

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

**Lonza**

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**2010 Full Year Results – 26 January 2011**

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.



## Financial Highlights

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- Robust operating performance:
  - Sales at CHF 2 680 mn (CHF 2690 mn in 2009), up 3.3% at constant exchange rates
  - Stable EBITDA margins (24.0%) despite volatile environment
  - EBIT of CHF 374 mn (CHF 380 mn in 2009), up 5.8% at constant exchange rates
  - Net profit for the period CHF 284 mn (CHF 279 mn in 2009), up 10.4% in constant rates
  - CHF 28 mn negative exchange rate impact on EBIT
  - RONOA at 10.8%
  - NWC as % of sales 25.7% (28.1% in 2009)
- Solid financing situation, supporting mid- and long-term growth potential:
  - Free cash flow from operating activities increased significantly to CHF 336 mn (+ 559%)
  - CAPEX of CHF 300 mn to support ongoing strategic growth projects
  - Gearing down from 49% at the end of 2009 to 46% at the end of 2010

# Key Financial Figures

CHF mn	FY 2009 before special charges	FY 2010	Change YoY	CER*
Sales	2'690	2'680	(0.4%)	3.3%
EBITDA	658	643	(2.3%)	
<i>EBITDA Margin</i>	24.5%	24.0%		
EBIT	380	374	(1.6%)	5.8%
<i>EBIT Margin</i>	14.1%	14.0%		
Financing costs		(44)		
<i>Tax rate</i>	14.8%	13.9%		
Net Income	279	284	1.8%	10.4%
EPS (CHF) basic	5.55	5.55	0.0%	7.8%
EPS (CHF) basic CORE	5.87	5.53	(0.5%)	7.3%
Free Cash Flow	51	336	558.8%	
Change in net working capital		57		
Capital Expenditures	(520)	300	(42.3%)	
RONOA	10.7%	10.8%		
Net Debt	1'166	1'108	(5.0%)	
Number of employees	8'386	8'280	(1.3%)	

# Operating Highlights

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- Increased capacity utilization especially in Biological Custom Manufacturing
- Improved visibility due to substantially increased project pipelines in Custom Manufacturing and Bioscience
- New pipeline deals signed (e.g. GSK) and steady increase in number of contracts in all businesses confirms outsourcing trend intact (e.g. Abbott, HGS)
- Over 15 new cell line licenses deals signed in microbial and mammalian technologies
- Strong growth in Microbial Control
- Re-engineering project has delivered in 2010 ca 75% of the total targeted savings of CHF 80 mn per year
  - New organization implemented (3 sectors and 9 business units)
  - Site closures completed
  - Personnel reduction by total 470 (excluding hirings for growth projects)
- All major expansion projects are on track
  - China - L-carnitine, niacin, PMDA, Microbial Control
  - Switzerland - agro plant
  - Singapore - mammalian cell culture, Cell Therapy
  - Walkersville - Cell Therapy
- The number of employees has decreased to 8280 FTE (8386 end 2009). However, 915 new hirings to support growth projects especially in China / Asia

