2000 Results

Financial highlights

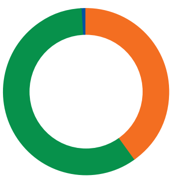
million CHF	1999	2000
Net sales continuing	1 575	**1 703**
Change in %		8.1
Operating income continuing	286	**327**
Change in %		14.3
Operating margin in %	18.2	**19.2**
EBITDA continuing	387	**443**
Change in %		14.5
EBITDA margin in %	24.6	**26.0**
Operating income group	358	**411**
Change in %		14.8
Pre-tax earnings	355	**403**
Change in %		13.5
Net income	273	**309**
Change in %		13.2
Cash flow	433	**503**
Change in %		16.2
Net debt (cash)	(399)	**237**
Earnings per share (CHF)	42.5	**48.9**
Change in %		15.1
Number of employees	5 697	**5 987**
Change in %		5.1

Driven by a strong second semester performance, Lonza Group advanced net income by 13% to CHF 309 million and earnings per share to CHF 48.9, 15% up on the prior year. The Group has completed assessment of its strategic options and concluded that its future lies in the higher-value-added life sciences sector. As a result, it will dispose of its Polymer Intermediates and Energy businesses, and focus exclusively on the development of its biotechnology, fine and performance chemicals platforms. The proposed dividend will be increased from CHF 10 to CHF 15 per share.

Group Business Performance

Helped by favorable currency movements which accounted for two-thirds of the year-over-year shift, sales from continuing Group operations rose to CHF 1.7 billion, up 8% on 1999. The bulk of this movement was registered in the Organic Fine and Performance Chemicals businesses which have the greatest sales exposure to the US dollar. The benefit of a weaker currency was tempered by US-dollar-denominated raw material pricing and the impact of the upsurge in oil prices. Operating profits from continuing operations therefore increased to CHF 327 million, up CHF 41 million or 14% on the prior year. Only CHF 7 million of this increase was attributable to currencies. Consistent with the Group's previously stated expectations, the second semester yielded a much better performance from our Exclusive Synthesis and Biotechnology businesses than in the preceding two semesters, as plant loading and customer call-offs improved substantially and returned to the exceptional levels seen in the first semester of 1999. Margins continued to improve, reaching 24.2% from 21.2% in 1999. Our Organic Fine and Performance Chemicals posted a more subdued performance in the second semester, following an exceptionally strong first half, and yet still managed to improve operating margins year-over-year on a currency-equivalent basis. The low level of gearing yielded minimal net financial expenses of CHF 3 million. The CHF 399 million in cash at the end of 1999 was depleted as a result of Lonza Group's repayment of USD 167 million to algroup in accordance with the demerger agreement between the two companies, and of the share repurchase program detailed below. The tax rate inched up to 23%, well within expectations. Net income as a result moved up to CHF 309 million, representing a 13.2% increase over 1999. Currency shifts do not account for any part of the improvement. Capital expenditures of CHF 190 million were well below the CHF 278 million incurred in 1999, with nearly 80% of the total being devoted to our continuing businesses. Cash flow remained strong at CHF 503 million, 16% over the prior year.

Industrial sales by division



- Exclusive Synthesis & Biotechnology 40%
- Organic Fine & Performance Chemicals 59%
- Others 1%

Strategic Review

Faithful to the timing announced at the time of the demerger of Lonza Group from the former algroup in October 1999, the Board of Directors and Management have concluded an extensive review of the strategic options available to the Group. Of all the available options, it is believed that the most value-accretive alternative requires the focussing of Lonza Group on the life sciences sector, by fully utilizing and further developing its biotechnology and chemicals capabilities. Lonza Group is already a world-recognized supplier to the pharmaceutical and agrochemicals industries, and holds other significant positions in the production of intermediates for the wider life science markets. The combination of this long-established reputation and the technological arsenal currently and potentially available to Lonza Group is the basis upon which this new strategy is to be founded. Organic growth opportunities are believed to be abundant in the chosen markets, especially in the areas of custom manufacturing and biotechnology, and the Group believes that it is ideally suited to leverage them. To this end, the Group has

Operating income by division

- Exclusive Synthesis & Biotechnology 51%
- Organic Fine & Performance Chemicals 51%
- Others –2%

already committed to a four-fold expansion of fermentation volumes in the Biologics businesses (mammalian cell culture technology) at a cost in excess of USD 180 million. Intense evaluations are currently underway to assess the need for additional microbial fermentation capacities to deal with the expected demand for biopharmaceuticals. On the traditional organic chemical side, Lonza is preparing to meet the challenge presented by the increased complexity of custom-manufactured molecules, especially if required in active ingredient form (APIs), by extending its production capacity and capabilities with advanced, dedicated installations. This strategic reinforcement of the technology toolbox will equip Lonza to meet the growing requirement that pharmaceutical and agrochemical production be properly segregated.

