Full-Year Report 2013

Lonza

Full-Year Financial Highlights

Core[1] Earnings million CHF		2013	Change in %	[2]2012
Core result from operating activities (EBIT)		**436**	11.2	392
Margin in %		12.2		10.5
Core EBITDA		**711**	8.2	657
Margin in %		19.8		17.6
Core profit for the period		**259**	11.2	233
Core EPS basic	CHF	**4.99**	10.9	4.50
Core EPS diluted	CHF	**4.97**	10.9	4.48
Core RONOA in %		**12.3**	11.8	11.0

IFRS Results million CHF		2013	Change in %	[2]2012
Sales		**3 584**	(4.2)	3 741
EBITDA		**647**	4.4	620
Margin in %		18.1		16.6
Result from operating activities (EBIT)[3]		**253**	(19.9)	316
Margin in %		7.1		8.4
Profit for the period		**87**	(44.2)	156
EPS basic	CHF	**1.67**	(44.5)	3.01
EPS diluted	CHF	**1.67**	(44.3)	3.00
Operational free cash flow		**519**	11.6	465
RONOA in %		**5.9**	(15.7)	7.0
Net debt		**2 103**	(8.6)	2 301
Debt-equity ratio		**0.99**	(9.6)	1.09
Number of employees		**9 935**	(7.9)	10 789

1 In the core results for the items "EBITDA", "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. "Core RONOA" does not include acquisition-related intangible assets. See also page 9
2 Restated to exclude Performance Products, divested at the end of 2012
3 Includes impairment of CHF 79 million and restructuring costs of CHF 46 million related to the phasedown of the Hopkinton site

- Lonza is delivering strong results with CORE EBIT growth of 11.2 % to CHF 436 million, in line with our guidance
- Solid CORE EBIT results stem from the continued success of product portfolio optimization and from the execution of efficiency-improvement programs
- CORE EBITDA margin increased from 17.6 % in 2012 to 19.8 % in 2013
- Operational free cash flow was maintained at a high level of CHF 519 million
- Net debt reduction was on target, with debt reduced by ~CHF 200 million to CHF 2 103 million, resulting in a net debt/EBITDA ratio of 2.77×
- Lower revenues resulted from lower Water Treatment sales, product portfolio optimization measures, unfavorable exchange rate translation effects, weaker Pharma&Biotech sales in the first half and the phasedown of the Hopkinton, MA (USA) site
- The carve-out process of the Wood Protection business began on 1 January 2014
- Headcount (FTE) was reduced in 2013 by 7.9 % to 9 935 (–854 positions) in line with our previously announced restructuring program
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2013

Overview

For Lonza, 2013 was a year of change with the biggest transformation in the last 15 years of the company's history. At the center of our transformation stood the accelerated shift from a product-focused organization to a market-driven one, including several previously announced corporate initiatives and strategic tasks to deliver sustainable growth. We have made good progress on this journey, while continuing to solidify our foundation and to focus on competitiveness, as well as to improve our market and customer orientation.

In this transformational year, Lonza delivered CORE EBIT growth of 11.2 %, in line with our guidance. The solid CORE EBIT results stem from the continued success of product portfolio optimization and reduction of the manufacturing footprint, which have led to overall productivity improvements. Our portfolio optimization has led to the elimination of low-margin businesses, which resulted in lower revenues but increased margins.

Specialty Ingredients Market Segment

Specialty Ingredients delivered a strongly positive performance, with substantially increased profitability in total and in nearly all markets. Specialty Ingredients' sales were driven by strong demand for the agrochemical offerings and good demand for industrial solutions, as well as the successful conclusion of the Arch integration. These positive developments helped to balance the significantly lower revenues in the recreational Water Treatment business, where the unseasonable weather led to a weak result in all major regions.

Pharma&Biotech Market Segment

In Pharma&Biotech, important new long-term contracts were signed for commercial and late-stage products for our biological and chemically derived products. Manufacture of these new products began in the second half of 2013 and raised capacity utilization of core assets to the planned levels for the period. Revenues were lower, influenced by product portfolio optimizations and the initiation of some major projects to prepare the ground for future growth. The first quarter saw a scheduled production stop for the build-out at our antibody drug conjugates (ADC) plant in Visp (CH). Our large-scale mammalian cell culture facility in Singapore implemented multiple plant adaptations; and we began the phasedown of our Hopkinton, MA (USA) microbial biologics plant, which is progressing as planned.

