# HALF-YEAR REPORT 2009

## Financial highlights first half-year

| million CHF | 2008 | 2009 |
|---|---|---|
| **Sales** | 1 463 | **1 329** |
| Change in % | | (9.2) |
| **EBITDA** | 354 | **300** |
| Change in % | | (15.3) |
| **Margin in %** | 24.2 | **22.6** |
| **Result from operating activities (EBIT)** | 235 | **163** |
| Change in % | | (30.6) |
| **Margin in %** | 16.1 | **12.3** |
| **Profit for the period** | 267 | **118** |
| Change in % | | (55.8) |
| **Cash flow before change in net working capital** | 276 | **218** |
| Change in % | | (21.0) |
| **RONOA in %** | 15.7 | **9.2** |
| **Net debt** | 1 393 | **1 268** |
| Change in % | | (9.0) |
| **Debt-equity ratio** | 0.76 | **0.52** |
| **EPS basic (CHF)** | 5.60 | **2.44** |
| Change in % | | (56.4) |
| **EPS diluted (CHF)** | 5.15 | **2.28** |
| Change in % | | (55.7) |
| **Number of employees** | 8 106 | **8 580** |
| Change in % | | 5.8 |

### Sales of CHF 1 329 million were down by 9 % compared to last year, driven principally by the order pattern for Custom Manufacturing and simultaneous plant start-ups in the first half – majority of Lonza's markets remain resilient

### EBIT of CHF 163 million follows lower sales development and cost for simultaneous plant start-ups; EBIT development in the first half of the year slightly better than budgeted

### Stronger EBIT contribution expected for the second semester – growth projects on track

### Full conversion of convertible bond sustainably strengthens balance sheet structure

**Overview** The nature of Lonza's Custom Manufacturing business model, along with a slowdown in parts of Life Science Ingredients, led to a weaker performance in the first half of 2009. Group sales were down by 9.2 % to CHF 1 329 million. Cost and efficiency improvements, along with lower raw material prices, partly compensated for lower capacity utilization levels, limiting the decline in EBITDA to 15.3 % (CHF 300 million). Higher depreciation charges stemming from the start-up of new projects resulted in a disproportionate decline in EBIT of 30.6 % to CHF 163 million. Net profit declined on a comparable basis [1] by 32.9 % to CHF 118 million. Cash flow was temporarily impacted by an inventory run-up in Custom Manufacturing ahead of an anticipated stronger second half, backed by customer orders. The full conversion into equity of the four-year CHF 430 million convertible bond helped reduce gearing from 76 % at the end of 2008 to 52 %. In addition, the successful placing of a CHF 300 million straight bond with a coupon of 3.75 % maturing in 2013 ensures long-term financing of the announced growth projects on attractive terms. Both contribute to further strengthening Lonza's balance sheet and increasing financial flexibility. The projects to deliver sustainable, above-average, profitable growth continue to be on or ahead of schedule. The healthy increase in the project pipelines raises confidence of an optimal utilization of these new assets in the mid term.

**Life Science Ingredients** felt the impact of de-stocking and weak end-user markets. Compared to a strong first half of 2008, sales declined by 13.7 % to CHF 506 million. As expected, Microbial Control and Performance Intermediates were hit disproportionally, as stringent cost containment and lower raw material prices failed to compensate for the lower capacity utilization levels. Nutrition and agrochemicals demonstrated resilience, making it possible to keep EBITDA margins stable at 20.6 % of sales for the division. EBIT declined disproportionately by 20.7 % to CHF 69 million on higher depreciation charges, but the 13.6 % return on sales remained on a par with the full-year margins generated in 2008. The project pipeline increased to over 115 projects.

**Custom Manufacturing** (Exclusive Synthesis & Biopharmaceuticals) results illustrated the lumpiness of the order pattern. Compared to a strong first half of 2008, sales declined by 7.7 % to CHF 706 million. Exclusive Synthesis suffered from an unfavorable product mix and from customers reducing their inventory levels, which resulted in more just-in-time ordering. Both effects are anticipated to normalize in the second half, leading to a stronger performance. Biopharmaceuticals felt the effects of the same inventory reduction trends. In addition, the division incurred

[1] Excluding the CHF 91 million book gain realized in 2008 on the sale of the remaining stake in Polynt S.p.A.

start-up costs in the first half of 2009 due to the opening of the facility in Nansha (CN), the start-up in Porriño (ES), and product changes in Portsmouth, NH (USA). As a consequence, EBITDA declined by 17.1 % to CHF 179 million. Due to higher depreciation charges stemming from the above-mentioned projects coming on stream, EBIT declined disproportionally by 35.5 % to CHF 91 million. Project pipelines improved significantly, and the trend toward outsourcing and more strategic partnerships was reinforced. Negotiations regarding additional long-term multi-product contracts are well underway in both businesses.

