

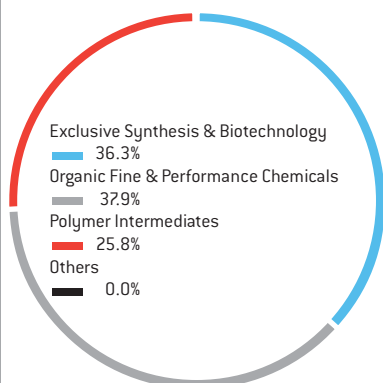
Half-year report 2003

Financial highlights first half-year

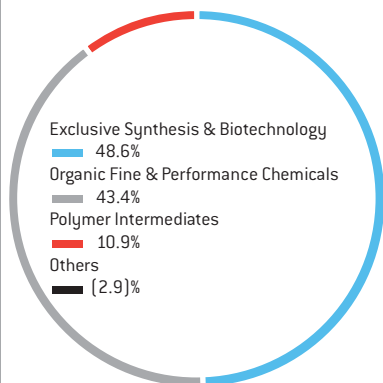
million CHF	2002	2003	
Net sales	1 291	1 157	<p>As anticipated in the revised guidance of 19 May, 2003, Group operating income (pre non-recurring items) decreased by 19.4% to CHF 175 million, on sales of CHF 1 157 million (10.4% down on the prior year, 6.0% in constant currencies). Group operating margin decreased to 15.1%, compared with 16.8% in the same period of the previous year. Earnings per share before non-recurring items fell by 21.6% to CHF 2.54.</p> <p>Overview – Group sales decreased in the first half of 2003 to CHF 1 157 million, down 6.0% in constant currencies and 10.4% on a reported basis. Exclusive of non-recurring items of CHF 52 million, operating income decreased to CHF 175 from CHF 217 million.</p> <p>Exclusive Synthesis experienced delays in product approvals and an unfavorable product mix. Biotechnology saw a slight reduction in sales, while margins remained at the previous year's level. In total, turnover was down by 12.9% to CHF 420 million, and operating income and margins reached 85 CHF million and 20.2%. Our mammalian cell culture fermentation activities were impacted by failures in clinical trials of customer products. Take or pay contractual payments will offset most of the profit shortfall in 2003. Strong sales initiatives are underway to replace the order book in 2004.</p> <p>The more traditional activities Organic Fine Chemicals, Performance Chemicals and Polymer Intermediates have been negatively impacted by higher raw material and energy prices and unfavorable exchange rates. Sales of Organic Fine & Performance Chemicals reached CHF 438 million, down 11.0% on the same period of last year. Operating margin decreased from 18.5% to 17.4%. Polymer Intermediates achieved sales of CHF 298 million, 5.4% below the previous year. Operating margin dropped from 10.5% to 6.4%.</p> <p>The Group's net debt position increased to CHF 994 million and the net financial expenses rose to CHF 12 million, compared with CHF 7 million in the same period of last year. The tax rate was at 24% for the first half and is still at the low end of Group targets.</p> <p>Group net income excluding non-recurring items was CHF 120 million compared with CHF 161 million in 2002. Net income, including non-recurring items, amounted to CHF 83 million.</p> <p>Capital expenditure of CHF 220 million was up on last year's figure. Cash from operations of CHF 211 million was 20.6% higher than last year.</p> <p>Restructuring of the Exclusive Synthesis business – Restructuring in the area of Exclusive Synthesis, started in September 2002, was successfully completed. The Los Angeles plant was closed and the workforce in the US and Switzerland reduced according to plan. The expected annual cost savings of CHF 40 million are being achieved.</p> <p>Efficiency improvement and overhead cost reduction – Due to difficult market conditions in most of its business lines, Lonza announced, in May 2003, the downward revision of its 2003 guidance and started a company-wide restructuring initiative to improve efficiency and reduce overhead costs in all business sectors and service functions. Coupled with the 2002 initiatives, these efforts yielded a reduction in</p>
Change in %		(10.4)	
EBITDA	303	254	
Change in %		(16.2)	
EBITDA margin in %	23.5	22.0	
Operating income	217	175	
Change in %		(19.4)	
Operating margin in %	16.8	15.1	
Non-recurring items	0	(52)	
EBIT	214	121	
Change in %		(43.5)	
Net income	161	83	
Change in %		(48.4)	
Cash from operations	175	211	
Change in %		20.6	
Net debt	869	994	
Debt-equity ratio	0.70	0.80	
Change in %		14.3	
EPS basic (CHF) before non-recurring items	3.24	2.54	
Change in %		(21.6)	
EPS basic (CHF) after non-recurring items	3.24	1.75	
Change in %		(46.0)	
EPS Diluted (CHF) after non-recurring items	3.21	1.80	
Change in %		(43.9)	
Number of employees	6 321	5 818	
Change in %		(8.0)	
Net Sales	976	859	<p>The Group's net debt position increased to CHF 994 million and the net financial expenses rose to CHF 12 million, compared with CHF 7 million in the same period of last year. The tax rate was at 24% for the first half and is still at the low end of Group targets.</p> <p>Group net income excluding non-recurring items was CHF 120 million compared with CHF 161 million in 2002. Net income, including non-recurring items, amounted to CHF 83 million.</p> <p>Capital expenditure of CHF 220 million was up on last year's figure. Cash from operations of CHF 211 million was 20.6% higher than last year.</p> <p>Restructuring of the Exclusive Synthesis business – Restructuring in the area of Exclusive Synthesis, started in September 2002, was successfully completed. The Los Angeles plant was closed and the workforce in the US and Switzerland reduced according to plan. The expected annual cost savings of CHF 40 million are being achieved.</p> <p>Efficiency improvement and overhead cost reduction – Due to difficult market conditions in most of its business lines, Lonza announced, in May 2003, the downward revision of its 2003 guidance and started a company-wide restructuring initiative to improve efficiency and reduce overhead costs in all business sectors and service functions. Coupled with the 2002 initiatives, these efforts yielded a reduction in</p>
Change in %		(12.0)	
EBITDA	252	217	
Change in %		(13.9)	
EBITDA margin in %	25.8	25.3	
Operating income	184	156	
Change in %		(15.2)	
Operating margin in %	18.9	18.2	