Company Realignment

Early in the year, we announced a reorganization of the company to align our organization better with the markets we serve. As a consequence, the former Custom Manufacturing and Bioscience sectors were regrouped into a single Pharma&Biotech market segment. The former Microbial Control and Life Science Ingredients sectors were regrouped into a Specialty Ingredients market segment. These two market-oriented segments are now supported by dedicated operations and state-of-the-art corporate services. At the same time, we also streamlined the management structure of the company, which led to a new and lean Executive Committee.

Corporate Initiatives

Our corporate initiatives made good progress in 2013. After having conducted detailed analyses, we made noteworthy strides in the optimization of our global manufacturing footprint. Implemented measures to improve productivity, including the Visp-Challenge project, moved forward as planned and delivered the first positive results. Optimization of our global manufacturing footprint will result in an anticipated cost-base reduction of CHF 100 million by the end of 2016, as previously stated. The majority of activities will be completed by 2015, resulting in a 70–80 % target achievement, with the remainder expected to be completed by the end of 2016.

Specific Decisions

- On 24 July 2013, the Board of Directors decided to concentrate and consolidate the future Microbial Biologics assets and activities at our Visp site. Lonza has successfully operated small- and large-scale assets for this technology over many years. It was decided to phase down the microbial biologics plant in Hopkinton
- Swords (IE) – facility closure was finalized in the second quarter of 2013
- Lonza Engineering – divestment of this subgroup was finalized in the second quarter of 2013
- Atlanta, GA (USA) – consolidation of activities in our tech center in Alpharetta, GA (USA) was successfully completed in the second half of 2013
- St. Beauzire (FR) – cessation of activities was completed in the fourth quarter of 2013

The process of monitoring and evaluating our transformational activities will continue.

Optimizing Our Portfolio

In conjunction with the portfolio optimization analyses, Lonza took the decision to carve out the Wood Protection business in order to evaluate all strategic options for our future development. The carve-out process of the Wood Protection business began on 1 January 2014.

Following a strategic review of the Teva-Lonza joint venture (TL-JV) by the Lonza Board of Directors on 24 July 2013, 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 better advance their own strategies and efforts 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 begun in the second half of 2013 and is in progress, with no final agreement reached by the end of the reporting year.

Investing in Growth

In 2013, the scheduled expansion of our antibody drug conjugates (ADC) plant in Visp, to accommodate large-scale commercial production, was successfully completed. Based on solid market demand, an additional investment has been granted, resulting in doubling of the current capacity. The construction of this new capacity is progressing as planned and is scheduled to come on stream in the second quarter of 2014. The capacity expansion of our Agro Ingredients plant in Visp was concluded on time and on budget in the fourth quarter of 2013. The new niacin plant in Nansha (CN) will commence operation at the end of the second quarter of 2014. The niacin plant in Guangzhou (CN) will be closed during the second quarter of 2014 as planned and previously announced.

Financial Summary

– CORE EBIT increased by 11.2 % to CHF 436 million
– CORE EBITDA margin increased from 17.6 % in 2012 to 19.8 % in 2013
– Operational free cash flow continued on a high level at CHF 519 million
– Net debt was reduced by ~CHF 200 million to CHF 2 103 million. This resulted in a gearing of 99 % and a net debt/EBITDA[1] ratio of 2.77×
– Net working capital in relation to sales increased to 25.3 % in 2013 (23.5 % in 2012)
– Capital expenditure was down by 32.3 % to CHF 210 million, from CHF 310 million in 2012
– A CHF 300 million straight bond was successfully placed with favorable conditions

Dividend

The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2013. Subject to approval by the Annual General Meeting, this dividend will be paid out of the reserve from capital contribution and will be free of Swiss withholding tax.

