# LONZA ANNUAL REPORT

2013

# LONZA ANNUAL REPORT

2013

*Foreword from the Chairman of the Board of Directors and the CEO* — 3

**ABOUT LONZA**

Lonza Financial Highlights — 8
Lonza at a Glance — 10
Global Footprint — 12
Governance — 14
Management and Company Structure — 15
Lonza – Closer Than You Think — 16
Leadership — 18

**STRATEGY**

Science for Health and Well-Being — 22
Megatrends — 25

**MARKETS**

Lonza Markets — 30
Pharma&Biotech — 31
Specialty Ingredients — 40

**SUSTAINABLE VALUES**

Investing in Sustainable Values — 60
Investing in Sustainability — 61
Investing in Environment, Health, Safety — 64
Investing in Enterprise Risk Management — 70
Investing in Our Stakeholders — 72
Investing in Responsible Sourcing — 73
Investing in Our People — 74
Investing in Our Communities — 76

**FINANCIAL SECTION**

Financial Report — 81
Remuneration Report — 187
Corporate Governance — 211

For a more detailed table of contents, please see the inside of the back cover.


Richard Ridinger
Rolf Soiron

# DEAR SHAREHOLDERS

Our overall results for 2013 were strong; and Lonza achieved most of the operational targets set for the year, in line with our guidance.

As this year's Annual Report will explain in more detail, our company has started one of the most significant transformations in the last 15 years. A transformation is a journey; but even though we are not there yet, our destination is in sight. We are becoming a more market-oriented company rather than a product- and technology-focused one. Continuing in this direction, we aim to create a stronger competitive advantage.

As part of this transformation, we have been taking a close look at how we approach the markets we serve. Our goal is to align our organization in the most effective way to meet customers' needs.

**Our Transformation Story**

The *Strategy* section of the Annual Report explains the drivers of change. This section includes information about how the new organizational structure supports our market orientation and how Lonza has been preparing to address important megatrends of the future.

Next, the *Markets* section introduces the wide range of products, technologies and services we offer globally. We have also included descriptions, charts and graphs to illustrate Lonza's overall business and our market environment.

In the *Sustainable Values* section, we provide an overview of how we have built on our sustainable values during the year.

Throughout 2013, we continued efforts to reduce negative environmental impacts. We deeply regret that processes abandoned decades ago have forced us to deal with mercury pollution around our Swiss site in Visp (CH) – and we are fully committed to dealing in a responsible way with this unwelcome legacy.

Businesses must serve customers first, but we are only sustainable if we also generate tangible financial results for stakeholders. These results are what the *Financial Report* discloses at the back of this report, with all the financial details and information on corporate governance, remuneration and organizational matters.

One final element of our Annual Report is the "Lonza – Closer Than You Think" graphic. Here we illustrate how Lonza touches daily life.

**Our Business Review**

We would like to draw your attention to a number of highlights that marked the year 2013:

1 *Launching Transformation Initiatives*

In order to prepare for the future, rigorously planned transformation initiatives were launched within the organization. They all aim to reduce complexity and to improve productivity and – as a consequence – profitability.

The goal of our *Go-to-Market Excellence* program, for example, is to generate market focus and an emphasis on innovation. Our *Business Services Excellence* project is streamlining support services for our businesses. We have also continued optimizing our manufacturing footprint and reducing complexity and costs. These efforts have become part of our *Global Manufacturing Footprint* project.

2 *Implementing Organizational Changes to Support Our Transformation*

As markets, customers and technologies are constantly changing, successful companies need to adapt and change, too, if they want to continue meeting market demands. That is why, in early 2013, we reshaped our businesses into two segments: Pharma&Biotech and Specialty Ingredients.

With this structure in place, we can capitalize on synergies offered by many technology links within the segments. We can also balance the risk profiles of the different businesses.

In line with these transformations, the Board of Directors will submit to the Annual General Meeting 2014 a revision of the Articles of Association to implement certain changes related to compensation and corporate governance that follow the acceptance of the "Minder Initiative" in Switzerland.

### *3 Strengthening Positions in Our Markets*

As we anticipated, the Pharma&Biotech market segment had a stronger second half of the year. Some pharmaceutical companies reanalyzed their in-house manufacturing strategies, which put Lonza in a good position to participate in this outsourcing and dual-sourcing trend. Consequently, we landed important new contracts, both in chemically and biologically derived products.

The further expansion of the antibody drug conjugate (ADC) facility in Visp is on track and will commence operation in the middle of 2014, ready to meet increasing demand for that promising, but complex technology.

Our Specialty Ingredients market segment delivered a strongly positive performance in 2013. These results were achieved despite unseasonable weather affecting our recreational Water Treatment business and despite the new H7N9 outbreak, which slowed our feed-grade Nutrition business.

The good news is that we substantially increased profitability in nearly all markets. This success was driven by strong demand for the agrochemical offerings and good demand for industrial solutions and products, as well as by the successful conclusion of the Arch integration. One result of the integration is 90% of employees are now on a common SAP platform.

### *4 Taking Steps to Optimize Our Portfolio*

During this year of change, we announced significant portfolio decisions. These optimizations will result in an anticipated cost-base reduction of CHF 100 million by the end of 2016, the majority to be completed by 2015.

Here are some of the key decisions taken:

- Following a strategic review of the Teva-Lonza joint venture (TL-JV), the companies agreed to discontinue their collaboration for the development, manufacturing and marketing of biosimilars. The discontinuation of the TL-JV, which began in 2009, will enable both companies to advance their own strategies and efforts more effectively in serving the respective healthcare communities. Over the last few years, Lonza has built up relevant expertise and knowledge in the biosimilar area, partly reflected in intellectual property rights. The process to evaluate Lonza's accumulated investments was initiated in the second half of 2013 and is in progress, with no final agreement reached by the end of the reporting year.
- We decided to carve out the Wood Protection business in order to evaluate all strategic options for our future development, and the carve-out process of the Wood Protection business began on 1 January 2014.
- The decision to concentrate and consolidate the microbial biologics assets and activities at our Visp site led us to phase down the microbial biologics plant in Hopkinton, MA (USA).
- Closure of the Swords (IE) facility was finalized in the second quarter of 2013.
- The divestment of the Lonza Engineering subgroup was finalized in the second quarter of 2013.
- Cessation of activities at St. Beauzire (FR) was completed in the fourth quarter of 2013.

– The consolidation of our Atlanta, GA (USA) activities at our technology center in Alpharetta, GA (USA) will be completed by the end of the first quarter of 2014.

All of these measures aim to create a solid basis for future growth.

**Our Outlook**

In recent years, Lonza has invested extensively in the build-out of our global network of sites, as well as in acquisitions. That is why we can now consolidate our resources, sharpen our market focus, improve the quality of operations and increase the efficiency of asset utilization. These steps will bring Lonza closer to the status of the top-tier group of companies that excel in customer closeness, innovation, growth and profitability.

Lonza's progress in the years to come will be measured by the progress we make on our top-line growth, our further deleveraging and our stepwise improvement in the returns on our assets. This will necessitate improvements in many areas, including:

- Reducing complexity wherever we can
- Concentrating on key markets
- Implementing processes that strengthen customer proximity
- Optimizing our portfolio
- Continuously optimizing our manufacturing network
- Emphasizing quality processes and pro-actively complying with regulatory demands
- Improving capacity utilization

Many of those initiatives are already in progress, so we are confident we will achieve financial progress in 2014, too. These measures of success include CORE EBIT growth of approximately 10 % and revenue growth of approximately 5 %. Capital expenditure – including maintenance capital spending – will again be below CHF 300 million. Our mid-term targets for 2015 remain unchanged.

We want to thank you, Lonza's shareholders, for your investment, which we take as a token of confidence in our capability to deliver. Also we want to thank our customers, suppliers and other business partners for their trust in our products and services.

Above all, we want to reiterate our gratitude to our employees around the world for their loyalty and dedication throughout this year of transformation.

With our best regards

*Rolf Soiron*
Chairman of the Board of Directors

*Richard Ridinger*
Chief Executive Officer

# ABOUT LONZA

Lonza Financial Highlights 8
Lonza at a Glance 10
Global Footprint 12
Governance 14
Management and Company Structure 15
Lonza – Closer Than You Think 16
Leadership 18

LONZA ANNUAL REPORT

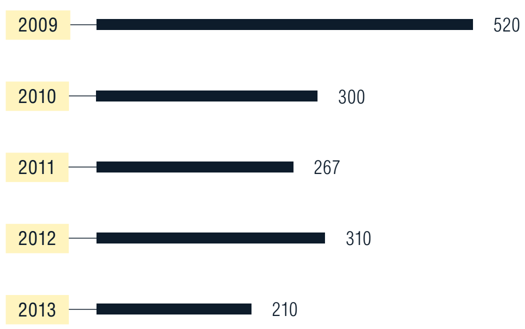
2013

# LONZA FINANCIAL HIGHLIGHTS

2013

## CAPEX

million CHF




## Share Price Development 2013

CHF per share


## Key Figures Lonza

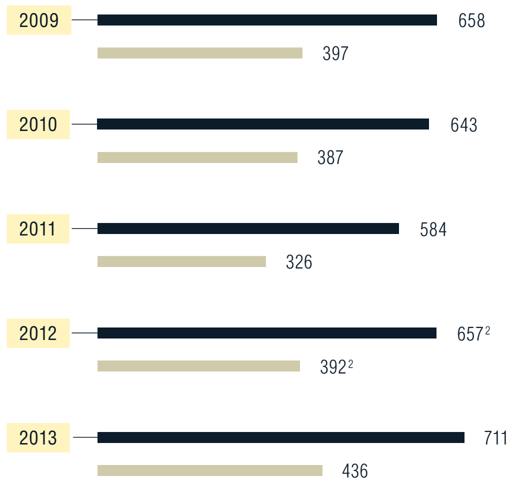
| million CHF | 2013 | Change in % | 2012 restated[2] |
|---|---|---|---|
| Sales | 3 584 | (4.2) | 3 741 |
| Core EBITDA[1] | 711 | 8.2 | 657 |
| Core result from operating activities (Core EBIT)[1] | 436 | 11.2 | 392 |
| Capital expenditures | 210 | (32.3) | 310 |
| Net debt | 2 103 | (8.6) | 2 301 |
| Headcount | 9 935 | (7.9) | 10 789 |

1 In the core results for the items “EBITDA” and “Result from operating activities (EBIT)”, 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.

2 Restated to exclude Performance Products, divested at the end of 2012.

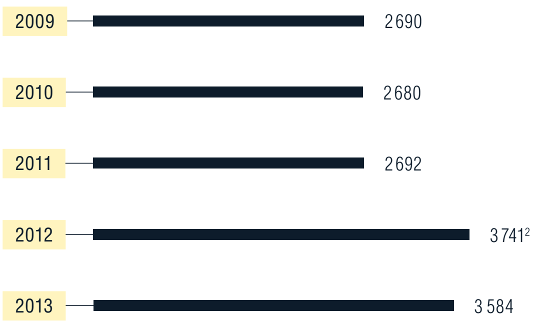
## ■ Core EBITDA ■ Core EBIT

million CHF



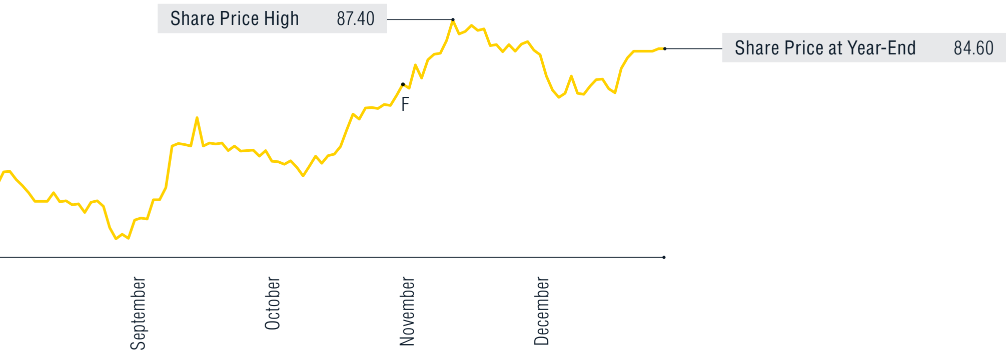
## Sales Progression

million CHF




## Pharma&Biotech

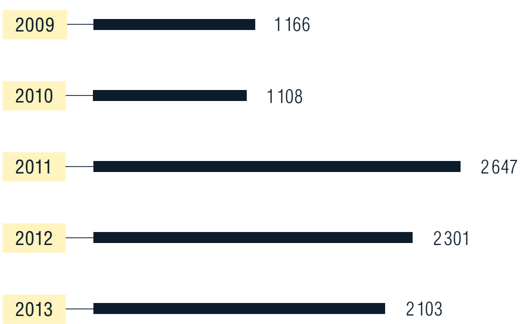
| million CHF | 2013 | Change in % | 2012 |
|---|---|---|---|
| Sales | 1 426 | (7.9) | 1 548 |
| Core result from operating activities (EBIT)[1] | 207 | (7.6) | 224 |
| Core EBIT margin in % | 14.5 | | 14.5 |
| Core EBITDA[1] | 353 | (4.3) | 369 |
| Core EBITDA margin in % | 24.8 | | 23.8 |




A Full-Year 2012 Results
B Lonza Annual General Meeting (AGM)
C Dividend Payment
D First-Quarter 2013 Business Update
E Half-Year 2013 Results
F Third-Quarter 2013 Business Update

## Net Debt

million CHF




## Specialty Ingredients

| million CHF | 2013 | Change in % | [2]2012 |
|---|---|---|---|
| Sales | 2 155 | (1.3) | 2 183 |
| Core result from operating activities (EBIT)[1] | 254 | 29.6 | 196 |
| Core EBIT margin in % | 11.8 | | 9.0 |
| Core EBITDA[1] | 372 | 22.4 | 304 |
| Core EBITDA margin in % | 17.3 | | 13.9 |

# LONZA AT A GLANCE

With sites that span the world – from Canada to China, from Switzerland to South Africa, from the US to the UK and from Singapore to Spain – Lonza is a global company that supplies the pharmaceutical, biotech and specialty ingredients markets.

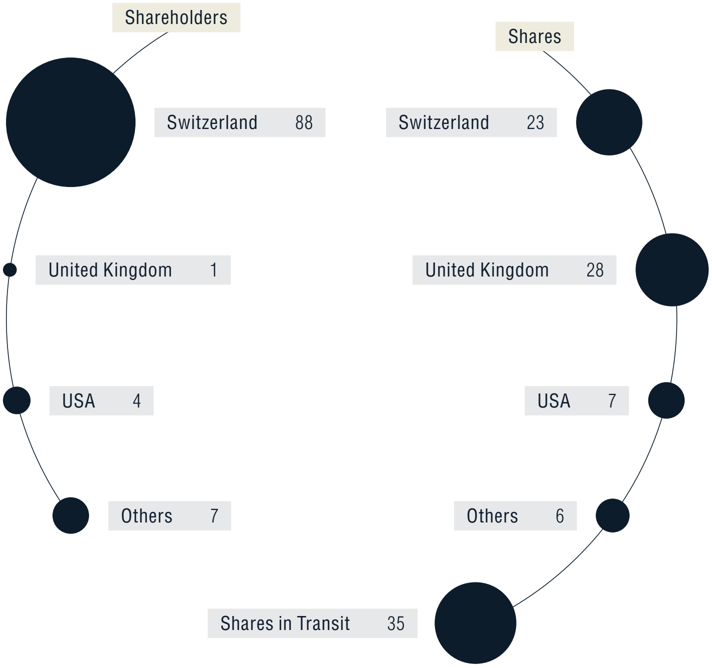
We are a custom manufacturer and developer, as well as a leader in the production and support of chemical and biological active pharmaceutical ingredients and other products and services.

Using science and technology, we create products that contribute to healthier living and that enhance the overall quality of life.

Our services and products range from active pharmaceutical ingredients and stem-cell therapies to drinking water sanitizers, from vitamin B compounds and organic personal care ingredients to agricultural products, and from industrial preservatives to microbial control solutions that combat dangerous viruses, bacteria and other pathogens.

Geographical Split Shareholders and Shares

in %




**~10 000**

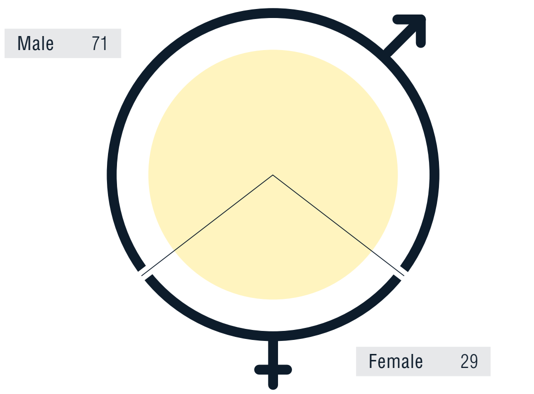
Employees end of 2013

**1897**

Year founded

Employee Gender Split

in %



**8**

Markets served

**1000**

Trademarks globally

**> 40**

Major manufacturing and R&D facilities worldwide

**2**

Market-focused segments

**> 150**

Product-related customer audits in 2013


**> 30**

Countries with offices / sites

**~ 3.6 bn**

Sales in 2013 in CHF

TOTAL

**3584 m**

Sales 2013 in CHF

**9935**

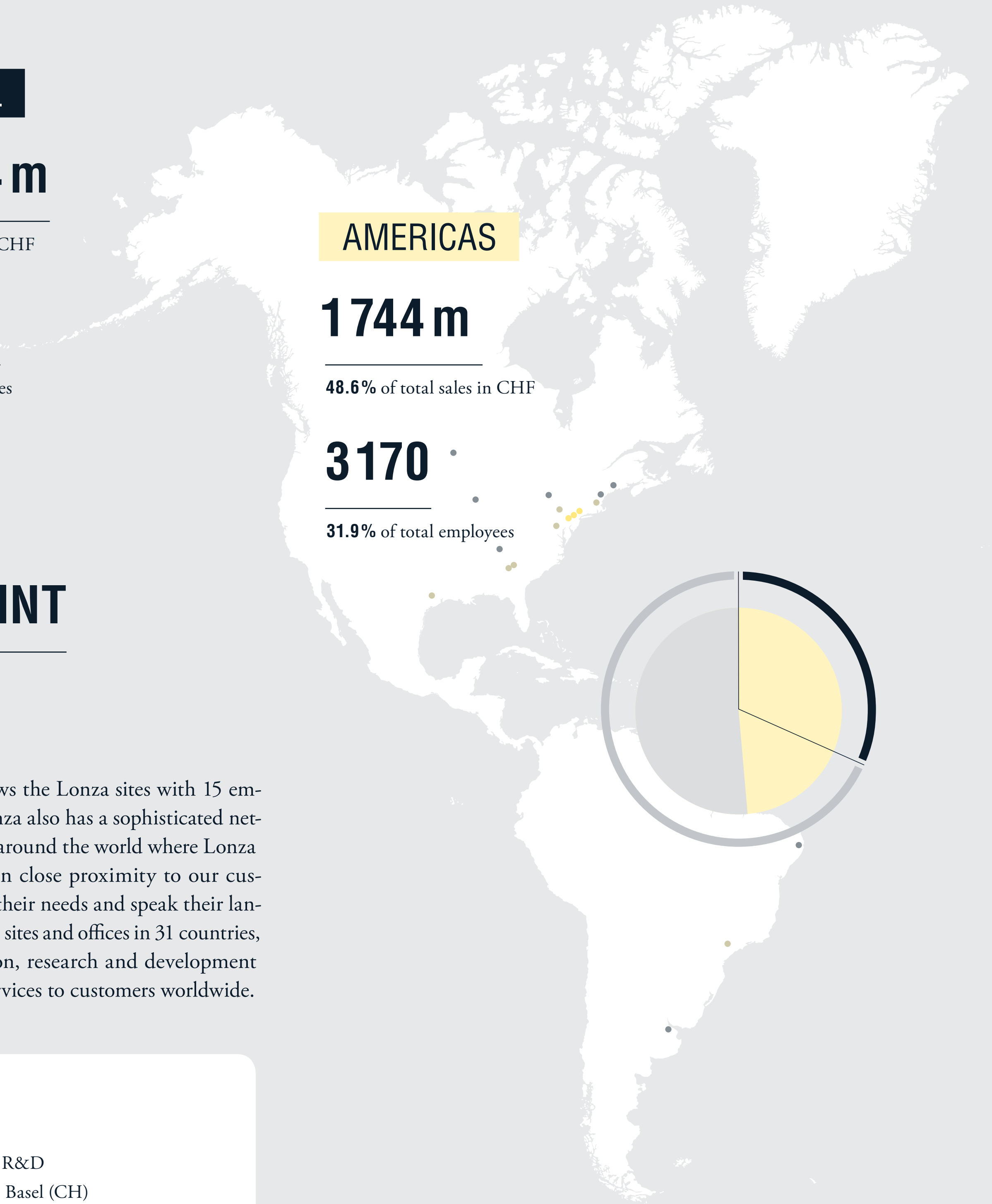
Total employees

# GLOBAL FOOTPRINT

2013

This world map shows the Lonza sites with 15 employees or more. Lonza also has a sophisticated network of sales offices around the world where Lonza representatives are in close proximity to our customers, understand their needs and speak their language. We operate 95 sites and offices in 31 countries, providing production, research and development (R&D), and sales services to customers worldwide.

- Production
- R&D
- Production + R&D
- Headquarters Basel (CH)



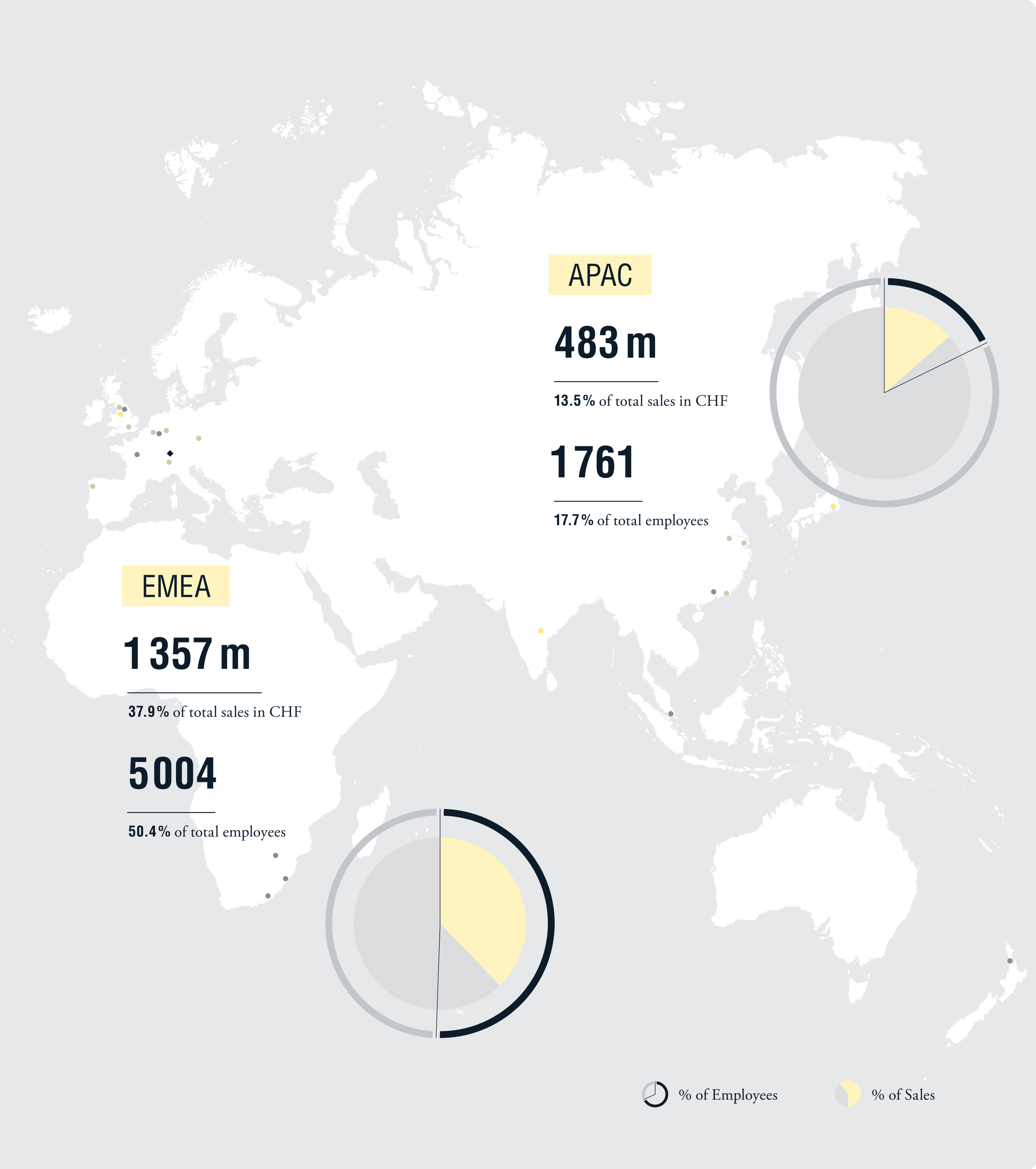
AMERICAS

**1744 m**

**48.6%** of total sales in CHF

**3170**

**31.9%** of total employees


APAC
483 m
13.5 % of total sales in CHF
1761
17.7 % of total employees
EMEA
1 357 m
37.9 % of total sales in CHF
5004
50.4 % of total employees
% of Employees
% of Sales

# GOVERNANCE

*Audit and Compliance Committee*

*Nomination and Compensation Committee*

*Innovation and Technology Committee*

**BOARD OF DIRECTORS**

**EXECUTIVE COMMITTEE**

## BOARD OF DIRECTORS

The Board of Directors is the supreme management body of Lonza, consisting of the Chairman, the Vice-Chairman and the other members. All Board members are elected by the Annual General Meeting. The Board defines the strategic direction and is responsible for the ultimate management of Lonza. It monitors the business and financial performance against agreed goals and objectives, ensures that appropriate controls and systems are in place to manage risks and is committed to maintaining the highest standards of integrity and transparency in its governance of Lonza.

## EXECUTIVE COMMITTEE

The Executive Committee 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 market segments, operational units, corporate functions and business service organizations. Appointed by the Board of Directors, the Executive Committee performs the duties delegated to it by the Board. The Executive Committee consists of the Chief Executive Officer, the Chief Financial Officer, two Chief Operating Officers and the Chief Legal Officer.

For more information, please see *Corporate Governance* section on page 211.

The standing Board Committees in the following areas provide corporate governance guidance and support for the Board of Directors. Their chairpersons are selected by the Board:

**Audit and Compliance Committee**
Meets and consults regularly with the Executive Committee, the Lonza Audit Services and the independent auditors to review the scope and results of their work and performance, according to the Audit and Compliance Committee Charter. The Audit and Compliance Committee reviews the systems of internal control and financial reporting, as well as compliance with laws and regulations.

**Nomination and Compensation Committee**
Is entrusted with the review and recommendation of compensation policies and programs, the Chairman's and the CEO's compensation based on their performance, as well as the compensation of the members of the Executive Committee and key executives. Furthermore, the Nomination and Compensation Committee is continuously evaluating potential members of the Board of Directors.

**Innovation and Technology Committee**
Supports innovation and technology by monitoring potential technology breakthroughs, supporting management in driving innovation projects and providing and facilitating contacts, e.g. with academia and research institutions.

# MANAGEMENT AND COMPANY STRUCTURE

On 1 March 2013, Lonza changed the structure of the company to focus on its target markets and to improve the effectiveness of its worldwide organizational structure and operations. At the center of this transformation stands the accelerated shift from a technology-focused organization to a market-driven one, aligning the organization to serve our customers and markets in the most efficient way possible.

In alignment with the Lonza markets, the former Custom Manufacturing and Bioscience sectors have been regrouped into one Pharma&Biotech market segment. Microbial Control and Life Science Ingredients have been regrouped into the Specialty Ingredients market segment. These two new, leaner organizations are focused on improving efficiency and profitability with a dedicated market orientation.

**Market Segments**
The core competencies that span these segments are advanced manufacturing and quality control systems, superior regulatory expertise, in-depth market knowledge, sales, marketing and business development, as well as extensive technical customer-support and R&D capabilities. The segments participate in the following markets:

Pharma&Biotech Market Segment
*Custom Development*
*Custom Manufacturing*
*Bioscience Solutions*

Specialty Ingredients Market Segment
*Consumer Care* (incl. Personal Care & Preservation, Nutrition, Hygiene)
*Agro Ingredients*
*Water Treatment*
*Industrial Solutions*
*Wood Protection*

**Operational Units**
include Operations and Research & Technology groups that support the two market segments.

**Corporate Functions**
such as EHS, HR, Finance, Sourcing and IT, act as corporate internal service providers, setting targets, providing guidelines and enforcing standards. Also, they have the clear goal of fulfilling the global governance role for all enabling functions of the company.

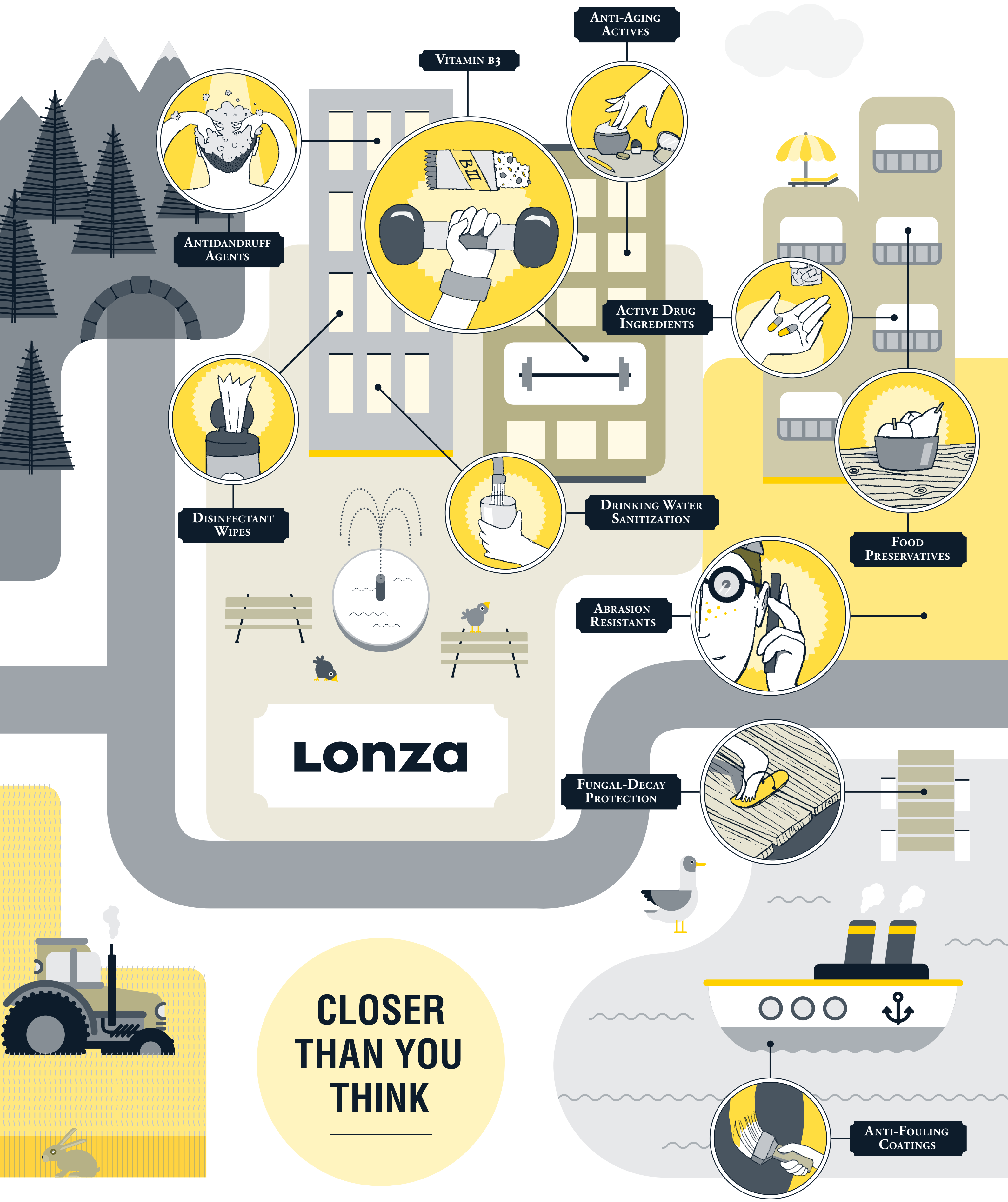
**Business Service Organizations**
are regional units that support our market activities and implement corporate guidelines from a regional perspective.

### Our New Organizational Structure

**EXECUTIVE COMMITTEE** (EC) CEO — CFO — COO — COO — CLO

| **Market Segments** | **Operational Units** | **Corporate Functions** | **Business Service Organizations** |
|---|---|---|---|
| Pharma&Biotech<br>Specialty Ingredients | | | |


Temperature-Resistant Resins
Viral Vaccines
Human Tissue Cells
Pet Food Supplements
Tools for Researchers
Corrosion Inhibitors
Slug Control
Anti-Mold Components
Pool and Spa Sanitizers
Crop Protection



Vitamin B3
Anti-Aging Actives
Antidandruff Agents
Active Drug Ingredients
Disinfectant Wipes
Drinking Water Sanitization
Food Preservatives
Abrasion Resistants
Fungal-Decay Protection
Lonza
Closer than you think
Anti-Fouling Coatings

# LEADERSHIP


Antonio Trius
Patrick Aebischer
Stephan Kutzer
Toralf Haag
Beat In-Albon
Rolf Soiron
Executive Committee
Board of Directors


Jean-Daniel
Gerber
Thomas Ebeling
Marc Funk
Richard Ridinger
Peter Wilden
Werner J. Bauer
Margot Scheltema

# STRATEGY

Science for Health and Well-Being — 22
Megatrends — 25

LONZA
ANNUAL
REPORT
2013

# SCIENCE FOR HEALTH AND WELL-BEING

*Getting to Know Lonza*

Founded in 1897 in the Swiss Alps, Lonza today is one of the world's leading and most-trusted suppliers to the Pharma&Biotech and Specialty Ingredient markets. We harness science and technology to create products that make people's and animals' lives healthier and that enhance the overall quality of life and well-being. Our products and services range from active pharmaceutical ingredients and stem-cell therapies to drinking water sanitizers, from industrial preservatives to microbial control solutions that combat dangerous viruses, bacteria and other pathogens, from the manufacture of vitamin B compounds and organic personal care ingredients to agricultural services and products.

Lonza is a well-respected global company, with more than 40 major manufacturing and R&D facilities and approximately 10 000 employees worldwide. The company generated sales of about CHF 3.6 billion in 2013 and is organized into two market-focused segments: Pharma&Biotech and Specialty Ingredients. Lonza's stock is publicly traded on the Swiss and the Singapore stock exchanges.

**Transformational Strategy**

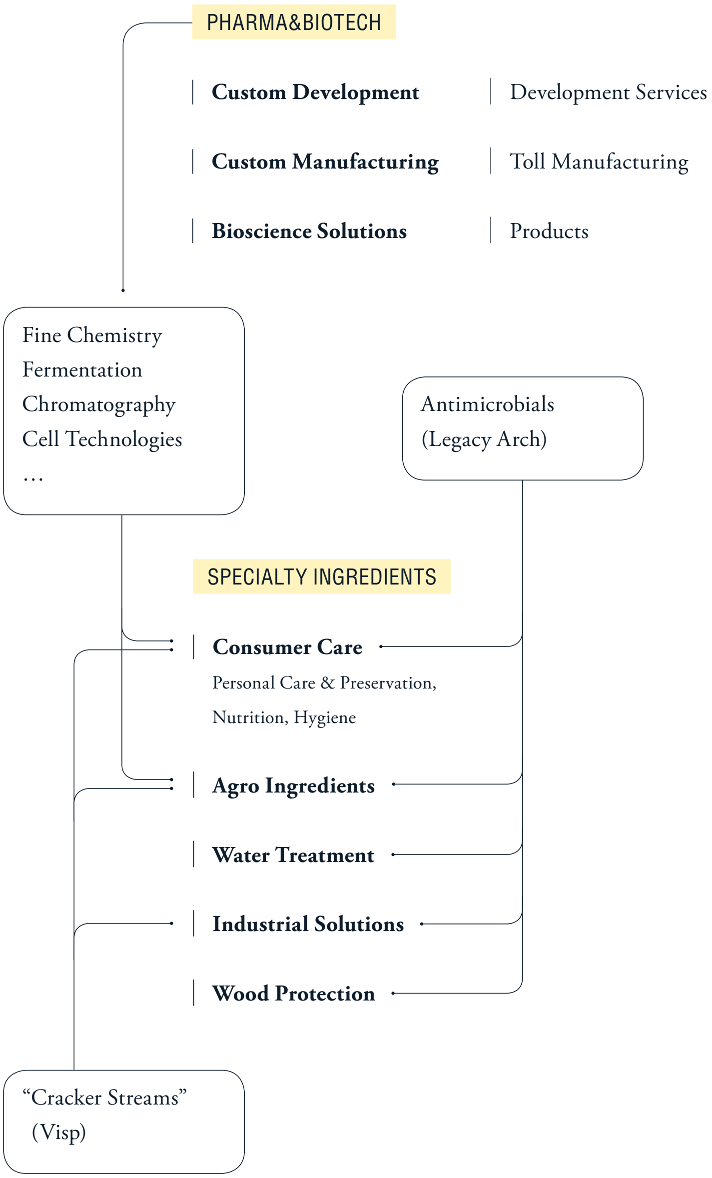
While Lonza underwent major organizational and structural changes during 2013, our basic strategy remained unchanged: We use cutting-edge technologies to provide life science and specialty chemicals markets with a wide range of active ingredients, products and services. The company operates in two market segments:

The Lonza Pharma&Biotech (LPB) market segment clusters all of our offerings for pharmaceutical markets, with strong Lonza positions in Custom Development, Custom Manufacturing and Bioscience Solutions.

The Lonza Specialty Ingredients (LSI) market segment includes consumer-oriented offerings, with Consumer Care encompassing our Personal Care & Preservation, Nutrition and Hygiene offerings. Specialty Ingredients also benefits from market-leadership positions in Agro Ingredients, Water Treatment, Industrial Solutions and Wood Protection.

The approach to our market-focused segments is twofold: capitalizing on synergies offered by vital technology links and balancing the risk profile between a more volatile, demanding Pharma&Biotech market segment and the more stable Specialty Ingredients market segment with GDP-plus growth. The synergies between the market segments show how Specialty Ingredients clearly benefits from decades of experience gained from the highly complex Pharma&Biotech activities.

## Technology Link Between the Businesses




### Lonza in the Future

In the last few years, driven by increasing market demand, Lonza has invested extensively in the build-out of our global network of sites, as well as in acquisitions and other external growth opportunities. To generate sustainable, long-term shareholder value, we are now engaged in consolidating our resources, improving our operations and sharpening our market focus. Our goal is to grow and transform Lonza into a top-tier company in terms of key profitability measures by the end of 2015. We believe these steps are essential.

Two of our main focus areas are to grow the businesses from within and to deleverage the balance sheet. With a robust global network already in place, we therefore limited annual capital expenditure (CAPEX) to CHF 300 million – and in 2013 we succeeded in coming in well below that ceiling. Any major external acquisitions will only come once we have reached our leverage targets; however, we are open to smaller, technology-driven, bolt-on acquisitions where needed to strengthen our market-leadership positions and profitability.

Opportunity:
Make efficient use
of the platforms
in the target markets.

#### TAKING ADVANTAGE OF CROSS-BUSINESS TECHNOLOGIES

Over the years, Lonza’s outstanding knowledge and expertise in the Pharma&Biotech market segment has led to the creation of innovative new solutions offered by our Nutrition, Personal Care & Preservation and Agro Ingredients markets, too.

### Three Global Transformation Initiatives

Both of our market segments are benefiting from our three major global transformational initiatives, which will be decisive for the success of the company: *Global Manufacturing Footprint, Business Services Excellence* and *Go-to-Market Excellence*. The common goals of these major change projects are improving Lonza's productivity and profitability, reducing our complexity and costs, increasing transparency and accountability, capturing synergies and initiating a new, broader market focus with an emphasis on innovation.

These initiatives have already proven their worth, helping us achieve an 11.2 % increase in our CORE EBIT in 2013. The progress that we made in 2013 prepares us well to achieve our longer-term financial goals of a 20 % EBITDA margin and a net debt / EBITDA ratio around 2× by the end of 2015.

### Other Transformational Activities

As we explain in the *Investing in Our People* article on page 74, we are focusing on helping our managers and employees embrace change and capitalize on the exciting opportunities provided by our new, more strategic market focus and the other change initiatives. The HR actions we are taking include globally harmonized career development processes that will ensure we have the best experts and the best leaders needed to achieve our – and our customers' – goals.

We are also harnessing operational excellence and other continuous improvement principles and practices to provide a safe working environment and to improve the sustainability and environmental profile of our operations.

### UTILIZING CROSS-BUSINESS SYNERGIES

The Global Manufacturing Footprint project is aimed at consolidating technologies into centers of excellence and improving the productivity and profitability of our core sites. The Business Services Excellence project is focused on streamlining and improving the support services that corporate and other functions provide for our businesses. And the Go-to-Market Excellence initiative is aimed at creating a broader, more customer-centric focus on our target markets – one that fully captures the cross-segment and cross-business synergies we can offer our customers.

### CAPITALIZING ON CROSS-BUSINESS SELLING

The Consumer Care team is working to capitalize on cross-selling synergies to serve exciting new markets. For example, our Laracare™ Quat is a new hair-conditioning agent derived from a Nutrition ingredient. In another example, one of our natural bio-polymers is being repositioned as a gelling agent in skin care and healthcare, with a particular focus on wound healing. The team is drawing on Pharma&Biotech fermentation technologies to expand existing fermentation- and bio-based offerings of cosmetic products for hair and skin conditioning.

### APPLYING EXPERTISE ACROSS BUSINESSES

The Agro Ingredients market profits from Lonza's global experience in other Specialty Ingredients businesses and the Pharma&Biotech market segment. The latest generation of agricultural products, for example, has become more selective in the use of actives. This comes in response to regulatory pressure and consumer preferences. Because these products are more complex, they require sophisticated support for development, production and regulatory approval. Here, Lonza brings to the table its expertise in custom synthesis, integrated project management capabilities, broad chemical and biological technologies, a flexible market-launch process and customized contracts for the financing of investments and development efforts.

# MEGATRENDS

*Surfing the Waves – Capitalizing on Global Megatrends*

**Megatrends**

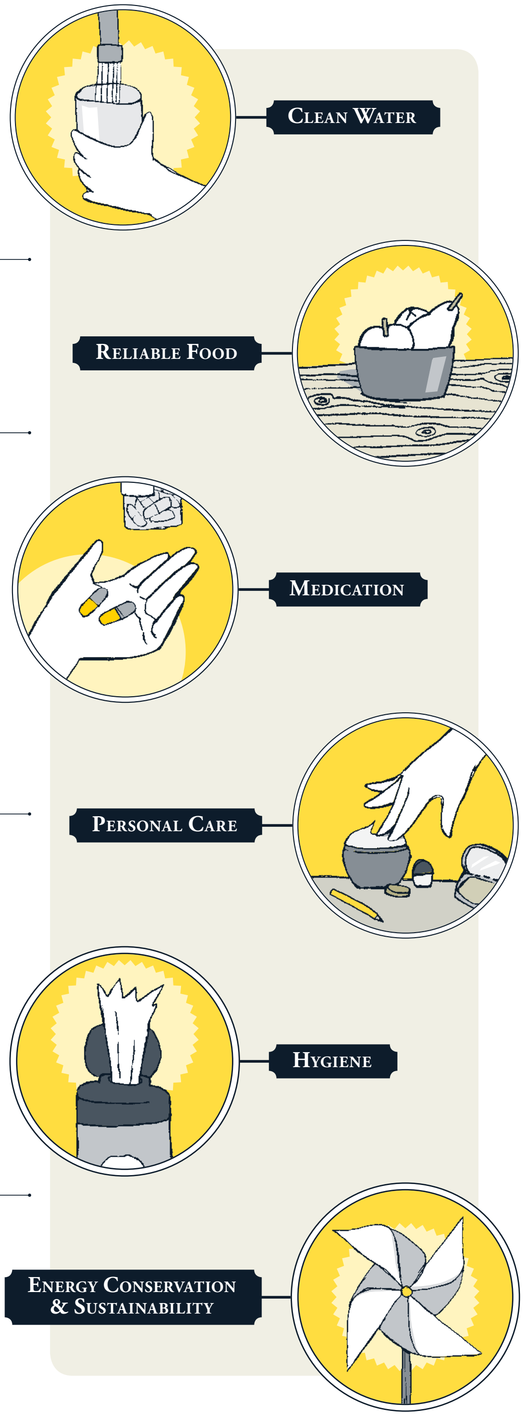
GROWING WORLD POPULATION

AGING OF GLOBAL POPULATIONS

RAPID GROWTH OF MEGACITIES

GROWING MIDDLE CLASSES IN BRIC-VISTA COUNTRIES

**Resulting in a Need for**




**Lonza Technologies and Product Offerings**

Water treatment systems, including sanitizers and feeder systems

Nutritional ingredients

Agrochemical products and services

Chemical and biotech manufacturing expertise and technologies

Drug development services

Research and testing solutions for pharma markets

Personal-care products and preservation solutions

Hygiene solutions

### Four Global Megatrends

With a focus on global megatrends that we are uniquely positioned to address, Lonza will continue to be a leading and innovative supplier to the pharmaceutical, healthcare and life-science industries during the second Lonza century. By doing so, we will generate sustainable, long-term rewards for all of our stakeholders – from our business customers, end-use consumers and suppliers to our shareholders, employees and communities.

Drawing on our science and technology expertise, we are at the forefront of satisfying the vital needs that global megatrends are generating. These megatrends are often being mutually addressed by both our Pharma&Biotech and Specialty Ingredients market segments. This shared work – and the synergistic benefits it offers to customers in our targeted markets – underscores the value of the broader strategic approach to our markets embodied in our transformation initiatives. Specifically, Lonza's businesses address the following four key global megatrends:

### The Growing World Population

In a world where the population exceeds 7 billion and will reach an estimated 10 billion by 2050, significant fast-growth opportunities exist for leading global companies like Lonza.

Lonza can help satisfy urgent needs for clean water, abundant food, affordable medicines, innovative therapies and many other demands of our rapidly growing and aging population.

*The increasing demand for clean water*: Lonza is pursuing tremendous growth opportunities created by megatrend demands for clean water across multiple market segments around the globe. Whether for drinking, cooking, agricultural irrigation, beverage production, food processing or industrial applications, water is an increasingly scarce and valuable resource.

Lonza Water Treatment offers feeder systems for drinking water disinfection that already have a growing presence in North America and are gaining in popularity in developing nations such as China. We are poised to capitalize on growth opportunities as water-hungry agriculture and industries expand in emerging markets. Demand is also increasing for sewage-effluent treatment in developed and developing nations.

*The need for healthful and abundant foods*: The demand for nutritious foods is driven in part by the emerging obesity epidemic in the West and greater food awareness and choices in the developing world. Our Agro Ingredients and Nutrition businesses are at the forefront of helping address consumers' growing need for healthful and abundant foods.

For example, Lonza is the world's largest supplier of vitamin B3 compounds, which are used widely in human and animal foods, vitamins and medicines. Our calcium hypochlorite sanitizers and feeder systems are being used in the pre- and post-harvest cleansing of fruits, vegetables, poultry and seafood, as well as in beverage-bottle sanitization and other food-preparation processes. The custom crop-protection chemicals and other ingredients that we supply help our customers optimize yields, while our proprietary molluscicides protect lettuce and other greens from the damage caused by slugs and snails.

#### BRIC AND VISTA COUNTRIES

BRIC countries are Brazil, Russia, India and China. VISTA countries are Vietnam, Indonesia, South Africa, Turkey and Argentina.

### The Aging of Global Populations

Rapid growth of elderly populations in the West and in Asian nations such as China and Japan is driving ever-rising demand for healthful foods and nutritional supplements and for anti-aging cosmetics and other personal care products.

*The need for affordable medication:* Lonza's Pharma& Biotech market segment is a world leader in the custom development and manufacturing of chemical and biologically active pharmaceutical ingredients, cell therapies and other life-saving and life-enhancing treatments. Our efficiency and expertise in process development, technology transfer and manufacturing help us reduce time and costs for our customers.

*The need for enhanced personal care:* Our Nutrition business provides vitamins and nutritional supplements that support healthy diets. Within Consumer Care, our Personal Care business supplies anti-aging skin treatments and other cosmetic ingredients that help people look and feel their best.

### The Rapid Growth of Megacities

The movement of populations from rural areas to megacities is generating a need for improved hygiene and protection products, as well as water and sanitation systems.

*The need for improved hygiene:* Lonza's Hygiene business within Consumer Care offers single-use wipes, sprays, janitorial liquids and other tools for tackling the public threat of dangerous viruses, germs and other pathogens. Around the globe, we effectively deliver our sanitizers and disinfectants to hospitals and other medical settings, industrial cleanrooms, homes, restaurants and institutional food-preparation facilities, schools, offices, gymnasiums and more.

Again, our simple, reliable drinking-water sanitizing systems and surface-water treatments for reservoirs are playing a major role in providing clean drinking water in urban areas throughout the world.

### The Growth of Middle Classes in BRIC and VISTA Countries

The continuing growth of affluent and aspirational consumers in the developing world is driving demand for everything from better nutrition and hygiene to cosmetic ingredients that enhance beauty and well-being, and from affordable medicines to residential water opportunities.

Lonza is well situated to meet the needs of these new consumers. For example, our Pharma&Biotech market segment, with new facilities in Singapore, is capitalizing on rising demand in Asia and elsewhere for affordable medicines and therapies. Lonza Personal Care is the world's largest supplier of actives for antidandruff shampoos, and we also provide a wide range of other skin and hair care ingredients.

Additionally, Lonza Water Treatment is a leading global supplier of swimming pool and spa sanitizers and related treatment chemicals, with globally popular brands such as our HTH® family of products. Lonza is also present in the treatment of industrial water, with leading chemistries and brands such as Equinox™, Barquat™ and Bardac™.

*The need for energy conservation and sustainability:* To meet this need, Lonza is playing a role in helping customers to develop new energy resources and alternative fuels and to conserve energy. For example, with our broad water treatment experience, we can help to protect groundwater in shale-gas hydraulic fracturing or fracking operations. In addition, we provide biocides for Brazilian energy producers to protect renewable, sugarcane-based ethanol fuels from bacteria.

Our Industrial Solutions business is the world leader in supplying biocides for use in marine paints that deter the growth of foulants such as algae and barnacles on ships' hulls. These protective coatings enable the ships to travel more quickly and efficiently, reducing fuel use and emissions. Industrial Solutions also supplies resins used in carbon fiber composites and other materials that reduce their weight, increase their strength and help conserve fuel for high-performance automobiles, planes and satellites.

# MARKETS

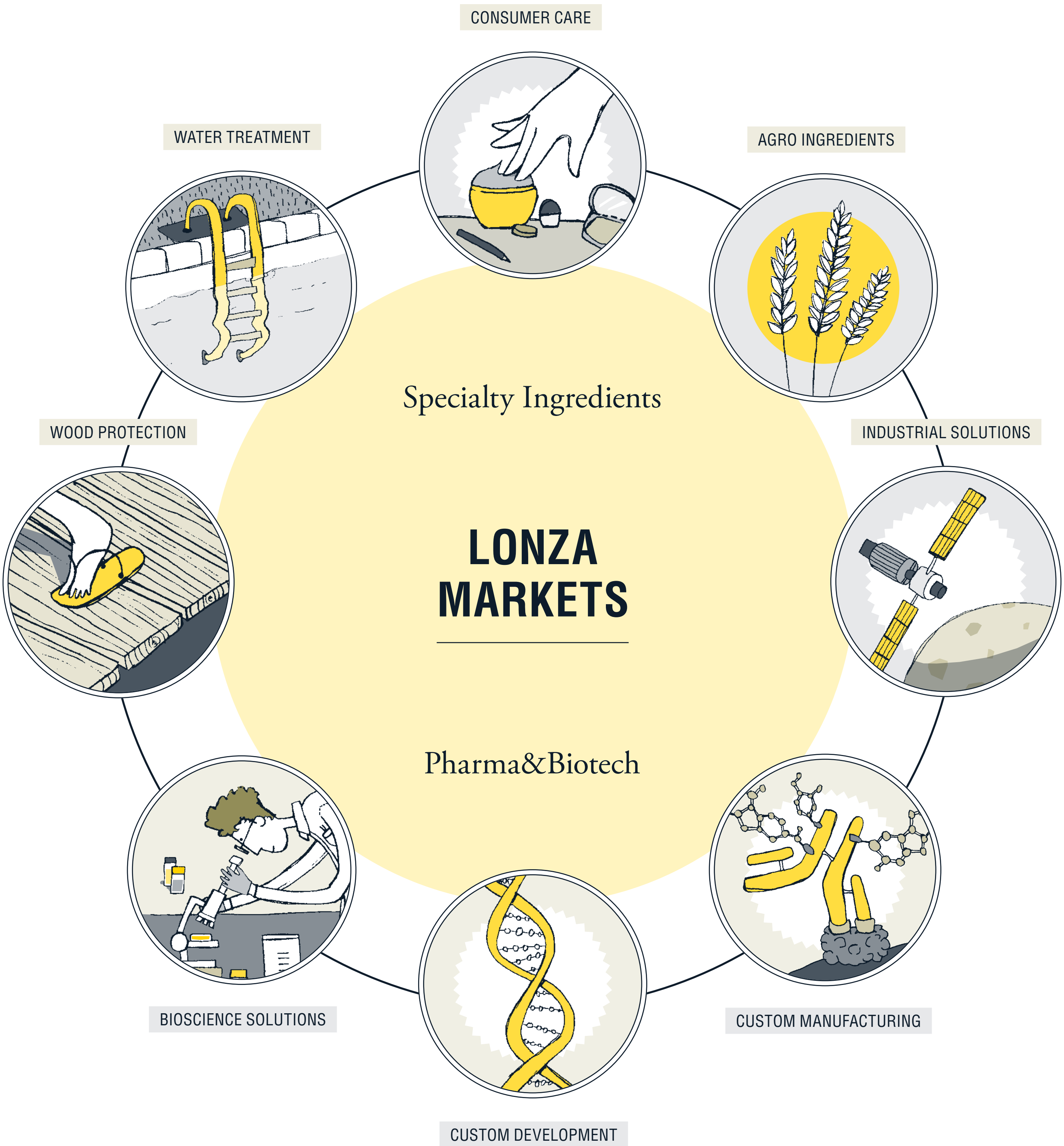

Lonza Markets — 30

*Pharma&Biotech* — 31
Custom Development — 32
Custom Manufacturing — 34
Custom Development and Custom Manufacturing Sites — 37
Bioscience Solutions — 38

*Specialty Ingredients* — 40
Consumer Care — 42
Agro Ingredients — 46
Water Treatment — 49
Industrial Solutions — 52
Wood Protection — 56


LONZA ANNUAL REPORT

2013


CONSUMER CARE
AGRO INGREDIENTS
INDUSTRIAL SOLUTIONS
CUSTOM MANUFACTURING
CUSTOM DEVELOPMENT
BIOSCIENCE SOLUTIONS
WOOD PROTECTION
WATER TREATMENT
Specialty Ingredients
LONZA MARKETS
Pharma&Biotech

# PHARMA&BIOTECH

*Market Environment, Strategy and Growth Drivers*

Lonza's Pharma&Biotech market segment is well positioned to build on its leadership positions in custom development, custom manufacturing, research and testing technologies and services. We are positioned to profitably capture a growing share of the global pharmaceutical market.

