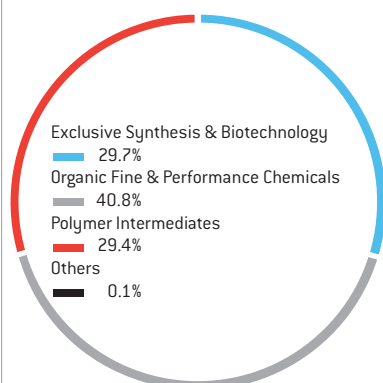


Half-year report 2004

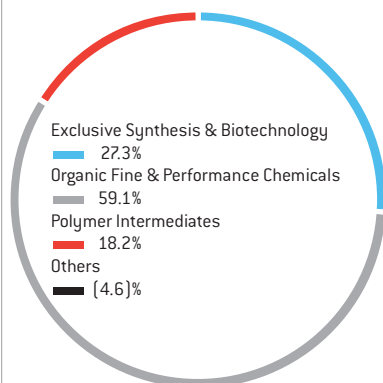
Financial highlights first half-year

million CHF	2003	2004	
Net sales	1 157	1 088	<p>As announced in our full-year 2003 results, 2004 will be a rebasing year for our businesses. The combination of factors which affected the performance of Lonza in the second half of 2003 continued to have a negative impact in the first semester of 2004. In addition, the start-up cost for the Portsmouth, NH (USA) plant had to be absorbed. Compared with the first half of 2003, Group operating income decreased by 37.1% to CHF 110 million, with sales of CHF 1 088 million, representing a 6.0% decrease on the prior year, 6.6% in constant currencies. Earnings per share decreased from CHF 2.54 (before non-recurring items in 2003) to CHF 1.48 in 2004.</p> <p>Overview – Group sales decreased in the first half of 2004 to CHF 1 088 million, down 6.0% and 6.6% on a currency-adjusted basis. Operating income of CHF 110 million was 37.1% below the previous year's level of CHF 175 million. Operating margins decreased to 10.1% from 15.1% in 2003.</p> <p>Our custom manufacturing plants continued to operate at low levels of utilization in the first half of the year. Divisional sales were down by 23.1% to CHF 323 million and operating margins dropped to 9.3% from 20.2% in the same period of the previous year, but were up 2% on the second half of 2003 thanks to the results of our restructuring program and improvements in the product mix.</p> <p>The Exclusive Synthesis business faced a very competitive environment, with persistently low capacity utilization and margin pressure, mainly due to destocking and insourcing of existing products by pharma customers. In the area of biotransformation, sales dropped because of a delayed product introduction. Strengthening of the project portfolio continued, with all R&D resources well-utilized.</p> <p>Our Biopharmaceuticals business (mammalian cell culture fermentation) was still suffering from last year's cancellation of projects affecting the 2 000L and 5 000L fermenters. One-time start-up expenses – ramp-up of personnel, cleaning and disinfection cost and others – for the new 20 000L fermenters had an additional negative effect on profits. The start-up went according to plan with the successful rollout of the first qualification batches. The projected utilization of the new plant for 2005 and beyond is very satisfactory.</p> <p>In our Organic Fine & Performance Chemicals businesses, sales increased slightly to CHF 444 million, up 1.4%. Operating margins decreased from 17.4% in 2003 to 14.6% in 2004 due to weather-affected decline in demand for Meta®, currency effects, high raw material and energy cost, the chicken flu epidemic and competitive pressure in specific market segments. Plant utilization was high and market shares were successfully defended.</p> <p>Polymer Intermediates achieved sales of 320 million, 7.4% above the previous year's figure. Operating margins remained basically stable at 6.3% (6.4% in 2003). The Euro/US Dollar exchange rate, the raw material cost hike and plant shutdowns prevented a margin increase despite generally better market demand.</p> <p>The Group's net income was CHF 70 million compared with CHF 83 million for the same period of last year. Cash flow before the change in net working capital of CHF 106 million was 47.5% lower than last year.</p>
Change in %		(6.0)	
EBITDA	254	188	
Change in %		(26.0)	
EBITDA margin in %	22.0	17.3	
Operating income	175	110	
Change in %		(37.1)	
Operating margin in %	15.1	10.1	
Non-recurring items	(52)	0	
EBIT	121	107	
Change in %		(11.6)	
Net income (before non-recurring items)	120	70	
Net income	83	70	
Change in %		(15.7)	
Cash flow before change in net working capital	202	106	
Change in %		(47.5)	
Net debt	994	1 071	
Debt-equity ratio	0.80	0.86	
Change in %		7.5	
EPS basic (CHF) before non-recurring items	2.54	1.48	
Change in %		(41.7)	
EPS basic (CHF) after non-recurring items	1.75	1.48	
Change in %		(15.4)	
Number of employees	5 818	5 669	
Change in %		(2.6)	

