

Annual Report

02

Lonza

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Dear Shareholders

For the fourth consecutive year Lonza has exceeded the prior year's operating performance before exceptionals and increased its earnings per share.

Group sales on a comparable basis (restated to take account of the reintegration of Polymer Intermediates into continuing operations) increased slightly 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 (exclusive of non-recurring gains/costs in both 2001 and 2002) of CHF 419 million exceeded the previous year's record level of CHF 413 million, despite a lower contribution from Polymer Intermediates and margin pressure in the Exclusive Synthesis business. Operating margins increased to 16.5%. 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 for Exclusive Synthesis in 2002. To meet these challenges, Lonza moved proactively to reorganize its Exclusive Synthesis activities in both the USA and Switzerland. The restructuring led to the closure of the Los Angeles, CA (USA) production plant and additional measures at the two remaining facilities in Visp (CH) and Riverside, PA (USA) requiring a non-recurring pre-tax charge of CHF 112 million (CHF 76 million post tax).

Net income excluding non-recurring gains/costs was CHF 297 million compared with CHF 314 million in 2001. As a result of the share buyback carried out in the first half of the year, earnings per share (excluding non-recurring items) for 2002 increased by 5.5% to CHF 6.12. Consistent with the Group's stated policy of distributing between 25 and 33% of consolidated net income (excluding non-recurring items) as dividends, the Board of Directors will propose an unchanged dividend of CHF 1.90 per share.

Notwithstanding 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 purely on economic considerations, has the clear aim of further enhancing the division's performance and obtaining the highest possible proceeds from an exit in the medium term. 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).

Within the scope of the strategic reorientation, 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. These investments will further strengthen Lonza's position as the pre-eminent supplier to the life sciences industry.

In a further step towards the targeted capital structure, 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 shares issued. Additionally, a share split of 1:10, reducing the par value of the Lonza Group Ltd shares to CHF 1, was approved to bring the structure more into line with current stock exchange standards.

In June 2002, Lonza Finance Ltd issued a 2% convertible bond and submitted a parallel public offer to repurchase 2 222 222 of the outstanding registered shares of Lonza Group Ltd for CHF 118 per share to fulfill the conversion rights.

At the end of July, BZ Group Holding Ltd – at that time the biggest shareholder of Lonza Group Ltd – informed Lonza about the sale of Stillhalter Vision Ltd containing approximately 10% of the Lonza Group Ltd shares to Zurich Cantonal Bank. On 4 October 2002, the Board of Directors of Lonza Group Ltd was informed by BZ Group Holding Ltd of its intention to sell the remaining 19.8% stake it held in Lonza Group Ltd. As a consequence, Martin Ebner, Chairman of the Board of Directors of Lonza Group Ltd, stepped down as Director of the company with immediate effect. Sergio Marchionne, formerly Vice-Chairman of the Board, was appointed Chairman. As of 29 October 2002, the stakes of Zurich Cantonal Bank and BZ Group Holding Ltd 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.

Notwithstanding the continuing softness in the global economy, Lonza expects to improve on the 2002 operating performance. The Exclusive Synthesis business bottomed out in 2002 and we expect it to stage a recovery in 2003.

On the basis of Lonza's technological strengths and market positions, and driven by our performance ethic, we reaffirm the following targets for our life sciences activities (excluding Polymer Intermediates) to be reached by the end of 2005:

- Sales in excess of CHF 2.7 billion
- Average earnings per share growth of 15% per annum
- Operating margins of 22%
- EBITDA margins of 30%

We would like to express our appreciation for your continuing confidence in our company during 2002. We are grateful to our customers for their trust as business partners and for their contribution to our achievements. We formally acknowledge the invaluable contribution of all our employees without whom the further improvement of Lonza's performance simply would not have been possible.



Sergio Marchionne
Chairman of the Board



Markus Gemuend
Chief Executive Officer



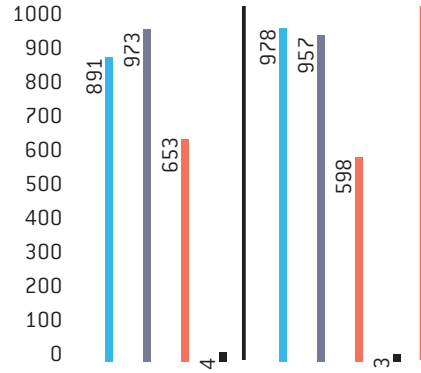
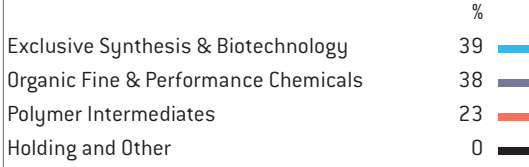
Financial highlights

million CHF		2001	2002
Lonza	Sales	2 521	2 536
	Operating income	413	419
	Non-recurring items	101	(112)
	Income before income taxes	513	283
	Net income	402	221
	Cash flow	611	450
	Investments in property, plant and equipment and intangibles (at cost)	(271)	(350)
	Shareholders' equity	1 586	1 235
	Net debt	514	869
	Basic earnings per share before non-recurring items	CHF 5.80	6.12
	Basic earnings per share	CHF 7.43	4.55
	Book value per share	CHF 31.88	26.07
	Dividend payout ratio before non-recurring items	% 30	30
	Dividend payout ratio	% 24	41
	Number of shares (par value CHF 1.00)	55 260 070	50 450 000
	Share price (high/low)	CHF 109.10/88.20	120.50/79.90
	Market capitalization	5 996	4 238
Lonza Group Ltd	Net income	33	205
	Shareholders' equity	1 296	927
	Shareholders' equity as a percentage of total assets	% 57	56
	Dividends	95	90
	Dividend per share	CHF 1.90	1.90

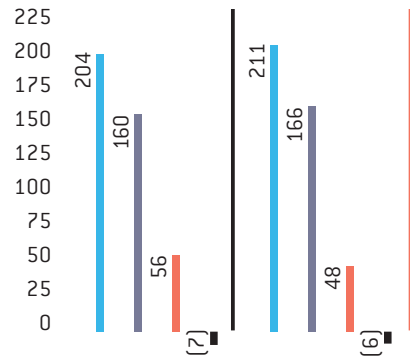
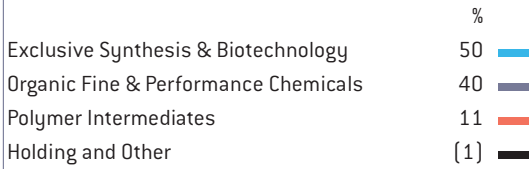
million CHF

2001

2002

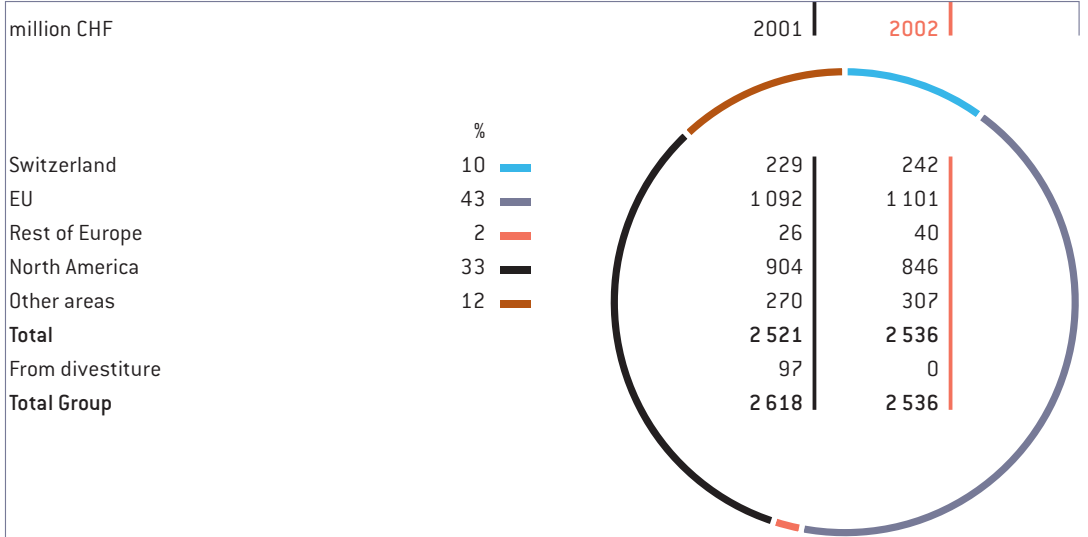


Sales by division

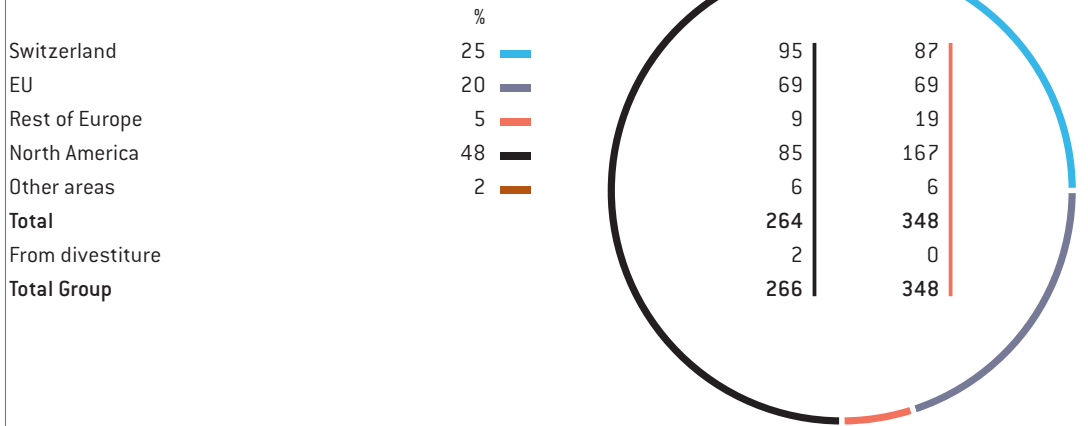


Operating income by division

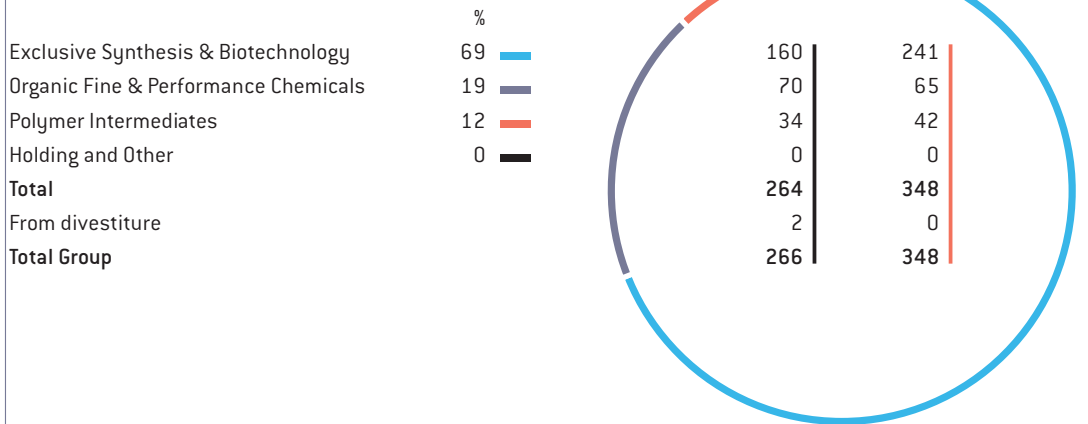
Sales by marketing area

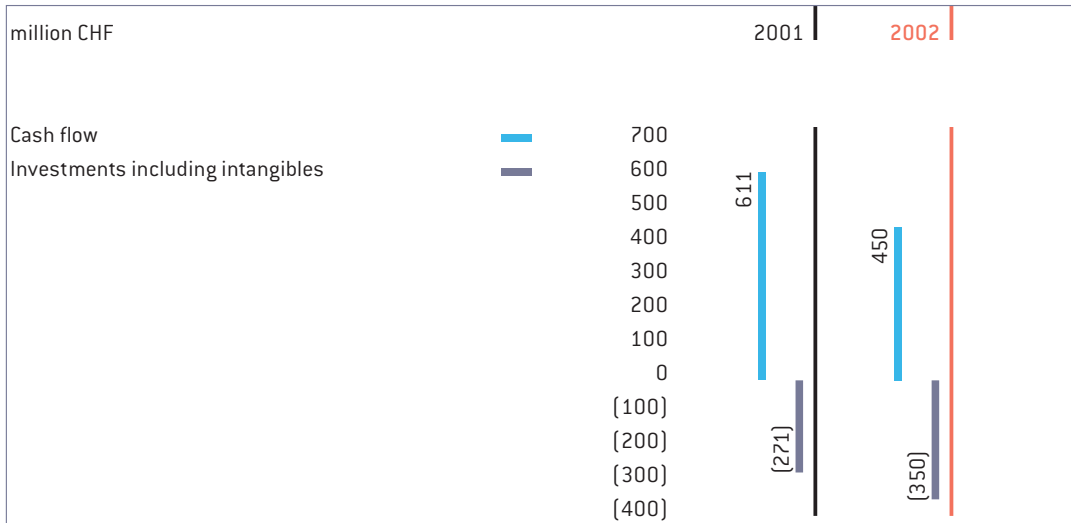


Investments in property, plant and equipment by production area (at cost)

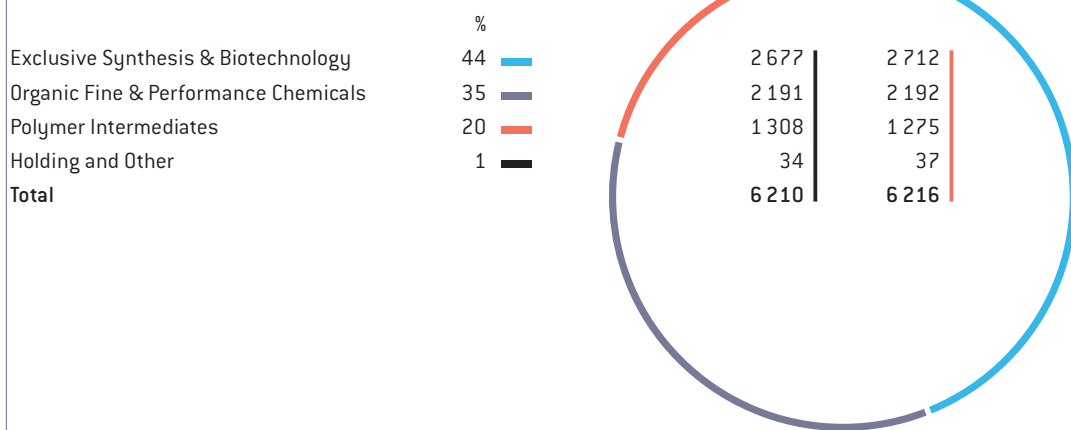


Investments in property, plant and equipment by division (at cost)





Cash flow and investments



Employees by division

Change alone is unchanging.

Heraclitus

Change is a fact of life. It always was and always will be. But it is evident today that the ability to anticipate change, to act with foresight and help shape changes imaginatively as they emerge, is one of the greatest challenges companies face. An organization needs to be able to adapt and change the way it works and operates with the speed of light when the business environment changes. Developing this ability is crucial if we are to ensure long-term business success and constantly create unparalleled value for our customers. Because what seems fast and innovative today will look like a comfortable walk and a commodity service in a couple of years.

In the past year, the changing world brought some important challenges for Lonza. Well ahead of the change to our shareholder structure, we stepped up our corporate communications at international level to prepare the capital markets to absorb the share block held by our then biggest shareholder. This block, representing some 26% of the shares outstanding, was subsequently purchased by over 200 shareholders, with no allocation exceeding 3% of the total shares outstanding. The most far-reaching changes, however, were those affecting the Exclusive Synthesis division. After 20 years of continuous growth, the changing market environment in the pharmaceutical industry made restructuring inevitable and we acted speedily to implement the necessary changes. As a result, we again have a good basis on which to build our leading position in chemical custom manufacturing. In addition to such structural changes, employees at all levels of our company face daily challenges – continually modifying and improving work processes and developing customer relations as they strive to build on our company's success. In the businesses we compete in, the clock-speed of change is tremendous. The innovation cycles are getting shorter and shorter, so competitive advantage is only short-lived. The ability to reinvent ourselves constantly and adjust our value proposition to our customers' future success is the key factor if Lonza is to stay one step ahead.

"Well in our country," said Alice, still panting a little, "you'd generally get to somewhere else – if you ran very fast for a long time as we've been doing."

"A slow sort of country!" said the Red Queen. "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that." Lewis Carroll, Through the Looking Glass

In an ever-changing competitive framework characterized by specialization and speed, consistent, unparalleled performance is a prerequisite for maintaining a lead position. In last year's annual report we showed how we tackle these changing tasks and challenges through our competence, experience and appropriate technologies. These, allied with our existing plants and current investment projects, are the basis on which Lonza continuously enhances its position by flexible, proactive, individually customized and high-speed production of top-quality intermediates and active ingredients.

The Red Queen's dictum is also the guiding principle for our dedicated and systematic investment in our people. Besides the ability to run fast, we need to be able to anticipate change and continually move the competitive barrier to new levels – and that can only be achieved with employees who have a passion for their work and the freedom and drive to perform to their highest potential.

