Half-year report 2002

Financial highlights first half-year

million CHF	2001	2002
Net sales	1 263	**1 291**
Change in %		2.2
EBITDA	286	**303**
Change in %		5.9
EBITDA margin in %	22.6	**23.5**
Operating income	205	**217**
Change in %		5.9
Operating margin in %	16.2	**16.8**
Operating income from divestitures	18	**0**
Change in %		na
Operating income Group	223	**217**
Change in %		(2.7)
Pre-tax earnings	204	**207**
Change in %		1.5
Net income	153	**161**
Change in %		5.2
Cash flow	256	**247**
Change in %		(3.5)
Net debt	838	**1 004**
Debt-equity ratio	0.50	**0.88**
Change in %		76.0
Earnings per share (CHF)	2.78	**3.24**
Change in %		16.5
Number of employees	6 083	**6 321**
Change in %		3.9

Life Sciences Operations (former continuing operations)

million CHF	2001	2002
Net Sales	912	**976**
Change in %		7.0
EBITDA	237	**252**
Change in %		6.3
EBITDA margin in %	26.0	**25.8**
Operating income	176	**184**
Change in %		4.5
Operating margin in %	19.3	**18.9**

Lonza Group's net income for the first half of 2002 increased to CHF 161 million, 5.2% up on the previous year, driven by continuing advances in the Exclusive Synthesis & Biotechnology Division, and improved profitability in Organic Fine & Performance Chemicals and Polymer Intermediates. These improvements, combined with the impact of the completed share buy-back program, pushed earnings per share 16.5% above the prior year to CHF 3.24.

Overview

Group Sales increased by 2.2% to CHF 1 291 million. Group operating income of CHF 217 million is below last year's result of CHF 223 million due to the sale of the Energy business in December 2001, which provided CHF 18 million in the first semester 2001. On a comparative basis, Group operating income increased by 5.9% from CHF 205 million to CHF 217 million. Our life sciences operations (the former Continuing Operations) increased sales by 7.0% to CHF 976 million in the first six months of 2002 and reached an operating income of CHF 184 million, 4.5% up on the prior year. Polymer Intermediates (former classified as Discontinuing Operations) achieved reduced sales of CHF 315 million, but increased operating income by 13.8% to CHF 33 million.

Our biotechnology activities showed the expected healthy growth in sales and operating income, while the Exclusive Synthesis business faced a competitive environment, with increased pressure on plant loading and margins. The Organic Fine and Performance Chemicals businesses achieved an increase in profitability based on continual improvement of the operating performance of the plants and a decrease in some raw material costs. The Polymer Intermediates business recovered further due to the positive effect of the realignment of market players in Europe and stable demand in most industrial applications.

Another share buy-back program was completed in February 2002, as a result 4 810 070 shares or 8.7% of the share capital was cancelled. In June Lonza issued a 2% Convertible Bond and in parallel submitted a public offer to repurchase 2 222 222 of the outstanding registered shares of Lonza Group for CHF 118 per share to fulfill the conversion rights. The issue of this convertible bond is designed to improve the efficiency of the Group's capital structure by increasing the amount of leverage and offer an attractive investment opportunity for fixed-income-oriented investors. The Group's net debt position increased to CHF 1 004 million. The Group's net financial expenses decreased to CHF 7 million compared with CHF 16 million in the same period of last year. The tax rate of 23% for the first half is at the low end of Group targets, with full-year rates expected to be slightly higher. As a result, net income improved to CHF 161 million, representing a 5.2% increase over 2001.
Capital expenditure of CHF 120 million was above the prior year, whilst cash flow of CHF 247 million was slightly below last year's level by 3.5%.