1 EBITDA as defined in applicable syndicated loan

Outlook

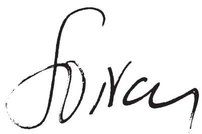
The transformation of Lonza will continue in 2014, including business processes such as the market-oriented positioning through concentration on key markets, the focus on responding to global megatrends and the portfolio optimization, all of which were initiated in 2013 and are progressing well. We will continue to work on optimizing manufacturing network and on reducing complexity overall. Available capacities will experience higher utilization, resulting in an improved return on net operating assets (RONOA).

With the launch of the carve-out process for our Wood Protection business, we will evaluate all strategic options for the future development of this business.

The further reduction of debt remains high on the agenda. All our businesses are generating operating free cash flow. This will enable the company to further reduce net debt as planned. The capital expenditure forecast for 2014 will again be below CHF 300 million, including maintenance capital expenditure. Also, 2014 will see an even stronger emphasis on our comprehensive quality infrastructure. Respective investments will raise our ability to stay at the forefront of the ever-increasing complexity of global regulatory requirements for both cGMP manufacturing and for our pharma customers' products.

On this basis – as well as on the basis of new technologies now in commercial manufacturing, new long-term contracts signed, good order-book visibility, further ongoing portfolio optimization, further optimization of our manufacturing footprint and a stable macroeconomic environment – we are confident in providing the following outlook:
– For 2014, CORE EBIT growth will be approximately 10 %
– For 2014, revenue growth will be approximately 5 %
– For 2015, our mid-term targets are unchanged

Lonza will continue to focus and deliver on customers' expectations, while delivering on shareholder value. Our leadership and employees will continue to work decisively on the objectives set. We thank all our external and internal stakeholders for their continued confidence in and support for our company.



Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Specialty Ingredients
Market Segment

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

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

In March 2013, the Lonza Life Science Ingredients and Microbial Control sectors were combined and began operating as Lonza's Specialty Ingredients market segment. The newly created market segment is focused on five key markets: Consumer Care (including Personal Care & Preservation, Nutrition and Hygiene), Agro Ingredients, Water Treatment, Industrial Solutions and Wood Protection.

Consumer Care
The highlight of 2013 for Consumer Care was the challenging but ultimately successful endeavor of combining the former business units of Personal Care & Preservation, Nutrition and Hygiene into one organization.

Personal Care & Preservation
The Personal Care & Preservation business performed strongly throughout the year. Multinational customers' product introductions were well accepted by the end-markets. It is anticipated that the strong performance of preservatives will be sustained in 2014 and that new product introductions will contribute positively to the existing business.

The emergence of prominent new brands in the antidandruff product segment heightened competition for market share in consumer goods and had a negative impact on the pricing of shampoo end-products, thereby putting pressure on raw material ingredients. Lonza is addressing this situation for 2014 by introducing new, more efficient equipment at the Suzhou (CN) and Rochester, NY (USA) plants. In the skin and hair care markets, our new product launches were well received.

The Swords (IE) plant was closed as planned. Production at our Rochester and Suzhou plants progressed smoothly throughout the year, which ensured supplies to our customers.

Nutrition
The Nutrition business remained under competitive pressure. In the niacin markets, prices stabilized and experienced a step-wise increase in the second half. Sales were affected by a short-term decrease in demand due to the impact of the H7N9 virus in the poultry segment in Asia. The immune supplement Alomune™ was introduced in the U.S. retail segment in the second half of the reporting year.

The start-up of the vitamin B3 facility in Nansha (CN) is scheduled for the end of the second quarter of 2014, which will further increase manufacturing efficiency. The niacin plant in Guangzhou (CN) will be closed during the second quarter of 2014 as planned and previously announced.

Hygiene
The Hygiene business grew in 2013 with a continued focus on the "Formulated Solutions" model that provides ready-made products and registrations for customers who manufacture consumer goods and institutional cleaning products for the home, hospital and retail segments. This model distinguishes Lonza from competitors who merely sell disinfecting chemicals.

We are also launching products in new fields such as medical instrument disinfection in 2014. This approach is a continuation of Lonza's strategy as a global microbial control leader to provide the products, solutions and regulatory support necessary for customers to ensure the health and safety of their own products for global consumers.

