Annual Report 2012

Activities
Financial Report
Remuneration Report
Corporate Governance

Lonza Key Facts and Figures

Key figures Lonza million CHF	2012	2011	Change in %
Sales	3 925	2 692	45.8
EBITDA	640	537	19.2
Result from operating activities (EBIT)	335	261	28.4
Core result from operating activities (Core EBIT) [1]	398	326	22.1
Profit for the period	182	154	18.2
Core profit for the period [1]	249	225	10.7
Capital expenditures	310	267	16.1
Net debt	2 301	2 647	(13.1)
Net debt-equity ratio	0.96	1.12	
Total equity	2 406	2 356	2.1

[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 is eliminated (see reconciliation of IFRS results to core results on pages 174/175).

The principles of "Focus and Deliver", which we initiated as management's guiding principles at the beginning of the year, delivered positive results. Lonza's broad technology toolbox attracted new customers in all areas and led to satisfactory capacity utilization at most sites. The volatile macroeconomic situation was challenging, but Lonza managed to balance most of the risks by delivering its extensive product portfolio to a diverse set of markets. The integration of the Microbial Control business acquired in October 2011 was implemented successfully and the new sector is consolidated on a full-year basis for the first time.

In 2011, Lonza initiated VispChallenge, a program to secure the future of the Visp site, both strategically and economically. Visp is the largest of Lonza's sites, but its profitability has been unsatisfactory over the past few years. The site is not only heavily exposed to competitive pressure from low-cost manufacturers, unfavorable exchange rates (the continued strength of the Swiss franc) and higher oil prices and energy costs, but it is also contending with a suboptimal product portfolio as well as the challenges of a complex site.

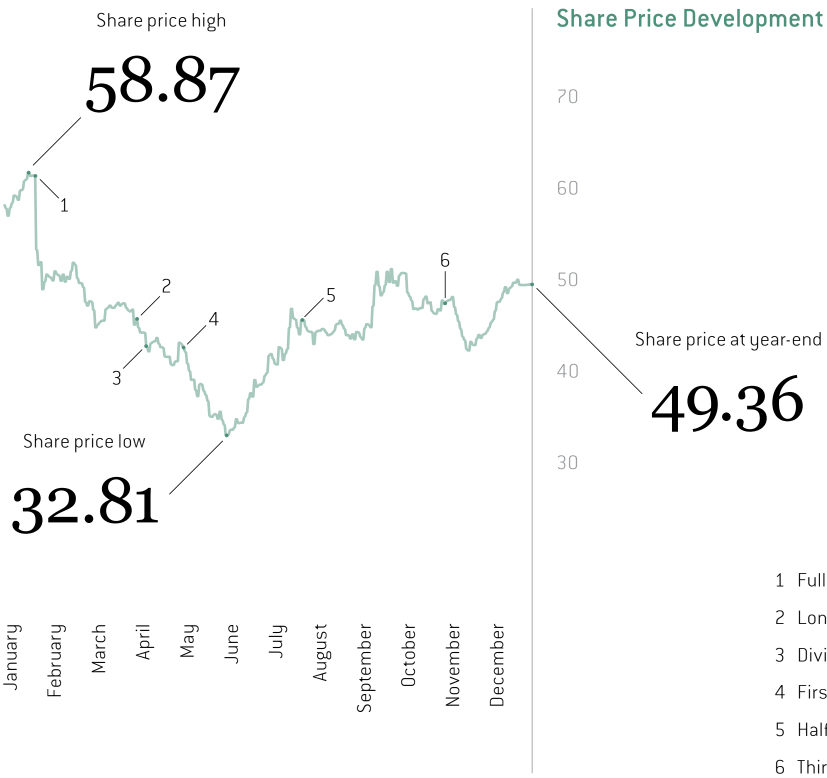
- Revenues at CHF 3 925 million (2011: CHF 2 692 million), up by 45.8 %, mainly due to the acquisition of Arch Chemicals in 2011 and the first full-year consolidation. EBIT of CHF 335 million (2011: CHF 261 million), up by 28.4 %
- Operational free cash flow (before acquisitions) significantly increased to CHF 506 million, up by 298.4 %
- Net debt reduced by 13.1% from CHF 2 647 million to CHF 2 301 million, resulting in gearing of 96 % and a net debt/EBITDA ratio of 3.35 (EBITDA before restructuring expenses and Arch integration charges)
- Net working capital in relation to sales decreased to 23.5 % in 2012 (23.9 % in 2011)
- Capital expenditure at CHF 310 million (2011: CHF 267 million)
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share for 2012

Share information CHF		2012	2011
Basic earnings per share		3.52	2.98
Diluted earnings per share		3.50	2.97
Dividend payout ratio	%	61	72
Core basic earnings per share [1]		4.81	4.36
Core diluted earnings per share [1]		4.79	4.34
Ordinary dividend declared per share		2.15	2.15

Profitability %	2012	2011
EBITDA	16.3	19.9
EBIT	8.5	9.7
Core [1] EBIT	10.1	12.1
RONOA	7.5	6.9

[1] In the core results for the items "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges/income from restructuring/acquisition is eliminated (see reconciliation of IFRS results to core results on pages 174/175).

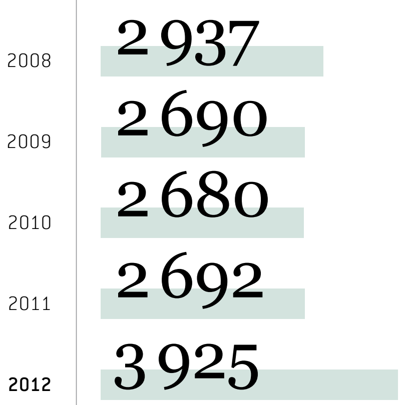
Share Price Development 2012



1 Full-year 2011 results
2 Lonza Annual General Meeting (AGM)
3 Dividend payment
4 First-quarter business update
5 Half-year 2012 results
6 Third-quarter business update

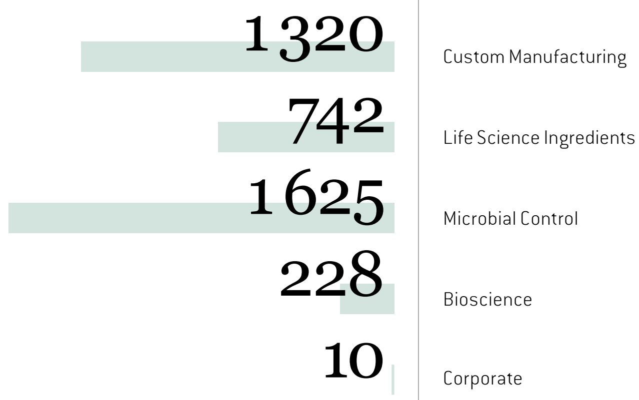
Sales Progression

million CHF



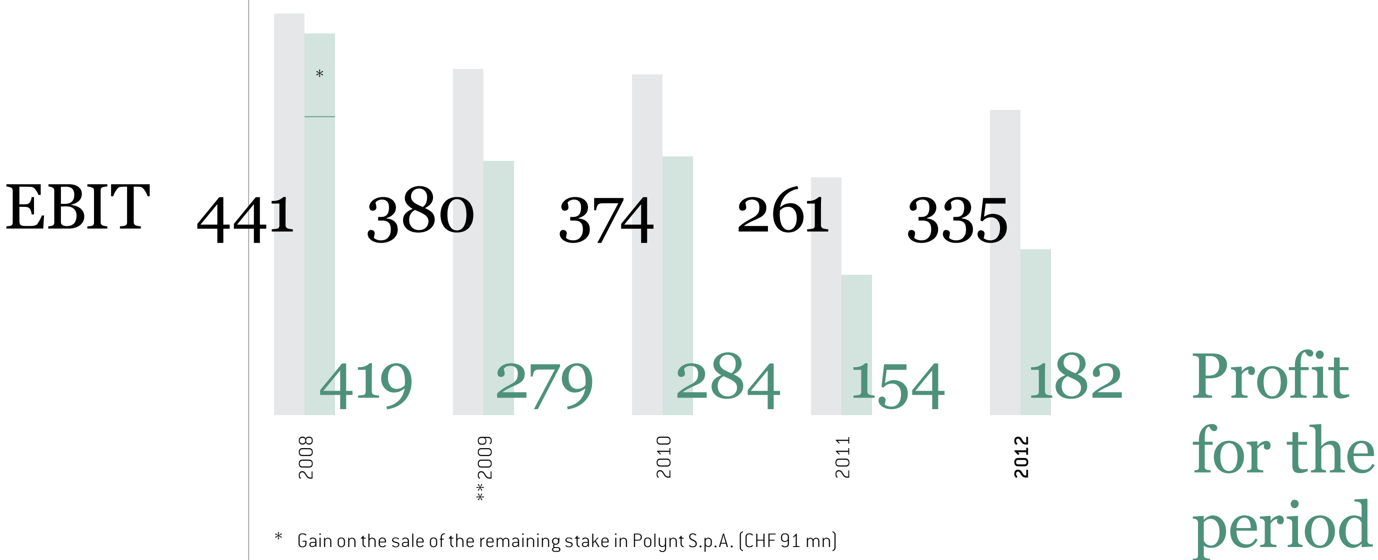
Sales by Operating Segment

million CHF



EBIT and Profit for the Period

million CHF



* Gain on the sale of the remaining stake in Polynt S.p.A. (CHF 91 mn)

** Before special charges

Lonza

Annual Report 2012

Lonza is a leading supplier to the pharmaceutical, healthcare and life-science industries.
Our products and services span customers' needs, from research to final product manufacturing.
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.
Lonza is headquartered in Basel, Switzerland, and is listed on the SIX Swiss Exchange, with secondary listing on the Singapore Exchange Securities Trading Limited (SGX-ST).

A flu epidemic in the United States in early 2013 and widespread outbreaks of serious gastrointestinal illnesses caused by noroviruses on cruise ships and in schools, restaurants, nursing homes and other public places, emphasize the value of Lonza disinfectants in multiple, easy-to-use forms, including sprays, wipes and janitorial liquids.

Lonza Annual Report 2012

Activities

Richard Ridinger *Rolf Soiron*

Dear Shareholders

"Focus and deliver!" This was the guiding principle which summarized what we wanted to achieve in 2012. We hope that, on reading this report, you will agree with us that Lonza's teams delivered quite substantially on the goals we set ourselves. First and foremost, the company increased the range and volume of the products and services – quite a number of them unique ones – that we offer to a growing number of customers around the world, as the improvement in revenues reflects. And the double-digit increase in EBIT and the strong free cash flow can be seen as an indication that the mandate to improve our economic performance has been taken very seriously.

Yes, we had to initiate change. Action was needed on several levels, and we very much appreciate that you, our shareholders, supported us in making the necessary changes. Lonza's entire staff considers your investment a token of your positive assessment of the value of our Company and your appreciation of our ability to go on identifying and unlocking additional potential. We are committed to delivering and surpassing the legitimate expectations of the Company's stakeholders who have been so loyal in their support.

While there was change, there was also continuity:

- The integration of Arch Chemicals continued and can now be considered a complete success. The acquired operations are now part of the "Lonza" identity and they contributed significantly to the financial performance in 2012.
- The "VispChallenge" initiative, which started back in 2011, gained momentum and had a greater impact in 2012. As you know, this project aims to find constructive answers to the specific challenges facing our largest site: the strength of the Swiss franc, the input costs, such as high energy prices, and the commoditization of certain products. The announced reduction of headcount is underway; at the same time, we have also made progress in improving productivity, shifting the emphasis onto new and growing businesses, and developing new opportunities.

The most significant change was the new appointment at the head of the Company, which followed a short period with an interim solution. The new leadership soon got into its stride, and a number of initiatives were launched. These are bound to have a significant impact on the Company's ability to attract and satisfy customers, talent and investors. As a brief review of our operations will show, these changes did not adversely affect the performance of our businesses – quite the contrary!

Microbial Control, Lonza's biggest sector in 2012, delivered a solid performance in nearly all its units, despite a number of macroeconomic headwinds, especially in the fourth quarter of 2012. On the strength of the expanded portfolio of active antimicrobial ingredients, as well as innovative developments in products and services, Lonza Microbial Control also gained new business, for example in the shale gas and oil segment. This bodes well for the future.

The ramp-up of the large-scale biopharmaceutical plant in Singapore was slower than expected and this had a somewhat negative impact on Biological Custom Manufacturing's sales and financial results. The results also reflect investments needed to ensure flawless quality at the microbial fermentation facility in Hopkinton, Massachusetts. However, we are confident that future performance will be boosted by the increased product pipeline, which has some promising product candidates undergoing clinical trials. Chemical Custom Manufacturing benefitted from good asset utilization at all sites throughout the year. This helped to mitigate margin pressure in some commoditized products. There was great interest in some high-level technologies such as antibody drug conjugates (ADC), peptides and highly active pharmaceutical ingredients (HAPI). We are confident that our steady pipeline development will lead to new contracts, ranging from early-clinical to full-scale commercial production.

The challenges facing the Life Science Ingredients sector remained unchanged. The niacin segment was still beset by fierce competition and pressure on revenues and margins. However, we did not see any further price and margin erosion during the second half of 2012, and in 2013 we will take additional steps to improve cost structures and productivity, mainly – but not exclusively – at our Visp site. Lonza's expertise in the production of agrochemical ingredients attracted substantial attention and gained some new customers.

As in the previous year, the Bioscience sector had to live with budget limitations affecting a number of customers, particularly those dependent on government funding. The Cell and Viral Therapy business enjoyed increased sales and EBIT, driven by a strong pipeline and increasing interest in regenerative medicines on the part of pharmaceutical companies.

Our commitment to corporate social responsibility was underlined by our joining the UN Global Compact. Its principles will continue to be part of Lonza's day-to-day life, involving all sites. We will also continue to make contributions to specific projects, for example our sponsorship of the Fertile Soils for Peri-Urban Agriculture in Hyderabad, India, and the Qingshan Lonza Primary School in China. Both are good examples of how measured contributions can make a significant difference.

Safety will always be a number-one priority at Lonza. Our leadership and teams improved further on the performance of past years, achieving a new record with an accident rate of 1.08 per million hours worked (lost-time injuries frequency rate).

The demands of market economics, the investors and our own ambition require that we manage our assets, workforce and know-how in a way that provides a financial justification for past and future investments, i.e. a convincing profit. This is why financials count! The Company's substantially increased free cash flow was certainly a highlight of 2012, contributing significantly to the planned reduction of net debt and strengthening our balance sheet in the wake of our 2011 acquisition of Arch. Debt reduction and strengthening of the balance sheet will remain top objectives for Lonza, but so too will improving our profitability ratios. 2012 saw EBIT growth in line with our guidance at the beginning of the year. EBIT grew by 28.4% after acquisitions, or 14.7% before acquisitions, to CHF 335 million. However, looking at profitability and the return-on-asset ratios, further improvement is necessary.

Transforming Lonza

Therefore we intend to make a couple of step changes. Correspondingly, 2013 will be a transformational year. Early in the year, CEO Richard Ridinger identified significant changes that need to be made in Lonza's organizational set-up. We have to focus the Company on its specific markets to underpin growth and on greater operational efficiency to improve margins. Business units will be organized within "Pharma Markets" and "Specialty Ingredients Markets" groups.

Lonza is in the process of measuring its manufacturing footprint. Sites will be assessed on their performance, particularly in terms of productivity, also expressed as return on capital invested, since capital is also a resource which needs to be handled efficiently. Lonza's manufacturing network of the future must be more streamlined and cost effective, and at the same time more service and customer oriented than ever before. This includes streamlining our support and administrative functions. A corresponding workstream has been initiated. The expected results are corporate and business support structures that deliver top-class services at a truly competitive cost.

Effective 1 February 2013, the new Executive Committee of five members – the preceding Management Committee had eight – will lead the Company's businesses, operations and functions. An intensive communication process, extending to all employees on all levels and at all locations, has been initiated with the aim of aligning staff around the globe.

The transformation thus started will also enable Lonza to capitalize on global megatrends. Some of them offer substantial growth and earnings potential, for example: global population growth will increase demand generally; the aging of the population in various regions will affect demand for healthcare products; urbanization will call for better water and hygiene management; and the expanding middle classes will boost demand for personal care products. Lonza has a unique opportunity to position itself as a successful and respected supplier serving the needs arising from these trends. The pictures in this report give an insight into what Lonza has to offer in response to these megatrends.

And what will be the bottom line?
Lonza's pipeline is solid. Growth projects, such as antibody drug conjugates and agro-activities, are picking up. Capital expenditure, including maintenance, is planned to remain below CHF 300 million in 2013. Free cash flow generation will further reduce net debt. We spoke in last year's Annual Report of "resetting the clock", i.e. of setting ambitious, but also realistic targets. Well, we achieved those objectives for 2012. In the light of the organizational changes and the review of the manufacturing footprint currently underway, as well as some economic headwinds, we expect EBIT growth of about 10% in 2013 and further improvements in the following years. But unlocking our full potential not only requires commitment and hard work, it also takes time to achieve sustainable organizational and operational solutions.

Last but not least …
In our introduction we started by thanking you, Lonza's shareholders, for your investment and support. On behalf of all our staff, we also want to thank our customers for their trust in our products and services. And finally we also want to thank our employees for their tireless dedication and commitment. Let us stress again that Lonza's transformation is above all about creating an operation that is even more respected by all our stakeholders, and products and services that are even more sought after by our customers.

With our best regards

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Lonza increased the range and volume of the products and services – quite a number of them unique ones – that we offer to a growing number of customers around the world.

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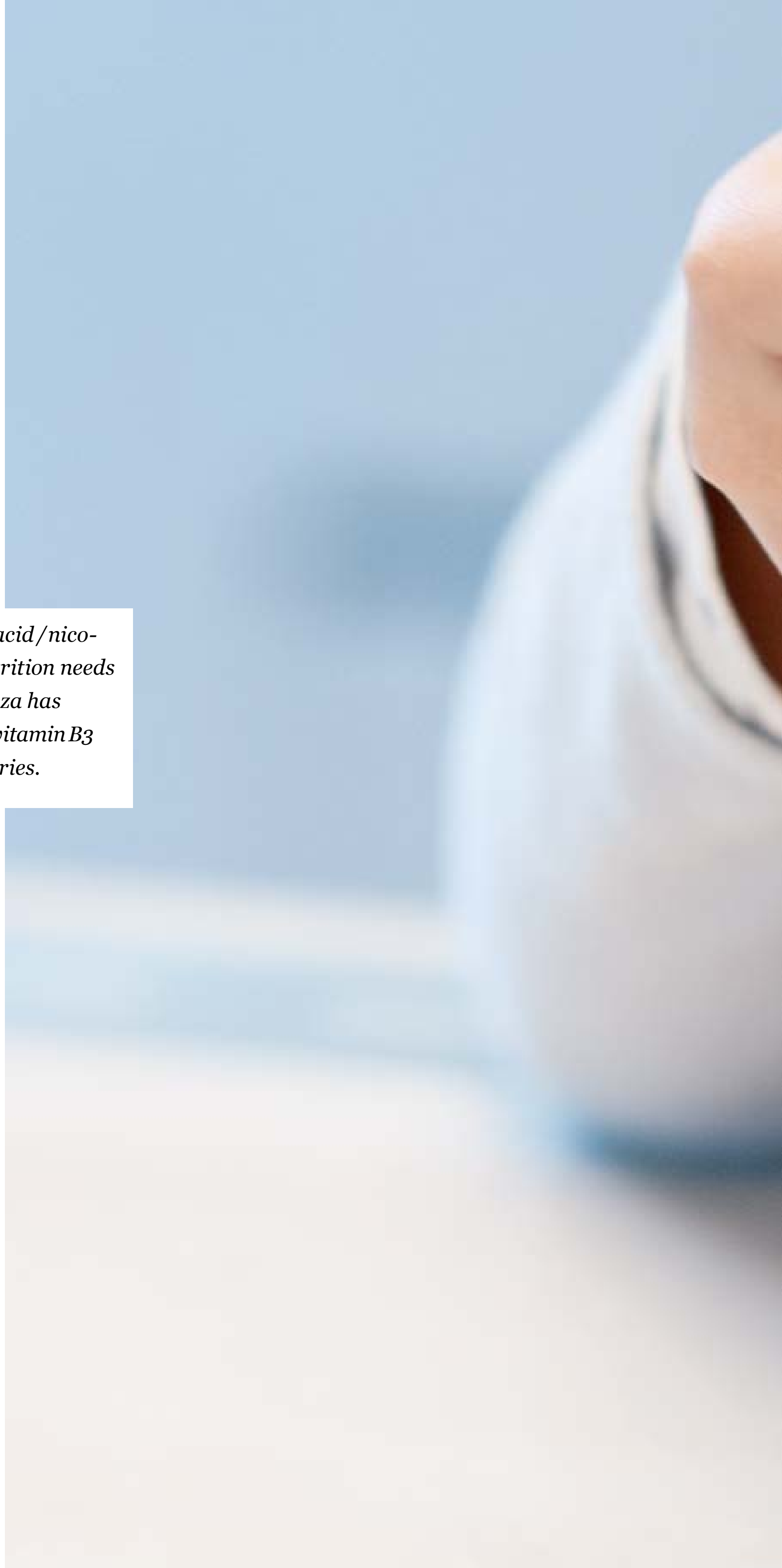
More than 45 000 tons of vitamin B3 (nicotinic acid / nicotinamide) are needed every year to cover the nutrition needs of the growing world population. Since 1971, Lonza has supplied more than half the world's demand for vitamin B3 in the human and animal health nutrition industries.*

thousand tons of vitamin B3 are needed every year to cover the nutrition needs of the growing world population.



Lonza Highlights 2012

Operations

Successful completion of the new GMP suite for developing the Viral Vaccine and Gene Therapy business

HAPI labs in Visp (CH), with capabilities for cytotoxic substances, operational

Nansha (CN) large-scale multipurpose cGMP API plant utilized for multiple customer projects

FDA preapproval inspection in Braine (BE) passed with no critical observations

Expansion of the Slough (UK) facility is fully on track

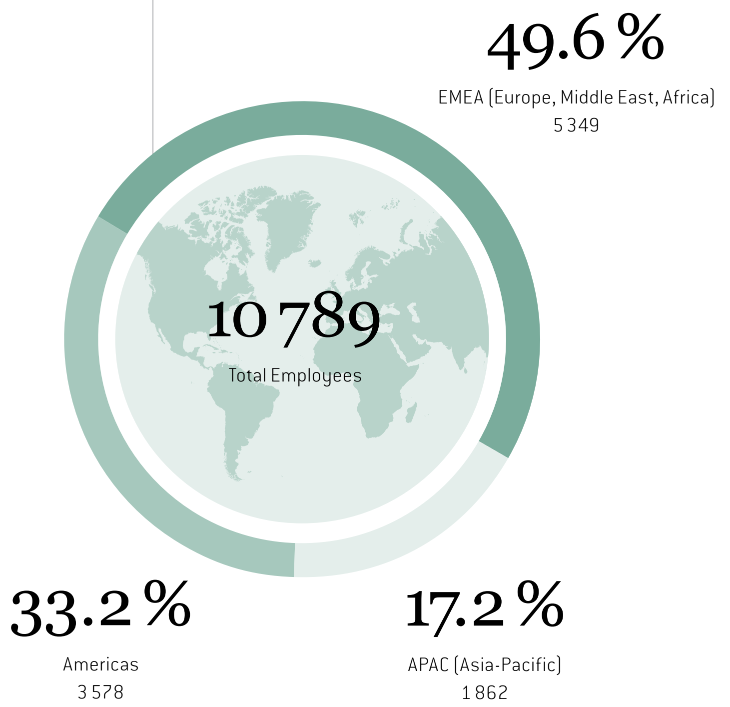
New pyromellitic dianhydride (PMDA) production in Nanjing (CN) qualified and ramping up; Liyang (CN) plant now closed

Completion of the divestiture of the Performance Urethanes and Organics business located in Brandenburg, KY (USA)

The new operations in Singapore, Walkersville, MD (USA) and Houston, TX (USA) started up as scheduled

Employees by Region

FTEs



Quality

Pharma

Lonza's GMP sites underwent a total of 16 inspections by Regulatory Agencies (e.g. FDA in the USA and EMA in Europe). All were successful. Particularly noteworthy were the inspections in Singapore (FDA and EMA), which approved the plant for the first time following its construction and commissioning, and the FDA approval of the conjugates facility in Visp (Switzerland).

Lonza GMP sites receive many customer audits every year. The approximate number is 170, which is over three audits per week. All were successful.

ISO

Lonza has a very successful global certification program for ISO sites, and this requires periodic inspection by a certified body.

In addition, many other specialist food and animal-feed certification bodies inspect Lonza ISO sites as appropriate.

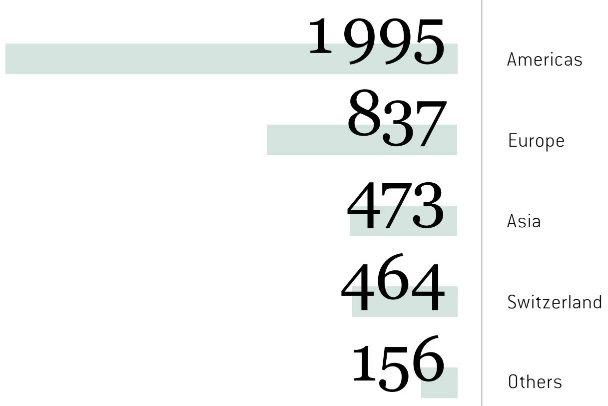
The total number of ISO site inspections was approximately 20. All were successful.

The number of customer audits of ISO sites was approximately 50. All were successful.

Of special note in 2012 was the integration of the former Arch sites into the Lonza global ISO certification program. This process will take several years to complete, but was successfully started in 2012.

Sales Third-party by Geographical Location of Customers

million CHF



Technologies

Lonza builds "Factory of Tomorrow" with investments in continuous flow and microreactor technology

Lonza expands its XS Microbial Expression Technology™ Toolbox by adding new alternative host organisms to address diverse customer needs

Lonza launches next generation of GS Gene Expression System™

Lonza announces license agreement with iPS Academia Japan

Focused on Target Markets

Lonza is a global company serving the needs of the pharmaceutical and specialty ingredients markets. From 1897 to the present day, the company has had an enterprising character, adapting its offerings and services to the needs of customers and to changing technologies

Over a century ago, Lonza began as a small Swiss electricity company, making a few chemicals on the banks of the river Lonza in the Valais region of the Swiss Alps. Now, 115 years later, Lonza is a leading supplier to the pharmaceutical and specialty ingredients markets. Throughout our history, we have maintained a strong culture of performance, results, and dependability that is valued by all of our diverse customers.

Organized Around Customers

To provide optimal support for our customers, we are organized in businesses and markets that focus on specific sets of customers in our target markets. Our customers are located across the globe. To ensure the close connection necessary to serve their exact needs to best effect, we have activities at 45 major sites around the world.

Products and Services for Our Customers

Our strategy is to target customers with two fundamental technologies: chemistry and biotechnology. Using these two technologies, we offer both products and custom manufacturing services to several industries. Our business is organized in two market segments groups: pharma and specialty ingredients.

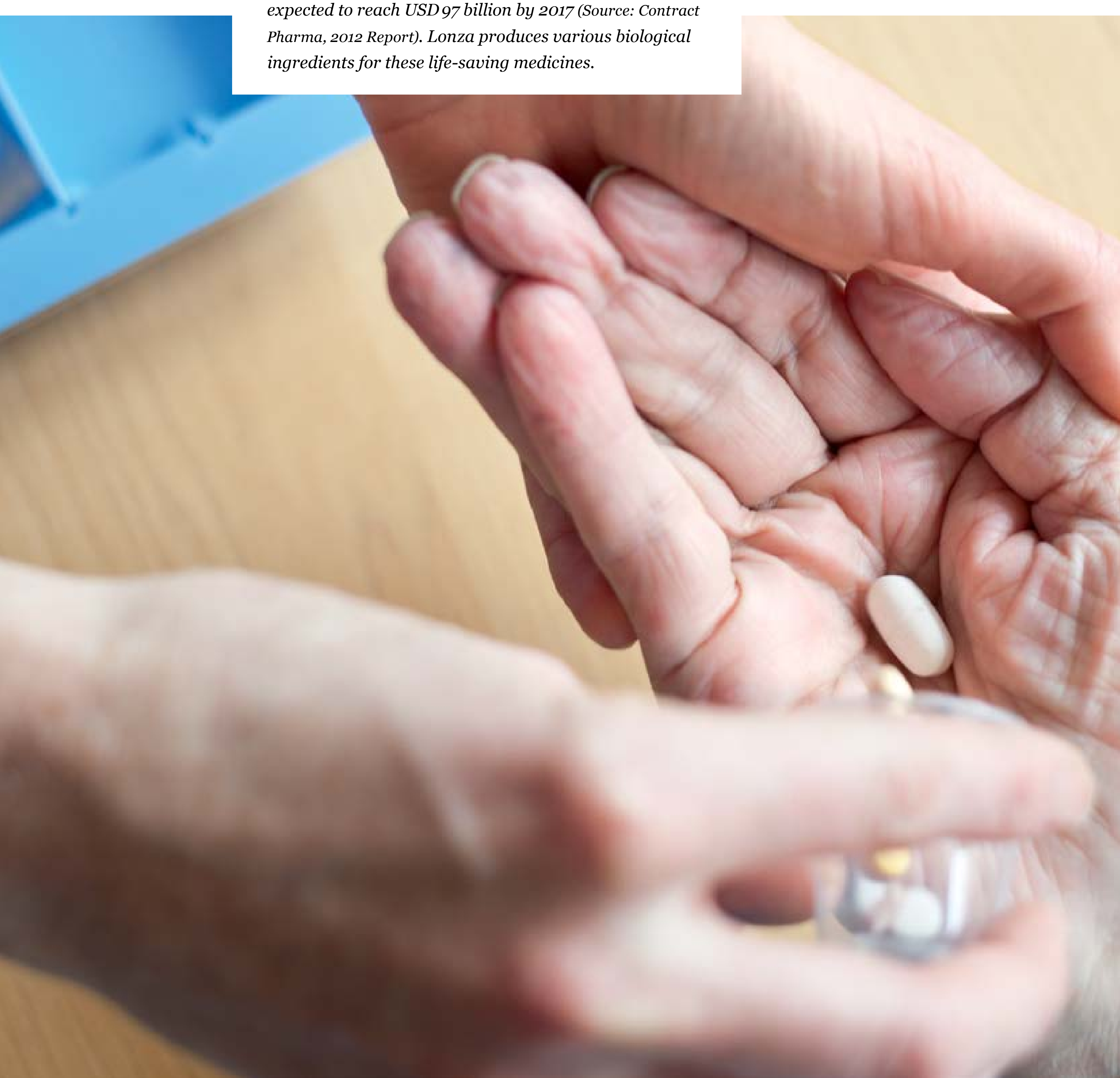
In our specialty ingredients market segments group, we offer products used in nutrition and in selected industrial markets. In these businesses, we produce the ingredients that make our customers' products effective. Our customers are manufacturers of consumer and health products, distributors, formulators, and service companies. Our ingredients range from nutritional ingredients that support improved health to complex chemical intermediates for the agricultural industry. We are also the world leader, providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Our activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. Our product range includes swimming pool and spa treatment chemicals, active biocides for hospital disinfectants as well as metal-free wood preservatives.

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

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

Throughout our history, we have maintained a strong culture of performance, results, and dependability that is valued by all of our diverse customers.

Aging often affects a person's ability to process medications. As of 2011, 18.1% of the population in developed nations is above 65 years of age (Source: World Bank Statistics). Novel oral medications often address the physiological changes that are present in the elderly, but are not as common in younger populations. The oral drug delivery market is expected to reach USD 97 billion by 2017 (Source: Contract Pharma, 2012 Report). Lonza produces various biological ingredients for these life-saving medicines.



Production Has a Future in Switzerland

Although Lonza's biggest production and R&D site in Visp is experiencing difficult times, it remains a core part of the Group's business. Lonza's VispChallenge program – fully supported by local employees – aims to ensure that Visp remains competitive and profitable, with attractive, long-term workplaces.

The Visp site in Switzerland is exposed to competitive pressure from low-cost manufacturers and unfavorable exchange rates (the continued strength of the Swiss franc), and it labors under a suboptimal product portfolio and a challengingly complex site. Despite these factors leading to decreasing profitability, it had good capacity utilization in 2012.

There is good reason to assume, that customers coming to Visp are looking for quality, not just cost-efficiency. They are undoubtedly attracted by the site's huge scientific expertise and technical know-how in fields such as microbial fermentation, antibody drug conjugates and of course basic chemicals, not to mention its reliability.

The Visp team includes international specialists along with employees who started at Lonza as apprentices right after school and have been working there for decades. The low attrition rate in the Valais region also speaks in favor of Visp and guarantees continuity for long-term projects.

Efficiency with Innovation

"Efficiency in managing projects, unique capabilities and skills, reliability and good IP protection, flexibility and the tax system are important reasons why customers choose Switzerland in general and Visp in particular for their projects," says site manager Stefan Troger.

Switzerland took first place in the Global Competitive Index 2011–2012, 2010–2011 and 2009–2010 of the Global Competitiveness Report issued by the World Economic Forum.

With its efficient management and innovative spirit, Lonza certainly contributes to this success. Visp is experienced in dealing with complex systems and new challenges – in the biopharmaceutical as well as in the chemical field, which has a long history at the site. And it is above all this combination of chemistry and biotechnology that makes Visp uniquely attractive for certain projects. When it comes to innovation, whether in process optimization, the further development of existing products or the introduction of entirely new technologies such as antibody drug conjugates, Lonza's history is a definite advantage.

Building on its History

Visp was established in 1907 as a production site for basic fine chemicals. A decade earlier, in 1897, Lonza had begun life as a small Swiss electricity company on the banks of the river Lonza in Gampel (also in the Valais), manufacturing calcium carbide and acetylene. While Visp has gone through many changes, innovation was always at the core of the site's development as new technologies and facilities were added throughout the decades. One of the biggest breakthroughs was the start-up of Lonza's naphtha cracker, which opened in 1965. With this, the basic starting material was changed from carbide to naphtha, while backward integration was further developed. Lonza produces intermediates and additives for pharmaceuticals, agrochemicals, dyestuffs, colors, adhesives and more using a sophisticated system of multiplant production networking, known in German as the "Verbund" (a combine).

In recent years, Lonza has often been asked why the production of commodities that suffer most from competitive pressure is not shifted from the expensive Visp site to other parts of the world, or even why the whole site should not be closed or sold. The answer is the "Verbund", which is both complex and efficient. As this system produces building blocks for the custom manufacturing business and others, there are many product dependencies. It also provides services and infrastructure that add to the profitability of the site. And there are other financial reasons that explain why Visp will remain the backbone of the company: while the book value of the Visp site is one billion Swiss francs, new construction of a similar site would cost three billion.

One of the products manufactured using the "Verbund" system is Meta® metaldehyde. The formulation plant for Meta® metaldehyde is a recent example of how Lonza deals with new challenges while building on its history. In addition to providing the active ingredient Meta® metaldehyde to partners who make the final products, Lonza has opened up a new market by manufacturing the final product (slug and snail pellets) for sale to farmers and consumers in the home and garden segment, adding another link in the value chain in the form of end-customers. Having this new facility in Visp is a real benefit, as the expertise of the people who manufacture the active ingredient can now be used in making the final product.

Another field where existing expertise can be used to expand business is agrochemistry. Here, the approach developed for Lonza's work as a custom manufacturing organization could also be transferred to agrochemical products, in a market whose growth is fueled by megatrends such as a growing world population, the aging demographic in Western countries, migration, expanding megacities, and a growing middle class in emerging economies.

One very recent example is the expansion of the antibody drug conjugate (ADC) manufacturing capacity in Visp, proving Lonza's unique expertise in producing biopharmaceuticals which include toxins such as immunotoxins to target diseased cells.

In Visp, Lonza looks for solutions for its worldwide customers, with the long view one gets from the Swiss Alps that surround the Visp site. Like them, the Visp site stands firm as a rock to brave whatever turbulent conditions the future may bring.

The Visp site stands firm as a rock.

What Is Needed for a Successful Start-up

Lonza's second mammalian biopharmaceuticals facility in Singapore, which came on stream in February 2011, benefitted from experience gained in previous projects and was also a new and varied challenge for the responsible team.

The construction of Lonza's 20 000-liter mammalian biopharmaceuticals* facility was nearing completion in early 2010. The engineering team had overcome many challenges to bring the facility in on time and under budget. Now it was time for the operations team to take over.

The facility would need to be certified to FDA, EMA and PDMA standards (to name but the main worldwide regulatory authorities). In addition, and with an overlapping timeline, at least three new processes would be transferred through pilot operations and validation runs into full-scale cGMP commercial production.

While the Lonza operations team had many years of experience in these areas, specifically with the start-up and validation of the first 20 000-liter mammalian biopharmaceuticals facility sold to Roche, this time would be different and without precedent.

The plant design, while based on the Portsmouth, NH (USA) design, and therefore almost identical to the first Singapore facility, incorporated several unique features and additions. This plant, while labeled a 20 000-liter facility, had in fact the ability to harvest and purify material from the 1 000-liter reactors, the 5 000-liter reactors and from 10 000 to 20 000 liters in the 20 000-liter reactors. Unlike the first plant, this one had a second purification area to process the lower-volume material required for clinical trials and/or small-scale commercial production.

All of these added features could lead to greater complexity due to training and validation requirements. The Lonza Singapore site leadership team put a very detailed project plan in place to manage and mitigate this complexity.

The first challenge would be to find adequate numbers of staff to execute the plan. Although Lonza had already built and staffed a 20 000-liter biopharmaceutical facility in Singapore, there was still a shortage of trained personnel on the island. The site leadership team followed a track similar to the one used in staffing the first plant, where the central management team was composed of a small group of seasoned Lonza expatriate employees plus local staff who had been with Lonza since the Singapore operations commenced in 2006.

Singapore educational standards are very high and the availability of skilled – though inexperienced – employees was not an issue. The Singapore government also gave Lonza access to its training and

* See explanation in the glossary in the fold-out page of the verso

attachment programs. These enabled fresh college graduates to receive “hands-on training and experience” at other Lonza sites outside Singapore. The graduates came from a variety of disciplines and backgrounds, but, as with those from the first plant, quickly earned respect from co-workers and management at the Lonza sites to which they were assigned. The assignments, which began in 2009, lasted from twelve to eighteen months, after which the trained employees returned to Singapore to “dovetail” into the execution plan.