The total global market for medicines amounts to approximately CHF 950 billion per year. Sales of biopharma products grew at an average 8 % compound annual growth rate (CAGR) from CHF 110 billion in 2007 to CHF 160 billion in 2012.

The overall pharmaceutical market is expected to continue its growth trajectory in the coming years, with market-volume growth driven by an increasing number of patients worldwide, as well as a growing and aging population requiring extended access to medication. This growth also reflects more affordable medical treatments and growing affluence in developing nations, while a larger number of generics, including biosimilars, are available.

One major challenge that pharmaceutical customers face is one we share as their formal or informal partners – increasingly strict regulatory requirements. These in turn contribute to volatility in the marketplace as many promising drugs and therapies face failures, cancellations and delays in clinical trials.

The overall market is also facing reduced venture-capital investment in early-stage drug development and reduced government spending on medical R&D and related areas. All of these pressures add to the potential cost of developing and launching new medicines and treatments. These trends play to Lonza's strength as an outsourcing partner who can provide cost-effective, cutting-edge technologies, custom drug development and manufacturing services on all scales.

In response to the regulatory challenges and cost pressures our customers are facing, our Pharma&Biotech market segment has a multi-faceted growth strategy to capitalize on high-margin new treatments and technologies. To begin with, we are strengthening our innovation and market leadership positions by focusing on new technology trends and services. We are addressing these by building our world-leading strengths in antibody drug conjugates, cytotoxics, induced Pluripotent Stem Cell lines and platforms, our proprietary GS Xceed™ and XS Expression System™ technologies, and new endotoxin testing systems. Also we are sharpening our customer focus to improve our chemical and biotech pipeline of products and services, as well as building additional partnerships with world-leading pharmaceutical companies.

To improve the profitability of Pharma&Biotech, we are optimizing and consolidating our manufacturing footprint such as the phasedown of our operations in Hopkinton, MA (USA) and the subsequent consolidation of our microbial biopharma operations in Visp (CH). We are also seeking other cost-saving and productivity improvements and meeting new cGMP compliance standards.

Lonza's Pharma&Biotech market segment focuses on three key markets: Custom Development, Custom Manufacturing and Bioscience Solutions.

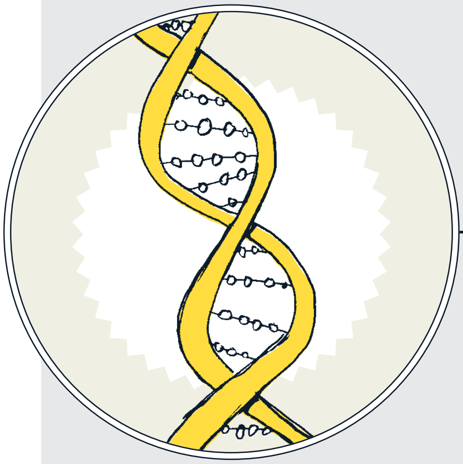
### BREAKTHROUGH THERAPIES

Lonza's market-leadership position in active pharmaceutical ingredients technologies for oncology is supported by our broad offerings and our unique position in induced Pluripotent Stem Cells (iPSCs), a major breakthrough that avoids the controversial need to use embryonic stem cells to develop targeted cell therapies.

# CUSTOM DEVELOPMENT

*Improving New Drug Successes*

www.lonza.com/development



Research and Product Licenses for Technology Systems

- Mammalian
- Microbial

Technologies and Services

- Analysis and Expression of Mammalian and Microbial Proteins
- Process Development Services for Biologics
- Process Development Optimization and Scale-Up for Cell-Based Therapeutics
- Chemical Synthesis

**Developability Assessment Platform**
to assess manufacturability and safety risks in early drug candidates

**Miniaturization and Automation**
in the mammalian and microbial process development to improve robustness and development speed

**Research Licenses**
for our GS and XS Expression Systems™

## MARKET

The Custom Development market is growing at a steady rate, with Mammalian technologies predicted to achieve the highest growth within this market, over the next five years. Several innovative therapeutics such as engineered antibodies and immunotherapeutic cancer vaccines have shown early success with great promise for future development. Pre-clinical and early clinical development is a critical time that sets the foundation for the product quality and manufacturing process. The more efficient the development process, the faster a company can invest resources into the most viable candidate.

Today's pharmaceutical development landscape presents unprecedented challenges, including increasing generic competition, high attrition rates, tightening new product regulations, and a challenging reimbursement model. Outsourcing to custom development and manufacturing specialists with early risk-assessment services, proven expression technologies and years of technical and scale-up experience can help drug companies reduce cost and the time to develop new therapeutics.

Lonza was the first company in the world to provide both Custom Development and Custom Manufacturing of active pharmaceutical ingredients for medical customers. The business model of Custom Development for pharma and biotech customers is a well-respected service model that includes technology licensing. We offer proven expression technologies, such as our Mammalian GS Gene Expression™ and Microbial XS™ systems, via both research and commercial licenses.

### ADC TECHNOLOGY

Drawing on this broad spectrum of expertise, Lonza has been able to combine technologies to generate new classes of targeted cancer therapeutics called Antibody Drug Conjugates or ADCs. ADC technology combines the production of a specific protein (antibody) using our industry-leading GS™ Mammalian Expression System with a cytotoxic chemical agent via a specialty "linker".

The range of our early-development capabilities is novel among traditional CMOs and allows Lonza to support the development of many types of drugs in the clinical pipeline.

### NOBEL PRIZE WINNING STEM-CELL TECHNOLOGY

In 2007 Dr. Shinya Yamanaka and colleagues at Kyoto University became the first to convert adult human cells to an embryonic stem cell-like state, for which they received the Nobel Prize. He named these new stem cells "induced Pluripotent Stem Cells" (iPSCs). The discovery avoided the controversial use of human embryos to obtain these versatile stem cells. Lonza's proprietary Nucleofector™ Technology has been demonstrated to be a widely accepted method for the generation of clinical grade iPSCs and is now used by thought leaders around the world, including Dr. Yamanaka. These cells have the ability to become any cell type in the body. Therefore, iPSC technology can be used to develop cell-transplantation therapies for the treatment of degenerative diseases including diabetes, Parkinson's and a number of cardiovascular diseases. As validation of our commitment and efforts, the National Institutes of Health Center for Regenerative Medicine (NIH CRM) has awarded Lonza a contract for the generation of what could be the world's first clinical-grade (cGMP-compliant) iPSC master cell bank.

In addition, we offer scientific and technical expertise in a service model, which provides early assessment and development work on our clients' lead drug candidates.

Revenues are split between the custom development work on site and the licensing and royalties stemming from access to our proprietary technology systems.

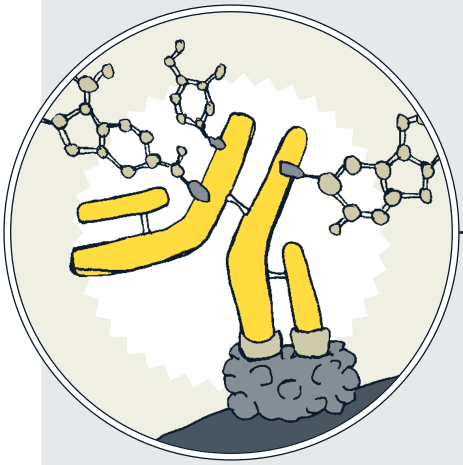
The business environment in Custom Development is marked by several major factors. Pharma companies are facing unprecedented challenges, with increasing generic competition, a decline in clinical approvals for new drugs and tightening regulations. Outsourcing to a custom development and manufacturing organization such as Lonza – with established and optimized production platforms – therefore provides options for reducing cost and lead times for drug development.

Lonza is well positioned to capitalize on significant growth opportunities with our market-leading offerings and innovative technologies and services. For example, in 2013 Lonza launched its new Developability Assessment Platform, which identifies manufacturability and safety risks in early drug candidates – enabling customers to invest in molecules with a better chance of clinical success. To advance and improve the business, our team has also put significant effort into refining its systems, processes and infrastructure. Our current R&D projects have good potential for strong service revenues, as well as for licensing and royalty growth.

# CUSTOM MANUFACTURING

*Bringing New Drugs and Therapies to Market*

www.lonza.com/custom-manufacturing-overview



Drug Manufacturing
Antibody Therapies
Chemical Therapies
Peptide Therapies
Protein Therapies
Cell and Viral Therapies

**Antibody Drug Conjugates (ADCs)**
Therapeutic proteins are attached to biologically active drugs by specific chemical linkers. These proteins target specific locations in the body and allow cancer-killing cytotoxic drugs to be released in a localized fashion.

**Peptides**
With more than 30 years of experience, we can produce milligram to ton quantities of peptides and peptide conjugates for therapeutic use, while offering worldwide sourcing and security of supply for customers.

**Mammalian Biopharmaceticals**
**Microbial Biopharmaceuticals**
**Viral Vaccines**
**Cell and Gene Therapy**
**Advanced Chemical Synthesis**
**Highly Potent APIs**
**Cytotoxics**

## MARKET

The oncology market is also a major driver of cell therapy services, where Lonza is the market leader. With more than 1500 stem-cell therapy clinical trials ongoing worldwide, sales in the cell therapy market are forecast to reach CHF 2.6 billion in 2018. Today, overall pharmaceutical sales are approaching CHF 950 billion.

Lonza's leadership positions in drug manufacturing are two-fold: We offer customers a broad technology platform encompassing chemical, peptide, protein, antibody, viral and cell therapies. And we produce drugs in commercial quantities on time and in high quality.

Lonza was the first company ever to custom manufacture active pharmaceutical ingredients (APIs) for drug companies. Our biological manufacturing services range from vector construction and cell-line development to full-scale manufacturing, all backed by a complete range of analytical services and regulatory support for clinical trials and in-market supply. Lonza's experience in microbial fermentation began in 1983 in Visp to support the development of industrial enzymes, biotransformation technologies and other fermented ingredients.

We then entered the microbial biopharmaceutical business, where we have successfully delivered almost every type of microbial parenteral API, including antibody fragments, vaccines, cytokines, plasmid DNA, fusion proteins and PEGylated products. In many cases, Lonza provides customers with a package of Custom Development services along with Custom Manufacturing capabilities. The manufacturing capabilities are especially important once a drug or therapy receives regulatory approvals for sale in the marketplace so that full-scale manufacturing can begin.

Lonza is one of the few companies in this market with small-scale, mid-scale and large-scale manufacturing capabilities, which is vital as our customers move through the clinical trial process. After increasingly demanding regulatory approvals are obtained, commercial-scale capabilities become critical for drug success. In addition, Lonza offers a full range of chemical custom services, including advanced chemically derived active ingredients, antibody drug conjugates, highly active pharmaceutical ingredients, and cytotoxic and peptide syntheses, as well as biological cellular and gene therapies.

### Oncology Treatments: Lonza Well Positioned for Growth

Lonza's leading technologies and services in custom manufacturing benefit patients who need oncology drugs. These treatments are forecast to have the biggest growth in sales among all disease categories, rising to CHF 94 billion by 2016. As one of the frontrunners in the contract manufacture of monoclonal antibodies and recombinant proteins from mammalian cell culture, Lonza produces the essential ingredients for life-saving medicines in four mammalian state-of-the-art cGMP multi-product facilities worldwide.

Monoclonal antibodies for cancer treatment and autoimmune disorders now represent new, gold-standard therapies. They will continue to grow in the market – where they already represent roughly half of all early-phase biologics – as the pharmaceutical companies who backed them are growing strongly. Lonza's antibody pipeline is also experiencing steady growth, benefiting from our first-in-class technologies and Lonza's unique position as a large-scale manufacturer with a proven regulatory track record.

Lonza is particularly well positioned in the fast-growing area of antibody drug conjugates (ADCs), an exciting breakthrough in targeted cancer treatment. Our ADCs are produced via a combined effort of our Slough (UK) mammalian facility, which produces the target antibody, and our Visp chemical facility, where the cytotoxic chemical is synthesized and conjugation is completed. In fact, Lonza is the leading innovator in the development and manufacture of ADCs – beginning with the manufacturing of antibodies, linkers and toxins through to the conjugation of these components. Furthermore, Lonza has validated and commercialized leading ADC products on a commercial scale.

The oncology market is also a major driver of cell therapy services, where Lonza is the market leader with a strong position in induced Pluripotent Stem Cells (iPSCs), a major scientific breakthrough that avoids the controversial need to use embryonic stem cells to develop targeted cell therapies.

Cell therapy has found clinical applications in the treatment of leukemia and lymphoma cancers, burn repair, bone and cartilage repair, diabetes, heart disease, wound repair and trauma, macular degeneration (blindness), and neurodegenerative disorders such as Parkinson's and Alzheimer's.

We recently supplemented our US R&D and manufacturing sites with new facilities in Singapore, which is a major hub of pharmaceutical manufacturing in the Asia-Pacific region and a competitive supplier to developed markets, too.

### CHEMICAL SYNTHESIS

Chemical synthesis still represents 70–80 % of existing drugs and those in late-phase development. Lonza is an innovator in the exclusive synthesis field, most recently with the expanded use of our new continuous flow technology. This technology involves a MicroReactor™ system to perform complex chemical reactions in highly adapted tiny channels for improved process conditions.

### WORLDWIDE NETWORK

Our Singapore facility provides both allogenic and autologous manufacturing technologies, and stem-cell work in the marketplace is split evenly between the two approaches. In addition, Lonza's Custom Manufacturing operations also have a cell therapy and media manufacturing location in Walkersville, MD (USA) and a media manufacturing location in Verviers (BE).

### Biological Drug Manufacturing at a Glance

Amino Acid / DNA Sequence

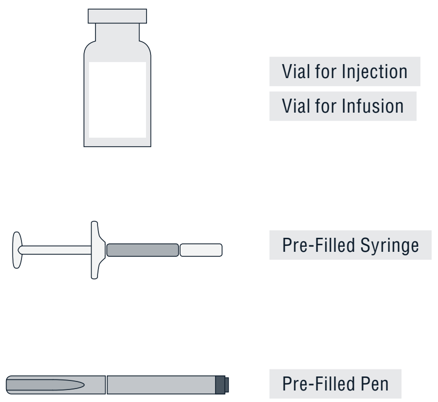
Cell Line

Process

Scale-Up / Manufacture

Complex Biologics
(Monoclonal Antibodies, Fusion Proteins)
and
Established Biologics
(Insulins, Vaccines, EPOs, Enzymes, Growth Hormones, Heparins)

**PRODUCT**



# CUSTOM DEVELOPMENT AND CUSTOM MANUFACTURING SITES

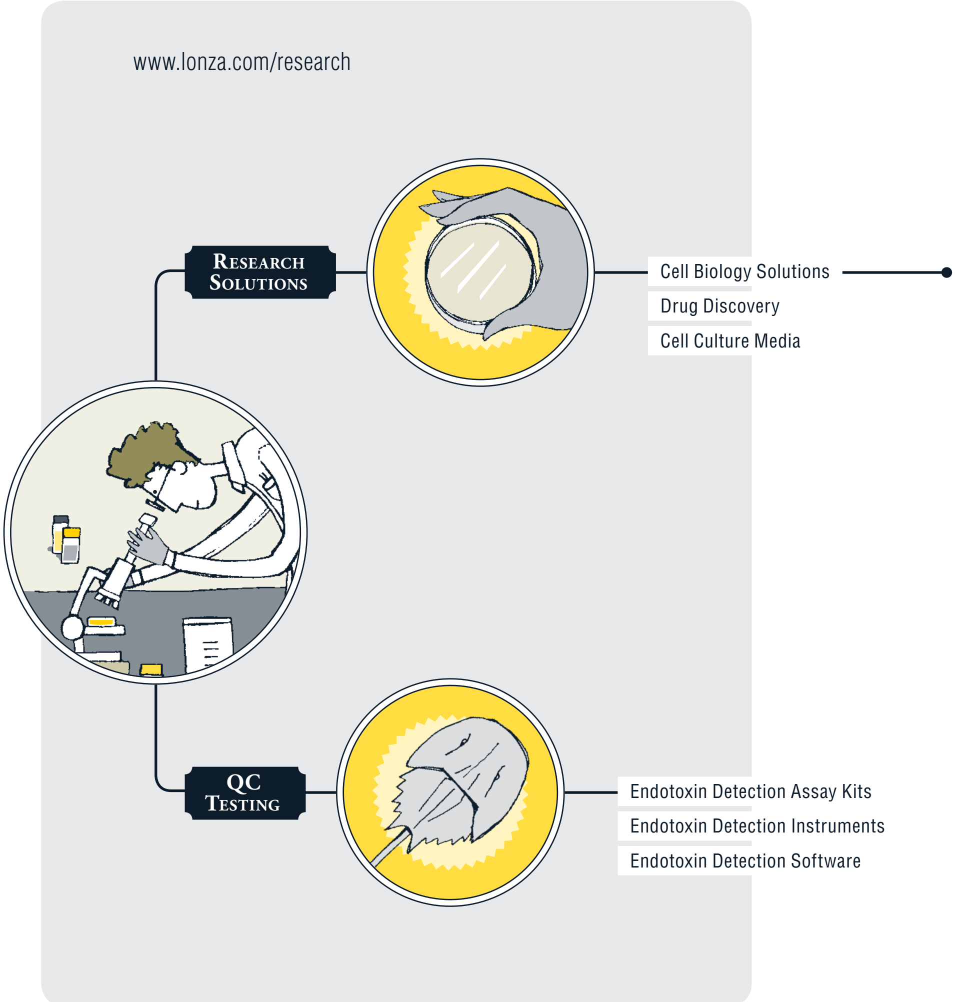
*Serving Customers Around the World*

| | |
|---|---|
| BRAINE-L'ALLEUD, BELGIUM | Peptide Development and Manufacturing |
| CAMBRIDGE, UK | Early-Phase Protein Services |
| NANSHA, CHINA | Chemical Manufacturing |
| HOUSTON, TX (USA) | Viral-Based Therapeutics |
| KOUŘIM, CZECH REPUBLIC | Microbial Manufacturing |
| PORRIÑO, SPAIN | Mammalian Manufacturing |
| PORTSMOUTH, NH (USA) | Mammalian Manufacturing |
| SLOUGH, UK | Mammalian Development and Manufacturing |
| TUAS, SINGAPORE | Cell Therapy and Mammalian Manufacturing |
| VISP, SWITZERLAND | Chemical and Microbial Manufacturing |
| WALKERSVILLE, MD (USA) | Cell Therapy Manufacturing |

To explore our sites, take a look at our 360° Virtual Tours:
*www.lonzavirtualtours.com*

# BIOSCIENCE SOLUTIONS

*Offering Industry-Leading Research and Discovery*




**Cell Biology Solutions to Increase Efficiencies in Research**
Primary cells and optimized media
Custom cell isolation
Cell expansion
Transfection services

**Drug Discovery Products and Services to Target Disorders and Diseases**
Cardiovascular
Neurological
Metabolic
Respiratory
Cancer

**Cell Culture Media to Help Researchers**
Classic and specialty media
Protein production and purification
Vaccine development
Cell therapeutics

## MARKET

The global bioresearch market approached CHF 48 billion in 2012 and has demonstrated consistent growth over several decades (CAGR currently 3 %). With our Bioscience Solutions product portfolio, we are addressing market segments in academic and pharmaceutical research, applied therapeutic research and pharmaceutical production. The addressable market size is in a range of CHF 21 billion globally (CAGR currently 4 %).

With our product knowledge and our own pharma manufacturing expertise, we are a trusted supplier of QC tests to the pharmaceutical industry.

Lonza Bioscience Solutions provides tools for the discovery, development, production and release of therapeutics. Our products include cell culture, transfection and molecular biology tools for life-science research; media used in the production of therapeutics; and endotoxin detection assays to assure the safety of injectable drugs. We serve customers across the world in academic and government institutions and in major biotech and pharmaceutical organizations. Lonza Bioscience Solutions has long set the industry standard for product quality and customer support in life-science research with our primary cells, culture media, transfection and electrophoresis devices, and endotoxin-testing products and services.

For drug discovery, we offer products and services targeting cardiovascular, respiratory, neurological, metabolic, cancer and other disease research areas. We deliver biologically relevant cell-culture solutions to enhance research findings, including custom cell isolation, cell expansion and transfection services, and primary cells with optimized media.

Our state-of-the-art cell culture media are used globally for research and for manufacturing pharmaceutical biologics, vaccines and cell therapeutics. Also, with our well-known and trusted Biowhittaker™ and Clonetics™ branded products, Lonza leads the industry in primary cell culture quality.

To strengthen sales and profitability, this business is focusing on launching new products and otherwise widening its portfolio of tools and services for faster-growing sectors such as biomedical and applied research markets, as well as diagnostic, therapeutic and industrial life-science markets involved in cutting-edge new therapies and treatments. In these markets, we primarily use our direct sales force to maximize partnerships with customers.

We see increasing interest among customers, for example, in our pluripotent stem cell technologies and our Nucleofector™ technology. In addition, we are benefiting from PyroGene™, our sustainable alternative to conventional LAL-based endotoxin detection methods, which has recently been approved by the FDA as an alternative method.

As we prepare ourselves for opportunities in the future, we are also pursuing major growth markets in primary cells and specialty media.

### SUSTAINABLE ALTERNATIVES

Lonza has been the leading global supplier for endotoxin detection assays since the 1970s. Endotoxins are pyrogenic substances that can cause fever, shock or even death if high levels are introduced into the body. For that reason, endotoxin detection is a standard release assay for any injectable therapeutic, as well as for medical devices. Lonza has developed PyroGene™, a synthetic alternative to the horseshoe crab blood lysate traditionally used in endotoxin detection assays.

# SPECIALTY INGREDIENTS

*Market Environment, Strategy and Growth Drivers*

In the Specialty Ingredients market segment, we supply innovative solutions that promote health, wellness, beauty, nutrition, hygiene and materials protection.

For example, in our Personal Care & Preservation business, we are the world's largest supplier of actives for antidandruff shampoos and a leading provider of natural and organic cosmetic ingredients.

Our Nutrition business is the world's largest producer of vitamin B3 compounds (niacin and niacinamide) and L-Carnitine. We also supply other specialized nutritional ingredients used in everything from pharmaceuticals and human energy drinks to animal feeds.

Lonza's Hygiene business is one of the world's leading suppliers of microbial control solutions. These solutions include disinfectants and sanitizers that help protect us from dangerous and unwanted microbes in hospitals, industrial clean rooms, homes, cafeterias, cruise ships and schools.

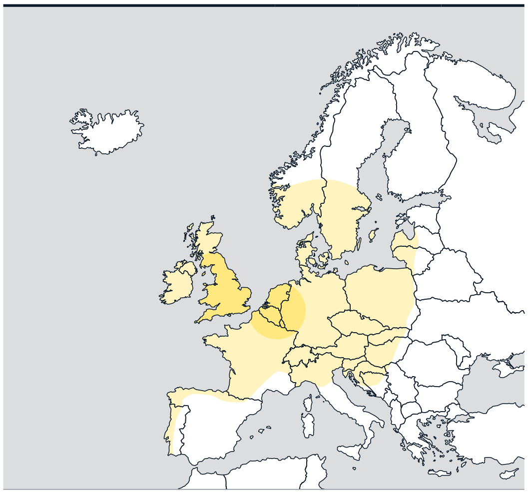
## USING PYRITHIONE TECHNOLOGY ACROSS INDUSTRIES

Pyrithione technology (including both zinc and copper pyrithiones) is one of those exciting, cross-Lonza focus technologies that extend well beyond Personal Care & Preservation to encompass other Specialty Ingredients businesses. Our zinc pyrithione, for example, is the world's leading active antidandruff agent. These pyrithione products are also tailored for use as active biocides in marine antifouling coatings to control the growth of algae, barnacles and other foulants on ships hulls and aquaculture nets.

## USING WATER EXPERTISE TO DEVELOP NEW PRODUCTS

Several years ago, Lonza successfully launched our Frexus™ CH product in Brazil, which was first used to cleanse coffee beans to remove the fungus that can affect the value of the beans and the taste of the coffee they produce. The active ingredient in the Frexus™ CH product is drawn from our Water Treatment business, which illustrates how Lonza employees can work together effectively across the company to meet our customers' needs.

Slug and Snail Infestations in Europe



Source: Speiser, Glen, Piggott, Ester, Davies, Castillejo and Coupland:
*Slug Damage and Control of Slugs in Horticultural Crops*
http://orgprints.org/515/1/Slugcontrol.pdf
29 October 2013

### USING BIOCIDE EXPERTISE IN THE AGRICULTURAL SECTOR

Lonza is harnessing key biocides elsewhere in its portfolio, as well as associated formulation expertise to expand the formulated products and services that we supply to agrochemical customers. One good example of how Lonza's microbial control formulation expertise is opening up new opportunities lies in the Agro Ingredients' use of specific biocides for the pre- and post-harvest treatment of seeds and crops. Preventing losses starts with sowing and does not end with the harvest. Treatment with special biocides just before or after harvesting helps to ensure that the harvested fruit and vegetables are delivered healthy and fresh to distributors and end consumers.

### USING INNOVATION WITHIN THE MOLLUSCICIDE MARKET

Within the crop protection industry, Lonza has a strong global market position in the slug and snail control market. These tiny creatures can have a devastating impact on crops by devouring and damaging lettuce, spinach, vegetables and other crops. The manufacture of metaldehyde, a specific and highly effective molluscicide to tackle slug and snail infestations, has made Lonza the leading market player in this segment. Lonza markets the active ingredient Meta™ to agricultural companies, as well as our own slug and snail pellet formulation for agricultural use under our Axcela™ brand. This is an excellent example of how Lonza is able to generate value and innovation for our customers through the interdisciplinary combination of process know-how, a patented formulation technology and experience in the field of regulatory affairs and registration.

Capitalizing on our broad experience in custom manufacturing in our Pharma&Biotech and Specialty Ingredients segments, Lonza's Agro Ingredients business offers custom agricultural manufacturing services designed to improve crop yields and food quality.

Our Water Treatment business within Specialty Ingredients is one of the world's largest suppliers of sanitizers and other treatment chemicals for pools, spas and water parks. It is also rapidly growing sales in the treatment of surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications.

Specialty Ingredients also offers a wide array of Industrial Solutions, including preservatives and biocide blends that deter the growth of mold, mildew and/or other contaminants on painted and coated surfaces, wallboard, flooring and ceiling materials, bath mats, carpeting, adhesives and sealants.

Lonza's Wood Treatment business supplies products and services that enhance the quality of wood and protect this sustainable, renewable resource from termites and other insects, mold, fungus, moisture and fire.

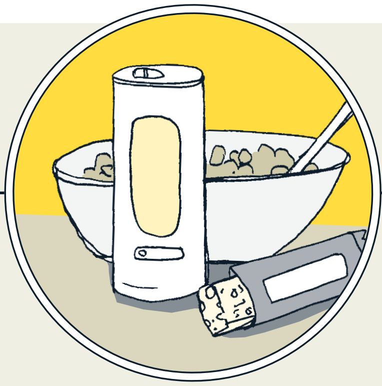
# CONSUMER CARE

*Focusing on Health, Wellness, Beauty and Protection*

www.lonza.com/nutrition
www.lonza.com/hygiene
www.lonza.com/personalcare

**HEALTH**
- Specialties
- Vitamins
- Probiotics
- Fibers
- Lipids

**NUTRITION**



- Dietary Supplements
- Functional Food
- Functional Beverages

**ANIMAL FEED**

- Pet Food
- Feed for Production Animals
- Feed Safety

**PROTECTION**
- Antidandruff
- Antioxidants
- Preservatives
- Disinfectants and Sanitizers

**HYGIENE**

- Health Care
- Industrial & Institutional
- Food and Beverage
- Home Care

**FUNCTIONALS**
- Surfactants
- Rheology Modifiers
- Emollients
- Emulsifiers

**PERSONAL CARE**

- Hair Care
- Skin Care

**HEALTH**

**PHARMA**

- Medical Nutrition
- Rx (Prescription Drugs)
- OTC (Non-Prescription Medicines)

**Scientifically Proven Products to Enhance Health and Well-Being**
Normal cardiovascular health
Gut and immune health
Sports nutrition
Brain function
Weight management
Reproductive performance
Energy metabolism
Growth benefits in animals

**Hygiene Products**
Antimicrobial formulations
Biocidal actives
Preservatives
Surfactants

**Disinfect and Sanitize**
Schools, food processing plants, restaurants, hospitals, cruise ships, homes

**Preservatives Against Fungi and Bacteria**
Household cleaning products
Institutional cleaning products

**Skin, Scalp and Hair Care**
Antidandruff agents
Emulsifiers and emollients
Anti-aging products

Nutrient deficiencies
Hyperlipidemia

MARKET

In total, the markets that Consumer Care serves worldwide amount to more than CHF 23 billion a year, with CHF 11 billion for Personal Care & Preservation, more than CHF 10 billion for human and animal Nutrition, as well as CHF 2 billion for Hygiene.

Three Consumer Care markets within Specialty Ingredients are focused on enhancing the quality of life and people's lifestyles and draw on science to promote health, wellness, beauty and protection. The markets that comprise Consumer Care are Personal Care & Preservation, Nutrition and Hygiene.

Together, these businesses are capitalizing on people's desires for nutritious food, for protection from dangerous viruses and other pathogens, and for the ability to look and feel their best. While we help to protect the health and well-being of people and companion animals around the world, we also offer innovative hair and skin care formulations and ingredients for the cosmeceutical and nutricosmetic markets and are the global leaders in vitamin B3 and nutritional supplements.

Consumer Care offers global market-leadership positions, strong product franchises, cutting-edge technologies, wide regulatory approvals, and close collaborations with customers on developing advanced formulations that distinguish their products in the marketplace. Together, these competitive strengths form the springboard for above-market sales growth and strengthened profitability.

Billed as Lonza's "lifestyle" business because of its focus on health, wellness, beauty and protection, Consumer Care is benefiting from powerful megatrends and market drivers that in large part address people's demand for products that help to enhance lives.

As discussed in more detail in the *Megatrends* article on page 25, global megatrends include the aspirational desires generated by growing affluence in developing nations; the continued public threat of dangerous viruses, germs and other pathogens; the urbanization of China, India, Africa and South America; the fast growth and aging of populations; the desire for natural, organic and sustainable products that enhance health and wellness; and last but not least, the demand for nutritious foods driven in part by greater food awareness and choices in the developed world and emerging markets.

In addressing megatrends, certain common solutions apply – including a focus on evidence-based products that address specific health and hygiene challenges and bio-based products that satisfy the increasing desire for natural and organic ingredients.

With increasingly strict regulatory requirements serving as a barrier to entry for new competitors, Consumer Care is leveraging our global regulatory expertise and registrations on behalf of customers, as well as offering them innovative blends of existing ingredients that have passed regulatory scrutiny.

Building on already strong positions in developed regions, Consumer Care is growing sales in China, South America and other emerging nations where increasingly affluent populations finally have the purchasing power to pursue aspirational desires for better hygiene, more nutritious foods and cosmetic products.

### HAIR CARE SOLUTIONS

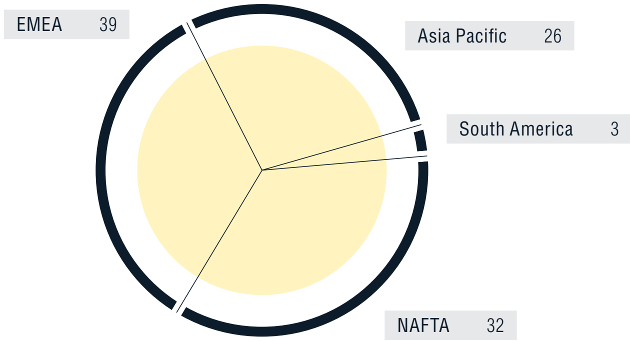
After more than 40 years of progressive development, our zinc pyrithione chemistry (sold under the Omadine™ brand) has become "the gold standard" for antidandruff agents. We tailor our active ingredients to serve distinct hair care needs and regional consumer desires.

### RESISTAID™

One of Consumer Care's key product franchises is our ResistAid™ product, a natural ingredient made from the soluble fiber arabinogalactan that is extracted from larch trees. Imparting both immune-boosting properties and digestive health benefits, it is used in dietary supplements and functional foods and beverages.

Geographic Split of Consumer Care Sales 2013

in %



### Building the Consumer Care Brand

The Consumer Care branding initiative will create a clear and differentiated positioning for our Consumer Care business in the market. Development of the brand began in mid-2013 and will launch in 2014. Our Consumer Care brand development is taking into account such strategic elements as market trends, competition, customer needs and perceptions and is expected to contribute to business growth in 2014 and beyond.

### Consumer Care's Core Strategies

To profitably capture our share of the CHF 25 billion worldwide market, Consumer Care has crafted a strategy that looks across the three businesses:

- Preserving our key franchises (e.g. vitamin B3, Carnipure™ and ResistAid™ products in the nutrition field; zinc pyrithione antidandruff agents in personal care; and quat-based disinfectants in the hygiene arena, among others)
- Delivering growth and broadening our portfolio via three dedicated strategic thrusts: Healthcare; Skin, Scalp and Hair Care; and Bio-Based Offerings
- Strengthening the presence in emerging markets with a focus on China and South America
- Exploiting significant synergy potential among Personal Care & Preservation, Nutrition and Hygiene and other Lonza businesses, such as Pharma&Biotech's fermentation capabilities

With those strategic approaches, Consumer Care will be able to capitalize on and benefit from expertise across the business.

#### L-CARNITINE PLATFORM

L-Carnitine is an essential component in energy metabolism, with Lonza being a leading supplier for both the human nutrition and the animal feed market. Research demonstrates that our Carnipure™ product can play a beneficial role in weight management, sports nutrition, and normal cardiovascular health. In the animal feed market, our Carniking™, Carnifeed™, and Carnichrome™ L-Carnitine products promote the health of pets such as dogs and cats, as well as of production animals.

# AGRO INGREDIENTS

*Helping Customers Do More with Less*

www.lonza.com/agriculture

Molluscicides
Proprietary Seed and Fruit Treatments
Fertilizers
Custom Manufacturing Services
- Basic Chemicals
- Advanced Intermediates
- Active Ingredients

**Advanced Intermediates**
**Herbicides**
**Fungicides**
**Insecticides**

Engagement in strategic partnerships with customers on the custom synthesis and supply of active ingredients for advanced, new crop-protection products.

**Specific Biocides Used Before and After the Harvest**
Treatments with our Frexus™ CH product help ensure that the harvested fruits and vegetables arrive fresh at the distributor and finally at the end consumer.

MARKET

The global agrochemical sector is on a growth trajectory: the total market has expanded by more than 50% in a decade and will soon reach the CHF 56 billion mark in the crop protection segment alone. Similar strong growth is also occurring in the fertilizer and seed segments.

Lonza is the global market leader in molluscicides to address snail and slug infestations.

Lonza's Agro Ingredients business is growing by helping our customers do more with less – meaning optimizing the use of increasingly scarce natural resources such as arable land and clean irrigation water.

Faced with feeding an ever-expanding and aging world population that demands more nutritional value from its food, the global agrochemical sector is on a growth trajectory. In the last 10 years, the market has expanded significantly, as shown in the market box on the left. Lonza is well positioned for that growth in that it supplies the world's largest agricultural companies.

Lonza's Contribution to Minimize Loss in the Crop-Protection Value Chain


The aim of the value-added chain in the agricultural sector is to make every effort to cut losses and boost productivity. This will be impossible to achieve without more and better agrochemistry. Meeting these requirements will take huge efforts in the research and development of essential, innovative, efficient and sustainable solutions. It will require innovation – and cutting-edge technology companies like Lonza are making an important contribution in this regard.

On a global basis, three broad trends are driving growth in the agro ingredients market:

1 The rising demand for food triggered by rapidly growing and aging populations
2 Regulatory pressures and the increasing complexity of agricultural products, which is driving many firms to outsource production of active agro ingredients and early-phase products
3 Consumer concerns about possible harmful effects of pesticides and related residues on food, which in turn is driving demand for more natural, bio-based crop protection products

Lonza's growth in agrochemical ingredients is also benefiting from our broad chemical formulation expertise – enabling us to tailor biocides and other products for new and exciting uses in the agricultural industry.

Much like medicines, consumer-care disinfectants and other products where Lonza has expertise, agro active ingredients must be formulated in such a way that they can be applied by the end-user in a safe and user-friendly manner, achieve maximum efficiency, and satisfy rigorous regulatory requirements.

## AGRO INGREDIENTS

*Helping Customers Do More with Less*

### Custom Manufacturing and the Outsourcing Trend

Within the agrochemical sector, the custom synthesis market is worth around CHF 2.5 billion. The market for custom manufacturing is expanding steadily because of the growth of the industry in general and an increasing trend for key market players to outsource production of active ingredients and early phase products. Due to the large number of suppliers, market shares are relatively small and the market is highly fragmented.

Because of our broad-based technological expertise and other competitive advantages, Lonza ranks among the top five players in the market. Backward integration and a combination of chemistry and biotechnology have enabled Lonza to stand out from the competition.

After a long period in which the number of newly marketed active ingredients for crop protection declined – in part due to industry consolidation over the last 20 years – more recently the agrochemical industry has begun to invest significantly in the development of new actives. This increase is driven in part by stricter regulatory requirements for better protection of plants, animals, humans and the environment. In addition, Lonza's customers are focusing more on the discovery, registration and marketing of their products and less on the development and implementation of their production processes. Increasingly, they are relying on companies like Lonza that specialize in this area.

### MOLLUSCICIDES

Our Meta™ products, developed on the basis of the latest technological findings on slug and snail control, resulted in better crop yields and plant quality. Besides selling the active ingredient Meta™ to agricultural firms, we also market our own slug and snail pellet formulation by leveraging our process know-how, patented formulation technology and experience in regulatory affairs and registration. We also sell our own product for agricultural use under our Axcela™ brand.

### CROSS-BUSINESS SYNERGIES

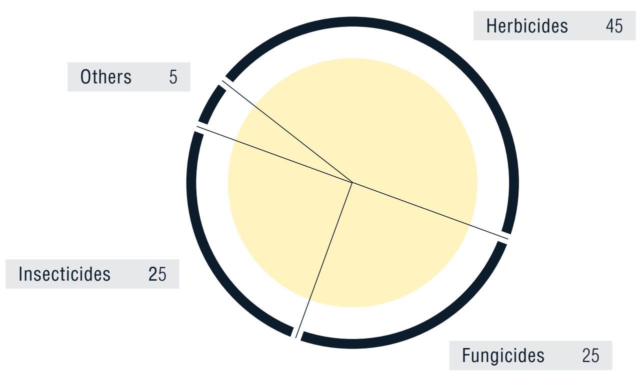
The new cross-business products being offered by Agro Ingredients are a direct outcome of Lonza's major new market-oriented approach to doing business. This approach enables Agro Ingredients to analyze the available expertise and the range of formulation additives and technologies that Lonza offers in allied industries and to market those products along with its development and regulatory expertise in the agricultural industry, too.

### FERTILIZERS

In the basic feedstock market, Lonza is the sole Swiss manufacturer of calcium ammonium nitrate, one of the most important nitrogen fertilizers for agriculture. Our product is sold and distributed in Switzerland by Agroline, a 30 percent-owned subsidiary of Lonza.

Global Crop Protection Market 2013

in %



# WATER TREATMENT

*Growing by Quenching Megatrend 'Thirst' for Clean Water*

www.lonza.com/water-treatment

- Sanitizers
- Algaecides
- Feeder Systems
- Biocides
- Slimicides
- Surfactants
- Corrosion Inhibitors

**Feeder Systems Providing the Proper Dose of Sanitizers in**
Residential water treatment
Drinking water treatment
Waste water treatment
Agricultural water treatment
Industrial water treatment

## MARKET

The relevant global water treatment industry addressed by Lonza is valued at CHF 13.3 billion and has four main segments – Residential Water, Industrial, Commercial, and Municipal Water (ICM). The Residential Water segment represents about 16% of this total market, while the ICM segment, which is addressed by Lonza's ICM and Surface Water divisions, is the largest sector of the industry, representing 84% of the relevant global market valuation. Currently, the Residential market accounts for the majority of Lonza's Water Treatment sales, while sales to the Industrial, Commercial and Municipal markets account for the remaining one-quarter of revenues.

Lonza is leveraging our established strength in the residential water segment to grow opportunities in the ICM sector.

Water treatment is one of Lonza's major strategic growth markets, and we are addressing this market with strong market-leadership positions across the world. With a water treatment heritage of more than a century, Lonza's Water Treatment business is one of the leading suppliers of treatment chemicals, sanitizer feeder systems and other services to the global water treatment market. From drinking water supplies and industrial applications to backyard swimming pools, our products aim to keep water clean.

Truly a global supplier, our business has built strong positions in water treatment by being both a manufacturing and a marketing leader that is known for its commitment to safety, unmatched customer service, and sophisticated brand marketing and product innovations. On one hand, we are one of the world's largest suppliers of swimming pool and spa treatment chemicals, led by our popular HTH® family of pool products. And on the other hand, we are the world's largest producer of calcium hypochlorite sanitizers, with manufacturing plants in North America, Brazil and South Africa.

## WATER TREATMENT

*Growing by Quenching Megatrend 'Thirst' for Clean Water*

Lonza Water Treatment's customers span the residential, industrial, commercial and municipal markets with applications in residential and commercial swimming pools and spas; drinking water; process water; waste water; irrigation and other surface waters; and water used in industrial applications such as papermaking and cooling systems. We build customer relationships by offering technical customer support, R&D and formulation expertise, regulatory excellence, powerful brand marketing, and product reliability and quality.

### Global Reach

North America is the largest market for Lonza Water Treatment products, followed by emerging markets, primarily South Africa, the Middle East and Latin America, and then Europe. We also have strong sales growth in South Africa and Latin America for agricultural and irrigation water treatment systems; and our sanitizing feeder systems are increasingly being used in North America in the pre- and post-harvest treatment of fruits, vegetables and poultry.

Growth projects are underway in all of these regions, including East Africa and Asia-Pacific, where we are making solid inroads, for example, into the Chinese drinking water sanitization sector. The need for clean drinking water is especially acute in developing nations such as China, where air and water pollution are rampant and where consumers compete for scarce water resources with industry and agriculture.

### SOCIAL MEDIA: THE NEW POOL MARKET

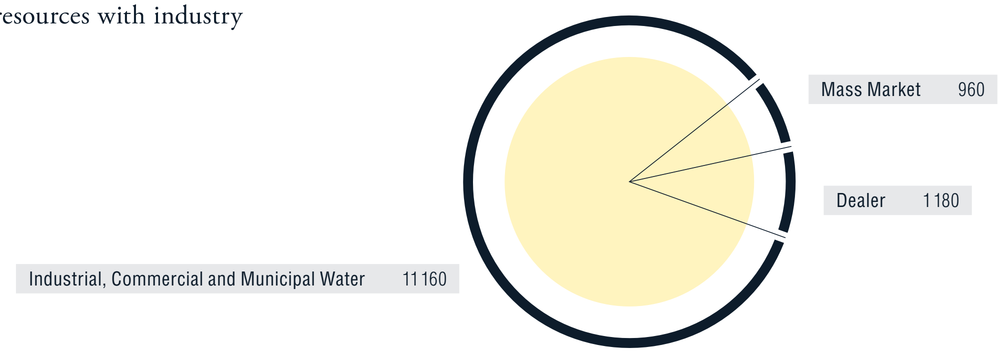
Lonza Water Treatment brands are setting the standard in using Social Media sites to engage tech savvy consumers with product promotions, informative videos, pool and spa care tips, and live chats with Lonza experts. The HTH® YouTube channel has "gone viral" with over a million views on "how-to" and brand essence videos. And the POOL Lifestyle™ Facebook pages for poolife®, BAQUACIL®, GLB® and Ultima® brands have industry-leading customer visits and fan engagement.

### HTH BRAND

In North America and other developed markets, we are increasing sales with new products and automated feeder/dispensing systems that make it easy to treat and condition pool and spa water. Our newest innovation – the HTH® Test to Swim™ in-store kiosk – delivers convenience and ease of use in an all-in-one automated water testing console. In response to displayed test results, our system recommends the precise dosage of Lonza treatment chemicals needed to keep the water balanced and crystal clear. The classic pool treatment HTH® offers a unique selling proposition: super clean water with a shiny appearance – the Mineral Brilliance™ Effect – desired by pool owners worldwide.

General Market Size 2013 by Segment

million CHF



With its 2011 acquisition of Arch Chemicals, Lonza became the world's largest supplier of swimming pool and spa sanitizers and related treatment products, including the globally recognized HTH® brand of pool solutions. We are one of the top two suppliers in North America and has strong market positions in Brazil, the Middle East and South Africa, too.

These leadership positions and growth platforms are driven by a global network of manufacturing, R&D, marketing and customer support capabilities. We are benefiting in this market from the rising middle classes in Brazil, South Africa and other developing regions where Lonza is already considered an innovative market leader.

### INDUSTRIAL USE

Our Water Treatment business also provides an extensive range of biocidal actives such as Barquat™ and Bardac™ products, halogen stabilizers and corrosion inhibitors for industrial uses.

### DRINKING WATER TREATMENT

Lonza Water Treatment is at the forefront of quenching the strong global demand for clean drinking water. This market is a fast-growing subset of the Industrial, Commercial and Municipal sector. We already have a presence in drinking water treatment in North America, where, for example, one-third of the municipalities in New York State's Long Island region employ Lonza calcium hypochlorite sanitizer feeder systems.

### ICM Sector

It is our clear aim to create more of a balance by focusing on Industrial, Commercial and Municipal (ICM) water markets and trends at the same time as we maintain our leadership position in the residential water markets. The ICM group offers specific sanitization solutions delivered via patented technologies using proprietary calcium hypochlorite sanitizers. Our Pulsar® feeders, for example, are used widely in commercial and public pools and water parks. And similar systems have been tailored to treat agricultural and irrigation water, beverage bottle cleansing and other food-handling and preservation applications.

One goal of this broader sales focus is to reduce the effect of weather conditions on residential water treatment sales. Quite simply, cold, wet weather dampens sales in major pool markets – a factor well beyond Lonza's control.

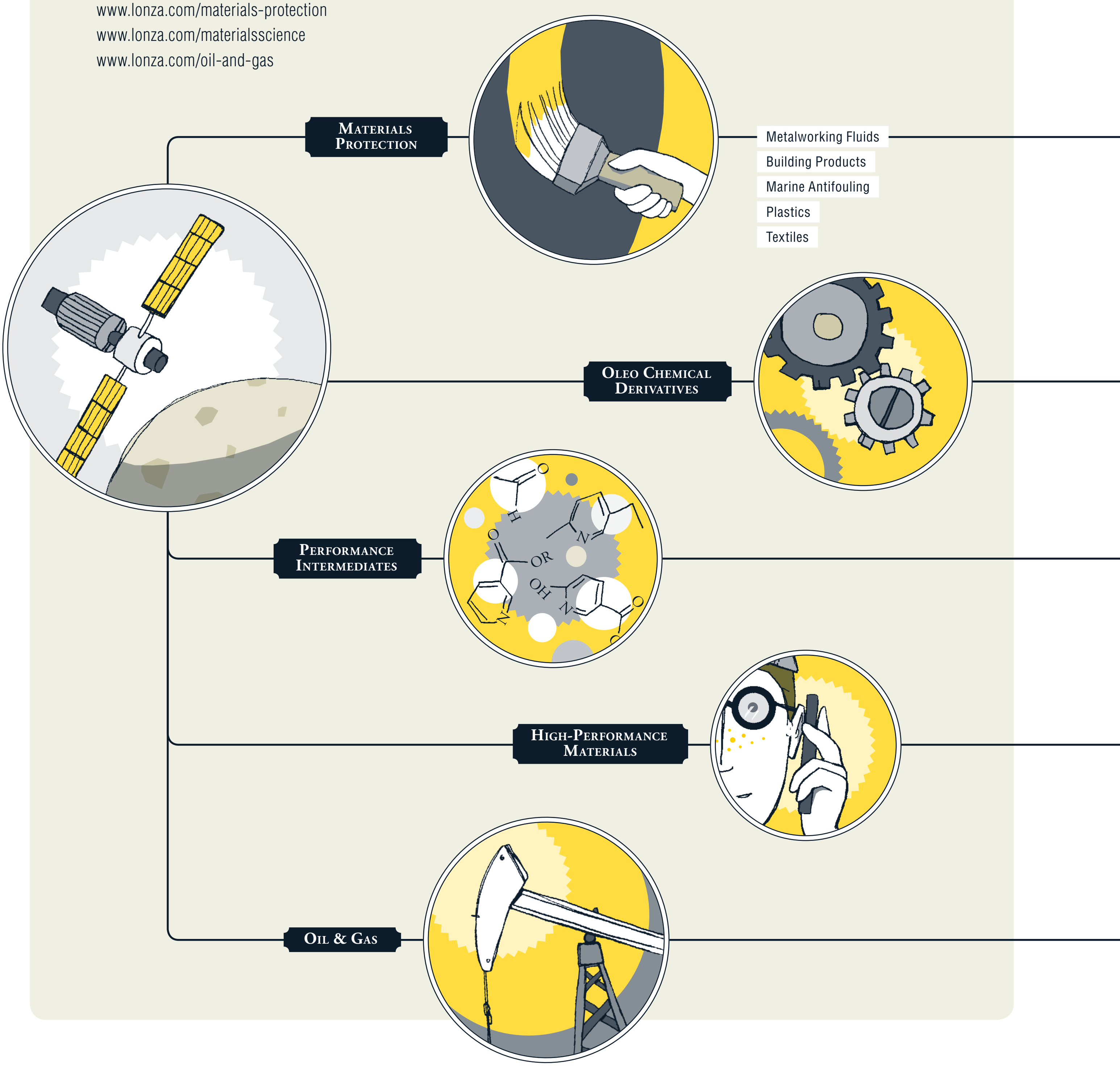
In this sector, we are pursuing growth in both developed and emerging nations for drinking water treatment systems, clean agricultural and irrigation water, and feeder systems for public and commercial pools and water parks.

Our Surface Water business offers a full line of algaecides and aquatic herbicides under the Applied Biochemist™ brand to control algae and other nuisance aquatic vegetation in drinking water reservoirs, irrigation waters, golf-course water hazards, industrial waters and private and public lakes and ponds.

# INDUSTRIAL SOLUTIONS

*Conserving Energy and Improving the Quality of Life*

www.lonza.com/materials-protection
www.lonza.com/materialsscience
www.lonza.com/oil-and-gas



MARKET

With manufacturing, laboratories and customer-support facilities in the United States, Latin America, Europe, Japan, India, South East Asia and China, Industrial Solutions offers customers a broad chemical portfolio, global product registrations, strong formulation support and consultative relationships to help them grow their businesses in the global marketplace.

**Antimicrobial Actives**
Combat the growth of mold, mildew and bacteria in paints and on coated surfaces, plastics and other building materials to improve their appearance and useful life

**Biocides and Self-Polishing Polymers**
Deter the growth of algae, slime and other foulants on ships' hulls to improve fuel efficiencies

**Soluble Oils and Synthetic Fluids**
Help create smooth metal processes, our products allow these fluids to last longer and reduce environmental impact by premature disposal.

**Emulsifiers and Lubricants**
Used in plastics, mining explosives, metalworking and oil-field markets

**Ketene/Diketene Derivatives**
(pigments and coatings)
**HCN Derivatives**
(dyestuffs, optical brighteners and adhesives)
**Cracker-Related Basic Chemicals**

**Components**
Used in the composites, electronics and coatings industries for highly demanding applications such as advanced aerospace composites, high-end circuit boards, integrated circuit substrates in smart phones and tablet computers, protective paints and coatings, adhesives, sealants, and a range of specialized hardeners

**Biocides**
Used in traditional oil and gas production, revolutionary new shale and hydraulic fracturing technologies

Lonza's Industrial Solutions has five unique business areas with a common goal of helping to conserve energy and improve the quality of life. Our products help conserve energy by making aircraft and satellites lighter and stronger, by reducing fouling on hulls of ocean-going ships, by improving yields and protecting workers and the environment in oil and gas production, and by enhancing the manufacture of precision automotive parts with improved properties. Also, our products help to control mold and mildew in building materials, extend the useful life of products to prevent premature disposal, and improve the quality and production of food.

Of the diverse businesses within Industrial Solutions, the primary growth areas are in High-Performance Materials, Materials Protection and Oil & Gas. These growth sectors are benefiting from increased demand by consumers and our customers for products and services that improve the quality of life, conserve energy and expand energy production.

Our products also address the increasingly tough requirements for hardware and communication equipment brought about by the increasing use of "big data" in financial, medical and other scientific areas, and the corresponding demands on communication bandwidth.

Industrial Solutions will continue to expand into new application areas such as oil and gas production, aquaculture and aerospace applications with its existing portfolio of products and with innovative new products. In addition, we will take steps to leverage our brand equity, which has been established by decades of reliable service and quality.

## INDUSTRIAL SOLUTIONS

*Conserving Energy and Improving the Quality of Life*

### Oil & Gas

In the Oil & Gas market, we are acting to take advantage of a shift in customer demand to akolidine quats and biocides that help improve energy yields and provide important environmental quality benefits. This business is focusing on our primary growth markets in the European Union and the NAFTA region, where a premium is placed on "green chemistries and products" like those supplied by Lonza.

The United States is undergoing a boom in energy development, particularly with new shale oil and gas and hydraulic fracturing technologies. These revolutionary new extraction technologies are quickly transforming the United States into the world's largest producer of oil and natural gas. Our business will meet that growing US demand and expand sales into other regions by working closely with customers who have a broad international presence.

