

Analyst Conference  
Basel, 20 January 2004

**Lonza**



## Financial Year 2003 Results

Sergio Marchionne  
Chairman of the Board

- Significant setback in performance in 2003
- Operating profits down 27.9% to CHF 302 million
- Non-recurring charges of CHF 158 million
  - CHF 100 million decommissioning of assets (non-cash)
  - CHF 58 million restructuring
- Net income after all charges down to CHF 91 million (2002: CHF 221 million)
- Execution of 2003 restructuring plan on target
  - CHF 100 million in savings by Q2 2004
  - Nearly 60% accomplished at end of 2003
- Raw material prices and USD weakness felt throughout all businesses
- Underutilized custom manufacturing assets, but R&D pipeline strengthening
- Customer product failures in Biologics, but LSBO now fully loaded as of 2005
- Polymer Intermediates off the divestiture list
- EMS Chemie now at 22.52% of total share capital
- Investors Relations function moved to CFO
- CEO to step down as replacement is found

# Financial Highlights

**Lonza**

CHF million

	2002	2003	Change YoY
Sales	2'536	2'242	(11.6%)
EBITDA	575	456	(20.7%)
<i>EBITDA Margin</i>	22.7%	20.3%	-
Operating Income	419	302	(27.9%)
<i>Operating Margin</i>	16.5%	13.5%	-
Non-recurring Items	(112)	(158)	41.1%
Net Income	221	91	(58.8%)
Net Income before non-recurring items	297	198	(33.3%)
Cash Flow before change in net work capital	368	264	(28.3%)
Investments (incl. Intangibles)	(350)	(424)	21.1%
Earnings per Share before non recurring items	6.12	4.18	(31.7%)
Earnings per Share after non recurring items	4.55	1.92	(57.8%)
Employees	6'216	5'659	(9.0%)



**Lonza**

# Financial Report

Roland Waibel  
Chief Financial Officer

# Consolidated Income Statement

**Lonza**

CHF million	2002	2003	Change YoY
Net Sales	2'536	2'242	(11.6%)
Operating Expenses	(2'117)	(1'940)	(8.4%)
Operating Income	419	302	(27.9%)
Non recurring items	(112)	(158)	n.m.
Goodwill Amortization	(5)	(5)	0.0%
EBIT	302	139	(54.0%)
Financial Expenses	(19)	(24)	n.m.
Income before Taxes	283	115	(59.4%)
Taxes	(62)	(24)	61.3%
Minorities	0	0	n.m.
Net Income	221	91	(58.8%)
EPS before non-recurring items	6.12	4.18	(31.7%)
EPS after non-recurring items	4.55	1.92	(57.8%)

# Divisional Sales Development

**Lonza**

CHF million	2002	2003	Change YoY	Currency adjusted YoY	Change due to		
					Volume & Prices	Currency	Consolidation
Exclusive Synthesis & Biotechnology	978	835	(14.6%)	(11.8%)	(111)	(32)	0
Organic Fine & Performance Chemicals	957	826	(13.7%)	(8.7%)	(45)	(52)	(34)
Polymer Intermediates	598	578	(3.3%)	(5.1%)	(31)	11	0
Holding & Others	3	3	n.m.	n.m.	n.m.	n.m.	0
Net Sales	2,536	2,242	(11.6%)	(9.0%)	(187)	(73)	(34)

# Divisional Operating Performance

**Lonza**

CHF million	Operating Income			Margin	
	2002	2003	Change YoY	2002	2003
Exclusive Synthesis & Biotechnology	211	147	(30.3%)	21.6%	17.6%
Organic Fine & Performance Chemicals	166	125	(24.7%)	17.3%	15.1%
Polymer Intermediates	48	41	(14.6%)	8.0%	7.1%
Holding and Others	(6)	(11)	83.3%	n.m.	n.m.
Operating Income	419	302	(27.9%)	16.5%	13.5%

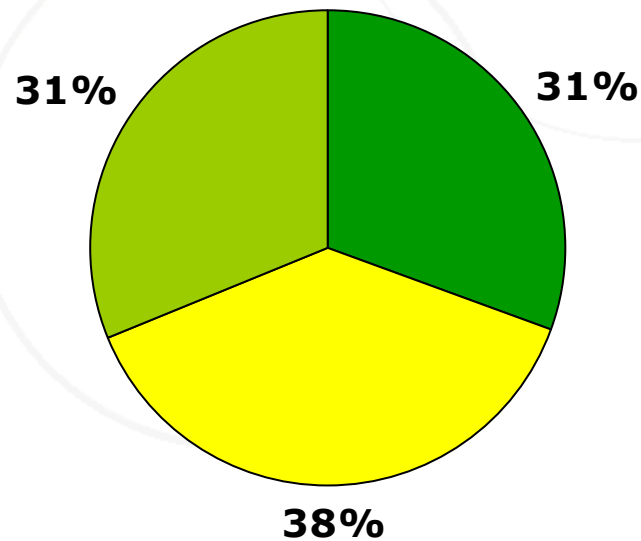
# Consolidated Cash Flow by Operating Activities