In addition, a number of Lonza technical experts joined the Singapore team for short-term assignments in areas such as quality control, quality assurance, validation, technology transfer and process engineering.

The combination of the core management team, development of new employees and short-term assignments ensured enough trained staff to execute the plan as required.

The plant validation challenges were no less daunting. Although substantially similar to the first plant, it had the operational complexities previously mentioned. In addition there were three substantially different processes to be transferred in the first years of operation, plus several others under discussion. This required validation of almost all available options for cleaning, product transfer and software control.

Process technology transfer was the next hurdle. Processes were to be transferred not only from another Lonza site, but also directly from customers. This involved scaling up processes from their then current scale and working across multiple time zones to coordinate all scientific aspects and ensure successful process validation results.

The next step was the coordination of inspections. The plant has been approved by the FDA and the EMA for the first product. Inspections generally have to be coordinated so that the product inspected is actually being produced at the time of inspection. The Lonza team continues to work closely with customers and regulatory agencies to ensure all stakeholder requirements are met.

The engineering team had overcome many challenges to bring the facility in on time and under budget.

16

Besides the human tragedy involved, hospital-acquired infections have a significant economic impact. In a report entitled "Clean Care is Safer Care", the World Health Organization reports that hospital-acquired infections cause an extra 16 million days in hospital in Europe alone, costing an estimated EUR 7 billion per year just in direct costs. Using Lonza's Bardac™, Barquat™, and Lonzabac™ active ingredients, our customers create broad-spectrum disinfectants that help prevent the spread of pathogenic microorganisms in hospitals, nursing homes and other medical settings.

million extra days in hospital in Europe cost EUR 7 billion per year.

Lonza's Role in Feeding the World's Growing and Developing Populations

Lonza is playing an increasingly important role in the crop protection industry. By working closely with our customers and continuously developing key technologies, we plan to grow our business sustainably and make a significant contribution to the challenges facing the global agricultural industry in the years to come.

Lonza has a long tradition of supplying quality products to the agricultural industry. Our ammonium nitrate fertilizer business, which began in the 1960s, is still supplying Swiss farmers. Another, more unusual product from our Visp network is our anti-slug agent, Meta® molluscicide*, for which a new formulation was invented and brought to full commercial scale this year in Visp. Even after 50 years, these products are in solid demand and continue to contribute to our success!

The crop protection industry has undergone significant changes in the last 30 years, with the rise of genetically modified plant strains and cutting-edge technologies being used to develop new products. This industry plays an increasingly essential role in feeding the world's growing population. Despite significant progress in food production in the past 50 years, there are still one billion people on earth suffering from hunger. With the population expected to grow by two billion to nine billion in 2050, the global food requirements will increase not only because of the greater number of mouths to feed but also because diets are improving in emerging markets. As wealth increases, consumers demand higher meat content in their diets. This means higher grain consumption for meat production. Global demand for grain has increased by 85 % since 1980 and will continue to grow at an even faster rate, driven by demand for feed, food and other uses including fuel.

In 2025 each hectare of arable land worldwide will be required to feed five people compared with only two in 1960. Agriculture uses 70 % of the world's fresh water supplies, which are becoming scarcer due to climate change and increasing per-capita use of water in cities. In 2007, global crop losses from drought were estimated at 30 billion US dollars. Global demand for energy is also expected to increase 50 % by 2030. Bioethanol and biodiesel already account for 5 % of global fuel consumption and sugar-cane ethanol is an especially low-cost and low-carbon alternative to oil-based gasoline. Governments in North America, South America and the EU have passed legislation requiring 'renewable fuel' blending rates in gasoline and diesel, which will continue to drive demand for sugar, corn and other suitable crops.

* See explanation in the glossary in the fold-out page of the verso

Another increasingly crucial area in agriculture is efficiency and waste prevention. Each year over a billion tons of food are lost or wasted in the supply chain. Improved post-harvest crop protection could significantly reduce world hunger.

All of these demands for increased food and crop productivity have driven innovation at global crop protection innovator companies which are focusing on three main areas to provide integrated solutions to such critical challenges described above.

1. Safer, environmentally sound chemical products such as herbicides, insecticides and fungicides to reduce losses to pests.
2. Improved seed strains for stronger, more pest-resistant crops requiring less water.
3. Additional biological treatments to enhance the effects of chemical treatment and protect crops after harvest until they are used.

An estimated 30–50% of food is lost or wasted in the chain. That's around 1.3 billion tons annually.

While the major innovator companies narrow their focus to developing new products and services, they are increasingly leaving the production of active ingredients to external partners. Lonza's very broad chemical and biotech production platforms have been supplying these companies with key chemical intermediates and active ingredients for many years.

Lonza's Role in Feeding the World's Growing and Developing Populations

In the drive to make pesticides safer and more efficient, new product molecules demand more and more complex chemistries, which Lonza is well positioned to provide. Lonza is also committed to supporting its customers over the whole product lifecycle. "This means that we work with our customers from the earliest stages of product development to achieve cost leadership and grow the products together. Our systematic use of operational excellence helps us to extend the lifecycle of important intermediates and active ingredients," explains Ken McMahon, Head of Lonza's Industrial Applications.

"We are continuing to invest in our multi-purpose assets in Visp, with several investment programs completed in the past five years and one due to be completed by the end of 2013. These programs have addressed the ever-increasing regulatory, environmental and safety requirements, as well as production bottlenecks and expansions. We have also added new key technologies. Our portfolio shows a high proportion of new products implemented in the last five years with several more products coming in the next two years," he adds.

Biopesticides are a significant new field that is growing fast. The major innovator companies have recently made large technology acquisitions in this area, and Lonza is already providing product development and production for these innovative solutions. We are developing an integrated offering for this part of the crop protection industry that will draw on the company's long experience in biotechnological R&D, process development, and production technologies.

"What will you eat in the future?" Global demand for meat is expected to increase by 50 % by 2025. The type of meat affects the demand for grain: the production of 1 kilogram of beef requires 7 kilograms of grain, whereas pork requires 4 kilograms and poultry only 2 kilograms. Products made by Lonza help producers to ensure that your favorite dish, whether meat or vegetarian, will be available in future.

Personal Care – Making It Personal!

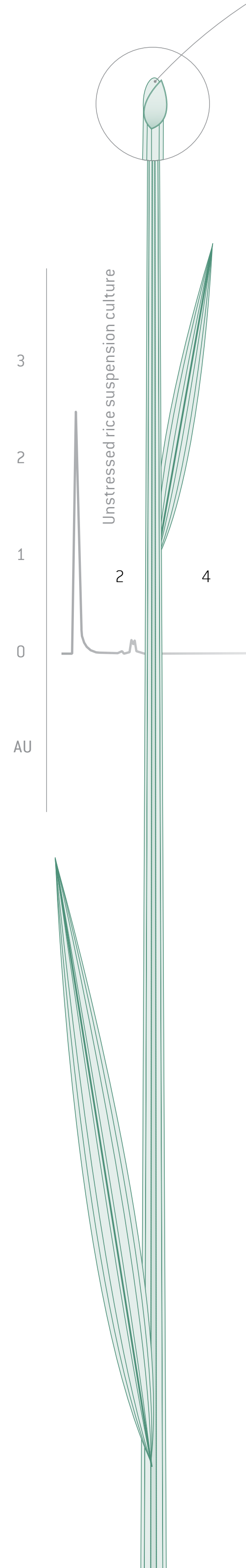
Our products touch you in so many ways! Whether it is the shampoo you use to wash your hair, the moisturizer you use on your face, or the lipstick you swipe across your lips on the way out the door, there is a good chance that a raw material from Lonza Personal Care is part of the formula.

2012 was an exhilarating year for Personal Care! We began the year as the newly integrated Lonza Personal Care, with a comprehensive portfolio of exciting active ingredients that help our customers make their products more effective. The personal care industry encompasses all of the products people use on their hair, face and body – shampoo, lotion, shower gel, makeup, and sunscreen are a few examples. Our biotechnologically derived active ingredients are essential to the efficacy of many face moisturizers* and serums*. Our protein derivatives help make shampoos and body washes more gentle. Our naturally derived emulsifiers* create soft, silky lotions and creams. Our antidandruff actives help to banish those pesky white flakes. Our extensive line of preservatives ensures that all products stay fresh and safe for use.

The integration of Lonza and Arch means so much more than just the combination of our product lines. There are so many synergies between our businesses; synergies that mean more innovation for our customers. For example, Lonza's custom manufacturing expertise in peptide synthesis has proven very valuable to the Personal Care side of the business, as many of our customers are interested in highly purified peptide molecules for anti-aging benefits. Our ability to bring this know-how to our key customers is integral to creating long-term strategic alliances. Lonza brings nutritional ingredients such as L-carnitine and Laracare, which are used extensively in the cosmetic industry as skin care actives.

Creating long-term strategic alliances with our customers is one of our strengths as a raw material supplier. Another is leveraging our internal expertise for the benefit of our customers. We do this every day when we help our customers navigate the ever-changing landscape of global regulatory requirements. Our expertise in this area comes from many facets of the Lonza business – from our hygiene group, our wood protection group and our water treatment group.

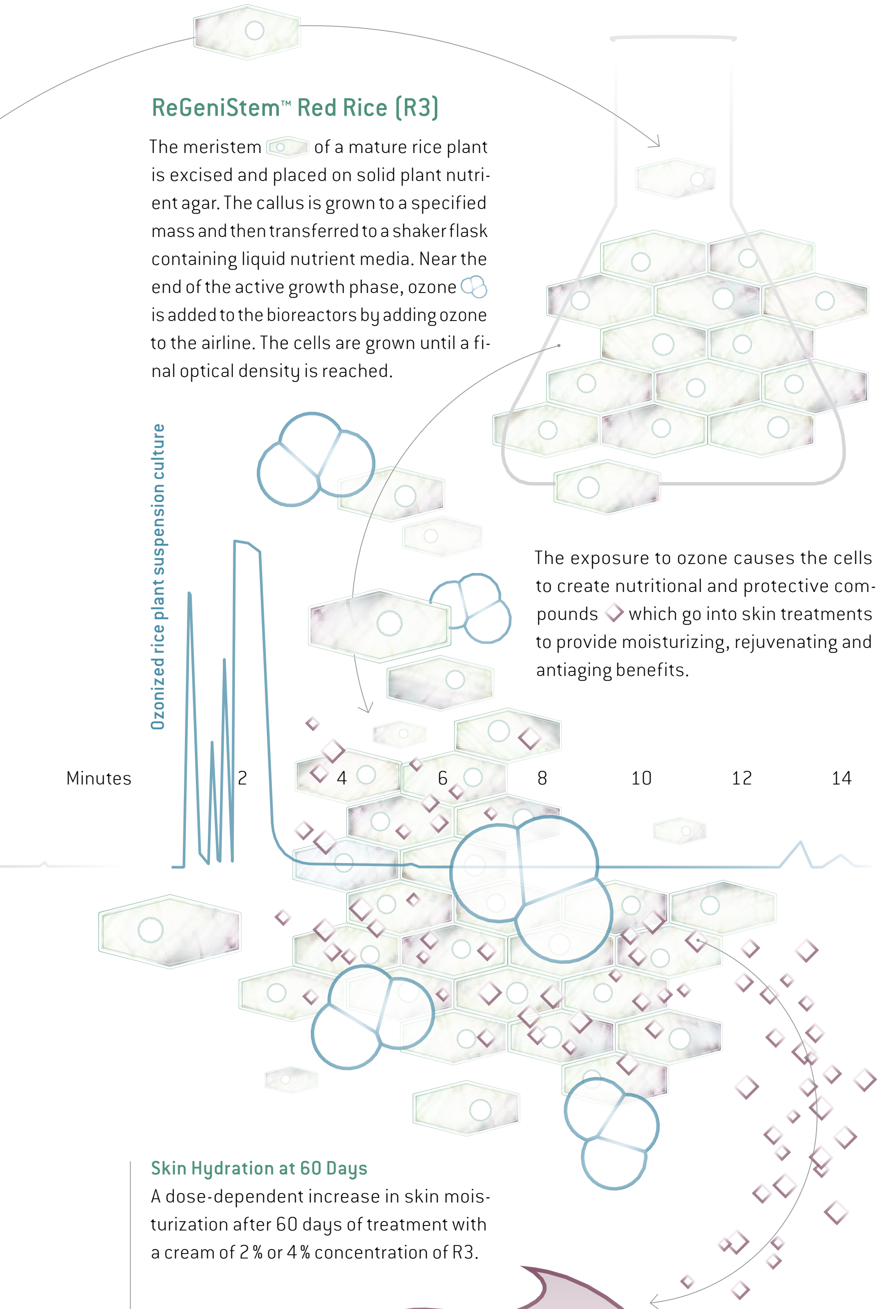
Preservatives are an area where these global regulatory requirements are particularly stringent. Our preservatives group created a helpful tool in 2012: FormulaProtect™. FormulaProtect™ is a new, interactive, online application that allows formulators to save time and easily identify preservatives that best suit their specific needs. The personal care preservation business needed an innovative way to inform customers of the expanded product line. It was essential for the business to offer customers something



* See explanation in the glossary in the fold-out page of the verso

ReGeniStem™ Red Rice (R3)

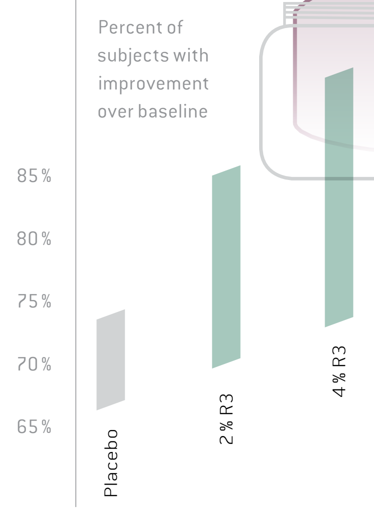
The meristem of a mature rice plant is excised and placed on solid plant nutrient agar. The callus is grown to a specified mass and then transferred to a shaker flask containing liquid nutrient media. Near the end of the active growth phase, ozone is added to the bioreactors by adding ozone to the airline. The cells are grown until a final optical density is reached.



The exposure to ozone causes the cells to create nutritional and protective compounds which go into skin treatments to provide moisturizing, rejuvenating and antiaging benefits.

Skin Hydration at 60 Days

A dose-dependent increase in skin moisturization after 60 days of treatment with a cream of 2 % or 4 % concentration of R3.



innovative and facilitative in order to build the relationship and emphasize that Lonza is their committed strategic partner in personal care preservation.

The limitations formulators are faced with when selecting a preservative or protection system varies by product, and factoring in the numerous constraints can be a hurdle. FormulaProtect™ was created to allow users to select specific formulation criteria such as pH, required spectrum, formulation type, regulatory and organizational approvals, and other criteria. After entering these details, the users are presented with a selection of recommended product options and detailed information on each, along with an opportunity to e-mail their local sales representative directly from the site.

Another innovative step was taken by the Specialty Solutions business, which launched an innovative skin care active called ReGeniStem™ Red Rice. This exciting product comes from a meristematic cell culture of Himalayan red rice, which is completely sustainable. You need only a single cell from the rice plant to make this culture. Meristem cells are to plants what stem cells are to humans – cells that can become anything the organism needs. When the culture reaches viability, we elicit it by exposure to ozone. This causes the cells to create nutritional and protective compounds, which we then harvest to make our soothing, moisturizing raw materials for skin care products.

From innovative ingredients to state-of-the-art formulating tools, Lonza Personal Care provides everything our customers need to succeed.

"Specialty additives" are reported to be the fastest-growing segment of cosmetic raw materials through 2016. This segment is comprised of ingredients such as antiaging actives and naturals – ingredients necessary for formulations aimed at aging consumers demanding higher performance from their cosmetics products. As life expectancy rates rise globally, people with more disposable income are living longer. They insist on aging gracefully, and looking fabulous while they do! Our new product launches for 2013 include an active aimed at enhancing the skin's barrier, and another that will brighten the skin, resulting in a more luminous complexion.

Lonza Addresses Global Need for Clean Irrigation Water and Safe Food

Building on our well-established leadership position in sanitizing technologies, Lonza is capitalizing on two closely intertwined megatrends – the need for clean source water for agricultural irrigation and the growing demand from consumers worldwide for food that is free of potentially dangerous contaminants.

Lonza is rapidly expanding its global agrochemical business, which provides calcium hypochlorite and sodium dichloro-s-triazinetrione (commonly known as dichlor) sanitizers* and feeder systems* for irrigation*. The same sanitizers are also being used widely in the post-harvest washing of fruits, vegetables, poultry and other foods. All of these uses are vital, since human and animal waste, bacteria and parasites can contaminate both irrigation water and produce, leading to significant numbers of food-borne illnesses and deaths worldwide, also in developed nations.

Agricultural Irrigation System Treatment

Our Frexus®, DryTech® and related brands of sanitizing systems are being used in hundreds of agricultural irrigation systems worldwide. These include drip irrigation and underground tape systems, in which small water lines are embedded in the tapes. These irrigation methods are particularly effective in arid regions such as the western USA and South Africa, because they greatly reduce the volume of water needed to adequately irrigate fruit and nut trees, tomatoes, and many other crops. Our systems provide two main benefits in irrigation: they sanitize the often contaminated source water and they prevent the buildup of biological slimes, calcium carbonate and other substances that clog the delivery piping and tiny water emitters. Lonza's sanitizing solutions are often applied in conjunction with anti-scaling chemicals to effectively control biological slimes and even root intrusion into the tapes.

The need to treat irrigation water is of special concern in the many countries whose rivers and other water sources are becoming more and more contaminated by industrial pollution, human and animal waste, and other toxic organisms. Case in point: A large farm in South Africa that draws irrigation water from one of the nation's polluted main rivers approached us several years ago to test our HTH® Scientific™ calcium hypochlorite sanitizers and feeders on its irrigation water system. They were seeking a system that would destroy dangerous contaminants and remove biological slime and bacteria buildup within the irrigation lines.

* See explanation in the glossary in the fold-out page of the verso

The customer investigated different means of treatment available, such as ozone, chlorine dioxide, sodium hypochlorite and our calcium hypochlorite. The farm's initial test of ozone was unsuccessful, and the farm owners concluded that the other methods were either too costly or had other serious drawbacks. They then tested Lonza's calcium hypochlorite. It is a fast-acting sanitizer with a high available chlorine content of 68 %. It arrives on site as a dry product, a form that is easy to handle and has an extended shelf life. Tests confirmed that the water treated with the Lonza system was properly sanitized, and that our system also successfully eliminated the buildup of clogging organisms. In addition, the calcium hypochlorite helps make calcium more available for the crops.

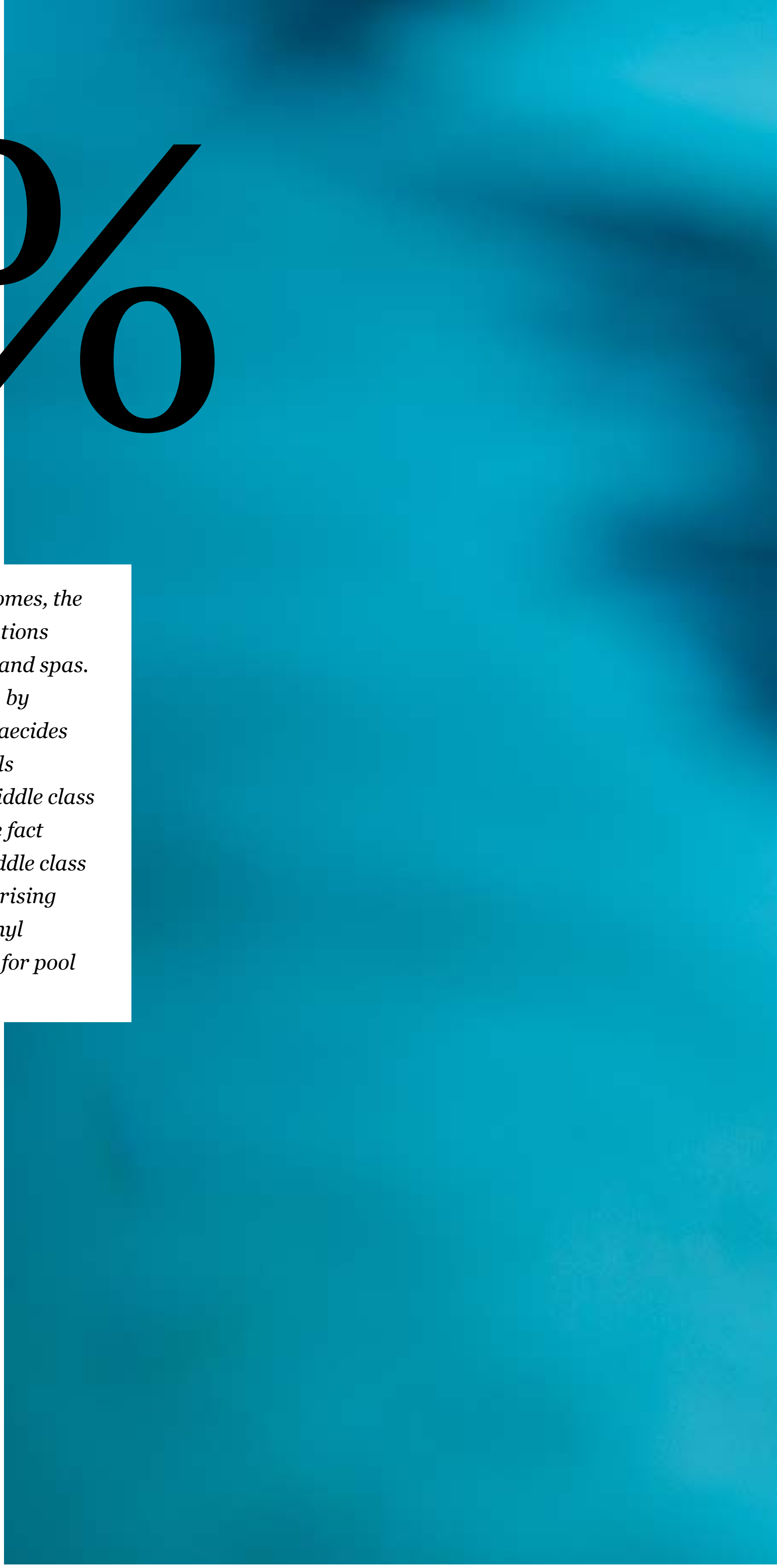
In North America, our Surface Water business manufactures EPA-registered products for use in irrigation canals to control toxin-producing blue-green algae, other species of algae and nuisance aquatic vegetation. This business is also stepping up research in the North American drip and tape irrigation markets to enhance the efficacy of existing chemistries on target species of algae and biofilms, and to develop new proprietary chemistries.

Post-Harvest Washing of Fruits, Vegetables and other Foods

To help protect consumer health, food growers and packers are increasingly using Lonza's calcium hypochlorite briquettes and feeders to create a sanitizing solution for post-harvest processing and packaging of everything from lettuce and spinach to grapes and poultry. While targeting microorganisms that can cause food-borne diseases, post-harvest washing also increases shelf life by killing organisms that cause decay in the produce. This is life science at its best, and the global growth potential – including that of China, India and other regions – is enormous!

This is life science at its best, and the global growth potential – including that of China, India and other regions – is enormous!

13%



With their growing affluence and disposable incomes, the rising middle and upper classes in developing nations are buying and installing more swimming pools and spas. Lonza's Water Treatment business is capitalizing by providing them with pool and spa sanitizers, algaecides and other recreational water treatment chemicals and systems. In Brazil, for example, the rising middle class is building new homes and pools, reflected by the fact that in 2003 only 9% of pools were owned by middle class persons while in 2010 this increased to 13%. The rising middle class is also installing new, lower-cost vinyl and fiberglass pools, stimulating added demand for pool care products.

of pools in Brazil were owned by middle class persons in 2010.

Environment, Health and Safety

Vision 'Zero' underlines our commitment to safe and healthy workplaces, processes and products, making sustainable use of natural resources, and improving our Environment, Health and Safety (EHS) performance.

All information and data for the present EHS annual report 2012 include Arch Chemicals Inc., acquired in late 2011. Exceptions do apply and they are marked with an asterisk (*) throughout the EHS section of this annual report.

Lonza Group aims to provide safe and healthy workplaces, for employees and all its stakeholders. At the beginning of the reporting year, the Group's EHS Policy was amended by the addition of our new Vision 'Zero': zero injuries, zero process incidents, zero distribution incidents and zero environmental incidents. Our credo is paramount: "Every person in every office, manufacturing site and research center has an everyday responsibility to themselves, their co-workers, their company and their community to do everything in their power to achieve Vision 'Zero'." Lonza introduced guidance on its implementation in several steps during 2012. One important element is the strengthening of Lonza's incident prevention measures by increased emphasis on hazard identification and assessment as well as focusing on leading indicators such as near-miss incidents and behavior-based safety programs.

It is essential to set a clear and transparent top-down signal for safety at work and place additional stress on incident reporting in the areas of manufacturing processes, distribution and environmental integrity for all sites and employees.

As a leading supplier to our life-science partners, and with our commitment to preventing harm to people and damage to property or the environment, we actively manage EHS as an integrated part of our business and operating practices. Lonza commits substantial financial and human resources to EHS activities.

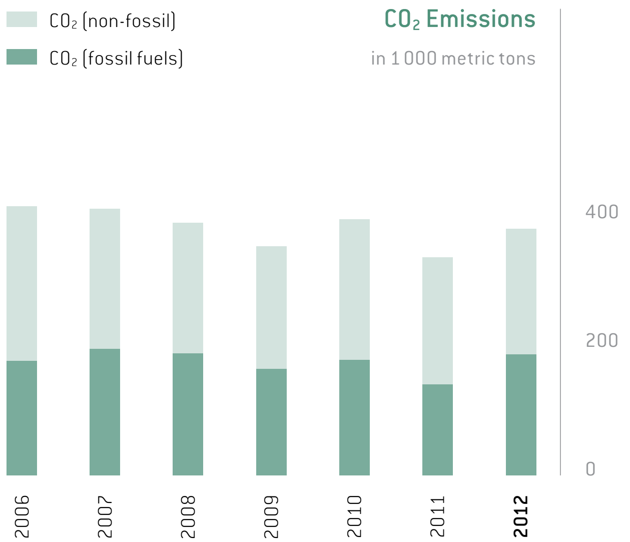
At the end of the reporting year, a total of 219 people, 1.9 % of our 11 800 employees, worked in the EHS field, including the regulatory department. EHS operational costs amounted to CHF 55 million in 2012, 4 % up on the previous year. Capital expenditure on EHS was CHF 47 million, equivalent to 1.2 % of sales and 15 % of the Group's total investment in fixed assets.

As Lonza is going through a transformation and new investments are committed to strengthening our market position, we are careful not to compromise safety or the environment. The largest capital expenditure projects in 2012 added up to CHF 22 million in EHS costs and included: cytotoxics production and revamping waste water and residual waste treatment facilities at Visp, CH; air-emission handling at Braine, BE; vitamin B3 capacity expansion at Nansha, CN; and upgrading infrastructure, effluent treatment, and the underground drainage system at Slough, UK.

To make Vision 'Zero' a reality, we are continuously improving all our EHS activities by following the Plan-Do-Check-Act cycle. In the reporting year, we focused on a number of important corporate initiatives to make our EHS management system even more robust. The goal was two-fold: to integrate the Arch acquisition and to shape a uniform high-level EHS management system to deliver the required performance. The initiatives encompassed policies, procedures and system revisions, incident reporting review and EHS auditing, as well as crisis communication and remedial site management. Group safety was at a record level as demonstrated by the low lost-time injury frequency rate of 1.08 per million hours worked. Strong guidance and the application of top-down support for behavioral safety, in addition to site process and procedure optimization, were and continue to be employed by Lonza to keep occupational accidents at a low level. The transportation or distribution of our products incurred no incidents involving significant damage to property or harm to people during the reporting year.

Stringent safety measures unfortunately did not prevent an accident, caused by a contractor, at our facility in Nanjing, China. One person was severely injured in an accident involving an elevator being installed at a construction site and died a short time later. The incident was thoroughly investigated and procedures have been adopted to ensure even better support for contractors in their efforts to prevent accidents while working at Lonza plants.

Stakeholders increasingly demand evidence of progress in corporate sustainability practices at companies they invest in and work with. Reporting on sustainability is therefore of key importance for Lonza. Our website (www.lonza.com/global-citizenship) contains important data and facts about our role as a corporate citizen. Besides publishing EHS performance data on our corporate website, we are active participants in the UN Global Compact foundation, we disclose climate data and activity assessments in the framework of the Carbon Disclosure Project, and we respond openly to the numerous queries we receive from stakeholders throughout the year. 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. It is planned to bring all Lonza China activities under the ISO 14001 umbrella. The facility in Kouřim (CZ) implemented ISO 14001 and OHSAS 18001 guided procedures in 2012.



Total output of carbon dioxide in 2012 was 383 000 metric tons, 13 % up on the previous year (the fossil-based fraction increased by one third). The change reflects both, the contribution by acquired activities (+10 %) and the slight increase (+3 %) of the Lonza activities with no maintenance shutdown at the Visp plant as in the previous year. CO_2 generated by the incineration of fossil fuels was 49 % of total CO_2 emissions in 2012. Carbon dioxide equivalents from other greenhouse gases amounted to 11 % of direct CO_2 emissions and are not reflected in the graph.

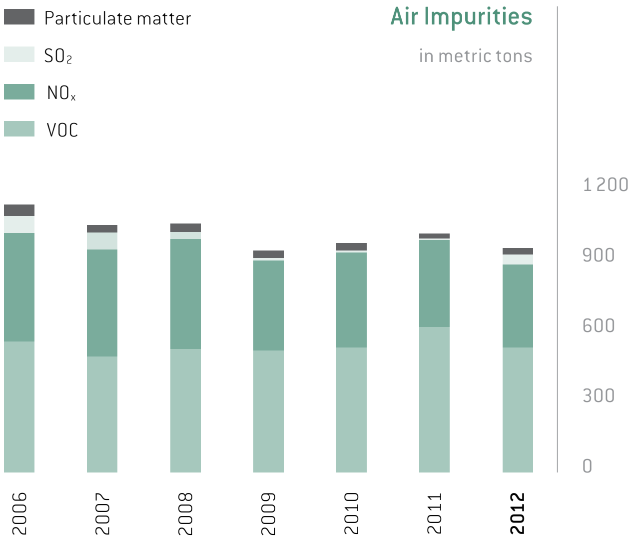
All sectors contributed to progress in EHS sustainability (energy efficiency, resource consumption, pollution abatement and waste management).

A selection of examples are presented here:

- Energy efficiency improvement projects were carried out at various sites, including: replacement of conventional lighting (Braine, Mapleton, Walkersville, Suzhou); increasing distiller efficiency, process automation and start/stop elimination at Porriño; and installation of spin flash drying technology at Charleston. The upgrading of the HVAC infrastructure at Rockland resulted in a 25 % reduction in energy consumption compared with 2011. A 40 % reduction in electricity consumption was realized at the Bioscience plant in Verviers by replacing air compressors and modifying the technical design of the air compressor station.
- A multimillion investment to eliminate odor issues and ensure continued conformity with clean-air regulations was carried out at Visp by installing a regenerative thermal oxidation step for the off-gases of the Lonza waste water treatment plant. At Braine, the construction of the thermal oxidizer for waste air treatment was terminated and will start up in March 2013. This will lead to a significant reduction in VOC emissions from the current 185 tons/year.
- Resource conservation and waste generation reduction continued at several locations. Porriño achieved a 16 % water saving by increasing cleaning cycle efficiency, and a 60 % reduction in hazardous waste by means of a fine-grained waste segregation and recycling program. A successful waste recovery initiative at Tuas led to the additional recycling of 300 tons of solvents, 17 tons of paper and cardboard and more than 5 000 empty

Air Impurities

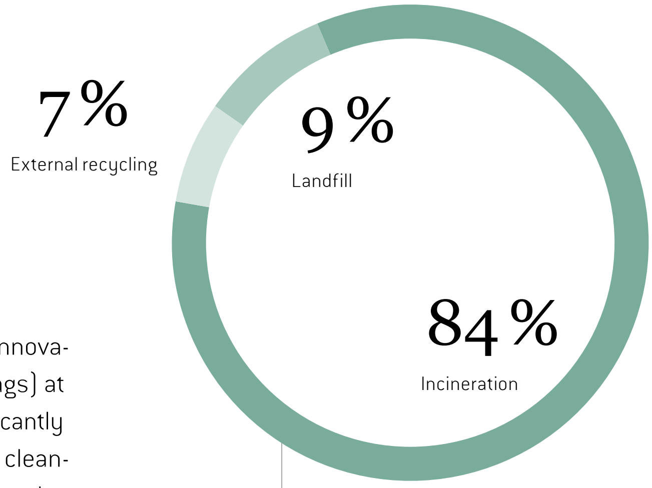
in metric tons



Volatile organic compounds (VOC) and nitrogen oxides (NOx) were responsible for 93 % of all air impurities, totaling 987 metric tons in 2012, down 6 % on the previous year. While NOx are generated essentially by incineration processes, VOC emissions are mainly the result of solvent use in production and cleaning processes. The three sites at Braine, Visp and Nanjing are responsible for 80 % of total VOC emissions. At 158 metric tons, halogenated VOC represent 29 % of total VOC output. Lonza expects a significant improvement in the emissions situation by 2015, in particular through the start-up of the thermal oxidizer at Braine in March 2013.

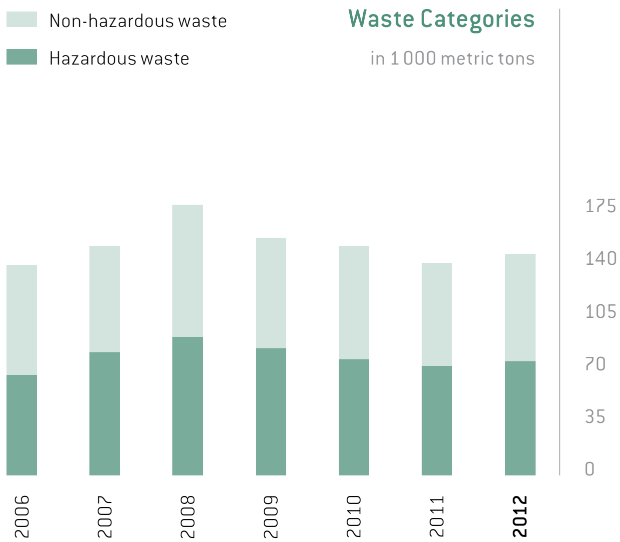
chemical containers. The introduction of innovative subreactor technology (disposable bags) at the biopharmaceutical site in Slough significantly reduced the amount of water, energy and cleaning chemicals required for production. At Visp the start-up of the first pervaporation facility for the efficient regeneration of solvents marks a further milestone. Pervaporation is a two-step membrane technology, permeation followed by evaporation, for dehydrating solvent azeotropes. Currently the facility regenerates 20 000 liters of ethanol daily.

– Exposure to risk of flooding at the Visp site was drastically reduced by completion of the third correction of the river Rhone. The river, which flows through the site between the industrial areas of Lonza and DSM, now provides almost full water capacity. This multi-year regional project is financed and executed by the state and supported by public funding on a national level.



Final Destination of Special Waste

In the reporting year, 91 % of hazardous waste materials were incinerated or externally recycled, and 9 % went to secured landfills, while hazardous waste generation in total increased by 4 %. All companies involved in the transportation, processing and final disposal of wastes are known to Lonza. Waste treatment is a matter of trust. The selection of the vendors is based on quality and EHS criteria as well as economic factors. As a matter of principle, we work only with reputable firms which comply with all legal requirements.



Waste Categories

in 1 000 metric tons

The total quantity of waste produced by Lonza in 2012 was 143 100 metric tons (+4.3 %), of which 73 700 metric tons consisted of special (hazardous) wastes and 69 400 metric tons of non-hazardous wastes or inert materials. Lonza has a specialized waste disposal concept at all its sites, dedicated to the principle of avoidance, recycling or recoverage and environmentally sound disposal. The categorization into special (hazardous) waste and non-hazardous waste conforms at all sites to the applicable national legislation.

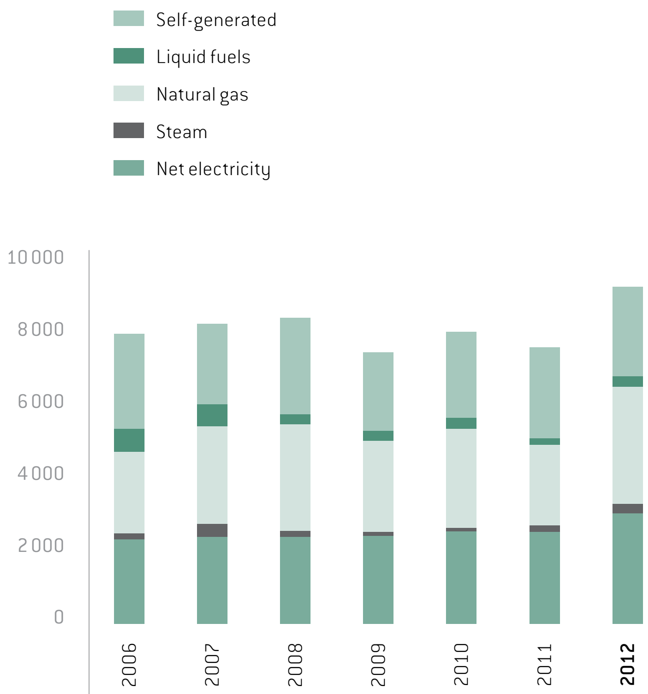
Awards

Tuas, Singapore
2012 Annual Workplace Safety and Health Performance Award by Singapore WSHC Council

Porriño, Spain
Recognized for Exemplary Environmental Management by the IPPC authorization verification inspection of the environmental authorities

Guangzhou, China
Recommended as one of the candidates for Guangzhou City Excellent Performer in "Cleaner Production"

Lonza Brazil, Salto, Brazil
Nominated as a top raw materials supplier in recognition of outstanding EHS, Quality and Services with BASF's Excellence Award program 2012



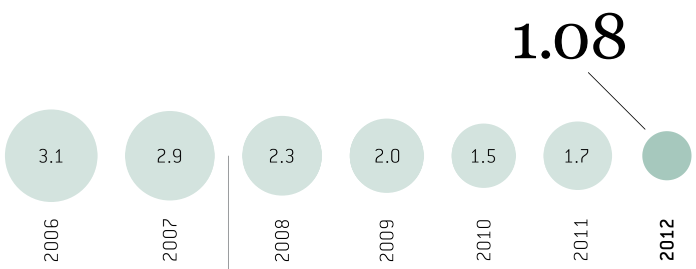
Energy
in terajoules (TJ)

The total energy requirement in the year under review was 9 718 terajoules (2 700 GWh), 22 % up on the previous year (19 % due to Arch acquisition, 3 % due to legacy Lonza sites). The main energy sources used by Lonza in 2012 were: natural gas (35 %), electricity (33 %) and waste (27 %). Liquid fossil fuels accounted for 3 % of the overall energy consumption. Energy from renewable sources accounted for 9.7 % of purchased electricity.

