RISK FACTORS

*References in this section to "**Lonza**" refer to Lonza Group AG and references to the "**Lonza Group**" and similar terms refer to Lonza Group AG and its subsidiaries, when discussing events up until the time of the completion of the proposed acquisition (the "**Proposed Acquisition**") of Capsugel S.A. and its subsidiaries ("**Capsugel**"), and Lonza Group as enlarged by the Proposed Acquisition when discussing events or facts that will occur or exist following the completion of the Proposed Acquisition.*

The risks described below may not be the only risks to which Lonza Group or Capsugel are exposed. Additional risks not presently known or currently deemed immaterial, in particular risks related to the Proposed Acquisition and the integration of Capsugel may also impair Lonza Group's business, results of operations and financial condition. The realization of one or more of these risks could individually or together with other circumstances adversely affect Lonza Group's business, results of operations and financial condition. In addition, each of the risks set out below could adversely affect the trading price of securities of Lonza and investors may lose part or all of their investment. The selected sequence of the risk factors mentioned below represents neither a statement about the probability of the risks' realization nor an assessment of the extent of the economic effects or the importance of the risks.

Risks Related to Lonza Group, Capsugel and their Businesses

Adverse developments in worldwide economic conditions could negatively impact Capsugel's and Lonza Group's customers, and therefore have an adverse impact on Lonza Group's business, results of operations, financial condition and prospects.

Worldwide economic conditions impact the industries in which Lonza Group's and Capsugel's direct and indirect customers are active, including the biotech and pharmaceuticals, agrochemicals, water treatment, health, wellness, beauty, nutrition, hygiene and materials protection industries. A weak economic climate in the relevant customer industries may result in lower sales volumes and price decreases for the products, services and technologies supplied by Lonza Group or Capsugel, which in turn may adversely affect its or their results of operations. In addition, certain of Lonza Group's and Capsugel's customers operate in cyclical and volatile industries, which may lead to cyclical and volatile demand for Lonza Group's or Capsugel's products from these customers, sometimes amplified by de- and re-stocking effects. Therefore, Lonza Group's business and results of operations will be sensitive to global and regional economic downturns, credit market tightness, declining consumer and business confidence and spending habits, fluctuating commodity prices, volatile exchange rates, changes in interest rates, sovereign debt defaults, disruptive political changes and other challenges, including those related to international sanctions, acts of aggression or threatened aggression and climate conditions that can affect the global economy.

For the year ended 31 December 2015, North America and Europe accounted for 44.3 per cent. and 35.3 per cent of Lonza Group's sales, respectively. Capsugel's revenues are similarly weighted towards the Americas and the region comprising Europe, the Middle East and Africa ("**EMEA**"), in particular Europe. Accordingly, Lonza Group's results of operations will be particularly affected by macroeconomic conditions in North America and Europe. While the US economy has been growing steadily in recent years, there can be no assurance that this will continue to be the case. In particular, there can be no assurance that actions by central banking authorities or government policies, including those introduced by the new presidential administration in the United States will not have an adverse impact on the US economy. In Europe, while the effects of the sovereign debt crisis in the Eurozone have abated to a certain extent, there can be no assurance that concerns surrounding Greece and other countries in the Eurozone will not reemerge. The vote in favor of Brexit in the United Kingdom in the summer of 2016 has created significant economic uncertainty concerning the UK's future economic relationship with the EU and the economic impact that Brexit and its consequences could have on both. More generally, a rise in nationalist and protectionist sentiment has been noted in the United States, the United Kingdom and a number of other developed economies around the world, raising concerns about economic growth and the future of free trade. Finally, in recent years, various emerging market economies where Lonza Group and Capsugel operate have experienced severe economic and financial disruptions, including significant devaluations of their currencies and low or negative economic growth rates.

If economic conditions in the markets in which Lonza Group sells its products deteriorate, its customers may experience deterioration of their businesses, reduced demand for their products, cash flow shortages and difficulty obtaining financing. As a result, existing or potential customers might delay or cancel plans to purchase products, services or technologies and may not be able to make payments to Lonza Group in a timely fashion or at all. A weakening or reversal of the current recovery in the global economy or a substantial part of it could negatively impact Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group and Capsugel are dependent on, and Lonza Group will be dependent on, the availability of raw materials and any shortages or price increases may lead to production interruptions and/or increases in production costs, and may also limit Lonza Group's ability to grow its business.

Lonza Group's production processes are dependent on the availability of various raw materials, including some active pharmaceutical ingredients ("**APIs**"). Capsugel is also dependent upon the availability of raw materials, including for example some APIs, gelatin and hydroxypropyl methylcellulose ("**HPMC**") for its Biopharmaceutical ("**Biopharma**") and Consumer Health and Nutrition ("**CH&N**") businesses. Each of Lonza Group and Capsugel rely on a number of third-party suppliers and other business partners to provide it with these raw materials and this will continue to be the case in relation to Lonza Group. Although Lonza Group and Capsugel source most of their raw materials from multiple suppliers, some of their raw materials are sourced from either very few suppliers or single suppliers. Supply problems with one or more of these suppliers may lead to specific raw materials becoming unavailable for some time and could jeopardize Lonza Group's business.

Furthermore, Lonza Group may not be able to successfully manage price fluctuations for certain components and materials and increases in the cost of raw materials and semi-finished products that cannot be passed on to customers through corresponding price increases or otherwise compensated for may result in reduced margins for Lonza Group. Even if cost increases are passed on to customers, Lonza Group may face decreased demand and lower sales volumes if customers seek substitutes for Lonza Group's products, services or technologies or if demand for those customers' products is impacted by any price increases that are passed on to end users.

In addition, certain of Lonza Group's and Capsugel's customers supply APIs and health and nutrition product ingredients to Lonza Group and Capsugel which are required for completion of such customers' products. If there are delays in receipt of APIs or health and nutrition product ingredients, or if APIs and health and nutrition ingredients fail to satisfy applicable quality standards, Lonza Group's results of operations may be impacted.

The challenges and risks Lonza Group will face may become even more significant as Lonza Group endeavors to expand its business, requiring additional and new raw materials. Decisions to invest in new production facilities may be delayed due to sourcing and supply chain problems. Lonza Group may also be unable to find or establish relationships with new suppliers in locations where it plans to ramp up production and may otherwise be prevented from growing its business as desired.

In addition to these risks, governmental regulations, environmental laws and regulations, increasing demand for raw materials from competitors and the effects of supplier consolidation may also lead to temporary or permanent shortages of raw materials. Any such shortages may lead to production interruptions, increases in production costs or even structural change within the industries in which Lonza Group operates. Any of the foregoing could have material adverse effects on Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group and Capsugel each spend significant amounts on research and development in order to develop new products, services and technologies and the lack of customer acceptance, any failure to successfully develop such products, services and technologies, or any delays in development, could adversely affect Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group and Capsugel each depend on their continued ability to develop new products, services and technologies and to then successfully commercialize and market such products, services and technologies to their customers. However, Lonza Group's new products, services and technologies may not gain acceptance among its customers, for example due to lack of acceptance among the end-consumers, such as patients, physicians, healthcare payers or the medical community, in general, of the customers' products containing Lonza Group's products, services and technologies. The degree of market acceptance of any new product, service or technology will depend on a number of factors, any of which could cause any new product or technology not to receive market acceptance, including, but not limited to, the effectiveness of Lonza Group's or its customers' marketing strategy, demonstration of the clinical efficacy and safety of the product, service or technology, pricing and cost-effectiveness, shift in patient or consumer preferences, the strength of offerings by competitors of Lonza Group or its customers and the distribution support such offerings receive.

Lonza Group may also fail to successfully expand or improve its portfolio of products, services and technologies or may lack the capacity to invest the required level of human, financial or other resources in the development of new products, services and technologies. In addition, although Lonza Group and Capsugel each seek to maintain close and cooperative relationships with their respective customers, they may be unable to maintain these relationships in the future at a level that would enable Lonza Group to effectively identify customer needs and to develop customized solutions.

Without successful research and development activities, Lonza Group could lose a significant portion of its sales. Lonza Group may commit errors or misjudgments in its planning and may misallocate resources, for instance, by developing products, services and technologies that require large investments in research and development but that are not commercially viable.

Furthermore, Lonza Group's competitors may develop new products, services and technologies, or may improve on existing products, services and technologies to the detriment of Lonza Group. In addition, given the rapidly changing regulatory environment in which Lonza Group will operate, the market for a newly developed product, service or technology may cease to exist. For example, actions by the U.S. Food and Drug Administration ("**FDA**") or other regulators, including the banning of certain ingredients, may render Lonza Group's products, services and technologies obsolete**.** Lonza Group's or Capsugel's customers may also fail to obtain marketing authorization for products as a result of regulatory changes or otherwise. Further, technological developments or improvements in processes may permit competitors to offer products, services and technologies at lower prices or on a faster timetable than Lonza Group. Any of the foregoing could have material adverse effects on Lonza Group's business, results of operations, financial condition and prospects.

Demand for Lonza Group's products, services and technologies within its Pharmaceutical and Biotechnology ("Pharma & Biotech") segment and for Capsugel's products, services and technologies within its Biopharma and CH&N businesses depends, and demand for Lonza Group's products, services and technologies will depend, significantly on their customers' research and development activities and the market success of their products, as well as outsourcing trends in the pharmaceuticals and biotech industries.

Lonza Group's Pharma & Biotech segment engages in the custom development and manufacturing of chemical and biological APIs, advanced cell culture therapies and other life-saving and life-enhancing treatments for its customers. Capsugel's Biopharma and CH&N businesses engage in the development and manufacturing of a wide range of innovative dosage forms. The level of research and development spending of Lonza Group's customers within the Pharma & Biotech segment and Capsugel's customers within the Biopharma and CH&N

businesses may influence Lonza Group's results of operations. Customer spending on research and development is dependent on, among other things, available resources, including relative levels of demand for customers' existing products and the relevant customer's need to develop new products, which is driven by factors such as competitors' research and development initiatives and the anticipated market uptake for specific products. Lonza Group faces risks that:

- Lonza Group's customers may not develop new commercial products incorporating Lonza Group's products, services or technologies, and

- Lonza Group may not be able to successfully develop new products, services or technologies that would be attractive to its existing or future customers.