Our culture is based on trust and our employees' freedom to act. The principles set out below are a prerequisite for being able to live our values. Promotion and support of employees, both personally and professionally, have priority. We trust in people and invest in their skills. We give our employees the freedom to aim at challenging targets, both corporate and personal, to fulfill themselves in a motivating environment and to achieve a high level of performance. Employees are individually empowered and enjoy the advantages of cooperation through teamwork. We are not oriented towards a predetermined, rigid body of rules and regulations, but live Lonza values by the authenticity, credibility and responsibility of our actions. We define ourselves in terms of our customers and markets, and by acting entrepreneurially and seizing opportunities. We aspire to continuously improve our performance and deliver top-quality products and services to our customers. Our leaders are leading.

Living these values will enable our employees to compete successfully in the markets we serve and give them the scope to play to win, with a sense of responsibility and accountability in all they do. Our employees' stake in Lonza's future success will be a constant motivator to improve their own performance, and hence Lonza's performance overall. In today's fast-moving world, where rapidly changing market conditions are the norm in all of our daily activities, we need employees at every level of the organization to embrace change, to have the ability to react instantly to new challenges and anticipate future needs. As a winning organization we have one common goal: consistent value creation for our customers' future success. This is what Lonza lives and stands for – always remaining one step ahead. It is only by fully involving our committed, motivated employees that we can aim for this high goal and achieve pre-eminence in whatever service we provide for our customers.

In 2002 we ran specially designed Leadership Development Programs for more than 400 of our top talents, and many more leadership workshops in our various sectors to provide opportunities for personal development for as many of our employees as possible. The essential purpose of the workshops was to instill an awareness that no company has the right to exist on the strength of its past record or current success. We have to earn that right every day, at all levels of our organization. By putting coaching on top of every leader's agenda and making sure we live our culture of trust and freedom to aim for the highest challenges and display those values in all our activities, we moved one step closer to becoming a learning organization.

In 2003 our emphasis will be on action-learning in support of our key strategic projects and initiatives. One of those is to achieve excellence and pre-eminence in custom manufacturing, moving to an unparalleled level of quality, speed and competitiveness. In other words becoming a fully process-oriented, customer-driven organization, where boundaries between our customers' and Lonza's processes are steadily removed. As part of that effort, we will further evaluate "total quality" tools such as Six Sigma. Other initiatives include the shaping of the chemical custom manufacturing industry, working with our customers on new business models with enhanced value-added potential. While in Biotechnology, our aim is to influence our customers' future investment decisions in such a way that, by virtue of our recognized excellence in manufacturing and technological innovation, they make Lonza their partner of choice for the whole life cycle of a product.

By creating development opportunities for our current and future leaders, we aim to become a "leadership-generating company". With that focus we will nurture the basis of our future success, not only achieving but exceeding our strategic goals, as we tap more deeply into the great potential and wealth of ideas of our employees – to the benefit of our customers and hence our own long-term

success. And of course to the benefit of our employees, who will be able to develop professionally and personally through the challenges they face and the sense of involvement they feel in resolving them through constant learning. In future, employees having the freedom and responsibility to constantly redefine and reinvent how to run a business is what will distance successful companies from the merely average ones.

We aspire to be such a frontrunner – one in which employees are given the scope to be successful and the freedom and courage to perform to their highest capabilities and potential, driven by an unrelenting passion to create value for our customers' continued success. Finding new ways – on the strength of our track record and the trust we build – to integrate our organization into our customers' processes, and likewise integrate our customers into our processes, is what will determine our future success as the winning organization in the Red Queen world.

Markus Gemuend
Chief Executive Officer

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Group performance – Group sales on a comparable basis (restated to take account of the reintegration 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 a lower contribution from Polymer Intermediates and margin pressure in the Exclusive Synthesis business. Operating margins increased to 16.5%.

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 pharmaceutical industry and increased competition from some new market entrants impacted on operating income, despite only marginally lower sales. The Organic Fine and 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 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.

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 plant 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 post tax), of which approximately CHF 25 million will affect cash. The expected annual cost savings will amount to a minimum of 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 in chemical custom manufacturing.

In the absence of the previously planned divestiture of the Polymer Intermediates division, coupled with the completion of another share repurchase program which led to the cancellation of 4 810 070 shares, the Group's net debt position increased to CHF 869 million compared with CHF 514 million at the end of 2001. However, lower interest rates throughout the year resulted in lower net financial expenses of CHF 19 million compared with CHF 29 million in 2001. Due to restructuring activities in the USA and tax optimization possibilities, the tax rate of 22% is still at the lower end of the 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.

Holding – In 2002, Lonza Group Ltd achieved a net income of CHF 205 million. In line with our accounting principles write-offs on investments of CHF 53 million were booked in 2002. Total shareholders' equity, measured as a percentage of total assets, decreased slightly from 56.9% in 2001 to 56.1% in 2002. This decrease is attributable to the share repurchase program with subsequent cancellation that was carried out in 2002.

This share buy-back 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 shares issued. Additionally, a share split of 1:10, reducing the par value of the Lonza Group Ltd shares to

CHF 1, was approved to bring the structure more into line with current stock exchange standards.

Consistent with the Group's stated policy of distributing between 25 and 33% of consolidated net income (excluding non-recurring items) as dividends the Board of Directors will propose an unchanged dividend of CHF 1.90.

Our employees – At the end of 2002 Lonza had 6 216 employees worldwide. They represent the cornerstone of Lonza's present and future success. Dedicated and systematic investment in our people, therefore, remains the guiding principle for our Group. During the year, specifically designed leadership development programs were carried out, training more than 400 of our top talents. Additionally, leadership workshops in our business sectors helped further develop as many employees as possible. By putting coaching on top of every leader's agenda and making sure we live our culture of trust and display our values in all our activities, we moved one step closer to becoming a learning organization. The program will be further reinforced in 2003.

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 combined effect of strong growth in Biotechnology and a slowdown in the Exclusive Synthesis business. The division was able to improve on 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 custom manufacturing of intermediates and active ingredients for the pharma industry had a challenging year. The main reasons were delayed product approvals and de-stocking 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 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, 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 for established products.

Biotechnology – Lonza Biologics (mammalian cell culture fermentation) significantly increased sales and operating income, 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. A significant mile-

stone 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 is 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.

At Lonza Biotec (microbial fermentation) sales and operating income rose further, driven primarily by our contract manufacturing activities. New research findings in sports nutrition and the achievement of GRAS (Generally Recognized 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.

Research and Development – In Exclusive Synthesis, a continuing focus on projects for intermediates and actives in early-phase trials more than compensated for the slower demand on products for late-phase clinical trials. A group was established to specialize in the fast development and production of 10–100 kg batches offering maximum value creation for our customers in this small-scale segment.

Highlights from the production program at the R&D launch plant include two major projects: the first cGMP campaign on a high potency active ingredient for veterinary use, taking advantage of specialized containments and stringent safety control, was completed and regular large-scale manufacture of an oligopeptide was started, bringing the total amount of R&D-produced peptides to almost 200 kg.

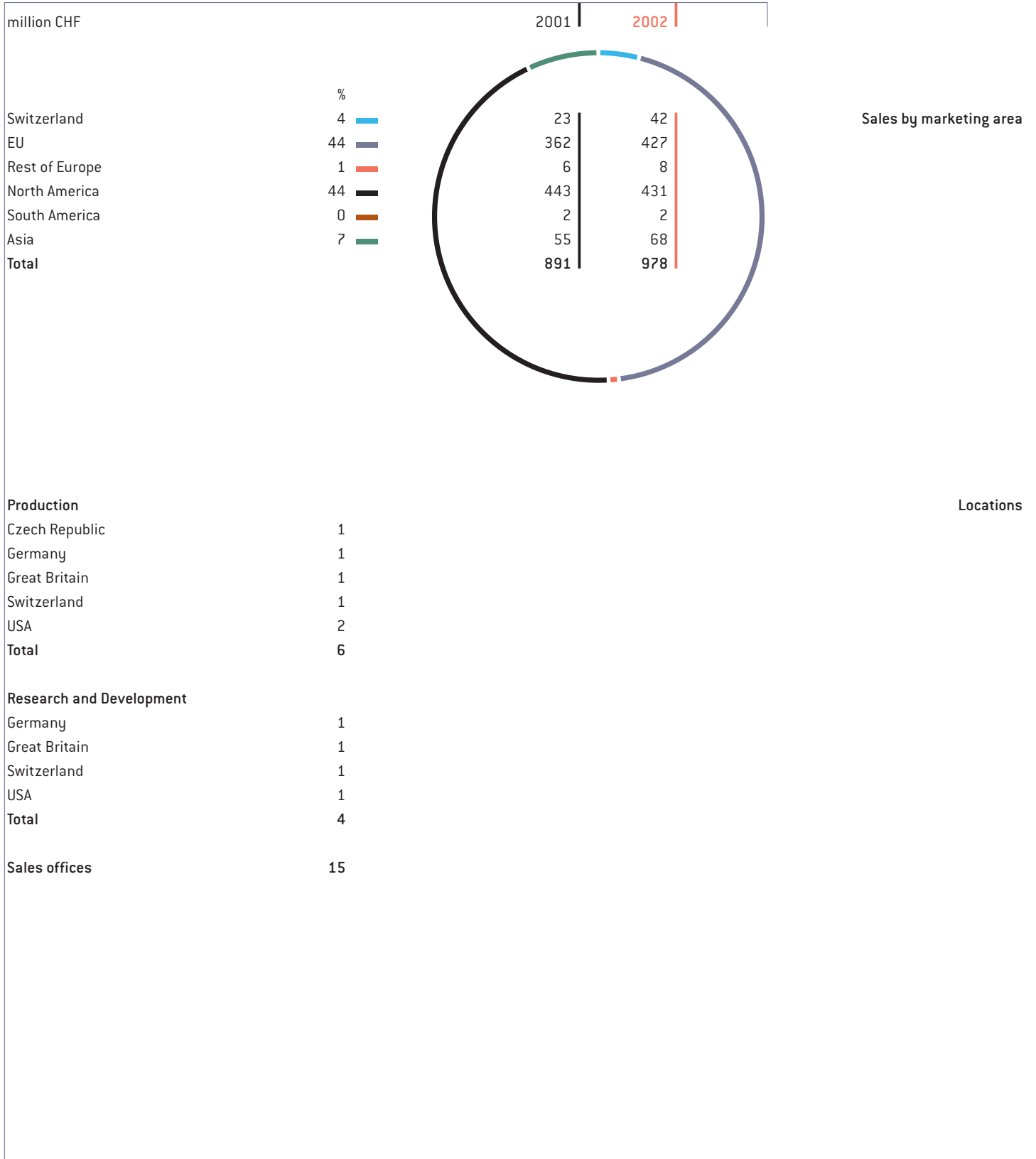
Biologics worked on over 25 customer projects in its development labs during 2002, including cell line construction, process improvement, and BLA

(biologics license application) preparation for product approval filings with regulatory agencies such as FDA and EMEA. Demand for our development resources remained strong. The development labs at our Slough (GB) facility have undergone expansion in response to increased customer demand. Internal development work focused on improving titer and yields using our patented GS (glutamine synthetase) expression system, one of the leading expression systems for monoclonal antibodies, increasing titer in a standard CHO (Chinese hamster ovary) cell line by 200%.

Biotec's genetic engineering group is engaged in an ongoing project to develop a proprietary expression system. It is also working with several external partners on closely related subprojects: for example the development of a broad-host-range expression system and a set of secretion vectors for the production of extracellular proteins such as antibody fragments.

With the development of a broader set of expression plasmids and host strains we will be well prepared for future projects in biotransformation, biosynthesis and therapeutic microbial proteins.

	Products	Main application	Market position
Exclusive Synthesis	Exclusive manufacture of intermediates and active substances	Life sciences industry, pharmaceuticals, crop protection agents and animal health products	No 1 worldwide
Biotec	Exclusive microbial fermentations and bioconversions, development and manufacture of intermediates and active substances	Life sciences industry, pharmaceuticals and cosmetics	Among the leading producers
	L-Carnitine	Sports nutrition, food, pharmaceuticals and feedstuffs	No 1 worldwide
Biologics	Exclusive mammalian cell culture fermentations, development and manufacture of therapeutic monoclonal antibodies and recombinant proteins, proprietary GS-expression system	Pharmaceutical and biotechnological industry	No 1 worldwide
Key Technologies	<p>Asymmetric reactions Racemic separations with transition metal catalysts (hydrogenation, oxidation, Heck/Aldol) Synthesis of chiral building blocks with biocatalysts</p> <p>Expertise in handling hazardous and highly reactive chemicals such as Acetylene/ethylene Cyclopentadiene Ethylene oxide HCN/CICN/chlorosulfonyl-isocyanate Ketene/diketene Malononitrile Phosgene (cGMP)/CO SOCl₂/Cl₂ (gas/liquid)</p> <p>Organometallic reactions Grignard Heck reactions: with organolithium compounds with organozinc compounds Sodium in liquid ammonia</p>	<p>Oxidations With nitric acid With oxygen/air With peroxides With transition metal catalysts Amoxidation Ozonolysis</p> <p>Reactions under special conditions High-pressure reactions High-temperature reactions Low-temperature reactions</p> <p>Reductions Catalytic hydrogenations (homogeneous and heterogeneous): with metal hydrides with Raney nickel</p> <p>Biotechnological processes Enzyme-catalysed reactions (biotransformations) Mammalian cell culture fermentation (GS and other expression system) Microbial fermentation (batch and fed-batch mode)</p>	<p>Peptide and Oligonucleotide technologies Solid-phase synthesis Liquid-phase synthesis Recombinant technology Large-scale downstream processing (ion exchange, HPLC, lyophilisation)</p>



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 rose 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®) – an active ingredient for slug and snail pellets – increased slightly. The effects of a drought and flooding in some of our more important markets resulted in lower sales in the fourth quarter. 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 joint venture for the production of niacinamide in Guangzhou, in which Lonza had a 60% stake, was transformed into a contractual joint venture in which Lonza holds 100% of the shares.

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 special circumstances in recreational water and wood protection have increased growth opportunities for Lonza.

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. The unprofitable fatty acid and glycerine operation located in Painesville, OH (USA) was sold to Twin Rivers Technologies Inc., Quincy, MA (USA) in 2002.

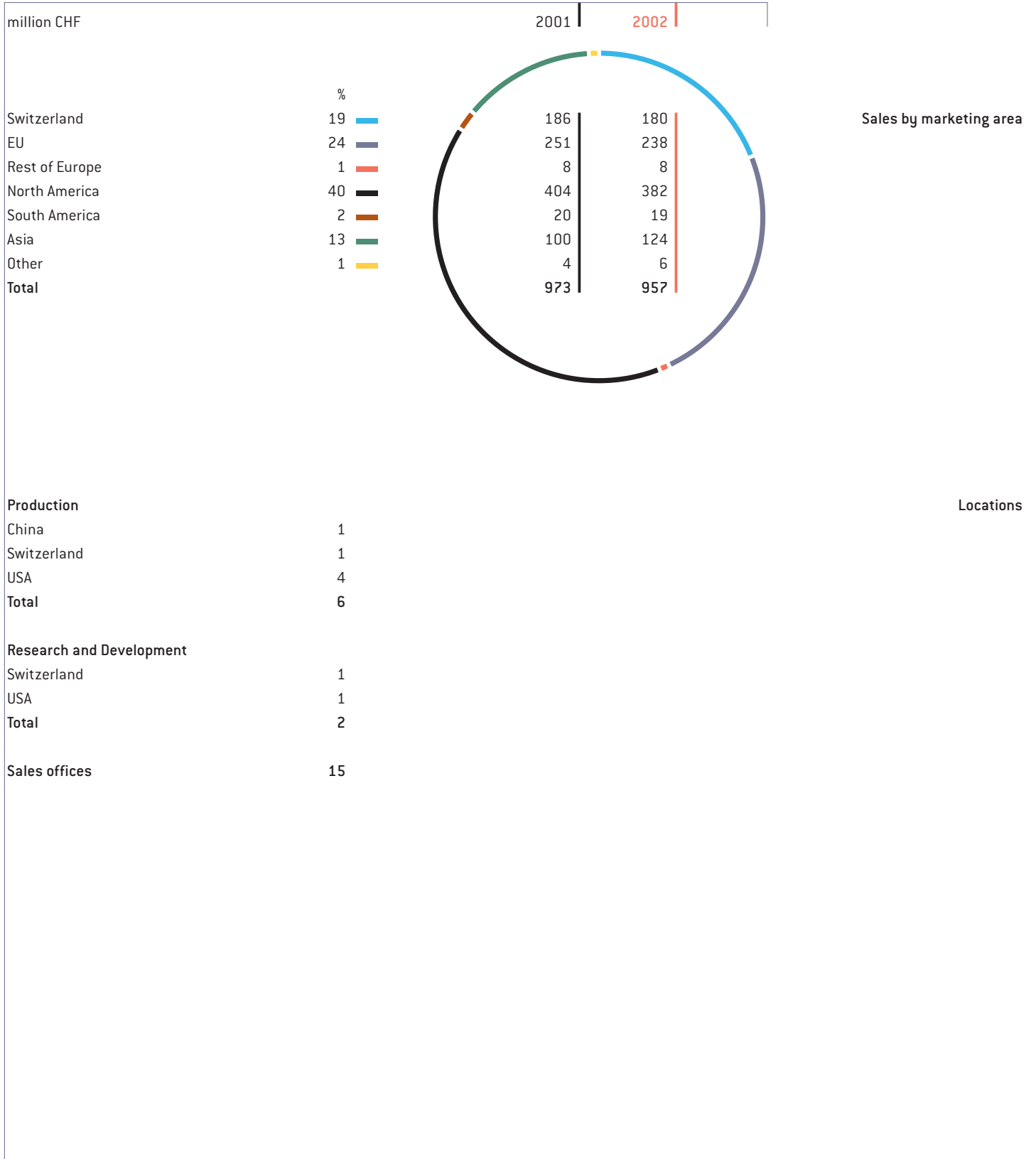
Research and Development – The Organic Fine Chemicals business sector continued to focus its development on non-cGMP intermediates for the life sciences industry. A revamped multipurpose plant for non-cGMP intermediates – meeting ISO requirements – was successfully put into operations. Several new molecules were produced applying specific Lonza technologies. A new malonitrile 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. Several new products are planned to go into commercial production in 2003 or awaiting the final approval of our customers.