Goals

A record low result in the accident frequency of 1.08 in the reporting year fully confirms the safety performance goal of 1.0 LTIFR by 2015. Lonza is progressing toward its goals by systematic application of high safety standards and sustained motivation of all employees worldwide. Analysis of the impact of the Arch acquisition is progressing in 2013 and the goal review will be communicated. The goals for the period to 2015 include legacy Arch activities and are preliminary. Restated Lonza data, excluding Arch, are in parentheses and marked with asterisks (*).

Since 2005 Lonza has improved its safety performance fivefold.



Occupational Accidents

per 1 000 000 hours worked (LTIFR)

The accident frequency rate in 2012 was 1.08 accidents per 1 million hours worked, 36 % down on the previous year. Introduction of "Vision 'Zero'", together with the continued strict adherence to existing safety guidelines, the corresponding training, and the incorporation of the issue in the personal goals of each co-worker are key. Since 2005 Lonza has improved its safety performance fivefold.

Safety[1] per 1 million hours worked	Basis 2000	Status end 2006	**Goal 2010**	Status end 2012	**Goal 2015**
LTIFR[2] Frequency of accidents	9.5	3.1	**2.0**	1.08	**1.0**
LTISR[3] Severity of accidents	1 460	556	**330**	199	**250**

Environment[1]	Basis 2000	Status end 2006	**Goal 2010**	Status end 2012	**Goal 2015**
CO_2 emissions[4] in 1 000 metric tons	930	418	**400**	(*347) 383	**360**
VOC emissions[5] in metric tons	759	576	**300**	(*539) 549	**270**
Air impurities[6] in metric tons	1 485	1 180	**900**	(*895) 987	**810**

Indicators

2012 indicators dropped significantly due to the nature of the additional Arch production volume. Data for Lonza sites, excluding the acquired business, are shown in parentheses and marked with asterisks (*).

Intensities 2012[7]		Change on 2011
Energy intensity	(*24.5) 17.8 GJ/t	(*0 %) –27 %
Industrial water intensity	(*15.9) 12.3 m^3/t	(*+4 %) –20 %
CO_2 intensity	(*1 037) 700 kg/t	(*0 %) –33 %
Air impurity intensity	(*2.7) 1.8 kg/t	(*–17 %) –44 %
Hazardous waste intensity	(*207) 175 kg/t	(*–5 %) –38 %

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 through accidents per 1 million hours worked
4 Carbon dioxide (fossil- as well as non-fossil-based)
5 Volatile organic compounds
6 Air impurities comprise VOC, nitrogen oxides (NO_x), sulphur dioxide (SO_2) and particulate matter
7 Intensity: consumption of a resource or emission of a pollutant in relation to the production of one metric ton of finished goods

Lonza's Hygiene & Preservation business supplies disinfectants and cleaners for combating hospital-acquired infections, which according to the World Health Organization kill more than 99 000 people in the United States and 37 000 in the European Union a year. These infections also contribute to high levels of excess mortality in Latin America, Asia and Africa, making this one of the world's most pressing health challenges.

Working with Socially Responsible Suppliers

In the Lonza Annual Report 2010, we announced the creation of a Suppliers' Code of Conduct and a process to ensure that our suppliers are aligned with Lonza's standards of social responsibility. The following update shows how this is being implemented in daily business.

At Lonza we view a commitment to corporate social responsibility as essential for our employees to ensure we are in compliance with all legal, environmental and social requirements while pursuing our business objectives. In addition, we apply these principles to our worldwide supplier network through our Suppliers' Code of Conduct.

The Suppliers' Code of Conduct defines the rules of engagement which suppliers must adhere to in order to do business with Lonza. Included are standards of ethics, labor, health and safety, and protection of the environment. We communicate this code from the earliest stage of supplier development and incorporate it into contract terms and conditions, ensuring that suppliers are informed of and in compliance with Lonza standards. To take compliance a step further, we routinely audit suppliers and potential suppliers in on-site visits by experts from our Environment, Health and Safety (EHS) staff. These audits take us to all corners of the globe, including a strong presence in low-cost countries such as China and India. In 2012 we saw the effect of these standards in two examples where alignment with the Suppliers' Code of Conduct was a critical factor in the supplier selection process.

The first example was a company in China producing a chemical intermediate required in a custom manufacturing project for a major pharmaceutical customer. After encouraging signs from initial communications, sample testing and price quotes, our EHS team conducted an on-site audit. The findings from this audit painted a troubling picture. Multiple deficiencies in quality (poor condition of storage facility), safety (lack of personal protection equipment) and environmental standards (no captive drainage) were observed at the site, with no management commitment to implement corrective action. Based on these findings the company was quickly eliminated as a potential supplier for Lonza.

We also have examples of suppliers who clearly meet the standards of the Suppliers Code of Conduct while at the same time delivering high-quality, low-cost materials and services to Lonza. One such example came along in 2012 as we looked to consolidate vendors of printing services in the wake of the acquisition of Arch Chemicals. Between the Lonza and legacy Arch organizations we were working with more than a dozen different printers in the USA. We believed consolidation of vendors could lead to cost savings along with improved service. A critical step in the process was setting the right criteria for choosing among a number of potential partners. Along with price and service, sustainability programs became a key differentiating feature. Among the many competing vendors we selected WorkflowOne, headquartered in Dayton, Ohio, for our US printing needs. They not only provided the lowest bid and offered a network of twelve facilities across the USA to service our needs, but also demonstrated a top-flight sustainability program as a core part of their company ethos. With a focus on environmental protection, they use primarily non-hazardous, water- based solvents and soy-based inks, limiting emissions of volatile organic compounds and improving workplace safety. They have also implemented rigorous programs for ink, solvent and paper recycling to reduce waste bound for landfills. They have delivered nearly 50 000 tons of paper to recyclers over the past five years. They are certified by the Sustainable Forestry Initiative and the Forest Stewardship Council.

With a strong commitment to workplace safety, they have reported a continual reduction in lost time due to accidents over the past ten years. Lonza is proud to be associated with suppliers like WorkflowOne, who not only share our values but also take action to make those values a reality.

With the implementation of the Suppliers' Code of Conduct, Lonza has set a clear standard of social responsibility for our business partners. We believe this is not only good for Lonza's business, but also helps our suppliers and customers become stronger, more sustainable enterprises. This benefits all of the communities to which Lonza is connected around the world.

Looking to the future, Lonza is aligning our sustainability efforts with those of our customers to support these principles at every level in the supply chain. As an example of this, Lonza has become a member of the Roundtable on Sustainable Palm Oil (RSPO), an organization to promote the growth and use of sustainable palm oil, which is a key starting material for intermediates purchased by our Microbial Control business. With such efforts Lonza brings value to our customers by helping link consumer sustainability concerns to our suppliers' practices.

At Lonza we view a commitment to corporate social responsibility as essential for our employees.

Education and the Environment Matter to Us

Sponsorships and donations are an integral part of Lonza's commitment to social responsibility. With a small number of selected projects – like Fertile Soils for Peri-Urban Agriculture in Hyderabad and Qingshan Lonza Primary School – our engagement can make a difference.

Fertile Soils for Peri-Urban Agriculture in Hyderabad (India) is a project focusing on community linked to a Lonza site. In 2011, Lonza in cooperation with FiBL (Forschungsinstitut für biologischen Landbau) and IWMI (International Water Management Institute) started funding a project in the Hyderabad region of India to improve food security and income generation among the urban poor through recycling and reuse of organic waste in peri-urban agriculture.

Considering Population Growth

Rapid urbanization in India raises spatial challenges in providing sufficient food for locally agglomerating populations. Considering the predicted population growth, it becomes obvious that tremendous efforts are needed to ensure urban food security and ecological sustainability in the coming decades. Lonza therefore supports this project, which explores new business opportunities in a public-private partnership established with the Greater Hyderabad Municipal Corporation, Andhra Pradesh, India.

In Patancheru municipality, city waste often remains uncollected or is dumped in informal sites where it causes much distress to nearby neighborhoods. A local women's self-help group exploring new business opportunities was happy to start the collaborative program for converting the organic portion of city waste into compost. The group comprises women from different backgrounds with a low level of formal education. With this business opportunity they can become more independent and are able to contribute to a stable family income, as compost making can be a year-round business. The self-help group "Sai Santoshi Women's Welfare Society" is now officially registered. Their goal is to produce different types of value-added composts. Good quality compost takes 60 days to make and is then packaged and sold between 5–10 INR/kg in middle- to high-end neighborhoods. The women are happy that they are able to contribute to city sanitation by recycling at least part of the waste generated.

The project is guaranteed to run for three years. We hope with this sponsorship to strengthen neighborhood relationships by implementing joint project activities, to improve local knowledge of soil fertility management using solid and liquid organic waste and residues to contribute to the food security of participating households, and to improve awareness of environmental issues. In this way, the project makes a modest contribution to poverty reduction and food security in India.

Helping Education

Another project linked to a Lonza site is the Qingshan Primary School, which was built with Lonza funds and volunteer efforts. It is the second school project we have sponsored in China. The first was the Youkeng Lonza Primary School in Jiaoling (see Annual Report 2010). The Qingshan Primary School was inaugurated on 20 November 2012 in the presence of the Consul General of the Swiss Consulate in Guangzhou, Lonza Group and China management team members, and key local government officials. The inauguration ceremony was a joyful event, with pupils and teachers clearly thrilled about the improved teaching facilities.

The ceremonies featured speeches from honored guests, gifts to pupils, the unveiling of the new school name and a talismanic lion dance. These two school projects enjoy continuous support through teaching programs offered by Lonza employee volunteers. They actually started giving English and computer lessons during the ceremony. A great experience was certainly the science class, in which a Lonza R&D specialist provided fascinating insights into the world of chemistry.

As Dr. Beat In-Albon, COO, Lonza, said in his opening speech: "Over the years, Lonza has actively contributed to constructing a harmonious society in China by engaging in a variety of corporate citizenship activities. By helping children to get a good education, which they also enjoy, we hope to awaken their interest in science and technology and nurture tomorrow's scientists and engineers for China, and perhaps even for Lonza China."

As part of its 2012 sponsorship activities, Lonza donated money to the Qingshan Primary School for a new three-story building, the renovation of the existing two-story building and the playground, and the establishment of a new computer room, a science lab, a library, a multipurpose room, and more.

Sponsorships, donations and memberships are integral elements in fulfilling Lonza's commitment to good corporate citizenship and social responsibility. Lonza supports events, projects and programs directly linked to Lonza employees and sites, with a focus on science, schools, education, charity, health, social welfare, culture, community and youth.

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A growing number of people are exercising regularly as part of a healthy lifestyle. Consumption of sports and energy drinks has been on the rise globally for many years. Carnipure™, manufactured by Lonza, is found in many of these drinks for active people.

Global HR Services at Lonza – Regional Approach Is Key to Improving Efficiency

As the leading supplier to the pharmaceuticals, healthcare and life-science industries, Lonza needed a state-of-the-art model for its Human Resources organization to guarantee efficient delivery of high-quality HR Services and support.

To provide our business with the best possible support, we reorganized our HR setup into three distinct but complementary segments: HR Business Partners, the Centers of Expertise (Compensation & Benefits and Talent & Organizational Development) and HR Services.

This segmentation allows us to benefit from global and regional administrative synergies while freeing up Business Partners and Centers of Expertise to concentrate on strategy and compliance.

Our HR Transformation Initiative: What We've Accomplished So Far

In order to create a smart HR business model focusing on operational excellence and service delivery, we divided HR Services into three regions (Americas, EMEA and Asia). We identified plenty of opportunities for optimization, and the new setup ensures a more efficient, smart and flexible use of our human capital, better data integrity and disaster recovery, as well as the ability to leverage our internal expertise and identify best practices.

In the USA we have already implemented this model and are serving the business across sectors and sites with a unified payroll, benefits and retirement services setup. By replicating and expanding our service portfolio step-by-step into each region, we will continue to develop further harmonized solutions and platforms for a unified, cost-effective and best-in-class customer experience of services within Human Resources.

For EMEA we are centralizing our HR Services in two Shared Service Centers (Switzerland for the German-speaking countries and the UK for all other EMEA countries). The assignment of multilingual colleagues covers the language landscape of our HR Services hub for EMEA at our Slough site in the UK. In parallel, local representatives in certain countries ensure that we operate our processes and services to meet varied local legal requirements. The EMEA services initiative is currently underway and is scheduled to be completed by the end of 2013, delivering a significant increase in efficiency and economic value to our businesses.

Starting in 2013 we will begin analysis and planning in preparation for the implementation of the HR Services model in the Asian region.

One important goal of our initiative is to prepare Lonza's HR organization for future growth. Thanks to a harmonized and easy-to-adapt set of processes and a robust, scalable system with well-trained experts, we can quickly adapt and integrate new businesses as needed.

One timely example of this is the recent acquisition of Arch Chemicals. In the USA specifically, we were able to integrate all new colleagues (including retirees) from the former Arch sites into our payroll, benefits and retirement systems and processes less than sixty days after the acquisition.

HR as a Reliable Partner

We also strive to show that HR is a reliable partner for ongoing economies, including continual sustainable efficiency increases within the HR Services organization.

To achieve this goal, we started in late 2011 to identify a number of core HR processes that could be optimized via streamlined support for electronic systems. One example is our new global Recruitment and Onboarding Platform, which will recruit and integrate new colleagues more efficiently with centralized teamwork in the HR Services back offices. This will effectively prepare Lonza for future growth phases.

In EMEA we have begun the process of consolidating our payroll platforms by reducing the number of external platforms and providers from over ten to just two strategic partners. This will allow us to implement a single front-end and automated data transfer for payroll and tax data in each country, while training the HR Services team for payroll processing on only two platforms.

Bringing HR Services to the Next Level

By constantly reviewing quality versus cost in our processes and locations and implementing smart technology, we are working to bring HR and HR Services to the next level, allowing further efficiencies through careful balancing of process harmonization and country-specific requirements.

In line with our business strategy, we are passionately committed to using advanced technologies that open up new possibilities for our customers and further improve our quality of service within a unified customer experience. We enable you to succeed!

One important goal of our initiative is to prepare Lonza's HR organization for future growth.

HR Awards Received in 2012

Swiss Award 2012 for Exemplary Compensation Strategy and Practice, from the University of St. Gallen, for our state-of-the-art Compensation & Benefits Strategy, as a company listed on the SIX Swiss Exchange.

Lonza received the EFMD Excellence in Practice Award for Organization Development for its strategy training program, which was developed together with the University of St. Gallen.

Lonza Biologics plc in Slough (UK) was certified as one of Britain's Top Employers 2012. This was the result of independent research into Lonza's employee offering in Slough, which showed outstanding working conditions.

Lonza Biologics Inc. in Portsmouth, NH (USA) was named one of the five best large companies to work for in New Hampshire (USA) during 2012 by an awards partnership of NH Businesses for Social Responsibility, Bruce Mast & Associates and Business NH Magazine. Lonza and the other winning companies were selected after visits to the finalists' sites and a review of their employee policies, benefits and culture.

Human Resources on the Road

Road shows unveil new career advancement initiative and promote employee connection.

Shortly after Lonza's acquisition of Arch Chemicals and the subsequent creation of the Microbial Control business sector, we conducted a global employee survey aimed at identifying cultural similarities and differences between the two companies. In responding to the survey results, the integration and business leaders developed a series of action plans to address our differences and further enhance the strong shared values and other similarities between the two organizations.

One of the most important steps we took during 2012 was to conduct a Human Resources Road Show designed to provide a global orientation for new employees, while offering legacy Lonza employees a refresher in the following key areas:

- Performance management
- Talent management
- Career development and training
- Compensation and benefits

The presentations also offered information on social and fringe benefits, tuition reimbursement, retirement savings plans, employee performance incentive programs and other ways in which Lonza strives to ensure that employees understand the full "employee value proposition" of working for Lonza.

With support from local HR representatives and site leaders, the Road Shows were conducted from May through October 2012 at sites in every corner of the world. These information sessions also reinforced Lonza's long-standing commitment to engaging employees through initiatives such as the life@Lonza employee surveys, Lonza's employee forum, Microbial Control's integration progress surveys, the employee performance appraisal process and other opportunities for interaction. These programs are all aimed at creating a "virtuous circle" of employee engagement, feedback and actions to address key concerns of employees, all of which strengthens their connection to Lonza and our customers.

Employees worldwide were particularly pleased to learn at the Road Shows about a new initiative known as the Job Family Project. This initiative aims to apply a common HR structure along with career advancement steps and opportunities to all employees companywide. It defines 19 broad job families encompassing areas such as production, engineering, quality control, marketing, finance and R&D. It includes well-defined career paths and market-driven rewards, aided by career counseling, so employees are better informed about managing their personal and professional development.

The HR heads who logged thousands of miles on Road Show trips to Lonza Microbial Control sites worldwide reported that they received numerous e-mails and other feedback from employees thanking them "for taking the time to make the presentation and, even more importantly, to answer questions."

This positive feedback underscored the value of "going the extra mile" to address any and all questions or concerns employees have while reinforcing Lonza's commitment to one of its core values: We Are Connected.

69.6

Injectable drug formulations are critical in a majority of diseases that require systemic therapies when active drug components would not survive the digestive system. The USD 140 billion injectable market consists primarily of therapeutics used to treat life-threatening and difficult-to-treat illnesses such as cancers, autoimmune diseases, and central nervous system diseases. Successful treatment of these diseases has contributed to the overall increase in life expectancy worldwide to 69.6 years as of 2010 (Source: World Bank statistics). Lonza manufactures many complex active ingredients and intermediates for injectable formulations to improve quality of life in highly susceptible populations, typically found in mature patient groups.

years – overall life expectancy in 2010.

Microbial Control

Microbial Control million CHF	2012	Change in %	2011
Sales	**1 625**	234.4	486
Change due to Volume and prices	(49)		
Currency translation	68		
Scope of consolidation	1 120		
Result from operating activities (EBIT) before special items	**120**		(8)
Margin in %	7.4		(1.6)
Gain from sale of Performance Urethanes and Organics business	18		0
Result from operating activities (EBIT)	**138**		(8)
Margin in %	8.5		(1.6)
EBITDA	**202**	1 342.9	14
Margin in %	12.4		2.9
Margin in % before special items	11.3		2.9

Sales for 2012 came in very close to target despite economic headwinds from the USA, Europe and China. A strong sales performance in the first half was led by a good start to the recreational water season in North America, robust sales in our Wood Protection business, the successful development of a new business in the oil and gas segment, and growth in our Hygiene and Material Protection businesses. During the second half of the year, demand was softer than anticipated in the major microbial and wood protection markets as working capital management became a higher priority for many customers, which resulted in different order patterns and shipment delays. Integration of the former Arch business continues to progress on schedule. Close management of the integration processes and the associated costs resulted in lower spending during the year.

Water Treatment The Recreational Water business had a good start to the season in North America, while in Europe it experienced a late start due to the weather. While the weather has an impact on this business in both regions, the economy also plays an important role in the overall success of the season. The North American water business saw lower volumes in the second half of the year as customers closely managed inventories and distributors reduced their demand, while the European market felt the impact of economic factors throughout the season.

Sales in Latin America were above those of the prior year but below expectations due to increased competition in the recreational water market as well as delayed regulatory approval for a new multi-functional active. Sales in South Africa were stable, with the business maintaining its market share and operating performance, despite significant increases in energy costs.

Lonza's Recreational Water business (including our world-renowned HTH® family of pool treatments) is the world's largest supplier of swimming pool and spa treatment products.

Growth continued in the industrial water market. This was led by continued development of the Oil and Gas production treatment business, with new contracts signed for biocides, corrosion inhibitors and surfactants. This helped to offset weaker demand in Europe from traditional markets such as papermaking and industrial cooling and decreased demand in North America during the second half.

The **Hygiene & Preservation** business continued to grow steadily in North America while maintaining its position in Europe despite strong competitive pressure. These markets sustained stable growth in formulated products and the more complex active ingredients. This growth offset the increased price pressure on traditional bulk actives, particularly in Europe. In Asia the business continues to grow, focusing on smaller, specialized niche markets in hospitals, pharmaceutical manufacturing (clean rooms) and the hospitality sector.

Lonza Microbial Control is the leader in registered biocides for the hygiene and preservation markets. Our products are used in hard-surface disinfectants, sanitizers and cleaning products; in the institutional healthcare market; in the hotel and restaurant markets; in healthcare applications such as gauze bandages and topical wound treatments; in cleaning and sanitizing applications for pharmaceutical clean-room manufacturing; and in food hygiene treatments such as sanitizing beverage bottles.

The **Personal Care** business performed on target in 2012, with strong volumes in antidandruff and improved sales of preservatives, offsetting weaker specialty ingredient sales. The Antidandruff business grew steadily across all regions, and particularly well in China. Lonza's Zinc Omadine® biocide is the most popular active ingredient for antidandruff shampoo in the world.

The Preservation business experienced steady growth with new sales for many certified organic products. The Ingredients business had a challenging year, with declining demand mainly due to reformulations and net working capital considerations on the part of customers.

The pipeline of new products within the combined portfolio, which now includes biotechnological actives, delivery systems, natural and traditional preservatives, botanicals, antidandruff agents and functional ingredients, will provide the growth opportunities needed to improve the business in the future.

The **Wood Treatment** business was ahead of target for 2012. Increased demand in North American residential and industrial markets, together with strong traditional preservative volumes in South Africa, was sufficient to offset pricing pressure in North America and softer demand in the second half in both North America and Europe.

Early optimism for the US housing market created strong demand in North America in the first half. However, this position reversed in the second half, with renewed uncertainty about the direction of US fiscal policy. Sales in Europe were also softer in the second half, but still managed to meet expectations due to the steady growth in Northern Europe of traditional active ingredients, along with strong performance of the fire retardant and formulated product businesses. Robust growth was also experienced in South Africa and the Asia-Pacific region, particularly in the core residential construction markets.

The **Materials Protection** business was affected by depressed economic conditions in Europe and Asia, linked to the building products and marine antifouling markets. This trend was offset by a strong performance in North America. Weaker sales in these larger market segments were also mitigated by improved performance in other niche segments such as plastics, textiles, paper, and metal working fluids.

The marine antifouling market, linked to the shipbuilding industry, is gradually shifting to lower-cost Asian countries, resulting in increased competitive pressure. The building products markets, similarly to the Wood Protection business, showed some promising signs early in the year, which then reversed in the second half, resulting in reduced demand and tight management of inventories by key customers.

Lonza's Materials Protection business is a leader in antimicrobial control technologies for use in paints, coatings and other building products, adhesives and sealants, marine antifouling hull paints and aquaculture nets, polymer emulsions, metalworking fluids, textiles and plastics. Our biocidal actives and formulated products for the building products market deter the growth of mold and mildew on painted surfaces, wallboard, ceiling tiles and related building materials, which in turn helps protect human health and safety.

Integration Update Building the world's leading Microbial Control business: The Arch integration is progressing as planned and is on track to deliver cost synergies as expected. The annual cost savings target of USD 50 million within two years is fully on track, with all the cost-saving measures initiated and 65 % of synergies already delivered in 2012. We are on target to achieve increased sales of at least USD 40 million by the end of 2014, based on cross-selling activities. Office consolidations in the Americas, Europe and Asia were largely completed in 2012, including the corporate center in Norwalk, CT (USA), which closed in the fourth quarter. The approximate reduction in headcount through corporate duplication and natural attrition was 160 overall. Consolidation of supplier agreements is still in progress. The business continues to look for additional synergistic savings opportunities as the integration moves forward. Further progress is being made toward the harmonization of the IT systems to create a common SAP platform, with roll-out expected before the end of 2013. The Arch acquisition is EPS-accretive from year 1 at more than CHF 0.40 per share and EVA-positive as of 2012.

Divestiture of Performance Urethanes Lonza completed the divestiture of the Performance Urethanes and Organics business located in Brandenburg, KY (USA). The transaction was announced in November 2012 and completed on 28 December 2012. Following the Arch acquisition in October 2011, Lonza considered a divestiture of certain Arch businesses and assets. The Arch Performance Urethanes and Organics business had been a leading supplier of specialty urethane and organic chemicals for over 40 years, developing and manufacturing products used in applications including products for coatings, adhesives, sealants and elastomers ("CASE"), flexible and rigid foams, coolants and solvents. The business also supplies polyols, glycols and glycol ethers for such industrial applications as coolants, solvents and food additives.

Custom Manufacturing

Custom Manufacturing million CHF	2012	Change in %	2011
Sales	**1 320**	1.8	1 297
Change due to			
Volume and prices	(7)		
Currency translation	30		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**191**		228
Margin in %	14.5		17.6
Restructuring expenses	9		0
Result from operating activities (EBIT)	**182**	(20.2)	228
Margin in %	13.8		17.6
EBITDA	**323**	(17.8)	393
Margin in %	24.5		30.3
Margin in % before special items	25.2		30.3

Lonza further strengthened its leading market position thanks to innovation initiated by our customers and a solid outsourcing trend in combination with our deep expertise and broad technology toolbox.

Chemical Manufacturing In 2012, Lonza further strengthened its Chemical Manufacturing product pipeline in all clinical phases to more than 350 active projects and its manufacturing capacity utilization to above 75 %. This trend was driven by our "Total Life Cycle Management" concept, development of the product portfolio as well as manufacturing services, from early product development to the post-patent generic stage. Lonza's new differentiating technologies – peptides, cytotoxics, antibody drug conjugates (ADC), highly active pharmaceutical ingredients (HAPI) and microreactor technology (MRT) – attracted many new customers and will continue to underpin Lonza's unique competitive position in the future. The Chemical Manufacturing business unit recovered from various product delays and project cancellations in 2011 and posted a significant improvement in 2012. In addition, the majority of the VispChallenge measures in this sector will be implemented in 2013, delivering efficiency benefits during the year.

The Chemical Manufacturing business unit continued its growth strategy, strengthening its manufacturing capacity and technology platforms. All major projects are on schedule, driven by customer demand:

– The first two build-out phases of the large-scale multi-purpose cGMP API (active pharmaceutical ingredients) plant in Nansha (CN) are now utilized by multiple customer projects after approval of the site by the FDA in late 2011.
– The new Nansha cGMP kilo-lab and an additional small-scale manufacturing train were successfully brought on line.
– The large-scale antibody drug conjugates project in Visp (CH) was finalized on schedule and the plant received FDA approval in the third quarter of 2012. A second expansion phase has started and will be finalized toward the end of the first half of 2014.
– Five additional HAPI labs in Visp, with capabilities for cytotoxic substances, are now fully operational and utilized.
– The new investment in additional cytotoxic API manufacturing capacity in Visp was started up.
– The new infrastructure investment in Braine (BE) has significantly increased the peptides manufacturing capabilities of the site.

The **Biological Manufacturing** business unit continued to operate with high batch success rates, above the industry average. Multiple new products and production campaigns pushed our mid- and large-scale asset utilization in 2012, including the new facility in Singapore, to above 70 %.

Numerous initiatives and portfolio additions across our mammalian and microbial services and manufacturing offerings increased our current pipeline to more than 340 active projects.

The business made further progress with the execution of planned expansion projects, achieving a number of important milestones in 2012:

– The new Singapore facility successfully performed its first validation campaigns for multiple customers and was approved by the FDA in the fourth quarter of 2012.
– Expansion of the laboratories and manufacturing suites at our Slough (UK) facility is on track.
– The Hopkinton, MA (USA) site is fully operational, manufacturing multiple early-phase products for various customers. In close cooperation with the FDA and customers, the Hopkinton site made significant progress with its quality systems and equipment performance, and we expect the lifting of the warning letter ban in 2013 after a final FDA inspection.
– The harmonization programs for all mid- and large-scale mammalian manufacturing facilities are continuing. These programs enable our facilities to provide tailor-made capacity offerings for customers from 20 to 20 000 liters.

Development Services The AggreSolve™ technology, the highly potent cell lines (strategic collaboration with BioWa, POTELLIGENT® System) and the new media and feed systems (Lonza Bioscience) continue to experience strong customer interest.

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

In response to increasing customer demand, Lonza began expanding its Development Services platform in Slough and Singapore.

The continuously improved XS Microbial Expression™ platform, the new pDNA production platform, and the new fast-track program for strain development and clinical material supply continue to strengthen Lonza's leading position in the microbial biopharmaceuticals market.

Life Science Ingredients

Life Science Ingredients million CHF	2012	Change in %	2011
Sales	**742**	6.5	697
Change due to			
Volume and prices	32		
Currency translation	13		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**40**		40
Margin in %	5.4		5.7
Restructuring expenses	9		0
Result from operating activities (EBIT)	**31**	(22.5)	40
Margin in %	4.2		5.7
EBITDA	**100**	(4.8)	105
Margin in %	13.5		15.1
Margin in % before special items	14.7		15.1

In 2012, Life Science Ingredients realized increased net sales over 2011. The Agrochemical business turned in a strong performance and grew considerably compared with 2011, driven by a global increase in food demand. L-carnitine and the High Performance Materials business delivered solid growth. The Nicotinates business remained difficult, especially for feed applications, due to aggressive competition. All other market segments were in line with targets or grew well compared with last year.

In 2012, Life Science Ingredients' positive business results were underpinned by strong production plant capacity utilization. Also, the effects of the VispChallenge project were evident and contributed to the first positive results in 2012. The new Carniking™ / Carnipure™ plant in Nansha (CN) and the pyromellitic dianhydryde (PMDA) plant in Nanjing (CN) went on stream and started delivering in line with expectations. The outlook is for an improved performance in 2013 since the new assets in place will deliver throughout the year. In addition, the majority of the VispChallenge measures in this sector will be implemented in 2013, delivering efficiency benefits during the year.

Performance Intermediates experienced solid demand despite macro-economic uncertainties. The High Performance Materials business' Primaset™ cyanate esters performed well in spite of the generally weak global economy, which led to uncertainty in parts of the electronics industry. Strong demand continued for Lonzacure® and Primaset™ cyanate esters in the aerospace and construction industries. Sales of PMDA from the new production plant in Nanjing continued to grow in all markets.

Demand for agrochemical actives and intermediates as well as ISO-regulated custom manufacturing was strong throughout the year. Plant utilization was very high throughout 2012 and will continue to be so into 2013. The project portfolio for agrochemical actives and ISO-regulated intermediates is still growing. A further significant investment in capacity in the multi-purpose assets in Visp (CH), which was approved by the Board of Directors, is on track to start up at the end of 2013.

Demand for diketene and HCN derivatives softened somewhat in the fourth quarter of 2012 as customers managed year-end net working capital. Overall, the Basic Chemicals business delivered higher-than-expected sales and gross margins thanks to the excellent performance in the first half of 2012.

Nutrition Ingredients In 2012, the Nicotinates (vitamin B3) business faced a difficult market environment, especially for feed applications, due to reduced demand in certain regions and strong competition from China and India. The price level in vitamin B3 for feed applications was below that of previous years. Volumes and prices in food applications were steadier due to longer contract cycles and more specific quality requirements.

High raw-material costs were a further negative influence on margins. Despite this, growth in emerging markets was strong in the first half of 2012. First indications of market consolidation were seen in 2012 as some vitamin B3 manufacturers stopped production and left the market.

Carnipure™ (food/pharma grade L-carnitine) and Carniking™ (feed grade L-carnitine) showed strong growth in volumes due to healthy demand from existing customers, and new business in current and emerging markets. The new site in Nansha came on stream and was able to provide additional volumes to meet growing demand. Several major global customers ran successful audits in our Nansha facility during 2012.

L-carnitine margins were squeezed in both food and feed applications due to the increasing presence of low-cost competitor products in the market.

Meta™ (metaldehyde) sales in 2012 were stronger compared with previous years due to high slug infestation in the UK. In other key markets (France, Germany, Italy, Spain) the slug population in the first half of 2012 was very low due to unfavorable weather conditions. However, Meta™ sales in the fourth quarter were extremely strong. Production of formulated products was successfully initiated at the new plant in Visp (CH), and the first sales of formulated Lonza slug pellets took place in the second half of 2012. Market launch in major European markets is expected in the first half of 2013.

ResistAid™ and DHAid™ vegetarian omega-3 from algae performed according to expectations.

Bioscience

Bioscience million CHF	2012	Change in %	2011
Sales	**228**	12.9	202
Change due to			
Volume and prices	21		
Currency translation	5		
Scope of consolidation	0		
Result from operating activities (EBIT) before special items	**17**		13
Margin in %	7.5		6.4
Restructuring expenses	2		0
Result from operating activities (EBIT)	**15**	15.4	13
Margin in %	6.6		6.4
EBITDA	**34**	21.4	28
Margin in %	14.9		13.9
Margin in % before special items	15.8		13.9

Bioscience achieved significant sales and EBIT growth compared with 2011. Revenue growth was driven mainly by the Cell and Viral Therapy business, with strong increases in therapeutic cell culture media sales. Start-up delays in cell therapy operations restricted further growth. The Research and Testing Solutions businesses grew slightly, but below expectations, mainly due to the weak economic environment in the USA and Europe.

Therapeutic Cell Solutions posted a strong sales performance in spite of the divestiture of the Drug Discovery Service business. The increase was driven by higher cell/viral therapy process development and manufacturing revenues. Therapeutic media sales grew worldwide, with bottom-line results still below expectations but above last year's level, mainly due to start-up issues in Walkersville, MD (USA) and Singapore Cell Therapy operations. Process development was running at very high capacity, which is reflected in the increased number of pipeline projects.

The clinical pipeline is also growing strongly due to increased investment in cell and viral therapy by large pharmaceutical companies.

Clinical phase-III production started up in the Singapore Cell Therapy facility. To meet increased demand for viral manufacturing, the capacity expansion projects in Houston, TX (USA) were brought on line as planned.

In 2012, Lonza and Sartorius Stedim Biotech established an exclusive collaboration in the area of therapeutic media. As a combined total solution provider for biotech production systems, media and buffer sales should outperform the competition significantly in the period ahead.

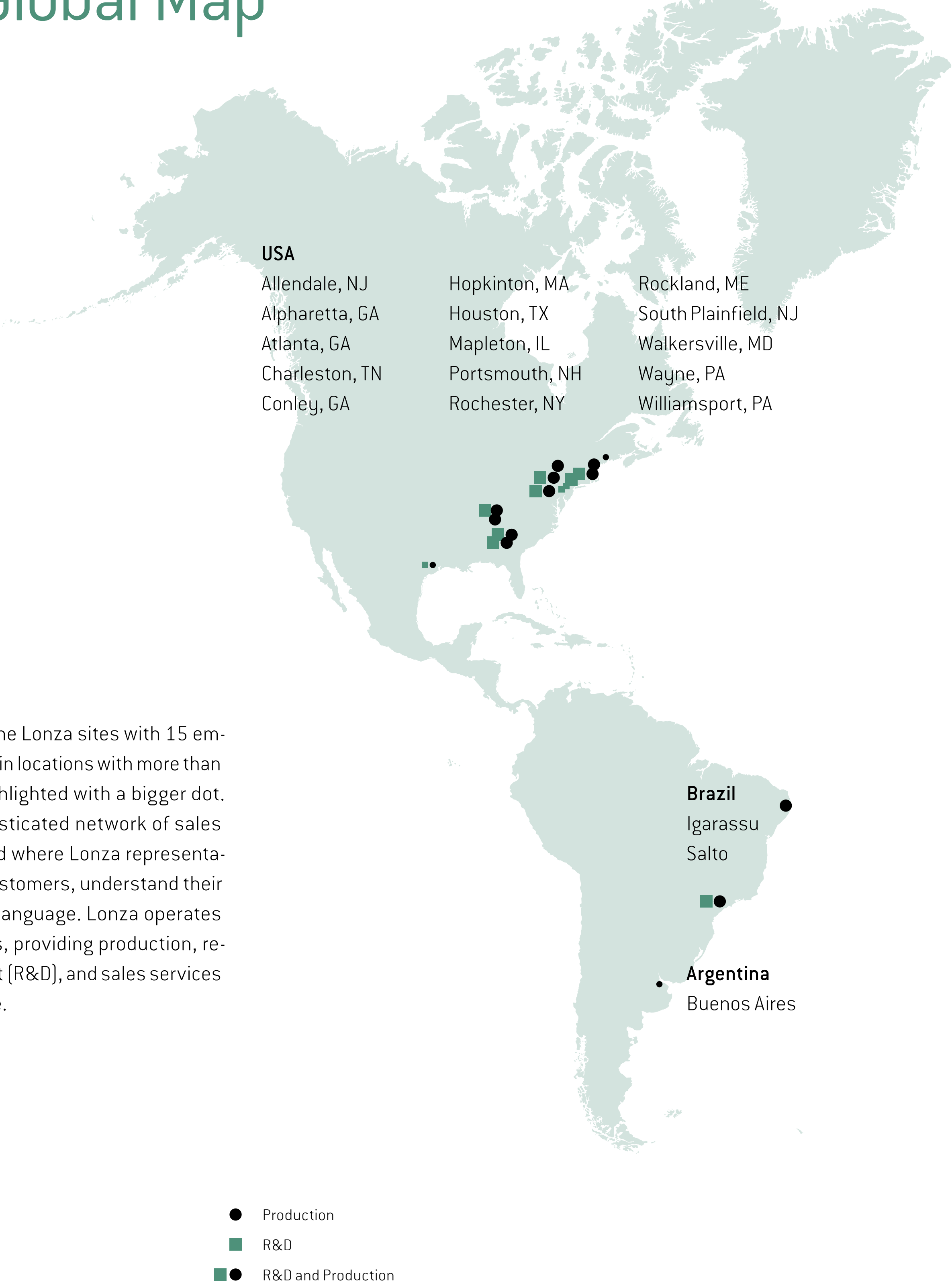
Research and Testing Solutions sales grew moderately compared with 2011, but delivered below expectations. The recession in Europe and persistently conservative spending in US governmental and academic institutes contributed to a reduction in Research sales growth. This was partially offset by growth in the Asia region.

