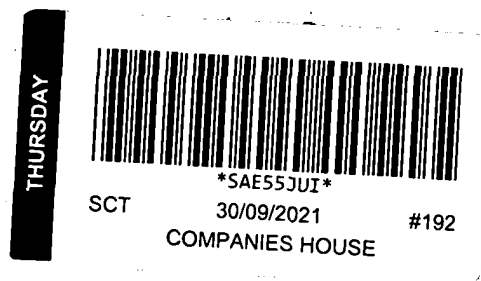
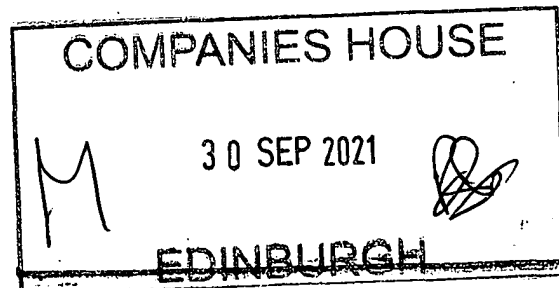


MW Encap (Holdings) Limited

Annual Report and Financial Statements for the year ended 31 December 2020

Registered no: 03166262



MW Encap (Holdings) Limited

Annual report and financial statements for the year ended 31 December 2020

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MW Encap (Holdings) Limited

Directors and other information

Directors

J Fraser

Christian S Dowdeswell (resigned 31 March 2021)

Olivier van Hoorebeke (resigned 31 March 2021)

Peter Burema (appointed 31 March 2021)

Frank Posnanski (appointed 31 March 2021)

Eric Schmidhaeuser (appointed 31 March 2021)

Company secretary

Richard P Coop (resigned 31 March 2021)

Corporate Secretary

Vistra Company Secretaries Limited (resigned 31 March 2021)

Registered office

83 Victoria St

London

SW1H 0HW

Business address

1-8 Oakbank Park Way

Livingston

West Lothian

EH53 0TH

Independent auditors

KPMG LLP

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

Registered Number

03166262

MW Encap (Holdings) Limited

Strategic report for the year ended 31 December 2020

The directors present their strategic report on the company for the year ended 31 December 2020.

Review of business

The principal activity of the company during the year was that of a holding company. It is anticipated that the company will continue to operate as a holding company.

Performance during the year and future developments

Operating loss for the year was £2,573 (2019: £4,776 profit) due to foreign exchange movements. The company had net assets of £1,693,764 (2019: net assets of £1,696,757).

The future development of the company's subsidiary businesses is focused on the development and retention of its customer base, by working in collaboration with customers from initial development of the liquid filled hard capsule through all stages of clinical supply to commercial manufacture.

Principal risks and uncertainties

The management of the business and the execution of the strategy of the company's subsidiary are subject to a number of risks. The key business risks and uncertainties affecting the company and its subsidiary are considered to be the ongoing economic uncertainty, competition from international manufacturers and employee retention. The group and company aims to manage these risks by selling products internationally for a number of different clients, with a focus on partnering with clients from the development stages of the project through to commercial manufacture, and maintaining its reputation as a leading supplier in the marketplace. The group and company is continually seeking ways to develop and extend its supplier base, working with suppliers to mitigate price rises. In addition, bids to customers have limited validity so that prices can be monitored and updated accordingly. The success of the group and company relies on the continued service of its key personnel and the group and company structures packages to retain and motivate these employees. Levels of competition in our core markets continue. We continue to plan on a global basis to minimise these risks.

Financial key performance indicators

	2020	2019
Operating (loss)/gain	(£2,573)	£4,776

The development, performance or position of the business of the company is discussed in the Lonza Group AG 2020 annual report, which does not form part of this report.

Post Balance Sheet Events

Sale of business

On 19th January 2021, Lonza Group Ltd and NextPharma jointly announced an agreement for the sale of the company to NextPharma. The sale process was concluded on 31 March 2021.

Environmental, Health and Safety (EHS)

Compliance with laws, regulations and other applicable EHS requirements is a top priority for the company and its parent company Lonza. While compliance is a critical starting point, the company is also focused on continually enhancing all aspects of our business, including EHS. To that end the company seeks to achieve the highest standards of EHS performance, which includes three key elements:

1. Fully compliant operations
2. Zero EHS incidents
3. Environmentally sustainable operations, products and services.

The company has a written policy covering each of the above three elements and it is the Site Management's responsibility to implement this policy and Lonza EHS Management System.

MW Encap (Holdings) Limited

Strategic report for the year ended 31 December 2020 (continued)

This report was approved by the board of directors on 30 September 2021 and signed on behalf of the board by:

A handwritten signature in black ink that reads "Jane Fraser". The signature is written in a cursive, flowing style.

Jane Fraser
Director

MW Encap (Holdings) Limited

Directors' report for the year ended 31 December 2020

The directors present their report and audited financial statements of the company for the year ended 31 December 2020.

Future developments

The future developments of the company are included within the Strategic Report on page 2.

Financial Risk management

The company's operations expose it to a variety of financial risks. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the directors are implemented by each group company's finance department.

Political donations and political expenditure

During the financial year the company made no donations to a registered political party, other political organisation in the EU (including the UK) or any independent election candidate, or incurred EU political expenditure exceeding £2,000 in the financial year.

Going Concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

On 31 March 2021, the sale of the company to NextPharma was completed. This has not impacted the company's financial position or status as a holding company.

Given the nature of the Company's business as a holding company, the Directors consider it is highly unlikely that COVID-19 will have any impact on it. The Directors have performed a going concern assessment for a period of twelve months from the date of approval of these financial statements which indicates that, taking into account reasonable possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Results and dividends

The loss for the financial year of £2,993 (2019: £14,848) has been transferred to reserves. No dividend is declared for the year under review (2019: £nil).

Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements are listed on page 1.

Statement of Disclosure of information to auditors

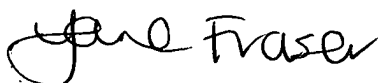
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

On behalf of the Board



Jane Fraser
Director
30 September 2021

MW Encap (Holdings) Limited

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- assess the company and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the ultimate parent company are responsible for the maintenance and integrity of the of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

MW Encap (Holdings) Limited

Independent auditors' report to the members of MW Encap (Holdings) Limited

Opinion

We have audited the financial statements of MW Encap (Holdings) Limited ("the company") for the year ended 31 December 2020 which comprise the Profit and loss account, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Company's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

MW Encap (Holdings) Limited

Independent auditors' report to the members of MW Encap (Holdings) Limited (Continued)

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the company's principal activity is that of a holding company, with no operating trade which would lead to the recognition of revenue.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation, and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Whilst the Company is subject to many other laws and regulations, we did not identify any others where the consequences of non-compliance alone could have a material effect on amounts or disclosures in the financial statements.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

MW Encap (Holdings) Limited

Independent auditors' report to the members of MW Encap (Holdings) Limited (Continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Deborah Ramsay (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
20 Castle Terrace
Edinburgh
EH1 2EG

30 September 2021

MW Encap (Holdings) Limited

Profit and loss account for the year ended 31 December 2020

		2020	2019
	Note	£	£
Operating (loss)/gain	5	(2,573)	4,776
Interest payable and similar expenses	7	(1,122)	(7,464)
Loss before taxation		(3,695)	(2,688)
Tax on loss	8	702	(12,160)
Loss for the financial year		(2,993)	(14,848)

All amounts relate to continuing operations.

The company has no recognised gains and losses other than the loss above in either the current year or prior year, and therefore no separate statement of comprehensive income has been presented. The loss for the financial year is also the total comprehensive expense for the year.

MW Encap (Holdings) Limited

Balance sheet as at 31 December 2020

		2020	2019
	Note	£	£
Fixed assets			
Fixed Asset Investments	9	1,681,722	1,836,047
Current assets			
Debtors (including £nil (2019: £nil) falling due after more than one year)	10	12,042	11,340
		12,042	11,340
Creditors amounts falling due within one year	11	-	(150,630)
Net current assets/(liabilities)		12,042	(139,290)
Total assets less current liabilities		1,693,764	1,696,757
Net assets		1,693,764	1,696,757
Capital and reserves			
Called up share capital	12	146,615	146,615
Share premium account	13	668,260	668,260
Profit and loss account		878,889	881,882
Total equity		1,693,764	1,696,757

The notes on pages 12 to 17 are an integral part of these financial statements

These financial statements were authorised for issue by the board of directors on 30 September 2021 and were signed on its behalf by:



Jane Fraser
Director

MW Encap (Holdings) Ltd
Registered no: 03166262

MW Encap (Holdings) Limited

Statement of changes in equity for the year ended 31 December 2020

	Called up share capital £	Share Premium account £	Profit and loss account £	Total Equity £
Balance as at 1 January 2019	146,615	668,260	896,730	1,711,605
Loss for the financial year	-	-	(14,848)	(14,848)
Balance as at 31 December 2019	146,615	668,260	881,882	1,696,757
Loss for the financial year	-	-	(2,993)	(2,993)
Balance as at 31 December 2020	146,615	668,260	878,889	1,693,764

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020

1 General information

MW Encap (Holdings) Limited ('the company') acts as a holding company.

The company is incorporated and domiciled in the UK. The address of its registered office is MW Encap (Holdings) Limited, Suite ,83 Victoria St, London, SW1H 0HW.

2 Statement of compliance

The financial statements of MW Encap (Holdings) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies (Accounts and Reports) Regulations 2008 (SI 2008/410).

3 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company accounting policies. The item relevant to these financial statements is disclosed in note 4.

Going concern

The financial statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons

On 31 March 2021, the sale of the company to NextPharma was completed. This has not impacted the company's financial position or status as a holding company.

Given the nature of the Company's business as a holding company, the Directors consider it is highly unlikely that COVID-19 will have any impact on it. The Directors have performed a going concern assessment for a period of twelve months from the date of approval of these financial statements which indicates that, taking into account reasonable possible downsides, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 102 for qualifying entities:

- the requirements of section 3 Financial Statement Presentation paragraph 3.17(d) and section 7 Statement of Cash Flows not to prepare a statement of cash flows;
- the requirements of section 11 Basic Financial Instruments paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 Other Financial Instrument Issues paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), and 12.29A as equivalent disclosures are included in consolidated financial statements in which the company is fully consolidated into.

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Exemptions for qualifying entities under FRS 102 (continued)

The company's shareholders have been notified in writing about, and does not object to, the use of the above disclosure exemptions.

Consolidated financial statements

The company's ultimate parent undertaking as at 31 December 2020 was Lonza Group AG, which included the company in its consolidated financial statements. The consolidated financial statements of Lonza Group AG are available to the public and may be obtained from the group's website at www.lonza.com. These financial statements are the company's separate financial statement and do not contain consolidated information as the parent of subsidiary companies. The company is exempt under section 401 of the Companies Act 2006 from the requirements to prepare consolidated accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated accounts of the parent company Lonza Group AG.

Foreign currency

Functional and presentation currency

The company's functional and presentation currency is the pound sterling.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

Interest expenses

Interest expenses are recognised using the effective interest rate method.

Taxation

Taxation expense for the period comprises current tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of investments in subsidiaries

Amounts relating to investments in subsidiaries are tested annually for impairment. The magnitude of the balance in the context of the financial statements is significant and is dependent on the results and financial position of the individual subsidiary. See note 9 for the carrying amount of the investments, and note 17 for the list of subsidiary undertakings.

5 Operating loss

	2020	2019
Operating loss is stated after:	£	£
Foreign exchange loss/(gain)	(2,573)	4,776

The company's audit fees for 2020 and 2019 have been borne by its subsidiary, MW Encap Limited. The total fee for the audit of MW Encap (Holdings) Limited and MW Encap Limited is £40,000.

6 Employees and directors

The company has no employees.

The directors remuneration for the year is £nil (2019: £nil). The directors remuneration is paid by other group companies. There is no direct apportionment of the amount paid by the other group companies in relation to servicing this company, as the directors did not provide material qualifying services.

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020 (continued)

7 Interest payable and similar expenses

(b) Interest payable and similar expenses		
	2020	2019
	£	£
Interest payable to Group companies	1,122	7,464
Total interest payable and similar expenses	1,122	7,464

8 Tax on results

(a) Tax (credit) / charge included in results

	2020	2019
	£	£
Current tax:		
UK corporation tax	(702)	(511)
Adjustments in respect of prior periods	-	12,671
Total Current tax	(702)	12,160

b) Reconciliation of tax charge

Tax assessed for the year is equal to (2019: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

	2020	2019
	£	£
Loss before taxation	(3,695)	(2,688)
Loss multiplied by the standard rate of tax in the UK of 19% (2019: 19%)	(702)	(511)
Adjustments in respect of prior periods	-	12,671
Tax (credit)/charge for the year	(702)	12,160

(c) Tax rate changes

The company has tax losses of £121,841 (2019: £121,841) that are available indefinitely for offset against future taxable profits of the company. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty over whether suitable profits will arise in future periods against which the deferred tax assets would reverse.

The Finance Act 2016, which received Royal Assent on 15 September 2016, enacted a reduction in the UK corporation tax rate from 19% to 17% effective from 1 April 2020. However, legislation introduced in the Finance Act 2020 (enacted on 22 July 2020) repealed the reduction of the corporation tax, thereby maintaining the current rate of 19%. Deferred taxes on the balance sheet have been measured at 19% (2019 – 17%) which represents the future corporation tax rate that was enacted at the balance sheet date.

The UK Budget 2021 announcements on 3 March 2021 included measures to support economic recovery as a result of the ongoing COVID-19 pandemic. These included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. The Finance Act 2021 received Royal Assent on 10 June 2021, therefore these changes were not substantively enacted at the balance sheet date.

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020 (continued)

9 Fixed asset investments

	Shares in group undertakings £	Loans to group undertakings £	Total £
Cost			
At 1 January 2020	1,322,172	513,875	1,836,047
Impairment At 1 January 2019 and 31 December 2020	-	-	-
Loan repayment during year	-	(154,325)	(154,325)
Carrying amount			
At 31 December 2020	1,322,172	359,550	1,681,722

The subsidiary undertakings of the Company are listed in Note 17

10 Debtors

	2020 £	2019 £
Amounts owed by group undertakings	12,042	11,340

Amounts owed by group undertakings are repayable on demand and are interest free.

11 Creditors: amounts falling due within one year

	2020 £	2019 £
Amounts owed to group undertakings	-	150,630

12 Called up share capital

Ordinary shares of £1 each

Allotted and fully paid – Ordinary shares of £1 each	No	£
At 1 January 2020 and 31 December 2020	146,615	146,615

MW Encap (Holdings) Limited

Notes to the financial statements for the year ended 31 December 2020 (continued)

13 Reserves

Share premium account:

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

14 Capital and other commitments

The company had no capital or other commitments at 31 December 2020.

15 Related party transactions

The company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Lonza AG group due to the disclosure exemptions available under FRS 102 which the company has elected to apply as it is a qualifying entity.

16 Controlling parties

The company's immediate parent undertaking is Capsugel Belgium N.V. The directors consider that company's ultimate parent undertaking is Lonza Group AG, a company incorporated in Switzerland and registered at Muenchensteinerstrasse 38, CH-4002, Basel, Switzerland. The results of the company are consolidated into the group headed by Lonza Group AG. The consolidated financial statements of the group are available to the public and may be obtained from the group's website at www.lonza.com.

17 Investments in subsidiaries

Subsidiary Undertakings	Company number	Registered address	Class of share	Percentage of shares held
MW Encap Ltd	02886521	Suite 1, 3 rd Floor, 11-12 St. James's Square, London, SW1Y 4LB	Ordinary	100%
Xcelience Clinical Services Ltd	08648713	Suite 1, 3 rd Floor, 11-12 St. James's Square, London, SW1Y 4LB	Ordinary	100%

18 Events after the end of the report year.

Sale of business

On 19th January 2021, Lonza Group Ltd and NextPharma jointly announced an agreement for the sale of the company to NextPharma. The sale process was concluded on 31 March 2021.

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Consolidated Balance Sheet

Assets¹

Million CHF	Notes ²	2020	2019
Non-current assets			
Property, plant and equipment	7	3,591	3,817
Intangible assets	6	2,640	3,073
Goodwill	6	3,072	3,651
Other non-current assets	8	301	237
Deferred tax assets	22	24	23
Total non-current assets		9,628	10,801
Current assets			
Inventories	10	1,136	1,392
Trade receivables	11	715	759
Current tax receivables		32	14
Other receivables, prepaid expenses and accrued income	12	404	341
Cash and cash equivalents	13	495	505
Assets held for sale ³	5	2,019	29
Total current assets		4,801	3,040
Total assets		14,429	13,841

¹ At 31 December

² See the accompanying notes to the consolidated financial statements

³ In 2020, assets held for sale relate to the Specialty Ingredients disposal group (see note 5). In 2019, assets held for sale related to land in Guangzhou (CN), that was sold in 2020

Equity and Liabilities¹

Million CHF	Notes ²	2020	2019
Equity			
Share capital	26	74	74
Share premium		2,804	2,906
Treasury shares		(100)	(51)
Retained earnings and reserves		4,037	3,565
Total equity attributable to equity holders of the parent		6,815	6,494
Non-controlling interests		69	71
Total equity		6,884	6,565
Liabilities			
Non-current provisions	14	90	145
Employee benefit liabilities	24	283	511
Other non-current liabilities	16	710	549
Non-current debt	15	2,784	2,766
Deferred tax liabilities	22	581	630
Total non-current liabilities		4,448	4,601
Current provisions	14	67	52
Other current liabilities	16	1,212	1,216
Trade payables	17	308	453
Current debt	15	796	774
Current tax payables	22	159	180
Liabilities held for sale ³	5	555	0
Total current liabilities		3,097	2,675
Total liabilities		7,545	7,276
Total equity and liabilities		14,429	13,841

¹ At 31 December² See the accompanying notes to the consolidated financial statements³ In 2020, liabilities held for sale relate to the Specialty Ingredients disposal group (see note 5)

Consolidated Income Statement¹

Million CHF	Notes ²	2020	2019 ³	
Sales	3	4,508	4,207	
Cost of goods sold		(2,660)	(2,444)	
Gross profit		1,848	1,763	
Marketing and distribution		(235)	(201)	
Research and development	23	(84)	(76)	
Administration and general overheads ⁴		(610)	(650)	
Other operating income	20.1	42	47	
Other operating expenses	20.2	(60)	(58)	
Result from operating activities (EBIT)⁵		901	825	
Financial income	21.1	12	20	
Financial expenses	21.2	(106)	(124)	
Net financial result		(94)	(104)	
Share of loss of associates / joint ventures	9	(4)	(2)	
Profit before income taxes		803	719	
Income taxes	22	(71)	(71)	
Profit from continuing operations		732	648	
Profit / (loss) from discontinued operations, net of tax	5	139	(2)	
Profit for the period		871	646	
Attributable to:				
Equity holders of the parent		869	645	
Non-controlling interest		2	1	
Profit for the period		871	646	
Earnings per share for profit from continuing operations attributable to equity holders of the parent:				
Basic earnings per share – EPS basic	27	CHF	9.81	8.73
Diluted earnings per share – EPS diluted	27	CHF	9.77	8.68
Earnings per share for profit attributable to equity holders of the parent:				
Basic earnings per share – EPS basic	27	CHF	11.68	8.70
Diluted earnings per share – EPS diluted	27	CHF	11.63	8.65

¹ For the year ended 31 December

² See the accompanying notes to the consolidated financial statements

³ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

⁴ Includes the amortization of acquisition-related intangible assets (2020: CHF 142 million, 2019: CHF 142 million)

⁵ Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related (see note 21) and Lonza's share of profit / loss from associates and joint ventures

Consolidated Statement of Comprehensive Income¹

Million CHF	Notes ²	2020	2019
Profit for the period		871	646
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of net defined benefit liability	24	(32)	(43)
Income tax on items that will not be reclassified to profit or loss	22.2	1	7
		(31)	(36)
Items that are or may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(230)	(153)
Cash flow hedges – effective portion of changes in fair value		6	(6)
Cash flow hedges – reclassified to profit or loss		(10)	1
Income tax on items that are or may be reclassified to profit or loss	22.2	8	0
		(226)	(158)
Other comprehensive income for the period, net of tax		(257)	(194)
Total other comprehensive income for the period		614	452
Total comprehensive income attributable to:			
Equity holders of the parent		614	452
Non-controlling interests		0	0
Total comprehensive income for the period		614	452

¹ For the year ended 31 December
² See the accompanying notes to the consolidated financial statements

Consolidated Statement of Cash Flows¹

Million CHF	Notes ²	2020	2019
Profit for the period		871	646
Adjustments for non-cash items:			
- Income taxes	22	115	63
- Net financial result		102	124
- Share of loss of associates / joint ventures		8	3
- Depreciation of property, plant and equipment (incl. depreciation of right-of-use of leased assets)	7	340	351
- Amortization of intangibles	6	186	193
- Reversal of impairment	4,7	(3)	(7)
- Impairment losses on property, plant, equipment, intangibles and assets held for sale	4,6,7	38	16
- Impairment losses on capitalized contract assets		12	0
- Increase in provisions	14	42	67
- Increase / (decrease) in employee benefit liability		(2)	2
- Loss on disposal of property, plant and equipment		7	6
- Amortization of other liabilities / assets		(47)	(22)
- Share-based payments	25	48	56
- Non-cash items related to discontinued operations (incl. recycling of accumulated foreign exchange losses)	5	(3)	126
- Non-cash customer payment ³		0	(14)
Income taxes paid		(150)	(137)
Interest paid ¹		(49)	(80)
Total before change in net working capital		1,515	1,393
Increase in inventories		(129)	(171)
Increase in trade receivables		(167)	(106)
Increase / (decrease) in trade payables		(38)	40
(Increase) / decrease other net working capital		131	(81)
Use of provisions	14	(52)	(56)
Decrease in other payables, net		(130)	(42)
Net cash provided by operating activities		1,130	977
Purchase of property, plant and equipment	7	(892)	(757)
Purchase of intangible assets	6	(81)	(29)
Acquisition of subsidiaries, net of cash acquired ⁴	5,3	(15)	(24)
Disposal of subsidiaries, net of cash disposed of	5,2	7	620
Purchase of unconsolidated investments		(32)	(15)
Proceeds from unconsolidated investments		9	1
Proceeds from assets held for sale		29	0
Prepayment of leases		(20)	(21)
Capitalized contract costs		(17)	(3)
Net proceeds from sales and purchases of other assets		8	4
Increase in loans and advances		(91)	(69)
Interest received		5	5
Dividends received		1	3
Net cash used for investing activities		(1,089)	(285)

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Million CHF	Notes ²	2020	2019
Repayment of straight bonds	15	(150)	(300)
Repayment of bank loan	15	0	(198)
Repayment of syndicated loan	15	(144)	(119)
Issuance / (repayment) of term loan	15	(526)	265
Issuance of straight bonds	15	970	0
Increase / (decrease) in debt	15	4	(94)
Principal elements of lease payments		(30)	(24)
Increase in other non-current liabilities ⁵		318	60
Decrease in other non-current liabilities		(2)	0
Capital injection from owners of the non-controlling interests		0	1
Purchase of treasury shares		(141)	(48)
Dividends paid ⁶	27	(206)	(206)
Net cash used for financing activities		93	(663)
Effect of currency translation on cash		(20)	(6)
Net increase in cash and cash equivalents		114	23
Cash and cash equivalents at 1 January		505	482
Cash and cash equivalents at 31 December		619	505
Cash and cash equivalents classified as held for sale	5	(124)	0
Cash and cash equivalents at 31 December (as reported)		495	505

¹ For the year ended 31 December, The Group has elected to present a statement of cash flows that includes an analysis of all cash flows in total – i.e. including both continuing and discontinued operations; amounts related to discontinued operations by operating, investing and financing activities are disclosed in [Note 5.1](#)

² See the accompanying notes to the consolidated financial statements

³ Payment from customer in the form of quoted equity instruments

⁴ In 2020, CHF 15 million deferred purchase price payment related to the sterile drug product fill & finish business acquired in 2019

⁵ During 2020 Lonza received CHF 19 million of funds from customers to purchase equipment for utilization at Lonza facilities. These amounts are not separately disclosed in the consolidated cash flow statement as the related equipment is not owned by Lonza

⁶ Includes dividends of CHF 2 million (2019: CHF 2 million) paid to minority shareholders of a subsidiary

Consolidated Statement of Changes in Equity

Million CHF	Notes ¹	Attributable to equity holders of the parent						Non-controlling interests	Total equity	
		Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares			Total
At 1 January 2019		74	3,110	3,672	(11)	(556)	(71)	6,218	72	6,290
Profit for the period		0	0	645	0	0	0	645	1	646
- Remeasurement of defined benefit liability		0	0	(36)	0	0	0	(36)	0	(36)
- Exchange differences on translating foreign operations		0	0	0	0	(151)	0	(151)	(1)	(152)
- Cash flow hedges		0	0	0	(6)	0	0	(6)	0	(6)
Other comprehensive income, net of tax		0	0	(36)	(6)	(151)	0	(193)	(1)	(194)
Total comprehensive income for the period		0	0	609	(6)	(151)	0	452	0	452
Dividends	27	0	(204)	0	0	0	0	(204)	(2)	(206)
Recognition of share-based payments	25	0	0	76	0	0	0	76	0	76
Movements in treasury shares		0	0	(68)	0	0	20	(48)	0	(48)
At 31 December 2019		74	2,906	4,289	(17)	(707)	(51)	6,494	71	6,565
Profit for the period		0	0	869	0	0	0	869	2	871
- Remeasurement of defined benefit liability		0	0	(31)	0	0	0	(31)	0	(31)
- Exchange differences on translating foreign operations		0	0	0	0	(221)	0	(221)	(2)	(223)
- Cash flow hedges		0	0	0	(3)	0	0	(3)	0	(3)
Other comprehensive income, net of tax		0	0	(31)	(3)	(221)	0	(255)	(2)	(257)
Total comprehensive income for the period		0	0	838	(3)	(221)	0	614	0	614
Dividends	27	0	(102)	(102)	0	0	0	(204)	(2)	(206)
Recognition of share-based payments	25	0	0	54	0	0	0	54	0	54
Movements in treasury shares		0	0	(94)	0	0	(49)	(143)	0	(143)
At 31 December 2020		74	2,804	4,985	(20)	(928)	(100)	6,815	69	6,884

See the accompanying notes to the consolidated financial statements

¹ See the accompanying notes to the consolidated financial statements

Translation reserve

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

Notes to the Consolidated Financial Statements

Note 1 Accounting Principles

1.1 Lonza Group

Lonza Group Ltd and its subsidiaries (hereafter «the Group» or «Lonza») operate under the name Lonza. Lonza Group Ltd is a limited liability company incorporated and domiciled in Switzerland. The Group is headquartered in Basel, Switzerland. Lonza is one of the world's leading and most-trusted suppliers to the pharmaceutical, biotech and specialty ingredients markets.

It harnesses science and technology to create products that support safer and healthier living and enhance the overall quality of life. Benefiting from its regulatory expertise, Lonza is able to transfer its know-how from pharma to hygiene and fast-moving consumer goods all the way to coatings and composites and the preservation and protection of agricultural goods and other natural resources.

1.2 Basis of Preparation

The consolidated financial statements for 2020 and 2019 are reported in Swiss francs (CHF), rounded to millions, and based on the annual accounts of Lonza Group Ltd (Company) and its subsidiaries at 31 December, which have been drawn up according to uniform Group accounting principles. The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and with Swiss law. They are prepared on the historical cost basis, except that derivative financial instruments and contingent considerations are stated at their fair values and the employee benefit liability is stated at the fair value of plan assets less the present value of the defined benefit obligation.

Following the Board of Directors' decision on 23 July 2020 to divest the Specialty Ingredients (LSI) segment, a divestment process was initiated in H2 2020. In the consolidated financial statements, discontinued operations in both 2020 and 2019 (restated) include the LSI business together with certain corporate costs directly attributable to LSI together with carve-out / divestiture related costs. Furthermore, as of 1 October 2020, the assets and liabilities related to LSI business were reclassified to assets and liabilities of a disposal group held for sale. The prior year balance sheet (including the related notes) is not required to be restated.