Life Sciences Operations

Industrial sales by division
first half-year



Operating income by division
first half-year



headcount of 8% compared with the prior year, down to 5 818 at June 30 2003. The May 2003 restructuring and related initiatives will improve our cost position by CHF 100 million over the next 12 months at a pre-tax cost, recorded in this semester, of CHF 52 million.

Revision of the business approach in custom manufacturing – In response to the change in market conditions Lonza has redesigned its custom manufacturing business model in order to increase market penetration and coverage. The current sectors Exclusive Synthesis (chemical), Biotec (microbial) and Biologics (mammalian) have been combined into a single Custom Manufacturing business. Focusing on continuous pipeline expansion, this newly aggregated business offers a broad range of cutting edge technologies aimed at capturing business in all phases of clinical development, thus increasing our opportunities to fill large reactors. At the same time combining our large scale production activities will increase operational efficiencies.

Revision of the targets 2005 for the Life Sciences activities – It is expected that the Polymer Intermediates business will be divested by 2005. As a result and on the basis of Lonza's strengths, market positions and the new investments coming on stream in Biotechnology, we have revised our targets to be reached by the end of 2005:

- Sales of CHF 2.1 billion
- Expected earnings per share of CHF 7.25
- Overall operating margin of 22%
- Overall EBITDA margin of 30%

Outlook for 2003 and 2004 – Management believes that during the remainder of the year it will be able to improve on its first half year performance.

Our outlook for 2004 remains cautious. The next eighteen months will be devoted to continue the aggressive strengthening of our project pipeline. The results of these efforts will not be visible until late in 2004 and 2005. None the less, the Group is committed to significantly improve 2004 performance over 2003 levels.

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Sergio Marchionne
Chairman of the Board

Markus Gemuend
Chief Executive Officer

Consolidated income statement first half-year

million CHF	2002	2003
Net sales	1 291	1 157
Operating expenses	(1 074)	(982)
Operating income	217	175
Non-recurring items	0	(52)
Goodwill	(3)	(2)
EBIT	214	121
Financial expenses	(7)	(12)
Pre-tax earnings	207	109
Income taxes	(46)	(26)
Net income incl. minorities	161	83
Minorities	0	0
Net income	161	83

Consolidated cash flow statement first half-year

EBIT	214	121
Adjustment for non cash items	86	105
(Increase)/decrease in working capital	(125)	(15)
Cash from operations	175	211
Tax paid	(43)	(25)
Net purchase of fixed assets	(120)	(220)
Other	(12)	3
Free Cash flow	0	(31)
Dividend paid	(95)	(90)
Financing and translation differences	(344)	170
Increase/(decrease) in net cash	(439)	49