Research products sales were higher compared with 2011 and ended slightly above target, driven by the introduction of new products and product-line extensions in the field of cell biology, transfection (the Nucleofector™ offering) and molecular biology, as well as strong sales development in Asia. In the Testing Solutions segment, endotoxin sales developed well in Europe and Asia, but stagnated in the USA on a high level. Overall, Testing products sales were slightly higher compared with 2011, but significantly below expectations, which was mainly due to the delay in the launch of microCompass™ II platform (microbiology testing). Significant progress was seen in the assay business, but because of the delay in equipment development at our collaboration partner, the launch is expected in 2014.

Investment projects in Singapore, Houston, TX (USA) and Walkersville (Cell/Viral Therapy) and the Hyderabad (IN) (R&D Center) are on schedule. Clinical phase-III manufacturing started up following complete validation of the Singapore Cell Therapy facility.

In January 2012, the Innovation group was reorganized and all R&D projects reviewed. Together, with the implementation of a solid portfolio management system, the number of R&D projects was reduced from 78 to 20 projects. Programs supporting the strategic initiative to focus on regenerative medicine and specific areas in the Research and Testing field were implemented. Our induced pluripotent stem cell (iPSC) programs progressed well, leading to sizeable projects funded by the National Institutes of Health (NIH). Proof of concept for suspension culture of adult stem cells was completed, allowing a possible approach to commercial scale-up of cell therapies. Technology Development projects also continued to consolidate our leadership positions in endotoxin and nucleofection technologies.

Lonza Global Map



This world map shows the Lonza sites with 15 employees or more. The main locations with more than 100 employees are highlighted with a bigger dot. Lonza also has a sophisticated network of sales offices around the world where Lonza representatives are close to our customers, understand their needs and speak their language. Lonza operates 98 sites in 32 countries, providing production, research and development (R&D), and sales services to customers worldwide.

Like our customers, we have a global reach, with representatives on every continent.

Consolidated Balance Sheet

Assets[1] million CHF	[2] Note		2012		[3] 2011 (restated)
Fixed assets					
Property, plant and equipment	5	5 496		5307	
Accumulated depreciation and accumulated impairment losses	5	(2 812)	2 684	(2 612)	2 695
Intangible assets	6		873		930
Goodwill	6		1 149		1 170
Other non-current assets			125		122
Deferred tax assets	21		199		176
Investments in associates / joint ventures	7		16		14
Other investments			5		6
Long-term loans and advances	13		83		56
Total fixed assets			**5 134**		**5 169**
Current assets					
Inventories	8	820		830	
Value adjustments	8	(73)	747	(57)	773
Trade receivables, net	9		629		695
Current tax receivables			12		43
Other receivables, prepaid expenses and accrued income	10		147		182
Short-term advances	13		2		2
Cash and cash equivalents	11, 13		429		196
Total current assets			**1 966**		**1 891**
Total assets			**7 100**		**7 060**

1 At 31 December
2 See the accompanying notes to the consolidated financial statements
3 Restated to reflect final acquisition accounting of the Arch Chemicals Inc. acquisition (see note 3.1)

Total equity and liabilities[1] million CHF	[2]Note	2012	[3]2011 (restated)
Equity			
Share capital		53	53
Share premium		310	310
Treasury shares		(84)	(110)
Retained earnings and reserves		2 128	2 104
Total equity attributable to equity holders of the parent		**2 407**	**2 357**
Non-controlling interest		**(1)**	**(1)**
Total equity		**2 406**	**2 356**
Liabilities			
Deferred tax liabilities	21	678	664
Long-term provisions	12	57	51
Employee benefit liability		190	198
Other long-term liability		37	41
Long-term debt	13	2 427	2 725
Total long-term liabilities		**3 389**	**3 679**
Short-term provisions	12	16	7
Other short-term liabilities	14	520	443
Current tax payables		108	105
Trade payables	15	273	294
Short-term debt: Due to banks and other financial institutions	13	388	176
Total current liabilities		**1 305**	**1 025**
Total liabilities		**4 694**	**4 704**
Total equity and liabilities		**7 100**	**7 060**

1 At 31 December

2 See the accompanying notes to the consolidated financial statements

3 Restated to reflect final acquisition accounting of the Arch Chemicals Inc. acquisition (see note 3.1)

Consolidated Income Statement

million CHF	[1] Note	2012	2011
Sales	31	**3 925**	**2 692**
Cost of goods sold		(2 920)	(1 992)
Gross profit		**1 005**	**700**
Marketing and distribution		(245)	(160)
Research and development	22	(116)	(94)
Administration and general overheads		(299)	(205)
Other operating income	19	42	42
Other operating expenses	19	(52)	(22)
Result from operating activities (EBIT)		**335**	**261**
Financial income	20.1	33	18
Financial expenses	20.2	(128)	(91)
Net financing costs		**(95)**	**(73)**
Share of loss of associates / joint ventures	20.3	(19)	(13)
Profit before income taxes		**221**	**175**
Income taxes	21	(39)	(21)
Profit for the period		**182**	**154**
Attributable to:			
Equity holders of the parent		**182**	**154**
Non-controlling interest		0	0
Profit for the period		**182**	**154**
		CHF	CHF
Basic earnings per share	26	3.52	2.98
Diluted earnings per share	26	3.50	2.97

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

Consolidated Statement of Comprehensive Income

million CHF		2012		2011
Profit for the period		**182**		**154**
Exchange differences on translating foreign operations		(42)		(14)
Cash flow hedges:				
Gains / (losses) arising during the year	0		(2)	
Reclassification adjustments for losses included in profit or loss	2	2	9	7
Income tax relating to components of other comprehensive income		1		0
Other comprehensive income for the period, net of tax		**(39)**		**(7)**
Total comprehensive income for the period		**143**		**147**
Total comprehensive income attributable to:				
Equity holders of the parent		143		148
Non-controlling interest		0		(1)
Total comprehensive income for the period		**143**		**147**

Consolidated Cash Flow Statement

million CHF	[1]Note	2012		2011	
Profit for the period		**182**		**154**	
Adjustments for non-cash items:					
– Income taxes	21	39		21	
– Net financing costs	20	95		73	
– Share of loss of associates / joint ventures	20.3	19		13	
– Depreciation of property, plant and equipment (excl. impairment)	5	254		248	
– Amortization of intangibles	6	50		28	
– Impairment losses on intangibles	6	1		0	
– (Decrease) / increase of provisions		15		(4)	
– Gain on disposal of property, plant and equipment		(22)		(1)	
– Reversal amortization of other liabilities / assets		(7)		(12)	
– Share-based payments		13		5	
Income taxes paid		(1)		(33)	
Interest paid		(92)		(44)	
Total before change in net working capital		**546**		**448**	
(Increase) / decrease inventories		13		(26)	
(Increase) / decrease trade receivables		47		(97)	
Increase / (decrease) trade payables		(18)		43	
(Increase) / decrease other net working capital		112		(46)	
Increase / (decrease) of other payables net		10		(101)	
Net cash provided by operating activities			**710**		**221**
Purchase of property, plant and equipment	5	(289)		(248)	
Purchase of intangible assets	6	(21)		(19)	
Proceeds from sale of tangible and intangible assets		39		7	
Acquisition of subsidiaries, net of cash acquired	3.1	0		(918)	
Purchase of unconsolidated investments		(3)		0	
Purchase of other assets		(7)		(5)	
Proceeds from sale of other assets		40		9	
Decrease in loans and advances		3		1	
Increase in loans and advances		(53)		(24)	
Interest received		8		4	
Dividends received		1		0	
Net cash used for investing activities			**(282)**		**(1 193)**

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

(Consolidated Cash Flow Statement continued)

Issue of German private placement	13	206		0	
Issue of straight bonds	13	304		376	
Issue of syndicated loan	13	0		491	
Repayment of syndicated loan	13	(50)		(500)	
Raising of acquisition bridge financing	13	0		1 185	
Repayment of acquisition bridge financing	13	(542)		(381)	
Proceeds from / (repayment of) borrowings		(1)		(62)	
Increase in other liabilities		6		1	
Decrease in other liabilities		(9)		(3)	
Dividends paid	26	(111)		(111)	
Purchase of treasury shares		0		(77)	
Sale of treasury shares		5		4	
Net cash (used for) / provided by financing activities			**(192)**		**923**
Effect of currency translation on cash			(3)		(3)
Net (decrease) / increase in cash and cash equivalents			**233**		**(52)**
Cash and cash equivalents at 1 January			196		248
Cash and cash equivalents at 31 December			429		196

Consolidated Statement of Changes in Equity

million CHF	Note[1]	Attributable to equity holders of the parent							Non-controlling interest	Total equity
		Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
At 31 December 2010		**53**	**311**	**2 553**	**(8)**	**(478)**	**(44)**	**2 387**	**0**	**2 387**
Profit for the period		0	0	154	0	0	0	154	0	154
Exchange differences on translating foreign operations		0	0	0	0	(13)	0	(13)	(1)	(14)
Cash flow hedges		0	0	0	7	0	0	7	0	7
Other comprehensive income, net of tax		0	0	0	7	(13)	0	(6)	(1)	(7)
Total comprehensive income for the year		**0**	**0**	**154**	**7**	**(13)**	**0**	**148**	**(1)**	**147**
Dividends	26	0	0	(111)	0	0	0	(111)	0	(111)
Recognition of share-based payments	24	0	0	4	0	0	0	4	0	4
Transfer of employee shares		0	(1)	(4)	0	0	5	0	0	0
Acquisition of treasury shares		0	0	0	0	0	(77)	(77)	0	(77)
Sale of treasury shares less taxes		0	0	0	0	0	6	6	0	6
At 31 December 2011		**53**	**310**	**2 596**	**(1)**	**(491)**	**(110)**	**2 357**	**(1)**	**2 356**
Profit for the period		0	0	182	0	0	0	182	0	182
Exchange differences on translating foreign operations		0	0	0	0	(41)	0	(41)	0	(41)
Cash flow hedges		0	0	0	2	0	0	2	0	2
Other comprehensive income, net of tax		0	0	0	2	(41)	0	(39)	0	(39)
Total comprehensive income for the year		**0**	**0**	**182**	**2**	**(41)**	**0**	**143**	**0**	**143**
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
At 31 December 2012		**53**	**310**	**2 659**	**1**	**(532)**	**(84)**	**2 407**	**(1)**	**2 406**

The share capital on 31 December 2012 comprised 52 920 140 registered shares with a par value of CHF 1 each (2011: 52 920 140 registered shares with a par value of CHF 1 each), amounting to CHF 52 920 140 (2011: CHF 52 920 140).

Reserves in the amount of CHF 26 460 070 (2011: CHF 26 460 070) included in the financial statements of the parent company cannot be distributed.

[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 to selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment.

Basis of preparation The consolidated financial statements for 2012 and 2011 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 and short-term financial assets available for sale are stated at their fair value.

Comparative figures and related restatement
As a result of the acquisition of Arch Chemicals Inc. in October 2011 the comparability of the consolidated income statement 2012 and 2011 is limited.

The accounting for the Arch Chemicals Inc. acquisition was finalized in 2012 (see note 3.1). The prior-year information in the consolidated financial statements 2012, including all the related notes, has been restated to reflect changes compared with the provisional acquisition accounting published in the 2011 financial reports.

Changes in accounting policies The following amended standards have been issued, being effective for the reporting year 2012:
- Amendment to IAS 12 – Recovery of underlying assets
- Amendment to IFRS 7 – Transfers of financial assets

With the exception of additional disclosures, the amended standards had no material impact on the consolidated financial statements for the year 2012.

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

Standard / Interpretation		Effective date	Planned application by Lonza
Amendments to IAS 1 – Presentation of items of other comprehensive income	*	1 July 2012	Reporting year 2013
Amendment to IAS 19 – Employee benefits	**	1 January 2013	Reporting year 2013
IAS 27 revised – Separate financial statements	*	1 January 2013	Reporting year 2013
IAS 28 revised – Investments in associates and joint ventures	*	1 January 2013	Reporting year 2013
Amendment to IFRS 7 – Disclosures – Offsetting financial assets and financial liabilities	*	1 January 2013	Reporting year 2013
IFRS 10 – Consolidated financial statements	*	1 January 2013	Reporting year 2013
IFRS 11 – Joint arrangements	*	1 January 2013	Reporting year 2013
IFRS 12 – Disclosure of interests in other entities	*	1 January 2013	Reporting year 2013
IFRS 13 – Fair value measurement	*	1 January 2013	Reporting year 2013
Improvements to IFRSs (May 2012)	*	1 January 2013	Reporting year 2013
Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12	*	1 January 2013	Reporting year 2013
Amendment to IAS 32 – Offsetting financial assets and financial liabilities	*	1 January 2014	Reporting year 2014
IFRS 9 – Financial instruments	***	1 January 2015	Reporting year 2015

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

- The option to defer the recognition of actuarial gains and losses from defined benefit plans (corridor method), as currently applied by Lonza, will be eliminated. Lonza will retrospectively adopt the standard for the 2013 reporting year, which will result in a decrease in other comprehensive income and an increase in the liability related to pension and other post-employment benefit plans as of 1 January 2013 of approximately CHF 430 million (CHF 300 million as of 1 January 2012).
- The concept of including the expected return on plan assets at an estimated rate of return will be replaced by calculating interest on the net of the defined benefit obligation and plan assets using the discount rate that is used to discount the defined benefit obligation. As a result, Lonza's profit before income taxes would have been CHF 30 million lower had Lonza early applied the standard in 2012 (CHF 30 million in 2011).

* No or no significant impact is expected on the consolidated financial statements.

*** The impacts on the consolidated financial statements cannot yet be determined with sufficient reliability.

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

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

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

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

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

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

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

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

Intangible assets Purchased intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Intangibles include software, licenses, patents, trademarks and similar rights granted by third parties, capitalized product development costs and capitalized computer software development costs. Costs associated with internally developed or maintained computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognized as intangible assets. Those direct costs include the software development employee costs and an appropriate portion of relevant overheads. Intangible assets are amortized using the straight-line method over their estimated useful lives, which is the lower of the legal duration and the economic useful life. Useful lives vary from 3 to 5 years for software, 5 to 30 years for patents, trademarks and similar rights and 4 to 16 years for development costs. All intangible assets in Lonza have finite useful lives, except for trademarks acquired in 2011 through the Arch business combination and 2007 through the Cambrex business combination. We consider that these trademarks have an indefinite useful life as they are well established in the respective markets and have a history of strong performance. The Group intends and has the ability to maintain these trademarks for the 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 twelve 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 is recorded for the difference between the carrying amount and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due. A reconciliation of changes in the allowance accounts for credit losses is provided.

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

Cash and cash equivalents Cash 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.

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

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

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and, 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.

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

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

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

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

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

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

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

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 exchange rate gains and losses.

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

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

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

2 Principal Subsidiaries and Joint Ventures

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		100 %
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

(List of principal subsidiaries and joint ventures continued)

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		[1]99.9 %	[1]0.1 %
Lonza Engineering AG	Basel, CH	CHF	2 000	70 %	
Lonza Europe BV	Breda, NL	EUR	20.5	[1]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		100 %
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 Mexico S. de R.L. de C.V.	Mexico City, MX	MXN	3	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	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] Rounded

3 Business Combination

3.1 Acquisition of Arch Chemicals Inc.

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

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

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

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

Based on the final acquisition accounting the following assets and liabilities have been adjusted compared with the provisional valuation disclosed in the consolidated financial statements 2011:

– Property, plant and equipment (decrease of CHF 6 million)
– Other receivables, prepaid expenses and accrued income (decrease of CHF 3 million)
– Other long-term liabilities and employee benefit obligations (increase of CHF 11 million)
– Other short-term liabilities (decrease of CHF 2 million)

In addition, acquired tax positions have changed due to the adjustments outlined above as well as Lonza's final assessment of the tax balances.

Restated net assets acquired and goodwill are shown as follows:

million CHF	
Total purchase consideration	**1 085**
Fair value of net assets acquired	(351)
Goodwill	**734**

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

The following amounts of assets and liabilities acquired have been included in the financial statements including measurement period adjustments in 2012:

million CHF	Assets and liabilities included at acquisition date
Property, plant and equipment	221
Intangible assets (customer relations, technologies, trademarks)	669
Other non-current assets	32
Investment in associates / joint ventures	2
Deferred tax assets	42
Inventories	242
Trade receivables	141
Other receivables, prepaid expenses and accrued income	37
Tax receivables	13
Cash and cash equivalents	167
Total assets	**1 566**
Deferred tax liabilities	(365)
Long-term provisions	(34)
Other long-term liabilities and employee benefit obligations	(244)
Long-term debt	(147)
Other short-term liabilities	(128)
Taxes payable	(17)
Short-term debt	(190)
Trade payables	(90)
Total liabilities	**(1 215)**
Fair value of net assets acquired	**351**
Goodwill	734
Cost of the business combination	**1 085**
Purchase consideration settled in cash	1 085
Cash and cash equivalents of subsidiary acquired	(167)
Cash outflow on acquisition	**918**

The final fair value of net assets acquired amounts to CHF 351 million and goodwill amounts to CHF 734 million, compared with the provisional net assets acquired of CHF 388 million and goodwill of CHF 697 million disclosed for 2011.

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

Transaction costs of CHF 7 million have been expensed in the financial year 2011 and are included in administrative expenses.

4 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. The Arch Performance Urethanes and Organics business has been a leading supplier of specialty urethane and organic chemicals for over 40 years.

As a result of the sale, Lonza disposed 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 amounts to CHF 18 million and is disclosed as "other operating income" in the consolidated income statement 2012.

5 Property, Plant and Equipment

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**

2011 million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	**48**	**1 333**	**2 955**	**538**	**4 874**
Additions	1	0	6	241	248
Disposals	(3)	(14)	(26)	(1)	(44)
Acquisition of subsidiaries (restated, see note 3.1)	15	35	124	47	221
Transfers / reclassification	0	129	325	(454)	0
Currency translation differences	0	6	20	(18)	8
At 31 December	**61**	**1 489**	**3 404**	**353**	**5 307**
Accumulated depreciation and impairment					
At 1 January	**(1)**	**(590)**	**(1 813)**	**0**	**(2 404)**
Depreciation charge	0	(50)	(198)	0	(248)
Disposals	0	13	25	0	38
Currency translation differences	0	0	2	0	(2)
At 31 December	**(1)**	**(627)**	**(1 984)**	**0**	**(2 612)**
Net carrying amount 31 December	**60**	**862**	**1 420**	**353**	**2 695**
Insurance value 31 December	**0**	**1 371**	**4 602**	**159**	**6 132**

Commitments for capital expenditure in property, plant and equipment amounted to CHF 20 million at year-end 2012 (2011: CHF 28 million), mainly related to capital expenditures for the Swiss units.

As at year-end 2012, property, plant and equipment under finance lease contracts are fully depreciated (2011: carrying amount of CHF 1.9 million). Depreciation relating to property, plant and equipment under finance lease amounted to CHF 1.5 million (2011: CHF 1.6 million). The exchange rate impact between ending and opening balance is CHF – 0.1 million (2011: CHF – 0.2 million).

No assets were pledged for security of own liabilities in 2012 and 2011. 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	2012	2011
Not later than 1 year	0	3
Later than 1 year and not later than 5 years	0	0
Later than 5 years	0	0
Total future minimum finance lease payments	**0**	**3**
Future finance charges on finance lease payments	0	0
Present value of minimum finance lease payments	**0**	**3**

Present value of finance lease liabilities million CHF	2012	2011
Not later than 1 year	0	3
Later than 1 year and not later than 5 years	0	0
Later than 5 years	0	0
Present value of minimum finance lease payments	**0**	**3**

Operating lease liabilities – minimum lease payments million CHF	2012	2011
Not later than 1 year	16	13
Later than 1 year and not later than 5 years	46	43
Later than 5 years	53	20
Total future minimum operating lease payments	**115**	**76**

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

During the year ended 31 December 2012, CHF 19.9 million (2011: CHF 11.4 million) was recognized as an expense in the consolidated income statement in respect of operating leases, of which CHF 0.3 million (2011: none) was due to sublease payments.

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

2. Lessor

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

6 Intangible Assets and Goodwill

6.1 Cost and Accumulated Amortization and Impairment

2012 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Development cost	Construction in progress	Total
Cost						
At 1 January	**1 177**	**923**	**83**	**93**	**3**	**2 279**
Additions	0	13	8	0	0	21
Disposals	0	0	(2)	0	0	(2)
Currency translation differences	(21)	(24)	(1)	(2)	0	(48)
At 31 December	**1 156**	**912**	**88**	**91**	**3**	**2 250**
Accumulated amortization and impairment						
At 1 January	**(7)**	**(102)**	**(60)**	**(10)**	**0**	**(179)**
Amortization	0	(32)	(11)	(7)	0	(50)
Disposals	0	0	1	0	0	1
Impairment losses	0	0	0	(1)	0	(1)
Currency translation differences	0	0	0	1	0	1
At 31 December	**(7)**	**(134)**	**(70)**	**(17)**	**0**	**(228)**
Net carrying amount 31 December	**1 149**	**778**	**18**	**74**	**3**	**2 022**

2011 million CHF	Goodwill	Patents, trademarks, client relationship	Computer software	Development cost	Construction in progress	Total
Cost						
At 1 January	**417**	**293**	**75**	**13**	**8**	**806**
Additions	0	10	7	0	2	19
Disposals	0	0	(2)	0	0	(2)
Acquisition of subsidiaries (restated, see note 3.1)	734	596	3	70	0	1 403
Transfers / reclassification	0	0	0	7	(7)	0
Currency translation differences	26	24	0	3	0	53
At 31 December	**1 177**	**923**	**83**	**93**	**3**	**2 279**
Accumulated amortization and impairment						
At 1 January	**(7)**	**(86)**	**(52)**	**(7)**	**0**	**(152)**
Amortization	0	(16)	(10)	(2)	0	(28)
Disposals	0	0	2	0	0	2
Currency translation differences	0	0	0	(1)	0	(1)
At 31 December	**(7)**	**(102)**	**(60)**	**(10)**	**0**	**(179)**
Net carrying amount 31 December	**1 170**	**821**	**23**	**83**	**3**	**2 100**

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

Patents, trademarks and client relationships include trademarks with indefinite useful lives of CHF 359 million (2011: CHF 369 million).

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

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

million CHF	2012	2011 (restated)
Microbial Solutions	431	439
Personal Care	218	222
Wood Treatment	109	111
Lonza Biologics (Biopharmaceuticals business)	26	26
Life Science Ingredients Nutrition	4	4
Lonza Braine SA (Peptides business)	34	35
Lonza Bioscience	327	333
Total carrying amounts of goodwill	**1 149**	**1 170**

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

million CHF	2012	2011 (restated)
Lonza Bioscience	25	25
Microbial Solutions	285	294
Wood Treatment	49	50
Total carrying amounts of intangible assets with indefinite useful life	**359**	**369**

Compared with the consolidated financial statements 2011, the following changes were initiated:

- The Biocidal Quats goodwill was combined with the Arch Chemicals goodwill
- The goodwill resulting from the Arch Chemicals acquisition was allocated to the cash-generating units identified
- The Nicotinates goodwill was assessed for impairment on the cash-generating unit Life Science Ingredients Nutrition

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. The cash flow projections include the actual operating results and are based on an update from the five-year business plan approved by management in early 2012.

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

The **Microbial Solutions** business includes the Water Treatment, Hygiene & Preservation and Material Protection activities acquired through the Arch Chemicals acquisition in 2011 as well as related activities from Lonza's Microbial Control operations. The cash flow projections from 2013 to 2017 are based on a 1.6 % average sales growth. The projection period excludes sales from the Performance Urethanes & Organics business which was sold in December 2012. The EBIT margin is assumed to increase over the projection period as a result of Arch integration measures already decided. The cash flow projections beyond the five-year period are based on a 1 % growth rate. A pre-tax discount rate of 10.2 % 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 **Personal Care** business includes the activities acquired through the Arch Chemicals acquisition in 2011 as well as related activities from Lonza's Microbial Control operations. The cash flow projections from 2013 to 2017 are based on a 1.1 % average sales growth. The EBIT margin is assumed to increase over the projection period as a result of Arch integration measures already decided. The cash flow projections beyond the five-year period are based on a 1 % growth rate. A pre-tax discount rate of 10.1 % 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 **Wood Treatment** business includes the activities acquired through the Arch Chemicals acquisition in 2011. The cash flow projections from 2013 to 2017 are based on a 5.6 % average sales growth, which is mainly a result of the forecasted recovery of the US housing market. The EBIT margin is assumed to increase over the projection period as a result of Arch integration measures already decided. The cash flow projections beyond the five-year period are based on a 1 % growth rate. A pre-tax discount rate of 10.2 % has been used in discounting the projected cash flows, resulting in a recoverable amount exceeding the carrying amount by CHF 91 million. If sales grew at a 0.6 %-point-lower yearly growth rate over the five-year period, or if the pre-tax discount rate were 2.3 % points higher, the recoverable amount would agree with the carrying amount.

The **Biopharmaceutical** business is primarily located in the United States as well as in Great Britain. Sales are based on existing contracts and planned utilization of equipment based on customer demand over the five-year period. Prices are as per contracts realized and are assumed to stay at current levels. Cost developments are based on individual assumptions per cost element. The cash flow projections beyond the five-year period are based on a zero growth rate (2011: 0 %). A pre-tax discount rate of 8.5 % (2011: 7.5 %) 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 **Life Science Ingredients Nutrition** business includes Lonza's portfolio for human and animal nutrition products. The cash flow projections are based on stable sales and gross margin in 2013 and 2014. According to management expectation sales volume will grow by 6.1 % p.a. from 2015 to 2017. The cash flow projections beyond the five-year period are extrapolated using a 1 % growth rate (2011: 0 %). The cash flows are discounted at a pre-tax discount rate of 13.1 %. Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount to exceed the recoverable amount of this business.

The **Peptides** business represents the cash-generating unit of Lonza Braine SA, Belgium, including Lonza Sales Ltd, Switzerland. Sales are projected on the current portfolio of peptides, with production costs varying in line with sales increase. From 2013 to 2017, sales are assumed to grow on average by 7.6 % p.a. (2011: 8.6 %). The EBIT margin is assumed to increase by 1.2 % p.a. from 2013 to 2017. The cash flow projections beyond the five-year period are extrapolated using a zero growth rate (2011: 0 %). The cash flows are discounted at a pre-tax discount rate of 8.8 % (2011: 9.8 %), resulting in a recoverable amount exceeding the carrying amount by CHF 20 million (2011: CHF 26 million). If sales grew at a 0.5 %-point-lower yearly growth rate over the five-year period, or if the pre-tax discount rate were 1.1 % points higher, the recoverable amount would agree with the carrying amount.

The **Bioscience** business includes the Cambrex Corporation, acquired on 6 February 2007, the amaxa business, acquired on 2 July 2008 as well as MODA Technology Partners and Vivante GMP Solutions, acquired on 18 Mai 2010 and 27 August 2010 respectively. Therefore, the impairment analysis is based on the combined cash-generating unit of the Bioscience segment. The cash flow projections from 2013 to 2017 are based on an 8.3 % (2011: 11.9 %) average sales growth with growing EBIT margin, as the Bioscience segment is operating in growing markets and economic recovery continues on a low level. The cash flow projections beyond the five-year period are extrapolated using a 0.5 % growth rate (2011: 0.5 %). The cash flows are discounted at a pre-tax discount rate of 9 % (2011: 7.8 %) resulting in a recoverable amount exceeding the carrying amount by CHF 43 million (2011: CHF 169 million). If sales grew at a 1.6 %-point-lower yearly average growth rate over the five-year period, or if the pre-tax discount rate were 0.5 % points higher, the recoverable amount would agree with the carrying amount.

7 Investments in Associates and Joint Ventures

7.1 Associates

Lonza holds a 31 % stake in **Aravis Ventures I, L.P.**, an international venture capital fund under Cayman Islands jurisdiction focusing on early-stage companies in biotechnology and drug development industry sectors. The total capital commitment of Lonza in Aravis Ventures is USD 18.2 million (2011: USD 17.9 million), which was completely drawn up until 31 December 2012. The investment in Aravis Venture I, L.P. is accounted for using the equity method.

In Lonza's 2012 financial statements, the investment in the associate relating to Aravis Ventures I, L.P. amounted to CHF 10.7 million (2011: CHF 11.4 million). The net capital contribution to Aravis Venture was CHF 0.3 million in 2012 (2011: CHF 0.3 million). An equity income of CHF 0.5 million in 2012 (2011: equity loss of CHF 4.9 million) and a currency loss of CHF 0.4 million (2011: CHF 2.9 million) were disclosed.

In addition, Lonza holds a 33 % stake in **Hemel Emprenye Sanayi de Ticaret A.S**. (Turkey), acquired through the Arch business combination. The investment as of 31 December 2012 amounts to CHF 0.6 million (2011: CHF 0.6 million). An equity income of CHF 0.2 million (2011: no income or loss) is disclosed for 2012.

7.2 Joint Ventures

TL Biopharmaceutical Ltd

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

In 2012 an equity loss of CHF 20.5 million (2011: CHF 8.8 million) was recognized. The equity loss is recognized as value adjustment to the loan, as the loan partially has the substance of an equity contribution. As of 31 December 2012, Lonza financed the joint venture with a loan of CHF 114 million (2011: CHF 66.4 million) nominal value, of which CHF 27.5 million is subordinated.

The sales of goods and services from Lonza to TL Biopharmaceutical Ltd in 2012 amounted to CHF 47.5 million (2011: CHF 34.6 million).

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

million CHF	2012	2011
Current assets	0.5	0.3
Fixed assets	92.2	72.2
Current liabilities	12.7	19.6
Long-term liabilities	114.0	66.5
Revenues	0.0	0.0
Profit / (loss)	(20.5)	(8.8)

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

In addition, Lonza has a 50 % stake in:

- Proteccion de Madera: Investment of CHF 1.6 million as of 31 December 2012 (2011: CHF 1.6 million) as well as an equity income of CHF 0.4 million for 2012 (2011: CHF 0.15 million)
- Shanghai Lonza Fosun Pharmaceutical Science and Technology Development Co., Ltd: Investment of CHF 2.6 million as of 31 December 2012 as well as an equity income of CHF 0.1 million for 2012. The joint venture started operations in 2012.

8 Inventories

million CHF	%	2012	%	2011
Raw materials	22	168	21	164
Work in progress	3	21	7	56
Finished goods	58	431	56	434
Other	17	127	16	119
Total	**100**	**747**	**100**	**773**

By operating segments million CHF	%	2012	%	2011
Custom Manufacturing	39	291	38	289
Life Science Ingredients	23	175	21	164
Microbial Control	31	232	35	273
Bioscience	7	49	6	47
Total	**100**	**747**	**100**	**773**

The reported inventories are net of a total value adjustment amounting to CHF 73 million (2011: CHF 57 million).

The movement of inventory value adjustments is shown as follows:

Inventory write-downs million CHF	Raw materials	Work in progress and finished goods	Other	Total
At 1 January 2012	**9**	**19**	**29**	**57**
Increase	25	152	9	186
Reversal / Utilization of write-downs	(23)	(144)	(3)	(170)
Currency translation differences	0	0	0	0
At 31 December 2012	**11**	**27**	**35**	**73**

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 2 751 million (2011: CHF 1 840 million).

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

million CHF	2012	2011
Contract revenue recognized as revenue in the period	**70**	**66**
– Contract costs incurred	29	23
– Recognized profits less recognized losses	17	20
Contract costs incurred plus recognized profits less recognized losses	**46**	**43**
Less progress billings	(18)	(9)
Total net amount due from / (to) customers	**28**	**34**
Gross amount due from customers for contract work	**28**	**34**
Gross amount due to customers for contract work	**0**	**0**
Advances received	**8**	**8**
Retentions held by customers for contract work	**0**	**0**

9 Trade Receivables

million CHF	2012	2011
Receivables from customers	633	697
Allowances for credit losses	(4)	(2)
Total	**629**	**695**

The credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At 31 December 2012, 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	2012	2011
Not past due	510	601
Past due 1–30 days	81	69
Past due 31–120 days	27	12
Past due more than 120 days	11	13
Total	**629**	**695**

Reconciliation of changes in allowance accounts for credit losses million CHF	2012	2011
Balance at the beginning of the year	2	2
Write-offs	(1)	(1)
Increase in provision for credit losses	4	2
Decrease in provision for credit losses	(1)	(1)
Translation differences	0	0
Balance at the end of the year	**4**	**2**

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 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.

As of 31 December 2012, the consolidated balance sheet includes receivables of USD 87 million which Lonza has sold to Market Street Funding LLC. Lonza has obtained funds of USD 54 million through the program, which are disclosed as "Other short-term liabilities" (note 14).

10 Other Receivables, Prepaid Expenses and Accrued Income

million CHF	2012	2011
Other receivables	71	96
Prepaid taxes and social security payments	4	7
Prepaid expenses and accrued income	72	79
Total	**147**	**182**

"Other receivables" include accruals and receivables for taxes (other than income taxes), the positive fair values of derivative financial instruments and for 2011 the short-term financial assets available for sale (see note 30).

11 Cash and Cash Equivalents

million CHF	2012	2011
Cash	400	186
Time deposits	29	10
Total	**429**	**196**

12 Provisions

Long-term provisions million CHF	Environmental	Restructuring	Other	Total
At 1 January 2012	**47**	**0**	**4**	**51**
Increase	0	11	1	12
Used	(2)	0	0	(2)
Reversed	(4)	0	0	(4)
Unwinding of discount	1	0	0	1
Currency translation differences	(1)	0	0	(1)
At 31 December 2012	**41**	**11**	**5**	**57**

Short-term provisions million CHF	Environmental	Restructuring	Other	Total
At 1 January 2012	**3**	**3**	**1**	**7**
Increase	0	11	1	12
Used	0	(2)	0	(2)
Reversed	0	0	(1)	(1)
Currency translation differences	0	0	0	0
At 31 December 2012	**3**	**12**	**1**	**16**

Environmental The long-term environmental provision reflects the future expenses for environmental protection for the plants in Waldshut (Germany), in Visp (Switzerland), at Lonza Inc. (USA) as well as for the various Arch plants and is expected to be utilized within 10 years. The provision for Arch includes environmental risks for existing as well as divested plants. As a result of the sale of the Performance Urethanes and Organics business, the provisions related to the Brandenburg site were reduced by CHF 4 million.

Restructuring 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, resulting in a necessary reduction of 400 positions within 24 months. In addition, a review of corporate functions was initiated which will result in a reduction of 100 positions worldwide. Lonza recognized a provision of CHF 18 million (CHF 7 million short term) for the VispChallenge measures and a provision of CHF 3 million for the corporate functions. The implementation of both measures is expected to be completed by 2015. The expenses related to the provisions for the restructuring programs are included in 'Other operating expenses' (note 19).

Other Other long-term provisions are mainly associated with asset retirement obligations of Lonza Biologics Tuas PTE Ltd. (CHF 3 million) and Lonza Bioscience Singapore Pte Ltd (CHF 1 million).

13 Net Debt

The net debt comprises:

Long-term debt million CHF		2012		2011
Straight bond (2009–2013)		0		299
Straight bond (2010–2016)		398		398
Straight bond (2011–2015)		239		238
Straight bond (2011–2018)		138		138
Straight bond (2012–2018)		199		0
Straight bond (2012–2022)		105		0
Syndicated loan (2011–2016)		442		491
German Private Placement		202		0
Arch acquisition bridge financing		344		861
Other long-term debt due to banks and others:				
– Banks	87		14	
– Other	273	360	286	300
Total long-term debt		**2 427**		**2 725**

Straight bond (2009–2013) Amount: CHF 300 million, due 27 May 2013. Interest: 3.75 % p.a., payable on 27 May. The net proceeds of the bond amount to CHF 297.0 million per 27 May 2009, after considering up-front fees of CHF 3.770 million and an agio of CHF 0.750 million.

Straight bond (2010–2016) Amount: CHF 400 million, due 2 June 2016; interest 3.00 % p.a., payable on 2 June. The net proceeds of the bond amount to CHF 396.9 million per 2 June 2010, after considering up-front fees of CHF 5.970 million and an agio of CHF 2.884 million.

Straight bond (2011–2015) Amount: CHF 240 million, due 7 December 2015. Interest: 2.25 % p.a., payable on 7 December. The net proceeds of the bond amount to CHF 238.1 million per 7 December 2011, after considering up-front fees of CHF 3.001 million and an agio of CHF 1.131 million.

Straight bond (2011–2018) Amount: CHF 140 million, due 7 December 2018. Interest: 3.125 % p.a., payable on 7 December. The net proceeds of the bond amount to CHF 138.2 million per 7 December 2011, after considering up-front fees of CHF 2.615 million and an agio of CHF 0.780 million.

Straight bond (2012–2018) Amount: CHF 200 million, due 11 October 2018. Interest: 2 % p.a., payable on 11 October, for the first time on 11 October 2013. The net proceeds of the bond amount to CHF 198.9 million per 11 October 2012, after considering up-front fees of CHF 1.5 million and an agio of CHF 0.4 million.

Straight bond (2012–2022) Amount: CHF 105 million, due 11 October 2022. Interest: 3 % p.a., payable on 11 October, for the first time on 11 October 2013. The net proceeds of the bond amount to CHF 104.7 million per 11 October 2012, after considering up-front fees of CHF 1.1 million and an agio of CHF 0.8 million.

The **Syndicated loan** Credit facility of CHF 700 million, of which CHF 450 million (2011: CHF 500 million) was used as of 31 December 2012, due 9 September 2016, at floating interest rates (libor + margin, depending on margin grid). Lonza has not hedged the interest rate risk. In 2011, the net proceeds of the syndicated loan amounted to CHF 490.9 million after considering up-front fees of CHF 9.1 million.

Dual-currency **German Private Placement** (Schuldscheindarlehen) of EUR 67.5 million and USD 133 million (in total CHF 206 million) at fixed and floating interest rates (libor/EURIBOR+ margin), repayable in 2015, 2017 and 2019.

Acquisition bridge financing The acquisition of Arch was completely debt-financed. A consortium of banks committed credit facilities of USD 1 550 million to Lonza, of which USD 1 375 million was raised in October 2011 to acquire the Arch shares and prepay part of the debt. The facilities are at floating interest rates (libor + margin, depending on margin grid). The first facility (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. Long-term debt as of 31 December 2012 includes USD 380 million of the third facility, repayable in October 2014. The repayments in 2012 amount to CHF 542 million (2011: CHF 381 million).

