

**We work with passion, using advanced technologies,  
to transform life science into new possibilities for our  
customers**

**Lonza**

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**Business Update: First Quarter 2009**

**23 April 2009**

Stefan Borgas

Chief Executive Officer

## Disclaimer

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- “Certain matters discussed in this presentation may constitute forward-looking statements. These statements are based on current expectations and estimates of Lonza Group Ltd, although Lonza Group Ltd can give no assurance that these expectations and estimates will be achieved. The actual results may differ materially in the future from the forward-looking statements included in this presentation due to various factors. Furthermore, Lonza Group Ltd has no obligation to update the statements contained in this presentation.”

# First Quarter 2009 – Strategic Highlights

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## ■ Business situation

- Underlying demand in life science markets remains robust
- Reduced demand in more industrial and consumer linked sectors
- Customer supply chain optimization impact felt
- Adaptation of the business model to the financing situation of customers leads to pipeline growth; new business to become apparent in H2 2009
- Increased trend towards outsourcing in Biopharma as well as in chemical APIs

## ■ Growth execution

- Capital expenditure projects and contracting on or ahead of schedule and budget
- Biosimilars JV agreement with Teva progressing as planned
- Investment in innovation and R&D projects sustained on a high level

## ■ Financial situation

- No negative impact from current financial crisis due to conservative financing strategy
- Balance sheet structure with solid investment-grade profile provides financing and acquisition flexibility
- Additional financing flexibility provided by the conversion of close to 50% of the outstanding convertible bond into equity by mid-April (gearing of 62%)

# Life Science Ingredients (I)

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## Summary

- Decline in end-market demand leads to a single-digit percent volume decline
- Partial compensation through cost saving initiatives and lower raw material prices
- Market environment for Microbial Control particularly depressed since Q3/08 but bottoming out in March/April 09

## Nutrition Ingredients

- Lower volume for Nicotinates due to ongoing customer destocking
- Strong demand for Meta® and L-carnitine
- Vitamin K3 and Larch arabinogalactan projects on track

## Life Science Ingredients (II)

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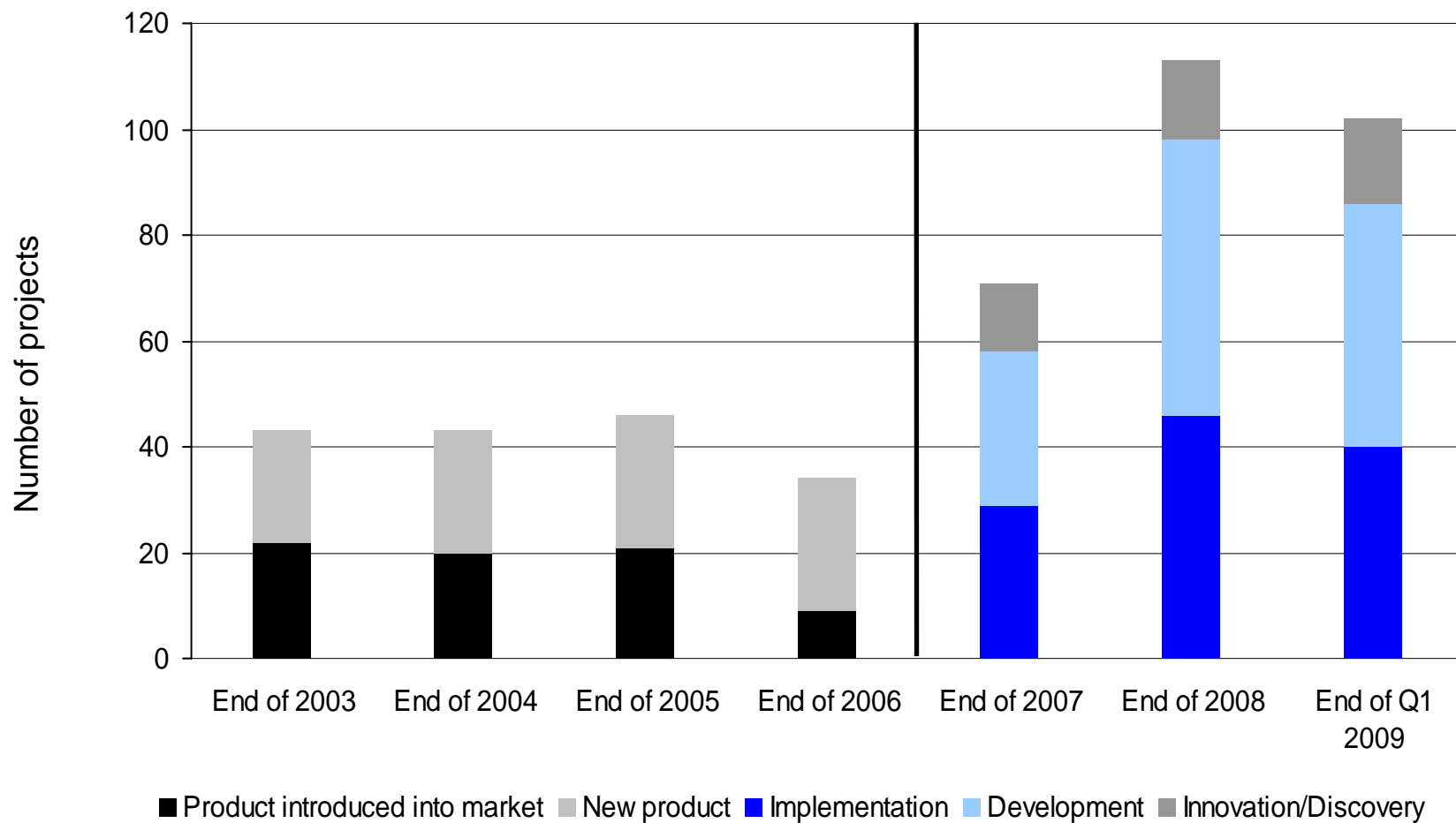
### Microbial Control

