Half-Year Report 2020

Lonza

Lonza’s Pharma Biotech Business Drives Strong H1 2020 Group Sales Growth and Margin Improvement

Half-Year 2020 Results

Comparison vs. Half-Year 2019 (Continuing Business[1])

Lonza Group

3,074 mn	**893 mn**	**29.1 %**
Sales (CHF) + 7.7 %[2]	CORE EBITDA (CHF) + 7.9 %	CORE EBITDA Margin + 130 bps

Pharma Biotech & Nutrition

2,226 mn	**760 mn**	**34.1 %**
Sales (CHF) + 10.8 %[2]	CORE EBITDA (CHF) + 9.7 %	CORE EBITDA Margin + 90 bps

Specialty Ingredients

819 mn	**161 mn**	**19.7 %**
Sales (CHF) + 0.1 %[2]	CORE EBITDA (CHF) - 1.2 %	CORE EBITDA Margin + 70 bps

1 All financial information referring to "continuing business" in 2019 are exclusive of the Water Care business, that was sold in February 2019 and reported as discontinued operations
2 All sales growth figures, expressed as a percentage (%), are at a constant exchange rate (CER)

Contents

Strong operational performance maintained during COVID-19; sites remained open and protection of employees continues to be top priority

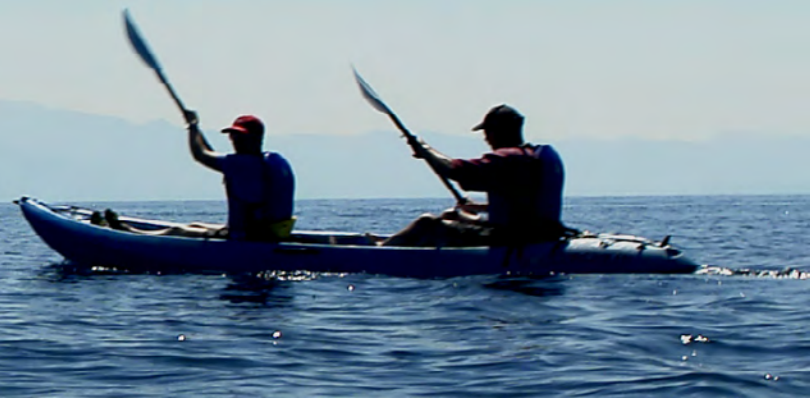
Landmark ten-year collaboration with Moderna on the mRNA[1] platform. The current focus is to manufacture an mRNA-based vaccine (mRNA-1273) for the novel coronavirus

Group sales growth of 7.7%[2] and resilient CORE EBITDA margin of 29.1%

Growth driven by Pharma Biotech & Nutrition (LPBN) segment which delivered 10.8%[2] sales growth and CORE EBITDA margin of 34.1%

Specialty Ingredients (LSI) delivered flat sales growth alongside an increased CORE EBITDA margin of 19.7%

LSI carve-out is nearing completion, with some activities left to undertake. In this context, Lonza has decided to divest the business through a sale process, to be initiated in H2



1 Messenger RNA (mRNA) is a type of Nucleic Acid. An mRNA molecule carries the instructions from the genetic code (DNA) to be transcribed into proteins
2 All sales growth figures, expressed as a percentage (%), are at a constant exchange rate (CER)

Dear Stakeholders,

In H1 2020, the COVID-19 pandemic has led to an extraordinary time of uncertainty and concern for many businesses and industries. During this time, Lonza Group has worked diligently to support the delivery of drug substance and services for essential medical treatments and disinfection solutions at a time when the need has never been greater. While continuing to serve our customers by maintaining our operations, we have focused on employee safety as a top priority. We have introduced new measures and working practices at short notice, to ensure that every employee remains protected from the risk of infection. In return, our employees have shown unwavering commitment and perseverance in delivering for our customers and our business.

The dedication and diligence of our workforce has paid off, as Lonza has managed to maintain business continuity, with nearly all manufacturing sites remaining open to date. The business has also delivered a strong set of H1 financial results. Group sales growth hit 7.7%[1], with a resilient CORE EBITDA margin of 29.1%, despite the challenges arising from the pandemic. This result was driven by the Lonza Pharma Biotech & Nutrition (LPBN) Segment, which delivered 10.8%[1] sales growth and a CORE EBITDA margin of 34.1%. Lonza Specialty Ingredients (LSI) delivered flat sales growth alongside an increased CORE EBITDA margin of 19.7%.

The LPBN segment has received support requests for a series of programs relating to the COVID-19 pandemic. In H1 2020, the segment announced a ten-year collaboration with Moderna. If clinical tests deliver positive results and regulatory approval is received, Lonza will support the commercial manufacture of the Drug Substance for a COVID-19 vaccine using the mRNA-based technology platform. This has required a focus of energy, effort and investment from both Lonza and Moderna. The collaboration has progressed at "pandemic speed", with technology transfer already complete, and the first mRNA GMP batch expected to be delivered in our Portsmouth (USA) facility at the end of July 2020.

In the LSI segment, we continued to make positive progress in the carve-out. We have now reached the final stages of the carve-out process. All employees have already been allocated to each of the two segments, and placed into the corresponding newly-established legal entities. We have also transferred our operational processes and data (including assets, inventories, creditors and debtors) to the new legal entities, alongside the relevant commercial contracts. There are still some remaining areas and geographies that require attention as we move towards the completion of the carve-out process.

As the carve-out nears completion, we have reviewed strategic options for the long-term future of the LSI business. On 23 July 2020, the Board of Directors decided to divest the LSI segment via a sale process, which will be initiated in H2 2020. This is a strong time for buyers, as we see improvements in the debt financing market and a confident recovery in the equity markets. Moreover, the LSI business has proved its value as a highly profitable specialty chemicals business with a leading position across a range of attractive end markets. It has also demonstrated resilience in the challenging market conditions arising from the COVID-19 pandemic. Once the sale is completed, Lonza will become a pure-play pharma and biotech company. The sale will provide an opportunity to focus our attention and resources on building our leadership in this space, while delivering optimal value and growth for our shareholders.

As we look to H2, we are pleased to confirm our Outlook for full-year 2020 at above mid-single digit sales growth and a stable level of CORE EBITDA margin. However, all forecasts should be heavily caveated at this time of unique global uncertainty, when the business world must continue to expect the unexpected. In this context, all forecasts are inevitably subject to higher levels of uncertainty.

Finally, I would like to take this opportunity to thank our investors and customers for their continuing confidence and trust. I would also like to thank our employees for their outstanding work in the face of the uncertainties we have encountered as a result of the COVID-19 pandemic in H1. Our H1 performance is a testament to their capability and commitment.