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

Short-term debt million CHF	2012	2011
Due to banks and other financial institutions	47	127
Arch acquisition bridge financing	0	36
Others	41	10
Leasing	0	3
Long-term debt due within one year		
– Straight bond (2009–2013)	300	0
Total short-term debt	**388**	**176**

Total debt	**2 815**	**2 901**

Loans and advances (floating interest rates) million CHF	2012	2011
Long-term loans and advances	(83)	(56)
Short-term advances	(2)	(2)
Cash and cash equivalents	(429)	(196)
Total loans and advances / cash and cash equivalents	**(514)**	**(254)**
Net debt	**2 301**	**2 647**

Loans and advances increased in 2012 compared with the prior year, mainly due to the loan granted to the TL Biopharmaceutical Ltd joint venture.

Breakdown of total debt by currencies million CHF			2012			2011
	Average interest rates %	%		Average interest rates %	%	
CHF	2.60	66	1 856	2.91	54	1 580
CNY	5.60	1	29	6.50	1	19
EUR	2.30	3	81	0.00	0	0
USD	2.87	30	843	2.63	45	1 296
Other	0.90	0	6	0.90	0	6
Total		**100**	**2 815**		**100**	**2 901**

Breakdown of loans and advances by currencies million CHF			2012			2011
	Average interest rates %	%		Average interest rates %	%	
USD	2.10	99	84	1.80	96	56
GBP	0.00	1	1	1.00	2	1
CHF	0.00	0	0	1.00	2	1
Total		**100**	**85**		**100**	**58**

Interest rates are floating rates.

14 Other Short-term Liabilities

million CHF	2012	2011
Accrued liabilities and other payables	282	273
Liability related to securitization program	50	0
Other financial liabilities	170	150
Accrued interest payables	18	20
Total	**520**	**443**

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

15 Trade Payables

million CHF	2012	2011
Payables to third parties	273	294
Total	**273**	**294**

"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.

16 Contingent Liabilities

No contingent liabilities exist for 2012 and 2011.

17 Material and Energy Costs

million CHF	2012	2011
Material costs	1 780	914
Energy costs	83	85
Total	**1 863**	**999**

18 Personnel Expenses

million CHF	2012	2011
Wages and salaries	870	654
Pensions (IAS 19)	34	26
Other social security contributions	149	123
Other personnel expenses	59	52
Total personnel cost	**1 112**	**855**

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 2012 include: gain from sale of 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.

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

20 Financial Result

20.1 Interest and Other Financial Income

million CHF	2012	2011
Interest income	6	4
Other financial income	27	14
Total	**33**	**18**

In 2012, "Other financial income" includes the gain from financial derivative instruments (2011: exchange gains).

20.2 Interest and Other Financial Expenses

million CHF	2012	2011
Interest expenses	(102)	(49)
Other financial expenses	(26)	(42)
Total	**(128)**	**(91)**

The increase in "Interest expenses" in 2012 is a result of debt raised for the Arch Chemicals acquisition.

In 2012, "Other financial expenses " include mainly exchange differences. In 2011, "Other financial expenses" include financing cost as well as exchange differences and the cost for the secondary listing of Lonza's shares on the Singapore stock exchange.

20.3 Share of Loss of Associates and Joint Ventures

million CHF	2012	2011
Share of loss of associates / joint ventures	(19)	(13)
Total	**(19)**	**(13)**

"Share of loss of associates / joint ventures" in 2012 mainly comprises a loss of CHF 20.5 million (2011: CHF 8.8 million) from the TL Biopharmaceutical Ltd. joint venture and an income of CHF 0.5 million (2011: loss of CHF 4.9 million) from Aravis Ventures I, L.P.

21 Taxes

21.1 Income Taxes

Major components of tax expenses million CHF	2012	2011
Current taxes	(37)	(45)
Deferred tax expense relating to the origination and reversal of temporary differences	(2)	24
Total	**(39)**	**(21)**

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 % (2011: 8 %) for holding companies and 22 % for operating companies in the Canton of Valais (2011: 22 %).

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. Lonza uses as Group 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 2012 is 22 % (2011: 22 %). The effective tax rate for 2012 is 18 % (2011: 12 %). The change of the tax rate reflects the increase in profit in countries with high profit tax rates.

Capital taxes of CHF 12 million (2011: CHF 11 million) are contained in "Administration and general overheads".

Reconciliation of tax expense million CHF	2012	2011[1] (restated)
Profit before income taxes	221	175
Tax at the Group rate (2012: 22 % / 2011: 22 %)	48	40
Deviation from average group tax rate	1	(3)
Non-deductible expenses	6	2
Tax-free earnings	(19)	(19)
Deferred tax benefit from tax rate changes	0	0
Underprovided in prior years	1	0
Not recognized potential deferred tax assets for current year	0	3
Other	2	(2)
Total	**39**	**21**
Deferred tax expenses (charged) / credited directly to equity	**0**	**0**
Current tax expenses (charged) / credited directly to equity	**2**	**0**

Components of deferred income tax balances million CHF	2012 Assets	2012 Liabilities	2011[1] (restated) Assets	2011[1] (restated) Liabilities
Short-term provisions	13	73	23	124
Long-term provisions / Employee benefit liability	142	175	185	178
Intangible assets	1	291	2	285
Inventories, net	20	28	19	56
Property, plant and equipment	15	193	2	182
Other assets	0	18	18	0
Tax loss carry-forwards	107	0	88	0
Netting of deferred tax assets and deferred tax liabilities	(99)	(99)	(161)	(161)
Total	**199**	**678**	**176**	**664**

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

million CHF	2012	2011[1] (restated)
Deferred tax assets	199	176
Deferred tax liabilities	(678)	(664)
Net deferred tax liability	**(479)**	**(488)**
Less deferred tax liabilities net opening balance	488	177
(Increase) / decrease in deferred tax liabilities, net	**9**	**(311)**
Currency translation differences	(11)	12
Acquisition of subsidiaries	0	323
(Expense) / income recognized in income statement	**(2)**	**24**

[1] The presentation of the amounts in the table changed in 2012 and 2011 information was adjusted accordingly.

Unrecognized tax losses: expiry million CHF	2012	2011[1] (restated)
Within 1 year	0	2
Between 2 to 5 years	10	21
After 5 years	163	275
Unlimited	216	105
Total	**389**	**402**

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.

In 2012, no deferred tax liabilities have been recognized on CHF 42 million (2011: CHF 51 million) temporary differences associated with investments in subsidiaries, branches and associates and interests in joint ventures.

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

	2012			2011		
million CHF	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Exchange differences on translating foreign operations	(42)	1	(41)	(14)	0	(14)
Cash flow hedges	2	0	2	7	0	7
Other comprehensive income	**(40)**	**1**	**(39)**	**(7)**	**0**	**(7)**

22 Research and Development

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

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

The research and development costs amounted to CHF 215 million (2011: CHF 171 million) and represent the full range of R&D activity. However, the consolidated income statement discloses research and development costs of only CHF 116 million (2011: CHF 94 million), because of costs absorbed in “Cost of goods sold” by R&D products and services sold.

[1] The presentation of the amounts in the table changed in 2012 and 2011 information was adjusted accordingly.

23 Pension Benefits

Defined benefit pension plans Lonza sponsors pension plans set up according to the regulations of the countries in which it operates. For pension accounting purposes, these plans are considered as defined benefit plans. During 2012, actuarial valuations were performed for all significant defined benefit plans using the Projected Unit Credit Valuation Method. The principal assumptions, expressed as a weighted average for Lonza, are the result of the underlying national economic conditions of the respective countries.

Actuarial assumptions %	2012	2011
Discount rate	2.9	3.4
Expected return on plan assets at 1 January	4.9	4.2
Future salary increases	1.8	2.1
Future pension increases	0.4	0.5

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 19.56 for males and 21.89 for females.

The overall expected long-term rate of return on assets is 4.9 % (2011: 4.2 %). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

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

million CHF	2012	2011
Present value of unfunded obligations	21	19
Present value of funded obligations	2 602	2 375
Total present value of obligations	**2 623**	**2 394**
Fair value of plan assets	(2 130)	(2 001)
Funded status deficit	**493**	**393**
Unrecognized actuarial losses	(462)	(350)
Unrecognized past service gains	25	32
Limitation on recognition of assets	2	1
Net liability recognized in the balance sheet	**58**	**76**

Assets of CHF 75 million[1] (2011: CHF 62 million) and liabilities of CHF 133 million (2011: CHF 138 million) are included in the financial statements.

[1] Included in “Other non-current assets”

Plan assets consist of the following:

million CHF	2012	2011
Equity securities	912	845
Bonds	725	720
Property occupied by the Group	0	0
Property	83	77
Cash	410	359
Company's own ordinary shares	0	0
Total fair value of plan assets	**2 130**	**2 001**

Movement in the defined benefit obligations million CHF	2012	2011
Opening defined benefit obligation at 1 January	2 394	1 608
Interest cost	82	53
Current service cost (employer)	41	39
Contributions by plan participants	17	16
Benefits paid, net	(97)	(133)
Acquisition of subsidiaries	0	765
Curtailments and settlements	(31)	0
Actuarial losses on obligation	225	0
Impact of exchange rate changes	(8)	46
Closing defined benefit obligation at 31 December	**2 623**	**2 394**

Movement in plan assets million CHF	2012	2011
Opening fair value of plan assets at 1 January	**2 001**	**1 409**
Expected return on plan assets	100	69
Contributions by the employer	54	121
Contributions by plan participants	17	16
Benefits paid, net	(97)	(133)
Acquisition of subsidiaries	0	585
Curtailments and settlements	(19)	0
Actuarial gains / (losses) on plan assets	80	(101)
Impact of exchange rate changes	(6)	35
Closing fair value of plan assets at 31 December	**2 130**	**2 001**

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

million CHF	2012	2011
Current service cost (employer)	41	39
Interest cost	82	53
Expected return on plan assets	(100)	(69)
Actuarial losses recognized in current year	23	9
Past service gain	(7)	(6)
Effect of curtailments and settlements	(6)	0
Total recognized pension costs	**33**	**26**
Impact from limitation on recognition of assets	1	0
Total recognized pension costs	**34**	**26**

Pension costs are recognized in personnel expenses (see note 18) and allocated to the individual functions of the consolidated financial income statement. The curtailment gain disclosed in the consolidated financial statements 2012 is a consequence of the reduction of headcounts related to the VispChallenge restructuring program (see note 12). The curtailment gain of CHF 12 million (derecognition of defined benefit obligation of CHF 31 million and plan assets of CHF 19 million) is recognized as a reduction of unrecognized actuarial losses (CHF 6 million, proportional to the reduction of the defined benefit obligation) and through the income statement (CHF 6 million).

Actual return on plan assets million CHF	2012	2011
Expected return on plan assets	100	69
Actuarial gains / (losses) on plan assets	80	(101)
Actual return on plan assets	**180**	**(32)**

Historical information million CHF	2012	2011	2010	2009	2008
Present value of defined benefit obligation	2 623	2 394	1 608	1 538	1 443
Fair value of plan assets	(2 130)	(2 001)	(1 409)	(1 408)	(1 301)
Deficit	**493**	**393**	**199**	**130**	**142**
Experience adjustments on defined benefit obligation (gains) / losses	15	(44)	11		
Experience adjustments on plan assets gains / (losses)	80	(101)	2		

The Group expects to pay CHF 53 million in contributions to defined benefit plans in 2012.

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

The principal assumptions are as follows:

Actuarial assumptions %	2012	2011
Discount rate	3.44	4.59
Medical-cost trend rate	7.22	8.16

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

%	1 %-point increase	1 %-point decrease
Effect on the aggregate service and interest cost	12.3	–10.2
Effect on defined benefit obligation	11.0	–9.2

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

million CHF	2012	2011
Present value of unfunded benefit obligations	61	57
Unrecognized actuarial losses	(12)	(7)
Unrecognized past service cost	0	0
Liability recognized in the balance sheet	**49**	**50**

Movement of the defined benefit obligations million CHF	2012	2011
Opening defined benefit obligation at 1 January	57	37
Interest cost	2	2
Current service cost (employer)	1	0
Contributions by plan participants	2	1
Benefits paid, net	(5)	(3)
Actuarial losses on obligation	7	3
Acquisition of subsidiaries	0	16
Impact of exchange rate changes	(2)	1
Closing defined benefit obligation at 31 December	**62**	**57**

Movement in the liability recognized in the balance sheet million CHF	2012	2011
Liability as of 1 January	50	33
Expenses recognized in income statement	3	2
Benefits paid, net	(3)	(2)
Acquisition of subsidiaries	0	16
Impact of exchange rate changes	(1)	1
Liability as of 31 December	**49**	**50**

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

million CHF	2012	2011
Current service cost (employer)	1	0
Interest cost	2	2
Total post-retirement cost	**3**	**2**

These expenses are recognized in personnel expenses (see note 18).

Historical information of other post-retirement benefits million CHF	2012	2011	2010	2009	2008
Present value of defined benefit obligation	62	57	37	33	31
Experience adjustments on defined benefit obligation (gains) / losses	1	(2)	3		

24 Share-based Payments
Equity-settled share schemes

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, but resumed in 2010.

The minimum conditions to participate in the ESPP Plus were in:
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares
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 2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP 2008	51 000	3:1	17 000	15 05 2013	138.54
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81
ESPP 2011	74 526	3:1	24 842	30 05 2016	75.76
ESPP 2012	200 802	3:1	66 934	30 05 2017	38.34

Development of share purchase plans 2012	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**

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

The estimated fair value of the share awards granted in 2012 was CHF 30.67 (2011: CHF 60.61). The weighted average share price of the vested shares in 2012 was CHF 120.32 (2011: CHF 88.01). The outstanding share awards at 31 December 2012 had a weighted average share price of CHF 64.23 (2011: CHF 97.10) and a remaining weighted average contractual life of 41 months (2011: 33 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20 % in 2012 (2011: 20 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985
ESPP 2011	1 505 624
ESPP 2011 discount	1 693 827
ESPP 2012	2 053 000
ESPP 2012 discount	2 309 625

A total of 104 764 treasury shares with a par value of CHF 1 each (31 December 2011: 66 509 shares) is reserved for the share purchase plans.

Long-Term Incentive Plan (LTIP) In 2009, 2010, 2011 and 2012, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees. The LTIP is a stock bonus plan, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. The general idea of the LTIP is that selected key employees are awarded the right to receive a number of Lonza registered shares in the future, provided that certain service- and performance-related conditions are achieved. Depending on the level of the job category, the entitlement is between 10 % and 150 % of the annual base salary. For the current CEO the entitlement is 125 % based on the full share value, for Management Committee members it varies between 100 % and 150 %. The maximum number of shares to be granted is capped at the start of the plan. Under no condition can the incentive exceed the set percentage, even if the performance exceeds the set targets. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during Lonza's three fiscal years before the end of the vesting period, compared with a peer group consisting of MSCI Chemicals, DSM, UCB, Crucell, Genentech / Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, and Thermo Fisher Scientific for the share entitlements granted under the LTIP 2009 and 2010. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health and SPI, and remained unchanged in 2012. The TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2009, 2010: 5 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

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

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

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

For the LTIP 2009 no payout was made in January 2012 and for the LTIP 2010 no payout will be made in January 2013.

The following table shows historical data on vesting conditions for LTIP share awards in the years 2009 to 2012, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

Details of long-term incentive plans	Grant date	Share price CHF	Granted share awards	TSR	EPS growth/ EVA level targets	Vesting date
LTIP 2009	01 02 2009	106.10	121 356	5 %	50 %	31 01 2012
LTIP 2010	01 02 2010	75.65	147 711	5 %	137.0 mn	31 01 2013
LTIP 2011	01 02 2011	74.35	152 077	9 %	114.4 mn	31 01 2014
LTIP 2012	01 02 2012	49.69	267 031	9 %	79.7 mn	31 01 2015

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

Conditions of vesting 2012	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	9 %	50.00 %
EVA	25 %	100 %	79.7 mn	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 mn	50.00 %
Turnover of employees				3.00 %

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

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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Fair value of share awards at grant date CHF	Expected vesting EPS	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2009	106.10	121 356	50 %	6 437 936	45.40 %	100 %	3 %	44.04 %	2 835 138

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date CHF	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2010 TSR	75.65	73 855	50 %		2 793 565	100 %	n.a.	100.00 %	2 793 565
LTIP 2010 EVA	75.65	73 856		50 %	2 793 603	100 %	0 %	100.00 %	2 793 603
LTIP 2011 TSR	74.35	76 038	50 %		2 826 713	100 %	3 %	97 %	2 741 911
LTIP 2011 EVA	74.35	76 039		50 %	2 826 750	100 %	3 %	97 %	2 741 947
LTIP 2012 TSR	49.69	133 515	50 %		3 317 180	100 %	3 %	97 %	3 217 665
LTIP 2012 EVA	49.69	133 516		25 %	1 658 603	100 %	3 %	97 %	1 608 844

Development of long-term incentive plan 2012	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
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 shares	**421 144**	**267 031**	**0**	**(47 789)**	**(121 356)**	**519 030**

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

The estimated fair value of the share awards granted in 2012 was CHF 18.63 (2011: CHF 37.18). The weighted average share price of the vested shares in 2012 was CHF 74.99. No share awards vested in 2011. The outstanding share awards at 31 December 2012 had a weighted average share price of CHF 27.79 (2011: CHF 41.98) and a remaining weighted average contractual life of 16 months (2011: 15 months). The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for shares are expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected dividend was not incorporated in the calculation of fair value.

In January 2010, the Nomination and Compensation Committee reviewed the interpretation of the conditions for minimum vesting under the LTIP 2007, 2008 and 2009. It was not stated precisely if both the minimum targets for the TSR section of the LTIP and the EPS section of the LTIP needed to be met for any vesting at all to occur in either of the two sections of the LTIP. The Nomination and Compensation Committee clarified that attainment of the minimum target in one of the two sections was sufficient for vesting to begin in the respective section, irrespective of target attainment in the other section. That is, the two sections based on TSR and EPS targets are independent.

Fair value at grant date	CHF
LTIP 2009	6 437 936
LTIP 2010	5 587 168
LTIP 2011	5 653 463
LTIP 2012	4 975 783

Extended Short-Term Incentive Plan (E-STIP) Based on the benchmark analysis for 2011 and recognizing the need to establish even more long-term orientation of the incentive system as well as the aim of increasing the retention power of the compensation system, the Board of Directors of Lonza Group Ltd implemented in 2011 an Extended Short-Term Incentive Plan (E-STIP) for senior managers, including the Management Committee members. The E-STIP is part of the overall STIP concept: ⅔ of the STIP is paid out in cash and ⅓ in restricted share unit entitlements (E-STIP). The value of the plan is strongly dependent on Lonza's share price development in the future. Specifically, first, an amount equal to half of the cash amount of the STIP 2011 and 2012 (which depends on financial and individual goals) is awarded to each senior manager and Management Committee member in the form of restricted share unit entitlements. Second, these restricted share units are subject to a three-year vesting condition. The grant of the restricted share units under the E-STIP 2012 will take place on 31 March 2013 (E-STIP 2011 on 31 March 2012), at which date the number of restricted share units will be determined based on the closing stock price of that date. During the three-year vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

Non-vested share units	Grant date	Share price	Granted share units	Vesting date
E-STIP 2011	31.03.2012	46.66	33 205	31 03 2015

Development within the year 2012 of extended short term incentive plan	Share units outstanding 01 01 2012	Share units granted during 2012	Share units forfeited during 2012	Shares 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 restricted share units granted in 2012 was CHF 46.66. The outstanding share units at 31 December 2012 had a weighted average share price of CHF 46.66 and a remaining weighted average contractual life of 27 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 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

A total of 113 845 treasury shares (2011: 161 634) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

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

Development of compensation for Board of Directors 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

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

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

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	Cash[1] 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	Cash[1] 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.

Recognition in the Consolidated Financial Statements The equity-settled share-based payments had an impact on the 2012 "Profit before income taxes" amounting to an expense of CHF 13 million (2011: CHF 4 million).

[1] Excluding social security and withholding tax

25 Changes in Shares and Share Capital Movements

Number of shares		31 12 2012	Change in year	31 12 2011	Change in year	31 12 2010
Total number of shares		**52 920 140**	**0**	**52 920 140**	**0**	**52 920 140**
Treasury shares						
Shares reserved for share purchase plan (ESPP)		104 764	38 255	66 509	5 454	61 055
Shares reserved for long-term incentive plan (LTIP)		113 845	(47 789)	161 634	(6 396)	168 030
Free shares		785 130	(294 071)	1 079 201	865 583	213 618
Total treasury shares		**1 003 739**	**(303 605)**	**1 307 344**	**864 641**	**442 703**
Total shares ranking for dividend at 31 December		**51 916 401**	**303 605**	**51 612 796**	**(864 641)**	**52 477 437**
Transferred shares between January and date of dividend payment of following year		n.a.		18 612		(965 796)
Total shares ranking for dividend at date of dividend payment		**n.a.**		**51 631 408**		**51 511 641**
Share capital movements						
Share capital	CHF	**52 920 140**	**0**	**52 920 140**	**0**	**52 920 140**

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

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

Dividend A dividend per share of CHF 2.15 (2011: CHF 2.15) is proposed after the balance sheet date.

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

Authorized capital The Board of Directors shall be authorized to increase, at any time until 12 April 2013, the share capital of 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 4bis to 4^{quater} of the Company's Articles of Association.

At 31 December 2012, Lonza Group Ltd had a fully paid-in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860

26 Earnings per Share

Basic earnings per share million CHF		2012	2011
Profit for the period (equity holders of the parent)		182	154
Weighted average number of outstanding shares		51 775 225	51 632 876
Basic earnings per share	CHF	**3.52**	**2.98**
Diluted earnings per share			
Profit for the period (equity holders of the parent)		182	154
– Impact from dilution		0	0
Diluted profit for the period		182	154
Weighted average number of outstanding shares		51 775 225	51 632 876
– Adjustments for dilutive share units and shares		203 533	219 873
Weighted average number of shares for diluted earnings per share		51 978 758	51 852 749
Diluted earnings per share	CHF	**3.50**	**2.97**
Dividends paid of the period		**111**	**111**
Dividends per share of the period	CHF	**2.15**	**2.15**
Dividends declared after the balance sheet date		**112**	**111**
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 Management Committee.

Transactions with Key Management Personnel

Board of Directors In 2012, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 3.101 million[1] (2011: CHF 2.652 million[1]), 64.94 % (2011: 63.56 %) of which was received in the form of shares. The compensation system for Board members allows them to choose either a payment in shares or a combination of cash and shares. Shares granted are rated at the relevant market price at grant date. Free access to these shares is only available in the fourth and later years.

Members of the Board of Directors and their immediate relatives control 152 769 or 0.29 % (2011: 0.21 %) of the voting shares of Lonza Group Ltd. None of the directors owns shares in the Group's subsidiaries or associates.

Management Committee compensation Two of the acting members of the Management Committee gave up their function in the year under review, three new members joined the Management Committee. The acting members of the Management Committee received, for their contributions and time served in 2012, CHF 7.922 million[1] (2011: CHF 5.327 million[1]) in cash and additional benefits, and 96 427 shares (2011: 73 107 shares), equivalent to a value of CHF 2.326 million (2011: CHF 3.004 million). Termination benefits and LTIP shares which vested according to the termination agreement of the former CEO are not included in these amounts.

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

million CHF	2012	2011
Short-term benefits [2]	7.284	4.832
Post-employment benefits [3]	0.435	0.390
Other benefits	1.290	1.072
Termination benefits	3.306	0.113
Share-based payments	6.013	4.689
Total	**18.328**	**11.096**

The remuneration is included in "Personnel expenses", see note 18. For detailed information, please refer to Note 32.

In 2011 Lonza granted loans of CHF 1.19 million and in early 2012 CHF 0.540 million to a member of the Management Committee, for which Lonza charged floating interest rates at market conditions. These loans were settled in 2012.

[1] Including social security and withholding tax
[2] Including incentive payout in March of the following year
[3] Including contribution for social security and pension fund

28 Accounting Estimates and Judgments
Key Assumptions and Sources of Estimation Uncertainty

Use of estimates The preparation of the financial statements and related disclosures in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used for impairment tests and in accounting for allowances for uncollectible receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

The key assumptions about the future key sources of estimation uncertainty that entail a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are described below.

Environmental provisions Lonza is exposed to environmental liabilities and risks relating to its past operations, principally in respect of provisions for remediation costs, which at 31 December 2012 amounted to CHF 44 million (2011: CHF 50 million), as disclosed in note 12. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation and the percentage of material attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures.

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

Income taxes At 31 December 2012, deferred tax assets of CHF 199 million (2011: CHF 176 million), current tax receivables of CHF 12 million (2011: CHF 43 million), deferred tax liabilities of CHF 678 million (2011: CHF 664 million) and current tax payables of CHF 108 million (2011: CHF 105 million) were disclosed in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and / or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods.

Pensions Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined benefit obligation is influenced by assumptions, on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2012, the present value of the Group's defined benefit obligation is CHF 2 602 million (2011: CHF 2 375 million) for funded plans and CHF 21 million (2011: CHF 19 million) for unfunded plans. The plan assets at fair value amount to CHF 2 130 million (2011: CHF 2 001 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 493 million (2011: CHF 393 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 assets or liabilities recognized in the balance sheet in future periods.

Impairment test of property, plant and equipment, intangible assets and goodwill The Group has carrying values with regard to property, plant and equipment of CHF 2 684 million (2011: CHF 2 695 million), goodwill of CHF 1 149 million (2011: CHF 1 170 million) and intangible assets of CHF 873 million (2011: CHF 930 million) (see notes 5 and 6). The intangible assets include trademarks acquired through a business combination with a carrying value of CHF 359 million (2011: 369 million) which have an indefinite useful life and are not systematically amortized. All of these assets are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment. The impairment calculation as explained in note 6 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 extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in note 6.

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 judgement in the recognition and measurement of the following items:

- Intellectual property such as patents, licenses, trademarks, customer relations and similar rights
- Contingencies such as legal and environmental matters
- Contingent consideration arrangements
- The recoverability of any accumulated tax losses previously incurred by the acquired company

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

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

Revenue recognition The Group has recognized revenue for sales of goods during 2012 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 2012. Moreover, the Group has various contract agreements which include upfront and milestone payments over a period of several years. Revenue is recognized only when, according to Management's judgments, risks and rewards have been transferred to the customer. For certain transactions, recognition of revenue is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

29 Events after the Balance Sheet Date

On 4 February 2013, the Group announced a change in its management structure. As a result the Management Committee will be renamed Executive Committee and will consist of five members: Richard Ridinger – CEO, Toralf Haag – CFO, Marc Funk – CLO, Stephan Kutzer – COO and Beat In-Albon – COO. All other former Management Committee members will step down from their functions.

The Board of Directors authorized the consolidated financial statements for issue on 1 March 2013.

30 Financial Risk Management

30.1 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.

30.2 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 Receivable

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

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

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

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

Financial Instruments and Cash Deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's treasury policy. The credit rating of Lonza Group's counterparties must be at least:
- Standard & Poor's: A
- Moody's: A1

Counterparty credit ratings are reviewed regularly.

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

million CHF	2012	2011
Financial assets – available for sale		
Other investments – available for sale – carried at cost	5	6
Short-term financial assets – available for sale – at fair value[1]	0	26
Total financial assets – available for sale	**5**	**32**
Loans and receivables		
Trade receivables, net	629	695
Other receivables and accrued income	61	66
Short-term advances	2	2
Long-term loans and advances	83	56
Cash and cash equivalents	429	196
Total loans and receivables	**1 204**	**1 015**
Financial assets at fair value through profit or loss – held for trading		
Currency-related instruments	5	4
Interest-related instruments	5	0
Total financial assets at fair value through profit or loss – held for trading	**10**	**4**
Total	**1 219**	**1 051**

[1] Included in "Other receivables" (see note 10)

30.3 **Liquidity Risk**

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

- Committed credit lines of CHF 922 million (CHF 450 used as of 31 December 2012). Lines are committed for up to four years.
- Uncommitted credit lines of CHF 185 million (CHF 0 used as of 31 December 2012) 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 2012 million CHF	Carrying amount	[1] Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	300	311	311	0	0	0
Straight bond (2010–2016)	398	448	12	12	424	0
Straight bond (2011–2015)	239	256	5	5	246	0
Straight bond (2011–2018)	138	166	4	4	13	145
Straight bond (2012–2018)	199	224	4	4	12	204
Straight bond (2012–2022)	105	137	3	3	9	122
Syndicated loan (2011–2016)	442	486	9	9	468	0
German Private Placement	202	219	5	5	205	4
Arch acquisition bridge financing	344	361	7	354	0	0
Other debt due to banks and financial institutions	134	152	59	15	78	0
Other debt due to others	314	372	42	8	170	152
Leasing	0	0	0	0	0	0
Total debt	**2 815**	**3 132**	**461**	**419**	**1 625**	**627**
Trade payables	273	273	273	0	0	0
Other short-term liabilities	519	519	519	0	0	0
Total financial liabilities	**3 607**	**3 924**	**1 253**	**419**	**1 625**	**627**

[1] Including interest payments

31 December 2011 million CHF	Carrying amount	[1] Contractual cash flows	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Financial liabilities						
Straight bond (2009–2013)	299	322	11	311	0	0
Straight bond (2010–2016)	398	460	12	12	436	0
Straight bond (2011–2015)	238	262	5	5	252	0
Straight bond (2011–2018)	138	171	4	4	13	150
Syndicated loan (2011–2016)	491	550	10	10	530	0
Arch acquisition bridge financing	897	974	71	490	413	0
Other debt due to banks and financial institutions	141	160	51	24	85	0
Other debt due to others	296	370	19	9	26	316
Leasing	3	3	3	0	0	0
Total debt	**2 901**	**3 272**	**186**	**865**	**1 755**	**466**
Trade payables	294	294	294	0	0	0
Other short-term liabilities	405	405	405	0	0	0
Total financial liabilities	**3 600**	**3 971**	**885**	**865**	**1 755**	**466**

30.4 Market Risk

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

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

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

[1] Including interest payments

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

Currency million CHF	Sensitivity	Post-tax profit				Equity			
		2012		2011		2012		2011	
		+	–	+	–	+	–	+	–
USD	+/–10%	(3.0)	3.0	4.8	(4.8)	2.4	(2.4)	0.3	(0.3)
EUR	+/–5%	0.5	(0.5)	1.2	(1.2)	3.4	(3.4)	0.1	(0.1)
GBP	+/–10%	(0.6)	0.6	(0.2)	0.2	0.0	0.0	0.0	0.0
BRL	+/–10%	0.0	0.0	1.8	(1.8)	0.0	0.0	0.0	0.0

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

31 December 2012 million CHF	USD	GBP	EUR	CHF	BRL	SGD	CAD	Other	Total
Other investments	0	0	0	0	0	0	0	0	0
Long-term loans and advances	80	0	0	0	0	0	0	0	80
Trade receivables, net	109	36	83	3	0	1	3	3	238
Other receivables, prepaid expenses and accrued income	4	9	6	0	0	2	0	0	21
Short-term advances	2	0	0	0	0	0	0	0	2
Cash and cash equivalents	104	4	7	(2)	0	2	0	1	116
Long-term debt[1]	(13)	0	(82)	0	0	0	0	0	(95)
Other long-term liabilities	0	0	0	0	0	(3)	0	0	(3)
Other short-term liabilities	(54)	(26)	(17)	0	0	(4)	0	0	(101)
Trade payables	(24)	(1)	(39)	(3)	0	(5)	0	(1)	(73)
Short-term debt	(20)	0	(1)	0	0	0	0	0	(21)
Gross balance sheet exposure	**188**	**22**	**(43)**	**(2)**	**0**	**(7)**	**3**	**3**	**164**
Currency-related instruments	(225)	(29)	54	0	0	0	0	0	(200)
Net exposure	**(37)**	**(7)**	**11**	**(2)**	**0**	**(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 to the acquisition bridge financing and the German Private Placement.

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

The following exchange rates were applied during the year:

Balance sheet year-end rates		2012	2011
EU	Euro	1.2075	1.2163
USA	Dollar	0.9153	0.9416
Great Britain	Pound sterling	1.4799	1.4517
Singapore	Singapore dollar	0.7491	0.7243
China	Renminbi	0.1469	0.1496

Income statement year-average rates		2012	2011
EU	Euro	1.2052	1.2329
USA	Dollar	0.9377	0.8866
Great Britain	Pound sterling	1.4861	1.4213
Singapore	Singapore dollar	0.7507	0.7047
China	Renminbi	0.1486	0.1372

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

Interest rate risk Lonza's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose Lonza to cash flow interest rate risk. Borrowings issued at fixed rates expose Lonza to fair value interest rate risk. Lonza's policy is to manage interest cost using a mix of fixed and variable rate debt. Group policy is to maintain at least 50 % of its borrowings in fixed-rate instruments. In order to manage this mix in a cost-efficient manner, Lonza enters into interest rate swaps 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 Lonza's market view.

Lonza's exposure to interest risk, based on significant carrying amounts outlined in note 13, was as follows:

Borrowings denominated in: million CHF	Total debt		Debt at fixed interest rates		Interest risk exposure	
	2012	2011	2012	2011	2012	2011
CHF	1 856	1 580	1 378	1 564	478	16
USD	843	1 296	218	234	625	1 062

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

Borrowings denominated in: million CHF	Sensitivity	Post-tax profit[1]				Equity			
		2012		2011		2012		2011	
		+	–	+	–	+	–	+	–
CHF	+/–1 %	(3.9)	3.9	0.0	0.0	0.0	0.0	0.0	0.0
USD	+/–1 %	(5.1)	5.1	(9.1)	9.1	0.0	0.0	0.0	0.0

Commodity price risk Lonza needs LPG as raw material for a cracker in Visp. Butane, naphtha or propane can be used as feedstock for the cracker. The raw material ultimately used depends on its availability and specifications. The annual demand is approximately 110 000 metric tons. In order to minimize the risk of higher raw material prices, Lonza hedges the butane price risk via swaps. At 31 December 2012, if the Butane price had weakened/strengthened by 10 %, with all other variables held constant, equity would have been CHF 2 million lower/higher (2011: no impact on equity).

1 Impact on post-tax profit from CHF borrowings is not disclosed for 2011 as it is not material.

30.5 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 2012 and 2011. 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	2012	2011	2012	2011	2012	2011	2012	2011
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	68	92	0	2	0	(1)	0	1
– Currency swaps	542	581	5	2	(2)	(15)	3	(13)
Total currency-related instruments	**610**	**673**	**5**	**4**	**(2)**	**(16)**	**3**	**(12)**
Interest-related instruments								
– Interest rate swaps	111	528	0	0	(1)	(3)	(1)	(3)
– Cross currency interest rate swaps	579	380	5	0	(1)	(18)	4	(18)
Total interest-related instruments	**690**	**908**	**5**	**0**	**(2)**	**(21)**	**3**	**(21)**
Total financial instruments at fair value through profit or loss – held for trading	**1300**	**1 581**	**10**	**4**	**(4)**	**(37)**	**6**	**(33)**

Financial instruments effective for hedge-accounting purposes million CHF	2012	2011	2012	2011	2012	2011	2012	2011
	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
Currency-related instruments								
– Forward foreign exchange rate contracts	107	143	1	0	0	(3)	1	(3)
Total currency-related instruments	**107**	**143**	**1**	**0**	**0**	**(3)**	**1**	**(3)**
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	10	10	0	0	(1)	0	(1)	0
– Naphtha swap	11	18	0	0	0	0	0	0
Total commodity-related instruments	**21**	**28**	**0**	**0**	**(1)**	**0**	**(1)**	**0**
Total financial instruments effective for hedge-accounting purposes	**128**	**171**	**1**	**0**	**(1)**	**(3)**	**0**	**(3)**

Financial instruments by currency million CHF	2012	2011
Forward foreign exchange rate contracts and currency swaps		
USD	461	638
GBP	43	29
EUR	171	111
CZK	20	29
JPY	3	1
DKK	6	6
SGD	11	2
ZAR	2	0
Total	**717**	**816**
Commodity swap	21	28
Interest rate swap	111	528
Cross currency interest rate swap	579	380
Total financial instruments	**1 428**	**1 752**

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

The following hedges were included:

- Cash flow hedges on highly probable payments in foreign currency
- Cash flow hedges on highly probable payments for raw materials (butane)
- Fair value hedges on firm commitments for raw materials (naphtha) – only used in 2011

30.6 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).

	2012				2011			
million CHF	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Assets								
Derivative financial instruments	0	11	0	11	0	4	0	4
Short-term financial assets	0	0	0	0	26	0	0	26
Liabilities								
Derivative financial instruments	0	(5)	0	(5)	0	(40)	0	(40)
Net assets and liabilities measured at fair value	**0**	**6**	**0**	**6**	**26**	**(36)**	**0**	**(10)**

In 2012, 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.

30.7 Carrying Amounts and Fair Values of Financial Instruments by Category

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

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

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

Carrying amounts and fair values of financial instruments by category	31 12 2012	31 12 2011	31 12 2012	31 12 2011
million CHF	Carrying amount		Fair value	
Financial assets – available for sale				
Other investments – available for sale – carried at cost	5	6	5	6
Short-term financial assets – available for sale – at fair value[1]	0	26	0	26
Total financial assets – available for sale	**5**	**32**	**5**	**32**
Loans and receivables				
Trade receivables, net	629	695	629	695
Other receivables and accrued income	61	66	61	66
Short-term advances	2	2	2	2
Long-term loans and advances	83	56	83	56
Cash and cash equivalents	429	196	429	196
Total loans and receivables	**1 204**	**1 015**	**1 204**	**1 015**
Financial assets at fair value through profit or loss – held for trading				
Currency-related instruments	5	4	5	4
Interest-related instruments	5	0	5	0
Total financial assets at fair value through profit or loss – held for trading	**10**	**4**	**10**	**4**
Financial liabilities at amortized cost				
Long-term debt	2 427	2 725	2 480	2 764
Other short-term liabilities	515	368	515	368
Trade payables	273	294	273	294
Short-term debt	388	176	388	176
Total financial liabilities at amortized cost	**3 603**	**3 563**	**3 656**	**3 602**
Financial liabilities at fair value through profit or loss – held for trading				
Currency-related instruments	2	16	2	16
Interest-related instruments	2	21	2	21
Total financial liabilities at fair value through profit or loss – held for trading	**4**	**37**	**4**	**37**

[1] Included in "Other receivables" (see note 10)

30.8 Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders, as well as the return on capital, which Lonza defines as total shareholders' equity, excluding non-redeemable preference shares and non-controlling interests, and the level of dividends to ordinary shareholders.

At present, employees hold one percent of ordinary shares, or just under three percent, assuming that all outstanding share units and shares vest and / or are exercised.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Lonza's target is to achieve a return on shareholders' equity of between 10 % and 15 %; in 2012, the return was 7.5 % (2011: 6.9 %). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 2.7 % (2011: 2.8 %).