2002 was marked by an increasing level of innovation in Performance Chemicals. In addition to continuing the launch process for new biocidal products, the 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.

A major new process for the manufacture of our leading biocidal quaternary was successfully

started up. Efforts to develop active ingredients for personal-care products and improved emulsification systems for the food and personal-care segments continued; these included the expansion of application and process-development activities. The search for preservatives that meet market requirements for natural and environmentally-friendly materials resulted in the development of several novel natural-based products that will be a platform for future preservation systems in personal care. New preservative products are slated for launch throughout 2003.

	Products	Main application	Market position
Organic Fine Chemicals	Niacin, niacinamide	Food and feedstuffs, pharmaceuticals	No 1 worldwide for niacin
	Diketene derivatives	Pharmaceuticals, agrochemicals, colorants	No 1 worldwide
	Hydrocyanic acid derivatives	Vitamins, optical brighteners, agrochemicals	No 2 worldwide
	Engineering polymers	Electronics, aerospace industry, coating	No 1 worldwide in PT resins, No 1 worldwide in specialty chain-extenders
	Meta® – Metaldehyde	Snail and slug control agents	No 1 worldwide
Performance Chemicals	Microbiologically active substances	Disinfectants for household, industrial and institutional applications, preservatives and actives for personal care and industrial applications, biocides for water treatment, pulp and paper industry, wood protection	Leader in specialty biocides
	Oleochemicals	Food ingredients, humectants and emollients for personal care, processing aids and lubricants for polymer and textile industry	Among the leading producers
Key Technologies	<p>Expertise in handling hazardous and highly reactive chemicals such as Acetylene/ethylene Cyclopentadiene Ethylene oxide HCN/CICN/chlorosulfonyl-isocyanate Ketene/diketene Malonodinitrile Phosgene [cGMP]/CO SOCl₂/Cl₂ [gas/liquid]</p> <p>Organometallic reactions Grignard Heck reactions: with organolithium compounds with organozinc compounds Sodium in liquid ammonia</p>	<p>Oxidations With nitric acid With oxygen/air With peroxides With transition metal catalysts Ammoxidation Ozonolysis</p> <p>Reactions under special conditions High-pressure reactions High-temperature reactions Low-temperature reactions</p> <p>Reductions Catalytic hydrogenations (homogeneous and heterogeneous): with metal hydrides with Raney nickel</p>	<p>Performance Chemicals technologies Aminations and quaternizations for biocide production Fatty-acid-based esterification technologies Hydantoin technology</p>



After concluding discussions with potential buyers on the sale of the Polymer Intermediates business, the Board of Directors decided in June, despite Lonza's clear strategic commitment to focus on its life sciences activities, to postpone the previously announced divestiture of this business. The value of the proposed deal did not adequately reflect the future prospects of this 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.

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.

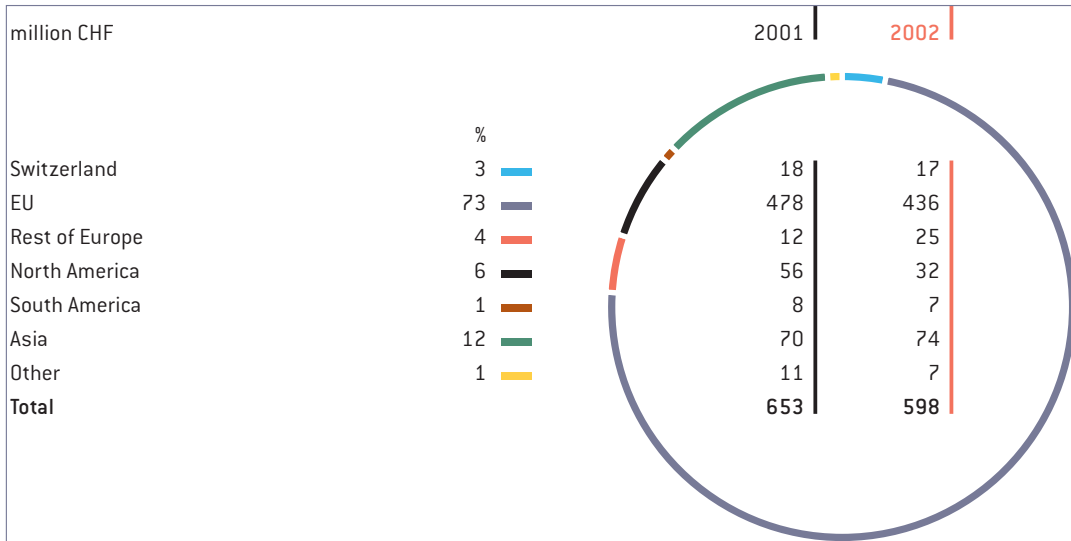
The production capacity of our isophthalic acid plant in Singapore was fully utilized in 2002. Although market demand for isophthalic acid was strong throughout the year, prices remained at very low levels due to overcapacity. A realignment of our manufacturing processes is expected to yield improvements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

Research and Development – New products such as unsaturated polyester resins based on new raw materials (DCPD) and trimetil-trimellitate in the special plasticizers successfully completed the marketing phase and are now entering industrial trials. Dedicated production lines have been built for both products in order to serve this demanding market already in 2003. The new products expand the wide range already in our portfolio, strengthening the position of Lonza Polymer Intermediates as the pre-eminent supplier to the resins and special plasticizers industry.

Other highlights of our research and development activities included further improvements to our production technology for trimellitic anhydride

and maleic derivatives as well as a new phthalic anhydride catalyst. Through these efforts we aim to keep our plants competitive and maintain a product offering of the highest quality.

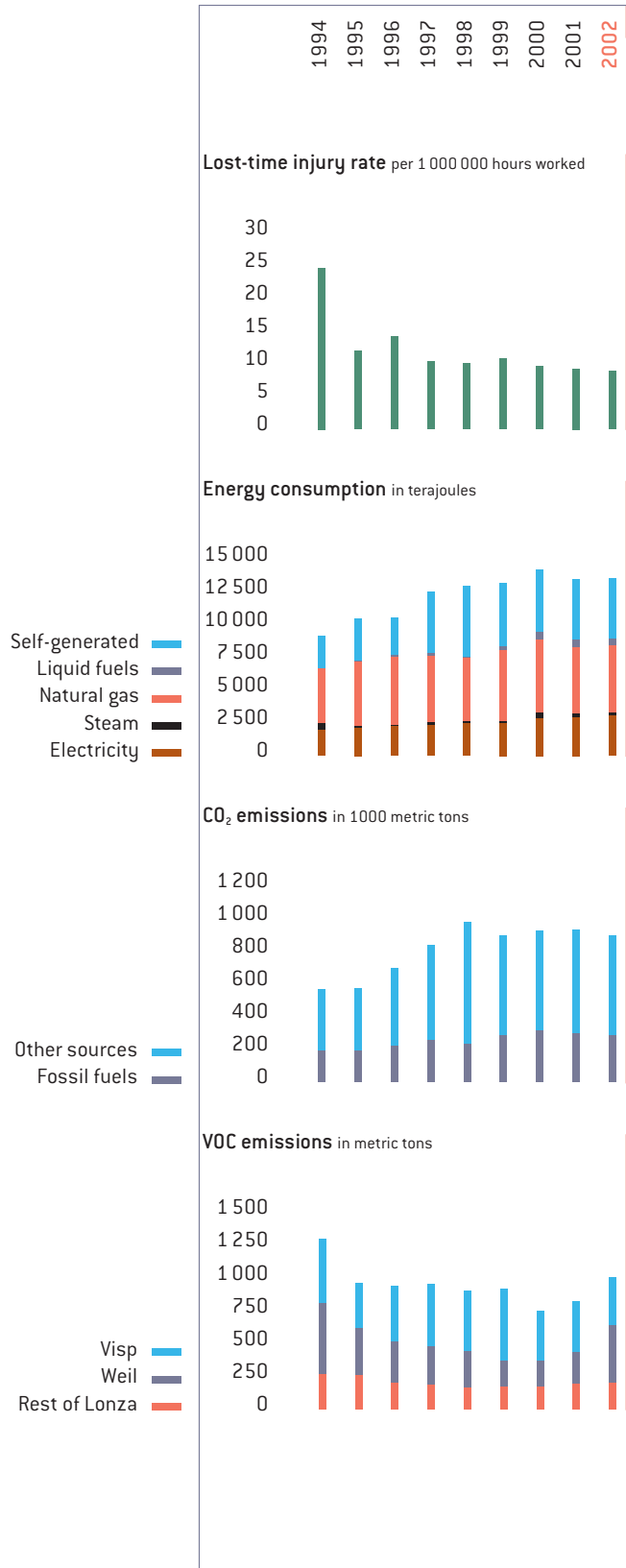
	Products	Main applications	Market position
Anhydrides and Chemicals	Dibasic acids and anhydrides: phthalic anhydride, maleic anhydride, pyromellitic anhydride, fumaric acid, malic acid, trimellitic anhydride	Unsaturated polyester resins, plasticizers, adhesives, paints, lubricants, additives for food and feedstuffs, pharmaceuticals	No. 1 in Europe for trimellitic anhydride and malic acid No. 1 in Europe and co-leader worldwide for fumaric acid
	Pure isophthalic acid and meta xylene	Unsaturated polyester resins, PET bottle grade, paints and coatings	Among Asia's leading producers
Special anhydrides and Esters	Succinic anhydrides, hydrogenated anhydrides, hardeners for epoxy resins, tetrahydrophthalic, diethylacetonylsuccinate, tetrahydrophthalimide, dimethylsuccinate, other esters.	Electrical equipment and electronics, paints and pigments, additives in plastics, pharmaceutical and agricultural products	No. 1 worldwide
Plasticizers	General purpose and special plasticizers: linear phthalates, polymeric, trimellitates	Plasticizers for PVC, electrical equipment, automotive, furnishing, clothing, sport	No. 1 in Europe for special plasticizers
Resins	Unsaturated polyester resins and derivatives (gel-coats)	Nautical engineering, construction and transport industries, electrotechnical equipment, sport, furniture, sanitary wear	Among Europe's leading producers
Compounds	Technocompounds and molded composites: BMC, SMC, TMC	Electrical equipment and electronics, construction and transport industries	No. 2 in Europe for technocompounds
Catalysts and Technologies	Catalysts and technologies, custom manufacturing of catalysts	Production of phthalic and maleic anhydride, pyromellitic anhydride and formaldehyde	No. 1 worldwide: catalysts for Maleic anhydride No. 1 worldwide: fluid bed technology for maleic anhydride
Key Technologies	<p>Oxidation</p> <p>Vapor Phase (fixed and fluid bed)</p> <p>Liquid Phase</p> <p>Epoxydation</p> <p>Esterification</p> <p>Hydrogenation</p> <p>Diels-Alder reaction</p> <p>Double bond addition (hydration)</p>	<p>Isomerization</p> <p>All technologies for the production and development of heterogeneous catalysts</p> <p>Compounding technologies</p>	



Sales by marketing area

Location	Count
Production	
China	1
Germany	1
Italy	4
Singapore	1
Total	7
Research and Development	
Italy	3

Locations



Lonza respects and actively applies the principle of sustainability. We strive to ensure that the balance of the economic, ecological and social impact of our activities on the environment in the widest sense is so conceived that it ensures sustainable business activity in the long term, meeting the demands of all stakeholder groups. Our Safety, Health and Environment (SHE) Policy sets out binding standards for all Group companies and establishes each employee's fundamental SHE responsibilities. SHE awareness is an integral part of all our activities; it is the driving force behind the SHE management systems at our sites; and in the operational sphere, it is built into every single project from the outset. Every new research project, every process development and optimization, contains a substantial input of SHE resources, which is inseparable from the technical and economic requirements. The input is in the form of modern, process- and business-integrated Safety, Health and Environment measures. SHE capital expenditure in 2002 was CHF 26.6 million, which accounts for 1.1% of net sales and 7.6% of Lonza's total investment in fixed assets. The total operating expense for SHE in the reporting year was CHF 62.5 million.

Safety – The welcome trend of gradually declining accident rates was reaffirmed in 2002. In the reporting year, the rate was 8.9 accidents per million hours worked, representing a further fall of 4% compared with the previous year. An unwelcome and contrasting trend is the rise in the lost-time injury rate compared with the previous year. But the factors affecting this rate are manifold and require a detailed explanation. One reason for the change was an accident at one of our US plants in which two workers suffered serious injuries. Otherwise, there were no serious accidents or breakdowns reported anywhere in the Group. Similarly gratifying is that no significant incidents occurred during transport of Lonza goods. Lonza will continue to make strenuous efforts to further improve its record on personal and environmental safety. To achieve this, safety at work programs are being implemented at all our sites and all employees receive regular

training by internal and external experts in all aspects of SHE. The priority is to ensure proper and systematic use of personal safety equipment as well as knowledge of the characteristics and correct handling of chemicals and identification and elimination of unsafe practices and conditions. Criteria for increasing safety are an integral part of annual objectives at all locations.

Social environmental responsibility – At production sites in particular, good relations with the neighbors are indispensable for forward-looking, responsible business activities. SHE-conscious employees are our ambassadors and all local managements maintain regular contacts with the authorities and the local population. Lonza is engaged at local level in the cultural and sporting spheres, and is committed to open dialogue with all stakeholders, particularly in regard to SHE questions. Lonza is pursuing advances in the safe handling of chemicals, responsible handling of waste materials and sustainable use of natural resources through active participation in various national and international bodies (OECD, CEFIC, SGCI/SSCI).

Resources and the environment – In energy-intensive production of chemical intermediates, economic use of energy sources is of vital importance. For example, the total power usage of Lonza's Valais Works represented around 1% of total electricity consumption for the whole of Switzerland. As a result, energy efficiency studies have been carried out at the Valais Works and other Lonza production sites and initial measures already implemented. Energy conservation measures again brought positive results in the reporting year. Lonza's total energy requirement in 2002 was 13 600 terajoules, slightly down on the previous year (-1.5%). The main energy sources are natural gas (38%), utilization of waste products (34%) and electricity (23%). Our industrial water requirements of 12 million cubic meters per annum have remained virtually unchanged for the last five years.

Through systematic use of optimized process management, water emissions remained low and

are still falling. In regard to air pollutants, Group-wide emissions of carbon dioxide (CO₂), a key greenhouse gas, dropped by a further 4% to 899 000 tonnes, with the proportion of CO₂ produced by burning fossil fuels being just under one-third. Efforts to realize some of the potential for energy conservation – including action to meet the targets set out in the Kyoto protocol – are proving effective.

The rise in air emissions of volatile organic compounds (VOC) to 1000 metric tons is due in part to the product mix, as well as delays in commissioning a new installation at our film works and the increased demand for film products. However, an improvement was reported from the Visp site, where a further multi-product plant and the pilot plant were connected to the central waste-gas treatment facility at a total cost of CHF 3.5 million. We are confident that ongoing investment products and process optimization measures over the next few years will enable us to achieve our target of sustainable and substantial reduction in emissions of air pollutants.

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Lonza Group Ltd is fully committed to good corporate governance and complies with the corporate governance directive of the SWX Swiss Exchange. The principles and rules of Lonza Group Ltd are laid down in the Company's Articles of Association¹, the Regulations Governing Internal Organization and Board Committees, and the Code of Conduct¹.

Operational Group structure – Lonza is a life-sciences-driven company, headquartered in Switzerland, which operates 19 production and R&D facilities in eight countries. Its activities are organized in three divisions, comprising six business sectors, and the corporate functions. Lonza is the leading custom manufacturer of active chemical ingredients, intermediates and biotechnology solutions for the pharmaceutical and agrochemical industries. It also offers organic intermediates for a wide range of applications, antimicrobial and associated products, as well as polymer intermediates and compounds. A detailed description of Lonza's worldwide activities is available on our website: www.lonza.com.

