

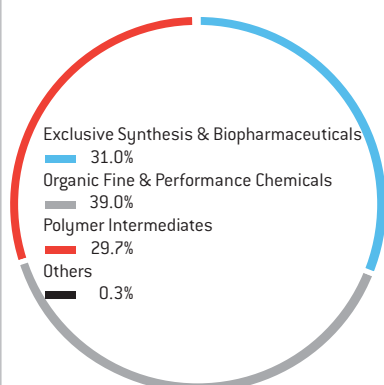
Results 2004 – Strategy review

Financial highlights

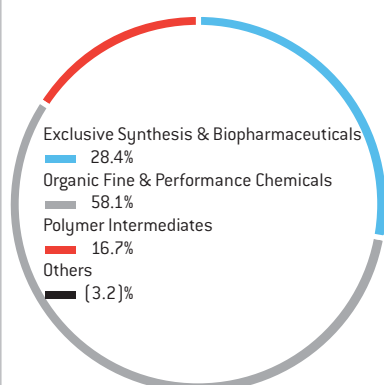
million CHF	2003	2004	
Net sales	2 242	2 182	<p>After completion of the efficiency improvement and cost reduction program started in 2003, Lonza successfully rebased its business to reflect current market conditions in 2004. While the custom manufacturing activities continued to face a challenging business environment, the other operations had to contend with high raw material and energy prices. In line with expectations, Group operating income (before special items and amortization of goodwill) for 2004 decreased to CHF 215 million, down 28.8% against the previous year. Net income increased by 51.6% on the prior year to CHF 138 million, the 2003 figure having been affected by CHF 107 million in special after-tax items. The Board of Directors has finalized its review of the strategic options available for Lonza and is confident about the Group's future. It will propose a dividend of CHF 1.30 per share, consistent with the Group's medium- to long-term earnings capability.</p> <p>Overview – Group sales decreased in 2004 to CHF 2 182 million, down 2.7% (2% on a currency-adjusted basis) on the previous year. Operating margins fell to 9.9% from 13.5% in 2003. Operating earnings were in line with the guidance provided by the Group throughout the year. The shortfall against the minimum levels set at the beginning of 2004 was caused by weak niacin pricing, an adverse US Dollar exchange rate in the fourth quarter and the postponement of biopharmaceuticals deliveries until early 2005.</p> <p>Our custom manufacturing activities were mainly affected by very low utilization of the 2 000 l/5 000 l reactor capacity in Biopharmaceuticals. Sales decreased to CHF 676 million, 19.0% below the previous year's level. Operating income (before special items and amortization of goodwill) dropped from CHF 147 million to CHF 61 million, down 58.5%, with operating margins declining from 17.6% to 9.0%. Business in Exclusive Synthesis continued its slow improvement for the third consecutive semester despite a persistently tough business environment.</p> <p>Organic Fine & Performance Chemicals sales increased slightly to CHF 852 million, up 3.1% on the prior year. The operating income (before special items and amortization of goodwill) of CHF 125 million was on a par with the previous year's level, with operating margins nearly constant (14.7% in 2004; 15.1% in 2003). Profitability was sustained by a high level of plant utilization, stable market shares, positive effects from the cost-reduction projects and strong performance from newly introduced products. But there were negative effects of the same magnitude in the form of high raw material and energy costs, the unfavorable US Dollar exchange rate and competitive pressure due to overcapacity in certain markets.</p> <p>Polymer Intermediates achieved sales of CHF 649 million, up 12.3% on last year, driven mainly by strong demand from European customers. Operating income (before special items and amortization of goodwill) fell 12.2% to CHF 36 million, and operating margins dropped to 5.5%, from 7.1% in 2003, mainly due to the impact of historically high raw material costs. The Euro/US Dollar exchange rate and plant shutdowns also contributed to this decrease, despite generally improved market demand.</p>
Change in %		(2.7)	
EBITDA	299	376	
Change in %		25.8	
Margin in %	13.3	17.2	
Operating income (before special items / GW amort.)	302	215	
Change in %		(28.8)	
Margin in %	13.5	9.9	
Special items net¹⁾	(158)	2	
Result from operating activities (EBIT)	139	212	
Change in %		52.5	
Margin in %	6.2	9.7	
Net income (before special items)	198	136	
Change in %		(31.3)	
Net income	91	138	
Change in %		51.6	
Cash flow before change in net working capital	264	256	
Change in %		(3.0)	
Net debt	978	1 027	
Debt-equity ratio	0.79	0.80	
Change in %		1.3	
EPS basic (CHF) before special items	4.18	2.87	
Change in %		(31.3)	
EPS diluted (CHF) before special items	4.12	2.89	
Change in %		(29.8)	
EPS basic (CHF) after special items	1.92	2.91	
Change in %		51.6	
EPS diluted (CHF) after special items	2.00	2.93	
Change in %		46.5	
Number of employees	5 659	5 668	
Change in %		0.2	