1.3 Changes in Accounting Standards

The following new or amended standards became applicable for the current reporting period and did not have any material effect on the Group's financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards
- Definition of a Business – Amendments to IFRS 3
- Definition of Material – Amendments to IAS 1 and IAS 8
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

1.4

Accounting Standards Issued, but Not Yet Effective

The following revised standards have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements.

These amendments are still being evaluated and the Group does not currently expect them to have a significant impact on the consolidated financial statements.

Standard/Interpretation	Effective date
COVID-19-Related Rent Concessions (Amendment to IFRS 16)	1 January 2021
Interest Rate Benchmark Reform phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018–2020	1 January 2022
Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)	1 January 2023

1.5

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements represent the accounts for the year ended 31 December of Lonza Group Ltd and its subsidiaries. Subsidiaries are those entities controlled, directly or indirectly, by Lonza Group Ltd. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. The significant subsidiaries included in the consolidated financial statements are shown in note 33.

The full consolidation method is used, whereby the assets, liabilities, income and expenses are incorporated in full, irrespective of the extent of any non-controlling interests. Payables, receivables, income and expenses between Lonza consolidated companies are eliminated. Intercompany profits included in year-end inventories of goods produced within Lonza are eliminated, as well as unrealized gains on transactions between subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures, as disclosed in note 9. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Associates and interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting. They are recognized initially at cost, which includes transaction costs.

Subsequent to the initial recognition, the consolidated financial statements include the Group's share of the profit and loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases. Dividends paid during the year reduce the carrying value of the investments.

Segment Reporting

For the purpose of segment reporting, the Group's Executive Committee (EC) is considered to be the Group's Chief Operating Decision Maker. The determination of the Group's operating segments is based on the organizational units for which information is reported to the EC on a regular basis. The information provided is used as the basis of the segment revenue and profit disclosures reported in note 2. Selected segment balance sheet information and performance measures are also routinely provided to the EC.

Revenues are primarily generated from the sale of products. The Pharma Biotech & Nutrition segment also derives revenues from rendering of services as well as the sale or licensing of products or technology to third parties. Residual operating activities from certain global activities are reported as «Corporate.» These include the EC and global group functions for communications, human resources, finance (including treasury and tax), legal, environmental and safety services. Transfer prices between operating segments are set on an arm's-length basis. Operating assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables/payables, inventories and other assets and liabilities, such as provisions, which can be reasonably attributed to the reported operating segments. Non-operating assets and liabilities mainly include current and deferred income tax balances, post-employment benefit assets/liabilities and financial assets/liabilities such as cash, investments and debt.

Revenue Recognition

Revenue is measured based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. Revenues are recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. In the custom manufacturing business, customer agreements may foresee payments at or near inception of contracts, which typically relate to setup efforts (e.g. system preparation, facility modification) for new customer-dedicated production facilities. Such setup efforts typically do not represent separate performance obligations, as no good or service is transferred to the customer. The payments for these setup efforts comprise part of the expected transaction price and are deferred as contract liabilities (non-current deferred income) until performance obligations are satisfied. Product sales are recognized when control of the products has been transferred, i.e. when the products are delivered to the customer, the customer has full discretion over the sales channel and pricing of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Contracts with customers may include volume discounts based on aggregate sales over a specified period. Revenues from these sales are recognized based on the price specified in the contract, net of the estimated volume discounts.

Accumulated experience is used to estimate and provide for such discounts, using the expected value method, and revenues are only recognized to the extent that it is highly probable that no significant reversal will occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. Revenues from providing services are recognized in the accounting period in which these services are rendered. For most services revenue recognition over time is appropriate. This is done with reference to output (i.e. analysis delivered) to measure the amount of revenue to be recognized. Revenue recognition over time is not applied for customer service contracts where the consideration depends on a defined outcome or result and its achievement cannot be estimated. In this case, revenues are only recognized at the point in time when the service has been completed and accepted by the customer.

Research & Development

Research & development costs are generally charged against income as incurred. Development costs are only capitalized when the related products meet the recognition criteria of an internally generated intangible asset, which mainly require the technical feasibility of completing the intangible asset, the probability of future economic benefits, the reliable measurement of costs and the ability and intention of the Group to use or sell the intangible asset. Fixed assets (buildings, machinery, plant, equipment) used for research purposes are valued similarly to other fixed assets. Such assets are capitalized and depreciated over their estimated useful lives.

Expenses for research & development include associated wages and salaries, material costs, depreciation on fixed assets, as well as overhead costs.

Other Operating Income and Other Operating Expenses

Other operating income and other operating expenses include items not assignable to other functions of the consolidated income statement. They mainly include gains and losses from the disposal of intangible assets, property, plant and equipment and other non-current assets, income and expenses from the release and recognition of provisions, income and expense related to restructuring, gains and losses from currency-related operating derivative instruments, as well as operating exchange rate gains and losses.

Net Financial Result

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

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

Foreign Currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF), which is the Group's presentation currency. For consolidation purposes the balance sheet of foreign consolidated companies is translated to CHF with the exchange rate on the balance sheet date. Income, expenses and cash flows of the foreign consolidated companies are translated into CHF using the monthly average exchange rates during the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). Exchange rate differences arising from the different exchange rates applied in balance sheets and income statements are recognized in other comprehensive income. In the individual company's financial statements, transactions in foreign currencies are translated at the foreign exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. All resulting foreign exchange gains and losses are recognized in the individual company's profit or loss statement, except when they arise on monetary items that form a part of the Group's net investment in a foreign entity. In such a case, the exchange gains and losses are recognized in other comprehensive income.

Hedge Accounting

The Group uses derivatives to manage its exposures to foreign currency and interest rate risks. The instruments used may include interest rate swaps, forward exchange contracts, FX swaps and options. The Group generally limits the use of hedge accounting to certain significant transactions. At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other

Cash Flow Hedging

This is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The hedging instrument is recorded at fair value. The effective portion of the hedge is included in other comprehensive income and any ineffective portion is reported in other operating income/expenses (instruments to manage the foreign currency exposure related to sales or

purchases) or financial income/expenses (foreign currency exposure related to debt repayment or interest exposure on the Group's debt). If the hedging relationship is the hedge of the foreign currency risk of a firm commitment or highly probable forecasted transaction that results in the recognition of a non-financial item, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in the initial carrying value of the non-financial item at the date of recognition. For all other cash flow hedges, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in cost of goods sold, other operational income/expenses or other financial income/expense (based on the principles explained above) when the forecasted transaction affects net income.

Fair Value Hedging

This is a hedge of the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Changes in the fair values are reported in other operating income/expenses (instruments to manage the foreign currency exposure related to sales or purchases) or financial income/expenses (foreign currency exposure related to debt repayment or interest exposure on the Group's debt).

Capitalized Contract Costs

The Group recognizes contract assets mainly consisting of contract fulfilment costs that are incurred after a contract is obtained but before goods or services have been delivered to the customer. These costs arise from long-term contracts in the custom manufacturing business for customer specific production facility expansions or modifications on Lonza's premises. They typically include costs for commissioning, qualification and start-up, as well as for activities relating to process development and technology transfer.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The assets are depreciated on a component basis over their estimated useful lives, which vary from 10 to 50 years for buildings and structures, and 5 to 16 years for production facilities, machinery, plant, equipment and vehicles. Fixed assets are depreciated using the straight-line method over their estimated useful lives. Subsequent expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. Borrowing costs incurred with respect to qualifying assets are capitalized and included in the carrying value of the assets. All other expenditure

is recognized in the income statement as an expense as incurred. The residual values and the useful life of items of property, plant and equipment are reviewed and adjusted, if appropriate, at each balance sheet date.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lonza applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Lonza recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, restoration costs and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. If ownership of the leased asset transfers to Lonza at the end of the lease term or the cost of the right-of-use asset reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities are initially measured at the present value of the lease payments, considering fixed payments (including in-substance fixed payments), variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. This assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

In calculating the present value of lease payments, Lonza uses its incremental borrowing rate at the lease commencement date if the

interest rate implicit in the lease is not readily determinable. The incremental borrowing rate is derived from market information, the weighted average duration of the lease and the underlying specifics of the leased asset. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Lonza applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of other movables that are considered to be of low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

In some circumstances, Lonza could act as a lessor. In case of a sublease, Lonza would account for the head lease and the sublease as two separate contracts. The sublease will be classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Intangible Assets

Purchased intangible assets with a finite useful life are stated at cost less accumulated amortization and accumulated impairment losses. Intangible assets acquired in a business combination are recognized at their fair value. Intangibles include software, licenses, patents, trademarks and similar rights granted by third parties, capitalized product development costs and capitalized computer software development costs. Costs associated with internally developed or maintained computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognized as intangible assets. Those direct costs include the software development employee costs and an appropriate portion of relevant overheads. Intangible assets are amortized using the straight-line method over their estimated useful lives, which is the lower of the legal duration and the economic useful life. Useful lives vary from 3 to 5 years for software, 5 to 35 years for patents, trademarks and similar rights and 4 to 16 years for development costs. All intangible assets in Lonza have finite useful lives, except for the Capsugel trade name acquired in 2017 and the trademarks acquired in 2011 through the Arch Chemicals business combination and 2007 through the Cambrex business combination. The Group considers that these trademarks have an indefinite useful life as they are well established in the respective markets and have a history of strong performance. The Group intends and has the ability to maintain these trademarks for the foreseeable future.

Goodwill and Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition and includes the cash paid plus the fair value at the date of exchange of assets,

liabilities incurred or assumed and equity instruments issued by the Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the period the costs are incurred and the services are received and reported within administration and general overhead expenses. At the date of acquisition, the Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired business, non-controlling interests are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets/liabilities of the acquired business in the functional currency of that business.

When the initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are recognized. During the measurement period, the provisional amounts are retrospectively adjusted and additional assets and liabilities may be recognized to reflect new information obtained about the facts and circumstances that existed at the acquisition date which, had they been known, would have affected the measurement of the amounts recognized at that date. The measurement period does not exceed 12 months from the date of acquisition. Goodwill is not amortized but is tested annually for impairment. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. Goodwill may also arise upon investments in associates and joint ventures, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates and joint ventures.

Inventories

Inventories are reported at the lower of cost (purchase price or production cost) or market value (net realizable value). In determining net realizable value, any costs of completion and selling costs are deducted from the realizable value. The cost of inventories is calculated using the weighted average method. Prorated production overheads are included in the valuation of inventories. Adjustments are made for inventories with a lower market value or which are slow moving. Unsalable inventory is fully written off. Costs include all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Receivables

Receivables are carried at the original invoice amount less allowances made for doubtful accounts, volume rebates and similar allowances. A receivable represents a right to consideration

that is unconditional and excludes contract assets. An allowance for doubtful accounts is recorded for expected credit losses over the term of the receivables. These estimates are based on specific indicators, such as the ageing of customer balances and specific credit circumstances. Expenses for doubtful trade receivables are recognized within the cost of goods sold. Volume rebates and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and the Group's experience. Receivables are written off (either partly or in full) when there is no reasonable expectation of recovery.

For trade receivables, the Group applies the simplified approach prescribed by IFRS 9, which requires/permits the use of the lifetime expected loss provision from initial recognition of the receivables. The Group measures an allowance for doubtful accounts equal to the credit losses expected over the lifetime of the trade receivables.

Financial Instruments

The Group has classified its financial assets in the following measurement categories, which are disclosed in note 29: amortized cost or fair value through profit or loss (including hedging instruments). At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Amortized Cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost, less provision for impairment. Interest income from these financial assets is included in other financial income using the effective interest rate method. The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability. Assets at amortized cost are mainly comprised of accounts receivable, cash and cash equivalents and loans and advances.

Equity Investments at Fair Value Through Profit or Loss

These are equity investments in non-quoted companies that are kept for strategic reason and in investment vehicles that invest in the Group's target markets. These assets are subsequently measured at fair value. Dividends are recognized as financial income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized as a financial income or a financial expense in the income statement.

Fair Value Through Profit or Loss

These are primarily contingent consideration assets (and liabilities) that are initially recorded and subsequently carried at fair value with changes in fair value recorded as a financial income or a financial expense in the income statement.

Fair Value Through Profit or Loss – Hedging Instruments

These are derivative financial instruments that are used to manage the exposures to foreign currency and interest rates. These instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as other operating income/expenses (instruments to manage the foreign currency exposure related to sales or purchases) or financial income/expenses (foreign currency exposure related to debt repayment or interest exposure on the Group's debt).

Debt Instruments

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

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, in postal and bank accounts, as well as short-term deposits and highly liquid funds that have an original maturity of less than three months.

Impairment

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the assets may be impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Calculation of recoverable amount – in assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Reversal of impairment – An impairment loss is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used

to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Assets Held for Sale and Discontinued Operations

Disposal groups comprising assets and liabilities are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such disposal groups are generally measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group is allocated first to goodwill and then to the remaining assets and liabilities on a pro rata bases, except that no loss is allocated to inventories, financial assets or deferred tax assets, which continue to be recognized in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortized or depreciated. A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations or is part of a single coordinated plan to dispose of such a line of business or area of operations. Classification as a discontinued operations occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

The income statement activity of the discontinued operations is presented separately in the consolidated income statement. The comparative consolidated income statement and consolidated statement of comprehensive income are restated to show the discontinued operations separately from continuing operations. Balance sheet and cash flow information related to discontinued operations are disclosed separately in the notes.

Deferred Taxes

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

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and, for deferred tax assets, operating loss and tax credit carry-forwards.

Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates in the respective jurisdictions in which Lonza operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the recoverability of deferred tax assets, management considers

whether it is probable that some portion or all of the deferred tax assets will not be realized. For transactions and other events recognized in other comprehensive income or directly in equity, any related tax effect is recognized in other comprehensive income or in equity.

Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future.

Employee Benefits

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

Defined-Benefit Plans (Pension and Medical Plans)

Most of Lonza's subsidiaries operate their own pension plans. Generally, they are funded by employees' and employers' contributions. In addition, the Group operates three medical plans in the United States. The Group's net obligation in respect of defined-benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined-benefit obligations is performed annually by a qualified external actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements. Remeasurements of the defined-benefit liability, which comprise actuarial gains and losses and the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

The Group determines the net interest expense on the net defined-benefit liabilities for the period by applying the discount rate used to measure the defined-benefit obligation at the beginning of the annual period to the net defined-benefit liability, taking into account any changes in the net defined-benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined-benefit plans are recognized in profit or loss. While the net interest expense is disclosed within financial expenses, the other expenses related to defined-benefit plans are allocated to the different functions of the operating activities. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that related to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined-benefit plan when the settlement occurs.

Provisions

A provision is recognized in the balance sheet when (i) the Group has a legal or constructive obligation as a result of a past event, (ii) it is probable that an outflow of economic benefits will be required to settle the obligation, and (iii) a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or been announced publicly. Future operating costs are not provided for.

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

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases Lonza Group Ltd's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Dividend

Dividend distribution to Lonza's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Lonza shareholders.

Share-Based Compensation

The Group operates various equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of shares and other share-based compensations is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares granted. At each balance sheet date, the entity revises its estimates of the number of shares that are expected to become vested. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

1.6 Significant Accounting Estimates and Judgments

Key Assumptions and Sources of Estimation Uncertainty

Use of Estimates

The preparation of the financial statements and related disclosures in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates. Estimates are used in impairment tests, accounting for allowances for doubtful receivables, inventory obsolescence, depreciation, employee benefits, taxes, environmental provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. The key assumptions about the future key sources of estimation uncertainty that entail a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are described below.

Impairment Test of Property, Plant and Equipment, Intangible Assets and Goodwill

The Group has carrying values with regard to property, plant and equipment of CHF 3,369 million (2019: CHF 3,581 million), goodwill of CHF 3,072 million (2019: CHF 3,651 million) and intangible assets of CHF 2,640 million (2019: CHF 3,073 million) (see notes 6 and 7). The intangible assets include trademarks acquired through business combinations with a carrying value of CHF 261 million (2019: CHF 353 million), which have an indefinite useful life and are not systematically amortized. Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its possible disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower-than-anticipated sales of products with capitalized rights could result in shortened useful lives or impairment. The impairment analysis as explained in note 6 is sensitive to the discount rate used for the discounted cash flow model, as well as the expected future cash-inflows and the growth rate used for calculation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in note 6.2.

Pensions

Many of the Group's employees participate in post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined-benefit obligation is influenced by assumptions on discount rates used to arrive at the present value of future pension liabilities and assumptions on future increases in salaries and benefits.

Furthermore, the Group's independent external actuaries use statistically based assumptions, covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2020, the present value of the Group's defined-benefit obligation was CHF 2,218 million (2019: CHF 3,478 million). The plan assets at fair value amounted to CHF 1,940 million (2019: CHF 3,004 million), resulting, compared with the present value of the pension obligation, in a funded status deficit of CHF 278 million (2019: CHF 474 million) (see note 24.1). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter lifespans of participants and other changes in the factors being assessed. These differences could affect the fair value of assets or liabilities recognized in the balance sheet in future periods.

Environmental Provisions

Lonza is exposed to environmental liabilities and risks relating to its operations, principally in respect of provisions for remediation costs, which at 31 December 2020 amounted to CHF 113 million (2019: CHF 144 million), as disclosed in note 14. Provisions for non-recurring remediation costs are made when there is a legal or constructive obligation and the cost can be reliably estimated. It is difficult to estimate any future action required by Lonza to correct the effects on the environment of prior disposal or release of chemical substances by Lonza or other parties, and the associated costs, pursuant to environmental laws and regulations. The material components of the environmental provisions consist of costs to clean and refurbish contaminated sites and to treat and contain contamination at sites. The Group's future remediation expenses are affected by a number of uncertainties that include, but are not limited to, the method and extent of remediation and the responsibility attributable to Lonza at the remediation sites, relative to that attributable to other parties. The Group permanently monitors the various sites identified as at risk for environmental exposures. Lonza believes that its provisions are adequate, based upon currently available information; however, given the inherent difficulties in estimating liabilities in this area, there is no guarantee that additional costs will not be incurred beyond the amounts provided. Due to the uncertainty of both the amount and timing of future expenses, the provisions provided for environmental remediation costs could be affected in future periods.

Income Taxes

At 31 December 2020, deferred tax assets of CHF 24 million (2019: CHF 23 million), current tax receivables of CHF 32 million (2019: CHF 14 million), deferred tax liabilities of CHF 581 million (2019: CHF 630 million) and current tax payables of CHF 159 million (2019: CHF 180 million) are included in the consolidated balance sheet. Significant estimates are required in determining the current and deferred assets and liabilities for income taxes. Certain of these estimates are based on interpretations of existing tax laws or regulations.

Lonza operates in numerous tax jurisdictions and, as a result, is regularly subject to audit by tax authorities. Lonza provides for income tax-related uncertainties whenever it is deemed more likely than not that a tax position may not be sustained on audit, including resolution of related appeals or litigation processes, if any. The provisions are recorded based on the technical merits of a filing position, considering the applicable tax regulations and are based on Lonza's evaluations of the facts and circumstances as of the end of each reporting period.

Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the actual amounts of estimated income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations and changes in overall levels of pre-tax earnings. Such changes that arise could affect the assets and liabilities recognized in the balance sheet in future periods. Such changes in the facts and circumstances could affect the assets and liabilities recognized in the balance sheet in future periods.

Critical Accounting Judgments in Applying the Group's Accounting Policies

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

Revenue Recognition

The Group has recognized revenues for sales of goods during the year to customers who have the right to rescind the sale if the goods do not meet the agreed quality. The Group believes that, based on past experience with similar transactions, the quality delivered will be accepted. Therefore, it is appropriate to recognize revenue on these transactions in the reporting period.

Revenues are recognized only when, according to management's judgment, performance obligations are satisfied, control over the assets have been transferred to the customer and no future performance obligation exists. For certain transactions, recognition of revenues is based on the performance of the conditions agreed in particular contracts, the verification of which requires evaluation and judgments by management.

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgment, the Group assesses the impact of any variable consideration in the contract, due to potential refunds, contractual price changes, batch success fees, estimated breakage, discounts or penalties, additional commission paid by distributors, profit sharing and the existence of any significant financing components. In determining the impact of variable consideration the Group uses accumulated experience to estimate the impact of variable consideration.

The Group has various contractual agreements that contain several components promised to the customer. As these contracts may include multiple performance obligations, the transaction price must be allocated to the performance obligations on a relative stand-alone selling price basis. Management estimates the stand-alone selling price at contract inception based on observable prices of the type of product likely to be provided and the services rendered in similar circumstances to similar customers. If a discount is granted, it is allocated to both performance obligations based on their relative stand-alone selling prices. Contractually agreed upfront or other one-time payments are allocated to the performance obligation to which they relate.

Intangible Assets

The Group considers the Capsugel trade name acquired through the business combination in 2017, as well as the trademarks acquired in 2007 through the Cambrex business combination, to have indefinite useful lives, as they are well established in the respective markets and have a history of strong performance.

The Group intends, and has the ability, to maintain these trademarks for the foreseeable future. The assumption of an indefinite useful life is reassessed whenever there is an indication that a trademark may have a definite useful life. In addition, intangible assets with indefinite useful lives are tested for impairment on an annual basis ([see note 6](#)).

Note 2

Operating Segments

2.1

General Information

According to the requirements of IFRS 8 "Operating Segments", Lonza identified the following two market-focused segments: Lonza Pharma Biotech & Nutrition and Lonza Specialty Ingredients.

On 23 July 2020 the Board of Directors decided to divest the Specialty Ingredients (LSI) segment. The LSI business was classified as discontinued operations as of 1 October 2020. Independent from this classification, the financial results of the discontinued operations have been continuously reviewed by the Executive Committee of Lonza Group. Prior period LSI segment results were restated to conform to the current presentation as LSI Discontinued Operations. The two reportable segments are described as follows:

Pharma Biotech & Nutrition

The Pharma Biotech & Nutrition segment Lonza is one of the world's leading providers of technology platforms along the value chain from pre-clinical to commercial, including drug substance and drug product. This comprises development and manufacture of customized active pharmaceutical ingredients (APIs) and biopharmaceuticals as well as formulation services and delivery systems for pharmaceutical and nutritional applications. Lonza's offerings to consumer health companies are complemented with a small portfolio of science-backed ingredients (nutritional supplements).

Lonza manufactures products that are at the forefront of powerful new treatments for cancer, diabetes, immune system disorders, heart conditions, Alzheimer's and Parkinson's diseases,

inflammation and many other medical diseases and conditions. Lonza's customers cover a wide spectrum: from the world's largest pharmaceutical companies, to the broad range of biotechnology firms, medical research and testing organizations, as well as smaller start-ups pioneering breakthrough medical treatments, and consumer health and nutrition companies.

Specialty Ingredients

The Specialty Ingredients segment represents the two operating businesses, Microbial Control Solutions and Specialty Chemical Services, as well as certain corporate activities directly related to the carve-out / divestiture process.

The Microbial Control Solutions business serves consumer and technical markets by safeguarding resources and peoples' wellbeing. In consumer markets, the segment has offerings in professional hygiene, and home and personal care. In technical markets, the segment has offerings in paints and coating, wood protection, material protection and crop protection.

The Specialty Chemicals Services business serves selected attractive specialty chemical niche markets, where a high level of customization or exclusivity is required. It serves markets with demand for its solutions in electronics, aerospace, food and feed ingredients, agro chemicals and diversified specialty chemicals.

Corporate

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

2.2

Information About Reportable Segment Profit or Loss, Assets and Liabilities including Reconciliations

In the following table, revenues and profit or loss are disclosed by the two reportable segments and corporate, which include

the costs of the corporate functions, including eliminations, and adds up to the Group total. Lonza does not allocate financial result, income and expenses from associates and joint ventures as well as taxes to the reportable segments. The information disclosed by the operating segments is the same as that reported monthly to the Group's Executive Committee.

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Year ended

31 December 2020

Million CHF

	Pharma Biotech & Nutrition	Specialty Ingredients classified as Discontinued Operations	Total operating segments	Corporate/ Eliminations	Group total
Sales third-party	4,472	1,677	6,149	36	6,185
Intersegment sales ¹	26	55	81	(81)	0
Total sales	4,498	1,732	6,230	(45)	6,185
Result from operating activities (EBIT)	1,010	197	1,207	(111)	1,096
- Percentage return on sales in %	22.6	11.7	19.6	n.a.	17.7
Included in result from operating activities (EBIT):					
Research and development	(153)	(31)	(184)	(1)	(185)
Depreciation and amortization	(406)	(72)	(478)	(48)	(526)
Impairment, net of reversal of impairment	(16)	(11)	(27)	(20)	(47)
Restructuring expenses	(21)	(3)	(24)	(1)	(25)
Environmental expenses	0	(3)	(3)	(11)	(14)
Major components of reportable segment net assets:					
Goodwill	3,072	492	3,564	0	3,564
Investments in associates / joint ventures	9	10	19	47	66
Intangible assets	2,572	206	2,778	68	2,846
Property, plant & equipment	3,496	605	4,101	95	4,196
Other non-current operating assets	22	6	28	(1)	27
Net Working Capital	768	249	1,017	(71)	946
Other non-current operating liabilities	461	23	484	78	562
Net Operating Assets (NOA)²	6,397	1,043	7,440	13	7,453
Return on Net Operating Assets (RONOA) ³ in %	15.6	16.3	n.a.	n.a.	14.4
Return on invested capital (ROIC) ³ in %	9.9	12.6	n.a.	n.a.	9.8
Investing activities in non-current assets:					
Additions to property, plant and equipment	801	83	884	8	892
Additions to intangible assets	19	2	21	60	81
Additions to investment in associates / joint ventures	6	9	15	0	15
Number of employees (Full-Time Equivalent)	12,679	2,684	15,363	1,177	16,540

¹ Intersegment sales were based on prevailing market prices

² Net Operating Assets comprises all operating assets less operating liabilities

³ Refer to section "Alternative Performance Measures" for details on the calculation methodology

Year ended

31 December 2019

Million CHF

	Pharma Biotech & Nutrition	Specialty Ingredients classified as Discontinued Operations ⁴	Total operating segments	Corporate/ Eliminations	Group total
Sales third-party	4,167	1,713	5,880	40	5,920
Intersegment sales ¹	7	59	66	(66)	0
Total sales	4,174	1,772	5,946	(26)	5,920
Result from operating activities (EBIT)	952	147	1,099	(127)	972
- Percentage return on sales in %	22.8	8.6	18.7	n.a.	16.4
Included in result from operating activities (EBIT):					
Research and development	(139)	(48)	(187)	(1)	(188)
Depreciation and amortization	(396)	(104)	(500)	(44)	(544)
Impairment, net of reversal of impairment	5	(10)	(5)	(4)	(9)
Restructuring expenses	(5)	(22)	(27)	(3)	(30)
Environmental expenses	0	(3)	(3)	(17)	(20)
Major components of reportable segment net assets:					
Goodwill	3,111	540	3,651	0	3,651
Investments in associates / joint ventures	7	1	8	53	61
Intangible assets	2,812	235	3,047	26	3,073
Property, plant & equipment	2,906	749 ⁵	3,655	162	3,817
Other non-current operating assets	32	3	35	4	39
Net Working Capital	804	336	1,140	(242)	898
Other non-current operating liabilities	261	22	283	121	404
Net Operating Assets (NOA)²	6,293	1,301	7,594	(171)	7,423
Return on Net Operating Assets (RONOA) ³ in %	15.3	10.9	n.a.	n.a.	12.9
Return on invested capital (ROIC) ³ in %	9.9	8.7	n.a.	n.a.	9.1
Investing activities in non-current assets:					
Additions to property, plant and equipment	607	88	695	62	757
Additions to property, plant and equipment from acquisitions	62	0	62	0	62
Additions to intangible assets	17	3	20	9	29
Additions to goodwill and intangible assets from acquisitions	16	0	16	0	16
Additions to investment in associates / joint ventures	6	0	6	51	57
Number of employees (Full-Time Equivalent)	11,148	2,750	13,898	1,570	15,468

¹ Intersegment sales were based on prevailing market prices² Net Operating Assets comprises all operating assets less operating liabilities³ Refer to section "Alternative Performance Measures" for details on the calculation methodology⁴ Income statement related information are restated to reflect the classification of the Specialty Ingredients business as discontinued operations. Whereas balance sheet information were not restated⁵ Includes CHF 135 million of assets of the Visp (CH) site shared across operating segments allocated to Specialty Ingredients for reporting purposes

2.3

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) as well as the CORE result from operating activities.