Sincerely,

Albert M. Baehny
Chairman of the Board of Directors and Chief Executive Officer (CEO) *ad interim*

1 All sales growth figures, expressed as a percentage (%), are at a constant exchange rate (CER)

Financial Highlights

For the Six Months Ended 30 June

IFRS Results (Continuing Business[1]) million CHF		2020	Change in %	2019
Sales		3'074	3.3	2'976
EBITDA		886	12.6	787
Margin in %		28.8		26.4
Result from operating activities (EBIT)		618	21.4	509
Margin in %		20.1		17.1
Profit for the period		478	21.6	393
EPS basic	CHF	6.42	21.4	5.29
EPS diluted	CHF	6.39	21.5	5.26

CORE Earnings[2] (Continuing Business[1]) million CHF		2020	Change in %	2019
CORE EBITDA		893	7.9	828
Margin in %		29.1		27.8
Result from operating activities (CORE EBIT)		706	9.8	643
Margin in %		23.0		21.6
CORE Profit for the period		556	6.9	520
CORE EPS basic	CHF	7.47	6.7	7.00
CORE EPS diluted	CHF	7.44	6.9	6.96
CORE RONOA in %		29.7	(3.3)	30.7

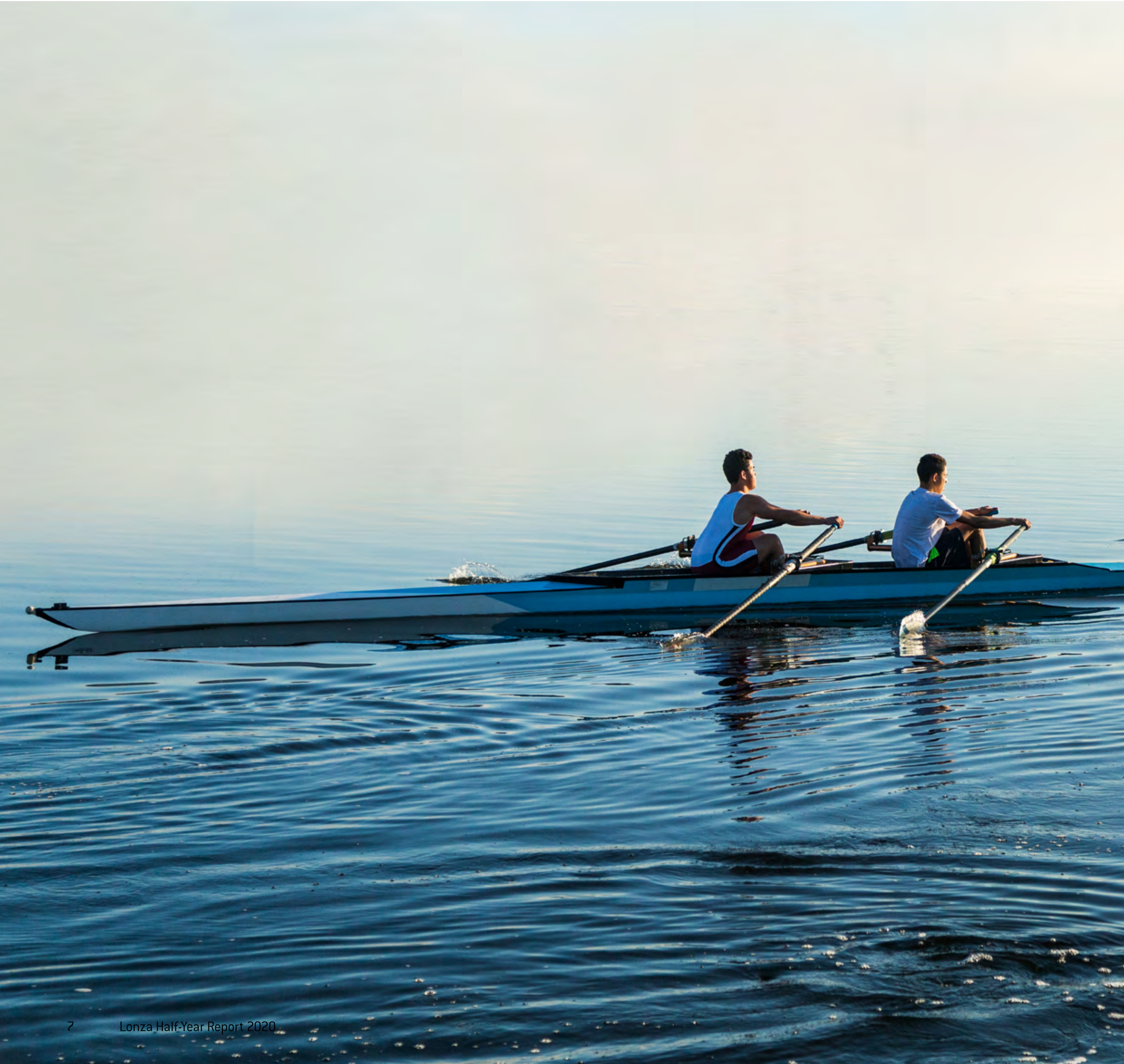
Other Performance Measures (Continuing Business[1]) million CHF	2020	Change in %	2019
Operational free cash flow (before acquisitions and divestitures)	230		17
Operational free cash flow	230		637
ROIC in %	9.8	4.3	9.4
RONOA in %	16.2	18.2	13.7
Number of employees (full-time equivalent)	15'913	8.3	14'700

Other Performance Measures (Lonza Group incl. Discontinued Operations) million CHF	2020	Change in %	2019
Operational free cash flow (before acquisitions and divestitures)	230		(65)
Operational free cash flow	230		555
Net debt	3'143	(5.7)	3'334
Debt-equity ratio	0.48	(9.4)	0.53
Net Debt / CORE EBITDA ratio[3]	1.87	(11.8)	2.12
Number of employees (full-time equivalent)	15'913	8.3	14'700

1 All financial information referring to "continuing business" in 2019 are exclusive of the Water Care business, that was sold in February 2019 and reported as discontinued operations
2 In the CORE results for the items "EBITDA," "Result from operating activities (EBIT)," "Profit for the period" and "Earnings per share," the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring, environ- mental remediation, acquisitions and divestitures are eliminated. "CORE RONOA" does not include acquisition- related intangible assets (see note 2 "Supplementary Financial Information" of this report on page 24)
3 Net debt/CORE EBITDA is calculated based on the CORE EBITDA of the last twelve months

Pharma Biotech & Nutrition
Segment

For the Six Months Ended 30 June million CHF	2020	Change in %	2019
Sales	2'226	6.6	2'088
CORE EBITDA	760	9.7	693
Margin in %	34.1		33.2
CORE result from operating activities (EBIT)	634	11.0	571
Margin in %	28.5		27.3



Market and Segment Overview[1]

Inevitably, the segment has experienced some challenges arising from the COVID-19 pandemic. There have been delays to some clinical trials and regulatory approvals. There has also been a drop in demand from academic and research institutes, as laboratories have temporarily closed or refocused activities on projects relating to COVID-19. Furthermore, limitations on contractor resources have caused delays to certain strategic growth projects.