**Lonza**

CHF million	2002	2003	Change YoY
EBIT	302	139	(54.0%)
Adjustment for non cash items	198	232	17.2%
Income taxes and interests paid	(132)	(107)	(18.9%)
Cash flow before change in net working capital	368	264	(28.3%)
Change of other operating assets	29	31	6.9%
(Increase)/decrease of net working capital	38	46	21.1%
Increase/(decrease) of financial payables net	(92)	(19)	(79.3%)
Net cash(used for) provided by operating activities	314	291	(7.3%)

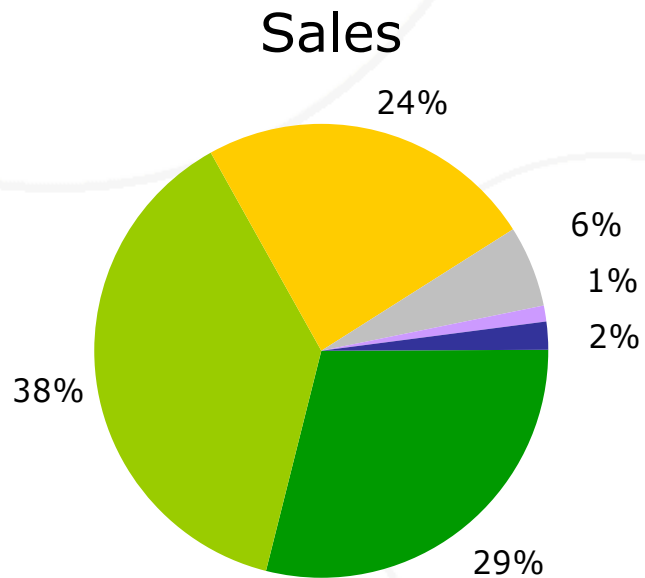


**December 31, 2003**  
**Total Debt CHF 978 million**

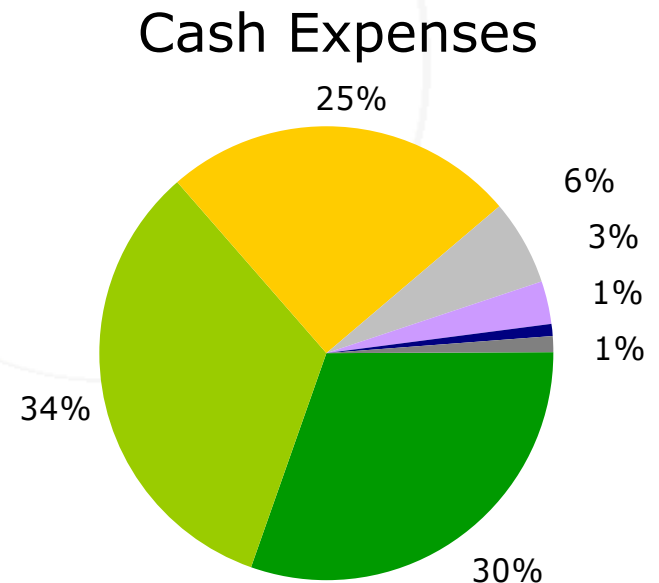


■ 2006 Convertible ■ 2006 Straight Bond ■ Short Term (net of cash)

## Cash Expenses per Currency (based on average rates for 2003)



■ EUR ■ USD ■ CHF ■ GBP ■ CZK ■ JPY



■ EUR ■ USD ■ CHF ■ GBP ■ CZK ■ JPY ■ SGD

**Conclusion:** Lonza is

- . net seller of USD
- . net seller of JPY
- . net buyer of CZK
- . net buyer of EUR (small)

## ■ Translation

### ■ USD

- +/- 0.10 CHF per USD
  - Sales CHF +/-32 million
  - Operating Profit CHF +/-4 million
  - Net income CHF +/- 3 million

### ■ GBP

- +/- 0.10 CHF per GBP
  - Sales CHF +/- 11 million
  - Operating Profit CHF +/-1 million
  - Net income CHF +/-1 million

