# FULL-YEAR REPORT 2010

## Financial highlights full-year

| million CHF | 2009 after special charges | 2009 before special charges | 2010 |
|---|---|---|---|
| **Sales** | **2 690** | **2 690** | **2 680** |
| Change in % | | | (0.4) |
| **EBITDA** | **601** | **658** | **643** |
| Change in % before special charges | | | (2.3) |
| Change in % after special charges | | | 7.0 |
| **Margin in %** | **22.3** | **24.5** | **24.0** |
| **Result from operating activities (EBIT)** | **239** | **380** | **374** |
| Change in % before special charges | | | (1.6) |
| Change in % after special charges | | | 56.5 |
| **Margin in %** | **8.9** | **14.1** | **14.0** |
| **Profit for the period** | **159** | **279** | **284** |
| Change in % before special charges | | | 1.8 |
| Change in % after special charges | | | 78.6 |
| **EPS basic (CHF)** | **3.19** | **5.55** | **5.55** |
| Change in % before special charges | | | 0.0 |
| Change in % after special charges | | | 74.0 |
| **EPS diluted (CHF)** | **3.17** | **5.51** | **5.53** |
| Change in % before special charges | | | 0.4 |
| Change in % after special charges | | | 74.4 |
| **CORE** [1] | | | |
| **Result from operating activities (EBIT)** | **397** | **397** | **387** |
| Change in % | | | (2.5) |
| **Margin in %** | **14.8** | **14.8** | **14.4** |
| **Profit for the period** | **295** | **295** | **299** |
| Change in % | | | 1.4 |
| **EPS basic (CHF)** | **5.87** | **5.87** | **5.84** |
| Change in % | | | (0.5) |
| **EPS diluted (CHF)** | **5.83** | **5.83** | **5.81** |
| Change in % | | | (0.3) |
| **Cash flow before change in net working capital** | **468** | **472** | **530** |
| Change in % before special charges | | | 12.3 |
| Change in % after special charges | | | 13.2 |
| **Free cash flow** | **51** | **55** | **336** |
| Change in % before special charges | | | 510.9 |
| Change in % after special charges | | | 558.8 |
| **RONOA in %** | **6.7** | **10.7** | **10.8** |
| **Net debt** | **1 166** | **1 166** | **1 108** |
| Change in % | | | (5.0) |
| **Debt-equity ratio** | **0.49** | **0.46** | **0.46** |
| **Number of employees** | **8 386** | 8 386 | **8 280** |
| Change in % | | | (1.3) |

## Lonza delivered a robust operating performance in 2010:

- Sales of CHF 2 680 million (CHF 2690 million in 2009), up 3.3% at constant exchange rates
- Stable EBITDA margins (24.0%), despite volatile environment
- EBIT of CHF 374 million (CHF 380 million in 2009), up 5.8% at constant exchange rates
- CHF 28 million negative exchange rate impact on EBIT
- Net profit rose to CHF 284 million, up 10.4% in constant exchange rates
- Free cash flow of CHF 336 million (+559%)
- The Board of Directors is proposing a cash dividend of CHF 2.15 per share

**Overview** Lonza delivered a robust business performance in 2010, with sales and EBIT increasing 3.3% and 5.8% respectively at constant exchange rates. The company continued to benefit from pharmaceutical and biotechnology companies outsourcing more of their manufacturing and development activities.

During the year, we achieved a number of important successes. We improved capacity utilization, particularly in Biological Manufacturing in the second half of the year. The Microbial Control business generated strong growth. Our project pipeline was increased significantly through the signing of new contracts and multi-product deals, especially in Chemical and Biological Manufacturing and Cell Therapy.

However, these operating positives were offset by slower pharmaceutical product approvals as a result of the more stringent regulatory environment, as well as rising raw material costs, which affected the profitability of our non-pharma businesses. The appreciation of the Swiss franc against nearly all important trading currencies during 2010 led to a transactional and translational reduction of CHF 28 million in EBIT.

The outsourcing trend has significantly contributed to an increased pipeline of new products from innovative customers across the various clinical phases. This positions Lonza as the leading supplier for innovators in the pharmaceutical industry, but also links the business closer to the success of our customers' pipelines.

In 2010, Lonza further improved its balance sheet structure and significantly increased free cash flow to CHF 336 million. As a result, gearing was reduced to 46%.