While we have worked diligently to manage these challenges, strong segment performance has been driven by a combination of factors. Our position as a supplier of essential goods and services has allowed us to maintain operations through the pandemic. There has been strong continuing demand across our portfolio of modalities and services, including for programs relating to the COVID-19 pandemic. Investments in Biotech continue unabated and the COVID-19 pandemic has triggered increased consumer interest in nutrition. This has allowed us to maintain the confidence of our customers, resulting in a healthy pipeline of new deals and new customer acquisitions. All of these factors have contributed to strong utilization levels for existing assets, while new assets from growth projects begin to ramp up.

The ***Small Molecules*** business has benefitted from a solid project pipeline in the market. The business signed a series of new multi-year customer contracts, with a high proportion focusing on Active Pharmaceutical Ingredient (API) and Highly Potent API projects compared to H1 2019. Growth projects are on track (including the partnership with AstraZeneca), and the business has shown a high level of capacity utilization. H1 sales were negatively impacted by a product release in the prior year causing a one-time effect. However, full-year sales are currently expected to outpace the previous year. A solid and sustained operating margin has been maintained by a continuing internal focus on cost containment.

The ***Mammalian and Microbial*** business has completed three important new agreements and shows positive pipeline development across modalities. The pandemic only caused minor impacts arising from delays to clinical trials and limited delays to construction activities on new growth initiatives. Generally, challenges to business continuity arising from the COVID-19 pandemic have been actively managed and operations have only been marginally impacted. The business has announced a ten-year collaboration with Moderna on the mRNA platform. The agreement provides for the manufacture of an mRNA-based vaccine for COVID-19 (for more information, see the Chairman's Letter to Stakeholders on page 5). These developments have all contributed to double-digit sales growth and a full-year forecast of continued double-digit growth, accompanied by solid operating margins. Any financial impacts arising from delays to growth initiatives in H1 have been offset with cost management measures.

The ***Cell and Gene Therapy*** business has benefitted from a strong pipeline for both cell and gene therapies alike. Alongside a number of new customers, there is also a strong demand for viral vectors from existing customers. Internally, the business has focused on delivering operational improvements, including on-going process consolidation. Lonza's Cell and Gene centre of excellence in Houston (USA), continues to build capacity to meet increasing levels of demand. The business saw double-digit top-line growth in H1, and this is expected to continue into H2.

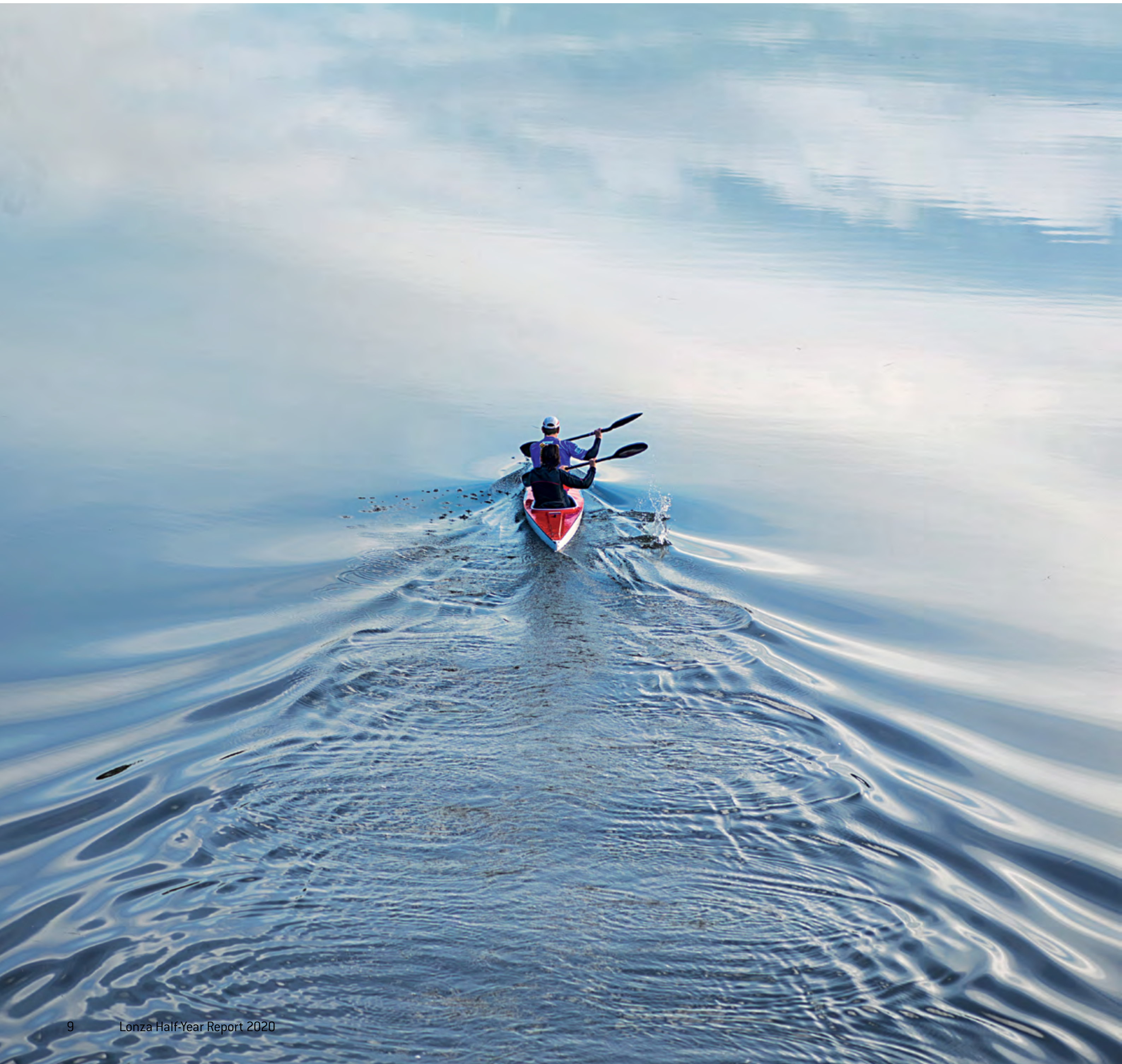
The ***Bioscience*** business has been negatively impacted by the decreased demand for products from academic and research institutes, many of which have temporarily closed in response to the COVID-19 pandemic. However, this impact has been offset by strong sales growth across Media and Testing. Overall, there was a small increase in H1 sales, compared to H1 2019, and the operating margin has been maintained at a constant rate. Furthermore, there is a significant increase in the number of orders being placed for delivery in H2.

The ***Capsules and Health Ingredients*** business benefitted from a strong nutrition market, as the COVID-19 pandemic drove consumer interest in nutritional supplements. There were minimal disruptions to the manufacturing network arising from the pandemic, and the business operated at a high level of capacity utilization to meet increased demand for both nutrition capsules and health ingredients. In contrast, sales for hard pharma capsules were flat. Overall, the business delivered high single-digit sales growth.

