


Analyst Conference
Basel, 23 July 2003

Lonza



2003 First Half Year Results Presentation

- 
- Difficult market conditions in most business lines, but results in line with revised guidance
 - Sales decreased 10.4% to CHF 1 157 million (- 6.1% on constant currencies)
 - Operating income (pre non-recurring items) down 19.4% to CHF 175 million
 - Operating income margin decreased to 15.1% compared to 16.8% in the same period last year
 - Earnings per share before non-recurring items at CHF 2.54, 21.6% down on last year
 - Restructuring initiative will improve cost position by CHF 100 million over the next 12 months, at cost of CHF 52 million
 - Fundamental revision of business model in custom manufacturing

Financial Highlights

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| CHF million | 1. Half 2002 | 1. Half 2003 | Change YoY |
|--|--------------|--------------|------------|
| Sales | 1'291 | 1'157 | (10.4%) |
| EBITDA | 303 | 254 | (16.2%) |
| <i>EBITDA Margin</i> | 23.5% | 22.0% | (1.5) |
| Operating Income | 217 | 175 | (19.4%) |
| <i>Operating Margin</i> | 16.8% | 15.1% | (1.7) |
| Operating Income Group | 217 | 175 | (19.4%) |
| <i>Operating Margin Group</i> | 16.8% | 15.1% | (1.7) |
| Non-recurring items | 0 | (52) | n.m. |
| Net Income | 161 | 83 | (48.4%) |
| Cash from operations | 175 | 211 | 20.6% |
| Investments (incl. Intangibles) | (120) | (220) | 83.3% |
| Earnings per Share <small>before non-recurring items</small> | 3.24 | 2.54 | (21.6%) |
| Earnings per Share <small>after non-recurring items</small> | 3.24 | 1.75 | (46.0%) |
| Employees | 6'321 | 5'818 | (8.0%) |

Life Sciences operations

| CHF million | 1. Half 2002 | 1. Half 2003 | Change YoY |
|------------------|--------------|--------------|------------|
| Sales | 976 | 859 | (12.0%) |
| EBITDA | 252 | 217 | (13.9%) |
| EBITDA margin | 25.8% | 25.3% | (0.5) |
| Operating Income | 184 | 156 | (15.2%) |
| Operating margin | 18.9% | 18.2% | (0.7) |

Consolidated Income Statement

Lonza

| CHF million | 1. Half 2002 | 1. Half 2003 | Change YoY |
|--------------------------------|--------------|--------------|------------|
| Net Sales | 1'291 | 1'157 | (10.4%) |
| Operating Expenses | (1'074) | (982) | 8.6% |
| Operating Income | 217 | 175 | (19.4%) |
| Operating Income Group | 217 | 175 | (19.4%) |
| Non-recurring items | 0 | (52) | n.m. |
| Goodwill Amortization | (3) | (2) | (33.3%) |
| EBIT | 214 | 121 | (43.5%) |
| Financial Expenses | (7) | (12) | n.m. |
| Income before Taxes | 207 | 109 | (47.3%) |
| Taxes | (46) | (26) | 43.5% |
| Minorities | 0 | 0 | n.m. |
| Net Income | 161 | 83 | (48.4%) |
| EPS before non-recurring items | 3.24 | 2.54 | (21.6%) |
| EPS after non-recurring items | 3.24 | 1.75 | (46.0%) |

Divisional Sales Development

| CHF million | 1. Half 2002 | 1. Half 2003 | Change YoY | Change due to | | |
|---|-----------------|-----------------|----------------|--------------------|-------------|--------------------|
| | | | | Volume & Prices | Currency | Consoli- dation |
| Exclusive Synthesis & Biotechnology | 482 | 420 | (12.9%) | (40) | (22) | 0 |
| Organic Fine & Performance Chemicals | 492 | 438 | (11.0%) | (17) | (37) | 0 |
| Polymer Intermediates | 315 | 298 | (5.4%) | (17) | 0 | 0 |
| Holding & Others | 2 | 1 | n.m. | (1) | 0 | 0 |
| Net Sales | 1'291 | 1'157 | (10.4%) | (75) | (59) | 0 |

Divisional Operating Performance

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| CHF million | Operating Income | | | Margin | |
|--------------------------------------|------------------|-----------------|---------------|-----------------|-----------------|
| | 1. Half 2002 | 1. Half 2003 | Change YoY | 1. Half 2002 | 1. Half 2003 |
| Exclusive Synthesis & Biotechnology | 98 | 85 | (13%) | 20.3% | 20.2% |
| Organic Fine & Performance Chemicals | 91 | 76 | (16%) | 18.5% | 17.4% |
| Polymer Intermediates | 33 | 19 | (42%) | 10.5% | 6.4% |
| Holding and Others | (5) | (5) | n.m. | n.m. | n.m. |
| Operating Income | 217 | 175 | (19%) | 16.8% | 15.1% |
| Operating Income Group | 217 | 175 | (19%) | 16.8% | 15.1% |

Consolidated Cash Flow Statement

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| CHF million | 1. Half 2002 | 1. Half 2003 |
|--|--------------|--------------|
| 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) |

