Half-Year Report 2016

Lonza

Half-Year Financial Highlights

CORE[1] Earnings million CHF		2016	Change in %	2015
CORE EBITDA		**447**	14.3	391
Margin in %		22.1		20.5
CORE result from operating activities (EBIT)		**312**	20.0	260
Margin in %		15.5		13.7
CORE profit for the period		**211**	27.1	166
CORE EPS basic	CHF	**4.02**	26.4	3.18
CORE EPS diluted	CHF	**4.00**	26.6	3.16
CORE RONOA in %		**20.3**	26.1	16.1

IFRS Results million CHF		2016	Change in %	2015
Sales		**2 019**	6.0	1 904
EBITDA		**443**	18.1	375
Margin in %		21.9		19.7
Result from operating activities (EBIT)		**292**	52.1	[2]192
Margin in %		14.5		10.1
Profit for the period		**194**	74.8	111
EPS basic	CHF	**3.70**	74.5	2.12
EPS diluted	CHF	**3.67**	73.9	2.11
Operational free cash flow (before acquisition)		**264**	(11.7)	299
Operational free cash flow		**250**	(16.4)	299
RONOA in %		**15.2**	58.3	9.6
Net debt		**1 505**	(18.3)	1 842
Debt-equity ratio		**0.73**	(22.3)	0.94
Number of employees		**9 931**	2.2	9 721

1 In the CORE results for the items "EBITDA", "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. "CORE RONOA" does not include acquisition-related intangible assets. See also page 6.

2 Includes impairment of CHF 36 million, as well as settlement and write-offs of CHF 9 million related to the Kourim site.

- Lonza reports best first half in history with continued strong momentum
- 20 % CORE EBIT growth and 6 % sales growth
- Both Pharma&Biotech and Specialty Ingredients segments improved their profitability
- Pharma&Biotech's outstanding operational performance across all assets bolstered the strong half-year results
- 2016 guidance raised: Double-digit CORE EBIT growth expected for 2016
- Stable cash flow generation and de-leveraging ongoing

Overview

The first half of 2016 was characterized by an overall favorable market demand situation in nearly all business units and by further enhanced operational improvements across both segments – Specialty Ingredients and Pharma&Biotech – which bolstered the strong results. Specifically the Pharma&Biotech segment delivered an outstanding operational performance, harvesting the fruits from productivity programs.

Compared with the same period in 2015, sales growth of 6.0 % to CHF 2 019 million and CORE EBIT growth of 20.0 % to CHF 312 million in reported currency were recorded. The improvements came from better operational and commercial performance. Net debt was further reduced by CHF 337 million. CORE RONOA (return on net operating assets) further improved to 20.3 % from 16.1 % in the same period last year. On the way to our 2018 targets, we made good strides in the first half of this year.

We continued to de-risk the portfolio, de-leverage the company and reduce volatility even further during the first half of 2016. Our rigorous strategy to make Lonza a more market-focused company progressed well. In addition, our global reach expanded and our efforts to become operationally more efficient evolved further to our satisfaction. Macro-economic uncertainties, geo-political unrest and changes in raw-material prices could be well balanced again in the first half. Foreign-exchange effects have been managed through targeted counter-measures and through our natural hedge.

A Capital Markets Day for investors and analysts will be held in Portsmouth, NH (USA) on 27 October 2016, where Lonza will provide a strategy and business update highlighting its "Healthcare Continuum," "Gene to Patient" and mammalian offerings.

Financial Summary

- Sales grew by 6.0 % in reported currency to CHF 2 019 million (4.7 % in constant exchange rates)
- CORE EBIT growth of 20.0 % in reported currency to CHF 312 million (17.7 % in constant exchange rates)
- CORE RONOA improved to 20.3 %
- Debt reduction accelerated, with net debt reduced to CHF 1 505 million, leading to a net debt/EBITDA ratio of 1.77 × and a debt/equity ratio of 0.73 ×
- Operational free cash flow was stable but impacted by higher capital expenditures

Outlook 2016

With this positive first half of 2016 and the good momentum expected to continue into the second half of the year, Lonza is raising its guidance for CORE EBIT growth and now expects a double-digit improvement in CORE EBIT for the full year of 2016.