Consolidated balance sheet as per 31 December 2002 and 30 June 2003

Fixed assets	2 054	2 195
Cash and cash equivalents	55	104
Advances and loans	28	30
Other current assets	1 135	1 182
Assets held pending disposition	0	0
Total assets	3 272	3 511
Shareholders' equity	1 235	1 250
Minority interests	0	0
Long-term debts	317	689
Short-term debts	635	439
Provisions and other liabilities	1 085	1 133
Total liabilities and shareholders' equity	3 272	3 511

Changes in shareholders' equity

million CHF	2002	2003
At 31 12 2001/31 12 2002	1 586	1 235
Dividend	(95)	(90)
Buy-back of own shares	(480)	0
Other comprehensive income	(27)	22
Net income	161	83
At 30 06 2002/30 06 2003	1 145	1 250

Accounting principles – These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 30 June 2003, which have been drawn up according to uniform Group accounting principles consistent with those adopted by Lonza Group in its consolidated financial statements for the year ended 31 December 2002.

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

Exchange rates

	Balance sheet		Income statement	
	31 12 02	30 06 03	2002	2003
	rate CHF		average rate CHF	
Dollar	1.39	1.36	1.64	1.35
Pound Sterling	2.23	2.24	2.37	2.18
Euro	1.45	1.55	1.47	1.49

Exclusive Synthesis & Biotechnology

First half-year

million CHF	2002	2003	
Net sales	482	420	<p>Exclusive Synthesis continued to face challenging market conditions. Biotechnology experienced delays and failures of customer products late in clinical development. As a result, the division's sales of CHF 420 million were 12.9% below (8.7% on a currency adjusted basis) the previous year's amount of CHF 482 million. Operating income declined from CHF 98 million in 2002 to CHF 85 million in 2003. However, the division achieved an operating margin of 20.2% nearly in line with last year.</p> <p>Exclusive Synthesis – A low rate of new drug approvals, delayed product approvals and de-stocking at customers continued to impact custom manufacturing demand. Sales were lower, while the capacity utilization was in line with our expectations, although customer ordering patterns had a significant negative impact on our product mix. Our R&D portfolio was strengthened by projects in all clinical phases. We have increased the number of projects by more than 50% since the end of 2001. The project uptake at the Small Scale Plant, which was started up earlier this year, is above expectations. The peptide business was strengthened by increased lab and production activities and an expanded product pipeline. The performance of our business with agrochemicals remained at the previous year's level, again pushed by a high demand for Sulfonylurea herbicides and their intermediates, despite the stagnation of the global crop protection market.</p> <p>Biotechnology – Lonza Biologics' (mammalian cell culture fermentation) sales were slightly below the previous year's level. The recent failures and delays of customer products late in clinical development negatively impacted capacity utilization in our 2 000L and 5 000L reactors. Take or pay contractual payments by customers will continue to offset most of the profit shortfall in 2003 resulting from the product failures. Based on ongoing strong sales and marketing efforts, we are confident of refilling the capacity in 2004. Demand for our development services remained strong and our project pipeline continued to grow significantly. Our 60 000L large scale expansion project in Portsmouth, NH (USA) remained on schedule. In addition to the contract with Alexion Pharmaceuticals we signed another agreement with a major top ten pharmaceutical company for several products with several indications. Roughly 90% of the total new capacity is now under long term contract. Lonza Biotec's (microbial fermentation) business performance experienced flat sales. The exclusive custom manufacturing activities remained at last year's levels, while sales in our L-Carnitine business were slightly below due to increased price pressure, mainly from Chinese competitors. L-Carnitine received approval in Japan opening a new potentially significant market in the food segment. Our expansion projects in Visp (Switzerland) and Kourim (Czech Republic) continued to be on schedule. We entered into a long-term supply agreement with Celltech Group for the manufacture of PEGylated antibody fragment-based biopharmaceuticals in the new facility in Visp.</p>
Change in %		(12.9)	
Change due to			
Volume and prices		(40)	
Currency translation		(22)	
Scope of consolidation		0	
Operating income	98	85	
Change in %		(13.3)	
Operating margin	20.3	20.2	
EBITDA	141	122	
Change in %		(13.5)	
EBITDA as % of sales	29.3	29.0	