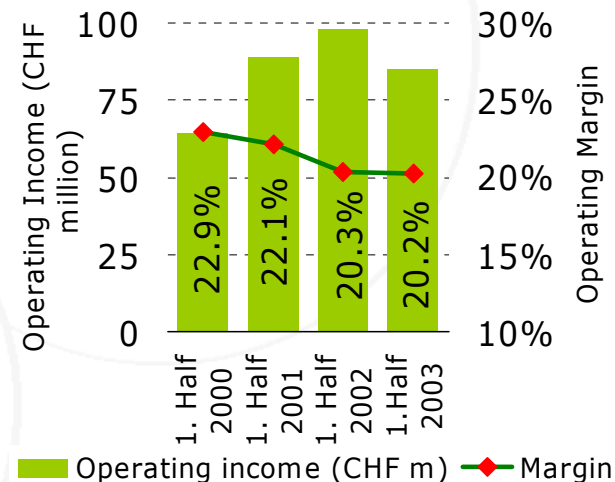


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Sector Results

Exclusive Synthesis & Biotechnology

| CHF million | 1. Half 2003 | Change YoY |
|-------------|--------------|------------|
| Sales | 420 | (12.9%) |
| Op. Income | 85 | (13.3%) |
| Margin | 20.2% | |
| EBITDA | 122 | (13.5%) |
| Margin | 29.0% | |



- Sales of CHF 420 million, down 8.7% on a currency adjusted basis
 - Sales in our Biotechnology activities slightly below last years level
 - Exclusive Synthesis sales were negatively impacted by delays in new product approvals and an unfavorable product mix
- Operating income declined to CHF 85 million compared to CHF 98 million in the same period last year
- Operating margins for the division remained constant at 20.2% due to improvement of the cost structure

Exclusive Synthesis

- Pharma business
 - Delays of new product approvals
 - De-stocking at customers continues
 - Negative impact from product-mix
 - Strengthened R&D pipeline in all clinical phases
 - Peptides and Oligonucleotides developing into a substantial business line
 - Small Scale Plant on stream and project uptake above expectations
- Agro-intermediates business
 - Remained at previous year's level, again pushed by a strong demand of intermediates based on sulfonylurea herbicides

A horizontal banner with a collage of biotechnology-related images, including laboratory equipment and green-tinted scientific imagery, is located at the top of the slide.

Biotechnology

Microbial Fermentation (Lonza Biotec)

- Sales in our exclusive custom manufacturing activities remained at last year's level
- Demand for L-Carnitine products slightly below last year due to increased price pressure mainly from China
- L-Carnitine received approval in Japan opening a potentially significantly new market in the food area
- Entered into a long-term supply agreement with Celltech Group for the production of PEGylated antibody fragments in the new microbial Biopharmaceuticals facility in Visp
- Investment projects remain on schedule



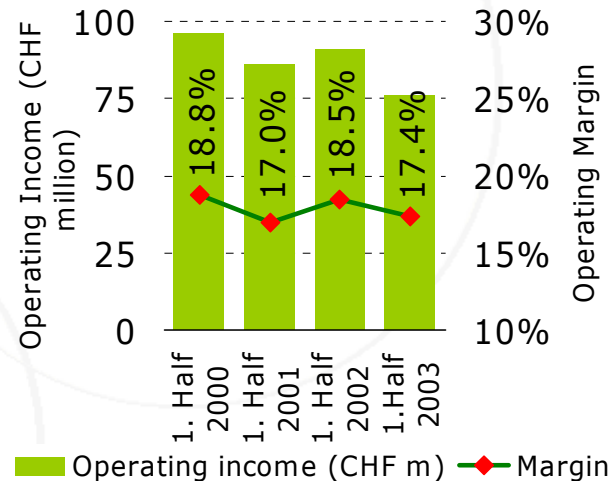
Biotechnology

Mammalian Fermentation (Lonza Biologics)

- Sales slightly below previous year's level
- Recent customer's product failures and delays late in clinical development negatively impacted capacity utilization in our 2 000 L and 5 000 L fermenters
- Take or pay contractual payments by customers resulting from product failures will offset most of the profit shortfall in 2003
- Contractual payment obligations were recognized to match only the originally anticipated revenue income
- Strong sales and marketing efforts underway to replace order book; target is to refill the capacity in 2004
- Roughly 90% of the new large scale capacity in Portsmouth, NH (USA) is under long-term contract

Organic Fine & Performance Chemicals

| CHF million | 1. Half 2003 | Change YoY |
|---------------|--------------|------------|
| Sales | 438 | (11.0%) |
| Op. Income | 76 | (16.5%) |
| <i>Margin</i> | 17.4% | |
| EBITDA | 100 | (13.8%) |
| <i>Margin</i> | 22.8% | |



- Sales decreased to CHF 438 million
 - Sale of the Oleochemicals plant in Painesville end of 2002
 - Currency adjusted sales only slightly lower by -3.7%
- Operating income declined to CHF 76 million compared to CHF 91 million in the same period of the previous year
- Operating margins drop resulting from higher raw material and energy prices