2.4 Geographical Information

Year ended 31 December 2020						
Million CHF	Revenue from external customers (sales)	Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Belgium	378	87	1,346	2,466	29	3,928
Czech Republic	6	18	0	0	0	18
Denmark	115	5	0	10	0	15
France	242	83	130	10	2	225
Germany	221	5	19	63	0	87
Ireland	265	0	0	0	0	0
Italy	28	0	0	0	0	0
Netherlands	56	39	0	30	0	69
Spain	26	121	1	0	0	122
Sweden	159	0	0	0	0	0
Switzerland	635	1,810	116	63	250	2,239
United Kingdom	185	139	60	8	7	214
Rest of Europe	95	0	0	0	1	1
Europe	2,411	2,307	1,672	2,650	289	6,918
Canada	84	3	144	26	0	173
Mexico	47	10	21	0	0	31
United States	2,568	1,370	749	875	27	3,021
Rest of North and Central America	13	3	0	0	0	3
North and Central America	2,712	1,386	914	901	27	3,228
Brazil	64	5	12	0	1	18
Rest of Latin America	28	0	0	0	0	0
Latin America	92	5	12	0	1	18
China	247	204	75	4	1	284
India	69	17	23	1	1	42
Indonesia	32	20	14	0	0	34
Japan	218	41	42	0	3	86
Singapore	78	207	36	0	0	243
South Korea	112	0	0	0	0	0
Thailand	38	0	30	0	0	30
Rest of Asia	68	3	0	0	0	3
Asia	862	492	220	5	5	722
Africa	16	2	1	0	0	3
Australia & New Zealand	75	8	20	8	1	37
Other countries	17	1	2	0	0	3
Total	6,185	4,201	2,841	3,564	323	10,929

Year ended
31 December 2019

Million CHF	Revenue from external customers (sales)	Property, plant and equipment	Intangible assets	Goodwill	Other non-current assets	Total
Belgium	306	82	1,432	2,462	18	3,994
Czech Republic	5	29	0	0	0	29
Denmark	106	5	0	10	0	15
France	217	91	135	9	2	237
Germany	223	4	21	63	0	88
Ireland	338	0	0	0	0	0
Italy	27	0	0	10	0	10
Netherlands	45	26	0	31	0	57
Spain	22	114	0	0	0	114
Sweden	157	0	0	0	0	0
Switzerland	576	1,330	73	63	187	1,653
United Kingdom	149	142	64	8	9	223
Rest of Europe	76	0	0	1	0	1
Europe	2,247	1,823	1,725	2,657	216	6,421
Canada	77	1	166	28	0	195
Mexico	44	12	25	0	0	37
United States	2,506	1,392	872	952	13	3,229
Rest of North and Central America	16	5	0	0	0	5
North and Central America	2,643	1,410	1,063	980	13	3,466
Brazil	66	7	19	0	1	27
Rest of Latin America	20	0	0	0	0	0
Latin America	86	7	19	0	1	27
China	221	228	78	4	1	311
India	80	18	26	2	1	47
Indonesia	22	25	16	0	0	41
Japan	209	47	46	0	3	96
Singapore	77	246	42	0	0	288
South Korea	116	0	0	0	0	0
Thailand	29	0	34	0	0	34
Rest of Asia	89	4	1	0	1	6
Asia	843	568	243	6	6	823
Africa	19	2	1	0	0	3
Australia & New Zealand	78	7	22	8	1	38
Other countries	4	0	0	0	0	0
Total	5,920	3,817	3,073	3,651	237	10,778

2.5 Information About Major Customers

In 2020, Lonza's largest customer accounted for 4.7% and the second, third, fourth and fifth largest customers for 4.4%, 4.4%, 3.7% and 3.3% in relation to total Group sales, respectively. No other customer accounted for 3.3% or more of Lonza's total sales. While the four largest customers related to the Pharma Biotech & Nutrition segment, the fifth largest customer pertained to the Specialty Ingredients segment.

In 2019, Lonza's largest customer accounted for 5.3% and the second, third, fourth and fifth largest customers for 4.9%, 3.4%, 3.4% and 2.0% in relation to total Group sales, respectively. No other customer accounted for 2.0% or more of Lonza's total sales. Out of the five largest customers, the first three, as well as the fifth, largest customers are related to the Pharma Biotech & Nutrition segment. The fourth largest customer is related to the Specialty Ingredients segment.

Note 3

Revenues

3.1

Disaggregation of Third-Party Revenues

Lonza derives revenue from its business models of Contract Development and Manufacturing (primarily in the Pharma Biotech & Nutrition segment) and sales of products (in both operating segments). These business models and the markets Lonza operates in are the basis for disaggregating revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The Pharma Biotech & Nutrition segment derives its revenues primarily from long-term supply agreements with pharmaceutical customers. This segment provides a range of product and manufacturing services, over the entire range from research to commercial supply. Lonza supports its customers' research activities as well as the whole life cycle of a customer product from development of a drug substance to commercial supply. Within this segment, there is a separation between divisions, which focus on different modalities and markets:

- Capsules & Health Ingredients is the trusted partner in innovative capsules and dosage form solutions and in health ingredients for pharmaceutical and nutraceutical companies
- Small Molecules is an integrated development and manufacturing service provider for small molecule drug substances and their intermediates. Small Molecules supports customers across all aspects of design, development and manufacturing, with the ability to offer integrated drug substances to drug product solutions, including particle engineering and drug product packaging
- Biologics is the leading contract development and manufacturing partner for biopharmaceuticals, serving customers for all clinical and commercial manufacturing needs throughout the product lifecycle. The modalities across Biologics include mammalian and microbial expression systems, covering both drug substance and parenteral drug product services, as well as bioconjugates and mRNA

- Cell & Gene:

- Cell and Gene therapies are a new frontier in medicine with the potential to transform the way patients diagnosed with cancers or genetic diseases can be treated. Lonza's vision is to enable customers to industrialize their processes, from concept to patient
- Bioscience is a market-leading provider of specialty raw materials and enabling technology solutions in core target markets including cell and gene therapy, injectable drugs, vaccines and bio-manufacturing

The Specialty Ingredients segment focuses on product sales. Within this segment, there is a separation between divisions, which focus on different markets and operating distinct technology and asset platforms:

- Microbial Control Solutions is a leading supplier of biocides, preservatives, complementary technologies and fully formulated, registered and safe solutions. Microbial Control Solutions offers these in a wide range of consumer and industrial markets, including hygiene, as well as in wood applications and crop protection
- Specialty Chemical Services provides solutions for composite materials and processing additives in technically demanding industries. In addition, it also offers performance intermediates and chemicals for many industrial applications, including agricultural intermediates, food and feed ingredients, cosmetics, and custom development and manufacturing for non-current good manufacturing practice (non-cGMP) products

The table below shows information for the Group's two operating segments provided to the Group's Executive Committee and also illustrates the disaggregation of recognized revenues for 2020 and 2019:

Million CHF	2020	2019
Capsules & Health Ingredients	1,153	1,127
Small Molecules	692	655
Biologics	2,146	1,959
Cell & Gene	481	426
Pharma Biotech & Nutrition	4,472	4,167
Other Revenues	36	40
Lonza Continuing Operations	4,508	4,207
Microbial Control Solutions	1,068	1,031
Specialty Chemical Services	587	662
Other Revenues	22	20
Lonza Specialty Ingredients – Discontinued Operations	1,677	1,713
Total Group	6,185	5,920

3.2

Contract Assets and Liabilities

The Group recognized contract assets mainly consisting of contract fulfilment costs that are incurred after a contract is obtained but before goods or services have been delivered to the customer. These costs arise from long-term contracts in the custom manufacturing business for customer-specific production facility expansions or modifications on Lonza's premises. They typically include costs for commissioning, qualification and start-up, as well as for activities relating to process development and technology transfer. The assets are amortized on a straight line basis over the term of the specific contract they relate to, consistent with the pattern of recognition of the associated revenue. Additionally, if services rendered by Lonza exceed the payment received, a contract asset is recognized.

Contract liabilities mainly consist of upfront and other one-time payments, typically resulting from long-term contracts in the custom manufacturing business. These payments make up part of the expected transaction price and are deferred until batches are released. Additionally, if the payments received exceed services rendered, a contract liability is recognized. The non-current portion of deferred revenue is included in other long-term liabilities in the consolidated balance sheet.

The Group has recognized the following revenue-related contract assets and liabilities:

Million CHF	2020	2019
Trade receivables	715	759
Total trade receivables	715	759
Million CHF	2020	2019
Accrued income	185	190
Capitalized contract cost ¹	42	31
Total contract assets	227	221
Thereof non-current CHF 29 million (2019: CHF 31 million) and current CHF 13 million (2019: CHF 0 million)		
Million CHF	2020	2019
Non-current deferred income (see note 16)	444	250
Current deferred income (see note 16)	513	359
Total contract liabilities	957	609
Movement in Capitalized Costs to Fulfill a Contract		
Million CHF	2020	2019
At 1 January	31	31
Asset recognized from costs incurred to fulfill a contract at 31 December	28	3
Amortisation and impairment loss recognized as cost of providing services during the period	(17)	(3)
At 31 December	42	31
Movement in Contract Liabilities		
Million CHF	2020	2019
At 1 January	609	659
Revenue recognized that was included in the contract liability balance at the beginning of the period	(365)	(421)
Increases due to cash received, excluding amounts recognized as revenue during the period	739	373
Reclassification to asset held for sale	(13)	0
Currency translation effects	(13)	(2)
At 31 December	957	609

Note 4

Restructuring

Year ended :
31 December 2020

Million CHF	Pharma Biotech & Nutrition	Corporate	Total
Impairment of property, plant and equipment and intangible assets ¹	4	20	24
Restructuring charges	21	1	22
Total	25	21	46

Year ended
31 December 2019

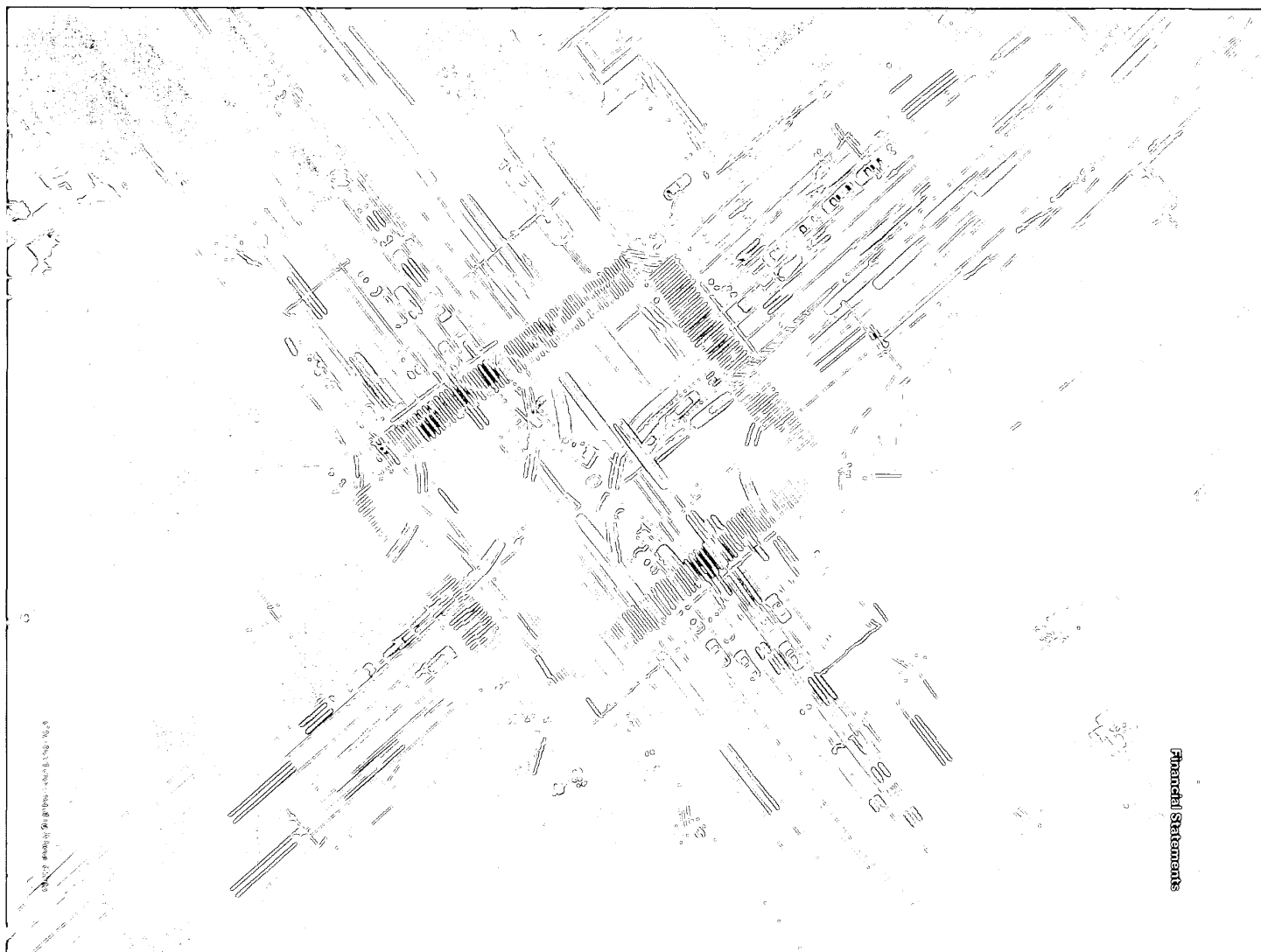
Million CHF	Pharma Biotech & Nutrition	Corporate	Total ²
Impairment of property, plant and equipment and intangible assets ¹	(5)	3	(2)
Restructuring charges	5	4	9
Total	0	7	7

¹ Net of reversal of impairment (2020: CHF 0 million; 2019: CHF 4 million)

² Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

In 2020, Lonza recognized an impairment loss of CHF 20 million related to production facilities in Nansha. These assets were previously reported in the Specialty Ingredients segment. However, due to local regulatory requirements, these assets will be retained by Lonza following the divestment of the Specialty Ingredients business subject to a supply agreement with a limited contractual term. The impairment of CHF 20 million reflects the estimated future cash flow expected to be generated under the supply agreement. The impairment charge has been recognized as a component of other operating expenses.

The 2020 restructuring charges of the Pharma Biotech and Nutrition segment relate to projects for reorganizational changes (CHF 10 million) as well as the discontinuation of certain businesses and technologies (CHF 11 million). These costs were included in marketing and sales (CHF 7 million), research and development (CHF 6 million) and administration and general overheads (CHF 8 million).



Note 5

Business Combinations and Sale of Businesses

5.1

Lonza Specialty Ingredients: Discontinued Operations (2020 and 2019) and Assets Held for Sale (2020)

Lonza Specialty Ingredients – 2020

On 3 June 2019, Lonza announced its intention to carve out its Specialty Ingredients segment. As the carve-out neared completion, strategic options were reviewed and on 23 July 2020, the Board of Directors decided to divest LSI segment via a sale process, which was initiated in the second half of 2020.

On 8 February 2021, Lonza announced that it has entered into a definitive agreement with Bain Capital and Cinven to acquire Lonza's Specialty Ingredients business and operations for an enterprise value of CHF 4.2 billion. The transaction is expected to close in H2 2021, subject to customary closing conditions.

In the 2020 consolidated financial statements, the LSI related assets and liabilities were classified as a disposal group in assets/liabilities held for sale and its results from operations were disclosed as discontinued operations.

In the consolidated income statement, discontinued operations in both 2020 and 2019 (restated) include the LSI business together with certain corporate costs directly attributable to LSI together with carve-out / divestiture related costs. Accordingly, for 2019, carve-out costs (CHF 19 million) which were previously reported in Corporate have been reclassified to discontinued operations.

Intragroup transactions between Lonza's continuing and discontinued operations have been attributed in a way that reflects how these transactions are expected to be continued in the future. As intercompany loans and debts are expected to be settled prior to or at the closing of the transaction, effects from these transactions within financial result were eliminated. To the contrary, certain supply and service agreements are expected to continue after the closing of the transaction and therefore were not eliminated. The Group has primarily identified supply and service agreements between continuing operations and LSI in Lonza's facilities in Visp (CH) and Nansha (CN). As a result of the separation of the businesses into dedicated legal entities (as from June 1, 2020 for the Swiss site and May 1, 2020 for the Chinese site), sales from the Lonza continuing business to discontinued operations amounted to CHF 104 million while sales from discontinued operations to the Lonza continuing business amounted to CHF 36 million.

In the statement of financial position, assets and liabilities related to LSI business were reclassified to assets and liabilities of a disposal group held for sale as of 1 October 2020. As the carrying amount of the disposal group held for sale was lower than its respective fair value less costs to sell, no impairment losses have been recorded.

5.2

Water Care Divestiture

The sale of the former Water Care business and operations was completed on 28 February 2019 for USD 630 million.

In 2019, the loss from discontinued operations related to the Water Care divestment (net of tax of CHF 117 million) includes the loss from operating activities (CHF 6 million), income taxes on sale of discontinued operations (CHF 68 million), the accumulated exchange rate translation impact (CHF 13 million), divestiture related costs (CHF 7 million) and other effects.

Financial Statements

The results from the Specialty Ingredients (for 2020 and 2019) and Water Care (two months in 2019) businesses, which are presented as discontinued operations, are as follows:

Million CHF	2020 ²	Specialty Ingredients	Water Care	2019 (restated) ¹ Total
Sales	1,677	1,713	74	1,787
Costs of goods sold ³	(1,158)	(1,221)	(57)	(1,278)
Gross profit	519	492	17	509
Marketing and distribution	(107)	(112)	(12)	(124)
Research and development	(35)	(48)	(1)	(49)
Administration and general overheads ⁴	(176)	(175)	(9)	(184)
Other operating income	26	19	0	19
Other operating expenses	(32)	(29)	0	(29)
Result from operating activities (EBIT)	195	147	(5)	142
Net financial result	(8)	(16)	(1)	(17)
Share of loss of associates / joint ventures	(4)	(1)	0	(1)
Profit / (loss) before income taxes from discontinued operations	183	130	(6)	124
Income taxes	(44)	(15)	0	(15)
Profit / (loss) from operating activities, net of tax	139	115	(6)	109
Loss on sale of discontinued operations	0	0	(43)	(43)
Income tax on sale of discontinued operations	0	0	(68)	(68)
Profit / (loss) from discontinued operations, net of tax	139	115	(117)	(2)
Attributable to:				
Equity holders of the parent	139	115	(117)	(2)
Non-controlling interest	0	0	0	0
	CHF			CHF
Basic earnings per share	1.87	1.55	(1.58)	(0.03)
Diluted earnings per share	1.86	1.55	(1.58)	(0.03)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations
² 2020 contains an operating expense (CHF 2 million) and an income tax gain (CHF 1 million) related to Water Care
³ Including impairment charges on the active production sites (2020: CHF 13 million, 2019: CHF 10 million, mainly in Visp and Kourim for both years)
⁴ Including carve-out and divestiture costs related to Specialty Ingredients (2020: CHF 35 million, 2019: CHF 19 million)

The primary components of the cash flow statements from discontinued operations are as follows:

Million CHF	2020	LSI	Watercare	2019 (restated) ¹
Net cash used for operating activities	155	200	(20)	180
Net cash used for investing activities	(77)	(89)	0	(89)
Net cash used for financing activities	7	(212)	0	(212)
Net cash flows for the year	85	(101)	(20)	(121)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

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At 31 December 2020 the assets and liabilities held for sale related to LSI are as follows:

Million CHF	2020
Goodwill	492
Intangible assets	206
Property, plant & equipment	605
Other non-current assets	54
Inventories	309
Trade receivables	180
Other receivables	49
Cash and cash equivalents	124
Assets of disposal group classified as held for sale	2,019
Non-current provisions	(18)
Employee benefit liability	(191)
Other non-current liabilities	(14)
Deferred tax liabilities	(48)
Trade payables	(91)
Other current liabilities	(173)
Current debt	(14)
Current tax payables	(6)
Liabilities directly associated with assets of disposal group classified as held for sale	(555)
Net assets directly associated with disposal group classified as held for sale	1,464
Amounts included in other comprehensive income instead of OCI:	
Accumulated remeasurement of defined benefit liability	(131)
Accumulated exchange differences on translating foreign operations	(290)

As of December 31 2020, there were 290 million losses of accumulated currency translation reserves related to LSI entities. These losses will be reclassified to the income statement upon closing of the divestment of the Specialty Ingredients business, which is expected to happen in the second half of 2021.

The cumulative gains and losses recognized in other comprehensive income related to the LSI operations as of 31 December 2020 and 2019 are as follows:

Million CHF	2020	2019
Remeasurements of net defined benefit liability, net of taxes	(10)	(4)
Exchange differences on translating foreign operations, net of taxes	(25)	(32)
Cumulative expense recognized in other comprehensive income	(35)	(36)

5.3

Acquisitions of Fill and Finish Business from Novartis in Stein, Switzerland

Effective 31 July 2019, Lonza purchased a sterile drug product fill and finish business from Novartis in Stein (CH). The total consideration for this business amounts to CHF 71 million (spread over two years), of which CHF 30 million has been paid as of 31 December 2020.

Portions of the valuations of the acquired assets and liabilities were performed by an independent valuation provider.

The business is reported within the Pharma Biotech & Nutrition segment and did not have a significant impact on the consolidated financial statements for the year ended 31 December 2019, with the exception of the acquired property, plant and equipment.

The net identifiable assets acquired and liabilities from the 2019 acquisitions are set out in the table below:

Million CHF	Stein business	Other	Total
Current assets	1	13	14
Property, plant & equipment	60	2	62
Current liabilities	0	(1)	(1)
Net identifiable assets	61	14	75
Goodwill	10	6	16
Total consideration	71	20	91
Cash consideration	15	14	29
Deferred consideration (present value)	56	6	62
Total consideration transferred	71	20	91
Cash consideration	15	14	29
Cash and cash equivalents acquired	0	(5)	(5)
Cash outflow on acquisition	15	9	24

Note 6

Intangible Assets and Goodwill

6.1

Cost and Accumulated Amortization and Impairment

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

Year ended							
31 December 2020							
Million CHF	Goodwill	Capsugel trade name / Arch Chemicals and Cambrex Trademarks	Patents, trademarks, client relationship	Computer software	Technologies/ Development cost	Construction in progress	Total
Cost							
At 1 January	3,651	353	1,918	173	1,438	2	7,535
Additions	0	0	3	69	7	0	79
Disposals	0	0	(3)	(23)	(5)	0	(31)
Reclassification from property, plant and equipment	0	0	3	0	0	0	3
Reclassification to asset held for sale	(492)	(82)	(236)	(15)	(63)	0	(888)
Transfers / reclassification	0	0	2	0	0	(2)	0
Currency translation differences	(87)	(10)	(120)	(3)	(26)	0	(246)
At 31 December	3,072	261	1,567	201	1,351	0	6,452
Accumulated amortization and impairment							
At 1 January	0	0	(397)	(144)	(270)	0	(811)
Amortization	0	0	(68)	(21)	(97)	0	(186)
Disposals	0	0	3	23	2	0	28
Impairment losses	0	0	(1)	(1)	0	0	(2)
Reclassification to asset held for sale	0	0	138	15	40	0	193
Currency translation differences	0	0	29	3	6	0	38
At 31 December	0	0	(296)	(125)	(319)	0	(740)
Net carrying amount 31 December	3,072	261	1,271	76	1,032	0	5,712

The Capsugel trade name acquired through the business combination in 2017 as well as the trademarks acquired through the acquisitions of Arch Chemicals (2011) and Cambrex (2007) are considered to have indefinite useful lives. As a result, these intangible assets with a carrying amount of CHF 261 million as of 31 December 2020 (2019: CHF 353 million) are not systematically amortized.

Development costs as of 31 December 2020 predominantly include technologies acquired with the acquisitions of Capsugel, amounting to CHF 912 million (2019: CHF 1,000 million), Octane of CHF 100 million (2019: CHF 117 million), and the Arch Chemical acquisition of CHF 23 million (2019: CHF 29 million).

Year ended
31 December 2019

Million CHF	Goodwill	Capsugel trade name / Arch Chemicals and Cambrex Trademarks	Patents, trademarks, client relationship	Computer software	Technologies / Development cost	Construction in progress	Total
Cost							
At 1 January	3,748	363	1,955	163	1,471	2	7,702
Additions	0	0	6	14	9	0	29
Disposals	0	0	(8)	(2)	0	0	(10)
Acquisition of subsidiaries	16	0	0	0	0	0	16
Currency translation differences	(113)	(10)	(35)	(2)	(42)	0	(202)
At 31 December	3,651	353	1,918	173	1,438	2	7,535
Accumulated amortization and impairment							
At 1 January	0	0	(335)	(130)	(177)	0	(642)
Amortization	0	0	(76)	(16)	(101)	0	(193)
Disposals	0	0	7	2	0	0	9
Impairment losses	0	0	0	0	0	0	0
Currency translation differences	0	0	7	0	8	0	15
At 31 December	0	0	(397)	(144)	(270)	0	(811)
Net carrying amount 31 December	3,651	353	1,521	29	1,168	2	6,724

6.2

Impairment Tests for Cash-Generating Units Containing Goodwill and Intangible Assets with Indefinite Useful Lives

In 2020, Lonza has identified several cash-generating units within its operating segment Pharma Biotech & Nutrition and Specialty Ingredients classified as discontinued operations:

Pharma Biotech & Nutrition

The various technologies (mammalian, chemical, etc.) applied within the segment are the cash-generating units identified and subject to impairment testing of goodwill and intangible assets with indefinite useful lives.

Specialty Ingredients

The business units of Lonza's discontinued operations are the cash-generating units identified and subject to impairment testing of goodwill and intangible assets with indefinite useful lives.

The following cash-generating units maintain carrying amounts of goodwill as presented below (at year-end exchange rates):

Million CHF	2020	2019
Chemical and Capsules & Health Ingredients business (representing a group of cash-generating units)	2,632	2,652
Chemical – Development and manufacturing of drug substances and drug products (representing a group of cash-generating units)	38	38
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	346	363
Mammalian & Microbial – Operations and Development Services	34	35
Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	22	23
Specialty Ingredients (representing a group of cash-generating units)	0	525
Microbial Control Solutions	0	11
Specialty Chemicals Services	0	4
Total carrying amounts of goodwill as at 31 December	3,072	3,651
Specialty Ingredients (representing a group of cash-generating units)	477	0
Microbial Control Solutions	11	0
Specialty Chemicals Services	4	0
Goodwill transferred to assets held for sale	492	0

The following cash-generating units maintain carrying amounts of intangible assets with indefinite useful lives as presented below (at year-end exchange rates):

Million CHF	2020	2019
Chemical and Capsules & Health Ingredients business (representing a group of cash-generating units)	237	238
Bioscience Solutions / Cell Therapy / Viral Therapeutics (representing a group of cash-generating units)	24	26
Specialty Ingredients (representing a group of cash-generating units)	0	89
Total carrying amounts of intangible assets with indefinite useful life as at 31 December	261	353
Specialty Ingredients (representing a group of cash-generating units)	82	0
Intangible assets with indefinite useful lives transferred to assets held for sale	82	0

The recoverable amount of the above cash-generating units is based on the value-in-use calculation. The supporting cash flow projections for 2021 to 2025 are based on the Lonza business strategy review and exclude any future cash inflows and outflows expected to arise from the growth potential of future capital expenditures.