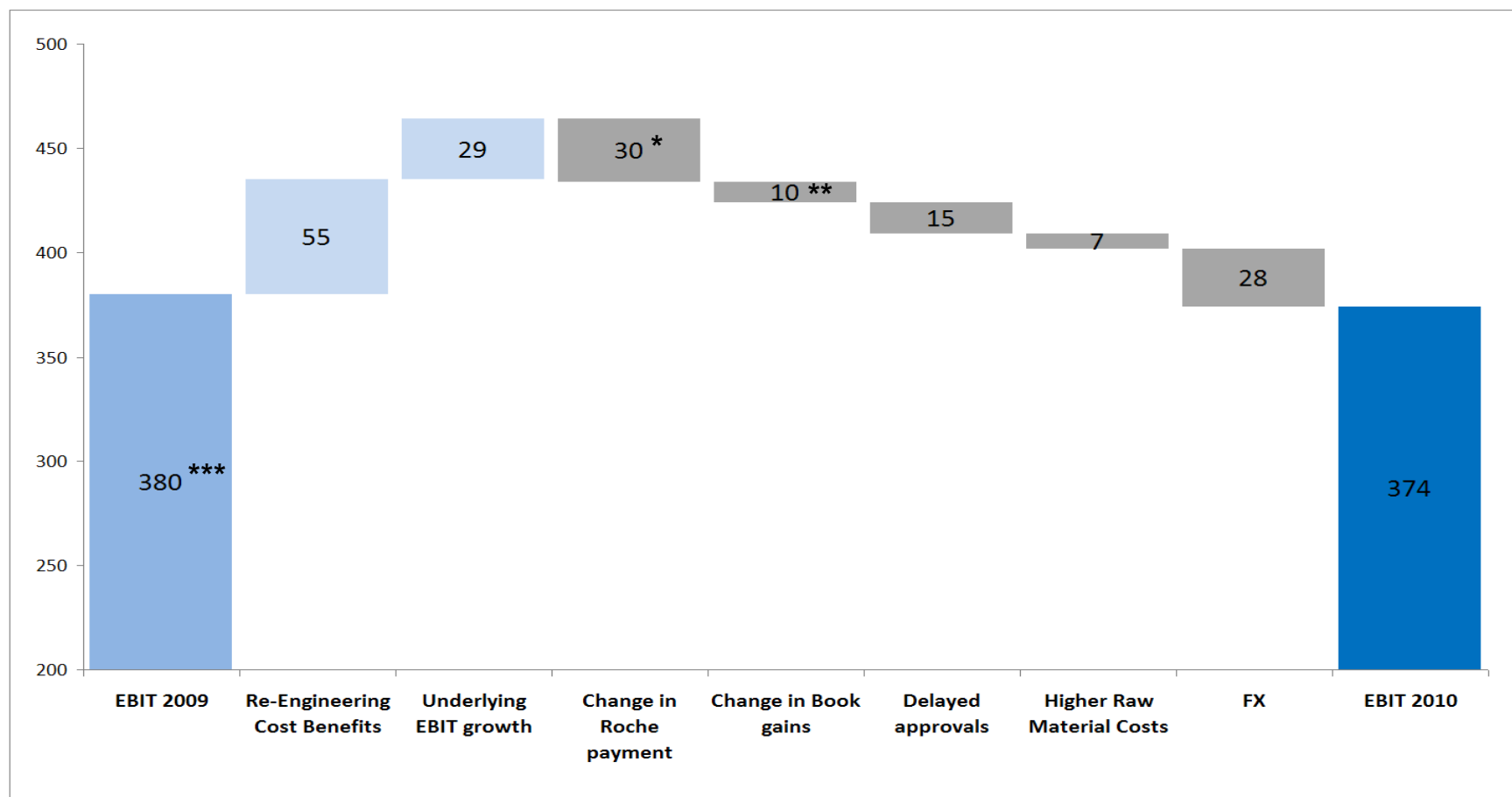
## External Headwinds

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Volatility in 2010 continued due to external headwinds:

- Increasing strength of the Swiss franc
- Longer, more stringent and less predictable approval processes by regulatory authorities (e.g. peptides (Bydureon®), small molecules, antibody drug conjugates, biological (Benlysta®))
- Customers' short-term behavior influenced by macro-economic uncertainties – impact on order patterns and uptake of innovation
- Governmental spending on research at a low level
- Substantial price increases in major raw materials (passed on to customers with 3-4 month time lag)

# EBIT Bridge 2009 - 2010



\* Milestone payment of CHF20 mn in 2010 versus payment of CHF50 mn in 2009

\*\* Profit on Riverside sale of CHF20 mn in 2010 versus Singapore book gains of CHF30 mn in 2009

\*\*\* 2009 EBIT – before special charges

# Strategic Projects Driving Growth

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## On a Group level

- Increased spending in R&D led to growing pipeline of promising product developments

## Life Science Ingredients

- L-carnitine, niacin and PMDA expansion in China on track
- Agro plant in Visp (CH) expansion on track

## Custom Manufacturing

- Build-out of the large scale mammalian biopharmaceutical facility in Singapore fully on track, with start-up targeted in the third quarter 2011
- TL Biopharmaceuticals (Teva / Lonza joint venture) begun biosimilar clinical phase-I trials with first biosimilar product