Pharma&Biotech's excellent performance is anticipated to continue also in the second half of this year. As usual the Specialty Ingredients business reflects seasonality with the first half normally being stronger than the second. Capital expenditure in 2016 is expected to be above 2015 level due to the strong demand particularly in Pharma&Biotech and the larger number of growth projects. However, the strong cash flow generation is expected to further reduce net debt significantly by the end of the fiscal year 2016.

Outlook 2018

The transformation of Lonza towards a more customer-focused and market-driven organization made sound progress in 2016 and is still ongoing. Lonza will continue to work on a balanced portfolio by continuously reducing dependency on single customers or products and by proactively seeking to adjust business models to the current market and economic situations.

Based on the present macro-economic environment, constant exchange rates and anticipated worldwide growth, as well as the strongly improved results of 2016, Lonza is re-confirming the 2018 guidance of:
- CORE EBITDA approaching CHF 1 billion in 2018
- CORE RONOA of 20 % in 2018
- Sales growth of low- to mid-single digits on average per year until 2018

Our leadership and employees will continue to work diligently on the goals we have set. We thank you – our internal and external stakeholders – for your ongoing confidence in and support for our company.

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Pharma&Biotech Segment

Pharma&Biotech million CHF	2016	Change in %	2015
Sales	**838**	11.1	754
CORE EBITDA	**226**	24.2	182
CORE EBITDA margin in%	27.0		24.1
CORE result from operating activities (EBIT)	**159**	35.9	117
CORE EBIT margin in%	19.0		15.5

In the Pharma&Biotech segment, we increased sales by a remarkable 11.1% (9.3% in constant exchange rates). CORE EBIT grew by 35.9% year-over-year to CHF 159 million in the first half of 2016. These strong results were driven by excellent operational performance, strong momentum in the mammalian business, solid market demand and ongoing cost discipline. Also the made-to-stock Bioscience Solutions business delivered strong growth in both sales and profits. Pharma&Biotech's great performance is expected to continue in the second half of this year.

All biological technologies experienced positive growth momentum. The outsourcing trend is persisting, as evidenced by the fact that in 2016 Pharma&Biotech will provide drug substances for 20 commercial biologics. This outsourcing trend should continue to increase in the future.

As part of our strategy to pursue bolt-on technologies, Lonza acquired Triangle Research Labs, a hepatocyte provider based in North Carolina (USA) during the first half of 2016.

We continue to make measurable progress with the realignment of our chemical asset base, which was started in 2015 to reflect changes in our customers' needs. We focused on optimizing the product mix and rejuvenating our portfolio across small molecules and peptides.

In Pharma&Biotech we have started a journey to get fit for 2020+. We will realign our business models to satisfy customers' future needs. With stronger commercial partnerships, the reduction of volatility and the de-risking of our portfolio remain high on the agenda.

Commercial Manufacturing

Lonza clearly benefited from a balanced customer portfolio coming from large pharmaceutical companies to small- and mid-sized biotech companies. The outsourcing and dual-sourcing trend by the industry maintains a positive momentum.

Demand for services was at high levels; drivers for this demand include the number of product launches and positive product development reaching late phase in various therapeutic classes. The customer base has broadened further with new contracts of significant length being signed. In addition, better-than-anticipated market uptake of our clients' therapeutics resulted in extended contract volumes. Subsequently the order-book visibility improved once more.

Clinical Development

Our biological Clinical Development & Licensing (CDL) business continues to track ahead of market growth as we benefit from continued strong demand for tier 1 CMO development and manufacturing services. GMP capacity is being signed as customers seek to secure supply against a capacity shortfall in the global market.