1) See note¹ on page 4

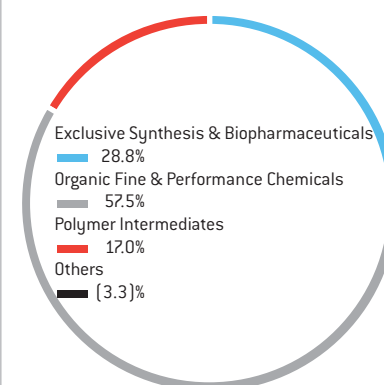
Industrial sales by division



Operating income before special items



Result from operating activities (EBIT)



Group net income reached CHF 138 million, up 51.6% compared to CHF 91 million in 2003. Cash flow before the change in net working capital reached CHF 256 million, 3.0% below the prior year.

Net debt, Capital Expenditure and Taxation – Lower results and significant start-up costs for the large-scale mammalian plant in Portsmouth, NH (USA) were offset by lower capital expenditure, leaving Group net debt basically stable at CHF 1 027 million (CHF 978 million in 2003). Capital expenditure of CHF 249 million was significantly down on the previous year (CHF 424 million), with the current investment cycle in biotechnology coming to an end.

Net financial expenses rose to CHF 33 million (CHF 24 million in 2003) due to a higher level of average net debt over the year and increased interest rates compared with the previous year. The tax rate of 23% (21% in 2003) is still at the low end of the Group's expected range.

Outlook – In 2005 market conditions are expected to remain difficult for Exclusive Synthesis. Further de-stocking is expected, mainly by large pharmaceutical companies in the areas of chemical building blocks and APIs. Growth is targeted for the supply of clinical trial materials, peptides and selected mature products. The Biopharmaceuticals assets will see a better level of utilization with the three 20 000 l bioreactors now on stream on the back of strong customer demand. Utilization of the medium-sized vessels will improve over the second half of 2004. In the Organic Fine Chemicals business, the market situation will remain competitive for many product lines. Performance Chemicals is expected to enjoy favorable conditions thanks to new products combined with higher plant utilization. Demand for Polymer Intermediates is expected to remain at satisfactory levels, while raw material prices are not expected to increase further, thus stabilizing and improving operating margins.

The Board of Directors expects sales growth and a solid improvement in earnings in 2005 in line with our short-term (two-year) operating income targets of between CHF 300 million and CHF 400 million.

Strategy review – Lonza's strategy for the next four to six years will focus on sustained, above-average, profitable growth. A thorough review of all activities has shown that existing core strengths and competencies provide excellent growth platforms on which to build. Fundamental restructuring is not required. For Lonza, the objective continues to be realignment and focusing on defined life science markets. Global presence and value-chain management will be expanded in order to achieve accelerated profitable growth. Operational excellence and tight cost management will be a necessary prerequisite for success and a key element of our operational framework.

Today around 60% of Lonza's sales are in life science markets. Our long-standing partnerships with leading innovative life science companies, outstanding regulatory track record, and strong innovation capabilities in products and applications will be leveraged to build up our business in the healthcare, nutrition, personal care, hygiene and agriculture markets.