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.

31 Segment Information

31.1 General Information

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

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

which are described as follows:

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

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

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

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

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

31.2 Information about Reportable Segments

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

Year ended 31 December 2012 million CHF		Microbial Control	Custom Manu-facturing	Life Science Ingredients	Bio-science	Total operating segments	Corporate / Eliminations	Group total
Sales third-party		**1 625**	**1 320**	**742**	**228**	**3 915**	**10**	**3 925**
Inter-segment sales [1]		12	50	58	12	132	(132)	0
Total sales		**1 637**	**1 370**	**800**	**240**	**4 047**	**(122)**	**3 925**
Result from operating activities (EBIT)		**138**	**182**	**31**	**15**	**366**	**(31)**	**335**
– Percentage return on sales	%	8.5	13.8	4.2	6.6	9.3	n.a.	8.5
Financial income								33
Financial expenses								(128)
Net financing costs								**(95)**
Share of loss of associates / joint ventures								(19)
Profit before income taxes								**221**
Income taxes								(39)
Profit for the period								**182**
Included in result from operating activities (EBIT):								
– Other operating income		21	7	8	1	37	5	42
– Other operating expenses		(12)	(16)	(12)	(4)	(44)	(8)	(52)
– Research and development	Note 22	(29)	(135)	(27)	(20)	(211)	(4)	(215)
– Depreciation and amortization		(65)	(141)	(69)	(18)	(293)	(11)	(304)
– Impairment		0	0	0	(1)	(1)	0	(1)
– Restructuring (expenses) / income		0	(9)	(9)	(2)	(20)	(9)	(29)
Total assets		2 644	2 856	1 071	790	7 361	(261)	7 100
Total liabilities		1 383	1 425	893	554	4 255	439	4 694
Total equity		1 261	1 431	178	236	3 106	(700)	2 406
Net financial liabilities		737	510	726	434	2 407	624	3 031
Net capital invested [2]		1 999	1 941	904	669	5 513	(76)	5 437
Return on net capital invested (RONOA) [3]	%	10.4	9.6	3.5	4.2	8.2	n.a.	7.5
Included in total reportable segment assets:								
Total property, plant and equipment		331	1 425	727	177	2 660	24	2 684
– Additions to property, plant and equipment		48	132	75	34	289	0	289
Total goodwill and intangible assets		1 409	139	11	449	2 008	14	2 022
– Additions to intangible assets		1	7	4	2	14	7	21
Investments in associates / joint ventures		2	2	0	0	4	12	16
– Additions to investment in associates / joint ventures		0	3	0	0	3	0	3
Headcount		2 760	4 286	2 170	1 043	10 259	530	10 789
Average headcount		2 904	4 253	2 191	1 030	10 378	517	10 895

[1] Inter-segment sales were based on prevailing market prices.

[2] Net capital invested comprises all operating assets and goodwill less operating liabilities.

[3] Calculated at historical monthly average rates based on net capital invested excluding goodwill.

Year ended 31 December 2011 (restated) million CHF		Microbial Control	Custom Manu-facturing	Life Science Ingredients	Bio-science	Total operating segments	Corporate / Eliminations	Group total
Sales, third-party		**486**	**1 297**	**697**	**202**	**2 682**	**10**	**2 692**
Inter-segment sales [1]		12	52	65	11	140	(140)	0
Total sales		**498**	**1 349**	**762**	**213**	**2 822**	**(130)**	**2 692**
Result from operating activities (EBIT)		**(8)**	**228**	**40**	**13**	**273**	**(12)**	**261**
– Percentage return on sales	%	(1.6)	17.6	5.7	6.4	10.2	n.a.	9.7
Financial income								18
Financial expenses								(91)
Net financing costs								**(73)**
Share of loss of associates / joint ventures								(13)
Profit before income taxes								**175**
Income taxes								(21)
Profit for the period								**154**
Included in result from operating activities (EBIT):								
– Other operating income		3	15	18	2	38	4	42
– Other operating expenses		(5)	(9)	(2)	(2)	(18)	(4)	(22)
– Research and development	Note 22	(11)	(118)	(24)	(15)	(168)	(3)	(171)
– Depreciation and amortization		(22)	(165)	(65)	(15)	(267)	(9)	(276)
Total assets		2 732	2 852	1 035	780	7 399	(339)	7 060
Total liabilities		1 344	1 433	878	519	4 174	530	4 704
Total equity		1 388	1 419	157	261	3 225	(869)	2 356
Net financial liabilities		657	620	739	414	2 430	881	3 311
Net capital invested [2]		2 045	2 039	896	675	5 655	12	5 667
Return on net capital invested (RONOA) [3]	%	1.3	12.2	4.6	4.3	7.3	n.a.	6.9
Included in total reportable segment assets:								
Total property, plant and equipment		344	1 448	720	153	2 665	30	2 695
– Additions to property, plant and equipment		21	86	92	44	243	5	248
– Additions to property, plant and equipment from acquisitions		221	0	0	0	221	0	221
Total goodwill and intangible assets		1 470	139	8	468	2 085	15	2 100
– Additions to intangible assets		1	1	4	6	12	7	19
– Additions to goodwill and intangible assets from acquisitions		1 403	0	0	0	1 403	0	1 403
Investments in associates/joint ventures		2	0	0	0	2	12	14
– Additions to investment in associates/joint ventures from acquisitions		2	0	0	0	2	0	2
Headcount		3 047	4 220	2 212	1 017	10 496	505	11 001
Average headcount		1 767	4 144	2 193	1 002	9 106	535	9 641

1 Inter-segment sales were based on prevailing market prices.

2 Net capital invested comprises all operating assets and goodwill less operating liabilities.

3 Calculated at historical monthly average rates based on net capital invested excluding goodwill.

31.3 Measurement of Operating Segment Profit or Loss

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

31.4 Geographical Information

Year ended 31 December 2012 million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	464	977	48	14	54	1 093
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	86	0	160
United Kingdom	151	92	69	18	3	182
Germany	217	11	42	70	0	123
France	153	2	9	11	0	22
Rest of Europe	140	3	3	11	1	18
Europe	**1 301**	**1410**	**172**	**221**	**65**	**1 868**
United States	1 691	671	597	920	43	2 231
Canada	122	0	0	0	0	0
Rest of North America	53	0	0	0	0	0
North America	**1 866**	**671**	**597**	**920**	**43**	**2 231**
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**	**1 149**	**125**	**4 831**

Year ended 31 December 2011 (restated) million CHF	Revenue from external customers (Sales)	Non-current assets				
		Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Switzerland	374	1007	47	15	39	1108
Spain	16	151	0	0	7	158
Netherlands	52	0	0	0	0	0
Italy	50	0	0	11	0	11
Czech Republic	5	110	0	0	0	110
Belgium	22	64	1	86	0	151
United Kingdom	151	61	1	17	0	79
Germany	150	13	45	71	0	129
France	136	1	3	11	0	15
Rest of Europe	94	7	2	12	0	21
Europe	**1 050**	**1 414**	**99**	**223**	**46**	**1 782**
United States	1141	683	770	938	60	2 451
Canada	38	0	0	0	0	0
Rest of North America	22	0	0	0	0	0
North America	**1 201**	**683**	**770**	**938**	**60**	**2 451**
Brazil	33	0	0	0	4	4
Rest of Latin America	14	14	0	0	0	14
Latin America	**47**	**14**	**0**	**0**	**4**	**18**
Singapore	29	302	60	0	4	366
China	110	268	1	4	8	281
Japan	83	1	0	0	0	1
India	75	4	0	3	0	7
Rest of Asia	60	0	0	0	0	0
Asia	**357**	**575**	**61**	**7**	**12**	**655**
South Africa	**19**	**0**	**0**	**0**	**0**	**0**
Australia	**8**	**0**	**0**	**2**	**0**	**2**
Other countries	10	9	0	0	0	9
Total	**2 692**	**2 695**	**930**	**1 170**	**122**	**4 917**

31.5 Information about Major Customers

In 2012, Lonza's largest customer accounted for 6.7 % and the second, third, fourth and fifth largest ones for 3.6 %, 3.1 %, 2.8 % and 2.6 % in relation to sales. No other customer accounted for 2.5 % or more of Lonza's sales. The largest and third largest customer relate to the Custom Manufacturing segment, the second largest customer relates to Life Science Ingredients and the fourth and fifth largest customer relate to Microbial Control.

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

32 Disclosures on Board and Management Compensation

32.1 Method of Determining Compensation and the Shareholding Programs

The overall structure of compensation for the Management Committee remained largely unchanged in 2012. In 2011 the Board of Directors decided to review the structure and the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of previous benchmark data gathered in 2006. For the Management Committee, Kepler Associates benchmarked the compensation against Swiss-listed companies of a similar size in terms of equity market capitalization and sales (peer group of 18 companies) and international sector comparators (peer group of 37 companies in the pharmaceutical and chemical industry). This survey showed that the remuneration of the members of the Management Committee is between the median and lower quartile (50th percentile and 25th percentile) of the benchmark. As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented. Based on the compensation benchmark, the data were aligned in 2012 in accordance with the average compensation increase in the industry. In order to estimate this alignment for 2012, two benchmark providers were used to draw the comparison. The two benchmark providers have further consulting mandates within the Human Resources department[1].

Base salary targets levels around the average for the market as described below, with the potential for executives to earn above-average compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry[1].

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

For the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA) of the Group. A weight of at most 20 % is put on individual qualitative targets, linked to the delivery of strategic milestones. For the members of the Management Committee the overall STIP amount is targeted as a percentage of base salary ranging from 40 % to 50 %, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash.

[1] See Remuneration Report page 184 ff

The Extended Short-Term Incentive (E-STIP) was introduced because of the need to establish even more long-term orientation of the incentive system as well as with the aim of increasing the retention power of the compensation system. Senior Management as well as the members of the Management Committee are included in this plan. The E-STIP is part of the overall STIP concept: ⅔ of the STIP is paid out in cash and ⅓ in restricted share unit entitlements (E-STIP). The value of the plan is strongly dependent on Lonza's share price development in the future. Specifically, first an amount equal to half of the STIP 2011 and STIP 2012 (which depends on financial and individual goals) is awarded to each member of the Management Committee in the form of restricted share unit entitlements. Second, these restricted share units are subject to three-year vesting conditions. The grant of the restricted share units under the E-STIP 2012 will take place on 31 March 2013 (E-STIP 2011 on 31 March 2012), at which date the number of restricted share units will be determined based on the closing stock price on that date. During the three-year vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

The LTIP is a stock bonus plan. The plan establishes targets for Total Shareholder Return (TSR) to exceed an index of industry peers by 9 % per year on average over three years. The second target is Economic Value Added (EVA) to increase up to CHF 79.7 million over the same three-year period. If targets are met, shares are granted. The maximum number of shares to be granted is capped at the start of the plan. The grant amount is calculated as a percentage of base salary and can range from 125 % to 150 % of base salary. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan. Besides the members of the Management Committee, the upper management, as well as specialists and experts, are also included in this program and therefore in the company's mid-term and long-term goals.

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

Board of Directors The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay. The decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2012. The overall structure and level of compensation of the Board of Directors has not changed since 2005. The high portion of the shares aligns significantly with the share price development. Our aim is to pay the members of the Board of Directors at the industry market average, drawing on data from studies on Swiss Leader Index (SLI) companies.

In 2012, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 3.101 million[1] (2011: CHF 2.652 million[1]), 64.95 % (2011: 63.56 %) of which was distributed in the form of shares. The increase in the total compensation of the Board results

[1] Including social security and withholding tax

from the increase in the number of Board members from 6.75 to 7.75 (full-time equivalents) and the inclusion of the Chairman's compensation as ad interim CEO. The compensation system for the Board of Directors allows the members to choose either a payment in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. The number of shares is based on the market price at grant date, calculated 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.

Board of Directors' compensation[1]	2012				2011			
	[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	369 050	7 800	[4]396 808	765 858	194 350	5 806	356 288	550 639
Richard Sykes Vice-Chairman of the Board	113 750	6 524	295 189	408 939	116 875	4 898	306 885	423 760
Patrick Aebischer Member of the Board	56 425	5 222	238 271	294 696	117 222	3 448	211 592	328 814
Jean-Daniel Gerber Member of the Board	104 243	4 096	187 261	291 504	88 332	2 777	159 514	247 846
Julia Higgins Member of the Board	48 125	1 052	49 175	97 300	192 500	3 207	196 797	389 297
Gerhard Mayr Member of the Board	79 304	5 757	262 910	342 214	120 763	3 332	207 155	327 918
Jörg Reinhardt Member of the Board	56 250	4 652	210 828	267 078				
Margot Scheltema Member of the Board	123 750	2 870	126 510	250 260				
Peter Wilden Member of the Board	136 161	5 412	247 152	383 313	136 161	4 027	247 116	383 277
Total	**1 087 058**	**43 385**	**2 014 104**	**3 101 162**	**966 203**	**27 495**	**1 685 347**	**2 651 550**

In 2012 one member of the Board of Directors did not stand for re-election, two new members were elected at the Annual General Meeting (2011: one member left and one new member joined the Board of Directors). In 2012, there were 9 members on the Board (2011: 7 members). The average number of Board members during the year was 7.75 full-time equivalents (2011: 6.75 full-time equivalents).

1 Margot Scheltema and Jörg Reinhardt joined the Board of Directors on 1 April 2012. Julia Higgins left the Board of Directors in April 2012.

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

3 The fair values were calculated using the market price at grant date, see note 24 in the Lonza Financial Report 2012.

4 Including additional compensation of CHF 40 602 in shares and CHF 81 204 in cash accrued and to be paid in March 2013 (STIP 2012 related to his ad interim CEO mandate).

Management Committee In 2012, two members left the Management Committee. The acting members of the Management Committee received, for their contributions and time served in 2012, CHF 7.922 million[1] (2011: CHF 5.327 million[1]) in cash and additional benefits, and 96 427 conditional LTIP shares (2011: 73 107 shares) and a number of restricted share units (the exact number will be determined in March 2013), equivalent to a value of CHF 2.326 million (2011: CHF 3.004 million). The restricted share units of the E-STIP and the conditional shares of the LTIP are subject to vesting conditions of three years. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 125.0 % (2011: 111.1 %). Termination benefits and the LTIP shares which vested according to the termination agreements are not included in this ratio.

Management Committee's compensation million CHF	2012	2011
Base salary[2]	4.286	3.197
Incentive[3]	2.229	0.942
Post-employment benefits[4]	0.418	0.374
Other benefits[5]	0.989	0.814
Termination benefits in cash[6]	3.306	0.113
Share-based payments Accelerated vesting of LTIP shares due to termination (47 789)[7]	1.673	
Value of E-STIP restricted share units (determined in March)	0.530	0.421
Value of conditional LTIP shares[8] (number of shares 2012: 96 427; 2011: 73 107)	1.797	2.583
Total	**15.228**	**8.444**
Ratio of fixed compensation to the performance-related components of compensation without termination payment	**125.0 %**	**111.1 %**

In 2012, there were 10 members (2011: 7 members) on the Management Committee. The average number of Management Committee members during the year was 8.1 full-time equivalents (2011: 6.1 full-time equivalents).

1 Including social security and incentive paid in March of the following year
2 2011: 7 members; 2012: 10 members
3 Incentive (STIP) of the reporting year, paid in March of the following year
4 Social security and pension fund
5 Company car, health insurance and tuition. The table shows the fair value of these benefits.
6 This table discloses the actual amounts paid for the years 2011 and 2012. The termination agreements are discussed in the remuneration report.
7 The fair value of this item using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012, amounts to CHF 2.688 million, whereas the compensation relating to 2012 amounts to CHF 0.896 million (CHF 2.688 million in total, less compensation of CHF 0.901 million and CHF 0.891 million disclosed in 2011 and 2010, respectively for these LTIP shares).
8 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012 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).

On 25 January 2012, the company announced the termination of Stefan Borgas' role as CEO of the Group, as already indicated in the Annual Report 2011 . The financial consequences of the termination of Mr. Borgas' employment with the company are set forth in the Remuneration Report on page 187.

Highest compensation The highest compensation of a member of the Management Committee in 2012 was paid to Stefan Borgas, the former CEO. Mr. Borgas received for his service until the end of May 2012 CHF 745 057 paid in cash, STIP and additional benefits and post-employment benefits. The details concerning his termination payments are described below.

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2012	2011
Base salary	0.395	0.917
Incentive [1]	0.276	0.100
Post-employment benefits [2]	0.038	0.113
Other benefits [3]	0.036	0.153
Termination benefits in cash [4]	3.306	0.0
Share-based payments		
Accelerated vesting of LTIP shares due to termination (47 789) [5]	1.673	0.0
Value of conditional LTIP shares (2011: 24 220) [6]	0.0	0.901
Total	**5.724**	**2.184**
Ratio of fixed compensation to the performance-related components of compensation	**n.a.**	**118.3 %**

The employment contract of a second departing member of the Management Committee was terminated in 2012 and the compensation received by that member in 2012 is included in the lines "Base salary", "Incentive", "Post-employment benefits" and "Other benefits" in the table above. A final termination agreement has not yet been agreed on.

1 Incentive (STIP) of the reporting year. The 2011 STIP was paid in March 2012. The 2012 STIP was paid together with the other termination payments in 2012.
2 Social security and pension fund
3 Company car, health insurance and tuition. The table shows the fair value of these benefits.
4 This table discloses the actual amount paid for the years 2011 and 2012. The severance agreements are discussed in the remuneration report.
5 The fair value of this item using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012, amounts to CHF 2.688 million, whereas the compensation relating to 2012 amounts to CHF 0.896 million (CHF 2.688 million in total, less compensation of CHF 0.901 million and CHF 0.891 million disclosed in 2011 and 2010, respectively for these LTIP shares).
6 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012 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).

Compensation in Case of Employment Termination

Notice periods Members of the Management 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 Management Committee appointed in 2012 are entitled to a notice period of 12 months, which can however be extended in case of change of control, except one member who has a fixed-term agreement with a notice period of 3 months. For details on the notice period in case of change of control, please refer to paragraph "Change of Control" below.

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

Share-based incentives (i) For the members of the Management Committee appointed before 2012, the rules are as follows. In case of termination by the company without cause, for any LTIP grants made as of 2012, the service condition is waived pro rata temporis based on the actual vesting period: 1/3 in case of termination after one year, 2/3 for termination after two years, 3/3 for termination after three years. The share entitlements remain subject to any performance conditions, and shares, if any, are delivered only three years from grant. In case of termination by the Company without cause, for LTIP grants made before 2012 and any E-STIP grants, the Nomination and Compensation Committee may decide either to keep intact or forfeit such share entitlements. If the Nomination and Compensation Committee decides to keep intact the share entitlement, the shares will vest according to the plan rules of the applicable year. (ii) For two new members of the Management Committee, the specific rules are that, in the event that the end of the termination period occurs before the end of one of the incentive plan periods, the share entitlements due to these executives will be paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board or Nomination Committee, as applicable, be deemed to have been reached with respect to such a period. (iii) For another new member of the Management Committee, if the relevant executive terminates its employment with the company otherwise than for cause, or if the company terminate the employment of the relevant executive other than following change of control, all the unvested shares 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 vest automatically at the end of the termination period. As a general rule, the relevant executive's entitlements are paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board or Nomination Committee, as applicable, be deemed to have been reached with respect to the relevant period.

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

In case of voluntary termination of employment by the members of the Management Committee, for LTIP grants made before 2012 it is in the sole discretion of the Nomination and Compensation Committee to waive the forfeiture of the share entitlements in full or in part. In case of voluntary termination of employment as of 2012, for LTIP grants made any time before the vesting, the forfeiture shall be waived pro rata to the vesting period: ⅓ for termination after one year, ⅔ for termination after two years, 3/3 for termination after three years. The share entitlements remains subject to any performance conditions, and shares, if any, are delivered only three years from grant. In 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.

Change of control The applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee following a change of control (with the exception of one Management Committee member with a fixed-term employment agreement). In such a case all shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately, which also implies the release from the performance conditions. In addition, certain members of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period; a cash amount equal to 100 % of the LTIP compensation during the notice period; and outplacement support up to an amount of CHF 50 000. Except in one case, the applicable notice period is also extended to 18 months if the relevant member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) following a change of control. For this member the shares will vest automatically at the end of the termination period.

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

32.2 Compensation for Former Members of Governing Bodies

Compensation of CHF 0.021 million was paid to a former member of the governing bodies (2011: CHF 0.113 million); this was contained in the 2010 personnel expenses.

32.3 **Share Allotment**

In the 2012 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 32.1 of this report. In note 32.1, the allotment of the LTIP shares for the Management Committee is included. These shares are only granted if the targets are met. As described in note 32.1, this plan did not provide any income before 2009.

32.4 **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 2012, a total of 152 796 (2011: 112 574) registered shares in Lonza Group Ltd and controlled 0.29 % (2011: 0.21 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them[1] held 54 327 (2011: 71 950) registered shares and controlled 0.10 % (2011: 0.13 %) 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 Management Committee as of 31 December 2012:

Board of Directors Lonza shares (numbers)	2012	2011
Rolf Soiron	58 165	36 339
Richard Sykes	28 005	22 240
Patrick Aebischer	13 548	8 609
Jean-Daniel Gerber	6 202	2 031
Julia Higgins		12 726
Gerhard Mayr	19 793	14 655
Jörg Reinhardt	3 232	
Margot Scheltema	2 586	
Peter Wilden	21 265	15 974

Management Committee Lonza shares (numbers)	2012	2011
Richard Ridinger	14 000	
Uwe Böhlke	5 417	5 084
Stefan Borgas		35 402
Harry Boot		123
Marc Funk	1 627	
Toralf Haag	11 456	11 213
Beat In-Albon		
Stephan Kutzer	10 000	10 000
Jeanne Thoma	5 457	4 091
Lukas Utiger	6 370	6 037

Additional Remuneration

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

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

32.5 Loans Granted by Governing Bodies

In 2011 and early 2012, the CEO, Stefan Borgas, were granted loans of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of the grant and repayment upon termination of employment. The out-payment was in March 2011 and in early 2012. These loans were fully offset against payments due to Mr Stefan Borgas according to the separation agreement with the company.

32.6 After Closing Event

The employment agreement of one member of the Management Committee was terminated on 1 February 2013. The general termination terms are comprehensively described on pages 187 and 188. On the same date two other members left the Management Committee. These two former members of the Management Committee still have a full-time employment agreement with the company, but no longer have Management Committee responsibilities.

33 Enterprise Risk Management

For the first time, the review of risks included risks associated with the newly acquired businesses and operations from Arch Chemicals.

At their October meeting, the Board of Directors and Management Committee were informed about the findings of the risk management process and the results of the risk portfolio management.

During 2012, 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 30.

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 70 to 157 for the year ended 31 December 2012.

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 2012 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	Andreas Müller
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, 1 March 2013

Balance Sheet – Lonza Group Ltd

Assets[1] CHF	2012	2011
Fixed assets		
Property, plant and equipment	1 241 505	1 128 908
Investments	1 731 683 449	1 717 063 573
Long-term loans to subsidiaries and associates	1 076 111 923	1 179 039 769
Total fixed assets	**2 809 036 877**	**2 897 232 250**
Current assets		
Receivables:		
– From third parties	28 515	129 800
– From subsidiaries and associates	9 333 531	16 225 550
Prepaid expenses:		
– Third parties	22 045 450	18 307 638
– Subsidiaries and associates	5 291 546	3 434 719
Short-term advances:		
– Third parties	0	1 190 000
– Subsidiaries and associates	264 235 324	192 484 255
Marketable securities:		
– Own shares	49 544 557	72 557 592
Cash	39 827 558	5 287
Total current assets	**390 306 481**	**304 334 841**
Total assets	**3 199 343 358**	**3 201 567 091**

[1] At 31 December

Liabilities and shareholders' equity[1] CHF		2012	2011
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		728 720 453	839 727 980
– Reserve for own shares		84 490 970	110 550 603
Available earnings brought forward		906 501 127	783 334 935
Profit for the year		168 340 198	97 106 559
Total shareholders' equity		**1 967 432 958**	**1 910 100 287**
Liabilities			
Long-term liabilities			
Long-term debt:			
– Due to third parties		850 000 000	900 000 000
– Due to subsidiaries and associates		180 000 000	0
Long-term provisions:			
– Due to third parties		458 604	495 837
Total long-term liabilities		**1 030 458 604**	**900 495 837**
Current liabilities			
Payables and other liabilities:			
– Due to third parties		826 630	816 309
– Due to subsidiaries and associates		288 399	22 405
Accrued expenses:			
– Due to third parties		23 761 896	44 691 187
– Due to subsidiaries and associates		6 551 033	1 316 700
Short-term debt:			
– Due to third parties		0	5 600 000
– Due to subsidiaries and associates		170 023 838	338 524 366
Total current liabilities		**201 451 796**	**390 970 967**
Total liabilities		**1 231 910 400**	**1 291 466 804**
Total liabilities and shareholders' equity		**3 199 343 358**	**3 201 567 091**
Shareholders' equity as a percentage of total assets	%	**61.5**	**59.7**

[1] At 31 December

Income Statement – Lonza Group Ltd

CHF	2012	2011
Income		
Income from investments	194 693 311	152 945 781
Interest income	38 811 768	24 924 693
Other financial income	73 102 510	10 407 891
Other income	1 818 367	1 993 258
Income from sales of investments	105 187	0
Total income	**308 531 143**	**190 271 623**
Expenses		
Personnel expenses	14 236 864	9 006 106
Other administrative expenses	6 421 618	5 288 324
Interest expenses	50 460 870	28 456 357
Other financial expenses	61 717 491	46 366 428
Taxes	5 194 279	2 064 592
Other expenses	1 635 545	1 474 563
Write-offs on property, plant and equipment	524 278	508 694
Total expenses	**140 190 945**	**93 165 064**
Profit for the year	**168 340 198**	**97 106 559**

Notes to the Financial Statements – Lonza Group Ltd

1 **Contingent Liabilities**

At 31 December 2012, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 2 070 065 700 (31 December 2011: CHF 1 732 592 318). 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 2012: CHF 76 412 (31 December 2011: CHF 92 539).

3 **Investments**

See list of principal subsidiaries, pages 88 and 89.

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

See 1.2 Principal Shareholders in Corporate Governance, page 204.

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 32 in Consolidated Financial Statements, page 149.

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 33 of the Consolidated Financial Statements, page 157.

7 **Own Shares**

At 31 December 2012, Lonza Group Ltd held 1 003 739 of its registered shares with a par value of CHF 1 each (31 December 2011: 1 307 344), resulting in a reserve for own shares of CHF 84 490 970 (31 December 2011: CHF 110 550 603).

In 2012, Lonza Group Ltd acquired 48 registered shares at an average market value of CHF 46.79. In order to satisfy the exercise of the different share and option plans in 2012, Lonza Group Ltd delivered 303 653 registered shares at an average market value of CHF 31.36. A total of 218 609 of the registered shares with a par value of CHF 1 each (31 December 2011: 228 143) are reserved for the different share plans. Therefore 785 130 of the registered shares (31 December 2011: 1 079 201) have no special restriction. At 31 December 2012, the total number of registered shares not entitled to a dividend was 1 003 739, with a par value of CHF 1 each (2011: 1 307 344).

8 **Share Capital**

Contingent capital: The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 5 029 860 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 029 860. Authorized capital: The Board of Directors shall be authorized to increase, at any time until 12 April 2013, the share capital of Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 5 029 860. The details and conditions are set out in Articles 4[bis] to 4[quater] of the Company's Articles of Association. At 31 December 2012, Lonza Group Ltd had a fully paid-in registered capital of CHF 52 920 140 and a contingent capital of CHF 5 029 860.

9 **Amount in Reserve from Capital Contribution**

In the context of the Corporate Taxation Reform II in Switzerland, the capital contribution principle was implemented with effect from 1 January 2011. The reserves from capital contribution established from 1 January 1997 to 31 December 2010 which qualify for the capital contribution principle of CHF 839 727 980 were finally approved by the Swiss Federal Tax Authority on 6 December 2011. The amount of CHF 747 926 528 was reclassified from Available earnings brought forward to Reserve from capital contribution as per 31 December 2011 to reflect the approved amount as Reserve from capital contribution. As of 31 December 2012 the reserves from capital contribution amount to CHF 728 720 453.

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

In February 2007, Lonza Group Ltd used the available syndicated loan facility in order to finance the acquisition of the Biopharma and Bioscience businesses from Cambrex. The facility was set up in December 2006 in an amount of CHF 500 million, with a maturity of five years and floating interest rates. In October 2011, Lonza Group Ltd replaced this facility. The new facility was set up in an amount of CHF 700 million, with a maturity of five years and floating interest rates. In June 2010, Lonza Group Ltd issued a 3 % bond of CHF 400 million at an issue price of 100.721 %, with maturity date 2 June 2016.

11 **Additional Notes**

Exchange gains / losses Other financial income in 2012 includes exchange rate gains of CHF 56 613 234 and Other financial expenses in 2012 include exchange rate losses of CHF 50 534 103 (In 2011: Other financial expenses included net exchange rate losses of CHF 12 492 586).

Own shares Other financial expenses in 2012 include a depreciation for own shares of CHF 11 183 285 (2011: CHF 26 682 084).

Long-term loans to subsidiaries and associates Lonza Group Ltd signed subordination agreements of CHF 59 million (2011: CHF 48 million).

Proposal of the Board of Directors

concerning the appropriation of available earnings

CHF	2012	2011
Available earnings brought forward	906 501 127	783 334 934
Profit for the year	168 340 198	97 106 559
Available earnings at the disposal of the Annual General Meeting	**1 074 841 325**	**880 441 493**
Available earnings carry-forward	**1 074 841 325**	**880 441 493**
Decrease reserve for own shares in the 2012 business year		26 059 634
Available earnings brought forward after decrease of reserve for own shares		906 501 127

CHF	2012	2011
General legal reserve qualified as reserve from capital contribution	728 720 453	91 801 452
Earnings brought forward qualified for reserve from capital contribution	0	747 926 528
Reserve from capital contribution [1]	**728 720 453**	**839 727 980**
Payment of a dividend (out of reserves from capital contribution) in 2012 of CHF 2.15 (2011: CHF 2.15) per share on the share capital eligible for dividend of CHF 51 916 401 (2011: CHF 51 631 408) [2]	(111 620 262)	(111 007 527)
Available reserve from capital contribution carry-forward	**617 100 191**	**728 720 453**

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 16 April 2013.

Rolf Soiron
Chairman of the Board

Richard Ridinger
Chief Executive Officer

Basel, 1 March 2013

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 15 April 2013. No dividend will be paid out on shares held by the Company.

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 160 to 165 for the year ended 31 December 2012.

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 2012 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	Andreas Müller
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Zurich, 1 March 2013

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 2012 at a price of CHF 49.36, which represents a decrease of 10.9 % in 2012.

The most significant news releases, other than results publications, during the course of 2012 were the following:

January

25 Lonza Continues Its Transformation Towards a Global Life Science Leader (FYR 2011)

February

8 Lonza Builds "Factory of Tomorrow" with Investments in Continuous Flow and Microreactor Technology

10 Lonza Confirms Talks with South African Government Regarding the Establishment of a Joint Venture

13 Lonza Launches New Global Company Website

29 Lonza and Eclipse Therapeutics Announce Development and Manufacturing Agreement for Lonza to Conduct Phase 1 Production of Eclipse's ET-101

March

7 Lonza Signs Light Path™ Discovery Agreement with LegoChem Biosciences to Provide Pre-clinical Material of Novel Therapeutic Compound

13 Lonza Launches New 360 Degree Virtual Tours of Worldwide Custom Manufacturing Locations

April

3 Lonza Appoints Richard Ridinger as New CEO

3 Annual General Meeting of Lonza Group Ltd (voting results)

11 Lonza Launches Next-Generation Vegetarian DHA

12 Lonza and Agennix Sign Development and Manufacturing Deal for Production of Talactoferrin

18 CSIRO and Lonza Partner to Bring New Bee Silk Products to the World

May

4 Lonza on Track to Meet 2012 Full-Year Targets as Arch Integration Progresses as Planned

16 Avalanche Biotechnologies, Inc. and Lonza Announce Global Manufacturing Collaboration for Adeno-associated Viral Vectors for Gene Therapy

June

1 Beat In-Albon New COO of the Life Science Ingredients Sector

5 EPA Approves Lonza's Copper Omadine® Antimicrobial for Use as Antifouling Agent on Vessels Larger than 25 Meters

13 Lonza and Biowa Sign License Agreements with FivePrime Therapeutics for Use of Their POTELLIGENT® CHOK1SV Cell Line for Therapeutic Antibody Development

15 Lonza Announces Successful Completion of New GMP Suite for Growing Viral Vaccine and Gene Therapy Business

July

2 Lonza Expands Its XS Microbial Expression Technology™ Toolbox by Adding New Alternative Host Organisms to Address Diverse Customer Needs

10 Lonza Launches Next-Generation GS Gene Expression System™

25 Lonza Delivered Solid Business Performance in the First Half of 2012

August

2 Lonza Announces License Agreement with iPS Academia Japan

September

13 Lonza Prices CHF 305 Million Dual Tranche Straight Bonds

18 Lonza Issues Dual Currency Schuldscheindarlehen (Certificate of Indebtedness)

27 Lonza and Intellect Neurosciences Announce Intellect's Intention to Award Production of Its Antibody Drug Conjugate, CONJUMAB-A to Lonza

October

2 Lonza and Celladon Corporation Announce Manufacturing Agreement for MYDICAR®

5 Clarification on Biosimilar Activities

10 Lonza Awarded Contract to Generate Clinical Grade iPSCs by the National Institutes of Health Center for Regenerative Medicine

23 Lonza and OncoMed Pharmaceuticals Sign a Process Development and Manufacturing Collaboration and Multi-Product GS License Agreement for Anti-Cancer Therapeutics

31 Lonza Delivers Solid Performance in Q3; Cost Improvement Programs on Track

November

7 Lonza Now Offers 360° Virtual Tours of Maryland and Texas Bioscience Facilities

12 Agreements in the Negotiations Between Unia, Syna and Lonza

26 Negotiations and Discussions for Social Plan Concluded

29 Lonza Signs Definitive Agreement for the Sale of Brandenburg, KY Performance Urethanes and Organics Business to Monument Chemical

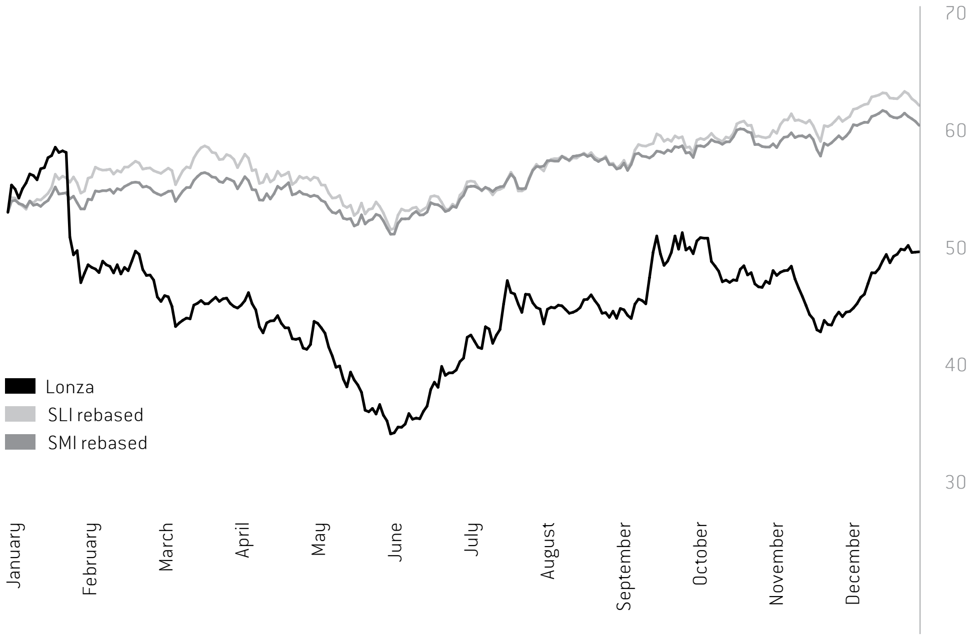
December

19 Lonza and Sartorius Stedim Biotech Enter Collaboration, Supply and Distribution
Agreement in the Field of Cell Culture Media

28 Lonza Completes the Divestiture of Its Brandenburg, KY Performance Urethanes and Organics Business to Monument Chemical

For a comprehensive review of the media releases issued during 2012, refer to www.lonza.com

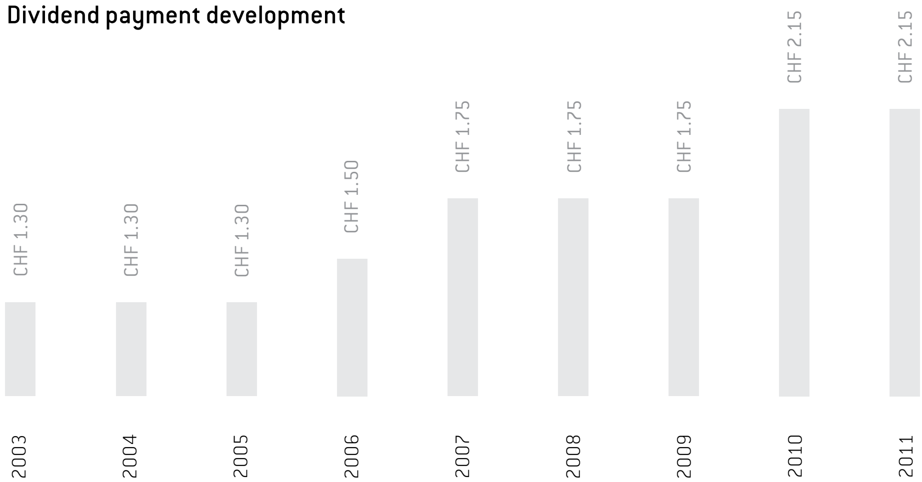
Lonza Group Ltd 2012 share price development versus the Swiss Leader Index and the Swiss Market Index, rebased



The changes in shareholdings that Lonza Group Ltd has announced since the beginning of 2012 can be viewed at:
www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings

The free float in Lonza Group Ltd registered shares reached 98.10 % at the year-end and the average daily trade volume was 287 900 shares in 2012.