- Market demand reduction in the order of -20/-30% due to the current economic environment and destocking effects
- Lonza business relatively more resilient due to the more life science oriented applications – but plants remain well under-utilized
- Downturn has bottomed out in March
- Benefits from lower raw material prices to be felt in Q2 2009, and from energetic cost reduction measures and short-term contract manufacturing projects in H2 2009
- Strategic growth milestones focusing on India and China on track

### Performance Intermediates

- Strong volume decline for diketene and HCN derivatives as anticipated
- Margins in line with expectations but below 2008 levels
- High-Performance Materials weakening for electronic applications, only partially compensated by aerospace applications. First stabilization signs of China internal markets (PMDA)
- Strong Agro performance in Q1/09 and a good product pipeline leads to a positive outlook for 2009

# Life Science Ingredients – Project Pipeline (New Products)



# Exclusive Synthesis & Biopharmaceuticals

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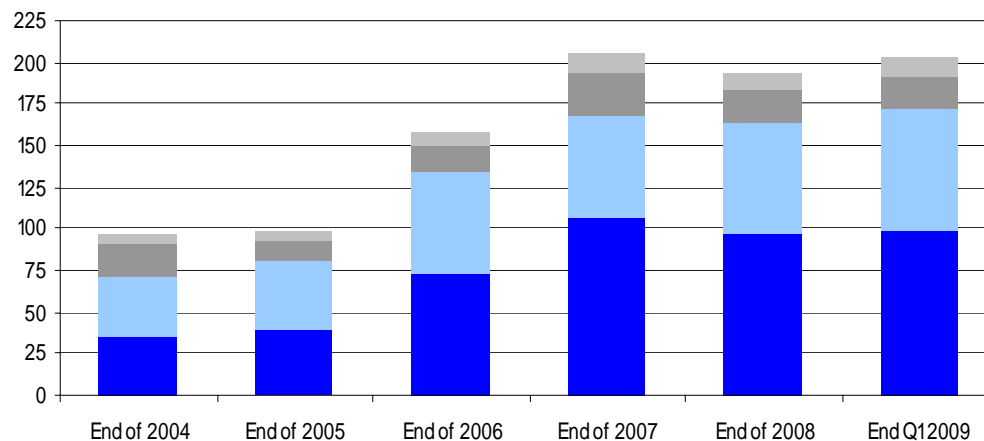
## Exclusive Synthesis

