ended 30 June 2014 are not indicative of the results to be expected for the entire financial year.

4 Impairment of Assets

As of 30 June 2013, the Group decided to concentrate and consolidate its future Microbial Biologics assets and activities at the Visp (CH) site. As a result, the Microbial Biologics plant in Hopkinton, MA (USA) was phased down. As a consequence of the lower capacity utilization, the Group recognized an impairment of the Hopkinton-related property, plant and equipment of CHF 69 million, based on a value-in-use calculation, applying a pre-tax discount rate of 7.6%. The impairment loss was recorded within cost of goods sold of the Pharma&Biotech segment.

5 Dividend Paid

On 16 April 2014, the Annual General Meeting approved the distribution of a dividend of CHF 2.15 (2013: CHF 2.15) per share in respect of the 2013 financial year. The distribution to holders of outstanding shares totaled CHF 112 million (2013: CHF 112 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

6 Operating Segments

Six months ended 30 June 2014 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations[1]	Total Group
Sales third-party	**1 106**	**674**	**1 780**	**20**	**1 800**
Inter-segment sales	35	21	56	(56)	0
Total sales	**1 141**	**695**	**1 836**	**(36)**	**1 800**
Result from operating activities (EBIT)	**146**	**94**	**240**	**(25)**	**215**
Return on sales %	13.2	13.9	13.5	n.a.	11.9
Net financing costs					(40)
Share of loss of associates/ joint ventures					(1)
Profit before income taxes					**174**
Income taxes					(34)
Profit for the period					**140**

Six months ended 30 June 2013 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations[1]	Total Group
Sales third-party	**1 132**	**609**	**1 741**	**3**	**1 744**
Inter-segment sales	21	16	37	(37)	0
Total sales	**1 153**	**625**	**1 778**	**(34)**	**1 744**
Property, plant and equipment impairment	0	(69)	(69)	0	(69)
Result from operating activities (EBIT)	**137**	**(7)**	**130**	**(18)**	**112**
Return on sales %	12.1	(1.1)	7.5	n.a.	6.4
Net financing costs					(58)
Share of loss of associates/ joint ventures					(5)
Profit before income taxes					**49**
Income taxes					(8)
Profit for the period					**41**

1 The "Corporate/eliminations" column represents the corporate function, including eliminations for reconciliation of the Group total.

7 Financial Instruments

Carrying amounts and fair values of financial instruments by category million CHF	Carrying amount 30 06 2014	Fair value 30 06 2014	Carrying amount 31 12 2013	Fair value 31 12 2013
Financial assets – available for sale				
Other investments – available for sale – carried at cost	7	7	6	6
Total financial assets – available for sale	**7**	**7**	**6**	**6**
Loans and receivables				
Trade receivables, net	632	632	559	559
Other receivables	54	54	57	57
Current advances	0	0	3	3
Non-current loans	72	72	69	69
Cash and cash equivalents	275	275	306	306
Total loans and receivables	**1 033**	**1 033**	**994**	**994**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	5	5	11	11
Interest-related instruments	26	26	15	15
Total financial assets at fair value through profit or loss – held for trading	**31**	**31**	**26**	**26**
Financial liabilities at amortized cost				
Non-current debt	2 321	2 401	2 245	2 305
Current liabilities	540	540	504	504
Trade payables	297	297	286	286
Current debt	139	139	236	236
Total financial liabilities at amortized cost	**3 297**	**3 377**	**3 271**	**3 331**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	2	2	2	2
Interest-related instruments	1	1	1	1
Total financial liabilities at fair value through profit or loss – held for trading	**3**	**3**	**3**	**3**

Financial Instruments Carried at Fair Value

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

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

million CHF				30 06 2014				31 12 2013
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	31	0	31	0	27	0	27
Liabilities								
Derivative financial instruments	0	(3)	0	(3)	0	(3)	0	(3)
Net assets and liabilities measured at fair value	**0**	**28**	**0**	**28**	**0**	**24**	**0**	**24**

In 2014, 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.

8 Material Events Subsequent to the End of the Interim Period That Have Not Been Reflected in the Interim Financial Statements

No noteworthy events occurred after the balance sheet date.

On 22 July 2014, the Board of Directors authorized for issue the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2014.

9 Operational Free Cash Flow

In 2014 and 2013, the development of operational free cash flow by component was as follows:

Components of operational free cash flow for the six months ended 30 June million CHF	2014	Change	2013
EBITDA	362	28	334
Change of operating net working capital	(173)	9	(182)
Capital expenditures in property, plant & equipment and intangible assets	(70)	16	(86)
Disposal of property, plant & equipment	2	0	2
Change of other assets and liabilities	3	3	0
Operational free cash flow	**124**	**56**	68

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Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers, and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this presentation was made.

The Half-Year Report 2014 is also available in German. The English version prevails.

Full-Year Report 2014
21 January 2015

Annual General Meeting
for the 2014 Financial Year
8 April 2015
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-Year Report 2015
22 July 2015

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