Our reach into the early-phase small-molecule market continued to grow in the first half because of the healthy market for small biotech companies that are developing new chemical entities (NCEs), as well as our broad capabilities in this area. Our containment capabilities for handling Highly Potent Active Pharmaceutical Ingredients (HPAPIs) provide us an excellent market position as they allow us to handle the most-potent drugs currently being developed.

The Emerging Technologies business, consisting of Antibody Drug Conjugates (ADCs), Cell Therapy and Viral Therapy, showed strong growth. An example of the success of our changing business models came from the announcement in June of a long-term agreement with bluebird bio, Inc., for dedicated production suites for clinical and commercial supply of viral vectors and virally modified cell therapy products. Construction of our previously announced new clinical facility in Houston, TX (USA) – co-located with our new commercial facility – is on track to support the relocation from our existing site.

During the first half of the year, Lonza also announced expansion of our footprint to include Drug Product Services. Capabilities will focus on parenteral dosage forms for biologics, drug conjugates, peptides and small molecules for products for injection or infusion. The new Drug Product Services facility is set to open its doors in Basel (CH) in the fourth quarter of 2016.

Bioscience Solutions

Market demand for Research Products, Testing Solutions, MODA and bio-therapeutic Media product portfolios were favorable; and they delivered solid growth compared with the same period last year. Specifically, in the North American market, we saw strong performance for Serum-Free Research Media, Hematopoietic Cells, Transfection, Molecular Biology and Endotoxin Testing product portfolios as demand and pipelines increased.

Quality and Regulatory

In the first half of this year, Lonza's Pharma&Biotech cGMP sites had 11 regulatory inspections (compared with 12 in the same period the year before) and 60 customer audits (compared with 65 in the same period last year), all of which were successful.

Specialty Ingredients
Segment

Specialty Ingredients million CHF	2016	Change in %	2015
Sales	**1 165**	3.0	1 131
CORE EBITDA	**241**	11.1	217
CORE EBITDA margin in %	20.7		19.2
CORE result from operating activities (EBIT)	**194**	12.8	172
CORE EBIT margin in %	16.7		15.2

In the Specialty Ingredients segment, we increased sales by 3.0% (2.0% in constant exchange rates). CORE EBIT grew by 12.8% year-over-year to CHF 194 million in the first half of 2016. This progress resulted from our focus on higher-value activities, product mix and portfolio optimization, as well as operational and value-chain improvements. Innovative products that were introduced to the markets in 2015 gained further traction in this first half.

Highly specialized businesses within Specialty Ingredients experienced robust growth momentum, over-compensating for the current market dynamics in Agro and Feed markets.

As usual the Specialty Ingredients business reflects seasonality with the first half normally being stronger than the second. This trend is mostly due to Water Treatment, Wood Protection and Agro Ingredients.

Consumer Care

In Consumer Care our Hygiene business experienced good demand and increased market acceptance of new and innovative solutions based on new formulations. The demand for Personal Care ingredients was firm, and preparations for the launch of new hair-care offerings as of 2017 have been initiated. Nutrition Ingredients had a normalized demand situation.

Our Hygiene business continued to demonstrate strength and global growth momentum with ongoing emphasis with our multi-national accounts, as well as increased developmental activity with key regional players across the world. Growth in North America was driven by continued focus on our "formulated solutions model." We are making solid progress with positioning Lonzagard® BKC cGMP as a Triclosan replacement for anti-bacterial hand soap for the North American market.

The high end of our Personal Care portfolio is growing well, driven by good ongoing momentum. Supported by our recently opened application technology laboratory, we saw robust growth for our protein-based hair-care actives. Sales of our registered active substances, including vitamin B3 for skin care – like anti-aging, anti-wrinkling or age-spots application – gained further traction. Our initiatives to strengthen our footprint and offerings in emerging markets are paying off with record growth in Asia and Latin America.

Vitamin B3 and L-Carnitine in nutritional applications enjoyed solid market demand. We have started the acceleration of our focus on internal innovation for our customers, as well as on actively evaluating opportunities for portfolio expansion. Our efforts will be focused on formulation development and on strengthening our consumer value proposition and claim support.