## ■ Transaction

### ■ USD

- +/- 0.10 CHF per USD impacts Operating Profit CHF +/-16 million

### ■ Oil

- USD +/- 1 p.b. impacts Operating Profit by CHF +/-3 million

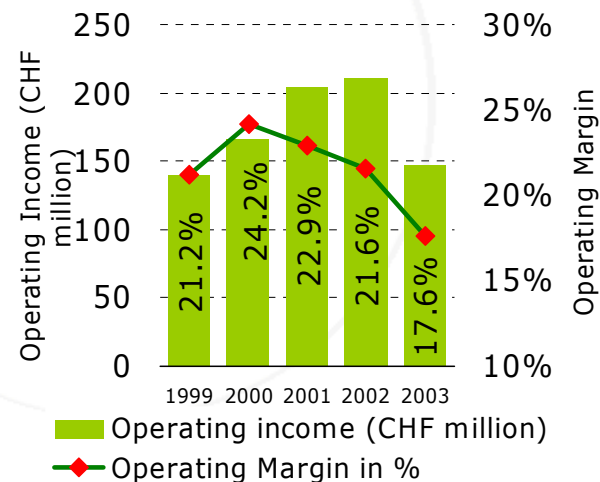


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## Sector Results

# Exclusive Synthesis & Biotechnology

CHF million	2003	Change YoY
Sales	835	(14.6%)
Op. Income	147	(30.3%)
<i>Margin</i>	17.6%	
EBITDA	217	(25.9%)
<i>Margin</i>	26.0%	



- Sales of CHF 835 million, down by 14.6% and 11.8% on a currency adjusted basis
  - Continuing overcapacities and low number of new product approvals negatively impacting the Exclusive Synthesis business
  - Poor utilization of 2000L/5000L Biologics capacity due to customer product failures in late clinical development
- Operating income of CHF 147 million, down by 30.3%
  - Operating margin decrease from 21.6% to 17.6%

## Exclusive Synthesis

### Pharmaceutical Activities

- Continuing tough market environment
- Increased competitive pressure due to continuing overcapacities
  - Low rate of new drug approvals
  - Unfavorable product mix
- R&D portfolio for small molecules, including peptides and oligonucleotides, strengthened in all clinical phases. Limited impact expected on 2004 results
  - Ongoing broadening of the customer base
  - Small Scale Plant on stream mid 2003 almost fully occupied
- Capacity utilization 2003
  - CH <70%
  - USA <60%

### Agrochemical Activities

- Sales comparable to 2002, despite flat market

## Exclusive Synthesis

### Deviations from Expectations H2 2003

- Reduced Sales of established products
  - Increased in-house production as a result of delays in new product approvals and launches
  - Continuing de-stocking at customers
- FDA approval of 2 NCEs further delayed (more data)
- Cancellation of 3 phase II/III products based on clinical trial result
  - No launch supply

A horizontal strip of images showing various biotechnology and laboratory equipment, including what appears to be a microscope, test tubes, and other scientific apparatus, is positioned above the "Biotechnology" section header.

## Biotechnology

### Mammalian Fermentation (Lonza Biologics)

- Negative impact on sales and capacity utilization of 2000L and 5000L reactors by customers' product failures and delays in late clinical development
- Take or pay contractual payments by customers offset most of the profit shortfall in 2003
- Large scale investment project (60000L) in Portsmouth, NH (US)
  - On stream in July 2004 as planned
  - Starting 2005 large scale capacity nearly fully utilized
  - Long-term supply agreement with a top ten pharma company (2 products)
  - Long-term supply agreement with Genentech for its blockbuster Rituxan



A horizontal banner at the top of the slide features a collage of various biotechnology-related images, including laboratory glassware, microscopes, and industrial equipment, set against a blue and green color scheme.

## Biotechnology

### Mammalian Fermentation (Lonza Biologics)

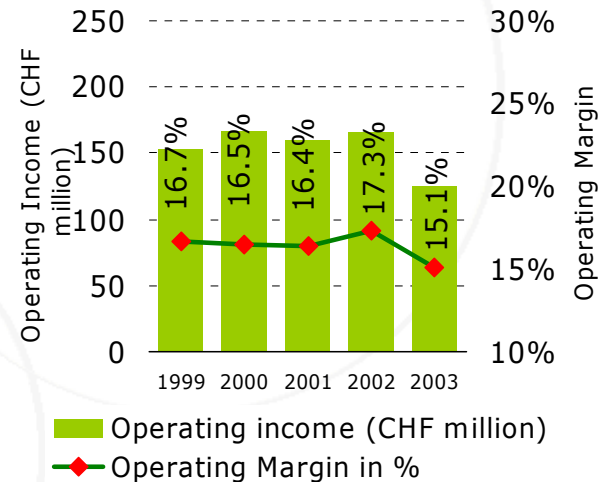
- Improved future utilization of the 20'000L and 5000L fermenters at the Portsmouth facility
  - More flexibility as a result of Genentech deal;
  - Commitments and requests for 20'000L capacity now accommodated with 5000L reactors starting in H2 2004
- Customer base strengthened with top pharma houses
- Refilling of 2000L/5000L not possible until H2 2004
- Project pipeline continues to grow – outlook for mammalian business remains positive

## Biotechnology

### Microbial Fermentation (Lonza Biotec)

- Sales below the previous year's level
- Microbial custom manufacturing business (Biotransformations)
  - Existing pharmaceutical products
    - Sales decreased due to lower product quantities
    - Performance negatively impacted by price pressure, delays in approvals and de-stocking
  - Strong marketing efforts necessary to further strengthen the pipeline
- Microbial biopharmaceuticals plant in Visp (CH)
  - Construction ongoing; Small scale plant on stream by mid 04
  - Scope reduced for large scale
- L-Carnitine
  - Stable sales despite strong competition
  - Approval in Japan will open new market opportunities
  - Expansion of businesses in the US due to patent enforcement and new products