**Re-engineering program** At the end of 2009, Lonza launched a re-engineering program aimed at reducing its fixed costs by CHF 70 – 80

[1] Core results for: results from operating activities (EBIT), profit for the period and earnings per share eliminate 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. These adjustments are explained in detail in the annual report.

million per annum, while maintaining growth projects. All the measures needed to achieve this level of savings have been defined and all the targeted cost reductions will be achieved by the end of the first quarter of 2011. CHF 55 million, approximately 75% of the total savings, was realized during 2010. As part of this project, the Wokingham (UK) site was closed in the second quarter and the Shawinigan (CA) facility at the end of July. The plant at Conshohocken (Riverside), PA (USA) was successfully divested at the end of October. The planned reduction in staff by 470 due to the re-engineering project was completed by the end of 2010.

In biopharmaceutical manufacturing, the measures to increase production flexibility in order to meet the needs of customers more effectively were completed at both our Slough (UK) and Porriño (ES) plants. The chemical R&D organizations were successfully merged and at the same time we placed a stronger emphasis on our R&D activities in Asia.

**Strategic growth projects** In parallel with its robust operating performance, Lonza made progress in a range of activities designed to underpin future growth. At Group level, continued investment in R&D led to an increasing pipeline of promising product developments.

The key developments in the individual businesses were as follows:

- Life Science Ingredients
  - L-carnitine, niacin and PMDA expansion in China remains on track, with start-up in 2011.
  - Expansion of the agrochemical plant in Visp (CH) progressing as planned.

- Custom Manufacturing
  - Build-out of the large-scale mammalian biopharmaceutical facility in Singapore is progressing well, with start-up planned for the third quarter of 2011.
  - TL Biopharmaceuticals (Teva / Lonza joint venture) began phase-I clinical trials with its lead biosimilar product.

- Bioscience
  - Expansion of Cell Therapy facilities in Walkersville, MD (USA) and Singapore.
  - Acquisition of MODA Technology Partners (paperless quality-control solutions) strengthened the Rapid Testing Solutions platform.
  - Acquisition of Vivante GMP Solutions, Inc. enabled us to enter the viral-based manufacturing market.

**Financial summary**
- Net cash provided by operating activities increased from CHF 422 million in 2009 to CHF 502 million in 2010.
- Free cash flow increased to CHF 336 million (CHF 51 million in 2009).
- Net working capital in relation to sales decreased on average from 28.1% in 2009 to 25.7% in 2010.
- Capital expenditure decreased to CHF 300 million, with no resulting delays in achieving growth project milestones.
- Net debt amounted to CHF 1 108 million (CHF 1 166 million in 2009), resulting in gearing of 46%. The majority of Lonza's debt is financed on a long-term basis, with average fixed-interest rates under 3.5%.
- A CHF 400 million straight bond, with a coupon of 3% maturing in 2016, has been issued, ensuring long-term financing of the announced growth projects at attractive conditions.

**Senior management changes** Lukas Utiger, previously COO of the Life Science Ingredients business unit, became the new COO of Lonza Bioscience on 1 June 2010, following the resignation of Anja Fiedler. Also on 1 June 2010, Stefan Borgas, CEO, took over the leadership of the Life Science Ingredients business on a temporary basis, in addition to his CEO responsibilities. On 29 December 2010, Harry Boot was announced as the new COO of Life Science Ingredients, beginning 1 March 2011. Stefan Borgas will pass on the leadership of the Life Science Ingredients business to Harry Boot upon his arrival.

**Board of Directors** The Board of Directors has revised the dividend policy with an increased pay-out ratio of up to 40% to reflect the Group's positive outlook and cash generation. The Board proposes an increased cash dividend of CHF 2.15 per share for 2010.

The Lonza Board of Directors is proposing to elect Jean-Daniel Gerber as new member of the Lonza Board of Directors at the next annual general meeting on 12 April 2011. Jean-Daniel Gerber brings a broad range of experiences to the Lonza Board having served in various positions for the Swiss government. Among others, he has been chairing the State Secretary for Economic Affairs (SECO) since 2004. From 1993 to 1997 he served as Executive Director and Dean (1997) of the Board of the World Bank Group. He will retire from Government service on 31 March 2011. The Board of Directors will increase from six to seven members.

**Outlook** Lonza expects to continue to benefit from pharmaceutical and biotechnology companies outsourcing an increasing proportion of their manufacturing and development activities. This, combined with our stronger product pipelines, improved capacity utilization and a more appropriate cost base, provides a good platform for a solid performance in 2011. The degree to which these operating positives will be reflected in our reported results will depend on a number of external factors, including the strength of the Swiss franc, increasing raw material prices and the more stringent approval processes for new pharmaceuticals.

In the longer term, Lonza is well-positioned to meet the challenges ahead and deliver shareholder value on the strength of the current product offering, combined with our strategic growth projects.