Divestments

In order to achieve this strategic reorientation, Lonza Group will be required to divest businesses which are not aligned with its life science objectives. Accordingly, both the Polymer Intermediates and Energy businesses of the Group have been identified as divestiture candidates. We expect this process to be completed by the end of 2001, yielding gross proceeds in excess of CHF 1 billion.

Share Repurchase Program

Given the low level of indebtedness at year-end and expectations of strong cash flow generation from the businesses in the medium term, now coupled with the expected proceeds from the businesses marked for divestiture, Lonza Group has decided to optimize the balance sheet structure and return excess cash to its shareholders. On 15 December 2000, the Group acquired 573 398 shares earmarked for cancellation from institutional investors in a buy-back program designed to improve the company's capital structure. In a second offer to shareholders, open from 27 December 2000 to 11 January 2001, 334 580 additional shares were purchased by the Group. After these two transactions, the Group holds a total of 907 978 shares repurchased at a gross price of CHF 940 per share, representing 14.11% of the outstanding share capital and voting rights. The shareholders of the Group will be asked to approve the cancellation of these shares at the next Shareholders' Meeting scheduled for 28 March 2001.

Dividends

Consistent with the Group's stated policy of distributing between 25 and 33% of the consolidated net income as dividend, the Board of Directors will propose a dividend payment of CHF 15 per share.

Outlook

Notwithstanding the expected softening of the global economy during 2001, the Group believes that, on the basis of its strong positions in fine chemicals and biotechnology, it will be able to improve on its 2000 performance.

Martin Ebner
Chairman

Sergio Marchionne
Managing Director and
Chief Executive Officer

Contacts

Lonza Group Ltd
Feldeggstrasse 4
8034 Zurich, Switzerland

Corporate Communications &
Investor Relations
Michel Gerber
t 0041 1 386 23 14
f 0041 1 386 23 17

Internet
http://www.lonzagroup.com

With effect from 1 March 2001:
Lonza Group Ltd
Muenchensteinerstrasse 38
4002 Basel, Switzerland
t 0041 61 316 82 77
f 0041 61 316 82 78

Consolidated income statement

million CHF	1999	2000
Net sales	1 575	**1 703**
Operating expenses	1 289	**1 376**
Operating income (continuing)	286	**327**
Operating income (discontinuing)	72	**84**
Operating income Group	358	**411**
Goodwill	–5	**–5**
Financial income net	2	**–3**
Ordinary income before tax	355	**403**
Income taxes	84	**94**
Net income (loss) incl. minorities	**271**	**309**
Minorities income	2	**0**
Net income (loss)	273	**309**

Consolidated cash flow statement

million CHF	1999	2000
Net income	273	**309**
Depreciation	139	**165**
Change in long-term provisions	22	**31**
Expenses (income) from equity method	–1	**–2**
Cash flow	433	**503**
Investments	278	**190**

Consolidated balance sheet

million CHF	1999	2000
Fixed assets	1 557	**1 602**
Cash and marketable securities	214	**126**
Advances and loans	656	**20**
Other current assets	680	**806**
Assets held pending disposition	834	**865**
Total assets	3 941	**3 419**
Shareholders' equity	2 498	**1 854**
Minority interests	18	**18**
Long-term debts	159	**121**
Short-term debts	312	**262**
Provisions and other liabilities	954	**1 164**
Total liabilities and shareholders' equity	3 941	**3 419**

Changes in shareholders' equity

million CHF	1999	2000
At 31 12 98/31 12 99	**1 813**	**2 498**
Dividend	0.0	**(64.0)**
Spin-off Lonza Group from algroup	328.0	**11.0**
Capital payment to algroup	0.0	**(277.0)**
Buy-back of own shares (incl. own shares as of 31 12 99)	0.0	**(595.0)**
Other comprehensive income	84.0	**(28.0)**
Net income	273.0	**309.0**
At 31 12 99/31 12 00	**2 498.0**	**1 854.0**

Accounting principles

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

The consolidated income statement of Lonza Group for the years ended 31 December 1999 and 2000 reports the operating income of Polymer Intermediates and Energy businesses as "Operating Income Discontinuing". The consolidated balance sheet at 31 December 1999 and 2000 shows the Net Operating Assets of the above-mentioned activities as "Assets held pending disposition".