CHF million	2003	Change YoY
Sales	826	(13.7%)
Op. Income	125	(24.7%)
Margin	15.1%	
EBITDA	173	(19.9%)
Margin	20.9%	



- Sales at CHF 826 million, down 13.7% or 8.7% on a currency adjusted basis
  - Lower demand for Niacin
  - Very low demand for Metaldehyde in H2 2003
- Decrease of operating margin to 14.3% from 17.3%
  - Negative impact of high raw material and energy prices
  - Price pressure from Asian competitors (Diketene, HCN)

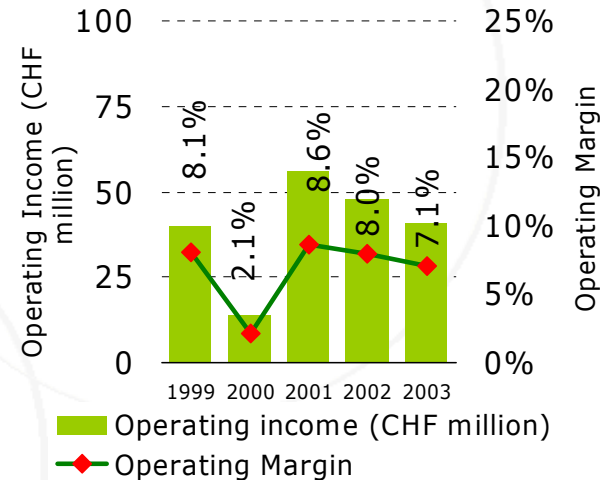
## Organic Fine Chemicals

- Nicotinates (a vitamin of the B complex)
  - Lower demand due to SARS and poultry disease
  - Investment project for additional Niacinamide plant in China approved and initiated (start-up H2 2005)
- Diketene- and HCN-derivatives
  - Continuing price pressure from Asian competitors
- Engineering Polymers
  - Visible market improvement
- Metaldehyde
  - Negative impact due to dry weather conditions in major markets in Europe
- Capacity situation
  - Overall high capacity utilization and market shares defended

## Performance Chemicals

- Weak economic conditions with high raw material and energy prices
- Price pressure on oleo chemicals / plastics additives due to Asian competitors
- Growth of products for water treatment
- Carboquat (wood protection fungicide)
  - Start of Carboquat business late in the year
  - Volumes guaranteed by significant customer commitment

CHF million	2003	Change YoY
Sales	578	(3.3%)
Op. Income	41	(14.6%)
<i>Margin</i>	7.1%	
EBITDA	77	6.9%
<i>Margin</i>	13.3%	



- Sales at CHF 578 million, down 3.3% (down 5.1% on comparable exchange rates)
  - H1 2003 weak as reported, but significant improvement in H2
  - Increased market share in niche products
- Decrease of operating margin from 8.0% in the previous year to 7.1%
  - Negative impact of raw material price increase
  - Second half recovery insufficient to offset H1


- Phthalic anhydride & General purpose plasticizers
  - Noticeable downturn in the automotive sector, lack of demand from Far East in Q2 and Q3
  - Further margin erosion in Q3 due to raw material hikes and economic stagnation
  - Signs of recovery seen in Q4 in the automotive and cable sectors
- Maleic anhydride & Derivatives
  - Volumes in line with expectations and market in equilibrium
  - Margins under pressure from raw material price increase and weak US \$
  - 15 kt/year competitor's line to shut down in 2004
- Trimellitic anhydride & Special Plasticizers
  - Weak Trimellitic performance offset by strong sales in Special Plasticizers
  - Margins negatively impacted by weak US \$
- Resins and Compounds
  - Volumes in line with expectations and margins affected by escalating raw materials costs
- Isophthalic Acid
  - Full capacity utilization (highest since start up)
  - Expansion of market share at stable market prices
  - Raw materials impacted by high oil price



**Lonza**

# Restructuring Initiatives




- 
- Restructuring measures of Exclusive Synthesis business (2002)
    - Shut-down of Los Angeles plant
    - Reduction of headcount
    - Savings achieved of CHF 40 million
  - Company-wide initiatives for the reduction of fixed costs (2003)
    - By end of December 2003 71% of all headcounts and 55% of other measures have been implemented
    - Total group headcount reduced by 9.0% from 6216 in 2002 to 5659 at year end 2003
    - Nearly 60% of CHF 100 million savings target achieved in 2003
  - Decommissioning of fine chemicals production assets
    - Streamlining and realigning of production assets
    - Addressing industry overcapacity
    - Non-cash, pre-tax charge of CHF 100 million recorded at year end 2003