In addition, consolidation in the industries in which Lonza Group's customers operate may have an impact on such spending as customers integrate acquired operations, including research and development departments, and budgets. A reduction in spending by customers could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Successful research and development of pharmaceutical products is difficult, expensive and time-consuming. Many product candidates fail to reach the market. Lonza Group's success will depend in part on the discovery and the successful commercialization of products by its customers that can utilize Lonza Group's products, services or technologies. However, Lonza Group does not control the efforts of its customers to successfully commercialize their products such as, for example, Lonza Group's customers' decision to invest sufficient capital in those products or to abandon the marketing of those products. If such products fail to reach the commercial market, Lonza Group's revenues will be adversely affected. Lonza Group's ongoing investments in research and development could result in higher costs without a proportionate increase in revenues.

Even if products using Lonza Group's products, services or technologies appear promising during various stages of development, there may not be successful commercial applications developed for them for a number of reasons, including:

- the FDA, the European Medicines Agency ("**EMA**"), the Chinese Food and Drug Administration ("**CFDA**"), the Pharmaceuticals and Medical Devices Agency of Japan ("**PMDA**"), another regulatory body or an institutional review board, or Lonza Group's pharmaceutical customers may delay or halt clinical trials;

- Lonza Group's pharmaceutical customers may face a slower than expected rate of patient recruitment and enrollment in clinical trials;

- Lonza Group's customers' products may be found to be ineffective or cause harmful side effects, or may fail during any stage of pre-clinical testing or clinical trials;

- Lonza Group's customers may find that certain products using Lonza Group's products, services or technologies cannot be manufactured on a commercial scale and, therefore, may not be economical to produce;

- Lonza Group's customers may determine that third-party payers, such as government programs or private insurance plans and healthcare networks, are unwilling or unable to provide coverage and reimbursement at an economically attractive level for products under development; and/or

- products that use Lonza Group’s products or other technologies could fail to obtain regulatory approval or, if approved, fail to achieve market acceptance or be precluded from commercialization by proprietary rights of third parties.

Furthermore, the business models and sales of Lonza Group’s Pharma & Biotech segment and Capsugel’s Biopharma and CH&N businesses depend on outsourcing trends in their respective industries. If the current industry trend towards outsourcing certain drug development, manufacturing and delivery technologies were to slow or reverse, this could adversely affect the sales of Lonza Group’s Pharma & Biotech and Capsugel’s Biopharma and CH&N businesses, which could in turn have a material adverse effect on Lonza Group’s business, results of operations, financial condition and prospects.

Failure to provide quality offerings to customers could have an adverse effect on Lonza Group’s business and could subject it to regulatory actions, product recalls, and costly litigation.

Lonza Group and Capsugel depend on, and Lonza Group will depend on, the ability to execute and improve when necessary their quality management strategies and systems, and effectively train and maintain their employee bases with respect to quality management. Quality management plays an essential role in determining and meeting customer requirements, preventing defects, compliance with current Good Manufacturing Practices (“**cGMP**”) and improving product offerings. While Lonza Group and Capsugel each has, and Lonza Group will have, a network of quality systems applicable across their respective business units and facilities that relate to the design, formulation, development, manufacturing, packaging, sterilization, handling, distribution and labeling of customers’ products, quality and safety issues may occur and have in the past occurred with respect to their offerings.

Lonza Group and Capsugel have each had quality issues at certain of their facilities and any further issues may subject Lonza Group to regulatory actions, including product recalls, product seizures, injunctions to halt manufacture or distribution, restrictions on its operations, or civil sanctions, including monetary sanctions and criminal actions. For example, in May 2016, following its inspections in 2015 and 2016, Swedish authorities withdrew the EU-GMP certificate for Capsugel’s Bend Research facilities citing good manufacturing practices (“**GMP**”) violations, including data integrity issues. In addition, such failure could be the basis for the FDA or an equivalent foreign regulatory authority to issue a warning or initiate other regulatory actions, with respect to other sites of Lonza Group. Quality or safety issues could subject Lonza Group to costly litigation, including claims from customers for reimbursement for the cost of lost or damaged active pharmaceutical ingredients, the cost of which could be significant. Any major quality or regulatory issue with capsule products, for example, could translate into quality or regulatory issues for the customer’s product, potentially resulting in significant damage to the customer’s sales, regulatory compliance standing and reputation.

Lonza Group and Capsugel depend, and Lonza Group will depend, on their ability to secure and maintain profitable long-term commercial relationships and contracts with customers.

Lonza Group and Capsugel depend, and Lonza Group will depend, on their continued ability to secure and maintain profitable long-term commercial relationships and contracts with customers. For example, Lonza Group’s Specialty Ingredients segment in particular depends on contracts with a relatively small number of customers for a large percentage of its revenues. Capsugel, particularly for its hard capsule products, may not always have long term contracts with its customers and may rely instead on maintaining strong commercial relationships with those customers. Unfavorable industry trends, market conditions or regulatory regimes may impede Lonza Group’s ability to secure profitable long-term contracts with existing and new customers, to maintain profitable commercial relationships or to renew existing contracts as they expire. Any difficulties in securing or renewing such contracts or maintaining such strong customer relationships on favorable terms or at all could have an adverse effect on Lonza Group’s business, results of operations, financial condition and prospects.

Lonza Group and Capsugel rely on a limited number of products for a substantial portion of their revenues and any changes in the market for these products could have a material adverse effect on Lonza Group's business, financial condition and results of operations.

Lonza Group relies on a limited number of products for a substantial portion of its revenues. In particular, Lonza Group's Specialty Ingredients segment depends on a relatively small number of products for a large percentage of its revenues. If there is any disruption in the demand for these products, whether as a result of changes in its customer base, alternative products being developed, the entry of significant competitors to the marketplace or otherwise, Lonza Group's business, financial condition and results of operations could be materially and adversely affected. Similarly, a substantial portion of Capsugel's revenues comes from the sale of hard capsules and any technological development or change in consumer preferences that reduces the demand for hard capsules or increases the demand for other dosage forms could negatively impact Lonza Group's results of operations.

Changes in market access or healthcare reimbursement for the products of Lonza Group's and Capsugel's customers in the United States or internationally could adversely affect Lonza Group's business, results of operations, financial condition and prospects.

The US healthcare industry has changed significantly over time and is expected to continue to evolve and potentially experience further disruptive change. Some of these changes, such as ongoing implementation of healthcare reform, adverse changes in governmental or private funding of healthcare products, services and technologies, legislation or regulations governing patient access to care and privacy, or the delivery, pricing or reimbursement approval of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to change the amount of Lonza Group's or Capsugel's offerings they purchase or the price they are willing to pay for such offerings. Changes in the healthcare industry's pricing, selling, inventory, distribution or supply policies or practices could therefore negatively affect Lonza Group's sales. In particular, volatility in individual product demand may result from changes in public or private payer reimbursement or coverage. Any of the foregoing could have a material adverse effect on the business, results of operations, financial conditions or prospects of Lonza Group.

Lonza Group plans to continue to make investments in additional production capacity in order to implement its growth strategy and there can be no assurance that it will achieve the return it expects in connection with these investments.

Production facilities in the industry in which Lonza Group operates require significant capital expenditure and continuous investment in modernization and expansion measures. Lonza Group expects to complete several major investment projects in different regions throughout the world in the near future and is planning to make additional investments in order to expand its existing production facilities. For example, during 2015, Lonza Group intensively reviewed its product mix in microbial custom manufacturing and based on strong market demand, increased its investment in its Visp, Switzerland, facility.

Lonza Group may require additional financial resources to fund its planned investments in the medium to long term, which may be difficult to obtain, or may result in higher costs. Furthermore, it takes time for newly constructed facilities or the expansion of existing facilities to become fully operational, as supply chains need to be established, logistics need to be built up, potential customers need to audit production quality and customer relationships need to be established. Any new facilities or expansions of existing facilities may add significant fixed costs to Lonza Group's cost base and may reduce Lonza Group's margins and profitability over the longer term to the extent such facilities are unable to reach and maintain a sufficiently high rate of utilization.

Lonza Group's actual capital expenditure requirements as result of the Proposed Acquisition may be higher than expected and there can be no assurance that Lonza Group will achieve the return it expects in connection with these investments. Moreover, if Lonza Group misjudges market developments or the life cycles of its products, services and technologies or the products of its customers, or if it underestimates the rate at which its competitors are expanding their production capacity, this may create excess production capacity that cannot be utilized as planned. Any such excess capacity may have negative consequences on product pricing or volumes. In addition, investments in production capacity may be unsuccessful if Lonza Group's products, services and technologies turn out to be uncompetitive or if research and development expenditures fail to generate the anticipated results. Any unnecessary increase in production capacity and any inefficiencies resulting from the expansion of its production capacity could materially decrease Lonza Group's margins and require substantial impairments. Any of the foregoing could have material adverse effects on Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group may face capacity constraints, driven by strong demand, disruptions at its production facilities or other factors, which could compromise its ability to meet customer demand for its products, services and technologies.

Lonza Group may face capacity constraints to the extent it is unable to anticipate customer demand for its products, services and technologies. Lonza Group may also experience disruptions at its production facilities, which could result in shortfalls in production or an increase in Lonza Group's costs. In the case of equipment malfunctions, sterility variances or failures, failure to follow specific protocols and procedures, problems with raw materials, microbial contamination, environmental factors and damage to, or loss of, manufacturing operations due to fire, flood, or other catastrophic events, Lonza Group may be required to halt production of certain batches or products or shut down the affected production facilities. This has in the past led to, and in the future could lead, among other things, to damage to customer relations, lost revenue, increased costs, reimbursements to customers for lost profits, additional time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products.

Any of the foregoing could cause Lonza Group to lose market share, which could have material adverse effects on Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group's markets, in particular those with higher profit margins, may become more intensely competitive, and may be characterized by significant pricing and margin pressure.

Lonza Group and Capsugel each faces, and Lonza Group will face, significant competition in each of its market segments. Competition is driven by proprietary technologies and know-how, as well as quality and performance, consistency, price, ability to scale manufacturing and customer support, such as with regulatory approvals, new product development and marketing.