Agro Ingredients

The Agro Ingredients business unit experienced a solid start into the first quarter of the current year but was impacted, as expected, by a softer demand in the second quarter. This development was based on an over-stocked situation in the end markets, as well as reduced investments by the agrochemical industry and ultimately by the farmers who saw no incentive to invest in a currently depressed market. For the second half, the temporary industry downturn will impact our growth plans somewhat as stock-reduction programs will continue.

Meta™, Lonza's specific molluscicide for slug control, experienced solid growth in our global expansion target areas, especially in South East Asia, South Africa and Latin America. The wet spring weather in our main markets in Europe led to a record result for the first half with strong sales and increased profitability.

Coatings&Composites

In our Coatings&Composites business, we experienced solid market demand across most of our offerings, especially in the electronics and aerospace industries. Lower raw-material costs in general and favorable exchange rates partly compensated for the continuing strong competitive environment.

In Performance Intermediates the first half year was characterized by generally healthy demand across all relevant markets. Our pyromellitic dianhydride (PMDA) business from our Nanjing (CN) site was above expectations, mainly due to the good demand from the export business.

In our Materials Performance & Protection business, composite resin products for the electronics industry in Asia benefited from investments in 4G telecommunications systems. Sales to the aerospace market were strong, driven by success of several key customer projects. De-bottlenecking and production improvements also supported increased sales and profitability in the first half.

Demand for our marine anti-fouling actives was slightly below last year, driven by lower ship-building demand in Asia and high customer inventories to start the year. Interest grew for our new products to replace competing biocide chemistries that are under regulatory threat in Europe. Sales of anti-microbial solutions were below the same period last year, impacted most significantly by weak sales in metalworking fluid markets.

In the Wood Protection business, North America led the way with strong sales growth in solid wood preservation markets, fueled by strong U.S. and Canadian economies with increasing demand for housing and rising home-improvement expenditures.

The Diacon and Zelam businesses, acquired in 2015, contributed additional topline sales in mold control and engineered wood preservation markets; and ongoing integration efforts continued to optimize performance of these new additions.

Water Treatment

The Residential Water Treatment business had a good performance compared with the same period last year, when considering Memorial Day in the United States was one week later than last year and the partially severe weather conditions in the Midwest. South Africa and South America finished the season with a strong performance despite the economic and political situation in these areas.

In the area of Industrial, Commercial, Municipal and Surface (ICMS) water, we made substantial progress in South America and South Africa and are on a good track with our diversified activities in North America. The goal of decreasing the weather dependency of the Residential Water business, by strengthening and enlarging the ICMS portfolio, is progressing further.

Corporate

Corporate million CHF	2016	2015
Sales	16	19
CORE EBITDA	(20)	(8)
CORE result from operating activities (EBIT)	(41)	(29)

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 Statements

Condensed consolidated balance sheet at 31 December 2015 and 30 June 2016 (unaudited) million CHF	2016	2015
Non-current assets	4 362	4 403
Non-current loans and advances	1	1
Total non-current assets	**4 363**	4 404
Current assets	1 672	1 567
Cash and cash equivalents	257	277
Total current assets	**1 929**	1 844
Total assets	**6 292**	6 248
Equity attributable to equity holders of the parent	2 052	2 135
Non-controlling interest	0	0
Total equity	**2 052**	2 135
Non-current liabilities	1 301	1 123
Non-current debt	1 643	1 414
Total non-current liabilities	**2 944**	2 537
Current liabilities	1 176	1 052
Current debt	120	524
Total current liabilities	**1 296**	1 576
Total equity and liabilities	**6 292**	6 248
Net Debt	**1 505**	1 660