## Bioscience

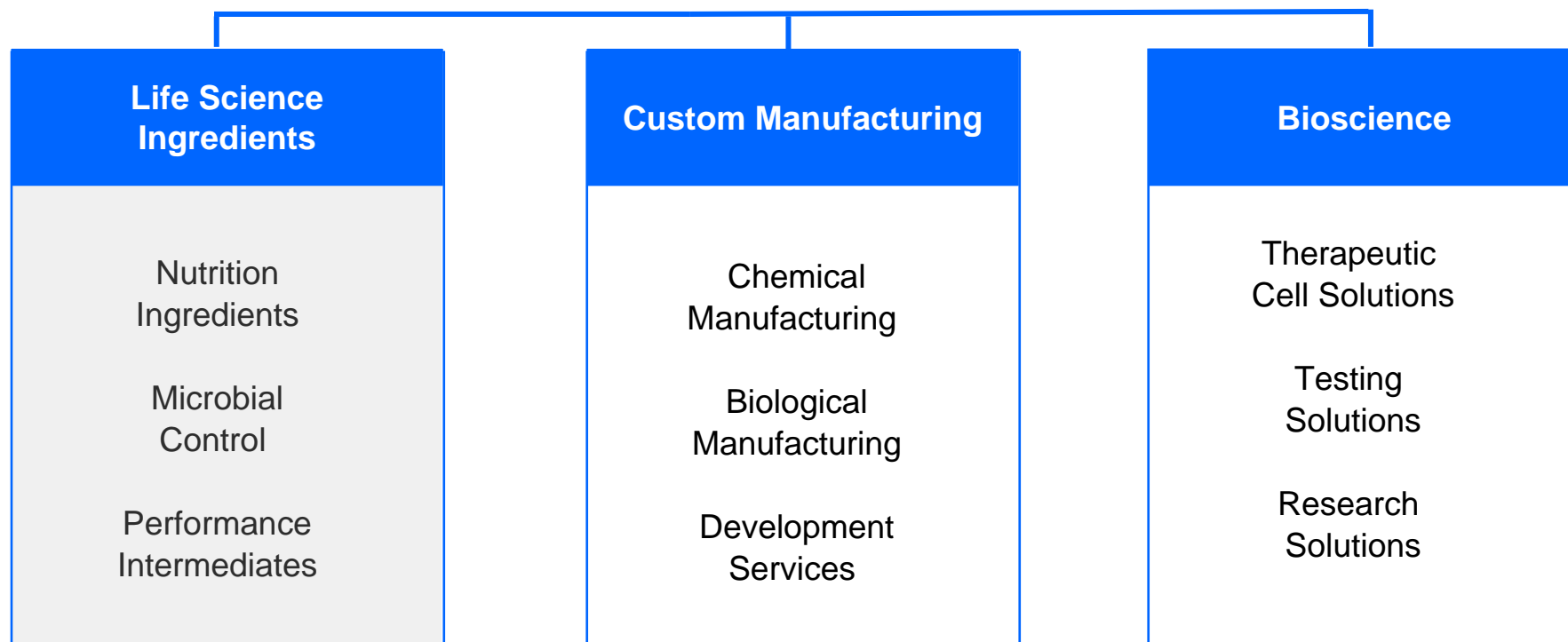
- Expansion of Cell Therapy facilities in Walkersville, MD (USA) and Singapore
- Acquisition of MODA (paperless quality-control solutions) strengthens the Rapid Testing Solutions platform
- Entered the viral based-manufacturing market with the purchase of Vivante GMP Solutions, Inc.



# Lonza's Life-Science Platform

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## **Lonza**

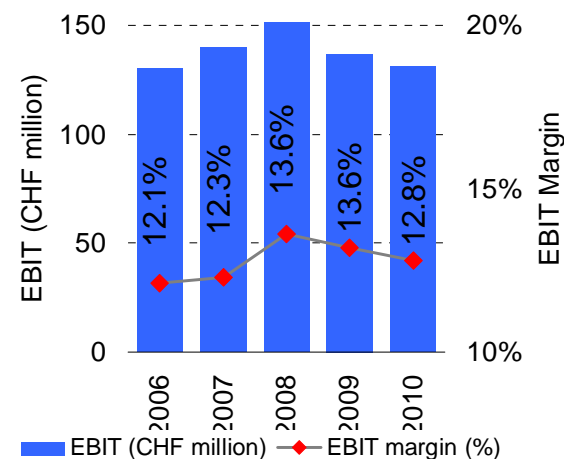


## Financial Summary and Highlights

### Key figures

CHF mn	2010	Change YoY	CER <sup>(1)</sup>
Sales	1'020	(1.7%)	2.2%
EBIT	131	(4.4%)	4.4%
<i>Margin</i>	12.8%		
EBITDA	206	(1.0%)	
<i>Margin</i>	20.2%		