Dividend payment development



Registered shares CHF		2012	2011
Number of shares issued		52 920 140	52 920 140
Number of shares ranking for dividend [1]		51 916 401	51 612 796
Par value per share	CHF	1	1
Net income (equity holders of the parent)	million CHF	182	154
Diluted net income [2]	million CHF	182	154

Ratios per security [2]		2012	2011
Weighted average number of shares		51 775 225	51 632 876
Diluted weighted average number of shares		51 978 758	51 852 749
Basic earnings per share	CHF	3.52	2.98
Diluted earnings per share	CHF	3.50	2.97

Historical overview:

Ten-year overview of major highlights million CHF		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Sales		3925	2 692	2 680	2 690	2 937	2 870	2 914	2 521	2 182	2 242
Result from operating activities (EBIT)		335	261	374	239	441	408	344	297	212	139
Net capital invested		5437	5 667	3 688	3 900	3 768	3 277	2 608	2 786	2 574	2 473
Return on net capital invested (RONOA)	%	7.5	6.9	10.8	6.7	13.8	14.1	12.4	11.0	8.4	12.2
Headcount		10 789	11 001	8 280	8 386	8 462	6 929	6 146	4 992	5 664	5 938

[1] See note 25
[2] See note 26

Statement of Value Added

	Note[1]		2012 million CHF	2012 %		2011 million CHF	2011 %
Origin of value added							
Income from production			4 216			2 798	
Dividend earned	20.3		0			0	
Total income			**4 216**	**100.0**		**2 798**	**100.0**
Services bought from third parties:							
– Material costs	17		(1 780)			(914)	
– Energy costs	17		(83)			(85)	
– Other operating expenses excl. capital taxes			(589)			(396)	
Gross value added			**1 764**			**1 403**	
Depreciation on property, plant and equipment as well as amortization on intangibles and impairment / reversal of impairment	5, 6		(305)			(276)	
Income from application of the equity method	20.3		(19)			(13)	
Total net value added			**1 440**	**34.2**		**1 114**	**39.8**
Distribution of value added							
To staff:							
– Wages and salaries	18	870			654		
– Pensions	18	34			26		
– Other social security contributions	18	149			123		
– Other personnel expenses	18	59			52		
Total personnel cost			**1 112**	**77.3**		**855**	**76.7**
To public authorities:							
– Income and capital taxes	21		51	3.5		32	2.9
To lenders:							
– Financial expenses net	20.1, 20.2		95	6.6		73	6.6
To shareholders:							
– Dividends paid	page 76		111	7.7		111	10.0
To the company:							
– Profit for the period		182			154		
– Dividends paid	page 76	(111)	71	4.9	(111)	43	3.8
Total			**1 440**	**100.0**		**1 114**	**100.0**
Distribution of value added per employee			CHF			CHF	
Wages and salaries			79 853			67 835	
Pensions			3 121			2 697	
Other social security contributions			13 676			12 758	
Other personnel expenses			5 415			5 394	
Total per employee			**102 065**			**88 684**	

[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 and, as adds changes in other long-term operating assets / liabilities. This key measure is the same as reported monthly to the Management Committee.

million CHF	2012	2011
EBITDA	640	537
Change of operating net working capital	154	(126)
Capital expenditures in tangible and intangible assets	(310)	(267)
Disposal of tangible assets	17	6
Change of other assets and liabilities	5	(23)
Free cash flow before acquisition	**506**	**127**
Acquisition of subsidiaries	0	(918)
Free cash flow	**506**	**(791)**

Core Results

Reconciliation of IFRS results to core results 2012 million CHF	IFRS results	Amortization of intangible assets from acquisition	Impair-ments	Restructuring costs / income	Impact of Arch integration costs	Others	Results associates	[1] Core results
Sales (see segment information)	**3 925**	**0**	**0**	**0**	**0**	**0**	**0**	**3 925**
Cost of goods sold	(2 920)	39	0	0	18	0	0	(2 863)
Gross profit	**1 005**	**39**	**0**	**0**	**18**	**0**	**0**	**1 062**
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	(299)	0	0	0	0	[2] (6)	0	(305)
Other operating income	42	0	0	0	0	[3] (18)	0	24
Other operating expenses	(52)	0	1	29	0	0	0	(22)
Result from operating activities (EBIT)	**335**	**39**	**1**	**29**	**18**	**(24)**	**0**	**398**
Financial income	33	0	0	0	0	0	0	33
Financial expenses	(128)	0	0	0	0	0	0	(128)
Net financing costs	**(95)**	**0**	**0**	**0**	**0**	**0**	**0**	**(95)**
Share of loss of associates / joint ventures	(19)	0	0	0	0	0	19	0
Profit before income taxes	**221**	**39**	**1**	**29**	**18**	**(24)**	**19**	**303**
Income taxes[4]	(39)	(7)	0	(5)	(3)	4	(4)	(54)
Profit for the period	**182**	**32**	**1**	**24**	**15**	**(20)**	**15**	**249**
Non-controlling interests	0	0	0	0	0	0	0	0
Equity holders of the parent	**182**	**32**	**1**	**24**	**15**	**(20)**	**15**	**249**
Number of Shares Basic	51 775 225							51 775 225
Number of Shares Diluted	51 978 758							51 978 758
Basic earnings per share	3.52							4.81
Diluted earnings per share	3.50							4.79

[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 is 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

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

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

2 Tax impact calculated based on average Group tax rate

This Remuneration Report has been included to provide an overview of Lonza's compensation programs. In addition to a description of the compensation programs, it includes the compensation levels of the Board of Directors and the Management Committee. Some information from Notes 24, 27 and 32 of the Financial Report is repeated here.

Structure of the Report

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

Compensation Philosophy

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

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

Base pay The base pay of Lonza employees and senior management is established by assessing the scope of the individual's job within the context of the relevant market, as well as personal experience, skills, abilities and ongoing performance. The base pay is comparable with the average level for a similar position in the industry[1]. Potential increases in base pay are evaluated on an annual basis and are based on the market situation along with the individual's performance.

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

Variable compensation and other programs Variable compensation and other programs are designed to provide senior managers and employees with the opportunity to participate in the company's overall success and earn total compensation that is in line with the industry[1]. The

[1] For more details concerning the benchmarks used, see page 184

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

Architecture of the Pay-setting Process

The compensation policy is set by the Board of Directors. In order to ensure effective governance, the Board tasks the Nomination and Compensation Committee with preparing the decision-making. Specifically, the meetings of the Nomination and Compensation Committee relevant to compensation matters take place regularly, in 2012 in January, April, October, and December:

– In the October meeting, the overall compensation strategy is reviewed.
– In the December meeting, the conceptual designs of the Short-Term Incentive Plan (STIP), the Long-Term Incentive Plan (LTIP), and the Employee Stock Purchase Program (ESPP) are discussed. This allows a periodic review of the compensation and share-ownership programs. In general, the details of the STIP for the coming year are fixed.
– In the January meeting of the Nomination and Compensation Committee, the specific list of names of participants in the LTIP is drawn up, the impact of the Company's full-year results on the STIP is reviewed, the achievement levels for the prior year for the Management Committee LTIP are established, and the compensation targets for the new year are finalized. The objectives of CEO and Management Committee members for the current year are also fixed.
– The April meeting of the Nomination and Compensation Committee reviews the total compensation and the base salaries of the CEO and the members of the Management Committee, as well as the compensation of the Board of Directors.

All members of the Nomination and Compensation Committee (NCC) participated in all the meetings. If required, the NCC also meets at other times throughout the year to discuss other topics the Board of Directors has delegated to it.

After each meeting, the Nomination and Compensation Committee informs the Board of Directors and, where necessary, submits proposals for decision by the Board of Directors. The Board of Directors makes the ultimate decisions on all matters related to the pay of the Board of Directors and the Management Committee. The payment-relevant materials for the Nomination and Compensation meetings are provided by the Head of Global Human Resources and the Head of Compensation and Benefits. The Head of Global Human Resources attends all the relevant meetings, the Head of Compensation and Benefits those concerning the Management Committee's compensation, or when otherwise required. Both individuals are there to advise the Nomination and Compensation Committee, but do not have a vote. Management Committee members generally attend Board of Directors meetings, but do not have a vote. Board decisions regarding the compensation of the member of the Management Committee are resolved in the absence of the members of the Management Committee. The whole Board of Directors is present and votes on compensation of the Board members. The secretary of the Board of Directors attends all meetings without a vote.

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 at Lonza. This analysis also built the basis for the compensation review of the Management Committee and the Senior Management in 2012.

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

The remuneration report is subject to a consultative vote of the shareholders on the occasion of the Annual General Meeting.

Compensation of the Board of Directors

Principles and elements of compensation The members of the Board of Directors received a compensation package with a base amount and additional compensation for chairing one of the Board committees. Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza. Directors do not receive variable compensation. Therefore, all the amounts given for the Board of Directors below refer to fixed pay.

The Board of Directors decides on the structure and level of its compensation. Such a decision regarding the remuneration of the Board of Directors was taken by the Board of Directors in April 2012. The overall structure and level of compensation of the Board of Directors has not changed since 2005. The high portion of the shares aligns it significantly with the share price development. Our aim is to pay the members of the Board of Directors at the market average, drawing on data from studies[1] on Swiss companies.

Overview of Board of Directors compensation In 2012, payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 3.101 million[1] (2011: CHF 2.652 million[2]), 64.95 % (2011: 63.56 %) of which was distributed in the form of shares. The increase in the

[1] Specifically, we draw on data from two studies:
Towers Watson: SLI-Benchmarking Study 2011 and PwC: Executive Compensation and Corporate Governance

[2] Including social security and withholding tax

total compensation of the Board results from the increase in the number of Board members from 6.75 to 7.75 (full-time equivalents) and the inclusion of the Chairman's compensation as ad interim CEO. The compensation system for the Board of Directors allows the members to choose either a payment exclusively in shares or a combination of cash and shares, whereby the cash portion cannot exceed 40 %. The number of granted shares is based on the market price at grant date, calculated 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 available only in the fourth or later years.

Board of Directors' compensation[1]	2012				2011			
	[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[4] Chairman of the Board	369 050	7 800	396 808	765 858	194 350	5 806	356 288	550 639
Richard Sykes Vice-Chairman of the Board	113 750	6 524	295 189	408 939	116 875	4 898	306 885	423 760
Patrick Aebischer Member of the Board	56 425	5 222	238 271	294 696	117 222	3 448	211 592	328 814
Jean-Daniel Gerber Member of the Board	104 243	4 096	187 261	291 504	88 332	2 777	159 514	247 846
Julia Higgins Member of the Board	48 125	1 052	49 175	97 300	192 500	3 207	196 797	389 297
Gerhard Mayr Member of the Board	79 304	5 757	262 910	342 214	120 763	3 332	207 155	327 918
Jörg Reinhardt Member of the Board	56 250	4 652	210 828	267 078				
Margot Scheltema Member of the Board	123 750	2 870	126 510	250 260				
Peter Wilden Member of the Board	136 161	5 412	247 152	383 313	136 161	4 027	247 116	383 277
Total	**1 087 058**	**43 385**	**2 014 104**	**3 101 162**	**966 203**	**27 495**	**1 685 347**	**2 651 550**

1 Margot Scheltema and Jörg Reinhardt joined the Board of Directors in April 2012. Julia Higgins left the Board of Directors in April 2012.

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

3 The fair values were calculated using the average market price of the last five business days before grant date, see note 24 in the Lonza Financial Report 2012.

4 Between 24 January 2012 and 30 April 2012, Rolf Soiron also served as interim CEO.

In 2012 one member of the Board of Directors did not stand for re-election and two new members were elected at the Annual General Meeting (2011: no member left and one new member joined the Board of Directors). In 2012, there were 9 members on the Board (2011: 7 members). The average number of Board members during the year was 7.75 full-time equivalents (2011: 6.75 full-time equivalents).

Chairman compensation The compensation of the Chairman as presented above includes the compensation for his dual mandate as Chairman and CEO for the period from 24 January 2012 until 30 April 2012. He received for the ad interim CEO role a base pay of CHF 30 000 per month and targeted STIP participation of 105 % of base salary. The STIP will be paid out pro rata temporis in cash (2/3) and in shares (1/3) in March 2013 according to the STIP criteria of the Management Committee (see below). For his service as ad interim CEO, Mr Soiron received CHF 93 495 in cash as base pay and he will receive in March 2013 a STIP cash payment of CHF 81 204 and a number of shares equal to the value of CHF 40 602. The compensation for this temporary dual mandate was approved by the Nomination and Compensation Committee in order to achieve alignment of the total pay for this role with the approximate base salary and STIP compensation of the Group CEO.

Loans No loans were granted to current or former members of the Board of Directors during 2012 (2011: ditto). No such loans were outstanding as of 31 December 2012. During 2012 no payments (or waiver of claims) were made to former Board members or to persons closely linked to them. Regarding conflicts of interest, note that no member of the Board of Directors benefits materially from any contract between a Lonza company and a third party.

Development of compensation

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.

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

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

[1] Excluding social security and withholding tax

Compensation of the Management Committee

Method of determining compensation and the shareholding programs The overall structure of compensation for the Management Committee remained largely unchanged in 2012. In 2011 the Board of Directors decided to review the structure and the total compensation package of the Senior Management (including the members of the Management Committee) in a more detailed way. This analysis was conducted by a specialized external consultant (Kepler Associates in March 2011) on the basis of previous benchmarking conducted in 2006 (see above). For the Management Committee, Kepler Associates benchmarked the compensation 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 industry). This survey showed that the remuneration of the members of the Management Committee is between the median and lower quartile (50th percentile and 25th percentile of the benchmark). As a consequence, the Nomination and Compensation Committee decided to readjust successively the compensation plans for the Management Committee. In a first step, an extension of the Short-Term Incentive Plan (E-STIP) was implemented. Based on these compensation benchmarks, the data were aligned in 2012 in accordance with the average compensation increase of the industry. In order to estimate this alignment for 2012, two benchmark providers were used to draw the comparison. These two benchmark providers have further consulting mandates within the Human Resources department.

Base salary targets levels around the average for the market as described above, with the potential for executives to earn above-median compensation through a combination of attractive short- and long-term incentive programs, but only if the Group outperforms its financial targets. These incentive plans are designed to align the Management Committee's objectives with the interests of our shareholders. The total compensation (base salary, variable elements and fringe benefits) of the members of the Management Committee is benchmarked annually against the relevant industry[3].

Overview of Management Committee compensation In 2012 there were 10 members (2011: 7 members) of the Management Committee, though not all were members for the full calendar year. The average number of Management Committee members during the year was 8.1 full-time equivalents (2011: 6.1 full-time equivalents).

At the end of January 2012, Stefan Borgas' employment relationship as CEO was terminated. Until the end of April, Rolf Soiron, the Chairman of the Board of Directors took over this role on

[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, GlacoSmithKline, BASF, AstraZeneca, 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] See footnotes 1 and 2 above

an interim basis and Richard Ridinger was appointed as new CEO with effect from 1 May 2012. The compensation for the dual mandate of Mr Soiron as Chairman of the Board of Directors and ad interim CEO for three months is included in the Board of Directors compensation table above.

The members of the Management Committee receive an annual base salary in cash. In addition, they are eligible for an annual incentive, the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan for Senior Management and Key Employees (LTIP). These plans set certain performance targets. A formula that takes into account the achievement level determines how much is paid out, without further discretion by the Board. The mechanics of these plans, as well as the targets and their levels, are discussed further below. All equity-based pay is performance-related.

Management Committee's compensation [1] million CHF	2012	2011
Base salary	4.286	3.197
Incentive [2]	2.229	0.942
Post-employment benefits [3]	0.418	0.374
Other benefits [4]	0.989	0.814
Termination benefits in cash [5]	3.306	0.113
Share-based payments		
Accelerated vesting of LTIP shares due to termination (47 789 shares) [6]	1.673	
Value of E-STIP restricted share units (number of shares will be determined in March 2013)	0.530	0.421
Value of conditional LTIP shares [7] (number of shares 2012: 96 427; 2011: 73 107)	1.797	2.583
Total	**15.228**	**8.444**
Ratio of fixed compensation to the performance-related components of compensation (without termination payment)	**125.0%**	**111.1%**

The reasons for the increase in base salary and incentive payments of the Management Committee are the higher number of members (8.1 in 2012 compared with 6.1 in 2011) and the substantially reduced STIP payment to the former CEO Stefan Borgas in 2011.

1 2011: 7 members; 2012: 10 members, former CEO and one Management Committee member until leaving date included. The employment of the former CEO was terminated in January 2012, with effect from 31 May 2012. Until the end of May he received his base salary and STIP at target (pro rata temporis) and other contractual benefits. In May 2012, in addition he also received his termination payments.
2 Incentive (STIP) of the reporting year, paid in March of the following year
3 Social security and pension fund
4 Company car, health insurance and tuition. The table shows the fair value of these benefits.
5 This table discloses the actual amounts paid for the years 2011 and 2012. The termination agreements are discussed in the text.
6 Value at market price in May 2012, fair value according to IFRS 2: see note 32, page 153, footnote 5.
7 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012 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).

The acting members of the Management Committee received, for their contributions and time served in 2012, CHF 7.922 million[1] (2011: CHF 5.327 million[1]) in cash and additional benefits, 96 427 conditional LTIP shares (2011: 73 107 shares) and a number of restricted share units (the exact number will be determined in March 2013), equivalent to a value of CHF 2.326 million (2011: CHF 3.004 million). The restricted share units of the E-STIP and the conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 125.0 % (2011: 111.1 %). Termination payments and the LTIP shares which vested according to the termination agreements are not included in the ratio (see below).

Highest compensation The highest compensation of a member of the Management Committee in 2012 was paid to Stefan Borgas, the former CEO. Mr. Borgas received for his service until the end of May 2012 CHF 745 057 paid in cash, STIP and additional benefits and post-employment benefits. The details concerning his termination payments are described below.

Compensation of the highest-paid individual (Stefan Borgas) million CHF	2012	2011
Base salary	0.395	0.917
Incentive[2]	0.276	0.100
Post-employment benefits[3]	0.038	0.113
Other benefits[4]	0.036	0.153
Termination benefits in cash[5]	3.306	0.0
Share-based payments		
Accelerated vesting of LTIP shares due to termination (47 789)[6]	1.673	0.0
Value of conditional LTIP shares (2011: 24 220)[7]	0.0	0.901
Total	**5.724**	**2.184**
Ratio of fixed compensation to the performance-related components of compensation	**n.a.**	**118.3 %**

The second highest compensation of a member of the Management Committee in 2012 was CHF 1 118 201 paid in cash, incentive and additional benefits and 16 146 conditional LTIP shares based on performance in 2012, equivalent to a fair value of CHF 300 820.

1 Including post-employment benefits and incentive paid in March of the following year
2 Incentive (STIP) of the reporting year. The 2011 STIP was paid in March 2012. The 2012 STIP was paid together with the other termination payments in 2012.
3 Social security and pension fund
4 Company car, health insurance and tuition. The table shows the fair value of these benefits.
5 This table discloses the actual amounts paid for the years 2011 and 2012. The termination agreements are discussed in the text.
6 Value at market price in May 2012, fair value according to IFRS 2: see note 32, page 153, footnote 5.
7 The fair values were calculated using the fair value at grant date according to IFRS 2, see note 24 in the Lonza Financial Report 2012 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).

The conditional shares of the LTIP have a three-year vesting period. The vesting of the LTIP shares is linked to performance conditions and the value at maturity will be higher, lower or even zero. The ratio of fixed compensation to the performance-related components of compensation was 95.5 %.

Compensation paid to departing members In 2012 two members left the Management Committee. As already indicated in the Annual Report 2011, the former CEO[1] received CHF 3.306 million paid in cash and the 47 789 conditional LTIP shares that vested on an accelerated basis on 31 May 2012. The LTIP grant was part of the compensation for the years 2010 to 2011 and has been disclosed as Management Committee compensation in line with Lonza's policy. The market value of these 47 789 LTIP shares was CHF 1 672 615[2].

The employment contract of a second departing member of the Management Committee was terminated in 2012 and the compensation received by that member in 2012 is included in the lines "Base salary", "Incentive", "Post-employment benefits" and "Other benefits" of the table above. A final termination agreement has not yet been agreed on.

In 2012 a termination payment was made to a former member of the Management Committee, who left in 2010, equivalent to a value of CHF 0.021 million (2011: CHF 0.113 million). This amount was contained in the 2010 personnel expenses.

Compensation in Case of Employment Termination

Notice periods Members of the Management 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 Management Committee appointed in 2012 are entitled to a notice period of 12 months, which can however be extended in case of change of control, except one member who has a fixed-term agreement with a notice period of 3 months. For details on the notice period in case of change of control, please refer to paragraph "Change of Control" below.

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

1 The employment agreement of Stefan Borgas was terminated in January 2012, with effect from 31 May 2012. Until then, Stefan Borgas received his base salary and STIP at target (pro rata temporis) and other contractual benefits. In addition, he was paid termination equal to two years' base salary, STIP at target and an outplacement contribution of CHF 50 000. His STIP for 2011 was set at CHF 100 000 and he kept the shares that were granted to him under the company's Long-Term Incentive plan for 2010 and 2011, as well as ESPP shares (no bonus shares).

2 The fair value according to IFRS 2 was CHF 2 687 833 of which CHF 900 950 and CHF 891 380 disclosed in 2011 and 2010 respectively. See also page 153, footnote 5.

Share-based incentives (i) For the members of the Management Committee appointed before 2012, the rules are as follows. In case of termination by the company without cause, for any LTIP grants made as of 2012, the service condition is waived pro rata temporis based on the actual vesting period: 1/3 in case of termination after one year, 2/3 for termination after two years, 3/3 for termination after three years. The share entitlements remain subject to any performance conditions, and shares, if any, are delivered only three years from grant. In case of termination by the Company without cause, for LTIP grants made before 2012 and any E-STIP grants, the Nomination and Compensation Committee may decide either to keep intact or forfeit such share entitlements. If the Nomination and Compensation Committee decides to keep intact the share entitlement, the shares will vest according to the plan rules of the applicable year. (ii) For two new members of the Management Committee, the specific rules are that, in the event that the end of the termination period occurs before the end of one of the incentive plan periods, the share entitlements due to these executives will be paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board or Nomination Committee, as applicable, be deemed to have been reached with respect to such a period. (iii) For another new member of the Management Committee, if the relevant executive terminates its employment with the company otherwise than for cause, or if the company terminate the employment of the relevant executive other than following change of control, all the unvested shares 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 entitlements are paid on a pro-rata basis under the condition that the relevant performance targets can, in the reasonable assessment of the Board or Nomination Committee, as applicable, be deemed to have been reached with respect to the relevant period.

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

In case of voluntary termination of employment by the members of the Management Committee, for LTIP grants made before 2012 it is in the sole discretion of the Nomination and Compensation Committee to waive the forfeiture of the share entitlements in full or in part. In case of voluntary termination of employment as of 2012, for LTIP grants made any time before the vesting, the forfeiture shall be waived pro rata to the vesting period: 1/3 for termination after one year, 2/3 for termination after two years, 3/3 for termination after three years. The share entitlements remain subject to any performance conditions, and shares, if any, are delivered only three years from grant. In 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.

Change of control The applicable notice periods are in principle extended to 18 months if the company terminates the employment of a member of the Management Committee following a change of control (with the exception of one Management Committee member with a fixed-term employment agreement). In such a case all shares attributed to the relevant member of the Management Committee as part of the E-STIP, LTIP and ESPP vest immediately, which also implies the release from the performance conditions. In addition, certain members of the Management Committee may be entitled to receive, under certain conditions: a cash amount equal to 100 % of the STIP compensation during the notice period; a cash amount equal to 100 % of the LTIP compensation during the notice period; and outplacement support up to an amount of CHF 50 000. Except in one case, the applicable notice period is also extended to 18 months if the relevant member of the Management Committee resigns for good reasons (such as reduction of remuneration or demotion) following a change of control. For this member the shares will vest automatically at the end of the termination period.

Loans In 2011, the CEO, Stefan Borgas, was granted a loan of CHF 1 730 000 in total. The interest rate was set according to market conditions at the time of granting and repayment is set upon termination of employment. The payment was in March 2011 and in early 2012. This loan was fully offset against payments due to Mr. Borgas according to the termination agreement. In 2012 the current and former members of the Management Committee did not receive any credits or loans.

After Closing Event

The employment agreement of one member of the Management Committee was terminated on 1 February 2013. The general termination terms are comprehensively described on pages 187 and 188. On the same date two other members left the Management Committee. These two former members of the Management Committee still have a full-time employment agreement with the company, but no longer have Management Committee responsibilities.

Details of Management Committee Compensation

This subsection describes the workings of the Short-Term Incentive Plan (STIP), the Extended Short-Term Incentive Plan (E-STIP) and the Long-Term Incentive Plan (LTIP).

Short-Term Incentive Plan (STIP) In 2005, the Board of Directors of Lonza Group Ltd implemented the current Short-Term Incentive Plan (STIP) for the majority of the Group's employees, including the Management Committee. This program provides the potential for an annual incentive based on the performance and job category of the individual, and the financial performance of their business sector and / or the Group. The targeted incentive amount is stated as a percentage of the base salary and varies by level up to a maximum of 50 %. In this plan, every individual is assigned specific yearly financial and personal goals in writing. The weight of the financial goals (which are measured at the Group and Sector levels) increases with the level of the employee, up to 80 % of the total potential incentive. The personal goals are generally linked to strategic projects that Lonza must deliver in the year in order to build its growth for the future. Each goal is assessed for achievement at the end of the year. The assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.5 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is, therefore, capped at 2.3 (= 80 % × 2.5 + 20 % × 1.5) times the potential incentive amount. About 90 % of our employees participated in one of our short-term plans, either in STIP or in a local bonus program. For the members of the Management Committee the assessment varies between a rating of "not achieved" (with a factor of zero) to a rating of "over-achieved" (with a maximum factor of 2.0 for financial goals and 1.5 for individual goals). The maximum annual total incentive level is, therefore, capped at 1.9 (= 80 % × 2.0 + 20 % × 1.5) times the potential incentive amount. The incentive is paid in cash during the first half of the following year.

For members of the Management Committee, the STIP puts a weight of at least 80 % on the financial target of Economic Value Added (EVA) of the Group. The goals are set on a yearly basis. The individual targets of the members of the Management Committee are also aligned with the strategic targets and the overall success of the company. For the new CEO and one new member of the Management Committee, only the Group financial target is relevant for 2012. For the members of the Management Committee, the overall STIP amount is targeted as a percentage of base salary ranging from 40 % to 50 %, and the overall payout depends on the achievement of the goals against the targets. The incentive is paid in cash. The average actual target attainment for the Management Committee led to a payout factor of 104.0 % (2011: 72.9 %). In 2013 the STIP concept will change and will then comprise only financial targets such as EBIT and RONOA (return on net operating assets).

Extended Short-Term Incentive Plan (E-STIP) Based on the benchmark analysis for 2011 and recognizing the need to establish even more long-term orientation of the incentive system as well as the aim of increasing the retention power of the compensation system, the Board of Directors of Lonza Group Ltd implemented in 2011 an Extended Short-Term Incentive Plan (E-STIP) for senior managers, including the Management Committee members. The E-STIP is part of the overall STIP concept: ⅔ of the STIP is paid out in cash and ⅓ in restricted share unit entitlements (E-STIP). The value of the plan is strongly dependent on Lonza's share price development in the future (see on page 191). Specifically, first, an amount equal to the half cash amount of the STIP 2011 and 2012 (which depends on financial and individual goals as described above) is awarded to each Management Committee member in the form of restricted share unit entitlements. Second, these restricted share units are subject to a three-year vesting condition. The grant of the restricted share units under the E-STIP 2012 will take place on 31 March 2013 (E-STIP 2011 on 31 March 2012), at which date the number of restricted share units will be determined based on the closing stock price of that date. During the three-year vesting period, these restricted share units do not qualify for dividends and voting rights and no dispositions are allowed.

Non-vested share units	Grant date	Share price	Granted share units	Vesting date
E-STIP 2011	31.03.2012	46.66	33 205	31 03 2015

Development within the year 2012 of extended short term incentive plan 2011	Share units outstanding 01 01 2012	Share units granted during 2012	Share units forfeited during 2012	Shares 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 restricted share units granted in 2012 was CHF 46.66. The outstanding share units at 31 December 2012 had a weighted average share price of CHF 46.66 and a remaining weighted average contractual life of 27 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 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

A total of 113 845 treasury shares (2011: 161 634) with a par value of CHF 1 each are reserved for the long-term incentive and other share plans.

Long-Term Incentive Plan (LTIP) In 2009, 2010, 2011 and 2012, the Board of Directors of Lonza Group Ltd implemented a Long-Term Incentive Plan (LTIP) for a selected segment of the Group's employees. The LTIP is a stock bonus plan, replacing the former option plans. The LTIP has been designed to align the interests of key employees with those of Lonza's shareholders, to promote a team-based performance culture throughout the organization, and to align remuneration with the creation of shareholder value. The general idea of the LTIP is that selected key employees are awarded the right to receive a number of registered shares of Lonza in the future, provided that certain service- and performance-related conditions are achieved. Depending on the level of the job category, the entitlement is between 10 % and 150 % of the annual base salary. For the current CEO, the entitlement is 125 % based on the full share value, for Management Committee members it varies between 100 % and 150 %. The maximum number of shares to be granted is capped at the start of the plan. Under no condition can the incentive exceed the set percentage, even if the performance exceeds the set targets. Individual investment in Lonza shares is a mandatory prerequisite for participation in the plan.

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

The vesting of up to 50 % of the awarded share entitlement is based on the total shareholder return (TSR[1]) achieved during Lonza's three fiscal years before the end of the vesting period compared with a peer group consisting of MSCI Chemicals, DSM, UCB, Crucell, Genentech/Roche, BMS, MSCI Healthcare, Rhodia, Cambrex, Dr Reddy's, Biocon, Nicholas Piramal, Clariant, Sigma Aldrich, Invitrogen, Millipore, and Thermo Fisher Scientific for the share entitlements granted under the LTIP 2009 and 2010. For the share entitlements granted under the LTIP 2011, the peer group was adapted to the new stock index classification and now consists of MSCI Chemicals, MSCI Health, and SPI and remained unchanged in 2012. The TSR target is fully reached in the event that Lonza outperforms the average of the peer group on an annualized basis by 9 % (LTIP 2009, 2010: 5 %) on average over three years. At this TSR level, all shares vest. Higher TSR than this threshold does not lead to higher payouts. If the TSR target is not fully reached, the percentage of the vested shares from the share entitlement will be reduced linearly, down to the minimum target of TSR relative to the peer group. The minimum target is to achieve the same annualized TSR development as the index of the peer group. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

From 2010 onwards, the vesting of up to 50 % of the remaining awarded share entitlement is based on the average annual Group Economic Value Added (EVA[2]) growth achieved during Lonza's three fiscal years before the end of the vesting period. The EVA target for share entitlements awarded 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 share entitlements awarded 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 vested shares from the share entitlement will be reduced linearly,

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

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

down to the minimum target of EVA. The minimum target is to hold EVA at the level of the beginning of the fixed period. If this minimum target is met, then 25 % of the shares will vest. If the minimum target is not met, no shares in this section will vest.

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

For the LTIP 2009 no payout was made in January 2012 and for the LTIP 2010 no payout will be made in January 2013.

The following table shows historical data on vesting conditions for LTIP share awards in the years 2009 to 2012, information used in calculating the fair value of the LTIP grants, and the number of shares vesting following the target attainment in the respective year.

Details of long-term incentive plans	Grant date	Share price CHF	Granted share awards	TSR	EPS growth / EVA level targets	Vesting date
LTIP 2009	01 02 2009	106.10	121 356	5 %	50 %	31 01 2012
LTIP 2010	01 02 2010	75.65	147 711	5 %	137.0 mn	31 01 2013
LTIP 2011	01 02 2011	74.35	152 077	9 %	114.4 mn	31 01 2014
LTIP 2012	01 02 2012	49.69	267 031	9 %	79.7 mn	31 01 2015

Conditions of vesting 2012	Minimum	Maximum	Target	Probability
TSR	25 %	100 %	9 %	50.00 %
EVA	25 %	100 %	79.7 mn	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 mn	50.00 %
Turnover of employees				3.00 %

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

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

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Fair value of share awards at grant date CHF	Expected vesting EPS	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2009	106.10	121 356	50 %	6 437 936	45.40 %	100 %	3 %	44.04 %	2 835 138

Vesting conditions	Market price CHF	Granted share awards	Fair value TSR	Expected vesting EVA	Fair value of share awards at grant date CHF	Probability minimum targets	Volatility employees	Total probability	Total cost at grant date CHF
LTIP 2010 TSR	75.65	73 855	50 %		2 793 565	100 %	n.a.	100.00 %	2 793 565
LTIP 2010 EVA	75.65	73 856		50 %	2 793 603	100 %	0 %	100.00 %	2 793 603
LTIP 2011 TSR	74.35	76 038	50 %		2 826 713	100 %	3 %	97 %	2 741 911
LTIP 2011 EVA	74.35	76 039		50 %	2 826 750	100 %	3 %	97 %	2 741 947
LTIP 2012 TSR	49.69	133 515	50 %		3 317 180	100 %	3 %	97 %	3 217 665
LTIP 2012 EVA	49.69	133 516		25 %	1 658 603	100 %	3 %	97 %	1 608 844

Development of long-term incentive plan 2012	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
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 shares	**421 144**	**267 031**	**0**	**(47 789)**	**(121 356)**	**519 030**

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

The estimated fair value of the share awards granted in 2012 was CHF 18.63 (2011: CHF 37.18). The weighted average share price of the vested shares in 2012 was CHF 74.99. No share awards vested in 2011. The outstanding share awards at 31 December 2012 had a weighted average share price of CHF 27.79 (2011: CHF 41.98) and a remaining weighted average contractual life of 16 months (2011: 15 months).

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

In January 2010, the Nomination and Compensation Committee reviewed the interpretation of the conditions for minimum vesting under the LTIP 2007, 2008 and 2009. It was not stated precisely that both the minimum targets for the TSR section of the LTIP and the EPS section of the LTIP needed to be met for any vesting at all to occur in either of the two sections of the LTIP. The Nomination and Compensation Committee clarified that attainment of the minimum target in one of the two sections was sufficient for vesting to begin in the respective section, irrespective of target attainment in the other section. That is, the two sections based on TSR and EPS target are independent.

Fair value at grant date	CHF
LTIP 2009	6 437 936
LTIP 2010	5 587 168
LTIP 2011	5 653 463
LTIP 2012	4 975 783

Share Ownership for the Board of Directors and Management Committee

Based on information available to Lonza Group Ltd, the members of the Board of Directors and parties closely associated with them[1] held, as of 31 December 2012 a total of 152 769 (2011: 112 574) registered shares in Lonza Group Ltd and controlled 0.29 % (2011: 0.21 %) of the share capital. None of the directors owns shares in the Group's subsidiaries or associates.

The members of the Management Committee and parties closely associated with them[1] held 54 327 (2011: 71 950) shares and controlled 0.10 % (2011: 0.13 %) 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 Management Committee as of 31 December:

Board of Directors Lonza shares (numbers)	2012	2011
Rolf Soiron	58 165	36 339
Richard Sykes	28 005	22 240
Patrick Aebischer	13 548	8 609
Jean-Daniel Gerber	6 202	2 031
Julia Higgins		12 726
Gerhard Mayr	19 793	14 655
Jörg Reinhardt	3 232	
Margot Scheltema	2 586	
Peter Wilden	21 265	15 974

Management Committee Lonza shares (numbers)	2012	2011
Richard Ridinger	14 000	
Uwe Böhlke	5 417	5 084
Stefan Borgas		35 402
Harry Boot		123
Marc Funk	1 627	
Toralf Haag	11 456	11 213
Beat In-Albon		
Stephan Kutzer	10 000	10 000
Jeanne Thoma	5 457	4 091
Lukas Utiger	6 370	6 037

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

Employee Share Purchase Plan (ESPP)

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

The minimum conditions to participate in the ESPP Plus were in:
2007: ranging from 6 shares to 195 shares
2008: ranging from 3 shares to 162 shares
2010: ranging from 6 shares to 177 shares
2011: ranging from 6 shares to 198 shares
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 team work and personal commitment.

Details of share purchase plans	Purchased	Ratio	Granted share awards	Plan expiry date	Price at grant date CHF
ESPP 2007	52 293	3:1	17 431	15 05 2012	120.29
ESPP 2008	51 000	3:1	17 000	15 05 2013	138.54
ESPP 2010	71 865	3:1	23 955	30 05 2015	76.81
ESPP 2011	74 526	3:1	24 842	30 05 2016	75.76
ESPP 2012	200 802	3:1	66 934	30 05 2017	38.34

Development of share purchase plans 2012	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**

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

The estimated fair value of the share awards granted in 2012 was CHF 30.67 (2011: CHF 60.61). The weighted average share price of the vested shares in 2012 was CHF 120.32 (2011: CHF 88.01). The outstanding share awards at 31 December 2012 had a weighted average share price of CHF 64.23 (2011: CHF 97.10) and a remaining weighted average contractual life of 41 months (2011: 33 months).

The fair values were calculated using the market price at grant date. The discount on the purchase price of shares is expensed at the moment the employees acquire Lonza shares. The fair value of the free shares is expensed on a straight-line basis over the vesting period, based on estimates of shares that will eventually vest. The expected volatility was 20 % in 2012 (2011: 20 %). The expected dividend was not incorporated in the calculation of fair value.

Fair value at grant date	CHF
ESPP 2007	1 467 742
ESPP 2007 discount	1 887 097
ESPP 2008	1 648 626
ESPP 2008 discount	2 119 662
ESPP 2010	1 471 987
ESPP 2010 discount	1 655 985
ESPP 2011	1 505 624
ESPP 2011 discount	1 693 827
ESPP 2012	2 053 000
ESPP 2012 discount	2 309 625

A total of 104 764 treasury shares with a par value of CHF 1 each (31 December 2011: 66 509 shares) is reserved for the share purchase plans.

Corporate Governance

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 company, 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 Company's Articles of Association[1] and the Regulations Governing Internal Organization and Board Committees, including their Charters[2]. The Board of Directors reviews these principles and rules regularly in the light of prevailing best practices, such as the "Swiss Code of Best Practice for Corporate Governance" issued by the Swiss Business Federation. In addition, Lonza Group Ltd has issued a Code of Conduct[3] to define the professional standards it aspires to in all its activities and the standards to be expected of its employees.