Lonza Group's markets, in particular those with higher profit margins, may become more intensely competitive, which could lead to significant pricing and margin pressure. Lonza Group believes that the major factors influencing the relative competitive situation of companies in the industries in which Lonza Group will operate are competitors' relative ability to innovate and improve production processes and technologies and deploy research and development expenditures effectively, the results of their efforts to do so and the effects of a range of regional factors on production costs, including lower wages in developing countries, less stringent environmental and labor regulations, and favorable exchange rates.

Lonza Group's existing competitors could intensify efforts to increase their respective market shares by reducing their margin expectations and/or by increasing their capacity, which may result in higher supply and lower price levels, and may enable competitors to offer products, services and technologies at lower prices, leading in turn to downward pressure on Lonza Group's margins. Some of Lonza Group's competitors may be able to manufacture products more economically or may have greater financial resources than Lonza Group, which may enable them to invest significantly more capital into their businesses, including expenditures on research and development. If these investments prove successful, they could result in a competitive disadvantage for Lonza Group.

Furthermore, new competitors may enter the markets in which Lonza Group operates. Generally, both new and existing competitors may offer their products, services and technologies at lower prices to defend or gain market share, which could put pressure on Lonza Group's margins. Changes in exchange rates could also facilitate market entry for competitors with functional currencies other than the Swiss franc or could adversely affect Lonza Group's cost position vis-à-vis its competitors. In addition, competitors could benefit from favorable tax regimes or additional governmental grants and subsidies. Further, substitute products, services and technologies may become more attractive, for example due to a price decrease or better availability of the substitute product, service or technology, and lead to reduced demand for Lonza Group's products, services and technologies.

Lonza Group's business may also be affected by increasing competition at the level of its customers. For instance, competition among Lonza Group's customers may lead to declining prices for their products, which may in turn lead them to pressure Lonza Group to reduce its prices or to discontinue certain products for which Lonza Group provides inputs. This could result in excess capacity at Lonza Group's production facilities and could adversely affect its sales and margins. Any of the foregoing could have material adverse effects on Lonza Group's business, results of operations, financial condition and prospects.

Certain markets in which Lonza Group and Capsugel offer their products and services are, or may become, characterized by a small number of major customers, leading to increased negotiating power among Lonza Group's customers.

Certain markets in which Lonza Group and Capsugel offer their products, services and technologies are characterized by a small number of major customers. Lonza Group's Specialty Ingredients segment in particular depends on contracts with a relatively small number of customers for a large percentage of its revenues. For example, in 2015, Lonza Group's largest customer accounted for 5.5 per cent. of sales and the second, third, fourth and fifth largest customers accounted for 4.2 per cent., 4.1 per cent., 4.0 per cent. and 3.5 per cent. of sales, respectively. Moreover, the markets in which Lonza Group and Capsugel currently operate may evolve, for example as a result of consolidation among customers, which could result in increasing customer concentration. Customer concentration may result in customers using their power to exert pressure on Lonza Group's prices, which could adversely affect its profitability. As a result, any increase in customer concentration could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Changes in foreign exchange rates may have a material adverse effect on Lonza Group's results of operations and may affect demand for its products and services.

Lonza Group is exposed to foreign exchange risk 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 Lonza Group's foreign subsidiaries may vary upon consolidation into the Swiss-franc-denominated Group financial statements (translation exposures). In relation to Lonza Group, foreign exchange risks arise primarily in connection with transactions that are denominated in US dollars, euro and British pounds sterling. Following the acquisition of Capsugel, Lonza Group's exposure to the US dollar and euro will increase significantly.

As a general matter, the effect of foreign exchange fluctuations is minimized through the natural hedge Lonza Group enjoys as a result of its matching of currencies in relation to sales and costs in the jurisdictions in which it operates. In managing its exposure regarding the fluctuation in foreign currency exchange rates, Lonza Group has entered into a variety of currency swaps and forward contracts. Notwithstanding these efforts, however, the strength of the Swiss franc has had an adverse impact on its results of operations in recent periods and may continue to do so.

Furthermore, as a company with many international subsidiaries, certain revenues, costs, assets and liabilities of Capsugel are denominated in currencies other than the U.S. dollar. As a result, changes in the exchange rates of these currencies or any other applicable currencies to the U.S. dollar have in the past affected and will continue to affect Capsugel's revenues, earnings and cash flow and could result in unrealized and realized exchange losses for Lonza Group as well as decreases in the value of Lonza Group's long-term financial instruments such as swaps. Lonza Group will continue to be exposed to the risk of foreign exchange rate fluctuations, and if it is unable to manage this risk effectively, through hedging or otherwise, its business, results of operations, financial condition and prospects could be materially adversely affected.

Chemicals manufacturing, storage, and transportation are inherently hazardous and may lead to personal injury, damage to property or other damage and any hazardous incidents that Lonza Group may face could result in disruptions to its production facilities, claims for damages and fines.

Within its Specialty Ingredients segment, Lonza Group faces risks associated with chemicals manufacturing and the related storage and transportation of raw materials, products and wastes. These risks include, but are not limited to, accidents, explosions, fires, lightning, transport risks, terrorist attacks, natural disasters, mechanical or other operational failure, pipeline leaks and ruptures, storage tank leaks, chemical spills, and other discharges or releases of toxic or hazardous substances or gases. These events could lead to personal injury, loss of life, environmental or property damage, or a material interruption or suspension of operations, and may result in increased mitigation expenses, a reduction in profitability, and the imposition of civil or criminal penalties, including governmental fines, expenses for remediation and claims brought by governmental entities, employees or other third parties. In many jurisdictions, such as in the United States, these risks are amplified by the frequency of class actions and high damages awards.

In addition, the occurrence of any such event could be seriously detrimental to Lonza Group's reputation and could harm its ability to obtain or maintain its existing licenses or its key commercial, regulatory, and governmental relationships. Disruptions at one or more production facilities may also interrupt production further down the production chain and lead to lower volumes and sales, and potentially the loss of market share. The costs associated with any of these events may be substantial and could exceed or otherwise not be covered by Lonza Group's insurance coverage. Furthermore, improper handling of hazardous substances by Lonza Group or its customers may lead to the release of toxic or hazardous substances, which may in turn result in stricter regulation or a prohibition of the use of such substances. Any of the foregoing could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Local conditions, events, adverse weather conditions, natural disasters and terrorist attacks could adversely affect Lonza Group's business.

Lonza Group and Capsugel have manufacturing sites around the world. Their manufacturing operations may be subject to disruptions within or beyond their control, including: adverse local conditions, climate change, adverse weather conditions, floods, fire, natural disaster, civil unrest and terrorist activity. Certain of the countries in which Lonza Group and Capsugel operate, such as Belgium and France, have recently been subject to terrorist attacks, which could affect Lonza Group's operations. Several of the countries in which Lonza Group operates, such as India and Indonesia, are subject to border or internal civil conflicts or unrest, which could also affect Lonza Group's operations. Any disruption of Lonza Group's operations resulting from any of these events or factors could limit its ability to quickly shift production to other sites. For example, capacity constraints or regulatory requirements could cause significant delays in manufacturing and the loss of sales and customers. In addition, Lonza Group could suffer a loss of sales or other negative impact on its business as a result of its customers or suppliers being affected by any of these events.

Lonza Group is subject to risks arising from legal disputes, including contractual claims and product liability claims relating to product defects.

Lonza Group's business may be adversely affected by the detrimental outcome of legal disputes and investigations by government agencies, the outcomes of which are not certain. Litigation risks include, among others, risks in the areas of competition and antitrust law, pharmaceutical law, patent law, tax law, and environmental protection.

In addition, companies in the chemicals and pharmaceuticals industries are subject in particular to the risk of lawsuits, including class actions, alleging negligence, product liability, violations of warranty obligations and other contractual or statutory claims relating to product defects. Such lawsuits may include claims based on personal injury or death alleged to be caused by a product, service or technology of Lonza Group, in particular pharmaceuticals products, or by products incorporating Lonza Group's products, services or technologies which are marketed or distributed by customers of Lonza Group. These lawsuits often involve claims for substantial amounts of damages, including compensation for consequential damage and substantial costs for legal representation. In addition, chemical or pharmaceutical products (drugs and other healthcare products) may be the subject of recalls or patent infringement suits. For this reason, there can be no assurance that extensive claims will not be asserted against Lonza Group in the future or that large scale product recall measures will not be necessary. Lonza Group may not have sufficient insurance to mitigate for such a contingency. Accordingly, Lonza Group cannot assure that the risks inherent to any potential product liability claim or product recall will be mitigated in all circumstances.

Certain countries in which Lonza Group will operate have a special legal framework for pharmaceutical products that could increase the risk of product liability claims being asserted and/or the ultimate costs of defending against such claims. In addition, Lonza Group could incur significant expenses based on product liability claims, other violations of duties of care or contractual provisions, recall measures or penalties imposed for these reasons by public authorities. These events could also adversely affect Lonza Group's reputation and therefore reduce market acceptance of its products.

Certain of Lonza Group's products contain or contained substances that are generally toxic or otherwise hazardous to health. The health of persons, including Lonza Group's employees, who come into contact with such substances or with Lonza Group's products directly or through products of Lonza Group's customers may be impaired, especially as a result of exposure to such hazardous substances, the incorrect use of such products or because of product characteristics that are as yet unknown, and such health impairments may even be life-threatening. These factors, either individually or in aggregate, have resulted and may result in actions being brought against Lonza Group and may have a material adverse effect on its business, results of operations, financial condition and prospects.

The products, services and technologies Lonza Group and Capsugel provide are highly exacting and complex, and if Lonza Group encounters problems providing them or any support that is required, its business could suffer.

The products, services and technologies Lonza Group and Capsugel provide are highly exacting and complex. From time to time, problems may arise in connection with facility operations or during preparation or provision of a product, service or technology, in each case for a variety of reasons including, but not limited to, equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials or environmental factors and damage to, or loss of, manufacturing operations. Such problems could affect production of a particular batch or series of batches, requiring the destruction of product, or could halt facility production altogether. These failures could, among other things, lead to increased costs, lost revenue, damage to customer relations, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before a product is released to the market, recall and product liability costs may also be incurred. In addition, such risks may be greater at facilities that are new or going through significant expansion or renovation.