**Lonza**

# Custom Manufacturing Business Update

Markus Gemuend  
Chief Executive Officer

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- A decorative banner is located below the title, featuring a horizontal strip of various scientific and industrial images, including laboratory equipment and chemical structures.
- Dependency on Products
    - The best selling product represents  $\sim 7\%$  of total Life Sciences activities sales
    - The top 10 products represent  $\sim 29\%$  of total Life Sciences activities sales
    - The top 10 products include 1 multi-customer products
  - Dependency on Customers
    - The top customer represents  $\sim 9\%$  of total Life Sciences activities sales
    - The top 10 customers represent  $\sim 37\%$  of total Life Sciences activities sales
    - The top 10 customers cover  $> 35$  products

# Dependency Ratio of Key Products LCM

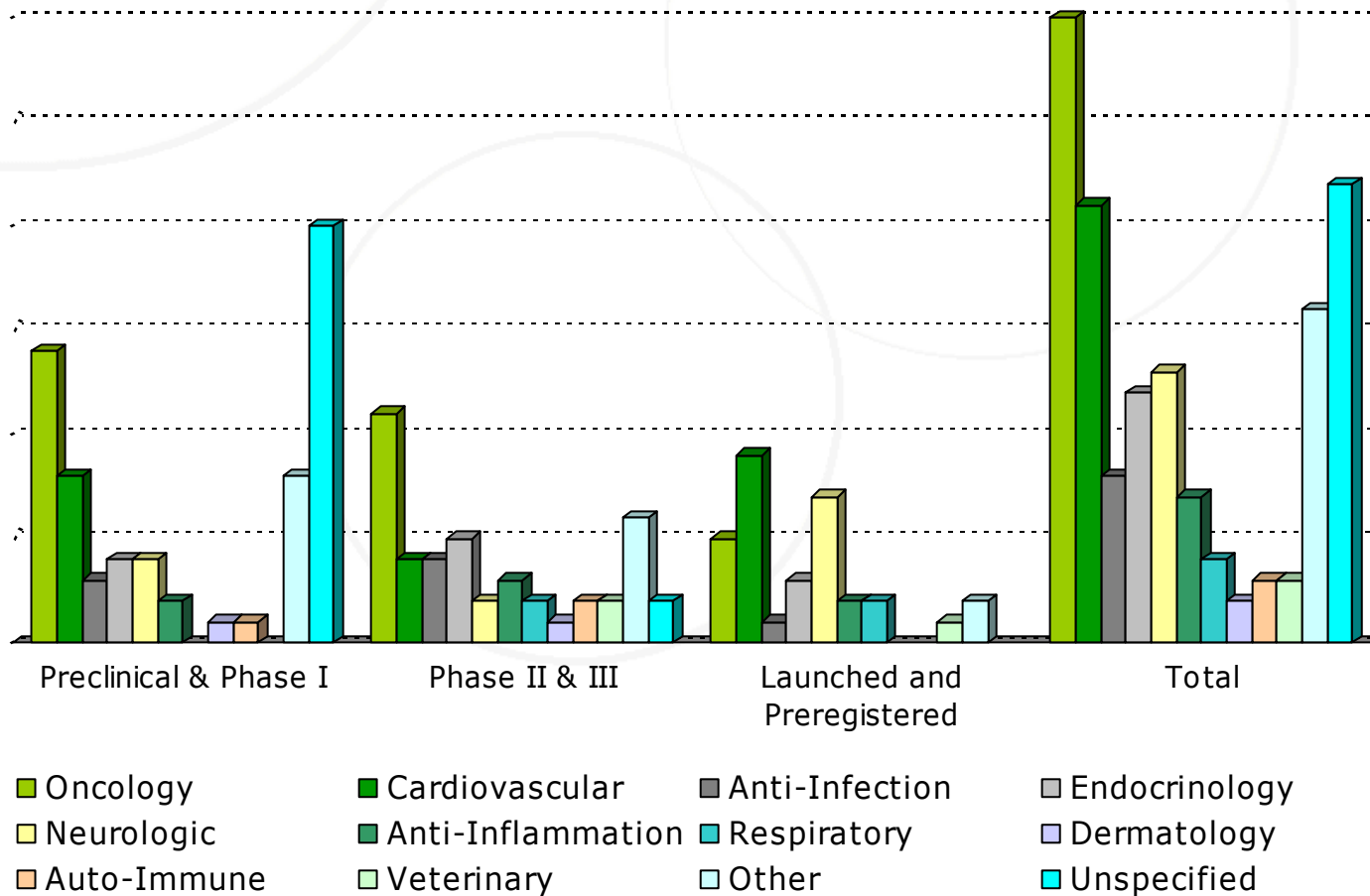
**Lonza**

LCM Key Products*	2003 % of Group Sales	2003 % of LCM Sales
1	2.5	6.6
2	2.3	6.2
3	2.0	5.4
4	1.9	5.2
5	1.9	5.2
6	1.6	4.4
7	1.6	4.4
8	1.4	3.7
9	1.3	3.6
10	1.1	3.0
Top Ten Products	17.6	47.7