Exclusive Synthesis and Biopharmaceuticals will be the key drivers for achieving our profitability growth targets over the next three to five

years. Technological leadership, speed of execution and further size and scale increases are key competitive advantages which will accelerate value creation. The Biopharmaceuticals business will deliver the strongest growth in the short, medium and long term. Biopharmaceutical services such as licensing, process development, contract plant engineering and operations offer further attractive opportunities.

Organic Fine & Performance Chemicals are geared to enhance Lonza's growth in the longer term and will strongly support our profitability objectives. Leveraging new product development capabilities and strengthening application development are key factors in our efforts to target selected niche markets in nutrition, cosmetics/personal care, hygiene/disinfection and preservation.

The strategic purpose of the Polymer Intermediates business in the Lonza mix is its cash generation potential over the medium to long term. Value enhancement will be achieved by geographical expansion in Eastern Europe and continuous improvement in the cost structure. Selected industrial partnerships are also envisaged as a way to strengthen the cash-generation profile of the business.

In the short term (over the next two years), operating income will increase to between CHF 300 million and CHF 400 million, with the cash generated being fully reinvested to secure the next growth phase. Medium term (four to six years) we expect sales to top CHF 3 billion (10% growth p.a.), while operating income is expected to be in excess of CHF 500 million (> 15% growth p.a.), with net debt not exceeding current levels.

With the implementation of the strategic plan we will strengthen our position as a pre-eminent supplier to the life science industries. Through our biotechnology and chemical platforms we aim to achieve above-average, profitable growth. We have full confidence that our employees' entrepreneurial skills, operating in Lonza's trust-based environment, will deliver these results.

Board of Directors and Senior Management Changes – Sergio Marchionne will not seek re-election as a director of the Company and will therefore resign his position as Chairman at the next annual shareholders' meeting. The Board of Directors will propose the nomination of Rolf Soiron as a new Board Member. He is expected to assume the position of Chairman of the Board. The Board of Directors, the Senior Management and the employees of Lonza thank Sergio Marchionne for his leadership and guidance of the Group over the past eleven years. Effective 1 June 2004, the Board of Directors appointed Stefan Borgas as the Chief Executive Officer of Lonza Group.

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Sergio Marchionne
Chairman of the Board



Stefan Borgas
Chief Executive Officer

Consolidated income statement

million CHF	2003	2004
Net sales	2 242	2 182
Operating expenses	(1 940)	(1 967)
Operating income (before special items / GW amort.)	302	215
Special items net ¹	(158)	2
Goodwill amortization	(5)	(5)
Result from operating activities (EBIT)	139	212
Financial expenses	(24)	(33)
Pre-tax earnings	115	179
Income taxes	(24)	(41)
Net income incl. minorities	91	138
Minorities	0	0
Net income	91	138

¹ Assets taken out of production/depreciation	(100)	(3)
Restructuring and other provisions	(58)	(4)
Reversal of impairments and profit/loss from sale	0	9
Total special items net	(158)	2

Consolidated cash flow statement

Result from operating activities (EBIT)	139	212
Adjustment for non cash items	232	130
Income taxes and interests paid	(107)	(86)
Cash flow before change in net working capital	264	256
(Increase)/decrease of net working capital	46	(53)
Increase/(decrease) of other payables net	(19)	(25)
Net cash (used for) provided by operating activities	291	178
Purchase of fixed assets	(424)	(249)
Net purchase of other assets and disposals	9	32
Interests and dividend received	23	13
Net cash (used for) provided by investing activities	(392)	(204)
(Decrease)/increase of capital	1	0
Issue of bond	375	0
(Decrease)/increase in debt	(194)	84
Changes in minority interests	0	0
Dividends paid	(90)	(62)
Net cash (used for) provided by financing activities	92	22
Effect of currency translation on cash	(1)	(1)
Net (decrease)/increase in cash and cash equivalents	(10)	(5)
Cash and Cash equivalents at 1 January	55	45
Cash and Cash equivalents at 31 December	45	40