Tax legislation initiatives or challenges to Lonza Group's tax positions could adversely affect its business, results of operations, financial condition and prospects.

Lonza Group will have operations in EMEA and North America, as well as South America and the Asia Pacific region. As such, it will be subject to the tax laws and regulations of the European and United States federal, state and local governments and of many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect Lonza Group's tax position. There can be no assurance that Lonza Group's effective tax rate or tax payments will not be adversely affected by these initiatives. For example, the anticipated Swiss Corporate Tax Reform III under which certain cantonal tax privileges shall be abolished and certain counter-measures will be introduced may affect Lonza Group. Taking into account the intended cantonal tax rate reductions in case the Corporate Tax Reform III will be accepted by public vote on 12 February 2017, the overall Swiss tax effect per annum for Lonza Group should be slightly negative compared to the current tax burden. In addition, United States federal, state and local, as well as international tax laws and regulations are extremely complex and subject to varying interpretations. There can be no assurance that Lonza Group's tax position will not be challenged by relevant tax authorities or that it would be successful in any such challenge.

In particular, transfer pricing for intercompany transactions may be challenged by local tax authorities, which may result in additional taxes payable and interest or penalties. Most jurisdictions in which Lonza Group operates have transfer pricing regulations that require transactions involving associated companies to be made on arm's length terms. If the tax authorities in any relevant jurisdiction do not regard such intercompany transactions of Lonza Group as being made on an arm's length basis or being properly documented and successfully challenge those arrangements, the amount of tax payable, in respect of both current and previous years, may increase materially and penalties or interest may be payable. The same applies in case of changes in the transfer pricing system, e.g. upon the Proposed Acquisition, which may result in challenges of the past or new set-up.

Any of the foregoing could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group may not be able to adequately protect its intellectual property, proprietary manufacturing technology and know-how.

Lonza Group and Capsugel own a large number of patents and other intellectual property rights which may be invalidated, circumvented or challenged. Although there is a general legal presumption that patents are valid, this does not necessarily mean that a patent or any other intellectual property right will ultimately be upheld as valid or that any related claims can be enforced as necessary or desired. Third parties may infringe on Lonza Group's patents or other intellectual property rights, and Lonza Group may not be able to prevent any such infringement. Furthermore, some of Capsugel's development contracts with customers contain clauses allowing for technology transfer and license of process developed for customers, along with the related know-how and patents, to others, including Capsugel's competitors. If Lonza Group fails to adequately protect its intellectual property rights, technology and know-how, competitors may use such rights, technology and know-how to manufacture and offer similar products or services, which could adversely affect Lonza Group's competitive position and results of operations. In addition, Lonza Group cannot guarantee that all of the patents it has applied for, or plans to apply for, will be granted in each of the countries in which it seeks protection. Furthermore, patents generally expire after a certain period, allowing competitors to freely use the patented technology.

Non-patentable or non-patented business secrets and non-confidential and confidential know-how including processes, apparatuses, technology, trade secrets and proprietary manufacturing expertise, methods and compounds are also crucial to the success of Lonza Group's business, in particular in areas with technically sophisticated products and production processes. For example, propriety manufacturing technology and know-how is particularly important for some of Capsugel's product lines and failure to protect this proprietary manufacturing technology and know-how may significantly impair Capsugel's competitive position. To protect its trade secrets, intellectual property and proprietary technologies and processes, Lonza Group and Capsugel rely and Lonza Group expects to continue to rely, in part, on confidentiality and non-disclosure agreements with their employees, consultants, advisors and third parties. These agreements may be breached, or Lonza Group or Capsugel may not be able to prevent their business secrets and know-how from otherwise being disclosed, and they cannot guarantee that third parties will not independently develop or gain access to the same or similar business know-how, for example as a result of industrial espionage activities or hacking attacks. See also "*Lonza Group and Capsugel rely on the proper functioning of their computer and data processing systems, and a large scale malfunction or potential unauthorized access to critical and sensitive information could result in disruptions to Lonza Group's business.*" In addition, Lonza Group may incur substantial costs for litigation concerning intellectual property. Even if the validity and enforceability of Lonza Group's intellectual property is upheld, a court might construe Lonza Group's intellectual property not to cover the alleged infringement. In addition, intellectual property enforcement may be limited or unavailable in some countries.

If Lonza Group is unable to protect its intellectual property, its ability to profit from its research and development may be limited or its future profits may decrease as a result, insofar as other manufacturers can make or market products that are similar to the products developed by Lonza Group. This could affect Lonza Group's competitive position, and any resulting decrease in sales could have a material adverse effect on its business, results of operations, financial condition and prospects.

Lonza Group may infringe on the intellectual property rights of third parties and, as a result, may have to pay fees for the use of third-party intellectual property, may be exposed to claims for damages, may be prevented from selling its products, or may be forced to stop its production.

Lonza Group cannot guarantee that Lonza Group will not infringe on, or be alleged to have infringed on, third-party patents or other third-party intellectual property rights, since its competitors also apply for, and obtain, numerous patents to protect their inventions. In the event that Lonza Group identifies third-party patent rights that conflict with its business processes, it will generally attempt to either challenge the patentability or the validity of the patent or to look for technical alternatives. Nevertheless, patent holders may approach Lonza Group from time to time to allege that it has infringed on their intellectual property rights. Regardless of the merit or resolution of these claims, Lonza Group may be prevented from making or marketing products, and it may be forced to acquire licenses or modify or even stop its production, even though it may have already been using these technologies in a lawful manner in these or other jurisdictions. This may be the case, for example, if Lonza Group has chosen not to file a patent on a particular technology in order to keep it confidential. In addition, Lonza Group could be exposed to liability for damages.

Lonza Group may have to obtain third-party licenses to gain access to technology, which could entail considerable costs. It may be unable to acquire licenses that it will need for its future business with the appropriate scope, under acceptable conditions or at all. In addition, licenses Lonza Group holds may expire or otherwise not continue to be effective, and it may be prevented from making or marketing products.

Any restrictions or disruptions in supply and production that result from actual or alleged patent infringements, whether as a result of a reorganization of production processes or for other reasons, or the subsequent acquisition of any relevant licenses, could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Lonza Group and Capsugel rely on the proper functioning of their computer and data processing systems, and a large scale malfunction or potential unauthorized access to critical and sensitive information could result in disruptions to Lonza Group's business.

Lonza Group's and Capsugel's ability to keep their businesses operating depends on the functional and efficient operation of its computer and data processing and telecommunications systems around the world. Computer and data processing systems are susceptible to malfunctions and interruptions (including due to equipment damage, power outages, fire, natural disasters, breakdowns, malicious attacks, computer viruses, and a range of other hardware, software and network problems), and Lonza Group may be unable to prevent malfunctions or interruptions. A significant or large scale malfunction or interruption of its computer or data processing systems could disrupt Lonza Group's operations, for example by causing delays or the cancellation of customer orders, impeding the manufacture or shipment of products, the processing of transactions and the reporting of financial results, or could damage Lonza Group's reputation.

In addition, Lonza Group faces the risk of potential unauthorized access to, and the loss of, critical and sensitive information, for example as a result of industrial espionage activities or hacking attacks. A leak of confidential information or the loss of critical and sensitive information could reveal trade secrets or know how to competitors and harm Lonza Group's business, competitive position and reputation. Lonza Group's insurance may not adequately compensate it for all losses or failures that may occur. Any of the foregoing could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects. See "*Lonza Group may not be able to adequately protect its intellectual property, proprietary manufacturing technology and know-how.*"

Lonza Group and Capsugel have engaged in acquisitions and divestitures of businesses, companies and equity interests in companies in the past, and Lonza Group may engage in acquisition activities or divestitures in the future, and there can be no assurance that such acquisitions or divestitures will yield the desired results.

In the past, Lonza Group and Capsugel have engaged in acquisitions and divestitures of businesses, companies and equity interests in companies, and Lonza Group may engage in acquisition activities or divestitures in the future. Corporate acquisitions typically involve significant investments and risks, including but not limited to tax liabilities and legal claims, such as third-party liability claims and tort claims, the failure to secure the necessary financing on reasonable terms or at all, regulatory compliance issues, claims for breach of contract, employment-related claims, environmental liabilities, conditions or damage, liability for hazardous materials, or claims relating to potential illegal activity by the acquired company. There is a possibility that the acquired companies, or future acquisitions will not be successfully integrated, that key customers will be lost, or that anticipated cost savings, synergies or other benefits will not be realized, which could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Furthermore, Lonza Group may not identify all of the risks related to a transaction in advance or may not be able to adequately protect itself against such risks through indemnities, representations and warranties, or otherwise. Target companies may also be located in countries where the underlying legal, economic, political or cultural conditions are different from those customary in Europe or North America. In addition, preparing for the acquisition and integration of companies may result in the diversion of management attention and resources.

Technology or other acquired or licensed assets may not be legally valid or may be less valuable than initially thought, and Lonza Group may be unable to use them as planned or at all. In addition, Lonza Group may not succeed in retaining, maintaining and integrating the key employees and business relationships of newly acquired companies, businesses or divisions. Further, corporate actions after an acquisition may expose Lonza Group to monetary claims, and this exposure may continue for a long time.

As a result of acquisition-related risks, Lonza Group may not achieve the strategic goals it seeks from any such acquisition, or may be able to do so only to a limited extent due to timing or budgetary constraints. In addition, Lonza Group's growth prospects depend, to a certain extent, on its ability to identify suitable acquisition opportunities and successfully integrate the businesses it acquires. The success of corporate acquisitions is associated with many uncertainties. For instance, anticipated synergies may not materialize, the purchase price may later prove to have been too high, the acquired company or participation may not perform to Lonza Group's expectations or may fail, it may prove difficult to control operating costs, or unforeseen restructuring expenses and impairment charges may become necessary. Moreover, in many countries and regions, planned acquisitions are subject to review by competition authorities. Competition authorities tend to apply very narrow market definitions in the chemical sector, which may impede or delay a planned transaction or require changes to be made to the acquired or combined business that could reduce its profitability or that may limit Lonza Group's ability to grow.