The cash flow projections beyond the five-year period, of the most significant cash-generating units below, are based on the concept of perpetual growth rates, which do not necessarily reflect the Group's strategic objective targets for the future growth potential of the underlying businesses. The key assumptions and the approach to determining the value in use of the significant cash-generating units carrying significant goodwill are based on the following:

The combined business Chemical and Capsules & Health Ingredients represents the group of cash-generating units which consists of Chemical Development and Manufacturing of Drug Substances and Drug Products as well as Capsules & Health Ingredients. The cash flow projections for 2021–2025 are based on a 5.8% (2019: 6.9%) average sales growth with increasing EBIT margins. The cash flow projections beyond the five-year period are based on 2.0% (2019: 2.0%) growth rate. A pre-tax discount rate of 5.2% (2019: 6.1%) has been used in discounting the projected cash flows.

The Bioscience Solutions/Cell Therapy/Viral Therapeutics businesses are characterized by strong dynamic growth across the majority of its markets, driven by the aging population and improved access to healthcare. The cash flow projections for 2021–2025 are based on a 20.9% (2019: 17.3%) average sales growth. The cash flow projections beyond the five-year period are extrapolated using a 2.0% (2019: 2.0%) growth rate. A pre-tax discount rate of 5.7% (2019: 6.3%) has been used in discounting the projected cash flows.

The Specialty Ingredients business includes the cash-generating units of Microbial Control Solutions and Specialty Chemical Services. These cash-generating units are the combination of the activities acquired through the Arch Chemicals acquisition in 2011, and the former Life Science Ingredients activities from Lonza. As Lonza entered into a definitive agreement to sell its Specialty Ingredients business the recoverable amount of this cash-generating units is based on the "fair value less cost to sell" calculation. The goodwill and intangible assets carrying amounts will be covered by the expected proceeds from the sale.

A sensitivity analysis for the cash-generating units and groups of cash-generating units to which a significant amount of goodwill or intangible assets with indefinite useful lives are allocated was performed. The analysis was based on changes in key inputs which management considers to be reasonably possible:

- A reduction in cash flows by 10%
- Or an increase in discount rate by one percentage point
- Or a reduction in the perpetual growth rate by one percentage point.

Management concluded that no impairment loss would need to be recognized on goodwill or intangible assets with indefinite useful lives in any of the cash-generating units (or group of cash-generating units).

Note 7

Property, Plant and Equipment

Million CHF	2020	2019
Property, plant and equipment own assets	3,369	3,581
Right-of-use of leased assets	222	236
Total	3,591	3,817

7.1

Property Plant and Equipment Own Assets

Year ended 31 December 2020					
Million CHF	Land	Buildings and structures	Production facilities	Construction in progress	Total
Cost					
At 1 January	99	2,019	4,762	978	7,858
Additions	0	23	135	712	870
Disposals	0	(4)	(25)	(1)	(30)
Reclassification to asset held for sale	(10)	(414)	(1,603)	(91)	(2,118)
Transfers / reclassification	1	87	251	(339)	0
Currency translation differences	(8)	(67)	(181)	(42)	(298)
At 31 December	82	1,644	3,339	1,217	6,282
Accumulated depreciation and impairment					
At 1 January	(6)	(1,088)	(3,183)	0	(4,277)
Depreciation charge	0	(67)	(243)	0	(310)
Disposals	0	7	20	0	27
Impairment losses (note 4)	0	(10)	(26)	0	(36)
Reversal of impairment losses (note 4)	0	0	3	0	3
Reclassification to asset held for sale	4	289	1,258	0	1,551
Currency translation differences	1	26	102	0	129
At 31 December	(1)	(843)	(2,069)	0	(2,913)
Net carrying amount 31 December	81	801	1,270	1,217	3,369

Year ended

31 December 2019

Million CHF

Cost

	Land	Buildings and structures	Production facilities	Construction in progress	Total
At 1 January reported as per IAS 17	99	1,982	4,538	551	7,170
Finance lease assets transferred to right-of-use of leased assets	0	(19)	(8)	0	(27)
At 1 January reported as per IFRS 16	99	1,963	4,530	551	7,143
Additions	0	28	76	653	757
Disposals	(1)	0	(19)	0	(20)
Acquisition of subsidiaries	0	21	41	0	62
Transfers / reclassification	0	25	188	(213)	0
Currency translation differences	1	(18)	(54)	(13)	(84)
At 31 December	99	2,019	4,762	978	7,858
Accumulated depreciation and impairment					
At 1 January reported as per IAS 17	(4)	(1,049)	(2,965)	0	(4,018)
Finance lease assets transferred to right-of-use of leased assets	0	14	4	0	18
At 1 January reported as per IFRS 16	(4)	(1,035)	(2,961)	0	(4,000)
Depreciation charge	0	(64)	(256)	0	(320)
Disposals	0	0	9	0	9
Impairment losses (note 4)	0	(4)	(9)	0	(13)
Reversal of impairment losses (note 4)	0	3	4	0	7
Transfers / reclassification	(1)	(1)	2	0	0
Currency translation differences	(1)	13	28	0	40
At 31 December	(6)	(1,088)	(3,183)	0	(4,277)
Net carrying amount 31 December	93	931	1,579	978	3,581

Commitments for capital expenditure in property, plant and equipment amounted to CHF 410 million at year-end 2020 for continuing business (2019: CHF 411 million for the total Group), mainly related to capital expenditures at the Visp (CH) and Portsmouth (US) sites. No assets were pledged for security of own liabilities in 2020 and 2019.

7.2

Leases

Right-of-use of Leased Assets

Year ended 31 December 2020			
Million CHF	Buildings and structures	Others	Total
Net carrying amount at the year ended	213	9	222
Additions for the year ended	45	3	48
Depreciation for the year ended	(26)	(4)	(30)
Impairment for the year ended	0	0	0

Year ended 31 December 2019			
Million CHF	Buildings and structures	Others	Total
Net carrying amount at the year ended	227	9	236
Additions for the year ended	23	1	24
Depreciation for the year ended	(27)	(4)	(31)
Impairment for the year ended	0	0	0

Lease Expenses

Leases are presented as follows in the income statement:

Million CHF	2020	2019 (restated) ¹
Expenses related to short-term leases and low value assets ²	(7)	(9)
Expenses related to variable lease payments not included in lease liabilities ²	(4)	(5)
Other rent expenses (including incidental expenses) ²	(6)	(7)
Depreciation of right-of-use of leased assets ²	(30)	(31)
Interest expense on leases ³	(8)	(8)
Total	(55)	(60)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)
² Included in cost of goods sold and administrative expenses
³ Included in financial result

During the year ended 31 December 2020, CHF 17 million (2019: CHF 21 million) was recognized as an expense in the consolidated income statement for continuing business in respect of leases not in scope of IFRS 16.

Lonza predominantly leases office buildings, together with warehouses, equipment and vehicles. The maturities of the lease liabilities are presented in note 29.3.

As of 31 December 2020, the Group has entered into a lease commitment which is expected to commence in the first half of 2021. The expected future total impact on the Group's assets is estimated at approximately CHF 110 million, thereof CHF 44 million was prepaid as of 31 December 2020, and an additional payment of CHF 22 million will be made before the commencement date, resulting in an estimated lease liability of CHF 44 million upon commencement.

Note 8

Other Non-Current Assets

Million CHF	2020	2019
Contingent consideration related to sale of business (see note 29.6)	7	20
Capitalized contract costs (see note 3)	29	31
Investments in associates / joint ventures (see note 9)	56	61
Other investments	33	24
Defined benefit pension plan asset (see note 24.1)	2	10
Loans and advances (see note 15)	162	72
Other assets	12	19
Total	301	237

Loans and advances at 31 December 2020 includes a CHF 149 million loan to BioAtrium AG (2019: CHF 69 million). This associate company represents a strategic partnership between Sanofi

and Lonza (see note 9). It also includes a CHF 11 million loan to BacThera (Joint-venture, see note 9).

Note 9

Investments in Joint Ventures and Associates

The following table summarizes the carrying amounts of interests in joint ventures and associates, which are accounted for using the equity method.

Million CHF	2020	2019
Balance sheet value		
Interests in joint ventures	9	8
Interests in associates	47	53
Total	56	61
Net income statement effect		
	2020	2019 (restated) ¹
Share of profit / (loss) of joint ventures	(4)	0
Share of profit / (loss) of associates	0	(2)
Total	(4)	(2)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

In 2020, the Group received dividends of CHF 1 million (2019: CHF 2 million) from associates and joint ventures.

9.1 Joint Ventures

Million CHF	2020	2019
Carrying amount of interests in joint ventures	9	8
Share of profit / (loss) ¹	(4)	(2)
Prior year was restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)		

In April 2019, the Group established together with Chr. Hansen Holding A/S a strategic partnership in developing and manufacturing live biotherapeutic products for Pharma Biotech & Nutrition customers. This partnership brings together Chr. Hansen's extensive know-how in developing, upscaling and manufacturing bacteria strains and Lonza's strong capabilities in pharma contract manufacturing and outstanding formulation and drug delivery technologies. The phased investment of approximately EUR 90 million will be shared equally between

the parties over a period of three years and will be deployed to build cGMP-compliant pharma production capabilities. In addition to the equity funding, Lonza financed the joint venture with a loan of CHF 11 million in 2020. Lonza accounts for its 50% share in BacThera Ltd (name of the legal entity founded for the strategic partnership) as a joint venture in accordance with IFRS 11. The investment in BacThera Ltd had no significant financial impact on the Group's consolidated financial statements 2020.

9.2 Associates

Lonza holds a 50% stake in BioAtrium Ltd (CH), as well as in another individually immaterial company.

BioAtrium Ltd

BioAtrium Ltd was founded in 2017 for the strategic partnership with Sanofi. This strategic partnership will build and operate a largescale mammalian cell culture facility for monoclonal antibody production in Visp (CH). The total commitment of both partners is estimated to be CHF 290 million and is equally shared between the two parties. The facility completed the ramp-up activities at the end of December 2020 and commenced its operational manufacturing. Lonza continues to account for its

share in BioAtrium Ltd as investment in associates in accordance with IAS 28. In 2020, Lonza granted additional loans of CHF 80 million to BioAtrium Ltd. The financial results of BioAtrium Ltd in both reporting periods represent predominantly the costs incurred as part of the operational ramp-up phase. According to the shareholder's agreement, these costs were funded by both shareholders. Since BioAtrium Ltd started the operational manufacturing at the end of December 2020, there have been no significant financial impacts on Lonza's 2020 consolidated income statement.

The following table summarizes certain financial information of BioAtrium Ltd and Lonza's investment in the associate:

Million CHF	2020	2019
Percentage of ownership	50%	50%
Current assets	70	6
Non-current assets	323	220
Current liabilities	19	9
Non-current liabilities (including non-current debt – CHF 297 million; 2019: CHF 138 million)	303	138
Net assets (100%)	71	79
Group's share of net assets (50%)	36	40
Carrying amount of interest in BioAtrium Ltd	44	44

Other Associates

Million CHF	2020	2019
Carrying amount of interests associates	3	9
Share of profit / (loss) ¹	0	0
¹ Prior year was restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)		

Note 10

Inventories

Million CHF	2020	2019
Inventories	1,252	1,506
Value adjustments	(116)	(114)
Total	1,136	1,392

Million CHF		2020		2019
Raw materials	32%	365	28%	390
Work in progress	13%	147	10%	134
Finished goods	42%	480	47%	660
Other	13%	144	15%	208
Total	100%	1,136	100%	1,392

By Operating Segments

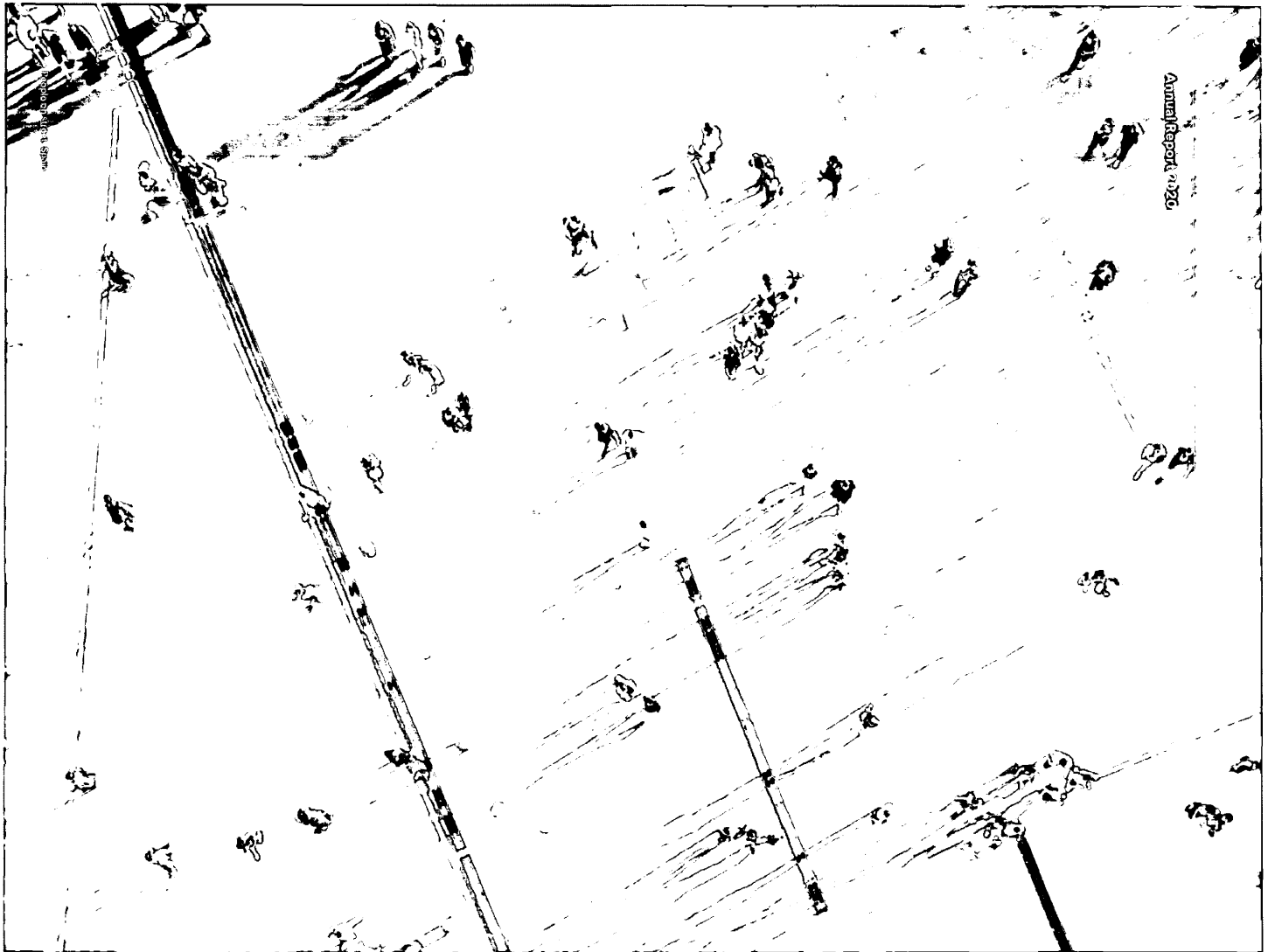
Million CHF		2020		2019
Pharma Biotech & Nutrition	100%	1,136	77%	1,069
Specialty Ingredients ¹	0%	0	23%	323
Total	100%	1,136	100%	1,392

¹ Specialty Ingredients inventories are classified as held for sale as of 31 December 2020

The cost of inventories recognized as expenses during the period and included in "Cost of goods sold" amounted to CHF 2,676 million (2019 (restated): CHF 2,422 million).

Inventory Value Adjustments

Million CHF	Raw materials	Work in progress and finished goods	Other	Total ¹ 2020	Total 2019
At 1 January	23	54	37	114	109
Increase	14	87	6	107	82
Reversal / Utilization of write-downs	(5)	(65)	(2)	(72)	(72)
Transfer to assets held for sale	(2)	(11)	(18)	(31)	0
Currency translation differences	(1)	0	(1)	(2)	(5)
At 31 December	29	65	22	116	114



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Note 11

Trade Receivables

Million CHF	2020	2019
Receivables from customers	729	775
Allowances for credit losses	(14)	(16)
Total	715	759

The Group's credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions. Management has a credit policy in place and the exposure to credit risk is

monitored on an ongoing basis. At 31 December 2020, there were no significant concentrations of credit risk. The maximum exposure to credit risk is equal to the carrying amounts.

Reconciliation of Changes in Allowance Accounts for Credit Losses

Million CHF	2020	2019
Balance at the beginning of the year	16	14
Write-offs	(7)	(6)
Increase in provision for credit losses	9	9
Decrease in provision for credit losses	(3)	(1)
Reclassification to assets held for sale	(1)	0
Balance at the end of the year	14	16

In general, Lonza does not require collateral in respect of trade and other receivables, but uses credit insurance for country risk where appropriate.

Accounts Receivable Securitization Programs

In the past, Lonza maintained a securitization program for a portion of its US businesses with Wells Fargo Bank, N.A., which was terminated in September 2020.

As of 31 December 2019, the consolidated balance sheet includes receivables which Lonza sold to Wells Fargo Bank, N.A. for which it obtained funds of USD 92 million (CHF 89 million). These are disclosed as other current liabilities ([see note 16](#)).

Note 12

Other Receivables, Prepaid Expenses and Accrued Income

Million CHF	2020	2019
Other receivables	87	73
Prepaid taxes and social security payments	4	4
Prepaid expenses and accrued income	256	241
Capitalized contract costs (see note 3)	13	0
Derivative financial instruments (see note 29.5)	37	21
Contingent consideration related to sale of business (see note 29.6)	7	0
Current advances	0	2
Total	404	341

"Other receivables" include accruals and receivables for taxes (other than income taxes).

Note 13

Cash and Cash Equivalents

Million CHF	2020	2019
Cash	345	429
Time deposits	150	76
Total	495	505

Note 14

Provisions

Million CHF	Environmental	Restructuring	Other	Total
At 1 January 2020	144	26	27	197
Increase	15	17	13	45
Used	(27)	(15)	(7)	(49)
Reversed	(1)	(6)	0	(7)
Transfer to liabilities held for sale	(18)	(8)	(1)	(27)
Currency translation differences	0	(1)	(1)	(2)
At 31 December 2020	113	13	31	157
thereof current	32	10	25	67
thereof non-current	81	3	6	90

Environmental

The environmental provision comprises the estimated probable future expenses for environmental remediation and protection of CHF 111 million (2019: CHF 122 million) primarily in relation to the plant in Visp (CH). The majority of the provision is expected to be utilized within ten years. The legacy Arch related provisions include environmental risks for existing as well as divested plants.

Lonza maintains an old landfill close to its Visp (CH) site. This landfill was in use from 1918 until 2012 and contains hazardous materials. Lonza will need to perform remediation measures in order to comply with environmental regulations.

In 2020 Lonza completed a pre-study that addresses potential remediation methods and measures. Furthermore, Lonza and the environmental authorities of the canton of Valais aligned on the base principles of a remediation strategy during 2020. As of 31 December 2020 Lonza's detailed investigations are still ongoing in order to identify the most critical areas regarding the groundwater protection, to identify and define appropriate remediation methods and to evaluate the extent of remediation required.

As of 31 December 2020, it is not possible to make an informed judgment on, or reasonably predict, potential additional required remediation measures, and as it is not possible, based on information currently available to management, to estimate the potential liability, there could be adverse outcomes beyond the amounts accrued.

Restructuring

The restructuring provision primarily reflects the expected employee termination costs related to ongoing restructuring programs (see note 4).

Other

Other provisions are predominately associated with customer claims and the asset retirement obligations of Lonza's Singapore based operations.

Note 15

Net Debt

The net debt comprises:

Million CHF	2020	2019
Debt		
Non-current debt	2,784	2,766
Current debt	796	774
Total debt of continuing business	3,580	3,540
Current debt classified as held for sale (see note 5)	14	
Total debt	3,594	3,540
Loans and advances (floating interest rates)		
Non-current loans and advances	(162)	(72)
Current advances	0	(2)
Cash and cash equivalents	(495)	(505)
Cash and cash equivalents classified as held for sale (see note 5)	(124)	0
Total loans and advances and cash and cash equivalents	(781)	(579)
Net debt	2,813	2,961

Non-current Debt

Million CHF	2020	2019
Straight bonds	1,374	764
Syndicated loan (2019-2024)	0	137
Term loan	612	671
German private placement	669	1,048
Other long-term debt	129	146
Total non-current debt	2,784	2,766

Straight Bonds – Fixed Interest Rates

Million CHF	2020	2019
CHF bonds		
0.625% CHF 150 million, 2015/2020, due 22 September 2020, issued at 100.135%	0	150
0.2% CHF 125 million, 2017/2021, due 12 July 2021, issued at 100.179%	125	125
0.125% CHF 250 million, 2016/2021, due 1 November 2021, issued at 100.037%	250	249
3% CHF 105 million, 2012/2022, due 11 October 2022, issued at 100.74%	105	105
1%, CHF 300 million, 2020/2023, due 28 April 2023, issued at 100.015%	299	0
1.25% CHF 175 million, 2015/2023, due 22 September 2023, issued at 100.133%	175	175
0.7% CHF 110 million, 2017/2024, due 12 July 2024, issued at 100.222%	110	110
0.35%, CHF 150 million, 2020/2026, due 22 September 2026, issued at 100.148%	150	0
EUR bonds		
1.625% EUR 500 million, 2020/2027, due 21 April 2027, issued at 99.424%	535	0
Total including current portion	1,749	914
Less current portion of straight bonds	(375)	(150)
Total non-current straight bonds	1,374	764

Current Debt

Million CHF	2020	2019
Due to banks and other financial institutions	6	6
Others	63	44
Non-current debt due within one year		
- German private placement	352	0
- Term Loan	0	541
- Straight bond (2015-2020)	0	150
- Straight bond (2016-2021)	250	0
- Straight bond (2017-2021)	125	0
- Others	0	727
Total current debt	796	774

Debt: Movements in Carrying Value of Recognized Liabilities

Million CHF	2020	2019
At 1 January	3,540	4,051
Repayment of straight bond	(150)	(300)
Issuance of straight bonds	970	0
Issuance / (repayment) of term loan	(526)	265
Repayment of syndicated loan	(144)	(119)
Repayment of bank loan	0	(198)
Increase / (decrease) in other debt	4	(94)
Changes from financing cash flows	154	(446)
Amortization of financing costs and discounts	5	5
Reclassification to liabilities held for sale	(14)	0
Net foreign currency transaction (gains) losses	(105)	(66)
Currency translation effects	0	(4)
Changes in foreign exchanges rates	(105)	(70)
At 31 December	3,580	3,540

Breakdown of Total Debt by Currencies

Million CHF	2020			2019		
	Average Interest Rate %	%		Average Interest Rate %	%	
CHF	0.81	36	1,272	0.84	29	1,032
EUR	1.13	36	1,293	0.91	37	1,300
USD	2.20	28	1,015	3.12	34	1,208
Total		100	3,580		100	3,540

Following the 2019 assignment of Lonza's investment grade credit rating by S&P (BBB+), Lonza refinanced and extended its syndicated Term and Revolving Bank Facilities Agreement effective 6 September 2019, as described below.

Eurobond

In April 2020 Lonza issued its inaugural Eurobond with a coupon of 1.625% in the European capital market. The net proceeds were used to refinance existing debt and general corporate purposes. The new bond with a volume of EUR 500 million has a maturity of 7 years. The notes have been offered under a standalone Prospectus and have been listed on the Luxembourg Stock Exchange.

Term Loan

In 2019, Lonza issued term loan tranches of EUR 500 million, USD 500 million and USD 200 million carrying floating interest rates and repayable in 2020, 2024 and 2025 respectively. This term loan effectively replaced the EUR 450 million and USD 489 million term loan tranches issued in 2017 with maturity dates in 2020 and 2022 and the bank loan of USD 200 million. The net proceeds received in 2019 totaled CHF 265 million.

German Private Placement

The dual-currency German private placement (Schuldschein-darlehen) of EUR 700 million and USD 200 million tranches carry fixed and floating interest rates (LIBOR/EURIBOR + margin) respectively, and are repayable in 2021 (EUR 325 million), 2022 (USD 150 million), 2023 (EUR 375 million) and 2024 (USD 50 million). The single-tranche German private placement (Schuldschein-darlehen) of USD 100 million carry floating interest rates (LIBOR + margin) and is repayable in 2024.

Syndicated Loan

In 2019 Lonza signed a syndicated loan with a consortium of banks on the following terms: multi-currency credit facility of CHF 1,000 million equivalent, due 2024, at floating interest rates. This syndicated loan effectively replaced the syndicated loan signed in 2017. The facility was not used as of 31 December 2020 (2019: CHF 80 million and USD 65 million).

Others

Other current and non-current debt comprise industrial revenue bonds of USD 134 million issued by governmental institutions in the United States (repayable in 2022, 2025, 2030 and 2047).

Note 16**Other Non-Current and Current Liabilities****Other Non-Current Liabilities**

Million CHF	2020	2019
Non-current deferred income (see note 3)	444	250
Lease liabilities	210	219
Contingent consideration (see note 29.6)	26	28
Derivative financial instruments (see note 29.5)	25	0
Other liabilities	5	52
Total other non-current liabilities	710	549

Other Current Liabilities

Million CHF	2020	2019
Accrued liabilities and other payables	425	469
Current deferred income (see note 3)	513	359
Lease liabilities	24	25
Derivative financial instruments (see note 29.5)	4	26
Liability related to securitization program (see note 11)	0	89
Contingent consideration	2	2
Other financial liabilities	229	238
Accrued interest payables	15	8
Total other current liabilities	1,212	1,216

Note 17**Trade Payables**

Million CHF	2020	2019
Payable to third parties	308	453
Total	308	453

Payables to third parties principally comprise amounts outstanding for trade purchases and ongoing costs. The carrying amount of trade payables approximates their fair value.

Note 18**Material and Energy Costs**

Million CHF	2020	2019 (restated) ¹
Material costs	938	923
Energy costs	61	25
Total	999	948

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Note 19

Personnel Expenses

Million CHF	2020	2019 (restated) ¹
Wages and salaries	1,211	1,065
Operating expenses defined benefit pension plans	36	40
Other social security contributions	257	251
Other personnel expenses	139	119
Total	1,643	1,475

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Note 20

Other Operating Income and Expenses

20.1

Other Operating Income

Million CHF	2020	2019 (restated) ¹
Gain from foreign exchange rate differences and other operating derivative instruments	9	6
Supplier rebates and insurance benefits	1	5
Government grants, research & development and other tax credits	18	4
Release of provisions	1	2
Gain from disposal of property, plant and equipment and other assets	0	6
Sundry income	13	24
Total	42	47

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

20.2

Other Operating Expenses

Million CHF	2020	2019 (restated) ¹
Loss from foreign exchange rate differences and other operating derivative instruments	(8)	(11)
Loss from disposal of property, plant and equipment and other assets	(7)	(12)
Settlement of customer claims / litigations	(13)	(16)
Increase in provision	(5)	0
Impairment of Corporate assets Guangzhou site (CN)	(20)	(3)
Sundry expense	(7)	(16)
Total	(60)	(58)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Note 21

Net Financial Result

21.1

Interest and Other Financial Income

Million CHF	2020	2019 (restated) ¹
Interest income	3	4
Foreign exchange rate differences, including impact from currency related financial derivative instruments	0	0
Interest related financial derivative instruments	0	13
Net gains on investments measured at fair value through profit or loss	7	0
Other financial income	2	3
Total	12	20

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

21.2

Interest and Other Financial Expenses

Million CHF	2020	2019 (restated) ¹
Interest expenses	(52)	(64)
Amortization of debt fees and discounts	(7)	(5)
Interest IAS 19 on employee benefit liabilities	(2)	(3)
Interest expenses on IFRS 16 lease liabilities	(8)	(8)
Foreign exchange rate differences, including impact from currency	(19)	(31)
Interest related financial derivative instruments	(9)	0
Negative impact from fair value adjustment on contingent purchase price consideration (see note 29.6)	0	(4)
Net losses on investments measured at fair value through profit or loss	(5)	(2)
Other financial expenses	(4)	(7)
Total	(106)	(124)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Interest expenses comprise interest expenses on the Group's debt (refer to note 15) as well as other interest.