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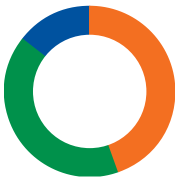
Industrial sales by division first half-year

- Exclusive Synthesis & Biotechnology 37.3%
- Organic Fine & Performance Chemicals 38.1%
- Polymer Intermediates 24.4%
- Others 0.2%

Operating income by division first half-year



- Exclusive Synthesis & Biotechnology 45.2%
- Organic Fine & Performance Chemicals 41.9%
- Polymer Intermediates 15.2%
- Others (2.3)%

Strategic Reorientation and Divestments

As previously announced, Lonza Group divested its Energy activities at the end of last year. After concluding discussions with potential buyers on the sale of Lonza's Polymer Intermediates business, the Board of Directors has now decided to postpone the previously announced divestiture of this business. The Board reviewed the terms of the transaction and came to the conclusion that the deal value did not adequately reflect the current performance and future prospects of this business. Therefore, despite Lonza's clear strategic commitment to focus on the life sciences, the Polymer Intermediates business will be retained as a separate division with the aim of further enhancing its performance and obtaining the fair market value in a divestiture or alternative exit strategy at the appropriate time. This decision is based on economic considerations only and does not imply any deviation from Lonza's life science strategy.

Targets 2005 for the Life Sciences activities

(not including Polymer Intermediates)
On the basis of Lonza's technological strengths and market positions, combined with the growth opportunities afforded by the dynamics of our markets and our ongoing expansion projects in Biotechnology, we have set a number of ambitious targets to be reached by end of 2005:

- sales in excess of CHF 2.7 billion
- average earnings per share growth of 15% per annum
- overall operating margins of 22%
- overall EBITDA margins of 30%
- gearing ratio of 0.67:1
- dividend payout ratio of 25-33%.

Outlook

Despite the softness of the global economy and barring any further substantial deterioration in trading conditions, the Group believes that it will be able to improve on its 2001 performance.

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Chairman

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Lonza group

Consolidated income statement first half-year

million CHF	2001	2002
Net sales	1 263	**1 291**
Operating expenses	(1 058)	**(1 074)**
Operating income	205	**217**
Operating income from divestitures	18	**0**
Operating income Group	223	**217**
Non-recurring items	0	**0**
Goodwill	(3)	**(3)**
Earnings before interest and taxes	220	**214**
Financial expenses	(16)	**(7)**
Pre-tax earnings	204	**207**
Income taxes	(51)	**(46)**
Net income incl. minorities	153	**161**
Minorities	0	**0**
Net income	153	**161**

Consolidated cash flow statement first half-year

million CHF	2001	2002
Net income	153	**161**
Depreciation	86	**88**
Change in long-term provisions	20	**(1)**
Expenses (income) from equity method	(3)	**(1)**
Cash flow	256	**247**
Investments	112	**120**

Consolidated balance sheet as per 31 December 2001 and 30 June 2002

million CHF	2001	2002
Fixed assets	2 107	**2 041**
Cash and cash equivalent	565	**126**
Advances and loans	22	**22**
Other current assets	1 271	**1 239**
Assets held pending disposition	19	**0**
Total assets	3 984	**3 428**
Shareholders' equity	1 586	**1 145**
Minority interests	2	**2**
Long-term debts	49	**338**
Short-term debts	1 052	**814**
Provisions and other liabilities	1 295	**1 129**
Total liabilities and shareholders' equity	3 984	**3 428**

Changes in shareholders' equity

million CHF	2001	2002
At 31 12 2000/31 12 2001	**1 854**	**1 586**
Dividend	(82)	**(95)**
Buy-back of own shares	(537)	**(480)**
Other comprehensive income	(51)	**(27)**
Net income	402	**161**
At 31 12 2001/30 06 2002	**1 586**	**1 145**

Accounting principles

These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 30 June, 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 2001.

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

For comparative purpose, previous year's segment data has been reclassified to reflect the current corporate structure.