### High-Performance Materials

The major growth areas of this business are in electronics and aerospace. We have been intensifying efforts in the development of our Lonzacure™ family of curatives to help increase the use of lightweight composite materials in civil aviation. Also we are adding production capacity for our industry-leading Primaset™ prepolymers for electronics customers.

High-Performance Materials is currently launching a new Primaset™ resin specially developed for use in fast-processing technologies as required by mass-production markets like automotive.

With our partners, we are working closely on new custom products and technologies for high-growth markets such as energy storage. These applications will continue to grow as pressure increases on fossil fuels and nuclear power generation.

#### PRIMASET™ RESINS

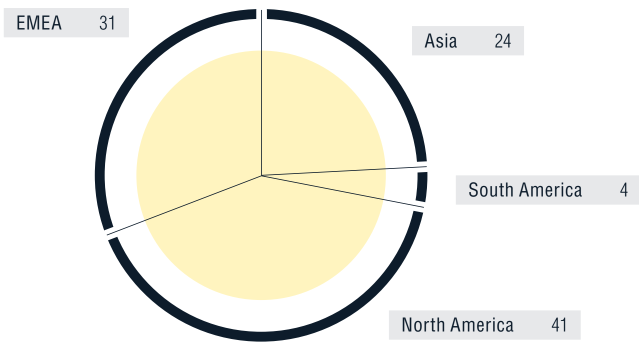
Lonza is the world's leading supplier of cyanate ester thermosetting resins (Primaset™ Resins). Printed circuit boards made from Primaset™ Resins are instrumental for 4G infrastructures and other high-speed communication networks, which further enhance worldwide mobility along with the increasing urbanization trend. Besides the use of resins in smart phones and tablets, other materials-science products are tailored for Formula One race cars and aerospace applications.

#### IMPROVING QUALITY OF LIFE

Our products help address growing energy demands and improve conservation by making aircraft and satellites lighter and stronger, by reducing fouling on ocean-going ships to improve fuel efficiencies and reduce maintenance costs, by improving yields and protecting workers and the environment in the production of oil and gas, and by enhancing the manufacture of precision automotive parts with improved properties.

Geographical Split Industrial Solutions Sales 2013

in %



Mold Areas Targeted by Our Materials Protection Products


Our biocide products are used in many areas of the home where mold can be found.

### Materials Protection

Our Materials Protection business is focusing on expanding our already strong market positions as a specialized solution provider in the growth fields of paint and coatings, antifouling paints, metal working fluids, plastics and building products. We are also continuing to push into BRIC markets with targeted offerings. Regulatory support as a key enabler to succeed in these growth areas, as ever-stricter global regulatory schemes restrict the use of certain biocidal actives and open up opportunities for key Lonza antimicrobials and innovative blends of actives.

To address these regulatory factors and unmet customer needs, we are working to enhance our antimicrobial technologies to make our actives work better and last longer, and to improve their positive health and environmental profiles. Materials Protection is also pursuing growth opportunities in aquaculture, (fish farms) plastics and textiles.

### Performance Intermediates and Oleo Chemical Derivatives

The Performance Intermediates and Oleo Chemical Derivatives businesses, with more mature markets and commoditized products in general, will focus on optimizing their product portfolio and controlling costs to maintain pricing and margins. Oleo Chemical Derivatives is a niche player in many markets and ranks first or second in core chemistries for the food emulsifiers and amide wax plastic lubricants segments.

# WOOD PROTECTION

*Growth Through Product Innovation and Global Expertise*

www.lonza.com/wood-protection

Wood Preservatives and Fire Retardants

Global Branding of Wood Building-Materials

**Industrial Wood Preservatives and Fire Retardants**
Used by wood treaters and applicators to produce wood for:
Residential decks and playsets
Heavy-duty utility poles
Marine docks and pilings
Roof sheathing
Millwork
Framing timers and cladding

**Wood Building-Material Brands**
Have earned prominent green-building certificates, are sold in home improvement and construction supply stores

MARKET

Wood preservative chemicals are utilized in two core market segments – residential applications and industrial/commercial applications. According to industry analysts, the global market for wood preservative chemicals is approximately CHF 815 million and is projected to reach CHF 1.1 billion by the year 2017. The increase will be primarily driven by improved demand from end-use applications in residential markets.

Lonza Wood Protection is not only a chemical supplier but also a full-service solution provider. Globally, we offer engineering, development, environmental, technical, laboratory and marketing services.

Over the last 80 years, Lonza's Wood Protection business has become the leading name in the industrial pretreatment and surface protection of wood. Lonza offers the world's broadest portfolio of wood protection chemistries, with operations spanning North and South America, Europe, Asia-Pacific and Africa. Our products and services enhance the beauty and versatility of wood – the only sustainable, renewable building material – making it resistant to termites, fungi, mold, fire and moisture.

Lonza's Wood Protection business supplies copper azole wood preservative technology, which is the most widely used in the world. We have drawn on industry-leading products like these, as well as our strong partnerships with customers, to capitalize on the slow but promising growth in relevant construction and agricultural wood markets in the midst of the prolonged global economic downturn. Not only do we help customers design new treatment plants and improvements and conduct full audits on their treatment practices, we also

## BARAMINE®

Our new, patent-pending BARamine® technology platform complements our basic chemistry and offers a variety of additional, customized benefits. For example, in the United Kingdom and the western part of the United States, both regions with certain hard-to-treat wood species, we offer added benefits under the BARamine® platform, which allows our preservatives to penetrate more deeply and thereby protect the wood. These can include greater protection against certain aggressive copper-tolerant fungi, enhanced mold protection, improved wood penetration, and more efficient treating processes. This platform is an excellent example of a customer-focused innovation that enables Lonza Wood Protection to offer the next level in wood protection.

## INNOVATION

A leader in advanced wood treatments, Lonza Wood Protection invented copper azole technology – now the most widely used preservative in the world. Marketed under the Wolmanized® and Tanalised® brand names, these products provide superior, long-term protection of wood from fungal decay and insect attack.

offer them expert advice such as the best drying practices for different wood species – all aimed at helping both them and Lonza prosper. In addition to benefiting from improved conditions in its markets, the business has also launched some new, customer-focused technologies and services, such as its umbrella BARamine™ technology platform. These new products and services, combined with productivity-enhancing projects, should assure continued profit-margin improvement in the years ahead. The platform complements our basic preservative chemistry by offering additives and other benefits customized to suit our customers and address different market needs across the globe.

The North American market – the largest served by Wood Protection – is capitalizing on improved fundamentals in construction markets, new customer accounts and an expanded presence of Lonza's branded treated wood products in do-it-yourself retail chains. In Asia-Pacific, sales growth has occurred through increased customer use of our industrial wood preservatives. We also expect to benefit from the introduction of new application technologies to grow sales into the structural wood segment in Australia. In the EMEA region, sales are benefiting from recovery in both the construction and agricultural segments in the United Kingdom. Sales in France, Southern /europe- and Eastern Europe have demonstrated above-budget performance despite overall economic weakness.

### Sustainability Within the Wood Protection Business

Pressure-treated wood is the soul of sustainability. On a lifecycle basis, preserved wood provides significant environmental benefits over alternative products. To begin with, the preservative process enables wood to last longer, meaning less demand on forests and less transportation of materials. The species of trees that furnish the most desirable treated wood are plentiful and grown in managed timberlands. They are not cut from sensitive forests or unregulated third-world rainforests. And, they grow rather rapidly, so their supply is quickly replenished – in fewer years than the service life of the treated lumber they provide.

Trees, of course, sequester carbon dioxide and thereby reduce greenhouse gases. Generally, the treating process itself is an integrated system that produces insignificant air emissions and no wastewater discharges. The copper we use in many preservatives comes from recycled sources, such as copper wire and computer etchants, further contributing to the sustainability and positive environmental profile of our products.

# SUSTAINABLE VALUES


Investing in Sustainable Values — 60
Investing in Sustainability — 61
Investing in Environment, Health, Safety — 64
Investing in Enterprise Risk Management — 70
Investing in Our Stakeholders — 72
Investing in Responsible Sourcing — 73
Investing in Our People — 74
Investing in Our Communities — 76


LONZA ANNUAL REPORT

2013

# INVESTING IN SUSTAINABLE VALUES

At Lonza, we approach sustainability from three directions: optimizing our processes, providing innovative products and empowering our people as we seek to improve the lives of our stakeholders and others in the world where we live. We commonly refer to these elements as our three "Ps" of sustainability – processes, products and people.

In 2013 we made noteworthy progress in each category. This section of the Annual Report will explain how we have been strengthening the present in order to secure the future, to the benefit and advantage of our stakeholders and our communities.

In fact, that sums up our approach. We are investing in many aspects of sustainability in order to create sustainable value in all that we do.

Around the world, we take into account how our actions and processes affect the environment, the global economy and society as a whole; and we ensure that our endeavors never compromise the well-being of generations to come.

In the *Investing in Sustainability* article, we explain how many of our products reuse intermediates from other Lonza products or are resold for applications by our customers. We have recycling programs in place at each of our plants, as well as in many offices and community locations.

The articles on *Investing in Enterprise Risk Management* and *Investing in Environment, Health and Safety* explain how careful use of all our resources is backed by comprehensive, far-sighted risk management in the areas of safety, security, health and environmental protection.

For example, to cut down on $CO_2$ emissions as we transport our products, our logistics group is constantly working to maximize load and route efficiency for delivery routes while ensuring that customer requirements are met.

The piece on *Investing in Responsible Sourcing* points out how at Lonza sustainability begins with the formulation of our products. Our purchasing team makes sure that critical raw materials for our products undergo a rigorous approval process for safety and environmental compliance.

Our Human Resources team leads us as we continue *Investing in Our People*, as explained in the article on *Making Lonza the Place to Go, Stay and Grow*. We are also engaging with our stakeholders and benefiting from strong partnerships with them, as illustrated in *Investing in Our Stakeholders.*

In the piece focusing on *Investing in Our Communities*, you'll learn more about our philanthropic efforts, including donating vitamin B3 to a program serving more than a quarter of a million pregnant women around the world in 2013.

At Lonza, we also promote sustainability by participating in related industry groups and foundations. We are committed to a mission that endeavors to benefit society and improve the quality of life through hygiene and cleanliness by driving sustainability improvements across our industry and throughout the supply chain.

# INVESTING IN SUSTAINABILITY

Strengthening the present in order to secure the future for the benefit of our stakeholders and customers – that describes our approach to sustainability. As a result of that approach, we carefully use our natural resources by adhering to comprehensive, far-sighted risk management practices in the area of safety, security, health and environmental protection.

Our actions take into account the effects on the local community and on the global environment. What we do today should not compromise the well-being of the generations to come.

**Innovative Sourcing**
At Lonza, sustainability begins with the formulation of our products. Both our Research & Development (R&D) organization and our Process Technology organization work with the established "12 Principles of Green Chemistry" as defined by the US Environmental Protection Agency.

Designing our products to maximize effectiveness and efficiency while balancing safety and environmental concerns is always considered during our research and development processes.

Once new products pass the R&D phase, they are sent to the Process Technology group for scale-up in our factories. This group then designs the production process, while also taking into consideration those same 12 principles as it strives to maximize efficiency.

Lonza's scientists focus on developing new products, as well as on improving products already within our portfolio. Our Innovation and Marketing groups aim to deliver exciting products that are not only effective, but also environmentally and socially beneficial.

Sustainable Product Circle

INNOVATION – TECHNOLOGY
- Design
- Ideation
- Development
- Sustainability
- Packaging Reduction
- Product Specifications

SOURCING > MANUFACTURING
- Quality
- Supplier Partners
- Green Alternatives
- Cost to Value
- Supply Chain Compliance

MARKETING > SALES
- Customer Education
- Product Qualification
- Customer Relations
- Green Marketing
- Social Media

TRANSPORTATION
- Logistics
- SmartWay™ Partners
- Routing Efficiencies

PRODUCT USE > REUSE
- Use Instructions and Precautionary Labels
- Proper Use
- Proper Disposal
- Recycling

### Maximizing Operational Sustainability

We have an excellent operations staff that is constantly focusing on improving the efficiency of our worldwide operations. Through our capital appropriations process, we are able to make improvements to maximize our operational effectiveness. Sustainability is considered within this process. Each of our plants has made important improvements in this area. Many of our plants are ISO 14000 certified or compliant, and each location is aware of its environmental footprint and has identified improvement goals and projects.

### Promoting Sustainability

Lonza participates in industry groups that promote sustainability. As participants in and signatories of the American Cleaning Institute® and the Sustainability Charter, we are committed to a mission that endeavors to benefit society and improve the quality of life through hygiene and cleanliness by driving sustainability improvements across our industry and throughout the supply chain. In our Water Treatment business, we also work with NSF® International, to determine and develop sustainability standards for chemicals and water contact products. All of our products are accompanied by a Material Safety Data Sheet.

### REDUCING ENVIRONMENTAL IMPACT

We are especially pleased to have finished work at our Charleston, TN (USA) facility. Through an intensive capital project that focused on improving the processing of our calcium hypochlorite, we will greatly reduce the environmental impact at that location. We estimate the improvements to that process will eventually decrease our carbon footprint by up to 25% and considerably reduce the water usage and amount of waste produced.

### SMARTWAY™

Lonza has a contract with a freight and logistics company that is SmartWay™-certified by the US Environmental Protection Agency. The SmartWay™ Transport Partnership is a market-driven arrangement aimed at helping businesses move goods in the cleanest, most efficient way possible. Since 2004, SmartWay™ partners have eliminated 28 million metric tons of $CO_2$, resulting in savings of 65 million barrels of oil and CHF 7.7 billion in fuel costs.

### Transportation

Our logistics group is constantly working to maximize load and route efficiency while trying to ensure that customer requirements are met. In addition, by using SmartWay™ partners, we ensure that we transport our products as efficiently as possible.

### Product Use and Recycling

Lonza products have concise and clear directions for use and recycling, as described in product user manuals. Additionally, our expertise on product use is available to customers through our sales and application engineering functions. Our customer care center in Charleston, TN (USA) also provides product use and safety knowledge for our pool products consumers. Many of our products have intermediates with beneficial uses in other Lonza products and they are resold for applications outside of our company. Recycling programs are in place at each of our plants, as well as in many offices and community locations.

### REGENISSTEM™

One exciting example of our Sustainability actions is our award-winning ReGenisStem™ product, which serves the personal care market and is marketed as an anti-aging product. Benefits include increasing skin hydration while also improving the barrier function of the skin. This product is derived from Red Rice grown in the Himalayan mountains. However, we produce it by taking a single seed and growing it in bio-reactors and literally producing tons of product from just that one seed. In this way, we protect the Red Rice plant and eliminate tons of carbon emissions from our supply chain.

# INVESTING IN ENVIRONMENT, HEALTH, SAFETY

*Protecting Our Stakeholders*

"Zero" is our vision – zero injuries, zero process incidents, zero distribution incidents and zero environmental incidents. This vision will ensure safe workplaces, safe and healthy products, sustainable use of natural resources and the environmentally conscious handling of present and past industrial activities, as part of our Corporate Social Responsibility.

"Vision Zero" underlines our commitment to creating safe and healthy workplaces, processes and products, to making sustainable use of natural resources, and to improving our Environment, Health and Safety (EHS) performance. To make "Vision Zero" a reality, we continuously review and evaluate all our EHS activities by following the Plan-Do-Check-Act cycle.

The 2013 reporting year saw a number of new and revised critical EHS process guidelines coming into effect to harmonize and standardize Lonza's approach to safe chemical and pharmaceutical manufacturing. A significant step forward was the introduction of an extended global emergency and crisis reporting system, which puts Lonza management in a comfortable position to stay ahead of irregularities wherever they might happen.

We understand and manage EHS as an integral part of our business and operating practices. New ventures, management of change projects and other capital investment projects are reviewed not only for their business opportunities, but they are scrutinized also for their environmental, health and safety impact and undergo the risk assessments required by the system.

### Safety

For 2013 we had set an ambitious target for LTIFR (Lost-Time Incident Frequency Rate per 1 million employee hours) of 1.05 to drive us to improve on our LTIFR of 1.08 in 2012, which was a record. However, looking at our safety performance in 2013, we missed this target; and we ended the year with an LTIFR of 1.36. This is not just a statistical fact, but one of utmost importance to us because it means that too many of our colleagues did not return safely home from work.

Safety will therefore continue to be an area of special attention in 2014. We need to fully implement the new critical safe work procedures, do a better job of recognizing when an operation or a task has changed and conduct a management-of-change review before proceeding.

For 2014, we will again target a performance of 1.05 for our LTIFR. We are optimistic that we can meet this goal for several reasons. First, our 2013 performance was still the second best result in Lonza's history. Second, we have instituted several corporate initiatives to improve safety. From 2013, we have tracked lost-time injuries to our employees and have initiated tracking, investigation and corrective / preventative actions for all recordable injuries (injuries requiring medical treatment), as well as injuries to contractors working on our sites.

Another sign of our safety capabilities is the outstanding performance at several of our sites. The majority of these sites completed 2013 without a single LTI, and several have now gone for years without any lost-time injuries.

## SUCCESS STORIES

We have 27 sites, most of them small manufacturing facilities and offices, that have never had a lost-time injury (LTI) since we began keeping statistics. These include Kalama, WA, and Cohasset, MN, in the United States, as well as Port Shepstone, South Africa, and Cologne, Germany, along with many others. Several other sites, including some of our larger facilities, have reached significant safety milestones. Our Lake Charles, LA (USA) site has gone more than 6300 days (about 17 years) without an LTI, while at Guangzhou (CN) the figure is more than 3000 days (about eight years). Our Rochester, NY (USA) site has now gone about three years without even a recordable incident. And our Huddersfield site in the United Kingdom has gone over 2000 days (about five years) without a recordable injury.

## EHS SCOPE

We commit considerable resources to these EHS activities. At the end of the reporting year, a total of 240 people, 2.3% of our employees, worked in the EHS field. EHS operational costs amounted to CHF 53 million in 2013, 3.5% down on the previous year. Capital expenditure on EHS was CHF 33 million, equivalent to 0.9% of sales and 16% of the Group's total investment in fixed assets.

### Chemicals Management

A major challenge for a global company is dealing with more stringent regulatory requirements in the countries where we operate or have a market presence. One major milestone in 2013 was the successful completion of the registration of second-tier chemicals in Europe. Under Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), Lonza is now registering all first- and second-tier substances imported, manufactured and marketed in the European Union. Registrations of third-tier chemicals are ongoing.

### Environment

Although 2013 was a year of transformation, we were able to improve and further optimize our use of natural resources, as well as energy and water consumption at our sites.

Examples include the finalization of the air-emissions handling project at Braine (BE), the reduction of electricity and natural gas consumption at Verviers (BE) and the reduction of water consumption by 30% and 10% at our Salto (BR) and Porriño (ES) sites, respectively.

At the large production complex in Visp (CH), the newly installed regenerative thermal oxidizer at the company-owned wastewater treatment plant led to significantly reduced solvent emissions and considerably fewer nuisance odor emissions.

A significant improvement project was realized at the calcium hypochlorite manufacturing site in Charleston, TN (USA), where spin-flash dryer technology replaced kiln-type and fluid-bed dryers. This technology change reduced the carbon footprint by more than 600 tons of $CO_2$ per million kilowatt-hour; the new process utilizes more efficient heaters and consumes less electricity to produce an equivalent production volume.

At Group headquarters in Basel (CH), Lonza changed its hot water and central heating source to district heating, thereby eliminating a potential pollution source and reducing the $CO_2$ emissions by 200 tons per annum.

### Corporate Responsibility

Providing transparent evidence of corporate sustainability practices is part of our day-to-day business. In addition to information on our corporate website, we disclose climate data and activity assessments in the framework of the Carbon Disclosure Project and as an active participant in the UN Global Compact foundation.

Our US facilities are certified by the Society of Chemical Manufacturers and Affiliates (SOCMA) ChemStewards initiative; Lonza Ltd in Switzerland is a Responsible Care company; and two of our facilities in China, Nansha and Guangzhou, are certified under ISO 14001 and OHSAS 18001.

Being a company active in the pharmaceutical market, personal-care markets and bioscience field, Lonza at times receives questions regarding animal welfare, in particular as we also conduct cell discovery and develop cell therapy using animal tissues. Lonza conducts mandatory animal testing for drug discovery and development research of pharmaceutical companies. Mandatory animal-testing of non-medical products is limited to applicable legislation requirements. Such required testing is conducted by external state-of-the-art dedicated laboratories, which Lonza approves and audits. Whenever feasible, we promote the use of alternatives to animal tests or refined methods aimed at reducing the number of animals in the tests.

Lonza is accredited by the Association for Assessment and Accreditation of Laboratory Animal Care (AAALAC) because we apply high standards for the care and use of laboratory animals. Furthermore, the company is included in the US National Institutes of Health (NIH) Office of Laboratory Animal Welfare as complying with the Public Health Service Policy on Humane Care and Use of Laboratory Animals.

### Industrial Heritage at the Swiss Manufacturing Site

Currently, the Lonza site in Visp (CH) is dealing with the legacy of its own industrial history. In the past, mercury was used in large amounts as a catalyst in chemical processes. Residuals of this metal were found in a technical canal, which was used as a wastewater sewer by Lonza, as well as on surrounding soil in the neighborhood of the canal.

Between 1930 and the mid-1970s, the canal had been used by Lonza to discharge industrial wastewater. Lonza was never the owner of the canal, and various parties were involved in maintenance by dredging and excavating sediments from the canal. Removed material at that time was used as filling material on various land properties.

Only during the 1970s did people become aware of the full problem in connection with mercury. In 1976, Lonza commissioned its wastewater treatment plant, where mercury-containing effluent was subsequently treated.

In 2013, Lonza financed a technical examination, which found extensive residues of mercury salts in the sediments of the canal, its embankment, and the adjacent road strip; in parts of privately owned properties in a residential area; and on properties used for agricultural purposes between the town of Visp and the village of Niedergesteln (CH). Some concentrations exceeded the statutory limits and led to land-use restrictions. Further investigations are being conducted in the residential area of the village of Turtig in the first quarter of 2014, and the majority of additional testing in potentially affected areas should be completed in 2014.

Given that the historical record proves that Lonza was not involved in depositing dredged materials onto agricultural and residential land, the state of Valais will also examine the issue of shared responsibility for further investigative and remedial work.

### Safety[1]

| per 1 million hours worked | Basis 2000 | Goal 2010 | Status end 2010 | Status end 2013 | Goal 2015 |
|---|---|---|---|---|---|
| Frequency of accidents LTIFR[2] | 9.5 | 2 | 1.5 | 1.36 | 1 |
| Severity of accidents LTISR[3] | 1 460 | 330 | 182 | 323 | 250 |

### Environment[1]

| | Basis 2000 | Goal 2010 | Status end 2010 | Status end 2013 | Goal 2015 |
|---|---|---|---|---|---|
| in 1 000 metric tons $CO_2$ emissions[4] | 930 | 400 | 398 | 383 | 360 |
| in metric tons VOC emissions[5] | 759 | 300 | 549 | 328 | 270 |
| in metric tons Air impurities[6] | 1 485 | 900 | 1 014 | 745 | 810 |

### Intensities 2013[7]

| | | Change on 2012 |
|---|---|---|
| Energy | 18.9 GJ/t | –4 % |
| Industrial water | 12.1 $m^3/t$ | –60 % |
| $CO_2$ | 712 kg/t | –9 % |
| Air impurities | 1.3 kg/t | –28 % |
| Hazardous waste | 129 kg/t | –5 % |

1 Includes all active 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 by 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

Lonza actively supports the efforts to solve the mercury issue, which is why we voluntarily decided to pre-finance the on-going technical investigations. We also recognize the need for a quick and efficient rehabilitation in the residential area of Turtig. In conjunction with the state and the communities involved, we are strengthening our efforts to drive effective and efficient solutions to addressing and resolving this legacy of industrial production.

For more information, please visit us at *www.lonza.com/global-citizenship*

### GOALS

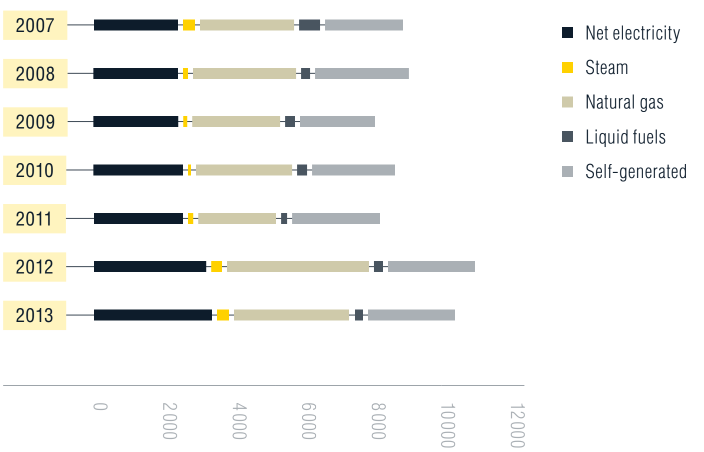
Our good safety result in 2013 (1.36 LTIFR) and the record low result in 2012 (1.08 LTIFR) confirm our "Vision Zero". The systematic application of high safety standards and the sustained motivation of our employees worldwide will allow us to reach the 2015 goal of 1.0 LTIFR. We are currently implementing a new data system for the environmental goals, which will include state-of-the-art international standards of greenhouse gas reporting. Current data as shown here consider scope-1 emissions only. As such, the presented environmental goals for the period to 2015 are still preliminary, and the definition of goals for the period thereafter will be defined in 2014.

### INDICATORS

Indicators for 2013 show some significant variances to 2012. The observed water variance is due to the divestment of the Brandenburg, KY (USA) activities towards the end of 2012. The improvement of air quality is mainly attributable to the new regenerative thermal oxidizer at Braine (BE), which started up in early 2013.

## Energy

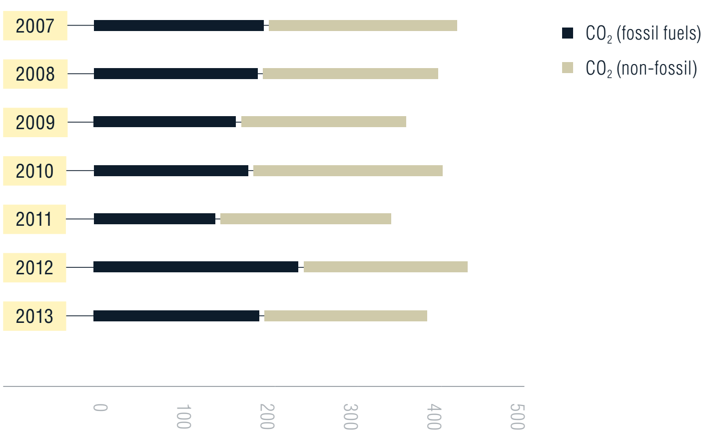
in terajoules (TJ)




The total energy requirement in the year under review was 10 200 terajoules (2 800 GWh), 5 % down on the previous year. Lonza used the following main energy sources in 2013: natural gas (34 %), electricity (34 %) and self-generated energy, mainly by incineration of waste (25 %). Liquid fossil fuels accounted for 3 % of the overall energy consumption. Energy from renewable sources accounted for 8.4 % of purchased electricity.

## $CO_2$ Emissions

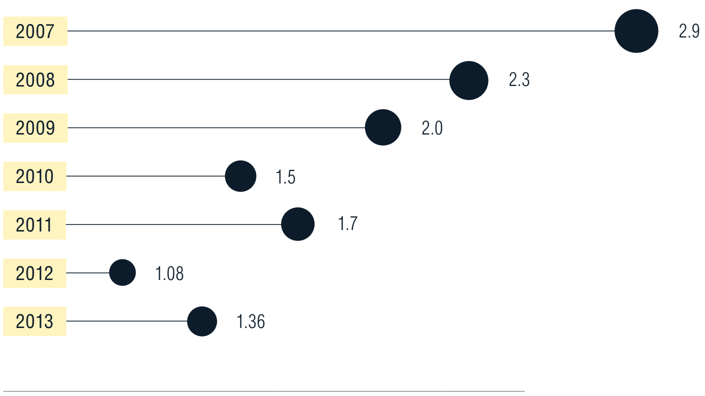
in 1 000 metric tons




Total output of scope-1 carbon dioxide in 2013 was 383 000 metric tons, 7 % down on the previous year. $CO_2$ generated by the incineration of fossil fuels was 50 % of total $CO_2$ emissions in 2013. Carbon dioxide equivalents from other greenhouse gases amounted to 8 % of direct $CO_2$ emissions and are not reflected in the graph. All $CO_2$ emissions shown here do not include scope-2 emissions ($CO_2$ equivalents from the consumption of purchased electricity). A database and system change will allow us to present these details in the future.

## Occupational Accidents

per 1 000 000 hours worked (LTIFR)

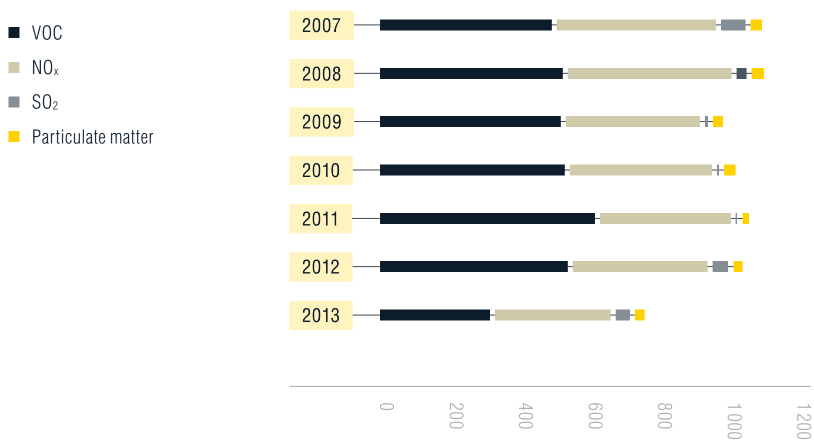



The accident frequency rate in 2013 was 1.36 accidents per 1 million hours worked, clearly higher than the record low year 2012 (1.08 LTIFR). Nevertheless, 2013 marks the second best year for Lonza Group and confirms that we are on the right track toward the 2015 goal of 1.0 LTIFR. "Vision Zero", high-level management attention, enforcement of existing safety guidelines and the corresponding training, as well as the incorporation of EHS in the personal goals of essentially all co-workers are key. Two-thirds of the injury cases are of the slip-trip-fall type or occur while manually moving containers, which is a clear sign that we have to focus on these behavioral safety issues.

Volatile organic compounds (VOC) and nitrogen oxides ($NO_x$) were responsible for 90 % of all air impurities, totaling 745 metric tons in 2013, down 28 % on the previous year. This result was primarily due to the drastic reduction of VOC emissions at Braine (BE), where the new thermal oxidizer RTO developed its full potential. While $NO_x$ are generated essentially by incineration processes, VOC emissions are mainly the result of solvent use in production and cleaning processes. The three sites at Visp (CH), Nansha (CN) and Nanjing (CN) are responsible for 86 % of total VOC emissions. At 98 metric tons, down 38 % from the previous year, halogenated VOC represent 30 % of total VOC output.

### Air Impurities

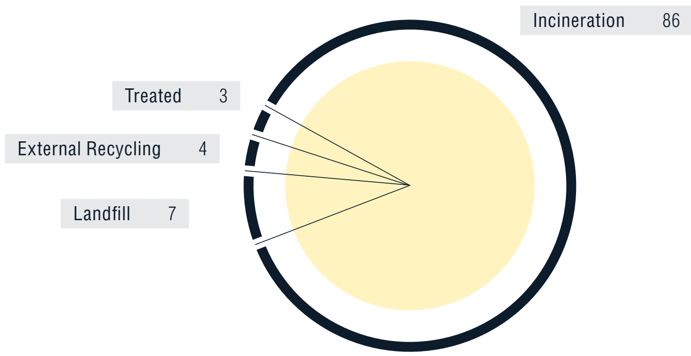
in metric tons




In the reporting year, 93 % of hazardous waste materials were incinerated, externally recycled or treated to render them non-hazardous, and 7 % went to secured landfills. Hazardous waste generation in total decreased by 6 %. All companies involved in the transportation, processing and final disposal of wastes are known to Lonza. In all countries, hazardous waste is handled by institutionalized manifest systems. Waste treatment is a matter of trust; so the selection of the vendors is based on quality and EHS criteria, as well as economic factors. As a matter of principle, we work only with reputable firms that comply with all legal requirements.

### Final Destination of Special Waste

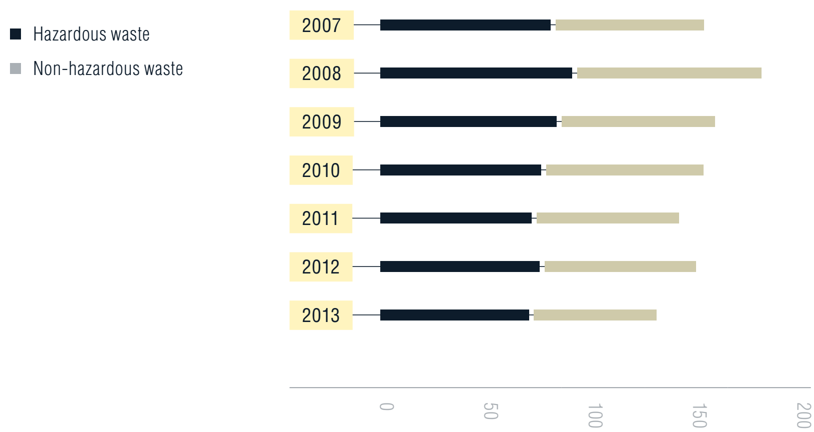
in %




The total quantity of waste produced by Lonza in 2013 was 126 800 metric tons (12 % down on the previous year), of which 69 400 metric tons consisted of special (hazardous) wastes and 57 400 metric tons of non-hazardous wastes or inert materials. Lonza has a specialized waste disposal concept at all our sites, dedicated to the principle of avoidance, reduction, recycling or recovery, and environmentally sound disposal. The categorization into special (hazardous) waste and non-hazardous waste at all sites conforms to the applicable national legislation.

### Waste Categories

in 1 000 metric tons



# INVESTING IN ENTERPRISE RISK MANAGEMENT

*Managing Risks Carefully*

For an innovative company that is a technology leader in a large number of divergent fields, effective risk management is a key issue; and that makes it a critical part of our company culture. 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 – all demand a critical assessment of the attendant risks on an ongoing basis.

An important factor guiding Lonza's management of risks is our balanced, appropriate risk appetite. For example, management is willing to accept considered risks in order to deliver competitive advantages and shareholder value. However, Lonza is risk averse with regard to environment, health, safety and reputation.

At their October 2013 meeting, the Board of Directors and Executive Committee were informed by the Enterprise Risk Management (ERM) team about the positive findings of the risk management process and the results of the risk portfolio management process.

During 2013, as a result of continuous risk remediation efforts, several risks were fully mitigated and many others were downgraded from the category of major risk to minor risk. Furthermore, the risk process integrated additional layers of management, broadening the organizational input and enhancing risk awareness into new areas of the corporation.

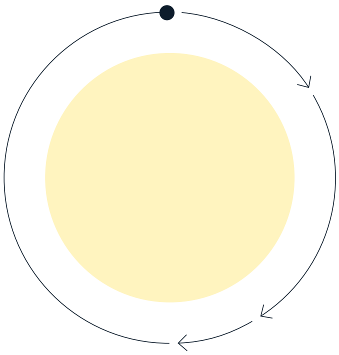
Our chosen approach of embedding risk management in our daily behavior and carefully managing risk will be continued. It not only corresponds to our ethical principles, but also is clearly expected from us, particularly by our worldwide customers in the Custom Manufacturing area. The protection of employees, 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 key prerequisites for the selection of Lonza as a partner.

Financial Risk Management is disclosed in note 28 of the Financial Report.

Example of Key Risks Identified by the Group

| Risk | Mitigation |
|---|---|
| PRODUCT COMPETITIVENESS | Pursue ongoing cost reduction, including VispChallenge, operational improvements and footprint optimization. |
| REGULATORY ADHERENCE | Monitor new regulatory trends and support industry efforts (like CAREFUL). Enhance quality organization and systems. |

## Risk Management Cycle



MAY–JUNE
Review / update by sectors and corporate functions

JULY–SEPTEMBER
Review and consolidation by Corporate RM

OCTOBER
Approval by Board of Directors / Executive Committee

NOVEMBER–APRIL

**Start**

Corporate functions / ERM / executive management identify global, regional, market segments and market risks

Identified risk managers evaluate and assess respective risk universe

Manage all identified risks in universal templates. Review annually with Executive Committee and audit mitigations

Yes

**More Risks?**

No

Consolidation of all risks on global level by Corporate ERM

ERM consolidates and analyzes Lonza risk universe, and then presents to Board of Directors / Executive Committee

**Close**

The Lonza ERM Framework:

- The Risk Management Process guide is the primary instrument provided to more than 50 key individuals in the Lonza network. Inherent to the assessment are standardized trigger values, risk categories and additional evaluation elements.
- A second tool available to risk managers is a catalogue of example risks by category to facilitate comprehensive evaluation.
- All corporate functions are involved in the risk-identification process, supporting the business teams with areas of potential exposure where needed.
- This integrated process of identifying risks feeds into mitigation plans for the corporate functions and business / operational units. Updates are provided regularly to the Executive Committee.
- The risks are aggregated and consolidated annually into the risk management report approved by the Executive Committee for the Board of Directors.

# INVESTING IN OUR STAKEHOLDERS

*Engaging Stakeholders in Ongoing Dialogue*

Lonza's stakeholder groups are diverse, with a wide range of needs, expectations, opinions, priorities and concerns, all of which require different approaches and responsive actions from our side. While they can be categorized as global or local stakeholders or as internal or external ones, their engagement and trust is vital for us to be successful and sustainable as a company.

This is why we are in continuous dialogue with our stakeholders and use tailored information and engagement channels suitable to each audience. We do so to provide transparency on our business activities and to inform them about news, our positions on different issues, and actions we take on critical topics. At the same time, we are listening and responding to their questions and concerns because we depend on our stakeholders' opinions to help us to further improve the company. Having an open dialogue and building formal and informal partnerships with our stakeholders will create sustainable value – for them and for Lonza.

We also engage with our stakeholders to help us act in a sustainable and socially responsible manner. Our commitment is demonstrated in part by being a member of the UN Global Compact and by aligning our businesses and strategies with 10 universally accepted principles in the areas of human rights, labor, environmental protection and anti-corruption.

The list to the right shows the broad spectrum of engagement channels used for our various stakeholders.

| Stakeholder Group | Sample Engagement Channels[1] |
|---|---|
| CONSUMERS/CUSTOMERS | Customer satisfaction survey<br>Customer audits<br>Customer hotlines<br>Brand and corporate websites<br>Ads, brochures, manuals, leaflets, tech guides<br>Exhibitions, congresses and summits<br>Webinars, workshops and training courses<br>Scientific studies<br>Social media |
| EMPLOYEES | Intranet<br>Employee surveys<br>Townhall meetings<br>Dialogue platforms<br>Walk-the-talk activities<br>In-house publications/videos |
| INVESTORS/ANALYSTS/ SHAREHOLDERS/DEBT HOLDERS | Annual General Meeting<br>Annual Report<br>Financial reporting and conferences for Q1, HYR, Q3 and FYR<br>Individual investor meetings<br>Investor roadshows<br>Capital Markets Day |
| COMMERCIAL PARTNERS (Suppliers and Vendors) | Supplier audits<br>Ongoing dialogue |
| LOCAL COMMUNITIES | Sponsoring activities<br>Support measures<br>Open days at Lonza sites<br>Ongoing dialogue |
| GOVERNMENT/AUTHORITIES | Regulatory audits<br>Ongoing dialogue |
| NGOS/TRADE ASSOCIATIONS | Ongoing dialogue |
| TRADE UNIONS/ EMPLOYEE REPRESENTATIVES | Ongoing dialogue |
| MEDIA | News releases<br>Media conferences and events<br>Interviews and features |

1 Some channels are used for different stakeholder groups

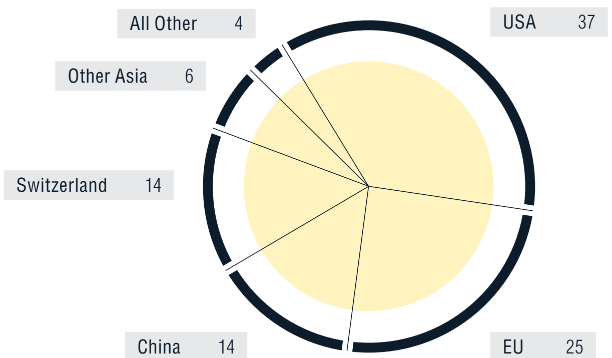
# INVESTING IN RESPONSIBLE SOURCING

*Serving as a Business Partner for Sustainability*

At Lonza, Global Strategic Sourcing operates with the goal of delivering sustainable value through innovative sourcing by working as a strategic partner with all our stakeholders. With this mission in mind, our global team of purchasing professionals is spread across three continents and supports operations globally. Responsibly sourcing a diverse range of strategic raw materials, as well as indirect products and services, this team manages in excess of CHF 1.3 billion in annual spend. In strategic raw material categories, the team develops and executes sourcing strategies for our largest and most critical materials. Throughout Lonza this represents more than 400 materials sourced from 500 suppliers located in 38 countries. The breakdown of spending shows a strong connection to suppliers in the United States and Europe, with China and the rest of Asia growing in importance. While cost savings and supply security are always the prime focus, our sourcing strategy is increasingly adding value through close alignment with business strategy and end-customer needs.

Lonza Raw Material Supplier Locations

in %




A primary example of this alignment is the sourcing of materials used in the Pharma&Biotech Custom Manufacturing business. In this market, customer and regulatory requirements not only touch Lonza's finished products, but also reach back through the supply chain to our raw material sources. Understanding these requirements, Strategic Sourcing and Quality Assurance teams work in close cooperation to ensure that suppliers of critical raw materials adhere to stringent cGMP quality standards.

Responding to end-customer requirements also plays a significant role in sourcing for the Specialty Ingredients market segment. We have many examples in consumer-focused markets where Lonza's sourcing practices are aligned with end-consumer preferences and societal goals. Raw materials used in food additives are selected on the basis of kosher, halal or non-genetically modified organism (non-GMO) certifications.

Lonza's minority and diversity spend is regularly monitored and reported to a number of customers to support their own efforts in these areas. We ensure that palm derivative suppliers are members of the Roundtable on Sustainable Palm Oil (RSPO), addressing an increasing consumer concern. Through this end-to-end supply chain alignment, our responsible sourcing strategies add significant value to the offerings of our end customers as they seek in turn to satisfy their customers.

Supply chain alignment and sustainability are not limited to raw materials, but they play a role also in packaging development and selection. In response to retailer concerns about sustainability, packaging used in Lonza's Water Treatment business has been redesigned in many areas in a joint effort with our strategic suppliers. We have reduced the use of corrugated packaging, saving hundreds of trees each year. By packaging more concentrated products in smaller containers, we have reduced water usage, consumed fewer wood pallets and required two thirds fewer trucks on the road for shipping our products. As we work with suppliers to deliver sustainable packaging solutions, Strategic Sourcing helps secure Lonza's business, where sustainability throughout the supply chain is paramount.

# INVESTING IN OUR PEOPLE

*Making Lonza the Place to Go, Stay and Grow*

As global experts with functional know how on a broad array of products and technologies, Lonza's talented employees represent a distinct competitive advantage for the company. To preserve that key differentiator, particularly during times of change, we are increasingly investing in our human capital: our people.

Lonza's Human Resources team is supporting our strategic transformation by evolving core programs and processes to more effectively foster employee development, change readiness and organizational alignment. These global core processes have been identified as performance management and global talent management, which include succession planning, training and development and defining the framework for our rewards programs. While many of the HR initiatives begun last year are ongoing, we are focusing this year on the following programs:

– Enhancing our development programs to develop and align the skills of our employees with future business and leadership needs
– Implementing new job competencies needed to facilitate a broader, more strategic approach to our markets
– Evolving our talent management, succession planning and performance management processes to meet organizational needs
– Assessing information systems and other technologies to support simpler, streamlined, globally harmonized core HR processes

As a vital business partner, HR is helping employees capitalize on opportunities provided by our more strategic market focus and other change initiatives. HR offers employees relevant tools to help them succeed individually and collectively, as well as significantly improve Lonza's productivity, market orientation and financial returns.

The goal of the HR team is to make Lonza "the Place to Go, the Place to Stay and the Place to Grow" by attracting the best talent in the industry, focusing on retaining employees and developing them throughout their careers.

Lonza is "the Place to Go" for bright, talented individuals who are seeking an empowered and collaborative working environment within a company that prides itself on its diverse, highly skilled employees globally. Because we encourage innovation and offer the chance to work with state-of-the-art technology, we look for people who have a natural curiosity, an entrepreneurial spirit and a desire to learn continuously.

Once on board, employees discover that Lonza is "the Place to Stay" and be surrounded by a cohesive, supportive group of dedicated people. Employees around the world are empowered and accountable. With a culture of open dialogue and effective feedback, they are encouraged to think critically and act constructively as change agents to move the business forward.

With global opportunities and active succession planning, employees see Lonza as "the Place to Grow". Employees are well prepared to grow as the company evolves, not just with training courses and programs, but also through project experience, coaching and mentoring. We provide the tools to help employees identify new opportunities and reach the next level in their careers by expanding their skill sets and building their competencies.

# LONZA THE PLACE TO GO, STAY AND GROW

As part of an integrated global team, our employees enjoy working in a cross-functional, matrixed environment that facilitates a broader, more strategic approach to our markets. Lonza encourages innovative thinking and actions so that we can offer customers a variety of market-tailored, synergistic solutions from our different businesses.

HR is supporting the business transformation by developing and applying our robust core HR processes on a globally consistent basis. Additional HR initiatives to make the company more agile, customer focused and profitable include skill building, change management, structural alignment to promote cross-business synergies and other organizational development programs. We want to create a competitive advantage through Lonza's employees, who possess the ability to manage and adapt to organizational changes.

### EMPLOYEE ENGAGEMENT ACTIVITIES IN SINGAPORE

Every year, Lonza employees in Singapore look forward to welcoming in the Chinese New Year together. As part of this site's tradition, Lonza Singapore will bring in colorfully dressed "lions" to perform a dance at the entrance to the plant. The lion dance is said to bring good fortune and prosperity to the business. An important part of the Chinese culture and that of other Asian countries, the prancing of the lions is also believed to usher in a feeling of happiness, a festive spirit and a sense of joy for all employees. About 300 Lonza employees, representing nearly two dozen countries, gathered together at the plant entrance to welcome and receive the lions during the Chinese New Year celebrations in 2013. They took the opportunity to dress their best, have a laugh with their colleagues and wish each other luck for the year ahead.

# INVESTING IN OUR COMMUNITIES

Sustainable value for Lonza comes not only from investing in the communities where we live and work, but also from investing in the wider world where we see the need to help improve lives. These actions show our commitment and responsibility towards society in a broader context.

Lonza invests in communities around the globe, and sponsorships and philanthropic donations are an integral part of how we express our corporate social responsibility.

We want to be a reliable long-term and active partner and engage at the earliest possible stage of any community project we sponsor in order to optimize the use of available resources. Accordingly, we focus our resources on a small number of selected projects where our engagement can make a significant difference, rather than on a vast number of projects.

As good corporate citizens, we look for local and global sponsorship opportunities, industry-related sponsorships and innovative projects that contribute to sustainability and the greater good – in other words, projects that build sustainable value.

Lonza is a community that cares about communities. Our employees get involved in programs in our priority areas of education, environment, culture, health and social welfare, community relations and other charitable activities.

To maximize the impact of our sponsorships, we look for a logical match between the sponsor and Lonza's resources. Sometimes our projects are aligned with our business interests and expertise, such as supporting drinking water projects or donating vitamin B3 to Vitamin Angels globally.

Other programs are more local in nature, such as those supporting the blind or disabled. With our particular focus on youth, we help young people at risk, as well as those who are striving to succeed in the world of business, such as those participating in the Young Enterprise Switzerland (YES) program.

We do not choose to sponsor projects in order to win awards, but we were honored to be chosen for the Kouřim Town Award for Good Citizenship for our community activities, including our donation of an emergency pump for the local Kolin Fire Brigade in the Czech Republic.

Some of our larger-scale donations in 2013 were directed toward two worthy projects – one for managing fertile soil in India and another for constructing a primary school in China.

Sponsored projects at schools come in many shapes and sizes. Not only do we provide books and teaching materials, we also rehabilitate buildings and playground equipment. Occasionally our employees voluntarily serve as teachers and mentors. We even sponsored a school cook in the Khatlamping School in South Africa.

Our employees often get involved directly, rather than donating money, such as in the case of our work with the Habitat for Humanity project in the United States.

By contributing our knowledge, expertise, logistics and financial support, Lonza is creating sustainable value for our communities around the world.

### LONZA DONATIONS HELP VITAMIN ANGELS SERVE MOMS-TO-BE GLOBALLY

Lonza, the global leader in vitamin B3 and other nutritional ingredients, has been a proud supporter of the Vitamin Angels organization since 2005. Vitamin Angels, a non-profit organization founded in 1994 by Howard B. Schiffer, distributes micronutrients like vitamins and minerals to children and women in need. Lonza has helped Vitamin Angels meet their goals by participating in fund-raising events since 2005 and donating vitamin B3 for inclusion in prenatal multivitamins since 2008.

Vitamin Angels delivers lifesaving and life-changing vitamins and minerals to at-risk populations around the world. The need for vitamin supplementation worldwide is huge. To help fill this need, in 2013 Lonza supported the production of 100 million daily prenatal multivitamins for women through a donation of vitamin B3.

If a mother is undernourished during her pregnancy, her infant will more likely be born undernourished, underweight and having a weak immune system. Prenatal supplements support a mother's health during pregnancy and help her deliver a strong and healthy baby. Infants who are healthy at birth have a higher chance of surviving their initial years of life and developing properly both cognitively and physically.

More than two billion people globally are deficient in essential vitamins and minerals and suffer from undernutrition, with children under five, pregnant women and new mothers being the most vulnerable to vitamin deficiencies. Individuals who are chronically deficient in essential micronutrients, often referred to as having "hidden hunger", suffer from a number of health problems that can lead to immediate life-threatening conditions, as well as problems later in life such as impaired physical and cognitive development. Micronutrient deficiency is also now linked to poor performance by children in school and to subsequent impaired economic performance by adults.

With supporters like Lonza, Vitamins Angels reached more than 260 000 pregnant women and new mothers in 34 countries worldwide in 2013 with the prenatal multivitamin program. Overall in 2013, Vitamin Angels reached more than 30 million children in about 45 countries with various programs and initiatives.

Vitamin Angels has received six consecutive four-star ratings from Charity Navigator for Financial Health, Accountability and Transparency. To learn more, visit *www.vitaminangels.org*

**Switzerland**

Young Enterprise Switzerland inspires and prepares young people to succeed in a global economy through education and hands-on experience in the areas of entrepreneurship, financial literacy and workforce management. Employees of Lonza support these youth by participating in trade fair competitions.

**Czech Republic**

Lonza was honored with the Kouřim Town Award for Good Citizenship for building good community relationships as a result of activities like our donation of a state-of-the-art pump for the Kolin Fire Brigade.

**India**

In Hyderabad (IN), Lonza sponsors the PeriUrban Agriculture project, which aims to improve local knowledge of soil-fertility management through the use of organic matter, such as solid and liquid organic waste and residues. Stakeholders train residents on collection treatment, marketing and reuse of organic waste and crops. The result of this high-impact project is the creation of additional jobs in the community.

**China**

Following the success of our longer-term sponsorship of the Jiaoling School in China, we are now helping to construct a new three-story building and renovate the existing two-story building at the Qingshan Primary School. Lonza employees also volunteer at the school to help students improve their science, English and computer skills.

**South Africa**

Feeding more than 700 orphaned children every day is the role of the Lonza-sponsored school cook in the Khatlamping School in South Africa. In 2013, Lonza also supplied scarves, globes and hats to the children at the beginning of winter.

**United States**

Volunteers from Lonza's Allendale, NJ (USA) office worked side by side with other Habitat for Humanity volunteers and staff to build four houses a year: two in the fall and two in the spring. Homeowners, chosen by an application process, receive a low-interest mortgage for a short time and also participate in the building process.