Organic Fine Chemicals

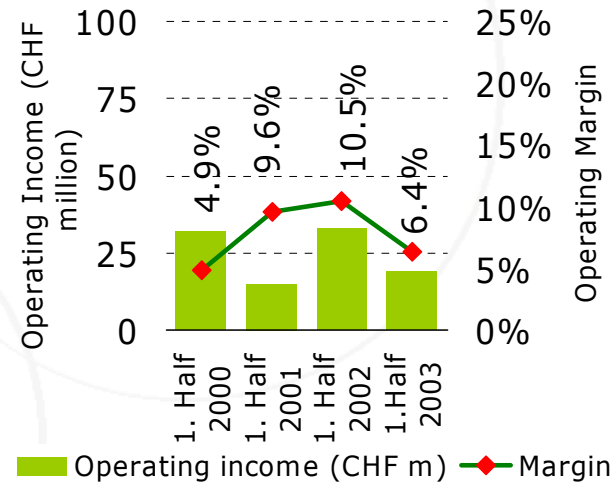
- High capacity utilization resulted in a favorable manufacturing cost structure
- Market shares in all our activities successfully defended but reduced margins due to inability to pass on higher raw material and energy prices
- Nicotinates (a vitamin of the B complex)
 - Strong sales in Q1, SARS and chicken disease negatively impacted Q2
 - Business license for a second Nicotinamide plant in Guangzhou (China) has been received; expected start-up mid 2005
- Hydrocyanic Acid based and diketene intermediates
 - Prices continuously under pressure from Asian competitors
- Meta[®] (molluscicide)
 - Sales negatively impacted by dry weather conditions in major markets in Europe

A decorative banner with a collage of chemical and industrial images is positioned above the section header. It features various scientific and industrial scenes in shades of blue, green, and yellow.

Performance Chemicals

- Lower Sales as a consequence of the divestiture of the unprofitable Painesville plant and negative currency impact
- Operating income suffered from higher raw material and energy prices
- Positive developments in targeted end-use market segments personal care, health, hygiene, food and water treatment
- Position in the wood protection market will be further enhanced with capacity expansion in Mapleton, IL (USA) for Carboquat mainly used as a fungicide. Start-up expected in Q1 2004

| CHF million | 1. Half 2003 | Change YoY |
|-------------|--------------|------------|
| Sales | 298 | (5.4%) |
| Op. Income | 19 | (42.4%) |
| Margin | 6.4% | |
| EBITDA | 37 | (27.5%) |
| Margin | 12.4% | |




- Sales at CHF 298 million
- Operating income drop of 42% compared to last year
- Margins continued to fall as a consequence of high raw material and energy prices and the strong Euro

- Most product lines affected by slow demand due to further de-stocking at customers
- Pronounced downturn in key end-markets (automotive, construction)
- Price increases proved to be difficult due to the competitive environment
- Phthalic anhydride and General Purpose Plasticizers
 - Weak exports to Asia in the second quarter
- Maleic Anhydride and derivatives
 - Satisfactory in Europe while revenues from Far East were significantly down compared to last year
- Trimellitic anhydride / Specialty Purpose Plasticizers
 - Pronounced downturn in some end-markets negatively affected volume
- Purified Isophthalic acid
 - Improved performance over 2002



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Outlook 2003 / 2004


- 
- A decorative banner with a collage of images related to chemistry and industry, including laboratory glassware and chemical structures, is positioned below the title.
- Improvement expected for the second half year performance driven by
 - First impacts of the company-wide restructuring initiative (headcount-level already 8% below last year)
 - New projects and re-filling of order books
 - More favorable product mix in Exclusive Synthesis
 - Continued high raw material and energy price levels may offset part of the improvements

 - Our outlook for 2004 remains cautious. The next eighteen months will be devoted to aggressively rebuild our project pipeline. The results of these efforts will not be visible until late 2004 and 2005. Nonetheless, the Group is committed to significantly (min. 10%) improve 2004 performance over 2003 levels.



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Restructuring Initiatives

- 
- Exclusive Synthesis 2002
 - Los Angeles plant closed
 - Headcount reduced according to plan
 - CHF 40 million savings are being achieved

 - Company-wide restructuring 2003
 - Savings of CHF 100 million
 - Headcount reduction > 550
 - At pre-tax cost of CHF 52 million
 - Achieved over the next 12 months