**Industrial sales by division
first half-year**



**Operating income by division
first half-year**



Net debt and capital expenditures – Due to the lower results and the high capital expenditure program in the second half of 2003, the Group's net debt position increased to CHF 1 071 million compared with CHF 994 million a year ago. Capital expenditure of CHF 136 million was down on last year's figure (CHF 220 million), which demonstrates that the current investment cycle in the biotechnology area is nearing completion.

Efficiency improvements and overhead cost reduction – As announced, Lonza started a company-wide restructuring initiative in the first half of 2003 to improve efficiency and reduce overhead cost. One year on, we have achieved 100% of the planned headcount reduction and 80% of the expected cost savings of CHF 100 million p.a. The overall headcount (down from 5 818 to 5 669) was also affected by hiring for the new activities in Portsmouth, NH (USA) and Guangzhou (PRC).

Changes at senior management and board level – Effective 1 June 2004, the Board of Directors appointed Stefan Borgas as Chief Executive Officer. Stefan Borgas (40) joined Lonza after a 15-year international career with BASF Group.

Sergio Marchionne, currently Chairman of the Board of Directors, has informed the Board that he will continue as chairman until 2005 but will not seek re-election at Lonza's next annual shareholders' meeting.

Outlook for 2004 – The Group confirms the earnings guidance for 2004 with a minimum level of operating income of CHF 225 million and EPS of CHF 3.00. The start-up of the new plant in Portsmouth will contribute to an improved performance in 2005.

Contacts

Lonza Group Ltd
Investor Relations
Roland Waibel
Tel +41 61 316 84 55
Fax +41 61 316 82 20
investor.relations@lonza.com

Corporate Communications
Walter Eschenmoser
Tel +41 61 316 83 63
Fax +41 61 316 82 20
media@lonza.com

Lonza Group Ltd
Muenchensteinerstrasse 38
CH-4002 Basel, Switzerland
www.lonza.com

Sergio Marchionne
Chairman of the Board

Stefan Borgas
Chief Executive Officer

Consolidated income statement first half-year

million CHF	2003	2004
Net sales	1 157	1 088
Operating expenses	(982)	(978)
Operating income	175	110
Non-recurring items	(52)	0
Goodwill amortization	(2)	(3)
EBIT	121	107
Financial expenses	(12)	(14)
Pre-tax earnings	109	93
Income taxes	(26)	(23)
Net income incl. minorities	83	70
Minorities	0	0
Net income	83	70

Consolidated cash flow statement first half-year (restated 2003)

EBIT	121	107
Adjustment for non-cash items	116	45
Income taxes and interests paid	(35)	(46)
Cash flow before change in net working capital	202	106
(Increase)/decrease of net working capital	(44)	(33)
Increase/(decrease) of other payables net	(29)	21
Net cash (used for) provided by operating activities	129	94
Purchase of fixed assets	(220)	(136)
Net purchase of other assets and disposals	44	13
Interests and dividend received	4	7
Net cash (used for) provided by investing activities	(172)	(116)
(Decrease)/increase of capital	3	0
(Decrease)/increase in debt	178	100
Changes in minority interests	0	0
Dividends paid	(90)	(62)
Net cash (used for) provided by financing activities	91	38
Effect of currency translation on cash	1	0
Net (decrease)/increase in cash and cash equivalents	49	16
Cash and cash equivalents at 1 January	55	45
Cash and cash equivalents at 30 June	104	61

Consolidated balance sheet as per 31 December 2003 and 30 June 2004

Fixed assets	2 171	2 222
Cash and cash equivalents	45	61
Advances and loans	43	34
Other current assets	1 053	1 055
Total assets	3 312	3 372
Shareholders' equity	1 235	1 244
Minority interests	0	0
Long-term debts	687	687
Short-term debts	379	479
Provisions and other liabilities	1 011	962
Total liabilities and shareholders' equity	3 312	3 372

Changes in shareholders' equity

	2003	2004
Beginning of year	1 235	1 235
Dividend	(90)	(62)
Other comprehensive income	22	1
Net income	83	70
At 30 June	1 250	1 244

Accounting principles – These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 30 June 2004, 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 2003.