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

# LCM Pipeline by Therapeutic Category

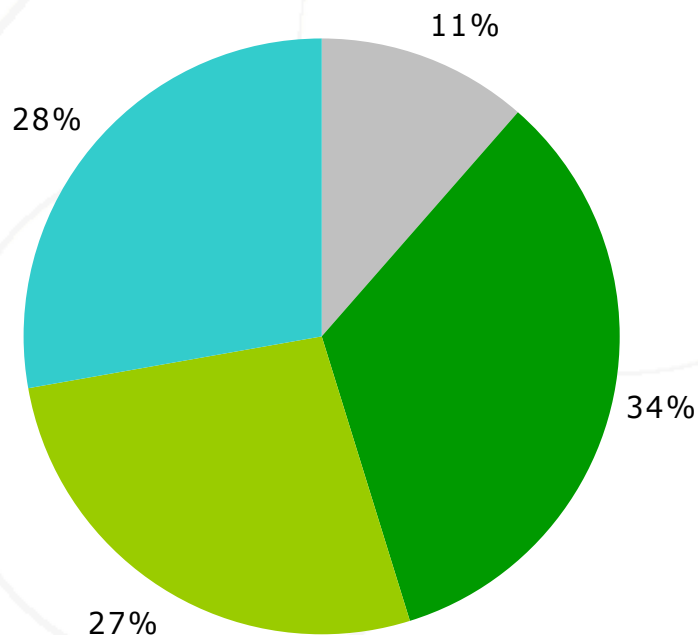
(~ 140 Projects)



# Project Pipeline Small Molecules

## Current Portfolio

2003



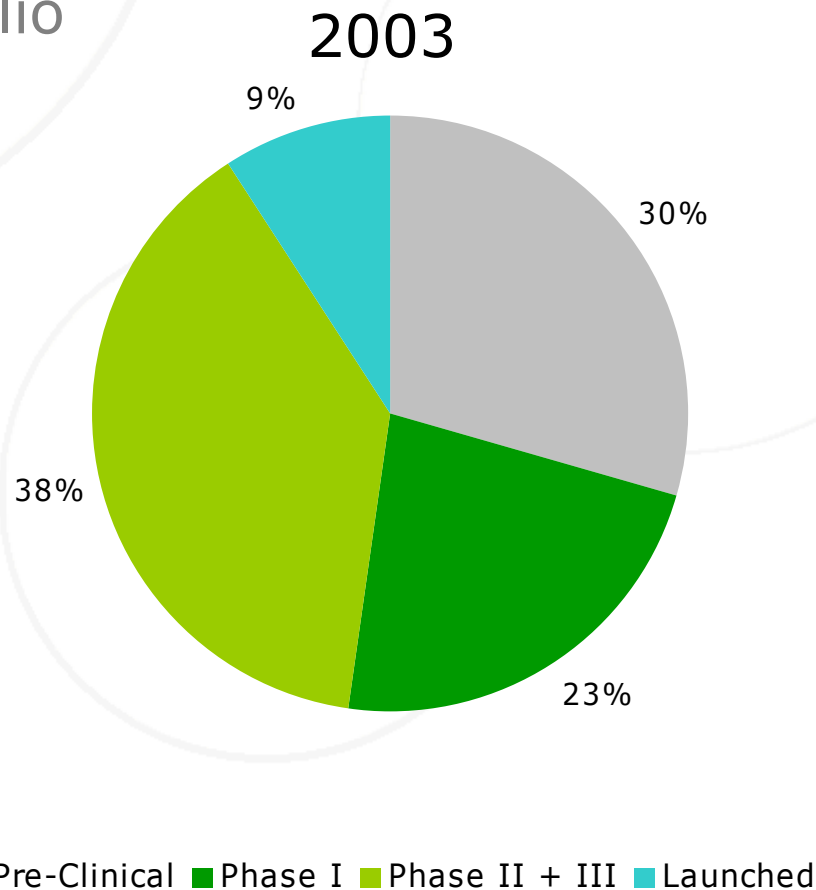
■ Preclinical ■ Phase I ■ Phase II + III ■ Launched

- Overall > 95 current projects
- Close to doubling the number of projects versus 2001

# Project Pipeline Large Molecules
















**Lonza**


## Current Portfolio



- Overall > 50 current projects
- Increase of 25% versus H1/03

# LCM Capacity Utilization

	H1 2002	H2 2002	H1 2003	H2 2003	H1 2004
Exclusive chemical Synthesis					
Microbial Fermentation					
Mammalian Cell Culture Technology					

 stagnation of capacity utilization in period       decrease of capacity utilization in period       increase of capacity utilization in period