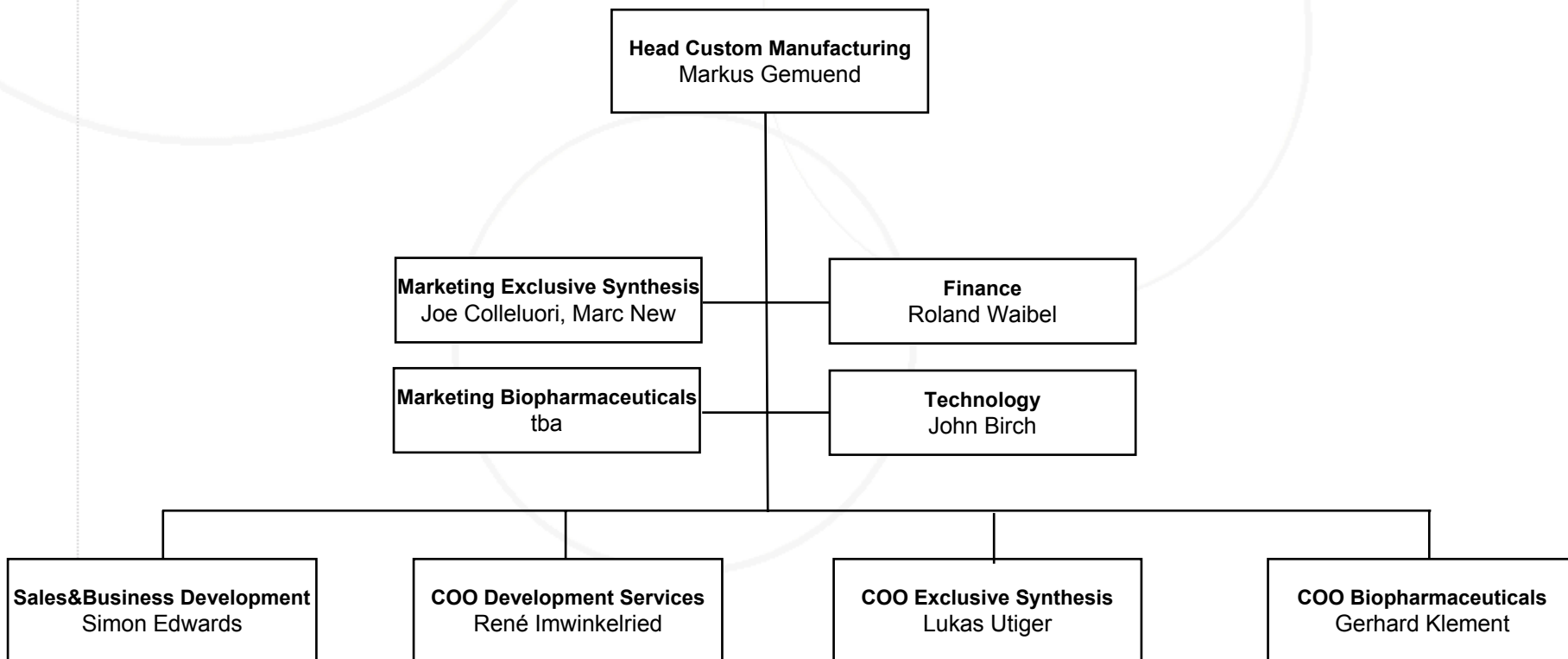


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New Business Model
LCM – Lonza Custom Manufacturing

Lonza Custom Manufacturing (LCM)

Management Team





Marketing and Sales

- Extensive market intelligence in exclusive synthesis and biopharmaceuticals
- Broad market coverage and penetration
- Increased customer focus with one face to the market
- Key account management
- Extensive project management skills

Development Services

(chemical, microbial mammalian)

- Development of most efficient processes combined with significant regulatory experience
- Fastest production of clinical trial material using scalable processes
- Continuous development of cutting edge technologies
- Multidisciplinary (microbial, mammalian, chemical) expertise
- World class group of scientists with capability and flexibility to handle numerous and complex projects in parallel
- Services add value at any point in product development and life cycle

Manufacturing Excellence


(Exclusive Synthesis, Biopharmaceuticals)

- Fastest transfer of processes into launch and full scale manufacturing
- Continuous improvement of manufacturing processes to reduce cost of goods
- Multiple cGMP production capabilities (microbial, mammalian, chemical)
- Significant regulatory experience and track record
- Flexibility, speed and security of supply due to multi-purpose and multi-site plant layout



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Custom Manufacturing Business Update

- 
- A decorative banner is located below the title, featuring a collage of images related to life sciences, including laboratory equipment, microscopes, and various scientific instruments.
- Dependency on Products
 - The best selling product represents ~6% of total Life Sciences activities sales
 - The top 10 products represent ~28% of total Life Sciences activities sales
 - The top 10 products include 2 multi-customer products
 - Dependency on Customers
 - The top customer represents ~9% of total Life Sciences activities sales
 - The top 10 customers represent ~37% of total Life Sciences activities sales
 - The top 10 customers cover >35 products