The full effect of the re-engineering project will result in significant generation of free cash flow in 2011, before acquisitions. Capital expenditure is again forecasted to be below CHF 400 million in 2011, which will further strengthen the balance sheet structure. This increased financial flexibility will open up specific, selected expansion possibilities for Lonza across our life-science-focused value chain.

Strategic growth projects, planned expansions and new contracts will deliver solid additional EBIT potential in the mid term.

Lonza remains fully committed to its vision and long-term objectives. We strive to be the leading supplier using science and technology to improve the quality of life. We would like to thank our customers for their continued trust, our employees for all their efforts throughout another challenging year and our shareholders for their ongoing support.

| | |
|---|---|
| **Rolf Soiron** | **Stefan Borgas** |
| Chairman of the | Chief Executive Officer |
| Board of Directors | |

## Life Science Ingredients

| million CHF | 2009 after special charges | 2009 before special charges | 2010 |
|---|---|---|---|
| **Sales** | **1 038** | **1 038** | **1 020** |
| Change in % | | | (1.7) |
| **Change due to** | | | |
| Volume and prices | | | 23 |
| Currency translation | | | (41) |
| Scope of consolidation | | | 0 |
| **Result from operating activities (EBIT)** | **119** | **137** | **131** |
| Change in % before special charges | | | (4.4) |
| Change in % after special charges | | | 10.1 |
| **Margin in %** | **11.5** | **13.2** | **12.8** |
| **EBITDA** | **198** | **208** | **206** |
| Change in % before special charges | | | (1.0) |
| Change in % after special charges | | | 4.0 |
| **Margin in %** | **19.1** | **20.0** | **20.2** |

**Life Science Ingredients delivered a solid set of results in 2010. Divisional sales were CHF 1 020 million, while EBIT came in at CHF 131 million. Adverse currency movements, competition and increasing raw material costs were partly offset by strict fixed-cost control and lower special charges. Capacity utilization returned to normal levels across the Life Science Ingredients division in 2010. Key activities to support growth in 2010 included:**

– Approval of the construction of the new niacinamide (vitamin B3) plant in Nansha (CN) by the Board of Directors, to be completed by 2012.
– The new intermediates plant in Visp (CH) came on stream in June, producing starting material for the L-carnitine plant in Nansha.
– Construction of the new L-carnitine plant in Nansha remained on schedule, with start-up planned in early 2011.
– Successful completion of a new Microbial Control micro-lab in Nanjing (CN).
– An investment in the agrochemical production capacities in Visp was approved by the Board of Directors, based on the signing of a new contract. Start-up of this capacity is expected in mid 2011.
– In 2010, the number of projects in the R&D pipeline stayed at a high level.

**Nutrition Ingredients** Nutrition Ingredients saw higher sales due to a recovery in demand and new applications. Margins came under pressure owing to competitor activities.

The overall demand for nicotinates (vitamin B3) increased from 2009 levels, despite the fact that the market demand for nicotinates experienced a slowdown in the second half of the year. Prices remained steady throughout 2010, though at a lower level than in 2009 due to competitive activities. Margins came under pressure in the fourth quarter of 2010 due to significant increases in raw material costs.

Carnipure™ and Carniking™ sales continued to increase in 2010, driven by high demand for beverage and dietary supplement applications. Price pressure due to patent expirations offset the positive impact of higher volumes. Sales to the pet food industry remained strong.

Sales of Meta™ (metaldehyde), a specific molluscicide, were significantly below expectations owing to the high stocks held in the supply chain. This was due to the low demand seen in 2009 as a result of the dry weather conditions in the autumn.

**Microbial Control** Microbial Control achieved an increase in sales due to a recovery in demand in the USA and Europe and continued growth in Asia. Margins benefited from improved plant utilization, despite the negative impact of higher raw material costs.

We increased our commercial activities in China, India and Eastern Europe with investments that had a positive impact on our results in the third and fourth quarter of 2010.

The hygiene business continued to show healthy growth, driven by our activities in new markets and our new product offerings. The materials protection and water treatment businesses grew, with new technologies in oilfield applications. These new business opportunities offset the revenue gap caused by the decline in sales of Carboquat™ for wood protection over the last three years.

Strategic growth projects are progressing as anticipated. Sales of formulated products are moving ahead in all markets. However, regulatory approvals remain slow.

**Performance Intermediates** The Performance Intermediates business unit saw a decline in sales, largely due to lower demand from the agrochemical industry.

Sales of diketene and HCN derivatives were driven by solid demand in Europe and Asia. Overcapacities in Asia, persistently high raw material prices and the strong Swiss franc had a negative impact on margins. Asset utilization remained high throughout 2010.

