Full-Year Report 2016

Lonza

Full-Year Financial Highlights

CORE[1] Earnings million CHF		2016	Change in %	2015
CORE result from operating activities (EBIT)		651	24.2	524
Margin in %		15.8		13.8
CORE EBITDA		918	15.8	793
Margin in %		22.2		20.9
CORE profit for the period		443	24.4	356
CORE EPS basic	CHF	8.43	23.8	6.81
CORE EPS diluted	CHF	8.38	24.0	6.76
CORE RONOA in %		21.5	31.1	16.4

IFRS Results million CHF		2016	Change in %	2015
Sales		4 132	8.7	3 803
EBITDA		848	8.7	780
Margin in %		20.5		20.5
Result from operating activities (EBIT)[2]		486	13.6	428
Margin in %		11.8		11.3
Profit for the period		301	8.7	277
EPS basic	CHF	5.73	8.1	5.30
EPS diluted	CHF	5.69	8.2	5.26
Operational free cash flow (before acquisitions)		638	(7.9)	693
Operational free cash flow		408	(38.8)	667
RONOA in %		12.7	17.6	10.8
Net debt		1 584	(4.6)	1 660
Debt-equity ratio		0.67	(14.1)	0.78
Number of employees		10 130	3.1	9 829

– Strong sales growth of 8.7% to CHF 4.13 billion
– Excellent CORE EBIT of CHF 651 million, up by 24.2%
– CORE RONOA improvement of 500 bps, reaching 21.5%
– Another solid year of operational free cash flow of CHF 638 million before acquisitions
– Remarkable Pharma&Biotech sales growth of 15.9%, leading to substantially higher CORE EBIT of CHF 400 million, up 40.8%
– Specialty Ingredients posted sustained strong performance for the fifth year in a row with CORE EBIT increasing by 8.1%
– Increased dividend for shareholders proposed by Lonza's Board of Directors of CHF 2.75 per share for 2016
– Executive Committee and Board of Directors changes announced

1 In the core results for the items "EBITDA", "Result from operating activities (EBIT)", "Profit for the period" and "Earnings per share", the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring, acquisition and environmental remediation are eliminated. See also page 8.

2 Includes restructuring and impairment losses as disclosed in note 3.

Overview

Throughout 2016 Lonza continued to deliver record financial results with outstanding improvements across all key performance indicators, leading to the best-ever full-year results in the company's history. The strong sales growth and high margin improvement are the result of diligent and disciplined application of the company's successful strategy.

Compared with the same period in 2015, Lonza recorded strong sales growth of 8.7% (8.2% in constant exchange rates) to CHF 4.13 billion and record-high CORE EBIT growth of 24.2% to CHF 651 million in reported currency.

The outstanding improvements were particularly driven by commercial excellence and strong operational execution in the Pharma&Biotech segment.

CORE RONOA substantially improved to 21.5%, compared with 16.4% last year. Operational free cash flow before acquisitions was strong with CHF 638 million, even after significantly increased capital expenditure. Operational free cash flow after acquisitions was below last year with CHF 408 million (CHF 667 million in 2015) mainly due to the purchase of InterHealth Nutraceuticals (USA). Nevertheless, net debt reduction was on track, reaching CHF 1.58 billion (CHF 1.66 billion in 2015).

The Healthcare Continuum

As outlined at the Capital Markets Day in Portsmouth, NH (USA) in October, Lonza accelerated the strategic focus on the healthcare continuum across both the Pharma&Biotech and Specialty Ingredients segments during 2016. This target market ranges from prescription drugs to personal care and wellness. The core strengths of Lonza's offerings along the healthcare continuum include the deep expertise in highly regulated environments, where quality, consistency and reputation play pivotal roles.

Lonza took a further step along the strategic path to strengthen our exposure to the healthcare continuum by acquiring InterHealth Nutraceuticals in September. InterHealth complements Lonza's existing nutritional portfolio in the area of sports nutrition, weight management, immune health and pet health.