Dependency Ratio of Key Products LCM

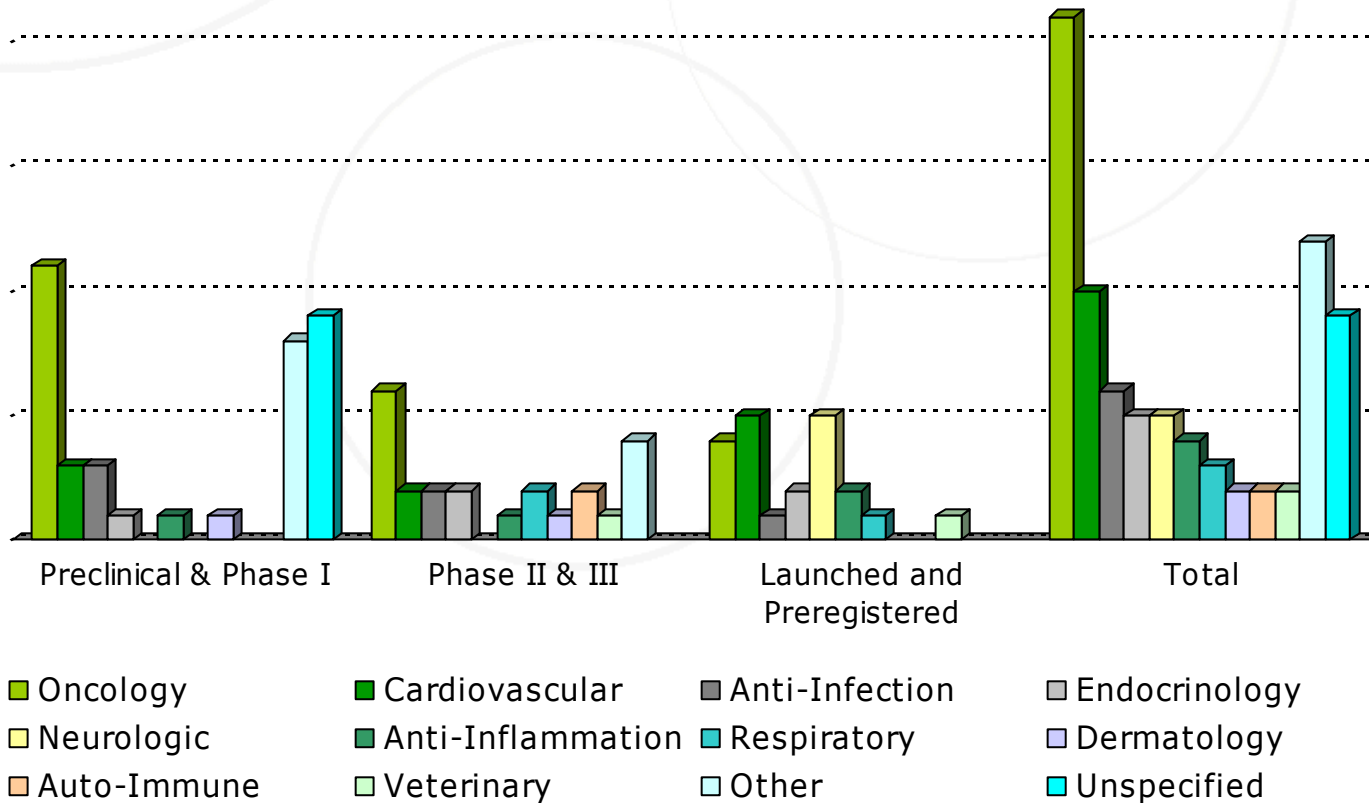
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| LCM Key Products* | 2002 % of Group Sales | 2002 % of LCM Sales |
|-------------------|--------------------------|------------------------|
| 1 | 3.3 | 9.3 |
| 2 | 2.5 | 7.0 |
| 3 | 1.8 | 5.1 |
| 4 | 1.8 | 5.0 |
| 5 | 1.7 | 4.7 |
| 6 | 1.7 | 4.6 |
| 7 | 1.3 | 3.5 |
| 8 | 1.2 | 3.3 |
| 9 | 1.0 | 2.9 |
| 10 | 0.9 | 2.5 |
| Top Ten Products | 17.2 | 47.9 |

*LCM = Custom Manufacturing (chemical, microbial, mammalian)

LCM Pipeline by Therapeutic Category

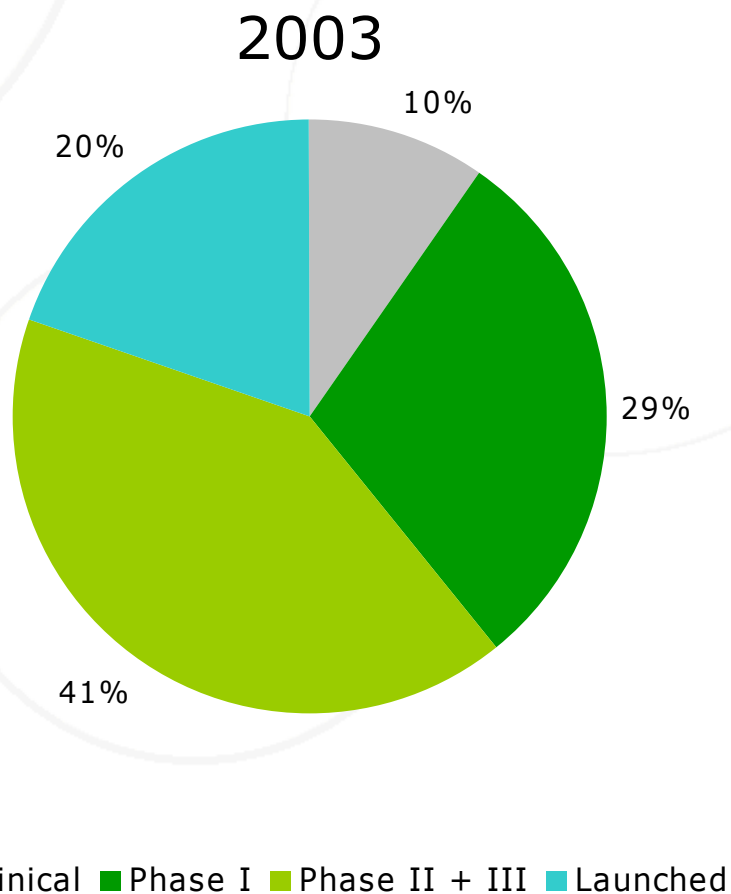
(~ 90 Projects)