- Ongoing strong customer interest in outsourcing and longer-term relationships
- High production flexibility required given customer NWC optimization programs
- Reduced sales of some mature products as anticipated – compensating pipeline initiative on track and showing first results:
  - Significant increase of new inquiries in all businesses
  - Two Small Molecules strategic pipeline contracts under negotiations
  - Contract with one of the top two Peptides customers prolonged until 2015
- Ongoing extension of the production capacity and technology base
  - Nansha
    - 3<sup>rd</sup> product campaign started in large-scale API production
    - 2<sup>nd</sup> phase of the large-scale build-out to come on stream in Q3 2009
  - Visp
    - Antibody Drug Conjugates project running as scheduled
    - Demand of small-scale highly potent APIs requires additional lab capacity
    - High number of validation campaigns reduces short-term productivity but builds a platform for future business
- Encouraging business and performance development in Peptides
- Turnaround in Biochemicals underway

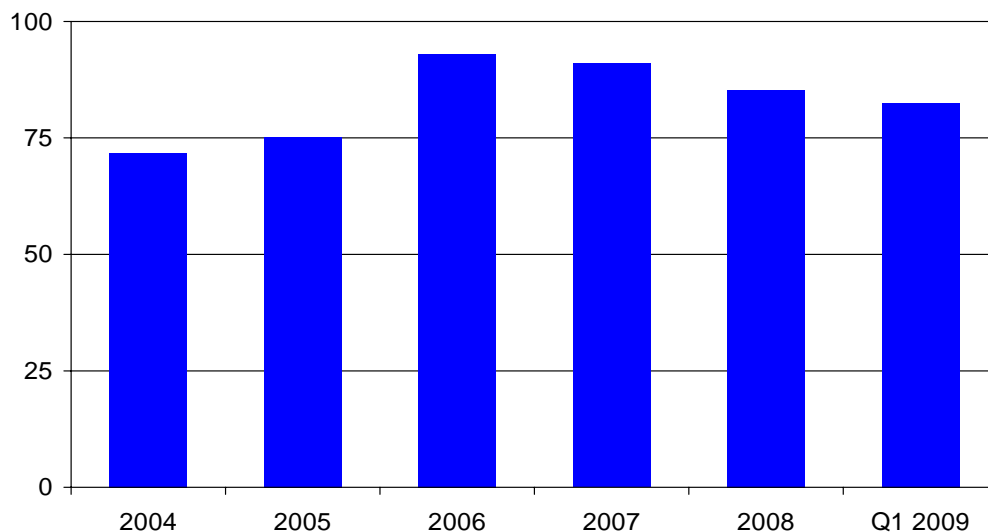
# Exclusive Synthesis – Pipeline and Utilization

**Project pipeline**  
Number of projects

- preclinical
- phase I
- phase II + III
- launched



**Capacity Utilization**  
in %





# Exclusive Synthesis & Biopharmaceuticals

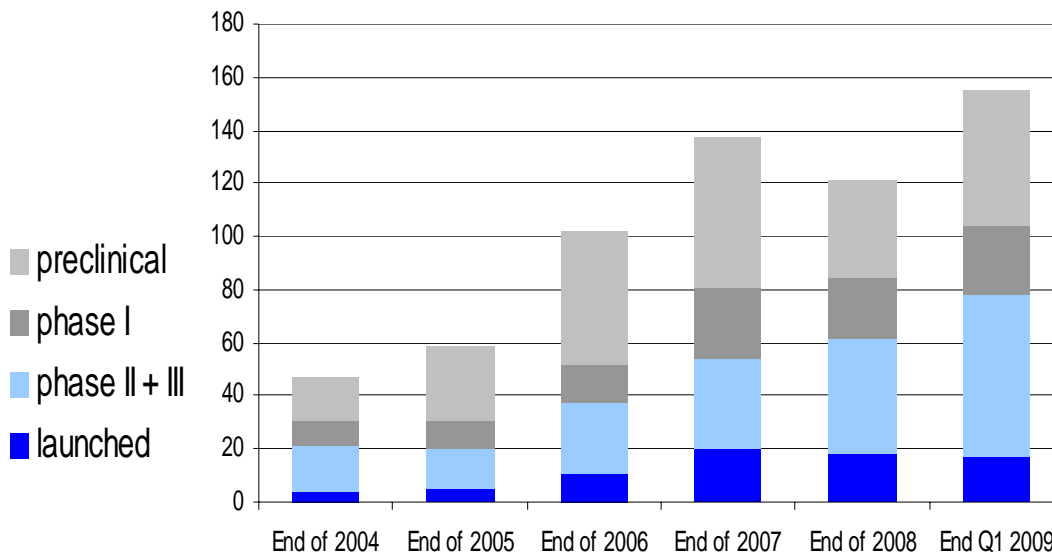
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## Biopharmaceuticals