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 active pharmaceutical ingredients, both chemically and biotechnologically. Biopharmaceuticals are one of the key growth drivers of the pharmaceutical and biotechnology industries. Lonza has strong capabilities in large and small molecules, peptides, amino acids and niche bioproducts which play an important role in the development of novel medicines and healthcare products. Lonza is also the world leader in microbial control providing innovative, chemistry-based and related solutions to destroy or selectively inhibit the growth of harmful microorganisms. Its activities encompass the areas of water treatment, personal care, health and hygiene, industrial preservation, materials protection, and wood treatment. In addition, Lonza is a leader in cell-based research, endotoxin detection and cell therapy manufacturing. Furthermore, the company is a leading provider of value-added chemical and biotech ingredients to the nutrition and agro markets.

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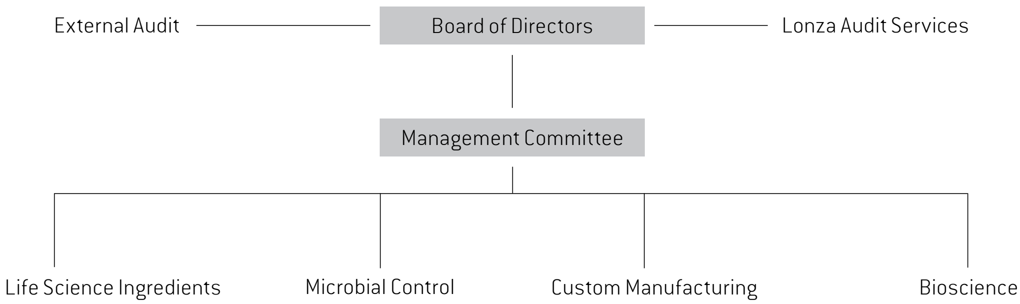
[1] www.lonza.com/articles-of-association
[2] www.lonza.com/bylaws
[3] www.lonza.com/code-of-conduct

Organizational Structure



Lonza is headquartered in Basel, Switzerland. Its activities are organized in four divisions. The divisions function as profit centers and bear full responsibility for their respective business activities:

Life Science Ingredients Our Life Science Ingredients division offers a wide range of products for applications in nutrition as well as high performance materials. Some of Lonza's nutritional ingredients promote improved health while our complex chemical intermediates support the agricultural industry (for more details, see pages 62 f. above).

Microbial Control Our Microbial Control division provides solutions for healthy homes and workplaces. This division of Lonza is focused in five key areas: hygiene, wood protection, water treatment, oil/gas applications, and industrial preservation. Our products range from disinfectants and sanitizers to household cleaning products (for more details, see pages 56 ff. above).

Custom Manufacturing Our Custom Manufacturing division offers a wide range of development technologies for complete customization of your product at the early stages of your clinical pipeline. We make critical ingredients that are used in pharmaceuticals for treating patients with cardiovascular diseases, cancer, neurological, as well as infectious diseases. Our capabilities include both small and large molecules resulting from chemical synthesis, peptide synthesis, biotransformation, microbial fermentation, and mammalian cell culture (for more details, see pages 60 f. above).

Bioscience Our Bioscience division creates tools that life science customers can use to discover, develop, and test therapeutics. We offer a variety of bioscience products, including cell culture and molecular biology tools for research, tests for microbial detection, and media used in the production of therapeutics (for more details, see pages 64 f. above).

Impact of acquisition of Arch Chemicals, Inc. on group structure In 2011, Lonza acquired Arch Chemicals, Inc. and integrated it in a dedicated Microbial Control division, thereby creating the world's leading microbial control business.

New organizational structure as of February 2013 On 4 February 2013, Lonza Group Ltd announced that the divisions Custom Manufacturing and Bioscience will be regrouped into one new Pharma Market Segments Group. In addition, the divisions Microbial Control and Life Science Ingredients will be regrouped in a new Specialty Ingredients Market Segments Group.

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 207 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 88 and 89 of the Lonza Financial Report 2012.

1.2 Principal Shareholders

Pursuant to the information provided to the Company by its shareholders during 2012 in compliance with the Swiss Stock Exchange Act, the following significant shareholders held more than 3 % of the share capital as of 31 December 2012:

Principal Shareholders Number of shares at CHF 1 par value	31 12 2012	%	31 12 2011	%
Manning & Napier Advisors, Inc., Fairport (USA)	5 282 537	9.98	7 006 770	13.24
Franklin Resources, Inc., Fort Lauderdale (USA)	3 688 511	6.97	5 267 936	9.95
Harding Loevener LP, Bridgewater (USA)[1]	2 658 885	5.02	n.a.	n.a.
BlackRock, Inc., New York (USA)	1 620 468	3.06	1 588 649	3.00

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 2012. To the best knowledge of Lonza Group Ltd, the above-mentioned shareholders are not linked by any shareholders' agreement or similar arrangement with respect to their shareholdings in Lonza Group Ltd or the exercise of shareholders' rights. The Company's 2012 reports in accordance with Art. 20 SESTA (Federal Act on Stock Exchange and Securities Trading) are published on the SIX Swiss Exchange Ltd disclosure platform[2] and on the Company's website[3].

1.3 Cross-shareholdings

Lonza Group Ltd has not entered into any cross-shareholdings.

1 Harding Loevener LP is controlled by Affiliated Managers Group, Inc., Pridges Grossing (USA).
2 www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.html
3 www.lonza.com/major-shareholders-and-changes-in-disclosed-shareholdings

2 Capital Structure

2.1 Share Capital

The share capital of Lonza Group Ltd as of 31 December 2012 was CHF 52 920 140, fully paid-in and divided into 52 920 140 registered shares with a par value of CHF 1 each.

Shareholder Structure	[1] 2012 Shareholders %	[1] 2012 Shares %	[1] 2011 Shareholders %	[1] 2011 Shares %
Switzerland	89.32	27.89	90.77	26.64
United Kingdom	0.90	28.29	0.77	29.36
USA	3.08	6.57	2.07	7.94
Others	6.70	3.40	5.96	3.12
Shares in transit		31.95		30.43
Treasury shares without voting rights	0.01	1.90	0.01	2.47
Total	**100.00**	**100.00**	**100.00**	**100.00**
Total number of shares		52 920 140		52 920 140

Share Register	[1] 2012	[1] 2011
Registered shareholders	18 437	18 328
Registered shares	35 940 855	36 815 534
Share distribution:		
1 – 100	6 412	6 756
101 – 1 000	10 344	10 100
1 001 – 50 000	1 623	1 418
50 001 – 100 000	27	27
100 001 – 1 000 000	27	21
over 1 000 000	4	6
Total registered shareholders	18 437	18 238

2.2 Authorized and Conditional Capital

Authorized capital The Board of Directors is authorized to increase, at any time until 13 April 2013, the share capital of Lonza Group Ltd through the issuance of a maximum of 5 000 000 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 5 000 000. This authorized capital was created by the Annual General Meetings held on 12 April 2011. 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[2].

[1] As of 31 December

[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 4bis of the Company's Articles of Association [1].

According to Article 4^{quater} 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.

2.3 Changes in Capital

2.3.1 Share Capital

There was no change in the share capital in the last three financial years.

	[2] 2012	[2] 2011	[2] 2010
Share capital in CHF	52 920 140	52 920 140	52 920 140
Registered shares	52 920 140	52 920 140	52 920 140
Par value in CHF / share	1	1	1

2.3.2 Changes in Lonza Group Ltd Capital and Reserves

CHF	Financial year 2012	Financial year 2011	Financial year 2010
Share capital	52 920 140	52 920 140	52 920 140
General legal reserve	26 460 070	26 460 070	25 225 000
Reserve from capital contribution	728 720 453	839 727 980	202 551 480
Reserve for own shares	84 490 970	110 550 603	44 491 517
Available earnings brought forward	906 501 127	783 334 935	1 524 326 393
Total capital and reserves	1 799 092 760	1 812 993 728	1 849 514 530
Net income for the year	168 340 198	97 106 559	74 229 225

[1] www.lonza.com/articles-of-association

[2] 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 (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 2012, Lonza had a market capitalization of CHF 2 612 million (2011: CHF 2 937 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 Company's Articles of Association[1]. This restriction may only be removed by a resolution of the Shareholders' Meeting with a quorum in accordance with Swiss law.

2.7 **Convertible Bonds and Options**

Convertible Bonds Neither Lonza Group Ltd nor any of its subsidiaries have outstanding convertible bonds.

Options The members of the Board of Directors and of the Management Committee no longer have any rights to outstanding options. As a result, neither Lonza Group Ltd nor any companies of the Lonza Group have issued options or warrants on the shares of Lonza Group Ltd.

[1] www.lonza.com/articles-of-association

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors is made up of non-executive members[1] and comprises three Swiss and five non-Swiss 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 Innovation and Technology Committee	2005	2013
Sir Richard Sykes	British	1942	Vice-Chairman of the Board of Directors and Chairman of the Nomination and Compensation Committee	2003	2013
Patrick Aebischer	Swiss	1954	Member of the Board of Directors and Chairman of the Innovation and Technology Committee	2008	2013
Jean-Daniel Gerber	Swiss	1946	Member of the Board of Directors	2011	2013
Gerhard Mayr	Austrian	1946	Member of the Board of Directors and Member of the Audit and Compliance Committee	2006	2013
Jörg Reinhardt	German	1956	Member of the Board of Directors and Member of the Nomination and Compensation Committee	2012	2013
Margot Scheltema	Dutch	1954	Member of the Board of Directors and Member of the Audit and Compliance Committee	2012	2013
Peter Wilden	German	1957	Member of the Board of Directors and Chairman of the Audit and Compliance Committee	2004	2013

[1] From the end of January 2012 to the end of April 2012, Rolf Soiron acted as ad interim CEO.

Rolf Soiron

Rolf Soiron Holds a PhD in history from the University of Basel and a PMD from the Harvard Business School.

Chairman of the Board of Directors of Lonza Group Ltd, Basel (since April 2005)

Current activities and functions:
- Member of the Council of the Foundation of the Graduate Institute of International and Development Studies, Geneva (since 2010)
- Member of the Council of the International Committee of the Red Cross, Geneva (since 2010) and Member of the International Committee of the Red Cross, Geneva (since 2009)
- Chairman of the Foundation Council of Avenir Suisse (since 2009)
- Member of the Board of economiesuisse (since 2009)
- Chairman of the Board of Directors of Holcim Ltd, Jona (since 2003) and member of the Board (since 1994)
- Member of the Board of Directors of Jungbunzlauer Group, Basel (since 1993)

Former activities and functions:
- CEO ad interim of Lonza Group Ltd, Basel (January 2012– April 2012)
- Chairman of the Board of Directors of Nobel Biocare Holding Ltd, Zurich (2003–2010)
- Chairman of the Basel University Council (1995–2005)
- Managing Director of Jungbunzlauer Group, Basel (2001–2003)
- CEO of Jungbunzlauer Group, Basel (1993–2001)
- Sandoz Group–COO and Head of Pharma in Basel (1992–1993), Group Vice-President Agribusiness USA in New York (1988–1992)
- Protek Group (orthopedic implants) President and CEO in Berne (1983–1987)
- Sandoz Group–various functions in Human Resources, Finance and Corporate in Basel (1972–1983)

Sir Richard Sykes

Sir Richard Sykes holds a number of degrees and awards from Institutions both in the UK and overseas. He is a Fellow of the Royal Society and Academy of Medical Sciences, and an Honorary Fellow of the Royal Academy of Engineering, Royal Society of Chemistry, Royal Pharmaceutical Society, Royal College of Pathologists and the Royal College of Physicians. He is also President of the R and D Society, a position he has held since 2002. He is president of the Institute for Employment Studies (IES) and President of the Medical and Dental Students' Association. He is a Fellow of Imperial College London and the Imperial College School of Medicine, King's College London and Honorary Fellow of the Universities of Wales and Central Lancashire. Sir Richard received a Knighthood in the 1994 New Year's Honours list for services to the pharmaceutical industry. He was awarded Honorary Citizenship of Singapore in 2004 for his contribution to the development of the country's biomedical sciences industry. He has over 30 years' experience within the biotechnology and pharmaceutical industries field.

Vice-Chairman of the Board of Directors of Lonza Group Ltd, Basel (since April 2005), Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2003)

Current activities and functions:

- Chairman of Imperial College Healthcare NHS Trust (since 2012)
- Chairman of the Royal Institution of Great Britain (since 2010)
- Chairman of the UK Stem Cell Foundation (since 2004)
- Chairman of CRAC, the Careers and Research Advisory Council (since 2008)
- Chairman of Circassia UK, Oxford, UK (since 2007)
- Chairman of Omnicyte Ltd, London (since 2006)
- Sits on the advisory boards of Siemens Holdings plc and the Virgin Group (since 2010)
- Chairman of the International Advisory Board, A*Star Biomedical Research Council, Singapore (since 2002)
- Board member of EDBI (since 2004)
- Board member of ContrFect (since 2012)

Former activities and functions:

- Senior Independent Director and non-executive Chairman of ENRC plc, London (2007–2011)
- Chairman of NHS London (2008–2010)
- Rector of Imperial College, London from (2000–2008)
- Non-executive director of Rio Tinto plc, London (1997–2007) and senior independent director (2004–2007).
- Chief Executive and Chairman of Glaxo Wellcome plc, London (1995–2000) and then Chairman of GlaxoSmithkline plc, Middlesex, UK (until 2002)

Patrick Aebischer

Patrick Aebischer Holds a doctorate in medicine from the University of Geneva. Has received numerous honors, including the Robert Bing Prize of the Swiss Academy of Medicine and the Pfizer Foundation Prize for Clinical Neurosciences.

Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2008)

Current activities and functions:
- Member of the Board of Directors of Nestlé Health Science SA (since 2011)
- President of the Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Professor of Neurosciences, Swiss Federal Institute of Technology (EPFL), Lausanne (since 2000)
- Fellow of the American Institute for Medical and Biological Engineering (since 2000)
- Fellow of the Swiss Academy of Medical Sciences (since 1998)

Former activities and functions:
- Founder of three biotechnology companies

Jean-Daniel Gerber

Jean-Daniel Gerber Holds a lic. rer. pol in economics from the University of Bern. Awarded an honorary doctorate by the Faculty of Economics and Social Sciences of the University of Bern.

Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2011)

Current activities and functions:
– Member of the Board of Directors of Credit Suisse Group Ltd, Zurich (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)

Gerhard Mayr

Gerhard Mayr Holds a Master's Degree in Chemical Engineering from the Swiss Federal Institute of Technology (ETH), Zurich, and a Master of Business Administration from Stanford University.

Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2006)

Current activities and functions:

- Chairman of the Board of UCB SA, Brussels (since 2012, member since 2005)
- Member of the Board of Almirall S.A. (since 2012)
- Member of the Board of Project Hope, USA (since 2002)
- Member of the Board of the Vienna Science, Research and Technology Foundation (since 2002)

Former activities and functions:

- Member of the Board of Alcon, Inc., Hüneberg (2007–2010)
- Member of the Board of OMV AG, Vienna (2002–2009)
- Member of the Board of Bank Austria AG, Vienna (1998–2006)
- Executive Vice-President, Pharmaceutical Operations, Eli Lilly & Company (1999–2004)
- Member of the US-Egypt President's Council (1999–2004)
- Member of the Board of the European Federation of the Pharmaceutical Industry (1995–1997 and 2000–2002)

Jörg Reinhardt

Jörg Reinhardt Holds a doctorate in pharmaceutical sciences from the Saarland University in Saarbrücken.

Member of the Board of Directors of Lonza Group Ltd, Basel (since April 2012)

Current activities and functions:

- Elected non-executive Chairman of the Board of Directors of Novartis AG, effective as of 1 August 2013
- Chairman of the Board of Management of Bayer HealthCare AG and Chairman of the Bayer HealthCare Executive Committee (since 2010 and until February 2013)
- Member of the Council of the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) (since 2010)

Former activities and functions:

- Chief Operating Officer (COO) of the Novartis group (2008–2010)
- Chairman of the Board of Directors of the Genomics Institute of the Novartis Research Foundation in La Jolla, California (2000–2010)
- Member of the Supervisory Board of MorphoSys AG, Germany (2001–2004)
- Various managerial positions with Sandoz, later Novartis (1996–2008)

Margot Scheltema

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, Basel (since April 2012)

Current activities and functions:

– Member of the Supervisory Board of Warmtebedrijf Rotterdam (since 2011)
– Member of the Supervisory Board of TNT Express (since 2011)
– Vice-Chair of Triodos Bank's Supervisory Board (since 2006)
– Member of the Supervisory Board of ASR NV (since 2008)
– Member of the Supervisory Board of Schiphol NV (since 2010)
– Member of the Supervisory Board of ECN (since 2009)
– External Member of the Audit Committee of the Dutch pension fund ABP (since 2010)

Former activities and functions:

– Member of the AFM External Reporting Committee (2006–October 2012)
– Financial Director of Shell Nederland BV (2004–2008)
– Various managerial positions within the Shell Group (1985–2004)

Peter Wilden

Peter Wilden Holds a degree in business administration and information technology, as well as a PhD in business administration from the University of Kiel.

Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2004)

Current activities and functions:
- Executive Vice-President Finance and Chief Financial Officer of Ferring Pharmaceuticals in St. Prex, Switzerland (since 2000)
- Member of the Board of Directors of Project Hope, USA (since 2012)
- Member of various scientific research organizations in Germany, the United States and the Netherlands

Former activities and functions:
- Member of the Board of Trace Biotech AG, Braunschweig, Germany (1999 – 2002)
- Held various managerial positions in the Ferring Group (1991 – 2000)
- Management consultant for MaK Data System, Kiel, Germany, and the Krupp Group (1988 – 1991)

3.3 **Elections and Terms of Office**

Each member of the Board of Directors is individually elected by the Annual General Meeting for a term of one year. As a general rule re-election is possible with a maximum incumbency of nine years and an age limit of 70. The Board constitutes itself and elects from amongst its members the Chairman, the Vice-Chairman and the Board Committees.

3.4 **Internal Organizational Structure**

In accordance with the law and the Articles of Association[1], the Board of Directors is the supreme management body of the Group. It consists of the Chairman, the Vice-Chairman and the other members. In accordance with the Articles of Association[1], the number of members must be at least three.

The members of the Board of Directors sat on the following committees in 2012:

	Audit and Compliance Committee	Nomination and Compensation Committee	Innovation and Technology Committee
Rolf Soiron			Member
Sir Richard Sykes		Chairman	
Patrick Aebischer			Chairman
Jean-Daniel Gerber			
Gerhard Mayr	Member		
Jörg Reinhardt		Member	
Margot Scheltema	Member		
Peter Wilden	Chairman		

[1] www.lonza.com/articles-of-association

Audit and Compliance Committee The Audit and Compliance Committee meets and consults regularly with the Management Committee, the Lonza Audit Services and the independent auditors to review the scope and results of their work and their performance according to the Audit and Compliance Committee Charter. Internal and external auditors have full and free access to the Audit and Compliance Committee. The Audit and Compliance Committee reviews, inter alia, (i) the external auditors' independence, (ii) the systems of internal control and financial reporting, (iii) the risk management, and (iv) compliance with laws, regulations and policies. The Audit and Compliance Committee also oversees the Lonza Audit Services. The Audit and Compliance Committee is fully empowered to decide the tasks assigned to it and it regularly informs the Board of Directors on all matters discussed and decided in its meetings.

Nomination and Compensation Committee The Nomination and Compensation Committee is entrusted, inter alia, with the review and recommendation of compensation policies and programs (e.g. incentive compensation and equity plans), the Chairman's and the CEO's compensation based on their performance, as well as the compensation of the members of the Management Committee and key executives. This Committee also makes an assessment to ensure that the area of nomination and compensation is in compliance with the standards set forth in the associated charter. Further, the Nomination and Compensation Committee is continuously evaluating potential members for the Board of Directors. With regard to the tasks assigned to it, the Nomination and Compensation Committee regularly informs the Board of Directors on all matters discussed in its meetings and submits proposals for decision by the Board in accordance with the Nomination and Compensation Committee Charter.

Innovation and Technology Committee The main tasks of the Innovation and Technology Committee are to support the LIFT (Lonza Innovation for Future Technology) initiative, to monitor potential technology breakthroughs, to support management in driving innovation projects and to provide and facilitate contacts, e.g. with academia and research institutions. With regard to the tasks assigned to it, the Innovation and Technology Committee regularly informs the Board of Directors on all matters discussed and decided in its meetings.

In 2012, the members of the Board of Directors spent their annual learning day in Visp, Switzerland on the topic of Lonza's main site of Visp.

Attendance and main topics Detailed information on attendance and main topics at Board and Committee meetings in 2012 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	6	6	5	1
Average Duration	6 hours	2.5 hours	2 hours	2 hours
Overall attendance	96 % [1]	97 % [1]	100 % [1]	100 % [2]
Main topics	– CEO performance – Discussion and appointment of the new CEO – Board succession planning – Review of the long-term financing strategy – System review and monitoring of Arch integration – Senior executive appointments and succession planning – Review of the innovation programs – Strategic review of the nutrition business – Review and approval of material internal policies – Risk management – Performance review of previous acquisitions – Visp Challenge – Review of the overall organization of the Group – Review of the Code of Conduct – Review and decision on the 2013 Budget – Board assessment	– Review of the 2011 internal and external Audits – Review of the mid- and long-term financing strategy – Discussion and approval of new refinancing agreements – Review of tax strategy of the Group – Review of the Arch integration, audit succession planning and Visp Challenge – Review 2012 forecast hard-close and 2013 budget	– Overall review of the compensation strategy – Conceptional design of the Short-Term Incentive Plan (STIP), the Long-Term Incentive Plan (LTIP) and the Employee Share Purchase Program (ESPP) – Performance review / review of achievement of short- and mid-term targets – Target setting for upcoming target periods new year – Organization and talent review – Succession plan for management, executives and Board positions	– Lonza innovation review (LIA Audit) – Status update of LIFT initiative: closure and transfer of LIFT initiative – Innovation challenges: review of internal and ITC members perspective – Approval of innovation KPIs – Innovation organization review: discussion re definition of minimal innovation requirements and harmonized portfolio tool – Review of innovation presentation for Board meeting

[1] All physical, except one meeting by phone
[2] One member by phone

3.5 Areas of Responsibility

The Board of Directors is responsible for the tasks assigned to it according to (i) Article 18 of the Company's Articles of Association[1] and (ii) the Regulations Governing Internal Organization and Board Committees[2]. The Board of Directors defines the strategic direction and is responsible for the ultimate management of Lonza as well as the supervision of the persons entrusted with Group management, especially with regard to compliance with the law, the Articles of Association[1], the regulations and the directives, and it is obliged and entitled to issue the necessary instructions. In compliance with the law and the Articles of Association[1] of Lonza Group Ltd, the Board of Directors has – with the exception of non-delegable and inalienable duties – delegated the management of the company to the Management Committee.

Organizational structures and control The Board of Directors continues to commit itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. On an annual basis, the Board undertakes a self-assessment process and also participates in an assessment by the Management Committee. The aim is to achieve continuous improvement in the functioning of the Board. The Regulations Governing Internal Organization and Board Committees[2] set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Management Committee. The standing Board Committees in the areas of audit / compliance, nomination / compensation and innovation / technology provide modern corporate governance guidance and support to the Board of Directors.

Broad supervisory and reviewing powers are held by the Board of Directors, which is directly supported by the Lonza Audit Services. The Regulations Governing Internal Organization and Board Committees[2] confer on the CEO the duty to inform the Management Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. The Board of Directors and its committees meet periodically with the Management Committee business updates and decisions to be taken.

3.6 Information and Control Instruments

Lonza has a system of internal financial and accounting policies, procedures and controls to provide a reasonable assurance, given the inherent limitations of all internal control systems, at appropriate cost, that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded. Lonza Audit Services comprise 9.5 experts who oversee the finance, operational and process activities of the Group with a risk-based audit program. They continually evaluate the adequacy and effectiveness of the system of internal accounting policies, procedures and controls, and take appropriate action to correct deficiencies as they are identified. In 2012, they delivered 77 internal audit reports to the Audit and Compliance Committee.

[1] www.lonza.com/articles-of-association
[2] www.lonza.com/bylaws

In addition to the documents required to pass resolutions, the Board of Directors receives the following reports at its regular meetings:

- Reports on the sales and earnings performance of the company, with the relevant market information in the same period since the beginning of the year, structured by divisions / business sectors, with the main sales areas and key product groups
- Reports on the cash flows, debt and debt-equity ratio, plus other relevant key figures for the Group
- Qualitative assessments of the divisions / business sectors and major subsidiaries
- Audit reports prepared by the internal and external auditors
- Analysis of the shareholder structure
- Annual overview of the Group's key staff benefit schemes, including pension funds
- In cases involving extraordinary events of considerable commercial relevance, the Board of Directors receives direct, immediate information.
- 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.

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 new challenges in the biosimilar industry due to new FDA regulations. For more details on risk management policy, financial risks (credit, liquidity and market risks) and enterprise risks, please refer to financial notes 30.1 to 30.4 on pages 133 to 139 and note 33 on page 157 of the Consolidated Financial Statements.

In addition to the above mentioned control instruments, Lonza has implemented various other measures to improve the compliance within the Group. One of these measures is the issuance of a Code of Conduct[1]. Lonza's Code of Conduct expresses its core principles and values in regard to professional business behavior, and 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, inter alia, with topics addressed by the Code of Conduct, in particular antibribery, insider trading and conflicts of interest. In 2012, Lonza also organized training in competition law on a worldwide basis for all employees considered at risk because of their relationship with customers or suppliers. In addition to these measures, Lonza offers a "whistleblower" hotline, which is operated by an external company.

[1] www.lonza.com/code-of-conduct

4 Management Committee

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board Committees[1] or additional tasks as delegated. It is responsible for leading Lonza and for developing and implementing the Lonza policy and strategy after approval by the Board of Directors. It supports and coordinates the activities of the divisions and corporate functions. The Management Committee is also responsible for leadership development.

New Appointment in 2012 At the end of January 2012 Stefan Borgas' employment relationship as CEO was terminated and Lonza's chairman, Rolf Soiron, took over the role of CEO on an interim basis. In April 2012, the Board of Directors of Lonza Group Ltd appointed Richard Ridinger as the new CEO of Lonza, replacing Rolf Soiron. Simultaneously, the Board of Directors also appointed Marc Funk, Group General Counsel and Board Secretary, to become a member of the Management Committee. In June 2012, Beat In-Albon was appointed as COO of the Life Science Ingredients Sector and member of the Management Committee, replacing Harry Boot who had held this role from March 2011.

New composition of Executive Committee as of February 2013 On 4 February 2013, Lonza Group Ltd announced that the Management Committee will be renamed "Executive Committee" and will be reduced to five members: Richard Ridinger (CEO), Toralf Haag (CFO), Marc Funk (CLO), Stephan Kutzer (COO) and Beat In-Albon (COO). As of 1 February 2013, Jeanne Thoma, Uwe Böhlke and Lukas Utiger step down from their function as member of the Management Committee.

4.1 Members of the Management Committee

On 31 December 2012, the Management Committee consisted of eight active members.

Name	Nationality	Year of birth	Function
Richard Ridinger	German	1958	Chief Executive Officer (since May 2012)
Toralf Haag	German	1966	Chief Financial Officer
Stephan Kutzer	American	1965	COO Custom Manufacturing division
Beat In-Albon	Swiss	1952	COO Life Science Ingredients division (since June 2012)
Marc Funk	Swiss	1960	Group General Counsel / Board Secretary (since April 2012)
Uwe H. Böhlke	German	1964	Chief Officer Human Resources / Corporate Services
Lukas Utiger	Swiss	1963	COO Bioscience division
Jeanne Thoma	American	1959	COO Microbial Control division

[1] www.lonza.com/bylaws

4.2 Activities and Functions of the Members of the Management Committee

Richard Ridinger

Richard Ridinger Holds a degree in chemical engineering from the University of Karlsruhe

Chief Executive Officer and Member of the Management 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 (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 Management 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

Stephan Kutzer Holds a PhD in chemical engineering from the Technical University of Munich

Member of the Management Committee (since July 2005)

Functions within Lonza:
- COO Custom Manufacturing division (since November 2009)
- COO Custom Manufacturing / Head of the business sector – Biopharmaceuticals (June 2005–October 2009)
- Head of Performance Chemicals (2003–2005)
- Site manager of Lonza Bayport, TX, facilities (November 1999–2002)
- Assistant production manager in Lonza Guangzhou Ltd, Guangzhou, China (July–September 1999)
- Joined Lonza in 1996 as assistant production manager at Visp and became production manager nicotinates in 1998.

Beat In-Albon

Beat In-Albon Holds a PhD in economics from the University of Fribourg

Member of the Management Committee and COO Life Science Ingredients division (since June 2012)

Functions within Lonza:
- Head of Organic Fine & Performance Chemicals at Lonza (June 2003–2006)
- Member of the Lonza Management Committee (1999–2006)
- Head of Organic Fine Chemicals at Lonza (1998–May 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)

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)

Member of the Management Committee (since April 2012)

Functions within Lonza:
- Group General Counsel and Board Secretary (since March 2011)

Former activities and functions:
- Associate General Counsel of Merck Serono (formerly Serono) (2004–2008)
- General Counsel of GeneProt (2000–2004)

Uwe H. Böhlke

Uwe H. Böhlke Holds a degree and a PhD in mechanical engineering as well as a degree in economics from RWTH Aachen University

Member of the Management Committee (January 2007– 1 February 2013)

Functions within Lonza:
- Chief Officer Human Resources / Corporate Services (since November 2009)
- COO Custom Manufacturing / Head of the business sector – Exclusive Synthesis (January 2007 – October 2009)

Former activities and functions:
- Held various positions at SCHOTT AG, Mainz (1996–2006): Executive Vice-President of the global business unit "Home Tech" (2003–2006) / Vice-President Global "Research and Development" (1998–2003) / Additional global assignment "Intellectual Properties" (2001–2003) / Vice-President "Corporate Engineering and Special Machines" (1996–1998)
- Worked in various functions for Fraunhofer-Gesellschaft, Munich; Institute of Production Technology, Aachen (1990–1996): Chief engineer and member of Institute Management (1994–1996) / Consultant in Technology and Innovation Management (1990–1994)

Lukas Utiger

Lukas Utiger Holds a PhD in chemical engineering from Imperial College, London

Member of the Management Committee (August 2001–1 February 2013)

Functions within Lonza:
- COO Bioscience division (since June 2010)
- COO Life Science Ingredients division (August 2006–May 2010)
- Head of the Exclusive Synthesis business sector (August 2001–December 2006)
- Head of Research and Development for Exclusive Synthesis (October 2000–July 2001)
- Joined Lonza as R&D chemist in 1992 and became R&D group leader for fine chemicals in 1998

Former activities and functions:
- Acquired his business experience at ICI Chemicals & Polymers Division in Runcorn (1988–1992)

Jeanne Thoma

Jeanne Thoma Holds a Bachelor of Science from Montclair State University and a Master in Business Administration (MBA) from Fairleigh Dickinson University

Member of the Management Committee (October 2011– 1 February 2013)

Functions within Lonza:
- COO Microbial Control division (since October 2011)
- Head of the Microbial Control business unit (June 2007–October 2011)
- Member of the Management Committee (August 2005–June 2007)
- Joined Lonza as Head of Global Human Resources (December 2004)

Former activities and functions:
- Held various positions with BASF Corporation (1990–August 2004) in Sales, Marketing and Logistics.
- Worked as a Sales and Marketing Consultant to Fortune 500 companies (1985–1989)

4.3 **Management Contracts**

Lonza Group Ltd and its subsidiaries have not entered into management contracts with third parties.

5 Compensation, Shareholdings and Loans

Details of Board and Management compensation are contained in the Consolidated Financial Statements (pages 149 ff., note 32) and in the Remuneration Report (pages 177 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, the independent proxy or an assignee of proxy votes for deposited shares. Persons who do not declare to have acquired their shares in their own name and for their own account are considered "nominees" and will be only entered with voting rights in the share register up to a maximum of 2 % of the share capital, unless the actually entitled persons are revealed. The details are set out in Article 6 of the Company's Articles of Association[1]. This restriction may only be removed by a resolution of the 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 inter alia 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.

[1] wwww.lonza.com/articles-of-association

6.3 **Convocation of Shareholders' Meetings**

Ordinary Shareholders' Meetings are called in accordance with the law and the Company's Articles of Association[1]. Extraordinary Shareholders' Meetings must be called upon resolution of a Shareholders' Meeting or if demanded by one or more shareholders representing at least 5 % of the share capital.

Lonza posts the invitation to shareholders at least 20 working days before the Annual General Meeting and publishes it on its website as well as in the Swiss Official Gazette of Commerce and newspapers.

6.4 **Agenda**

One or more shareholders representing together shares with a par value of CHF 100 000 may request an item to be included in the agenda of a Shareholders' Meeting. The request to include an item must be submitted in writing at least 40 days before the meeting, stating the item to be included and the motions.

6.5 **Entry in the Share Register**

Purchasers of Lonza Group Ltd shares may submit a request to be entered, without limitation, as shareholders with voting rights in the share register, provided they expressly declare that they have acquired these shares in their own name and on their own account. Special rules exist for persons who do not expressly declare in the entry application that they hold the shares on their own account (nominees)(see page 227).

There are no special rules in the Company's Articles of Association[1] concerning a deadline for entry in the share register. The share register will this year be closed on 28 March 2013 at 5 pm.

7 Changes of Control and Defense Measures

7.1 **Duty to Make an Offer**

An offer to acquire all shares must be made in accordance with Art. 32 SESTA (Federal Act on Stock Exchange and Securities Trading) if the threshold of 33 ⅓ of the voting rights is exceeded. No special opting-out or opting-up dispositions are contained in the Company's Articles of Association[1].

7.2 **Clauses on Change of Control**

The employment agreements of the Management Committee Members contain certain clauses on change of control, which are outlined in the Remuneration Report (pages 188 and 189).

[1] wwww.lonza.com/articles-of-association

8 Auditors

8.1 Duration of the Mandate and Term of Office of the Auditor in Charge

Since 1999, KPMG Ltd, Badenerstrasse 172, 8026 Zurich 4, Switzerland, has held the mandate as the external statutory auditors of Lonza Group Ltd and the Group.

The auditing company is elected for a term of one year.

Regula Wallimann from KPMG Ltd has been the auditor in charge since 8 April 2009.

The Board of Directors proposes that KPMG Ltd be re-elected as auditors for the business year 2013.

8.2 Auditing Honorarium

Lonza Group paid KPMG Ltd CHF 5.020 million (2011: CHF 4.212 million) for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities.

8.3 Additional Honorarium

KPMG Ltd received a total fee of CHF 0.110 million (2011: CHF 0.125 million) for tax related services rendered to Lonza.

8.4 Supervisory and Control Instruments vis-à-vis the Auditors

The Audit and Compliance Committee is responsible for evaluating the external auditors on behalf of the Board of Directors. In the reporting year, there were 2 joint meetings with the representatives of the external auditors. The Audit and Compliance Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The Audit and Compliance Committee is also responsible for overseeing the conduct of the activities by Lonza management and the external auditors.

The independent statutory auditor, KPMG Ltd, is responsible for expressing an opinion on the accounting records and the financial statements prepared in accordance with Swiss law and the Company's Articles of Association[1]. KPMG Ltd is also responsible for expressing an opinion on the consolidated financial statements (balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes) prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), and Swiss law.

[1] www.lonza.com/articles-of-association

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, inter alia, on the Company's website (pull system [1]). 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 [2]).

Corporate Communications reports directly to the Chief Executive Officer, while Investor Relations reports to the Chief Financial Officer. On basic matters of general corporate policy, Corporate Communications receives its directives from the Management Committee.

Lonza Group Ltd provides shareholders entered in the share register (on request only) with an annual report as well as the half-year and full-year results. These reports are also available on the Company's website [3]. The invitation to the annual general meeting is published by press release, on Lonza's website as well as in the Swiss Official Gazette of Commerce and in newspapers.

The website is regularly updated and provides relevant information such as share price development, news releases and presentations. It also contains an electronic version of the Annual Report 2012.

Media conferences and analyst meetings generally take place at the Company's headquarters or by conference call. Lonza manages an annual program of investor meetings. Investors, potential investors, as well as financial analysts, are also welcomed at the Company's headquarters in Basel.

[1] www.lonza.com/news
[2] www.lonza.com/news-reports-subscription
[3] www.lonza.com/financial-reports

Anticipated Key Reporting Dates

The list of all corporate events of special interest is subject to change during the year as dates are adjusted and added.

Annual General Meeting for the 2012 financial year
9 April 2013, 10.30 am
Congress Center Basel, Switzerland

Half-year Report 2013, analysts' meeting
25 July 2013

Full-year Report 2013, analysts' meeting
January 2014

Annual General Meeting for the 2013 financial year
16 April 2014
Congress Center Basel, Switzerland

Dividend Transfer to Banks

As a rule, Lonza Group pays the dividend to its shareholders on the fifth business day following the Annual General Meeting.

For the Company's contact details, please refer to the inside cover page at the very end of this Annual Report.

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.

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.

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Glossary

Mammalian biopharmaceuticals
Mammalian biopharmaceuticals are protein-based drugs, usually produced using cells that, many years ago, were taken from mice or hamsters. These drugs are typically used to treat cancers, blood diseases or hormonal imbalances.

Molluscicide
Active substance for controlling slugs and snails.

Moisturizer
A cosmetic cream or lotion used to make the skin, especially on the face, feel less dry.

Serum
A highly concentrated cosmetic product used to treat the skin.

Emulsifier
A chemical agent that emulsifies, or mixes, water and oil.

Sanitizer
Substance or mixture of substances that reduces the bacterial population in the inanimate environment by significant numbers, but does not destroy or eliminate all bacteria.

Feeder systems
Feeder systems, in the terminology of our article, include the mechanical containment, dissolution, and injection equipment that is used to put the sanitizer into the irrigation water.

Irrigation
Irrigation is the term typically used in agriculture for the artificial application of water to crops, as contrasted with relying upon natural precipitation (rain, snow, fog, etc.). Irrigation can be accomplished in several ways, including overhead sprinkler systems of many types, drip tubes, furrows (channeling water between crop rows), and flood (ponding of water over a crop field, such as rice or cranberries).

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Anticipated Key Reporting Dates

Annual General Meeting
for the financial year 2012
9 April 2013, 10.30 am
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2013: **25 July 2013**
Full-year Report 2013: **end of January 2014**

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

Dividend Transfer to Banks
As a rule, Lonza Group Ltd pays the dividend to its shareholders on the fifth business day following the Annual General Meeting.

Listing and Security Information

Stock Exchange Listing/Trading
SIX Swiss Exchange, SGX Singapore Exchange

Common Stock Symbols
Bloomberg LONN:VX
Reuters LONN.VX
Telekurs LONN

Security Number
Valor 001384101
ISIN CH0013841017

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