**Bioscience** sales increased by 9.3 % to CHF 117 million in a difficult market environment, driven by organic growth and the integration of amaxa. EBIT declined slightly by 6.3 % to CHF 15 million on higher depreciation charges and an unfavorable mix of the different businesses. A stronger second half is anticipated, driven also by growing product and project pipelines.

**Financial summary**
- The decrease in net profit of 55.8 % resulted from the decline in EBIT, along with the booking in 2008 of a CHF 91 million book gain realized on the remaining stake in Polynt S.p.A.
- Net working capital in relation to sales increased on average from 19.9 % in 2008 to 28.8 %. The end of semester number was driven by inventory build-up in anticipation of a strong second half, backed by customer orders.
- Net cash provided by operating activities increased from CHF 106 million in the first half of 2008 to CHF 164 million.
- Capital expenditure was contained at CHF 264 million, with no resulting delays to any growth project milestones.
- Net debt amounted to CHF 1 268 million, a significant reduction from the CHF 1 469 million posted at the end of 2008. Over 80 % of Lonza's debt is financed on a long-term basis, with fixed interest rates under 3.5 %.

**Outlook** All strategic projects are on track. With sound execution of its long-term plan, Lonza continues to drive growth initiatives in the form of strategic investments and organic growth projects. Significantly strengthened project pipelines and the extension of the custom manufacturing business model to multiple product contracts demonstrate a deeper integration with customers. The recently signed agreements to develop a number of biopharmaceutical pipelines represent a new strategic initiative for the development of our Group. The increased financial flexibility enables us to evaluate specific expansions possibilities in our Life Science focused value chain.
Based on visibility of contracts, projects and economic conditions, Lonza expects:
- EBIT growth in the mid to high teens on average until 2013.
- A project pipeline fully aligned to support growth expectations – 80 % of capacity expansion committed today.

We remain fully committed to our vision and long-term objectives. We believe that science and technology should be used to improve the quality of life. We work with passion, using advanced technologies, to transform life science into new possibilities for our customers, whom we thank for their continued trust.

We would especially like to thank our employees for all their special efforts this year, and our shareholders for their unwavering support.

**Rolf Soiron**
Chairman of the
Board of Directors

**Stefan Borgas**
Chief Executive Officer

## Life Science Ingredients

| million CHF | 2008 | 2009 |
| --- | --- | --- |
| **Sales** | 586 | **506** |
| Change in % | | (13.7) |
| **Change due to** | | |
| Volume and prices | | (98) |
| Currency translation | | 18 |
| Scope of consolidation | | 0 |
| **Result from operating activities (EBIT)** | 87 | **69** |
| Change in % | | (20.7) |
| **Margin in %** | 14.8 | **13.6** |
| **EBITDA** | 120 | **104** |
| Change in % | | (13.3) |
| **Margin in %** | 20.5 | **20.6** |

**Sales declined by 13.7 % to CHF 506 million, owing to the impact of de-stocking and weak end-user markets. Some upward trends, especially in China, were noted in June. EBIT decreased by 20.7 % to CHF 69 million, due to the impact of the economic crisis and particularly of the downturn in demand for biocides and hygiene products, and the de-stocking of vitamins and vitamin intermediates. The lower asset utilization was partially offset by stringent fixed-cost savings and positive purchase price differences.**

**Nutrition Ingredients** A combination of reduced meat consumption, lower feed production and high inventories resulted in an overall weakness in demand for nicotinates (vitamin B3) for feed applications. Pricing was successfully defended. Sales of niacin / niacinamide for food applications were lower, mainly due to slower demand resulting from customer inventory controls and stocking policies in response to the economic climate. Pricing and raw materials were stable in the first half, maintaining margins at the anticipated level. Sales of niacin for pharmaceutical applications were lower than expected, but should pick up in the second half of the year.

Carniking™ enjoyed strong demand in the pet food segment, with good results above last year's level. Demand in the swine food sector was below expectations, owing to the current economic environment in Europe and the USA. Sales of Carnipure™ were strong during the first half of the year due to new functional food launches in emerging markets and solid sales in the USA of dietary supplements and beverages. Sales in Japan were weaker than expected.

