Lonza group

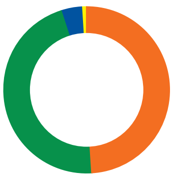
Half-year report 2000

Financial highlights first half-year

million CHF	1999	2000
	combined proforma	
Net sales[1]	1 080	**1 148**
Change in %		+ 6
Operating income[1]	192	**198**
Change in %		+ 3
EBITDA[1]	267	**271**
Change in %		+ 1
Operating income Group	187	**186**
Change in %		– 1
Pre-tax earnings	185	**180**
Change in %		– 3
Net income	133	**141**
Change in %		+ 6
Cash flow	209	**225**
Change in %		+ 8
Debt-equity ratio	0.02	**(0.04)**
Change in %		n.a.
Basic earnings per share	21.6	**22.1**
Change in %		+ 2
Diluted earnings per share	21.6	**22.1**
Change in %		+ 2
Number of employees	5 673	**5 684**
Change in %		+ 0.2

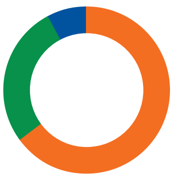
[1] see Note page 3

Industrial sales by division first half-year



- Fine chemicals 49%
- Performance chemicals & Polymer intermediates 47%
- Energy 4%
- Others <1%

Operating income by division first half-year



- Fine chemicals 66%
- Performance chemicals & Polymer intermediates 28%
- Energy 8%
- Others –2%

Lonza Group advanced net income to CHF 141 million, 6% up on an exceptionally strong prior year. Despite the negative impact of the isophthalic acid operation in Singapore, from which the Group has now decided to exit and continuing margin compression for polymer intermediates, operating income remained nearly constant at CHF 186 million. The second semester is expected to be much stronger, driven by strong custom manufacturing volumes and margin recovery in our polymer intermediates businesses.

Overview

With sales of CHF 1148 million, 6% higher than last year, operating income from continuing operations reached CHF 198 million, 3% up on prior year. A good performance of our fine organic chemicals and biotechnology businesses as well as improved earnings from the energy sector offset the negative impacts from the expected low plant loadings in the exclusive synthesis sector in the first quarter of the year and margin compression in the polymer intermediates business. Group operating margins from continuing operations suffered a small decline from 17.8% to 17.2%.

During the first semester, the Group also decided to divest its isophthalic acid operation in Singapore. This decision has been based on a thorough strategic assessment of the competitive position of this asset, and the firm belief that it should be owned by a more strategically dedicated competitor.

The tax rate for the first half dropped to 22% from 28%, reflecting a shift in the geographic distribution of income. The overall rate for the year is expected to be below 25%.

Cash flow of CHF 225 million exceeded last year's period by 8%. Capital expenditure were down at CHF 85 million, 10% lower than last year.

Prior to 30 June 2000 and as a consequence of the withdrawal of Pechiney from the three-way merger with algroup and Alcan, Lonza Group repaid USD 167 million to algroup in accordance with the terms of the demerger agreement between the two companies.

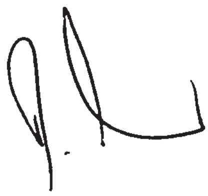
Lonzagroup

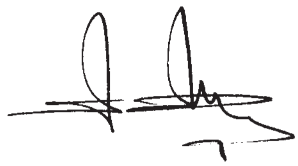
The segmented information presented in this report is now formatted to clearly segregate our fine chemicals operations, given the strategic importance of this sector to the Group's future growth. The remainder of our businesses, performance chemicals and polymer intermediates, have been aggregated in one reporting sector.

Outlook

We expect a stronger second half of the year and 2000 results to exceed those of 1999.

Zurich, August 2000
Lonza Group Ltd





Martin Ebner
Chairman

Sergio Marchionne
Managing Director and
Chief Executive Officer

Contacts

Lonza Group Ltd
Feldeggstrasse 4
8034 Zurich, Switzerland

Corporate Communications
Christine Menz
t +41 1 386 24 95
f +41 1 386 24 90

Investor Relations
Michel Gerber
t +41 1 386 23 14
f +41 1 386 23 17

Internet
http://www.lonzagroup.com

Consolidated income statement first half-year

million CHF	1999	2000
	combined proforma	
Net sales	1 080	**1 148**
Operating expenses	888	**950**
Operating income (continuing operations)	192	**198**
Operating income (discontinuing operations)	(5)	**(12)**
Operating income group	187	**186**
Goodwill amortization	(3)	**(3)**
Financial expenses (net)	1	**(3)**
Ordinary income before tax	185	**180**
Income taxes	(53)	**(39)**
Minority interests	1	**0**
Net income	133	**141**