In addition, Lonza Group may also engage in divestitures from time to time. To the extent Lonza Group fails to successfully complete divestitures, it may have to expend substantial amounts of cash, incur debt and continue to absorb loss-making or under-performing divisions. Any divestitures that Lonza Group is unable to complete may involve a number of risks, including diversion of management's attention, a negative impact on its customer relationships, costs associated with retaining the targeted divestiture, closing and disposing of the impacted business or transferring business to other facilities.

The occurrence of any of these risks, the incorrect assessment of risks by Lonza Group, or any other failure in relation to acquisitions and investments by Lonza Group may have a material adverse effect on its business, results of operations, financial condition and prospects.

Lonza Group is subject to risks, including reputational, financial and legal risks associated with joint ventures and joint venture partners.

Lonza Group and Capsugel have both entered, any may continue to enter, into arrangements subject to joint control, such as joint ventures. Lonza Group is regularly in discussions with a number of pharmaceutical companies for the purpose of exploring new business models and concepts, including but not limited to strategic joint ventures and other joint arrangements by which it may share control with another entity (collectively for the purposes of this risk factor, "**joint ventures**"). There is no guarantee that such discussions will result in binding agreements, when those binding agreements may be entered into, or what the ultimate terms of such agreements will be.

Joint ventures involve risk and uncertainties and can present a number of challenges, including:

- Joint ventures may require an investment of considerable management, financial and operational resources to establish sufficient infrastructure such as risk management, compliance or other processes;
- Joint ventures may be structurally complicated by the necessity of the parties anticipating and addressing issues of governance, control, dispute resolution and ownership of intellectual property and other assets, among many other matters;
- Joint venture partners may find they lack sufficient control over the operations of the joint venture, resulting in problems with quality control, inefficiency or other operational problems;
- Joint ventures may have complex governance issues arising from shared control and split ownership models;
- Joint ventures may have trouble attracting or retaining customers who prefer, for historical, branding or other reasons, to buy products from one of the joint venture partners rather than the joint venture;

- Joint ventures may experience delays or other timing problems prior to launch, exacerbated by disagreements between the parties;
- A joint venture partner may sell its stake in the joint venture to a buyer who is unattractive to the remaining joint venture partner;
- Joint ventures may expire, potentially leading to disagreements between the parties over the ownership or future of the joint venture's business or assets; and
- Joint ventures may have flaws in their design that cause them to experience losses and lead to their termination.

In addition, Lonza Group and Capsugel may be dependent on a joint venture counterparty for capital, product distribution, local market knowledge or other resources. Furthermore, Lonza Group's or Capsugel's joint venture partners may (i) have economic or business interests or goals that are inconsistent with those of Lonza Group; (ii) take actions contrary to Lonza Group's instructions or requests or contrary to its policies or objectives; (iii) be unable or unwilling to fulfill their obligations under the relevant joint venture agreement, including compliance with reporting obligations and anti-corruption laws; or (iv) have financial difficulties.

In addition, entering into joint ventures with companies and individuals based in foreign countries may subject Lonza Group to changes in economic and political conditions in those foreign countries, as well as relevant laws and regulations. For example, Capsugel has a Chinese joint venture partner and laws, rules and business practices in China differ from those in the United States. Operating a joint venture in China may subject Lonza Group to changes in economic and political conditions in China, as well as relevant laws and regulations regarding foreign-invested enterprises, including foreign currency exchange rules. In addition, Lonza Group's intellectual property and proprietary rights may be exposed.

Moreover, as laws and regulations in China are evolving gradually, their interpretation and enforcement involve significant uncertainties that could limit the reliability of the legal protections available to Lonza Group. The administrative and court authorities in China also have significant discretion in interpreting and implementing statutory terms. Thus, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection Lonza Group has in the legal system in China than in more developed legal systems. As a result, Lonza Group may encounter difficulties when bringing legal claims against its joint venture partner in China.

A serious dispute with one of Lonza Group's joint venture partners or serious problems arising in one of its joint ventures may cause the loss of business opportunities or disruption to or termination of the relevant project or business venture. A dispute may also give rise to litigation or other legal proceedings, which would divert Lonza Group's management's attention and other resources. Any of the above may have a material and adverse effect on Lonza Group's reputation, business, results of operations, financial condition and prospects.

Lonza Group will be dependent upon its key personnel for its growth.

Lonza Group's economic success will depend in part on its ability to retain or employ highly qualified executives and technical experts, in particular in the area of research and development. The competition for qualified employees in the life sciences industry is intense and Lonza Group will compete for employees with companies both in and outside the life sciences industry. Accordingly, the termination of the employment or the loss of the services of any key personnel without a timely and suitable replacement or the inability to attract and retain qualified personnel may have a material and adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Legal and regulatory changes in the jurisdictions in which it operates and trades may have an adverse effect on Lonza Group.

Due to the international nature of its business, Lonza Group must comply with, and is affected by, a large number of different legal and regulatory frameworks, including tax laws. There is a risk that changes in these frameworks may materially adversely affect Lonza Group's legal and regulatory environment. The risks faced by Lonza Group include, but are not limited to:

- foreign currency control regulations and other regulations related to exchange rates and foreign currencies (such as the abandonment of exchange rate pegs);
- measures to counter foreign trade imbalances;
- restrictions on the ability to repatriate funds from subsidiaries;
- restrictions on the ability to own or operate subsidiaries or acquire new businesses in certain countries, including rules on local ownership of businesses;
- differences in legal and administrative systems, which could lead to insufficient protection of intellectual property, impair Lonza Group's ability to enforce contracts or jeopardize its ability to collect accounts receivables and other claims outstanding;
- nationalizations;
- taxes, such as the imposition of a financial transaction tax in Europe;
- increasingly protectionist sentiment in many countries leading to embargoes, trade restrictions, tariffs and other trade barriers; and
- the imposition of withholding taxes and transfer pricing regulations.

Changes in the regulatory environment may prevent Lonza Group from marketing certain of its products or may negatively affect demand for its products, which could in turn have a material adverse effect on its business, results of operations, financial condition and prospects. In addition, to the extent laws and regulations applicable to Lonza Group are uncertain and evolving, it may be difficult for Lonza Group to determine the exact requirements applicable to it, or to structure its transactions in such a way that the results it expects to achieve are legally enforceable in all cases.

Lonza Group's leverage and debt service obligations could adversely affect its business.

As at 31 December 2016, Lonza Group had net debt of CHF 1.6 billion. In connection with the Proposed Acquisition, Lonza Group intends to incur up to US 5.5 billion and CHF 700 million of additional indebtedness. The degree to which Lonza Group remains leveraged could have important consequences for its business. See "*Risks related to the Proposed Acquisition – Lonza Group faces risks from financing the Proposed Acquisition including as a result of increased levels of debt*."

Lonza Group's balance sheet includes significant goodwill and intangible assets, which could become impaired.

Lonza Group has significant goodwill and intangible assets on its balance sheet, both of which it expects to increase as a result of the Proposed Acquisition. The intangible assets included trademarks acquired through business combinations, which have an indefinite useful life and are not systematically amortised. Goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment. Impairment charges could become necessary in the future if, for example, Lonza Group's future prospects deteriorate such that the carrying values of its goodwill or intangible assets are no longer sustainable under applicable accounting rules. A significant impairment of Lonza Group's goodwill or intangible assets could have a material adverse effect on its business, results of operations, financial condition and prospects.

Lonza Group may be exposed to pension risk in relation to its defined benefit pension plans.

Lonza Group operates defined benefit pension plans in various countries, with the major plans being in Switzerland, Great Britain and the United States. In addition, certain of Capsugel's current and former employees in Belgium, Japan and Mexico are eligible to participate in defined benefit pension plans that it sponsors. In the United States, certain of Capsugel's employees are eligible to participate in a defined contribution plan. Pension risk arises if the net present value of future cash outflows is greater than the current value of the asset pool set aside to cover those payments.

The primary sources of pension risk include:

- a mismatch in the duration of the assets relative to the liabilities of the pension schemes;
- market-driven asset price volatility; and
- increased life expectancy of individuals leading to increased liabilities.

As a result of these factors, Lonza Group faces the risk that the funding position of its defined benefit pension schemes will deteriorate to such an extent that it would be required to make additional contributions above what is already planned to cover its pension obligations. Following the Proposed Acquistion, Lonza Group will assume Capsugel's pension and other post-employment benefit plans. Any failure by Lonza Group to manage its pension deficit could have a material adverse effect on its business, results of operations, financial condition and prospects.

Risks Related to the Regulatory Environment of Lonza Group and Capsugel

The stringent regulatory environments for the chemical and healthcare industries could have an adverse effect on Lonza Group and Capsugel's business, results of operations, financial condition and prospects.

The specialty chemical and pharmaceuticals industries in which Lonza Group and Capsugel operate are generally subject to stringent and increasing government regulation. A continued trend toward increased regulation will likely result in increased capital expenditures and operating costs for compliance.

Lonza Group and Capsugel are subject to various local, state, federal, foreign and transnational laws and regulations, which include, as applicable, the operating and security standards of the FDA, the U.S. Drug Enforcement Administration ("**DEA**"), various U.S. state boards of pharmacy, state health departments, the U.S. Department of Health and Human Services ("**DHHS**"), the European Union member states and other comparable agencies and, in the future, any changes to such laws and regulations could adversely affect Lonza Group. Lonza Group's and Capsugel's manufacturing facilities are subject to inspection by the foregoing entities. In particular, Lonza Group and Capsugel are subject to, and Lonza Group will be subject to, laws and regulations concerning good manufacturing practices and drug safety, including cGMP mandated by the FDA and European Union standards for quality assurance and manufacturing process control.

Failure by Lonza Group or Capsugel or by their customers to comply with the requirements of these regulatory authorities could result in warning letters, supervision by regulators, product recalls or seizures, monetary sanctions, injunctions to halt manufacture and distribution, restrictions on their operations, civil or criminal sanctions, or withdrawal of existing or denial of pending approvals, including those relating to products or facilities. In addition, such a failure could expose them to contractual or product liability claims as well as contractual claims from their customers, including claims for reimbursement for lost or damaged active pharmaceutical ingredients, which cost could be significant. Furthermore, failure by Lonza Group, Capsugel or their customers or suppliers to comply with the requirements of regulatory authorities could result in reputational damage for Lonza Group.