1 Comparison versus H1 2019 at a constant exchange rate (CER)

Specialty Ingredients
Segment

For the Six Months Ended 30 June million CHF	2020	Change in %	2019
Sales	819	(4.7)	859
CORE EBITDA	161	(1.2)	163
Margin in %	19.7		19.0
CORE result from operating activities (EBIT)	121	(2.4)	124
Margin in %	14.8		14.4



Market and Segment Overview[1]

The COVID-19 pandemic has driven varying levels of market demand across the LSI portfolio. There has been continued strong demand for products and services in Hygiene, and Home & Personal Care. There has also been increased demand for Vitamin B3 in feed applications. However, there has been comparatively soft demand in areas including Wood Protection, Oil and Gas, Crop Protection and the Composite Materials business.

Across the LSI network, all sites have remained open, except for a small number of the Wood operations. The Hygiene business experienced a temporary shortage of some raw materials for Hygiene Products. There was a temporary planned closure of operations for routine maintenance in Visp (CH), but this work has now been completed and operations have resumed. The segment has also made positive progress towards the completion of the carve-out. In this context, the Lonza business has reviewed strategic options. It was decided by the Board of Directors on 23 July 2020 that Lonza would divest the LSI segment through a sale process, (for more information on the carve-out and sale process, see the Chairman's Letter to Stakeholders on page 5).

Microbial Control Solutions

The Microbial Control Solutions business experienced resilient levels of demand and sales growth across its Professional Hygiene, and Home & Personal Care businesses. This was driven by a surge in demand for products and services to control and contain the spread of the COVID-19 virus.

In contrast, many of the industrial markets experienced challenges arising from the impacts of COVID-19. Wood Protection experienced reduced market demand and some operations were temporarily closed. However, all plants are now operational again, and we are cautiously optimistic about a recovery in H2, following improved sales levels in the month of June.

Paints and Coatings showed negative sales growth compared to H1 2019, but there are signs of a performance recovery in H2, despite the continuing challenges of the market environment. The Material Protection business also experienced decreased levels of demand, driven by the downturn in the oil and gas market and the automotive market. In this business, the pandemic presents a continuing challenge to anticipated sales in H2.

Finally, the Crop Protection business experienced mixed results, with overall performance tracking below the sales levels of H1 2019. The business was negatively impacted by the dry weather in Oceania and South East Asia. However, this challenge was offset to a limited extent by our Molluscicides offering, which tracked sales above H1 2019 levels.

1 Comparison versus H1 2019 at a constant exchange rate (CER)

Specialty Chemical Services

Specialty Chemical Services has experienced mixed performance levels across its businesses in H1 2020. A challenging external environment and a series of one-time effects have resulted overall in negative sales growth.

The Composites business experienced a softer level of demand in electronics, alongside delayed projects in civil aviation. However, this was partially offset by robust sales of DETDA[2] for industrial applications.

There was an equally mixed picture in the CDMO business. A stable sales level in the Chemical business was accompanied by a higher utilization rate for the multipurpose plant in Visp (CH). However, this performance was offset by weaker sales levels in the fermentation business. Taking into account these continuing issues, we currently anticipate that performance will remain stable into H2.

Within Specialty Chemical Services, the Performance Chemical Intermediates business was the most resilient to the challenges of the COVID-19 pandemic. Business performance was supported by high demand for Vitamin B3, partially caused by stock building activities for feeding applications. Performance was also supported by the price recovery of Vitamin B3 from low levels in 2019. More generally, all sites have continued operations without disruption and the business has not experienced any raw material shortages.

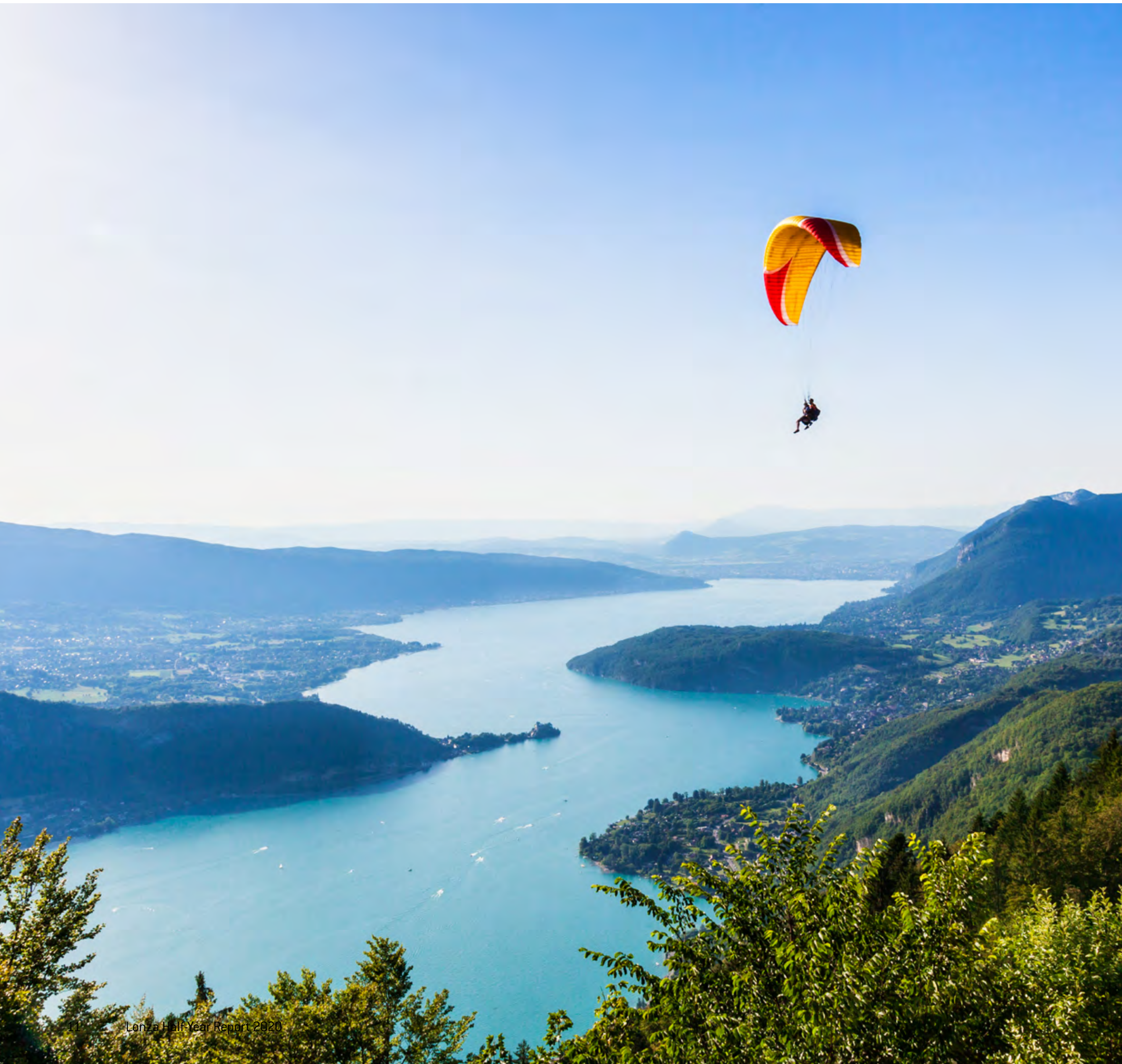
2 Lonzacure® DETDA 80 is an Aromatic diamine curative (liquid) for polyurea and polyurethane/polyurea hybrid formulations based on diethyl toluene diamine.

