Lonza

Results 2002

Financial highlights

million CHF	2001	2002
Net sales	2 521	**2 536**
Change in %		0.6
EBITDA	570	**575**
Change in %		0.9
EBITDA margin in %	22.6	**22.7**
Operating income	413	**419**
Change in %		1.5
Operating margin in %	16.4	**16.5**
Operating income from discontinuing operations	33	**0**
Change in %		na
Operating income Group	446	**419**
Change in %		(6.1)
Non-recurring items	101	**(112)**
EBIT	542	**302**
Change in %		(44.3)
Net income	402	**221**
Change in %		(45.0)
Cash flow	611	**450**
Change in %		(26.4)
Net debt	514	**869**
Debt-equity ratio	0.32	**0.70**
Change in %		118.8
EPS (CHF) before non-recurring items	5.80	**6.12**
Change in %		5.5
EPS (CHF) after non-recurring items	7.43	**4.55**
Change in %		(38.8)
Number of employees	6 210	**6 216**
Change in %		0.1

Life Sciences Operations

million CHF	2001	2002
Net Sales	1 868	**1 938**
Change in %		3.7
EBITDA	480	**503**
Change in %		4.8
EBITDA margin in %	25.7	**26.0**
Operating income	357	**371**
Change in %		3.9
Operating margin in %	19.1	**19.1**

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In 2002 Lonza Group topped the previous year's record performance, with operating income (exclusive of non-recurring gains/costs in both 2001 and 2002) up from CHF 413 million to CHF 419 million. This development was driven by marked advances in the Biotechnology business and higher or stable results in the more traditional chemical activities, and was achieved despite difficult market conditions in 2002 for Exclusive Synthesis. Earnings per share (excluding non-recurring items) for 2002 increased by 5.5% to CHF 6.12. The Board of Directors will propose an unchanged dividend of CHF 1.90 per share.

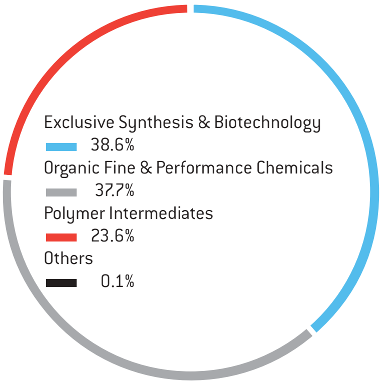
Overview – Group sales on a comparable basis (restated to take account of the re-integration of Polymer Intermediates into continuing operations) slightly increased in 2002 to CHF 2 536 million, up 0.6% on the prior year. Adjusted for the impact of currency fluctuations, the increase in sales amounted to 3.7%. Operating income (before non-recurring items) of CHF 419 million exceeded the previous year's record level of CHF 413 million, despite lower contribution from the Polymer Intermediates business and margin pressure in the Exclusive Synthesis business. Operating margins increased to 16.5%.

Business Summary – While our Biotechnology activities, in both the microbial and mammalian sectors, maintained the expected healthy growth in sales and operating profits, the Exclusive Synthesis business faced challenging market conditions. A combination of lower demand from customers in the pharma industry and increased competition from some new market entrants impacted on operating income, despite only marginally lower sales. The Organic Fine & Performance Chemicals division delivered good results in both sales and operating income, despite the slowdown in all the major economies and higher raw material prices. Sales in the Group's Polymer Intermediates division, which is more cyclical and sensitive to changes in raw material prices, were below the previous year's levels, with lower operating income and margins.

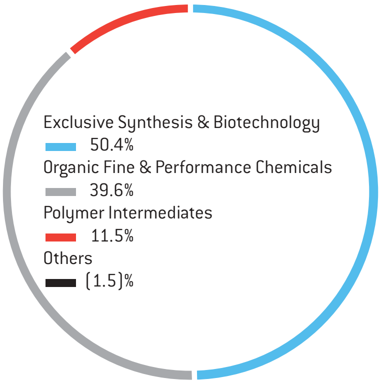
Restructuring of the Exclusive Synthesis business – Given the challenges in the area of exclusive chemical synthesis, Lonza moved proactively to reorganize its activities in both the USA and Switzerland. The restructuring led to the closure of our Los Angeles, CA (USA) production facility and additional measures at the two remaining facilities in Visp (CH) and Riverside, PA (USA) affecting more than 220 positions. The measures required a non-recurring pre-tax charge of CHF 112 million in 2002 (CHF 76 million after-tax), of which approximately CHF 25 million will affect cash. The expected annual cost savings will amount to minimum CHF 40 million. Together with our healthy R&D pipeline we now have a good basis for further growth and expect to extend our leadership position in chemical custom manufacturing.