Consolidated cash flow statement first half-year

million CHF	1999	2000
	combined proforma	
Net income	133	**141**
Depreciation	78	**80**
Change in long-term provisions	(1)	**5**
Expenses (income) from equity method	(1)	**(1)**
Cash flow	209	**225**
Investments	94	**85**

Combined / consolidated balance sheet as per 31 December 1999 and 30 June 2000

million CHF	1999	2000
	combined proforma	
Fixed assets	2 072	**2 086**
Cash and cash equivalents	214	**240**
Advances and loans	656	**324**
Other current assets	936	**1 017**
Assets held pending disposition	224	**232**
Total assets	4 102	**3 899**
Shareholders' equity	2 498	**2 285**
Minority interests	18	**17**
Long-term debt	159	**135**
Short-term debt	313	**348**
Provisions and other liabilities	1 114	**1 114**
Total liabilities and shareholders' equity	4 102	**3 899**

Changes in shareholders' equity

	combined proforma first half	first half
million CHF	1999	**2000**
At 31 12 98 / 31 12 99	**1 813**	**2 498**
Spin-off Lonza Group from algroup	(110)	**0**
Capital payment to algroup	0	**(277)**
Dividend	0	**(64)**
Net income	133	**141**
Translation differences	91	**(13)**
At 30 06 99 / 30 06 00	**1 927**	**2 285**

Accounting principles

These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 30 June, which have been drawn up according to uniform Group accounting principles consistent with those adopted by Lonza Group in its combined financial statements for the year ended 31 December 1999 taking in account that from 1 November 1999 and therefore from 1 January 2000 Lonza Group is a independent listed company.

The condensed consolidated accounts are rendered in conformity with the existing International Accounting Standards (IAS), published by the International Accounting Standards Committee (IASC).

The combined Financial Statements for the first half 1999 have been prepared on the same basis as those reflected in the offering Prospectus of Lonza Group Ltd and reported as first half 1999 proforma. This data has been restated in order to reflect the revised estimated useful lives for its operating assets, which more accurately reflect industry practice, implemented in the Group during 1999.

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

Exchange rates

			Balance sheet rate CHF		Income statement half-year average rate CHF	
			31 12 99	30 06 00	1999	2000
USA	Dollar	1	1.59	1.62	1.47	1.65
Canada	Dollar	1	1.09	1.09	0.99	1.12
Australia	Dollar	1	1.04	0.97	0.95	1.00
Great Britain	Pound Sterling	1	2.58	2.45	2.38	2.59
Germany	Mark	100	82.02	79.70	81.80	81.06
France	Franc	100	24.45	23.76	24.39	24.17
Italy	Lira	100	0.082	0.080	0.083	0.081

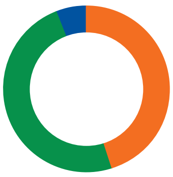
Note to page 1:

[1] Sales of discontinuing operations of CHF 20 million (1999: CHF 2 million) and operating income CHF –12 million (1999: CHF –5 million) are excluded from Net sales and Operating income. All other data, including Net income, include the impact of discontinuing operations.

Fine chemicals first half-year

million CHF	1999	2000
	combined proforma	
Net sales	590	**563**
Change in %		–4.6
Change due to		
Volume and prices		**(43)**
Currency translation		**16**
Scope of consolidation		**0**
Operating income	136	**132**
Operating margin in %	23.1	**23.4**

Sales by market first half-year



million CHF	1999	2000
Exclusive fine chemicals and Biotechnology products	326	**255**
Fine organic chemicals	231	**277**
Others	33	**31**
Total	**590**	**563**

Fine Chemicals

Our Fine Chemicals businesses posted operating earnings of CHF 132 million, only slightly below the exceptionally high 1999 levels, but with margins shifting up to 23.4% from 23.1%. Sales of CHF 563 million were 4.6% below the previous year, but fully in line with our expectations for a weaker first semester in the custom manufacturing area. Significantly increased plant loadings in the second semester are materializing as expected.

Exclusive fine chemicals and Biotechnology products In line with the projected ordering pattern of our major pharmaceutical customers the business steadily recovered from a low level of plant utilization at the beginning of the year. Based on the introduction of new products the utilization of assets will reach a normalized level during the rest of the year. Agrochemical intermediates performed very well. Strong marketing efforts to rejuvenate our product pipeline continue unabated, with our R&D and piloting facilities being fully utilized. Additionally new technologies such as large scale low-temperature, ozonolyses and peptide chemistry were added to our technology bench to cope with the increasing demand for broad manufacturing capabilities.

