Scientific and High-tech Solutions for Specialty Markets

Business Update: Third Quarter 2012
31 Oct 2012

Richard Ridinger - CEO
Forward-looking

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Agenda

I. Q3 2012 Business Update

II. Sustainable Cost Reduction

III. Summary & Outlook
Third Quarter 2012 Milestones

- Overall business performance on a satisfactory level despite difficult macro-economic challenges
- All sectors see good demand, satisfying capacity utilizations and good order-books
- Increasing market demand for new technologies (ADC, cytotoxics)
- “Focus and Deliver” strategy remains key driver for the business
- Successful long-term re-financing of bridge loans secured with very favorable conditions
- Guidance for EBIT 2012: EBIT 2011 plus 10-15% confirmed
Third Quarter 2012 Cost Improvement Measures

- Visp Challenge will deliver the announced productivity improvement of CHF 100 mn by 2015 resulting in a reduction of 400 positions
  - Site in 2012 with good capacity utilization however with unsatisfactory profitability
  - Competitive portfolio and cost structure are fundamental requirements to remain attractive for new products, investments and technologies
- Additionally a worldwide review of Corporate Functions will lead to a reduction of 100 positions
- The majority of the total reduction of the 500 positions are realized by internal transfers, natural attrition, early retirements and a discontinuation of temporary contracts
Lonza is a high-tech specialty business with multiple strong pillars.
Microbial Control (I)

■ Overall
  ■ Softer demand in North America and Europe in Q3 due to macroeconomic uncertainties, partially offset by new applications and approvals
  ■ Integration and synergy delivery on track

■ Water Treatment
  ■ Upsides from favorable weather conditions were offset by a weak economy, with the Recreational Water business coming in on plan
  ■ New products in the Oil & Gas business made substantial progress
  ■ Municipal water projects are progressing

■ Personal Care
  ■ Anti-dandruff business on target levels
  ■ Specialty Ingredients business is slightly behind forecast
  ■ Strong Q3 performance of Preservatives business
Microbial Control (II)

- **Hygiene & Preservation**
  - The H&P business has grown but slower than expected, mainly due to the economic down-turn in Europe and North America
  - New business for hygiene application helped offset the economic decline

- **Wood Protection**
  - Good Q3 performance in Wood Protection; stronger residential and industrial markets in North America balance softer demand in Europe and Latin America
  - CCA (Chromium Copper Arsenic) volumes above target in South Africa due to creosote shortage for High Pressure Industrial applications (railroad ties, utilities poles)

- **Material Protection**
  - Weak sales in the Marine Anti-fouling business due to a slow down in the ship building industry and strong competition in the Asian markets
Lonza is a high-tech specialty business with multiple strong pillars.

1. Microbial Control
   - Hygiene + Preservation
   - Water Treatment
   - Material Protection
   - Personal Care
   - Wood Treatment

2. Custom Manufacturing
   - Biological Manufacturing
   - Chemical Manufacturing
   - Development Services

3. Life Science Ingredients
   - Nutrition Ingredients
   - Performance Intermediates

4. Bioscience
   - Therapeutic Services
   - Research + Testing Solutions

H2 2011 + H1 2012
- Sales: CHF 1.569 mn
- EBITDA: CHF 129 mn
- EBIT: CHF 71 mn

H2 2011 + H1 2012
- Sales: CHF 1.326 mn
- EBITDA: CHF 354 mn
- EBIT: CHF 189 mn

H2 2011 + H1 2012
- Sales: CHF 714 mn
- EBITDA: CHF 110 mn
- EBIT: CHF 42 mn

H2 2011 + H1 2012
- Sales: CHF 215 mn
- EBITDA: CHF 31 mn
- EBIT: CHF 14 mn

*1: pro-forma
Business Highlights (I)

Overall

- Steady demand resulting in capacity utilization as expected in both chemical and biological plants
- Solid outsourcing trend resulting in newly signed contracts
- Batch-release pattern remains geared toward year-end

Chemical Manufacturing

- Successful FDA inspection of Visp site and Pre-approval Inspection (PAI) for a major conjugates product
- Increased customer engagement with new products launched to market. Four market launches in 2012
- Large-scale peptide manufacturing volumes secured for 2013
- Growing pipeline and volumes in conjugates increase asset utilization
- Continued strong demand for HAPI products
- New cytotoxic API facility operational with 1st commercial product in validation
Chemical Manufacturing – Pipeline and Utilization

Project Pipeline
(Number of Projects)

- Pre-Clinical
- Phase I
- Phase II + III
- Launched

Capacity Utilization
(in %)
Business Highlights (II)

Biological Manufacturing
- Two long-term commercial-scale contracts for launched products won
  - Kouřim; CZ signed a large commercial product manufacturing agreement with a big pharma customer
- Capacity ramp-up in Singapore slower than expected
- Successful FDA and EMA inspections
  - Singapore successfully completed first Pre-approval Inspections (PAIs) from the EMA and the FDA
  - Visp successfully completed an FDA site inspection focused on large- and small-scale biologics manufacturing

Development Services
- XS Microbial™ Toolbox – expanded offering, building early phase pipeline and increased license uptake
- GS Xceed™ (next generation GS System™) experienced increased worldwide interest
Biological Manufacturing & Development Services – Pipeline and Utilization

Project Pipeline (Number of Projects)

Capacity Utilization (in %)

* including Singapore as of Q1 2012
Lonza Today

Lonza is a high-tech specialty business with multiple strong pillars

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2012 Third quarter business update – 31 October 2012
Life Science Ingredients

Nutrition Ingredients

- Nicotinates (vitamin B3) for feed applications had weaker Q3 demand due to livestock reduction in North America (drought) and record high grain prices
  - Food and pharmaceutical applications saw stable demand
  - Nicotinate prices remained depressed due to competition
- Carnipure™ (food, pharma) and Carniking™ (feed) had strong demand with stable prices
- Meta™ (metaldehyde) saw comparable demand as in previous years