Share Repurchase Programs/Convertible Bond – Another share buyback program was completed in February 2002. As a result, the Shareholders' Meeting of 27 March 2002 approved the cancellation of 4 810 070 shares, or 8.7% of the outstanding share capital. Additionally, a share split of 1:10, reducing the nominal value of the Lonza shares to CHF 1, was approved to bring the structure more into line with current stock exchange standards.
In June 2002, Lonza issued a 2% convertible bond and submitted a parallel public offer to repurchase 2 222 222 of the outstanding registered

Industrial sales by division



Operating income by division



shares of Lonza Group for CHF 118 per share to fulfill the conversion rights. In the absence of the previously planned divestiture of the Polymer Intermediates division, the Group's net debt position increased to CHF 869 million compared with CHF 514 million at the end of 2001. Lower interest rates throughout the year resulted in lower net financial expenses of CHF 19 million compared with CHF 29 million in 2001 despite the higher gearing. Due to restructuring activities in the USA and tax optimization possibilities, the tax rate of 22% is still at the lower end of the Group's expected range.
As a result, Group net income excluding non-recurring gains/costs was CHF 297 million compared with CHF 314 million in 2001. Net income including the non-recurring items amounted to CHF 221 million.
Capital expenditure in 2002 increased to CHF 350 million compared with CHF 271 million in the prior year, due to the large investment projects currently being implemented by our Biotechnology business.

Divestitures – Despite Lonza's clear strategic commitment to focus on its life sciences activities, the Board of Directors decided in June to postpone the previously announced divestiture of the Polymer Intermediates business. This decision, based on economic considerations, has the clear aim of further enhancing the division's performance and obtaining the fair market value in a medium-term divestiture or alternative exit strategy. At the end of the year, Lonza Inc. sold its oleochemical fatty acid and glycerine operations, located in Painesville, OH (USA), to Twin Rivers Technology, which is headquartered in Quincy, MA (USA).

Shareholder Structure – At the end of July, BZ Group Holding - at that time the Group's biggest shareholder - informed Lonza about the sale of its Vision Fund containing approximately 10% of the Lonza shares to Zuercher Kantonalbank. On 4 October 2002, the Board of Directors of Lonza Group was informed by BZ Group Holding of its intention to sell the remaining 19.8% stake it held in Lonza. As a consequence, Martin Ebner, Chairman of the Board of Directors of Lonza, stepped down as Director of the company with immediate effect. Sergio Marchionne, formerly Vice-Chairman of the Board, was appointed non-executive Chairman. As of 29 October 2002, the stakes of Zuercher Kantonalbank and BZ Group Holding both fell below the threshold of 5% of the voting rights of Lonza Group Ltd. Their shares (approximately 26% of the shares outstanding) were sold to over 200 institutional shareholders, with no allocation in excess of 3% of the total shares outstanding.

Outlook – The Group believes that the Exclusive Synthesis business reached its trough of performance in 2002 and will recover substantially in 2003. Coupled with strong positions in biotechnology, the Group expects to improve 2002 operating performance. The Group confirms its targets for 2005 as communicated in July of last year.

Sergio Marchionne
Chairman of the Board

Markus Gemuend
Chief Executive Officer

Consolidated income statement

million CHF	2001	2002
Net sales	2 521	**2 536**
Operating expenses	(2 108)	**(2 117)**
Operating income	413	**419**
Operating income from disc. operations	33	**0**
Operating income Group	446	**419**
Non-recurring items	101	**(112)**
Goodwill	(5)	**(5)**
EBIT	542	**302**
Financial expenses	(29)	**(19)**
Pre-tax earnings	513	**283**
Income taxes	(110)	**(62)**
Net income incl. minorities	403	**221**
Minorities	(1)	**0**
Net income	402	**221**

Consolidated cash flow statement

million CHF	2001	2002
Net income	402	**221**
Depreciation	169	**233**
Change in long-term provisions	44	**(2)**
Expenses (income) from equity method	(4)	**(2)**
Cash flow	611	**450**
Investments	271	**350**

Consolidated balance sheet

million CHF	2001	2002
Fixed assets	2 107	**2 054**
Cash and cash equivalents	565	**55**
Advances and loans	22	**28**
Other current assets	1 271	**1 135**
Assets held pending disposition	19	**0**
Total assets	3 984	**3 272**
Shareholders' equity	1 586	**1 235**
Minority interests	2	**0**
Long-term debts	49	**317**
Short-term debts	1 052	**635**
Provisions and other liabilities	1 295	**1 085**
Total liabilities and shareholders' equity	3 984	**3 272**

Changes in shareholders' equity

million CHF	2001	2002
At 31 12 2000/31 12 2001	**1 854**	**1 586**
Dividend	(82)	**(95)**
Buy-back of own shares	(537)	**(480)**
Other comprehensive income	(51)	**3**
Net income	402	**221**
At 31 12 2001/31 12 2002	**1 586**	**1 235**

Accounting principles – These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 31 December 2002, which have been drawn up according to uniform Group accounting principles consistent with those adopted by Lonza Group in its consolidated financial statements for the year ended 31 December 2001.