Exchange rates

			Balance sheet		Income statement	
			rate CHF		average rate CHF	
			31 12 99	31 12 00	1999	2000
USA	Dollar	1	1.5955	1.6372	1.5023	1.6889
Canada	Dollar	1	1.0986	1.0906	1.0117	1.1371
Australia	Dollar	1	1.0423	0.9082	0.9705	0.9814
Great Britain	Pound Sterling	1	2.5835	2.4479	2.4303	2.5571
Germany	Mark	100	82.0290	77.8640	81.8240	79.6360
France	Franc	100	24.4580	23.2160	24.3970	23.7450
Italy	Lira	100	0.0829	0.0787	0.0827	0.0804
Netherlands	Guilder	100	72.8020	69.1060	72.6210	70.6790
Spain	Peseta	100	0.9642	0.9153	0.9618	0.9361

Exclusive Synthesis & Biotechnology

million CHF	1999	2000
Net sales	659.0	**685.0**
Change in %		3.9
Change due to		
Volume and prices		**5.0**
Currency translation		**21.0**
Scope of consolidation		**0.0**
Operating income	140.0	**166.0**
Change in %		18.6
Operating margin	21.2	**24.2**
EBITDA	185.0	**220.0**
Change in %		18.9
EBITDA as % of sales	28.1	**32.1**

Exclusive Synthesis & Biotechnology

Operating income increased by CHF 26 million, or 19%, to CHF 166 million, yielding an operating margin of 24.2% (compared with 21.2% the previous year). This was achieved on the back of a modest sales increase of 4% (1% on a currency-equivalent basis), with net sales reaching CHF 685 million.

Exclusive Synthesis – The Exclusive Fine Chemicals business steadily increased plant utilization levels throughout the year in line with the projected ordering pattern of our major pharmaceutical customers. Initiatives to strengthen current key supplier positions with our customer base yielded a substantial expansion of our project pipeline, which has nearly doubled in the last twelve months. The business with the agrochemical industry remained strong, particularly for various herbicides. Promising results have been obtained with customers in the animal health sector. We expect that this activity will grow further in 2001.

Biotechnology – Demand for mammalian-cell-derived therapeutic proteins is growing rapidly, resulting in full plant loading during the last quarter of 2000. Existing contracts are expected to provide full loading of our available capacity through 2001/2002, with demand from customers for our R&D services continuing to grow strongly. Substantial expansion of our laboratories employing more than 100 scientists in Slough (UK) and Portsmouth (USA) was concluded during 2000 to meet the increased demand for our services. We have begun significant production expansion at our US and UK locations, with both fermenter sizes and total fermenter volumes being quadrupled.

In the area of microbial fermentation, demand for custom manufacturing continues to be strong. The completion of a major investment and successful commissioning of new installations at our Kourim (CZ) site will provide additional impetus for our microbial fermentation contract-manufacturing activities. In the dietary supplement segment, we strengthened the position of our L-carnitine product portfolio for the food and feed market against emerging Asian competitors by leveraging our quality and service levels and our strong technology base. Additionally, the demand for microbially-manufactured complex APIs has been confirmed, and the Group is now developing strategies on how it can best satisfy the expected call on its resources.

Organic Fine & Performance Chemicals

million CHF	1999	2000
Net sales	916.0	**1013**
Change in %		10.6
Change due to		
Volume and prices		**45.0**
Currency translation		**52.0**
Scope of consolidation		**0.0**
Operating income	153.0	**167.0**
Change in %		9.2
Operating margin	16.7	**16.5**
EBITDA	209.0	**228.0**
Change in %		9.1
EBITDA as % of sales	22.8	**22.5**

Organic Fine & Performance Chemicals

Helped by a strong US dollar and a globally strong economy, sales increased nominally by 11% to CHF 1.013 billion, but only 5% on a currency-adjusted basis compared with 1999. Operating income grew CHF 14 million or 9% nominally, but more importantly, 6% in real currency terms. Volume gains and improvements in operational efficiency were responsible for the shift, notwithstanding the negative impact on gross value added of increases in US dollar raw material prices and escalating oil prices.