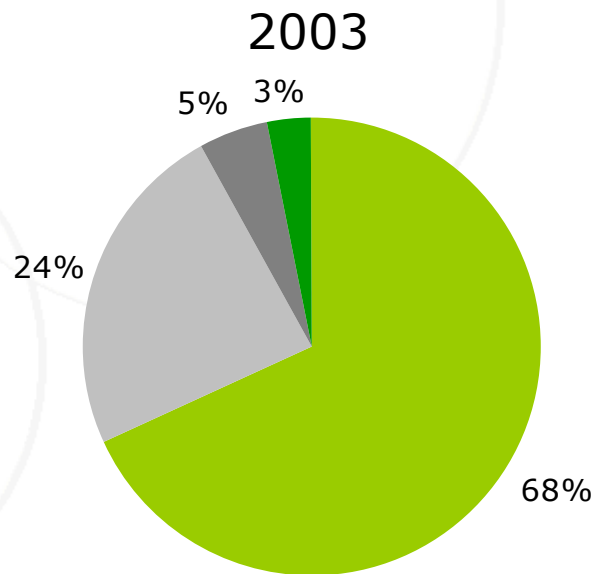
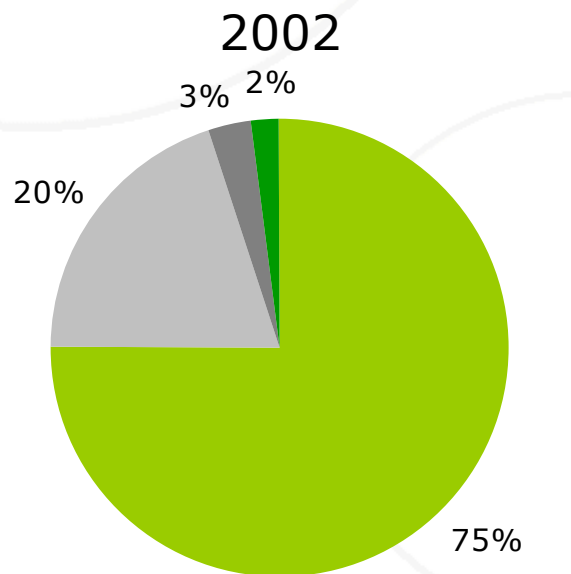
- Top quartile performer regarding capacity utilization according to non disclosed industry study, but below internal targets
- Dependency ratio:
  - No Single Product > 7% of LCM Sales
  - No Single Customer > 10% of LCM sales
  - Top ten products represent < 50% of LCM sales
  - Top ten customers account for 53% of sector sales
  - Top ten customers 6 Big, 1 Midsized, 3 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 4 years
- No current products affected by patent expirations until end of 2005

## Update on 2000/5000 L capacity utilization

- Low capacity utilization in H1/04
- Negotiations with customers for products ongoing
  - ~30% of capacity booked
  - ~40% under negotiations
  - 5 products terminated / delayed / unavailable
  - 10 new opportunities identified and under discussion
  - Most projects focus on 5000L capacity
- Majority of new revenues starting in H2/04
- More flexibility as a result of the Genentech deal; switching of commitments from 20000L to 5000L starting in H2/04

# LCM Customer Base – Small Molecules

(Chemical and Biotransformation)



- Big Pharma
- Midsized Pharma
- Emerging
- Generic

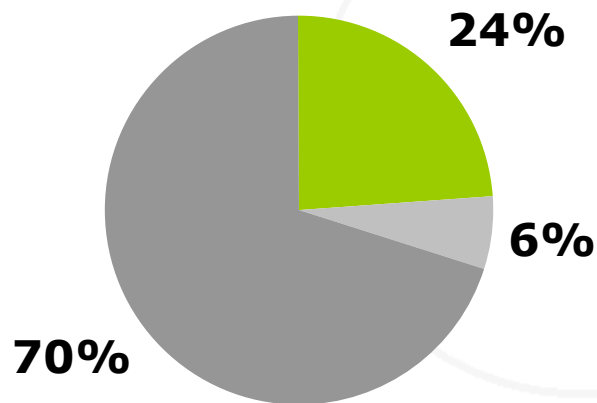
Big Pharma - Sales > \$10B  
Midsized Pharma - Sales > \$1B but < \$10 B  
Emerging- Sales < \$1B

# LCM Customer Base Large Molecule

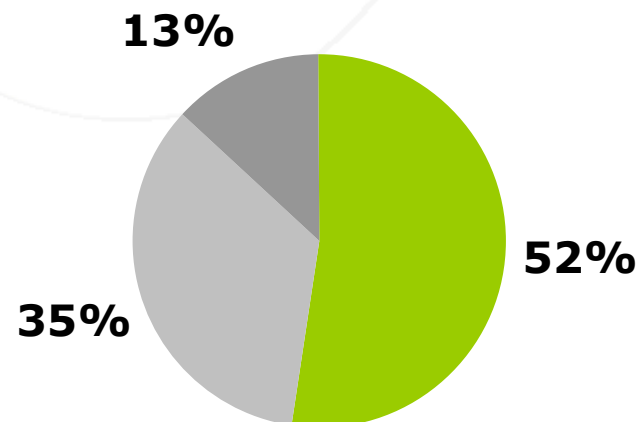
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(Mammalian and Microbial products)