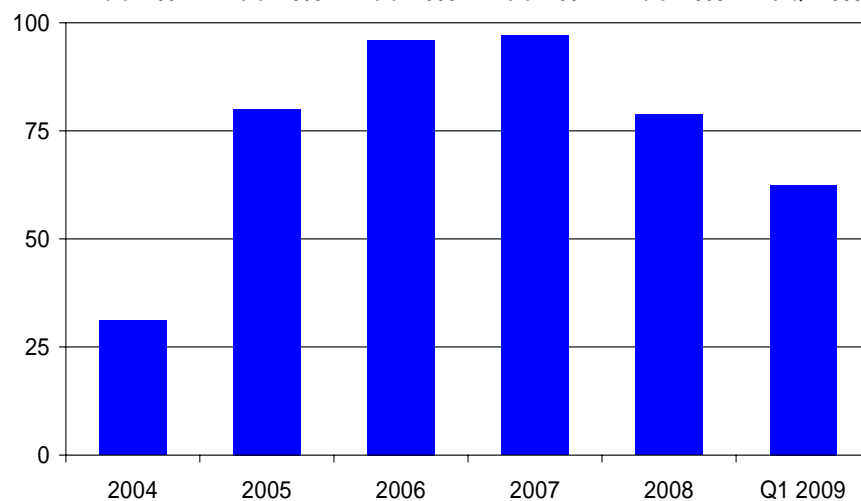
- Continued strong interest and demand for Lonza's "Total Product Life Cycle and Pipeline Management" concept with various pipeline deals in advanced negotiations
- Expansion projects in Singapore and Hopkinton on track
- Decision to enter the viral vaccine business taken in Q1 2009 supported by technology and infrastructure synergy with Lonza Bioscience
- Biopharma Services improvement through tailor-made solutions leads to invigorated pipeline growth
  - "stage-gate" and milestones approach for small biotech
  - full scope and pipeline approach for large pharma
- Operations
  - Lower capacity utilization in Portsmouth as anticipated due to customer caution and product ramp-ups – short-term "fillers" and various new products identified and currently in advanced negotiations
  - Porriño retrofitting finalized and start-up with three new customer projects
  - On time start-up of the new, already fully booked and utilized 2 000L line in Hopkinton

# Biopharmaceuticals – Pipeline and Utilization

## Project Pipeline Number of projects



## Capacity Utilization in %



# Bioscience (I)

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## Summary

- Strong improvement in performance compared to H2 2008
  - Sustained growth in Media and Cell Therapy offset by flat sales in Cell Discovery, Rapid Testing Services and decline in Molecular Biology
  - Strong increase in operating profit levels and margins

## Cell Therapy

- Comfortable double-digit revenue growth
- Growth in new indications such as cardiovascular
- New contracts signed with incremental sales to contribute as of H2 2009
- Good progress for the build-out of a global supply network

## Media

- Sustained growth maintained from 2008 into 2009
- Strong liquid media performance driving sales in Q1 2009

## Bioscience (II)

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### Cell Discovery

- Sales behind objectives primarily due to academia and industry R&D budget constraints
- Sales funnel for both instrumentation and reagents is growing rapidly giving a good outlook for sales growth in H2 2009

### Rapid Testing Systems

- Pharmaceutical cutbacks in quality control spending are currently offset by market share gains
- Reorganization of Sales and Marketing has led to above-average profit growth
- US Pharmacopeia forum publication for the recombinant PyroGene<sup>®</sup> expected in H2 2009