Outlook 2020

The following Outlook for full-year 2020 is provided for Lonza Group

- **Above mid single-digit sales growth**
- **Stable CORE EBITDA margin**

Outlook 2020 is based on the present business composition, existing visibility and constant exchange rates. Inevitably, the 2020 full-year Outlook is subject to higher levels of uncertainty because of the unpredictable nature of the current macroeconomic environment.



Corporate

For the Six Months Ended 30 June million CHF	2020	2019
Sales	29	29
CORE EBITDA	(28)	(28)
CORE result from operating activities (EBIT)	(49)	(52)

Condensed Interim Financial Statements

Condensed Consolidated Balance Sheet at 31 December 2019 and 30 June 2020 (unaudited) million CHF	2020	2019
Total non-current assets	**10'819**	**10'801**
Current assets	2'543	2'506
Cash and cash equivalents	557	505
Assets held for sale[1]	28	29
Total current assets	**3'128**	**3'040**
Total assets	**13'947**	**13'841**
Equity attributable to equity holders of the parent	6'472	6'494
Non-controlling interests	69	71
Total equity	**6'541**	**6'565**
Non-current liabilities	1'984	1'835
Non-current debt	3'486	2'766
Total non-current liabilities	**5'470**	**4'601**
Current liabilities	1'606	1'901
Current debt	330	774
Total current liabilities	**1'936**	**2'675**
Total liabilities	**7'406**	**7'276**
Total equity and liabilities	**13'947**	**13'841**

1 Assets held for sale in 2020 and 2019 relate to land in Guangzhou

Condensed Consolidated Income Statement for the Six Months Ended 30 June (unaudited) million CHF		2020	2019
Sales		**3'074**	**2'976**
Cost of goods sold		(1'851)	(1'828)
Gross profit		**1'223**	**1'148**
Operating expenses		(605)	(639)
Result from operating activities (EBIT)[2]		**618**	**509**
Net financial result		(50)	(64)
Share of loss from associates/joint ventures		(4)	(3)
Profit before income taxes		**564**	**442**
Income taxes		(86)	(49)
Profit from continuing operations		**478**	**393**
Profit / (loss) from discontinued operations, net of tax		0	(93)
Profit for the period		**478**	**300**
Attributable to:			
Equity holders of the parent		477	299
Non-controlling interests		1	1
Profit for the period		**478**	**300**
Earnings per share for profit from continuing operations attributable to equity holders of the parent			
Basic earnings per share – EPS basic	CHF	6.42	5.29
Diluted earnings per share – EPS diluted	CHF	6.39	5.26
Earnings per share for profit attributable to equity holders of the parent			
Basic earnings per share – EPS basic	CHF	6.42	4.03
Diluted earnings per share – EPS diluted	CHF	6.39	4.01

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

Condensed Consolidated Statement of Comprehensive Income for the Six Months Ended 30 June (unaudited) million CHF	2020	2019
Profit for the period	**478**	**300**
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Re-measurements of net defined benefit liability	(114)	(66)
Income tax on items that will not be reclassified to profit or loss	26	12
	(88)	(54)
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	(161)	(71)
Reclassification of foreign currency difference on loss of control	0	13
Cash flow hedges – effective portion of changes in fair value	(21)	(13)
Income tax on items that are or may be reclassified to profit or loss	4	1
	(178)	(70)
Other comprehensive income for the period, net of tax	**(266)**	**(124)**
Total comprehensive income for the period	**212**	**176**
Total comprehensive income attributable to:		
Equity holders of the parent	214	175
Non-controlling interests	(2)	1
Total comprehensive income for the period	**212**	**176**

Condensed Consolidated Cash Flow Statement for the Six Months Ended 30 June (unaudited) million CHF	2020	2019
Profit for the period	**478**	**300**
Adjustment for non-cash items	418	532
Income tax and interest paid	(79)	(118)
(Increase)/decrease of net working capital	(300)	(491)
Use of provisions	(22)	(24)
(Increase)/decrease of other payables, net	(61)	(33)
Net cash provided by operating activities	**434**	**166**
Purchase of property, plant & equipment and intangible assets	(416)	(308)
Disposal of subsidiaries, net of cash disposed of	0	620
Increase in loans and advances	(42)	(30)
Net purchase of other assets and disposals	(15)	(16)
Interest and dividend received	3	3
Net cash provided by / (used for) investing activities	**(470)**	**269**
Issuance of straight bonds	820	0
Repayment of straight bond	0	(300)
Repayment of term loan	(526)	0
Increase / (decrease) in debt	16	64
Payment of lease liabilities	(18)	(15)
Prepayment of leases	(21)	0
Increase in other non-current liabilities	84	2
Capital injection from owners of the non-controlling interests	2	1
Purchase of treasury shares	(46)	(48)
Dividends paid[1]	(207)	(206)
Net cash provided by / (used for) financing activities	**104**	**(502)**
Effect of currency translation on cash	(16)	(2)
Net increase in cash and cash equivalents	**52**	**(69)**
Cash and cash equivalents at 1 January	505	482
Cash and cash equivalents at 30 June	**557**	**413**

1 Includes dividends of CHF 2 million (2019: CHF 2 million) paid to non-controlling interests shareholders of a subsidiary

Condensed Consolidated Statement of Changes in Equity for the Six Months Ended 30 June (unaudited)	Attributable to equity holders of the parent							Non-controlling interests	Total equity
million CHF	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
Six Months Ended 30 June 2019									
Balance at 1 January 2019	**74**	**3'314**	**3'468**	**(11)**	**(556)**	**(71)**	**6'218**	**72**	**6'290**
Profit for the period	0	0	299	0	0	0	299	1	300
Other comprehensive income, net of tax	0	0	(54)	(12)	(58)	0	(124)	0	(124)
Total comprehensive income for the period	**0**	**0**	**245**	**(12)**	**(58)**	**0**	**175**	**1**	**176**
Dividends	0	0	(204)	0	0	0	(204)	(2)	(206)
Capital injection from owners of the non-controlling interests	0	0	0	0	0	0	0	1	1
Recognition of share-based payments	0	0	27	0	0	0	27	0	27
Movements in treasury shares	0	0	(61)	0	0	19	(42)	0	(42)
Balance at 30 June 2019	**74**	**3'314**	**3'475**	**(23)**	**(614)**	**(52)**	**6'174**	**72**	**6'246**
Six Months Ended 30 June 2020									
Balance at 1 January 2020	**74**	**3'314**	**3'881**	**(17)**	**(707)**	**(51)**	**6'494**	**71**	**6'565**
Profit for the period	0	0	477	0	0	0	477	1	478
Other comprehensive income, net of tax	0	0	(88)	(18)	(157)	0	(263)	(3)	(266)
Total comprehensive income for the period	**0**	**0**	**389**	**(18)**	**(157)**	**0**	**214**	**(2)**	**212**
Dividends	0	0	(205)	0	0	0	(205)	(2)	(207)
Capital injection from owners of the non-controlling interests	0	0	0	0	0	0	0	2	2
Recognition of share-based payments	0	0	17	0	0	0	17	0	17
Movements in treasury shares	0	0	(93)	0	0	45	(48)	0	(48)
Balance at 30 June 2020	**74**	**3'314**	**3'989**	**(35)**	**(864)**	**(6)**	**6'472**	**69**	**6'541**