Performance Intermediates

- Agro: solid demand mainly driven by agro-chemicals actives and intermediates
  - Debottlenecking activities started to cope with increasing demand
  - New investment in Visp approved
- High performance intermediates performed as planned with slightly weaker demand from the electronics industry
Lonza is a high-tech specialty business with multiple strong pillars

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Summary

- Sales on target due to good Cell Therapy development and solid Research & Testing business

Research & Testing Solutions

- Overall sales on target, increased sales in Asia compensate for weaker EU sales
- Endotoxin sales in EU softer (destocking & less pharma sites)
- Nucleofector™ kits sales slightly above expectation, but instrument sales in EU & US slower than expected

Therapeutic solutions

- Strong development of Cell/Viral Therapy sales
- Growing Therapeutic Media business
- Singapore Cell Therapy assets qualified and preparing for Ministry inspection in Q4
- Lonza received two significant grants from National Institutes of Health (NIH) related to production of iPS cells
Bioscience Project Pipeline
New Products and Therapeutic Clients

LBS Therapeutic Clients & Services

Pipeline numbers incl. Services
Agenda

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Update on Arch Integration Efforts

- Integration fully in line with original expectations
- Cost savings target of USD 50 mn for 2013 completely on track
  - 90% of cost saving measures initiated
- Increased sales of at least USD 40 mn by year three on track
  - Initial screening of combined portfolio has been completed

Activities

- Footprint consolidation widely completed - 7 offices and 4 warehouses closed, site in Newcastle (Delaware, US) sold
- Supply agreement and legal entity consolidation on-going
- Business process review on track, focusing now on SAP-implementation

Financials

- Acquisition remains EPS accretive from year one at >CHF 0.40 and EVA positive from year two
- Integration costs slightly below USD 80 mn
VispChallenge – Problem Analysis

- Visp is largest of Lonza’s sites in terms of employees and sales
- Site in 2012 with good capacity utilization however with unsatisfactory profitability

Low profitability caused by:
- Competitive pressure
- Exchange rates
- Suboptimal product portfolio
- Site complexity (business processes, organization)
- Changing industrial environment (regulations, consolidation, etc.)
- Oil price and energy costs

Need for action:
Competitive portfolio and cost structure are fundamental requirements to remain attractive for new products, investments and technologies
VispChallenge – Goals

- Long-term competitive and profitable site with attractive working places
- Increase profitability (CHF 100 mn productivity improvement)
- Focus all activities on value creation
- Review and adapt portfolio

Make Visp fit for the next generation
VispChallenge – Measures

Reduce complexity, improve cost structure and flexibility:
- Streamline Visp site service and manufacturing organization and offering
- Simplification of cost center structure and cost allocation
- Simplify processes in supply chain, maintenance, quality assurance, etc.

Increase focus..... (examples):
- Reduce external non-core activities (e.g. engineering activities)
- Focus on value add projects

Review business models:
- E.g. market and customer focused CMO and CDO approach

Optimize portfolio (examples):
- Verbund flexibilization, basic chemicals portfolio optimization
- Asset utilization of multi purpose plants
  - Agro
  - Small Molecules
VispChallenge – Timeline

- **Cost reduction**
- **Business model review**
  - Portfolio optimization
- **Daily business optimization projects**
- **New business projects**
  - LONZA 2020, Innovation

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<th>Year</th>
<th>Determine Actions</th>
<th>Implementation</th>
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2012 Third quarter business update – 31 October 2012
VispChallenge – Personnel Impact

- Measures will lead to a reduction in workforce of 400 positions in Visp within 24 months

- Ease of personnel impact through:
  - Internal transfers to open positions and new business
  - Natural attrition
  - Discontinuation of temporary contracts
  - Early retirements
  - Restructuring layoffs in line with the dismissal protection due to the lengthening of working hours (end 2012 for EAV and end February for KAV)

- Social plan prepared, consultation with unions over the next weeks, results expected in November
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Key Opportunities

**Key Opportunities for Lonza**

1. **Stronger Focus on Target Markets**
   - B2B-marketing and sales approach
   - Emerging markets expansion

2. **Sustainable Cost Reduction**
   - Arch integration
   - Visp Challenge
   - Corporate Functions Review

3. **Longer Term Operational Improvements**
   - Manufacturing / Administration
   - Site / legal entity consolidation

4. **Cash Focus**
   - Deleveraging
   - EBITDA growth, capex / NWC control

5. **Portfolio Management**
   - Business portfolio
   - Product portfolio

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**2012:**

Reiteration of given guidance:

- EBIT 2012 = EBIT 2011 + 10% – 15%

**2015***:

- Mid single-digit annual sales growth
- EBITDA margin: 20%

* Based on current fx and business composition
Summary & Outlook

Summary

- Underlying business growth for 2012 on track
  - New contracts signed
  - Satisfying capacity utilization
  - New technologies and development services performing well
- Microbial Control integration fully on track
- VispChallenge on track to deliver productivity improvement of CHF 100 million by 2015

Outlook

- On track to deliver full year guidance
- Debt reduction on-going
- Review of group-wide structure and of set-up of business models
- Following this productivity improvement program in Visp, Lonza will review its global manufacturing footprint and introduce similar improvement programs to other sites globally
Calendar of Events and Contacts

Important Lonza Group Dates
- 24 Jan 2013 Full year 2012 results
- 09 Apr 2013 Annual General Meeting
- 25 Apr 2013 First quarter 2013 business update
- 25 July 2013 Half-year 2013 results
- 31 Oct 2013 Third quarter 2013 business update

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