The High Performance Materials business enjoyed a year of record sales in the electronics, aerospace and construction industries due to high demand for Primaset™ cyanate esters, pyromellitic anhydride (PMDA) and Lonzacure™. Construction of the new PMDA plant in Nanjing (CN) is progressing, with start-up planned at the end of the first half of 2011.

Demand for agrochemical active ingredients was lower than in 2009 due to overstocking in the previous season and tight customer inventory management. The project portfolio grew further, with the addition of new long-term, strategic products, one of which will be produced in a new agrochemical asset being built at Visp. Several projects were successfully completed in the ISO small-scale, multi-purpose plant in Nansha (CN).

## Custom Manufacturing

| million CHF | 2009 after special charges | 2009 before special charges | 2010 |
|---|---|---|---|
| **Sales** | **1 418** | **1 418** | **1 445** |
| Change in % | | | 1.9 |
| **Change due to** | | | |
| Volume and prices | | | 70 |
| Currency translation | | | (43) |
| Scope of consolidation | | | 0 |
| **Result from operating activities (EBIT)** | **127** | **239** | **253** |
| Change in % before special charges | | | 5.9 |
| Change in % after special charges | | | 99.2 |
| **Margin in %** | **9.0** | **16.9** | **17.5** |
| **EBITDA** | **379** | **420** | **426** |
| Change in % before special charges | | | 1.4 |
| Change in % after special charges | | | 12.4 |
| **Margin in %** | **26.7** | **29.6** | **29.5** |

**Custom Manufacturing sales grew by 1.9% to CHF 1445 million, while EBIT increased by 5.9% to CHF 253 million, driven primarily by improved capacity utilization in large-scale Biological Manufacturing as a result of new product introductions, especially in the second half of 2010. The Development Services business unit continued to make good progress, while Chemical Manufacturing benefited from efficiency initiatives. Custom Manufacturing's improved performance was achieved despite negative currency effects and delayed product approvals by regulatory authorities.**

**Chemical Manufacturing** Lonza's Chemical Manufacturing business unit delivered a solid performance in 2010, mainly driven by increasing new customer demand and the successful implementation of operational efficiencies to reduce the break-even point.

The divestiture of the Conshohocken (Riverside), PA (USA) facility, as a result of the re-engineering project, was finalized in October 2010.

EBIT in Chemical Manufacturing increased, while capacity utilization in 2010 remained at a similar level to 2009.

The chemical outsourcing trend remains intact due to continued asset reviews at pharmaceutical companies. However the fragmented competition landscape slows down consolidation.

Lonza's trendsetting new Total Life-Cycle Management and Pipeline Deal concept, offering development and manufacturing services from early product development through to the post-patent generic stage, further increased the product pipeline to over 280 projects, and led to a capacity utilization of approximately 75% in 2010.

The new strategic collaboration with California Peptide Research, Inc. expanded Lonza's small-scale peptides manufacturing and development service capabilities, allowing access to the very active West-Coast market. Also, our collaboration with Dalton Pharma Services, Inc. significantly improved Lonza's early-phase chemistry and kilo-lab manufacturing services for small molecules.

Chemical Manufacturing also continued to implement its growth strategy, which is based on strengthening its capacity and technology platforms. All major projects are on schedule, driven by customer demand:
- Expansion plans for new capacities in micro-reactor technology and for highly potent active pharmaceutical ingredients (HAPIs) are currently under evaluation.
- The lab-scale peptide production in Nansha (CN) is now fully operational, with multiple customer projects and additional capacities under evaluation.

**Biological Manufacturing** The Biological Manufacturing business unit had a good year in 2010 thanks to an improvement in capacity utilization at our mid- and large-scale facilities, especially in the second half of 2010. This was due to multiple new products. Biological Manufacturing also saw high batch success rates.

In addition, our broad offering enabled us to increase our current pipeline to more than 260 active projects by the end of 2010. One contributor to this increase was our pipeline deal with GlaxoSmithKline.

The business made further progress with the execution of planned expansion projects, achieving a number of important milestones in 2010:

– The first plant in Singapore was completed and operationally handed over to Roche / Genentech following a successful FDA inspection and product launch in the third quarter of 2010.
– The full fit-out of the second facility in Singapore has been initiated and continues to make good progress. This facility is due to come on stream in the third quarter of 2011, with at present five current customer projects giving it a start-up utilization of over 60%.
– The new 2 000-liter line in Hopkinton, MA (USA) was successfully brought on stream and is currently operational, with two major customer projects. The fully booked 2 800-liter line was upgraded and the plant brought back on line in the third quarter of 2010.
– The throughput improvement program for the 1 000-liter and the two 15 000-liter microbial lines in Visp (CH) was successfully started in January 2010.
– The customer-driven harmonization programs for all our mid- and large-scale mammalian assets in Portsmouth, NH (USA), Porriño (ES) and Singapore were initiated. These programs will enable our facilities to provide customers with the tailor-made capacity they need at many of our production sites as of 2012.