Sales of Meta™ metaldehyde, a specific molluscicide, developed according to plan, despite the negative impact of adverse weather conditions at the beginning of the year which resulted in a lower incidence of slugs in gardens, and competition from alternative treatments. In China, the first sales of MetaLi™ for the prevention of a specific disease (schistosomiasis) were recorded. The Meta™ portfolio was strengthened by the addition of an olfactive offering. This will enable a further increase in safety standards to be achieved and further strengthen Lonza's position as a leading supplier of Meta™.

The scale-up of the current plant for production of Pro-K™ in Shawinigan (CA) is progressing, with regular vitamin K3 sales to the feed industry in the first half of 2009.

The larch arabinogalactan business, with the products FiberAid™ and ResistAid™, was slightly below expectations during the first half of the year, as key customers experienced lower demand for their products.

**Microbial Control** The global economic downturn created a severe slump in demand in many of the key markets of our Microbial Control business. The strong decline in sales led to a significant underutilization of production assets. This negative effect was only partially compensated for by very stringent fixed-cost and price management.

The raw materials which are fundamental to a large part of the cost structure of the Microbial Control business continue to experience unprecedented price fluctuations. Traditional price patterns for tallow and palm kernel oil are being disrupted by the new demand for use in biofuels.

In terms of investments, the expansion project for amines in Mapleton, IL (USA) was finalized and the formulation plant in Nanjing (CN) will be completed on time and within budget in July 2009.

Our hygiene product offering, which includes registered antimicrobial active ingredients and formulations, specialty surfactants and preservatives, protected its market positions; but the overall size of the markets has contracted.

The water treatment business was hit in particular, as the shutdown of paper mills continues across key markets in North America and Europe. Sales in new markets, such as oil fields and petroleum products, will not begin to materialize until the second half of 2009.

In the materials protection business, sales of Carboquat™, a product used in pressure-treated wood, are considerably below target. The demise of the US housing market greatly reduced overall market demand. Acrawax™, a synthetic wax, has also experienced a dramatic reduction in market demand, mainly due to the sharp drop in the US auto manufacturing sector.

**Performance Intermediates** Overall demand for our large-volume diketene derivatives in the vitamin, pharmaceutical and pigment industries was very weak in the first half of 2009. Customers began reducing their inventories and price pressure increased, especially in the Asian markets. Asset utilization was well below target in the first half of 2009.

Sales of HCN derivatives were also well below normal levels due to high raw material prices, weak demand and inventory reduction in the relevant supply chains.

The high-performance materials business was somewhat affected by a general weakening in the electronics and construction industries. Weaker customer demand for some Primaset™ cyanate esters for electronic applications was compensated for by strong demand for our Lonzacure™ chain extenders for aerospace, automotive and industrial applications. The pyromellitic dianhydride business, with its manufacturing operation in Lyiang (CN), has recovered from a very weak start to 2009 and the plant is now running at full capacity. The project to build a new plant in Nanjing (CN) is moving forward, with start-up planned for the second half of 2010.

Strong demand for agrochemical active ingredients and very high asset utilization in the non-regulated custom manufacturing plants delivered a satisfactory result. In the first half of 2009, the project portfolio for agrochemical active ingredients and non-regulated intermediates grew further. Several production campaigns were successfully completed in the new ISO small-scale multi-purpose plant at our site in Nansha (CN).

## Custom Manufacturing

| million CHF | 2008 | 2009 |
|---|---|---|
| **Sales** | 765 | **706** |
| Change in % | | (7.7) |
| **Change due to** | | |
| Volume and prices | | (73) |
| Currency translation | | 14 |
| Scope of consolidation | | 0 |
| **Result from operating activities (EBIT)** | 141 | **91** |
| Change in % | | (35.5) |
| **Margin in %** | 18.4 | **12.9** |
| **EBITDA** | 216 | **179** |
| Change in % | | (17.1) |
| **Margin in %** | 28.2 | **25.4** |

**Sales declined by 7.7 % to CHF 706 million. The decline reflects the lumpiness of the Custom Manufacturing business model. An unfavorable product mix in the short-term and inventory reductions by customers affected capacity utilization levels. In addition, the business incurred start-up costs for the opening of the facility in Nansha (CN), the start-up in Porriño (ES), and product changes in Portsmouth, NH (USA). As a consequence, EBIT declined by 35.5 % to CHF 91 million.**

**Exclusive Synthesis** Sales and profits – as expected – were below last year's levels. Stronger Peptides and Biochemicals businesses offset the decline in Small Molecules. This decline is due to an unfavorable product mix and customers' efforts to optimize the net working capital. Both these effects are expected to normalize in the second half of 2009, resulting in a stronger performance. The growth outlook for the year is clearly confirmed by customer orders. Multiple operational excellence projects, resulting in lower maximum asset utilization levels, increased the flexibility of the business and allowed Lonza to serve new customer requirements.