Organic Fine Chemicals – Demand for intermediates for the production of vitamins increased compared with last year. Dosage rates for vitamin feed applications gained ground thanks to our attractive pricing strategy. In particular, sales of nicotinates (vitamins of the B complex) at our Swiss and Chinese production facilities were buoyant, with Lonza growing its market share in both feed and food applications, notwithstanding persistent pricing pressures. Sales of intermediates and bulk actives to agrochemical producers remained stable. On a stronger note, sales of metaldehyde (Meta®) – a molluscicide – reached an all-time high, triggered by inclement weather conditions in most markets, except the US. The extremely wet weather in the autumn of 2000 bodes well for Meta® usage in 2001. The Group is well prepared, having just increased capacity and developed new product forms for use in rice paddies and fish ponds. Our products designed for pharmaceutical applications, especially in the field of antibiotics, continued to perform well. Deliveries of organic intermediates for industrial applications, which fully round out our utilization of the Swiss-based naphtha cracker, were also satisfactory. The quality of the product line is being constantly upgraded. The product group of cyanate esters serving high-end electronics and the aerospace industry is developing well.

Performance Chemicals – In the **Biocides** area, sales gains in Asia, South America and Europe offset the impact of flat US sales in household applications. Good progress has been achieved with new products and markets. Halogenated hydantoin products have proven to be superior antibacterial slimicides. The product line is already on sale in Europe. In the United States, the FDA and EPA have given their approval this year for the use of hydantoins in food-contact paper. We are developing our preservatives for application in pigment slurries used in paper coatings. In the wood protection area, our products are beginning to displace the use of heavy metals as biocides in wood.

The demand for **Oleochemicals** was strong, albeit somewhat dampened by increased competition from low-priced Asian countries. Food additives and personal care markets, where there are higher-value-added niche opportunities, remain key target markets.

Discontinuing Operations 2000

million CHF	1999	2000
Net sales	608.0	**756.0**
Change in %		24.3
Change due to		
Volume and prices		**152.0**
Currency translation		**(4.0)**
Scope of consolidation		**0.0**
Operating income	72.0	**84.0**
Change in %		16.7
Operating margin	11.8	**11.1**
EBITDA	105.0	**128.0**
Change in %		21.9
EBITDA as % of sales	17.3	**16.9**

Discontinuing Operations

Polymer Intermediates – Although significant price improvements were achieved in the second semester, these businesses were adversely impacted by the sharp raw material cost increase linked to crude oil prices and the weakness of European currencies against the US dollar. Demand for phthalic anhydride and general purpose plasticizers was fairly good throughout the year, but margins only recovered somewhat at the very end of the year, as some players decided – or were forced – to exit the business. Full restoration of margins in a stable market can be expected in the medium term. Maleic anhydride and derivatives experienced a recovery in margins during the second half of the year, with prices almost doubling as a result of sound market growth and the pass-through of higher raw material prices. Trimellitic anhydrides and special anhydrides continued to perform well. The acquisition of a special plasticizers line in July expanded our product portfolio and further strengthened our market leadership. Capacity utilization at our plant for unsaturated polyester reached maximum levels, with sales improving roughly 20%. In our Catalysts and Technologies business the first batches of two new high-quality fixed-bed catalysts for oxidation of methanol to formaldehyde and of n-butane to maleic anhydride have been delivered to new clients. Compounds and Composites experienced strong volume growth in the automotive segment and in the area of electrical applications. Production and sales of purified isophthalic acid out of our plant in Singapore reached 35 000 tonnes, close to 10% of global demand and is now operating at full capacity. Worldwide consumption increased by 8%, mainly due to continuing strong demand in PET markets. The imbalance in demand and supply persisted in 2000, with corresponding pressure on margins.
The newly established joint venture in Liyang (China) for the production and marketing of pyromellitic dianhydride (PMDA) and pyromellitic acid (PMA) started well, with production reaching target production levels. Product quality is aligned with the best material available on the market.

Energy – Net sales in our energy business increased by 5% to CHF 89 million. While above-average levels of energy production were achieved in the first half of the year, power generating suffered some setbacks in the second half due to the ravages of the weather and exceptional mudflows. In view of the impending liberalization of the energy market in Switzerland, negotiations with key customers have already taken place, securing medium-term energy delivery at competitive prices.