Project Pipeline Small Molecules

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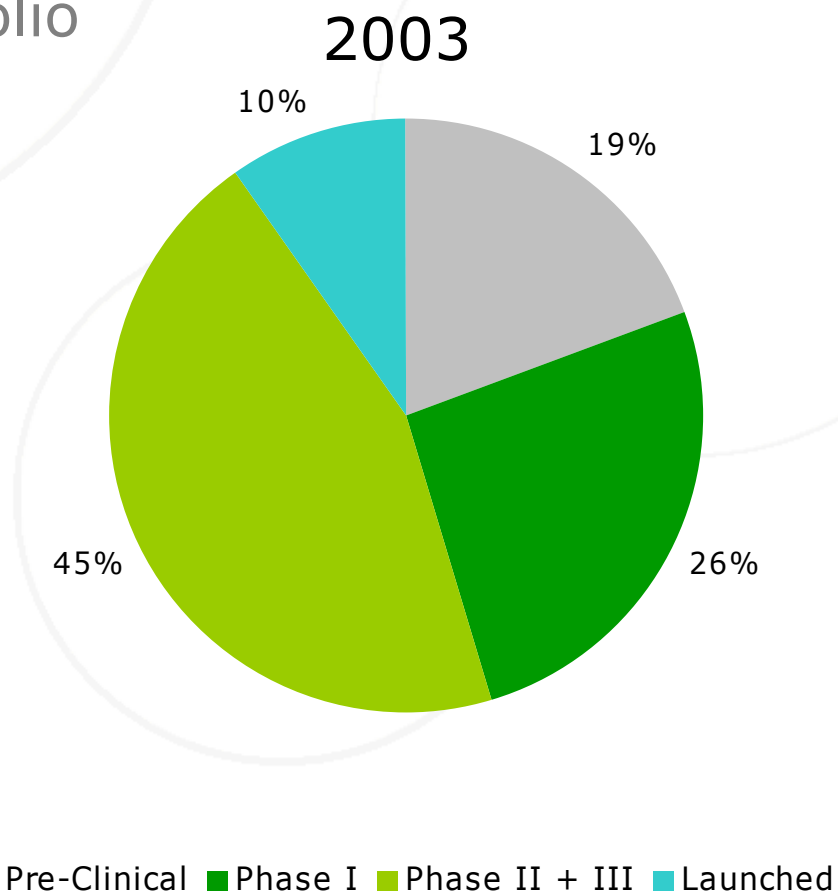
Current Portfolio



- Overall > 50 current projects
- 50% increase versus 2001

Project Pipeline Large Molecules

Current Portfolio



■ Overall > 40 current projects

Potential Global Blockbusters 2003-2005 **Lonza**

With key intermediates or active ingredients Lonza is involved in more than 50 % of the potential global blockbusters 2003-2005

Alimta (LIL)
Aprepitant (MRK)
Ariflo (GSK)
Avastin (GEN)
Crestor (AZ)
Cymbalta (LIL)
Eplerenone (PHA)*
FluMist (WYE)
Forteo (LIL) *
Humira (ABT) *
Pregabalin (PFI)

2003

Ciclesonide
(ALT/AVN)
Melagatran
(AZ)
Prexige (NVR)

2004

Exubra
(PF/AVN)
Itavastatin
(SAN/NVR)
Protein kinase
C-beta inhibitor
(LIL)

2005

* FDA Approved

Source: IMS Health

- Top quartile performer regarding capacity utilization according to non disclosed industry study, but below internal targets
- Dependency ratio:
 - No Single Product > 10% of LCM Sales
 - No Single Customer > 10% of LCM sales
 - Top ten products represent < 50% of LCM sales
 - Top ten customers account for 63% of sector sales
 - Top ten customers 7 Big, 1 Midsized, 2 Emerging
- Total number of products produced for in-market-supply
 - small molecules: > 40
 - large molecules: 3
- 45 % of small molecules sales stemming from products introduced over past 3 years
- No current products affected by patent expirations until end of 2005

A decorative horizontal bar is positioned below the title. It features a series of small, colorful images related to biotechnology and laboratory work, including what appears to be a microscope, test tubes, and other scientific equipment.

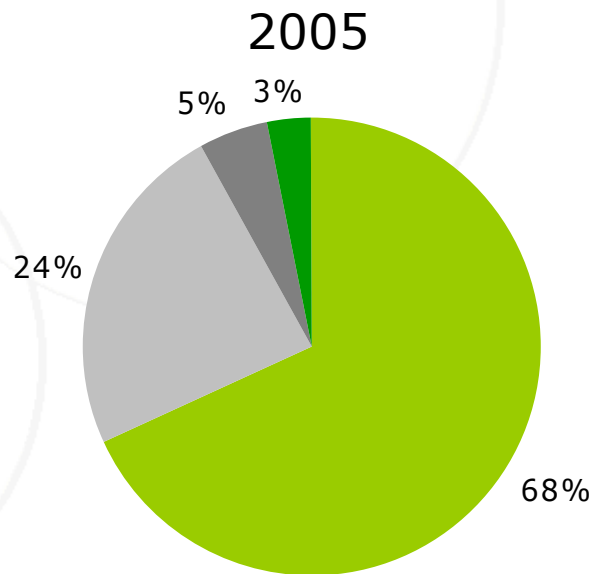
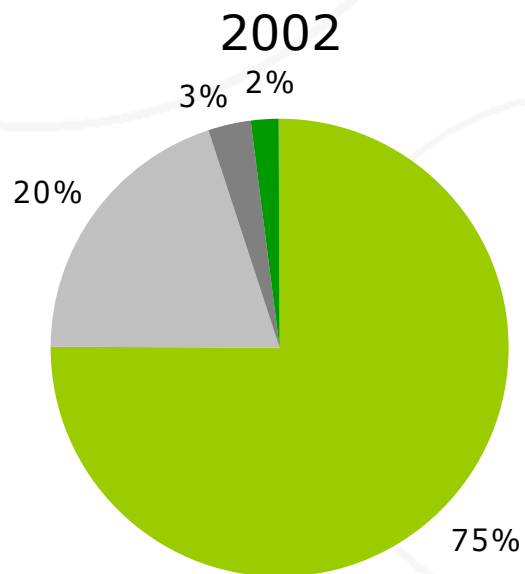
Update on 2000/5000 L capacity utilization in 2004:

Negotiations with 13 customer for 17 products ongoing

- ~30% of capacity booked
- ~30-40% under negotiations
- ~30-40% open

LCM Customer Base – Small Molecules

(Chemical and Biotransformation)



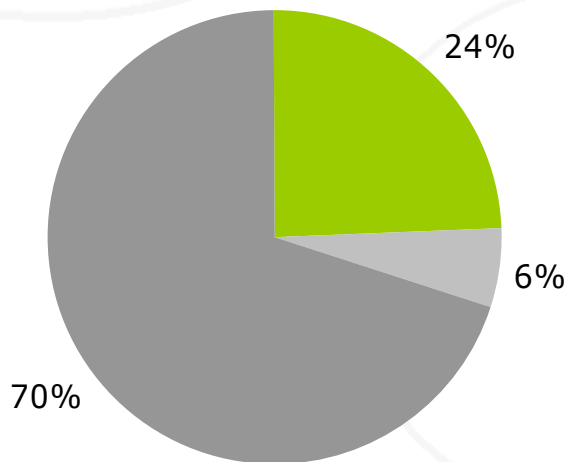
- Big Pharma
- Midsized Pharma
- Emerging
- Generic

Big Pharma - Sales > \$10B
Midsized Pharma - Sales > \$1B but < \$10 B
Emerging- Sales < \$1B

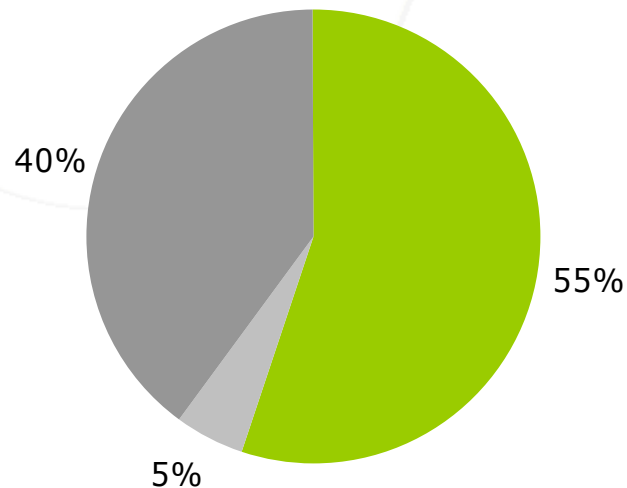
LCM Customer Base Large Molecule

(Mammalian and Microbial products)

2002



2005



■ Big Pharma ■ Midsized Pharma ■ Emerging

Big Pharma - Sales > \$10B
Midsized Pharma - Sales > \$1B but < \$10 B
Emerging- Sales < \$1B



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Targets 2005



Life Sciences Focus

- Achieve organic growth in the life sciences related activities
 - Exclusive Synthesis, Biotechnology, Organic Fine Chemicals and Performance Chemicals
- Complete and successfully start-up of the investment projects in the life sciences area
 - Five major projects with an investment in excess of CHF 560 million
 - mammalian cell culture fermentation, microbial biopharmaceuticals, classical chemistry
- Polymer Intermediates targeted for divestiture

Lonza's Unique Position

Lonza

A Full Range of Technologies in Custom Manufacturing

Lonza Exclusive Synthesis

Advanced
Chemical
Synthesis

Lonza Biotec

Fine chemicals and
biologically active
substances by
microbial
fermentation

Lonza Biologics

Therapeutic proteins/
monoclonal antibodies
using mammalian
cell culture

Screening
Process development
Scale-up
Production
Downstream processing
Regulatory support