The joint venture between Teva and Lonza, TL Biopharmaceutical Ltd, began the clinical development of its first biosimilar product. Teva and Lonza will cooperate on the development, manufacture and marketing of a number of affordable, efficacious and safe generic equivalents of a selected portfolio of biological pharmaceuticals. As in other long-term customer partnerships, Lonza will contribute its cell line, process development and manufacturing services to the partnership. Lonza and Teva believe that this joint venture will offer both partners significant mid-term growth potential.

**Development Services** delivered a solid sales and EBIT performance in 2010.

In the area of Microbial Fermentation, multiple product deals were signed with a range of pharmaceutical companies. Improvements to the XS Microbial Expression Technologies™, the fast-track program for strain development and clinical material supply, led to further gains in market momentum.

More than ten new agreements for Lonza's GS Gene Expression System™ (e.g. with Stason Pharmaceuticals, Inc.) confirmed its unique position as the industry standard. Currently, eight commercial and seven phase-III products are utilizing the GS system.

**Regulatory** Overall, Lonza Custom Manufacturing underwent 35 cGMP audits for multiple new products from the respective regulatory authorities. All of them were successfully completed. This record level documents Lonza's strong product portfolio and regulatory track record in an environment of ever-increasing scrutiny and will prove to be a real competitive advantage for Lonza.

## Bioscience

| million CHF | 2009 after special charges | 2009 before special charges | 2010 |
|---|---|---|---|
| **Sales** | **231** | **231** | **211** |
| Change in % | | | (8.7) |
| **Change due to** | | | |
| Volume and prices | | | (6) |
| Currency translation | | | (16) |
| Scope of consolidation | | | 2 |
| **Result from operating activities (EBIT)** | **18** | **26** | **14** |
| Change in % before special charges | | | (46.2) |
| Change in % after special charges | | | (22.2) |
| **Margin in %** | **7.8** | **11.3** | **6.6** |
| **EBITDA** | **39** | **43** | **26** |
| Change in % before special charges | | | (39.5) |
| Change in % after special charges | | | (33.3) |
| **Margin in %** | **16.9** | **18.6** | **12.3** |

**Bioscience sales declined by 8.7% to CHF 211 million in 2010 compared with 2009, mainly as a result of reduced Cell Therapy sales and negative currency effects. Margins were significantly lower than in 2009 due to lower capacity utilization. Lonza's initiatives to generate cost savings through business unit consolidation and global process optimization only partly offset these negative factors.**

**Research Solutions** sales declined compared with 2009, mainly due to the impact of exchange rates. At constant exchange rates, revenues were close to 2009 levels.

The 2010 business year saw strong performances in cell biology, cell assays, chromatography and fragment analysis. These gains were partly offset by the delayed launch of 4D Nucleofector™ and strong competition in primary cells and classic media. In 2010, pharma and biotech R&D maintained steady growth. However, more strictly controlled government funding in Academia had an impact in both the USA and the EU.

We launched 61 new research products in 2010, focused mainly in the areas of cell assays, pluripotent stem cells and diseased primary cells, including the new 4D Nucleofector™ product family. We finalized license agreements with California Stem Cells, Inc., Odyssey Thera and Roslin Stem Cells. These activities demonstrate the drive to develop R&D applications in the area of stem cell technologies.

**Testing Solutions** sales increased compared with 2009 due to strong growth in Latin America and Asia. This offset the negative impact of exchange rates and destocking after the end of H1N1 testing hype, which took place in the first half of 2010.

The launch of MicroCompass™ II, a new microbiology test platform, was delayed due to development taking longer than expected and delays at the equipment manufacturer.

In May 2010, Lonza acquired MODA Technology Partners in Wayne, PA (USA), a leading company in paperless quality-control solutions. Integration was finalized in the second half of 2010 and internal roll-outs started at Lonza along with external sales initiatives.

Services for our clients were broadened by offering contract endotoxin analysis of samples and a contract sterilization service. The new Solutions Business was initiated in 2010, with some pick-up in service revenues in the area of contracts and custom sterilization.

**Therapeutic Cell Solutions** sales and EBIT declined compared with 2009 due to delayed product approval by the largest client, as announced in October 2009. This led to underutilization of our existing production capacity, particularly in the first half of 2010. The Cell Therapy pipeline was rebuilt faster than expected during 2010 and now contains more than 15 projects in all clinical phases, as the large pharmaceutical companies have increased their interest in developing Cell Therapy products.