The condensed consolidated accounts are rendered in conformity with the existing International Financial Reporting Standards (IFRS) and the incorporated International Accounting Standards 34 Interim Financial Reporting (IAS 34), issued by the International Accounting Standards Board (IASB).

Exchange rates	Balance sheet		Income statement half-year	
	31 12 03	30 06 04	2003 average rate CHF	2004 average rate CHF
US Dollar	1.24	1.25	1.35	1.27
Pound				
Sterling	2.20	2.27	2.18	2.31
Euro	1.56	1.52	1.49	1.55

Earnings per share diluted

	2003	2004
EPS diluted (CHF) before non-recurring items	2.48	1.49
Change in %		(39.9)
EPS diluted (CHF) after non-recurring items	1.74	1.49
Change in %		(14.4)

Exclusive Synthesis & Biotechnology

First half-year

million CHF	2003	2004	
Net sales	420	323	<p>Our custom manufacturing plants in the areas of chemical synthesis and biotechnology continued to operate at low levels of utilization due to persistently difficult market conditions. Sales of CHF 323 million in the first half of 2004 were 23.1% [24.4% on a currency-adjusted basis] below the previous year's figure of CHF 420 million. Operating income fell from CHF 85 million to CHF 30 million, with the operating margin decreasing from 20.2% to 9.3%.</p> <p>Small Molecules (chemical exclusive synthesis and biotransformation) – In the reporting period, as in the second half of 2003, destocking and insourcing of existing products by pharma customers, as well as general overcapacity, resulted in reduced sales for Lonza's chemical synthesis activities compared with the same period a year ago. Margins were up on the second half of 2003 thanks to improvements in the product mix and successful implementation of the cost-reduction program. Compared with the first half of 2003, biotransformation sales were down due to a delayed product launch. Margins were squeezed as a result of increased competition and a shifting product mix. The state-of-the-art microbial facility for active pharmaceutical ingredients or intermediates went on stream, initially with the production of a lower-margin, food-grade enzyme. The L-Carnitine business remained strong. The quality of our R&D portfolio was strengthened by new projects in all phases of clinical testing, mainly phase III. The chemical small-scale plant which went on stream in 2003 is running at a high capacity level. The extended service offering was favorably accepted by all customer segments. In the peptide business we expanded our lab and production activities. The product pipeline was strengthened mainly by phase II/III and launched compounds. Two licensing contracts for new technologies (Aplagen and RNATech) were signed.</p> <p>Biopharmaceuticals (mammalian cell-culture technology and microbial fermentation) – Compared with last year, sales were adversely affected by ongoing low capacity utilization of the 2 000L and 5 000L systems, the time necessary to acquire new business being longer than estimated. The project pipeline for the 5 000L capacity vessel looks more promising than for the 2 000L facility. The construction and commissioning of the first 20 000L mammalian cell fermenters in Portsmouth, NH (USA) are fully on schedule. The plant's construction and start-up cost had a negative impact on the sector's performance in the first half of 2004. First qualification batches have been successfully produced and final validation is on track. Customer demand for these 20 000L vessels continues to be strong. The skills acquired through the construction of the 20 000L facility will allow Lonza to rapidly expand capacity in response to new projects committed by customers, while ensuring timely and fast implementation and technical success. Our R&D groups are continually improving mammalian cell fermentation processes to gain advantages in terms of efficiency and lower cost of goods. Monoclonal antibody yields in excess of four grams per liter have been achieved in a chemically defined medium through process optimization and improvements to Lonza's proprietary GS expression system. The small-scale plant for microbial production of biopharmaceuticals in Visp (CH) remains on schedule and will come on line in the second half of 2004.</p>
Change in %		(23.1)	
Change due to			
Volume and prices		(104)	
Currency translation		7	
Scope of consolidation		0	
Operating income	85	30	
Change in %		(64.7)	
Operating margin in %	20.2	9.3	
EBITDA	122	66	
Change in %		(45.9)	
EBITDA as % of sales	29.0	20.4	