Any of the foregoing could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects. In addition, any new offering or product classified as a pharmaceutical product must undergo lengthy and rigorous clinical testing and other extensive, costly and time-consuming procedures mandated by the FDA, the EMA and other equivalent local, state, federal and foreign regulatory authorities. Lonza Group, Capsugel or their customers may elect to delay or cancel anticipated regulatory submissions for current or proposed new products for any number of reasons. Although Lonza Group believes that it complies in all material respects with applicable laws and regulations, there can be no assurance that a regulatory agency or tribunal would not reach a different conclusion concerning the compliance of Lonza Group's operations with applicable laws and regulations.

In its Specialty Ingredients segment, Lonza Group and its suppliers are required to adhere to a multitude of regulatory specifications regarding the manufacture, testing and marketing of many of its products. More stringent regulations worldwide or more stringent interpretation of existing laws or regulations, could have a negative impact on Lonza Group's production costs and product portfolio. These developments could require additional testing and/ or reformulation of products to meet new standards or discontinuance of some products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of some products, additional or different labeling, additional scientific substantiation or other new requirements or enforcement actions. In particular, in the European Union, Lonza Group is subject to the European Regulation (EC) No. 1907/2006 on the Registration, Evaluation, Authorisation and Restriction of Chemicals ("**REACH**"), which is designed to ensure a high level of protection for people and the environment and demands comprehensive tests for chemical products. Test procedures required by REACH can be costly and time-intensive, and may lead to a rise in production costs. Moreover, the use of chemicals in production could be restricted, which would make it impossible to continue manufacturing certain products. While Lonza Group constantly pursues research and development in substance characterization and in the possible substitution of critical substances, the inability to use certain chemicals under REACH could have a negative impact on Lonza Group's business, financial condition, results of operations and prospects.

Regulatory reforms may adversely affect Lonza Group and Capsugel's ability to sell their products, services or technologies.

From time to time, various national and transnational governmental and regulatory bodies, including the U.S. Congress and the Council of the EU and the European Parliament, adopt changes to the statutes that the agencies that oversee or regulate the industries in which Lonza Group and Capsugel operate, and in which Lonza Group will operate, such as FDA, the EMA, the CFDA and the PMDA enforce in ways that could significantly affect Lonza Group's business. In addition, the FDA, the EC, the CFDA and the PMDA, among others, often issue new regulations or guidance, or revise or reinterpret their current regulations and guidance in ways that may significantly affect Lonza Group's business and products.

Furthermore, governmental agencies throughout the world, including in the United States, strictly regulate the drug development process. Part of Lonza Group's and Capsugel's business involves helping pharmaceutical and biotechnology companies navigate the regulatory drug approval process. Changes in regulation, such as a relaxation in regulatory requirements or the introduction of simplified drug approval procedures, or an increase in regulatory requirements that Lonza Group or Capsugel have difficulty satisfying or that make their services less competitive, could eliminate or substantially reduce the demand for Lonza Group's products, services or technologies.

It is impossible to predict whether legislative changes will be enacted or whether the regulations, guidance or interpretations will be changed and what the impact of any such changes may be on Lonza Group. It is possible, for example, that such changes could have a significant impact on the path to approval of products incorporating Lonza Group's technologies, services or products. Furthermore, additional regulatory frameworks that currently do not exist in the United States, Europe or elsewhere may develop in the future and have an adverse impact on Lonza Group's business.

Additionally, numerous proposals to curb rising pharmaceutical prices have also been introduced or proposed in the U.S. Congress and in some state legislatures. There have been public hearings in the U.S. Congress concerning pharmaceutical product pricing. Lonza Group cannot predict the initiatives that may be adopted in the future or their impact on Lonza Group's business.

Lonza Group and Capsugel require, and Lonza Group will require, various licenses and permits to operate their business.

Lonza Group and Capsugel require various licences and permits in the jurisdictions in which they operate. These licences and permits are generally subject to conditions stipulated in the licenses and permits and/or relevant laws or regulations under which such licenses and permits are issued. Any actual or alleged failure to comply with the stipulated conditions could result in the revocation or non-renewal of the relevant license or permit. For example, in May 2016, following its inspections in 2015 and 2016, Swedish authorities withdrew the EU-GMP certificate for Capsugel's Bend Research facilities citing GMP violations, including data integrity issues. See "*Failure to provide quality offerings to customers could have an adverse effect on Lonza Group's business and could subject it to regulatory actions, product recalls, and costly litigation*."

Lonza Group and Capsugel constantly monitor and ensure their compliance with such conditions. Should there be any revocation of any of the licenses and permits, or the failure to obtain or procure any necessary licences and permits, Lonza Group may not be able to carry out its operations in the relevant jurisdiction. In such an event, the business, results of operations, financial condition and prospects of Lonza Group could be materially and adversely affected.

Lonza Group will be subject to environmental, health and safety laws and regulations and could therefore be exposed to heightened compliance costs and the risk of liability due to non-compliance.

Lonza Group will be subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which it operates. In particular, Lonza Group will be subject to a number of continually changing and increasingly stringent local, state, and international environmental and health protection requirements with regard to, among other things, air emissions, wastewater discharges and the use, handling and disposal of chemicals and hazardous substances. Compliance with such regulations can require significant expenditures and a breach may result in the limitation or suspension of production or subject Lonza Group to material monetary fines and penalties, civil or criminal sanctions, or other liabilities. Furthermore, environmental laws may expose Lonza Group to liability for the conduct of or conditions caused by others, and some environmental laws provide for joint and several strict liability for releases of hazardous substances into the environment, which could result in liability for environmental damage without regard to negligence or fault. Environmental legislation is evolving in a manner that is expected to result in stricter standards and enforcement, larger fines and increased liability, and potentially increased capital expenditures and operating costs for compliance. Environmental laws and regulations may result in an increase in the costs of the operations of Lonza Group.

Certain of Lonza Group's and Capsugel's production facilities have been operating and using chemicals that could contaminate soil and groundwater for many years. Soil and groundwater contamination has occurred in the past at certain sites, and might occur or be discovered at other sites in the future. In particular, Lonza Group's Visp, Switzerland, facility used large amounts of mercury as a catalyst in chemical processes, and the facility discharged industrial wastewater with mercury-containing effluent into a wastewater discharge canal between 1930 and the mid-1970s. Lonza Group has investigated the mercury contamination in the canal and is undertaking remediation activities. According to the currently available data, the mercury contamination has not had adverse health effects on humans or animals in the region. Nonetheless, the discharge of chemical substances or other pollutants into the air or water may give rise to liability to governments and third parties and may require Lonza Group to incur costs to remedy such discharge. Such costs would include costs to fully clean and refurbish contaminated sites and to treat and contain contamination at such sites. The costs of the remediation of pollution for which Lonza Group is held liable, or the reputational damage associated with any such pollution, could materially adversely affect its business, results of operations, financial condition and prospects.

Regulatory developments with respect to use of personal data and public records could have a material adverse effect on Lonza Group's business, financial condition and results of operations.

Because Lonza Group's databases and the databases of third party service providers that it works with include certain non-public personal or commercial information concerning its employees, vendors and customers, Lonza Group is subject to government regulation concerning the improper storage, transmission and use of this data. Failure to comply with these laws by Lonza Group could result in substantial regulatory penalties, litigation expense, adverse publicity and loss of revenue. Further, many consumer advocates, privacy advocates and government regulators believe that existing laws and regulations do not adequately protect privacy. As a result, they are seeking further restrictions on the dissemination and commercial use of personal information to the public and private sectors. Regulations regarding privacy and data protection may also become stricter in the future. For example, the European Union has adopted a General Data Protection Regulation, Regulation (EU) 2016/679 (the "**GDPR**") that will supersede the EU Data Protection Directive 95/46/EC. The GDPR will go into effect on 25 May 2018 and introduces significant changes to the data protection regime of the EU, for example, higher potential liabilities for certain data protection violations.

Any such restrictions may increase compliance burdens on Lonza Group and reduce Lonza Group's ability to market its products, services and technologies, which could have a material adverse effect on its business, financial condition and results of operations.

Doing business in foreign countries requires Lonza Group and Capsugel to comply with US and other anti-corruption laws, economic sanctions programs and anti-boycott regulation.

Lonza Group's and Capsugel's international operations are subject to US and other anti-corruption laws and regulations, such as the Foreign Corrupt Practices Act of 1977 ("**FCPA**"), economic sanction programs administered by the US Treasury Department's Office of Foreign Assets Control ("**OFAC**") and the anti-boycott regulations administered by the US Department of Commerce's Office of Antiboycott Compliance. As a result of doing business in foreign countries, Lonza Group and Capsugel are exposed to a heightened risk of violating anti-corruption laws, OFAC regulations and anti-boycott regulations. The FCPA prohibits Lonza Group and Capsugel from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of their business, Lonza Group and Capsugel must regularly deal with foreign officials for regulatory purposes and may deal with state-owned business enterprises, the employees of which are considered foreign officials for purposes of the FCPA. In addition, the provisions of the UK Bribery Act 2010 (the "**Bribery Act**") extend beyond bribery of foreign public officials and are more onerous than the FCPA in a number of other respects, including in terms of jurisdiction, non-exemption of facilitation payments and penalties. Some of the international locations in which Lonza Group and Capsugel operate lack a developed legal system and have higher than normal levels of corruption. Economic sanctions programs restrict their business dealings with certain sanctioned countries and other sanctioned individuals and entities. For example, Lonza Group may be subject to heightened reputational and legal risks from affiliations with Capsugel's joint venture partner in China where laws, rules and business practices may differ from those in the United States and Europe. See "*Lonza Group is subject to risks, including reputational, financial and legal risks associated with joint ventures and joint venture partners*." Lonza Group would aim to work to ensure that an appropriate business culture exists within the venture to minimize and mitigate Lonza Group's risk.