Selected Explanatory Notes

1 Basis of Preparation of Financial Statements and Changes to Group's Accounting Policies

These condensed consolidated financial statements are the unaudited, interim consolidated financial statements (hereafter "the interim financial statements") of Lonza Group Ltd and its subsidiaries (hereafter "the Group") for the six-month period ended 30 June 2020 (hereafter "the interim period"). They are prepared in accordance with the International Accounting Standard 34 (IAS 34) "Interim Financial Reporting". These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2019 (hereafter "the annual financial statements") as they provide an update of the previously reported information. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. The interim financial statements do not include all of the information required for a complete set of IFRS financial statements.

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

On 1 November 2018, Lonza entered into a definitive agreement with Platinum Equity to sell Lonza's Water Care business and operations. The sale of the former Water Care business and operations was completed on 28 February 2019. The results of the Water Care business in 2019 were disclosed separately in the consolidated income statement as discontinued operations. Therefore, all income statement related notes referring to "continuing business" are exclusive of the results from the Water Care business for 2019.

New Standards, Interpretations and Amendments

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

2 Impact from COVID-19

There is no major financial impact on Lonza's financial performance for the six-month period ended 30 June 2020. Lonza's businesses experienced positive and negative impacts arising from the COVID-19 pandemic, but overall operations and product demand remained very stable and strong. Mitigating actions helped to ensure minimal disruption to supply chain.

However, it is not possible at the moment to estimate the potential financial impact of COVID-19 for the full year 2020, as it depends on various factors which currently cannot be predicted (such as the extent and duration of the pandemic, the impact on customers and suppliers, etc.).

Cash collections continue to be according to normal trade terms, and days of trade receivables outstanding remain at normal levels. The Group has not experienced any liquidity or cash flow shortages during the first half of 2020. In addition, Lonza successfully issued debt instruments at favorable market terms (see note 5).

Consequently, Management believes Lonza is well positioned to meet its ongoing financial obligations and has sufficient liquidity to support the normal business activities.

3 Exchange Rates

Balance Sheet period-end rate CHF	30.06.2020	31.12.2019
US dollar	0.95	0.97
Pound sterling	1.17	1.27
Euro	1.07	1.09

Income Statement Half-Year average rate CHF	2020	2019
US dollar	0.97	1.00
Pound sterling	1.22	1.29
Euro	1.06	1.13

4 Operating Segments

The two operating segments are described as follows:

Pharma Biotech & Nutrition

In 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 segment operates two businesses: Microbial Control Solutions and Specialty Chemical Services.

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.

Six Months Ended 30 June 2020 million CHF	Pharma Biotech & Nutrition	Specialty Ingredients	Total Operating Segments	Corporate / Eliminations[1]	Total Group
Sales third-party	2'226	819	3'045	29	3'074
Inter-segment sales	16	22	38	(38)	0
Total sales	2'242	841	3'083	(9)	3'074
Result from operating activities (EBIT)[2]	558	110	668	(50)	618
Return on sales %	25.1	13.4	21.9	n.a.	20.1

Six Months Ended 30 June 2019 million CHF	Pharma Biotech & Nutrition	Specialty Ingredients	Total Operating Segments	Corporate / Eliminations[1]	Total Group
Sales third-party	2'088	859	2'947	29	2'976
Inter-segment sales	4	18	22	(22)	0
Total sales	2'092	877	2'969	7	2'976
Result from operating activities (EBIT)[2]	497	84	581	(72)	509
Return on sales %	23.8	9.8	19.7	n.a.	17.1

1 The "Corporate / Eliminations" column represents the corporate function, including eliminations for reconciliation of the Group total

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

Disaggregation of Third Party Revenues

Lonza derives revenue in its business models of Contract Development and Manufacturing (including related services and licenses) and sale of products. These business models and the markets Lonza operates in are the basis to disaggregate 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 typically provides a range of product and manufacturing services, over the whole range from research to commercial supply. Lonza supports customer research activities as well as the whole life cycle of a customer product from development of a drug substance to commercial supply. Lonza concluded that the revenues of the Pharma Biotech & Nutrition segment shall not be further disaggregated.

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 delivers future-proof Microbial Control technologies and related applications to consumer facing and resource protection markets.
- Specialty Chemical Services is an asset-driven business with attractive growth levels in technically demanding industries and applications, as well as capabilities in custom development and manufacturing.

The table below shows the segment information provided to the Group's Executive Committee and also illustrates the disaggregation of recognized revenues for the six-month period ended 30 June:

million CHF	2020	2019
Pharma Biotech & Nutrition	2'226	2'088
Specialty Ingredients	819	859
Microbial Control Solutions	524	514
Specialty Chemicals Solutions	295	345
Other Revenues	29	29
Total Group	3'074	2'976

5 Debt

In 2020 Lonza issued the following debt instruments:

- Straight bond of CHF 300 million, due on 28 April 2023 (coupon: 1 % p.a.)
- Eurobond of EUR 500 million, due on 21 April 2027 (coupon: 1.625% p.a.)

The proceeds from the Eurobond were primarily used for the repayment of the EUR 500 million term loan tranche.

6 Financial Instruments

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

million CHF	Carrying amount 30. 06. 2020	Fair value 30. 06. 2020	Carrying amount 31. 12. 2019	Fair value 31. 12. 2019
Financial assets at amortized cost				
Trade receivables, net	774	774	759	759
Other receivables	73	73	73	73
Accrued income	147	147	190	190
Current and non-current loans	116	116	74	74
Cash and cash equivalents	557	557	505	505
Total financial assets amortized at cost	**1'667**	**1'667**	**1'601**	**1'601**
Financial assets at fair value				
Other investments	46	46	24	24
Derivative financial instruments				
– Currency-related instruments	11	11	21	21
Contingent consideration	13	13	20	20
Total financial assets at fair value	**70**	**70**	**65**	**65**
Financial liabilities at amortized cost				
Debt				
Straight bonds[1]	1'742	1'802	914	939
Other debt	2'074	2'074	2'626	2'626
Current and non-current liabilities	907	907	998	998
Trade payables	337	337	453	453
Total financial liabilities at amortized cost	**5'061**	**5'121**	**4'991**	**5'016**
Financial liabilities at fair value				
Derivative financial instruments				
– Currency-related instruments	8	8	8	8
– Interest-related instruments	31	31	17	17
– Commodity-related instruments	8	8	1	1
Contingent consideration	28	28	30	30
Total financial liabilities – measured at fair value through profit and loss	**75**	**75**	**56**	**56**

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

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	30. 06. 2020 Level 1	Level 2	Level 3	Total fair value	31. 12. 2019 Level 1	Level 2	Level 3	Total fair value
Assets								
Other investments	0	46	0	46	0	24	0	24
Derivative financial instruments	0	11	0	11	0	21	0	21
Contingent consideration related to sale of business	0	0	13	13	0	0	20	20
Liabilities								
Derivative financial instruments	0	(47)	0	(47)	0	(26)	0	(26)
Contingent consideration	0	0	(28)	(28)	0	0	(30)	(30)
Net assets and liabilities measured at fair value	**0**	**10**	**(15)**	**(5)**	**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
At 1 January	20
Remeasurement included in the income statement	0
Cash received	(6)
Currency translation effects	(1)
At 30 June	13

The 2017 agreement to sell the Peptides business includes 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 13 million at half-year 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 for the periods presented.