**Consolidated
balance sheet
at 31 December**

million CHF	2003	2004
Fixed assets	2 171	2 144
Cash and cash equivalents	45	40
Advances and loans	43	21
Other current assets	1 053	1 136
Total assets	3 312	3 341
Shareholders' equity	1 235	1 285
Minority interests	0	0
Long-term debt	687	693
Short-term debt	379	395
Provisions and other liabilities	1 011	968
Total liabilities and shareholders' equity	3 312	3 341

**Changes in
shareholders' equity**

Beginning of year	1 235	1 235
Dividend	(90)	(62)
Other comprehensive income	(1)	(26)
Net income	91	138
End of year	1 235	1 285

Accounting principles – These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 31 December 2004, 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 2003.

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

Exchange rates

	Balance sheet		Income statement	
	31 12 03	31 12 04	2003	2004
	rate CHF		average rate CHF	
US Dollar	1.24	1.13	1.34	1.24
Pound Sterling	2.20	2.18	2.20	2.28
Euro	1.56	1.54	1.52	1.54

Exclusive Synthesis & Biopharmaceuticals

million CHF	2003	2004	
Net sales	835	676	<p>Our custom manufacturing activities were affected by low capacity utilization in Biopharmaceuticals, owing to slow refilling of the 2 000 l/5 000 l reactors after failures and delays of customer products in late clinical development in 2003. The persistence of the tough business environment in Exclusive Synthesis prevented a major performance improvement. Divisional sales decreased to CHF 676 million, 19.0% below the previous year. Operating income (before special items and amortization of goodwill) dropped from CHF 147 million to CHF 61 million [-58.5%], with operating margins declining from 17.6% to 9.0%.</p> <p>Exclusive Synthesis and Biotransformation – Our chemical custom manufacturing business continued to be adversely affected by the low rate of new drug approvals, ongoing customer insourcing, overcapacity and delayed product approvals. We are seeing a trend towards short-term supply chain planning by many customers. A strong pipeline of products in all clinical phases, representing a healthy mix of R&D projects, broadened our customer base and dampened the effect of lost projects. The peptide project pipeline grew during 2004 and investment in the first successful peptide project for the Solid Phase Peptide Synthesis began. We have strengthened our market presence in China with the start-up of a R&D center in Guangzhou focusing active substances and intermediates. The center will be expanded stepwise in 2005. Our agrochemicals business faced increased margin pressure with older products while new products had no impact on profitability yet.</p> <p>High capacity utilization in our microbial fermentation plant in Kourim (Czech Republic) was driven by strong demand for L-Carnitine.</p> <p>Biopharmaceuticals – The refilling of the 2 000 l and 5 000 l reactors in the mammalian cell culture business ran into difficulties due to customer project delays and lack of funding in the biotechnology market. Results suffered a severe setback as a consequence. The utilization of these mid-sized vessels has increased slowly but steadily throughout the year, without having a positive impact on the 2004 performance. The start-up of the new state-of-the-art large-scale plant proceeded, with only minor difficulties, in accordance with our initial investment expectations. Customer requests for large-scale capacity are increasing. We are continuing to deliver successfully on our long-term supply agreements with Genentech and BMS. In direct response to customer demand, we have decided to install a fourth 20 000 l mammalian cell culture bioreactor as a debottlenecking measure. This will complement the three bioreactors already in place without adding further downstream purification capacity. It is expected to go on stream by mid-2006.</p> <p>Demand for our R&D services and small-scale pilot plant has picked up. Our core competencies of innovation, speed, low-cost manufacturing, risk-sharing with customers, business growth and regulatory track record have proved to be strong advantages in the face of growing competition.</p> <p>We obtained the GMP production license from Swissmedic for our small-scale microbial biopharmaceutical plant in Visp (CH). This license will enable us to manufacture both biopharmaceuticals and recombinant vaccines.</p>
Change in %		(19.0)	
Change due to			
Volume and prices		(162)	
Currency translation		3	
Scope of consolidation			
Operating income (before special items / GW amort.)	147	61	
Change in %		(58.5)	
Margin in %	17.6	9.0	
Special items net¹	(86)	3	
Goodwill amortization	(3)	(3)	
Result from operating activities (EBIT)	58	61	
Change in %		5.2	
Margin in %	6.9	9.0	
EBITDA before special items	217	142	
Change in %		(34.6)	
Margin in %	26.0	21.0	
EBITDA	131	137	
Change in %		4.6	
Margin in %	15.7	20.3	
¹ Assets taken out of production/depreciation	(56)	(3)	
Restructuring and other provisions	(30)	0	
Reversal of impairments or profit/loss from sale	0	6	
Total special items net	(86)	3	