Organic Fine & Performance Chemicals

First half-year

million CHF	2003	2004	
Net sales	438	444	<p>The division's sales increased slightly to CHF 444 million, 1.4% above the previous year's level and 3.2% higher on a currency-adjusted basis. Due to competitive pressure in some market segments, higher raw material cost as well as a weak US currency, operating income declined to CHF 65 million, down 14.5% on last year, while margins slipped from 17.4% in the same period of 2003 to 14.6%.</p> <p>The Organic Fine & Performance Chemicals businesses were affected in some areas by continuing weak market conditions and strong pressure from Asian competitors. Despite these negative factors we were able to operate our plants at high utilization levels and successfully defend our market shares.</p> <p>The demand for intermediates for the production of vitamins was influenced by the dismal situation in the vitamins business. Volumes were satisfactory while sales prices remained under pressure.</p> <p>Sales of nicotinates (vitamin B3) were negatively influenced at the beginning of the year by the global outbreak of chicken flu. Market prices fell and have not recovered since.</p> <p>The diketene derivatives business continued to suffer from the effect of strong competition from Asia. The new plant for the continuous production of the diketene derivate acetoacetanilide in Visp (CH) – which gives us a positive impact on the manufacturing cost – is running at full capacity. The onward development of this new technology for other arylides is well advanced and will further improve our cost structure.</p> <p>Our intermediates designed for pharmaceuticals, agrochemicals and industrial applications performed well in terms of sales volumes. However, margins were squeezed by intense competition and other adverse factors. The demand for Meta® (for snail and slug control) was very weak due to high stocks of end-products (pellets) as a result of last year's dry summer in Europe.</p> <p>Strong sales of cyanate esters reflect the healthy state of the electronics and aerospace industries.</p> <p>The introduction of Carboquat® – a chloride-free, non-corrosive wood protection biocide – brought a significant expansion of our market share. The new production facility in Mapleton, IL (USA) is running at full capacity, and debottlenecking is already underway. Sales of performance chemicals in the different application fields developed in line with expectations. Price increases were implemented for food additives, functional chemicals and quaternary ammonium biocides.</p> <p>The project for a 6 000 metric-ton nicotinamide plant (quickly expandable to 9 000 metric-tons) in Guangzhou (PRC) is on target with the expected start up in mid-2005.</p> <p>Two new technology projects for niacin are under development and will increase our market leadership.</p>
Change in %		1.4	
Change due to			
Volume and prices		14	
Currency translation		(8)	
Scope of consolidation		0	
Operating income	76	65	
Change in %		(14.5)	
Operating margin in %	17.4	14.6	
EBITDA	100	90	
Change in %		(10.0)	
EBITDA as % of sales	22.8	20.3	

Polymer Intermediates

First half-year

million CHF	2003	2004	
Net sales	298	320	<p>The recovery in some areas of our Polymer Intermediates business increased our sales to CHF 320 million, up 7.4% in comparison with the same period last year and 4.6% on a currency-adjusted basis. Operating income of CHF 20 million was on previous year's level and operating margins were nearly constant at 6.3% (6.4% in 2003).</p> <p>The division's business was adversely affected by continually rising raw material prices and significantly reduced exports of higher margin products to Asia, mainly due to a persistent weakness of the US currency versus the Euro. The temporary shutdown for maintenance of our plants in Italy and Singapore resulted in additional cost. All these negative effects offset the positive impact of the cost-cutting measures, sales price increases and higher demand in the first half of 2004.</p> <p>Sales of phthalic anhydride and plasticizers improved due to the recovery of the automotive and building sectors in southern Europe. The shortage of oxo-alcohols led to higher sales prices and subsequently to a recovery in margins for plasticizers. The shutdown of competitors' plants manufacturing plasticizers in Spain and phthalic anhydride in the United Kingdom stabilized the markets. We expect little change in 2004.</p> <p>Sales of maleic anhydride and derivatives in Europe reached the expected volumes. Exports to the USA and the Far East suffered as a result of the strong Euro.</p> <p>Our catalysts business was slowed by the lack of new investment in phthalic and maleic anhydrides production units as well as competitive pressure.</p> <p>Trimellitic anhydride volumes were in line with expectations. However, sales to Asia decreased due to currency impacts.</p> <p>Specialty plasticizers confirmed the expected positive trend, both in terms of volumes and margins. New products requested by the automotive and lube-oil sectors were growth drivers.</p> <p>Resins performed well in terms of volume. The good performance was offset by high raw material cost, while compounds performed in line with expectations thanks to good demand from the electrical and transportation industries.</p> <p>Our business with pure isophthalic acid reached the planned volumes, while margins remained at an unsatisfactory level. Sales for PET applications were strong especially in Asia and Mexico.</p>
Change in %		7.4	
Change due to			
Volume and prices		14	
Currency translation		8	
Scope of consolidation		0	
Operating income	19	20	
Change in %		5.3	
Operating margin in %	6.4	6.3	
EBITDA	37	38	
Change in %		2.7	
EBITDA as % of sales	12.4	11.9	