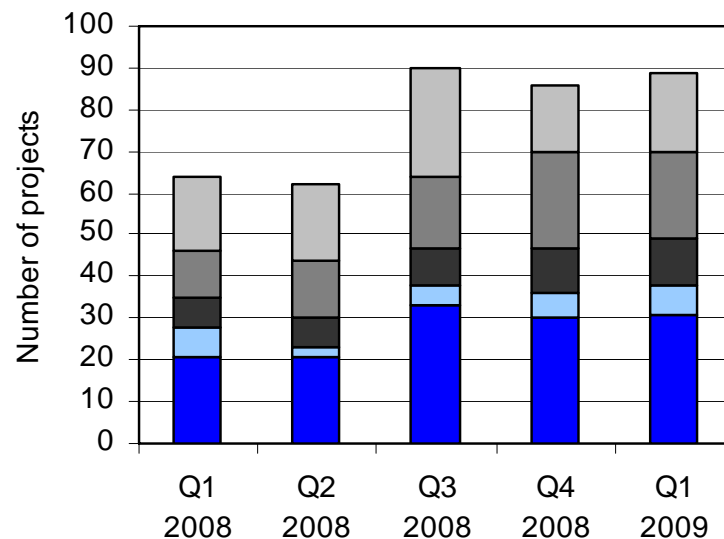
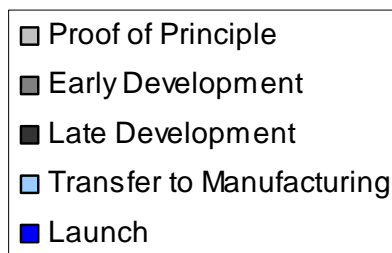
### Molecular Biology

- Sales behind target largely due to reduction in bulk business throughput and contraction of inventories at bulk accounts
- New products introduced for FlashGel<sup>®</sup> and SeaPure<sup>®</sup> in personal care

# Bioscience Project Pipeline – New Products and Therapeutic Clients

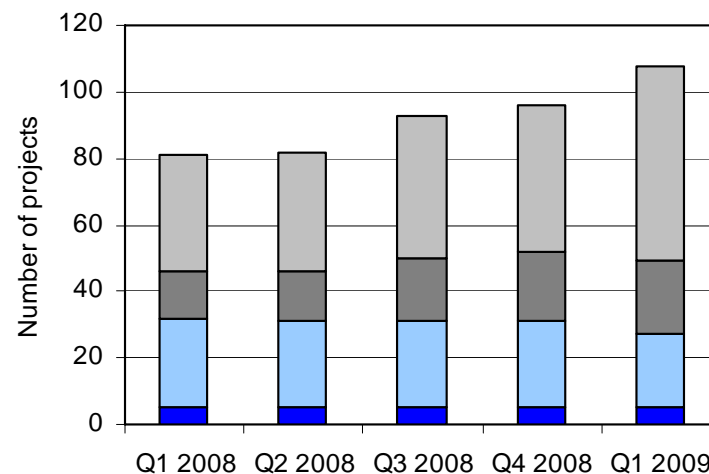
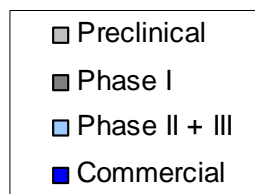
## New Products

(Cell Discovery, Molecular Biology, Rapid Testing, Media)



## Therapeutic Clients

(Cell Therapy, Media)



# Summary, Status and Outlook

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## ■ Q1 2009 Status

- Performance on track due to the good balance of the portfolio of businesses
  - Performance ahead of expectations in Biopharma Services and in Peptides
  - Performance in line with expectations in Nutrition, Biopharmaceuticals, Biochemicals, Performance Intermediates and Bioscience
  - Performance below expectations in Microbial Control and Small Molecules
- Overall EBIT growth for 2009 below the mid-term average as anticipated
- Very satisfactory progress of the project pipelines
- Ongoing pipeline deals under negotiation in both Biopharmaceuticals and Small Molecules
- Very solid financing situation

## ■ Outlook

- EBIT growth in the mid to high teens on average until 2013
- Project pipeline fully aligned to support growth expectations – 80% of capacity expansions committed today

# Calendar of Events and Contacts

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- Important Lonza Group Dates

- 22 July 2009                      Half Year 2009 Results
- 27 January 2010                  Full Year 2009 Results

- Contacts

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## 2009 Priorities

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- **Overall, we will focus on pipeline expansion and cost management**
- **Life Science Ingredients**
  - Nutrition Ingredients and Microbial Control pipeline developments
  - Further develop main markets in Asia
  - Operational excellence and fixed cost control
- **Biopharmaceuticals**
  - Strengthen our product pipeline
  - Execution of capital projects
  - Efficiency and productivity improvement with operational excellence
- **Exclusive Synthesis**
  - Development of the product pipeline
  - Pursue sourcing and supply chain improvements
  - Strengthen R&D efficiency
- **Bioscience**
  - Sales pipeline
  - Align cost build up with growth rate
  - R&D output