Principal subsidiaries and affiliates ²	Registered office ³	Purpose	Currency ³	Share capital in 000	% Holding direct	% Holding indirect	Lonza					
							Exclusive Synthesis	Biologics	Biotec	Organic Fine Chemicals	Performance Chemicals	Polymer Intermediates
European countries												
Lonza Ltd	Visp, CH	●●●	CHF	60 000	100							
Lonza Sales Ltd	Basel, CH	●●●	CHF	2 000	100							
Lonza Finance Ltd	St Helier, Jersey, GB	●●●	CHF	12	100							
Lonza Biotec sro	Kourim, CZ	●●●	CZK	137 100		100						
Lonza Compounds GmbH & Co. KG	Miehlen, DE	●●●	EUR	699		100						
LOFO High Tech Film GmbH	Weil am Rhein, DE	●●●	EUR	7 671		100						
Lonza GmbH	Weil am Rhein, DE	●●●	EUR	511		100						
Lonza Group GmbH	Weil am Rhein, DE	●●●	EUR	25		100						
Lonza Biologics plc	Slough, GB	●●●	GBP	4 500		100						
Lonza Group UK Ltd	Slough, GB	●●●	GBP	17 000		100						
Lonza SpA	Scanzorosciate, IT	●●●	EUR	10 000		100						
Lonza Compounds SpA	Scanzorosciate, IT	●●●	EUR	11 500		100						
Lonza Composites Srl	Scanzorosciate, IT	●●●	EUR	1 560		100						
Lonza Europe BV	Breda, NL	●●●	EUR	19		100						
Other countries												
Lonza Guangzhou Ltd	Guangzhou, CN	●●●	USD	12 000		100						
Lonza Japan Ltd	Tokyo, JP	●●●	JPY	200 000	100							
Lonza Singapore Pte Ltd	Singapore, SG	●●●	SGD	45 500		100						
Lonza America Inc.	Wilmington, DE, US	●●●	USD	8	100							
Lonza Inc.	Fair Lawn, NJ, US	●●●	USD	464		100						
Lonza Biologics Inc.	Wilmington, DE, US	●●●	USD	1		100						



¹ Published on the Lonza website: www.lonza.com

² All companies belonging to Lonza are non-listed entities

³ Abbreviation of countries and currencies in accordance with ISO standards

	2001		2002		Shareholder structure
	Shareholders %	Shares %	Shareholders %	Shares %	
Switzerland	94.63	45.86	94.44	42.00	
Great Britain	0.39	4.93	0.42	10.74	
Germany	2.16	3.41	2.19	1.59	
USA	0.42	1.13	0.39	0.14	
Other	2.39	2.26	2.54	4.22	
Shares in transit		36.85		35.21	
Own shares without voting rights	0.01	5.56	0.02	6.10	
Total	100.00	100.00	100.00	100.00	
Total number of shares		55 260 070		50 450 000	

Significant shareholders¹ – At the end of July 2002, Lonza Group Ltd was informed by BZ Group Holding Ltd – at that time it's biggest shareholder – about the sale of Stillhalter Vision Ltd, containing approximately 10% of the Lonza Group Ltd shares, to Zurich Cantonal Bank. On 4 October 2002, the Board of Directors of Lonza Group Ltd was informed by BZ Group Holding Ltd of its intention to sell its remaining 19.8% stake in Lonza Group Ltd. As of 29 October 2002, the stakes of Zurich Cantonal Bank and BZ Group Holding Ltd 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.

It is known to Lonza Group Ltd that, as of 31 December 2002 EMS-Chemie Holding Ltd held 5 727 042 of its shares (corresponding to 11.35% of the total share capital), of which 5 473 000 were registered in the share register of Lonza Group Ltd (corresponding to 10.85% of the total shares issued). On 4 October 2002, EMS-Chemie Holding Ltd notified Lonza Group Ltd that it had issued and sold 4 400 000 put options expiring in December 2003 (corresponding to 8.72% of the total share capital). Lonza Group Ltd is also aware that, as of 15 January 2003, Zurich Cantonal Bank held 2 537 480 of its shares (corresponding to 5.03% of the total share capital). Lonza Group Ltd knows of no other shareholder that owns more than 5% of the total share capital of Lonza Group Ltd.

Shares – Lonza Group Ltd registered shares, with a par value of CHF 1, are listed on the SWX Swiss Exchange and included in the Swiss Market Index (SMI). They are traded on the virt-x, an electronic trading system in London. Security number: 1384101 (valor); stock symbol: LONN (Telekurs).

Lonza Group Ltd has no cross-shareholdings and has issued neither participation certificates nor bonus certificates.

Registration in the share register, voting rights restrictions and representation – Only persons with valid entries in the share register are recognized as shareholders or usufructuaries. A shareholder may only be represented at the Shareholders' Meeting by a legal representative or – by way of written proxy – by another shareholder entitled to vote, the appointed representative of the corporate body, the independent proxy or an assignee of proxy votes for deposited shares.

Purchasers of Lonza Group Ltd shares may submit a request to be entered, without limitation, as shareholders with voting rights in the share register, provided they expressly declare that they have acquired these shares in their own name and on their own account. Special rules exist for persons who do not expressly declare in the entry application that they hold the shares on their own account (nominees). Each share has the right to one vote.

¹ In accordance with Art. 20 of the Federal Act of Stock Exchanges and Securities Trading (SESTA) and Art. 662c of the Swiss Code of Obligations (CO)

Except as otherwise stipulated by law, an absolute majority of the votes represented at the Shareholders' Meeting is required for resolutions and elections.

Ordinary Shareholders' Meetings are called in accordance with the law. Extraordinary Shareholders' Meetings must be called upon resolution of a Shareholders' Meeting or if demanded by shareholder(s) representing at least 10% of the share capital; shareholder(s) representing shares with a par value of CHF 1 million may request an item to be included in the agenda.

An offer to acquire all shares must be made in accordance with Art. 32 of SESTA if the threshold of $33\frac{1}{3}$ of the voting rights is exceeded.

Share capital – The share capital as of 31 December 2002 amounting to CHF 50 450 000 (2001: 55 260 070) comprised 50 450 000 registered shares with a par value of CHF 1 each (2001: 5 526 007 with a par value of CHF 10 each).

As of 31 December 2002, Lonza Group Ltd had no authorized or conditional capital at its disposal.

Changes in capital structure within the last three financial years

	Share capital	Registered shares	Par value/share
31 December 2000	CHF 64 339 850	6 433 985	CHF 10
31 December 2001	CHF 55 260 070	5 526 007	CHF 10
31 December 2002	CHF 50 450 000	50 450 000	CHF 1

On 28 March 2001, the Ordinary Shareholders' Meeting approved the cancellation of 907 978 shares with a par value of CHF 10 each, repurchased at a gross price of CHF 940 per share.

On 27 March 2002, the Ordinary Shareholders' Meeting approved the following changes in the capital structure of Lonza Group Ltd:

1. Cancellation of 481 007 shares with a par value of CHF 10 each, purchased at an average price of CHF 997 per share.
2. Stock split in a ratio of 1:10, bringing the par value of Lonza Group Ltd shares to CHF 1 each.

Own shares – In conjunction with a convertible bond, issued in June 2002, Lonza Finance Ltd, St Helier, Jersey (GB), purchased 2 222 222 shares in Lonza Group Ltd, with a par value of CHF 1 each, in the period from 12–25 June 2002. The average purchase price was CHF 118 net per registered share.

In order to satisfy the exercise of the Share Option Plans (LOSOP) for key employees, Lonza Group Ltd acquired – in April and May 2002 – 141 327 of its own shares at an average price of CHF 118.

To fulfill its obligations as set out in the Lonza Employee Share Purchase Plan (ESPP), Lonza Group Ltd purchased 12 375 of its shares in the ten days preceding the set acceptance date of 25 October 2002, at an average price of CHF 85.90 per share.

As of 31 December 2002, Lonza Group Ltd and a subsidiary of the company held 3 075 924 (6.1%) of its own shares with a par value of CHF 1 each (31 December 2001: 307 496 of its registered shares with a par value of CHF 10 each), resulting in a reserve for own shares of CHF 336 311 343 (31 December 2001: CHF 278 770 609). The shares held by the Group are not entitled to vote at the Shareholders' Meetings and bear no dividend.

Employee Share Purchase Plan (ESPP) – In keeping with our vision and culture, Lonza introduced an ESPP for the first time in 2002. This plan is intended to give our employees the opportunity to become co-owners of Lonza. This opportunity is open to certain full-time and part-time employees. Under the present plan rules, these employees have the opportunity – but no obligation – to acquire shares in Lonza Group Ltd against payment of the full purchase price, in amounts ranging from CHF 1 500 to CHF 15 000. After a holding period of three years, Lonza will provide these employees with one additional share for every three shares purchased. The ESPP is not part of an incentive program. The plan is intended as a long-term share-savings scheme to provide employees with an incentive to strengthen teamwork and personal commitment, and, by continuous improvement of their performance within the respective teams, to make a positive contribution to the success and value of Lonza.

Changes to the Board of Directors – After the divestment of approximately 10% of Lonza Group Ltd registered shares in the sale of Stillhalter Vision Ltd to Zurich Cantonal Bank in August 2002, BZ Group Holding Ltd decided in October 2002 to sell another 19.8% of its Lonza Group Ltd shares. As a consequence, Martin Ebner, Chairman of the Board of Directors of Lonza Group Ltd, stepped down as Director of the company on 3 October 2002.

Sergio Marchionne, formerly Vice-Chairman of the Board of Directors, and Bernard Mach were appointed Chairman and Vice-Chairman respectively of the Board of Directors of Lonza Group Ltd.

Members of the Board of Directors – The members of the Board of Directors are elected by the Ordinary Shareholders' Meeting for a term of one year; re-election is possible. The Board constitutes itself and elects from amongst its members the Chairman and Vice-Chairman.

The Board of Directors is made up of non-executive members. None of them had any cross-involvement or important business connections with Lonza in the period under review. Sergio Marchionne was the only member of the Board of Directors to have served on the Management Committee of Lonza in the last three years. He resigned as Chief Executive Officer (CEO) of Lonza on 1 February 2002.

Sergio Marchionne (1952), Canadian and Italian, Chairman of the Board of Directors and the Compensation Committee, Member of the Audit Committee

- Licensed Barrister and Solicitor, Chartered Accountant and Certified General Accountant, Bachelor of Laws from Osgoode Hall Law School, York University, Toronto, and Master of Business Administration from the University of Windsor, Canada.
- Chairman of the Board of Directors of Lonza Group Ltd, Basel (since October 2002)
- Member of the Board of Directors of Lonza Group Ltd, Basel (since September 1999)
- Member of the Board of Directors of Société Générale de Surveillance Holding SA, Geneva (since May 2001)
- Managing Director and Chief Executive Officer of Société Générale de Surveillance Holding SA, Geneva (since February 2002)
- Managing Director and Chief Executive Officer of Alusuisse Lonza Group Ltd, Zurich (1997–2000)
- Managing Director and Chief Executive Officer of Lonza Group Ltd, Basel (November 1999–January 2002)
- Member of the Board of Directors of Serono Ltd, Geneva (since May 2000)

Bernard Mach (1933), Swiss, Vice-Chairman of the Board of Directors and Member of the Audit and Compensation Committees

- MD from the University of Geneva and PhD from Rockefeller University, New York
- Until his retirement in 1998, Professor of Molecular Genetics and Chairman of the Department of Genetics and Microbiology at the University of Geneva Medical School
- Vice-Chairman of the Board of Directors of Lonza Group Ltd, Basel (since October 2002)
- Member of the Board of Directors of Lonza Group Ltd, Basel (since March 2001)
- Founder and former Board Member of Biogen Inc., Geneva, then Boston
- Member of the Board of Directors of Serono Ltd, Geneva (since 1997)
- Founder and Chairman of the Scientific Board of Lombard Odier Immunology Fund, Geneva (since 1995)
- Founder and Chairman of NovImmune SA, Geneva (since 1998)
- Member of the Swiss Research Council (1969–1980)
- President of the Union of Swiss Societies for Experimental Biology (1990–1993)
- Member of the French Academy of Sciences (since 1995)



Peter Kalantzis (1945), Swiss and Greek, Member of the Board of Directors and Chairman of the Audit Committee

- Studied economics and received his doctoral degree from the University of Basel
- Industrial Consultant
- Member of the Board of Directors of Lonza Group Ltd, Basel (since September 1999)
- Executive Vice-President of Alusuisse Lonza Group Ltd, Zurich (1991–2000)
- Chairman of the Board of Directors of Mövenpick Holding, Cham
- Chairman of the Board of Directors of Petrola Hellas SA, Athens
- Chairman of the Board of Directors of PrivatAir Holding SA, Geneva
- Acting President of the Swiss Society of Chemical Industries (2001–2002)
- Member of the Executive Board of economiesuisse (2001–2002)

**Rupert Gasser (1938), Austrian and Swiss, Member of the Board of Directors and Member of the Audit Committee**

- Graduated in Chemistry from the Technical Academy for Chemical Industry in Vienna, Austria
- Member of the Board of Directors of Lonza Group Ltd, Basel (since September 1999)
- Executive Vice-President, Nestlé SA, Vevey (1992–2002)
- Member of the Board of Directors of Alusuisse Lonza Group Ltd, Zurich (1992–2000)
- Member of the Board of Directors of Alcan Aluminium Ltd, Montreal (2000–2001)
- Member of the Board of Syngenta Ltd, Basel (since 2002)
- President of Nestec Ltd, Vevey (since 2001)
- Member of Alcon Scientific Advisory Board, Fort Worth (since 2003)



Areas of responsibility – The Board of Directors is responsible for the tasks assigned to it under the terms of Art. 18 of the Articles of Association and the Regulations Governing Internal Organization and Board Committees, in particular for the ultimate management of Lonza and for the ultimate supervision of the persons entrusted with Group management, especially with regard to compliance with the law, the Articles of Association, regulations and directives. It is entitled to issue the necessary instructions.

The Board of Directors of Lonza Group Ltd defines the strategic direction and has, in compliance with Swiss law and Lonza Group Ltd's Articles of Association, delegated the management of the Company to the Management Committee, with the exception of specifically defined significant matters.

Organizational structure and control instruments – The Board of Directors commits itself to maintaining the highest standards of integrity and transparency in its governance of Lonza. The Regulations Governing Internal Organization and Board Committees set out in detail the powers and responsibilities of the Board of Directors, its Committees and the Management Committee. The standing Board Committees in the areas of audit and compensation provide modern corporate governance guidance and support to the Board of Directors.

Broad supervisory and reviewing powers are held by the Board of Directors, which is directly supported by Internal Auditing.

The Regulations Governing Internal Organization and Board Committees confer on the CEO the duty to inform the Management Committee and – together with the Chairman – the Board of Directors on the business activities and all important business transactions, including risk issues. The Board of Directors meets periodically with the Management Committee or its subcommittees for business updates and decisions on action to be taken.

Audit Committee – Lonza maintains a system of internal accounting policies, procedures and controls to provide a reasonable assurance, given the inherent limitations of all internal control systems, at appropriate cost, that transactions are executed in accordance with company authorization, that they are properly recorded and reported in the financial statements, and that assets are properly safeguarded. Lonza's internal auditors comprise three experts who continually evaluate the adequacy and effectiveness of this system of internal accounting policies, procedures and controls, and take appropriate action to correct deficiencies as they are identified. In 2002, they delivered 19 internal audit reports to the Audit Committee.

The Audit Committee of the Board of Directors reviews the systems of internal control and financial reporting. The committee which currently includes four members of the Board of Directors, who are all independent of Lonza, meets and consults regularly with the Management Committee, the internal auditors and the independent auditors to review the scope and results of their work. The internal and independent auditors have full and free access to the Audit Committee.

Auditors – Lonza Group Ltd's independent statutory auditors and the Group auditors are:

KPMG Fides Peat, Badenerstrasse 172, CH-8026 Zurich 4, Switzerland

Auditor in charge: Hanspeter Stocker, SCA

Term of office for the financial year 2002

The company's accounts as of and for the years ended 31 December 1999, 2000, 2001 and 2002 were audited by KPMG Fides Peat.

Head of Internal Auditing of Lonza: Ed O'Donnell

Compensation Committee – Compensation matters have been delegated within the framework of the Board of Directors' competencies. The Chairman and Vice-Chairman take decisions on the terms of employment of any full-time members of the Board of Directors and the Chief Executive Officer. The Chairman and the Chief Executive Officer take decisions on the terms of employment of the members of the Management Committee (with the exception of the CEO).

Board meetings – During 2002, the Board of Directors met formally for full board meetings on seven occasions. In addition, the Chairman and the Vice-Chairman supported the Management Committee through regular contacts.

The Management Committee is appointed by the Board of Directors of Lonza Group Ltd. It is the highest management body of the Group. It performs the duties assigned to it by the Board of Directors, either under the terms of the Regulations Governing Internal Organization and Board Committees or additional tasks as delegated. It is responsible for leading Lonza, especially for developing and implementing the Lonza policy and strategy and recommending it for approval by the Board of Directors. It supports and coordinates the activities of the business sectors and the corporate functions. It is also responsible for leadership development and succession planning.

Management organization and members of the Group Management (status February 2003)



Markus Gemuend René Imwinkelried Beat In-Albon Stephan Kutzer Lukas Utiger Rosario Valido



John Birch Fritz Blaser Walter Eschenmoser Jean-Jacques Illi Stéphane Mischler Roland Waibel

Business Sectors

Markus Gemuend (1958), Swiss, Chief Executive Officer and Head of Biologics Business Sector. Member of the Management Committee since August 2001 and CEO since February 2002.

René Imwinkelried (1957), Swiss, Head of Biotech Business Sector. Member of the Management Committee since November 2000.

Beat In-Albon (1952), Swiss, Head of Organic Fine Chemicals Business Sector. Member of the Management Committee since November 1999.

Stephan Kutzer (1965), German, Head of Performance Chemicals Business Sector. Member of the Management Committee since January 2003.

Lukas Utiger (1963), Swiss, Head of Exclusive Synthesis Business Sector. Member of the Management Committee since August 2001.

Rosario Valido (1952), Italian, Head of Polymer Intermediates Business Sector. Member of the Management Committee since July 2002.

Corporate Functions

John Birch (1945), British, Chief Scientific Officer. Member of the Management Committee since September 2002.

Fritz Blaser (1941), Swiss, Head of Human Resources, Insurance, Services. Member of the Management Committee since November 1999.