Another major stride in decisively positioning the company to grow along the healthcare continuum was made in December when we announced our intention to acquire Capsugel. The acquisition is designed to create a leading integrated, value-added solutions provider in drug development, formulation, delivery technologies and manufacturing for the global pharma and consumer healthcare industries.

Financial Summary

- Sales growth of 8.7% in reported currency (8.2% in constant exchange rates), rising to CHF 4.13 billion
- CORE EBITDA growth of 15.8% in reported currency (15.4% in constant exchange rates), reaching CHF 918 million
- CORE EBIT experienced remarkable growth of 24.2% in reported currency (23.7% in constant exchange rates), increasing to CHF 651 million
- CORE RONOA also improved significantly to 21.5% (16.4% in 2015)
- Debt reduction remained on track with solid cash generation, resulting in a net debt/EBITDA of 1.73x, despite the InterHealth Nutraceuticals acquisition

Lonza continued its efforts to restructure its portfolio in order to further accelerate its operational performance in the future. As part of these efforts, Lonza decided to divest the peptide facility in Braine (BE) and restructured some other smaller operations, which led to combined impairments and restructuring costs of CHF 82 million (see note 4).

Outlook 2017

Based on the sound foundation we have laid in 2016 for the future, we are announcing the following outlook for 2017. This outlook is on a Lonza standalone basis:

- Sales growth of mid-single digits
- CORE EBITDA of CHF 1 billion
- Double-digit CORE EBIT growth
- CORE RONOA above the 21.5% achieved in 2016

This outlook is based on the present macro-economic environment, current visibility and constant exchange rates for the most important currencies in which Lonza is trading.

The mid-term guidance will be reviewed in the course of 2017. Depending on the timing of the Capsugel acquisition closing, we intend to provide an update as part of the half-year results report on 26 July 2017 or latest by Q3 business update on 27 October 2017.

Dividend

The Board of Directors is proposing an increased cash dividend of CHF 2.75 per share for 2016. Subject to the approval at the Annual General Meeting, this dividend will be paid out of the reserve capital contribution and will be free from Swiss withholding tax.

Changes to the Board of Directors and EC

The Board of Directors is proposing to Lonza's Annual General Meeting (AGM), to be held on 25 April 2017, the election of Albert M. Baehny (64) as a new member of the Board. Subject to his election, the Board will appoint Mr. Baehny as Vice Chairman of the Board with the intention to propose him as the new Chairman at the AGM 2018. The Board is proposing the re-election of Rolf Soiron as its Chairman for one more year until the AGM 2018 in order to ensure continuity in the supervision of the Capsugel transaction and its successful integration.

Thomas Ebeling has decided not to stand for re-election at the AGM this year. The Board would like to thank Thomas Ebeling for his contributions during his three years of service on the Board and on the Nomination and Compensation Committee.

The Board is further proposing to the AGM the re-election of all other Board members.

Albert M. Baehny has achieved an impressive track record as Chairman of the Board of Geberit since 2011. He also served as the company's CEO from 2005 to 2014. Before he joined Geberit, he gained technological and industrial experiences that will be of value in his new role at Lonza, i.e. positions in the pharma and chemical industry, including with Serono-Hypolab, Dow Chemicals Europe, Ciba-Geigy, Ciba Specialty Chemicals, Vantico and Wacker Chemie. He earned a degree in biology with a specialization in biochemistry and genetics.

The Board of Directors also appointed Fridtjof Helemann, Chief Human Resources Officer for Lonza, as a member of the Executive Committee (EC), effective 1 February 2017 (for details, see separate news release).

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

Rolf Soiron	Richard Ridinger
Chairman of the Board of Directors	Chief Executive Officer

Pharma&Biotech Segment

Pharma&Biotech million CHF	2016	Change in %	2015
Sales	**1 849**	15.9	**1 596**
CORE result from operating activities (EBIT)	**400**	40.8	**284**
CORE EBIT margin in %	21.6		17.8
CORE EBITDA	**531**	27.0	**418**
CORE EBITDA margin in %	28.7		26.2

The Pharma&Biotech segment delivered remarkable sales growth of 15.9% (15.8% in constant exchange rates), reaching CHF 1.85 billion, which led to an exceptional CORE EBIT of CHF 400 million and an extremely high 40.8% CORE EBIT growth year-over-year.