Despite a small decline, capacity utilization remained above 80 %, and expansion projects were well-supported by a strong pipeline of over 225 projects. This is a significant increase on the 185 projects at the same time last year, with all three business units contributing to the increase.

As part of further measures to secure long-term growth, Lonza Exclusive Synthesis continued its growth strategy by strengthening its capacity and technology platforms. Major projects are on schedule, with increased demand from customers driving the next phases of the build-outs:
– The first build-out of the large-scale multi-purpose cGMP API plant in Nansha (CN) is fully loaded and running smoothly.
– The second build-out phase has been completed and the plant will go on stream in the coming weeks.
– The installation of a mid-scale multi-purpose cGMP API production plant is under evaluation with a view to offering all production scales from the Nansha plant.
– The antibody drug conjugates project is running as scheduled in Visp (CH).
– An additional mid-scale plant for highly potent APIs is under evaluation in Visp (CH).
– A lab-scale peptide production plant was established in Nansha.
– Additional cGMP lab-scale production capacity for peptides is under evaluation.

Operational excellence projects continue to target productivity increases in Riverside, PA (USA), Kouřim (CZ), Visp (CH) and Braine-l'Alleud (BE). To stay focused on high-value-adding steps, outsourcing possibilities for low-value starting materials and intermediates are being evaluated.

Satisfactory progress was made, with a strong push toward oral biopharmaceuticals and small molecule opportunities.

Finally, two regulatory inspections were conducted by the FDA, one in Riverside, PA (USA) and one in Braine-l'Alleud (BE), both with successful outcomes.

**Biopharmaceuticals** Lower sales and profits were the result of an anticipated change in order patterns and simultaneous production start-ups in Porriño (ES) and Portsmouth, NH (USA). These effects are expected to normalize in the second half of the year, resulting in a stronger performance.

In the first half of 2009, the Biopharmaceuticals business sector continued to operate with high batch success rates, above the industry average. Various initiatives and additions to our portfolio in Mammalian and Microbial services and manufacturing increased our current product pipeline to more than 180 projects.

The Biopharmaceuticals business made further progress, with the planned expansion projects achieving a number of milestones in the first half of 2009:

– The retrofitted, multi-product facility in Porriño (ES) is fully operational and currently supporting three customer projects (phase III and commercial).
– The new 5000-liter line in Portsmouth, NH (USA) is on stream, processing multiple customer projects.
– Both large-scale expansion projects in Singapore continue to be on track. The first plant has been completed and its handover to Roche / Genentech is targeted for the third quarter of 2009. The full fitting-out of the second facility has begun; the start-up of this facility is expected for 2011, with a capacity utilization of above 60 %.
– The start-up of the new 2000-liter line in the microbial biopharmaceuticals facility in Hopkinton, MA (USA) was delayed for three months due to various customer-driven process and equipment changes, while engineering batches were successfully completed in June 2009. Various other project delays and schedule changes opened up a three-month window in which to make planned equipment and infrastructure changes to our fully booked 2800-liter line in Hopkinton.

In May 2009, the European Commission granted antitrust approval to the joint venture between Lonza and Teva, which was originally announced in January 2009. 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 any other long-term partnership with our customers, Lonza will contribute cell line and process development and manufacturing services to the partnership, offering both partners significant mid-term growth potential.

The new technology and service platform, including the AggreSolve™ technology, highly potent cell lines (strategic collaboration with BioWa) and Lonza media and feed systems (Lonza Bioscience), met with strong customer interest. Lonza's innovative mammalian platform now delivers scalable and reproducible solutions. The further development of the XS microbial expression platform and the new fast-track program for strain development and clinical material supply have further strengthened Lonza's leading market position for microbial biopharmaceuticals.

The multiple customer audits and the three regulatory inspections conducted by the FDA in Hopkinton, MA (USA), Visp (CH) and Slough (UK) all had successful outcomes.