Organic Fine & Performance Chemicals

First half-year

million CHF	2002	2003	
Net sales	492	438	<p>The division's sales reached CHF 438 million, down 11.0% on the same period of last year and 3.7% on a currency-adjusted basis. Business activities have been exposed to higher raw material and energy costs as well as a weak US currency. As a result operating income declined to CHF 76 million, 16.5% below the previous year's level. The negative impact was partially compensated by the ongoing program to enhance efficiency of all our operations. Operating margin slipped slightly from 18.5% in the same period last year to 17.4% in 2003.</p> <p>Organic Fine Chemicals – Unfavorable economic conditions, combined with increased competitive pressure from low-cost countries such as India and China led to the inability to fully pass on the higher raw material costs to customers. Market shares were successfully defended. Production capacity utilization was high and resulted in a sound manufacturing cost structure. Sales of nicotinates (vitamin B3) were strong in the first quarter, but negatively impacted in the second quarter due to SARS and the outbreak of chicken disease in northern Europe, causing a temporary lapse in demand and consequently downward pressure on prices.</p> <p>There was a buoyant demand for intermediates used in the production of vitamins. Prices for hydrocyanic acid derivatives and diketene derivatives continued to suffer from the effects of fierce competition from Asia. Sales of engineering polymers for polyurethane, as well as coating and adhesive applications, were below the previous year. Revenues from metaldehyde (Meta®) – a molluscicide – suffered from dry weather conditions in major markets in Europe.</p> <p>The new plant for ketene reactions was successfully brought on stream. An alternative production technology for arylides (intermediates for pigments) was further developed to allow the manufacture of additional arylides besides acetoacetanilide.</p> <p>The business licence for a second nicotinamide plant in Guangzhou (China) was received and the expected start-up date is mid 2005. With this investment Lonza will strengthen its position to meet the growing demand for this vitamin.</p> <p>Performance Chemicals – Performance Chemicals generated considerably lower sales in the first half year owing to persistently difficult economic conditions and the negative impact of the unfavorable currency trends, as well as the divestiture of the glycerine plant in Painesville before the end of 2002.</p> <p>The business continues to focus on targeted end-use market segments such as personal care, wood protection, water treatment, health, hygiene and food. Higher sales were generated in these market segments, mainly in Europe and Asia. However, operating income was negatively affected by higher raw material and energy costs as well as pricing pressures. New products are under development for the personal care market, water treatment, pulp and paper, and the food industry. At Mapleton, IL (USA), the expansion of production capacity for Carboquat – mainly used as a fungicide by the wood protection industry – will be operational in January 2004.</p>
Change in %		(11.0)	
Change due to			
Volume and prices		(17)	
Currency translation		(37)	
Scope of consolidation		0	
Operating income	91	76	
Change in %		(16.5)	
Operating margin	18.5	17.4	
EBITDA	116	100	
Change in %		(13.8)	
EBITDA as % of sales	23.6	22.8	

Polymer Intermediates

First half-year

million CHF	2002	2003	
Net sales	315	298	<p>The division's sales of CHF 298 million declined by 5.4% compared with the previous year's level. Practically all the business units were affected by weaker demand, the strong Euro and higher raw material and energy costs. Operating income in the first six months of 2003 decreased by 42.4% to CHF 19 million, while margin dropped to 6.4%, compared with 10.5% for the same period of last year.</p> <p>Overall, the weakness in demand was particularly strong in Asia. The end-markets worst affected were automotive and construction. Price increases for our commodity-like products proved difficult in this tough market and competitive environment. Weak sales of phthalic anhydride and plasticizers to China in the second quarter offset the good performance of the first three months. Sales and margins of maleic anhydride and derivatives in Europe were satisfactory thanks to a well-balanced market and supply situation, while revenues from the Far East were down in the first half year compared with the same period last year. Sales of catalysts were squeezed by the lack of new investments in new phthalic and maleic anhydride production units. The pronounced downturn in some of our end-markets negatively affected volumes for trimellitic anhydride and special plasticizers. Resins and compounds performed in line with expectations. Pure isophthalic acid production in Singapore reached a record high in the first half of 2003. Demand in the PET segment was strong, and prices were slightly higher compared with the previous year. Margins on most of our products declined owing to the strength of the Euro versus the US dollar, as well as to higher raw material and energy costs.</p>
Change in %		(5.4)	
Change due to			
Volume and prices		(17)	
Currency translation		0	
Scope of consolidation		0	
Operating income	33	19	
Change in %		(42.4)	
Operating margin	10.5	6.4	
EBITDA	51	37	
Change in %		(27.5)	
EBITDA as % of sales	16.2	12.4	