Walter Eschenmoser (1947), Swiss, Head of Communications, Investor Relations, SHE. Member of the Management Committee since November 1999.

Jean-Jacques Illi (1960), Swiss, Chief Financial Officer, Head of Treasury, Tax. Member of the Management Committee since August 2002.

Stéphane Mischler (1950), Swiss, Head of Visp Service Center. Member of the Management Committee since November 1999.

Roland Waibel (1958), Swiss, Head of Group Controlling, Corporate Development, IT. Member of the Management Committee since November 1999.

General compensation policy – The Compensation Committee administers the Lonza Executive Salary Plan, Incentive Plan and Stock Option Plan.

The Company periodically retains outside compensation and benefits consultants to compare base salary and incentive compensation programs for its employees with those of other leading industrial companies. The Compensation Committee consults with the Head of Human Resources on general matters concerning compensation, pension and welfare benefit plans. The compensation programs of Lonza consist of the Lonza Salary Plan, the Incentive Plan and the Share Option Plan.

Members of the Board of Directors may elect payment in cash and/or share options and members of the Management Committee may receive their compensation in the form of cash and/or share options.

Members of the Board of Directors are reimbursed for travel and other related expenses associated with the performance of their services for Lonza.

Clauses on changes of control are not part of any employment agreements or benefit plans.

Compensation for acting members – In 2002, payments to acting members of the Board of Directors of Lonza Group Ltd and those who gave up their functions in the year under review totalled CHF 2.4 million, 84% of which was received in the form of options.

The acting members of the Group Management Committee and those who gave up their functions in the year under review received – for their contributions and time served in 2002 – total compensation of CHF 5.7 million, of which CHF 5.2 million was paid in cash and cash equivalents. Options represented CHF 0.5 million of the total compensation at tax rate as of 31 December 2002.

Members of the Board of Directors and the Management Committee did not benefit from any credits, benefits in kind or loans.

In 2002, there were payments to one former member of the Management Committee in the amount of CHF 0.1 million. No severance payment agreements were in force.

Conflict of interest – No member of the Board of Directors or Management Committee benefits materially from any contract between a Lonza company and a third party.

Share allotment – In 2002, Lonza Group Ltd did not allot any shares to members of the Board of Directors, members of the Management Committee or any parties closely associated with them.

Share ownership – Based on information available to us as of 31 December 2002, the members of the Board of Directors and parties closely associated with them held 16 920 and the members of the Management Committee and parties closely associated with them held 4 306 registered shares in Lonza Group Ltd.

Options – In 2000, the Board of Directors of Lonza Group Ltd implemented a Share Option Plan entitling holders of options to purchase a fixed number of Lonza Group Ltd shares. The exercise of these options is subject to a holding period. Under the various option schemes (Board of Directors, Management Committee and key employees) the following options were granted:

Year	Number of options	Strike price	Exercise ratio
2000	1 908 900	CHF 97.00	10 : 1
2001	2 170 650	CHF 104.50	10 : 1
2002	4 331 218	CHF 113.00	10 : 1

The options vest after three years of grant and become exercisable thereafter for a period of two years. After the exercise period, the options cease to be of any effect without compensation.

Participants

	Issue 2000	Issue 2001	Issue 2002	Total issued
Board of Directors ¹		1 237 800	2 588 718	3 826 518
Management Committee ¹	881 600	237 850	632 500	1 751 950
Key employees	1 027 300	695 000	1 110 000	2 832 300

Highest total compensation – The highest compensation conferred on a member of the Board of Directors who gave up his function in 2002 was CHF 800 000, all in the form of options on Lonza Group Ltd shares.

¹ Acting and former members

Auditing honoraria – Lonza paid KPMG CHF 1.338 million for professional services rendered in connection with the audit of the Group's annual financial statements and other audit-related activities. For all other professional services rendered, including IRM support for internal auditing, Lonza Group paid KPMG CHF 190 000.

Supervisory and control instruments – The Audit Committee reviews Lonza's financial reporting process on behalf of the Board of Directors. Management is responsible for the financial statements and the reporting process, including the system of internal controls. The independent statutory auditor, KPMG Fides Peat, is responsible for expressing an opinion on the accounting records and financial statements prepared in accordance with Swiss law and the Company's Articles of Association. As independent group auditors, KPMG Fides Peat, is responsible for expressing an opinion on the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity and notes) prepared in accordance with the International Financial Reporting Standards (IFRS) and Swiss law. The Audit Committee is responsible for overseeing the conduct of these activities by Lonza management and the independent auditors.

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Consolidated balance sheet

million CHF	Note ²	2001	2002
Assets¹			
Fixed assets			
Property, plant and equipment	4	3 695	3 695
Accumulated depreciation	4	(1 918)	1 750
Intangible assets	4	29	21
Goodwill	4	75	60
Other non-current assets	4	40	39
Deferred tax assets	4,23	165	164
Unconsolidated investments	4	21	20
Long-term loans and advances	4	7	5
Total fixed assets		2 114	2 059
Current assets			
Inventories	6	635	547
Value adjustments	6	(34)	516
Trade receivables, net	7	543	527
Other receivables, prepaid expenses and accrued income	8	127	92
Short-term advances and other financial assets	12	15	642
Cash and cash equivalents	9,12	565	55
Total current assets		1 851	1 213
Net operating assets from divestiture	26	19 I	0 I
Total assets		3 984 I	3 272 I

¹ At 31 December

² See the accompanying notes to the consolidated financial statements

million CHF	Note ²	2001	2002	
Total shareholders' equity	see page 50	1 586	1 235	Liabilities and shareholders' equity¹
Minority interests		2	0	
Liabilities				
Long-term tax provisions	11,23	439	429	
Long-term other provisions	11	193	140	
Long-term debt	12	49	317	
Total long-term liabilities and provisions		681	886	
Other liabilities and deferred items	13	357	185	
Current tax payables		89	82	
Current liabilities:				
Trade payables	14	217	249	
Short-term debt:				
Due to bank and other financial institutions	12	1 052	635	884
Total current liabilities and deferred items		1 715	1 151	
Total liabilities		2 396	2 037	
Total liabilities and shareholders' equity		3 984	3 272	

¹ At 31 December

² See the accompanying notes to the consolidated financial statements

Consolidated income statement

million CHF	Note ¹	2001	2002
Net sales (see Segment data)	page 67,68	2 521	2 536
Changes in inventory of work-in-progress and finished goods		87	(26)
Other operating income	16	76	55
Income from production		2 684	2 565
Material costs		(1 093)	(959)
Energy costs		(109)	(102)
Personnel expenses	17	(620)	(627)
Other operating expenses	18	(292)	(302)
Depreciation and amortization	19	(157)	(156)
Operating income		413	419
Operating income from divestiture		33	0
Operating income Group		446	419
Non-recurring items:			
Gain from divestiture		193	0
Assets taken out of production/depreciation	20	(72)	(72)
Restructuring and other provisions	20	(20)	(40)
Amortization of goodwill		(5)	(5)
EBIT – earnings before interest and taxes		542	302
Other financial income and expenses	21, 22	(29)	(19)
Income before income taxes		513	283
Income taxes	23	(110)	(62)
Net income before minorities		403	221
(Gain)/loss attributable to minorities		(1)	0
Net income		402	221
		CHF	CHF
Basic earnings per share before non-recurring items		5.80	6.12
Basic earnings per share		7.43	4.55
Diluted earnings per share before non-recurring items		5.80 ²	6.08 ³
Diluted earnings per share		7.43	4.55

¹ See the accompanying notes to the consolidated financial statements

² Excluding net income after tax from non-recurring items of CHF 88 million

³ Excluding net loss after tax from non-recurring items of CHF (76) million

million CHF	2001	2002
Operating income	413	419
Interest income/(expenses)	(37)	(26)
Current taxes	(67)	(68)
Goodwill, financing and tax items, minorities, others	(41)	(124)
Depreciation of property, plant and equipment	139	218
Amortization of intangibles	18	10
Amortization of goodwill	5	5
(Decrease)/increase in long-term provisions	45	(2)
(Income)/loss from application of the equity method	(4)	(2)
Cash flow from operating activities	471	430
Cash flow from divestiture	39	0
Decrease/(increase) in net working capital	(257)	(81)
Net cash (used for)/provided by operating activities Group	253	349
Purchase of property, plant and equipment	(264)	(348)
Purchase of intangibles, net	(5)	(2)
Proceeds from sale of property, plant and equipment	6	48
Goodwill from (purchase)/sale of operations	(12)	4
Sale of unconsolidated investments	0	3
(Purchase)/sale of other assets	11	(6)
Decrease/(increase) in loans and advances	(5)	(6)
Net cash (used for)/provided by investing activities	(269)	(307)
Net cash (used for)/provided by investing activities from divestiture	(2)	0
Net proceeds from divestitures (less cash on hand)	399	0
Net cash (used for)/provided by investing activities Group	128	(307)
(Decrease)/increase of capital	(547)	(485)
Dividend	(82)	(95)
(Decrease)/increase in debt	704	49
(Decrease)/increase in other long-term liabilities	(2)	(13)
Contribution minority interests	(16)	(2)
Net cash (used for)/provided by financing activities	57	(546)
Translation adjustments	1	(6)
Net (decrease)/increase in cash	439	(510)
Cash and cash equivalents at 1 January	126	565
Cash and cash equivalents at 31 December	565	55

Consolidated statement of shareholders' equity

million CHF	Share capital	Premium	Retained earnings	Other comprehensive income	Translation differences	Treasury shares	Total equity
At 31 December 2000	64	1 476	870	0	39	(595)	1 854
Net loss on hedge of net investments in foreign entities (from previous year)	0	0	0	(107)	107	0	0
Adjustment pension fund out of spin-off Lonza from algroup	0	(10)	0	0	0	0	(10)
Dividend	0	0	(82)	0	0	0	(82)
Buy-back of own shares	0	0	0	0	0	(537)	(537)
Capital reduction	(9)	(844)	0	0	0	853	0
Net (loss)/gain on hedge of net investments in foreign entities	0	0	0	(22)	0	0	(22)
Net (loss)/gain on cash flow hedges	0	0	0	(2)	0	0	(2)
Translation differences	0	0	0	0	(17)	0	(17)
Net income	0	0	402	0	0	0	402
At 31 December 2001	55	622	1 190	(131)	129	(279)	1 586
Dividend	0	0	(95)	0	0	0	(95)
Buy-back of own shares	0	0	0	0	0	(538)	(538)
Capital reduction	(5)	(475)	0	0	0	480	0
Net (loss)/gain on hedge of net investments in foreign entities	0	0	0	91	0	0	91
Net (loss)/gain on cash flow hedges	0	0	0	(2)	0	0	(2)
Impact of convertible bond	0	0	0	17	0	0	17
Translation differences	0	0	0	0	(45)	0	(45)
Net income	0	0	221	0	0	0	221
At 31 December 2002	50	147	1 316	(25)	84	(337)	1 235

The share capital on 31 December 2002 comprised 50 450 000 registered shares with a par value of CH 1 each (2001: 5 526 007 registered shares with a par value of CHF 10 each) amounting to CHF 50 450 000 (2001: CHF 55 260 070). The share repurchase program resulted in a capital reduction of CHF 4 810 070 in 2002.

Lonza adopted IAS 39 for the first time in 2001. As a consequence the consolidated statement of shareholders' equity was restated to reflect the standard. The opening balance of "Translation differences" was adjusted by transferring CHF 107 million to "Other comprehensive income" in 2001. Additionally the Treasury shares are shown in a separate column.

During 2000, the Board of Directors of Lonza Group Ltd implemented a new Share Option Plan for key employees entitling the holder of the options to purchase a fixed number of shares in the company. The strike price of these options under the plan must not be lower than the average price during the 20 day period between 30 and 10 days prior to the grant. In effect, all granted options to date have

had strike prices in excess of market prices at the time of grant. The exercise of these options is subject to a holding period. Under the various option schemes (Board of Directors, Management Committee and key employees) 4 331 218 (2001: 2 170 650) options under the Plan entitling the holders to purchase 433 122 (2001: 217 065) shares were granted.

At the end of 2002, 841 077 (2001: 411 460) shares were reserved for the share option plans.

During 2002, the Board of Directors of Lonza Group Ltd implemented a new Employee Share Purchase Plan (ESPP). At the end of 2002, 11 670 shares were reserved for the Employee Share Purchase Plan.

Accounting principles

General information – The consolidated financial statements for 2001 and 2002 are reported in Swiss francs (CHF) and are based on the annual accounts of the individual subsidiaries at 31 December which have been drawn up according to uniform Lonza principles. The consolidated accounts are prepared in conformity with International Financial Reporting Standards (IFRS), as adopted by the International Accounting Standards Board (IASB).

Restatement – For comparative purposes, certain prior-year amounts have been reclassified to conform with the current-year presentation.

Principles of consolidation – The consolidated financial statements represent the accounts for the year ended 31 December of the Lonza Group Ltd and its subsidiaries.

Subsidiaries acquired during the year are included in the consolidated accounts from the date of acquisition, while any subsidiaries sold are excluded from the accounts from the date of sale. Acquisitions are accounted for by the use of the purchase method of accounting. The full consolidation method is used, whereby the assets, liabilities, income and expenses are incorporated in full. The proportion of the net assets and net income attributable to minority shareholders is shown separately in the consolidated balance sheet and income statement.

Payables, receivables, income and expenses between Lonza subsidiaries included in the consolidation are eliminated. Intercompany profits included in year-end inventories or goods produced within Lonza are eliminated. Transactions between subsidiaries are concluded under market conditions.

Investment in subsidiaries are reflected in the balance sheet using the cost method, whereas the affiliates are valued using the equity method of accounting. Under this method, the investment is initially recorded at cost, and is increased or decreased by the proportionate share of the subsidiary's or affiliate's profits or losses after the date of acquisition, adjusted for any amortization of goodwill arising from acquisition and depreciation of fair market value increments/decrements recognized at that time. Dividends paid during the year reduce the carrying value of the investments.

Investments of less than 20 percent are stated at cost, less any write-offs that are necessary. The significant subsidiaries and affiliates included in the financial statements are shown on page 56.

Lonza consolidates all subsidiaries except those that are immaterial which are treated as affiliates.

Definition – A "subsidiary" is a company which Lonza controls by holding more than 50 percent of the voting shares of the company.

An "affiliate" is a company in which Lonza holds 20 to 50 percent of the voting shares of the company.

"Long term liabilities and provisions" include all amounts becoming due and payable after more than one year.

“Current liabilities and deferred items” include all amounts becoming due and payable within one year. This item also includes the proportion of long-term debt becoming due within one year. Receivables and payables bearing interest are stated as loans and advances, and debt respectively.

Definition of segments – The segment data are shown by the primary business segments and the secondary geographical segments. The business segments are structured by subsidiaries which operate within the same business activity and are the basis of the internal reporting system. The geographical segments are shown by the major continents.

Consolidation of foreign companies – All assets and liabilities of foreign companies which are consolidated are translated using the exchange rates in effect at the balance sheet date (the current method). Income and expenses are translated at the average exchange rate for the year. Differences resulting from the application of these different methods of translation of the balance sheet and income statement, together with exchange gains and losses on the opening net asset values of the subsidiaries, are added or deducted from the consolidated shareholders' equity.

Revenue recognition – Revenue from product sales is recognized when the product is shipped.

Foreign currency transactions – Transactions in foreign currencies are recorded using exchange rates in effect at the time of the transaction. Gains or losses arising on settlement of these transactions are included in the current year's income. Foreign currency denominated monetary assets and liabilities at 31 December are translated using the exchange rate in effect at the balance sheet date. Any gains or losses resulting from this transaction are included in the current year's income.

Convertible bond – The convertible bond is separately shown in the balance sheet by the liability component and the equity component. The fair value of the liability component is determined on the basis of the present value of the principal plus the present value of the interests payable over the contractual period using a rate of interest applied by the market at the time. The value of the equity component results by deduction of the liability component from the total proceeds of the bond issue. The equity component is amortized over the contractual period of the bond.

Derivative financial instruments – To manage currency exposures, Lonza uses currency forwards and option contracts. Realized and unrealized gains and losses arising from currency forwards and options are recognized in the income statement. Realized and unrealized gains and losses arising from currency forwards and options designated as a hedge transaction are recognized in the “Other comprehensive income” section of shareholders' equity. At the time the underlying hedge transaction is realized, the corresponding amounts are recognized in the income statement. Derivative instruments designated as a hedge of Lonza's net asset exposures related to foreign subsidiaries are reflected in the “Other comprehensive income” section of shareholders' equity offsetting the translation gains or losses relating to those net asset exposures.

Fixed assets – Fixed assets (property, plant and equipment) are stated at cost less depreciation. The assets are depreciated over their estimated useful lives, which vary from 10 to 50 years for buildings and structures, and 5 to 16 years for production facilities, machinery, plant, equipment and vehicles. Fixed assets are depreciated using the straight-line method over their estimated useful lives.

Long-term leasing arrangements, which effectively constitute assets purchased with long-term financing, are carried as fixed assets at their purchase price and are written off over their estimated useful lives. The corresponding liabilities are included in long-term and short-term debt.

For estimated costs of restoring the site of items of property plant and equipment, provisions are based on technical expertise using the net present value method.

Borrowing costs – Borrowing costs are capitalized for all assets that require an acquisition period to get them ready for intended use. The interest is only capitalized for those projects with a capital outlay in excess of CHF 50 million and an investment/construction period greater than six months.