Violations of anti-corruption laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. There can be no assurance that Lonza Group's policies and procedures will effectively prevent it from violating these laws and regulations in every transaction in which it may engage, and such a violation could materially and adversely affect Lonza Group's reputation, business, results of operations, financial condition and prospects. In addition, various US state and municipal governments, universities and other investors maintain prohibitions or restriction on investments in companies that do business with sanctioned countries.

Lonza Group and Capsugel are subject to labor and employment laws and regulations, which could increase their costs and restrict Lonza Group's operations in the future.

Certain of Lonza Group's and Capsugel's employees are represented by labor organizations, and national works councils and/or labor organizations are active at certain of its European facilities consistent with labor environments/laws in European countries. Similar relationships with labor organizations or national works councils exist at all of Lonza Group's and Capsugel's facilities in India, Mexico, Japan, China, Indonesia, Belgium and France. Lonza Group's management believes that its and Capsugel's employee relations are satisfactory. However, further organizing activities or collective bargaining may increase its employment-related costs and Lonza Group may be subject to work stoppages and other labor disruptions. Moreover, as employers are subject to various employment-related claims, such as individual and class actions relating to alleged employment discrimination, wage-hour and labor standards issues, such actions, if brought against Lonza Group and successful in whole or in part, may affect its ability to compete or have a material adverse effect on its business, financial condition and results of operations.

Risks Related to the Proposed Acquisition

Lonza Group faces risk from financing the Proposed Acquisition including as a result of increased levels of debt.

In connection with the Proposed Acquisition, Lonza Group has entered into a syndicated term and revolving facilities agreement, dated 14 December, 2016, with Bank of America, N.A., and UBS AG (the "**Loan Facilities Agreement**") as committed original lenders, pursuant to which the original lenders agreed to provide financing commitments in an aggregate principal amount of US$5.5 billion and CHF 700 million. While Merrill Lynch International and UBS AG have committed to underwrite up to CHF 3.3 billion in Lonza equity securities the proceeds from the sale of which will be used to fund a portion of the acquisition amount if the Proposed Acquisition closes, there can be no assurance that any sale of equity will be completed on acceptable terms or at all.

The increased level of debt that would arise from drawing on the commitments under the Loan Facilities Agreement could have significant negative consequences, including, for example, it could:

- limit Lonza Group's ability to obtain additional financing for working capital, capital expenditures, research and development, debt service requirements, acquisitions and general corporate or other purposes;

- restrict Lonza Group from making strategic acquisitions or cause Lonza Group to make non-strategic divestitures;
- limit Lonza Group's ability to adjust to changing market conditions and place Lonza Group at a competitive disadvantage compared to its competitors who are not as highly leveraged;
- increase Lonza Group's vulnerability to general economic and industry conditions; and
- require a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on Lonza Group's indebtedness, thereby reducing its ability to use Lonza Group's cash flow to fund its operations, capital expenditures and future business opportunities.

These risks are heightened if Lonza Group is unable to repay a portion of this debt through equity refinancing. There is a risk that due to changes in the monetary and interest rate policies of central banks such as the European Central Bank, the Board of Governors of the U.S. Federal Reserve System, the Bank of England, the Central Bank of China and other central banks, the level of interest rates may generally rise. A rise in general interest rate levels could negatively affect the terms of the refinancing of the Proposed Acquisition if the increase deviates significantly from Lonza Group's expectations and would amplify the risks associated with an increased leverage ratio of Lonza Group.

Moreover, current and future lenders may view Lonza Group as less credit worthy than it currently is as a result of the financial indebtedness incurred in connection with the Proposed Acquisition. Any perceived downgrade of Lonza Group's creditworthiness by lenders or of Lonza's unofficial credit rating assigned by a number of Swiss banks could result in an increase in the interest payable by Lonza Group. Lonza Group may be unable to generate the strong cash flows necessary to reduce its financial indebtedness after consummation of the Proposed Acquisition, which may have a detrimental impact on Lonza Group's refinancing capabilities. Any such inability could also have a material effect on Lonza Group's refinancing of other existing indebtedness and financing its ongoing operations, including by increasing Lonza Group's cost of borrowing and significantly harming its financial condition, results of operations and profitability.

If Lonza Group is unable to refinance the loans taken out for the Proposed Acquisition, Lonza Group's business may be adversely affected.

Lonza Group intends to refinance commitments and amounts drawn under the Loan Facilities Agreement with proceeds from the issuance of equity. Proceeds of up to CHF 3.3 billion are expected to be raised through equity measures, which include a rights offering. However, Lonza Group may not be able to effect any issuance or other forms of refinancing as planned in terms of timing, economic terms or at all, especially in challenging market conditions. For example, a significant decline in Lonza's share price could increase the number of shares needed for a particular refinancing, resulting in an increased dilution of existing shareholders.

Failure to raise more equity would constrain Lonza Group's ability to refinance its indebtedness under the Loan Facilities Agreement and require Lonza Group to seek alternative refinancing sources, which may be unavailable or result in higher costs. Whether or not Lonza Group will be able to finance the indebtedness to be incurred in connection with the Proposed Acquisition through equity-related capital measures, the portion of Lonza Group's consolidated balance sheet that will be represented by debt will increase substantially as compared to its historical position of CHF 1.6 billion as of 31 December 2016 (net financial debt). Lonza Group may be unable to meet its deleveraging targets after the Proposed Acquisition closes, and its failure to raise equity or to refinance its debt could lead to the loss of its unofficial investment grade credit rating assigned by a number of Swiss banks, which in turn could result in Lonza Group incurring higher interest expense.

The Proposed Acquisition is subject to certain conditions and there can be no assurance that it will be completed, on a timely basis or at all.

Consummation of the Proposed Acquisition is subject to a number of conditions precedent many of which are outside of Lonza Group's control. As a consequence, there is a risk that the Proposed Acquisition will not close in a timely fashion or at all, even if Lonza completes an offering of equity. These closing conditions include, among others, the expiration or termination of the waiting period and receipt of any approvals, consents or clearances under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "**HSR Act**"), and the antitrust laws of the European Union, the People's Republic of China, Mexico, Russia and Ukraine and approval of the Proposed Acquisition by the Committee of Foreign Investment in the United States ("**CFIUS**"). Early termination of the waiting period under the HSR Act was granted on 17 January 2017.

There can be no assurance that any antitrust-regulator or CFIUS will approve the Proposed Acquisition on a timely basis or at all and Lonza Group may incur significant costs if the regulators or CFIUS require it to modify the terms of the Proposed Acquisition or impose onerous conditions or undertakings, which could reduce the anticipated benefits of the Proposed Acquisition. Ultimately, there can be no assurances that Lonza Group will be able to satisfy any terms and conditions imposed by regulatory authorities in connection with the Proposed Acquisition. Failure to satisfy such conditions may result in the Proposed Acquisition not being completed, in which case Lonza Group would be subject to the risk described under "*Failure to complete the Proposed Acquisition could negatively impact the stock price of Lonza and the future business and financial results of Lonza Group.*"

In particular, CFIUS has previously stated that there may be national security concerns when considering foreign control of companies in the chemicals and pharmaceuticals industries. There is no certainty that a CFIUS challenge to the Proposed Acquisition will not be made or that CFIUS clearance will be obtained in a timely manner or at all or that CFIUS clearance would not be conditioned upon actions that would be materially adverse to Lonza Group or other entities involved in the Proposed Acquisition.

In connection with their review processes, antitrust regulators and CFIUS may seek modification of the terms of the Proposed Acquisition or may impose conditions or undertakings to address any antitrust or CFIUS concerns, including requiring the sale, divestiture, license or other disposition of any of the stock, properties or other assets of either Lonza Group or Capsugel. The stock purchase agreement provides that Lonza is required to take any and all actions necessary to obtain antitrust approvals and complete the CFIUS review process, including (i) proposing, offering, negotiating, committing to and effecting, by consent decree, a hold separate order or otherwise, the sale, divestiture, license or other disposition of any and all of the capital stock, assets, properties, rights, products, leases, businesses, services or other operations or interests therein of Capsugel (effective as of the closing of the Proposed Acquisition) or Lonza or either's respective subsidiaries or affiliates, and (ii) otherwise taking or committing to take actions that after the closing of the Proposed Acquisition would limit Lonza Group's or Capsugel's freedom of action with respect to, or its or their ability to retain, one or more of the assets, properties, rights, products, leases, businesses, services or other operations of Capsugel or Lonza Group or either's respective subsidiaries or affiliates or any interest or interests therein, (iii) with respect to antitrust approvals, contesting, defending and appealing any threatened or pending preliminary or permanent injunction or other order, decree or ruling or statute, rule, regulation or executive order that would adversely affect the ability of any party to consummate the Proposed Acquisition and taking any and all other actions to prevent the entry, enactment or promulgation thereof, and (iv) with respect to CFIUS, committing to assurances of continued supply after the closing of the Proposed Acquisition of any of Capsugel's products.

Divestiture actions or other commitments required by regulators of Lonza Group and/or Capsugel could have a material effect on the business, results of operations, financial condition, share price and prospects of Lonza and Lonza Group and could substantially diminish the synergies and the operating efficiencies which Lonza Group expects to achieve through the consummation of the Proposed Acquisition. Furthermore, Lonza Group may not be able to effect required divestitures or other commitments in a timely manner, or at all or on economically viable terms, especially in challenging market conditions.

Lonza Group may be unable to successfully achieve its targets to realize the anticipated benefits of the Proposed Acquisition, which could adversely affect the value of Lonza's shares.

The success of the Proposed Acquisition will depend, in part, on Lonza Group's ability to realize the anticipated benefits from combining the businesses of Lonza Group and Capsugel, including the expected synergies as well as the expected strategic and financial advantages of the Proposed Acquisition. The ability of Lonza Group to achieve these synergies and benefits will be dependent on a number of assumptions and factors, including, in particular, Lonza Group's assumptions regarding Capsugel's earnings potential and cost base, the ability to achieve expected tax savings and the ability to broaden and deepen customer relationships, the expected benefits associated with the integration of the value chain and product and service offerings, the addition of high performance consumer health product offerings, the enhancement of market access and the acceleration of innovation as well as the ability to refinance Capsugel's existing debt at lower interest rates. These assumptions may prove to be incorrect. In particular, the realization of the anticipated tax synergies highly depends on the timing of implementation, the actual circumstances and the tax rules applicable at the time of implementation and thereafter. As a consequence, the synergies and benefits anticipated in connection with the Proposed Acquisition may not be realized fully or at all or may take longer to realize than expected. Growth may not accelerate as Lonza Group expects, and margins may not expand.