The consideration for the acquisition of Octane Biotech in 2018 also comprised a contingent consideration of USD 30 million which remained unchanged compared to 31 December 2019 (equivalent to CHF 28 million at half-year 2020 exchange rates, which changed by CHF 2 million due to foreign exchange rate differences).

7 Net Financial Result

The net financial result for the six-month period ended 30 June are as follows:

million CHF	2020	2019
Net interest expenses	(24)	(39)
Net interest expenses on defined benefit plan liabilities	(3)	(5)
Interest expenses on IFRS 16 lease liabilities	(4)	(4)
Amortization of debt fees and discounts	(3)	(3)
Foreign exchange rate differences, including impact from currency-related financial derivative instruments	(15)	(3)
Interest related financial derivative instruments	(3)	(1)
Net gains on investments measured at fair value through profit or loss	6	0
Other net financial expenses	(3)	(9)
Net financial result	**(50)**	**(64)**

8 Seasonality of Operations

Lonza businesses operate in businesses where no significant seasonal or cyclical variations in sales are experienced during the reporting period.

9 Dividends Paid

On 28 April 2020, the Annual General Meeting approved the distribution of a dividend of CHF 2.75 (financial year 2018: CHF 2.75) per share in respect of the 2019 financial year. The distribution to holders of outstanding shares totaled CHF 205 million (2019: CHF 204 million). Thereof, CHF 102.4 million have been recorded against retained earnings and CHF 102.4 million have been recorded against reserves from capital contributions of Lonza Group AG.

10 Events After the Balance Sheet Date

On 23 July 2020, the Board of Directors authorized the interim financial statements of Lonza Group Ltd and its subsidiaries for the six-month period ended 30 June 2020 for issue.

On 23 July 2020, the Board of Directors decided to divest the Specialty Ingredients segment via a sale process, which will be initiated in H2 2020.

Lonza will carefully analyze at which point in time the sale of the Specialty Ingredients segments can be considered highly probable in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and will then adapt presentation and accounting accordingly.

Supplementary Financial Information

This Finance Report includes alternative performance measures that are not clearly defined in IFRS (non-GAAP-measures). These supplemental financial measures should not be viewed in isolation or as alternatives to Lonza's consolidated financial position and financial results based on IFRS.

1 Results at Constant Exchange Rates (CER)

The tables below compare the financial results for the six-month period ended 30 June 2020 based on constant exchange rates (i.e. June 2019 exchange rates) with the half-year results 2019.

Lonza Group million CHF	2020	Change in %	2019
Sales	3'204	7.7	2'976
CORE EBITDA	929	12.2	828
Margin in %	29.0		27.8
CORE result from operating activities (EBIT)	736	14.5	643
Margin in %	23.0		21.6

Pharma Biotech & Nutrition million CHF	2020	Change in %	2019
Sales	2'314	10.8	2'088
CORE EBITDA	786	13.4	693
Margin in %	34.0		33.2
CORE result from operating activities (EBIT)	655	14.7	571
Margin in %	28.3		27.3

Specialty Ingredients million CHF	2020	Change in %	2019
Sales	860	0.1	859
CORE EBITDA	174	6.7	163
Margin in %	20.2		19.0
CORE result from operating activities (EBIT)	133	7.3	124
Margin in %	15.5		14.4

Corporate million CHF	2020	2019
Sales	30	29
CORE EBITDA	(31)	(28)
CORE result from operating activities (EBIT)	(52)	(52)

2 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.

CORE results exclude exceptional expenses and income such as restructuring, environmental remediation, acquisitions and divestitures, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance.

Lonza incurred costs of CHF 16 million related to the carve-out of the Specialty Ingredients segment for the six-month period ended 30 June 2020. These costs were not excluded from the Core results presented below.

Following the decision of the Board of Directors to initiate a sales process of the Specialty Ingredients segment, to commence in H2 2020, all the 2020 carve-out related costs will be excluded from the Core results for the full year 2020.

Reconciliation of IFRS results to CORE Half-Year Results 2020 million CHF	IFRS result	Amortization of intangible assets from acquisitions	Impairments	Reversal of impairments	Restructuring costs/income	Income/ expense resulting from acquisition and divestitures	Environmental-related expenses[1]	Other	CORE result
Result from operating activities (EBIT)	618	81	0	0	5	(1)	3	0	706
Net financial result	(50)	0	0	0	0	0	0	0	(50)
Share of loss from associates/joint ventures	(4)	0	0	0	0	0	0	4	0
Profit before income taxes	564	81	0	0	5	(1)	3	4	656
Income taxes[2]	(86)	(12)	0	0	(1)	0	0	(1)	(100)
Profit for the period	478	69	0	0	4	(1)	3	3	556
Non-controlling interests	(1)	0	0	0	0	0	0	0	(1)
Profit for the period, attributable to the equity holders of the parent	477	69	0	0	4	(1)	3	3	555
Number of Shares Basic	74'253'750								74'253'750
Number of Shares Diluted	74'624'787								74'624'787
Earnings per share for profit from continuing operations attributable to equity holders of the parent:									
Basic earnings per share – EPS basic CHF	6.42								7.47
Diluted earnings per share – EPS diluted CHF	6.39								7.44
Earnings per share for profit attributable to equity holders of the parent:									
Basic earnings per share – EPS basic CHF	6.42								7.47
Diluted earnings per share – EPS diluted CHF	6.39								7.44

1 Comprise expenses resulting from environmental remediation for all divested plants and existing sites
2 Tax impact calculated based on average Group tax rate of: 15.3%