Intangible assets – Intangibles include software, licences, patents, trademarks and similar rights granted by third parties. These assets are amortized using the straight-line method over their estimated useful lives. Intangible assets are amortized over the useful life but not exceeding five years.

Goodwill – At the time of their initial recognition, the assets and liabilities of consolidated subsidiaries are recorded at their estimated fair value. Goodwill represents the difference between the purchase price and the fair value of the net assets acquired. Goodwill is capitalized and amortized on a straight-line basis over its estimated useful life not exceeding 20 years.

Inventories – Inventories are reported at the lower of cost (purchase price or production cost) or market value (net realizable values). The cost of inventories is calculated using the weighted average method. Prorated production overheads are included in the valuation of inventories. Goods with long storage periods and obsolete goods are written down.

Receivables – Trade receivables as well as other receivables are disclosed at nominal values less expected economic adjustments at fair value.

Cash and cash equivalents – Cash includes cash on hand, in postal and bank accounts, as well as short-term deposits and highly liquid funds payable within 90 days at the latest.

Deferred taxes – Tax expense is calculated using the balance sheet liability method. Additional deferred taxes are provided wherever temporary differences exist between the tax base of an asset or liability and its carrying amount in the consolidated results for the year.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards.

Deferred tax assets and liabilities are measured using enacted tax rates in the respective jurisdictions in which Lonza operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will not be realized. For transactions and other events recognized directly in equity, any related tax effects are also recognized directly in equity.

Retirement benefits – Most of Lonza's subsidiaries operate their own pension plans, primarily legally independent from Lonza. Generally, they are funded by employees' and employer's contributions. A policy has been established whereby actuarial valuations are performed on a three-year basis and roll-forwards are conducted during the intervening period. The cumulative effect from initial applica-

tion of IAS 19 as of 1 January 1995 is included as a transitional amount and will be recognized as an asset or liability respectively, over a period not exceeding the expected remaining working lives of the participating employees. In the following years the actuarial gains and losses are recognized over the same period as above if the accumulated gain and loss exceed the corridor of 10% of the greater of plan assets and projected benefits obligation.

Effective 1 January 1999, Lonza adopted the provisions of IAS 19 revised. This revised standard permits companies to elect to amortize or immediately recognize, any difference between the accumulated pension cost at transition and the funded status if that difference is an additional pension liability consistent with IAS 8, as a change in accounting policy. Lonza elected to immediately recognize the impact of the adoption of IAS 19 revised.

Option/Share plans – Purchase and sale of own shares for the Lonza Share Option Plan and Employee Share Purchase Plan (ESPP) are reflected in equity. For the Option Plan no personnel costs have been taken into account.

Research and Development – Expenditures on research and development are only capitalized if the requirements of IFRS are fulfilled. Fixed assets (buildings, machinery, plant, equipment) used for research purposes are valued similarly to other fixed assets. Such assets are capitalized and depreciated over their estimated useful lives. Expenses for research and development include associated wages and salaries, material costs, depreciation on fixed assets, as well as overhead costs.

Use of estimates – The preparation of financial statements and related disclosures in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Actual results could differ from those estimates. Estimates are used in accounting for allowances for uncollectible receivables, inventory obsolescence, depreciation, employee benefits, taxes, restructuring provisions and contingencies. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary.

CHF 2001 | 2002 |

The following exchange rates were used to translate the significant currencies used in Lonza:

Balance sheet year-end rates			2001	2002	Exchange rates
EU	Euro		1.4804	1.4530	1
USA	Dollar		1.6814	1.3862	
Great Britain	Pound sterling		2.4333	2.2324	
Income statement year average rates			2001	2002	
EU	Euro		1.5123	1.4676	
USA	Dollar		1.6866	1.5608	
Great Britain	Pound sterling		2.4288	2.3361	

Risk management activities – Lonza is exposed to market risk from changes in currency exchange rates. To manage the volatility relating to these exposures, Lonza enters into various derivative transactions pursuant to Lonza's policies in areas such as counterparty exposure and hedging practices. Counterparties to these agreements are major international financial institutions. Positions are monitored using techniques such as market value and sensitivity analyses.

Financial instruments
2

The following table presents information for foreign exchange contracts. The notional amount of derivatives summarized below represents the gross amount of the contracts and includes already closed transactions which have not yet matured. Therefore the figures are not a direct measure of Lonza's exposure. The market value approximates the cost to settle the outstanding contracts. These market value amounts should be viewed not in isolation but in relation to the market values of the underlying hedged transactions and the overall reduction in Lonza's exposure to adverse fluctuation of foreign exchange rates.

Interest rate management – Lonza's policy is to manage interest cost using a mix of fixed and variable rate debt. In order to manage this mix in a cost efficient manner, Lonza enters into interest rate swaps, to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a corresponding notional principal amount. Due to the interest rate situation, no contracts are outstanding at the end of 2002, as it was in 2001.

Foreign exchange management – In management of its exposure to fluctuation in foreign currency exchange rates, Lonza has entered into a variety of currency swaps, foreign exchange contracts and options. These agreements generally include the exchange of one currency for a second currency at a future date.

To hedge currency risk, forward contracts are designated as hedges for net investments and cash flow hedges. The method adopted to determine fair value is mark-to-market valuation.

million CHF	2001	2002
Foreign exchange contracts		
Notional amount	1 772	683
Net negative market value	(25)	29
Net negative book value	8	(5)
Difference market value/book value	(17)	24
Credit risk	10	33

The notional amount of CHF 683 million in 2002 (2001: CHF 1 772 million) breaks down by currencies as follows: (CHF million)

USD: 584, GBP: 31, EUR: 27, CZK: 34, JPY: 6, SGD: 1 (2001: USD: 1 525, GBP: 145, EUR: 61, CZK: 33, JPY: 8). The credit risk relates to counterparties with positive outstanding market values on foreign exchange contracts.

The impact of net investment hedge (CHF 91 million) and cash flow hedge (CHF –2 million) are disclosed in other comprehensive income in the consolidated statement of shareholders' equity.

Changes in the scope of consolidation
3

See note 26 "Divestiture"

Principal subsidiaries and affiliates¹

	Registered office ²	Purpose	Currency ²	Share capital in 000	% Holding direct	% Holding indirect
European countries						
Lonza Ltd	Visp, CH	● ● ●	CHF	60 000	100	
Lonza Sales Ltd	Basel, CH	● ● ●	CHF	2 000	100	
Lonza Finance Ltd	St Helier, Jersey, GB	● ● ●	CHF	12	100	
Lonza Biotec sro	Kourim, CZ	● ● ●	CZK	137 100		100
Lonza Compounds GmbH & Co. KG	Miehlen, DE	● ● ●	EUR	699		100
LOFO High Tech Film GmbH	Weil am Rhein, DE	● ● ●	EUR	7 671		100
Lonza GmbH	Weil am Rhein, DE	● ● ●	EUR	511		100
Lonza Group GmbH	Weil am Rhein, DE	● ● ●	EUR	25		100
Lonza Biologics plc	Slough, GB	● ● ●	GBP	4 500		100
Lonza Group UK Ltd	Slough, GB	● ● ●	GBP	17 000		100
Lonza SpA	Scanzorosciate, IT	● ● ●	EUR	10 000		100
Lonza Compounds SpA	Scanzorosciate, IT	● ● ●	EUR	11 500		100
Lonza Composites Srl	Scanzorosciate, IT	● ● ●	EUR	1 560		100
Lonza Europe BV	Breda, NL	● ● ●	EUR	19		100
Other countries						
Lonza Guangzhou Ltd	Guangzhou, CN	● ● ●	USD	12 000		100
Lonza Japan Ltd	Tokyo, JP	● ● ●	JPY	200 000	100	
Lonza Singapore Pte Ltd	Singapore, SG	● ● ●	SGD	45 500		100
Lonza America Inc.	Wilmington, DE, US	● ● ●	USD	8	100	
Lonza Inc.	Fair Lawn, NJ, US	● ● ●	USD	464		100
Lonza Biologics Inc.	Wilmington, DE, US	● ● ●	USD	1		100

● ● ● ●
Research/Applications
Production
Sales
Services/Financing

¹ All companies belonging to Lonza Group are non-listed entities

² Abbreviation of countries and currencies in accordance with ISO standards

million CHF	At 31.12.01	Currency translation differences	Change in the scope of consolidation	Additions	Disposals and adjustments	Transfers	At 31.12.02	Fixed assets net at 31.12.02	Insurance value at 31.12.02
At cost									
Land	56	(1)	0	0	(1)	0	54	40	
Buildings and structures	781	(25)	2	6	(8)	37	793	392	536
Production facilities, machinery, plant, equipment and vehicles	2 582	(182)	35	56	(120)	150	2 521	991	2 978
Construction in progress and advances for property, plant and equipment	276	(31)	0	286	(9)	(195)	327	327	158
Property, plant and equipment	3 695	(239)	37	348	(138)	(8)	3 695	1 750	3 672
Intangible assets	93	(10)	0	2	(9)	8	84	21	
Goodwill	103	(9)	0		(4)	0	90	60	
Other non-current assets and deferred items, net	205	(28)	0	44	(18)	0	203	203	
Unconsolidated investments	54	0	0	5	(37)	0	22	20	
Long-term loans and advances	7	0	0		(2)	0	5	5	
Total fixed assets	4 157	(286)	37	399	(208)	0	4 099	2 059	
Accumulated depreciation									
Land	(14)	0	0	0	0	0	(14)		
Buildings and structures	(371)	3	(2)	(36)	5	0	(401)		
Production facilities, machinery, plant, equipment and vehicles	(1 533)	94	(16)	(182)	105	2	(1 530)		
Property, plant and equipment	(1 918)	97	(18)	(218)	110	2	(1 945)		
Intangible assets	(64)	4	0	(10)	9	(2)	(63)		
Goodwill	(28)	3	0	(5)	0	0	(30)		
Unconsolidated investments	(33)	0	0	0	31	0	(2)		
Long-term loans and advances	0	0	0	0	0	0	0		
Total depreciation	(2 043)	104	(18)	(233)	150	0	(2 040)		
Total fixed assets net	2 114	(182)	19	166	(58)	0	2 059		

Movements in fixed assets
4

Commitments for capital expenditure in property, plant and equipment amount to CHF 79 million at year end 2002 (2001: CHF 44 million).

Fixed assets under finance lease contracts at year-end 2002 amount to CHF 21 million (2001: CHF 25 million).

	million CHF	2001	2002		
Leases 5	Commitments for capital leases at year-end are due as follows:				
	2001	1			
	2002	1	1		
	2003	1	1		
	2004	1	1		
	Thereafter	12	10		
	Total future minimum capital lease payments	16	13		
	Commitments for non-cancelable operating leases at year-end are due as follows:				
	2001	15			
	2002	14	19		
	2003	14	18		
	2004	14	19		
	Thereafter	45	104		
	Total future minimum operating lease payments	102	160		
Inventories 6		%	%		
	Raw materials	19	113	21	106
	Work in progress and finished goods	65	389	61	317
	Other	16	99	18	93
	Total	100	601	100	516
	By division				
	Exclusive Synthesis & Biotechnology	52	315	49	251
	Organic Fine & Performance Chemicals	25	153	28	143
	Polymer Intermediates	23	133	23	122
	Total	100	601	100	516
	The reported inventories are net of a total value adjustment amount of CHF 31 million (2001: CHF 34 million).				
Trade receivables 7	Receivables from customers	528	513		
	Accounts receivable from unconsolidated affiliates	23	20		
	Value adjustments	(8)	(6)		
	Total	543	527		
	The credit risk is diversified due to the large number of entities comprising the Lonza customer base and the dispersion across many different industries and regions.				

million CHF	2001	2002	
Other receivables	83	13	Other receivables, prepaid expenses and accrued income
Prepaid taxes and social security payments	18	18	
Prepaid expenses and accrued income	16	25	8
Accrued interest income	10	36	
Total	127	92	
Cash	124	55	Cash and cash equivalents
Time deposits	441	0	9
Total	565	55	

The assets pledged for security of own liabilities amount to CHF 1 million (2001: CHF 1 million).

Pledges and assets under reservation of ownership
10

	2001	Currency translation differences	Change in the scope of consolidation	Increase	Using, Reduction	2002	
Deferred taxes	439	(15)	0	93	(88)	429	
Retirement benefits	116	(17)	0	24	(2)	121	
Other	77	(1)	0	25	(82)	19	
Total	632	(33)	0	142	(172)	569	Long-term provisions 11

The provisions for retirement benefits primarily comprise the pension liability of Lonza's defined benefit pension plans as disclosed in note 25. Included in the above amounts are provisions for healthcare relating to Lonza's US subsidiaries.

The net debt is composed of:

Net debt
12

Long-term debt				
Due to banks and others:				
Banks	25		15	
Leasing	15		11	
Convertible	0		285	
Other	9	49	6	317
Total		49		317

Debt due after more than five years in 2002 are CHF 8 million (2001: CHF 21 million).

Convertible Bond – Amount: CHF 300 million, due 28 June 2006. Interest: 2% p.a. payable on 28 June, for the first time on 28 June 2003. Conversion right: On or after 1 July 2002 up to and including 21 June 2006, each bond of CHF 5000 principal amount is convertible into initially 37.03704 shares with a par value of CHF 1 (Section 6 of the terms of the bond). Risk: The usual risk with the convertible bond is the risk that the conversion will not be executed at the end of the conversion period.

million CHF		2001		2002	
Short-term debt					
Due to banks and other financial institutions		950		537	
Other		102		98	
Total		1052		635	
Total debt		1 101		952	
Loans and advances					
Long-term loans and advances		(7)		(5)	
Short-term advances		(15)		(23)	
Cash and cash equivalents		(565)		(55)	
Total		(587)		(83)	
Net debt		514		869	
Loans and advances to affiliates amount to CHF 6 million (2001: CHF 5 million), whereas no debt is owed to them (2001: CHF 1 million).					
Breakdown of debt by currencies					
		Average interest rates		Average interest rates	
		%	%	%	%
Swiss franc		2.99	78	854	773
Pound sterling		4.50	0	5	10
Euro		3.50	2	22	14
US dollar		2.27	19	213	146
Other		5.00	1	7	9
Total			100	1 101	952
Other liabilities and deferred items					
13	Accrued liabilities and deferred items		232		123
	Capital tax payables		5		4
	Other interest-free liabilities		93		53
	Accrued interest payables		27		5
	Total		357		185
Trade payables					
14	Payable to third parties		213		240
	Payable to affiliates		4		9
	Total		217		249

million CHF	2001	2002	
Various lawsuits and claims arising from the ordinary business of Lonza are pending against companies of Lonza Group Ltd. In the opinion of management, and based on currently available information, the handling and settlement of these lawsuits and claims will have no adverse material effect upon the consolidated financial position or operations of Lonza. In 1998 Lonza Ltd and the US Department of Justice entered into a plea agreement regarding alleged violations of US antitrust laws in connection with Lonza Ltd's sales of certain vitamins. In connection with this antitrust investigation in the USA as well as similar investigations in Canada (settled in 2002) and by the EU commission (adjudicated or closed in 2002), a number of (individual and class) actions were filed by purchasers and consumers of vitamins against certain vitamin producers, including Lonza companies. No firm predictions can be made at present about the outcome of the few proceedings still pending. Group Management is monitoring the progress of these proceedings to assess any potential exposure, and making appropriate provisions on the basis of its assessment.			Contingent liabilities 15
Work performed for investments in property, plant and equipment	44	43	Other operating income
Other operating income	32	12	16
Total	76	55	
Wages and salaries	485	484	Personnel expenses
Pensions	38	45	17
Other social security contributions	81	82	
Other personnel expenses	16	16	
Total personnel cost	620	627	
Total	292	302	Other operating expenses 18
Apart from the repair and maintenance costs of CHF 112 million (2001: CHF 116 million), the major items reported under other operating expenses are selling, general and administrative expenses.			
Property, plant and equipment	139	146	Depreciation and amortization
Intangible assets	18	10	19
Total	157	156	
Amortization of goodwill	5	5	
The consolidated income statement is charged with impairment costs of CHF 72 million (2001: CHF 72 million) and restructuring costs of CHF 40 million (2001: CHF 20 million).			
Interest income	41	25	Interest and other financial income
Other financial income	6	0	21a
Total	47	25	
Interest expenses	(78)	(51)	Interest and other financial
Other financial expenses	(5)	(6)	expenses
Total	(83)	(57)	21b
Other financial expenses are primarily composed of financing costs for the German pension funds.			

million CHF		2001	2002		
Income from investments 22	Dividends earned	3	11		
	Income from application of the equity method	4	2		
	Total	7	13		
Income taxes 23	Major components of tax expenses				
	Current taxes	(67)	(68)		
	Deferred tax expenses relating to the origination and reversal of temporary differences	(58)	25		
	Deferred tax expenses/(income) resulting from tax rate changes	15	(19)		
	Total	(110)	(62)		
	Reconciliation of tax expenses				
	Tax at the domestic rates applicable to the profits earned in the country concerned	148	37		
	Tax effect of expenses that are not deductible for tax purposes	4	15		
	Tax exempt capital gain	(13)	0		
	Tax credits and other incentives earned	(2)	(2)		
	Tax benefits from previously unrecognized tax losses	0	0		
Deferred tax benefit from tax rate changes	(15)	(19)			
Other	(12)	31			
Total	110	62			
	Deferred tax expenses charged/(credited) directly to equity	(9)	(3)		
Capital taxes of CHF 8 million (2001: CHF 8 million) are contained in other operating expenses. The deferred tax benefit from tax rate changes is the result of decreased income tax rates applicable in Italy and Switzerland.					
		Assets	Liabilities		
		Assets	Liabilities		
	Components of deferred income tax balances				
	Short-term operating provisions	54	96	57	101
	Long-term operating provisions	56	95	49	125
	Property, plant and equipment	0	248	0	201
	Pension benefits	2	0	0	2
	Tax loss carry-forwards	93	0	89	0
	Subtotal	205	439	195	429
	Valuation allowance	(40)	0	(31)	0
	Deferred income taxes	165	439	164	429
These amounts are included in the following captions in the balance sheet:					
	Deferred tax assets		165		164
	Long-term tax provisions		(439)		(429)
	Net deferred tax liability		(274)		(265)

million CHF

	2001	2002
--	------	------

Research and development expenses primarily reflect the cost incurred in basic scientific research and development. In 2002 these expenses amounted to CHF 102 million (2001: CHF 104 million).