### EBIT and margin progression



- Stable results despite negative currency impact on EBIT of CHF 12 mn
- Strong performance of Microbial Control due to growth in Asia / Eastern Europe and recovery in traditional markets
- Nutrition impacted by increased margin pressure

# Life Science Ingredients (I)

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## Nutrition Ingredients

- Sales increased due to market recovery and new applications
- Margin declined as a result of competitor's initiatives

Nicotinates (Vitamin B<sub>3</sub>) and Carnipure™/ Carniking™

- Higher volumes in the food and feed grade area
- Raw material cost increase

Meta™

- Low volumes due to adverse weather conditions and on-going de-stocking
- Expected European agriculture registration in 2011

## Performance Intermediates

- Lower sales offset by cost reductions - resulted in same profit level

Diketene and HCN derivatives

- Overcapacity in Asia had a substantial negative effect on results

High Performance Materials with record year performance

- New technologies drove new applications for the electronics, aerospace and high end construction industries

Disappointing agro performance throughout 2010

- Lower demand for agro actives and intermediates due to overstocking in the previous season
- Construction of a new Fluoro chemistry plant in Visp (CH)

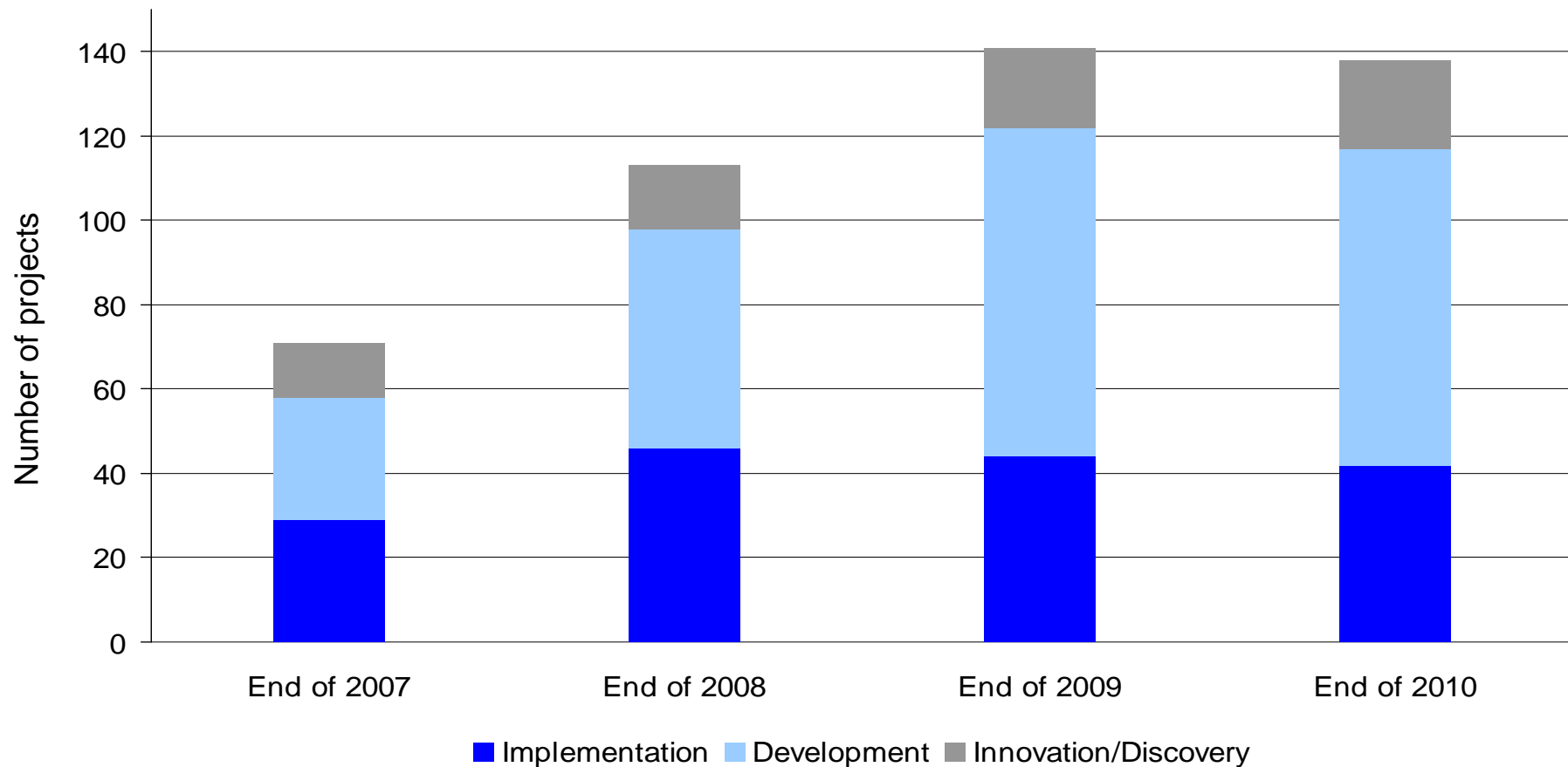
## Life Science Ingredients (II)