In the second half of 2010, Lonza acquired Vivante GMP, a viral-vaccine and gene therapy company based in Houston, TX (USA). The integration was finalized in the fourth quarter of 2010. Construction of the Cell Therapy facilities in Singapore and Walkersville, MD (USA) is on track and should be finished during 2011, with customers for a significant portion of both capacities already identified.

Overall, the outlook for the global Cell Therapy business remains very positive. Strong and growing interest in Cell Therapy led to increased investment in the development of both autologous and allogeneic products. Cell Therapy, which was previously driven mainly by biotech companies, saw much greater interest from big pharma companies during the course of 2010. In 2010, Lonza was awarded a grant by the US Department of Defense to help develop, test and commercialize (subject to FDA approval) PermaDerm™, an engineered skin substitutes (ESS) to treat burn victims.

As pluripotent-derived stem cell therapeutics are taken up in clinical practice, contract manufacturing of these cell types will continue to gain traction. A significantly increased Cell Therapy pipeline and advances in stem cell technologies are grounds for a positive outlook for this business in 2011.

## Corporate

The decrease in corporate costs is mainly due to cost savings.

| million CHF | 2009 after special charges | 2009 before special charges | 2010 |
|---|---|---|---|
| **Sales** | **3** | **3** | **4** |
| Change in % | | | 33.3 |
| **Result from operating activities (EBIT)** | **(25)** | **(22)** | **(24)** |
| Change in % before special charges | | | (9.1) |
| Change in % after special charges | | | 4.0 |
| **EBITDA** | **(15)** | **(13)** | **(15)** |
| Change in % before special charges | | | (15.4) |
| Change in % after special charges | | | 0.0 |

| Condensed consolidated balance sheet at 31 December<br>million CHF | 2009 | 2010 |
|---|---|---|
| Fixed assets | 3 486 | 3 296 |
| Long-term loans and advances | 32 | 43 |
| **Total non-current assets** | **3 518** | **3 339** |
| Current assets | 1 285 | 1 190 |
| Short-term advances | 1 | 1 |
| Cash and cash equivalents | 140 | 248 |
| **Total current assets** | **1 426** | **1 439** |
| **Total assets** | **4 944** | **4 778** |
| | | |
| Equity attributable to owners of the parent | 2 325 | 2 387 |
| Non-controlling interests | 64 | 0 |
| **Total equity** | **2 389** | **2 387** |
| Long-term liabilities | 571 | 406 |
| Long-term debt | 824 | 850 |
| **Total long-term liabilities and provisions** | **1 395** | **1 256** |
| Short-term liabilities | 645 | 585 |
| Short-term debt | 515 | 550 |
| **Total current liabilities and deferred items** | **1 160** | **1 135** |
| **Total liabilities and equity** | **4 944** | **4 778** |

| Condensed consolidated income statement<br>million CHF | 2009 | 2010 |
|---|---|---|
| **Sales** | **2 690** | **2 680** |
| Cost of goods sold | (2 145)[1] | (1 969) |
| **Gross profit** | **545** | **711** |
| Other operating expenses/income | (306)[2] | (337) |
| **Result from operating activities (EBIT)** | **239** | **374** |
| Net financing costs | (53) | (44) |
| **Profit before income taxes** | **186** | **330** |
| Income taxes | (27) | (46) |
| **Profit for the period** | **159** | **284** |
| | | |
| **Profit attributable to:** | | |
| Owners of the parent | 162 | 291 |
| Non-controlling interests | (3) | (7) |
| **Profit for the period** | **159** | **284** |
| | | |
| Basic earnings per share – EPS basic (CHF) | 3.19 | 5.55 |
| Diluted earnings per share – EPS diluted (CHF) | 3.17 | 5.53 |

[1] Includes impairment and restructuring costs of CHF 131 million
[2] Includes restructuring costs allocated to administration and general overheads (CHF 3 million) and to research and development (CHF 7 million).