Research and development
24

Lonza sponsors pension plans according to the regulations of the countries in which it operates. All significant plans provide defined benefits on retirement. The benefits are primarily based on years of service and the employees' compensation for certain periods during the last years of employment. Lonza has adopted the IAS 19 Retirement Benefit Costs. During 2002, actuarial valuations were performed for all significant defined benefit plans using the Projected Unit Credit Valuation Method. The long-term provisions for retirement benefits relating to Lonza's German subsidiaries have been included in this calculation.

Pension benefits
25

The weighted average assumptions used in the actuarial valuations are according to the underlying national economic conditions of the respective countries:

	%	%
Discount rate	4.7	4.4
Expected long-term rates of return on plan assets	5.9	5.9
Rates of increase in compensation	2.4	2.2

The projected benefit obligation for the German subsidiaries is included in the following table. The funded status for substantially all defined benefit plans, shown separately for plans whose assets exceeded and are less than the projected benefit obligation, is as follows:

Wholly or partly funded plans:

Plan with PBO in excess of assets		
Projected benefits obligation (PBO)	(1 352)	(1 311)
Plan assets at fair value	1 236	1 132
Plan assets in excess of/(less than) projected benefit obligation	(116)	(179)
Long-term pension provisions	17	16
Funded status	(99)	(163)

The pension asset and liability calculated above are disclosed in the financial statements for 2002. The net change of the prepaid pension costs accounted in the financial year amounts to CHF 23 million (2001: CHF (15) million).

The accrued amount at the end of 2002 is CHF 20 million (2001: CHF 40 million).

Net periodic pension costs for Lonza's significant defined benefit plans consist of the following:

Service costs	29	23
Interest costs	60	63
Expected return on assets	(73)	(69)
Net amortization and deferral	0	1
Total	16	18

million CHF		2001	2002	
Other post-retirement benefits – Lonza's post-retirement benefits other than pensions are not funded. They mainly consist of post-retirement healthcare benefits in the United States. The following table shows the funded status of other post-retirement benefits as of 31 December:				
Wholly unfunded plans:				
Post-retirement benefit obligation		(54)	(48)	
Assets		0	0	
Funded status		(54)	(48)	
In 2002, the cost of post-retirement benefit other than pensions totaled CHF 4 million (2001: CHF 5 million).				
Employee Share Purchase Plan (ESPP) – In keeping with our vision and culture, Lonza introduced an ESPP for the first time in 2002. This plan is intended to give our employees the opportunity to become co-owners of Lonza. This opportunity is open to certain full-time and part-time employees. Under the present plan rules, these employees have the opportunity – but no obligation – to acquire shares in Lonza against payment of the full purchase price, in amounts ranging from CHF 1 500 to CHF 15 000. After a holding period of three years, Lonza will provide these employees with one additional share for every three shares purchased. The ESPP is not part of an incentive program. The plan is intended as a long-term share-savings scheme to provide employees with an incentive to strengthen teamwork and personal commitment, and, by continuous improvement of their performance within the respective teams, to make a positive contribution to the success and value of Lonza.				
Options – In 2000, the Board of Directors of Lonza Group Ltd implemented a Share Option Plan entitling holders of options to purchase a fixed number of Lonza shares. The exercise of these options is subject to a holding period. Under the various option schemes (Board of Directors, Management Committee and key employees) the following options were granted:				
Year	Number of options	Strike price	Exercise ratio	
2000	1 908 900	CHF 97.00	10 : 1	
2001	2 170 650	CHF 104.50	10 : 1	
2002	4 331 218	CHF 113.00	10 : 1	
The options vest after three years of grant and become exercisable thereafter for a period of two years. After the exercise period, the options cease to be of any effect without compensation.				
Participants				
	Issue 2000	Issue 2001	Issue 2002	Total 31 12 2002
Board of Directors ¹		1 237 800	2 588 718	3 826 518
Management Committee ¹	881 600	237 850	632 500	1 751 950
Key employees	1 027 300	695 000	1 110 000	2 832 300

Employee benefits

¹ Acting and former members

million CHF

2001

2002

The divestiture program in 2001 contained the sale of the Energy activities. Notwithstanding Lonza's clear strategic commitment to focus on its life science activities, the Board of Directors decided in June 2002 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. Therefore, the Polymer Intermediates business has been reintegrated into the continuing operations and restated in 2001. Net operating assets of CHF 606 million and an operating income of CHF 56 million were reclassified from divestiture to continuing operations in 2001. Under "Divestiture" only the Energy part remains in 2001.

Divestiture
26**Summarized balance sheet**

Fixed assets	19	0
Current assets	9	0
Current liabilities	(9)	0
Net operating assets	19	0

Summarized income statement

Net sales	97	0
Operating expenses	(64)	0
Operating income	33	0

Summarized cash flow statement

Net cash provided by operating activities	39	0
Net cash (used for) investing activities	(2)	0

On 14 February 2003, Lonza Group Ltd received the proceeds of a CHF 375 million, 2% 3-year bond, issued in the Swiss domestic market.

Events after balance sheet date
27

In 2002, payments to acting members of the Board of Directors of Lonza Group Ltd and those who gave up their functions in the year under review totalled CHF 2.4 million (2001: 2.0 million), 84% of which was received in the form of options (see Corporate governance, page 33ff.).

Board of Directors
28

Statement of value added

	million CHF	Note ¹	2001	2002	
			%	%	
Origin of value added	Income from production	page 48	2 684	2 565	
	Other income from investments	22	3	11	
	Total income		2 687	2 576	
			100.0	100.0	
	Services bought from third parties:				
	Material costs		(1 093)	(959)	
	Energy costs		(109)	(102)	
	Other operating expenses excl. capital taxes	18, 23	(284)	(294)	
	Gross value added		1 201	1 221	
	Depreciation of property, plant and equipment as well as amortization of intangibles and goodwill	19	(162)	(161)	
	Income from application of the equity method	22	4	2	
	Total net value added		1 043	1 062	
	Total net value added from divestiture		33	0	
	Non-recurring items		101	(112)	
Total net value added Group		1 177	950		
			38.8	41.2	
			1.2	0.0	
			3.8	(4.3)	
			43.8	36.9	
Distribution of value added	To staff:				
	Wages and salaries	17	485	484	
	Pensions	17	38	45	
	Other social security contributions	17	81	82	
	Other personnel expenses	17	16	16	
	Total personnel cost		620	627	
				52.6	66.0
	To public authorities:				
	Income taxes and capital taxes	23	118	70	
	To lenders:				
	Interest on net debt	21	36	32	
	To shareholders:				
	Dividends paid	page 49, 50	82	95	
	To the company:				
Net income including minorities		403	221		
(Dividends paid)	page 49, 50	(82)	(95)		
Total		1 177	950		
			100.0	100.0	
Distribution of value added per employee			CHF	CHF	
	Wages and salaries		79 875	77 901	
	Pensions		6 258	7 243	
	Other social security contributions		13 340	13 198	
	Other personnel expenses		2 635	2 575	
Total per employee		102 108	100 917		

¹ See the accompanying notes to the consolidated financial statements

million CHF	2001	2002
Net sales to customers¹		
Exclusive Synthesis & Biotechnology	891	978
Organic Fine & Performance Chemicals	973	957
Polymer Intermediates	653	598
Other	4	3
Total	2 521	2 536
Operating income		
Exclusive Synthesis & Biotechnology	204	211
Organic Fine & Performance Chemicals	160	166
Polymer Intermediates	56	48
Other	(7)	(6)
Total	413	419
	%	%
Percentage return on sales		
Exclusive Synthesis & Biotechnology	22.9	21.6
Organic Fine & Performance Chemicals	16.4	17.3
Polymer Intermediates	8.6	8.0
Other	na	na
Total	16.4	16.5
Net capital invested²		
Exclusive Synthesis & Biotechnology	1 188	1 164
Organic Fine & Performance Chemicals	768	759
Polymer Intermediates	606	546
Other	(63)	(39)
Total	2 499	2 430
	%	%
Return on net capital invested³		
Exclusive Synthesis & Biotechnology	18.8	17.7
Organic Fine & Performance Chemicals	20.1	21.2
Polymer Intermediates	8.6	8.4
Other	na	na
Total	16.8	16.8

By business activities

¹ Intersegment sales for 2001 and 2002, which were based primarily on prevailing market prices, have been eliminated

² Net capital invested comprises all assets and liabilities committed to the segment operations at historical year-end rates

³ Calculated at historical yearly average rates

Segment data

million CHF		2001	2002		
		%	%		
Sales by production area	Switzerland	1 415	44	1 469	44
	EU	912	28	975	30
	Rest of Europe	45	1	50	2
	Europe	2 372	73	2 494	76
	North America	754	23	690	21
	Other areas	106	4	116	3
	Subtotal	3 232	100	3 300	100
	(Intercompany sales)	(711)		(764)	
	Total	2 521		2 536	
Sales by marketing area	Switzerland	229	9	242	10
	EU	1 092	43	1 101	43
	Rest of Europe	26	1	40	2
	Europe	1 347	53	1 383	55
	North America	904	37	846	33
	Other areas	270	10	307	12
	Related parties	0	0	0	0
	Total	2 521	100	2 536	100
Sales by division¹	Exclusive Synthesis & Biotechnology	939	36	1 014	40
	Organic Fine & Performance Chemicals	1 067	41	1 051	41
	Polymer Intermediates	653	25	599	24
	Other	7	0	37	1
	Subtotal	2 666	102	2 701	106
	(Intercompany sales)	(145)	(6)	(165)	(6)
	Total	2 521	96	2 536	100
	From divestiture (third-party sales)	97	4	0	0
Total Lonza	2 618	100	2 536	100	
Depreciation and amortization by division	Exclusive Synthesis & Biotechnology	69	42	83	36
	Organic Fine & Performance Chemicals	54	33	49	21
	Polymer Intermediates	34	21	24	11
	Other	0	0	0	0
	Total	157	96	156	68
	Non-recurring items	0	0	72	32
	From divestiture	6	4	0	0
	Total Lonza	163	100	228	100

¹ Intersegment sales for 2001 and 2002, which were based primarily on prevailing market prices, have been eliminated

million CHF		2001		2002	
		%		%	
Exclusive Synthesis & Biotechnology	62	60	62	61	Research & Development by division
Organic Fine & Performance Chemicals	32	30	31	30	
Polymer Intermediates	10	10	9	9	
Other	0	0	0	0	
Total	104	100	102	100	
From divestiture	0	0	0	0	
Total Lonza	104	100	102	100	
Switzerland	95	36	87	25	Investments in property, plant and equipment by region ¹
EU	69	26	69	20	
Rest of Europe	9	3	19	5	
Europe	173	65	175	50	
North America	85	32	167	48	
Other areas	6	2	6	2	
Total	264	99	348	100	
From divestiture	2	1	0	0	
Total Lonza	266	100	348	100	
Exclusive Synthesis & Biotechnology	160	60	241	69	Investments in property, plant and equipment by division
Organic Fine & Performance Chemicals	70	26	65	19	
Polymer Intermediates	34	13	42	12	
Other	0	0	0	0	
Total	264	99	348	100	
From divestiture	2	1	0	0	
Total Lonza	266	100	348	100	
Switzerland	803	32	985	41	Net capital invested by region
EU	525	21	513	21	
Rest of Europe	75	3	88	4	
Europe	1 403	56	1 586	66	
North America	809	32	678	28	
Other areas	287	12	166	6	
Total	2 499	100	2 430	100	
Switzerland	2 677	43	2 632	42	Personnel by production area
EU	1 624	26	1 655	27	
Rest of Europe	236	4	264	4	
Europe	4 537	73	4 551	73	
North America	1 318	21	1 322	21	
Other areas	355	6	343	6	
Total	6 210	100	6 216	100	

¹ Investments calculated at average rates

Segment data

	million CHF	2001	2002		
		%	%		
Personnel by division	Exclusive Synthesis & Biotechnology	2 677	43	2 712	44
	Organic Fine & Performance Chemicals	2 191	35	2 192	35
	Polymer Intermediates	1 308	21	1 275	20
	Other	34	1	37	1
	Total Lonza	6 210	100	6 216	100
Average number of employees	6 072		6 213		

Report of the Group Auditors to the Shareholders' Meeting of Lonza Group Ltd, Basel

As Group Auditors, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity and notes on pages 45 to 70) of Lonza Group Ltd, Basel, and its subsidiaries for the year ended 31 December 2002.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Fides Peat

Hanspeter Stocker
Swiss Certified Accountant
Auditor in Charge

Thomas Schmid
Swiss Certified Accountant

Zurich, 20 January 2003

Financial statements of Lonza Group Ltd

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	CHF	2001	2002
Assets¹			
Fixed assets			
Property, plant and equipment		4	3
Investments		943 862 924	881 146 497
Long-term loans to subsidiaries		371 249 434	76 124 878
Total fixed assets		1 315 112 362	957 271 378
Current assets			
Receivables:			
From third parties		707 154	561 676
From subsidiaries and affiliates		4 329 879	4 388 085
Prepaid expenses:			
Third parties		2 546 495	842 550
Subsidiaries and affiliates		2 517 906	5 100 404
Short-term advances:			
Subsidiaries and affiliates		601 426 455	606 440 824
Marketable securities:			
Own shares		278 770 609	71 710 968
Cash		74 687 629	4 616 240
Total current assets		964 986 127	693 660 747
Total assets		2 280 098 489	1 650 932 125

¹At 31 December

CHF	2001	2002	
Shareholders' equity			Liabilities and shareholders' equity¹
Share capital	55 260 070	50 450 000	
Legal reserve:			
General legal reserve	346 739 532	25 225 000	
Reserve for own shares	278 770 609	336 311 343	
Available earnings brought forward	582 390 243	309 557 096	
Net income for the year 2001 and 2002	33 092 451	205 247 993	
Total shareholders' equity	1 296 252 905	926 791 432	
Liabilities			
Payables and other liabilities:			
Due to third parties	65 928 660	1 469 273	
Due to subsidiaries and affiliates	155 283	446 272	
Accrued expenses:			
Due to third parties	6 724 987	4 975 243	
Due to subsidiaries and affiliates	7 014 736	0	
Short-term provisions:			
Due to third parties	2 895 621	497 540	
Short-term debts:			
Due to third parties	853 348 228	482 850 000	
Due to subsidiaries and affiliates	47 778 069	233 902 365	
Total current liabilities	983 845 584	724 140 693	
Total liabilities	983 845 584	724 140 693	
Total liabilities and shareholders' equity	2 280 098 489	1 650 932 125	
	%	%	
Shareholders' equity as a percentage of total assets	56.9	56.1	

¹At 31 December

Income statement – Holding

	CHF	2001	2002
Income			
Income from investments		68 971 193	263 361 363
Income from sales of investments		0	54 991 161
Income from sales of property		0	299 999
Interest income		77 812 866	48 648 815
Other financial income		7 964 215	0
Other income		2 534 454	3 973 259
Total income		157 282 728	371 274 597
Expenses			
Personnel expenses		5 490 548	8 334 157
Other administrative expenses		6 670 760	4 565 664
Interest expenses		64 870 363	42 532 501
Other financial expenses		1 053 071	7 351 724
Provision on loan		0	46 800 000
Depreciation on intangible assets		4 929 189	0
Taxes		458 195	888 510
Other expenses		718 151	2 374 966
Write-offs on investments		40 000 000	53 179 082
Total expenses		124 190 277	166 026 604
Net income for the year		33 092 451	205 247 993

<p>At 31 December 2002, indemnity liabilities, guarantees and pledges in favour of third parties totalled CHF 174 238 403 (31 December 2001: CHF 135 857 120). The company is a member of the Lonza Group value-added-tax group in Switzerland and is thereby jointly and severally liable to the federal tax authorities for value-added-tax debts of that group.</p>	<p>Contingent liabilities 1</p>
<p>31 December 2002: CHF 30 053 000 (31 December 2001: CHF 31 339 000).</p>	<p>Fire insurance values of property, plant and equipment 2</p>
<p>31 December 2002: CHF 70 000 (31 December 2001: CHF 129 800)</p>	<p>Liabilities to personnel welfare institutions 3</p>
<p>See list of Significant subsidiaries, page 34</p>	<p>Investments 4</p>
<p>At 31 December 2002, according to the company's share register, EMS-Chemie Holding Ltd is registered as holder of 5 473 000 registered shares in our Company with a par value of CHF 1 each (corresponding to 10.85 % of the share capital).</p>	<p>Major shareholders in accordance with Art. 663c of the Swiss Code of Obligations 5</p>
<p>At 31 December 2002, the company and a subsidiary of the company held 3 075 924 of its own registered shares with a par value of CHF 1 each (31 December 2001: 307 496 registered shares with a par value of CHF 10 each), resulting in a reserve for own shares of CHF 336 311 343 (31 December 2001: CHF 278 770 609).</p>	<p>Own shares 6</p>
<p>In order to satisfy the exercise of the Share Option Plans for key employees and the Employee Share Purchase Plan, Lonza has acquired 153 702 registered shares, with a par value of CHF 1 each during 2002, at an average market value of CHF 115. 853 702 of the own registered shares with a par value of CHF 1 each (31 December 2001: 41 146 with a par value of CHF 10 each) are reserved for the Share Option Plans and the Employee Share Purchase Plan. 2 222 222 registered shares with a par value of CHF 1 each are reserved for Lonza Finance Ltd's convertible bond, purchased in 2002 at an average market price of CHF 118.</p>	
<p>The total of registered shares not entitled to a dividend is therefore 3 075 924 with a par value of CHF 1 each (2001: 551 007 with a par value of CHF 10 each).</p>	
<p>Share capital – The share capital on 31 December 2002 comprises 50 450 000 registered shares with a par value of CHF 1 each (31 December 2001: 5 526 007 registered shares with a par value of CHF 10 each) amounting to CHF 50 450 000 (2001: CHF 55 260 070). The share repurchase program resulted in a capital reduction of CHF 4 810 070 in 2002.</p>	<p>Additional notes 7</p>
<p>Offsetting exchange rate gains against exchange rate losses – In accordance with internal foreign exchange guidelines, exchange rate gains of CHF 396 702 807 (2001: CHF 645 849 482) were set against exchange rate losses of CHF 402 041 305 (2001: CHF 638 524 250) in the 2002 business year.</p>	
<p>There were no other circumstances subject to the reporting requirements of Art. 663b CO.</p>	

Proposal of the Board of Directors concerning the appropriation of available earnings

CHF	2001	2002
Available earnings brought forward	582 390 243	309 557 096
Net income for the year	33 092 451	205 247 993
Available earnings at the disposal of the Shareholders' Meeting	615 482 694	514 805 089
Payment of a dividend of CHF 1.90 (2001: CHF 1.90 per share) on the share capital eligible for dividend of CHF 47 374 076 (2001: CHF 49 750 000)	94 525 000	90 010 744
Available earnings carry-forward	520 957 694	424 794 345
Use for setting up reserve for own shares in the 2002 business year	211 400 598	
Available earnings brought forward after setting up reserve	309 557 096	

If the Shareholders' Meeting approves the above proposal from the Board of Directors, the dividend of CHF 1.90 per registered share, less 35 % withholding tax, will be paid as of 1 April 2003 at the offices designated in the publication organ of the company and in selected daily newspapers.