Note 22

Taxes

22.1

Income Taxes

Major components of tax expenses

Million CHF	2020	2019 (restated) ¹
Current taxes	(84)	(132)
Deferred tax expense relating to the origination and reversal of temporary differences	(10)	60
Deferred tax income resulting from tax rate changes	23	1
Total	(71)	(71)

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Lonza Group Ltd is domiciled in Switzerland. Following the implementation of the Swiss tax reform effective 1 January 2020 which among other changes abolished the holding regime, the income tax rate for Lonza Group Ltd, domiciled in Basel is 13% (2019: 8%).

As the Group operates across the world, it is subject to income taxes in several different tax jurisdictions. From 2020 on, Lonza applies the ordinary tax rate of its top holding company (Lonza Group Ltd) in the Canton of Basel in Switzerland as the Group's tax rate. Before 2020, and prior to the Swiss Tax Reform, the

Group applied the ordinary tax rate of Lonza AG, domiciled in the Canton of Valais, of 22% as the Group's tax rate.

The Group's effective tax rate for 2020 is 9% (2019: 10%).

The enactment of the Valais tax reform reduced the Valais income tax rate to 20.1% (for 2020), 18.6% (for 2021) and 17% (for the years 2022 and following). As a result of this tax rate reduction, Lonza recognized non-recurring adjustments to its deferred tax liabilities resulting in a net income tax benefit of CHF 21 million.

Reconciliation of Tax Expense

Million CHF	2020	2019 (restated) ¹
Profit before income taxes	803	719
Tax at the group rate (2020: 13% / 2019: 22%)	105	155
Deviation from average group tax rate	22	(53)
Non-deductible expenses	10	1
Tax-free earnings	(27)	(37)
Deferred tax effect from tax rate changes	(23)	(1)
Changes in prior year estimates (including valuation allowances)	(27)	(8)
Tax on unremitted earnings	1	0
Effect of non-recognition of deferred tax assets	8	12
Other	2	2
Total	71	71
Current tax expenses (charged) / credited directly to equity	17	11

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

The components of deferred income tax balances are included in the following captions in the consolidated balance sheet:

Components of Deferred Income Tax Balances

Million CHF	2020		2019	
	Assets	Liabilities	Assets	Liabilities
Current provisions	16	15	16	21
Non-current provisions / Employee benefit liabilities	105	33	223	38
Intangible assets	0	570	0	691
Inventories, net	15	33	9	49
Property, plant and equipment	13	126	16	203
Other assets	0	0	2	0
Tax loss carry-forwards and tax credits	71	0	129	0
Netting of deferred tax assets and deferred tax liabilities	(196)	(196)	(372)	(372)
Total	24	581	23	630

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

Million CHF	2020	2019 (restated) ¹
Deferred tax assets	24	23
Deferred tax liabilities	(581)	(630)
Net deferred tax liability, at 31 December	(557)	(607)
Less deferred tax liabilities net, at 1 January	607	682
(Increase) in deferred tax liabilities, net	50	75
Currency translation differences	(17)	(13)
Movements of deferred (tax assets) / liabilities recognized in other comprehensive income	(1)	(7)
Movements of deferred (tax assets) / liabilities recognized in equity	0	(8)
Deferred tax expense related to discontinued operations	(5)	14
Reclassification to assets / liabilities held for sale	(14)	0
(Expense) / income recognized in income statement	13	61

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5)

Unrecognized Tax Losses: Expiry

Million CHF	2020	2019
Within 1 year	4	0
Between 2 to 5 years	122	94
After 5 years	36	39
Unlimited	29	144
Total	191	277

In addition to the unrecognized tax losses shown in the above table, the Group has additional unrecognized tax losses for US state tax purposes in the amount of CHF 346 million at 31 December 2020 (2019: CHF 572 million). These losses expire in more than 5 years.

In assessing whether it is probable that future taxable profit will be available to utilize these tax loss carry-forwards, management considers whether such benefits are recoverable on the basis of the current situation of the company and the future economic benefits outlined in specific business plans for each relevant subsidiary.

Deferred tax liabilities have not been established for withholding tax and other taxes that would be payable on the remittance of earnings of foreign subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group that would be subject to withholding tax or other taxes upon remittance, but which regarded as permanently reinvested, were CHF 416 million at 31 December 2020 (2019: CHF 673 million).

22.2 Disclosure of Tax Effects on Each Component of Other Comprehensive Income

Million CHF	2020			2019		
	Before-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
Exchange differences on translating foreign operations	(230)	7	(223)	(153)	0	(153)
Cash flow hedges	(4)	1	(3)	(5)	0	(5)
Remeasurement of defined-benefit liability	(32)	1	(31)	(43)	7	(36)
Other comprehensive income	(266)	9	(257)	(201)	7	(194)

Note 23 Research & Development Costs

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

- Development of new products and services
- Improvement of existing products and services
- Development of new production processes
- Improvement of existing production processes
- Cost for patents
- Purchase price for product and process know-how to the extent not capitalized

The R&D costs for the total group amounted to CHF 185 million, of which CHF 160 million in continuing business (2019: Total Group: CHF 188 million, continuing business CHF 141 million) and represent the full range of R&D activity. However, the consolidated income statement discloses lower levels of research & development costs (see "Results from Continuing and Discontinued Operations" in section "Alternative Performance Measures"), as the remainder of such costs are absorbed in cost of goods sold for R&D products and services sold.

Note 24 Employee Benefit Liabilities

The tables below reconcile the Group's employee benefit liabilities in the consolidated balance sheet as well as the related remeasurement in the statement of other comprehensive income:

Million CHF	2020	2019
Defined benefit pension plans (see note 24.1)	280	484
Post-employment medical benefits (see note 24.2)	0	25
Non-current vacation accrual (Swiss entities)	3	2
Total	283	511

Million CHF	2020	2019
Remeasurement for:		
Defined-benefit pension plans (see note 24.1)	31	44
Post-employment medical benefits (see note 24.2)	1	(1)
Total	32	43

24.1

Defined-Benefit Pension Plans

The Group operates defined-benefit pension plans in various countries, with the major plans being in Switzerland, Great Britain and the United States (as described below). For pension accounting purposes, these plans are considered as defined-benefit plans.

Pension Plan in Switzerland

The Group's Swiss pension plan is governed by the Swiss Federal Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG), and is funded through a legally separate trustee-administered pension fund (Pensionskasse der Lonza). The Board of Trustees is responsible for the investment of the assets, which cannot revert to the Company. The cash funding of these plans, which may from time to time involve special payments, is designed to ensure that present and future contributions should be sufficient to meet future liabilities.

The plan contains a cash balance benefit formula, accounted for as a defined-benefit plan. Employer and employee contributions are defined in the pension fund rules in terms of an age-related sliding scale of percentages of pay. Under Swiss law, the company guarantees the vested benefit amount as confirmed annually to members. Interest may be added to member balances at the discretion of the Board of Trustees. The risks linked to retirement benefits (disability and death) have been reinsured until 31 December 2021. The investment risk is not reinsured.

Retirement benefits are based on the accumulated retirement capital (made up of yearly contributions and the interest thereon), which can either be drawn as a life-long annuity or as a lump-sum payment or a combination of both. The Board of Trustees may adjust the annuity at its discretion subject to the plan's funded status including sufficient free funds as determined according to Swiss statutory valuation rules. Retirement benefits and related

plan assets of plan participants with a retirement date on or before 31 December 2007 were transferred to an insurance company. The insurance company guarantees these retirement benefits and bears the investment, death and disability risks.

The employees of the Specialty Ingredients business in Switzerland were transferred to a separate legal entity in 2020, but continue to participate in Lonza's Swiss pension plan. The net defined benefit liability related to the employees of the Specialty Ingredients businesses is classified as held for sale at 31 December 2020.

Pension Plan in the UK

The Group operates two major plans in the UK which are closed to new entrants. In addition, both schemes are registered under UK legislation, are contracted out of the State Second Pension and are subject to the scheme funding requirements outlined in UK legislation. The plans are managed by corporate trustee bodies, which oversee investment strategy and general regulatory compliance. Both pension plans were closed to future accruals on 31 March 2020 where the active members became deferred members at that date, for which the Group recognized a past service credit of CHF 10 million. One of the two major pension plans is related to the Specialty Ingredients business and its net defined benefit liability is classified as held for sale at 31 December 2020 accordingly.

Pension Plans in the United States

Lonza currently sponsors three qualified defined-benefit pension plans in the United States. All of the defined-benefit pension plans are fully frozen with respect to future benefit accruals (with the exception of a small group of participants).

These pension plans are related to the Specialty Ingredients business and related liabilities are consequently classified as held for sale at 31 December 2020.

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Million CHF	Defined benefit obligation	Fair value of plan assets	Net defined benefit liability
At 1 January 2019	3,132	(2,664)	468
Included in profit or loss¹			
Current service cost	50	0	50
Past service cost	2	0	2
Interest expense / (income)	56	(48)	8
Included in other comprehensive income			
Actuarial loss / (gain) arising from:			
- Demographic assumptions	(50)	0	
- Financial assumptions	288	0	
- Experience adjustment	77	0	
Return on plan assets excluding interest income	0	(271)	
Remeasurements loss / (gain)	315	(271)	44
Effect of movements in exchange rates	1	1	2
Other			
Contributions paid:			
- Employers	0	(100)	(100)
- Plan participants	25	(25)	0
Benefits paid	(103)	103	0
At 31 December 2019	3,478	(3,004)	474
- Thereof present value of funded defined-benefit obligation	3,454		
- Thereof present value of unfunded defined-benefit obligation	24		
Included in profit or loss²			
Current service cost	57	0	57
Gains on settlements	(17)	7	(10)
Interest expense / (income)	38	(34)	4
Included in other comprehensive income			
Actuarial loss / (gain) arising from:			
- Demographic assumptions	(26)	0	
- Financial assumptions	216	0	
- Experience adjustment	52	0	
Return on plan assets excluding interest income	0	(211)	
Remeasurements loss / (gain)	242	(211)	31
Effect of movements in exchange rates	(93)	80	(13)
Other			
Contributions paid:			
- Employers	0	(103)	(103)
- Plan participants	28	(28)	0
Benefits paid	(103)	103	0
Reclassification to liabilities held for sale	(1,412)	1,250	(162)
At 31 December 2020	2,218	(1,940)	278
- Thereof present value of funded defined-benefit obligation	2,207		
- Thereof present value of unfunded defined-benefit obligation	11		

¹ Thereof service cost of CHF 10 million, past service cost of CHF 2 million and net interest expenses of CHF 5 million are presented as part of discontinued operations

² Thereof service cost of CHF 12 million, gains on settlements of CHF 1 million and net interest expenses of CHF 2 million are presented as part of discontinued operations

The defined-benefit pension plans are reported as follows in the consolidated balance sheet:

Million CHF	2020	2019
Defined benefit pension plan asset	2	10
Defined benefit pension plan liability	(280)	(484)
Defined benefit pension plan asset classified as held for sale	6	0
Defined benefit pension plan liability classified as held for sale	(168)	0

As a result of plan amendments of the UK plans in 2020 (the schemes were closed to future accruals on 31 March 2020 where the active members became deferred members at that date), the Group recognized a settlement gain of CHF 11 million (thereof CHF 1 million is presented as part of discontinued operations).

In addition, Lonza settled a pension plan in Germany, resulting in a settlement loss of CHF 1 million. The Group expects to pay CHF 41 million in contributions to defined-benefit pension plans of continuing operations in 2021.

The defined benefit obligation and plan assets are disaggregated by country as follows:

Million CHF	2020 ¹					2019				
	CH	US	UK	Rest of World	Total	CH	US	UK	Rest of World	Total
Present value of defined-benefit obligation	1,890	4	245	79	2,218	2,082	541	769	86	3,478
Fair value of plan assets	(1,711)	0	(191)	(38)	(1,940)	(1,831)	(446)	(690)	(37)	(3,004)
Total net defined-benefit liability	179	4	54	41	278	251	95	79	49	474

¹ The 2020 defined benefit liabilities and plan assets only include pension plans of continuing operations

The significant actuarial assumptions at the reporting date (expressed as weighted averages) were as follows:

In %	2020 ¹			2019		
	CH	US	UK	CH	US	UK
Discount rate	0.15	2.33	1.35	0.29	3.18	2.08
Future salary increases	1.00	0.00	n.a.	1.00	0.00	3.22
Future pension increases	n.a.	0.00	0.00	n.a.	0.00	2.33

¹ The 2020 assumptions are only related to pension plans of continuing operations

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics and experience in each territory¹. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65:

In years	2020			2019		
	CH	US	UK	CH	US	UK
Retiring at the end of the reporting period						
- Male	21.8	20.0	23.4	21.7	20.0	21.6
- Female	23.6	22.0	24.4	23.5	22.0	24.2
Retiring 20 years after the end of the reporting period						
- Male	23.3	22.0	24.7	23.3	22.0	23.3
- Female	25.1	24.0	25.9	25.0	24.0	25.9

¹ For the Pension Plan in Switzerland BVG 2015 mortality tables were applied

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The sensitivity of the defined-benefit obligation to changes in the relevant actuarial assumptions is:

Effect in million CHF	Change in assumption	31.12.2020 ¹		31.12.2019	
		Increase	Decrease	Increase	Decrease
Discount rate	0.25%	(88)	94	(131)	140
Future salary increases	0.25%	10	(10)	15	(15)
Life expectancy	1 year	87	(88)	131	(132)

¹ The 2020 sensitivity analyses include only net defined benefit liabilities associated with continuing operations

The above sensitivity analyses are based on a change in an assumption while keeping all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined-benefit obligation to significant actuarial assumptions the same method (present value of the defined-benefit obligation calculated with the projected unit

credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous period.

At 31 December the weighted average duration of the defined-benefit obligation for the major plans as well as the Group in total is:

Million CHF	2020 ¹	2019
Group	16.1	15.6
CH	15.2	15.4
UK	24.5	19.2
US	8.1	11.4

¹ The 2020 average durations for 2020 include only pension plans of continuing operations

Plan assets comprise:

	2020 ¹				2019			
Million CHF	Quoted	Unquoted	Total	%	Quoted	Unquoted	Total	%
Equity instruments	496	0	496	26	835	0	835	28
Debt instruments								
– Investment-grade (AAA to BBB)	721	0	721		1,160	0	1,160	
– Non-investment-grade (below BBB)	26	0	26		63	0	63	
	747	0	747	38	1,223	0	1,223	41
Real-estate	133	97	230	12	157	112	269	9
Cash and cash equivalents	65	0	65	3	104	0	104	3
Other	393	9	402	21	550	23	573	19
Total	1,834	106	1,940	100	2,869	135	3,004	100

¹ The 2020 plan assets only include pension plans of continuing operations

24.2 Post-Employment Medical Benefits

Lonza's post-employment medical benefit plans are not funded and are provided under defined-benefit plans. They consist of post-retirement healthcare benefits in the United States, such as drug coverage and other medical benefits, as well as limited death benefits.

The post-retirement healthcare plans are not open to new members and grandfathered participants must meet specific age/service requirements to participate.

These plans are solely related to the Specialty Ingredients business and are classified as held for sale at 31 December 2020 accordingly.

The movements in the defined-benefit obligation are as follows:

Million CHF	2020	2019
At 1 January	25	28
Included in profit or loss		
Current service cost	0	0
Past service credit	0	(1)
Interest expense	1	1
Included in other comprehensive income		
Actuarial loss / (gain) arising from:		
- Demographic assumptions	0	0
- Financial assumptions	1	1
- Experience adjustment	0	(2)
Total remeasurements loss / (gain)	1	(1)
Effect of movements in exchange rates	(2)	0
Other		
Contributions paid by:		
- Employers	0	0
- Plan participants	0	0
Benefits paid	(2)	(2)
Reclassification to liabilities held for sale	(23)	0
At 31 December	0	25

For the medical plan the same mortality assumptions are applied as for the pension plans in the United States (see note 24.1).

In addition, the sensitivity analyses are based on the same methodology as for the pension plans.

In %	2020	2019
Discount rate	2.02	3.18
Medical-cost trend rate	6.80	6.60

The sensitivity of the defined-benefit obligation to changes in the relevant actuarial assumptions is:

Effect in million CHF	Change in assumption	31.12.2020 ¹		31.12.2019	
		Increase	Decrease	Increase	Decrease
Discount rate	0.25%	n.a.	n.a.	(1)	1
Medical-cost trend rate	1.00%	n.a.	n.a.	1	(1)
Life expectancy	1 year	n.a.	n.a.	0	0

¹ Sensitivities for 2020 are not presented following the classification of the entire post-employment medical benefit liability as held for sale

For the medical plan the same mortality assumptions are applied as for the pension plans in the United States (see note 24.1).

In addition, the sensitivity analyses are based on the same methodology as for the pension plans.

Note 25

Share-Based Payments

Long-Term Incentive Plan (LTIP)

History and Participation

The LTIP is an equity-based plan introduced in 2006 for the Executive Committee and senior managers.

Objective

The LTIP is designed to align the interests of participants with those of Lonza's shareholders and serves as a retention tool. LTIP participants are eligible to receive Lonza shares at the end of the vesting period, provided that certain challenging performance conditions are met at the end of the three-year performance period.

Equity Awards

Under the LTIP participants are awarded the right to receive a number of Lonza registered shares in the future. Depending on the job grade of the participant, the target equity award grant is between 10% and 150% of the annual base salary. The grant is awarded at target and the payout level ranges from 0% and 200% of target. The CEO and Executive Committee members have a target of 150% and 125% of base salary respectively with payout levels also ranging from 0% and 200% of target.

For any pro-rata treatment, as outlined in the relevant Plan Rules, the entire length of the three-year performance period is utilized. The LTIP plan design and target setting is determined at the beginning of the three-year performance period. For 2020 the plan design included minimum, target and stretch (maximum) goals.

The 2020 LTIP budget value for the Executive Committee was approved as submitted at the AGM 2020 and administered in accordance with this approval. Vesting is dependent on the achievement of the performance conditions and cannot exceed the 200% of target equity awards granted (the maximum level of award).

Restriction and Vesting

Participants only receive title and ownership of the shares after the completion of the relevant three-year vesting period and only if the performance metrics required for vesting are partially or fully met.

Vesting Performance Metrics

For the 2020 LTIP the performance metrics were CORE earnings per share (EPS) and return on invested capital (ROIC) with 50% weight for each measure.

With the payout value directly linked to these key financial metrics, these two measures focus on Lonza's financial performance that will drive the valuation and performance of Lonza. The overall value of the LTIP is ultimately driven by the share price at the time of vesting, further linking the LTIP to the interests of the shareholders.

Overview of Vesting Conditions for LTIP

The 2020 LTIP awards are subject to CORE EPS and ROIC performance measures, each with an equal weighting. The Nomination and Compensation Committee (NCC) deems these long-term performance measures appropriate to align the interests of the Executive Committee with Lonza's financial performance and in turn the interests of our Shareholders.

The respective performance targets at the threshold (50%), target (100%) and maximum (200%) payout levels were recommended by the NCC and approved by the Board of Directors in April 2020.

These financial performance targets for the 2022 year end are commercially sensitive at this time and will not be disclosed publicly until after the awards have vested.

CORE EPS Approved at AGM 2020 (LTIP 2020)

The 2020 LTIP award threshold performance level was determined to be a double digit percentage above the CORE EPS threshold performance level for the 2019 LTIP award. The maximum performance level was determined to be above the 2022 Mid-Term Guidance and is a double-digit percentage figure above threshold performance levels.

ROIC Approved at AGM 2020 (LTIP 2020)

This measure is a reflection of the effect of decisions taken by Executive Committee members and senior management over the course of the relevant LTIP performance period. The 2020 LTIP award threshold performance level was determined to be high single digit of the ROIC threshold performance level set for the 2019 LTIP award. The maximum performance level was determined to be above the 2022 Mid-Term Guidance and is a double-digit percentage figure above threshold performance levels.

Treatment of LTIP in Change of Control Situations

Under the LTIP rules, if a Change of Control occurs, all unvested granted shares shall immediately vest and the granted price shall be the price at which the shares are sold in the transaction resulting in the Change of Control.

Actual Performance and Payout for the LTIP 2018

Performance under the 2018 LTIP exceeded target performance levels for both CORE EPS and ROIC. This generated a 200% and 198% payout on each of these measures respectively. With a 50% weighting applied to the two performance measures, the total 2018 LTIP payout equaled 199%. [See page 208](#) from Remuneration Report for full details on targets and target achievements.

Lonza Restricted Share Units Plan (LRSP)

Participation and Objective

The LRSP is an equity-based plan introduced in 2020. It was created as a tool to primarily support retention cases across the business in conjunction with key strategic projects. All employees above a grade 10 in the organization are eligible to be considered for an award. Executive Committee members may receive awards via the Executive Committee Appointments Policy only – see page 208 from the Remuneration Report for full details.

Equity Awards

Under the LRSP, participants are awarded the right to receive a number of Lonza registered shares in the future subject to continued employment with Lonza. The equity award level depends on the grade of the participant or the strategic importance of the project that the participant is working on. A two to five year vesting period will apply depending on the requirements.

Restriction and Vesting

Participants will only receive title and ownership of the shares after a relevant vesting period has elapsed and subject to sustained performance and continued employment over time.

Details of Long-Term Incentive Plans

	Grant Date	Share Price in CHF	Granted Equity Awards	Fair Value at Grant Date in CHF	Vesting Date
LTIP 2017	01 02 2017	180.90	106,578	19,279,960	31 01 2020
LTIP 2017 Capsugel	27 07 2017	233.10	76,641	17,865,017	31 01 2020
LTIP 2018	01 02 2018	258.90	106,893	27,674,598	31 01 2021
LTIP 2019	01 02 2019	261.90	110,026	28,815,809	31 01 2022
LTIP 2020	01 02 2020	396.20	70,985	28,124,257	31 01 2023
LRSP 2020 Plan 1	02 11 2020	554.80	2,062	1,143,998	02 11 2022
LRSP 2020 Plan 2	02 11 2020	554.80	2,062	1,143,998	02 11 2023

Vesting Conditions at Grant Date

	Market Price in CHF	Granted Equity Awards	Fair Value of Equity Awards in CHF	Expected EPS / RONO / ROIC at Grant Date	Probability Minimum Targets	Volatility Employees	Total Probability	Total Cost at Grant Date in CHF
LTIP 2017 CORE RONO	180.90	53,289	180.90	100%	100%	10%	90%	8,676,982
LTIP 2017 CORE EPS	180.90	53,289	180.90	100%	100%	10%	90%	8,676,982
LTIP 2017 Capsugel CORE RONO	233.10	38,321	233.10	100%	100%	10%	90%	8,039,363
LTIP 2017 Capsugel CORE EPS	233.10	38,320	233.10	100%	100%	10%	90%	8,039,153
LTIP 2018 ROIC	258.90	53,447	258.90	120%	100%	10%	90%	14,944,423
LTIP 2018 CORE EPS	258.90	53,446	258.90	120%	100%	10%	90%	14,944,143
LTIP 2019 ROIC	261.90	55,013	261.90	115%	100%	10%	90%	14,912,181
LTIP 2019 CORE EPS	261.90	55,013	261.90	115%	100%	10%	90%	14,912,181
LTIP 2020 ROIC	396.20	35,492	396.20	100%	100%	10%	90%	12,655,737
LTIP 2020 CORE EPS	396.20	35,493	396.20	100%	100%	10%	90%	12,655,916

Development Within 2020 of the LTIP

	Equity awards outstanding 01 01 2020	Equity awards granted during 2020	Equity awards forfeited during 2020	Vested equity awards during 2020	Equity awards outstanding 31 12 2020
LTIP 2017	93,710	0	(48)	(93,662)	0
LTIP 2017 Capsugel	70,794	945	0	(71,739)	0
LTIP 2018	100,160	0	(7,422)	0	92,738
LTIP 2019	109,501	0	(11,234)	0	98,267
LTIP 2020	0	70,985	(6,357)	0	64,628
Total equity awards	374,165	71,930	(25,061)	(165,401)	255,633

Development Within 2019 of the LTIP

	Equity awards outstanding 01 01 2019	Equity awards granted during 2019	Equity awards forfeited during 2019	Vested equity awards during 2019	Equity awards outstanding 31 12 2019
LTIP 2016	98,525	0	(2,895)	(95,630)	0
LTIP 2017	102,975	0	(9,265)	0	93,710
LTIP 2017 Capsugel	70,794	0	0	0	70,794
LTIP 2018	106,257	0	(6,097)	0	100,160
LTIP 2019	0	110,026	(525)	0	109,501
Total equity awards	378,551	110,026	(18,782)	(95,630)	374,165

The fair value at grant date of the equity awards granted in 2020 for the LTIP was CHF 396.20 (2019: CHF 261.90) and for the two LRSP the fair value at grant date was CHF 554.80. The costs were calculated using the market price at grant date, including probabilities as per conditions of vesting. The amounts for equity awards are expensed on a straight-line basis over the vesting period, based on estimates of equity awards that will eventually vest.

Compensation of the Board of Directors

Objective and Market Benchmarking

In accordance with their respective duties and responsibilities, compensation levels for the Board of Directors are set at the median of the benchmarking peer group. The benchmarking peer group consists of Swiss companies of various sectors that are comparable in type of business, complexity of operations, size and global presence to Lonza. The Board of Directors regularly review the compensation of its members, including the Chairperson, based on a proposal by the Nominations and Compensation Committee and on advice from an independent advisor, including relevant benchmarking information.

Structure and Level of Compensation

The Chairperson of the Board of Directors and its Members receive their compensation as 50% in Lonza Group shares and 50% in cash. This was paid in quarterly installments during the 2020 financial year.

The number of shares granted for Board of Directors' compensation is based on the average closing share price of the last five business days of each quarter. Share restrictions lapse after three years from the grant date. Shares are eligible for a dividend. This structure of Board of Directors' compensation is closely aligned with our Shareholders' interests.

The members of the Board of Directors do not receive variable compensation. The members of the Board of Directors are reimbursed for travel and other related expenses associated with their responsibilities as members of the Board of Directors of Lonza.

The position and associated compensation of the Chairman of the Board of Directors and its members was approved by shareholders at the 2020 Annual General Meeting (AGM). This reflects compensation levels and structure which are unchanged compared to the previous year.

Compensation Components

For the period from the AGM 2020 to the AGM 2021, the members of the Board of Directors receive fixed gross compensation for Board of Directors' membership and additional compensation for Committee Chairperson and committee members as described in the table below.

Further, the compensation of the Committee Chairperson amounts to CHF 280,000 and includes the committee membership fee. In the case of multiple committee memberships, this attracts one committee membership fee only. The additional responsibilities of Vice-Chairperson and Lead Independent Director do not attract any additional fees.

The compensation of the Chairperson of the Board of Directors includes compensation as a member of the Innovation and Technology Committee of the Board of Directors.