# FINANCIAL SECTION


Financial Report — 81
Remuneration Report — 187
Corporate Governance — 211


LONZA ANNUAL REPORT

2013

# FINANCIAL REPORT


**Consolidated Financial Statements**
Consolidated Balance Sheet — 82
Consolidated Income Statement — 83
Consolidated Statement of Comprehensive Income — 83
Consolidated Cash Flow Statement — 84
Consolidated Statement of Changes in Equity — 85
Notes to the Consolidated Financial Statements — 86
Report of the Statutory Auditor — 173

**Financial Statements of Lonza Group Ltd**
Balance Sheet – Lonza Group Ltd — 174
Income Statement – Lonza Group Ltd — 175
Notes to the Financial Statements – Lonza Group Ltd — 176
Proposal of the Board of Directors — 178
Report of the Statutory Auditor — 179

**Supplementary Financial Information**
Investor Information — 180
Statement of Value Added — 182
Free Cash Flow — 183
Core Results — 184


LONZA ANNUAL REPORT

2013

# CONSOLIDATED BALANCE SHEET

Assets[1]

| million CHF | [2]Note | 2013 | [3]2012 | [3]2011 |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 6 | 2 494 | 2 684 | 2 695 |
| Intangible assets | 5 | 807 | 873 | 930 |
| Goodwill | 5 | 1 042 | 1 056 | 1 080 |
| Other non-current assets | | 28 | 50 | 60 |
| Deferred tax assets | 21 | 268 | 309 | 301 |
| Investments in associates / joint ventures | 7 | 13 | 16 | 14 |
| Other investments | | 6 | 5 | 6 |
| Non-current loans and advances | 7, 14 | 69 | 83 | 56 |
| **Total non-current assets** | | **4 727** | **5 076** | **5 142** |
| Current assets | | | | |
| Inventories | 8 | 747 | 747 | 773 |
| Trade receivables | 10 | 559 | 629 | 695 |
| Current tax receivables | | 24 | 12 | 43 |
| Other receivables, prepaid expenses and accrued income | 11 | 175 | 147 | 182 |
| Current advances | 14 | 3 | 2 | 2 |
| Cash and cash equivalents | 12, 14 | 306 | 429 | 196 |
| **Total current assets** | | **1 814** | **1 966** | **1 891** |
| **Total assets** | | **6 541** | **7 042** | **7 033** |

Total Equity and Liabilities[1]

| million CHF | [2]Note | 2013 | [3]2012 | [3]2011 |
|---|---|---|---|---|
| Equity | | | | |
| Share capital | | 53 | 53 | 53 |
| Share premium | | 310 | 310 | 310 |
| Treasury shares | | (80) | (84) | (110) |
| Retained earnings and reserves | | 1 843 | 1 824 | 1 885 |
| **Total equity attributable to equity holders of the parent** | | **2 126** | **2 103** | **2 138** |
| **Non-controlling interest** | | **0** | **(1)** | **(1)** |
| **Total equity** | | **2 126** | **2 102** | **2 137** |
| Liabilities | | | | |
| Deferred tax liabilities | 21 | 561 | 566 | 618 |
| Non-current provisions | 13 | 56 | 57 | 51 |
| Employee benefit liability | 23 | 364 | 548 | 436 |
| Other non-current liability | | 30 | 37 | 41 |
| Non-current debt | 14 | 2 245 | 2 427 | 2 725 |
| **Total non-current liabilities** | | **3 256** | **3 635** | **3 871** |
| Current provisions | 13 | 43 | 16 | 7 |
| Other current liabilities | 15 | 508 | 520 | 443 |
| Current tax payables | | 86 | 108 | 105 |
| Trade payables | 16 | 286 | 273 | 294 |
| Current debt | 14 | 236 | 388 | 176 |
| **Total current liabilities** | | **1 159** | **1 305** | **1 025** |
| **Total liabilities** | | **4 415** | **4 940** | **4 896** |
| **Total equity and liabilities** | | **6 541** | **7 042** | **7 033** |

1 At 31 December
2 See the accompanying notes to the consolidated financial statements
3 Restated to reflect changes from IAS19 (2011) and subsequent reclassification to the Arch Chemicals Inc. acquisition accounting (see note 1)

# CONSOLIDATED INCOME STATEMENT

| million CHF | Note[1] | 2013 | 2012[2] |
|---|---|---|---|
| **Sales** | 2 | **3 584** | **3 925** |
| Cost of goods sold | | (2 758) | (2 920) |
| **Gross profit** | | **826** | **1 005** |
| | | | |
| Marketing and distribution | | (228) | (245) |
| Research and development | 22 | (111) | (116) |
| Administration and general overheads | | (212) | (294) |
| Other operating income | 19 | 43 | 42 |
| Other operating expenses | 19 | (65) | (52) |
| **Result from operating activities (EBIT)** | | **253** | **340** |
| Financial income | 20.1 | 44 | 33 |
| Financial expenses | 20.2 | (163) | (144) |
| **Net financing costs** | | **(119)** | **(111)** |
| Share of loss of associates / joint ventures | 7 | (29) | (19) |
| **Profit before income taxes** | | **105** | **210** |
| | | | |
| Income taxes | 21 | (18) | (36) |
| **Profit for the period** | | **87** | **174** |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent | | 87 | 174 |
| Non-controlling interest | | 0 | 0 |
| **Profit for the period** | | **87** | **174** |
| | | | |
| | | CHF | CHF |
| Basic earnings per share | 26 | 1.67 | 3.36 |
| Diluted earnings per share | 26 | 1.67 | 3.35 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| million CHF | Note[1] | 2013 | 2013 | 2012[2] | 2012[2] |
|---|---|---|---|---|---|
| **Profit for the period** | | | **87** | | **174** |
| | | | | | |
| Other comprehensive income | | | | | |
| | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Re-measurements of net defined benefit liability | 23 | 128 | | (126) | |
| Income tax on items that will not be reclassified to profit or loss | 21.2 | (45) | 83 | 46 | (80) |
| | | | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences on translating foreign operations | | (48) | | (39) | |
| Cash flow hedges | | 1 | | 2 | |
| Income tax on items that are or may be reclassified to profit or loss | 21.2 | 2 | (45) | 1 | (36) |
| | | | | | |
| **Other comprehensive income for the period, net of tax** | | | **38** | | **(116)** |
| **Total comprehensive income for the period** | | | **125** | | **58** |
| | | | | | |
| Total comprehensive income attributable to: | | | | | |
| Equity holders of the parent | | | 125 | | 58 |
| Non-controlling interest | | | 0 | | 0 |
| **Total comprehensive income for the period** | | | **125** | | **58** |

1 See the accompanying notes to the consolidated financial statements

2 Restated to reflect changes from IAS19 (2011) (see note 1)

# CONSOLIDATED CASH FLOW STATEMENT

| million CHF | Note[1] | 2013 | 2012[2] |
|---|---|---|---|
| **Profit for the period** | | **87** | **174** |
| Adjustments for non-cash items: | | | |
| – Income taxes | 21 | 18 | 36 |
| – Net financing costs | 20 | 119 | 111 |
| – Share of loss of associates / joint ventures | 7 | 29 | 19 |
| – Depreciation of property, plant and equipment (excl. impairment) | 6 | 254 | 254 |
| – Amortization of intangibles | 5 | 55 | 50 |
| – Impairment losses on property, plant and equipment and intangibles | 4, 6 | 85 | 1 |
| – (Decrease) / increase of provisions | 13 | 39 | 19 |
| – (Decrease) / increase of employee benefit liability | | (60) | (4) |
| – (Gain) / loss on disposal of property, plant and equipment | | 7 | (22) |
| – Reversal amortization of other liabilities / assets | | 0 | (7) |
| – Share-based payments | | 10 | 13 |
| Income taxes paid | | (47) | (1) |
| Interest paid | | (87) | (92) |
| **Total before change in net working capital** | | **509** | **551** |
| (Increase) / decrease inventories | | (21) | 13 |
| (Increase) / decrease trade receivables | | 52 | 47 |
| Increase / (decrease) trade payables | | 18 | (19) |
| (Increase) / decrease other net working capital | | (7) | 112 |
| Use of provisions | 13 | (12) | (4) |
| Increase / (decrease) of other payables net | | (17) | 10 |
| **Net cash provided by operating activities** | | **522** | **710** |

| million CHF | Note[1] | 2013 | 2012[2] |
|---|---|---|---|
| Purchase of property, plant and equipment | 6 | (194) | (289) |
| Purchase of intangible assets | 5 | (17) | (21) |
| Proceeds from sale of tangible and intangible assets | | 14 | 39 |
| Business combinations, net of cash acquired | 5 | (4) | 0 |
| Disposal of subsidiaries, net of cash disposed of | 3 | 6 | 0 |
| Purchase of unconsolidated investments | | (1) | (3) |
| Purchase of other assets | | 0 | (7) |
| Proceeds from sale of other assets | | 19 | 40 |
| Decrease in loans and advances | | 3 | 3 |
| Increase in loans and advances | | (21) | (53) |
| Interest received | | 6 | 8 |
| Dividends received | | 2 | 1 |
| **Net cash used for investing activities** | | **(187)** | **(282)** |
| | | | |
| Repayment of straight bond | 14 | (300) | 0 |
| Issue of German private placement | 14 | 0 | 206 |
| Issue of straight bond | 14 | 299 | 304 |
| Repayment of syndicated loan | 14 | (130) | (50) |
| Repayment of acquisition bridge financing | 14 | (244) | (542) |
| Proceeds from / (repayment of) borrowings | 14 | 39 | (1) |
| Increase in other liabilities | | 3 | 6 |
| Decrease in other liabilities | | (6) | (9) |
| Dividends paid | 26 | (112) | (111) |
| Sale of treasury shares | | 0 | 5 |
| **Net cash used for financing activities** | | **(451)** | **(192)** |
| | | | |
| Effect of currency translation on cash | | (7) | (3) |
| | | | |
| **Net (decrease) / increase in cash and cash equivalents** | | **(123)** | **233** |
| Cash and cash equivalents at 1 January | | 429 | 196 |
| Cash and cash equivalents at 31 December | | 306 | 429 |

1 See the accompanying notes to the consolidated financial statements

2 Restated to reflect changes from IAS19 (2011) (see note 1)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| million CHF | Note[1] | Share capital | Share premium | Retained earnings | Hedging reserve | Translation reserve | Treasury shares | Total | Non-controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | | | | | |
| **At 31 December 2011, as previously reported** | | **53** | **310** | **2 596** | **(1)** | **(491)** | **(110)** | **2 357** | **(1)** | **2 356** |
| Impact of change in accounting policies | 1 | 0 | 0 | (219) | 0 | 0 | 0 | (219) | 0 | (219) |
| **Restated balance at 31 December 2011** | | **53** | **310** | **2 377** | **(1)** | **(491)** | **(110)** | **2 138** | **(1)** | **2 137** |
| Profit for the period, as restated | | 0 | 0 | 174 | 0 | 0 | 0 | 174 | 0 | 174 |
| – Remeasurement of defined benefit liability | | 0 | 0 | (80) | 0 | 0 | 0 | (80) | 0 | (80) |
| – Exchange differences on translating foreign operations | | 0 | 0 | 0 | 0 | (38) | 0 | (38) | 0 | (38) |
| – Cash flow hedges | | 0 | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 2 |
| Other comprehensive income, net of tax | | 0 | 0 | (80) | 2 | (38) | 0 | (116) | 0 | (116) |
| **Total comprehensive income for the period, as restated** | | **0** | **0** | **94** | **2** | **(38)** | **0** | **58** | **0** | **58** |
| Dividends | 26 | 0 | 0 | (111) | 0 | 0 | 0 | (111) | 0 | (111) |
| Recognition of share-based payments | 24 | 0 | 0 | 13 | 0 | 0 | 0 | 13 | 0 | 13 |
| Transfer of employee shares | | 0 | 0 | (15) | 0 | 0 | 15 | 0 | 0 | 0 |
| Sale of treasury shares less taxes | | 0 | 0 | (6) | 0 | 0 | 11 | 5 | 0 | 5 |
| **Restated balance at 31 December 2012** | | **53** | **310** | **2 352** | **1** | **(529)** | **(84)** | **2 103** | **(1)** | **2 102** |
| Profit for the period | | 0 | 0 | 87 | 0 | 0 | 0 | 87 | 0 | 87 |
| – Remeasurement of defined benefit liability | | 0 | 0 | 83 | 0 | 0 | 0 | 83 | 0 | 83 |
| – Exchange differences on translating foreign operations | | 0 | 0 | 0 | 0 | (45) | 0 | (45) | 0 | (45) |
| Other comprehensive income, net of tax | | 0 | 0 | 83 | 0 | (45) | 0 | 38 | 0 | 38 |
| **Total comprehensive income for the year** | | **0** | **0** | **170** | **0** | **(45)** | **0** | **125** | **0** | **125** |
| Dividends | 26 | 0 | 0 | (112) | 0 | 0 | 0 | (112) | 0 | (112) |
| Recognition of share-based payments | 24 | 0 | 0 | 10 | 0 | 0 | 0 | 10 | 0 | 10 |
| Transfer of employee shares | | 0 | 0 | (4) | 0 | 0 | 4 | 0 | 0 | 0 |
| Changes in non-controlling interests | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 |
| **At 31 December 2013** | | **53** | **310** | **2 416** | **1** | **(574)** | **(80)** | **2 126** | **0** | **2 126** |

**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.

1 See the accompanying notes to the consolidated financial statements

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 ACCOUNTING PRINCIPLES

**Lonza Group** Lonza is one of the world's leading suppliers to the pharmaceutical, healthcare and life science industries. Products and services span its customers' needs from research to final product manufacture. It is the global leader in the production and support of chemical and biological active pharmaceutical ingredients. 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 protection.

**Basis of Preparation** The consolidated financial statements for 2013 and 2012 are reported in Swiss francs (CHF), rounded to millions, and are based on the annual accounts of Lonza Group Ltd (Company) and its 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 are stated at their fair value.

**Changes in Management Structure and Impact on Segment Information** On 4 February 2013, Lonza announced its plans to adapt the management structure of the Group to focus on its target markets and to improve the effectiveness of its worldwide organizational structure and operations. In alignment with Lonza markets, the previous Custom Manufacturing and Bioscience sectors were regrouped into one Pharma&Biotech segment group. Microbial Control and Life Science Ingredients were regrouped into a Specialty Ingredients market segment group. Lonza identified the Pharma&Biotech and Specialty Ingredients segments as operating segments in accordance with IFRS 8 "Operating Segments". Prior-year segment information has been restated accordingly.

**Changes in Accounting Policies** The following new and amended standards have been issued, being effective for the 2013 reporting year:

– Amendments to IAS 1 – Presentation of items of other comprehensive income
– Amendments to IAS 19 – Employee benefits (2011)
– IAS 27 revised – Separate financial statements (2011)
– IAS 28 revised – Investments in associates and joint ventures (2011)
– Amendment to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities
– IFRS 10 – Consolidated financial statements
– IFRS 11 – Joint arrangements
– IFRS 12 – Disclosure of interests in other entities
– IFRS 13 – Fair value measurement
– Annual improvements to IFRS (2009–2011 cycle) – various standards
– Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12

These new standards and amendments to existing standards did not have a significant impact on the Group's consolidated financial statements, except for the changes due to the amended IAS 19 (2011) standard, the impact of which is outlined on the next page:

**Comparative Figures and Related Restatement** The prior-period information in the consolidated financial statements 2013, including all the related notes, has been restated to reflect

- Changes in accounting principles – IAS 19 (2011)
- Reclassification due to an error related to the acquisition accounting of the Arch Chemicals Inc. business combination in 2011. A recalculation of deferred tax positions on the acquired defined-benefit liabilities resulted in higher deferred tax assets of CHF 90 million with a respective decrease in goodwill. There was no impact on the consolidated income statement or balance sheet, other than a reclassification among goodwill and deferred tax assets.

The impact of these items is disclosed in the tables on pages 87–88.

*IAS 19: Employee benefits (2011)*

The following changes in the amended IAS 19 (2011) standard had the most significant impact on the consolidated financial statements:

1. The amendments eliminate the option to defer the recognition of actuarial gains and losses from defined-benefit plans (corridor method), as previously applied by Lonza. Under IAS 19 (2011) actuarial gains and losses are to be immediately recognized in other comprehensive income in the period in which they arise.
2. The concept of including the expected return on plan assets at an estimated rate of return is replaced by calculating interest income computed as the fair value of plan assets multiplied by the discount rate that is used to discount the defined-benefit obligation.
3. Past service costs are now recognized immediately in the income statement in the period of a plan amendment. Previously, the portion of past service costs related to unvested benefits was deferred on the balance sheet, which was then progressively released.

The IAS19 (2011) standard requires retrospective application. As a result, all prior-period information has been restated as listed below:

Restated Consolidated Balance Sheet at 1 January 2012

| million CHF | As originally published | IAS19 (2011) | Arch acquisition | Restated |
|---|---|---|---|---|
| Non-current assets | | | | |
| Goodwill | 1 170 | 0 | (90) | 1 080 |
| Other non-current assets | 122 | (62) | 0 | 60 |
| Deferred tax assets | 176 | 35 | 90 | 301 |
| **Total non-current assets** | **5 169** | **(27)** | **0** | **5 142** |
| **Total assets** | **7 060** | **(27)** | **0** | **7 033** |
| Equity | | | | |
| Retained earnings and reserves | 2 104 | (219) | 0 | 1 885 |
| **Total equity attributable to equity holders of the parent** | **2 357** | **(219)** | **0** | **2 138** |
| **Non-controlling interest** | **(1)** | **0** | **0** | **(1)** |
| **Total equity** | **2 356** | **(219)** | **0** | **2 137** |
| Liabilities | | | | |
| Deferred tax liabilities | 664 | (46) | 0 | 618 |
| Employee benefit liability | 198 | 238 | 0 | 436 |
| **Total non-current liabilities** | **3 679** | **192** | **0** | **3 871** |
| **Total liabilities** | **4 704** | **192** | **0** | **4 896** |
| **Total equity and liabilities** | **7 060** | **(27)** | **0** | **7 033** |

### Restated Consolidated Balance Sheet at 31 December 2012

| million CHF | As originally published | IAS19 (2011) | Arch acquisition | Restated |
|---|---|---|---|---|
| Non-current assets | | | | |
| Goodwill | 1 149 | 0 | (93) | 1 056 |
| Other non-current assets | 125 | (75) | 0 | 50 |
| Deferred tax assets | 199 | 17 | 93 | 309 |
| **Total non-current assets** | **5 134** | **(58)** | **0** | **5 076** |
| **Total assets** | **7 100** | **(58)** | **0** | **7 042** |
| Equity | | | | |
| Retained earnings and reserves | 2 128 | (304) | 0 | 1 824 |
| **Total equity attributable to equity holders of the parent** | **2 407** | **(304)** | **0** | **2 103** |
| **Non-controlling interest** | **(1)** | **0** | **0** | **(1)** |
| **Total equity** | **2 406** | **(304)** | **0** | **2 102** |
| Liabilities | | | | |
| Deferred tax liabilities | 678 | (112) | 0 | 566 |
| Employee benefit liability | 190 | 358 | 0 | 548 |
| **Total non-current liabilities** | **3 389** | **246** | **0** | **3 635** |
| **Total liabilities** | **4 694** | **246** | **0** | **4 940** |
| **Total equity and liabilities** | **7 100** | **(58)** | **0** | **7 042** |

### Restated Consolidated Income Statement 2012

| million CHF | As originally published | IAS19 (2011) | Restated |
|---|---|---|---|
| **Sales** | **3 925** | **0** | **3 925** |
| Cost of goods sold | (2 920) | 0 | (2 920) |
| **Gross profit** | **1 005** | **0** | **1 005** |
| Administration and general overheads | (299) | 5 | (294) |
| **Result from operating activities (EBIT)** | **335** | **5** | **340** |
| Financial expenses | (128) | (16) | (144) |
| **Net financing costs** | **(95)** | **(16)** | **(111)** |
| **Profit before income taxes** | **221** | **(11)** | **210** |
| Income taxes | (39) | 3 | (36) |
| **Profit for the period** | **182** | **(8)** | **174** |
| Attributable to: | | | |
| Equity holders of the parent | 182 | (8) | 174 |
| Non-controlling interest | 0 | 0 | 0 |
| **Profit for the period** | **182** | **(8)** | **174** |
| Basic earnings per share | 3.52 | (0.15) | 3.36 |
| Diluted earnings per share | 3.50 | (0.15) | 3.35 |

### Restated Consolidated Statement of Comprehensive Income 2012

| million CHF | As originally published | IAS19 (2011) | Restated |
|---|---|---|---|
| **Profit for the period** | **182** | **(8)** | **174** |
| Other comprehensive income | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurements of defined-benefit liability | 0 | (126) | (126) |
| Income tax on items that will not be reclassified to profit or loss | 0 | 46 | 46 |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | (42) | 3 | (39) |
| Income tax on items that are or may be reclassified to profit or loss | 1 | 0 | 1 |
| **Other comprehensive income for the period, net of tax** | **(39)** | **(77)** | **(116)** |
| **Total comprehensive income for the period** | **143** | **(85)** | **58** |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | 143 | (85) | 58 |
| Non-controlling interest | 0 | 0 | 0 |
| **Total comprehensive income for the period** | **143** | **(85)** | **58** |

The changes due to IAS19 (2011) had an adverse impact on the consolidated income statement 2013, amounting to CHF 6 million[1] for the result from operating activities and CHF 17 million[2] for the net financing costs. As a consequence, the profit before income taxes is lower by CHF 23 million and the profit is lower by CHF 19 million due to the adoption impact of IAS 19 (2011) for the period ended 31 December 2013.

1 Favorable impact of CHF 22 million from the elimination of the corridor method and the related recognition of unrecognized actuarial gains and losses in the income statement, as well as the immediate recognition of past service cost. The calculation of the interest income on the plan assets by applying the discount rate had an unfavorable impact CHF 28 million.

2 The Group's accounting policy is to disclose the interest expense on the net defined-benefit liability as a financial expense.

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, with the exception of the amendments to IAS 36. Their impact on the consolidated financial statements of Lonza has not yet been comprehensively analyzed. The expected effects as disclosed below reflect a first assessment by Group management.

| Standard / Interpretation | | Effective date | Planned application by Lonza |
|---|---|---|---|
| Amendment to IAS 32 – Offsetting financial assets and financial liabilities | * | 1 January 2014 | Reporting year 2014 |
| Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities | * | 1 January 2014 | Reporting year 2014 |
| Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets | *** | 1 January 2014 | Reporting year 2013 |
| Amendments to IAS 39 – Novation of derivatives and continuation of hedge accounting | * | 1 January 2014 | Reporting year 2014 |
| IFRIC 21 – Levies | * | 1 January 2014 | Reporting year 2014 |
| Amendments to IAS 19 – Defined-benefit plans: Employee contributions | * | 1 July 2014 | Reporting year 2015 |
| Annual Improvements (2010–2012 cycle) | * | 1 July 2014 | Reporting year 2015 |
| Annual Improvements (2011–2013 cycle) | * | 1 July 2014 | Reporting year 2015 |
| IFRS 9 – Financial instruments | ** | 1 January 2017 | Reporting year 2017 |

* 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
*** Adopted early by the Group

**Principles of Consolidation** The consolidated financial statements represent the accounts for the year ended 31 December of Lonza Group Ltd and its subsidiaries. Subsidiaries are those entities controlled, directly or indirectly, by Lonza Group Ltd. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. 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 significant subsidiaries included in the consolidated financial statements are shown in note 32.

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. Intercompany profits included in year-end inventories of goods produced within Lonza are eliminated as well as unrealized gains on transactions between subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures, as disclosed in note 7. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Associates and interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. They are recognized initially at cost, which includes transaction costs. Subsequent to the initial recognition, the consolidated financial statements include the Group's share of the profit and loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases. Dividends paid during the year reduce the carrying value of the investments

**Segment Reporting** For the purpose of segment reporting, the Group's Executive Committee (EC) is considered to be the Group's Chief Operating Decision Maker. The determination of the Group's operating segments is based on the organizational units for which information is reported to the EC on a regular basis. The information provided is used as the basis of the segment revenue and profit disclosures reported in note 2. Selected segment balance sheet information and performance measures are also routinely provided to the EC. The Group has two segments, Specialty Ingredients and Pharma&Biotech. Revenues are primarily generated from the sale of products. The Pharma&Biotech segment also derives revenues from the sale or licensing of products or technology to third parties. Residual operating activities from certain global activities are reported as "Corporate". These include the EC and global group functions for communications, human resources, finance (including treasury and taxes), legal, environmental and safety services.

Transfer prices between operating segments are set on an arm's length basis. Operating assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables/payables, inventories and other assets and liabilities, such as provisions, which can be reasonably attributed to the reported operating segments. Non-operating assets and liabilities mainly include current and deferred income tax balances, post-employment benefit assets / liabilities and financial assets / liabilities such as cash, investments and debt.

**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. 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 percentage of completion (POC) method is applied for development projects and defined long-term contracts in the Pharma&Biotech segment that 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 a case, the exchange 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 providers.

**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.

**Leases** 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. Intangible assets acquired in a business combination are recognized at their fair value. Intangibles include software, licenses, patents, trademarks and similar rights granted by third parties, capitalized product development costs and capitalized computer software development costs. Costs associated with internally developed or maintained computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognized as intangible assets. Those direct costs include the software development employee costs and an appropriate portion of relevant overheads. Intangible assets are amortized using the straight-line method over their estimated useful lives, which is the lower of the legal duration and the economic useful life. Useful lives vary from 3 to 5 years for software, 5 to 30 years for patents, trademarks and similar rights and 4 to 16 years for development costs. All intangible assets in Lonza have finite useful lives, except for trademarks acquired in 2011 through the Arch business combination and 2007 through the Cambrex business combination. The Group considers 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 foreseeable 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 period the costs are incurred and the services are received 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 recognized. 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 12 months from the date of acquisition. Goodwill is not amortized but is tested annually for impairment. 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.

Goodwill may also arise upon investments in associates and joint ventures, 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 and joint ventures.

**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 for doubtful accounts is recorded for the difference between the carrying value and the estimated recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the aging of customer balances, specific credit circumstances and the Group's historical experience, also taking into account economic conditions. Expenses for doubtful trade receivables are recognized in the consolidated income statement within cost of goods sold. Long-term accounts receivable are discounted to take into account the time value of money, where material.

**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 that is created or retained by the Group is recognized as a separate asset or liability.

**Cash and Cash Equivalents** Cash and cash equivalents include 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.

**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, for deferred tax assets, operating loss and tax credit carry-forwards.

Deferred tax assets and liabilities are measured using enacted or 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 in other comprehensive income or directly in equity, any related tax effect is recognized in other comprehensive income or in equity. Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future.

**Employee Benefits** Employee benefit liabilities as stated in the consolidated balance sheet include obligations from defined-benefit pension plans, other post-employment benefits (medical plans) as well as other long-term employee-related liabilities, such as long-term vacation accounts.

**Defined-Benefit Plans (Pension and Medical Plans)** Most of Lonza's subsidiaries operate their own pension plans. Generally, they are funded by employees' and employer's contributions. In addition, the Group operates three medical plans in the United States. The Group's net obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined-benefit obligations is performed annually by a qualified external actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the defined-benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group determines the net interest expense on the net defined-benefit liability for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the annual period to the net defined-benefit liability, taking into account any changes in the net defined-benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined-benefit plans are recognized in profit and loss, as a financial expense. While the net interest expense is disclosed within financial expenses, the other expenses related to defined-benefit plans are allocated to the different functions of the operating activities.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that related to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs.

**Termination Benefits** Termination benefits result from either an entity's decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group recognizes termination benefits at the earlier date of a) when the Group can no longer withdraw the offer of termination benefits and b) when the Group recognizes costs for a restructuring that is within the scope of IAS37 and involved the payment of termination benefits.

**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 that 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.

**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 various 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 generally 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 operating 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 gains / losses on 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.

## 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. The 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 impairment tests, accounting for allowances for doubtful 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.

**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 2 494 million (2012: CHF 2 684 million), goodwill of CHF 1 042 million (2012: CHF 1 056 million) and intangible assets of CHF 807 million (2012: CHF 873 million) (see notes 5 and 6). The intangible assets include trademarks acquired through business combinations with a carrying value of CHF 350 million (2012: 359 million), which have an indefinite useful life and are not systematically amortized. Goodwill and intangible assets with indefinite useful lives 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 analysis as explained in note 5 is most 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 calculation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in note 5.

**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 external actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2013, the present value of the Group's defined-benefit obligation is CHF 2 497 million (2012: CHF 2 608 million). The plan assets at fair value amount to CHF 2 175 million (2012: CHF 2 129 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 322 million (2012: CHF 479 million) (see note 23).

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 fair value of assets or liabilities recognized in the balance sheet in future periods.

**Business Combinations** Where the Group acquires control of another business, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business shall be recognized, separately from 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.

**Environmental Provisions** Lonza is exposed to environmental liabilities and risks relating to its operations, principally in respect of provisions for remediation costs, which at 31 December 2013 amounted to CHF 48 million (2012: CHF 44 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 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 that 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 2013, deferred tax assets of CHF 268 million (2012: CHF 309 million), current tax receivables of CHF 24 million (2012: CHF 12 million), deferred tax liabilities of CHF 561 million (2012: CHF 566 million) and current tax payables of CHF 86 million (2012: CHF 108 million) are included 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.

**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 2013 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 2013. Moreover, the Group has various contractual agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to management's judgment, risks and rewards have been transferred to the customer and no future performance obligation exists. 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.

**Intangible Assets** The Group considers the trademarks acquired in 2011 through the Arch business combination and in 2007 through the Cambrex business combination to 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 foreseeable future. The assumption of an indefinite useful life is reassessed whenever there is an indication that a trademark may have a definite useful life. In addition, intangible assets with indefinite useful lives are tested for impairment on an annual basis (see note 5).

**Leases** The Group is party to leasing arrangements, both as a lessee and as a lessor. The treatment of leasing transactions in the financial statements is mainly determined by whether the lease is considered to be an operating lease or a finance lease. In making this assessment, management analyzes the substance of the lease, as well as the legal form, and makes a judgment about whether substantially all of the risks and rewards of ownership are transferred. Arrangements that do not take the legal form of a lease but that nevertheless convey the right to use an asset are also covered by such assessments.

## 2 OPERATING SEGMENTS

### 2.1 GENERAL INFORMATION

According to the requirements of IFRS 8 "Operating Segments", Lonza identified the following two market-focused segments: Pharma&Biotech and Specialty Ingredients. These segments are described as follows:

**Pharma&Biotech** In the Pharma&Biotech market segment, Lonza is one of the world's leading suppliers of active pharmaceutical ingredients (APIs) and biopharmaceuticals, as well as research and testing products and services. Lonza manufactures products that are at the forefront of powerful new treatments for cancer, diabetes, immune system disorders, heart conditions, Alzheimer's and Parkinson's diseases, inflammation and many other medical diseases and conditions. Lonza customers cover a wide spectrum of clients, from the world's largest pharmaceutical and biotechnology companies to medical research and testing organizations and small start-ups pioneering breakthrough medical treatments.

**Specialty Ingredients** In the Specialty Ingredients market segment, Lonza is an innovative supplier of solutions that promote health, wellness, beauty, nutrition, hygiene and materials protection. Lonza is the world's largest supplier of microbial control solutions – including disinfectants and sanitizers that protect us from dangerous microbes in hospitals, homes, cafeterias, cruise ships and schools. The Nutrition business is the globe's largest producer of vitamin B compounds (niacin and niacinamide), and it also supplies other specialized nutritional ingredients used in products from human energy drinks to animal feeds. Lonza also offers custom agricultural manufacturing services designed to improve crop yields and food quality. In personal care, Lonza is the world's largest supplier of actives for antidandruff shampoos and a leading provider of natural and organic cosmetic ingredients.

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

### 2.2 INFORMATION ABOUT REPORTABLE SEGMENT PROFIT OR LOSS, ASSETS AND LIABILITIES INCLUDING RECONCILIATIONS

In the following table, revenues and profit or loss are disclosed by the two 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 Group's Executive Committee.

## Operating segments (continued)

Year Ended 31 December 2013

| million CHF | | Specialty Ingredients | Pharma& Biotech | Total operating segments | Corporate / Eliminations | Group total |
|---|---|---|---|---|---|---|
| **Sales third-party** | | **2 155** | **1 426** | **3 581** | **3** | **3 584** |
| Intersegment sales[1] | | 36 | 35 | 71 | (71) | 0 |
| **Total sales** | | **2 191** | **1 461** | **3 652** | **(68)** | **3 584** |
| **Result from operating activities (EBIT)** | | **223** | **60** | **283** | **(30)** | **253** |
| – Percentage return on sales | % | 10.3 | 4.2 | 7.9 | n.a. | 7.1 |
| Financial income | | | | | | 44 |
| Financial expenses | | | | | | (163) |
| **Net financing costs** | | | | | | **(119)** |
| Share of loss of associates / joint ventures | | | | | | (29) |
| **Profit before income taxes** | | | | | | **105** |
| Income taxes | | | | | | (18) |
| **Profit for the period** | | | | | | **87** |
| Included in result from operating activities (EBIT): | | | | | | |
| – Other operating income | | 25 | 15 | 40 | 3 | 43 |
| – Other operating expenses | | (41) | (10) | (51) | (3) | (54) |
| – Research and development | | (58) | (157) | (215) | 0 | (215) |
| – Depreciation and amortization | | (136) | (163) | (299) | (10) | (309) |
| – Impairment | | (6) | (79) | (85) | 0 | (85) |
| – Restructuring (expenses) / income | | (6) | (51) | (57) | (5) | (62) |
| – Environmental (expenses) / income | | (6) | 0 | (6) | 0 | (6) |
| Total assets | | 3 409 | 3 510 | 6 919 | (378) | 6 541 |
| Total liabilities | | 1 907 | 2 018 | 3 925 | 490 | 4 415 |
| Total equity | | 1 502 | 1 492 | 2 994 | (868) | 2 126 |
| Net financial liabilities | | 1 210 | 875 | 2 085 | 747 | 2 832 |
| Net capital invested[2] | | 2 712 | 2 367 | 5 079 | (121) | 4 958 |
| Return on net capital invested (RONOA)[3] | % | 10.1 | 2.8 | 6.5 | n.a. | 5.9 |
| Included in total assets: | | | | | | |
| Total property, plant and equipment | | 1 049 | 1 426 | 2 475 | 19 | 2 494 |
| – Additions to property, plant and equipment | | 126 | 73 | 199 | 0 | 199 |
| Total goodwill and intangible assets | | 1 270 | 570 | 1 840 | 9 | 1 849 |
| – Additions to intangible assets | | 6 | 8 | 14 | 3 | 17 |
| – Additions to intangible assets from acquisitions | | 0 | 4 | 4 | 0 | 4 |
| Investments in associates / joint ventures | | 2 | 1 | 3 | 10 | 13 |
| Headcount | | 4 524 | 4 978 | 9 502 | 433 | 9 935 |
| Average headcount | | 4 727 | 5 153 | 9 880 | 481 | 10 361 |

1 Intersegment 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 2012 (restated)

| million CHF | | Specialty Ingredients | Pharma& Biotech | Total operating segments | Corporate / Eliminations | Group total |
|---|---|---|---|---|---|---|
| **Sales third-party** | | **2 367** | **1 548** | **3 915** | **10** | **3 925** |
| Intersegment sales[1] | | 67 | 50 | 117 | (117) | 0 |
| **Total sales** | | **2 434** | **1 598** | **4 032** | **(107)** | **3 925** |
| **Result from operating activities (EBIT)** | | **169** | **197** | **366** | **(26)** | **340** |
| – Percentage return on sales | % | 7.1 | 12.7 | 9.3 | n.a. | 8.7 |
| | | | | | | |
| Financial income | | | | | | 33 |
| Financial expenses | | | | | | (144) |
| **Net financing costs** | | | | | | **(111)** |
| Share of loss of associates / joint ventures | | | | | | (19) |
| **Profit before income taxes** | | | | | | **210** |
| Income taxes | | | | | | (36) |
| **Profit for the period** | | | | | | **174** |
| | | | | | | |
| Included in result from operating activities (EBIT): | | | | | | |
| – Other operating income | | 29 | 8 | 37 | 5 | 42 |
| – Other operating expenses | | (15) | (9) | (24) | 0 | (24) |
| – Research and development | | (56) | (155) | (211) | (4) | (215) |
| – Depreciation and amortization | | (133) | (160) | (293) | (11) | (304) |
| – Impairment | | 0 | (1) | (1) | 0 | (1) |
| – Restructuring (expenses) / income | | (9) | (11) | (20) | (9) | (29) |
| | | | | | | |
| Total assets | | 3 710 | 3 644 | 7 354 | (312) | 7 042 |
| Total liabilities | | 2 297 | 1 986 | 4 283 | 657 | 4 940 |
| Total equity | | 1 413 | 1 658 | 3 071 | (969) | 2 102 |
| Net financial liabilities | | 1 490 | 952 | 2 442 | 893 | 3 335 |
| Net capital invested[2] | | 2 903 | 2 610 | 5 513 | (76) | 5 437 |
| | | | | | | |
| Return on net capital invested (RONOA)[3] | % | 7.6 | 8.8 | 8.2 | n.a. | 7.5 |
| | | | | | | |
| Included in total assets: | | | | | | |
| Total property, plant and equipment | | 1 058 | 1 602 | 2 660 | 24 | 2 684 |
| – Additions to property, plant and equipment | | 123 | 166 | 289 | 0 | 289 |
| Total goodwill and intangible assets | | 1 326 | 589 | 1 915 | 14 | 1 929 |
| – Additions to intangible assets | | 5 | 9 | 14 | 7 | 21 |
| Investments in associates / joint ventures | | 2 | 2 | 4 | 12 | 16 |
| – Additions to investment in associates / joint ventures | | 0 | 3 | 3 | 0 | 3 |
| | | | | | | |
| Headcount | | 4 930 | 5 329 | 10 259 | 530 | 10 789 |
| Average headcount | | 5 095 | 5 283 | 10 387 | 517 | 10 895 |

1 Intersegment 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.

## 2.3 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). Intersegment sales and transfers are based on prevailing market prices.

## 2.4 GEOGRAPHICAL INFORMATION

Year Ended 31 December 2013

| million CHF | Revenue from external customers (Sales) | Non-current assets | | | | |
|---|---|---|---|---|---|---|
| | | Property, plant and equipment | Intangible assets | Goodwill | Other non-current assets | Total |
| Switzerland | 414 | 952 | 41 | 15 | 2 | 1010 |
| Spain | 19 | 140 | 0 | 0 | 0 | 140 |
| Netherlands | 62 | 0 | 0 | 0 | 0 | 0 |
| Italy | 52 | 0 | 0 | 11 | 0 | 11 |
| Czech Republic | 3 | 93 | 0 | 0 | 0 | 93 |
| Belgium | 30 | 72 | 0 | 87 | 0 | 159 |
| United Kingdom | 150 | 95 | 67 | 18 | 0 | 180 |
| Germany | 240 | 9 | 40 | 71 | 0 | 120 |
| Sweden | 29 | 0 | 0 | 0 | 0 | 0 |
| France | 149 | 2 | 6 | 11 | 0 | 19 |
| Rest of Europe | 138 | 1 | 2 | 12 | 0 | 15 |
| **Europe** | **1 286** | **1 364** | **156** | **225** | **2** | **1 747** |
| United States | 1 507 | 556 | 559 | 810 | 10 | 1 935 |
| Canada | 57 | 0 | 0 | 0 | 0 | 0 |
| Rest of North America | 47 | 0 | 0 | 0 | 0 | 0 |
| **North America** | **1 611** | **556** | **559** | **810** | **10** | **1 935** |
| Brazil | 101 | 10 | 14 | 0 | 3 | 27 |
| Rest of Latin America | 32 | 0 | 1 | 0 | 0 | 1 |
| **Latin America** | **133** | **10** | **15** | **0** | **3** | **28** |
| Singapore | 44 | 277 | 52 | 0 | 3 | 332 |
| China | 137 | 274 | 4 | 4 | 8 | 290 |
| Japan | 81 | 1 | 2 | 0 | 0 | 3 |
| India | 72 | 6 | 0 | 2 | 0 | 8 |
| Rest of Asia | 103 | 0 | 0 | 0 | 1 | 1 |
| **Asia** | **437** | **558** | **58** | **6** | **12** | **634** |
| **South Africa** | **60** | **4** | **5** | **0** | **0** | **9** |
| **Australia** | **28** | **2** | **7** | **1** | **0** | **10** |
| Other countries | 29 | 0 | 7 | 0 | 1 | 8 |
| **Total** | **3 584** | **2 494** | **807** | **1 042** | **28** | **4 371** |

Year Ended 31 December 2012

| million CHF | Revenue from external customers (Sales) | Non-current assets | | | | |
|---|---|---|---|---|---|---|
| | | Property, plant and equipment | Intangible assets | Goodwill (restated) | Other non-current assets (restated) | Total (restated) |
| Switzerland | 464 | 977 | 48 | 14 | 1 | 1 040 |
| Spain | 29 | 145 | 0 | 0 | 7 | 152 |
| Netherlands | 53 | 0 | 0 | 0 | 0 | 0 |
| Italy | 57 | 0 | 0 | 11 | 0 | 11 |
| Czech Republic | 6 | 107 | 0 | 0 | 0 | 107 |
| Belgium | 31 | 73 | 1 | 85 | 0 | 159 |
| United Kingdom | 151 | 92 | 69 | 18 | 3 | 182 |
| Germany | 217 | 11 | 42 | 70 | 0 | 123 |
| Sweden | 39 | 0 | 0 | 0 | 0 | 0 |
| France | 153 | 2 | 9 | 11 | 0 | 22 |
| Rest of Europe | 101 | 3 | 3 | 12 | 1 | 19 |
| **Europe** | **1 301** | **1 410** | **172** | **221** | **12** | **1 815** |
| United States | 1 691 | 671 | 597 | 827 | 21 | 2 116 |
| Canada | 122 | 0 | 0 | 0 | 0 | 0 |
| Rest of North America | 53 | 0 | 0 | 0 | 0 | 0 |
| **North America** | **1 866** | **671** | **597** | **827** | **21** | **2 116** |
| Brazil | 96 | 12 | 18 | 0 | 4 | 34 |
| Rest of Latin America | 33 | 0 | 1 | 0 | 0 | 1 |
| **Latin America** | **129** | **12** | **19** | **0** | **4** | **35** |
| Singapore | 24 | 293 | 56 | 0 | 3 | 352 |
| China | 143 | 280 | 4 | 4 | 8 | 296 |
| Japan | 113 | 1 | 3 | 0 | 0 | 4 |
| India | 90 | 8 | 0 | 2 | 0 | 10 |
| Rest of Asia | 103 | 0 | 0 | 0 | 1 | 1 |
| **Asia** | **473** | **582** | **63** | **6** | **12** | **663** |
| **South Africa** | **68** | **6** | **7** | **0** | **0** | **13** |
| **Australia** | **51** | **2** | **8** | **2** | **0** | **12** |
| Other countries | 37 | 1 | 7 | 0 | 1 | 9 |
| **Total** | **3 925** | **2 684** | **873** | **1 056** | **50** | **4 663** |

### 2.5 INFORMATION ABOUT MAJOR CUSTOMERS

In 2013, Lonza's largest customer accounts for 5.7 % and the second, third, fourth and fifth largest customers for 4.0 %, 2.8 %, 2.7 % and 2.4 % in relation to total Group sales, respectively. No other customer accounts for 2.3 % or more of Lonza's total sales. The first, third and forth largest customers relate to the Specialty Ingredients segment, while the second and fifth largest customers relate to the Pharma&Biotech segment.

In 2012, Lonza's largest customer accounted for 6.7 % and the second, third, fourth and fifth largest customers for 3.5 %, 3.1 %, 2.8 % and 2.6 % in relation to total Group sales, respectively. No other customer accounted for 2.3 % or more of Lonza's sales. The largest and third largest customers belong to the Pharma&Biotech segment. The second, fourth and fifth largest customers related to the Specialty Ingredients segment.

## 3 SALE OF BUSINESSES

### 3.1 SALE OF ENGINGEERING BUSINESS

Effective 5 April 2013, Lonza completed the sale of its Engineering business, which was mainly located in China. As a result of the sale, Lonza disposed of net assets of CHF 6 million for cash consideration (net of cash disposed of) of CHF 6 million.

### 3.2 SALE OF PERFORMANCE URETHANES AND ORGANICS BUSINESS

Effective 28 December 2012, Lonza completed the sale of its Performance Urethanes and Organics business located in Brandenburg, KY (USA) by way of an asset deal. Lonza acquired the Performance Urethanes and Organics business as part of the Arch Chemicals Inc. acquisition in 2011.

As a result of the sale, Lonza disposed of inventories with a carrying amount of CHF 30 million and property, plant and equipment related to the Brandenburg production facility with a carrying amount of CHF 13 million. The profit before income taxes from disposal amounted to CHF 18 million and was disclosed as other operating income in the 2012 consolidated income statement.

Year Ended 31 December 2013

| million CHF | [1]Specialty Ingredients | [2]Pharma& Biotech | Corporate | Total |
|---|---|---|---|---|
| Impairment of property, plant and equipment | 6 | 79 | 0 | 85 |
| Restructuring charges | 6 | 51 | 5 | 62 |
| **Total** | **12** | **130** | **5** | **147** |

1 Restructuring charges include the closure of the Swords site and other restructuring measures
2 Restructuring charges inlcude phasedown of the Hopkinton site, the closure of the St. Beauzire site and other restructuring measures

On 25 July 2013, Lonza announced that it would 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 prepared for phasedown in the second half of 2013. As a consequence, Lonza recognized an impairment of the Hopkinton-related property, plant and equipment of CHF 79 million. In addition, Lonza recognized restructuring costs related to the phasedown of the Hopkinton site of CHF 46 million. The impairment loss, as well as CHF 44 million of the restructuring costs, are disclosed within cost of goods sold while CHF 1 million is included within administration and general overheads and CHF 1 million in research and development.

The Group's new niacin plant in Nansha (CN) is expected to commence operation at the end of the second quarter of 2014. As a result of the planned transfer of the niacin business from Guangzhou (CN) to Nansha site, production facilities in Guangzhou were impaired by CHF 6 million (disclosed in cost of goods sold).

The restructuring activities in Hopkinton, MA (USA), St. Beauzire (FR) and Swords (IE) led to a headcount reduction of 262 positions in 2013.

## 5 INTANGIBLE ASSETS AND GOODWILL

### 5.1 COST AND ACCUMULATED AMORTIZATION AND IMPAIRMENT

2013

| million CHF | Goodwill | Arch Chemicals Inc. / Cambrex trademarks | Patents, trademarks, client relationship | Computer software | Development cost | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| **At 1 January** | **1 063** | **359** | **553** | **88** | **91** | **3** | **2 157** |
| Additions | 0 | 0 | 6 | 7 | 4 | 0 | 17 |
| Disposals | 0 | 0 | (3) | 0 | (4) | 0 | (7) |
| Business combinations | 4 | 0 | 0 | 0 | 0 | 0 | 4 |
| Disposal of subsidiary | 0 | 0 | (1) | 0 | 0 | 0 | (1) |
| Transfers / reclassification | 0 | 0 | 0 | 0 | 3 | (3) | 0 |
| Currency translation differences | (18) | (9) | (14) | (1) | (3) | 0 | (45) |
| **At 31 December** | **1 049** | **350** | **541** | **94** | **91** | **0** | **2 125** |
| Accumulated amortization and impairment | | | | | | | |
| **At 1 January** | **(7)** | **0** | **(134)** | **(70)** | **(17)** | **0** | **(228)** |
| Amortization | 0 | 0 | (33) | (11) | (11) | 0 | (55) |
| Disposals | 0 | 0 | 1 | 0 | 1 | 0 | 2 |
| Transfers / reclassification | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | 0 | 3 | 1 | 1 | 0 | 5 |
| **At 31 December** | **(7)** | **0** | **(163)** | **(80)** | **(26)** | **0** | **(276)** |
| **Net carrying amount 31 December** | **1 042** | **350** | **378** | **14** | **65** | **0** | **1 849** |

2012

| million CHF | Goodwill (restated) | [1]Arch Chemicals Inc. / Cambrex trademarks | Patents, trademarks, client relationship | Computer software | Development cost | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| **At 1 January** | **1 087** | **369** | **554** | **83** | **93** | **3** | **2 189** |
| Additions | 0 | 0 | 13 | 8 | 0 | 0 | 21 |
| Disposals | 0 | 0 | 0 | (2) | 0 | 0 | (2) |
| Transfers / reclassification | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | (24) | (10) | (14) | (1) | (2) | 0 | (51) |
| **At 31 December** | **1 063** | **359** | **553** | **88** | **91** | **3** | **2 157** |
| Accumulated amortization and impairment | | | | | | | |
| **At 1 January** | **(7)** | **0** | **(102)** | **(60)** | **(10)** | **0** | **(179)** |
| Amortization | 0 | 0 | (32) | (11) | (7) | 0 | (50) |
| Disposals | 0 | 0 | 0 | 1 | 0 | 0 | 1 |
| Impairment losses | 0 | 0 | 0 | 0 | (1) | 0 | (1) |
| Transfers / reclassification | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Currency translation differences | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| **At 31 December** | **(7)** | **0** | **(134)** | **(70)** | **(17)** | **0** | **(228)** |
| **Net carrying amount 31 December** | **1 056** | **359** | **419** | **18** | **74** | **3** | **1 929** |

1 The presentation of the amounts in the table changed in 2013, and 2012 information was adjusted accordingly

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

Trademarks acquired through the Arch Chemicals Inc. (2011) and the Cambrex (2007) acquistions are considered to have indefinite useful lives. As a result, these intangible assets with a carrying amount of CHF 350 million as of 31 December 2013 (2012: CHF 359 million) are not systematically amortized.

Development cost as of 31 December 2013 includes internally generated intangible assets of CHF 7 million (2012: CHF 9 million) as well as technology acquired with the Arch Chemical Inc. acquisition of CHF 58 million (2012: CHF 65 million).

In 2013, the Group paid a contingent purchase price consideration of CHF 4 million, which was capitalized as goodwill. The obligation to pay this consideration was acquired with the Cambrex business combination in 2007.

### 5.2 IMPAIRMENT TESTS FOR CASH-GENERATING UNITS CONTAINING GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Following the changes in the Group's management structure, which resulted in changes in the operating segments in accordance with IFRS 8 (see note 1), the Group reassessed its identification of cash-generating units.

**Specialty Ingredients** The segment's business units are the cash-generating units used for the impairment testing of goodwill and intangible assets with indefinite useful lives.

**Pharma&Biotech** The different technologies (mammalian, chemical, etc.) applied within the segment are the cash-generating units used for the impairment testing of goodwill and intangibles assets with indefinite useful lives.

Consistent with the new 2013 operating segment structure, the Group made certain changes in the determination of its cash-generating units and related goodwill allocation. The most significant change was the goodwill resulting from the Arch Chemical Inc. acquisition being allocated to a group of cash generating units, which represent the Specialty Ingredients operating segment.

The following cash-generating units maintain carrying amounts of goodwill as presented below (at year-end exchange rates):

| million CHF | 2013 | 2012 (restated) |
| --- | --- | --- |
| Specialty Ingredients (representing a group of cash-generating units) | 650 | 665 |
| Consumer Care | 4 | 4 |
| Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units) | 328 | 327 |
| Mammalian (custom manufacturing and related development services) | 25 | 26 |
| Chemical (custom manufacturing and related development services) | 35 | 34 |
| **Total carrying amounts of goodwill** | **1 042** | **1 056** |

The following cash-generating units maintain carrying amounts of intangible assets with indefinite useful lives as presented below (at year-end exchange rates):

| million CHF | 2013 | 2012 |
| --- | --- | --- |
| Specialty Ingredients (representing a group of cash-generating units) | 326 | 334 |
| Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units) | 24 | 25 |
| **Total carrying amounts of intangible assets with indefinite useful life** | **350** | **359** |

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. These cash flow projections for 2014 to 2018 are based on the business strategy review and exclude any future cash inflows and outflows expected to arise from growth potential of future capital expenditures.

The cashflow projections beyond the five-year period, as stated in the respective paragraphs of the cash-generating units, are based on the concept of perpetual growth rates, which do not necessarily reflect the Group's view of the future growth potential of the underlying businesses.

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

The **Specialty Ingredients** business includes the cash-generating units of Water Treatment, Agro Ingredients, Consumer Care, Industrial Solutions and Wood Protection. These cash-generating units are the combination of the activities acquired through the Arch Checmials acquisition in 2011 as well as the former Life Science Ingredients activities from Lonza. The cashflow projections for 2014–2018 are based on a 5.4% average sales growth. The EBIT margin is assumed to increase over the projection period as a result of Arch integration measures already decided, as well the benefit from synergies. The cash flow projections beyond the five-year period are based on a 1% growth rate. A pre-tax discount rate of 10.9% 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 **Consumer Care** business includes Lonza's portfolio for human and animal nutrition, personal care as well as hygiene & preservation products. The cash-flow projections for 2014–2018 are based on a 5.3 % average sales growth. The EBIT margin is assumed to increase over the projection period as a result of Arch integration measures already decided, as well as the benefit from synergies. The cash flow projections beyond the five-year period are based on a 1 % growth rate. A pre-tax discount rate of 9.6 % 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 **Bioscience Solutions / Cell Therapy / Viral Therapeutics** businesses include the Cambrex Corporation, acquired in 2007, the amaxa business, acquired in 2008 as well as MODA Technology Partners and Vivante GMP Solutions, acquired in May and August 2010, respectively. The cash flow projections for 2014–2018 are based on a 8.4 % (2012: 8.3 %) average sales growth with growing EBIT margins, as the cash-generating units are operating in growing markets and economic recovery is continuing at a low level. The cash flow projections beyond the five-year period are extrapolated using a 0.5 % growth rate (2012: 0.5 %). The cash flows are discounted at a pre-tax discount rate of 9.9 % (2012: 9 %), resulting in a recoverable amount exceeding the carrying amount by CHF 51 million (2012: CHF 43 million). If sales grew at a 1.5 %-point lower yearly average growth rate over the five-year period, or if the pre-tax discount rate were 0.7 % points higher, the recoverable amount would equal the carrying amount.

The **Mammalian** business is primarily located in the United States, Great Britain and Singapore. Forecasted 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 in effect realized and are assumed to stay at current levels. The cashflow projections for 2014–2018 are based on a 7.2 % average sales growth, mainly as a result of the increased capacity utilization of the Singapore plant. The cash flow projections beyond the five-year period are based on a zero growth rate. A pre-tax discount rate of 9.7 % 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 **Chemical** business represents primarily the Conjugates, Small Molecules and Peptides custom manufacturing activities. Sales are projected on the basis of the current product portfolio, with production costs varying in line with sales increase. From 2014 until 2018, sales are assumed to grow on average by 2.2 % p.a. 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 8.4 %. 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.

## 6 PROPERTY, PLANT AND EQUIPMENT

2013

| million CHF | Land | Buildings and structures | Production facilities | Construction in progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| **At 1 January** | **51** | **1 542** | **3 525** | **378** | **5 496** |
| Additions | 0 | 16 | 38 | 145 | 199 |
| Disposals | (1) | (7) | (55) | (2) | (65) |
| Transfers / reclassification | 0 | 61 | 129 | (190) | 0 |
| Currency translation differences | 0 | (15) | (45) | (2) | (62) |
| **At 31 December** | **50** | **1 597** | **3 592** | **329** | **5 568** |
| Accumulated depreciation and impairment | | | | | |
| **At 1 January** | **(1)** | **(674)** | **(2 137)** | **0** | **(2 812)** |
| Depreciation charge | (1) | (54) | (199) | 0 | (254) |
| Disposals | 0 | 3 | 45 | 0 | 48 |
| Impairment losses (note 4) | 0 | (3) | (82) | 0 | (85) |
| Currency translation differences | 0 | 4 | 25 | 0 | 29 |
| **At 31 December** | **(2)** | **(724)** | **(2 348)** | **0** | **(3 074)** |
| **Net carrying amount 31 December** | **48** | **873** | **1 244** | **329** | **2 494** |
| **Insurance value 31 December** | **0** | **1 325** | **4 285** | **160** | **5 770** |

2012

| million CHF | Land | Buildings and structures | Production facilities | Construction in progress | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| **At 1 January** | **61** | **1 489** | **3 404** | **353** | **5 307** |
| Additions | 0 | 0 | 13 | 276 | 289 |
| Disposals | (9) | (6) | (38) | (3) | (56) |
| Transfers / reclassification | (1) | 70 | 174 | (243) | 0 |
| Currency translation differences | 0 | (11) | (28) | (5) | (44) |
| **At 31 December** | **51** | **1 542** | **3 525** | **378** | **5 496** |
| Accumulated depreciation and impairment | | | | | |
| **At 1 January** | **(1)** | **(627)** | **(1 984)** | **0** | **(2 612)** |
| Depreciation charge | (1) | (54) | (199) | 0 | (254) |
| Disposals | 1 | 5 | 35 | 0 | 41 |
| Currency translation differences | 0 | 2 | 11 | 0 | 13 |
| **At 31 December** | **(1)** | **(674)** | **(2 137)** | **0** | **(2 812)** |
| **Net carrying amount 31 December** | **50** | **868** | **1 388** | **378** | **2 684** |
| **Insurance value 31 December** | **0** | **1 135** | **3 830** | **105** | **5 070** |

Commitments for capital expenditure in property, plant and equipment amounted to CHF 20 million at year-end 2013 (2012: CHF 20 million), mainly related to capital expenditures for the Swiss units.