Basel, 20 January 2003

Sergio Marchionne
Chairman

Markus Gemuend
Chief Executive Officer

As Statutory Auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes on page 71 to 76) of Lonza Group Ltd, Basel, for the year ended 31 December 2002.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the accounting records, financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's Articles of Association.

We recommend that the financial statements submitted to you be approved.

KPMG Fides Peat

Hanspeter Stocker
Swiss Certified Accountant
Auditor in Charge

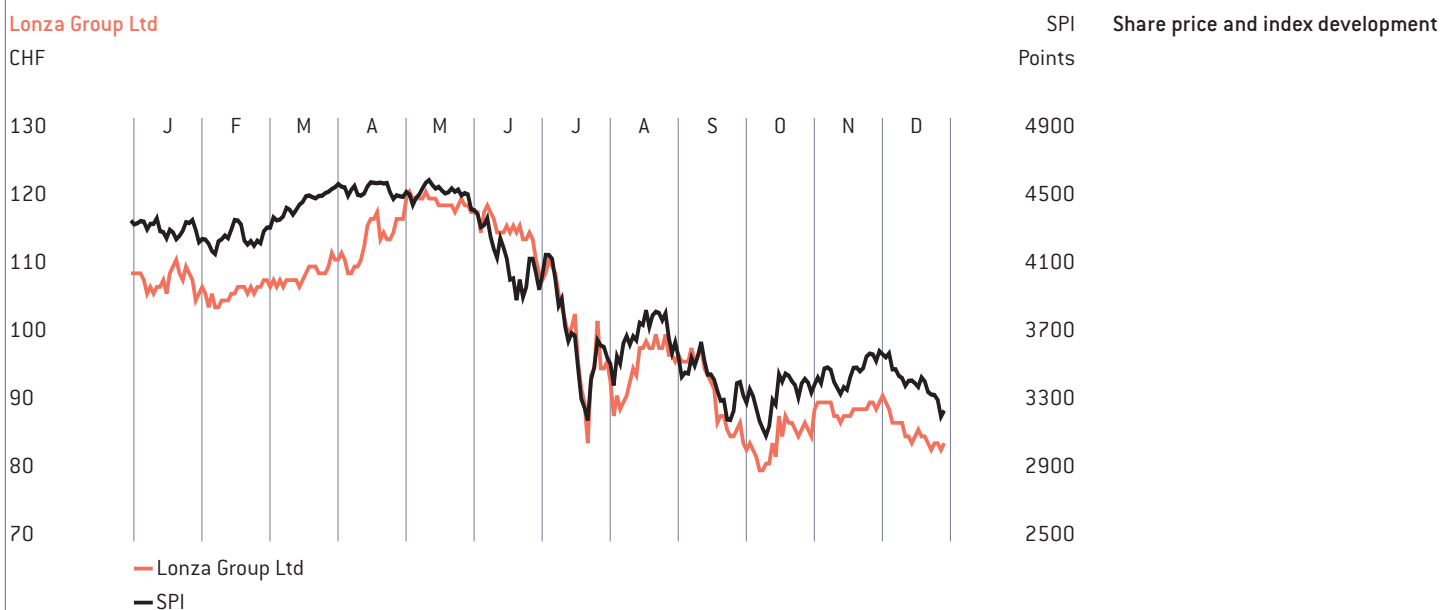
Thomas Schmid
Swiss Certified Accountant

Zurich, 20 January 2003

Lonza Group Ltd shares are listed on the SWX Swiss Exchange and included in the Swiss Market Index (SMI). The shares are traded on the virt-x, an electronic trading system based in London. At the 2002 Lonza Group Ltd Shareholders' Meeting, a 1:10 share split ratio was approved, reducing the nominal value from CHF 10 to CHF 1 to more accurately reflect today's stock exchange standards. The split took place on 1 April 2002.

During the early part of the year, the shares performed well, reaching an all-time high of CHF 120.50 in mid-May, up 11.5% on the year-end closing. After that, the performance worsened steadily in line with the very weak performance of the SWX and stock markets worldwide, reaching an annual low of CHF 79.90 at the beginning of October 2002. After the successful placement of the 26% shareholding of BZ Group Holding Ltd and ZKB Ltd by Deutsche Bank and Merrill Lynch, the share price temporarily recovered to over CHF 90 and closed the year at CHF 84, down 22.6% on the prior year, but in line with the overall Swiss market, which declined 26%.

Daily trading volume was CHF 37 million or 360 000 shares on average. After the cancellation of 4 810 070 shares approved at the Shareholders' Meeting of 26 March 2002, a total of 50 450 000 shares were outstanding at year-end, representing a market capitalization of CHF 4.2 billion.



Information per security

		2001	2002
Registered shares			
Number of shares issued		5 526 007	50 450 000
Number of shares ranking for a dividend		4 975 000	47 374 076
Par value per share	CHF	10	1
Net income before non-recurring items	CHF million	314	297
Net income	CHF million	402	221
Diluted net income before non-recurring items	CHF million	314	303
Diluted net income	CHF million	402	227
Ratios per security			
Weighted average number of shares		54 091 300	48 558 988
Diluted weighted average number of shares		54 091 300	49 855 284
Basic earnings per share before non-recurring items	CHF	5.80 ¹	6.12 ²
Basic earnings per share	CHF	7.43	4.55
Diluted earnings per share before non-recurring items	CHF	5.80 ¹	6.08 ²
Diluted earnings per share	CHF	7.43	4.55

¹ Excluding net income after tax from non-recurring items of CHF 88 million

² Excluding net loss after tax from non-recurring items of CHF (76) million

Corporate Office	Europe	Great Britain
<p>Lonza Group Ltd Muenchensteinerstrasse 38 CH-4002 Basel, Switzerland Tel +41 61 316 81 11 Fax +41 61 316 91 11 contact@lonza.com</p>	<p>Czech Republic</p> <p>● ● ● Lonza Biotec sro Okružní 134 CZ-281 61 Kouřim Tel +42 0321 738 654 Fax +42 0321 738 610 contact.cz@lonza.com</p>	<p>● ● ● Lonza Biologics plc 228 Bath Road GB-Slough, Berkshire SL1 4DY Tel +44 1753 777000 Fax +44 1753 777001 contact.slough@lonza.com</p>
<p>Exclusive Synthesis Biotec Organic Fine Chemicals</p>	<p>France</p> <p>● Lonza France Sàrl 55, rue Aristide Briand FR-92309 Levallois-Perret Cedex Tel +33 1 40 89 99 00 Fax +33 1 40 89 99 01 contact.fr@lonza.com</p>	<p>● Lonza UK Ltd Imperial House, Lypiatt Road GB-Cheltenham, Glos. GL50 2QJ Tel +44 1242 51 32 11 Fax +44 1242 22 22 94 contact.uk@lonza.com</p>
<p>Lonza Ltd Muenchensteinerstrasse 38 CH-4002 Basel, Switzerland Tel +41 61 316 81 11 Fax +41 61 316 91 11 contact@lonza.com</p>	<p>Germany</p> <p>● ● ● Lonza Compounds GmbH & Co KG Kieselstrasse DE-56357 Miehlen Tel +49 6772 93 21 0 Fax +49 6772 68 88</p>	<p>Hungary</p> <p>● Lonza Ltd Representation Office Dunaház III. lépcsőház II. em 2 Boráros tér 7 HU-1095 Budapest IX Tel +36 1 215 94 19 Fax +36 1 215 09 63 contact.hu@lonza.com</p>
<p>Biologics</p>	<p>● ● ● Lonza GmbH Morianstrasse 32 DE-42103 Wuppertal Tel +49 202 245 38 0 Fax +49 202 245 38 20 contact.de@lonza.com</p>	<p>Italy</p> <p>● ● ● Lonza SpA Via Enrico Fermi, 51 IT-24020 Scanzorosciate (BG) Tel +39 035 652 111 Fax +39 035 652 419 contact.it@lonza.com</p>
<p>Performance Chemicals</p>	<p>● ● ● LOFO High Tech Film GmbH Weidstrasse 2 PO Box 1580 DE-79576 Weil am Rhein Tel +49 7621 703 0 Fax +49 7621 703 255 info@lofo.de</p>	<p>● ● ● Lonza SpA Via Del Pruneto, 40 IT-52027 San Giovanni Valdarno (AR) Tel +39 055 91 28 1 Fax +39 055 94 39 36</p>
<p>Polymer Intermediates</p>		<p>● ● ● Lonza SpA Via Baiona, 192 IT-48100 Ravenna Tel +39 0544 70 10 Fax +39 0544 18 12</p>
<p>Lonza SpA Via Enrico Fermi, 51 IT-24020 Scanzorosciate (BG), Italy Tel +39 035 652 111 Fax +39 035 652 419 contact.it@lonza.com</p>		<p>● ● ● Lonza Composites SRL Via Enrico Fermi, 37 IT-24020 Scanzorosciate (BG) Tel +39 035 65 23 33 Fax +39 035 65 23 08</p>

● ● ●
Research & Development
Production sites
Sales offices

<ul style="list-style-type: none"> ● ● ● Lonza Compounds SpA Via Caduti e Dispersi dell'Aeronautica, 18 IT-24030 Brembate Sopra (BG) Tel +39 035 62 10 30 Fax +39 035 33 35 00 	<p>Switzerland</p> <ul style="list-style-type: none"> ● Lonza Ltd Muenchensteinerstrasse 38 CH-4002 Basel Tel +41 61 316 81 11 Fax +41 61 316 91 11 contact@lonza.com 	<ul style="list-style-type: none"> ● Lonza Inc, Riverside 900 River Road Conshohocken, PA 19428, USA Tel +1 610 292 4300 Fax +1 610 292 4380
<p>Netherlands</p> <ul style="list-style-type: none"> ● Lonza Benelux BV Aluminiumstraat 1 PO Box 3148 NL-4800 DC Breda Tel +31 76 542 51 00 Fax +31 76 542 40 70 contact.nl@lonza.com 	<ul style="list-style-type: none"> ● Lonza Sales Ltd Muenchensteinerstrasse 38 CH-4002 Basel Tel +41 61 316 81 11 Fax +41 61 316 91 11 contact@lonza.com 	<ul style="list-style-type: none"> ● Lonza Inc 3500 Trenton Avenue Williamsport, PA 17701, USA Tel +1 570 321 3900 Fax +1 570 321 3925
<p>Poland</p> <ul style="list-style-type: none"> ● Lonza Ltd Representation Office ul. Smolenskiego 4 m 15 PL-01-698 Warsaw Tel +48 22 833 87 45 Fax +48 22 833 12 39 contact.pl@lonza.com 	<ul style="list-style-type: none"> ● Lonza Ltd Valais Works CH-3930 Visp Tel +41 27 948 51 11 Fax +41 27 947 51 11 contact.visp@lonza.com 	<ul style="list-style-type: none"> ● Lonza Inc, Clinton 79 Route 22 East PO Box 993 Annandale, NJ 08801, USA Tel +1 908 730 1500 Fax +1 908 730 1546
<p>Spain</p> <ul style="list-style-type: none"> ● Lonza Ibérica SA (Unipersonal) Vía Augusta, n° 18, 2ª Pta, izda ES-08006 Barcelona Tel +34 93 238 54 60 Fax +34 93 416 02 28 contact.es@lonza.com 	<p>North America</p> <ul style="list-style-type: none"> ● Lonza Biologics Inc 101 International Drive Portsmouth, NH 03801, USA Tel +1 603 334 6100 Fax +1 603 334 3300 contact.biologics@lonza.com 	<p>South America</p> <p>Brazil</p> <ul style="list-style-type: none"> ● Lonza do Brasil Ltda Rua Carmo do Rio Verde 241 - Cj. 51 Santo Amaro BR-04729-010 São Paulo Tel +55 11 5641 6766 Fax +55 11 5641 6766 Extension 288 contact.br@lonza.com
	<ul style="list-style-type: none"> ● Lonza Inc, Bayport 9700 Bayport Boulevard Pasadena, TX 77507, USA Tel +1 281 291 2300 Fax +1 281 291 2315 	
	<ul style="list-style-type: none"> ● Lonza Inc 8316 West Route 24 PO Box 105 Mapleton, IL 61547-0105, USA Tel +1 309 697 7200 Fax +1 309 697 7250 	

● ● ●
 Research & Development
 Production sites
 Sales offices

Asia

China

● Lonza Hongkong Ltd
Room 601, 6th Floor
Hang Seng Building
77 Des Voeux Road Central
HK-Hong Kong
Tel +852 2545 68 68
Fax +852 2854 18 81
contact.hk@lonza.com

● Lonza Guangzhou Ltd
39, Jinhui Road
Haizhu District
CN-Guangzhou 510288
Tel +86 20 8433 8998
Fax +86 20 8433 1998
contact.cn@lonza.com

● Lonza Liyang Chemical Co Ltd
20, East Ping Ling Road
CN-Liyang, Jiangsu 213300
Tel +86 519 720 33 60
Fax +86 519 720 33 61

India

● Lonza Ltd India Liaison Office
Delta, 401-C, 4th Floor
Technology Street
Hiranandani Gardens
IN-Powai, Mumbai, 400 076
Tel +91 22 570 8869/3143
Fax +91 22 570 4204
contact.in@lonza.com

Japan

● Lonza Japan Ltd
Kyowa Shinkawa Bldg 8F
2-20-8, Shinkawa, Chuo-ku
JP-Tokyo 104-0033
Tel +81 3 5566 0612
Fax +81 3 5566 0619
contact.jp@lonza.com

Singapore

● Lonza Performance Chemicals Pte Ltd
3 International Business Park
#03-17 Nordic European Centre
SG-Singapore 609927
Tel +656 8906230/32
Fax +656 8906231/33
contact.sg@lonza.com

● ● Lonza Singapore Pte Ltd
12, Sakra Road
Jurong Island
SG-Singapore 627892
Tel +656 867 63 93
Fax +656 867 62 04

● ● ●
Research & Development
Production sites
Sales offices

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Walter Eschenmoser
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Anticipated key reporting dates

Ordinary Shareholders' Meeting
for the financial year 2002
26 March 2003, 2.30 pm
Convention Center Basel

Half Year Results 2003
17 July 2003

Full Year Report 2003
21 January 2004

Ordinary Shareholders' Meeting
for the financial year 2003
24 March 2004

Legal domicile
Basel

Corporate Office
Lonza Group Ltd
Muenchensteinerstrasse 38
CH-4002 Basel, Switzerland
Tel +41 61 316 81 11
Fax +41 61 316 91 11
www.lonza.com

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For publications and further information
please contact:

Walter Eschenmoser
Lonza Group Ltd
Corporate Communications
& Investor Relations
Tel +41 61 316 83 63
Fax +41 61 316 82 20
contact@lonza.com

Lonza Group Ltd
Muenchensteinerstrasse 38
CH-4002 Basel, Switzerland
Tel +41 61 316 81 11
Fax +41 61 316 91 11
www.lonza.com

Lonza