Reconciliation of IFRS Results to CORE Half-Year Results 2019 million CHF	IFRS result	Amortization of intangible assets from acquisitions	Impairments	Reversal of impairments	Restructuring costs/income	Income/ expense resulting from acquisitions[1]	Environmental-related expenses[2]	Other	CORE result
Result from operating activities (EBIT)	509	86	12	(5)	21	10	10	0	643
Net financial result	(64)	0	0	0	0	4	0	0	(60)
Share of loss from associates/joint ventures	(3)	0	0	0	0	0	0	3	0
Profit before income taxes	442	86	12	(5)	21	14	10	3	583
Income taxes[3]	(49)	(10)	(1)	2	(2)	(1)	(1)	(1)	(63)
Profit from continuing operations	393	76	11	(3)	19	13	9	2	520
Profit / (loss) from discontinued operations, net of tax	(93)	0	92	0	0	15	0	0	14
Profit for the period	300	76	103	(3)	19	28	9	2	534
Non-controlling interests	(1)								(1)
Profit for the period, attributable to the equity holders of the parent	299	76	103	(3)	19	28	9	2	533
Number of Shares Basic	74'113'650								74'113'650
Number of Shares Diluted	74'527'350								74'527'350
Earnings per share for profit from continuing operations attributable to equity holders of the parent:									
Basic earnings per share – EPS basic CHF	5.29								7.00
Diluted earnings per share – EPS diluted CHF	5.26								6.96
Earnings per share for profit attributable to equity holders of the parent:									
Basic earnings per share – EPS basic CHF	4.03								7.19
Diluted earnings per share – EPS diluted CHF	4.01								7.15

1 Income / expense resulting from acquisition and divestitures
- Capsugel: CHF 9 million for integration-related costs
- Others: CHF 1 million for integration-related costs

Net financial result: CHF 4 million remeasurement of contingent consideration

2 Comprise expenses resulting from environmental remediation for all divested plants and existing sites for projects in excess of CHF 10 million

3 Tax impact calculated based on average Group tax rate of: 11.1%

Reconciliation of EBIT to EBITDA (Continuing Business)

million CHF	2020	2019
Result from operating activities (EBIT)	618	509
Depreciation of property, plant and equipment	174	173
Amortization of intangible assets	94	98
Impairment and reversal of impairment on property, plant, equipment and intangibles	0	7
Earnings before interests, taxes and depreciation (EBITDA)	886	787

Reconciliation of EBITDA to CORE EBITDA (Continuing Business)

million CHF	2020	2019
Earnings before interests, taxes and depreciation (EBITDA)	886	787
Restructuring costs / income	5	21
Income / expense resulting from acquisitions and divestitures	(1)	10
Environmental-related expenses	3	10
CORE EBITDA	893	828

3 Operational Free Cash Flow

For the six-month ended 30 June, the development of operational free cash flow by component was as follows:

Components of operational free cash flow million CHF	2020	Change	2019
Earnings before interests, taxes and depreciation (EBITDA)	**886**	**121**	**765**
Change of operating net working capital[1]	(314)	186	(500)
Capital expenditures in tangible and intangible assets	(416)	(108)	(308)
Disposal of tangible and intangible assets	3	1	2
Change of other assets and liabilities[2]	71	95	(24)
Operational free cash flow (before acquisitions and divestitures)	**230**	**295**	**(65)**
Disposal of subsidiaries	0	(620)	620
Operational free cash flow[3]	**230**	**(325)**	**555**

1 Includes non-cash amortization of current deferred income of CHF 14 million (2019: CHF 9 million), recognized in the income statement through EBITDA
2 Includes in 2019 non-cash amortization of non-current deferred income of CHF 4 million, recognized in the income statement through EBITDA
3 Operational Free Cash Flow represents Lonza Group incl. Discontinued Operations

4 Return on Net Operating Assets (RONOA)

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.

Components of Net Operating Assets and CORE Net Operating Assets for the six-months Period Ended 30 June million CHF	2020	2019
Non-current operating assets excluding goodwill	6'953	6'703
Inventories	1'448	1'360
Trade receivables	774	786
Other operating receivables	253	242
Trade payables	(337)	(381)
Other operating liabilities	(1'433)	(1'310)
NOA	7'658	7'400
Acquisition-related intangible assets	(2'847)	(3'124)
CORE NOA	4'811	4'276

Reconciliation of RONOA and CORE RONOA

RONOA is calculated by dividing the Group's EBIT by NOA (average).
CORE RONOA is calculated by dividing the Group's CORE EBIT by CORE NOA (average).

million CHF	2020	2019
NOA (average)[1]	7'657	7'405
EBIT, annualized[2]	1'236	1'018
RONOA	**16.2%**	**13.7%**
CORE NOA (average)[1]	4'750	4'186
CORE EBIT, annualized[2]	1'412	1'286
CORE RONOA	**29.7%**	**30.7%**

1 Calculated at historical monthly averages of the last twelve months ended 30 June
2 EBIT / CORE EBIT for the six months ended 30 June multiplied by two to reflect a twelve month period

5 Return On Invested Capital from Continuing Operations

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

For the six month ended 30 June, the development of ROIC by component was as follows:

million CHF	2020	2019
CORE result from operating activities (CORE EBIT)	**706**	**643**
Amortization of acquisition-related intangibles assets	(81)	(86)
Share of loss from associates/joint ventures	(4)	(3)
Net operating profit before taxes	**621**	**554**
Taxes[1]	(95)	(61)
Net operating profit after taxes (NOPAT)	**526**	**493**
Net operating profit after taxes (NOPAT), annualized[2]	**1'052**	**986**
Average invested capital	**10'750**	**10'534**
ROIC (in %)	**9.8**	**9.4**

1 Group tax rate of 15.3% for 2020 and 11.1% for 2019
2 NOPAT for the six months ended 30 June multiplied by 2 to reflect a twelve month period

The invested capital represent the average of the monthly balances of the following components for the six months ended 30 June:

million CHF	2020	2019
CORE net operating assets	4'750	4'186
Goodwill	3'602	3'759
Acquisition-related intangible assets	2'907	3'219
Other assets[1]	254	203
Net current and deferred tax liabilities	(762)	(833)
Average invested capital	**10'750**	**10'534**

1 Investments in associates / joint ventures and operating cash

6 Net Debt

The net debt comprises:

million CHF	30 June 2020	31 December 2019	30 June 2019
Debt			
Non-current debt	3'486	2'766	3'147
Current debt	330	774	637
Total debt	**3'816**	**3'540**	**3'784**
Loans and advances			
Non-current loans and advances	(114)	(72)	(33)
Current advances	(2)	(2)	(4)
Cash and cash equivalents	(557)	(505)	(413)
Total loans and advances and cash and cash equivalents	**(673)**	**(579)**	**(450)**
Net debt	**3'143**	**2'961**	**3'334**

Forward-Looking Statements

Lonza Group Ltd has its headquarters in Basel, Switzerland, and is listed on the SIX Swiss Exchange. It has a secondary listing on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Lonza Group Ltd is not subject to the SGX-ST's continuing listing requirements but remains subject to Rules 217 and 751 of the SGX-ST Listing Manual.

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.

There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including the timing and strength of new product offerings; pricing strategies of competitors; the company's ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis.

In particular, the assumptions underlying the Outlook 2020 herein may not prove to be correct. The statements in the section on Outlook 2020 constitute forward-looking statements and are not guarantees of future financial performance.

Lonza's actual results of operations could deviate materially from those set forth in the section on Outlook 2020 as a result of the factors described above or other factors. Investors should not place undue reliance on the statements in the section on Outlook 2020. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this presentation was published.

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