## Bioscience

| million CHF | 2008 | 2009 |
|---|---|---|
| **Sales** | 107 | **117** |
| Change in % | | 9.3 |
| **Change due to** | | |
| Volume and prices | | 3 |
| Currency translation | | 2 |
| Scope of consolidation | | 5 |
| **Result from operating activities (EBIT)** | 16 | **15** |
| Change in % | | (6.3) |
| **Margin in %** | 15.0 | **12.8** |
| **EBITDA** | 22 | **24** |
| Change in % | | 9.1 |
| **Margin in %** | 20.6 | **20.5** |

**In a difficult market environment, Bioscience increased sales by 9.3 % to CHF 117 million. Sales in the Media business continued to grow. Despite the difficult trading circumstances, the performance of the Rapid Testing and Cell Discovery business units was on a par with 2008 levels. The Cell Therapy business did not match the previous year's performance due to the timing of client orders. Lower demand from a key client affected the Molecular Biology business. Reduced research spending had a negative impact on the transfection business. EBIT declined by 6.3 % to CHF 15 million on higher depreciation charges and an unfavorable mix of the different businesses.**

**Cell Therapy** Due to the timing of orders, the business failed to match last year's sales performance. Six new cell therapy manufacturing and service contracts were signed in the first half of 2009. The Cell Therapy business began its expansion into Asia with the conclusion of an agreement with the government of Singapore. The ground was broken for the commercial cell therapy facility in Walkersville, MD (USA). The new plant is being built to meet growing demand in 2011 and beyond.

**Rapid Testing** The effects of cutbacks in spending on quality control by pharmaceutical companies were offset by growth in adjacent markets and regions. The 2008 sales levels were maintained.

**Media** The Media business unit was able to sustain the growth trend. This was mainly due to a strong performance in the liquid media segment, which drove sales in the first half of 2009. New mesenchymal stem cell media were launched in the first half of the year.

**Cell Discovery** Sales were below target mainly as a result of cutbacks in the budgets of academic institutions and consolidation in the pharmaceutical industry. The impact of budget cuts, which had the biggest influence on sales, was offset by new product launches in cell analysis. As a result, the 2008 sales levels were maintained. A new "low-cost" transfection instrument and associated consumables, as well as numerous new primary cell systems (cells and media), were launched in the first half of the year.

**Molecular Biology** Sales were below target mainly as a result of weaker demand in the bulk business for molecular biology and chromatography agarose. Molecular biology sales recovered substantially in the second quarter. New products, including the FlashGel™ recovery system and FlashGel™ camera documentation system, were launched on schedule in the first half of the year.

## Other

| million CHF | 2008 | 2009 |
|---|---|---|
| **Sales** | 5 | **0** |
| Change in % | | (100.0) |
| **Change due to** | | |
| Volume and prices | | (5) |
| Currency translation | | 0 |
| Scope of consolidation | | 0 |
| **Result from operating activities (EBIT)** | (9) | **(12)** |
| **EBITDA** | (4) | **(7)** |

The increase in holding costs is mainly due to additional expenses relating to long-term innovation projects (LIFT) and operational improvement programs.

| **Condensed consolidated balance sheet at 31 December 2008 and 30 June 2009** (unaudited)<br>million CHF | 2008 | 2009 |
|---|---|---|
| Fixed assets | 3 628 | 3 824 |
| Long-term loans and advances | 9 | 9 |
| **Total non-current assets** | **3 637** | **3 833** |
| Current assets | 1 417 | 1 372 |
| Short-term advances and other financial assets | 2 | 2 |
| Cash and cash equivalents | 566 | 231 |
| Assets held for sale | 4 | 2 |
| **Total current assets** | **1 989** | **1 607** |
| **Total assets** | **5 626** | **5 440** |
| | | |
| Equity attributable to owners of the parent | 1 865 | 2 353 |
| Non-controlling interests | 69 | 68 |
| **Total equity** | **1 934** | **2 421** |
| Long-term liabilities | 744 | 760 |
| Long-term debt | 894 | 1 121 |
| **Total long-term liabilities and provisions** | **1 638** | **1 881** |
| Short-term liabilities | 902 | 749 |
| Short-term debt | 1 152 | 389 |
| **Total current liabilities and deferred items** | **2 054** | **1 138** |
| **Total liabilities and equity** | **5 626** | **5 440** |