Board of Directors

Compensation Board of Directors Annual General Meeting (AGM) 2020 to 2021 (excluding social security contributions)

In CHF	Base annual fee	Committee membership fee	Committee Chairperson fee
Chairperson of the Board of Directors¹	600,000	-	-
Board of Directors Member²	200,000	40,000	80,000
The additional responsibilities of Vice-Chairperson and Lead Independent Director ³ do not attract any additional fees			
Form of payout	50% in Lonza Group shares and 50% in cash. This is paid in quarterly installments during the 2020 financial year		

¹ The compensation of the Chairperson of the Board of Directors includes compensation as a member of the Innovation and Technology Committee of the Board of Directors

² The compensation for Committee Chairperson amounts to CHF 280,000 and includes the committee membership fee. In the case of multiple committee memberships, this attracts one committee membership fee only

³ The roles and responsibilities of such Lead Independent Director are in line with sect. 19 para. 2 of the Swiss Code of Best Practice for Corporate Governance, requiring adequate control mechanisms, and commensurate to such position

Development of Compensation for Board of Directors in 2020

Grant Date	Total Number of Shares	Share Price in CHF	Fair Values of Shares	Cash ¹ in CHF	Total in CHF	Blocked Until
31.03.2020	839	390.30	327,462	330,000	657,462	31.03.2023
30.06.2020	600	496.92	298,152	300,000	598,152	30.06.2023
30.09.2020	523	568.12	297,127	300,000	597,127	30.09.2023
31.12.2020	530	564.04	298,941	300,000	598,941	31.12.2023
Total	2,492	490.24	1,221,682	1,230,000	2,451,682	

¹ Excluding social security and withholding tax

The amount of CHF 2,451,682 was recognized as an expense in the year 2020.

Development of Compensation for Board of Directors in 2019

Grant Date	Total Number of Shares	Share Price in CHF	Fair Values of Shares	Cash ¹ in CHF	Total in CHF	Blocked Until
31.03.2019 ¹	1,203	297.34	357,700	360,000	717,700	31.03.2022
30.06.2019	1,005	326.56	328,193	330,000	658,193	30.06.2022
30.09.2019	970	338.44	328,287	330,000	658,287	30.09.2022
31.12.2019	926	353.68	327,508	330,000	657,508	31.12.2022
Total	4,104	326.92	1,341,687	1,350,000	2,691,687	

¹ Excluding social security and withholding tax

The amount of CHF 2,691,687 was recognized as an expense in the year 2019.

Development of Compensation for Board of Directors in 2018

Grant Date	Total Number of Shares	Share Price in CHF	Fair Values of Shares	Cash ¹ in CHF	Total in CHF	Blocked Until
31.03.2018	1,537	225.84	347,116	348,750	695,866	31.03.2021
30.06.2018	1,368	262.58	359,209	360,000	719,209	30.06.2021
30.09.2018	1,091	329.54	359,528	360,000	719,528	30.09.2021
31.12.2018	1,369	261.62	358,158	360,000	718,158	31.12.2021
Total	5,365	265.43	1,424,011	1,428,750	2,852,761	

¹ Excluding social security and withholding tax

The amount of CHF 2,862,338 was recognized as an expense in the year 2018.

Development of Compensation for Board of Directors in 2017

Grant Date	Total Number of Shares	Share Price in CHF	Fair Values of Shares	Cash ¹ in CHF	Total in CHF	Blocked Until
31.03.2017	1,832	185.72	340,239	341,250	681,489	31.03.2020
30.06.2017	1,679	207.06	347,654	348,750	696,404	30.06.2020
30.09.2017	1,380	252.04	347,815	348,750	696,565	30.09.2020
31.12.2017	1,325	262.68	348,051	348,750	696,801	31.12.2020
Total	6,216	222.61	1,383,759	1,387,500	2,771,259	

¹ Excluding social security and withholding tax

The amount of CHF 2,771,259 was recognized as an expense in the year 2017.

Recognition in the Consolidated Financial Statements

All of the equity-settled share-based payments had an impact on the 2020 "Profit before income taxes" amounting to an expense of CHF 45 million (2019: CHF 56 million).



Note 26

Changes in Shares and Share Capital Movements

Effect in CHF	31.12.2020	Change in Year	31.12.2019	Change in Year	31.12.2018
Total number of shares	74,468,752	0	74,468,752	0	74,468,752
Treasury shares					
Free shares	(185,680)	(5,730)	(179,950)	42,645	(222,595)
Total treasury shares	(185,680)	(5,730)	(179,950)	42,645	(222,595)
Total shares ranking for dividend at 31 December	74,283,072	(5,730)	74,288,802	42,645	74,246,157
Share capital movements					
Share Capital in CHF	74,468,752	0	74,468,752	0	74,468,752

The share capital on 31 December 2020 comprised 74,468,752 registered shares (2019: 74,468,752) with a par value of CHF 1 each, amounting to CHF 74,468,752 (2019: CHF 74,468,752).

Contingent Capital The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 7,500,000 fully paid in registered shares with a par value CHF 1 each up to a maximum aggregate amount of CHF 7,500,000.

Authorized Capital The Board of Directors shall be authorized to increase, at any time until 6 May 2021, the share capital of the Lonza Group Ltd through the issuance of a maximum of 7,500,000 fully paid in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 7,500,000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 7,500,000. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the Company's Articles of Association.

At 31 December 2020, Lonza Group Ltd had a fully paid in registered capital of CHF 74,468,752 and a contingent capital of CHF 7,500,000.

Reserves in the amount of CHF 37,234,376 (2019: CHF 37,234,376) included in the financial statements of the parent company cannot be distributed.

Dividend On 20 April 2020, at the Annual General Meeting, shareholders approved the distribution of a dividend of CHF 2.75 per share in respect of the 2019 financial year (financial year 2018: CHF 2.75). The dividend distribution totaled CHF 204 million (2019: CHF 204 million), equally recorded against the retained earnings (102 million) and the reserves from capital contribution of Lonza Group Ltd (102 million). A dividend payment per share of CHF 3.00 is proposed by the Board of Directors to be made after the 31 December 2020 balance sheet date, subject to approval by the shareholders at the Annual General Meeting on 6 May 2021.

Note 27

Earnings Per Share

	2020	2019
Weighted average number of outstanding shares (basic)		
Weighted average number of outstanding shares	74,403,508	74,109,308
Weighted average number of outstanding shares (diluted)		
Weighted average number of outstanding shares	74,403,508	74,109,308
- Adjustments for dilutive share units and shares	305,541	455,494
Weighted average number of shares for diluted earnings per share	74,709,049	74,564,802

Million CHF	Continuing operations	Discontinued operations	2020 Total	Continuing operations	Discontinued operations	2019 Total
Profit for the period (equity holders of the parent)	730	139	869	647	(2)	645
Basic earnings per share in CHF	9.81	1.87	11.68	8.73	(0.03)	8.70
Diluted earnings per share in CHF	9.77	1.86	11.63	8.68	(0.03)	8.65
Dividends paid for the period¹			204			204
Dividends per share for the period in CHF			2.75			2.75
Dividends declared after the balance sheet date			204			204
Dividends per share declared after the balance sheet date in CHF			2.75			2.75

¹ Excluding dividends of CHF 2 million (2019: CHF 2 million) paid to minority shareholders of a subsidiary

Note 28

Related Parties

Identity of Related Parties

The Group has a related-party relationship with associates, joint ventures (see note 9 and 33), pension and other post-retirement plans (see note 24) as well as with the Board of Directors and the members of the Executive Committee.

Transactions with Key Management Personnel Board of Directors

In 2020 payments to acting members of the Board of Directors of Lonza Group Ltd totaled CHF 2.590 million¹ (2019: CHF 2.869 million¹), 47.16% (2019: 46.77%) of which was received in the form of shares. The Director fees are paid 50% in cash and 50% in shares; the value of the employer's social security contributions is added to the cash payments. The value of the share-based fees is determined based on the average closing share price of the last five business days of each quarter. Shares are restricted for a period of three years from each award date and are eligible for a dividend from date of award.

Members of the Board of Directors and their immediate relatives control in 2020 46,209 (2019: 56,609) or 0.06% (2019: 0.08%) of the voting shares of Lonza Group Ltd. None of the Directors owns shares in the Group's subsidiaries or associates.

¹ Including social security and withholding tax

² Including short-term incentive payout in March of the following year

Executive Committee Compensation

The acting members of the Executive Committee received, for their contributions and time served in 2020, CHF 5.138 million² (2019: CHF 7.162 million²) in cash and additional benefits. Share-based compensation includes 7,397 LTIP shares and 4,124 LRSP (Lonza Restricted Share Unit Plan) shares granted (2019: 10,762 LTIP shares) and the value of share based STIP payments, equivalent to a total value of CHF 5.452 million (2019: CHF 2.819 million).

In 2020 termination benefits were paid out to the departing and former members of the Executive Committee according to their employment agreements equal to CHF 3.498 million (CHF 2.971 million in cash and in shares equivalent to a value of CHF 0.527 million). In 2019 termination benefits were paid out to the departing members of the Executive Committee according to their employment agreements equal to CHF 5.002 million (CHF 2.727 million in cash and in shares equivalent to a value of CHF 2.275 million).

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

Million CHF	2020	2019
Short-term benefits ¹	5.298	7.071
Post-employment benefits and other benefits ²	1.208	1.618
Share-based payments ³	6.674	4.160
Other compensation ⁴	3.498	5.002
Total	16.678	17.851

¹ Including short-term incentive payout in March of the following year
² Including employer contribution for social security and pension funds
³ Share based STIP and LTIP awards. Also, in line with the Executive Committee Appointments Policy, awards have been made to the CEO in 2020 under the Lonza Restricted Share Unit Plan (LRSP), to compensate for time-based equity awards which were forfeited when leaving the previous employer. This award was made in accordance with Article 23 (Supplementary Amount in the Event of Changes in the Executive Committee) of Lonza's Articles of Association. The award will vest after two and three-year periods, subject to continued employment, sustained performance and clawback, under the Clawback Policy
⁴ Cash payment (including base salary, other benefits, short-term incentive and social security) and shares (LTIP) received by departed members of the Executive Committee during 2020 and 2019

Note 29

Financial Risk Management

29.1 Overall Risk Management Policy

Lonza is exposed in particular to credit and liquidity risk, as well as to risks from movements in foreign currency exchange rates, interest rates and market prices that affect its assets, liabilities, and forecasted transactions.

Lonza's overall risk management policy aims to limit these risks through operational and finance activities.

The Board of Directors has overall responsibility for the establishment and oversight of Lonza's risk management framework. Financial risk management is carried out by a central treasury department (Group Treasury). Group Treasury is responsible for implementing the policy, and identifies, evaluates and hedges financial risks in close cooperation with Lonza's business units. Group Treasury also has the sole responsibility

for carrying out foreign exchange transactions and executing financial derivative transactions with third parties.

Lonza's risk management policies are established to identify and analyze the risks faced by Lonza, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Lonza's activities. The Lonza Audit Committee oversees how management monitors compliance with Lonza's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Lonza. The Lonza Audit Committee is assisted in its oversight role by Internal Audit (Lonza Audit Services). Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

29.2 Credit Risk

Credit risk is the risk of financial loss to Lonza if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and mainly arises from Lonza's receivables from customers.

Accounts Receivables

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

Purchase limits are established for each customer, which are reviewed regularly. For customers domiciled in specific countries with high risk, Lonza has credit risk insurance covering the maximum exposure. The maximum credit risk is equal to the carrying amount of the respective assets. There are no commitments that could increase this exposure to more than the carrying amounts. In general, Lonza does not require collateral in respect of trade and other receivables, but uses credit insurance for country risk where appropriate.

Lonza has a history of low credit losses on accounts receivable. Credit losses that occurred in the past were primarily related to very few single customers. Furthermore, none of Lonza's businesses had a heightened exposure to credit losses in the

past and based on Lonza's best estimate this is not expected to change in the foreseeable future.

Consequently, the bad debt allowance (see note 11) represents primarily the credit risk of specific customers.

Aging of Trade Receivables¹

Million CHF	2020		2019
	Continuing business	Discontinued operations	Total Group
Not past due	627	157	562
Past due 1-30 days	40	18	125
Past due 31-120 days	31	3	60
Past due more than 120 days	31	4	28
Total	729	182	775

Excluding allowances for credit losses (see note 11)

Financial Instruments and Cash Deposits

Financial Instruments and Cash Deposits Credit risk from balances with banks and financial institutions is managed by the Group's treasury department. Counterparty credit ratings

are reviewed regularly. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at the reporting date was as follows:

Million CHF	2020	2019
Financial assets at amortized cost		
Trade receivables, net	715	759
Other receivables	87	73
Accrued income (see note 3)	185	190
Current advances	0	2
Non-current loans and advances	162	72
Cash and cash equivalents	495	505
Total financial assets at amortized cost	1,644	1,601
Financial assets at fair value		
Derivative financial instruments		
- Currency-related instruments ¹	37	21
Contingent consideration from sale of business	14	20
Total financial assets at fair value	51	41
Total	1,695	1,642

¹ Included in 'Other receivables, prepaid expenses and accrued income' (see note 12)

29.3 Liquidity Risk

Liquidity risk is the risk that Lonza will not be able to meet its financial obligations as they fall due. Lonza's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Lonza's reputation. Group Treasury maintains flexibility in funding also using bilateral and syndicated credit lines. Lonza has concluded the following lines of credit: Committed credit lines of CHF 1,335 million (CHF 0 million used as of 31 December 2020), which are

committed for up to five years and uncommitted credit lines of CHF 113 million (CHF 0 used as of 31 December 2020).

The table below analyses the Group's financial liabilities and derivative financial liabilities in relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments. Balances due within 12 months are equal to their carrying balances, as the impact of discounting is not significant.

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Year ended
31 December 2020

Million CHF	Carrying Amount	Contractual Cash Flows ¹	Between 0 and 6 Months	Between 7 and 12 Months	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 5 Years	Over 5 Years
Straight bond (2012-2022)	105	111	0	3	108	0	0	0
Straight bond (2015-2023)	175	181	0	2	2	177	0	0
Straight bond (2016-2021)	250	250	0	250	0	0	0	0
Straight bond (2017-2021)	125	125	0	125	0	0	0	0
Straight bond (2017-2024)	110	114	0	1	1	1	111	0
Straight bond (2020-2023)	299	308	3	0	3	302	0	0
Straight bond (2020-2026)	150	155	0	1	1	1	1	151
Euro bond (2020-2027)	535	596	9	0	9	9	17	552
German private placement	1,021	1,052	4	360	142	412	134	0
Term loan	612	628	1	1	3	3	620	0
Other debt due to banks and financial institutions	6	6	6	0	0	0	0	0
Other debt due to others	192	212	59	1	21	1	19	111
Total debt	3,580	3,738	82	744	290	906	902	814
Other non-current liabilities	212	266	0	0	31	29	51	155
- of which lease liabilities	210	264	0	0	29	29	51	155
Other current liabilities	691	698	683	15	0	0	0	0
- of which lease liabilities	24	31	16	15	0	0	0	0
Trade payables	308	308	308	0	0	0	0	0
Derivative financial instruments	29	29	4	0	0	9	16	0
Contingent consideration	28	29	0	4	4	17	4	0
Total financial liabilities	4,848	5,068	1,077	763	325	961	973	969

¹ Including interest payments

Year ended
31 December 2019

Million CHF	Carrying Amount	Contractual Cash Flows ¹	Between 0 and 6 Months	Between 7 and 12 Months	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 5 Years	Over 5 Years
Straight bond (2012-2022)	105	115	0	3	3	109	0	0
Straight bond (2015-2020)	150	151	0	151	0	0	0	0
Straight bond (2015-2023)	175	183	0	2	2	2	177	0
Straight bond (2016-2021)	249	251	0	0	251	0	0	0
Straight bond (2017-2021)	125	125	0	0	125	0	0	0
Straight bond (2017-2024)	110	115	0	1	1	1	112	0
Syndicated loan (2019-2024)	137	150	1	1	1	1	146	0
German private placement	1,048	1,110	6	12	370	158	564	0
Term loan	1,212	1,301	8	551	16	16	513	197
Other debt due to banks and financial institutions	6	6	6	0	0	0	0	0
Other debt due to others	223	266	46	34	3	25	5	153
Total debt	3,540	3,773	67	755	772	312	1,517	350
Other non-current liabilities	265	327	0	0	75	31	51	170
- of which lease liabilities	219	280	0	0	31	28	51	170
Other current liabilities	733	767	750	17	0	0	0	0
- of which lease liabilities	25	34	17	17	0	0	0	0
Trade payables	453	453	453	0	0	0	0	0
Derivative financial instruments	26	26	8	0	0	8	10	0
Contingent consideration	30	30	0	2	5	4	18	1
Total financial liabilities	5,047	5,376	1,278	774	852	355	1,596	521

¹ Including interest payments

29.4

Market Risk

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

Foreign Exchange Risk

The Group operates across the world and is exposed to movements in foreign currencies affecting the Group financial result and the value of Group equity. Foreign exchange risk arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates ("transaction exposures") and because the foreign currency denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss-franc-denominated Group Financial Statements ("translation exposures"). Foreign exchange risks arise primarily on transactions that are denominated in USD, EUR and GBP.

In managing its exposure regarding the fluctuation in foreign currency exchange rates, Lonza has entered into a variety of currency swaps and forward contracts. These agreements generally include the exchange of one currency against another currency at a future date. Lonza adopts a policy of considering hedging for all the committed contractual exposure. The planned exposure is hedged within certain ranges. Hedge ratios are determined by the risk committee and depend on market expectation, risk bearing ability and risk appetite.

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

Million CHF	Sensitivity	Post-tax Profit 2020		Post-tax Profit 2019	
		+	-	+	-
USD	+ / - 10%	1.3	(1.3)	18.3	(18.3)
EUR	+ / - 10%	7.2	(7.2)	20.0	(20.0)
GBP	+ / - 10%	1.3	(1.3)	5.2	(5.2)

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The summary quantitative data relating to the Group's exposure to currency risks as reported to the management of the Group is as follows:

Year ended
31 December 2020

Million CHF	USD	GBP	EUR	SGD	DKK	Other	Total
Other investments	15	0	1	0	0	0	16
Non-current financial assets	3	0	14	0	0	0	17
Trade receivables, net	122	41	32	3	2	3	203
Other receivables, prepaid expenses and accrued income	19	27	2	3	0	0	51
Cash and cash equivalents	34	10	43	7	1	20	115
Non-current and current debt	(883)	0	(747)	0	0	0	(1,630)
Other non-current liabilities	(44)	0	0	(5)	0	0	(49)
Other current liabilities	3	(2)	(8)	(27)	0	(4)	(38)
Trade payables	(55)	(1)	(5)	(12)	0	0	(73)
Net group internal loans	1,641	(13)	346	0	0	0	1,974
Gross balance sheet exposure	855	62	(322)	(31)	3	19	586
Currency-related instruments	(869)	(48)	402	(24)	0	0	(539)
Net exposure	(14)	14	80	(55)	3	19	47

Year ended
31 December 2019

Million CHF	USD	GBP	EUR	SGD	DKK	Other	Total
Other investments	18	0	1	0	0	1	20
Non-current financial assets	3	0	20	0	0	0	23
Trade receivables, net	109	46	42	14	1	0	212
Other receivables, prepaid expenses and accrued income	14	18	4	3	0	4	43
Cash and cash equivalents	71	14	31	5	0	6	127
Assets held for sale	0	0	0	0	0	0	0
Non-current and current debt	(1,034)	0	(1,300)	0	0	0	(2,334)
Other non-current liabilities	(34)	0	0	(6)	0	(1)	(41)
Other current liabilities	(23)	(3)	(13)	(21)	0	0	(60)
Trade payables	(21)	(3)	(32)	(15)	0	(4)	(75)
Group internal loans	1,858	0	1,056	0	0	0	2,914
Gross balance sheet exposure	961	72	(191)	(20)	1	6	829
Currency-related instruments	(757)	(14)	416	0	0	0	(355)
Net exposure	204	58	225	(20)	1	6	474

The following exchange rates were applied during the year:

Balance Sheet Year-End Rates		2020	2019
EU	Euro	1.0829	1.0856
USA	Dollar	0.8813	0.9684
Great Britain	Pound Sterling	1.2035	1.2725
Singapore	Singapore Dollar	0.6665	0.7194
China	Renminbi	0.1347	0.1391

Income Statement Year-Average Rates		2020	2019
EU	Euro	1.0705	1.1124
USA	Dollar	0.9386	0.9938
Great Britain	Pound Sterling	1.2042	1.2689
Singapore	Singapore Dollar	0.6805	0.7285
China	Renminbi	0.1360	0.1439

Interest Rate

Risk arises from movements in interest rates which could affect the Group financial result or the value of Group equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments. The primary objective of the Group's interest rate management is to protect the net interest result.

Lonza's policy is to manage interest cost using a mix of fixed and variable rate debt. Group policy is to maintain at least 50% of its

borrowings in fixed-rate instruments. In order to manage this mix in a cost-efficient manner, Lonza enters into interest rate swaps and cross-currency interest rate swaps to exchange at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a corresponding notional principal amount. Lonza adopts a policy of having one third of the debt on a short-term basis and two-thirds of the debt on a long-term basis. The mix between floating and fixed rates depends on the market view of Lonza.

Lonza's exposure to interest rate risk was as follows:

Million CHF	2020	2019
Net Debt (see note 15)	2,813	2,961
Net debt at fixed interest rates ¹	(2,531)	(2,313)
Interest risk exposure	282	648
¹ Including effects from cross currency interest rate swaps		

If the interest rates had increased / decreased by 1% in 2020, with all other variables held constant, post-tax profit would have been CHF 2.5 million lower / higher (2019: CHF 5.8 million lower / higher).

29.5

Overview of Derivative Financial Instruments

The following table shows the contract or underlying principal amounts and fair values of derivative financial instruments by type of contract at 31 December 2020 and 2019. Contract or underlying principal amounts indicate the volume of business

outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by using the difference of the prices fixed in the outstanding derivative contracts from the actual market conditions which would have been applied at the year-end if we had to recover these trades.

Financial Instruments at Fair Value Through Profit or Loss

Million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2020	2019	2020	2019	2020	2019	2020	2019
Currency-related instruments								
- Forward foreign exchange rate contracts	75	68	1	1	0	0	1	1
- Currency swaps	1,508	1,429	36	20	(4)	(8)	32	12
Total currency-related instruments	1,583	1,497	37	21	(4)	(8)	33	13
Total financial instruments at fair value through profit or loss	1,583	1,497	37	21	(4)	(8)	33	13

Financial Instruments Effective for Hedge-Accounting Purposes

Million CHF	Contract or underlying principal amount		Positive fair values		Negative fair values		Total net fair values	
	2020	2019	2020	2019	2020	2019	2020	2019
Interest-related instruments								
- Interest rate swaps	388	426	0	0	(25)	(17)	(25)	(17)
Total interest-related instruments	388	426	0	0	(25)	(17)	(25)	(17)
Commodity-related instruments								
- Naphtha swap	0	6	0	0	0	(1)	0	(1)
- Propane swap	0	9	0	0	(0)	0	(0)	0
Total commodity-related instruments	0	15	0	0	(0)	(1)	(0)	(1)
Total financial instruments effective for hedge-accounting purposes	388	441	0	0	(25)	(18)	(25)	(18)

Offsetting of Financial Asset and Financial Liabilities

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements with the respective counterparties in order to mitigate counterparty risk. Under such agreements the amounts owed by each counterparty on a single day in respect of all

transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for offsetting in the balance sheet as the Group does not have a currently enforceable right to offset recognized amounts, because the right to offset is only enforceable on the occurrence of future events, such as a default or other credit events.

Financial Statements

The following table sets out the carrying value of derivative financial instruments and the amounts that are subject to master netting agreements.

Million CHF	Assets		Liabilities	
	2020	2019	2020	2019
Forward foreign exchange rate contracts	1	1	0	0
Currency swaps	36	20	(4)	(8)
Interest rate swaps	0	0	(25)	(17)
Commodity-related instruments	0	0	(0)	(1)
Carrying value of derivative financial instruments	37	21	(29)	(26)
Derivatives subject to master netting agreements	(5)	(10)	5	10
Net amount	32	11	(24)	(16)

Financial Instruments by Type/Currency

Million CHF	2020	2019
Forward foreign exchange rate contracts, currency swaps and FX options		
AUD	17	8
CAD	21	17
CNY	6	0
CZK	5	14
DKK	6	2
EUR	412	551
GBP	61	12
ILS	4	4
JPY	17	28
NZD	0	2
SGD	25	10
USD	1,009	849
Total currency related instruments	1,583	1,497
Commodity swap	0	15
Interest rate swap	388	426
Total financial instruments	1,971	1,938

Positive fair values of derivatives are included as part of "Other receivables, prepaid expenses and accrued income". Negative fair values of derivatives are included as part of "Other current

liabilities". Hedge accounting was applied to cash flow hedges on highly probable payments in foreign currencies.

29.6

Financial Instruments Carried at Fair Value

The Group applied the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Million CHF	2020				2019			
	Level 1	Level 2	Level 3	Total for Value	Level 1	Level 2	Level 3	Total for Value
Assets								
Other investments	0	33	0	33	0	24	0	24
Derivative financial instruments	0	37	0	37	0	21	0	21
Contingent consideration related to sale of business	0	0	14	14	0	0	20	20
Liabilities								
Derivative financial instruments	0	(29)	0	(29)	0	(26)	0	(26)
Contingent consideration	0	0	(28)	(28)	0	0	(30)	(30)
Net assets and liabilities measured at fair value	0	41	(14)	27	0	19	(10)	9

In 2020 and 2019 there were no transfers between Level 1 and Level 2 fair value measurements. Details of the determination of Level 3 fair value measurements are set out below.

Contingent Consideration Arrangements Related to Sale of Business

Million CHF	2020	2019
At 1 January	20	31
Payments received	(6)	(7)
Gains and losses included in the income statement ¹	0	(3)
Currency translation effects	0	(1)
At 31 December	14	20

¹ Includes unwinding of discount of CHF 1 million for 2019

The agreement to sell the Peptides business includes a contingent consideration arrangement under which Lonza will receive a defined percentage of the net sales of the disposed business for the financial years 2017–2021 (estimated to be CHF 14 million

at year-end 2020 exchange rates). Lonza's estimate of the net present value of these future payments is reflected as a receivable in the consolidated balance sheet as of 31 December 2020.

Contingent Consideration Arrangements

Million CHF	2020	2019
At 1 January	30	30
Payments made	(2)	0
At 31 December	28	30

Lonza is party to certain contingent consideration arrangements arising from business combinations. The fair values are determined considering the expected payments. The expected payments are determined by considering the possible scenarios of regulatory approvals and forecast sales, which are the most significant unobservable inputs. The estimated fair value would increase

if the forecast sales were higher or if the likelihood of obtaining regulatory approval was higher. At 31 December 2020 the total potential payments under contingent consideration arrangements could be up to CHF 62 million (2019: CHF 73 million), primarily related to the Octane acquisition. The estimated future payments amount to CHF 28 million at 31 December 2020.

29.7

Carrying Amounts and Fair Values of Financial Instruments by Category

The carrying values less impairment provision of trade receivables are assumed to approximate to their fair values due to the short-term nature of trade receivables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future

contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The table below shows the carrying amounts and fair values of financial instruments by category.