This outstanding performance was driven by commercial excellence and strong operational execution. The strong momentum in Mammalian Manufacturing was complemented by a significant upward trend in all other technologies and modalities. Furthermore, the continued cost discipline and manufacturing excellence helped the segment achieve these remarkable results.

This year Lonza's Pharma&Biotech segment announced several long-term, strategic manufacturing agreements, such as with Kodiak Sciences, bluebird bio, and Clovis Oncology. Our strong regulatory track record continued with 154 successful regulatory and customer audits.

In the year ahead, Lonza's Pharma&Biotech will focus on strengthening our core offering, to deliver further operational and commercial excellence.

Mammalian Manufacturing

The Mammalian Manufacturing business experienced strong performance. Lonza continued to benefit from a balanced customer portfolio coming from large pharmaceutical companies to small- and mid-sized biotech companies. The outsourcing and dual-sourcing trends by the industry maintained a positive momentum.

Our customer base broadened further with new contracts of significant length being signed. In addition, better-than-anticipated market uptake of our clients' therapeutics resulted in extended contract volumes. Subsequently, the order-book visibility improved once more.

As announced at the Capital Markets Day in October, Lonza has expanded capacity using single-use disposable technology at our Singapore (SG) site.

Chemical and Microbial Manufacturing

Our Chemical and Microbial Manufacturing business made considerable progress in 2016, further developing new business models and securing long-term commitments.

In October the strategic long-term manufacturing agreement with Clovis Oncology to secure supply of rucaparib was signed. The dedicated small-molecule manufacturing line to be constructed in Visp (CH) will be operational in 2019. This dedicated train guarantees access to manufacturing capacity for Clovis and allows coverage of the full range of anticipated demand scenarios for commercial supply.

As a result of the continuous review of Lonza's business portfolio, it was decided in December to sell the peptide business and with it the Braine facility to PolyPeptides, a large, focused competitor in this field. The peptides chemical business was a niche business for Lonza with only limited synergies with our other small molecule technologies.

Clinical Development and Licensing

In our Clinical Development & Licensing (CDL) business, we continued on our growth path from last year. Several new products that use our GS Gene Expression System™ were approved this year, which brought the year's total number of approved therapeutics to 31, representing 32% of FDA-approved biologics in 2016.

Our reach into the early-phase small-molecule market continued to grow because of the healthy market for small biotech companies that are developing new chemical entities (NCEs), as well as our broad capabilities in this area.

Lonza's containment capabilities for handling Highly Potent Active Pharmaceutical Ingredients (HPAPIs) provide us an excellent market position as they allow us to handle the most-potent drugs currently being developed.

In October Lonza started operation of our new Drug Product Services Laboratories in Basel (CH). Capabilities will focus on parenteral dosage forms for biologics, drug conjugates, peptides and small molecules for products for injection or infusion.

Emerging Technologies

In Emerging Technologies, which consists of antibody drug conjugates, cell and viral therapy businesses, reported growth in all businesses based on strong demand from well-funded biotech and big pharma customers.

The main 2016 highlights for this business included the start of the construction of a new viral therapy facility in Houston, TX (USA). This new facility, which is planned to come online towards the end of 2017, is expected to develop and manufacture both viral gene therapies and virally modified cell therapies.

A further focal point was the announcement of a long-term cooperation agreement with bluebird bio, Inc., for dedicated production suites for clinical and commercial supply of viral vectors and virally modified cell therapy products.

Bioscience Solutions

Market demand for Research Products, Testing Solutions, MODA and bio-therapeutic Media product portfolios continued to be favorable; and they delivered solid growth compared with last year.

The acquisition of Triangle Research Labs (TRL), a hepatocyte provider based in North Carolina (USA), further strengthened Lonza's position as a worldwide leader in cell discovery.