| Condensed consolidated statement of comprehensive income | 2009 | 2010 |
|---|---|---|
| million CHF | | |
| **Profit for the period** | **159** | **284** |
| **Other comprehensive income:** | | |
| Exchange differences on translating foreign operations | (49) | (230) |
| Cash flow hedges | 49 | 8 |
| Income tax relating to components of other comprehensive income | (7) | 7 |
| **Other comprehensive income for the period, net of tax** | **(7)** | **(215)** |
| **Total comprehensive income for the period** | **152** | **69** |
| | | |
| Total comprehensive income attributable to: | | |
| Owners of the parent | 157 | 76 |
| Non-controlling interests | (5) | (7) |
| **Total comprehensive income for the period** | **152** | **69** |

| Condensed consolidated cash flow statement | 2009 | 2010 |
|---|---|---|
| million CHF | | |
| **Profit for the period** | **159** | **284** |
| Adjustment for non-cash items | 412 | 318 |
| Income taxes and interests paid | (103) | (72) |
| **Cash flow before change in net working capital** | **468** | **530** |
| (Increase) / decrease of net working capital | (93) | 17 |
| Increase / (decrease) of other payables net | 47 | (45) |
| **Net cash (used for) / provided by operating activities** | **422** | **502** |
| | | |
| Purchase of fixed assets | (520) | (300) |
| Acquisition of subsidiaries, net of cash acquired | (1) | (26) |
| Disposal of subsidiary, net of cash disposed of | 84 | 0 |
| Sale of assets held for sale | 5 | 0 |
| Net purchase of other assets and disposals | (23) | (38) |
| Interests and dividend received | 9 | 6 |
| **Net cash (used for) / provided by investing activities** | **(446)** | **(358)** |
| | | |
| Issue of straight bond | 297 | 397 |
| Repayment of straight bond | 0 | (300) |
| Increase / (decrease) in debt | (623) | 15 |
| Increase / (decrease) in other liabilities | 9 | (3) |
| Acquisition of non-controlling interests | 0 | (57) |
| Purchase of treasury shares | (8) | (4) |
| Sale of treasury shares | 8 | 14 |
| Dividends paid | (87) | (92) |
| **Net cash (used for) / provided by financing activities** | **(404)** | **(30)** |
| | | |
| Effect of currency translation on cash | 2 | (6) |
| | | |
| **Net (decrease) / increase in cash and cash equivalents** | **(426)** | **108** |
| Cash and cash equivalents at 1 January | 566 | 140 |
| Cash and cash equivalents at 31 December | 140 | 248 |

| Condensed consolidated statement of changes in equity<br>million CHF | Attributable to owners of the parent | | | | | | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Retained earnings/ Other reserves | Hedging reserve | Translation reserve | Treasury shares | | | |
| **At 31 December 2008** | **50** | **148** | **2 233** | **(56)** | **(209)** | **(301)** | **1 865** | **69** | **1 934** |
| Profit for the period | 0 | 0 | 162 | 0 | 0 | 0 | 162 | (3) | 159 |
| Other comprehensive income, net of tax | 0 | 0 | 0 | 40 | (45) | 0 | (5) | (2) | (7) |
| **Total comprehensive income for the period** | **0** | **0** | **162** | **40** | **(45)** | **0** | **157** | **(5)** | **152** |
| Dividends | 0 | 0 | (87) | 0 | 0 | 0 | (87) | 0 | (87) |
| Recognition of share-based payments | 0 | 0 | (3) | 0 | 0 | 0 | (3) | 0 | (3) |
| Transfer of employee shares | 0 | (4) | (11) | 0 | 0 | 15 | 0 | 0 | 0 |
| Conversion of convertible bond | 3 | 175 | 0 | 0 | 0 | 215 | 393 | 0 | 393 |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 | 0 | (8) | (8) | 0 | (8) |
| Sale of treasury shares | 0 | (3) | 0 | 0 | 0 | 11 | 8 | 0 | 8 |
| **At 31 December 2009** | **53** | **316** | **2 294** | **(16)** | **(254)** | **(68)** | **2 325** | **64** | **2 389** |
| Profit for the period | 0 | 0 | 291 | 0 | 0 | 0 | 291 | (7) | 284 |
| Other comprehensive income, net of tax | 0 | 0 | 0 | 8 | (223) | 0 | (215) | 0 | (215) |
| **Total comprehensive income for the period** | **0** | **0** | **291** | **8** | **(223)** | **0** | **76** | **(7)** | **69** |
| Dividends | 0 | 0 | (92) | 0 | 0 | 0 | (92) | 0 | (92) |
| Recognition of share-based payments | 0 | 0 | 8 | 0 | 0 | 0 | 8 | 0 | 8 |
| Transfer of employee shares | 0 | (3) | (7) | 0 | 0 | 10 | 0 | 0 | 0 |
| Acquisition of non-controlling interests | 0 | 0 | 1 | 0 | (1) | 0 | 0 | (57) | (57) |
| Derecognition of put-option | 0 | 0 | 59 | 0 | 0 | 0 | 59 | 0 | 59 |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 | 0 | (4) | (4) | 0 | (4) |
| Sale of treasury shares | 0 | (2) | (1) | 0 | 0 | 18 | 15 | 0 | 15 |
| **At 31 December 2010** | **53** | **311** | **2 553** | **(8)** | **(478)** | **(44)** | **2 387** | **0** | **2 387** |