Lonza's Initiatives in Custom Manufacturing

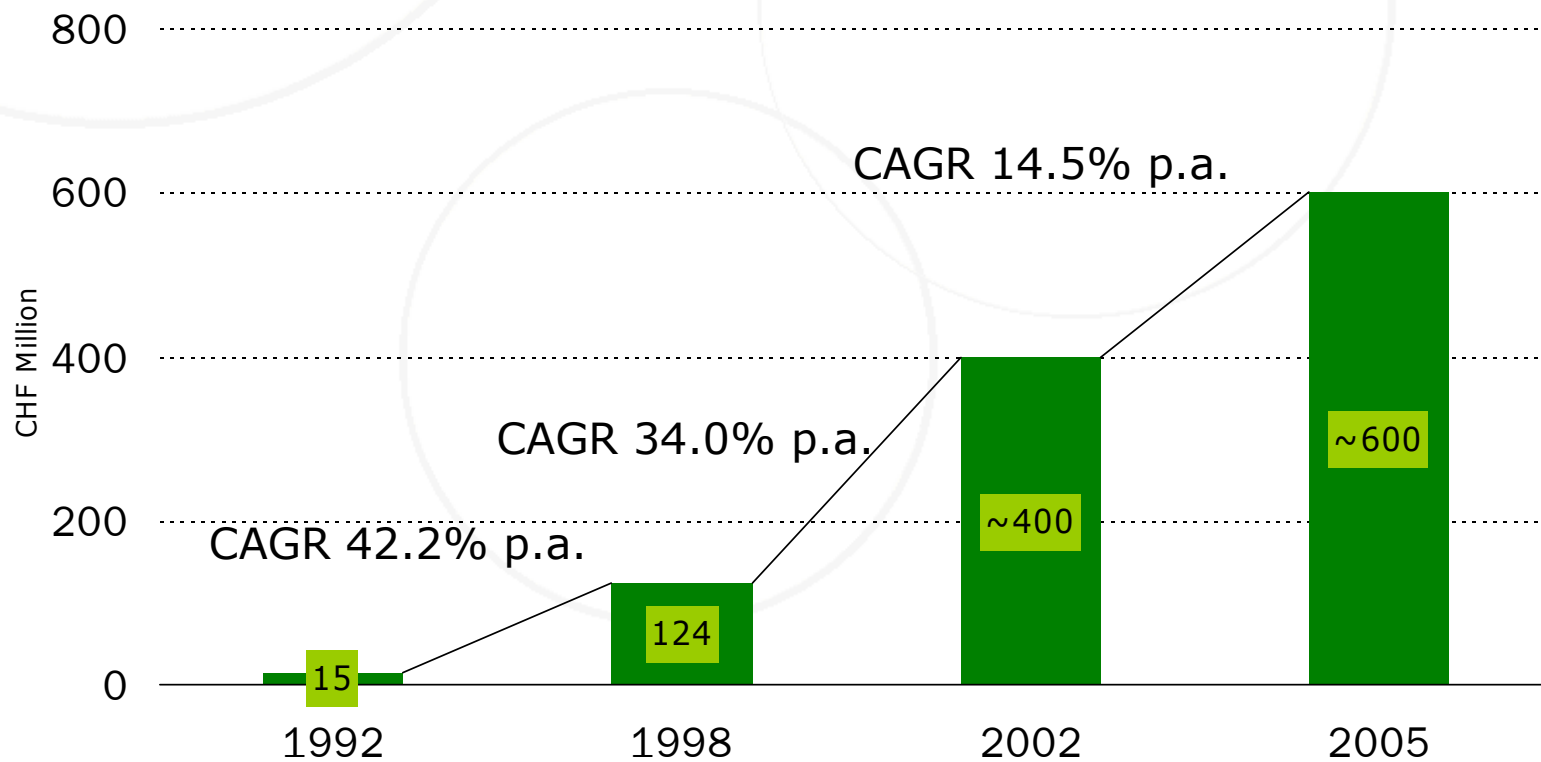
- Expand capacities in mammalian cell culture fermentation to meet customers demand
- Offer new capacity to capture opportunities in the growing microbial biopharmaceuticals market
- Defend and expand leadership position in chemical manufacturing
- Build on strong customer relationship and track record in the market
- Focus on continuously strengthening R&D-pipeline and offering small scale manufacturing
- Offering cutting edge technologies (e.g. GS-System) and add required technologies (e.g. peptides)
- Be on the lookout for emerging bio-technologies
- New Custom Manufacturing Business Model

Current Major Expansion Projects

The Projects

| | Business | Location | Investment (CHF mio) | Start-up |
|---|------------------------|--------------------|-------------------------|---------------------|
| Large Scale Build-out | Biologics | Portsmouth (US) | 330 | mid 2004 |
| Microbial Biopharmaceuticals | Biotec | Visp (CH) | > 100 | Q1 2005 |
| Expansion of microbial fermentation | Biotec | Kourim (CZ) | 100 | Q1 2004 |
| Highly Potent Active Ingredients Plant | Biotec | Kourim (CZ) | 12 | Q1 2004 |
| Small Scale Production Plant (SSP) | Exclusive Synthesis | Visp (CH) | 20 | end of June 2003 |
| Total | | | > 560 | |

Sales Development Profile



Revision of 2005 Life Sciences Targets

Sales targets reduced from CHF 2.7 bn to CHF 2.1 bn

- | | CHF |
|--|--------------|
| ■ Currency impact | ~150 million |
| ■ Exclusive Synthesis and Biotechnology | ~300 million |
| ■ Slower growth and high volatility in Exclusive Synthesis | |
| ■ Delayed growth in Biotechnology resulting from increased product failures and delays in clinical development | |
| ■ Organic Fine and Performance Chemicals | ~150 million |
| ■ Growth Targets reduced due to weaker economic conditions in the foreseeable future | |

(Polymer Intermediates are not included)

Life Sciences Activities

Targets 2005

Expected Sales through Organic Growth

> CHF 2.1 bn

Expected Earnings per Share

CHF 7.25

Overall Operating Margin

22%

Overall EBITDA Margin

30%

Note: These targets do NOT include any contribution from Polymer Intermediates activities