The carrying amount of property, plant and equipment under finance lease contracts at year-end 2013 amounted to CHF 5 million (2012: CHF 0). Depreciation relating to property, plant and equipment under finance lease amounted to CHF 0.3 million (2012: CHF 1.5 million).

No assets were pledged for security of own liabilities in 2013 and 2012. 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 | 2013 | 2012 |
|---|---|---|
| Not later than 1 year | 0 | 0 |
| Later than 1 year and not later than 5 years | 2 | 0 |
| Later than 5 years | 8 | 0 |
| **Total future minimum finance lease payments** | **10** | **0** |
| Future finance charges on finance lease payments | (5) | 0 |
| **Present value of minimum finance lease payments** | **5** | **0** |

Present Value of Finance Lease Liabilities

| million CHF | 2013 | 2012 |
|---|---|---|
| Not later than 1 year | 0 | 0 |
| Later than 1 year and not later than 5 years | 1 | 0 |
| Later than 5 years | 4 | 0 |
| **Present value of minimum finance lease payments** | **5** | **0** |

Operating Lease Liabilities – Minimum Lease Payments

| million CHF | 2013 | 2012 |
|---|---|---|
| Not later than 1 year | 14 | 16 |
| Later than 1 year and not later than 5 years | 42 | 46 |
| Later than 5 years | 45 | 53 |
| **Total future minimum operating lease payments** | **101** | **115** |

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 23 and for the land up to five years, all with an option to renew the lease after that date. None of the leases include contingent rentals.

During the year ended 31 December 2013, CHF 16 million (2012: CHF 20 million) was recognized as an expense in the consolidated income statement in respect to operating leases.

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 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The following table summarizes the carrying amounts of interests in joint ventures and associates, which are accounted for using the equity method.

Balance Sheet Value

| million CHF | 2013 | 2012 |
|---|---|---|
| Interests in joint ventures | 2 | 4 |
| Interests in associates | 11 | 12 |
| **Total** | **13** | **16** |

Net Income Statement Effect

| million CHF | 2013 | 2012 |
|---|---|---|
| Share of loss of joint ventures | (31) | (20) |
| Share of profit of associates | 2 | 1 |
| **Total** | **(29)** | **(19)** |

### 7.1 JOINT VENTURES

Lonza holds a 50 % stake in TL Biopharmaceutical Ltd, as well as in two other individually immaterial companies.

*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.

On 25 July 2013, Teva and Lonza announced that, following a strategic review of the Teva-Lonza Joint Venture, the companies had decided to discontinue their collaboration. Both companies will continue to explore opportunities to maximize the value of the investments and progress that the joint venture has made.

The following table summarizes the financial information of TL Biopharmaceutical Ltd:

| million CHF | | 2013 | 2012 |
|---|---|---|---|
| Percentage of ownership | % | 50 | 50 |
| Current assets | | 0 | 1 |
| Non-current assets | | 143 | 184 |
| Current liabilities (including current debt – CHF 2 million; 2012: CHF 2 million) | | 13 | 25 |
| Non-current liabilities (including non-current debt – CHF 257 million; 2012: CHF 228 million) | | 257 | 228 |
| **Net assets (100%)** | | **(127)** | **(68)** |
| Group's share of net assets (50%) | | (63) | (34) |
| **Carrying amount of interest in TL Biopharmaceutical Ltd.** | | **0** | **0** |
| Revenues | | 0 | 0 |
| Depreciation and amortization | | (42) | 0 |
| Interest expense | | (5) | (4) |
| Income tax expense | | 0 | (7) |
| Profit and total comprehensive income (100%) | | (60) | (40) |
| **Group's share of profit and total comprehensive income (50%)** | | **(30)** | **(20)** |

As of 31 December 2013, Lonza financed the TL joint venture with a loan of CHF 129 million (2012: CHF 114 million) nominal value, of which CHF 111 million (2012: 28 million) is subordinated. In 2013 an equity loss of CHF 30 million (2012: CHF 20 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. The carrying amount of the loan is CHF 67 million as of 31 Deember 2013 (2012: CHF 82 million).

The sales of goods and services from Lonza to TL Biopharmaceutical Ltd in 2013 amounted to CHF 11 million (2012: CH 47 million).

*Other Joint Ventures*

The following table analyzes, in aggregate, the carrying amount and share of profit and other comprehensive income of the two joint ventures that are individually immaterial:

| million CHF | 2013 | 2012 |
|---|---|---|
| Carrying amount of interests in other joint ventures | 2 | 4 |
| Share of loss | (1) | 0 |
| Share of other comprehensive income | 0 | 0 |

In 2013, the Group received dividends of CHF 1 million (2012: none) from these joint ventures.

## 7.2 ASSOCIATES

The Group has interests in two individually immaterial associates. The following table analyzes, in aggregate, the carrying amount and share of profit and other comprehensive income of these associates:

| million CHF | 2013 | 2012 |
|---|---|---|
| Carrying amount of interests in associates | 11 | 12 |
| Share of profit | 2 | 1 |
| Share of other comprehensive income | 0 | 0 |

In 2013, the Group received dividends of CHF 1 million (2012: CHF 1 million) from associates.

## 8 INVENTORIES

| million CHF | 2013 | 2012 |
|---|---|---|
| Inventories | 823 | 820 |
| Value adjustments | (76) | (73) |
| **Total** | **747** | **747** |

| million CHF | % | 2013 | % | 2012 |
|---|---|---|---|---|
| Raw materials | 25 | 187 | 22 | 168 |
| Work in progress | 7 | 50 | 3 | 21 |
| Finished goods | 52 | 387 | 58 | 431 |
| Other | 16 | 123 | 17 | 127 |
| **Total** | **100** | **747** | **100** | **747** |

By Operating Segments

| million CHF | % | 2013 | % | 2012 |
|---|---|---|---|---|
| Specialty Ingredients | 52 | 391 | 54 | 407 |
| Pharma&Biotech | 48 | 356 | 46 | 340 |
| **Total** | **100** | **747** | **100** | **747** |

The 2013 development of inventory value adjustments is shown as follows:

Inventory Write-Downs

| million CHF | Raw materials | Work in progress and finished goods | Other | Total | Total 2012 |
|---|---|---|---|---|---|
| **At 1 January 2013** | **11** | **27** | **35** | **73** | **57** |
| Increase | 21 | 160 | 4 | 185 | 186 |
| Reversal / Utilization of write-downs | (22) | (156) | (4) | (182) | (170) |
| Currency translation differences | 0 | 0 | 0 | 0 | 0 |
| **At 31 December 2013** | **10** | **31** | **35** | **76** | **73** |

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 2 160 million (2012: CHF 2 751 million).

## 9 DEVELOPMENT CONTRACTS

In the Pharma&Biotech segment, the percentage of completion (POC) method was applied to account 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 of contract cost over total contract revenue is recognized as an expense as soon as it is apparent that total contract cost may exceed total contract revenue.

| million CHF | 2013 | 2012 |
|---|---|---|
| **Contract revenue recognized as revenue in the period** | **59** | **70** |
| – Contract costs incurred | 21 | 29 |
| – Recognized profits less recognized losses | 15 | 17 |
| **Contract costs incurred plus recognized profits less recognized losses** | **36** | **46** |
| Less progress billings | (6) | (18) |
| **Total net amount due from customers** | **30** | **28** |
| **Gross amount due from customers for contract work** | **30** | **28** |
| **Gross amount due to customers for contract work** | **0** | **0** |
| **Advances received** | **0** | **8** |
| **Retentions held by customers for contract work** | **0** | **0** |

## 10 —— TRADE RECEIVABLES

| million CHF | 2013 | 2012 |
|---|---|---|
| Receivables from customers | 568 | 633 |
| Allowances for credit losses | (9) | (4) |
| **Total** | **559** | **629** |

The Group's 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 2013, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Aging of Trade Receivables

| million CHF | 2013 | 2012 |
|---|---|---|
| Not past due | 440 | 514 |
| Past due 1–30 days | 61 | 81 |
| Past due 31–120 days | 48 | 27 |
| Past due more than 120 days | 19 | 11 |
| **Total** | **568** | **633** |

Reconciliation of Changes in Allowance Accounts for Credit Losses

| million CHF | 2013 | 2012 |
|---|---|---|
| Balance at the beginning of the year | 4 | 2 |
| Write-offs | (2) | (1) |
| Increase in provision for credit losses | 7 | 4 |
| Decrease in provision for credit losses | 0 | (1) |
| Translation differences | 0 | 0 |
| **Balance at the end of the year** | **9** | **4** |

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

*Accounts Receivable Securitization Program*

Lonza entered into a securitization program with Market Street Funding LLC and PNC Bank, National Association ("PNC Bank"). Under the program, Lonza sells US trade accounts receivable, and certain Canadian trade accounts receivable, to Market Street Funding LLC through its wholly owned subsidiary, Arch Chemicals Receivables Corp.

The amount of funding that Lonza can obtain under the program is subject to change based upon the level of eligible receivables, with a maximum funding amount of USD 55 million (2012: USD 66 million).

Under the program, the payment by Market Street Funding LLC for a portion of the purchase price is deferred until the transferred underlying receivables have been completely settled. Lonza's maximum exposure related to the receivables sold is equal to the deferred purchase price component, which is substantially higher than the average expected credit loss on the receivables. As a result, Lonza continues to recognize all of the transferred receivables in the consolidated balance sheet.

As of 31 December 2013, the consolidated balance sheet includes receivables of USD 83 million (2012: USD 87 million) which Lonza sold to Market Street Funding LLC and for which it obtained funds of USD 45 million (2012: USD 54 million). These are disclosed as 'Other current liabilities' (note 15).

## 11 — OTHER RECEIVABLES, PREPAID EXPENSES AND ACCRUED INCOME

| million CHF | 2013 | 2012 |
|---|---|---|
| Other receivables | 83 | 71 |
| Prepaid taxes and social security payments | 7 | 4 |
| Prepaid expenses and accrued income | 85 | 72 |
| **Total** | **175** | **147** |

"Other receivables" include accruals, receivables for taxes (other than income taxes) and positive fair values of derivate financial instruments (note 28.5).

## 12 — CASH AND CASH EQUIVALENTS

| million CHF | 2013 | 2012 |
|---|---|---|
| Cash | 302 | 400 |
| Time deposits | 4 | 29 |
| **Total** | **306** | **429** |

## 13 —— PROVISIONS

Non-Current Provisions

| million CHF | Environmental | Restructuring | Other | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **41** | **11** | **5** | **57** |
| Increase | 7 | 0 | 0 | 7 |
| Used | (1) | 0 | 0 | (1) |
| Reversed | (3) | 0 | 0 | (3) |
| Reclassification (to current provisions) | 0 | (3) | 0 | (3) |
| Currency translation differences | (1) | 0 | 0 | (1) |
| **At 31 December 2013** | **43** | **8** | **5** | **56** |

Current Provision

| million CHF | Environmental | Restructuring | Other | Total |
|---|---|---|---|---|
| **At 1 January 2013** | **3** | **12** | **1** | **16** |
| Increase | 3 | 35 | 1 | 39 |
| Used | 0 | (10) | (1) | (11) |
| Reversed | (1) | (3) | 0 | (4) |
| Reclassification (from non-current provisions) | 0 | 3 | 0 | 3 |
| Currency translation differences | 0 | 0 | 0 | 0 |
| **At 31 December 2013** | **5** | **37** | **1** | **43** |

**Environmental** The non-current environmental provision mainly reflects the future expenses for environmental remediation and protection for the plant in Visp (CH), at Lonza Inc. (USA) as well as for the various plants of the acquired legacy Arch business and is expected to be utilized within 10 years. The legacy Arch-related provisions include environmental risks for existing as well as divested plants.

**Restructuring** The current restructuring provision consists of costs related to the phasedown of the Hopkinton site (CHF 24 million) and the closure of the plant in St. Beauzire (CHF 2 million), which are further explained in note 4.

In 2011, Lonza initiated VispChallenge, a program to secure the future of the Visp site, both strategically and economically. This includes a review of business models and optimization of the portfolio. The implementation of the measures is expected to be completed in 2015. As at 31 December 2013, the related provision for the restructuring program amounted to CHF 12 million (2012: CHF 21 million).

**Other** Other non-current provisions are mainly associated with asset retirement obligations of Lonza Biologics Tuas PTE Ltd (CHF 2 million) and Lonza Bioscience Singapore Pte Ltd (CHF 2 million).

## 14 —— NET DEBT

The net debt comprises:

Non-Current Debt

| million CHF | | 2013 | | 2012 |
|---|---|---|---|---|
| Straight bonds | | 1 380 | | 1 079 |
| Syndicated loan (2011–2018) | | 314 | | 442 |
| German Private Placement | | 201 | | 202 |
| Leasing | | 4 | | 0 |
| Arch acquisition bridge financing | | 0 | | 344 |
| Other long-term debt due to banks and others | | | | |
| – Banks and other financial institutions | 80 | | 87 | |
| – Other | 266 | 346 | 273 | 360 |
| **Total non-current debt** | | **2 245** | | **2 427** |

Straight Bonds – Fixed Interest Rates

| million CHF | 2013 | 2012 |
|---|---|---|
| 3.75 % CHF 300 million, 2009/2013, due 27 May 2013, issued at 100.25 % | 0 | 300 |
| 3 % CHF 400 million, 2010/2016, due 2 June 2016, issued at 100.721 % | 399 | 398 |
| 2.25 % CHF 240 million, 2011/2015, due 7 December 2015, issued at 100.47 % | 239 | 239 |
| 3.125 % CHF 140 million, 2011/2018, due 7 December 2018, issued at 100.56 % | 139 | 138 |
| 2 % CHF 200 million, 2012/2018, due 11 October 2018, issued at 100.21 % | 199 | 199 |
| 3 % CHF 105 million, 2012/2018, due 11 October 2022, issued at 100.74 % | 105 | 105 |
| 1.75 % CHF 300 million, 2013/2019, due 10 April 2019, issued at 100.45 % | 299 | 0 |
| **Total including current portion** | **1 380** | **1 379** |
| Less current portion of straight bonds | 0 | (300) |
| **Total non-current straight bonds** | **1 380** | **1 079** |

**Syndicated Loan** The Syndicated loan facility of CHF 700 million, of which CHF 320 million (2012: CHF 450 million) was used as of 31 December 2013, is granted until 9 September 2018 and has floating interest rates (LIBOR + margin, depending on margin grid). Lonza has not hedged the related interest rate risk.

**German Private Placement** Dual-currency German Private Placement (Schuldscheindarlehen) of EUR 67.5 million and USD 133 million tranches (in total CHF 201 million) carry fixed and floating interest rates (LIBOR / EURIBOR + margin) and are repayable in 2015, 2017 and 2019.

**Acquisition Bridge Financing** The acquisition of Arch was completely debt-financed. A consortium of banks committed three 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 (USD 450 million, originally repayable in June 2012) and second facility (USD 500 million, originally repayable in March 2013) were repaid in 2011 and 2012 and refinanced by the issuance of four straight bonds as well as the German Private Placement.

The current debt as of 31 December 2013 includes USD 117 million (CHF 104 million) of the third facility, repayable in September 2014 (2012: non-current debt of USD 380 million). The repayments in 2013 amount to CHF 244 million (2012: CHF 542 million).

The syndicated loan and the acquisition bridge financing agreements contain a financial covenant that is based on net debt / EBITDA ratio. The Group is in compliance with the covenant as of 31 December 2013.

Current Debt

| million CHF | 2013 | 2012 |
|---|---|---|
| Due to banks and other financial institutions | 87 | 47 |
| Others | 45 | 41 |
| Non-current debt due within one year | | |
| – Straight bond (2009–2013) | 0 | 300 |
| – Arch acquisition bridge financing | 104 | 0 |
| **Total current debt** | **236** | **388** |
| **Total debt** | **2 481** | **2 815** |

Loans and Advances (Floating Interest Rates)

| million CHF | 2013 | 2012 |
|---|---|---|
| Non-current loans and advances | (69) | (83) |
| Current advances | (3) | (2) |
| Cash and cash equivalents | (306) | (429) |
| **Total loans and advances / cash and cash equivalents** | **(378)** | **(514)** |
| **Net debt** | **2 103** | **2 301** |

Loans and advances decreased in 2013 compared with the prior year, as the equity loss from TL Biopharmaceutical Ltd joint venture (see note 7) is recognized as a value adjustment to the loan granted to TL Biopharmaceutical Ltd.

Breakdown of Total Debt by Currencies

| million CHF | | | 2013 | | | 2012 |
|---|---|---|---|---|---|---|
| | Average interest rates % | % | | Average interest rates % | % | |
| CHF | 2.27 | 72 | 1 785 | 2.60 | 66 | 1 856 |
| CNY | 5.04 | 1 | 34 | 5.60 | 1 | 29 |
| EUR | 2.30 | 3 | 83 | 2.30 | 3 | 81 |
| USD | 2.87 | 24 | 577 | 2.87 | 30 | 843 |
| Other | 0.00 | 0 | 2 | 0.90 | 0 | 6 |
| **Total** | | **100** | **2 481** | | **100** | **2 815** |

Breakdown of Loans and Advances by Currencies

| million CHF | | | 2013 | | | 2012 |
|---|---|---|---|---|---|---|
| | Average interest rates % | % | | Average interest rates % | % | |
| USD | 1.85 | 98 | 70 | 2.10 | 99 | 84 |
| GBP | 0.00 | 1 | 1 | 0.00 | 1 | 1 |
| Other | 0.00 | 1 | 1 | 0.00 | 0 | 0 |
| **Total** | | **100** | **72** | | **100** | **85** |

Interest rates are floating rates.

## 15 — OTHER CURRENT LIABILITIES

| million CHF | 2013 | 2012 |
|---|---|---|
| Accrued liabilities and other payables | 263 | 282 |
| Liability related to securitization program (see note 10) | 40 | 50 |
| Other financial liabilities | 189 | 170 |
| Accrued interest payables | 16 | 18 |
| **Total** | **508** | **520** |

"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 28.5). In "Other financial liabilities", payments received from customer funding are included.

## 16 — TRADE PAYABLES

| million CHF | 2013 | 2012 |
|---|---|---|
| Payables to third parties | 286 | 273 |
| **Total** | **286** | **273** |

"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 — MATERIAL AND ENERGY COSTS

| million CHF | 2013 | 2012 |
|---|---|---|
| Material costs | 1 566 | 1 780 |
| Energy costs | 75 | 83 |
| **Total** | **1 641** | **1 863** |

## 18 — PERSONNEL EXPENSES

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Wages and salaries | 788 | 870 |
| Operating expenses defined-benefit pension plans (note 23) | 13 | 32 |
| Other social security contributions | 133 | 146 |
| Other personnel expenses | 47 | 59 |
| **Total personnel cost** | **981** | **1 107** |

## 19 — 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 2013 include: government subsidies, insurance benefits, operating exchange rate gains and income from the reversal of provisions. "Other operating expenses" in 2013 reflect expenses in connection with restructuring and environmental provisions and operating exchange rate losses.

Major elements of "Other operating income" in 2012 include: gain from sale of the Performance Urethanes and Organics business, operating exchange rate gains and amortization of customer-funded assets. "Other operating expenses" in 2012 comprise mainly expenses related to restructuring (including recognition of related provisions) and operating exchange rate losses.

## 20 — FINANCIAL RESULTS

### 20.1 INTEREST AND OTHER FINANCIAL INCOME

| million CHF | 2013 | 2012 |
|---|---|---|
| Interest income | 6 | 6 |
| Gains from currency related financial derivative instruments | 38 | 27 |
| **Total** | **44** | **33** |

### 20.2 INTEREST AND OTHER FINANCIAL EXPENSES

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Interest expenses | (108) | (118) |
| Foreign exchange rate differences | (43) | (16) |
| Other financial expenses | (12) | (10) |
| **Total** | **(163)** | **(144)** |

"Interest expenses" comprise interest expenses on the Group's debt (analyzed in note 14), losses on interest-related derivative instruments, the net defined-benefit liabilities (see note 23) as well as other interest.

The total amount of exchange differences recognized in the consolidated income statement is a loss of CHF 50 million (2012: CHF 27 million).

## 21 — TAXES

### 21.1 INCOME TAXES

Major Components of Tax Expenses

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Current taxes | (19) | (37) |
| Deferred tax expense relating to the origination and reversal of temporary differences | (2) | 1 |
| Deferred tax income resulting from tax rate changes | 3 | 0 |
| **Total** | **(18)** | **(36)** |

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 % (2012: 8 %) for holding companies and 22 % for operating companies in the Canton of Valais (2012: 22 %).

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Lonza uses as the Group's tax rate the ordinary tax rate for a legal entity in the Canton of Valais in Switzerland. The ordinary tax rate for a legal entity domiciled in the Canton of Valais for 2013 is 22 % (2012: 22 %). The Group's effective tax rate for 2013 is 17 % (2012: 17 %).

Capital taxes of CHF 8 million (2012: CHF 12 million) are contained in "Administration and general overheads".

Reconciliation of Tax Expense

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Profit before income taxes | 105 | 210 |
| Tax at the Group rate (2013: 22 % / 2012: 22 %) | 23 | 46 |
| Deviation from average group tax rate | 3 | 1 |
| Non-deductible expenses | 2 | 6 |
| Tax-free earnings | (13) | (19) |
| Deferred tax benefit from tax rate changes | 3 | 0 |
| Under- / (overprovided) in prior years | 1 | 1 |
| Not recognized potential deferred tax assets for current year | 0 | 0 |
| Other | (1) | 1 |
| **Total** | **18** | **36** |
| **Deferred tax expenses (charged) / credited directly to equity** | **0** | **0** |
| **Current tax expenses (charged) / credited directly to equity** | **1** | **2** |

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

Components of Deferred Income Tax Balances

| million CHF | 2013 | | 2012 (restated) | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Current provisions | 6 | 64 | 13 | 73 |
| Non-current provisions / Employee benefit liability | 204 | 63 | 252 | 63 |
| Intangible assets | 1 | 277 | 1 | 291 |
| Inventories, net | 23 | 26 | 20 | 28 |
| Property, plant and equipment | 15 | 176 | 15 | 193 |
| Other assets | 13 | 49 | 0 | 18 |
| Tax loss carry-forwards | 100 | 0 | 107 | 0 |
| Netting of deferred tax assets and deferred tax liabilities | (94) | (94) | (99) | (99) |
| **Total** | **268** | **561** | **309** | **566** |

The development of deferred tax (expenses) / income can be explained as follows:

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Deferred tax assets | 268 | 309 |
| Deferred tax liabilities | (561) | (566) |
| **Net deferred tax liability** | **(293)** | **(257)** |
| Less deferred tax liabilities net opening balance | 257 | 317 |
| **(Increase) / decrease in deferred tax liabilities, net** | **(36)** | **60** |
| Currency translation differences | (8) | (13) |
| Movements of deferred tax assets / (liabilities) charged to equity | 45 | (46) |
| **(Expense) / income recognized in income statement** | **1** | **1** |

Unrecognized Tax Losses: Expiry

| million CHF | 2013 | 2012 |
|---|---|---|
| Within 1 year | 0 | 0 |
| Between 2 to 5 years | 26 | 10 |
| After 5 years | 135 | 163 |
| Unlimited | 218 | 216 |
| **Total** | **379** | **389** |

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

## 21.2 DISCLOSURE OF TAX EFFECTS TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME

| million CHF | | | 2013 | | | 2012 (restated) |
|---|---|---|---|---|---|---|
| | 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 | (48) | 2 | (46) | (39) | 1 | (38) |
| Cash flow hedges | 1 | 0 | 1 | 2 | 0 | 2 |
| Remeasurement of defined-benefit liabilities | 128 | (45) | 83 | (126) | 46 | (80) |
| **Other comprehensive income** | **81** | **(43)** | **38** | **(163)** | **47** | **(116)** |

## 22 — RESEARCH AND DEVELOPMENT

Reasearch & Development (R&D) 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 215 million (2012: CHF 215 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 111 million (2012: CHF 116 million), because of costs absorbed in "Cost of goods sold" by R&D products and services sold.

## 23 — EMPLOYEE BENEFIT LIABILITIES

The tables below reconcile the Group's employee benefit liabilities in the balance sheet as well the related remeasurement in the statement of other comprehensive income:

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Defined-benefit pension plans (see note 23.1) | 322 | 479 |
| Post-employment medical benefits (see note 23.2) | 34 | 61 |
| Non-current vacation accrual (Swiss entities) | 3 | 4 |
| Other employee benefit liabilities | 5 | 4 |
| **Total** | **364** | **548** |

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| Remeasurement for: | | |
| Defined-benefit pension plans (see note 23.1) | (122) | 121 |
| Post-employment medical benefits (see note 23.2) | (6) | 5 |
| **Total** | **(128)** | **126** |

## 23.1 DEFINED-BENEFIT PENSION PLANS

The group operates defined-benefit pension plans in various countries, with the major plans in Switzerland, Great Britain and the United States (as described below). For pension accounting purposes, these plans are considered as defined-benefit plans.

**Pension Plan in Switzerland** The Group's Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), and is funded through a legally separate trustee administered pension fund (Pensionskasse der Lonza). The Board of Trustees is responsible for the investment of the assets, which cannot revert to the Company. The cash funding of these plans, which may from time to time involve special payments, is designed to ensure that present and future contributions should be sufficient to meet future liabilities. Furthermore, the Board of Trustees is able to adapt the contributions and benefits.

The plan contains a cash balance benefit formula, accounted for as a defined-benefit plan. Employer and employee contributions are defined in the pension fund rules in terms of an age-related sliding scale of percentages of pay. Under Swiss law, the company guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the Board of Trustees. The plan benefits are managed by a third-party insurance company and are defined in pension plan rules compliant with the BVG. The risks linked to retirement benefits (disability and death) have been reinsured until 31 December 2016. The investment risk is not reinsured.

Retirement benefits are based on the accumulated retirement capital (made up of yearly contributions and the interest thereon), which can either be drawn as a life-long annuity or as a lump sum payment or a combination of both. The annuity is calculated by multiplying the retirement capital with the applicable conversion rate defined in the fund rules. The Board of Trustees may increase the annuity at their discretion subject to the plan's funded status including sufficient free funds as determined according to Swiss statutory valuation rules.

Retirement benefits and related plan assets of plan participants with a retirement date on or before 31 December 2007 were transferred to an insurance company. The insurance company guarantees these retirement benefits and bears the investment, death and disability risks.

**Pension Plan in the UK** The Group operates two major plans in the UK, the Hickson UK Group Pension Scheme and the Lonza Biologics Pension Scheme.

*The Hickson UK Group Pension Scheme* is the defined-benefit pension plan of the acquired Arch business. Until November 2013 it operated a second smaller plan, the Hickson UK Senior Executive Pension Scheme. Having very similar funding levels, those funds were merged for administrative and cost reasons. The plan is closed to new entrants. It operates under UK pension and tax law. Pensions are linked to final salaries and service, and statutory inflation increases apply, except where contractually different.

Ongoing contributions are sufficient to fund current accrual rates, and a deficit recovery plan has been in place for a number of years to recover any shortfall in funding. There is a three-year cycle of actuarial valuation and agreement with the regulatory authority, the Pensions Regulator, of a funding plan. The last valuation was March 2011, and the next is March 2014. The fund is managed by a corporate trustee body, which oversees investment strategy and general regulatory compliance. It also maintains a set of assumptions around mortality and returns on investments as well as cost inflation. Currently investments are weighted towards bonds but with a significant equity investment and a small property portfolio.

*The Lonza Biologics Pension Scheme* provides pensions in retirement and death benefits to members. Pension benefits are linked to a member's final salary at retirement and their length of service. The Scheme is a registered scheme under UK legislation and is contracted out of the State Second Pension. The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was as at 30 June 2011.

The Scheme was established from 28 June 1996 under trust and is governed by the Scheme's second definitive trust deed dated 23 January 1998 and the Scheme's rules dated 28 June 1996 and subsequent amending deeds. The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Employer.

**Pension Plans in the United States** Lonza sponsors several defined-benefit pension plans in the United States, the majority of which are closed to new participants and frozen with respect to future benefit accruals. The exceptions relate to two small collectively bargained groups – each with fewer than 50 participants – for whom benefit accruals continue. Future pension benefits are provided through a defined contribution plan.

Former employees of Arch Chemicals hired after 2007 and before 2012 are covered under an account-based formula that is credited each year with interest based on the yield on 10-year US Treasury securities. Upon retirement, these employees can elect to receive their benefit as a lump sum or a lifetime pension. The benefits for all other US pension plan participants are generally based on final average pay and credited service as of the date of termination or as of the date benefit accruals were frozen (if earlier), and are payable as a lifetime pension.

The majority of benefit payments are paid from a trustee-administered fund; however there are also some small, non-qualified, unfunded plans where Lonza meets the benefit payment obligation as it becomes due. The qualified defined-benefit plans whose assets are held in a trust are subject to minimum funding requirements as set out by the Internal Revenue Service (IRS). Responsibility for governance of these qualified plans, including investment decisions and contribution schedules, is also governed by the IRS and lies with a committee of pension plan fiduciaries appointed by Lonza. Actuarial valuations are completed each year for the plans to determine the contribution requirement. The minimum annual contribution for each plan is equal to the present value of benefits accrued each year (if any), plus expected administrative expenses of the plan to be paid from the trust, plus a rolling amortization of any prior underfunding. The plan sponsor may elect to contribute more than the minimum, in which case the excess amounts may under certain circumstances be used to offset future funding requirements.

The movement in the net defined-benefit liability over the year is as follows:

| million CHF | Defined-benefit obligation | Fair value of plan assets | Net defined-benefit liability |
|---|---|---|---|
| **At 1 January 2012** (restated) | **2 367** | **(1 998)** | **369** |
| Included in profit or loss (restated) | | | |
| Current service cost | 43 | 0 | 43 |
| Gains on settlements | (30) | 19 | (11) |
| Interest expense / (income) | 82 | (68) | 14 |
| Included in other comprehensive income (restated) | | | |
| Remeasurements loss (gain): | | | |
| – Actuarial loss (gain) arising from : | | | |
| – Demographic assumptions | 9 | 0 | 9 |
| – Financial assumptions | 185 | 0 | 185 |
| – Experience adjustment | 42 | 0 | 42 |
| – Return on plan assets excluding interest income | 0 | (116) | (116) |
| – Change in asset ceiling | 0 | 1 | 1 |
| Total remeasurements loss (gain) | 236 | (115) | 121 |
| Effect of movements in exchange rates | (10) | 7 | (3) |
| Other | | | |
| Contributions paid by: | | | |
| – Employers | 0 | (54) | (54) |
| – Plan participants | 17 | (17) | 0 |
| Benefits paid | (97) | 97 | 0 |
| **At 31 December 2012** (restated) | **2 608** | **(2 129)** | **479** |
| – Thereof present value of funded defined-benefit obligation | 2 587 | | |
| – Thereof present value of unfunded defined-benefit obligation | 21 | | |
| Included in profit or loss | | | |
| Current service cost | 39 | 0 | 39 |
| Past service credit | (15) | 0 | (15) |
| Gains on settlements | (20) | 9 | (11) |
| Interest expense / (income) | 73 | (58) | 15 |
| Included in other comprehensive income | | | |
| Remeasurements loss (gain): | | | |
| – Actuarial loss (gain) arising from : | | | |
| – Demographic assumptions | 1 | 0 | 1 |
| – Financial assumptions | (153) | 0 | (153) |
| – Experience adjustment | 112 | 0 | 112 |
| – Return on plan assets excluding interest income | 0 | (82) | (82) |
| – Change in asset ceiling | 0 | 0 | 0 |
| Total remeasurements loss (gain) | (40) | (82) | (122) |
| Effect of movements in exchange rates | (17) | 11 | (6) |
| Other | | | |
| Contributions paid by: | | | |
| – Employers | 0 | (57) | (57) |
| – Plan participants | 17 | (17) | 0 |
| Benefits paid | (148) | 148 | 0 |
| **At 31 December 2013** | **2 497** | **(2 175)** | **322** |
| – Thereof present value of funded defined-benefit obligation | 2 478 | | |
| – Thereof present value of unfunded defined-benefit obligation | 19 | | |

As a result of a plan amendment of the Swiss plan, the Group recognized prior service credit of CHF 15 million for the 2013 financial year.

In connection with the closure of the Swords site, a gain on settlement of CHF 6 million was recognized in 2013. In addition, Lonza offered a one-time "window" program to former participants in the US pensions plans who had not yet commenced benefits, allowing them to choose a one-time immediate lump sum payment (or immediate annuity) of their retirement benefit in lieu of a lifetime annuity beginning at retirement age, which resulted in a gain on settlement of CHF 5 million.

In 2012, the restructuring program for the Visp (CH) site and the related reductions in the number of employees resulted in a gain on settlement of CHF 11 million.

The Group expects to pay CHF 83 million in contributions to defined-benefit pension plans in 2014.

The defined-benefit obligations and plan assets are disaggregated by country as follows:

| million CHF | | | | | 2013 | | | | | 2012 (restated) |
|---|---|---|---|---|---|---|---|---|---|---|
| | CH | US | UK | Rest of the world | Total | CH | US | UK | Rest of the world | Total |
| Present value of defined-benefit obligation | 1 401 | 490 | 573 | 33 | 2 497 | 1379 | 621 | 560 | 48 | 2 608 |
| Fair value of plan assets | (1 277) | (411) | (475) | (12) | (2 175) | (1 216) | (456) | (438) | (19) | (2 129) |
| Total net defined-benefit liability | 124 | 79 | 98 | 21 | 322 | 163 | 165 | 122 | 29 | 479 |

The significant actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

| in % | | | 2013 | | | 2012 |
|---|---|---|---|---|---|---|
| | CH | US | UK | CH | US | UK |
| Discount rate | 2.30 | 4.69 | 4.39 | 1.90 | 3.67 | 4.13 |
| Future salary increases | 1.00 | 0.00 | 3.53 | 2.00 | 0.00 | 3.25 |
| Future pension increases | n/a | 0.00 | 2.49 | n/a | 0.00 | 1.93 |

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

| in years | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | CH | US | UK | CH | US | UK |
| Retiring at the end of the reporting period: | | | | | | |
| – Male | 21.4 | 19.0 | 21.0 | 21.2 | 19.0 | 21.0 |
| – Female | 23.9 | 21.0 | 23.0 | 23.7 | 21.0 | 23.0 |
| Retiring 20 years after the end of the reporting period: | | | | | | |
| – Male | 23.2 | 21.0 | 23.0 | 23.0 | 21.0 | 23.0 |
| – Female | 25.6 | 22.0 | 25.0 | 25.4 | 22.0 | 25.0 |

The sensitivity of the defined-benefit obligation to changes in the relevant acturial assumptions is:

31 December 2013

| effect in million CHF | | Defined-benefit obligation | |
|---|---|---|---|
| | Change in assumption | Increase | Decrease |
| Discount rate | 0.25 % | (82) | 84 |
| Future salary increases | 0.25 % | 13 | (16) |
| Life expectancy | 1 year | 34 | (38) |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined-benefit obligation to significant actuarial assumptions the same method (present value of the defined-benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared with the previous period.

At 31 December, the weighted average duration of the defined-benefit obligation for the major plans as well as the Group in total is:

| in years | 2013 | 2012 |
| --- | --- | --- |
| Group | 13.6 | 13.0 |
| CH | 12.1 | 10.0 |
| UK | 18.7 | 19.0 |
| US | 11.1 | 11.8 |

Plan assets comprise:

| million CHF | | | | 2013 | | | | 2012 (restated) |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Quoted | Unquoted | Total | % | Quoted | Unquoted | Total | % |
| Equity instruments | 1 116 | 0 | 1 116 | 51 | 1 080 | 0 | 1 080 | 51 |
| Debt instruments | | | | | | | | |
| Investment-grade (AAA to BBB) | 733 | 0 | 733 | | 761 | 0 | 761 | |
| Non-investment-grade (below BBB–) | 29 | 0 | 29 | | 25 | 0 | 25 | |
| | 762 | 0 | 762 | 35 | 786 | 0 | 786 | 37 |
| Real estate | 34 | 64 | 98 | 5 | 33 | 63 | 96 | 4 |
| Cash and cash equivalents | 66 | 0 | 66 | 3 | 63 | 0 | 63 | 3 |
| Other | 42 | 91 | 133 | 6 | 33 | 72 | 105 | 5 |
| **Total** | **2 020** | **155** | **2 175** | **100** | **1 995** | **135** | **2 130** | **100** |

## 23.2 POST-EMPLOYMENT MEDICAL BENEFITS

Lonza's post-employment medical benefit plans are not funded and are provided under a defined-benefit plan. They consist of post-retirement healthcare benefits in the United States, such as drug coverage and other medical benefits as well as limited death benefits.

The post-retirement healthcare plans are not open to new members and grandfathered participants must meet specific age/service requirements to participate.

The movements in the defined-benefit obligation are as follows:

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| **At 1 January** | **61** | **57** |
| Included in profit or loss | | |
| Current service cost | 1 | 1 |
| Past service credit | (21) | 0 |
| Interest expense | 2 | 3 |
| Included in other comprehensive income | | |
| Remeasurements loss (gain): | | |
| – Actuarial loss (gain) arising from : | | |
| – Demographic assumptions | 0 | 2 |
| – Financial assumptions | (9) | 6 |
| – Experience adjustment | 3 | (3) |
| Total remeasurements loss (gain) | (6) | 5 |
| Effect of movements in exchange rates | 0 | 2 |
| Other | | |
| Contributions paid by: | | |
| – Plan participants | 2 | 2 |
| Benefits paid | (5) | (5) |
| **At 31 December** | **34** | **61** |

In 2013, the plans were amended. As a result of the elimination of prescription drug coverage for certain post-65 retirees, the Group recognized a past service credit of CHF 21 million.

The significant actuarial assumptions were as follows:

| in % | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.69 | 3.67 |
| Medical-cost trend rate | 7.50 | 7.22 |

The sensitivity of the defined-benefit obligation to changes in the relevant actuarial assumptions is:

31 December 2013

| effect in million CHF | | Defined-benefit obligation | |
|---|---|---|---|
| | Change in assumption | Increase | Decrease |
| Discount rate | 0.25% | (1) | 1 |
| Medical-cost trend rate | 1% | 4 | (3) |
| Life expectancy | 1 year | 1 | (1) |

For the medical plan the same mortality assumptions are applied as for the pension plans in the USA (see 23.1). In addition, the sensitivity analyses are based on the same methodology as for the pension plans.

## 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 with a price reduction of 30 %. The shares purchased in this manner remain blocked for three years and are eligible to a dividend. 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 and 2013.

The minimum conditions to participate in the ESPP Plus were in:
2008: ranging from 3 shares to 162 shares
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares
2012: ranging from 9 shares to 318 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 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 |
| ESPP 2012 | 200 802 | 3:1 | 66 934 | 30 05 2017 | 38.34 |

### Development Within 2013 of the ESPP

| | Share awards outstanding 01 01 2013 | Share awards granted during 2013 | Share awards forfeited during 2013 | Shares vested during 2013 | Share awards lapsed during 2013 | Share awards outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| ESPP 2008 | 15 421 | 0 | 0 | (11 817) | (3 604) | 0 |
| ESPP 2010 | 23 877 | 0 | 0 | (849) | 0 | 23 028 |
| ESPP 2011 | 24 840 | 0 | 0 | (1 181) | 0 | 23 659 |
| ESPP 2012 | 66 931 | 0 | 0 | (3 256) | 0 | 63 675 |
| **Total shares** | **131 069** | **0** | **0** | **(17 103)** | **(3 604)** | **110 362** |

Development Within 2012 of the ESPP

| | Share awards outstanding 01 01 2012 | Share awards granted during 2012 | Share awards forfeited during 2012 | Shares vested during 2012 | Share awards lapsed during 2012 | Share awards outstanding 31 12 2012 |
|---|---|---|---|---|---|---|
| ESPP 2007 | 16 132 | 0 | 0 | (12 566) | (3 566) | 0 |
| ESPP 2008 | 15 465 | 0 | 0 | (44) | 0 | 15 421 |
| ESPP 2010 | 23 879 | 0 | 0 | (2) | 0 | 23 877 |
| ESPP 2011 | 24 842 | 0 | 0 | (2) | 0 | 24 840 |
| ESPP 2012 | 0 | 66 934 | 0 | (3) | 0 | 66 931 |
| **Total shares** | **80 318** | **66 934** | **0** | **(12 617)** | **(3 566)** | **131 069** |

No share awards were granted in 2013. The estimated fair value of the share awards granted in 2012 was CHF 30.67. The weighted average share price of the vested shares in 2013 was CHF 112.06 (2012: CHF 120.32). The outstanding share awards on 31 December 2013 had a weighted average share price of CHF 54.39 (2012: CHF 64.23) and a remaining weighted average contractual life of 33 months (2012: 41 months).

The fair values of shares granted 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 2013 (2012: 20 %). The expected dividend was not incorporated in the calculation of fair value.

Fair Value at Grant Date

| CHF | |
|---|---|
| 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 |
| ESPP 2012 | 2 053 000 |
| ESPP 2012 discount | 2 309 625 |

A total of 87 645 treasury shares with a par value of CHF 1 each (31 December 2012: 104 764 shares) is reserved for the share purchase plans.

## LONG-TERM INCENTIVE PLAN (LTIP)

**History and Participation** The LTIP is an equity-based plan introduced in 2006 for a selected segment of key employees, including the Executive Committee.

**Objectives** The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders and to serve as a retention tool. LTIP participants are eligible to receive a number of Lonza shares at the end of the vesting period, provided that certain performance conditions are met.

**Maximum Equity Awards** Under the LTIP, selected key employees are awarded the right to receive a number of registered shares in Lonza in the future. Depending on the level of the job, the maximum equity award grant is between 10 % and 150 % of the annual base salary. The maximum number of equity award grants are determined at the beginning of the vesting period of three years. Vesting will depend on achievement of the performance conditions and cannot exceed the maximum number of granted equity awards:

| | Executive Committee/Senior Management | Other participants |
|---|---|---|
| Maximum award of LTIP as % of base salary at grant date | 150 % for Executive Committee<br>25 % to 75 % for Senior Management | 10 % to 25 % |

**Mandatory Individual Investment** Individuals participating in the LTIP have to retain a set number of vested Lonza shares in order to participate in the plan.

**Restriction and Vesting** 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 performance metrics required for vesting are fully or partially met.

**Vesting Targets** For the LTIP 2010 to 2012, the performance metrics were EVA and TSR with 50 % weight for each metric. For the LTIP 2013, the performance metrics were EPS and TSR with 50 % weight for each measure:

- The vesting of up to 50 % of the shares granted is based on the total shareholder return (TSR[1]) achieved during Lonza's three fiscal years before the end of the vesting period compared with a peer group[2]. The 2011, 2012 and 2013 TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2010: 5 %) on average over three years. At this TSR level, the maximum number of the granted equity awards vests. If the TSR target is not fully reached, the number of granted equity awards that vest is reduced linearly accoridng to the achieved target of TSR. The threshold target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, 25 % of the granted equity awards will vest. If the threshold is not met, the granted equity awards linked to this performance metric lapse.
- For the years 2010 to 2012, the vesting of up to 50 % of the remaining granted equity awards is based on the average annual Group Economic Value Added (EVA[3]) growth achieved during Lonza's three fiscal years at the end of the vesting period. The EVA target for maximum granted equity awards in 2012 is reached if Lonza increases its EVA within the vesting period from CHF 2.0 million up to CHF 79.7 million (for granted equity awards in 2011: from CHF 15.9 million up to CHF 114.4 million). If the EVA target is not fully reached, the percentage of the granted equity awards from the grant that vest is reduced linearly according to the EVA achievement. The threshold is to maintain the same level of EVA at the beginning of the performance period. If this minimum target is met, 25% of the granted equity awards will vest. If the EVA threshold is not met, the granted equity awards linked to this performance metric will lapse.

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 See table below.

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

– For 2013, the vesting of up to 50 % of the granted equity awards is dependent on growth of earnings per share (EPS) achieved during Lonza's three fiscal years (2013–2015). The EPS maximum grant is reached if Lonza increases its EPS within the performance period by 50 % (from CHF 3.52 to CHF 5.28). If the EPS maximum growth is not fully reached, the percentage of the granted equity awards from the share entitlement that vest is reduced linearly to the threshold of EPS at the beginning of the performance period. If this minimum target is met, 25 % of the granted equity awards will vest. If the threshold is not met, granted equity awards related to this performance metric will lapse.

Overview of vesting conditions for the LTIP:

| Year | TSR | EVA | EPS | Peer Group (unweighted average) |
|---|---|---|---|---|
| 2010 | Exceed the indices by 5 % on annualized average between January 2010 and December 2012 | Increase from CHF 34.2 m up to CHF 137.0 m between January 2010 and December 2012 | n.a. | MSCI Chemicals, DSM, UCB, Crucell, Genentech / Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's Laboratories, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, Thermo Fisher Scientific |
| 2011 | Exceed the indices by 9 % on annualized average between January 2011 and December 2013 | Increase from CHF 15.9 m up to CHF 114.4 m between January 2011 and December 2013 | n.a. | MSCI Chemicals, MSCI Health, SPI |
| 2012 | Exceed the indices by 9 % on annualized average between January 2012 and December 2014 | Increase from CHF 2.0 m up to CHF 79.7 m between January 2012 and December 2014 | n.a. | MSCI Chemicals, MSCI Health, SPI |
| 2013 | Exceed the indices by 9 % on annualized average between January 2013 and December 2015 | n.a. | Increase by 50 % from CHF 3.52 to CHF 5.28 between January 2013 and December 2015 | MSCI Chemicals, MSCI Health, SPI |

The minimum of the performance metrics of the LTIP 2010 were not met and the granted equity awards lapsed. The minimum of the performance metrics of the LTIP 2011 were not met and the granted equity awards lapsed.

The following table shows historical data on vesting conditions for LTIP granted equity awards in the years 2010 to 2013, information used in calculating the fair value of the LTIP grants, and the number of equity awards vesting following the target attainment in the respective year.

Details of Long-Term Incentive Plans

| | Grant date | Share price CHF | Granted equity awards | TSR | EVA level targets / EPS growth | Vesting date |
|---|---|---|---|---|---|---|
| LTIP 2010 | 01 02 2010 | 75.65 | 147 711 | 5 % | 137.0 m | 31 01 2013 |
| LTIP 2011 | 01 02 2011 | 74.35 | 152 077 | 9 % | 114.4 m | 31 01 2014 |
| LTIP 2012 | 01 02 2012 | 49.69 | 267 031 | 9 % | 79.7 m | 31 01 2015 |
| LTIP 2013 | 01 02 2013 | 53.60 | 204 653 | 9 % | CHF 5.28 | 31 01 2016 |

### Conditions of Vesting 2013

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EPS | 25 % | 100 % | CHF 5.28 | 50.00 % |
| Turnover of employees | | | | 3.00 % |

### Conditions of Vesting 2012

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EVA | 25 % | 100 % | 79.7 m | 25.00 % |
| Turnover of employees | | | | 3.00 % |

### Conditions of Vesting 2011

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EVA | 25 % | 100 % | 114.4 m | 50.00 % |
| Turnover of employees | | | | 3.00 % |

### Conditions of Vesting 2010

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 5 % | 50.00 % |
| EVA | 25 % | 100 % | 137.0 m | 50.00 % |
| Turnover of employees | | | | 0.00 % |

### Vesting Conditions

| | Market price CHF | Granted equity awards | Fair value of equity awards | Expected vesting EVA/EPS | Probability minimum targets | Volatility employees | Total probability | Total cost at grant date CHF |
|---|---|---|---|---|---|---|---|---|
| LTIP 2010 TSR | 75.65 | 73 855 | 37.83 | | 100 % | n.a. | 100.00 % | 2 793 565 |
| LTIP 2010 EVA | 75.65 | 73 856 | 75.65 | 50 % | 100 % | 0 % | 100.00 % | 2 793 603 |
| LTIP 2011 TSR | 74.35 | 76 038 | 37.18 | | 100 % | 3 % | 97 % | 2 741 911 |
| LTIP 2011 EVA | 74.35 | 76 039 | 74.35 | 50 % | 100 % | 3 % | 97 % | 2 741 947 |
| LTIP 2012 TSR | 49.69 | 133 515 | 24.85 | | 100 % | 3 % | 97 % | 3 217 665 |
| LTIP 2012 EVA | 49.69 | 133 516 | 49.69 | 25 % | 100 % | 3 % | 97 % | 1 608 844 |
| LTIP 2013 TSR | 53.60 | 102 327 | 26.80 | | 100 % | 3 % | 97 % | 2 660 093 |
| LTIP 2013 EPS | 53.60 | 102 327 | 53.60 | 50 % | 100 % | 3 % | 97 % | 2 660 093 |

Development Within 2013 of the LTIP

| | Equity awards outstanding 01 01 2013 | Equity awards granted during 2013 | Equity awards forfeited during 2013 | Vested equity awards during 2013 | Equity awards lapsed during 2013 | Equity awards outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| LTIP 2010 | 124 142 | 0 | 0 | 0 | (124 142) | 0 |
| LTIP 2011 | 127 857 | 0 | 0 | 0 | 0 | 127 857 |
| LTIP 2012 | 267 031 | 9 723 | 0 | 0 | 0 | 276 754 |
| LTIP 2013 | 0 | 204 653 | 0 | 0 | 0 | 204 653 |
| **Total equity awards** | **519 030** | **214 376** | **0** | **0** | **(124 142)** | **609 264** |

Development Within 2012 of the LTIP

| | Equity awards outstanding 01 01 2012 | Equity awards granted during 2012 | Equity awards forfeited during 2012 | Vested equity awards during 2012 | Equity awards lapsed during 2012 | Equity awards outstanding 31 12 2012 |
|---|---|---|---|---|---|---|
| LTIP 2009 | 121 356 | 0 | 0 | 0 | (121 356) | 0 |
| LTIP 2010 | 147 711 | 0 | 0 | (23 569) | 0 | 124 142 |
| LTIP 2011 | 152 077 | 0 | 0 | (24 220) | 0 | 127 857 |
| LTIP 2012 | 0 | 267 031 | 0 | 0 | 0 | 267 031 |
| **Total equity awards** | **421 144** | **267 031** | **0** | **(47 789)** | **(121 356)** | **519 030** |

The estimated fair value of the granted equity awards in 2013 was CHF 26.80 (2012: CHF 18.63). No equity awards vested in 2013. The weighted average share price of the granted equity awards in 2012 was CHF 74.99. The outstanding granted equity awards on 31 December 2013 had a weighted average share price of CHF 25.27 (2012: CHF 27.79) and a remaining weighted average contractual life of 19 months (2012: 16 months). The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for equity awards are expensed on a straight-line basis over the vesting period, based on estimates of equity awards that will eventually vest. The expected dividend was not incorporated in the calculation of fair value.

Fair Value at Grant Date

| CHF | |
|---|---|
| LTIP 2010 | 5 587 168 |
| LTIP 2011 | 5 653 463 |
| LTIP 2012 | 4 975 783 |
| LTIP 2013 | 5 484 728 |

## EXTENDED SHORT-TERM INCENTIVE PLAN (E-STIP)

**Relationship to STIP** The E-STIP is part of the overall STIP concept and accounts for one-third of the aggregate amount of Cash STIP and E-STIP. The E-STIP is paid in the form of restricted share units (RSUs) awards. For Senior Management and key employees, this ratio is different:

| | Executive Committee/Senior Management | Other participants |
|---|---|---|
| Targeted E-STIP amount as % of base salary | 1/3 of overall STIP target for Executive Commitee, 10% to 20% for Senior Management | up to 1/3 of overall STIP target |

**Alignment on Share Price** The value of the plan is strongly dependent on Lonza's future share price. The E-STIP is awarded in the form of RSUs, which are subject to a three-year vesting condition.

**Grant Timing** The grant of the RSUs under the E-STIP 2013 will take place on 31 March 2014 (E-STIP 2012 on 31 March 2013), at which date the number of RSUs will be determined based on the closing stock price of the last business day in March.

**Dividend and Voting Rights** The RSUs do not qualify for dividends and voting rights until vested.

Non-Vested RSU

| | Grant date | Share price | Granted share units | Vesting date |
|---|---|---|---|---|
| E-STIP 2011 | 31.03.2012 | 46.66 | 33 205 | 31 03 2015 |
| E-STIP 2012 | 31.03.2013 | 61.60 | 41 405 | 31 03 2016 |

Development Within 2013 of E-STIP

| | Share units outstanding 01 01 2013 | Share units granted during 2013 | Share units forfeited during 2013 | Shares units vested during 2013 | Share units lapsed during 2013 | Share units outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| E-STIP 2011 | 33 205 | 0 | 0 | (1 204) | 0 | 32 001 |
| E-STIP 2012 | 0 | 41 405 | 0 | (879) | 0 | 40 526 |
| **Total** | **33 205** | **41 405** | **0** | **(2 083)** | **0** | **72 527** |

Development Within 2012 of E-STIP

| | Share units outstanding 01 01 2012 | Share units granted during 2012 | Share units forfeited during 2012 | Shares units vested during 2012 | Share units lapsed during 2012 | Share units outstanding 31 12 2012 |
|---|---|---|---|---|---|---|
| E-STIP 2011 | 0 | 33 205 | 0 | 0 | 0 | 33 205 |
| **Total non-vested share units** | **0** | **33 205** | **0** | **0** | **0** | **33 205** |

The estimated fair value of the RSUs granted in 2013 was CHF 61.60 (2012: CHF 46.66). The weighted average share price of the vested share unit in 2013 was CHF 52.96. No share units vested in 2012. The outstanding share units on 31 December 2013 had a weighted average share price of CHF 55.01 (2012: CHF 46.66) and a remaining weighted average contractual life of 22 months (2012: 27 months).

The fair value was calculated using the market price at grant date. The amounts for share units were expensed on a straight-line basis over the vesting period, based on estimates of share units that will eventually vest. The expected volatility was 3 %. The expected dividend was not incorporated in the calculation of fair value.

Fair Value at Grant Date

| CHF | |
|---|---|
| E-STIP 2011 | 1 502 865 |
| E-STIP 2012 | 2 474 032 |

**Achievement in 2013** For Executive Committee members, the financial targets resulted in a 89.63% achievement (2012: 104.0%)

**Changes in 2014** In 2014 the targets for the STIP will change and will include three financial targets: Core EBIT (Earnings Before Interest and Tax), sales growth, and operational Free Cash-Flow. These metrics were defined for 2014 to ensure alignment of rewards with the short-term objectives of the company regarding top line growth, results focus and deleveraging of the company.