| **Condensed consolidated income statement first half-year** (unaudited)<br>million CHF | 2008 | 2009 |
|---|---|---|
| **Sales** | **1 463** | **1 329** |
| Cost of goods sold | (1 033) | (978) |
| **Gross profit** | **430** | **351** |
| Other operating expenses | (195) | (188) |
| **Result from operating activities (EBIT)** | **235** | **163** |
| Net financing costs | (28) | (24) |
| Gain on sale of assets held for sale [1] | 91 | 0 |
| **Profit before income taxes** | **298** | **139** |
| Income taxes | (31) | (21) |
| **Profit for the period** | **267** | **118** |
| | | |
| **Profit attributable to:** | | |
| Owners of the parent | 267 | 120 |
| Non-controlling interests | 0 | (2) |
| **Profit for the period** | **267** | **118** |
| | | |
| Basic earnings per share – EPS basic (CHF) | 5.60 | 2.44 |
| Diluted earnings per share – EPS diluted (CHF) | 5.15 | 2.28 |

[1] Sale of the shares of Polynt S.p.A.

| Condensed consolidated statement of comprehensive income for the period first half-year (unaudited) million CHF | 2008 | 2009 |
|---|---|---|
| **Profit for the period** | **267** | **118** |
| **Other comprehensive income:** | | |
| Exchange differences on translating foreign operations | (126) | 39 |
| Cash flow hedges | (6) | 23 |
| Income tax relating to components of other comprehensive income | 5 | (5) |
| **Other comprehensive income for the period, net of tax** | **(127)** | **57** |
| **Total comprehensive income for the period** | **140** | **175** |
| | | |
| Total comprehensive income attributable to: | | |
| Owners of the parent | 140 | 176 |
| Non-controlling interests | 0 | (1) |
| **Total comprehensive income for the period** | **140** | **175** |

| Condensed consolidated cash flow statement first half-year (unaudited) million CHF | 2008 | 2009 |
|---|---|---|
| **Profit for the period** | **267** | **118** |
| Adjustment for non-cash items | 73 | 167 |
| Income taxes and interest paid | (64) | (67) |
| **Cash flow before change in net working capital** | **276** | **218** |
| (Increase) / decrease of net working capital | (181) | (116) |
| Increase / (decrease) of other payables net | 11 | 62 |
| **Net cash (used for) / provided by operating activities** | **106** | **164** |
| | | |
| Purchase of fixed assets | (316) | (264) |
| Sale of assets held for sale | 188 | 3 |
| Net purchase of other assets and disposals | 10 | 1 |
| Interests and dividend received | 9 | 7 |
| **Net cash (used for) / provided by investing activities** | **(109)** | **(253)** |
| | | |
| Increase / (decrease) of capital | 0 | 0 |
| Increase / (decrease) in debt | 256 | (174) |
| Increase / (decrease) in other liabilities | 5 | 3 |
| Purchase of treasury shares | (20) | 0 |
| Sale of treasury shares | 12 | 8 |
| Delivery of employee shares | (2) | 0 |
| Dividends paid | (83) | (87) |
| **Net cash (used for) / provided by financing activities** | **168** | **(250)** |
| | | |
| Effect of currency translation on cash | (24) | 4 |
| | | |
| **Net (decrease) / increase in cash and cash equivalents** | **141** | **(335)** |
| Cash and cash equivalents at 1 January | 372 | 566 |
| Cash and cash equivalents at 30 June | 513 | 231 |

| Condensed consolidated statement of changes in equity first half-year (unaudited) 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 | | | |
| **Six months ended 30 June 2008** | | | | | | | | | |
| **At 31 December 2007** | **50** | **158** | **1 912** | **3** | **(10)** | **(324)** | **1 789** | **0** | **1 789** |
| Total comprehensive income for the period | 0 | 0 | 267 | (6) | (121) | 0 | 140 | 0 | 140 |
| Dividends | 0 | 0 | (83) | 0 | 0 | 0 | (83) | 0 | (83) |
| Recognition of share-based payments | 0 | 0 | 5 | 0 | 0 | 0 | 5 | 0 | 5 |
| Transfer of employee shares | 0 | 0 | (2) | 0 | 0 | 0 | (2) | 0 | (2) |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 | 0 | (20) | (20) | 0 | (20) |
| Sale of treasury shares | 0 | 0 | 0 | 0 | 0 | 12 | 12 | 0 | 12 |
| **At 30 June 2008** | **50** | **158** | **2 099** | **(3)** | **(131)** | **(332)** | **1 841** | **0** | **1 841** |
| **Six months ended 30 June 2009** | | | | | | | | | |
| **At 31 December 2008** | **50** | **148** | **2 233** | **(56)** | **(209)** | **(301)** | **1 865** | **69** | **1 934** |
| Total comprehensive income for the period | 0 | 0 | 120 | 18 | 38 | 0 | 176 | (1) | 175 |
| Dividends | 0 | 0 | (87) | 0 | 0 | 0 | (87) | 0 | (87) |
| Recognition of share-based payments | 0 | 0 | 5 | 0 | 0 | 0 | 5 | 0 | 5 |
| Transfer of employee shares | 0 | (3) | (10) | 0 | 0 | 17 | 4 | 0 | 4 |
| Conversion of convertible bond | 3 | 178 | 0 | 0 | 0 | 204 | 385 | 0 | 385 |
| Acquisition of treasury shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Sale of treasury shares | 0 | (3) | 0 | 0 | 0 | 8 | 5 | 0 | 5 |
| **At 30 June 2009** | **53** | **320** | **2 261** | **(38)** | **(171)** | **(72)** | **2 353** | **68** | **2 421** |