Separately, Lonza has also made a significant move into solutions for disinfecting wipes, whether for control of hospital-acquired infections or for basic surface disinfection. In 2013, important contracts were secured for private-label wipes with rapid-kill formulations. This business is expected to grow significantly in 2014, driven by the need for convenience and assured cleanliness on the part of institutions and consumers.

Agro Ingredients

Custom manufacturing for agro active ingredients reported high capacity utilization of all major production trains during the year. Lonza's offering of manufacturing services for complex crop protection agents and intermediates is benefiting from a strong footprint in the supply chain of customers' fast-growing, modern herbicidal and fungicidal applications. Productivity improvements are expected in the future following sustained efforts to reduce operational costs and improve the product mix and portfolio. The capacity expansion project in Visp's (CH) multi-purpose assets, with special working materials for high-corrosive chemistry, was finalized and started up successfully and on time in the fourth quarter. The industry's growing interest in Lonza's biotechnological custom development and manufacturing capabilities continued in 2013 and resulted in a steadily growing pipeline and strong growth in commercial sales for fermentation services.

We have identified important synergies between Lonza's Agro Ingredients business and our Pharma&Biotech market segment. Decades of experience gained in chemical and biological custom manufacturing for highly regulated pharmaceutical markets are now effectively being used in the development and manufacture of agro ingredients.

Meta™, Lonza's own branded active ingredient for slug and snail control (molluscicide), had an extraordinary year due to favorable weather conditions, with marked slug infestation over the whole season in the main markets in Europe. In a significant number of key countries, we obtained the registration of our formulated molluscicide product under the name of AXCELA™, which will facilitate steady growth of the business and further contribute to the value chain.

Lonza's formulation ingredients and solutions for crop protection products and fertilizers are attracting growing interest from the agrochemical industry. The offerings for ready-to-use preservation agents (Proxel™) for the agro industry again met with strong market demand.

The growth in sales of the recently launched products for pre- and post-harvest treatments for fruits and vegetables – marketed and branded under the Frexus™ line – was above expectations. During 2013, sales activities were focused on the Brazilian market, while geographical expansion in other South American countries is targeted for 2014.

Water Treatment

After a record year in 2012, most regions (South Africa and North and South America) experienced unseasonably poor weather that had a negative impact on sales in the Recreational Water business. These regions saw competitive pressure tighten across the industry as customers and suppliers were also economically affected by the weather conditions. A trend towards more rigorous inventory control was also seen in the overall market.

EMEA reported a positive performance in 2013, with sales above target and growth experienced during the year.

Many new products were successfully launched in 2013, such as "hth Mineral Brilliance 10 in 1" in South America and the new "Blue Tec" brand for the do-it-yourself market in France.

The industrial, commercial and municipal (ICM) part of our Water Treatment business expanded successfully into emerging markets, with the development and installation of Lonza's feeder technology for the industrial and municipal water market. In South Africa, ICM sales are progressing well; and inroads are being made into the neighboring countries by focusing on potable water disinfection. In the NAFTA region, the ICM sales force achieved a significant expansion of the customer portfolio.

The South African industrial market also generated positive growth, with strong calcium hypochlorite tablet sales in new application areas such as golden mussel control in power plants.

Industrial Solutions

The Materials Protection business performed well across almost all application areas. And the Building Products business delivered an excellent result in North and South America but came in somewhat below expectations in Europe and Asia. In spite of low shipbuilding activities in Asia, the antifouling paint solutions group performed above expectations. In this area, Lonza is working with some key customers to develop the aquaculture (fish farm) market for antifouling solutions. In South America, solutions for building products, slurry protection and leather (hides) treatment experienced strong demand. Lonza's broad offerings to the metalworking fluids and plastics industries resulted in a good year, somewhat above expectations.

The High-Performance Materials business delivered a solid performance. Demand for the Primaset™ cyanate esters for electronics applications softened somewhat in the second half, but overall the year exceeded expectations. Demand for the Primaset™ and Lonzacure™ product range for the aerospace industry was good, in line with expectations. Several innovative products that outperform some of the existing high-end products in our portfolio were also launched in 2013. The pyromellitic dianhydride (PMDA) business experienced higher sales than in 2012, and the product from our Nanjing (CN) site is qualified at all major customers worldwide.