Organic Fine & Performance Chemicals

million CHF	2003	2004	
Net sales	826	852	<p>The division's sales increased to CHF 852 million, up 3.1% on the prior year and 5.8% on a currency-adjusted basis. Operating income (before special items and amortization of goodwill) at CHF 125 million was on a par with the previous year's level, with operating margins barely declining from 15.1% to 14.7%. Successful cost-management measures prevented any further margin deterioration.</p> <p>Organic Fine Chemicals – Sales volumes of nicotinates (vitamin B3) were held back in the first half of the year by avian flu, but recovered thereafter. Market prices came under significant pressure due to strong competition. Results were also affected by the higher prices for raw materials and energy as well as the extremely weak US Dollar. Construction of the new 6 000 ton niacinamide plant in Guangzhou (China) progressed according to plan with start-up expected in the third quarter of 2005 at the latest. The new Lonza technology for the direct oxidation of beta-picoline to niacin (vitamin B3) was further developed and is now ready for scale-up. Revenues from metaldehyde – a molluscicide – were low during the first six months of the year as a consequence of reduced customer orders due to the dry summer of 2003. Volumes recovered in the fourth quarter. Diketene derivatives – organic intermediates mainly used for vitamins and colorants – faced competitive pressure from Asian producers. Lonza permanently shut down the diketene derivatives production facility in Pasadena, TX (USA); the affected customers are now served from the plant in Visp (CH). Prices and therefore margins recovered considerably in the second half as we were able to pass on high raw material costs to customers on the back of strong end-market demand and even higher raw material and energy prices in China. At the end of November Lonza sold the assets of its Pasadena site to Gulf Bayport Chemicals LP, Houston, TX (USA). Sales of engineering polymers additives for high performance applications benefited from the favorable market conditions in the electronics industry. Volumes of organic intermediates for vitamins and other applications were satisfactory, but prices came under pressure from low-cost countries. Several new products were launched in 2004. Process improvement and de-bottlenecking projects have been completed.</p> <p>Performance Chemicals – Spearheaded by the successful introduction of Carboquat™ to the pressure wood treatment market sales grew significantly. In combination with the strong performance in wood protection, the other businesses such as hygiene, personal care, water treatment, functional chemicals and food additives profited from better utilization rates and subsequently outperformed their 2003 results. Price increases – mainly for food additives (kosher esters) and functional chemicals (plastic lubricants and technical esters) – partially offset the high prices for oleo-chemical raw materials and energy costs. Significant progress in development activities was achieved thanks to four newly launched products: Natrulon™ OSF and Natrulon™ HT are both used in skin care applications; Carboshield™, with its corrosion-inhibition and metal-surface-cleaning features, is used for a broad range of industrial metals; and Surfaccine®, a biocide, provides long-lasting antimicrobial protection for surfaces and has a more rapid disinfectant effect than traditional biocides.</p>
Change in %		3.1	
Change due to			
Volume and prices		47	
Currency translation		(21)	
Scope of consolidation			
Operating income (before special items / GW amort.)	125	125	
Change in %		0.0	
Margin in %	15.1	14.7	
Special items net¹	(69)	(1)	
Goodwill amortization	(2)	(2)	
Result from operating activities (EBIT)	54	122	
Change in %		125.9	
Margin in %	6.5	14.3	
EBITDA before special items	173	174	
Change in %		0.6	
Margin in %	20.9	20.4	
EBITDA	105	173	
Change in %		64.8	
Margin in %	12.7	20.3	
¹ Assets taken out of production/depreciation	(44)	0	
Restructuring and other provisions	(25)	(4)	
Reversal of impairments or profit/loss from sale	0	3	
Total special items net	(69)	(1)	