# Selected explanatory notes

## 1. Accounting principles

**Basis of preparation of financial statements** These condensed financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2009 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2008 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The same accounting policies and methods of computation are followed in these interim financial statements as compared with the most recent annual financial statements for the year ended 31 December 2008, except for accounting policy changes made after the closing date of the annual financial statements.

The preparation of the interim financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

**Changes in accounting policies** The following new and revised standards and interpretations have been issued, being effective for the reporting year 2009:

- IAS 1 revised – Presentation of financial statements
- IAS 23 revised – Borrowing costs
- IFRS 8 – Operating segments
- Amendment to IFRS 2 – Share-based payment – Vesting conditions and cancellations
- Amendments to IAS 32 – Financial instruments: Presentation and IAS 1 – Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation
- IFRIC 15 – Agreements for the construction of real estate
- IFRIC 16 – Hedges of a net investment in a foreign operation

– Improvements to IFRSs (May 2008)
– Amendments to IFRS 7 Financial Instruments: Disclosure

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

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Group will capitalize borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognized all borrowing costs as an expense. This change in accounting policy was due to the prospective adoption of IAS 23 Borrowing Costs (2007) in accordance with the transitional provisions of such standard.

In the interim period 2009, no qualifying assets for capitalizing borrowing cost were identified, so that the revised IAS 23 had no impact on the consolidated financial statements ended 30 June 2009.

## 2. Exchange rates

| Balance sheet<br>period end rate CHF | 31 12 08 | 30 06 09 |
|---|---|---|
| US dollar | 1.06 | 1.08 |
| Pound sterling | 1.53 | 1.79 |
| Euro | 1.49 | 1.53 |

| Income statement half-year<br>average rate CHF | 2008 | 2009 |
|---|---|---|
| US dollar | 1.05 | 1.13 |
| Pound sterling | 2.07 | 1.68 |
| Euro | 1.61 | 1.51 |

## 3. Seasonality of operations

All segments operate in business areas where no significant seasonal or cyclical variations in sales are experienced during the reporting year.

## 4. Debt

### 4.1 Bond (2009–2013)

On 27 May 2009, a new bond was issued at the following terms: Amount: CHF 300 million, due 27 May 2013. Interest: 3.75 % p.a. payable on 27 May, for the first time on 27 May 2010. The net proceeds of the bond amount to CHF 297.0 million per 27 Mai 2009, after considering upfront fees of CHF 3.77 million and an agio of CHF 0.75 million.

### 4.2 Convertible bond (2005–2009)

On or after 25 August 2005, up to and including 1 July 2009, the bond with a principal amount of CHF 430 million was convertible at a conversion price of CHF 91.67. The convertible bond expired on 15 July 2009. An amount of CHF 37 million was converted into Lonza shares until 31 December 2008 and CHF 385 million until the balance sheet date of 30 June 2009. The remaining amount of CHF 8 million was fully converted into Lonza shares on 1 July 2009.

## 5. Dividends paid

On 31 March 2009, the Annual General Meeting approved the distribution of a dividend of CHF 1.75 (2008: CHF 1.75) per share in respect to the 2008 financial year. The distribution to holders of outstanding shares totaled CHF 87 million (2008: CHF 83 million) and was recorded against retained earnings of Lonza Group Ltd.

## 6. Operating segments

### 6.1 General information

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. This "management approach" differs from IAS 14, which required the disclosure of two sets of segments, business and geographical segments, based on a disaggregation of information contained in the financial statements.