Specialty Ingredients Segment

Specialty Ingredients million CHF	2016	Change in %	2015
Sales	**2 250**	3.8	**2 167**
CORE result from operating activities (EBIT)	**322**	8.1	**298**
CORE EBIT margin in %	14.3		13.8
CORE EBITDA	**415**	6.4	**390**
CORE EBITDA margin in %	18.4		18.0

The Specialty Ingredients segment posted sustained strong performance again this year with a sales increase of 3.8% (3.1% in constant exchange rates) to CHF 2.25 billion during 2016. CORE EBIT grew by 8.1% year-over-year to CHF 322 million with further improved margins.

This good progress was driven by the strong results in the Wood Protection, Consumer Care and Water Treatment business, as well as by improved product mix and portfolio optimization. The expected slowdown in Agro Ingredients caused by the lower agro market dynamics had some impact on the overall growth for Specialty Ingredients. Lonza will continue to conduct operational and value-chain improvements to further enhance profitability.

In September 2016 Lonza took a further major step along the strategic path as a high-value supplier to the healthcare continuum by acquiring InterHealth Nutraceuticals. With this targeted acquisition, Lonza is expanding our nutritional portfolio and extending our offerings towards strongly growing consumer needs and nutritional trends.

Consumer Care

Consumer Care continued our good growth trajectory in Hygiene with modern preservative systems and disinfecting solutions. Compared with last year, Nutrition had accelerated growth momentum even before the InterHealth acquisition.

In our human Nutrition business, we experienced strong performance driven by L-Carnitine, vitamin B3 and food emulsifiers. With the acquisition of InterHealth, we will be able to significantly expand our market offering and growth potential in this business.

InterHealth offers more than 15 branded ingredients, including the cornerstone ingredient UC-II, which is revolutionizing the joint-health market segment. The company, acquired in September 2016, complements Lonza's existing nutritional portfolio in the area of sports nutrition, weight management, immune health and pet health. This acquisition also expands Lonza's offerings into new areas such as cognitive and diabetic health.

The success in the Hygiene business was driven by the continuous replacement of Triclosan in handwash additives as a standard chemistry of choice with our new, more innovative solutions. We further increased our sales activities with multi-national accounts and with key regional players in these fields of application.

In the Personal Care business, we continued to strengthen our footprint and offerings in emerging markets.

Agro Ingredients

In our Agro Ingredients business, we experienced a solid start into the year; but since April a softer demand in the agro and feed markets, as expected, had an impact on the full-year results. This development was based on an over-stocking situation in the end markets, as well as on reduced investments by the agrochemical industry and ultimately by the farming industry, which saw little incentive to invest in a depressed market.

By focusing on selected specialty applications and products, we have been able to continue to grow our niche portfolio. Lonza's adjuvants, formulation ingredients and preservatives for crop protection and crop hygiene products are gaining increasing interest from the agro industry.

Meta™, Lonza's specific molluscicide for slug and snail control, continued to experience solid growth, driven by the geographic expansion of the active substance and the formulated products into new markets.

Coatings&Composites

In our Coatings&Composites business, we experienced solid market demand across most offerings, but mainly in the Wood Protection business. Value-chain improvement programs and the favorable exchange rate situation helped to successfully sustain our growth path despite an increasing competitive environment in some markets.

Our Wood Protection business delivered greatly improved results in 2016, well ahead of last year. North America led the way with growth in solid wood preservation markets, fueled by the strong U.S. and Canadian economies with increased demand for housing and rising home-improvement expenditures. Most of the growth was driven by increased demand in the U.S. residential sector, along with significant contributions from new accounts.

The Performance Intermediates team observed growth across all relevant markets with the exception of China, where the continuing strong competitive environment in some of our markets slowed expansion. Sales in the oil and gas industry will remain under pressure as the industry continues to focus on cost reductions, a factor that is also expected to have an impact on the business in 2017.

In the Materials Performance and Protection business, Building Products experienced positive growth driven by Asia, where we have seen our market share grow following our intense technical support efforts. Sales development in composite materials was good as several key customer projects were fully realized for interior systems and composite resin products within the electronics industry, particularly in Asia.

Water Treatment

The Residential Water Treatment business had an improved performance compared with last year, due to the good performance in North America and prolonged favorable weather. Solid results were also seen in Europe, South Africa and South America, despite the economic climate.