The condensed consolidated accounts are rendered in conformity with the existing International Financial Reporting Standards (IFRS), published by the International Accounting Standards Board (IASB).

For comparative purpose, previous year's segment data has been reclassified to reflect the current corporate structure.

Exchange rates

	Balance sheet		Income statement	
	31 12 01	31 12 02	2001	2002
		rate CHF		average rate CHF
Dollar	1.68	**1.39**	1.69	**1.56**
Pound Sterling	2.43	**2.23**	2.43	**2.34**
Euro	1.48	**1.45**	1.51	**1.47**

Sales from divested Energy activities of CHF 97 million, operating income of CHF 33 million and EBITDA of CHF 40 million are excluded from sales, operating income and EBITDA in 2001. All other data, including net income, include the impact from divestitures in 2001.

Exclusive Synthesis & Biotechnology

million CHF	2001	2002
Net sales	891	**978**
Change in %		9.8
Change due to		
Volume and prices		**109**
Currency translation		**(22)**
Scope of consolidation		**0**
Operating income	204	**211**
Change in %		3.4
Operating margin	22.9	**21.6**
EBITDA	273	**293**
Change in %		7.3
EBITDA as % of sales	30.6	**30.0**

The division's sales of CHF 978 million were up by 9.8% from 2001 (12.5% on a currency-equivalent basis). The increase is the result of combined strong growth in Biotechnology and a slow down in the Exclusive Synthesis business. Despite the previously communicated challenges for the Exclusive Synthesis business which led to restructuring, the division was able to increase last year's record operating performance, reflecting the strong and sustained growth in Biotechnology. Operating income of CHF 211 million exceeded the record level of the previous year by 3.4%, with operating margins declining from 22.9% to 21.6% due to margin pressure in Exclusive Synthesis and the build-up in staffing relating to expansion projects in Biotechnology.

Exclusive Synthesis – Our chemical custom manufacturing of intermediates and active ingredients for the pharmaceutical industry had a challenging year. The main reasons were delayed product approvals and destocking at customers, coupled with increased competition for the remaining business. However, sales from some of our major established products in the HIV or cardiovascular indications remained strong, providing a great degree of stability. Additionally, markets for our peptides – one of the newer technologies – continued to grow as more large-volume peptides progressed through clinical trials.
Increased marketing initiatives yielded a substantially strengthened R&D portfolio. Together with the positive effects of the restructuring program in the second semester of 2002, we now have a good position for future growth, based on our pruned asset portfolio geared towards high value cGMP manufacture.
In a generally flat market in 2002, our agrochemicals business performed above expectations due to good demand of established products.

Biotechnology – Lonza Biologics' (mammalian cell culture fermentation) sales and operating income increased significantly, thanks to a strong project pipeline as well as our full-service approach, which offers expertise from cell line construction to "in market" product supply. The large-scale expansion project in Portsmouth, NH (USA) remains on schedule. cGMP production from this facility will commence in mid-2004. A significant milestone at year-end was the signing of a long-term agreement with Alexion Pharmaceuticals for one-third of the new 60 000 liter capacity. The other two-thirds of the capacity are under option to contract, and final agreements are expected to be signed during the course of 2003. In the last 18 months, Lonza Biologics has successfully completed 12 regulatory inspections. We are continuously improving our patented GS (glutamine synthetase) system to maintain its strong position as one of the leading expression systems for monoclonal antibodies.

Lonza Biotec's (microbial fermentation) sales and operating income in our activities rose further, driven primarily by our contract manufacturing activities. New research findings in sports nutrition and the achievement of GRAS ("Generally Recognised As Safe") status in the USA enabled us to expand our L-Carnitine offerings into functional food products. The demand for exclusive fermentation products developed in line with expectations. In addition to securing a first project in the protein field, we also initiated an R&D project to develop a proprietary microbial expression system. Our current investment projects in Visp (CH) and Kourim (CZ) continued on schedule.

Organic Fine & Performance Chemicals

million CHF	2001	2002
Net sales	973	**957**
Change in %		(1.6)
Change due to		
Volume and prices		**15**
Currency translation		**(31)**
Scope of consolidation		**0**
Operating income	160	**166**
Change in %		3.8
Operating margin	16.4	**17.3**
EBITDA	214	**216**
Change in %		0.9
EBITDA as % of sales	22.0	**22.6**

The division's sales decreased slightly to CHF 957 million, down 1.6% on the prior year and up 1.6% on a currency-adjusted basis. Operating income increased to CHF 166 million, 3.8% ahead of the previous year's level of CHF 160 million. Operating margins increased to 17.3% (16.4% in 2001), despite the higher raw material costs which persisted throughout the year.