In addition, Capsugel's cost base may be higher than Lonza Group anticipates and Lonza Group may incur higher costs or unanticipated expenses in order to maintain, improve or sustain Capsugel's operations or assets, or to achieve the anticipated synergies and benefits of the Proposed Acquisition. Lonza Group may also not achieve the strong free cash flow generation it expects, which could undermine its plans to rapidly deleverage.

Any failure to realize the synergies and benefits expected in connection with the Proposed Acquisition could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects, as well as the value of Lonza's shares.

The Proposed Acquisition may not be accretive to its core earnings per share, which may negatively affect the market price of Lonza's shares.

Even though Lonza Group believes that the Proposed Acquisition will be accretive to earnings per share in the first full year post closing based on Lonza's share price at the time of the announcement and certain other assumptions, there can be no assurance that the Proposed Acquisition will be accretive to earnings per share on the timeframe expected by Lonza Group management or at all.

The Proposed Acquisition could fail to be accretive if Lonza's share price falls relative to Lonza's share price at the time that the Proposed Acquisition was announced prior to Lonza issuing the new shares to be used to finance the Proposed Acquisition. Lonza Group could also encounter additional transaction and integration-related costs, may fail to realize all of the synergies and benefits anticipated in the Proposed Acquisition or may be subject to other factors that affect its preliminary estimates. Any of these factors could cause a decrease in Lonza Group's earnings per share or decrease or delay the expected accretive effect of the Proposed Acquisition, which could in turn contribute to a decrease in the market price of Lonza's shares.

Lonza Group may be unable to successfully integrate the operations of Capsugel.

Achieving the synergies and benefits anticipated in connection with the Proposed Acquisition will depend on the timely and efficient integration of Capsugel's operations, business culture, technology and personnel with Lonza Group. The integration may not be completed as quickly as expected, and if Lonza Group fails to efficiently and effectively integrate Capsugel or the integration takes longer than expected, it may not be able to achieve the expected synergies and benefits of the Proposed Acquisition or Lonza Group may incur additional costs. The process of integrating operations may be more expensive and time-consuming than expected and could cause disruption to, or a loss of momentum in, the activities of Lonza Group's business and the loss of key personnel. Lonza Group faces numerous risks arising from the integration of Capsugel, including the following:

- the Proposed Acquisition necessarily requires senior management and other employees to divert their attention to the task of integrating Capsugel into Lonza Group, which could cause a loss of focus on the ongoing business and core strategic aims of Lonza Group. The diversion of management's attention could also result in disruptions to Lonza Group's and Capsugel's ongoing business and/or inconsistencies in the standards, controls, level of customer care, procedures and policies of the two businesses that could negatively affect Lonza Group's and Capsugel's ability to maintain relationships with customers, vendors, employees and others with whom Lonza Group or Capsugel has business dealings. New or unexpected operational, legal, regulatory, contractual, supplier, labor or other issues could arise from the Proposed Acquisition and the resolution of these issues may be more complex or intractable than management has anticipated. Any such issues may result in unexpected additional direct or indirect costs;

- Lonza Group's integration of Capsugel may suffer from unexpected challenges in the integration of the two businesses' information, management, financial (including accounting), operating and other internal systems and policies, internal controls and compliance procedures and the coordination of a geographically dispersed business with potentially differing business backgrounds, corporate cultures and management philosophies, with the result that unexpected additional direct or indirect costs may be incurred by Lonza Group;

    - The combination of two global businesses such as Lonza Group's and Capsugel's entails inherent tax risks that will need to be identified and addressed in the course of establishing Lonza Group. In particular, potential adverse impacts arising out of the different corporate and capitalization structures as well as business structures of Lonza Group and Capsugel on Lonza Group's tax situation will need to be assessed. Additionally, certain tax risks of Capsugel have been identified in the course of the tax due diligence performed prior to the Proposed Acquisition which may crystallize and result in additional taxes, interest and potentially penalties as well as costs to mitigate the tax consequences associated with such risks. Besides this, Lonza Group's exposure to the tax environment in emerging markets, including jurisdictions with complex tax systems and multifaceted enforcement procedures, will increase as a result of the consummation of the Proposed Acquisition.

- Lonza Group's continued ability to compete effectively in its businesses as well as its ability to integrate Capsugel into Lonza Group depends on Lonza Group being able to retain Capsugel's senior management and key employees. If Capsugel's senior management or key employees, many of whom are receiving significant payments in connection with the Proposed Acquisition, leave, Lonza Group's ability to integrate Capsugel could be impaired and, as competition in the industry for qualified employees is intense, Lonza may incur significant costs to replace departing key employees in a timely manner; and

- Lonza Group's continued ability to compete effectively in its businesses as well as its ability to integrate Capsugel into Lonza Group depend on Lonza Group's ability to retain Capsugel's key customers and suppliers. In particular, Capsugel, particularly for its hard capsule products, may not always have long term contracts with its customers and some of those customers may divert all or part of their business to third parties as a result of the Proposed Acquisition, which could lead to a decrease in sales for Lonza Group.

Any of the above factors could have a material adverse effect on Lonza Group's business, results of operations, financial condition and prospects.

Following the Proposed Acquisition, Capsugel may be subject to contingent or other liabilities or other facts of which Lonza Group is not currently aware that could expose Lonza Group to loss.

The success of the Proposed Acquisition depends in part on Lonza Group's ability to perform adequate due diligence in relation to Capsugel. When conducting due diligence, Lonza Group has relied on the resources available to it, including information provided by Capsugel and, in some circumstances, third-party investigations and analysis. While Lonza Group has committed significant resources to conduct due diligence on Capsugel, it may not have identified all risks and liabilities associated with the Proposed Acquisition. This could lead to adverse accounting and financial consequences, such as the need to record significant provisions in respect of the acquired assets or to write down acquired assets. In addition, the stock purchase agreement provides that, to the fullest extent permitted by applicable laws, the representations and warranties relating to Capsugel will not survive the closing of the Proposed Acquisition. Any unexpected liabilities or other problems could have a material adverse impact on Capsugel's business, results of operations and financial condition.

Capsugel is not subject to the scrutiny and oversight of public companies.

Public companies are regularly reviewed and monitored by various constituencies, including but not limited to regulatory authorities such as the Securities and Exchange Commission ("**SEC**"), investors, the media and the general public at large. As a result, the disclosure and financial controls of such public companies have undergone broad scrutiny by such constituencies. Capsugel, as a privately-held (non-public) company, is not exposed to such scrutiny and oversight. Hence, the financial controls and financial disclosure may be less tested and may be less robust than the financial controls and financial disclosure of a public company. As a Swiss public company, Lonza Group will need to confirm that Capsugel's financial controls and financial disclosure are compatible with Lonza Group's filing obligations and any failure to do so could expose Lonza Group to additional costs and require additional management attention.

Lonza Group has incurred, and expects to continue to incur, significant transaction and Proposed Acquisition related costs.

Lonza Group has incurred, and expects to continue to incur, certain non-recurring costs associated with combining the operations of the two companies. The substantial majority of non-recurring costs resulting from the Proposed Acquisition will be comprised of transaction costs related to the Proposed Acquisition and financing arrangements and employment-related costs. Lonza Group also will incur transaction fees and costs related to formulating and implementing integration plans. Lonza Group continues to assess the magnitude of these costs and additional unanticipated costs may be incurred in the integration of the two businesses.

Lonza Group is subject to currency risk in respect of the consideration payable in connection with the Proposed Acquisition.

The consideration payable by Lonza Group in connection with the Proposed Acquisition at closing will be paid in US dollars while some of the financing it expects to raise to fund the consideration is expected to be denominated in Swiss francs. Lonza Group has entered into certain conditional hedging arrangements to partially mitigate the risk in connection with fluctuations in the exchange rate between the US dollar and the Swiss franc. Nevertheless, these arrangements may not entirely or only partially eliminate the risk arising from currency fluctuations. At the same time, if the Proposed Acquisition does not close and the conditions to Lonza Group's obligations under these hedging arrangements have been met, Lonza Group would continue to have obligations under these hedging arrangements that it has entered into in anticipation of the consummation of the Proposed Acquisition, and may, potentially, suffer losses thereunder.

Lonza Group does not currently control Capsugel and its subsidiaries and will not control Capsugel and its subsidiaries until the completion of the Proposed Acquisition.

Lonza Group will not obtain control of Capsugel and its subsidiaries until completion of the Proposed Acquisition. No assurance can be given that Capsugel will operate its business during the period prior to completion of the Proposed Acquisition in the same way that Lonza Group would. During this period, the stock purchase agreement provides that Capsugel must operate its business in a manner consistent with its past practice but Lonza Group only has limited influence over how Capsugel will conduct its business and pursue its strategy.

Failure to complete the Proposed Acquisition could negatively impact the stock price of Lonza and the future business and financial results of Lonza Group.

If the Proposed Acquisition is not completed for any reason, the ongoing business of Lonza Group may be adversely affected and, without realizing any of the benefits of having completed the Proposed Acquisition, Lonza Group will be subject to a number of risks, including the following:

- Lonza Group may experience negative reactions from the financial markets, including negative impacts on Lonza's stock price;
- Lonza Group will be required to pay significant costs relating to the Proposed Acquisition, whether or not the Proposed Acquisition is completed;
- Lonza may have already completed an equity offering, in which case Lonza Group will need to find an alternative use of any proceeds of such offering; and
- matters relating to the Proposed Acquisition (including integration planning) will require substantial commitments of time and resources by Lonza Group's management, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to Lonza Group as an independent company.

If the Proposed Acquisition is not completed, the risks described above may materialize and they may adversely affect Lonza Group's business, results of operations, financial condition, prospects and stock price. In addition, Lonza Group could be subject to litigation related to any failure to complete the Proposed Acquisition or related to any enforcement proceeding commenced against Lonza Group to compel it to perform its obligations under the stock purchase agreement.