Demand for Performance Intermediates from the Visp Verbund was steady. Margins were defended in 2013 as a result of rigid cost-control measures and process improvements in Visp.

Solutions for the oil- and gas-producing industry showed positive growth as the team continued to find interesting combinations of Lonza chemistry for specialty applications. The business was refocused on the North American and European markets in particular. Special selections of quats for various applications are gaining acceptance in the industry.

Oleo Chemicals Derivatives demand was somewhat below expectations; but because of strict cost control and lower raw material costs, margins were kept on track.

Wood Protection

Global wood-protection product volumes improved in the United States and in Europe because of more favorable conditions in the economy, particularly in construction markets. Overall, volumes in North America showed a modest increase over last year, as stronger sales in the residential market were somewhat offset by lower industrial volumes.

Despite record rainfall in the summer months, overall housing starts and remodeling activity finished the year strongly, which provided a boost for Lonza customers who sell to the do-it-yourself market. The residential business benefited from new accounts and from the decision to walk away from low-profit business, as margins significantly improved year on year.

Led by an improving economy in Europe and new product roll-outs, sales in the EMEA region showed a healthy increase over last year. The gains in Europe were mostly seen in the United Kingdom, as signs of recovery were visible in both the construction and agricultural segments. France and Southern and Eastern Europe turned in above-target performances, but the general economic outlook in those countries remains fragile. These improvements were counteracted to some extent by the impact on our business of the slowdown in South Africa and the weak rand.

Although overall volumes remained flat in the Asia-Pacific region, sales continued to weaken, driven mostly by slowing economic growth. As a result, Asia Pacific finished the year below target, with sales down from 2012. Economic growth tied to China faltered in a number of regional economies, and price-driven competition in the industry intensified. The weakening of the Australian dollar also adversely affected sales and profits during the year.

Pharma&Biotech
Market Segment

Pharma&Biotech million CHF	2013	Change in %	2012
Sales	**1 426**	(7.9)	1 548
Core result from operating activities (EBIT)	**207**	(7.6)	224
Core EBIT margin in %	14.5		14.5
Core EBITDA	**353**	(4.3)	369
Core EBITDA margin in %	24.8		23.8

In March 2013, the Lonza Custom Manufacturing and Lonza Bioscience sectors were combined to create Lonza's Pharma&Biotech market segment. The Pharma&Biotech market segment is focused on three offerings to the target markets: Custom Manufacturing, Custom Development and Bioscience Solutions. This new and all-encompassing market segment offers the pharmaceutical and biotech industries our long-standing experience, recognized know-how and broad technology platform.

Pharmaceutical companies today are working on new, innovative medicines that often require simultaneous application of separate and distinct technologies. These technologies range from organic small molecules, via synthetic, biologically derived or recombinant peptides, highly active pharmaceutical ingredients (HAPI), antibody drug conjugates (ADCs) and cytotoxics, to mammalian cell cultures, microbial fermentation and cell and viral therapy. Lonza is the only company in the world that offers all of these services and technologies together with full-scale manufacturing.

In addition, Lonza is able to provide manufacturing services across different sites and continents – an offering that continues to be well received by current and potential customers. In our Pharma&Biotech market segment, we have created an organization that is aligned with customer needs and provides a complete set of offerings to serve all customers in the pharmaceutical and biotechnology industries in every stage of their projects: from initial idea, through launch, to end-of-lifecycle supply.

Custom Manufacturing

In 2013, the outsourcing trend remained firmly in place across the entire industry.

The first half of 2013 saw some pharmaceutical companies reanalyzing their in-house manufacturing strategies. Risk mitigation and security of supply considerations led to a new dual-sourcing approach that benefits Lonza as it emphasizes the value of partnering with custom manufacturers.