Exchange rates

			Balance sheet rate CHF		Income statement half-year average rate CHF	
			31 12 01	**30 06 02**	2001	**2002**
USA	Dollar	1	1.68	**1.48**	1.70	**1.64**
Great Britain	Pound Sterling	1	2.43	**2.27**	2.45	**2.37**
EU	Euro	1	1.48	**1.47**	1.56	**1.47**

Sales from divested Energy activities of CHF 48 million, operating income of CHF 18 million and EBITDA of CHF 20 million are excluded from sales, operating income and EBITDA in 2001. All other data, including net income, include the impact from divestitures in 2001.

Exclusive Synthesis & Biotechnology first half-year

million CHF	2001	**2002**
Net sales	403	**482**
Change in %		19.6
Change due to		
Volume and prices		**85**
Currency translation		**(6)**
Scope of consolidation		**0**
Operating income	89	**98**
Change in %		10.1
Operating margin	22.1	**20.3**
EBITDA	123	**141**
Change in %		14.6
EBITDA as % of sales	30.5	**29.3**

Exclusive Synthesis & Biotechnology

With sales of CHF 482 million, 19.6% up from 2001, the Exclusive Synthesis & Biotechnology division continued to grow in the first half of 2002 and achieved an operating income of CHF 98 million, 10.1% higher than in the comparable period of 2001. Operating margins declined from 22.1% to 20.3%, mainly due to competitive pressures in the Exclusive Synthesis activities and build up in staffing relating to the expansion project in Biotechnology.

Exclusive Synthesis – Our business with the pharmaceutical industry grew moderately in the first half year, mainly driven by demand for established products in the anti-viral-HIV, anti-inflammatory and cardiovascular segments, and despite ongoing competitive pressure. The development of new launch products was slowed down due to delayed regulatory approval or delays in customer filings. Large-scale peptide synthesis developed successfully.
The R&D portfolio was strengthened through projects in all clinical phases, with the strongest growth in phases I and II. Construction of the small scale plant for support of clinical development work got underway.
In the very competitive agrochemical business, our performance was at a higher level than last year, again boosted by strong demand for intermediates based on sulfonylurea herbicides. To strengthen our position we are optimizing and debottlenecking manufacturing processes.

Biotechnology – Overall performance of our microbial fermentation business (Biotec) was characterized by further growth in sales and operating income in the first semester of 2002.
Demand for our L-Carnitine products remained strong. New scientific research findings in sports nutrition as well as the achievement of GRAS (Generally Recognized As Safe) status in the US will further strengthen our leading position.
To cope with the expected increase in demand for microbially produced biopharmaceuticals, we will invest over CHF 100 million in a new cGMP facility at our Visp site (CH). With this facility coming on stream in the first half of 2005, we will be in a position to supply biologics products for the different clinical phases through to commercial supply. Basic engineering for our 50% fermentation capacity expansion at Kourim (CZ) was finalized as planned in the second quarter.
Our business in mammalian cell culture fermentation for therapeutic proteins and monoclonal antibodies (Biologics) developed well, with sales and operating income increasing substantially.
We saw the full benefit of the expansion completed at our Slough site (UK) late last year and continual improvements have been made in operational efficiencies at both production sites, Slough (UK) and Portsmouth (US). In recent months we have completed five successful regulatory inspections, further strengthening our track record in this area. Both our facilities are licensed and manufacture commercial products in the US and Europe.
The expansion of our development labs in Slough, which will increase our capacity in size and headcount by 30% and is due for completion early in 2003, will enhance our ability to meet customer demands for new projects. The 60 000-liter fermenter expansion project in Portsmouth (US) continues to be on schedule and phased start-up is planned to begin in mid-2004. Negotiations with strategic customers for long-term contracts for this capacity are well advanced.

Organic Fine & Performance Chemicals first half-year

million CHF	2001	2002
Net sales	507	**492**
Change in %		(3.0)
Change due to		
Volume and prices		**(7)**
Currency translation		**(8)**
Scope of consolidation		**0**
Operating income	86	**91**
Change in %		5.8
Operating margin	17.0	**18.5**
EBITDA	113	**116**
Change in %		2.7
EBITDA as % of sales	22.3	**23.6**

Organic Fine & Performance Chemicals

In the first half of 2002, the operating income of the Organic Fine & Performance Chemicals division grew to CHF 91 million from CHF 86 million in the same period of 2001. The operating margin increased to 18.5% (17.0% in 2001).