Polymer Intermediates

million CHF	2003	2004	
Net sales	578	649	<p>The volume recovery in some areas of our Polymer Intermediates business increased sales to CHF 649 million, up 12.3% compared with 2003 and 11.7% on a currency-adjusted basis. Raw material prices at historic highs had a severe impact on results. Significantly reduced exports of higher-margin products to the USA and Asia thanks to persistent weakness of the US currency versus the Euro was a further burden. Higher demand for chemical commodities, the positive impact of the cost-cutting measures and price increases only partially offset these negative effects. Operating income (before special items and amortization of goodwill) decreased by 12.2% to CHF 36 million, while operating margins dropped to 5.5%, from 7.1% in 2003.</p> <p>Sales of phthalic anhydride for unsaturated polyester resins and plasticizers mainly used for PVC applications improved thanks to the recovery of the building sector in southern Europe. We were able to pass on the high raw material prices for oxo-alcohols and achieve a moderate margin recovery. The shutdown of competitors' plants for phthalic anhydride in the United Kingdom and for plasticizers in Spain temporarily shortened supplies.</p> <p>Sales of maleic anhydride and derivatives to the unsaturated polyester sector in Europe achieved volumes consistent with 2003. Exports to the USA and the Far East suffered from a strong Euro. Escalating benzene costs and depressed market conditions forced some producers to shut down their benzene-based maleic anhydride units. Lonza temporarily interrupted its benzene-based maleic anhydride production at Scanzosciate (IT), but continued to supply the market from its butane-based plant at Ravenna (IT).</p> <p>The catalyst business was sluggish due to the lack of new investment in phthalic and maleic anhydrides production units as well as competitive pressure. A new generation of catalysts for maleic anhydride fluid-bed technology was developed inhouse and will be charged in the Ravenna maleic anhydride plant in 2005 strengthening our competitive position.</p> <p>Trimellitic anhydride volumes were lower in comparison with last year due to currency effects and subsequently reduced sales to the coating and cable industry in USA and Asia. Competitors with costs in US Dollars were especially active in Europe.</p> <p>Special plasticizers continued their positive trend with higher quantities and improved margins in Europe. Growth drivers were new products requested by the automotive and lube-oil sectors. Resins performed well in terms of sales volumes; however, margins were squeezed by high raw material costs which take longer to pass on to customers. Sales of compounds were boosted by healthy demand from the electrical and transportation industries.</p> <p>Volumes of isophthalic acid in the debottlenecked plant for PET applications in Singapore were buoyant throughout the year. Margins remained at an unsatisfactory level, however, due to high raw material and energy prices and only partially realized price increases.</p>
Change in %		12.3	
Change due to			
Volume and prices		68	
Currency translation		3	
Scope of consolidation			
Operating income (before special items / GW amort.)	41	36	
Change in %		(12.2)	
Margin in %	7.1	5.5	
Special items net¹	(1)	0	
Goodwill amortization	0	0	
Result from operating activities (EBIT)	40	36	
Change in %		(10.0)	
Margin in %	6.9	5.5	
EBITDA before special items	76	72	
Change in %		(5.3)	
Margin in %	13.1	11.1	
EBITDA	75	72	
Change in %		(4.0)	
Margin in %	13.0	11.1	
¹ Assets taken out of production/depreciation	0	0	
Restructuring and other provisions	(1)	0	
Reversal of impairments or profit/loss from sale	0	0	
Total special items net	(1)	0	