This strategy led to new long-term contracts signed by Lonza and its partners. At the end of the second quarter and throughout the year, important contracts were signed for commercial and late-stage products for biological and chemically derived products. Manufacture of these new products began in the second half of 2013 and raised capacity utilization in the second half of 2013 to the planned levels. A further improvement in capacity utilization is expected in 2014 and beyond. Solid development was seen in the project pipeline for product candidates in different stages of clinical trials. Customers appreciate the full-service offerings and the broad range of Lonza's technology toolbox.

Revenues in the first half of the reporting year were lower compared with the same period of 2012. These results were influenced by the initiation of some major projects to prepare the ground for future growth. The first quarter saw a scheduled production stop at our ADC plant in Visp (CH). This was necessary so that production capacity could be stepped up to meet the rapidly increasing demand from multiple customers with products already in a commercial phase, as well as in different stages of clinical trials. The further expansion of the ADC facility in Visp is on track and will commence operation in the middle of 2014.

Utilization of our new large-scale mammalian cell culture facility in Singapore is also ramping up. Ensuring security of supply for our customers necessitated multiple plant adaptations and more frequent product changeovers than usual in the first half of 2013. This resulted in a shortening of the production cycles, which had a negative impact on batch releases and on sales and earnings in the first half. In the second half of the year, new products were introduced successfully and on time, based on new contracts signed in the first half of 2013. In addition, production capacities at our large-scale mammalian cell culture plant in Singapore were adapted to accommodate growing customer demand. The investment is included in the CAPEX guidance, but the impact on revenues in 2013 remains.

Significant progress was made on the optimization of our global manufacturing footprint. It was decided in the third quarter that the Hopkinton, MA (USA) site would be prepared for phasedown. The majority of our customers have been accommodated with alternative solutions. We intend to conclude all current manufacturing and R&D commitments with our customers and to transfer production to Lonza's Visp site. The majority of these transfers were carried out successfully in the second half of the year, and the phasedown of the Hopkinton facility is on track. We will continue to work closely with regulatory authorities to ensure security of supply from the site until all technology transfers are complete. These measures resulted in lower revenues and earnings as expiring contracts were not being renewed and no new projects were being acquired for this site.

The Viral Therapeutics project portfolio remained strong with an expanding customer base. Lonza's strong Cell Therapy pipeline was driven by public market and large Pharma investments.

Custom Development

In Custom Development, Lonza successfully launched the Developability Assessment Platform. This new platform offers risk identification, manufacturability assessments and safety assessments, all of which lead to reduced attrition rates for project candidates in early clinical trials. There has been continued and increasing worldwide interest in Lonza's proprietary Gene Expression System GS Xceed™, with Asia alone representing 25 % of GS Xceed™ research evaluation agreements.

The Development Services laboratories in Singapore are now fully operational for cell-line construction and full process development. These service offerings from Singapore were especially attractive for customers in Japan, which resulted in the signing of new contracts in 2013. The programs covered by these contracts include cell-line construction and full process development and manufacturing. The ADC Process Development Group was able to harness the power of Lonza's development and manufacturing capabilities, and we signed an important long-term agreement to develop a novel cytotoxic payload with potential for use in a wide range of ADC projects.

Bioscience Solutions

Bioscience Solutions delivered a solid performance in 2013, with double-digit growth in emerging markets, especially BRIC countries. This growth offset the sluggish performance in North America and Europe, where the business suffered from low academic funding and conservative spending by the pharmaceutical and biotechnology industry.

The Media business continued to deliver a strong performance, with the Sartorius collaboration fully on track and providing first benefits. Also, the development of robust, cGMP-compliant processes for induced pluripotent stem cells (iPSCs) made good progress. Negotiations are underway with several companies for process development and manufacturing of iPSC-based therapies for a variety of clinical applications.

Lonza's Cell Biology programs address new customer requirements for advanced cell models and cell-culture-related tools. Transfection, Molecular Biology and Research Products all faced a challenging market environment and aggressive competition in Europe and North America. Testing Solutions saw strong endotoxin detection sales overall and stronger growth in Asian markets, which unfortunately was offset by lower demand in Europe and North America.