Condensed consolidated income statement for the six months ended 30 June (unaudited) million CHF		2016	2015
Sales		**2 019**	1 904
Cost of goods sold		(1 318)	(1 378)
Gross profit		**701**	526
Operating expenses		(409)	(334)
Result from operating activities (EBIT)		**292**	192
Net financing costs		(51)	(56)
Share of profit/(loss) of associates/joint ventures		(1)	1
Profit before income taxes		**240**	137
Income taxes		(46)	(26)
Profit for the period, attributable to the equity holders of the parent		**194**	111
Basic earnings per share – EPS basic	CHF	3.70	2.12
Diluted earnings per share – EPS diluted	CHF	3.67	2.11

Condensed consolidated statement of comprehensive income for the six months ended 30 June (unaudited) million CHF	2016	2015
Profit for the period	**194**	111
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of net defined benefit liability	[1](208)	13
Income tax on items that will not be reclassified to profit or loss	50	(6)
	(158)	7
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(2)	(174)
Cash flow hedges	3	5
Income tax on items that are or may be reclassified to profit or loss	0	2
	1	(167)
Other comprehensive income for the period, net of tax	**(157)**	(160)
Total comprehensive income for the period, attributable to the equity holders of the parent	**37**	(49)

Condensed consolidated cash flow statement for the six months ended 30 June (unaudited) million CHF	2016	2015
Profit for the period	**194**	111
Adjustment for non-cash items	276	286
Income tax and interest paid	(57)	(62)
(Increase) / decrease of net working capital	(59)	15
Use of provisions	(10)	(11)
Increase of other payables, net	78	19
Net cash provided by operating activities	**422**	358
Purchase of property, plant & equipment and intangible assets	(151)	(96)
Acquisition of subsidiaries, net of cash acquired	(14)	0
Net disposal of other assets	2	3
Interest and dividend received	1	8
Net cash used for investing activities	**(162)**	(85)
Repayment of straight bond	(400)	0
Increase of syndicated loan	230	0
Repayment of syndicated loan	0	(125)
(Decrease)/Increase in debt	(3)	10
Increase in other non-current liabilities	25	1
Dividends paid	(131)	(131)
Net cash used for financing activities	**(279)**	(245)
Effect of currency translation on cash	(1)	(13)
(Decrease) / Increase in cash and cash equivalents	**(20)**	15
Cash and Cash equivalents at 1 January	277	209
Cash and Cash equivalents at 30 June	257	224

1 Declines in discount rates in 2016 were the primary influencing factor on the re-measurement of the defined benefit plan liabilities

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

million CHF

	Attributable to equity holders of the parent							Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
Six months ended 30 June 2015									
Balance at 1 January 2015	**53**	**311**	**2 301**	**(9)**	**(449)**	**(77)**	**2 130**	**0**	**2 130**
Profit for the period	0	0	111	0	0	0	111	0	111
Other comprehensive income, net of tax	0	0	7	5	(172)	0	(160)	0	(160)
Total comprehensive income for the period	**0**	**0**	**118**	**5**	**(172)**	**0**	**(49)**	**0**	**(49)**
Dividends	0	0	(131)	0	0	0	(131)	0	(131)
Recognition of share-based payments	0	0	7	0	0	0	7	0	7
Movements in treasury shares	0	0	(24)	0	0	26	2	0	2
Balance at 30 June 2015	**53**	**311**	**2 271**	**(4)**	**(621)**	**(51)**	**1 959**	**0**	**1 959**
Six months ended 30 June 2016									
Balance at 1 January 2016	**53**	**311**	**2 387**	**(3)**	**(562)**	**(51)**	**2 135**	**0**	**2 135**
Profit for the period	0	0	194	0	0	0	194	0	194
Other comprehensive income, net of tax	0	0	(158)	3	(2)	0	(157)	0	(157)
Total comprehensive income for the period	**0**	**0**	**36**	**3**	**(2)**	**0**	**37**	**0**	**37**
Dividends	0	0	(131)	0	0	0	(131)	0	(131)
Recognition of share-based payments	0	0	10	0	0	0	10	0	10
Movements in treasury shares	0	0	(18)	0	0	19	1	0	1
Balance at 30 June 2016	**53**	**311**	**2 284**	**0**	**(564)**	**(32)**	**2 052**	**0**	**2 052**

Selected Explanatory Notes

1 Basis of Preparation and Changes to the Group's Accounting Policies

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 2016 (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 2015 (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 2015, 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.