Organic Fine Chemicals – Throughout the first half of the year, sales volume remained strong and grew moderately. Most of the prices were still under pressure but profitability increased due to continual cost improvements.
Sales of intermediates for the manufacture of vitamins remained strong. Production of nicotinates (a vitamin of the B complex) ran at full capacity with prices now moving towards balanced levels.
Demand for specific hydrocyanic-acid-based intermediates for the production of pharmaceuticals remained buoyant. Prices of high volume hydrocyanic acid derivatives suffered because of competitive pressure, but sales volume was satisfactory. Demand for diketene esters used in pharmaceuticals and agrochemicals was strong, although prices continued to suffer because of competitive pressure from Asian and Western producers. Market demand for all other diketene derivatives was satisfactory, except in North America where sales for pigment applications lagged behind expectations. Our business with engineering polymers picked up in the second quarter, but was still below expectations.
Sales of Meta® – a molluscicide – continued at an all-time high due to the climatic conditions.

Performance Chemicals – Market conditions in North America, Europe and the Asia-Pacific region, combined with lower raw material prices and energy costs, improved the profitability of the business sector. However, less favorable results were obtained in South America impacted by the difficult economic conditions in the region.
In the area of biocides, we have established ourselves as a major consumer brand thanks to our initiative to expand our presence in the recreational water and spa markets. Sales in the US of our quaternary compounds (quats) in the wood-protection segment developed successfully. The first commercial sales of our Geogard preservative product line were achieved in personal care applications shortly after introduction. A significant development in Europe was the notification to the European Commission of Lonza's intention to support a wide variety of products regulated under the Biocidal Product Directive.
In the area of oleochemicals, market conditions for processing aids and lubricants were weak, although sales increased in the second quarter of 2002. Sales in the powdered metal markets improved compared with the last year's equivalent period.

Polymer Intermediates first half-year

million CHF	2001	2002
Net sales	351	**315**
Change in %		(10.3)
Change due to		
Volume and prices		**(2)**
Currency translation		**(14)**
Scope of consolidation		**(20)**
Operating income	29	**33**
Change in %		13.8
Operating margin	8.3	**10.5**
EBITDA	49	**51**
Change in %		4.1
EBITDA as % of sales	14.0	**16.2**

Polymer Intermediates

Following the divestment of the Energy business at the end of last year and the decision, not to divest the Polymer Intermediates business, the Group's industrial chemicals businesses in Italy, Germany, China, and Singapore are now re-integrated in the Group's operational activities.

Based on the realignment of the market players in Europe as well as stable demand for most of the industrial applications, Polymer Intermediates again showed a significant improvement of the operating margin for the first half of 2002 to 10.5%.

For phthalic anhydride and general purpose plasticizers the market environment in Europe became more stable and, thanks to high spot demand from China during spring, margins recovered mainly in the first quarter and are now in line with expectations.

Sales of maleic anhydride in the unsaturated polyester sector were at a low level and margins came under pressure owing to the sharp increase in raw material costs. Due to higher than expected sales of maleic acid derivatives overall, margins are in line with plan.

The trimellitic anhydride business is still affected by low demand in automotive coating and cables. Overall margins improved because of higher than expected sales in special plasticizers. The sector is expected to recover in the second half of 2002.

The sales volumes of resins and compounds were unchanged from the previous year's level, still influenced by the low demand from the building and automotive sectors. Margins decreased due to higher raw material costs.

Production of purified isophthalic acid in Singapore is running at a high level. Market demand in Asia as well as in the United States and Europe is strong. Prices remain under strong competitive pressure.