Lonza's operating segments represent business sectors that offer different products and services. According to the requirements of the standard IFRS 8 "Operating Segments", Lonza identified the following three operating segments:

– Custom Manufacturing
– Life Science Ingredients
– 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 in 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 the nutritional ingredients and include complex chemical intermediates for the agricultural industry.

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. The 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 in treasury, legal, accounting, information technology and human resources.

## 6.2 Information about profit or loss and reconciliation

In the following table, revenues and profit or loss are disclosed by the three 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 that reported monthly to the management committee.

| First half-year 30 June 2009<br>million CHF | Custom Manufacturing | Life Science Ingredients | Bioscience | Total operating segments | Corporate / Eliminations[1] | Group Total |
|---|---|---|---|---|---|---|
| **Sales third-party** | **706** | **506** | **117** | **1 329** | **0** | **1 329** |
| Inter-segment sales | 21 | 82 | 2 | 105 | (105) | 0 |
| **Total sales** | **727** | **588** | **119** | **1 434** | **(105)** | **1 329** |
| Goodwill impairment | 0 | 0 | 0 | 0 | 0 | 0 |
| **Result from operating activities (EBIT)** | **91** | **69** | **15** | **175** | **(12)** | **163** |
| – Return on sales % | 12.9 | 13.6 | 12.8 | 13.2 | na | 12.3 |
| Net financing costs | | | | | | (24) |
| Gain on sale of assets held for sale | | | | | | 0 |
| **Profit before income taxes** | | | | | | **139** |
| Income taxes | | | | | | (21) |
| **Profit for the period** | | | | | | **118** |

[1] The "Corporate / Eliminations" column represents the corporate functions, including eliminations for reconciliation to the Group total.

Due to the start-up of new operations in the subsidiaries Lonza Biologics Porriño, S.L. (ES), Lonza Biologics Inc. Portsmouth, NH (USA) and Lonza Guangzhou Nansha Ltd (CN) additional expenses were incurred in the first half-year.

| **First half-year 30 June 2008**<br>million CHF | Custom Man-ufacturing | Life Science Ingredients | Bioscience | Total operating segments | Corporate / Elimina-tions[1] | Group Total |
|---|---|---|---|---|---|---|
| **Sales third-party** | **765** | **586** | **107** | **1 458** | **5** | **1 463** |
| Inter-segment sales | 12 | 95 | 1 | 108 | (108) | 0 |
| **Total sales** | **777** | **681** | **108** | **1 566** | **(103)** | **1 463** |
| Goodwill impairment | 0 | 0 | 0 | 0 | 0 | 0 |
| **Result from operating activities (EBIT)** | **141** | **87** | **16** | **244** | **(9)** | **235** |
| – Return on sales % | 18.4 | 14.8 | 15.0 | 16.7 | na | 16.1 |
| Net financing costs | | | | | | (28) |
| Gain on sale of assets held for sale | | | | | | 91 |
| **Profit before income taxes** | | | | | | **298** |
| Income taxes | | | | | | (31) |
| **Profit for the period** | | | | | | **267** |

[1] The "Corporate / Eliminations" column represents the corporate functions, including eliminations for reconciliation to the Group total.

### 6.3 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.

## 7. Joint venture

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. Besides the capital injection of CHF 0.5 million from each party, as of 30 June 2009 no other transactions have been made since the start of the joint-venture company.

## 8. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period

No material events occurred after the interim period ended 30 June 2009 up to the date of the approval by the Board of Directors on 20 July 2009.

The Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2009 for issue on 20 July 2009.

The Half-year Report 2009 is also available in German. The English version prevails.

Annual General Meeting
for the 2009 financial year
31 March 2010
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Full-year Report 2009
27 January 2010

Half-year Report 2010
22 July 2010

### 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.

For publications and further information please contact:

Lonza Group Ltd
Muenchensteinerstrasse 38
CH-4002 Basel, Switzerland
Tel +41 61 316 81 11
Fax +41 61 316 91 11
www.lonza.com

Investor Relations
Tel +41 61 316 88 35
Fax +41 61 316 98 35
investor.relations@lonza.com

Media / Corporate Communications
Tel +41 61 316 87 98
Fax +41 61 316 97 98
media@lonza.com

Share Register
c/o Nimbus Ltd
P.O. Box
CH-8866 Ziegelbruecke, Switzerland
Tel +41 55 617 37 29
Fax +41 55 617 37 28
lonza@nimbus.ch