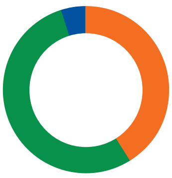
Market demand for mammalian cell derived therapeutic proteins is growing rapidly, with indications that current installed capacity will achieve full utilization by the end of 2001. Several products advanced through the development pipeline of our customers, notably the active ingredient of Eli Lilly's Zovant™ intended for the treatment of septic shock. Also in the area of microbial fermentation, custom manufacturing demand continues strong, with capacity for a new major pharmaceutical intermediate nearing completion in our Czech facilities. Sales of the dietary supplement product lines based on L-Carnitine continued their solid growth pattern with the introduction of new patent protected applications in the food and feed segments. With the launch of complementary products currently under preparation this trend is expected to continue.

Fine organic chemicals Demand for our lines of intermediates was strong. Improved operational effectiveness helped offset the rising trend in raw material prices. Vitamins and precursors showed a strong volume growth in a very competitive pricing environment. Business with molluscicide metaldehyde remained strong in the first half of the year. In the diketene derivatives business strong volume demand was seen in the areas of colorants and agrochemicals.

Performance chemicals & Polymer intermediates first half-year

million CHF	1999	2000
	combined proforma	
Net sales	449	**537**
Change in %		+ 19.6
Change due to		
Volume and prices		**67**
Currency translation		**21**
Scope of consolidation		**0**
Operating income	53	**55**
Operating margin in %	11.8	**10.2**

Sales by market first half-year



Performance chemicals 41%
Polymer intermediates 54%
Others 5%

million CHF	1999	2000
Performance chemicals	194	**221**
Polymer intermediates	234	**291**
Others	21	**25**
Total	**449**	**537**

Performance chemicals & Polymer intermediates

Although sales posted a significant 19.6% rise to CHF 537 million (14.4% on a currency adjusted basis), driven wholly by large material price increases, operating Income at CHF 55 million remained stable, 4% higher than 1999. Margin compression in the polymer intermediates sector could not be offset by stronger volumes. Margins have begun to improve in the second quarter and are expected to continue on an upward trend for the remainder of the year.

Performance Chemicals Sales of biocides were satisfactory globally in industrial and institutional disinfection, personal care, preservation, paper, wood and water treatment and soft in household disinfection. The general pressure on prices and the upward trend in raw material costs negatively affected margins. In the area of biocides new registration approvals were obtained by the FDA to allow for the introduction of new products into the market. Demand for oleochemicals was good with satisfying performance in the various product lines.

Polymer Intermediates Demand for phthalic anhydride was fairly good resulting in a moderate recovery of margins. There has been realignment of ownership of assets in this area which we expect will ultimately provide a more balanced supply demand environment in Europe. Market demand for trimellitic anhydride is continuing to grow, with our expanded capacity meeting brisk demand.

The positive market development of special plasticizers – trimellitates and polymerics – continued in the first half of the year. The small acquisition of the special plasticizers business from BP added to this development. On the other hand margins of general purpose plasticizers remained very volatile but on average improved.

Maleic anhydride prices could not fully absorb the exorbitant impact of raw material price increases, resulting in significant margin reduction. The second semester is showing clear signs of recovery.

Demand of resins and compounds was active in Europe with adequate sales volumes. Compounds for electrical and automotive market are improving their market penetration, keeping margins at healthy levels.

Our newly formed joint venture in China is now operational. Our product, pyromellitic anhydride, for application in polyimide resins and special coating has been approved by all major customers worldwide.

Our catalyst and technologies business continued to perform well.

Discontinuing operations (Isophthalic Acid Installation in Singapore) Our plant finally reached uninterrupted operation during the second quarter of 2000, and is now operating at expected levels. Although we can confirm market growth for this product at around 9% on a worldwide basis, the Group has decided to divest this operation. This decision has been based on two factors: firstly, a relatively new development is that the supplier market for this product is becoming increasingly connected to the production of PET precursors, an area in which Lonza is not active and is therefore competitively disadvantaged. Secondly, the current supply demand imbalance will not be cured in the very short term. As a result, the Group will be examining exit strategies which will place this asset with a more strategically dedicated partner.

Energy first half-year

million CHF	1999	**2000**
	combined proforma	
Net sales	40	**45**
Change in %		+11.3
Change due to		
Volume and prices		**5**
Currency translation		**0**
Scope of consolidation		**0**
Operating income	10	**15**
Operating margin in %	25.0	**33.3**

Energy

Despite continuing pressure on prices sales of the Energy division increased by 11.3% to CHF 45 million in particular due to the favorable hydrological conditions. The above-average level of energy generation and systematic optimization of production increased operating income to an exceptionally high level of CHF 15 million, which is not expected to be achieved in the second semester.