New Standards, Interpretations and Amendments

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	30.06.2016	31.12.2015
US dollar	0.98	0.99
Pound sterling	1.32	1.47
Euro	1.09	1.08

Income statement half year average rate CHF	2016	2015
US dollar	0.98	0.95
Pound sterling	1.41	1.44
Euro	1.10	1.06

3 Seasonality of Operations

Most businesses operate in areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year, except for some businesses within the Specialty Ingredients segment. In particular the Water Treatment business is seasonal in nature. Therefore, the results of the Specialty Ingredients segment for the six-month period ended 30 June 2016 are not indicative of the results to be expected for the entire financial year.

4 Business Combinations

Effective 27 April 2016, Lonza Group acquired Triangle Research Labs for a total consideration of USD 16 million (CHF 15 million). The US based company manufactures and supplies high-quality hepatocytes for medical and biomedical research in pre-clinical applications. This acquisition supports Lonza's strategy to continue developing its life-science platform and expanding its global cell-biology portfolio.

The acquisition is reported within the Pharma&Biotech segment and does not have significant impact on the consolidated financial statements for the six-month period ended 30 June 2016.

5 Changes in Goodwill

The change in goodwill recognized is primarily attributed to the acquisition of Triangle Research Labs. In addition the final purchase accounting for the acquired Zelam Holdings Ltd in 2015 led to a reduced goodwill which is offset by revaluated intangible assets. According to IFRS 3, such goodwill adjustment requires a restatement of the previously reported goodwill as at 31 December 2015.

million CHF	At 31 December 2015 (as published)	Zelam Holdings Ltd	At 31 December 2015 (Restated)	Triangle Research Labs	Currency Translation Differences	At 30 June 2016
Cost	1 127	(3)	1 124	12	(10)	1 126
Accumulated impairment	(6)	0	(6)	0	0	(6)
Net carrying amount	**1 121**	(3)	**1 118**	12	(10)	**1 120**

6 Debt

The straight bond (2010–2016) of CHF 400 million was repaid on 2 June 2016 and was partly refinanced by the CHF 230 million increase of the use of the syndicated loan facility.

7 Dividends Paid

On 22 April 2016, the Annual General Meeting approved the distribution of a dividend of CHF 2.50 (financial year 2014: CHF 2.50) per share in respect of the 2015 financial year. The distribution to holders of outstanding shares totaled CHF 131 million (2015: CHF 131 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

8 Operating Segments

Six months ended 30 June 2016 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations[1]	Total Group
Sales third-party	**1 165**	**838**	**2 003**	**16**	**2 019**
Inter-segment sales	25	8	33	(33)	0
Total sales	**1 190**	**846**	**2 036**	**(17)**	**2 019**
Property, plant and equipment impairment/(reversal of impairment)	(2)	2	0	0	0
Result from operating activities (EBIT)	**183**	**150**	**333**	**(41)**	**292**
Return on sales %	15.7	17.9	16.6	n.a.	14.5
Net financing costs					(51)
Share of loss of associates/ joint ventures					(1)
Profit before income taxes					**240**
Income taxes					(46)
Profit for the period					**194**

Six months ended 30 June 2015 million CHF	Specialty Ingredients	Pharma& Biotech	Total operating segments	Corporate/ eliminations[1]	Total Group
Sales third-party	**1 131**	**754**	**1 885**	**19**	**1 904**
Inter-segment sales	40	14	54	(54)	0
Total sales	**1 171**	**768**	**1 939**	**(35)**	**1 904**
Property, plant and equipment impairment	3	33	36	0	36
Result from operating activities (EBIT)	**158**	**69**	**227**	**(35)**	**192**
Return on sales %	14.0	9.2	12.0	n.a.	10.1
Net financing costs					(56)
Share of profit of associates/ joint ventures					1
Profit before income taxes					**137**
Income taxes					(26)
Profit for the period					**111**