**Other Share Plans** In recognition of the extraordinary efforts by employees to ensure successful integration of new businesses, the Lonza Executive 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.

Non-Vested Share Units

| | Grant date | Share price | Granted share units | Vesting date |
|---|---|---|---|---|
| Arch Integration Team | 30 06 2013 | 71.15 | 13 382 | 30 06 2014 |

Development Within 2013 of Other Share Plans

| | Share units outstanding 01 01 2013 | Share units granted during 2013 | Share units forfeited during 2013 | Shares vested during 2013 | Share units lapsed during 2013 | Share units outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| Arch Integration Team | 0 | 13 382 | 0 | 0 | 0 | 13 382 |
| **Total** | **0** | **13 382** | **0** | **0** | **0** | **13 382** |

The estimated fair value of the restricted share units granted in 2013 was CHF 71.15. The outstanding share units on 31 December 2013 had a weighted average share price of CHF 71.15 and a remaining weighted average contractual life of 6 months.

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

Fair Value at Grant Date

| CHF | |
|---|---|
| Arch Integration Team | 952 129 |

A total of 113 845 treasury shares (2012: 113 845) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

**Compensation for the Board of Directors** The overall structure and level of compensation of the Board of Directors did not change from 2005 to 2012. The 2013 compensation structure of the Board of Directors has been amended. The compensation is paid in four installments at the end of March, June, September and December; 50 % of the compensation is paid in cash and 50 % in shares. In previous years, Board members could choose to be paid either 40 % cash and 60 % in shares or 100 % in shares. The number of granted shares is calculated based on the average closing share price of the last five business days of each quarter, with a discount of 20 %. The shares vest after three years of the grant date and are eligible for a dividend. This structure of Board of Directors' compensation is closely aligned with our shareholders' interests.

Development of Compensation for Board of Directors 2013

| | Grant date | Total number of shares | Share price CHF | Fair values of shares | [1]Cash CHF | Total CHF | Blocked until |
|---|---|---|---|---|---|---|---|
| | 31 03 2013 | 8 146 | 61.33 | 499 594 | 165 000 | 664 594 | 31 03 2016 |
| | 30 06 2013 | 4 221 | 69.96 | 295 301 | 262 500 | 557 801 | 30 06 2016 |
| | 30 09 2013 | 3 961 | 74.30 | 294 302 | 262 500 | 556 802 | 30 09 2016 |
| | 31 12 2013 | 3 688 | 83.98 | 309 718 | 275 000 | 584 718 | 31 12 2016 |
| **Total** | | **20 016** | **69.89** | **1 398 915** | **965 000** | **2 363 915** | |

The amount of CHF 2 363 915 was recognized as an expense in the year 2013.

Development of Compensation for Board of Directors 2012

| | Grant date | Total number of shares | Share price CHF | Fair values of shares | [1]Cash CHF | Total CHF | Blocked until |
|---|---|---|---|---|---|---|---|
| | 31 03 2012 | 9 715 | 46.74 | 454 079 | 180 000 | 634 079 | 31 03 2015 |
| | 30 06 2012 | 13 779 | 38.57 | 531 456 | 175 000 | 706 456 | 30 06 2015 |
| | 30 09 2012 | 10 006 | 49.84 | 498 699 | 210 000 | 708 699 | 30 09 2015 |
| | 31 12 2012 | 9 885 | 49.49 | 489 228 | 175 000 | 664 228 | 31 12 2015 |
| **Total** | | **43 385** | **45.49** | **1 973 462** | **740 000** | **2 713 462** | |

The amount of CHF 2 713 462 was recognized as an expense in the year 2012.

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.

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 2012

| | Grant date | Total number of shares | Share price CHF | Fair values of shares | [1] Cash CHF | Total CHF | Blocked until |
|---|---|---|---|---|---|---|---|
| | 31 03 2012 | 943 | 46.74 | 40 080 | 25 000 | 65 080 | 31 03 2015 |
| **Total** | | **943** | **46.74** | **40 080** | **25 000** | **65 080** | |

The amount of CHF 65 080 was recognized as an expense in the year 2012.

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 276 918 was recognized as an expense in the year 2011.

1 Excluding social security and withholding tax

**Recognition in the Consolidated Financial Statements** All the equity-settled share-based payments had an impact on the 2013 "Profit before income taxes" amounting to an expense of CHF 10 million (2012: CHF 13 million).

| Number of shares | | 31 12 2013 | Change in year | 31 12 2012 | Change in year | 31 12 2011 |
|---|---|---|---|---|---|---|
| **Total number of shares** | | **52 920 140** | **0** | **52 920 140** | **0** | **52 920 140** |
| Treasury shares | | | | | | |
| Shares reserved for share purchase plan (ESPP) | | 87 645 | (17 119) | 104 764 | 38 255 | 66 509 |
| Shares reserved for long-term incentive plan (LTIP) | | 113 845 | 0 | 113 845 | (47 789) | 161 634 |
| Free shares | | 743 452 | (41 678) | 785 130 | (294 071) | 1 079 201 |
| **Total treasury shares** | | **944 942** | **(58 797)** | **1 003 739** | **(303 605)** | **1 307 344** |
| **Total shares ranking for dividend at 31 December** | | **51 975 198** | **58 797** | **51 916 401** | **303 605** | **51 612 796** |
| Transferred shares between January and date of dividend payment of following year | | n.a | | 19 512 | | 18 612 |
| **Total shares ranking for dividend at date of dividend payment** | | **n.a** | | **51 935 913** | | **51 631 408** |
| Share capital movements | | | | | | |
| **Share capital** | CHF | **52 920 140** | **0** | **52 920 140** | **0** | **52 920 140** |

The share capital on 31 December 2013 comprised 52 920 140 registered shares with a par value of CHF 1 each (2012: 52 920 140 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2012: CHF 52 920 140).

**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 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 9 April 2015, 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 2013, Lonza Group Ltd had a fully paid in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860.

Reserves in the amount of CHF 26 460 070 (2012: CHF 26 460 070) included in the financial statements of the parent company cannot be distributed.

**Dividend** A dividend per share of CHF 2.15 (2012: CHF 2.15) is proposed after the balance sheet date.

## 26 EARNINGS PER SHARE

Basic Earnings per Share

| million CHF | | 2013 | 2012 (restated) |
|---|---|---|---|
| Profit for the period (equity holders of the parent) | | 87 | 174 |
| Weighted average number of outstanding shares | | 51 949 121 | 51 775 225 |
| **Basic earnings per share** | CHF | **1.67** | **3.36** |
| Diluted earnings per share | | | |
| Profit for the period (equity holders of the parent) | | 87 | 174 |
| – Impact from dilution | | 0 | 0 |
| Diluted profit for the period | | 87 | 174 |
| Weighted average number of outstanding shares | | 51 949 121 | 51 775 225 |
| – Adjustments for dilutive share units and shares | | 208 850 | 203 533 |
| Weighted average number of shares for diluted earnings per share | | 52 157 971 | 51 978 758 |
| **Diluted earnings per share** | CHF | **1.67** | **3.35** |
| **Dividends paid of the period** | | **112** | **111** |
| **Dividends per share of the period** | CHF | **2.15** | **2.15** |
| **Dividends declared after the balance sheet date** | | **112** | **112** |
| **Dividends per share declared after the balance sheet date** | CHF | **2.15** | **2.15** |

## 27 —— RELATED PARTIES

**Identity of Related Parties** The Group has a related-party relationship with associates, joint ventures (see note 7), pension and other post retirement plans (see note 23) as well as with the Board of Directors and the members of the Executive Committee.

*Transactions with Key Management Personnel*

**Board of Directors** In 2013, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.463 million[1] (2012: CHF 3.101 million[1]), 56.80 % (2012: 64.95 %) of which was received in the form of shares. In previous years the Board of Directors members could choose to be paid I) either 40% cash and 60% in shares or II) 100% in shares. Since April 2013 the directors fee is paid 50% in cash and 50% in shares. Shares granted are rated at the relevant market price at grant date. The shares vest after three years of date of the grant and are eligible for a dividend.

1 Including social security and withholding tax

Members of the Board of Directors and their immediate relatives control 123 424 (2012: 152 796) or 0.23 % (2012: 0.29 %) of the voting shares of Lonza Group Ltd. None of the directors owns shares in the Group's subsidiaries or associates.

**Executive Committee Compensation** Three of the acting members of Executive Committee gave up their functional role in the year under review. In addition, a termination agreement was agreed upon in 2013 with a former member of the Executive Committee who left in 2012. One new member joined the Executive Committee. The acting members of the Executive Committee received, for their contributions and time served in 2013, CHF 5.022 million[1] (2012: CHF 7.922 million[1]) in cash and additional benefits as well as 82 055 LTIP shares granted (2012: 96 427 shares) and a not yet defined number of E-STIP shares, equivalent to a value of CHF 2.773 million (2012: CHF 2.326 million). Termination benefits according to the termination agreements of the members of the Executive Committee are not included in these amounts.

The compensation for the Board of Directors and the Executive Committee (termination benefits included) was as follows:

| million CHF | 2013 | 2012 |
|---|---|---|
| Short-term benefits [2] | 5.113 | 7.284 |
| Post-employment benefits [3] | 0.394 | 0.435 |
| Other benefits | 0.579 | 1.290 |
| Termination benefits | 5.179 | 3.306 |
| Share-based payments | 4.172 | 6.013 |
| **Total** | **15.437** | **18.328** |

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

The remuneration is included in "Personnel expenses" see note 18. For detailed information, please refer to note 29.

## 28 — FINANCIAL RISK MANAGEMENT

### 28.1 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.

### 28.2 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 represent 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 | 2013 | 2012 |
|---|---|---|
| Financial assets – available for sale | | |
| Other investments – available for sale – carried at cost | 6 | 5 |
| **Total financial assets – available for sale** | **6** | **5** |
| Loans and receivables | | |
| Trade receivables, net | 559 | 629 |
| Other receivables | 57 | 61 |
| Current advances | 3 | 2 |
| Non-current loans and advances | 69 | 83 |
| Cash and cash equivalents | 306 | 429 |
| **Total loans and receivables** | **994** | **1 204** |
| Financial assets at fair value through profit or loss – held for trading | | |
| Currency-related instruments | 11 | 5 |
| Interest-related instruments | 15 | 5 |
| **Total financial assets at fair value through profit or loss – held for trading** | **26** | **10** |
| **Total** | **1 026** | **1 219** |

## 28.3 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 and syndicated credit lines. Lonza concludes the following lines of credit:

Committed credit lines of CHF 962 million (CHF 370 million used as of 31 December 2013). Lines are committed for up to five years.

Uncommitted credit lines of CHF 185 million (CHF 0 million used as of 31 December 2013) with a maturity of one year.

The table below analyzes the Group's financial liabilities and 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, including interest payments. Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant.

31 December 2013

| million CHF | Carrying amount | [1]Contractual cash flows | Between 0 and 6 months | Between 7 and 12 months | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | | | |
| Straight bond (2010–2016) | 399 | 436 | 12 | 0 | 12 | 412 | 0 | 0 |
| Straight bond (2011–2015) | 239 | 251 | 0 | 5 | 246 | 0 | 0 | 0 |
| Straight bond (2011–2018) | 139 | 162 | 0 | 4 | 4 | 4 | 150 | 0 |
| Straight bond (2012–2018) | 199 | 220 | 0 | 4 | 4 | 4 | 208 | 0 |
| Straight bond (2012–2022) | 105 | 133 | 0 | 3 | 3 | 3 | 6 | 118 |
| Straight bond (2013–2019) | 299 | 332 | 5 | 0 | 5 | 5 | 11 | 306 |
| Syndicated loan (2011–2018) | 314 | 341 | 2 | 2 | 4 | 4 | 329 | 0 |
| German Private Placement | 201 | 213 | 2 | 3 | 153 | 1 | 49 | 5 |
| Arch acquisition bridge financing | 104 | 106 | 1 | 105 | 0 | 0 | 0 | 0 |
| Other debt due to banks and financial institutions | 167 | 177 | 92 | 2 | 14 | 69 | 0 | 0 |
| Other debt due to others | 311 | 363 | 46 | 4 | 8 | 8 | 151 | 146 |
| Leasing | 4 | 10 | 0 | 0 | 0 | 0 | 2 | 8 |
| **Total debt** | **2 481** | **2 744** | **160** | **132** | **453** | **510** | **906** | **583** |
| Trade payables | 286 | 286 | 286 | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities[2] | 507 | 507 | 507 | 0 | 0 | 0 | 0 | 0 |
| **Total financial liabilities** | **3 274** | **3 537** | **953** | **132** | **453** | **510** | **906** | **583** |

1 Including interest payments
2 Including negative fair values of derivative financial instruments according to note 28.5

31 December 2012 (restated[3])

| million CHF | Carrying amount | [1]Contractual cash flows | Between 0 and 6 months | Between 7 and 12 months | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|---|
| Financial liabilities | | | | | | | | |
| Straight bond (2009–2013) | 300 | 311 | 311 | 0 | 0 | 0 | 0 | 0 |
| Straight bond (2010–2016) | 398 | 448 | 12 | 0 | 12 | 12 | 412 | 0 |
| Straight bond (2011–2015) | 239 | 256 | 0 | 5 | 5 | 5 | 241 | 0 |
| Straight bond (2011–2018) | 138 | 166 | 0 | 4 | 4 | 4 | 9 | 145 |
| Straight bond (2012–2018) | 199 | 224 | 0 | 4 | 4 | 4 | 8 | 204 |
| Straight bond (2012–2022) | 105 | 137 | 0 | 3 | 3 | 3 | 6 | 122 |
| Syndicated loan (2011–2016) | 442 | 486 | 5 | 4 | 9 | 9 | 459 | 0 |
| German Private Placement | 202 | 219 | 2 | 3 | 5 | 155 | 50 | 4 |
| Arch acquisition bridge financing | 344 | 361 | 4 | 3 | 354 | 0 | 0 | 0 |
| Other debt due to banks and financial institutions | 134 | 152 | 56 | 3 | 15 | 78 | 0 | 0 |
| Other debt due to others | 314 | 372 | 38 | 4 | 8 | 8 | 162 | 152 |
| Leasing | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total debt** | **2 815** | **3 132** | **428** | **33** | **419** | **278** | **1 347** | **627** |
| Trade payables | 273 | 273 | 273 | 0 | 0 | 0 | 0 | 0 |
| Other current liabilities[2] | 519 | 519 | 519 | 0 | 0 | 0 | 0 | 0 |
| **Total financial liabilities** | **3 607** | **3 924** | **1 220** | **33** | **419** | **278** | **1 347** | **627** |

1 Including interest payments
2 Including negative fair values of derivative financial instruments according to note 28.5
3 The presentation of the table changed in 2013, and 2012 information was adjusted accordingly

## 28.4 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** The Group operates across the world and is exposed to movements in foreign currencies affecting the Group financial result and the value of Group's equity. Foreign exchange risk arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates ('transaction exposures') and because the foreign currency denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss-franc-denominated Group Financial Statements ('translation exposures'). Foreign exchange risks arise primarily on transactions that are denominated in USD, EUR and GBP.

In managing its exposure regarding the fluctuation in foreign currency exchange rates, Lonza has entered into a variety of currency swaps and forward contracts. 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 | Sensitivity | Post-tax profit | | | | Equity | | | |
|---|---|---|---|---|---|---|---|---|---|
| million CHF | | 2013 | | 2012 | | 2013 | | 2012 | |
| | | + | – | + | – | + | – | + | – |
| USD | +/–10 % | (4.1) | 4.1 | (3.0) | 3.0 | 0.0 | 0.0 | 2.4 | (2.4) |
| EUR | +/–5 % | (0.7) | 0.7 | 0.5 | (0.5) | 0.0 | 0.0 | 3.4 | (3.4) |
| GBP | +/–10 % | 2.6 | (2.6) | (0.6) | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 |

31 December 2013

| million CHF | USD | GBP | EUR | CHF | SGD | CAD | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Non-current loans and advances | 65 | 0 | 0 | 0 | 0 | 0 | 0 | 65 |
| Trade receivables, net | 89 | 42 | 85 | 3 | 0 | 2 | 3 | 224 |
| Other receivables, prepaid expenses and accrued income | 2 | 15 | 1 | 0 | 1 | 0 | 0 | 19 |
| Current advances | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Cash and cash equivalents | 146 | 3 | 25 | 0 | 1 | 1 | 0 | 176 |
| Non-current debt[1] | (9) | 0 | (83) | 0 | 0 | 0 | 0 | (92) |
| Other non-current liabilities | (1) | 0 | 0 | 0 | (2) | 0 | 0 | (3) |
| Other current liabilities | (38) | (1) | (24) | 0 | (4) | 0 | 0 | (67) |
| Trade payables | (135) | (2) | (45) | (3) | (6) | 0 | (2) | (193) |
| Current debt[1] | (3) | 0 | 0 | 0 | 0 | 0 | 0 | (3) |
| **Gross balance sheet exposure** | **119** | **57** | **(41)** | **0** | **(10)** | **3** | **1** | **129** |
| Currency-related instruments | (169) | (25) | 25 | 0 | 0 | 0 | 0 | (169) |
| **Net exposure** | **(50)** | **32** | **(16)** | **0** | **(10)** | **3** | **1** | **(40)** |

1 The acquisition bridge financing and a part of the German Private Placement were 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 with the acquisition bridge financing as well as the USD portion of the German Private Placement.

31 December 2012

| million CHF | USD | GBP | EUR | CHF | SGD | CAD | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Non-current loans and advances | 80 | 0 | 0 | 0 | 0 | 0 | 0 | 80 |
| Trade receivables, net | 109 | 36 | 83 | 3 | 1 | 3 | 3 | 238 |
| Other receivables, prepaid expenses and accrued income | 4 | 9 | 6 | 0 | 2 | 0 | 0 | 21 |
| Current advances | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Cash and cash equivalents | 104 | 4 | 7 | (2) | 2 | 0 | 1 | 116 |
| Non-current debt[1] | (13) | 0 | (82) | 0 | 0 | 0 | 0 | (95) |
| Other non-current liabilities | 0 | 0 | 0 | 0 | (3) | 0 | 0 | (3) |
| Other current liabilities | (54) | (26) | (17) | 0 | (4) | 0 | 0 | (101) |
| Trade payables | (24) | (1) | (39) | (3) | (5) | 0 | (1) | (73) |
| Current debt | (20) | 0 | (1) | 0 | 0 | 0 | 0 | (21) |
| **Gross balance sheet exposure** | **188** | **22** | **(43)** | **(2)** | **(7)** | **3** | **3** | **164** |
| Currency-related instruments | (225) | (29) | 54 | 0 | 0 | 0 | 0 | (200) |
| **Net exposure** | **(37)** | **(7)** | **11** | **(2)** | **(7)** | **3** | **3** | **(36)** |

1 The acquisition bridge financing and a part of the German Private Placement were 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 with the acquisition bridge financing as well as the USD portion of the German Private Placement.

The following exchange rates were applied during the year:

Balance Sheet Year-End Rates

| | | 2013 | 2012 |
|---|---|---|---|
| EU | Euro | 1.2254 | 1.2075 |
| USA | Dollar | 0.8906 | 0.9153 |
| Great Britain | Pound sterling | 1.4727 | 1.4799 |
| Singapore | Singapore dollar | 0.7038 | 0.7491 |
| China | Renminbi | 0.1471 | 0.1469 |

Income Statement Year-Average Rates

| | | 2013 | 2012 |
|---|---|---|---|
| EU | Euro | 1.2307 | 1.2052 |
| USA | Dollar | 0.9268 | 0.9377 |
| Great Britain | Pound sterling | 1.4496 | 1.4861 |
| Singapore | Singapore dollar | 0.7408 | 0.7507 |
| China | Renminbi | 0.1507 | 0.1486 |

**Interest Rate Risk** arises from movements in interest rates which could affect the Group financial result or the value of Group equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments. The primary objective of the Group's interest rate management is to protect the net interest result.

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 and cross-currency 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 rate risk was as follows, based on significant carrying amounts outlined in note 14:

Borrowings Denominated in

| million CHF | Total debt | | [1]Debt at fixed interest rates | | Interest risk exposure | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| CHF | 1 785 | 1 856 | 1 000 | 998 | 785 | 858 |
| USD | 577 | 843 | 319 | 329 | 258 | 514 |
| EUR | 83 | 81 | 83 | 81 | 0 | 0 |

1 including effects from interest rate swaps and cross currency interest rate swaps

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 | | | | Equity | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2013 | | 2012 | | 2013 | | 2012 | |
| | | + | – | + | – | + | – | + | – |
| CHF | +/–1 % | (6.5) | 6.5 | (7.0) | 7.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| USD | +/–1 % | (2.1) | 2.1 | (4.2) | 4.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| EUR | +/–1 % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

**Commodity Price Risk** Lonza needs liquefied petroleum gas (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 2013, if the butane price had weakened / strengthened by 10 %, with all other variables held constant, equity would have been CHF 1 million lower / higher (2012: CHF 2 million lower / higher).

## 28.5 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 2013 and 2012. 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 | Contract or underlying principal amount | | Positive fair values | | Negative fair values | | Total net fair values | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Currency-related instruments | | | | | | | | |
| – Forward foreign exchange rate contracts | 25 | 68 | 0 | 0 | 0 | 0 | 0 | 0 |
| – Currency swaps | 441 | 542 | 11 | 5 | (2) | (2) | 9 | 3 |
| **Total currency-related instruments** | **466** | **610** | **11** | **5** | **(2)** | **(2)** | **9** | **3** |
| Interest-related instruments | | | | | | | | |
| – Interest rate swaps | 108 | 111 | 0 | 0 | (1) | (1) | (1) | (1) |
| – Cross currency interest rate swaps | 580 | 579 | 15 | 5 | 0 | (1) | 15 | 4 |
| **Total interest-related instruments** | **688** | **690** | **15** | **5** | **(1)** | **(2)** | **14** | **3** |
| **Total financial instruments at fair value through profit or loss – held for trading** | **1 154** | **1 300** | **26** | **10** | **(3)** | **(4)** | **23** | **6** |

### Financial Instruments Effective for Hedge-Accounting Purposes

| million CHF | Contract or underlying principal amount | | Positive fair values | | Negative fair values | | Total net fair values | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Currency-related instruments | | | | | | | | |
| – Forward foreign exchange rate contracts | 0 | 107 | 0 | 1 | 0 | 0 | 0 | 1 |
| **Total currency-related instruments** | **0** | **107** | **0** | **1** | **0** | **0** | **0** | **1** |
| Interest-related instruments | | | | | | | | |
| – Interest rate swaps | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total interest-related instruments** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Commodity-related instruments | | | | | | | | |
| – Butane swap | 0 | 10 | 0 | 0 | 0 | (1) | 0 | (1) |
| – Naphtha swap | 9 | 11 | 1 | 0 | 0 | 0 | 1 | 0 |
| – Propane swap | 8 | 0 | 0 | 0 | 0 | 0 | | |
| **Total commodity-related instruments** | **17** | **21** | **1** | **0** | **0** | **(1)** | **1** | **(1)** |
| **Total financial instruments effective for hedge-accounting purposes** | **17** | **128** | **1** | **1** | **0** | **(1)** | **1** | **0** |

**Offsetting of Financial Asset and Financial Liabilities** The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements with the respective counterparties in order to mitigate counterparty risk. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for offsetting in the balance sheet as the Group does not have a currently enforceable right to offset recognised amounts, because the right to offset is only enforceable on the occurrence of future events, such as a default or other credit events.

The following table sets out the carrying value of derivative financial instruments and the amounts that are subject to master netting agreements.

| million CHF | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| – Forward foreign exchange rate contracts | 0 | 1 | 0 | 0 |
| – Currency swaps | 11 | 5 | (2) | (2) |
| – Interest rate swaps | 0 | 0 | (1) | (1) |
| – Cross currency interest rate swaps | 15 | 5 | 0 | (1) |
| – Commodity-related instruments | 1 | 0 | 0 | (1) |
| **Carrying value of derivative financial instruments** | **27** | **11** | **(3)** | **(5)** |
| Derivatives subject to master netting agreements | 0 | (3) | 0 | 3 |
| Collateral arrangements[1] | 0 | 0 | 0 | 0 |
| **Net amount** | **27** | **8** | **(3)** | **(2)** |

1 The Group has not entered into any collateral arrangements

Financial Instruments by Currency

| million CHF | 2013 | 2012 |
|---|---|---|
| Forward foreign exchange rate contracts and currency swaps | | |
| USD | 362 | 461 |
| GBP | 29 | 43 |
| EUR | 33 | 171 |
| CZK | 15 | 20 |
| JPY | 10 | 3 |
| DKK | 6 | 6 |
| SGD | 8 | 11 |
| AUD | 1 | 0 |
| CAD | 1 | 0 |
| NZD | 1 | 0 |
| ZAR | 0 | 2 |
| **Total** | **466** | **717** |
| Commodity swap | 17 | 21 |
| Interest rate swap | 108 | 111 |
| Cross currency interest rate swap | 580 | 579 |
| **Total financial instruments** | **1 171** | **1 428** |

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 current 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 / naphtha / propane)

## 28.6 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).

| million CHF | | | | 2013 | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total fair value | Level 1 | Level 2 | Level 3 | Total fair value |
| Assets | | | | | | | | |
| Derivative financial instruments | 0 | 27 | 0 | 27 | 0 | 11 | 0 | 11 |
| Liabilities | | | | | | | | |
| Derivative financial instruments | 0 | (3) | 0 | (3) | 0 | (5) | 0 | (5) |
| **Net assets and liabilities measured at fair value** | **0** | **24** | **0** | **24** | **0** | **6** | **0** | **6** |

In 2013, 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.

## 28.7 CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS BY CATEGORY

The carrying values less impairment provision of trade receivables 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 | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 31 12 2013 | 31 12 2012 | 31 12 2013 | 31 12 2012 |
| Financial assets – available for sale | | | | |
| Other investments – available for sale – carried at cost | 6 | 5 | 6 | 5 |
| **Total financial assets – available for sale** | **6** | **5** | **6** | **5** |
| Loans and receivables | | | | |
| Trade receivables, net | 559 | 629 | 559 | 629 |
| Other receivables | 57 | 61 | 57 | 61 |
| Current advances | 3 | 2 | 3 | 2 |
| Non-current loans | 69 | 83 | 69 | 83 |
| Cash and cash equivalents | 306 | 429 | 306 | 429 |
| **Total loans and receivable** | **994** | **1 204** | **994** | **1 204** |
| Financial assets at fair value through profit or loss – held for trading | | | | |
| Currency-related instruments | 11 | 5 | 11 | 5 |
| Interest-related instruments | 15 | 5 | 15 | 5 |
| **Total financial assets at fair value through profit or loss – held for trading** | **26** | **10** | **26** | **10** |
| Financial liabilities at amortized cost | | | | |
| Non-current debt | 2 245 | 2 427 | 2 305 | 2 480 |
| Current liabilities | 504 | 515 | 504 | 515 |
| Trade payables | 286 | 273 | 286 | 273 |
| Current debt | 236 | 388 | 236 | 388 |
| **Total financial liabilities at amortized cost** | **3 271** | **3 603** | **3 331** | **3 656** |
| Financial liabilities at fair value through profit or loss – held for trading | | | | |
| Currency-related instruments | 2 | 2 | 2 | 2 |
| Interest-related instruments | 1 | 2 | 1 | 2 |
| **Total financial liabilities at fair value through profit or loss – held for trading** | **3** | **4** | **3** | **4** |

## 28.8 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 and the return on capital, which Lonza defines as total shareholders' equity, excluding non-controlling interest, and the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing 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 2013, the return was 5.9 % (2012: 7.5%). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.4 % (2012: 2.7 %).

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

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

# 29 DISCLOSURES ON BOARD AND MANAGEMENT COMPENSATION

## 29.1 METHOD OF DETERMINING COMPENSATION AND THE SHAREHOLDING PROGRAMS

**Objective and Benchmarks** Lonza's objectives is to pay the members of the Executive Committee a base salary in line with the median for the market as described below, with the potential for executives to earn above-median compensation through a combination of competitive short-term and long-term incentive programs if the company outperforms its financial targets. These incentive plans are designed to align the Executive Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Executive Committee is benchmarked on a regular basis against the relevant industry:

- In 2011 the Board of Directors appointed a specialized external consultant (Kepler Associates) to benchmark the compensation of the Executive Committee against Swiss-listed companies of a similar size in terms of equity market capitalization and sales (peer group of 18 companies[1]) and international sector comparators (peer group of 37 companies[2] in the pharmaceutical and chemical industries). This survey showed that the remuneration of the members of the Executive Committee is between the median and lower quartile (50th percentile and 25th percentile of the benchmark). As a consequence, the Board of Directors, upon proposal of the Nomination and Compensation Committee (NCC), decided to successively adjust the compensation plans for the Executive Committee. In a first step, the Extended Short-Term Incentive Plan (E-STIP), an equity based incentive plan, was implemented (described in detail on page 199).
- The 2013 compensation benchmark data was aligned in accordance with the average base salary increase of companies in the pharmaceutical, chemical and general industries. In order to estimate this alignment for 2013, two benchmark providers[3] were used to draw the comparison. These two benchmark providers have further consulting mandates within the Human Resources department.

As a result, the overall structure of compensation for the Executive Committee remained largely unchanged in 2013.

1 Givaudan, Sonova, Actelion, Lindt & Sprüngli, Sika, Sulzer, Baloise, Swiss Life, Clariant, Barry Callebaut, BKW FMB Energie, Logitech International, Aryzta, Galenica, Straumann, Dufry Group, Helvetia, Panalpina Welttransport.

2 Johnson & Johnson, Novartis, Pfizer, Roche, Merck & Co, GlaxoSmithKline, BASF, Astra Zeneca, Bayer, Amgen, Bristol-Meyers Squibb, Gilead Sciences, Celgene, Thermo Fisher Scientific, Genzyme, Biogen Idec, Akzo Nobel, K+S, Koninklijke DSM, Life Technologies, Wacker Chemie, Solvay, Sigma-Aldrich, Illumina, Vertex, Alexion, UCB, Dr Reddy's Laboratories, Lanxess, Clariant, Arkema, Croda International, Symrise, Rhodia, Crucell, Biocon, Cambrex.

3 Towers Watson and Mercer.

**Overall Structure of Compensation** The compensation of the members of the Executive Committee consists of the following components:

- The base salary is paid in cash and is determined for each position considering the responsibilities of the position and performance of each member of the Executive Committee.
- Short-Term Incentive Plans (STIP): The company provides the members of the Executive Committee with Short-Term Incentive Plans, of which two-thirds is paid in cash (Cash STIP) and one-third in restricted share units (RSUs) (E-STIP), which vest after three years. Performance metrics are defined for each financial year; achievement determines the payout of the STIP. The performance metrics for the STIP for the Cash STIP and the E-STIP are the same. For more details regarding the Cash STIP, please refer to page 199. The E-STIP ensures the competitiveness of the executive variable compensation and serves as a retention for Executive Committee members. E-STIP is awarded in RSUs with a three-year vesting period. For more details regarding the E-STIP, please refer to page 199.
- Long-Term Incentive Plan (LTIP): The LTIP was designed to align the interests of the Executive Committee with those of Lonza's shareholders and to serve as a retention for the executives. The LTIP is a 100 % equity-based plan with conditional equity awards vesting after three years according to performance conditions. Executive Committee members are awarded the right to receive a number of shares in Lonza in the future, provided that certain performance-related conditions are achieved. For more details regarding the LTIP, please refer to page 201.
- The Executive Committee's compensation package also includes certain benefits such as car, travelling allowances, health insurance and pension, and, if applicable, relocation packages, housing allowance and tuition fees.

**Board of Directors** The members of the Board of Directors receive a fixed gross compensation for Board membership and additional compensation for committee chairmanships and committee memberships. The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as member of the Board of Directors of Lonza. The members of the Board of Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

The overall structure and level of compensation of the Board of Directors did not change between 2005 and 2012. The 2013 compensation structure of the Board of Directors has been amended (see the change in the split into cash and shares below). The decision regarding the remuneration of the Board of Directors to reduce the level of compensation by 20 % was taken by the Board of Directors in April 2013.

The Board of Directors' compensation is paid in four installments at the end of March, June, September and December; 50 % of the compensation is paid in cash and 50 % in shares. In previous years, Board members could choose to be paid either 40 % cash and 60 % in shares or 100 % in shares. The number of granted shares is calculated based on the average closing share price of the last five business days of each quarter with a discount of 20 %. The shares vest after three years of the grant date and are eligible for a dividend. The structure of the Board of Directors' compensation is closely aligned with our shareholders' interests.

In 2013, payments made to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.463 million[1] (2012: CHF 3.101 million[1]). CHF 1.399 million (2012: CHF 2.014 million) was distributed in the form of shares, i.e. 56.80 % (2012: 64.95 %).

This decrease in compensation is due to the general reduction of gross compensation by 20 % for the period April 2013 to March 2014 and the fact that the Chairman's compensation as interim CEO in 2012 is no longer included in the 2013 compensation.

1 Including social security and withholding tax

## Board of Directors' Compensation

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | [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[1] | 194 449 | 3 805 | 267 039 | 461 488 | 369 050 | 7 800 | 396 808 | 765 858 |
| **Richard Sykes** Vice-Chairman of the Board[4] | 21 875 | 1 337 | 81 998 | 103 873 | 113 750 | 6 524 | 295 189 | 408 939 |
| **Patrick Aebischer** Member of the Board | 103 003 | 1 939 | 137 862 | 240 865 | 56 425 | 5 222 | 238 271 | 294 696 |
| **Werner J. Bauer** Member of the Board[5] | 87 886 | 1 396 | 105 591 | 193 477 | | | | |
| **Thomas Ebeling** Member of the Board[5] | 87 886 | 1 396 | 105 591 | 193 477 | | | | |
| **Jean-Daniel Gerber** Member of the Board | 128 054 | 2 375 | 169 243 | 297 297 | 104 243 | 4 096 | 187 261 | 291 504 |
| **Julia Higgins** Member of the Board[6] | | | | | 48 125 | 1 052 | 49 175 | 97 300 |
| **Gerhard Mayr** Member of the Board[4] | 19 835 | 1 072 | 65 746 | 85 581 | 79 304 | 5 757 | 262 910 | 342 214 |
| **Jörg Reinhardt** Member of the Board[4] | 18 750 | 1 146 | 70 284 | 89 034 | 56 250 | 4 652 | 210 828 | 267 078 |
| **Margot Scheltema** Member of the Board | 153 750 | 1 800 | 126 318 | 280 068 | 123 750 | 2 870 | 126 510 | 250 260 |
| **Antonio Trius** Member of the Board[5] | 112 500 | 1 113 | 84 184 | 196 684 | | | | |
| **Peter Wilden** Vice-Chairman of the Board | 136 087 | 2 637 | 185 059 | 321 146 | 136 161 | 5 412 | 247 152 | 383 313 |
| **Total** | **1 064 075** | **20 016** | **1 398 915** | **2 462 990** | **1 087 058** | **43 385** | **2 014 104** | **3 101 162** |

In 2013 three members of the Board of Directors did not stand for re-election, three new members were elected at the Annual General Meeting (2012: one member left and two new members joined the Board of Directors). In 2013, there were 8 members on the Board (2012: 9 members). The average number of Board members during the year was 8.0 full-time equivalents (2012: 7.75 full-time equivalents).

1 This compensation includes Mr. Soiron's committee membership. Mr. Soiron is a member of the NCC. From 24 January 2012 to 30 April 2012 Rolf Soiron also served as interim CEO.
2 All compensation amounts given (both for the Board of Directors and the Executive Committee) refer to gross payments, including social security and withholding tax, except where stated otherwise. The accrual principle is applied.
3 The fair values were calculated using the market price at grant date, see note 24 in the Lonza Financial Report 2013.
4 Richard Sykes, Gerhard Mayr and Jörg Reinhardt left the Board of Directors in April 2013.
5 Werner J. Bauer, Thomas Ebeling and Antonio Trius joined the Board of Directors in April 2013.
6 Julia Higgins left the Board of Directors in April 2012.

**Executive Committee** The acting members of the Executive Committee received for their contributions and time served in 2013, CHF 5.022 million[1] (2012: CHF 7.922 million[1]) in cash and benefits, 82 055 LTIP equity awards (2012: 96 427 shares) and a number of E-STIP RSUs (the exact number will be determined in March 2014), equivalent to a value of CHF 2.773 million (2012: CHF 2.326 million).

1 Including social security and incentive paid in March of the following year

Executive Committee's Compensation[2]

| million CHF | 2013 | 2012 |
|---|---|---|
| Cash payments and benefits | | |
| Base salary | 2.917 | 4.286 |
| Short-term incentive (cash)[3] | 1.325 | 2.229 |
| Post-employment benefits[4] | 0.370 | 0.418 |
| Other benefits[5] | 0.410 | 0.989 |
| Termination benefits in cash[6] | 5.179 | 3.306 |
| Share-based payments | | |
| Accelerated vesting of LTIP equity awards due to termination (2012: 47 789 shares)[7] | 0.000 | 1.673 |
| Value of E-STIP RSUs (number of RSUs will be determined in March 2014) | 0.628 | 0.530 |
| Value of LTIP equity awards[8] (number of equity awards 2013: 82 055; 2012: 96 427) | 2.145 | 1.797 |
| **Total** | **12.974** | **15.228** |
| **Ratio of fixed compensation to the performance-related components of compensation (without termination payment)** | **90.21 %** | **125.0 %** |

2 2013: 8.0 members (average: 5.3); 2012: 10 members (average: 8.1).
3 STIP of the reporting year, paid in March of the following year.
4 Social security and pension fund
5 The table shows the fair value of these benefits.
6 This table discloses the amounts accrued for the years 2012 and 2013.
7 Value at market price May 2012. For the fair value according to IFRS 2, please refer to note 29 in the Consolidated Financial Report, page 164, footnote 4, no accelerated vesting in 2013.
8 The fair values were calculated using the fair value at grant date according to IFRS 2. For more detailed comments please, refer to note 24 in the Consolidated Financial Report, page 134. 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).

The reason for the decrease in total base salary and incentive payments to the Executive Committee in 2013 is a reduction in the number of members of the Executive Committee. From 1 January to 31 January 2013 there were eight members in the Executive Committee. Three members left their Executive Committee positions in February 2013. As a result, the average number of Executive Committee members during the year 2013 was 5.3 full-time equivalents (2012: 8.1 FTE).

The RSUs of the E-STIP and the equity awards of the LTIP have a three-year vesting period. The vesting of the LTIP equity awards is linked to performance conditions and the value at vesting may be higher or lower than at the time of the grant. In case of non-achievement of the performance conditions' threshold, the LTIP value is zero. The ratio of fixed compensation to the performance-related components of compensation was 90.21 % (2012: 125.0 %). Termination payments and the LTIP equity awards, which vested according to the termination agreements, are not included in this ratio.

**Highest Compensation** The highest compensation of a member of the Exeutive Committee in 2013 was paid to the CEO. The CEO received CHF 1.580 million paid in cash and E-STIP RSUs and additional benefits and was granted 23 815 LTIP equity awards for 2013 equivalent to a fair value of CHF 0.638 million. The vesting of these LTIP equity awards is linked to performance conditions and the value at vesting may be higher or lower than at the time of grant. In case of non-achievement of the performance conditions threshold, the LTIP value is zero.

The highest compensation in 2012 was paid to the former CEO for his service until the end of May 2012 and termination payments, details of which were given in the 2012 Remuneration Report.

Compensation of the Highest-Paid Individual (CEO)

| million CHF | 2013 | 2012 |
|---|---|---|
| Base salary | 0.859 | 0.395 |
| Short-Term Incentive (cash)[1] | 0.386 | 0.276 |
| Post-employment benefits[2] | 0.102 | 0.038 |
| Other benefits[3] | 0.040 | 0.036 |
| Termination benefits in cash | 0.0 | 3.306 |
| Share-based payments | | |
| Accelerated vesting of LTIP equity awards due to termination | | 1.673 |
| Value of E-STIP RSUs (number of RSUs will be determined in March 2014) | 0.193 | 0.0 |
| Value of LTIP equity awards (2013: 23 815)[4] | 0.638 | 0.0 |
| **Total** | **2.218** | **5.724** |
| **Ratio of fixed compensation to the performance-related components of compensation** | **82.24%** | **n.a.** |

1 Incentive (STIP) for the reporting year. The 2012 STIP was paid in March 2013; the 2013 STIP will be paid in March 2014.

2 Social security and pension fund

3 Company car, health insurance and tuition. The table shows the fair value of these benefits.

4 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2013 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).

**Compensation to Departing Members of the Executive Committee** Three members of the Executive Committee left the company in 2013. The employment agreement of one member of the Executive Committee was terminated on 1 February 2013. On the same date, two other members left the Executive Committee, but kept full-time employment with the Company through 30 March 2013 and 30 June 2013 respectively without Executive Committee responsibilities. In addition, a termination agreement was finalized in 2013 with a former member of the Executive Committee who stopped activities in 2012. According to the terms of the applicable employment agreements, these four departing members of the Executive Committee received a total compensation as a result of their termination of CHF 5.179 million in cash and benefits. These cash payments include base salary, Cash STIP and benefits for notice periods of maximum 18 months. Their LTIP equity awards for 2011 and 2012 will vest according to the achievement of performance conditions and according to the applicable LTIP plan rules for 2011 and 2012.

### *Compensation in Case of Employment Termination*

**Notice Period** Members of the Executive Committee appointed prior to 2012 are entitled to notice periods of up to 18 months, except in one case where the notice period is 60 days. Members of the Executive Committee appointed in 2012 are entitled to a notice period of 12 months. Following a change of control, the applicable notice periods are extended to 18 months if the company terminates the employment of a member of the Executive Committee. The change of control agreements of the Executive Committee will be aligned in 2014 according to the Swiss Ordinance Against Excessive Pay by Public Corporations.

**Base Pay and Benefits** In case of termination by the Company without cause or due to the disability of a member of the Executive Committee, or of resignation by the relevant member of the Executive Committee for good reason (such as reduction of remuneration or demotion), the two members of the Executive Committee who joined before 2012 are entitled to a payment corresponding to 18 months' base salary, outplacement support and additional health insurance until new employment is found, under the condition that the relevant member of the Executive Committee executes a release in favor of the company. The remaining members of the Executive Committee (including CEO) are entitled to a payment corresponding to 12 months with a comparable package.

## E-STIP AND LTIP

### *Termination by the Company*

The treatment of E-STIP and LTIP in case of termination varies between the members of the Executive Committee based on their individual employment agreement:

- For the members of the Executive Committee appointed before 2012, the rules are as follows. In the case of termination by the company without cause, for any LTIP equity awards granted as of 2012, the service condition is waived pro rata temporis based on the actual vesting period: one-third in the case of termination after one year, two-thirds for termination after two years, three-thirds for termination after three years. The granted equity awards remain subject to any performance conditions, and shares, if any, are delivered only after completion of the vesting period. In the case of termination by the Company without cause, for LTIP equity awards granted before 2012 and any E-STIP grants, the NCC may decide either to keep intact or forfeit such entitlements. If the NCC decides to keep the granted equity awards intact, the equity awards will vest according to the plan rules of the applicable year.
- For two members of the Executive Committee, there are specific rules in the event the end of the termination period occurs before the end of one of the incentive plan vesting periods. The granted equity awards under those circumstances will be paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board of Directors, or applicable, be deemed to have been reached with respect to such a period.

– For another member of the Executive Committee, if the company terminates the employment of this executive other than following change of control (or if the relevant executive terminates their employment with the company other than for cause), all unvested equity awards granted or other interests granted by the company under the applicable benefit plan lapse and are forfeited. If the employment is terminated by the relevant executive for cause or if the company terminates the agreement of the relevant executive without cause further to a change of control, unvested benefits will vest automatically at the end of the termination period. As a general rule, the relevant executive's granted equity awards are paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board of Directors or NCC, as applicable, be deemed to have been reached with respect to the relevant period.

*Termination by the Employee*

In the case of voluntary termination of employment by the members of the Executive Committee, for LTIP equity awards granted before 2012, it is in the sole discretion of the NCC to waive the forfeiture of the granted equity awards in full or in part. In the case of voluntary termination of employment before vesting of the LTIP grants 2012, the forfeiture shall be waived pro rata to the vesting period: one-third for termination after one year, two-thirds for termination after two years, three-thirds for termination after three years. The granted equity awards remain subject to any performance conditions, and shares, if any, are delivered only three years from grant. In the case of voluntary termination of employment for LTIP grants made in 2013, the equity awards granted will forfeit entirely. In the case of voluntary termination of employment for any E-STIP grants at any time before the vesting, the participant will forfeit the right to receive a transfer of shares.

*Termination due to Disability, Death or Retirement*

In the case of termination due to the disability, death or retirement of a member of the Executive Committee, the E-STIP related share units vest in principle immediately. In case of termination of the employment agreement due to disability or death, 50 % of granted equity awards related to LTIP vest immediately, while 50 % lapse.

*Termination upon Change of Control*

In the case of change of control all granted equity awards and share units attributed to the relevant member of the Executive Committee as part of the E-STIP, LTIP and ESPP unconditionally vest immediately (i.e. performance conditions do not apply). In addition, certain members of the Executive Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the termination period; a cash amount equal to 100 % of the LTIP compensation during the termination period; and outplacement support up to an amount of CHF 50 000. Except in two cases, the applicable notice period is extended to 18 months if the relevant member of the Executive Committee resigns for good reasons (such as reduction of remuneration or demotion) following a change of control. For one of these two members, the granted equity awards (LTIP) and RSUs (E-STIP) will vest automatically at the end of the notice period. The change of control agreements of the Executive Committee will be aligned in 2014 according to the Swiss Ordinance Against Excessive Pay by Public Corporations.

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

### 29.2 COMPENSATION FOR FORMER MEMBERS OF GOVERNING BODIES

No compensation was paid to a former member of the governing bodies (2012: CHF 0.021 million); this payout was contained in the 2010 personnel expenses.

### 29.3 SHARE ALLOTMENT

In the 2013 reporting year, 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 29.1 of this report. In note 29.1, the allotment of the LTIP granted equity awards for the Executive Committee is included. These equity awards are only granted if the targets are met.

### 29.4 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 2013 a total of 123 427 (2012: 152 769) registered shares in Lonza Group Ltd and controlled 0.23 % (2012: 0.29 %) of the share capital. None of the members of the Board of Directors and the Executive Committee owns shares in the Group's subsidiaries or associates.

The members of the Executive Committee and parties closely associated with them held 28 919 (2012: 54 327) shares and controlled 0.05 % (2012: 0.10 %) of the share capital. The individual control rights are proportional to the holdings shown below.

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.

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2013:

Board of Directors

| Lonza shares (numbers) | 2013 | 2012 |
|---|---|---|
| **Rolf Soiron** | 63 656 | 58 165 |
| **Richard Sykes** | | 28 005 |
| **Patrick Aebischer** | 12 245 | 13 548 |
| **Werner J. Bauer** | 12 227 | |
| **Thomas Ebeling** | 977 | |
| **Jean-Daniel Gerber** | 8 983 | 6 202 |
| **Gerhard Mayr** | | 19 793 |
| **Jörg Reinhardt** | | 3 232 |
| **Margot Scheltema** | 4 336 | 2 586 |
| **Antonio Trius** | 1 340 | |
| **Peter Wilden** | 19 660 | 21 265 |

Executive Committee

| Lonza shares (numbers) | 2013 | 2012 |
|---|---|---|
| **Richard Ridinger** | 14 000 | 14 000 |
| **Uwe Böhlke** | | 5 417 |
| **Marc Funk** | 1 627 | 1 627 |
| **Toralf Haag** | 11 489 | 11 456 |
| **Beat In-Albon** | 3 | |
| **Stephan Kutzer** | 1 800 | 10 000 |
| **Jeanne Thoma** | | 5 457 |
| **Lukas Utiger** | | 6 370 |

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

## 29.5 LOANS GRANTED BY GOVERNING BODIES

No loans were granted to current or former members of the Board of Directors and members of the Executive Committee during 2013 (nor in 2012).

## 30 —— ENTERPRISE RISK MANAGEMENT

At their October meeting, the Board of Directors and Executive Committee were informed about the findings of the risk management process and the results of the risk portfolio management.

During 2013, as a result of continuous risk remediation efforts, several risks were fully mitigated and many others were downgraded from the category of major risk to minor risk. On the other hand, the economic downturn and market volatility in which Lonza had to operate also led to reprioritization of certain mitigation activities.

The chosen approach of embedding risk management in our daily behavior will be continued.

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 28.

## 31 —— EVENTS AFTER THE BALANCE SHEET DATE

No noteworthy events occurred after the balance sheet date.

The Consolidated Financial Statements 2013 were approved for issue by the Board of Directors on 7 March 2014 and are subject to approval by the Annual General Meeting on 16 April 2014.