Because of the increasing number of products in our portfolio, Lonza's Pharma&Biotech market segment experienced a larger number of inspections and audits this year. In 2013, Lonza underwent 29 successful regulatory inspections and follow-up discussions with the respective regulatory agencies for both products and sites. Also in 2013, Lonza had more than 150 successful product-related audits by customers.

Corporate

Corporate million CHF	2013	2012
Sales	**3**	10
Core result from operating activities (EBIT)	**(25)**	(28)
Core EBITDA	**(14)**	(16)

Core Results as Defined by Lonza

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

Condensed Financial Reports

Condensed consolidated balance sheet at 31 December million CHF	2013	2012 [1] restated
Non-current assets	4 658	4 993
Long-term loans and advances	69	83
Total non-current assets	**4 727**	5 076
Current assets	1 505	1 535
Short-term advances and other financial assets	3	2
Cash and cash equivalents	306	429
Total current assets	**1 814**	1 966
Total assets	**6 541**	7 042
Equity attributable to holders of the parent	2 126	2 103
Non-controlling interest	0	(1)
Total equity	**2 126**	2 102
Long-term liabilities	1 011	1 208
Long-term debt	2 221	2 427
Total non-current liabilities	**3 232**	3 635
Short-term liabilities	923	917
Short-term debt	260	388
Total current liabilities	**1 183**	1 305
Total liabilities and equity	**6 541**	7 042
Net debt	**2 103**	2 301

Condensed consolidated income statement million CHF		2013	2012 [1] restated
Sales		**3 584**	3 925
Cost of goods sold		(2 758)	(2 920)
Gross profit		**826**	1 005
Other operating expenses		(573)	(665)
Result from operating activities (EBIT)		**253**	340
Net financing costs		(119)	(111)
Share of profit of associates / joint ventures		(29)	(19)
Profit before income taxes		**105**	210
Income taxes		(18)	(36)
Profit for the period		**87**	174
Profit attributable to:			
Owners of the parent		87	174
Non-controlling interest		0	0
Profit for the period		**87**	174
Basic earnings per share – EPS basic	CHF	1.67	3.36
Diluted earnings per share – EPS diluted	CHF	1.67	3.35

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

Condensed consolidated statement of comprehensive income million CHF	2013	2012 [1] restated
Profit for the period	**87**	174
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of defined benefit liability	128	(126)
Income tax on items that will not be reclassified to profit or loss	(45)	46
	83	(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	2	1
	(45)	(36)
Other comprehensive income, 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 interests	0	0
Total comprehensive income for the period	**125**	58

Condensed consolidated cash flow statement million CHF	2013	2012 [1] restated
Profit for the period	**87**	174
Adjustment for non-cash items	556	470
Income tax and interest paid	(134)	(93)
Total before change in net working capital	**509**	551
(Increase) / decrease of net working capital	42	153
Use of provisions	(12)	(4)
Increase / (decrease) of other payables net	(17)	10
Net cash (used for) / provided by operating activities	**522**	710
Purchase of property, plant & equipment and intangible assets	(210)	(310)
Net purchase of other assets and disposals	15	19
Interest and dividend received	8	10
Net cash (used for) / provided by investing activities	**(187)**	(281)
Issue of straight bond	299	304
Issue of German private placement	0	206
Repayment of straight bond	(300)	0
Repayment of syndicated loan	(130)	(50)
Repayment of acquisition bridge financing	(244)	(542)
Increase / (decrease) in debt	39	(1)
Decrease in other liabilities	(3)	(4)
Sale of treasury shares	0	5
Dividends paid	(112)	(111)
Net cash (used for) / provided by financing activities	**(451)**	(193)
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 Restated to reflect changes from IAS19 (2011) (see note 1)

Condensed consolidated statement of changes in equity million CHF	Attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings/ Other reserves	Hedging reserve	Translation reserve	Treasury shares	**Total**		
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	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
Other comprehensive income, net of tax, as restated	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	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	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	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
Other comprehensive income, net of tax	0	0	83	0	(45)	0	38	0	38
Total comprehensive income for the period	**0**	**0**	**170**	**0**	**(45)**	**0**	**125**	**0**	**125**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	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**

Selected Explanatory Notes

1 Accounting Principles

Basis of Preparation of Financial Statements These condensed financial statements are based on the audited consolidated financial statements for the 12-month period ended 31 December 2013 that will be prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Changes in Accounting Policies

The following new standards and amendments to existing standards have been adopted with a date of initial application as of 1 January 2013:

- 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 below:

IAS 19: Employee Benefits (2011)

The following changes in the amended IAS 19 (2011) standard have 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.