In the area of Industrial, Commercial, Municipal and Surface (ICMS) water, we continue to make progress in South America. The goal of decreasing the weather dependency of the Water Treatment business portfolio by strengthening and enlarging the ICMS portfolio is progressing further.

Corporate

Corporate million CHF	2016	2015
Sales	33	40
CORE result from operating activities (EBIT)	(71)	(58)
CORE EBITDA	(28)	(15)

CORE Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of our company because the CORE results enable better comparison across years. Therefore, the CORE results exclude exceptional items such as restructuring charges, acquisition-related costs, environmental-remediation costs, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance. See also footnote in financial highlights on page 1.

Condensed Financial Reports

Condensed consolidated balance sheet at 31 December million CHF		2016	2015
Non-current assets		4 762	4 403
Non-current loans and advances		1	1
Total non-current assets		**4 763**	4 404
Current assets		1 699	1 567
Current advances		1	0
Cash and cash equivalents		274	277
Assets held for sale		91	0
Total current assets		**2 065**	1 844
Total assets		**6 828**	6 248
Equity attributable to the equity holders of the parent		2 355	2 135
Total equity		**2 355**	2 135
Non-current liabilities		1 270	1 123
Non-current debt		1 571	1 414
Total non-current liabilities		**2 841**	2 537
Current liabilities		1 303	1 052
Current debt		289	524
Liabilities held for sale		40	0
Total current liabilities		**1 632**	1 576
Total liabilities and equity		**6 828**	6 248
Net debt		**1 584**	1 660

Condensed consolidated income statement million CHF		2016	2015
Sales		**4 132**	3 803
Cost of goods sold		(2 731)	(2 704)
Gross profit		**1 401**	1 099
Operating expenses		(915)	(671)
Result from operating activities (EBIT)		**486**	428
Net financing costs		(112)	(85)
Share of loss of associates / joint ventures		(1)	(2)
Profit before income taxes		**373**	341
Income taxes		(72)	(64)
Profit for the period, attributable to the equity holders of the parent		**301**	277
Basic earnings per share – EPS basic	CHF	5.73	5.30
Diluted earnings per share – EPS diluted	CHF	5.69	5.26

Condensed consolidated statement of comprehensive income

million CHF

	2016	2015
Profit for the period	**301**	277
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of defined benefit liability	(37)	(58)
Income tax on items that will not be reclassified to profit or loss	10	8
	(27)	(50)
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	4	(113)
Cash flow hedges	(1)	7
Income tax on items that are or may be reclassified to profit or loss	(2)	(1)
	1	(107)
Other comprehensive income, net of tax	(26)	(157)
Total comprehensive income for the period, attributable to the equity holders of the parent	**275**	120

Condensed consolidated cash flow statement

million CHF

	2016	2015
Profit for the period	**301**	277
Adjustment for non-cash items	653	517
Income tax and interest paid	(117)	(121)
Decrease of net working capital	78	139
Use of provisions	(21)	(21)
Decrease of other payables, net	(142)	(50)
Net cash provided by operating activities	**752**	741
Purchase of property, plant & equipment and intangible assets	(366)	(264)
Acquisition of subsidiaries, net of cash acquired	(230)	(30)
Disposal of subsidiary, net of cash disposed of	0	4
Net purchase of other assets and disposals	(7)	2
Interest and dividend received	2	6
Net cash used for investing activities	**(601)**	(282)
Issue of straight bond	249	324
Repayment of straight bond	(400)	(240)
Repayment of German private placement	0	(155)
Issue / (repayment) of syndicated loan	100	(125)
Decrease in debt	(82)	(83)
Increase in other liabilities	64	29
Sale of treasury shares	49	0
Dividends paid	(131)	(131)
Net cash used for financing activities	**(151)**	(381)
Effect of currency translation on cash	1	(10)
Net increase in cash and cash equivalents	**1**	68
Cash and Cash equivalents at 1 January	277	209
Cash and Cash equivalents at 31 December	[1]278	277

1 Includes CHF 4 million of cash & cash equivalents classified as held for sale related to Lonza's Peptides business (see note 4).