Organic Fine Chemicals – There was strong demand for intermediates for pharma and agro applications, as well as for vitamins. At Lonza's manufacturing sites for nicotinates (a vitamin of the B complex) in Visp (CH) and Guangzhou (China), capacity utilization was high. Market prices for nicotinates recovered from an all-time low in the previous year. Sales of metaldehyde (Meta®) increased slightly. The economic slowdown in the USA, Europe and certain parts of the Far East had a negative impact on the demand for intermediates for industrial applications. Margin compression due to existing overcapacity in the area of certain organic chemicals, combined with higher raw material prices were counter-balanced by cost reduction and efficiency improvement measures.

The Organic Fine Chemicals business sector continued to focus its development on non-cGMP intermediates for the life sciences industry. A revamped multipurpose plant for non-cGMP intermediates was successfully put into operation and several new molecules were produced applying specific Lonza technologies. A new malononitrile reactor technology went on stream and is performing as expected. First commercial quantities of arylides (intermediates for pigment production) based on a new production technology have been produced. A new plant for ketene reactions was approved and will be operational by mid-2003.

Performance Chemicals – Despite sluggish economic conditions throughout most of the world, Performance Chemicals was able to grow last year's sales in local currencies by concentrating its efforts in selected, responsive market segments. The uneven economic situation, above all in North America and Europe, was addressed by focusing marketing, sales and research efforts on the specific market segments of household hygiene, industrial and institutional hygiene, recreational water treatment, pulp and paper, personal care, wood protection, and processed food ingredients. These segments have continued to grow throughout the current world economic slowdown, and in the areas of recreational water and wood protection growth opportunities for Lonza have increased.

The cyclical nature of the markets for oleochemicals and industrial processing aids, as well as the pressure on prices due to manufacturing overcapacity, prompted Performance Chemicals to shift the emphasis away from these areas. With the sale of our Painesville activities we exited a non-profitable oleochemicals business in 2002.

In addition to continuing the launch process for new biocidal products, the business sector signed exclusive licenses for new antimicrobial technologies, introduced new preservatives and implemented an agreement with a toll manufacturer of quaternary ammonium compounds in Asia.

Polymer Intermediates

million CHF	2001	2002
Net sales	653	**598**
Change in %		(8.4)
Change due to		
Volume and prices		(33)
Currency translation		(22)
Scope of consolidation		0
Operating income	56	**48**
Change in %		(14.3)
Operating margin	8.6	**8.0**
EBITDA	90	**72**
Change in %		(20.0)
EBITDA as % of sales	13.8	**12.0**

The division's sales of CHF 598 million (8.4% below 2001) were satisfactory compared with the previous year's levels, given the weakness in some of the business sector's end markets (especially the Italian automotive industry) due to softening of the European economy. Positive trends in niche products such as special esters and special plasticizers only partly offset weak performance in other more commodity-like products. With higher costs in all of our raw materials only partly passed on to customers, operating profits in 2002 decreased by CHF 8 million to CHF 48 million, while margins dropped to 8% compared with 8.6% the previous year. Nevertheless the business remained a strong cash generator for the other activities.

Stable market environments in Europe and high spot demand from China during the first five months of 2002 led to a marked recovery in margins for phthalic anhydride and derivatives as well as general-purpose plasticizers. However, the pronounced downturn in the automotive sector, particularly in Italy, and lack of demand from the Far East negatively affected volumes and margins for plasticizers for the rest of the year, and led to a lower overall result.

The higher than expected demand for maleic derivatives only partly offset the lower sales of maleic anhydride in the unsaturated polyester sector, which required significantly lower volumes. Margins fell due to the sharp increase in raw material costs. To improve the balance of offer and demand, a 15 kt/year maleic anhydride production line was shut down in Scanzorosciate (IT) in the fourth quarter of 2002.

Stronger than expected sales and margins in special plasticizers offset the negative impact of low demand for trimellitic anhydride products. New competition from China entered the European and the US markets at lower prices but with inferior product quality.

Difficult conditions in our end markets (construction, automotive) prevented higher sales and margins in our compounds and resins business, which was additionally impacted by the rising raw material bill.

Owing to the worldwide lack of new investment in phthalic and maleic anhydride plants, results from our catalyst business were lower than originally expected. However, strong R&D efforts produced some higher margin catalysts. The business with customized catalysts achieved reasonable sales levels and looks bound for additional future growth.

The production capacity of our isophthalic acid plant in Singapore was fully utilized in 2002. Although market demand for isophthalic acid was strong throughout the year, prices remained at very low levels due to overcapacity. A realignment of our manufacturing processes is expected to yield improvements in 2003.