**2002**



**2005**



■ Big Pharma ■ Medium Pharma ■ Emerging

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

# Current Major Expansion Projects

## The Projects

	Business	Location	Investment (CHF mio)	Start-up
Large Scale Build-out	LCM* mammalian cell culture	Portsmouth (US)	330	mid 2004
Microbial Biopharmaceuticals	LCM* microbial fermentation	Visp (CH)	< 90	H2 2004
Expansion of microbial fermentation	LCM* microbial fermentation	Kourim (CZ)	< 85	H2 2004
Highly Potent Active Ingredients Plant	LCM* microbial fermentation	Kourim (CZ)	16	H2 2004
Omega 2 / Niacin	LOC*	Guangzhou (PRC)	40	Q3 2005
<b>Total</b>			<b>&gt; 580</b>	

\*LCM = Lonza Custom Manufacturing

\*LOC = Lonza Organic Chemicals

# Lonza Biologics, Portsmouth

**Lonza**





**Lonza**

# Outlook and Strategic Positioning

Sergio Marchionne  
Chairman of the Board


## ■ Exclusive Synthesis

- Business conditions will not significantly improve
- Pharma business remains under strong competitive pressure with only 15-20 NCE's per year and delays of FDA approvals
- Overcapacities remain and de-stocking at customers will continue, albeit at a slower pace
- Pharma pipeline is filling up with projects from existing and new customers
- Early phase work will take 2-5 years to fill large scale capacity




## ■ Biotechnology

- Low capacity utilization in H1/04 due to timelines on filling 2000L/5000L fermenters with new products
- Start-up of LSBO (Large Scale Build Out) at Portsmouth in July
- Revenues from first batches out of LSBO starting in H2 2004
- Start-up of small scale Biopharmaceuticals plant in Visp (CH)
- Aggressive development of the Japanese market for L-Carnitine


- 
- Organic Fine & Performance Chemicals
    - Market conditions of nicotines expected to improve
    - Metaldehyde expected to recover from incredibly low levels
    - Carboquat (wood treatment) expected to ramp up with new production facility started up in Jan 04
    - Higher raw material and energy prices continue to hamper full recovery

- Polymer Intermediates
  - H2 2003 performance expected for 2004
    - H1 weaker than H2
    - Asian markets inaccessible due to currency situation (Euro)
  - Moderate growth in some areas (special plasticizers)
  - High raw material prices continue to hamper full recovery

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- A decorative banner is located below the title, featuring a horizontal strip of various scientific and industrial images, including laboratory glassware and chemical equipment.
- Rebasing the business to market conditions
  - Custom manufacturing impacted by remaining tough business environment in Exclusive Synthesis and low capacity utilization in Biologics as refilling of 2000L/5000L continuing
  - High raw material and energy prices and slow demand continue to negatively impact the chemical activities
  - No non-recurring items in 2004
  - Minimum operating income: CHF 225 million
  - Minimum EPS: CHF 3.00

# Assessment of Lonza's Strategic Positioning **Lonza**

- Commitment to Life Sciences is unchanged
- Commitment to capital expansion in Biotechnology (mammalian and bacterial) area is confirmed
- Change in chemical custom manufacturing is now structural
  - Needs a takeout of capacities (older, less competitive plants)
  - Margin compression is permanent, **but** Lonza is ideally suited to deal with the issue
    - Best technology bench in the industry
    - Superb R&D skills
    - Reduced cost base
    - US/Europe manufacturing coverage
- Other non-custom manufacturing assets (including Polymer Intermediates) are
  - Market leaders
  - Cash generative to support growth of biotechnology
  - A permanent base on which to grow

- 
- Markus Gemuend to remain as CEO until a successor is appointed
  - Process expected to take up to 6 months
  - Executive search firm already retained
  - Board of Directors more actively involved and engaged during transition period
    - Carried out a thorough assessment of strategic positioning of the Group
    - Comfortable with Lonza's future as outlined
  - Earnings guidance from now on to be on the cautious side, with quarterly market updates on refilling and filling efforts of both chemical and biotechnology assets
  - If plans develop according to revised schedule, 2005 will be year of earnings turnaround

## ■ Important Lonza Group Dates

- 31 March 2004      Annual Shareholder's Meeting
- 6 April 2004      Dividend Ex-Date and Payment
- 21 July 2004      Release of Half Year Results

## ■ Investor Contacts

Roland Waibel

T +41 61 316 8455

F +41 61 316 9455

[roland.waibel@lonza.com](mailto:roland.waibel@lonza.com)

Analyst Conference  
Basel, 20 January 2004

**Lonza**



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# Financial Year 2003 Results