Condensed consolidated statement of changes in equity

million CHF

	Attributable to the equity holders of the parent							Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	**Total**	
At 1 Januar 2015	**53**	**311**	**2 301**	**(9)**	**(449)**	**(77)**	**2 130**	**2 130**
Profit for the period	0	0	277	0	0	0	277	277
Other comprehensive income, net of tax	0	0	(50)	6	(113)	0	(157)	(157)
Total comprehensive income for the period	**0**	**0**	**227**	**6**	**(113)**	**0**	**120**	**120**
Dividends	0	0	(131)	0	0	0	(131)	(131)
Recognition of share-based payments	0	0	15	0	0	0	15	15
Movements in treasury shares	0	0	(25)	0	0	26	1	1
At 31 December 2015	**53**	**311**	**2 387**	**(3)**	**(562)**	**(51)**	**2 135**	**2 135**
Profit for the period	0	0	301	0	0	0	301	301
Other comprehensive income, net of tax	0	0	(27)	(2)	3	0	(26)	(26)
Total comprehensive income for the period	**0**	**0**	**274**	**(2)**	**3**	**0**	**275**	**275**
Dividends	0	0	(131)	0	0	0	(131)	(131)
Recognition of share-based payments	0	0	26	0	0	0	26	26
Movements in treasury shares	0	0	9	0	0	41	50	50
At 31 December 2016	**53**	**311**	**2 565**	**(5)**	**(559)**	**(10)**	**2 355**	**2 355**

Selected Explanatory Notes

1 Accounting Principles

Basis of Preparation of Financial Statements These condensed financial statements are based on the consolidated financial statements for the twelve-month period ended 31 December 2016 that will be prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Changes in Accounting Policies

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

2 Exchange Rates

Balance sheet period-end rate CHF	31 12 2016	31 12 2015
U.S. dollar	1.02	0.99
Pound sterling	1.25	1.47
Euro	1.07	1.08

Income statement average rate CHF	2016	2015
U.S. dollar	0.99	0.96
Pound sterling	1.33	1.47
Euro	1.09	1.07

3 Restructuring Activities and Related Impairment of Assets

Year ended 31 December 2016 million CHF	Specialty Ingredients	Pharma& Biotech	Corporate	Total
Impairment of assets	5	50	0	55
Restructuring costs	9	16	2	27
Total	**14**	**66**	**2**	**82**

The impairment losses of the Pharma&Biotech segment include CHF 42 million related to Peptides assets as disclosed in note 4, while the restructuring costs of this segment comprise the lease termination cost (CHF 13 million) of Lonza's former manufacturing site in Hopkinton, MA (USA).

Year ended 31 December 2015 million CHF	Specialty Ingredients	Pharma& Biotech	Corporate	Total
Impairment of assets	3	47	2	52
Restructuring costs	2	9	1	12
Total	**5**	**56**	**3**	**64**

The transfer of Lonza's microbial manufacturing activities from Kourim (CZ) site to the Visp (CH) site resulted in an impairment loss of CHF 39 million and restructuring costs of CHF 8 million.

In addition, Lonza recognized an impairment loss of certain Walkersville, MD (USA)-related property, plant and equipment of CHF 13 million.

4 Acquisitions and Disposal of Businesses

Acquisition of InterHealth Nutraceuticals Inc

Effective 12 September 2016, Lonza acquired 100% of the shares of InterHealth Nutraceuticals Inc ("InterHealth") for a total consideration of USD 246 million (CHF 240 million), of which USD 229 million was paid in cash and USD 17 million arose from a contingent consideration arrangement. The fair values of intangible assets have been determined (on a provisional basis) by independent valuation specialists and amount to CHF 176 million, resulting in a goodwill of CHF 156 million.

InterHealth is a leader in research, development, manufacture and marketing of proprietary, value-added nutritional ingredients for use in dietary supplements, based in Benicia, CA (USA).

The InterHealth business is reported within the Specialty Ingredients segment.