2) The concept of including the expected return on plan assets at an estimated rate of return is replaced by calculating interest on the net of the defined benefit obligation and plan assets, using the discount rate that is used to discount the defined benefit obligation.

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

Balance Sheet

Non-current assets were CHF 58 million lower (lower post-employment benefit assets of CHF 75 million and higher deferred tax assets of CHF 17 million) and the long-term liabilities were CHF 246 million higher (lower deferred tax liabilities of CHF 112 million and higher post-employment benefit liabilities of CHF 358 million). The net impact on equity was CHF 304 million.

Income Statement

Other operating expenses were CHF 5 million lower, interest expenses were CHF 16 million higher and income taxes were CHF 3 million lower. The impact on net profit was CHF 8 million.

2 Exchange Rates

Balance sheet period-end rate CHF	31 12 2013	31 12 2012
US dollar	0.89	0.92
Pound sterling	1.47	1.48
Euro	1.23	1.21

Income statement average rate CHF	2013	2012
US dollar	0.93	0.94
Pound sterling	1.45	1.49
Euro	1.23	1.21

3 Restructuring Activities and Related Impairment of Assets

The Group decided to concentrate and consolidate its future Microbial Biologics assets and activities at the Visp (CH) site. As a result, the Microbial Biologics plant in Hopkinton, MA (USA) will be phased down. As a consequence of the expected lower capacity utilization, the Group already recognized an impairment of the Hopkinton-related property, plant and equipment of CHF 69 million for the interim financial statement for the six-month period ended 30 June 2013, based on a value-in-use calculation, applying a pre-tax discount rate of 7.6 %. As a result of a reassessment of its assumptions for year-end the Board of Directors decided an additional impairment of the Hopkinton-related property, plant and equipment of CHF 10 million. In addition, the Group 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 of the Pharma&Biotech segment. The phasedown will not affect Lonza's obligations to existing Hopkinton customers.

In 2013, the Group recognized costs for other restructuring activities of CHF 16 million, of which CHF 5 million is disclosed in the Pharma&Biotech segment, CHF 6 million in the Specialty Ingredients segment and CHF 5 million within Corporate.

4 **Debt**

The straight bond (2009–2013) of CHF 300 million was repaid on 27 May 2013, refinanced by the issuance of a straight bond with the following terms:

CHF 300 million, due 10 April 2019, interest: 1.75 % p.a., payable on 10 April, for the first time on 10 April 2014. The net proceeds of the bond amount to CHF 299 million per 10 April 2013, after considering up-front fees of CHF 2.3 million and an agio of CHF 1.3 million.

5 **Dividend Paid**

On 9 April 2013, the Annual General Meeting approved the distribution of a dividend of CHF 2.15 (2012: CHF 2.15) per share in respect of the 2012 financial year. The distribution to holders of outstanding shares totaled CHF 112 million (2012: CHF 111 million) and has been recorded against the reserve from capital contribution of Lonza Group Ltd.

6 **Operational Free Cash Flow**

In 2012 and 2013, the development of operational free cash flow by component was as follows:

Components of operational free cash flow million CHF	2013	Change	[1]2012
EBITDA	647	2	645
Change of operating net working capital	42	(111)	153
Capital expenditures in tangible and intangible assets	(210)	100	(310)
Disposal of tangible assets	21	4	17
Change of other assets and liabilities	19	14	5
Operational free cash flow	**519**	**9**	510

1 Includes Performance Products which were divested end of 2012

Forward-Looking Statements

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

The Full-Year Report 2013 is also available in German. The English version prevails.

Full-Year Report 2013
23 January 2014

Annual General Meeting
for the 2013 Financial Year
16 April 2014
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-Year Report 2014
24 July 2014

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