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

9 Financial Instruments

Carrying amounts and fair values of financial instruments by category million CHF	Carrying amount 30 06 2016	Fair value 30 06 2016	Carrying amount 31 12 2015	Fair value 31 12 2015
Financial assets – available for sale				
Other investments – available for sale – carried at cost	7	7	7	7
Total financial assets – available for sale	7	7	7	7
Loans and receivables				
Trade receivables, net	615	615	538	538
Other receivables	60	60	58	58
Non-current loans	1	1	1	1
Cash and cash equivalents	257	257	277	277
Total loans and receivables	**933**	**933**	**874**	**874**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	7	7	2	2
Interest-related instruments	0	0	1	1
Total financial assets at fair value through profit or loss – held for trading	**7**	**7**	**3**	**3**
Financial liabilities at amortized cost				
Debt:				
Straight bonds[1]	1 067	1 127	1 467	1 529
Other debt	696	696	471	471
Current liabilities	390	390	371	371
Trade payables	272	272	292	292
Total financial liabilities at amortized cost	**2 425**	**2 485**	**2 601**	**2 663**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	9	9	11	11
Interest-related instruments	12	12	19	19
Total financial liabilities at fair value through profit or loss – held for trading	**21**	**21**	**30**	**30**
Financial liabilities effective for hedge accounting purposes				
Currency-related instruments	0	0	1	1
Commodity-related instruments	2	2	3	3
Total financial liabilities effective for hedge accounting purposes	**2**	**2**	**4**	**4**
Total financial liabilities at fair value	**23**	**23**	**34**	**34**

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

Financial Instruments Carried at Fair Value

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

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

million CHF				30 06 2016				31 12 2015
	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	7	0	7	0	3	0	3
Liabilities								
Derivative financial instruments	0	(23)	0	(23)	0	(34)	0	(34)
Net assets and liabilities measured at fair value	**0**	**(16)**	**0**	**(16)**	**0**	**(31)**	**0**	**(31)**

In 2016, 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.

10 Operational Free Cash Flow

In 2016 and 2015, 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	2016	Change	2015
EBITDA	443	68	375
Change of operating net working capital	(59)	(74)	15
Capital expenditures in property, plant & equipment and intangible assets	(151)	(55)	(96)
Disposal of property, plant & equipment	3	0	3
Change of other assets and liabilities	28	26	2
Operational free cash flow (before acquisition)	**264**	**(35)**	**299**
Acquisition of subsidiaries	(14)	(14)	0
Operational free cash flow	**250**	**(49)**	299

11 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 19 July 2016, the Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2016 for issue.

www.lonza.com

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 2016 is also available in German. The English version prevails.

Capital Markets Day for Investors and Analysts, incl. Q3 2016 Business Update
27 October 2016
Portsmouth, NH (USA)

Full-Year Report 2016
25 January 2017

Annual General Meeting
for the 2016 Financial Year
25 April 2017
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Q1 2017 Business Update
26 April 2017

Half-Year Report 2017
27 July 2017

For publications and further information please contact:

Lonza Group Ltd
Muenchensteinerstrasse 38
4002 Basel, Switzerland
Tel +41 61 316 81 11
Fax +41 61 316 91 11
www.lonza.com

Investor Relations
Tel +41 61 316 85 40
Fax +41 61 316 95 40
investor.relations@lonza.com

Media / Corporate Communications
Tel +41 61 316 87 98
Fax +41 61 316 97 98
media@lonza.com

Share Register
c/o SIX SAG AG
P.O. Box
4601 Olten, Switzerland
Tel +41 62 311 61 33
Fax +41 62 311 61 93
lonza.aktienregister@sag.ch