Acquisition of Triangle Research Labs

Effective 27 April 2016, Lonza Group acquired Triangle Research Labs for a total consideration of USD 15 million (CHF 14 million), resulting in a goodwill of CHF 12 million. The US based company manufactures and supplies high-quality hepatocytes for medical and biomedical research in pre-clinical applications. This acquisition supports Lonza's strategy to continue developing its life-science platform and expanding its global cell-biology portfolio.

Disposal of Peptides Business

On 7 December 2016, Lonza announced that it has entered into a definitive agreement with PolyPeptide Laboratories Holding to sell the peptides business and operations of Lonza in Braine-l'Alleud, Belgium. Lonza's Braine facility, with approximately 280 employees, is the center for peptide chemical development and manufacturing within Lonza. The agreement was subject to customary closing conditions and has legally closed on 3 January 2017.

As IFRS 5 criteria were met in 2016, the Lonza Braine related assets and liabilities are classified as a disposal group in Assets held for sale (CHF 91 million) and Liabilities directly associated with assets held for sale (CHF 40 million). An impairment loss of CHF 42 million has been included in "Operating expenses" for write-downs of the disposal group to its fair value less costs to sell. In addition, accumulated exchange rate translation reserve losses of approximately CHF 29 million (net of tax) recognized in other comprehensive income will be reclassified to the income statement in 2017.

5 Planned Acquisition of Capsugel

On 15 December 2016, Lonza announced that it has entered into a definitive agreement with KKR under which Lonza will acquire Capsugel S.A. ("Capsugel") for USD 5.5 billion (CHF 5.60 billion at 2016 year end rates) in cash, including refinancing of existing Capsugel debt of approximately USD 2 billion (CHF 2.04 billion at 2016 year end rates), through a transaction that has been approved by the Boards of Directors of both Lonza and Capsugel.

Capsugel designs, develops and manufactures a wide range of innovative dosage forms for the biopharmaceutical and consumer health and nutrition industries.

The USD 5.5 billion all-cash acquisition of Capsugel is expected to be financed with a combination of debt and equity financing. Lonza has committed debt financing for the full acquisition amount from BofA Merrill Lynch and UBS and plans to raise equity, which is fully underwritten by UBS and BofA Merrill Lynch for an amount up to CHF 3.3 billion.

Lonza's Board of Directors is currently authorized to increase the share capital through the issuance of 5 000 000 fully paid-in registered shares. Lonza's Board intends to seek approval for additional share capital at its upcoming annual general meeting (AGM) in April 2017. The transaction is expected to close in the second quarter of 2017 and is subject to certain regulatory approvals and other customary closing conditions.

6 Dividends paid

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

7 Operational Free Cash Flow

In 2016 and 2015, the development of operational free cash flow by component was as follows:

Components of operational free cash flow million CHF	2016	Change	2015
EBITDA	848	68	780
Decrease in operating net working capital	78	(61)	139
Capital expenditures in tangible and intangible assets	(366)	(102)	(264)
Disposal of tangible and intangible assets	10	2	8
Change of other assets and liabilities	68	38	30
Operational free cash flow (before acquisitions/disposals)	**638**	**(55)**	**693**
Acquisition of subsidiaries	(230)	(200)	(30)
Disposal of subsidiaries	0	(4)	4
Operational free cash flow	**408**	**(259)**	**667**

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words "outlook", "believes," "plans," "anticipates," "expects," "estimates" and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. In particular, the assumptions underlying Outlook 2017 herein may not prove to be correct. The statements in Outlook 2017 constitute forward-looking statements and are not guarantees of future financial performance. Lonza's actual results of operations could deviate materially from those set forth in Outlook 2017 as a result of the factors described above or other factors. Investors should not place undue reliance on the statements in Outlook 2017. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this report was made.

The Full-Year Report 2016 is also available in German. The English version prevails.

Tentative publication date
Annual Report 2016
24 March 2017

Annual General Meeting
for the 2016 Financial Year
25 April 2017

Q1 2017 Business Update
26 April 2017

Half-Year 2017 Results
26 July 2017

Q3 2017 Business Update
27 October 2017

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