

| Proforma (Pf) balance sheets at 31 December in million CHF | Assets | | | | | | | |
|---|--------------|----------|--------------|--------------|----------|--------------|--|--|
| | 1997 | Adj. | 1997 Pf | 1998 | Adj. | 1998 Pf | | |
| Fixed assets | | | | | | | | |
| Property, plant and equipment | 3 075 | 20 | 3 095 | 3 377 | 20 | 3 397 | | |
| Accumulated depreciation | (1 526) | (14) | (1 540) | (1 620) | (14) | (1 634) | | |
| Subtotal | 1 549 | 6 | 1 555 | 1 757 | 6 | 1 763 | | |
| Intangible assets | 35 | 0 | 35 | 36 | 0 | 36 | | |
| Goodwill | 83 | 0 | 83 | 77 | 0 | 77 | | |
| Other noncurrent assets and deferred items | 41 | 0 | 41 | 59 | 0 | 59 | | |
| Unconsolidated investments | 68 | 0 | 68 | 63 | 0 | 63 | | |
| Total fixed assets | 1 776 | 6 | 1 782 | 1 992 | 6 | 1 998 | | |
| Current assets | | | | | | | | |
| Inventories, net | 422 | 0 | 422 | 455 | 0 | 455 | | |
| Trade receivables, net | 366 | 0 | 366 | 372 | 0 | 372 | | |
| Other receivables, prepaid expenses and accrued income | 71 | 0 | 71 | 74 | 0 | 74 | | |
| Cash and marketable securities* | 0 | 0 | 0 | 0 | 0 | 0 | | |
| Total current assets | 859 | 0 | 859 | 901 | 0 | 901 | | |
| Total assets | 2 635 | 6 | 2 641 | 2 893 | 6 | 2 899 | | |

* See "Basis of preparation of the historical proforma combined financial statements" page 132 and following

| <u>Liabilities and shareholders' equity</u> | 1997 | Adj. | 1997 Pf | 1998 | <u>Adj.</u> | <u>1998 Pf</u> |
|---|--------------|----------|--------------|--------------|-------------|----------------|
| Total shareholders' equity | 1 655 | 6 | 1 661 | 1 807 | 6 | 1 813 |
| Minority interests | 29 | 0 | 29 | 20 | 0 | 20 |
| Liabilities | | | | | | |
| Long-term provisions | 371 | 0 | 371 | 390 | 0 | 390 |
| Total long-term liabilities and provisions | 371 | 0 | 371 | 390 | 0 | 390 |
| Other liabilities and deferred items | 331 | 0 | 331 | 429 | 0 | 429 |
| Current liabilities: | | | | | | |
| Trade payables | 228 | 0 | 228 | 219 | 0 | 219 |
| Short-term debts: | | | | | | |
| Due to bank and other financial institutions | 21 | 0 | 21 | 28 | 0 | 28 |
| Total current liabilities and deferred items | 580 | 0 | 580 | 676 | 0 | 676 |
| Total liabilities | 951 | 0 | 951 | 1 066 | 0 | 1 066 |
| Total liabilities and shareholders' equity | 2 635 | 6 | 2 641 | 2 893 | 6 | 2 899 |
| | | | | | | |
| <u>Contingent liabilities</u> | 16 | 0 | 16 | 9 | 0 | 9 |