The principal subsidiaries and joint ventures are shown in the tables below:

| Lonza Companies | Town/Country | Currency[1] | Share capital in 000 | Holding direct % | Holding indirect % |
|---|---|---|---|---|---|
| Arch Chemicals (China) Co., Ltd | Suzhou, CN | USD | 19 | | [2]100 % |
| Arch Chemicals Canada Inc. | Toronto, CA | CAD | 10 000 | | 100 % |
| Arch Chemicals Japan, Inc. | Tokyo, JP | JPY | 57 100 | | [3]100 % |
| Arch Chemicals Limited | Castleford, GB | GPB | 1 000 | | 100 % |
| Arch Chemicals, Inc. | Allendale, US | USD | 0.1 | | [4]100 % |
| Arch Personal Care Products, L.P. | South Plainfield, US | USD | 0.1 | | [5]100 % |
| Arch Protection Chemicals Private Limited | Mumbai, IN | INR | 1 300 | | [4]100 % |
| Arch Quimica Argentina S.R.L. | Buenos Aires, AR | ARS | 9 911 | | 100 % |
| Arch Quimica Brasil Ltda | Salto, BR | BRL | 30 388 | | 100 % |
| Arch Quimica Colombia S.A. | Bogotá, CO | COP | 5 301 | | [6]97 % |
| Arch Timber Protection B.V. | Wijchen, NL | EUR | 27.3 | | 100 % |
| Arch Treatment Technologies, Inc. | Atlanta, US | USD | 0.1 | | [3]100 % |
| Arch UK Biocides Limited | Castleford, GB | GBP | 1 644 | | 100 % |
| Arch Water Products France S.A.S. | Amboise, FR | EUR | 460 | | 100 % |
| Arch Water Products South Africa (Proprietary) Limited | Kempton Park, SA | ZAR | 100 | | 100 % |
| Arch Wood Protection (Aust) Pty Limited | Trentham, AU | AUD | 0.08 | | [3]100 % |
| Arch Wood Protection (M) Sdn. Bhd. | Kuala Lumpur, MY | MYR | 500 | | 100 % |
| Arch Wood Protection (NZ) Limited | Auckland, NZ | NZD | 6 100 | | 100 % |
| Arch Wood Protection Canada Corp. | Mississauga, CA | CAD | 0.1 | | [3]100 % |
| Arch Wood Protection (SA) (Proprietary) Limited | Port Shepstone, SA | ZAR | 3 | | 100 % |
| Arch Wood Protection, Inc. | Atlanta, US | USD | 0.1 | | [3]100 % |
| Gewerbepark Hochrhein GmbH | Waldshut-Tiengen, DE | EUR | 10 400 | | 100 % |
| Hickson Ltd | Castleford, GB | GBP | 108 161 | | 100 % |
| Lonza (China) Investments Co. Ltd | Guangzhou, CN | USD | 75 500 | 100 % | |
| Lonza AG | Visp, CH | CHF | 60 000 | 100 % | |
| Lonza America Inc. | Allendale, US | USD | 8 | 100 % | |
| Lonza Australia Pty Ltd | Mt. Waverley, AU | AUD | 90 | | 100 % |
| Lonza Benelux BV | Breda, NL | EUR | 112 | | 100 % |
| Lonza Biologics Inc. | Portsmouth, US | USD | 1 | | 100 % |
| Lonza Biologics plc | Slough, GB | GBP | 14 500 | | 100 % |
| Lonza Biologics Porriño, S.L. | Porriño, ES | EUR | 10 296 | | 100 % |
| | | USD | 25 000 | | |
| Lonza Biologics Tuas Pte Ltd | Singapore, SG | SGD | 172 000 | | 100 % |
| Lonza BioPharma AG | Visp, CH | CHF | 550 | 100 % | |
| Lonza Bioproducts AG | Basel, CH | CHF | 100 | 100 % | |
| Lonza Bioscience SARL | Saint-Beauzire, FR | EUR | 8 849 | | 100 % |

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

| Lonza Companies | Town / Country | Currency[1] | Share capital in 000 | Holding direct % | Holding indirect % |
|---|---|---|---|---|---|
| Lonza Bioscience Singapore Pte Ltd | Singapore, SG | USD | 1 | | 100 % |
| Lonza Biotec sro | Kouřim, CZ | CZK | 282 100 | | 100 % |
| Lonza Braine SA | Braine-l'Alleud, BE | EUR | 40 000 | | 100 % |
| Lonza Cologne GmbH | Cologne, DE | EUR | 1 502 | | 100 % |
| Lonza Copenhagen ApS | Vallensbaek Strand, DK | DKK | 150 | | 100 % |
| Lonza do Brasil Especialidades Quimicas Ltda. | São Paulo, BR | BRL | | [2]99.9 % | [1]0.1 % |
| Lonza Europe BV | Breda, NL | EUR | 20.5 | [2]32 % | [1]68 % |
| Lonza Finance Limited | St. Helier, Jersey, GB | CHF | 335 | 100 % | |
| Lonza France Sàrl | Levallois-Perret, FR | EUR | 132 | | 100 % |
| Lonza Group GmbH | Waldshut-Tiengen, DE | EUR | 25 | 0.40 % | 99.6 % |
| Lonza Group UK Limited | Slough, GB | GBP | 17 000 | | 100 % |
| Lonza Guangzhou Ltd | Guangzhou, CN | USD | 12 000 | | 100 % |
| Lonza Guangzhou Nansha Ltd | Guangzhou, CN | USD | 135 500 | | 100 % |
| Lonza Guangzhou Research and Development Center Ltd | Guangzhou, CN | USD | 4 100 | | 100 % |
| Lonza Holding Singapore Pte Ltd | Singapore, SG | USD | 100 000 | | 100 % |
| Lonza Houston Inc. | Houston, US | USD | 1 | | 100 % |
| Lonza Ibérica S.A.U. | Barcelona, ES | EUR | 60 | | 100 % |
| Lonza Inc. | Allendale, US | USD | 697 | | 100 % |
| Lonza India Private Ltd | Mumbai, IN | INR | 23 459 | | [1]100 % |
| Lonza Japan Ltd | Tokyo, JP | JPY | 200 000 | 100 % | |
| Lonza Liyang Chemical Co. Ltd | Liyang, CN | USD | 3 000 | | 100 % |
| Lonza Microbial Control Asia Pacific Pte Ltd | Singapore, SG | USD | 183 | | 100 % |
| Lonza Milano S.r.l. | Treviglio, IT | EUR | 52 | | 100 % |
| Lonza Nanjing Ltd | Nanjing, CN | USD | 14 000 | | 100 % |
| Lonza Rockland Inc. | Rockland, US | USD | 1 | | 100 % |
| Lonza Sales AG | Basel, CH | CHF | 2 000 | 100 % | |
| Lonza Swiss Finanz AG | Basel, CH | CHF | 100 | 100 % | |
| Lonza Swiss Licences AG | Basel, CH | CHF | 100 | 100 % | |
| Lonza Verviers Sprl | Verviers, BE | EUR | 19 | | 100 % |
| Lonza Walkersville Inc. | Walkersville, US | USD | 1 | | 100 % |
| Lonza Wokingham Limited | Wokingham, GB | GBP | 1 | | 100 % |
| OOO Lonza Rus | Moscow, RU | RUB | 10 | | 100 % |
| TL Biopharmaceutical Ltd | Visp, CH | CHF | 1 000 | | 50 % |

1 Abbreviation of currencies in accordance with ISO standards
2 Rounded

# REPORT OF THE STATUTORY AUDITOR

**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 82 to 172 for the year ended 31 December 2013.

*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 2013 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* | *Florin Janine Krapp* |
| Licensed Audit Expert | Licensed Audit Expert |
| Auditor in Charge | |

Zurich, 7 March 2014

# BALANCE SHEET – LONZA GROUP LTD

Assets[1]

| CHF | 2013 | 2012 |
|---|---|---|
| Fixed assets | | |
| Property, plant and equipment | 717 353 | 1 241 505 |
| Investments | 1 738 621 984 | 1 731 683 449 |
| Long-term loans to subsidiaries and associates | 1 089 551 106 | 1 076 111 923 |
| **Total fixed assets** | **2 828 890 443** | **2 809 036 877** |
| Current assets | | |
| Receivables: | | |
| – From third parties | 1 725 | 28 515 |
| – From subsidiaries and associates | 16 077 266 | 9 333 531 |
| Prepaid expenses: | | |
| – Third parties | 35 181 735 | 22 045 450 |
| – Subsidiaries and associates | 3 019 465 | 5 291 546 |
| Short-term advances: | | |
| – Subsidiaries and associates | 295 989 362 | 264 235 324 |
| Marketable securities: | | |
| – Own shares | 79 758 906 | 49 544 557 |
| Cash | 257 562 | 39 827 558 |
| **Total current assets** | **430 286 021** | **390 306 481** |
| **Total assets** | **3 259 176 464** | **3 199 343 358** |

Liabilities and Shareholders' Equity[1]

| CHF | 2013 | 2012 |
|---|---|---|
| Shareholders' equity | | |
| Share capital | 52 920 140 | 52 920 140 |
| Legal reserve: | | |
| – General legal reserve | 26 460 070 | 26 460 070 |
| – Reserve from capital contribution | 617 058 240 | 728 720 453 |
| – Reserve for own shares | 79 758 906 | 84 490 970 |
| Available earnings brought forward | 1 079 573 389 | 906 501 127 |
| Profit for the year | 183 701 311 | 168 340 198 |
| **Total shareholders' equity** | **2 039 472 056** | **1 967 432 958** |
| Liabilities | | |
| Long-term liabilities | | |
| Long-term debt: | | |
| – Due to third parties | 720 000 000 | 850 000 000 |
| – Due to subsidiaries and associates | 180 000 000 | 180 000 000 |
| Long-term provisions: | | |
| – Due to third parties | 389 832 | 458 604 |
| **Total long-term liabilities** | **900 389 832** | **1 030 458 604** |
| Current liabilities | | |
| Payables and other liabilities: | | |
| – Due to third parties | 728 331 | 826 630 |
| – Due to subsidiaries and associates | 534 124 | 288 399 |
| Accrued expenses: | | |
| – Due to third parties | 18 840 907 | 23 761 896 |
| – Due to subsidiaries and associates | 19 559 487 | 6 551 033 |
| Short-term provisions: | | |
| – Due to third parties | 3 001 988 | 0 |
| Short-term debt: | | |
| – Due to third parties | 49 750 000 | 0 |
| – Due to subsidiaries and associates | 226 899 739 | 170 023 838 |
| **Total current liabilities** | **319 314 576** | **201 451 796** |
| **Total liabilities** | **1 219 704 408** | **1 231 910 400** |
| **Total liabilities and shareholders' equity** | **3 259 176 464** | **3 199 343 358** |
| **Shareholders' equity as a percentage of total assets** % | **62.6** | **61.5** |

1 At 31 December

# INCOME STATEMENT – LONZA GROUP LTD

| CHF | 2013 | 2012 |
|---|---|---|
| **Income** | | |
| Income from investments | 211 767 847 | 194 693 311 |
| Interest income | 22 098 190 | 38 811 768 |
| Other financial income | 37 420 384 | 73 102 510 |
| Other income | 1 064 910 | 1 818 367 |
| Income from sales of investments | 0 | 105 187 |
| **Total income** | **272 351 331** | **308 531 143** |
| **Expenses** | | |
| Personnel expenses | 12 841 409 | 14 236 864 |
| Other administrative expenses | 5 932 865 | 6 421 618 |
| Interest expenses | 31 458 156 | 50 460 870 |
| Other financial expenses | 20 846 419 | 61 717 491 |
| Taxes | 6 043 410 | 5 194 279 |
| Other expenses | 1 298 389 | 1 635 545 |
| Write-offs on property, plant and equipment | 571 652 | 524 278 |
| Write-offs on loans | 9 657 720 | 0 |
| **Total expenses** | **88 650 020** | **140 190 945** |
| **Profit for the year** | **183 701 311** | **168 340 198** |

# NOTES TO THE FINANCIAL STATEMENTS – LONZA GROUP LTD

## 1 CONTINGENT LIABILITIES

At 31 December 2013, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 2 054 985 666 (31 December 2012: CHF 2 070 065 700). 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 2013: CHF 153 520
(31 December 2012: CHF 76 412).

## 3 INVESTMENTS

See list of principal subsidiaries, pages 170 and 171.

## 4 MAJOR SHAREHOLDERS

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

See 1.2 Principal Shareholders in Corporate Governance, page 213.

## 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 29 in Consolidated Financial Statements, page 159.

## 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 30 of the Consolidated Financial Statements, page 169.

## 7 OWN SHARES

At 31 December 2013, Lonza Group Ltd held 944 942 of its registered shares with a par value of CHF 1 each (31 December 2012: 1 003 739), resulting in a reserve for own shares of CHF 79 758 906 (31 December 2012: CHF 84 490 970).

In order to satisfy the exercise of the different share plans in 2013, Lonza Group Ltd delivered 58 797 registered shares at an average market value of CHF 68.88. A total of 201 490 of the registered shares with a par value of CHF 1 each (31 December 2012: 218 609) are reserved for the different share plans. Therefore 743 452 of the registered shares (31 December 2012: 785 130) have no special restriction. At 31 December 2013, the total number of registered shares not entitled to a dividend was 944 942, with a par value of CHF 1 each (2012: 1 003 739).

## 8 SHARE CAPITAL

Authorized capital: The Board of Directors is authorized to increase, at any time until 9 April 2015, 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. This authorized capital was created by the Annual General Meeting held on 9 April 2013. The additional terms and conditions of the authorized capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles

4ter of the Company's Articles of Association. 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. This contingent capital (also called conditional capital) was created by the Annual General Meeting on 11 April 2005. The additional terms and conditions of the conditional capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4bis of the Company's Articles of Association. According to Article 4quarter of the Company's Articles of Association, 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.

## 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. As of 31 December 2013 the reserves from capital contribution amount to CHF 617 058 240 (31 December 2012: CHF 728 720 453).

## 10 — LONG-TERM DEBT

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 100.72 %, with maturity date 2 June 2016.

## 11 — ADDITIONAL NOTES

Exchange gains / losses: Other financial expenses in 2013 includes net exchange rate losses of CHF 20 846 318 (In 2012: Other financial income included exchange rate gains of CHF 56 613 234 and Other financial expenses included exchange rate losses of CHF 50 534 103).

Own shares: Other financial income in 2013 include a revaluation for own shares of CHF 34 264 139 (In 2012: Other financial expenses included a depreciation for own shares of CHF 11 183 285).

Long-term loans to subsidiaries and associates: Lonza Group Ltd signed subordination agreements of CHF 160 million (2012: CHF 59 million).

# PROPOSAL OF THE BOARD OF DIRECTORS

*Concerning the Appropriation of Available Earnings*

| CHF | 2013 | 2012 |
|---|---|---|
| Available earnings brought forward | 1 079 573 389 | 906 501 127 |
| Profit for the year | 183 701 311 | 168 340 198 |
| **Available earnings at the disposal of the Annual General Meeting** | **1 263 274 700** | **1 074 841 325** |
| **Available earnings carry-forward** | **1 263 274 700** | **1 074 841 325** |
| Decrease reserve for own shares in the 2013 business year | | 4 732 064 |
| Available earnings brought forward after decrease of reserve for own shares | | 1 079 573 389 |

| CHF | 2013 | 2012 |
|---|---|---|
| General legal reserve qualified as reserve from capital contribution | 617 058 240 | 728 720 453 |
| **Reserve from capital contribution**[1] | **617 058 240** | **728 720 453** |
| Payment of a dividend (out of reserves from capital contribution) in 2013 of CHF 2.15 (2012: CHF 2.15) per share on the share capital eligible for dividend of CHF 51 975 198 (2012: CHF 51 935 913)[2] | (111 746 676) | (111 662 213) |
| **Available reserve from capital contribution carry-forward** | **505 311 564** | **617 058 240** |

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 25 April 2014.

1 Refer to note 9 to the Financial Statements – Lonza Group Ltd

2 Depending on the amount of share capital eligible for dividend on the record date of 24 April 2014. No dividend will be paid out on shares held by the Company.

*Rolf Soiron*
Chairman of the Board

*Richard Ridinger*
Chief Executive Officer

Basel, 7 March 2014

# REPORT OF THE STATUTORY AUDITOR

**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 174 to 178 for the year ended 31 December 2013.

*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 2013 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* | *Florin Janine Krapp* |
| Licensed Audit Expert | Licensed Audit Expert |
| Auditor in Charge | |

Zurich, 7 March 2014

# INVESTOR INFORMATION

Lonza Group Ltd shares are listed on the SIX Swiss Exchange and were included in 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 2013 at a price of CHF 84.60, which represents an increase of 71.4 % in 2013.

The most significant news releases, other than results publications, during the course of 2013 were the following:

**January**

8 Lonza to Expand Antibody Drug Conjugate (ADC) Manufacturing Capacity to Meet Growing Customer Demand

25 Lonza Delivered Solid 2012 Results with Strong Cash Generation (FYR 2012)

30 Lonza Joins Roundtable on Sustainable Palm Oil

**February**

1 Lonza and Novoset LLC Announce the Introduction of New Thermoset Polyimides for Electronic and Aerospace Industries

4 Lonza to Adapt its Management Structure to Focus on Target Markets and Improve Profitability

20 Lonza Awarded Contract to Generate Research Grade iPSCs by the National Institutes of Health Center for Regenerative Medicine

**March**

14 Lonza Prices CHF 300 Million 6-Year Straight Bond Issue

**April**

5 Teva – Lonza Evaluates Biosimilars Opportunity

9 Shareholders Approve All Proposed Agenda Items of Lonza Board of Directors (voting results)

25 Lonza Business Performance on Track (Q1 2013)

**July**

25 Teva and Lonza Announce Mutual Decision to Discontinue Biologics Joint Venture

25 Lonza Progresses Well with Transformational Activities and Delivers Better Than Expected Half Year CORE EBIT (HYR 2013)

30 Lonza and BioWa Sign License Agreements with Pfizer, Inc. Allowing Use of Their POTELLIGENT® CHOK1SV Cell Line for Therapeutic Antibody Research and Development

**August**

7 Sorrento Therapeutics, Inc. Licenses Lonza's GS Xceed™ Gene Expression System for the Research and Development of Human Therapeutic Antibodies

**October**

31 Lonza Business Performance Remains on Track (Q3 2013)

**December**

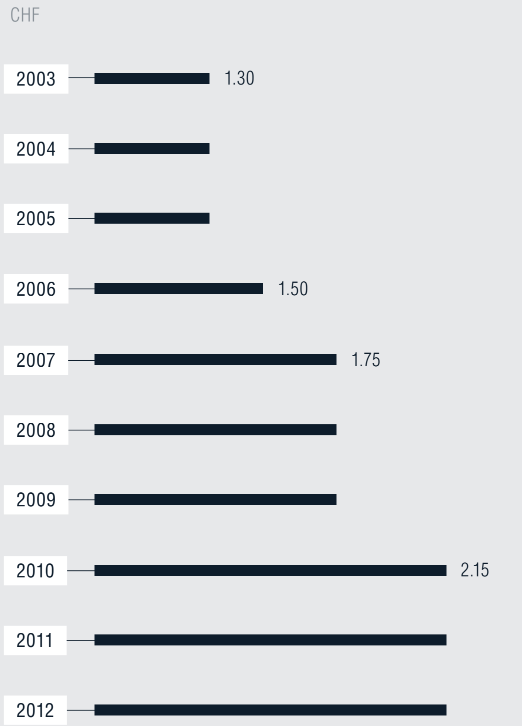
19 Arch Chemicals Inc. Files Petition with the U.S. Department of Commerce

20 Chugai Pharma Manufacturing, a Wholly-owned Subsidiary of Chugai Pharmaceutical Adopts Lonza's MODA-EM™ Quality Control Microbiology Automation Platform for Use in Their Environmental and Utility Monitoring

For a comprehensive review of the media releases issued during 2013, refer to *www.lonza.com/news*

## Lonza Group Ltd 2013 Share Price Development vs. Swiss Leader Index and the Swiss Market Index (rebased)


## Dividend Payment Development




The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2013 can be viewed at: *www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings*

The free float in Lonza Group Ltd registered shares reached 98.21 % at the year-end, and the average daily trade volume was 243 362 shares in 2013.

## Registered Shares

| | | 2013 | 2012 |
|---|---|---|---|
| Number of shares issued | | 52 920 140 | 52 920 140 |
| Number of shares ranking for dividend[1] | | 51 975 198 | 51 916 401 |
| Par value per share | CHF | 1 | 1 |
| Net income (equity holders of the parent) | million CHF | 87 | 174 |
| Diluted net income[2] | million CHF | 87 | 174 |

## Ratios per Security[2]

| | | 2013 | 2012 |
|---|---|---|---|
| Weighted average number of shares | | 51 949 121 | 51 775 225 |
| Diluted weighted average number of shares | | 52 157 971 | 51 978 758 |
| Basic earnings per share | CHF | 1.67 | 3.36 |
| Diluted earnings per share | CHF | 1.67 | 3.35 |

1 See note 25
2 See note 26

## Ten-Year Overview of Major Highlights

| million CHF | | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | | 3 584 | 3925 | 2 692 | 2 680 | 2 690 | 2 937 | 2 870 | 2 914 | 2 521 | 2 182 |
| Result from operating activities (EBIT) | | 253 | 340 | 261 | 374 | 239 | 441 | 408 | 344 | 297 | 212 |
| Net capital invested | | 4 958 | 5437 | 5 667 | 3 688 | 3 900 | 3 768 | 3 277 | 2 608 | 2 786 | 2 574 |
| Return on net capital invested (RONOA) | % | 5.9 | 7.5 | 6.9 | 10.8 | 6.7 | 13.8 | 14.1 | 12.4 | 11.0 | 8.4 |
| Headcount | | 9 935 | 10 789 | 11 001 | 8 280 | 8 386 | 8 462 | 6 929 | 6 146 | 4 992 | 5 664 |

# STATEMENT OF VALUE ADDED

| | [1] Note | | 2013 million CHF | % | | 2012 million CHF | % |
|---|---|---|---|---|---|---|---|
| Origin of value added | | | | | | | |
| Income from production | | | 3 852 | | | 4 216 | |
| Dividend earned | | | 0 | | | 0 | |
| **Total income** | | | **3 852** | **100.0** | | **4 216** | **100.0** |
| Services bought from third parties | | | | | | | |
| – Material costs | 17 | | (1 566) | | | (1 780) | |
| – Energy costs | 17 | | (75) | | | (83) | |
| – Other operating expenses excl. capital taxes | | | (660) | | | (589) | |
| **Gross value added** | | | **1 551** | | | **1 764** | |
| Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment | 5, 6 | | (309) | | | (305) | |
| Income from application of the equity method | 7 | | (29) | | | (19) | |
| **Total net value added** | | | **1 213** | **31.5** | | **1 440** | **34.2** |
| Distribution of value added to staff | | | | | | | |
| – Wages and salaries | 18 | 788 | | | 870 | | |
| – Pensions | 18 | 13 | | | 32 | | |
| – Other social security contributions | 18 | 133 | | | 146 | | |
| – Other personnel expenses | 18 | 47 | | | 59 | | |
| **Total personnel cost** | | | **981** | **81.0** | | **1 107** | **76.9** |
| Distribution of value added to public authorities | | | | | | | |
| – Income and capital taxes | 21 | | 26 | 2.1 | | 48 | 3.3 |
| To lenders: | | | | | | | |
| – Financial expenses net | 20.1, 20.2 | | 119 | 9.8 | | 111 | 7.7 |
| To shareholders: | | | | | | | |
| – Dividends paid | page 85 | | 112 | 9.2 | | 111 | 7.7 |
| To the company: | | | | | | | |
| – Profit for the period | | 87 | | | 174 | | |
| – Dividends paid | page 85 | (112) | (25) | (2.1) | (111) | 63 | 4.4 |
| **Total** | | | **1 213** | **100.0** | | **1 440** | **100.0** |
| Distribution of value added per employee | | | CHF | | | CHF | |
| Wages and salaries | | | 76 047 | | | 79 853 | |
| Pensions | | | 1 255 | | | 2 937 | |
| Other social security contributions | | | 12 835 | | | 13 401 | |
| Other personnel expenses | | | 4 536 | | | 5 415 | |
| **Total per employee** | | | **94 673** | | | **101 606** | |

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

# FREE CASH FLOW

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

| million CHF | 2013 | 2012 (restated) |
|---|---|---|
| EBITDA | 647 | 645 |
| Change of operating net working capital | 42 | 153 |
| Capital expenditures in tangible and intangible assets | (210) | (310) |
| Disposal of tangible assets | 21 | 17 |
| Change of other assets and liabilities | 19 | 5 |
| **Free cash flow** | **519** | **510** |

# CORE RESULTS

Reconciliation of IFRS Results to Core Results 2013

| million CHF | IFRS results | Amortization of intangible assets from acquisition | Impairments | Restructuring costs / income | Impact of Arch integration costs | Results associates | [1]Core results |
|---|---|---|---|---|---|---|---|
| **Sales** | **3 584** | **0** | **0** | **0** | **0** | **0** | **3 584** |
| Cost of goods sold | (2 758) | 0 | [3]79 | 44 | 0 | 0 | (2 635) |
| **Gross profit** | **826** | **0** | **79** | **44** | **0** | **0** | **949** |
| Marketing and distribution | (228) | 0 | 0 | 0 | 0 | 0 | (228) |
| Research and development | (111) | 0 | 0 | 1 | 0 | 0 | (110) |
| Administration and general overheads | (212) | 40 | 0 | 1 | 2 | 0 | (169) |
| Other operating income | 43 | 0 | 0 | 0 | 0 | 0 | 43 |
| Other operating expenses | (65) | 0 | 0 | 16 | 0 | 0 | (49) |
| **Result from operating activities (EBIT)** | **253** | **40** | **79** | **62** | **2** | **0** | **436** |
| Financial income | 44 | 0 | 0 | 0 | 0 | 0 | 44 |
| Financial expenses | (163) | 0 | 0 | 0 | 0 | 0 | (163) |
| **Net financing costs** | **(119)** | **0** | **0** | **0** | **0** | **0** | **(119)** |
| Share of loss of associates / joint ventures | (29) | 0 | 0 | 0 | 0 | 29 | 0 |
| **Profit before income taxes** | **105** | **40** | **79** | **62** | **2** | **29** | **317** |
| Income taxes[2] | (18) | (7) | (16) | (12) | 0 | (5) | (58) |
| **Profit for the period** | **87** | **33** | **63** | **50** | **2** | **24** | **259** |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity holders of the parent** | **87** | **33** | **63** | **50** | **2** | **24** | **259** |
| | | | | | | | |
| Number of shares basic | 51 949 121 | | | | | | 51 949 121 |
| Number of shares diluted | 52 157 971 | | | | | | 52 157 971 |
| Basic earnings per share | 1.67 | | | | | | 4.99 |
| Diluted earnings per share | 1.67 | | | | | | 4.97 |

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 / acquisition are eliminated.

2 Tax impact calculated based on average Group tax rate.

3 Nansha-related impairment of CHF 6 million is considered as part of the core results.

Reconciliation of IFRS Results to Core Results 2012 (restated)

| million CHF | IFRS results | Amortization of intangible assets from acquisition | Impairments | Restructuring costs / income | Impact of Arch integration costs | Other | Results associates | [1]Core results |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **3 925** | **0** | **0** | **0** | **0** | **0** | **0** | **3 925** |
| Cost of goods sold | (2 920) | 0 | 0 | 0 | 6 | 0 | 0 | (2 914) |
| **Gross profit** | **1 005** | **0** | **0** | **0** | **0** | **0** | **0** | **1 011** |
| Marketing and distribution | (245) | 0 | 0 | 0 | 0 | 0 | 0 | (245) |
| Research and development | (116) | 0 | 0 | 0 | 0 | 0 | 0 | (116) |
| Administration and general overheads | (294) | 39 | 0 | 0 | 7 | [2](11) | 0 | (259) |
| Other operating income | 42 | 0 | 0 | 0 | 0 | [3](18) | 0 | 24 |
| Other operating expenses | (52) | 0 | 1 | 29 | 5 | 0 | 0 | (17) |
| **Result from operating activities (EBIT)** | **340** | **39** | **1** | **29** | **18** | **(29)** | **0** | **398** |
| Financial income | 33 | 0 | 0 | 0 | 0 | 0 | 0 | 33 |
| Financial expenses | (144) | 0 | 0 | 0 | 0 | 0 | 0 | (144) |
| **Net financing costs** | **(111)** | **0** | **0** | **0** | **0** | **0** | **0** | **(111)** |
| Share of loss of associates / joint ventures | (19) | 0 | 0 | 0 | 0 | 0 | 19 | 0 |
| **Profit before income taxes** | **210** | **39** | **1** | **29** | **18** | **(29)** | **19** | **287** |
| Income taxes[4] | (36) | (7) | 0 | (5) | (3) | 5 | (4) | (50) |
| **Profit for the period** | **174** | **32** | **1** | **24** | **15** | **(24)** | **15** | **237** |
| Non-controlling interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Equity holders of the parent** | **174** | **32** | **1** | **24** | **15** | **(24)** | **15** | **237** |
| | | | | | | | | |
| Number of shares basic | 51 775 225 | | | | | | | 51 775 225 |
| Number of shares diluted | 51 978 758 | | | | | | | 51 978 758 |
| Basic earnings per share | 3.36 | | | | | | | 4.56 |
| Diluted earnings per share | 3.35 | | | | | | | 4.54 |

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 / acquisition are eliminated.

2 Curtailment gain on the Swiss pension plan as a result of the reduction of headcounts related to the Visp Challenge restructuring program

3 Gain from sale of Performance Urethanes and Organics business

4 Tax impact calculated based on average Group tax rate

# REMUNERATION REPORT

Compensation Philosophy and Summary of Compensation Components — 188
Compensation-Setting Process — 188
Compensation of the Board of Directors — 190
Compensation of Executive Committee — 194
Share Ownership of the Members of the Board of Directors and the Executive Committee — 208

This Remuneration Report provides a comprehensive overview of Lonza's compensation philosophy, principles and components. The report presents, in accordance with the applicable SIX Swiss Exchange regulations and reporting standards, the structure, governance and details of Board of Directors and Executive Committee members' compensation.

LONZA ANNUAL REPORT 2013

## 1 COMPENSATION PHILOSOPHY AND SUMMARY OF COMPENSATION COMPONENTS

### 1.1 COMPENSATION PHILOSOPHY

Lonza's compensation philosophy is designed to attract and retain talent through competitive compensation programs. All compensation programs are performance based, linking employee rewards with company performance. Executive compensation is aligned with the short-term and long-term objectives of the company, results are measured based on achievement of specific goals that are aligned with the short-, and long-term objectives. The majority of employees have the opportunity to participate in Lonza's financial success.

### 1.2 COMPENSATION COMPONENTS

The compensation of Lonza employees includes the following components (total compensation):

- The base pay of Lonza employees is established by assessing the scope of the job within the context of the relevant market, as well as individual performance. The base pay is in general comparable to the median of similar positions in the pharmaceutical, chemical and general industries. Potential increases in base pay are evaluated on an annual basis and are typically based on relevant market benchmarks and the employee's performance.
- The variable compensation is designed to provide employees with the opportunity to participate in the company's overall success and to earn a competitive total compensation. The majority of employees participate in a short-term incentive plan (STIP). Senior Management and key employees also participate in a long-term incentive plan (LTIP). The guiding principle for these plans is to motivate and reward employees on the company's short-term and long-term financial success.
- The benefits programs are defined by country, taking into consideration local legislation as well as competitive market practices within our industry. Benefit packages are reviewed on a regular basis.

The Employee Share Purchase Plan (ESPP) was not offered in 2013 due to cost-saving measures[1].

1 As a result the ESPP will not be presented in the Remuneration Report. For information regarding the ESPP of previous financial years, please refer to financial note 24 in the Consolidated Financial Statement.

## 2 COMPENSATION-SETTING PROCESS

### 2.1 RESPONSIBILITIES

The Board of Directors, the Nomination and Compensation Committee (NCC) and Human Resources interact in the compensation-setting process as follows:

- The compensation policy is set by the Board of Directors. The Board of Directors makes the ultimate decisions on all matters related to the total compensation of the Board of Directors and the Executive Committee.
- The NCC reviews the compensation policy and the incentive programs annually. It advises the Board of Directors on the total compensation of the members of the Board of Directors. In addition, the NCC reviews the total compensation of the members of the Executive Committee, including the CEO. The NCC evaluates the overall performance and goal achievement of the Executive Committee on a regular basis. After each meeting, the NCC informs the Board of Directors and, where necessary, submits proposals for decision by the Board of Directors.
- The Chief Human Resources Officer and the Head of Global Compensation and Benefits prepare the NCC meeting materials and provide the compensation-related materials for such meetings. Both individuals have an advisory function without voting rights. The Chief Human Resources Officer acts as a secretary of the NCC and attends all the meetings. The Head of Global Compensation and Benefits attends the meeting concerning the Executive Committee's compensation, or when otherwise required.

The Remuneration Report is submitted to the Annual General Meeting for a consultative vote.

## 2.2 MEETINGS OF THE NCC REGARDING COMPENSATION

In order to ensure effective governance, the Board of Directors tasks the NCC with submitting proposals related to compensation for decision-making by the Board of Directors. The meetings of the NCC relating to compensation matters take place on a regular basis:

- In October 2012, the NCC reviewed the Short-Term Incentive Plans (STIP) and Long-Term Incentive Plan (LTIP) and proposed to the Board of Directors to change the STIP and LTIP key performance indicators (KPI) for 2013 based on the short -, and long-term objectives for the company. The Board of Directors subsequently decided to replace the Economic Value Added (EVA) KPI with Group Earnings Before Income Taxes (EBIT) and Group Return on Net Operating Assets (RONOA) as financial targets for the STIP 2013. The Board of Directors also decided to eliminate individual targets for members of the Executive Committee and senior management for the STIP 2013. To align the interests of the Executive Committee with the interests of shareholders, the Board of Directors decided to replace the LTIP KPI EVA with Earnings Per Share (EPS) and to maintain Total Shareholder Return (TSR) as the second KPI.
- In January 2013, the NCC discussed and recommended to the Board of Directors the target achievement for STIP 2012 and LTIP 2010. In addition, the NCC finalized the financial STIP targets (Group EBIT and Group RONOA) for 2013 as well as the 2013 financial targets for the 2013 LTIP (EPS and TSR). The recommendations were approved by the Board of Directors.
- In April 2013, the NCC reviewed the base salary of the Executive Committee for the year 2013, as well as the compensation of the Board of Directors. The NCC proposed to the Board of Directors to reduce the remuneration of the Board of Directors by 20 %. The Board of Directors accepted the recommendations of the NCC.
- In July 2013, the NCC approved the grant for participants in the 2013 LTIP. The NCC decided to conduct a market analysis to benchmark total compensation for the Board of Directors and Executive Committee for 2014.
- In October 2013 (two meetings), the NCC discussed and approved principles of compensation-related changes to be implemented in the coming years in order to comply with the Swiss Ordinance Against Excessive Pay by Public Corporations.
- In December 2013 (two meetings), the NCC approved the draft and structure of the Remuneration Report and also reviewed the Articles of Association (AoA) to identify items that may be subject to change in order to comply with the Swiss Ordinance Against Excessive Pay by Public Corporations. More details concerning the Board and Executive Committee compensation policy will be published in the 2014 Annual Report.

The NCC held seven meetings in 2013. With the exception of one member who was unable to attend one meeting, all members of the NCC participated in all meetings.

The decisions of the Board of Directors regarding the compensation of the members of the Executive Committee are resolved in the absence of the members of the Executive Committee. All members of the Board of Directors are non-executive. All members of the Board of Directors took part and voted at its meetings regarding compensation matters.

## 2.3 EXTERNAL ADVISORS AND BENCHMARKS

In 2011 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 with Lonza. This analysis, together with Tower Watson's and Mercer's benchmark data[1], was used to review the remuneration of the Executive Committee and the senior management for 2013. The use of benchmarks is discussed further below.

As part of the ongoing commitment to review the competitive environment, for 2014 compensation, we are conducting a market analysis on total compensation for the Board of Directors and Executive Committee with an external consultant. The results of this analysis will be explained in the next annual remuneration report.

1 The Towers Watson survey includes data from 23 Swiss based and stock listed companies and it covers approximately 1200 executives. The Mercer 2013 Switzerland Total Remuneration Survey includes 211 organisations (general industry).

## 3 COMPENSATION OF THE BOARD OF DIRECTORS

### 3.1 PRINCIPLES

**Objective and Benchmarks** Lonza's objective is to pay the members of the Board of Directors at the market median, based on benchmark data of Swiss companies.

**Overall Structure and Level of Compensation** The overall structure and level of compensation of the Board of Directors did not change between 2005 and 2012. The 2013 compensation structure of the Board of Directors has been amended (see the change in the split into cash and shares below). The level of compensation of the Board of Directors was reduced by 20 %.

### 3.2 COMPENSATION COMPONENTS

The members of the Board of Directors receive a fixed gross compensation for Board membership and additional compensation for committee chairmanships and committee memberships.

Board of Director compensation is paid in four installments at the end of March, June, September and December; 50 % of the compensation is paid in cash and 50 % in shares. In previous years, Board members could choose to be paid either 40 % cash and 60 % in shares or 100 % in shares. The number of granted shares is calculated based on the average closing share price of the last five business days of each quarter with a discount of 20 %. The shares vest after three years of the grant date and are eligible for a dividend. This structure of Board of Director compensation is closely aligned with our shareholders' interests.

The members of the Board of Directors do not receive variable compensation.

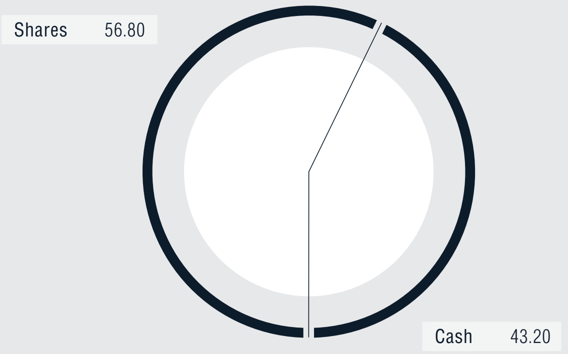
The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Board of Directors of Lonza.

## 3.3 AGGREGATE COMPENSATION OF THE BOARD OF DIRECTORS

In 2013, the payments made to acting members of the Board of Directors totaled CHF 2.463 million (2012: CHF 3.101 million). CHF 1.399 (2012: CHF 2.014 million) were distributed in the form of shares, i.e. 56.80 % (2012: 64.95 %).

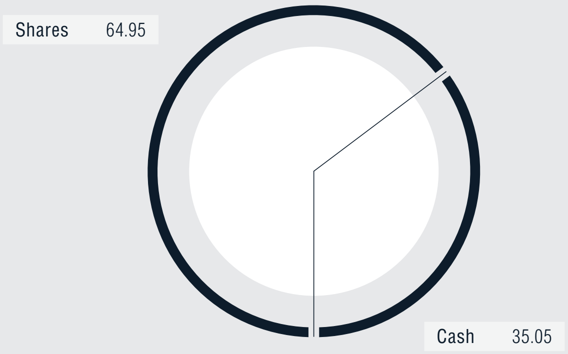
2013

in %




2012

in %




This decrease in the compensation is due to the general reduction of the gross compensation by 20 % for the period April 2013 to March 2014 and the fact that the Chairman's compensation as interim CEO in 2012 is no longer included in the 2013 compensation.

The average number of members of the Board of Directors in full-time equivalents in 2013 was 8.0 FTE (2012: 7.75 FTE).

## 3.4 INDIVIDUAL COMPENSATION OF THE MEMBERS OF THE BOARD OF DIRECTORS

Board of Directors' Compensation

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | [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[1] | 194 449 | 3 805 | 267 039 | 461 488 | 369 050 | 7 800 | 396 808 | 765 858 |
| **Richard Sykes** Vice-Chairman of the Board[4] | 21 875 | 1 337 | 81 998 | 103 873 | 113 750 | 6 524 | 295 189 | 408 939 |
| **Patrick Aebischer** Member of the Board | 103 003 | 1 939 | 137 862 | 240 865 | 56 425 | 5 222 | 238 271 | 294 696 |
| **Werner J. Bauer** Member of the Board[5] | 87 886 | 1 396 | 105 591 | 193 477 | | | | |
| **Thomas Ebeling** Member of the Board[5] | 87 886 | 1 396 | 105 591 | 193 477 | | | | |
| **Jean-Daniel Gerber** Member of the Board | 128 054 | 2 375 | 169 243 | 297 297 | 104 243 | 4 096 | 187 261 | 291 504 |
| **Julia Higgins** Member of the Board[6] | | | | | 48 125 | 1 052 | 49 175 | 97 300 |
| **Gerhard Mayr** Member of the Board[4] | 19 835 | 1 072 | 65 746 | 85 581 | 79 304 | 5 757 | 262 910 | 342 214 |
| **Jörg Reinhardt** Member of the Board[4] | 18 750 | 1 146 | 70 284 | 89 034 | 56 250 | 4 652 | 210 828 | 267 078 |
| **Margot Scheltema** Member of the Board | 153 750 | 1 800 | 126 318 | 280 068 | 123 750 | 2 870 | 126 510 | 250 260 |
| **Antonio Trius** Member of the Board[5] | 112 500 | 1 113 | 84 184 | 196 684 | | | | |
| **Peter Wilden** Vice-Chairman of the Board | 136 087 | 2 637 | 185 059 | 321 146 | 136 161 | 5 412 | 247 152 | 383 313 |
| **Total** | **1 064 075** | **20 016** | **1 398 915** | **2 462 990** | **1 087 058** | **43 385** | **2 014 104** | **3 101 162** |

No loans were granted to current or former members of the Board of Directors during 2013 (nor in 2012). No loans were outstanding as of 31 December 2013. During 2013, no payments (or waiver of claims) were made to former Board members or to persons closely linked to them. No member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

1 This compensation includes Mr. Soiron's committee membership. Mr. Soiron is a member of the NCC. From 24 January 2012 to 30 April 2012 Rolf Soiron also served as interim CEO.
2 All compensation amounts given for the Board of Directors refer to gross payments, including social security and withholding tax, except where stated otherwise. The accrual principle is applied.
3 The fair values were calculated using the market price at grant date, see note 24 in the Lonza Financial Report 2013.
4 Richard Sykes, Gerhard Mayr and Jörg Reinhardt left the Board of Directors in April 2013.
5 Werner J. Bauer, Thomas Ebeling and Antonio Trius joined the Board of Directors in April 2013.
6 Julia Higgins left the Board of Directors in April 2012.

*Development of Compensation*

### Development of Compensation for Board of Directors 2013

| | Grant date | Total number of shares | Share price CHF | Fair values of shares | [1] Cash CHF | Total CHF | Blocked until |
|---|---|---|---|---|---|---|---|
| | 31 03 2013 | 8 146 | 61.33 | 499 594 | 165 000 | 664 594 | 31 03 2016 |
| | 30 06 2013 | 4 221 | 69.96 | 295 301 | 262 500 | 557 801 | 30 06 2016 |
| | 30 09 2013 | 3 961 | 74.30 | 294 302 | 262 500 | 556 802 | 30 09 2016 |
| | 31 12 2013 | 3 688 | 83.98 | 309 718 | 275 000 | 584 718 | 31 12 2016 |
| **Total** | | **20 016** | **69.89** | **1 398 915** | **965 000** | **2 363 915** | |

The amount of CHF 2 363 915 was recognized as an expense in the year 2013.

### Development of Compensation for Board of Directors 2012

| | Grant date | Total number of shares | Share price CHF | Fair values of shares | [1] Cash CHF | Total CHF | Blocked until |
|---|---|---|---|---|---|---|---|
| | 31 03 2012 | 9 715 | 46.74 | 454 079 | 180 000 | 634 079 | 31 03 2015 |
| | 30 06 2012 | 13 779 | 38.57 | 531 456 | 175 000 | 706 456 | 30 06 2015 |
| | 30 09 2012 | 10 006 | 49.84 | 498 699 | 210 000 | 708 699 | 30 09 2015 |
| | 31 12 2012 | 9 885 | 49.49 | 489 228 | 175 000 | 664 228 | 31 12 2015 |
| **Total** | | **43 385** | **45.49** | **1 973 462** | **740 000** | **2 713 462** | |

The amount of CHF 2 713 462 was recognized as an expense in the year 2012.

### 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.

1 | Excluding social security and withholding tax

## 4 COMPENSATION OF THE EXECUTIVE COMMITTEE

### 4.1 PRINCIPLES

**Objective and Benchmarks** Lonza's objective is to pay the members of the Executive Committee a base salary in line with the median for the market as described below, with the potential for executives to earn above-median compensation through a combination of competitive short-term and long-term incentive programs if the company outperforms its financial targets. These incentive plans are designed to align the Executive Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Executive Committee is benchmarked on a regular basis against the relevant industry:

- In 2011 the Board of Directors appointed a specialized external consultant (Kepler Associates) to benchmark the compensation of the Executive Committee against Swiss-listed companies of a similar size in terms of equity market capitalization and sales (peer group of 18 companies[1]) and international sector comparators (peer group of 37 companies[2] in the pharmaceutical and chemical industries). This survey showed that the remuneration of the members of the Executive Committee is between the median and lower quartile (50$^{th}$ percentile and 25$^{th}$ percentile of the benchmark). As a consequence, the Board of Directors, upon proposal of the NCC, decided to successively adjust the compensation plans for the Executive Committee. In a first step, the Extended Short-Term Incentive Plan (E-STIP), an equity-based incentive plan, was implemented (described in detail on page 199).
- The 2013 compensation benchmark data was aligned in accordance with the average base salary increase of companies in the pharmaceutical, chemical and general industries. In order to estimate this alignment for 2013, two benchmark providers[3] were used to draw the comparison. These two benchmark providers have further consulting mandates within the Human Resources department.

As a result, the overall structure of compensation for the Executive Committee remained largely unchanged in 2013.

1 Givaudan, Sonova, Actelion, Lindt & Sprüngli, Sika, Sulzer, Baloise, Swiss Life, Clariant, Barry Callebaut, BKW FMB Energie, Logitech International, Aryzta, Galenica, Straumann, Dufry Group, Helvetia, Panalpina Welttransport.

2 Johnson & Johnson, Novartis, Pfizer, Roche, Merck & Co, GlaxoSmithKline, BASF, Astra Zeneca, Bayer, Amgen, Bristol-Meyers Squibb, Gilead Sciences, Celgene, Thermo Fisher Scientific, Genzyme, Biogen Idec, Akzo Nobel, K+S, Koninklijke DSM, Life Technologies, Wacker Chemie, Solvay, Sigma-Aldrich, Illumina, Vertex, Alexion, UCB, Dr Reddy's Laboratories, Lanxess, Clariant, Arkema, Croda International, Symrise, Rhodia, Crucell, Biocon, Cambrex.

3 Towers Watson and Mercer.

## 4.2 REMUNERATION COMPONENTS

The compensation of the members of the Executive Committee consists of the following components:

- The base salary is paid in cash and is determined for each position considering the responsibilities of the position and performance of each member of the Executive Committee.
- Short-Term Incentive Plans (STIP): The company provides the members of the Executive Committee with Short-Term Incentive Plans, of which amount two-thirds is paid in cash (Cash STIP) and one-third in restricted share units (RSUs) (E-STIP) which vest after three years. Performance metrics are defined for each financial year; achievement determines the payout of STIP. The performance metrics for the STIP for the Cash STIP and the E-STIP are the same. For more details regarding the Cash STIP, please refer to page 199. The E-STIP ensures the competitiveness of the executive variable compensation and serves as retention for Executive Committee members. E-STIP is awarded in RSUs with a three year vesting period. For more details regarding the E-STIP, please refer to page 199.
- Long-Term Incentive Plan (LTIP): The LTIP was designed to align the interests of the Executive Committee with those of Lonza's shareholders and to serve as a retention for the executives. The LTIP is a 100 % equity-based plan with conditional equity awards vesting after three years according to performance conditions. Executive Committee members are awarded the right to receive a number of shares in Lonza in the future, provided that certain performance-related conditions are achieved. For more details regarding the LTIP, please refer to page 201.
- The Executive Committee's compensation package also includes certain benefits such as car, travelling allowances, health insurance and pension, and if applicable relocation packages, housing allowances and tuition fees.

## 4.3 AGGREGATE COMPENSATION OF THE EXECUTIVE COMMITTEE

Executive Committee's Compensation[1]

| million CHF | 2013 | 2012 |
|---|---|---|
| Cash payments and benefits | | |
| Base salary | 2.917 | 4.286 |
| Short-term incentive (cash)[2] | 1.325 | 2.229 |
| Post-employment benefits[3] | 0.370 | 0.418 |
| Other benefits[4] | 0.410 | 0.989 |
| Termination benefits in cash[5] | 5.179 | 3.306 |
| Share-based payments | | |
| Accelerated vesting of LTIP equity awards due to termination (2012: 47 789 shares)[6] | 0.000 | 1.673 |
| Value of E-STIP RSUs (number of RSUs will be determined in March 2014) | 0.628 | 0.530 |
| Value of LTIP equity awards[7] (number of equity awards 2013: 82 055; 2012: 96 427) | 2.145 | 1.797 |
| **Total** | **12.974** | **15.228** |
| **Ratio of fixed compensation to the performance-related components of compensation (without termination payment)** | **90.21 %** | **125.0 %** |

1 2013: 8.0 members (average: 5.3); 2012: 10.0 members (average: 8.1).
2 STIP of the reporting year, paid in March of the following year. The achievement for 2013 was 89.63 % (2012: 104.0 %).
3 Social security and pension fund.
4 The table shows the fair value of these benefits.
5 This table discloses the amounts accrued for the years 2012 and 2013.
6 Value at market price May 2012. For the fair value according to IFRS 2, please refer to note 29 in the Consolidated Financial Report, page 164, footnote 4, no accelerated vesting in 2013.
7 The fair values were calculated using the fair value at grant date according to IFRS 2. For more detailed comments, please refer to note 24 in the Consolidated Financial Report, page 134. 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).

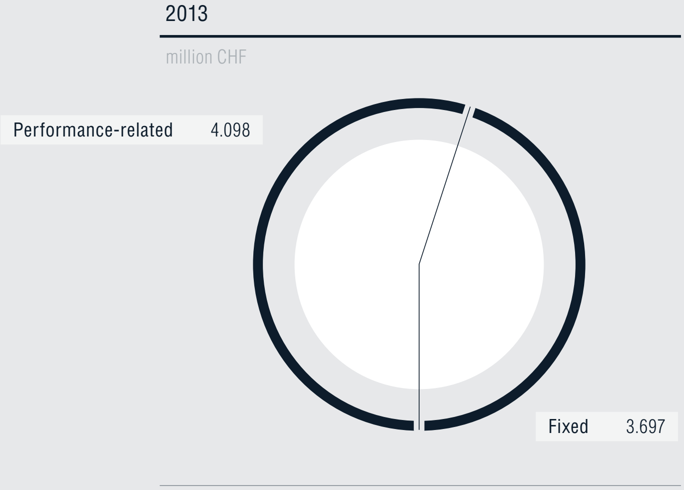
The reason for the decrease in total base salary and incentive payments in 2013 to the Executive Committee is a reduction in the number of members. From 1 January to 31 January 2013 there were eight members in the Executive Committee. Three Members left their Executive Committee position in February 2013. As a result, the average number of Executive Committee members during the year 2013 was 5.3 full-time equivalents (2012: 8.1 FTE).

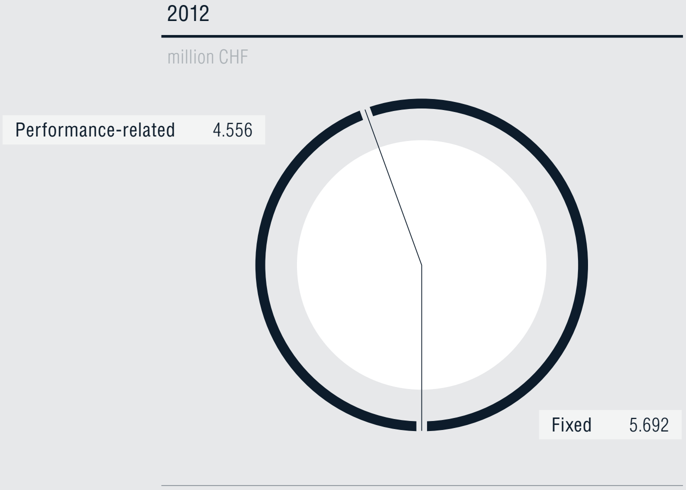
The percentage of the granted equity awards for members of the Executive Committee remained unchanged in 2013. Due to the reduction of Executive Committee members in 2013 and the increase in share price at the grant of equity award distribution, the number of granted equity awards decreased (2013: 82 055; 2012: 96 427). However, as a consequence of the increase in share price, the total value of LTIP compensation increased based on the higher fair value of CHF 26.80 (2012: 18.63).

The acting members of the Executive Committee received for their contributions and time served in 2013 CHF 5.022 million[8] (2012: CHF 7.922 million) in cash and benefits, 82 055 LTIP equity awards (2012: 96 427) and a number of E-STIP RSUs (the exact number will be determined in March 2014), equivalent to a value of CHF 2.773 million (2013: 2.326 million).

8 Including post-employment benefit and STIP paid in March of the following year.

The RSUs of the E-STIP and the equity awards of the LTIP have a three-year vesting period. The vesting of the LTIP equity awards is linked to performance conditions and the value at vesting may be higher or lower than at the time of the grant. In case of non-achievement of the performance conditions' threshold, the LTIP value is zero. The ratio of fixed compensation to the performance-related components of compensation was 90.21 % (2012: 125.0 %). Termination payments and the LTIP equity awards that vested according to the termination agreements are not included in the ratio.




## 4.4 HIGHEST COMPENSATION PAID TO A MEMBER OF THE EXECUTIVE COMMITTEE

**Highest Compensation** The highest compensation of a member of the Executive Committee in 2013 was paid to the CEO. The CEO received CHF 1.580 million paid in cash, E-STIP RSUs and benefits and was granted 23 815 LTIP equity awards for 2013 equivalent to a fair value of CHF 0.638 million. The vesting of these LTIP equity awards is linked to vesting conditions and the value at vesting may be higher or lower than at time of grant. In the case of non-achievement of the performance conditions' threshold, the LTIP value is zero.

The highest compensation in 2012 was paid to the former CEO for his service until the end of May 2012 and termination payments. Details were given in the 2012 Annual Report.

Compensation of the Highest-Paid Individual (CEO)

| million CHF | 2013 | 2012 |
|---|---|---|
| Base salary | 0.859 | 0.395 |
| Short-Term Incentive (cash)[1] | 0.386 | 0.276 |
| Post-employment benefits[2] | 0.102 | 0.038 |
| Other benefits[3] | 0.040 | 0.036 |
| Termination benefits in cash | 0.0 | 3.306 |
| Share-based payments | | |
| Accelerated vesting of LTIP equity awards due to termination | | 1.673 |
| Value of E-STIP RSUs (number of RSUs will be determined in March 2014) | 0.193 | 0.0 |
| Value of LTIP equity awards (2013: 23 815)[4] | 0.638 | 0.0 |
| **Total** | **2.218** | **5.724** |
| **Ratio of fixed compensation to the performance-related components of compensation** | **82.24%** | **n.a.** |

1 Incentive (STIP) for the reporting year. The 2012 STIP was paid in March 2013; the 2013 STIP will be paid in March 2014.

2 Social security and pension fund.

3 Company car, health insurance and tuition. The table shows the fair value of these benefits.

4 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2013 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 is higher or lower (or even zero).

## 4.5 COMPENSATION TO DEPARTING MEMBERS OF THE EXECUTIVE COMMITTEE

Three members of the Executive Committee left the company in 2013. The employment agreement of one member of the Executive Committee was terminated on 1 February 2013. On the same date, two other members left the Executive Committee, but kept full-time employment with the Company through 30 March 2013 and 30 June 2013 respectively without Executive Committee responsibilities. In addition, a termination agreement was finalized in 2013 with a former member of the Executive Committee who stopped activities in 2012.

According to the terms of the applicable employment agreements, these four departing members of the Executive Committee received a total compensation as a result of their termination of CHF 5.179 million in cash and benefits. These cash payments include base salary, Cash STIP and benefits for notice periods of maximum 18 months. Their LTIP equity awards for 2011 and 2012 will vest according to the achievement of performance conditions and according to the applicable LTIP plan rules for 2011 and 2012.

## 4.6 DETAILS OF INCENTIVE PLANS

This subsection describes the plan details of the Short-Term Incentive Plans (STIP) and the Long-Term Incentive Plan (LTIP):

### A SHORT-TERM INCENTIVE PLANS (STIP)

**History and Participation** In 2005, the Board of Directors implemented the current Cash STIP for the majority of the Group's employees, including the members of the Executive Committee. Approximately 90 % of our employees participate in short-term incentive plans, either in the Cash STIP program or in a local bonus program.

Based on the benchmark analysis made in 2011 and recognizing the need to introduce a long-term element in the incentive program as well as fostering retention, the Board of Directors implemented in 2011 an Extended Short-Term Incentive Plan (E-STIP) for senior managers, including the Executive Committee members.

The STIP for senior managers, including the Executive Committee members, is paid two-thirds in cash (Cash STIP) and one-third in RSUs (E-STIP). These RSUs will vest after three years.

**Definition of Targets** The performance criteria are set annually based on the company's short-term objectives and assessed for achievement at the end of the year against the audited financial results. The performance metrics for both elements of the STIP (Cash STIP and E-STIP) are the same.

### *Cash STIP*

**Objective** The STIP plans provide the potential for an annual incentive based on the financial performance of the Group and the performance of the participant.

**Payments Timing and Form** The Cash STIP for the financial year is paid in cash in March of the following year.

The maximum amount of Cash STIP as % of base salary and the type of targets (financial / individual) are differentiated for the members of the Executive Committee / Senior Management and the non-executive Cash STIP participants. As a result, the assessment of the target achievement also differs for members of the Executive Committee / Senior Management and the non-executive participants of the Group:

| | Executive Committee/Senior Management | Other participants |
|---|---|---|
| Targeted Cash STIP amount as % of base salary | 50 % for Executive Committee<br>30 % to 40 % for Senior Management | 5 % to 30 % |
| Type of Cash STIP and E-STIP targets | Only financial targets (in 2012 financial and individual targets):<br>EBIT target (50 % of the STIP)<br>RONOA target (50 % of the STIP). | Financial targets:<br>The weight of the financial targets (same as for the Executive Committee) is 80 % of the total potential incentive<br>Individual target:<br>The personal targets (20 %) are generally linked to measurable key performance indicators (e.g. cost reduction, safety, productivity improvement, sales growth etc.). |
| Assessment of Cash STIP and E-STIP target achievements | Depending on the financial results achievement the STIP payout may range between 0 and a maximum of 190 %. | Depending on the financial results achievement the Cash STIP payout may range between 0 and 250 % for financial results achievement and between 0 and 150 % for individual targets. |
| Maximum annual total / potential incentive amount | Since executives only have financial targets, the maximum annual total incentive STIP payout is capped at 190 %. | The maximum annual total incentive level is capped at 230 % (= 80 % × 2.5 + 20 % × 150 %) of the potential incentive amount. |

### *Extended Short-Term Incentive Plan (E-STIP)*

**Relationship to STIP** The E-STIP is part of the overall STIP concept and accounts for one-third of the aggregate amount of Cash STIP and E-STIP. The E-STIP is paid in the form of RSUs. For Senior Management and key employees, this ratio is different:

| | Executive Committee/Senior Management | Other participants |
|---|---|---|
| Targeted E-STIP amount as % of base salary | 1/3 of overall STIP target for Executive Committee<br>10 % to 20 % for Senior Management | up to 1/3 of overall STIP target |

**Alignment on Share Price** The value of the plan is strongly dependent on Lonza's future share price. The E-STIP is awarded in the form of RSUs, which are subject to a three-year vesting condition.

**Grant Timing** The grant of the RSUs under the E-STIP 2013 will take place on 31 March 2014 (E-STIP 2012 on 31 March 2013), at which date the number of RSUs will be determined based on the closing stock price of the last business day in March.