# Selected explanatory notes

## 1. Accounting principles

**Basis of preparation of financial statements** These condensed financial statements are based on the audited consolidated financial statements for the twelve-month period ended 31 December 2010 that will be prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

**Changes in accounting policies** The following new and revised standards and interpretations have been issued, being effective for the reporting year 2010:
- IFRS 3 revised – Business combinations
- IAS 27 amended – Consolidated and separate financial statements
- Amendment to IAS 39 – Financial instruments: recognition and measurement – Eligible hedged items
- IFRIC 17 – Distributions of non-cash assets to owners
- Improvements to IFRSs – Amendments to IFRS 5 non-current assets held for sale and discontinued operations
- Improvements to IFRSs (April 2009)
- Amendments to IFRS 2 – Group cash-settled share-based payment transactions

These new accounting standards and interpretations did not have a significant impact on the Group's consolidated financial statements, other than additional disclosures.

From 1 January 2010, the functional currency of all subsidiaries in China was changed from US dollar to renminbi. This accounting change was implemented because the Chinese subsidiaries changed the focus of their operations more and more towards delivering their goods and services to the local markets.

## 2. Exchange rates

| Balance sheet<br>period-end rate CHF | 31 12 2009 | 31 12 2010 |
|---|---|---|
| US dollar | 1.03 | 0.94 |
| Pound sterling | 1.66 | 1.45 |
| Euro | 1.48 | 1.25 |

| Income statement<br>average rate CHF | 2009 | 2010 |
|---|---|---|
| US dollar | 1.09 | 1.04 |
| Pound sterling | 1.69 | 1.61 |
| Euro | 1.51 | 1.38 |

## 3. Debt

The straight bond (2005-2010) of CHF 300 million at an interest rate of 2.625% became due for repayment on 2 June 2010. It was refinanced by the issue of a new straight bond with the following terms: amount CHF 400 million, due 2 June 2016; interest 3.00% p.a., payable on 2 June, for the first time on 2 June 2011. The net proceeds of the bond amount to CHF 396.9 million as of 2 June 2010 after considering up-front fees of CHF 5.970 million and an agio of CHF 2.884 million.

## 4. Restructuring

In the year-end closing 2009, restructuring provisions of CHF 21 million were recognized which were further increased in 2010 by CHF 9 million. Restructuring provisions of CHF 19 million were used in 2010 and CHF 5 million was reversed.

## 5. Business combinations

Effective 18 May 2010, Lonza Group acquired 100% of the shares in MODA Technology Partners ("MODA") for a cash consideration of CHF 24.3 million. Based on a valuation of MODA's acquired net assets, the identifiable net assets were determined to be CHF 3.9 million, which resulted in goodwill of CHF 20.4 million.

MODA provides a mobile data acquisition platform that enables quality assurance and quality control organizations in the life sciences industry to automate their regulated manufacturing processes, including environmental monitoring (EM), utility testing, and product testing. MODA is headquartered in Wayne, PA (USA), with authorized resellers and technology integration partners throughout North America.

## 6. Acquisition of non-controlling interests

On 15 December 2010, Lonza exercised its call option to acquire 30% of the share capital of Lonza Biologics Tuas Pte Ltd from Bio*One Capital for CHF 57 million in cash, increasing its stake to 100%. The group recognised a decrease in non-controlling interests of CHF 57 million.

The acquisition of non-controlling interests resulted in the derecognition of the put-option Lonza granted to Bio*One Capital, in 2008, by derecognizing the financial liability related to the put-option against equity.

## 7. Free Cash Flow

The Free Cash Flow shows the following development by its components for 2009 and 2010:

| Components of Free Cash Flow<br>in million CHF | 2009 | 2010 | Change |
|---|---|---|---|
| EBITDA | 601 | 643 | 42 |
| Change of operating net working capital | (93) | 47 | 140 |
| Capital expenditures in tangible and intangible assets | (520) | (300) | 220 |
| Disposal of tangible assets | 14 | 9 | (5) |
| Acquisition of subsidiaries | (1) | (26) | (25) |
| Disposal of subsidiaries | 54 | 0 | (54) |
| Change of other assets and liabilities | (4) | (37) | (33) |
| **Free Cash Flow** | **51** | **336** | **285** |

The Full-year Report 2010 is also available in German. The English version prevails.

Annual General Meeting
for the 2010 financial year
12 April 2011
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-year Report 2011
27 July 2011

Full-year Report 2011
January 2012

### Forward-looking statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Investors are cautioned that all forward-looking statements involve risks and uncertainty. 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.

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