Carrying Amounts and Fair Values of Financial Instruments by Category

At
December 2020

Million CHF	Financial instruments mandatorily at fair value through profit or loss	Fair value – hedging instruments	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying amount	Fair value
Other investments	33	0	0	0	33	33
Trade receivables, net	0	0	715	0	715	715
Other receivables	0	0	87	0	87	87
Accrued income	0	0	185	0	185	185
Non-current loans	0	0	162	0	162	162
Cash and cash equivalents	0	0	495	0	495	495
Contingent consideration from sale of business	14	0	0	0	14	14
Derivative financial instruments						
– Currency-related instruments	0	37	0	0	37	37
Total financial assets	47	37	1,644	0	1,728	1,728
Debt						
– Straight bonds ¹	0	0	0	1,749	1,749	1,834
– Other debt	0	0	0	1,831	1,831	1,831
Current liabilities	0	0	0	691	691	691
Non-current liabilities	0	0	0	212	212	212
Trade payables	0	0	0	308	308	308
Contingent consideration	28	0	0	0	28	28
Derivative financial instruments						
– Currency-related instruments	0	4	0	0	4	4
– Interest-related instruments	0	25	0	0	25	25
Total financial liabilities	28	29	0	4,791	4,848	4,933

¹ The fair value of straight bonds for disclosure purposes is Level 1 and is calculated based on the observable market prices of the debt instruments

At
December 2019

Million CHF	Financial instruments mandatorily at fair value through profit or loss	Fair value – hedging instruments	Financial assets at amortized cost	Financial liabilities at amortized cost	Carrying amount	Fair value
Other investments	24	0	0	0	24	24
Trade receivables, net	0	0	759	0	759	759
Other receivables	0	0	73	0	73	73
Accrued income	0	0	190	0	190	190
Current advances	0	0	2	0	2	2
Non-current loans	0	0	72	0	72	72
Cash and cash equivalents	0	0	505	0	505	505
Contingent consideration from sale of business	20	0	0	0	20	20
Derivative financial instruments						
- Currency-related instruments	0	21	0	0	21	21
Total financial assets	44	21	1,601	0	1,666	1,666
Debt						
- Straight bonds ¹	0	0	0	914	914	939
- Other debt	0	0	0	2,626	2,626	2,626
Current liabilities	0	0	0	733	733	733
Non-current liabilities	0	0	0	265	265	265
Trade payables	0	0	0	453	453	453
Contingent consideration	30	0	0	0	30	30
Derivative financial instruments						
- Currency-related instruments	0	8	0	0	8	8
- Interest-related instruments	0	17	0	0	17	17
- Commodity-related instruments	0	1	0	0	1	1
Total financial liabilities	30	26	0	4,991	5,047	5,072

¹ The fair value of straight bonds for disclosure purposes is Level 1 and is calculated based on the observable market prices of the debt instruments

29.8

Capital Management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital

position. Lonza's target is to achieve a Return On Invested Capital (ROIC) in excess of 10% by 2022. In 2020, the return was 9.6% (2019 – restated: 9.2%, see further details in section [Alternative Performance Measures](#)). In comparison, the weighted average interest expense on interest-bearing borrowings (excluding liabilities with imputed interest) was 1.32% (2019: 1.64%).

From time to time, Lonza purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, the shares are intended to be used for issuing shares under Lonza's share programs. Lonza does not have a defined share buy-back plan. Neither Lonza Group Ltd nor any of its subsidiaries is subject to externally imposed capital requirements.

Note 30

Share Ownership of the Members of the Board of Directors and the Executive Committee

Board of Directors

Based on information available to Lonza, the members of the Board of Directors and parties closely associated with them held, as of 31 December 2020: 46,209 (2019: 56,609)¹ registered shares of Lonza Group Ltd and controlled 0.06% (2019: 0.08%) of the share capital.

None of the members of the Board of Directors or Executive Committee owns shares in the Group's subsidiaries or associates.

Executive Committee

The members of the Executive Committee and parties closely associated with them held, as of 31 December 2020: 14,262 (2019: 19,137) shares and controlled 0.02% (2019: 0.03%) of the share capital. The individual control rights are proportional to the holdings shown below.

Board of Directors

Numbers of shares	2020	2019
Albert M. Baehny	3,773	3,087
Patrick Aebischer ²	n/a	1,523
Werner Bauer	26,485	26,194
Dorothee Deuring ³	131	n/a
Angelica Kohlmann	870	598
Christoph Mäder	3,470	3,152
Barbara Richmond	3,462	4,340
Margot Scheltema ²	n/a	10,241
Jürgen Steinemann	7,148	6,876
Olivier Verscheure	870	598
Total⁴	46,209	56,609

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

² Margot Scheltema and Patrick Aebischer did not stand for re-election at the AGM 2020

³ Dorothee Deuring was appointed to the Board of Directors at the AGM 2020

⁴ Moncef Slaoui was appointed to the Board of Directors at the AGM 2021, however due to further commitments he stepped down from the Board of Directors soon after appointment

Executive Committee¹

Numbers of shares	2020	2019
Pierre-Alain Ruffieux ²	0	n/a
Sven Abend ³	n/a	5,000
Caroline Barth ⁴	0	n/a
Rodolfo Savitzky	10,562	11,019
Stefan Stoffel	3,700	3,118
Total	14,262	19,137

¹ All Executive Committee members active prior to 1 January 2020 have met or are in line to meet the shareholding guidelines

² Pierre-Alain Ruffieux commenced employment on 1 November 2020

³ Sven Abend stepped down from the Executive Committee during 2020

⁴ Caroline Barth commenced employment on 1 May 2020

Note 31

Enterprise Risk Management

The Enterprise Risk Management (ERM) program is a critical platform for Lonza's global organization and business as it provides a mechanism and structure for prudently addressing risk responsibility and management in each and every organization. Lonza pursues a comprehensive risk management program as an essential element of sound corporate governance and is committed to continuously embedding risk management in its daily culture. Lonza's ERM process is performed in four steps:

- Step 1: Identification (through risk workshops with Executive Committee members and their leadership teams), assessment and assignment of risks
- Step 2: Consolidation, review and prioritization of risks
- Step 3: Presentation of consolidated risk overview to the Executive Committee and Board of Directors; and
- Step 4: Follow-up on high-priority risks. Through this process, Lonza has identified and focuses on 16 high-level thematic risk categories

Each identified risk category is assessed according to its probability of occurrence and its negative impact on the Group:

- Actions to mitigate the probability and / or impact have been identified to address every individual risks component within each category which are reviewed on a quarterly basis with assigned risk owners to assess the status
- The probability of occurrence is assessed for the period until year-end 2022, with a risk range from unlikely to highly probable
- Any potential negative effect of a risk is assessed according to its impact on the annual Group's EBIT, the Group's reputation and the Group's operations

Risks have been identified for each segment and for corporate functions, and they are tracked if they are continuing risks or if there is a year-on-year increase or decrease. The risk scenarios identified in 2020 were presented to the Executive Committee and to the Board of Directors at their meetings in November and December 2020, respectively. Financial risk management is disclosed in note 29.

Note 32

Events After Balance Sheet Date

The Consolidated Financial Statements for 2020 were approved for issue by the Board of Directors on 16 March 2021 and are subject to approval by the Annual General Meeting on 6 May 2021.

Following the approval by Lonza's Board of Directors, on 19 January 2021, Lonza announced an agreement with NextPharma for the sale of Lonza's Ploermel (FR) and Edinburgh (UK) sites, which employ 260 and 130 staff respectively. The agreement is subject to relevant conditions and regulatory approvals. Where applicable, both parties will consult with local Works Councils.

On 8 February 2021, Lonza announced that it has entered into a definitive agreement with Bain Capital and Cinven to acquire Lonza's Specialty Ingredients business and operations for an enterprise value of CHF 4.2 billion.

Note 33

Principal Subsidiaries and Joint Ventures

Selection criteria: CHF 10 million net sales 3rd Parties, CHF 10 million total assets 3rd parties or more than 30 FTE

Name	Town/Country	Currency ¹	Share Capital	Holding Direct	Holding Indirect
Arch Chemicals, Inc.	Richmond US	USD	1,000		100%
Arch Personal Care Products, L.P.	Camden County US	USD	1,000		100%
Arch Protection Chemicals Private Limited	Mumbai IN	INR	1,300,000		100%
Arch Treatment Technologies, Inc.	Richmond US	USD	n/a		100% ³
Arch UK Biocides Limited	Castleford GB	GBP	1,644,236		100%
Arch Wood Protection (Aust) Pty Ltd	Trentham AU	AUD	80 ²		100%
Arch Wood Protection (NZ) Limited	Auckland NZ	NZD	6,099,999		100%
Arch Wood Protection (SA) Pty Ltd	Port Shepstone SA	ZAR	3'000		100%
Arch Wood Protection Canada Corp.	Mississauga CA	CAD	n/a		100% ³
Arch Wood Protection, Inc.	Wilmington US	USD	100		100%
BacThera AG	Visp CH	CHF	11,000,000		50%
Bend Research, Inc.	Portland US	USD	n/a		100% ³
BioAtrium AG	Visp CH	CHF	87,700,000		50%
Capsugel Belgium NV	Bornem BE	EUR	236,921,555 ²	99.9% ²	0.1% ²
Capsugel Brasil Importação e Distribuição de Insumos Farmacêuticos e Alimentos Ltda.	Rio de Janeiro BR	BRL	74,976,852		100%
Capsugel Canada Corp.	Vancouver CA	CAD	n/a		100% ³
Capsugel de México, S. de R.L. de C.V.	Puebla ME	MXN	870,004,052		100%
Capsugel Distribucion, S. de R.L. de C.V.	Puebla ME	MXN	20,000,000		100%
Capsugel France SAS	Colmar FR	EUR	1,280,000		100%
Capsugel Healthcare Private Limited	Gurugram IN	INR	2,985,075,930		100%
Capsugel Japan Inc.	Sagamihara JP	JPY	100,000,000		100%
Capsugel Manufacturing, LLC	Wilmington US	USD	n/a		100% ³
Capsugel Ploërmel SAS	Ploërmel FR	EUR	42,674,272		100%
Capsugel, Inc.	Wilmington US	USD	10		100%
Hickson Ltd	Castleford GB	GBP	108,161,500		100%
Komec Helsen N.V.	Bornem BE	EUR	62,000		100%
LLC Capsugel	Domodedovo (Moscow Region) RU	RUB	150,000		100%
Lonza (China) Investments Co. Ltd.	Guangzhou CN	USD	84,000,000	100%	
Lonza (Thailand) Co., Ltd.	Bangkok TH	THB	170,000,000		100%
Lonza AG	Visp CH	CHF	60,000,000	100%	
Lonza America LLC	Wilmington US	USD	n/a		100% ³
Lonza Biologics Inc.	Wilmington US	USD	1,000		100%
Lonza Biologics Ltd.	Guangzhou CN	USD	45,000,000		100%
Lonza Biologics plc	Slough GB	GBP	14,500,000		100%
Lonza Biologics Porriño S.L.	Porriño ES	EUR	10,295,797 ²		100%
Lonza Biologics Tuas Pte. Ltd.	Singapore SG	SGD	172,000,000		
		USD	25,000,000		100%

Financial Statements

Name	Town/Country	Currency ¹	Share Capital	Holding Direct	Holding Indirect
Lonza Bioscience SARL	Saint-Beauzire FR	EUR	8,848,695		100%
Lonza Bioscience Singapore Pte Ltd	Singapore SG	USD	1		100%
Lonza Biotec s.r.o.	Kourim CZ	CZK	282,100,000		100%
Lonza Chemicals Singapore Pte. Ltd.	Singapore SG	SGD	10,000		100%
Lonza Cologne GmbH	Cologne DE	EUR	1,502,000		100%
Lonza Consumer Health Inc.	Los Angeles US	USD	n/a		100% ³
Lonza Copenhagen ApS	Vallensbaek-Strand DK	DKK	150,000		100%
Lonza Costa Rica, S.A.	Heredia CR	CRC	10,000		100%
Lonza do Brasil Especialidades Quimicas Ltda.	Sao Paulo BR	BRL	119,648,389	15.4% ²	84.6% ²
Lonza Finance International N.V. ⁴	Bornem BE	EUR	43,061,500	100%	
Lonza Guangzhou Nansha Ltd	Guangzhou CN	USD	133,578,892		100%
Lonza Houston Inc.	Wilmington US	USD	290 ²		100%
Lonza India Private Limited	Mumbai IN	INR	23,458,580		99.9% ²
Lonza Japan Ltd (Lonza Japan Kabushiki Kaisha)	Tokyo JP	JPY	100,000,000	100%	
Lonza KK	Tokyo JP	JPY	50,000,000	100%	
Lonza Microbial Control Asia Pacific Pte Ltd	Singapore SG	SGD	183,085		100%
Lonza Nanjing Ltd	Nanjing CN	USD	14,000,000		100%
Lonza Netherlands B.V.	Maastricht NL	EUR	2,115,232		100%
Lonza NZ Limited	New Plymouth NZ	NZD	1,000,000		100%
Lonza Rockland, Inc.	Wilmington US	USD	100		100%
Lonza Sales AG	Basel CH	CHF	2,000,000	100%	
Lonza Services AG	Basel CH	CHF	101,000	100%	
Lonza Shanghai International Trading Ltd.	Shanghai CN	USD	200,000		100%
Lonza Solutions AG	Visp CH	CHF	101,000	100%	
Lonza Suzhou Ltd.	Suzhou CN	USD	19,000,000		100%
Lonza Swiss Finanz AG ⁴	Basel CH	CHF	100,000	100%	
Lonza Swiss Licences AG	Basel CH	CHF	100,000	100%	
Lonza Verviers SPRL	Verviers BE	EUR	18,750		100%
Lonza Walkersville, Inc.	Wilmington US	USD	10		100%
Lonza, LLC	Wilmington US	USD	n/a		100% ³
Micro-Macinazione SA	Monteggio CH	CHF	1,000,000		100%
MW Encap Limited	London GB	GBP	301,000		100%
Octane Biotech, Inc.	Ontario CA	CAD	n/a		80% ³
P.T. Capsugel Indonesia	Cibinong Bogor Jawa Barat IN	USD	59,300,769		100%
Powdersize, LLC	Wilmington US	USD	n/a		100% ³
Suzhou Capsugel Limited	Suzhou CN	USD	29,700,000		75%
Xcellence, LLC	Wilmington US	USD	n/a		100% ³
YOU Solutions Guangzhou Ltd.	Guangzhou CN	USD	6,021,108		100%

¹ Abbreviation of currencies in accordance with ISO standards

² Rounded amount

³ No par value

⁴ This entity does not meet above mentioned thresholds. It was included due to its significance for group financings



Statutory Auditor's Report

To the General Meeting of Lonza Group Ltd, Basel

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lonza Group Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters



Revenue recognition



Completeness and valuation of uncertain income tax items



Lonza Specialty Ingredients business: recorded as assets and liabilities held for sale and discontinued operations

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Revenue recognition

Key Audit Matter

Our response

The Group's recognition of revenue in a complete and accurate manner is exposed to various risks. There are two distinct risk factors that trigger revenue recognition as a key audit matter:

- custom manufacturing agreements in the Pharma & Biotech segment, and
- linkage of certain of management's incentive compensation to annual revenue targets.

Due to market dynamics, the relevance of long-term product supply agreements with the Group's Pharma & Biotech customers is significant. Under these agreements, the Group constructs and launches new or reworked suites dedicated to client specific manufacturing, which are owned and operated by the Group. Extending over multiple periods such agreements often combine milestone and upfront payments during a construction phase, the rendering of project management services and the delivery of goods. To a certain degree the identification and measurement of these different components as separable revenue streams and performance obligations is subject to management's judgment and interpretation of the customer contract.

This gives rise to the risk that revenue could be misstated due to the incorrect identification, separation and valuation of contractual components and related performance obligations, resulting in an inappropriate timing of revenue recognition.

Performance targets embedded in management's compensation incentive plans based on targeted results and achievement of such targets are partially contingent on the timing of revenue recognition. There is a risk of fraud in revenue recognition due to the incentives management may feel to achieve the targeted results.

For significant existing, new and amended customer manufacturing agreements in the Pharma & Biotech segment, we assessed the appropriateness of the identification, separation and valuation of contract elements and the timing of revenue recognition by making our own independent assessment. Furthermore, we challenged and assessed the qualification of performance obligations of significant new and amended contracts and their valuation by management.

As a response to the risk of fraud in revenue recognition, we performed sample testing of revenue recorded during the year and focused on revenue transactions taking place before and after year-end as well as deferred revenue transactions to determine that revenue is recognized in the correct period. We tested the accuracy of revenues recorded, based on inspection of customer acceptance certificates, shipping documents, delivery notes and cash receipts. Furthermore, we tested manual journal entries on a sample basis and controls over the recording of revenue in the relevant IT systems.

We also performed audit procedures to assess the adequacy and accuracy of the Group's revenue recognition disclosures, as presented in the Group's consolidated financial statements.

For further information on revenue recognition refer to the following:

- Note 1 Accounting Principles
- Note 3 Revenues



	Completeness and valuation of uncertain income tax items
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Key Audit Matter

Our response

The Group operates in a complex multinational tax environment giving rise to cross-border transactions and complex taxation arrangements being subject to various country specific tax laws. During the normal course of business local tax authorities may challenge financing arrangements between Group entities, transfer-pricing arrangements relating to the Group's manufacturing and supply chain and the ownership of intellectual property rights.

During 2020, the Group reorganized certain legal entities and initiated other measures in connection with its plans to divest its Specialty Ingredients business. This triggered certain income tax relevant transactions. These transactions required management to make certain assumptions and estimates related to the measurement and recognition of estimated income taxes.

The Group has also recognized provisions for other uncertain tax items, the estimation of which is subject to management's judgement.

Based on these complexities, uncertainties and management's judgment involved in estimating the income taxes, we identified the completeness and valuation of uncertain income taxes as a key audit matter.

Our audit approach included the use of local tax specialists in all key jurisdictions to evaluate tax provisions and potential exposures as of 31 December 2020.

In response to the initiated reorganization, we read and evaluated management's documentation, including information obtained by management from outside tax specialists that detailed the basis of the uncertain tax positions related to the planned disposal of the Specialty Ingredients business.

We obtained explanations from management regarding the known uncertain tax positions and analyzed correspondence with taxation authorities to identify uncertain tax positions. We assessed the adequacy of management's taxation provisions by considering country specific tax risks, transfer-pricing risks, compliance risks and potential penalties and fines. We critically reviewed and evaluated the judgements made by management in assessing the quantification and probability of significant exposures and the level of provision required for specific matters.

Furthermore, we evaluated whether uncertain income tax items were appropriately disclosed in the Group's consolidated financial statements.

For further information on income taxes refer to the following:

- Note 1 Accounting Principles
- Note 22 Taxes



	Lonza Specialty Ingredients business: reported as assets and liabilities held for sale and discontinued operations
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Key Audit Matter**Our response**

On 24 July 2020, the Group announced the planned divestment of its Specialty Ingredients business. The Group concluded that the Specialty Ingredients business is to be reported as assets and liabilities held for sale and discontinued operations in the consolidated financial statements.

The accounting for discontinued operations and assets and liabilities held for sale for the Specialty Ingredients business is complex and required significant management judgement with respect to the accurate and complete identification and recognition of expenses as well as the valuation of assets and liabilities attributable to the Specialty Ingredients business.

Based on these complexities, and the significance of the Specialty Ingredients business to the consolidated financial statements, we considered the accounting and presentation of discontinued operations and assets and liabilities held for sale to be a key audit matter.

We read the relevant minutes and management's documented accounting position analysis to assess the appropriateness of the accounting treatment as assets and liabilities held for sale and discontinued operations.

We performed inquiries with management to obtain an understanding of the planned disposal process as well as possible terms, contingencies and timeline of negotiating an agreement to sell the Specialty Ingredients business. We also read the signed agreement between the Group and the purchasers of the Specialty Ingredients business dated 8 February 2021.

We performed procedures to assess the valuation of the assets and liabilities reflected as held for sale and to assess the completeness and accuracy of the results presented as discontinued operations. Our audit procedures included, but were not limited to:

- reconciling the Specialty Ingredients business assets and liabilities classified as held for sale to the underlying segment reporting available in the Group's financial reporting systems;
- detailed testing of expenses on a sample basis, including disposal costs and income taxes allocated to the discontinued operations.

Furthermore, we evaluated whether the discontinued operations and assets and liabilities held for sale were appropriately presented and disclosed in the Group's consolidated financial statements.

For further information on assets and liabilities held for sale and discontinued operations refer to the following:

- Note 1 Accounting Principles
- Note 5 Business Combinations and Sale of Businesses



Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

A handwritten signature in black ink, appearing to read 'Michael Blume'.

Michael Blume
Licensed Audit Expert
Auditor in Charge

A handwritten signature in black ink, appearing to read 'C. Kaufmann'.

Cyrill Kaufmann
Licensed Audit Expert

Zurich, 16 March 2021

Financial Statements of Lonza Group Ltd

Balance Sheet – Lonza Group Ltd

Assets¹

CHF	Notes	2020	2019
Non-current assets			
Long-term financial assets:			
– from third parties		11,000,000	0
– from subsidiaries and associates	2.2	3,734,534,262	3,657,458,381
Investments ¹	2.1	5,608,484,488	5,595,326,379
Property, plant and equipment		161,658	207,534
Prepaid expenses and accrued income:			
– from third parties		11,087,617	11,214,185
Total non-current assets		9,365,268,025	9,264,206,479
Current assets			
Cash and cash equivalents		193,619,331	48,487,475
Short term financial assets:			
– from third parties		0	2,077,288
– from subsidiaries and associates		861,749,761	256,103,811
Other short-term receivables:			
– from third parties		67	122,625
– from subsidiaries and associates		112,235,477	44,485,368
Prepaid expenses and accrued income:			
– from third parties		37,485,416	26,817,061
– from subsidiaries and associates		8,804,506	68,680,303
Total current assets		1,213,894,558	446,773,931
Total assets		10,579,162,583	9,710,980,410

¹ At 31 December

Liabilities and Shareholders' Equity¹

CHF	Notes	2020	2019
Shareholders' equity			
Share capital	2.5	74,468,752	74,468,752
Legal capital reserves:			
- Reserves from capital contributions	2.6	2,575,394,015	2,677,762,695
Legal retained earnings reserves:			
- General legal retained earnings		37,234,376	37,234,376
Voluntary retained earnings:			
- Available earnings:			
- Profit brought forward		2,667,715,331	2,202,123,954
- Profit for the year		833,421,396	567,960,057
Treasury shares	2.7	(99,996,374)	(51,259,293)
Total shareholders' equity		6,088,237,496	5,508,290,541
Non-current liabilities			
Long-term interest-bearing liabilities:			
- to third parties	2.4	1,287,345,000	1,871,252,000
- to subsidiaries and associates		1,855,330,816	535,000,000
Long-term provisions:			
- to third parties		3,195,979	154,267
Derivatives financial liabilities:			
- to third parties		24,568,775	0
Total non-current liabilities		3,170,440,570	2,406,406,267
Current liabilities			
Trade accounts payables:			
- to third parties	2.3	4,508,600	8,171,782
- to subsidiaries and associates		19,819,363	192,137
Short-term interest-bearing liabilities:			
- to third parties	2.4	351,949,000	542,790,000
- to subsidiaries and associates		759,488,357	1,025,547,703
Short-term provisions:			
- to third parties		51,833,865	49,075,340
Accrued expenses and deferred income:			
- to third parties		111,628,207	156,716,986
- to subsidiaries and associates		21,257,125	13,789,654
Total current liabilities		1,320,484,517	1,796,283,602
Total liabilities		4,490,925,087	4,202,689,869
Total liabilities and shareholders' equity		10,579,162,583	9,710,980,140

¹ At 31 December

Income Statement – Lonza Group Ltd

CHF	Notes	2020	2019
Income			
Dividend income	2.8	863,803,307	411,312,800
Royalties income		177,653,255	182,690,629
Other financial income	2.9	125,315,967	170,337,180
Other operating income		7,086,711	6,698,818
Total income		1,173,859,240	771,039,427
Expenses			
Other financial expenses	2.10	128,253,579	92,781,701
Personnel expenses		33,414,606	45,903,900
Other operating expenses	2.11	60,322,058	28,609,929
Impairment losses on investments	2.8	115,312,706	2,008,791
Depreciation on equipment		111,015	136,779
Direct taxes		3,023,880	33,638,270
Total expenses		340,437,844	203,079,370
Profit for the year		833,421,396	567,960,057

Notes to the Financial Statements – Lonza Group Ltd

Note 1**Principles****1.1****General Aspects**

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

1.2**Financial Assets**

Financial assets include short- and long-term loans to subsidiaries and associates. Loans granted in foreign currencies are translated at the rate at the balance sheet date.

1.3**Treasury Shares**

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized through the shareholders' equity as increase or decrease of available earnings brought forward.

1.4**Share-based Payments**

When treasury shares are used for share-based payment programs, the difference between the acquisition costs and any consideration paid by the employees at grant date is recognized as other financial expenses or income.

1.5**Short-/Long-Term Interest-Bearing Liabilities**

Interest-bearing liabilities are recognized in the balance sheet at nominal value. Discounts and issue costs for bonds or syndicate loans are recognized as prepaid expenses and amortized on a straight-line basis over the principal's maturity period. Premiums are recognized as accrued expenses and amortized on a straight-line basis over the principal's maturity period.

1.6**Currency- and Interest-Related Instruments**

Currency- and interest-related instruments with a short-term holding period are valued at their fair value as at the balance sheet date. A valuation adjustment reserve has not been accounted for.

1.7**Presentation of a Cash Flow Statement and Additional Disclosures in the Notes**

As Lonza Group Ltd has prepared its consolidated financial statements in accordance with a recognized accounting standard (International Financial Reporting Standards – IFRS), it has decided to forgo presentation of a cash flow statement, information on interest-bearing liabilities and audit fees in the note disclosures as would be required by Swiss law.

Note 2

Information on Balance Sheet and Income Statement Items

2.1 Investments

Lonza Group Ltd holds the following direct subsidiaries as of 31 December 2020. For indirect principal subsidiaries, please see the list in [note 33](#) to the Group's consolidated financial statements.

		Share Capital in CHF 1,000 ¹		Direct Holding in % ¹	
		31.12.2020	31.12.2019	31.12.2020	31.12.2019
Aravis Venture 1, L.P.	Grand Cayman, Cayman Islands	0 ³	USD 58,824	0 ³	31%
Capsugel Belgium NV	Bornem BE	EUR 236,922	EUR 236,923	99.9%	99.9%
Capsugel Middle East Sàrl	Beirut LB	LPB 5,000	LPB 5,000	1%	1%
International School of Basel AG	Reinach, CH	CHF 20,525	CHF 20,525	1.6%	1.6%
Lonza AG	Visp, CH	CHF 60,000	CHF 60,000	100%	100%
Lonza Bioproducts AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza do Brasil Especialidades Químicas Ltda.	Sao Paulo, BR	BRL 119,648	BRL 119,649	15.4%	15.4%
Lonza Finance International NV	Bornem, NL	EUR 43,062	EUR 43,062	100%	100%
Lonza Group GmbH	Waldshut-Tiengen, DE	EUR 25,000	EUR 25,000	0.4%	0.4%
Lonza Holdings NA Inc.	Wilmington, US	USD 5	USD 0 ²	100%	0% ²
Lonza Holding Singapore Pte Ltd	Singapore, SG	USD 100,000	USD 100,000	100%	100%
Lonza (China) Investments Co. Ltd	Guangzhou, CN	USD 84,000	USD 84,000	100%	100%
Lonza Japan Ltd	Tokyo, JP	JPY 100,000	JPY 100,000	100%	100%
Lonza KK	Tokyo, JP	JPY 50,000	JPY 1	100%	100%
Lonza Licences AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza Sales AG	Basel, CH	CHF 2,000	CHF 2,000	100%	100%
Lonza Services AG	Basel, CH	CHF 101	CHF 0 ²	100%	0% ²
Lonza Solutions AG	Visp, CH	CHF 101	CHF 0 ²	100%	0% ²
Lonza Swiss Finanz AG	Basel, CH	CHF 100	CHF 100	100%	100%
Lonza Swiss Licences AG	Basel, CH	CHF 100	CHF 100	100%	100%
Seed Fund Cycle-C3E (A), L.P.	Montreal, CA	CAD 42,000	CAD 42,000	2.4%	2.4%

¹ Rounded amount

² Entity was incorporated in 2020

³ Entity was liquidated in 2020

In 2020, Lonza Group Ltd established the subsidiaries Lonza Services AG and Lonza Solutions AG in Switzerland. Lonza Group Ltd made capital contributions in 2020 to both Lonza Services AG and Lonza Solutions AG for CHF 14,296,608 and CHF 114,179,774 respectively.