| Proforma (Pf) income statements in million CHF | 1997 | Adj. | 1997 Pf | 1998 | Adj. | 1998 Pf |
|--|----------------|-------------|----------------|----------------|-------------|----------------|
| <u>Net sales</u> | 2 099 | 0 | 2 099 | 2 153 | 0 | 2 153 |
| Changes in inventory of work-in-progress and finished goods | 28 | 0 | 28 | 12 | 0 | 12 |
| Other operating income | 83 | 0 | 83 | 59 | 0 | 59 |
| <u>Income from production</u> | 2 210 | 0 | 2 210 | 2 224 | 0 | 2 224 |
| Material costs | (911) | 0 | (911) | (812) | 0 | (812) |
| Energy costs | (93) | 0 | (93) | (98) | 0 | (98) |
| Personnel expenses | (558) | 0 | (558) | (566) | 0 | (566) |
| Other operating expenses | (283) | (11) | (294) | (284) | (11) | (295) |
| Depreciation and amortization | (152) | 0 | (152) | (172) | 0 | (172) |
| <u>Subtotal</u> | (1 997) | (11) | (2 008) | (1 932) | (11) | (1 943) |
| <u>Operating income</u> | 213 | (11) | 202 | 292 | (11) | 281 |
| Amortization of goodwill | (4) | 0 | (4) | (5) | 0 | (5) |
| <u>EBIT – earnings before interest and taxes</u> | 209 | (11) | 198 | 287 | (11) | 276 |
| Other financial income and expenses | (4) | 0 | (4) | (3) | 0 | (3) |
| Income from unconsolidated investments | 3 | 0 | 3 | 4 | 0 | 4 |
| <u>Income before income taxes</u> | 208 | (11) | 197 | 288 | (11) | 277 |
| Income taxes | (68) | 1 | (67) | (78) | 1 | (77) |
| <u>Net income before minorities</u> | 140 | (10) | 130 | 210 | (10) | 200 |
| Income attributable to minorities | 0 | 0 | 0 | 2 | 0 | 2 |
| <u>Net income</u> | 140 | (10) | 130 | 212 | (10) | 202 |

| Proforma (Pf) | 1998 | Adj. | 1998 Pf |
|---|--------------|-------------|----------------|
| cash flow | | | |
| statement | | | |
| in million CHF | | | |
| Consolidated net income for the year | 212 | (10) | 202 |
| Depreciation of property, plant and equipment | 165 | 0 | 165 |
| Amortization of intangibles | 7 | 0 | 7 |
| Amortization of goodwill | 5 | 0 | 5 |
| Increase in long-term provisions | 5 | 0 | 5 |
| (Income) from application of the equity method | (1) | 0 | (1) |
| Cash flow | 393 | (10) | 383 |
| | | | |
| (Increase) in net working capital | (26) | 0 | (26) |
| | | | |
| Net cash provided by operating activities | 367 | (10) | 357 |
| | | | |
| Purchase of property, plant and equipment | (410) | 0 | (410) |
| Purchase of intangibles net | (4) | 0 | (4) |
| Goodwill from purchase of operations | (2) | 0 | (2) |
| Sale of unconsolidated investments | 6 | 0 | 6 |
| Purchase of consolidated companies (less cash acquired) | 0 | 0 | 0 |
| Sale of consolidated companies (less cash disposed) | 0 | 0 | 0 |
| Sale of property, plant and equipment | 3 | 0 | 3 |
| Goodwill from sale of operations | 0 | 0 | 0 |
| Purchase of other assets | (3) | 0 | (3) |
| (Purchase) sale of marketable securities | 0 | 0 | 0 |
| Decrease in other long-term liabilities | 68 | 0 | 68 |
| Decrease in loans and advances | 0 | 0 | 0 |
| Net cash used in investing activities | (342) | 0 | (342) |
| | | | |
| Increase (decrease) of capital | (23) | 10 | (13) |
| Increase (decrease) in debts | 7 | 0 | 7 |
| Dividend payout | 0 | 0 | 0 |
| Contribution from minority interests | (9) | 0 | (9) |
| Net cash provided by (used for) financing activities | (25) | 10 | (15) |
| | | | |
| Translation adjustments | 0 | 0 | 0 |
| | | | |
| Net increase (decrease) in cash | 0 | 0 | 0 |
| Cash on hand at 1 January | 0 | 0 | 0 |
| Cash on hand at 31 December | 0 | 0 | 0 |

Description of proforma combined financial information The objective of the proforma combined financial information is to show what the significant effects on the historical financial information might have been had the transaction as described on page 24 and following occurred at an earlier date. However, these proforma combined financial statements are for illustrative purposes only and are not necessarily indicative of the results of that would have been attained had the transaction occurred at an earlier date. The pro forma information include estimates related to the headquarter costs. The actual costs of the corporate infrastructure could differ from those estimates

Basis of preparation of the combined proforma financial statements at 31 December 1997 and 1998 The combined proforma financial statements reflect the accounting principles and the basis of preparation of the historical combined financial statements with the exception of point 7, adjustments, as reported below. The basis of preparation are described as follows:

1. The accompanying historical combined financial statements of the Lonza Group Ltd. (the "Group") and its subsidiaries include the balance sheets, operating results and cash flows of those algroup activities that are intended for spin-off as described more fully under page 24 and following in this "Right Offering Circular". The businesses have been included in these financial statements as if they have been part of the Group throughout the three year period ended December 1998 and up the date of disposal.
2. The balance sheet, profit and loss statement and cash flow information of the individual Lonza group operations have been combined on the basis that they will operate under the control of the Group commencing July 1, 1999.
3. Financing activities within algroup have historically been centralized and managed at corporate level by on a country by country basis and not by division. These historical combined financial statements have been prepared on the assumption that the Group was free of debt at the end of each fiscal year. This has been accomplished by an assumed increase (decrease) of capital equal to the amount necessary to extinguish the net debt of each operating subsidiary, with the exception of net debt attributable to minority interests which continues to be shown. Thus, the historical combined income statements do not reflect any interest income or expense, other than interest expense in relation to the Group's pension obligation of its German subsidiaries. As a result, the net debt position in each of the balance sheets of the Group for the years ended December 31, 1997 and 1998 has resulted in a nil balance.
4. The foreign currency exposure for the Lonza Group has been managed at corporate level by hedging activities, therefore no costs related to financial transactions have been recognized. The impact of the gain and losses resulting from hedging transactions related to operational activities has been allocated to the single operational units.
5. Tax has been calculated on income before income taxes. Statutory tax rates have been applied on a country specific basis to income before income taxes for each subsidiary with the exception of those in the United States. Based on preliminary estimates, sufficient tax loss carryforwards would be available to shelter the US Chemical operations from full current US federal taxes. US taxes have therefore been provided at the required minimum annual federal tax rate plus full statutory state tax rates.

Thirty percent of the above calculated tax expenses are presented as deferred tax expenses based on historial experience.

6. Under the terms of the separation and demerger agreement between algroup and Lonza Group, algroup is required to transfer over to Lonza Group, together with all of the chemicals and energy businesses and the other assets referred in note 1 above, the sum of US\$ 234 million in cash, US\$ 167 million of which may be required to be returned to algroup in the event that the merger between algroup and others is not fully consummated as described in the separation and demerger agreement. This amount of cash has not been included in the combined financial statements of Lonza Group as at December 31, 1997 and 1998.
7. Adjustments to the historical combined financial statements:
 - The Balance Sheet adjustments of CHF 20 million for Property Plant and Equipment and CHF 14 million for related Accumulated Depreciation (net CHF 6 million) for 1997 and 1998 relate to the transfer of algroup Zurich headquarters to Lonza Group.
 - The income statement adjustments, net of taxes, (CHF 10 million p.a. for the years 1997 and 1998) reflect an estimate of the headquarter costs to be assumed by Lonza Group Ltd on the demerger from the algroup.

Report of the independent auditors on the proforma financial information of Lonza Group Ltd and its subsidiaries

As independent auditors, we have audited the underlying financial statements of the major entities included in the historical combined financial statements of Lonza Group Ltd and its subsidiaries ("the Group"), presented on pages 128 to 133, consisting of the historical combined balance sheet as of 31 December 1998 and 1997 and the historical combined statements of income, cash flows (for the year 1998 only) and the notes to the historical combined financial statements for the year then ended and we have reviewed the compiling of the historical combined financial statements as described as basis of preparation of the historical combined financial statements. Further we have reviewed the proforma adjustments applied to these historical combined financial statements to prepare the accompanying proforma balance sheets, statements of income, cash flow and the notes. Certain financial statements of subsidiaries included in the proforma financial information have been audited by other auditors.

These proforma financial information are the responsibility of the company's Board of Directors. Our responsibility is to issue a report on these proforma financial information based on our review. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our review was conducted in accordance with the International Standards on Auditing issued by the International Federation of Accountants (IFAC) applicable to review engagement. This standard requires that we plan and perform the review to obtain reasonable assurance about whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personal and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Without qualifying our opinion, we draw your attention to the basis of preparation of the proforma financial information.

Bases on our review and the work performed, nothing has come to our attention that causes us to believe that management's assumption do not provide a reasonable basis for presenting the significant events directly attributable to the transaction described as basis of preparation of the proforma financial information, that the related proforma adjustments do not give appropriate effect to those assumptions, or that the proforma financial information does not reflect the proper application of those adjustments to the historical combined financial statements.

KPMG Fides Peat

Peter Hess
Swiss Certified Accountant
Auditor in Charge

Hanspeter Stocker
Swiss Certified Accountant
Auditor in Charge

Zurich, 27 September 1999