**Dividend and Voting Rights** The RSUs do not qualify for dividends and voting rights until vested.

Non-vested RSU

| | Grant date | Share price | Granted share units | Vesting date |
|---|---|---|---|---|
| E-STIP 2011 | 31.03.2012 | 46.66 | 33 205 | 31 03 2015 |
| E-STIP 2012 | 31.03.2013 | 61.60 | 41 405 | 31 03 2016 |

Development Within 2013 of E-STIP

| | Share units outstanding 01 01 2013 | Share units granted during 2013 | Share units forfeited during 2013 | Share units vested during 2013 | Share units lapsed during 2013 | Share units outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| E-STIP 2011 | 33 205 | 0 | 0 | (1 204) | 0 | 32 001 |
| E-STIP 2012 | 0 | 41 405 | 0 | (879) | 0 | 40 526 |
| **Total** | **33 205** | **41 405** | **0** | **(2 083)** | **0** | **72 527** |

Development Within 2012 of E-STIP

| | Share units outstanding 01 01 2012 | Share units granted during 2012 | Share units forfeited during 2012 | Share units vested during 2012 | Share units lapsed during 2012 | Share units outstanding 31 12 2012 |
|---|---|---|---|---|---|---|
| E-STIP 2011 | 0 | 33 205 | 0 | 0 | 0 | 33 205 |
| **Total non-vested share units** | **0** | **33 205** | **0** | **0** | **0** | **33 205** |

**Estimation of Fair Value** The estimated fair value of the RSUs granted in 2013 was CHF 61.60 (2012: CHF 46.60). The weighted average share price of the vested share unit in 2013 was CHF 52.96. No share units vested in 2012.

The outstanding share units on 31 December 2013 had a weighted average share price of CHF 55.01 (2012: CHF 46.66) and a remaining weighted average contractual life of 22 months (2012: 27 months). The fair value was calculated using the market price at grant date. The amounts for share units were expensed on a straight-line basis over the vesting period, based on estimates of share units that will eventually vest. The expected volatility was 3 %. The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date

| CHF | |
|---|---|
| E-STIP 2011 | 1 502 865 |
| E-STIP 2012 | 2 474 032 |

**Achievement in 2013** For Executive Committee members, the financial targets resulted in a 89.63 % achievement (2012: 104.0 %).

**Changes in 2014** In 2014 the targets for the STIP will change and will include three financial targets: Core EBIT (Earnings Before Interest and Tax), Sales Growth, and operational Free Cash-Flow. These metrics were defined for 2014 to ensure alignment of rewards with the short-term objectives of the company regarding top-line growth, results focus and deleveraging of the company.

### B LONG-TERM INCENTIVE PLAN (LTIP)

**History and Participation** The LTIP is an equity-based plan introduced in 2006 for a selected segment of key employees, including the Executive Committee.

**Objectives** The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders and to serve as a retention tool. LTIP participants are eligible to receive a number of Lonza shares at the end of the vesting period, provided that certain performance conditions are met.

**Maximum Equity Awards** Under the LTIP, selected key employees are awarded the right to receive a number of registered shares of Lonza in the future. Depending on the level of the job, the maximum equity award grant is between 10 % and 150 % of the annual base salary. Maximum equity award grants are determined at the beginning of the vesting period of three years. Vesting will depend on achievement of the performance conditions and cannot exceed the maximum amount of granted equity awards:

| | Executive Committee/Senior Management | Other participants |
|---|---|---|
| Maximum award of LTIP as % of base salary at grant date | 150 % for Executive Committee<br>25 % to 75 % for Senior Management | 10 % to 25 % |

**Mandatory Individual Investment** Individuals participating in the LTIP have to retain a set number of vested Lonza shares in order to participate in the plan.

**Restriction and Vesting** 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 performance metrics required for vesting are fully or partially met.

**Vesting targets** For the LTIP 2010 to 2012, the performance metrics were EVA and TSR with 50 % weight for each metric. For the LTIP 2013, the performance metrics were EPS and TSR with 50 % weight for each measure:

- The vesting of up to 50 % of the granted equity awards is based on the total shareholder return (TSR[1]) achieved during Lonza's three fiscal years before the end of the vesting period compared with a peer group[2]. The 2011, 2012 and 2013 TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2010: 5 %) on average over three years. At this TSR level, the maximum amount of the granted equity awards vests. If the TSR target is not fully reached, the number of granted equity awards that vest is reduced linearly according to the achieved target of TSR. The threshold target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, 25 % of the granted equity awards will vest. If the threshold is not met, the granted equity awards linked to this performance metric will lapse.
- For the years 2010 to 2012, the vesting of up to 50 % of the remaining granted equity awards is based on the average annual Group Economic Value Added (EVA[3]) growth achieved during Lonza's three fiscal years at the end of the vesting period. The EVA target for maximum granted equity awards in 2012 is reached if Lonza increases its EVA within the vesting period from CHF 2.0 million up to CHF 79.7 million (for granted equity awards in 2011: from CHF 15.9 million up to CHF 114.4 million). If the EVA target is not fully reached, the percentage of the granted equity awards from the grant that vest is reduced linearly according to the EVA achievement. The threshold is to maintain the same level of EVA at the beginning of the performance period. If this minimum target is met, 25 % of the granted equity awards will vest. If the EVA threshold is not met, the granted equity awards linked to this performance metric will lapse.
- For the year 2013, the vesting of up to 50 % of the granted equity awards is dependent on growth of earnings per share (EPS) achieved during Lonza's three fiscal years (2013–2015). The EPS maximum grant is reached if Lonza increases its EPS within the performance period by 50 % (from CHF 3.52 to CHF 5.28). If the EPS maximum growth is not fully reached, the percentage of the granted equity awards from the share entitlement that vest is reduced linearly to the threshold of EPS at the beginning of the performance period. If this minimum target is met, 25 % of the granted equity awards will vest. If the threshold is not met, granted equity awards related to this performance metric will lapse.

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 See table below.

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

Overview of Vesting Conditions for the LTIP

| Year | TSR | EVA | EPS | TSR Peer Group (unweighted average) |
|---|---|---|---|---|
| 2010 | Exceed the indices by 5 % on annualized average between January 2010 and December 2012 | Increase from CHF 34.2 m up to CHF 137.0 m between January 2010 and December 2012 | n.a. | 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 |
| 2011 | Exceed the indices by 9 % on annualized average between January 2011 and December 2013 | Increase from CHF 15.9 m up to CHF 114.4 m between January 2011 and December 2013 | n.a. | MSCI Chemicals, MSCI Health Care, SPI |
| 2012 | Exceed the indices by 9 % on annualized average between January 2012 and December 2014 | Increase from CHF 2.0 m up to CHF 79.7 m between January 2012 and December 2014 | n.a. | MSCI Chemicals, MSCI Health Care, SPI |
| 2013 | Exceed the indices by 9 % on annualized average between January 2013 and December 2015 | n.a. | Increase by 50 % from CHF 3.52 to CHF 5.28 between January 2013 and December 2015 | MSCI Chemicals, MSCI Health Care, SPI |

The minimum of the performance metrics of the LTIP 2010 were not met and the granted equity awards lapsed. The minimum of the performance metrics of the LTIP 2011 were not met and the granted equity awards lapsed.

The following table shows historical data on vesting conditions for LTIP-granted equity awards in the years 2010 to 2013, information used in calculating the fair value of the LTIP grants, and the number of equity awards vesting following the target attainment in the respective year.

Details of Long-Term Incentive Plans

| | Grant date | Share price CHF | Granted equity awards | TSR | EVA level targets / EPS growth | Vesting date |
|---|---|---|---|---|---|---|
| LTIP 2010 | 01 02 2010 | 75.65 | 147 711 | 5 % | 137.0 m | 31 01 2013 |
| LTIP 2011 | 01 02 2011 | 74.35 | 152 077 | 9 % | 114.4 m | 31 01 2014 |
| LTIP 2012 | 01 02 2012 | 49.69 | 267 031 | 9 % | 79.7 m | 31 01 2015 |
| LTIP 2013 | 01 02 2013 | 53.60 | 204 653 | 9 % | CHF 5.28 | 31 01 2016 |

Conditions of Vesting 2013

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EPS | 25 % | 100 % | CHF 5.28 | 50.00 % |
| Turnover of employees | | | | 3.00 % |

Conditions of Vesting 2012

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EVA | 25 % | 100 % | 79.7 m | 25.00 % |
| Turnover of employees | | | | 3.00 % |

### Conditions of Vesting 2011

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 9 % | 50.00 % |
| EVA | 25 % | 100 % | 114.4 m | 50.00 % |
| Turnover of employees | | | | 3.00 % |

### Conditions of Vesting 2010

| | Minimum | Maximum | Target | Probability |
|---|---|---|---|---|
| TSR | 25 % | 100 % | 5 % | 50.00 % |
| EVA | 25 % | 100 % | 137.0 m | 50.00 % |
| Turnover of employees | | | | 0.00 % |

### Vesting Conditions

| | Market price CHF | Granted equity awards | Fair value of equity awards | Expected vesting EVA / EPS | Probability minimum targets | Volatility employees | Total probability | Total cost at grant date CHF |
|---|---|---|---|---|---|---|---|---|
| LTIP 2010 TSR | 75.65 | 73 855 | 37.83 | | 100 % | n.a. | 100.00 % | 2 793 565 |
| LTIP 2010 EVA | 75.65 | 73 856 | 75.65 | 50 % | 100 % | 0 % | 100.00 % | 2 793 603 |
| LTIP 2011 TSR | 74.35 | 76 038 | 37.18 | | 100 % | 3 % | 97 % | 2 741 911 |
| LTIP 2011 EVA | 74.35 | 76 039 | 74.35 | 50 % | 100 % | 3 % | 97 % | 2 741 947 |
| LTIP 2012 TSR | 49.69 | 133 515 | 24.85 | | 100 % | 3 % | 97 % | 3 217 665 |
| LTIP 2012 EVA | 49.69 | 133 516 | 49.69 | 25 % | 100 % | 3 % | 97 % | 1 608 844 |
| LTIP 2013 TSR | 53.60 | 102 327 | 26.80 | | 100 % | 3 % | 97 % | 2 660 093 |
| LTIP 2013 EPS | 53.60 | 102 327 | 53.60 | 50 % | 100 % | 3 % | 97 % | 2 660 093 |

### Development Within 2013 of the LTIP

| | Equity awards outstanding 01 01 2013 | Equity awards granted during 2013 | Equity awards forfeited during 2013 | Vested equity awards during 2013 | Equity awards lapsed during 2013 | Equity awards outstanding 31 12 2013 |
|---|---|---|---|---|---|---|
| LTIP 2010 | 124 142 | 0 | 0 | 0 | (124 142) | 0 |
| LTIP 2011 | 127 857 | 0 | 0 | 0 | 0 | 127 857 |
| LTIP 2012 | 267 031 | 9 723 | 0 | 0 | 0 | 276 754 |
| LTIP 2013 | 0 | 204 653 | 0 | 0 | 0 | 204 653 |
| **Total equity awards** | **519 030** | **214 376** | **0** | **0** | **(124 142)** | **609 264** |

### Development Within 2012 of the LTIP

| | Equity awards outstanding 01 01 2012 | Equity awards granted during 2012 | Equity awards forfeited during 2012 | Vested equity awards during 2012 | Equity awards lapsed during 2012 | Equtiy awards outstanding 31 12 2012 |
|---|---|---|---|---|---|---|
| LTIP 2009 | 121 356 | 0 | 0 | 0 | (121 356) | 0 |
| LTIP 2010 | 147 711 | 0 | 0 | (23 569) | 0 | 124 142 |
| LTIP 2011 | 152 077 | 0 | 0 | (24 220) | 0 | 127 857 |
| LTIP 2012 | 0 | 267 031 | 0 | 0 | 0 | 267 031 |
| **Total equity awards** | **421 144** | **267 031** | **0** | **(47 789)** | **(121 356)** | **519 030** |

The estimated fair value of the granted equity awards in 2013 was CHF 26.80 (2012: CHF 18.63). No equity awards vested in 2013. The weighted average share price of the granted equity awards in 2012 was CHF 74.99. The outstanding granted equity awards on 31 December 2013 had a weighted average share price of CHF 25.27 (2012: CHF 27.79) and a remaining weighted average contractual life of 19 months (2012: 16 months).

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

Fair Value at Grant Date

| CHF | |
|---|---|
| LTIP 2010 | 5 587 168 |
| LTIP 2011 | 5 653 463 |
| LTIP 2012 | 4 975 783 |
| LTIP 2013 | 5 484 728 |

## 4.7 COMPENSATION IN CASE OF TERMINATION

### A Notice Period

Members of the Executive Committee appointed prior to 2012 are entitled to notice periods of up to 18 months, except in one case where the notice period is 60 days. Members of the Executive Committee appointed in 2012 are entitled to a notice period of 12 months.

Following a change of control, the applicable notice periods are extended to 18 months if the company terminates the employment of a member of the Executive Committee. The change of control agreements of the Executive Committee will be aligned in 2014 according to the Swiss Ordinance Against Excessive Pay by Public Corporations.

### B Base Pay and Benefits

In the case of termination by the Company without cause or due to the disability of a member of the Executive Committee, or of resignation by the relevant member of the Executive Committee for good reason (such as reduction of remuneration or demotion), the two members of the Executive Committee who joined before 2012 are entitled to a payment corresponding 18 months' base salary, outplacement support and additional health insurance until new employment is found, under the condition that the relevant member of the Executive Committee executes a release in favor of the company. The remaining members of the Executive Committee (including CEO) are entitled to a payment corresponding to 12 months with a comparable package.

### C E-STIP and LTIP

*Termination by the Company*

The treatment of E-STIP and LTIP in case of termination varies between the members of the Executive Committee based on their individual employment agreements:

- For the members of the Executive Committee appointed before 2012, the rules are as follows. In the case of termination by the company without cause, for any LTIP equity awards granted as of 2012, the service condition is waived pro rata temporis based on the actual vesting period: one-third in case of termination after one year, two-thirds for termination after two years, three-thirds for termination after three years. The granted equity awards remain subject to any performance conditions, and shares, if any, are delivered only after completion of the vesting period. In the case of termination by the Company without cause, for LTIP equity awards granted before 2012 and any E-STIP grants, the NCC may decide either to keep intact or forfeit such entitlements. If the NCC decides to keep the granted equity awards intact, the equity awards will vest according to the plan rules of the applicable year.
- For two members of the Executive Committee, there are specific rules in the event the end of the termination period occurs before the end of one of the incentive plan vesting periods. The equity awards granted under those circumstances will be paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board of Directors, or as applicable, be deemed to have been reached with respect to such a period.
- For another member of the Executive Committee, if the company terminates the employment of this executive other than following change of control (or if the relevant executive terminates its employment with the company other than for cause), all unvested granted equity awards or other interests granted by the company under the applicable benefit plan lapse and are forfeited. If the employment is terminated by the relevant executive for cause or if the company terminates the agreement of the relevant executive without cause further to a change of control, unvested benefits will vest automatically at the end of the termination period. As a general rule, the relevant executive's granted equity awards are paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board of Directors or NCC, as applicable, be deemed to have been reached with respect to the relevant period.

### *Termination by the Employee*

In the case of voluntary termination of employment by the members of the Executive Committee, for LTIP equity awards granted before 2012 it is in the sole discretion of the NCC to waive the forfeiture of the granted equity awards in full or in part. In the case of voluntary termination of employment before vesting of the LTIP grants 2012, the forfeiture shall be waived pro rata to the vesting period: one-third for termination after one year, two-thirds for termination after two years, three-thirds for termination after three years. The granted equity awards remain subject to any performance conditions, and shares, if any, are delivered three years from grant. In the case of voluntary termination of employment, for LTIP grants made in 2013 the granted equity awards will forfeit entirely. In the case of voluntary termination of employment, for any E-STIP grants at any time before the vesting, the participant will forfeit the right to receive a transfer of shares.

### *Termination due to Disability, Death or Retirement*

In the case of termination due to the disability, death or retirement of a member of the Executive Committee, the E-STIP related share units vest in principle immediately. In case of termination of the employment agreement due to disability or death, 50 % of granted equity awards related to LTIP vest immediately, while 50 % lapse.

### *Termination upon Change of Control*

In the case of change of control all granted equity awards and share units attributed to the relevant member of the Executive Committee as part of the E-STIP, LTIP and ESPP unconditionally vest immediately (i.e. performance conditions do not apply). In addition, certain members of the Executive Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the termination period; a cash amount equal to 100 % of the LTIP compensation during the termination period; and outplacement support up to an amount of CHF 50 000. Except in two cases, the applicable notice period is extended to 18 months if the relevant member of the Executive Committee resigns for good reasons (such as reduction of remuneration or demotion) following a change of control. For one of these two members the granted equity awards (LTIP) and RSUs (E-STIP) will vest automatically at the end of the notice period.

The change of control agreements of the Executive Committee will be aligned in 2014 according to the Swiss Ordinance Against Excessive Pay by Public Corporations.

## 5 SHARE OWNERSHIP OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE 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 2013 a total of 123 424 (2011: 152 769) registered shares in Lonza Group Ltd and controlled 0.23 % (2011: 0.29 %) of the share capital. None of the members of Board of Directors and the Executive Committee owns shares in the Group's subsidiaries or associates.

The members of the Executive Committee and parties closely associated with them held 28 919 (2012: 54 327) shares and controlled 0.05 % (2012: 0.10 %) of the share capital. The individual control rights are proportional to the holdings shown below.

Share ownership of acting members of the Board of Directors and Executive Committee as of 31 December 2013:

Board of Directors

| Lonza shares (numbers) | 2013 | 2012 |
|---|---|---|
| **Rolf Soiron** | 63 656 | 58 165 |
| **Richard Sykes** | | 28 005 |
| **Patrick Aebischer** | 12 245 | 13 548 |
| **Werner J. Bauer** | 12 227 | |
| **Thomas Ebeling** | 977 | |
| **Jean-Daniel Gerber** | 8 983 | 6 202 |
| **Gerhard Mayr** | | 19 793 |
| **Jörg Reinhardt** | | 3 232 |
| **Margot Scheltema** | 4 336 | 2 586 |
| **Antonio Trius** | 1 340 | |
| **Peter Wilden** | 19 660 | 21 265 |

Executive Committee

| Lonza shares (numbers) | 2013 | 2012 |
|---|---|---|
| **Richard Ridinger** | 14 000 | 14 000 |
| **Uwe Böhlke** | | 5 417 |
| **Marc Funk** | 1 627 | 1 627 |
| **Toralf Haag** | 11 489 | 11 456 |
| **Beat In-Albon** | 3 | |
| **Stephan Kutzer** | 1 800 | 10 000 |
| **Jeanne Thoma** | | 5 457 |
| **Lukas Utiger** | | 6 370 |

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.

# CORPORATE GOVERNANCE


Group Structure and Shareholders — 212
Capital Structure — 214
Board of Directors — 217
Executive Committee — 228
Compensation, Shareholdings and Loans — 231
Shareholders' Participation Rights — 232
Changes of Control and Defense Measures — 233
Auditors — 234
Information Policy and Key Reporting Dates — 235


LONZA ANNUAL REPORT

2013

## 1 GROUP STRUCTURE AND SHAREHOLDERS

Lonza Group Ltd, a holding company under Swiss law with registered offices in Basel, Switzerland, is fully committed to good corporate governance. As an internationally active group, Lonza complies with the local rules and regulations of the 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, and the Lonza Corporate Governance Report follows this directive.

The principles and rules of Lonza Group Ltd are laid down in the Lonza Articles of Association[1] and the Regulations Governing Internal Organization and Board Committees[2], including their Charters. The Board of Directors reviews these principles and rules regularly in the light of prevailing best practices.

1 www.lonza.com/articles-of-association
2 www.lonza.com/bylaws

Detailed information on governance matters is also displayed on the Company's website: *www.lonza.com/corporate-governance*

### 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 chemical and biological active pharmaceutical ingredients. 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 that play an important role in the development of novel medicines and healthcare products. Lonza is also the world leader in microbial control and provides 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 protection. 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.

Organizational Structure

**BOARD OF DIRECTORS**

**EXECUTIVE COMMITTEE** (EC) CEO — CFO — COO — COO — CLO

| **Market Segments** | **Operational Units** | **Corporate Functions** | **Business Service Organizations** |
|---|---|---|---|
| Pharma&Biotech<br>Specialty Ingredients | | | |

Lonza has its headquarters in Basel, Switzerland. Its activities are organized in two market segments (Pharma&Biotech and Specialty Ingredients).

The Pharma&Biotech market segment clusters all offerings directed to pharmaceutical markets and includes three business units: Custom Development, Custom Manufacturing and Bioscience Solutions. This all-encompassing market segment offers the pharmaceutical and biotech industries Lonza's long-standing experience, recognized know-how and broad technology platform. For further details about the Pharma&Biotech market segment and the business units Custom Manufacturing, Custom Development and Bioscience Solutions, see the Markets section of the Annual Report on pages 31 ff.

The Specialty Ingredients market segment includes consumer-oriented offerings with five business units: Consumer Care (encompassing Personal Care & Preservation, Nutrition and Hygiene offerings), Agro Ingredients, Water Treatment, Industrial Solutions and Wood Protection. For further details about the Specialty Ingredients market segment and its five business units, see the Markets section of the Annual Report on pages 40 ff.

Lonza's Operational Units are divided into three units: Pharma Operations, Specialty Ingredients Operations and Research & Technology. The Corporate Functions include, inter alia, Human Resources, Finance & Controlling, IT, Corporate Development, Engineering, Legal / IP / Insurance, Logistics and Purchasing, Quality, Corporate Communication and Investors Relations, Environment Health and Security. The Business Service Organizations are divided into four regions: EMEA, North America, South America and China.

**Holding Company and Listed Companies** Lonza Group Ltd is the ultimate parent company of the Lonza Group. Except for Lonza Group Ltd, no company belonging to the Lonza Group is listed. Please refer to Section 2.4, page 216 below for information on the listed shares, the stock exchanges on which Lonza Group Ltd is listed and the market capitalization.

**Principal Subsidiaries and Joint Ventures** The principal subsidiaries and joint-ventures of the Lonza Group are shown on pages 170 and 171 of the Lonza Financial Report 2013.

## 1.2 PRINCIPAL SHAREHOLDERS

Pursuant to the information provided to Lonza by its shareholders in compliance with the Swiss Stock Exchange Act (SESTA) during 2013, the following significant shareholders held more than 3 % of the share capital as of 31 December 2013:

Principal Shareholders

| | Number of shares | % |
|---|---|---|
| Franklin Resources, Inc., Fort Lauderdale, FL (USA) | 3 594 879 | 6.79 |
| Harding Loevener LP, Bridgewater, NJ (USA)[1] | 2 590 663 | 4.90 |
| BlackRock, Inc., New York, NY (USA) | 1 620 468 | 3.06 |

1 Harding Loevener LP is controlled by Affiliated Managers Group, Inc., Prides Crossing, MA (USA).

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 2013. 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. For a full review of the individual disclosure notifications made during 2013 in accordance with Art. 20 SESTA, please refer to the SIX Swiss Exchange disclosure platform[1] and the Lonza website[2].

1 www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.html

2 www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings

Please note that Harding Loevener LP announced that it fell below the threshold of 3 % as of 27 January 2014. Franklin Resources, Inc. fell below the threshold of 5 % (4.95%; 2 617 170 shares) as of 3 March 2014. In addition, Schroders Plc, London (UK), exceeded the threshold of 3 % (3.093%; 1 636 841 shares) as of 6 March 2014.

### 1.3 CROSS-SHAREHOLDINGS

Lonza Group Ltd has not entered into any cross-shareholdings.

## 2 CAPITAL STRUCTURE

### 2.1 SHARE CAPITAL

The share capital of Lonza Group Ltd as of 31 December 2013 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

| | | 2013[3] | | 2012[3] |
|---|---|---|---|---|
| | Shareholders % | Shares % | Shareholders % | Shares % |
| Switzerland | 87.99 | 22.99 | 89.32 | 27.89 |
| United Kingdom | 1.06 | 28.07 | 0.90 | 28.29 |
| USA | 3.57 | 7.12 | 3.08 | 6.57 |
| Others | 7.37 | 5.53 | 6.70 | 3.40 |
| Shares in transit | | 34.56 | | 31.95 |
| Treasury shares without voting rights | 0.01 | 1.79 | 0.01 | 1.90 |
| **Total** | **100.00** | **100.00** | **100.00** | **100.00** |
| Total number of shares | | 52 920 140 | | 52 920 140 |

3 As of 31 December

Share Register

| | [1]2013 | [1]2012 |
|---|---|---|
| Registered shareholders | 14 937 | 18 437 |
| Registered shares | 34 561042 | 35 940 855 |
| Share distribution: | | |
| 1 – 100 | 5644 | 6 412 |
| 101 – 1 000 | 8 083 | 10 344 |
| 1 001 – 50 000 | 1 145 | 1 623 |
| 50 001 – 100 000 | 30 | 27 |
| 100 001 – 1 000 000 | 31 | 27 |
| over 1 000 000 | 4 | 4 |
| Total registered shareholders | 14 937 | 18 437 |

1 As of 31 December

## 2.2 AUTHORIZED AND CONDITIONAL CAPITAL

**Authorized Capital** The Board of Directors is authorized to increase, at any time until 9 April 2015, 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. This authorized capital was created by the Annual General Meeting held on 9 April 2013. The additional terms and conditions of the authorized capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4$^{ter}$ of the Lonza Articles of Association[2].

2 www.lonza.com/articles-of-association

**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. This contingent capital (also called conditional capital) was created by the Annual General Meeting on 11 April 2005. The additional terms and conditions of the conditional capital (including the group of beneficiaries who have the right to subscribe for this additional capital) are set out in Articles 4$^{bis}$ of the Lonza Articles of Association[2].

According to Article 4$^{quater}$ of the Lonza Articles of Association[2], 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.

## 2.3 CHANGES IN CAPITAL

The share capital did not change in the last three financial years.

| | 2013[1] | 2012[1] | 2011[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 |

1 As of 31 December

## 2.4 SHARES AND PARTICIPATION CERTIFICATES

Lonza Group Ltd registered shares, with a par value of CHF 1 each, are listed on the SIX Swiss Exchange (SIX), with secondary listing on the Singapore Exchange Securities Trading Limited (SGX-ST). In Switzerland they are included in the SIX SMIM (SMI Mid) Index.

Lonza Group Ltd has not issued any participation certificates (*Partizipationscheine*, 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 2013, Lonza had a market capitalization of CHF 4 477 million (2012: CHF 2 612 million).

## 2.5 PROFIT-SHARING CERTIFICATES

Lonza Group Ltd has not issued any non-voting equity security (*Genussscheine*, profit-sharing certificates).

## 2.6 LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS

Purchasers of registered shares declaring that they have acquired these shares in their own name and for their own account will be entered without limitation as shareholders with voting rights in the share register. Persons who do not declare to have acquired the respective shares in their own name and for their own account are considered "nominees" and will be entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Lonza Articles of Association[2]. This restriction may only be removed by a resolution of the Shareholders' Meeting with a quorum in accordance with Swiss law.

2 www.lonza.com/articles-of-association

## 2.7 CONVERTIBLE BONDS AND OPTIONS

**Convertible Bonds** Neither Lonza Group Ltd nor any of its subsidiaries has outstanding convertible bonds.

**Options** As of 31 December 2013, no options or warrants to acquire shares issued by or on behalf of Lonza Group Ltd were outstanding.

# 3 BOARD OF DIRECTORS

## 3.1 MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors is made up of eight non-executive members:

| 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 | 2014 |
| **Peter Wilden** | German | 1957 | Vice-Chairman of the Board of Directors and Chairman of the Audit and Compliance Committee | 2004 | 2014 |
| **Patrick Aebischer** | Swiss | 1954 | Member of the Board of Directors and Chairman of the Innovation and Technology Committee | 2008 | 2014 |
| **Werner J. Bauer** | German | 1950 | Member of the Board of Directors and Member of the Innovation and Technology Committee | 2013 | 2014 |
| **Thomas Ebeling** | German | 1959 | Member of the Board of Directors and Member of the Nomination and Compensation Committee | 2013 | 2014 |
| **Jean-Daniel Gerber** | Swiss | 1946 | Member of the Board of Directors and Chairman of the Nomination and Compensation Committee | 2011 | 2014 |
| **Margot Scheltema** | Dutch | 1954 | Member of the Board of Directors and Member of the Audit and Compliance Committee | 2012 | 2014 |
| **Antonio Trius** | Spanish | 1955 | Member of the Board of Directors and Member of the Audit and Compliance Committee | 2013 | 2014 |

**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 (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)[1]
- Member of the Board of economiesuisse (since 2009)
- Chairman of the Board of Directors of Holcim Ltd (since 2003) and member of the Board (since 1994)[2]
- Member of the Board of Directors of Jungbunzlauer Holding AG (since 1993)

Former activities and functions:
- CEO ad interim of Lonza Group Ltd, Basel (January 2012–April 2012)
- Chairman of the Board of Directors of Nobel Biocare Holding Ltd (2003–2010)
- Chairman of the Basel University Council (1995–2005)
- Managing Director of Jungbunzlauer Group (2001–2003)
- CEO of Jungbunzlauer Group (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 (1983–1987)
- Sandoz Group – various functions in Human Resources, Finance and Corporate (1972–1983)

## ROLF SOIRON

1 Rolf Soiron will step down from the Foundation Council of Avenir Suisse in April 2014

2 Rolf Soiron will step down from the Board of Directors of Holcim Ltd in April 2014

## 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 (since March 2004)

Current activities and functions:
- Member of the Board of Directors of Project Hope (since 2012)
- Executive Vice-President Finance and Chief Financial Officer of Ferring Pharmaceuticals (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 (1999–2002)
- Held various managerial positions in the Ferring Group (1991–2000)
- Management consultant for MaK Data System and the Krupp Group (1988–1991)

**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.

## PATRICK AEBISCHER

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

Current activities and functions:
- Member of the Foundation Board of the World Economic Forum (since 2013)
- Member of the Singapore Biomedical Sciences International Advisory Council (since 2013)
- Member of the Board of Directors of Nestlé Health Science SA (since 2011)
- President of the Swiss Federal Institute of Technology of Lausanne (EPFL) and Professor of Neurosciences (since 2000)
- Fellow of the American Institute for Medical and Biological Engineering (since 2000)
- Fellow of the Swiss Academy of Medical Sciences (since 1998)
- Representative of the EPFL in the board of various Swiss foundations

Former activities and functions:
- Founder of three biotechnology companies

**Werner J. Bauer** Holds a diploma and PhD in Chemical Engineering from the University Erlangen-Nürnberg. Has received several scientific honors, among others the BioAlps Award 2011 and the Honorary Senator from the Technical University of Munich.

## WERNER J. BAUER

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
- Member of the Supervisory Board of Bertelsmann SE & Co. KGaA (since 2012) and Chairman of the Board of Trustees of the Bertelsmann Foundation (since 2011)
- Member of the Supervisory Board of GEA-Group AG (since 2011)
- Member of the Board of Directors of Galderma Pharma (since 2011)
- Member of the Supervisory Board of Nestlé Deutschland AG (since 2007)

Former activities and functions:
- Head of Innovation, Technology, Research and Development of Nestlé S.A. (2007–August 2013)
- Executive Vice-President of Nestlé S.A. (2002–2007)
- Various managerial positions of increasing responsibility at Nestlé (1990–2002)
- Director of the Fraunhofer Institute for Food Technology & Packaging (1985–1990)
- Professor of Chemical Engineering at the Technical University of Hamburg (1980–1985)

## THOMAS EBELING

**Thomas Ebeling** Holds a Master's degree in Psychology from the University of Hamburg.

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
- Member of the Supervisory Board of Bayer AG (since 2012)
- Advisor to TPG Biotech Fund (since 2011)
- CEO of ProSiebenSat1. Media AG (since 2009)

Former activities and functions:
- CEO of the Novartis Consumer Health Division (2007–2008)
- CEO of the global Novartis pharmaceuticals business (2000–2007)
- Head of Novartis Nutrition Division (1998–2000)
- General Manager of Novartis Nutrition for Germany and Austria (1997–1998)

## 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 (since April 2011)

Current activities and functions:
- Member of the Board of Directors of Credit Suisse Group Ltd (since 2012)
- Chairman of the Board of the Swiss Investment Fund for Emerging Markets (SIFEM) (since 2011)
- Chairman of the Swiss Society for Public Good (since 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)

**Margot Scheltema** Holds a doctorate in international law from the University of Amsterdam and a master of international affairs (MIA) from Columbia University in New York.

Member of the Board of Director of Lonza Group Ltd (since April 2012)

Current activities and functions:
- Council to the Enterprise Chamber of the Amsterdam Court of Appeal (since 2013)
- Member of the Supervisory Board of Warmtebedrijf Rotterdam (since 2011)
- Member of the Supervisory Board of TNT Express (since 2011)
- External Member of the Audit Committee of the Dutch pension fund ABP (since 2010)
- Member of the Supervisory Board of Schiphol NV (since 2010)
- Member of the Supervisory Board of ASR NV (since 2008)
- Member of the Supervisory Board of the Rijksmuseum (since 2007)
- Vice-Chair of the Supervisory Board of Triodos Bank (since 2006)

Former activities and functions:
- Member of the Supervisory Board of ECN (2009–2013)
- Member of the AFM External Reporting Committee (2006–2012)
- Financial Director of Shell Nederland BV (2004–2008)
- Various managerial positions within the Shell Group (1985–2004)

## MARGOT SCHELTEMA

**Antonio Trius** Holds a Bachelor in Organic Chemistry from the University of Barcelona, a PhD in Chemistry from the Autonomous University of Barcelona and a PDD in Business Administration from the IESE Barcelona.

Member of the Board of Directors of Lonza Group Ltd (since April 2013)

Current activities and functions:
- Member of the Board of Directors of Azelis SA (since February 2014)
- Member of the Supervisory Board of Altana AG (since 2012)
- Member of the Board of Directors of Nubiola SL (since 2011)

Former activities and functions:
- CEO of Cognis GmbH (2001–2010)
- Executive Vice President Care Chemicals North America (1999–2001)
- Vice President Care Chemicals at Henkel KGaA (1997–1999)

## ANTONIO TRIUS

## 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 office of one year until the next Annual General Meeting. As a general rule, re-election is possible with a maximum incumbency of nine years and an age limit of 70 years.

## 3.4 INTERNAL ORGANIZATIONAL STRUCTURE

The Board constitutes itself and elects from among its members the Chairman, the Vice-Chairman and the members of the Board Committees. As of the Annunal General Meeting 2014, the Chairman and the members of the Nomination and Compensation Committee will be elected by the Annual General Meeting on an annual basis.

The Board of Directors consists of the Chairman, the Vice-Chairman and the other members. In accordance with the current 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 2013:

| | Audit and Compliance Committee | Nomination and Compensation Committee | Innovation and Technology Committee |
|---|---|---|---|
| **Rolf Soiron** | | Member | |
| **Peter Wilden** | Chairman | | |
| **Patrick Aebischer** | | | Chairman |
| **Werner J. Bauer** | | | Member |
| **Thomas Ebeling** | | Member | |
| **Jean-Daniel Gerber** | | Chairman | |
| **Margot Scheltema** | Member | | |
| **Antonio Trius** | Member | | |

1 www.lonza.com/articles-of-association

**Audit and Compliance Committee** The Audit and Compliance Committee meets and consults regularly with the Executive Committee, the Lonza Audit Services and the external auditors to review the scope and results of their work and their performance, according to the Audit and Compliance Committee Charter[1]. Internal and external auditors have full and free access to the Audit and Compliance Committee, which also oversees the Lonza Audit Services. Among other responsibilities, the Audit and Compliance Committee reviews (i) the external auditors' independence, (ii) the systems of internal control and financial reporting, (iii) the risk management system and (iv) compliance with laws, regulations and policies. The Audit and Compliance Committee is fully empowered to decide the tasks assigned to it, and it regularly informs the full Board of Directors on all matters discussed and decided in its meetings.

**Nomination and Compensation Committee** The Nomination and Compensation Committee is entrusted with responsibilities that include the review and recommendation of compensation policies and plans (e.g. incentive compensation and equity plans) and the compensation of the members of the Executive Committee. 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 of the Board of Directors. With regard to the tasks assigned to it, the Nomination and Compensation Committee regularly informs the full Board of Directors on all matters discussed in its meetings and submits proposals for Board decision in accordance with the Nomination and Compensation Committee Charter[1].

**Innovation and Technology Committee** The Innovation and Technology Committee monitors potential technology breakthroughs, supports management in driving innovation projects and provides and facilitates contacts, e.g. with academia and research institutions. With regard to the tasks assigned to it, the Innovation and Technology Committee regularly informs the full Board of Directors on all matters discussed and decided in its meetings, in accordance with the Innovation and Technology Committee Charter[1].

1 www.lonza.com/bylaws

**Attendance and Main Topics** Detailed information on attendance and main topics at Board and Committee meetings in 2013 is provided in the following table:

| | Board of Directors | Audit and Compliance Committee (ACC) | Nomination and Compensation Committee (NCC) | Innovation and Technology Committee (ITC) |
|---|---|---|---|---|
| Number of meetings | 7 | 6 | 7 | 4 |
| Average Duration | 6 hours | 2.5 hours | 3 hours | 2 hours |
| Overall attendance | 96 % | 94 % | 95 % | 100 % |
| Main topics | – Management performance<br>– Reorganisation of the company<br>– Board performance and succession planning<br>– Review of long-term financing strategy<br>– Review of strategy in Asia<br>– Review and monitoring internal polices<br>– Senior executive appointments and succession planning<br>– Review of our business models and its related improvement programs<br>– Strategic review of Pharma&Biotech business<br>– Annual risk management review<br>– Performance review of previous acquisitions<br>– Visp Challenge review<br>– Review of long term strategy<br>– Review of compliance programs<br>– Review and decision on the 2014 budget | – Review of the 2013 internal and external audits<br>– Review of the mid- and long-term financing strategy<br>– Discussion and approval of new refinancing agreements<br>– Review of the controlling system of the Group<br>– Review of audit programs<br>– Review 2013 forecast hard-close and 2014 budget | – Overall review of the compensation strategy for Board and Executive Committee<br>– Conceptional design of total compensation including Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) especially in light of Minder Initiative<br>– Performance review / review of achievement of performance metrics for STIP and LTIP plans<br>– Performance metrics setting for upcoming variable incentive plans<br>– Organization and talent review including succession plan for management, executives and Board positions<br>– General Implementation of Minder Initiative | Lonza innovation status update:<br>– Pharma&Biotech R&T organisation and leader<br>– Innovation and value pricing workstream<br>– Go to Market Excellence project<br>– Technology platforms and market relevance<br>– Custom development, Bioscience R&D concept, Pharma&Biotech<br>– Number of grants and patents innovation strategy<br>– Viral activities / Consumer Care |

The Regulations Governing Internal Organization and Board Committees[1] set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Executive Committee. The standing Board Committees provide adequate corporate governance guidance and support to the Board of Directors. The Board of Directors and its committees meet periodically with the Executive Committee for business updates and decisions to be taken.

1 | www.lonza.com/bylaws

## 3.5 AREAS OF RESPONSIBILITY

In accordance with the law and the Lonza Articles of Association[1], the Board of Directors is the supreme management body of the Group. 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 and the Articles of Association, regulations and directives, and it is obliged and entitled to issue the necessary instructions. In compliance with law and the Articles of Association 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 Executive Committee.

1 www.lonza.com/articles-of-association
2 www.lonza.com/bylaws

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 Executive Committee. The aim is to achieve continuous improvement in the functioning of the Board.

## 3.6 INFORMATION AND CONTROL INSTRUMENTS

The Board of Directors ensures that it receives sufficient information from the Executive Committee to perform its supervisory duty and to make the decisions that are reserved to the Board of Director through several means.

**Board Information** The Regulations Governing Internal Organization and Board Committees[2] confer on the CEO the duty to inform the Executive Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. In addition, during Board meetings, each member of the Board may request information from the other members of the Board, as well as from the members of the Executive Committee present on all affairs of the Company and the Group. Outside of Board meetings, each member of the Board may request from the members of the Executive Committee information concerning the course of business of the Company and the Group and about specific matters.

**Internal Audit** The Board of Directors is directly supported by the Lonza Audit Services. The Lonza Audit Services group comprises 10 internal audit positions and reviews financial, 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 controls and compliance with policies and procedures, and recommend appropriate action to correct deficiencies as they are identified. In 2013, they delivered 44 internal audit reports to the Audit and Compliance Committee.

**Regular Reports to the Board** 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 segments, 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 market segments 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.
– Risk assessment reports 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.

**Internal Control System** 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 to be implemented at an 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.

**Compliance Instruments** In addition to the above-mentioned control instruments, Lonza has implemented various other measures to improve the compliance within the Group. The implementation of these measures are supervised by the Audit and Compliance Committee. One of these measures is the issuance of a Code of Conduct[1] that expresses Lonza's core principles and values in regard to professional business behavior. It also provides assistance in recognizing, understanding and complying with the laws and ethical standards that govern Lonza's business activities. The Code of Conduct is available to all employees and information about it has been widely circulated within the Group. Lonza employees have to pass iComply tests in online training courses, dealing with topics such as those addressed by the Code of Conduct, in particular antibribery, insider trading and conflicts of interest. In addition to these measures, Lonza offers a "whistleblower" hotline, which is operated by an external company. All cases disclosed through the "whistleblower" hotline are then reported to the Audit and Compliance Committee.

1 | www.lonza.com/code-of-conduct

**Risk Assessment** The Board of Directors regularly carry out risk assessments. The objective of the risk assessments is to make the principal risks to which Lonza is exposed more transparent and to improve the risk mitigations. In its assessment of Group risk, the Board of Directors of Lonza has identified as risks the increased volatility in the CMO business, the price erosion in the nicotinate business and the increasing challenges in the GMP quality systems requirements.

For more details on risk management policy, financial risks (credit, liquidity and market risks) and enterprise risks, please refer to financial notes 28.1 to 28.4 on pages 147 to 153 and note 30 on page 169 of the Consolidated Financial Statements.

## 4 EXECUTIVE COMMITTEE

The members of the Executive Committee are appointed by the Board of Directors. The Executive Committee 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. The Executive Committee supports and coordinates the activities of the market segments, the operational units, the corporate functions and the business service organizations. The Executive Committee is also responsible for leadership development.

1 www.lonza.com/bylaws

**New composition of Executive Committee as of February 2013** On 4 February 2013, Lonza Group Ltd announced that the Management Committee would be renamed "Executive Committee" and would be reduced from eight to five members. As of 1 February 2013, Jeanne Thoma, Uwe Böhlke and Lukas Utiger stepped down from their functions as members of the Management Committee.

### 4.1 MEMBERS OF THE EXECUTIVE COMMITTEE

As of 31 December 2013, the Executive Committee consisted of five members.

| Name | Nationality | Year of Birth | Function |
|---|---|---|---|
| **Richard Ridinger** | German | 1958 | Chief Executive Officer |
| **Toralf Haag** | German | 1966 | Chief Financial Officer |
| **Stephan Kutzer** | American | 1965 | COO Pharma&Biotech Market Segment |
| **Beat In-Albon** | Swiss | 1952 | COO Specialty Ingredients Market Segment |
| **Marc Funk** | Swiss | 1960 | Chief Legal Officer |

## RICHARD RIDINGER

**Richard Ridinger** Holds a degree in chemical engineering from the University of Karlsruhe.

Chief Executive Officer and Member of the Executive Committee (since May 2012)

Former activities and functions:

- Transfer and integration of Cognis GmbH into BASF (2011)
- Member of the Management Board and Executive Vice-President "Care Chemicals" of Cognis GmbH (2006–2010)
- SBU Head of "Cognis Care Chemicals" and member of the Cognis Executive Committee (2002–2006)
- Vice-President of the global "Care Chemicals Specialties" business of Cognis GmbH (2000–2002)
- Director global Skin Care Ingredients Business at Henkel KGaA / Cognis GmbH (1999–2000)
- Various positions at Henkel KGaA in R&D, Engineering and Production Management (1986–1999)

## TORALF HAAG

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

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

Current activities and functions:

- Member of the Board of scienceindustries (since 2012)
- Member of the Board of Vereinigung Schweizer Finanzchefs (VSF) (since 2009)

Former activities and functions:

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

**Stephan Kutzer** Holds an MSc in process engineering and a PhD in chemical engineering from the Technical University of Munich.

COO Pharma&Biotech Market Segment (since April 2013) and Member of the Executive Committee (since July 2005)

Functions within Lonza
- COO Custom Manufacturing Division (2009–March 2013)
- COO Custom Manufacturing / Head of the business sector – Biopharmaceuticals (2005–2009)
- Head of Performance Chemicals (2003–2005)
- Site manager of Lonza Bayport, TX, facilities (1999–2002)
- Assistant production manager in Lonza Guangzhou Ltd, Guangzhou, China (1999)
- Joined Lonza in 1996 as assistant production manager at Visp and became production manager nicotinates in 1998

## STEPHAN KUTZER

**Beat In-Albon** Holds a PhD in economics from the University of Fribourg.

COO Speciality Ingredients Market Segment (since April 2013) and Member of the Executive Committee (since June 2012)

Functions within Lonza:
- COO Life Science Ingredients Division (2012–March 2013)
- Head of Organic Fine & Performance Chemicals at Lonza (2003–2006)
- Member of the Lonza Management Committee (1999–2006)
- Head of Organic Fine Chemicals at Lonza (1998–2003)
- Joined Lonza in 1983 and held various managerial positions with Lonza Ltd, Basel

Former activities and functions:
- Member of the SGS's Operations Council (2007–2012)
- Head of Industrial Services Division at SGS (2009–2012)
- Head of Life Sciences Services Division at SGS (2007–2009)
- Member of the Board of Directors of Siegfried Holding Ltd (2011–2012)

## BEAT IN-ALBON

## MARC FUNK

**Marc Funk** Holds a Master of Law from the University of Geneva and a Master of Law and Diplomacy from the Fletcher School (Tuft University MA).

Chief Legal Officer and Member of the Executive Committee (since April 2012)

Functions within Lonza:
- Group General Counsel and Board Secretary (since 2009)

Former activities and functions:
- Associate General Counsel of Merck Serono (formerly Serono) (2004–2008)
- General Counsel of GeneProt (2000–2004)

### 4.3 MANAGEMENT CONTRACTS

Lonza Group Ltd has not entered into management contracts with companies or natural persons not belonging to the Group.

## 5 COMPENSATION, SHAREHOLDINGS AND LOANS

Details of Board and Executive Committee compensation are contained in the Consolidated Financial Statements (pages 159 ff., note 29) and in the Remuneration Report (pages 187 ff.)

## 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 (until 2013), the independent proxy or an assignee of proxy votes for deposited shares (until 2013). 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 Lonza Articles of Association[1]. This restriction may only be removed by a resolution of a Shareholders' Meeting with a quorum in accordance with Swiss law.

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 requires at least two-thirds of the voting rights represented and an absolute majority of the nominal value of shares represented.

### 6.3 CONVOCATION OF SHAREHOLDERS' MEETINGS

Ordinary Shareholders' Meetings are called in accordance with the law and the Lonza 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 invitation to shareholders at least 20 days before the Annual General Meeting and publishes it on its website as well as in the Swiss Official Gazette of Commerce.

1 | www.lonza.com/articles-of-association

### 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) (see Section 2.6 page 217).

There are no special rules in the Lonza Articles of Association[1] concerning a deadline for entry in the share register. The share register will this year be closed on 7 April 2014 at 5 pm.

## 7 CHANGES OF CONTROL AND DEFENSE MEASURES

### 7.1 DUTY TO MAKE AN OFFER

An investor who acquires more than 33⅓% of all voting rights (directly, indirectly or in concert with third parties) whether they are exercisable or not, is required to submit a takeover offer for all shares outstanding (Art. 32 SESTA). No special opting-out or opting-up dispositions are contained in the Company's Articles of Association[1].

1 | www.lonza.com/articles-of-association

### 7.2 CLAUSES ON CHANGE OF CONTROL

The employment agreements of the Executive Committee members contain certain clauses on change of control, which are outlined in the Remuneration Report (page 207). In addition, Lonza's share-based compensation programs (E-STIP, LTIP and ESPP) provide that unvested awards / blocked shares unconditionally vest upon change of control.

## 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 auditors for the business year 2014.

### 8.2 AUDITING HONORARIUM

Lonza Group paid KPMG Ltd CHF 4.439 million (2012: CHF 5.020 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 no additional fee (2012: CHF 0.110 million).

### 8.4 SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

The Audit and Compliance Committee is responsible for evaluating the performance and independence of the external auditors on behalf of the Board of Directors. This evaluation occurs at least once a year. The criteria applied for the assessment include the professional competence, the sufficiency of resources, the ability to provide effective and practical recommendations and the coordination of the external auditors with the Audit and Compliance Committee and the senior management. In the reporting year, there were two joint meetings between the Audit and Compliance Committee and KPMG Ltd. In addition, the external auditors prepare a management letter addressed to the Audit and Compliance Committee once per year, informing them in detail on the result of their audit.

Within the yearly approved budget, there is an amount permissible for non-audit services that the external auditors may perform. Within the scope of the approved and budgeted amount, the Chief Financial Officer can delegate non-audit related mandates to the external auditors.

The Board of Directors has determined the rotation interval for the auditor in charge to be seven years, as defined by the Swiss Code of Obligations.

The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Lonza's management is responsible for preparing 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 external 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 Lonza 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), which is issued by the International Accounting Standards Board (IASB), and with Swiss law.

1 www.lonza.com/articles-of-association
2 www.lonza.com/news
3 www.lonza.com/news-reports-subscription
4 www.lonza.com/financial-reports

## 9 INFORMATION POLICY 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. Ad hoc notices are made available on the Lonza website (pull system[2]). Lonza's website also provides a service that allows interested parties to receive, via e-mail distribution, free and timely notification of potentially price-sensitive facts (push system[3]).

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 Executive Committee.

Lonza Group Ltd provides shareholders entered in the share register (on request only) with the annual report, as well as the half-year and full-year results. These reports are also available on the Lonza website[4]. The invitation to the Annual General Meeting is published by press release, on Lonza's website and in the Swiss Official Gazette of Commerce.

Lonza's 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 2013.

Media conferences and analyst meetings generally take place at Lonza's headquarters or by conference call. Lonza manages an annual program of investor meetings. Investors, potential investors and financial analysts are also welcomed at Lonza'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. Updated information is found on *www.lonza.com/investor-information*

**Annual General Meeting for the 2013 Financial Year**
16 April 2014, 10:00 am
Congress Center Basel, Switzerland

**Half-Year Report 2014**
24 July 2014

**Full-Year Report 2014**
21 January 2015

**Annual General Meeting for the 2014 Financial Year**
8 April 2015
Congress Center Basel, Switzerland

**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.

For Lonza's contact details, please refer to the inside cover page at the end of this Annual Report.

**Legal Domicile**
Basel, Switzerland

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

## ANTICIPATED KEY REPORTING DATES

Annual General Meeting for the Financial Year 2013
**16 April 2014, 10:00 am**
Congress Center Basel Switzerland

Half-Year Report 2014: **24 July 2014**
Full-Year Report 2015: **21 January 2015**

Annual General Meeting for the Financial Year 2014
**8 April 2015**
Congress Center Basel, Switzerland

**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
SGX O6Z

**Security Number**
Valor 001384101
ISIN CH0013841017

## CONTACTS

For publications and further information, please contact:

**Lonza Group Ltd**
Muenchensteinerstrasse 38
4002 Basel, Switzerland
*www.lonza.com*
contact@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

The Lonza Annual Report 2013 is printed on non-chlorine-bleached, FSC-certified paper.

**Forward-Looking Statements**

Forward-looking statements contained herein, which can be identified by terms like "believe", "assume", "expect" or similar expressions or implied discussion of potential new projects or future revenues, plans or intentions, 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. All forward-looking statements are based on data available to Lonza at the time of preparation of this Annual Report. Lonza does not undertake to update any forward-looking statements contained in this Annual Report as a result of new information, future events or otherwise.

This publication is accessible online at www.lonza.com. 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.

**Publication Details**

*Production* Corporate Communications, Lonza Group Ltd, Basel, Switzerland |  |
Editorial completion: March 2014 | Design: Lonza
*Photography* Julian Salinas, Basel, Switzerland | Laurent Burst, Zug, Switzerland | Thomas Andenmatten, Brig, Switzerland | Lonza employees have contributed other pictures
*Lithography* Birkhäuser+GBC AG, Reinach, Switzerland
*Print* Kreis Druck AG, Basel, Switzerland

**LONZA ANNUAL REPORT**

2013

*Foreword from the Chairman of the Board of Directors and the CEO* — 3

ABOUT LONZA

Lonza Financial Highlights — 8
Lonza at a Glance — 10
Global Footprint — 12
Governance — 14
Management and Company Structure — 15
Lonza – Closer Than You Think — 16
Leadership — 18

STRATEGY

Science for Health and Well-Being — 22
Megatrends — 25

MARKETS

Lonza Markets — 30

*Pharma&Biotech* — 31
Custom Development — 32
Custom Manufacturing — 34
Custom Development and Custom Manufacturing Sites — 37
Bioscience Solutions — 38

*Specialty Ingredients* — 40
Consumer Care — 42
Agro Ingredients — 46
Water Treatment — 49
Industrial Solutions — 52
Wood Protection — 56

SUSTAINABLE VALUES

Investing in Sustainable Values — 60
Investing in Sustainability — 61
Investing in Environment, Health, Safety — 64
Investing in Enterprise Risk Management — 70
Investing in Our Stakeholders — 72
Investing in Responsible Sourcing — 73
Investing in Our People — 74
Investing in Our Communities — 76

FINANCIAL REPORT

*Consolidated Financial Statements*
Consolidated Balance Sheet — 82
Consolidated Income Statement — 83
Consolidated Statement of Comprehensive Income — 83
Consolidated Cash Flow Statement — 84
Consolidated Statement of Changes in Equity — 85
Notes to the Consolidated Financial Statements — 86
Report of the Statutory Auditor — 173

*Financial Statements of Lonza Group Ltd*
Balance Sheet – Lonza Group Ltd — 174
Income Statement – Lonza Group Ltd — 175
Notes to the Financial Statements – Lonza Group Ltd — 176
Proposal of the Board of Directors — 178
Report of the Statutory Auditor — 179

*Supplementary Financial Information*
Investor Information — 180
Statement of Value Added — 182
Free Cash Flow — 183
Core Results — 184

REMUNERATION REPORT

Compensation Philosophy and Summary of Compensation Components — 188
Compensation-Setting Process — 188
Compensation of the Board of Directors — 190
Compensation of Executive Committee — 194
Share Ownership of the Members of the Board of Directors and the Executive Committee — 208

CORPORATE GOVERNANCE

Group Structure and Shareholders — 212
Capital Structure — 214
Board of Directors — 217
Executive Committee — 228
Compensation, Shareholdings and Loans — 231
Shareholders' Participation Rights — 232
Changes of Control and Defense Measures — 233
Auditors — 234
Information Policy and Key Reporting Dates — 235