2.2 Long-Term Financial Assets

Lonza Group Ltd issued subordination agreements of CHF 95 million (2019: CHF 95 million) on loans to subsidiaries and associates.

2.3 Trade Accounts Payables

Trade accounts payables include liabilities to personnel welfare institutions of CHF 236,267 at 31 December 2020 (2019: CHF 588,669).

2.4

Short-Term and Long-Term Interest-Bearing Liabilities

CHF	31.12.2020	31.12.2019
German Private Placement	351,949,000	0
Syndicated loan Facility A EUR 500 Mio	0	542,790,000
Total short-term interest-bearing liabilities	351,949,000	542,790,000

CHF	31.12.2020	31.12.2019
Long-term interest-bearing liabilities	1,287,345,000	1,871,252,000

Following the 2019 assignment of Lonza's investment grade credit rating by S&P (BBB+), Lonza refinanced and extended its syndicated Term and Revolving Bank Facilities Agreement effective 6 September 2019, as described below.

Term Loan

Lonza issued term loan tranches of EUR 500 million, USD 500 million and USD 200 million carrying floating interest rates and repayable in 2020, 2024 and 2025 respectively. This term loan effectively replaced the EUR 450 million and USD 489 million term loan tranches issued in 2017 with maturity dates in 2020 and 2022 and the bank loan of USD 200 million. The net proceeds received in 2019 totaled CHF 265 million.

In 2020, Lonza repaid the term loan tranche of EUR 500 million.

German Private Placement

The dual-currency German private placement (Schuldscheindarlehen) of EUR 700 million and USD 200 million tranches carry fixed and floating interest rates (LIBOR/EURIBOR + margin) respectively, and are repayable in 2021 (EUR 325 million), 2022 (USD 150 million), 2023 (EUR 375 million) and 2024 (USD 50 million). The single-tranche German private placement (Schuldscheindarlehen) of USD 100 million carry floating interest rates (LIBOR + margin) and is repayable in 2024.

Syndicated Loan

Lonza signed a syndicated loan with a consortium of banks on the following terms: Credit facility of CHF 1,000 million equivalent, due 2024, at floating interest rates. This syndicated loan effectively replaced the syndicated loan signed in 2017. The facility was not used as of 31 December 2020 (2019: CHF 80 million and USD 65 million).

2.5

Share Capital and Authorized Capital

The share capital on 31 December 2020 comprised 74,468,752 registered shares (2019: 74,468,752) with a par value of CHF 1 each, amounting to CHF 74,468,752 (2019: CHF 74,468,752).

Contingent Capital

The share capital of Lonza Group Ltd may be increased through the issuance of a maximum of 7,500,000 fully paid-in registered shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 7,500,000.

Authorized Capital

The Board of Directors shall be authorized to increase, at any time until 6 May 2021, the share capital of the Company through the issuance of a maximum of 7,500,000 fully paid-in registered

shares with a par value of CHF 1 each up to a maximum aggregate amount of CHF 7,500,000. The capital increases in the form of contingent capital and authorized capital may increase the share capital of Lonza Group Ltd by a maximum aggregate amount of CHF 7,500,000. The details and conditions are set out in Articles 4^{bis} to 4^{quater} of the **Company's Articles of Association**.

At 31 December 2020, Lonza Group Ltd had a fully paid-in registered capital of CHF 74,468,752 and a contingent capital of CHF 7,500,000.

Reserves in the amount of CHF 37,234,376 (2019: CHF 37,234,376) included in the financial statements cannot be distributed.

2.6

Reserves from Capital Contributions

CHF	2020
Reserves from Capital Contributions at 1.1.2019	2,882,051,469
Dividend payout April 2019	(204,288,774)
Reserves from Capital Contributions at 31.12.2019	2,677,762,695
Dividend payout May 2020	(102,368,680)
Reserves from Capital Contributions at 31.12.2020	2,575,394,015

2.7

Treasury Shares

CHF	Total shares	Average rate in CHF	Number of transactions
Treasury shares at 1.1.2019, weighted average price	222,595	319.73	
Acquisitions 2019	169,195	281.99	3
Distribution to board members	(4,547)	303.66	4
Distribution to LTIP share plans	(207,293)	279.30	3
Treasury shares at 31.12.2019, weighted average price	179,950	284.85	
Treasury shares at 1.1.2020, weighted average price	179,950	284.85	
Acquisitions 2020	287,373	489.58	18
Distribution to board members	(2,888)	447.62	4
Distribution to LTIP share plans	(278,755)	401.80	2
Treasury shares at 31.12.2020, weighted average price	185,680	538.54	

2.8

Dividend Income/Impairment
Losses on Investments

Dividend income in 2020 includes a dividend distribution from Lonza Holding Singapore of USD 246,822,375 (2019: USD 192,000,000) and from Lonza (China) Investments Co. Ltd of USD 40,906,225, as well as a dividend distribution from Lonza AG of CHF 114,078,774 which was contributed as a capital increase in kind in Lonza Solutions AG. Furthermore, the dividend received from Lonza AG resulted in an impairment loss of the investment held in Lonza AG in the same amount as the dividend received.

2.9

Other Financial Income

Other financial income in 2020 includes interest income from loans to subsidiaries and associates of CHF 117,388,335 (2019: CHF 136,359,921).

2.10 Other Financial Expenses

CHF	31.12.2020	31.12.2019
Bank interest and fees	26,999,467	49,051,557
Interest on deposits subsidiaries	24,727,301	12,782,555
Amortization of discounts and issue costs	4,082,649	4,423,998
Loss on treasury shares	20,034,860	11,055,579
Net exchange rate loss	52,409,302	15,468,012
Total financial expenses	128,253,579	92,781,701

2.11 Other Operating Expenses

CHF	2020	2019
Consulting expenses	50,316,896	24,730,948
Administrative expenses	7,793,568	3,630,745
Other operating expenses	2,211,594	248,236
Total other operating expenses	60,322,058	28,609,929

Note 3

Other Information

3.1 Full-time Equivalents

At 31 December 2020, Lonza Group Ltd had 71 employees (2019: 80).

3.2 Contingent Liabilities, Guarantees and Pledges

At 31 December 2020, indemnity liabilities, guarantees and pledges in favor of third parties totaled CHF 1,940,405,315 (2019: CHF 1,101,407,478). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of the group.

3.3 Major Shareholders

In accordance with Art. 663c of the Swiss Code of Obligations: See Significant Shareholders section in the Corporate Governance Report.

3.4 Share Ownership of the Members of the Board of Directors and the Executive Committee

In accordance with Art. 663c para. 3 of the Swiss Code of Obligations: See note 30 in the Consolidated Financial Statements and the Remuneration Report.

3.5 Shares for Members of the Board and Granted Equity Awards for Employees

According to the share-based payments (see note 25), Lonza Group Ltd allocates treasury shares and equity awards as follows:

	2020		2019	
	Number of shares/ granted equity awards	Value in CHF 1	Number of shares/ granted equity awards	Value in CHF 1
Shares allocated to members of the Board of Directors	2,888	1,292,715	4,547	1,380,759
Granted equity awards allocated to members of the Executive Committee	9,880	4,568,522	16,562	4,337,588
Granted equity awards allocated to other employees	5,083	2,013,885	7,067	1,850,847
Total	17,851	7,875,122	28,176	7,569,194

In 2020 Lonza Group Ltd employed 3 members of the Executive Committee (2019: 2).

3.6 Significant Events after the Balance Sheet Date

There are no significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed.

Proposal of the Board of Directors

Concerning the Appropriation of Available Earnings and Reserves from Capital Contributions

CHF	2020
Available earnings brought forward	2,667,715,331
Profit for the year	833,421,396
Available earnings at the disposal of the Annual General Meeting	3,501,136,727
Payment of a dividend (out of available earnings brought forward) in 2020 of CHF 1.50 (2019: CHF 1.375) per share on the share capital eligible for dividend of CHF 74,283,072 (2019: 74,449,949)	(111,424,608)
Available earnings carry-forward	3,389,712,119

CHF	2020
Legal capital reserves qualified as reserves from capital contributions	2,575,394,015
Reserves from capital contributions	2,575,394,015
Payment of a dividend (out of reserves from capital contributions) in 2020 of CHF 1.50 (2019: CHF 1.375) per share on the share capital eligible for dividend of CHF 74,283,072 (2019: 74,449,949)	(111,424,608)
Available reserves from capital contributions carry-forward	2,463,969,407

CHF	2020
Proposed payment of a dividend out of available earnings brought forward	111,424,608
Proposed payment of a dividend out of reserves from capital contributions	111,424,608
Total proposed payment of a dividend	222,849,216

If the General Annual Meeting approves the above proposal for appropriation of available earnings and distribution of reserves from capital contribution, a dividend of total CHF 3.00 per share will be paid. 50% of such dividend will be paid out as repayment from reserves from capital contributions without deduction of Swiss withholding tax in accordance with Art. 5 para. 1^{bis} of the Federal Law on Withholding Tax. The other 50% of such dividend will be paid from available earnings. The last trading day with entitlement to receive the dividend is 7 May 2021. As from 10 May 2021 (ex-date), the shares will be traded ex-dividend. The dividend will be payable from 12 May 2021.



Statutory Auditor's Report

To the General Meeting of Lonza Group Ltd, Basel

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lonza Group Ltd, which comprise the balance sheet as at 31 December 2020, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Michael Blume
Licensed Audit Expert
Auditor in Charge

Cyrill Kaufmann
Licensed Audit Expert

Zurich, 16 March 2021

Alternative Performance Measures

The information included in the financial report includes certain Alternative Performance Measures (APMs) which are not accounting measures as defined by IFRS (non GAAP measures), in particular the CORE results, the (CORE) RONO, the (CORE) ROIC and the Operational Free Cash Flow.

These APMs may not be comparable to similarly titled measures disclosed by other companies and should not be viewed in isolation or as alternatives to Lonza's consolidated financial position and financial results based on IFRS.

CORE Results

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of the company because the CORE results enable better comparison across years. The CORE results concept, which is used in the internal management of the business, is based on the IFRS results, excluding the following adjustments:

- Amortization of intangible assets resulting from business combinations
- Impairments (including reversal of impairments) of intangible assets, property, plant & equipment, goodwill and assets held for sale
- Restructuring programs in excess of CHF 0.5 million

- Acquisition and integration costs related to business combinations
- Costs related to divestitures of businesses as well as disposal gains and losses
- Impacts from discontinued operations
- Environmental remediation costs related to divested / inactive sites as well as remediation projects in excess of CHF 10 million
- Defined benefit plan settlements and curtailments in excess of CHF 10 million
- Lonza's share of profit or loss from associates and joint ventures

Reconciliation of EBIT to EBITDA (Continuing Business)

Million CHF	2020	2019 (restated) ¹
Result from operating activities (EBIT)	901	825
Depreciation of property, plant and equipment	284	274
Amortization of intangible assets	169	166
Impairment and reversal of impairment on property, plant, equipment and intangibles	24	(1)
Earnings before interest, taxes and depreciation (EBITDA)	1,378	1,264

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

Reconciliation of EBITDA to CORE EBITDA (Continuing Business)

Million CHF	2020	2019 (restated) ¹
Earnings before interest, taxes and depreciation (EBITDA)	1,378	1,264
Restructuring costs / income	22	8
Income / expense resulting from acquisition and divestitures	(5)	45
Environmental-related expenses	11	17
CORE EBITDA	1,406	1,334

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

Operational Free Cash Flow

In 2020 and 2019, the development of operational free cash flow by component was as follows:

Components of Operational Free Cash Flow¹

Million CHF	2020	2019
Earnings before interests, taxes and depreciation (EBITDA)	1,656	1,489
Change of operating net working capital ²	(246)	(336)
Capital expenditures in tangible and intangible assets	(973)	(786)
Disposal of tangible and intangible assets	14	15
Change of other assets and liabilities ³	262	17
Operational free cash flow (before acquisitions / disposals)	713	399
Acquisition of subsidiaries	(15)	(24)
Disposal of subsidiaries	7	620
Operational free cash flow	705	995

¹ Operational Cash Flow represents Lonza Group incl. Discontinued Operations

² Includes in 2020 non-cash amortization of current deferred income of CHF 43 million (2019: CHF 17 million), recognized in the income statement through EBITDA

³ Includes in 2020 non-cash amortization of non-current deferred income of CHF 6 million (2019: CHF 9 million), recognized in the income statement through EBITDA

CORE Results

Reconciliation of IFRS Results to CORE Results 2020

	IFRS Results	Amortization of intangible assets from acquisitions	Impairments ¹	Reversal of impairments	Restructuring costs/Income	Income/ expense resulting from acquisition and divestitures ²	Environmental- related expenses	Other	CORE results
Million CHF									
Sales	4,508	0	0	0	0	0	0	0	4,508
Cost of goods sold	(2,660)	0	4	0	0	0	11		(2,645)
Gross profit	1,848	0	4	0	0	0	11	0	1,863
Marketing and distribution	(235)	0	0	0	6	0	0	0	(229)
Research and development	(84)	0	0	0	6	0	0	0	(78)
Administration and general overheads	(610)	142	0	0	10	(5)	0	0	(463)
Other operating income	42	0	0	0	0	0	0	0	42
Other operating expenses	(60)	0	20	0	0	0	0	0	(40)
Result from operating activities (EBIT)	901	142	24	0	22	(5)	11	0	1,095
Financial income	12	0	0	0	0	0	0	0	12
Financial expenses	(106)	0	0	0	0	0	0	0	(106)
Net financial result	(94)	0	0	0	0	0	0	0	(94)
Share of loss of associates/joint ventures	(4)	0	0	0	0	0	0	4	0
Profit before income taxes	803	142	24	0	22	(5)	11	4	1,001
Income taxes ³	(71)	(12)	(2)	0	(2)	0	(1)	0	(88)
Profit from continuing operations	732	130	22	0	20	(5)	10	4	913
Profit / (loss) from discontinued operations, net of income taxes	139	12	13	(3)	3	33	3	4	204
Profit for the period	871	142	35	(3)	23	28	13	8	1,117
Non-controlling interests	(2)	0	0	0	0	0	0	0	(2)
Profit for the period, attributable to the equity holders of the parent	869	142	35	(3)	23	28	13	8	1,115
Number of Shares Basic	74,403,508								74,403,508
Number of Shares Diluted	74,709,049								74,709,049
Earnings per share for profit from continuing operations attributable to equity holders of the parent:									
Basic earnings per share									
- EPS basic (CHF)	9.81								12.24
Diluted earnings per share									
- EPS diluted (CHF)	9.77								12.19
Earnings per share for profit attributable to equity holders of the parent:									
Basic earnings per share									
- EPS basic (CHF)	11.68								14.99
Diluted earnings per share									
- EPS diluted (CHF)	11.63								14.92

¹ Impairment charges primarily relate to production assets in Nansha (Continuing business) and Visp/Kourim (discontinued operations)

² Discontinued operations:

- Mainly includes carve-out and divestiture costs related to Specialty Ingredients (CHF 35 million before taxes)

³ Tax impact calculated based on the estimated average Group tax rate on continuing operations of: 8.8%

Reconciliation of IFRS Results to CORE Results 2019

Million CHF	IFRS results	Amortization of intangible assets from acquisitions	Impairments ²	Reversal of impairments	Restructuring costs/income	Income/expense resulting from acquisition and divestitures ³	Environmental-related expenses	Other	CORE results (restated) ¹
Sales	4,207	0	0	0	0	0	0	0	4,207
Cost of goods sold	(2,444)	0	0	(5)	3	0	17		(2,429)
Gross profit	1,763	0	0	(5)	3	0	17	0	1,778
Marketing and distribution	(201)	0	0	0	0	0	0	0	(201)
Research and development	(76)	0	0	0	1	0	0	0	(75)
Administration and general overheads	(650)	150	0	0	5	45	0	0	(451)
Other operating income	47	0	0	0	0	0	0	0	47
Other operating expenses	(58)	0	3	0	0	0	0	0	(55)
Result from operating activities (EBIT)	825	150	3	(5)	9	45	17	0	1,044
Financial income	20	0	0	0	0	0	0	0	20
Financial expenses	(124)	0	0	0	0	5	0	0	(119)
Other investment income/(loss)	0	0	0	0	0	0	0	0	0
Net financial result	(104)	0	0	0	0	5	0	0	(99)
Share of profit / (loss) of associates / joint ventures	(2)	0	0	0	0	0	0	2	0
Gain on sale of assets held for sale	0	0	0	0	0	0	0	0	0
Profit before income taxes	719	150	3	(5)	9	50	17	2	945
Income taxes ⁴	(71)	(15)	0	0	(1)	(5)	(2)	0	(94)
Profit from continuing operations	648	135	3	(5)	8	45	15	2	851
Profit / (loss) from discontinued operations, net of income taxes	(2)	17	10	(2)	20	121	3	0	167
Profit for the period	646	152	13	(7)	28	166	18	2	1,018
Non-controlling interests	(1)	0	0	0	0	0	0	0	(1)
Equity holders of the parent	645	152	13	(7)	28	166	18	2	1,017
Number of Shares Basic	74,109,308								74,109,308
Number of Shares Diluted	74,564,802								74,564,802
Earnings per share for profit from continuing operations attributable to equity holders of the parent:									
Basic earnings per share									
- EPS basic (CHF)	8.73								11.47
Diluted earnings per share									
- EPS diluted (CHF)	8.68								11.40
Earnings per share for profit attributable to equity holders of the parent:									
Basic earnings per share									
- EPS basic (CHF)	8.70								13.72
Diluted earnings per share									
- EPS diluted (CHF)	8.65								13.64

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

² Impairment charges for discontinued operations relate to production assets in Visp and Kourim

³ Income / expense resulting from acquisition and divestitures

Result from operating activities (EBIT):

- Integration cost resulting from the acquisition of Capsugel (CHF 43 Million) and other acquisitions

Net financial result:

- Negative impact from fair value adjustment on contingent purchase price consideration

Discontinued operations:

- Water Care related divestiture expenses

⁴ Tax impact calculated based on the estimated average Group tax rate of: 9.9%

Results at Constant Exchange Rates (CER)

The tables below compare the 2020 financial results based on constant exchange rates (i.e. 2019 exchange rates) with the actual 2019 financial results.

Lonza Group

Million CHF	2020	2019 (restated)	Change in %
Sales	4,711	4,207	12.0
CORE EBITDA	1,456	1,334	9.1
CORE EBITDA margin in %	30.9	31.7	
CORE result from operating activities (EBIT)	1,133	1,044	8.5
CORE EBIT margin in %	24.1	24.8	

Pharma Biotech & Nutrition

Million CHF	2020	2019 (restated)	Change in %
Sales	4,675	4,167	12.2
CORE EBITDA	1,492	1,371	8.8
CORE EBITDA Margin in %	31.9	32.9	
CORE result from operating activities (EBIT)	1,217	1,125	8.2
CORE EBIT margin in %	26.0	27.0	

Corporate

Million CHF	2020	2019 (restated)	Change in %
Sales	36	40	(10.0)
CORE EBITDA	(36)	(37)	(2.7)
CORE result from operating activities (EBIT)	(84)	(81)	3.7

Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

Specialty Ingredients Business (excluding Corporate/carve-out and divestiture costs directly attributable to LSI)

Sales	2020	2019 (restated)	Change in %
CORE EBITDA	1,751	1,693	3.4
CORE EBITDA Margin in %	355	302	17.5
	20.3	17.8	

Net Sales at Constant Exchange Rates

The tables below compare the disaggregated 2020 net sales of Pharma Biotech & Nutrition and Specialty Ingredients segments based on constant exchange rates (i.e. 2019 exchange rates) with the actual 2019 net sales.

Pharma Biotech & Nutrition			
Million CHF	2020	2019	Change in %
Capsules & Health Ingredients	1,229	1,127	9.1
Small Molecules	706	655	7.8
Biologics	2,232	1,959	13.9
Cell & Gene	508	426	19.2
Total Pharma Biotech & Nutrition	4,675	4,167	12.2

Specialty Ingredients (excluding other revenues)			
Million CHF	2020	2019	Change in %
Microbial Control Solutions	1,145	1,031	11.1
Specialty Chemical Services	606	662	(8.5)
Total Specialty Ingredients	1,751	1,693	3.4

Return on Invested Capital from Continuing Operations

Lonza's return on invested capital (ROIC) is defined as net operating profit after taxes (NOPAT) divided by the average invested capital of Lonza Group.

In 2020 and 2019, the development of ROIC by component was as follows:

Components of Net Operating Profit After Taxes for the Year Ended 31 December

Million CHF	2020	2019
CORE result from operating activities (CORE EBIT)	1,095	1,044
Amortization of acquisition-related intangibles assets	(142)	(150)
Share of result of associates / joint ventures	(4)	(2)
Net operating profit before taxes	949	892
Taxes ²	(84)	(88)
Net operating profit after taxes (NOPAT)	865	804
Average invested capital	9,019	8,788
ROIC (in %)	9.6	9.2

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

² Group tax rate on continuing operations of 8.8% for 2020 and 9.9% for 2019

The invested capital represents the average of the monthly balances of the following components:

Components of Average Invested Capital for the Year Ended 31 December

Million CHF	2020	2019 (restated) ¹
CORE net operating assets	3,787	3,251
Goodwill	3,066	3,182
Acquisition-related intangible assets	2,635	2,911
Other assets ²	209	178
Net current and deferred tax liabilities	(678)	(734)
Average invested capital	9,019	8,788

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

² Investments in associates / joint ventures and operating cash

(CORE) RONO/NOA**Reconciliation of NOA to CORE NOA**

Net operating assets (NOA) allow for an assessment of the Group's operating performance independently from financing activities.

NOA contains all operating assets (excluding Goodwill) less operating liabilities and is defined as property, plant and equipment, intangible assets, net working capital and long-term net operating assets minus operating liabilities

CORE NOA adjusts NOA for intangible assets acquired through a business combination.

Reconciliation of NOA to CORE NOA

Million CHF	2020	2019 (restated) ¹
Non-current operating assets excluding goodwill	6,260	5,901
Inventories	1,137	1,069
Trade receivables	761	569
Other operating receivables	310	271
Trade payables	(330)	(341)
Other operating liabilities	(1,727)	(1,303)
NOA	6,411	6,166
Acquisition-related intangible assets	(2,531)	(2,774)
CORE NOA	3,880	3,392

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

Reconciliation of RONO and CORE RONO

RONOA is calculated by dividing the Group's EBIT by the NOA (average). CORE RONO is calculated by dividing the Group's CORE EBIT by the CORE NOA (average).

Reconciliation of RONO and CORE RONO

Million CHF	2020	2019 (restated) ¹
NOA (average) ²	6,423	6,162
EBIT	901	825
RONOA (in %)	14.0	13.4
CORE NOA (average) ²	3,787	3,251
CORE EBIT	1,095	1,044
CORE RONO (in %)	28.9	32.1

¹ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)

² Calculated at historical monthly averages

Statement of Value Added

	Note ¹	2020 Million CHF	2020 %	2019 ² Million CHF	2019 ² %
Origin of value added					
Income from production		4,653		4,365	
Dividend earned		0		0	
Total income		4,653	100.0	4,365	100.0
Services bought from third parties					
Material costs	18	(938)		(923)	
Energy costs	18	(61)		(25)	
Other operating expenses excl. capital taxes		(611)		(658)	
Gross value added		3,043		2,759	
Depreciation on property, plant and equipment as well as amortization on intangibles, impairment/reversal of impairment	6, 7	(475)		(434)	
Income from application of the equity method	9	(4)		(2)	
Total net value added		2,564	55.1	2,323	53.2
Distribution of value added					
To staff:					
- Wages and salaries	19	1,211		1,065	
- Pensions	19	36		40	
- Other social security contributions	19	257		251	
- Other personnel expenses	19	139		119	
Total personnel cost		1,643	64.1	1,475	63.5
To public authorities					
- Income and capital taxes	22	95	3.7	96	4.1
To lenders:					
- Financial expenses, net	21.1, 21.2	94	3.7	104	4.5
To shareholders					
- Dividends paid ³	27	206	8.0	206	8.9
To the company					
- Profit from continuing operations		730		647	
- Dividends paid	27	(204)	20.5	(204)	19.1
To non-controlling interests					
- Profit for the period		2		1	
- Dividends paid		(2)	0.0	(2)	0.0
Total		2,564	100.0	2,323	100.0
Distribution of value added per employee					
		CHF		CHF	
Wages and salaries		75,669		69,057	
Pensions		2,249		2,594	
Other social security contributions		16,058		16,275	
Other personnel expenses		8,685		7,716	
Total per employee		102,662		95,643	

¹ See the accompanying notes to the consolidated financial statements² Prior year results restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statement)³ Including dividend paid to non-controlling interest

Results from Continuing and Discontinued Operations¹

Million CHF	Note ²	2020			2019				
		Continuing operations	Discontinued Operations ³	Lonza Group as reported in 2020	Continuing operations ³	Specialty Ingredients classified as Discontinued Operations ³	Lonza Group excl. Water Care ⁴	Water Care Discontinued Operations (as reported in 2019)	Lonza Group incl. discontinued operations (as reported in 2019)
Sales	2	4,508	1,677	6,185	4,207	1,713	5,920	74	5,994
Cost of goods sold		(2,660)	(1,158)	(3,818)	(2,444)	(1,221)	(3,665)	(57)	(3,722)
Gross profit		1,848	519	2,367	1,763	492	2,255	17	2,272
Marketing and distribution		(235)	(107)	(342)	(201)	(112)	(313)	(12)	(325)
Research and development	23	(84)	(35)	(119)	(76)	(48)	(124)	(1)	(125)
Administration and general overheads ⁶		(610)	(176)	(786)	(650)	(175)	(825)	(9)	(834)
Other operating income	20	42	26	68	47	19	66	0	66
Other operating expenses	20	(60)	(32)	(92)	(58)	(29)	(87)	0	(87)
Result from operating activities (EBIT)⁷		901	195	1,096	825	147	972	(5)	967
Financial income	21.1	12	3	15	20	2	22	0	22
Financial expenses	21.2	(106)	(11)	(117)	(124)	(18)	(142)	(1)	(143)
Net financial result		(94)	(8)	(102)	(104)	(16)	(120)	(1)	(121)
Share of loss of associates/joint ventures	8	(4)	(4)	(8)	(2)	(1)	(3)	0	(3)
Profit before income taxes		803	183	986	719	130	849	(6)	843
Income taxes	22	(71)	(44)	(115)	(71)	(15)	(86)	0	(86)
Profit from operating activities, net of taxes		732	139	871	648	115	763	(6)	757
Loss on sale of discontinued operations		0	0	0	0	0	0	(43)	(43)
Income tax on sale of discontinued operations		0	0	0	0	0	0	(68)	(68)
Profit & (loss) net of tax		732	139	871	648	115	763	(117)	646
Attributable to:									
Equity holders of the parent		730	139	869	647	115	763	(117)	645
Non-controlling interest		2	0	2	1	0	0	0	1
Profit for the period		732	139	871	648	115	763	(117)	646
Basic earnings per share (in CHF)	27	9.81	1.87	11.68	8.73	1.55	10.28	(1.58)	8.70
Diluted earnings per share (in CHF)	27	9.77	1.86	11.63	8.68	1.55	10.23	(1.58)	8.65

¹ For the year ended 31 December² See the accompanying notes to the consolidated financial statements³ Restated to reflect the classification of the Specialty Ingredients business as discontinued operations (see note 5 of the Group's consolidated financial statements)⁴ Reported as continuing operations in 2019⁵ 2020 contains an operating expense (CHF 2 million) and an income tax gain (CHF 1 million) related to Water Care⁶ Includes the amortization of acquisition-related intangible assets (continuing operations 2020: CHF 142 million, 2019: CHF 150 million; discontinued operations: 2020: CHF 13 million, 2019: CHF 19 million)⁷ Result from operating activities (EBIT) excludes interest income and expenses as well as financial income and expenses that are not interest related (see note 2) and Lonza's share of profit / loss from associates and joint ventures

Legal Disclaimer

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,” “guidance,” “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.

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