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### Microbial Control

- Solid recovery from the macro-economic crisis
  - Increasing awareness of hygiene needs in emerging markets (geographic expansion and new applications)
  - Positive recovery in Europe and North America continued throughout the year despite the de-stocking after the H1N1-crisis
  
- n Volatility in raw material prices continued. Palm Kernel Oil ended 2010 at a historic high.
  
- Strategic growth projects in Asia
  - Registration of new formulations moving ahead, slower than expected due to more stringent regulatory environment
  
- Sales force expansion drove base business growth

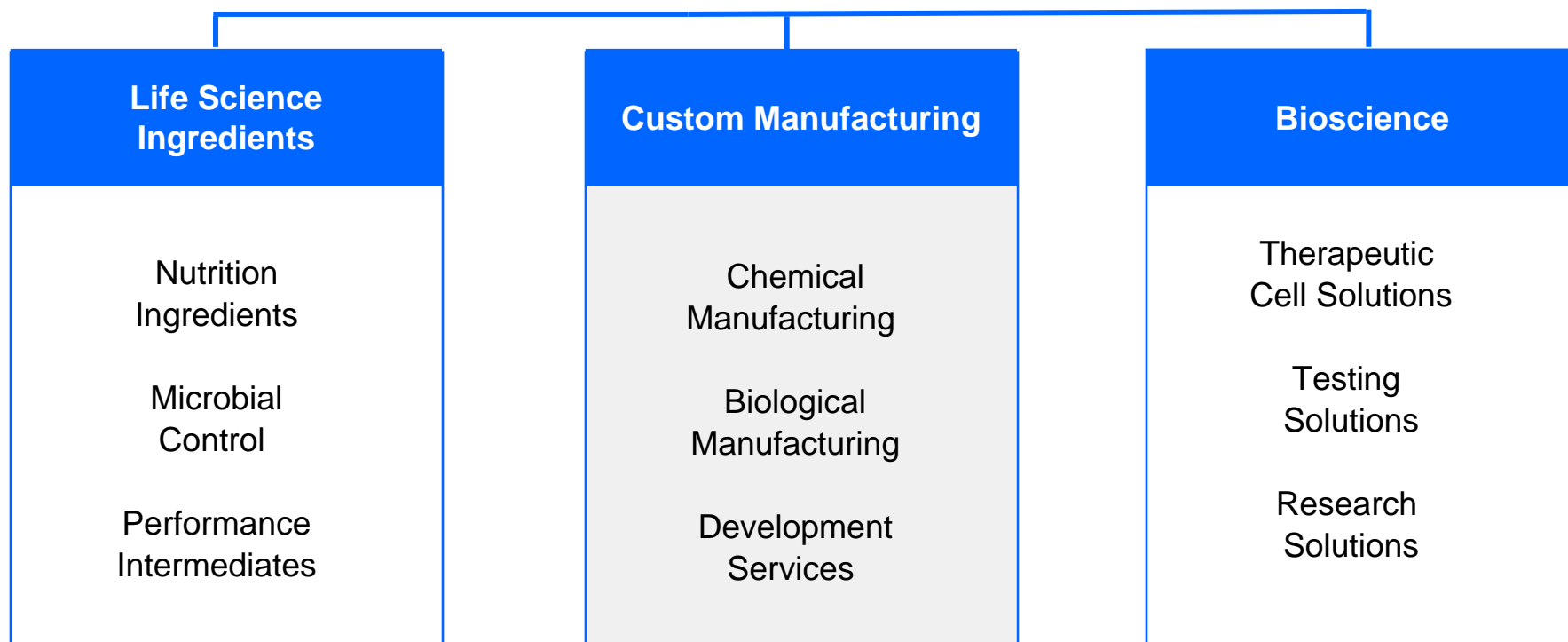
## Project Pipeline (New Products)



# Lonza's Life-Science Platform

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## **Lonza**

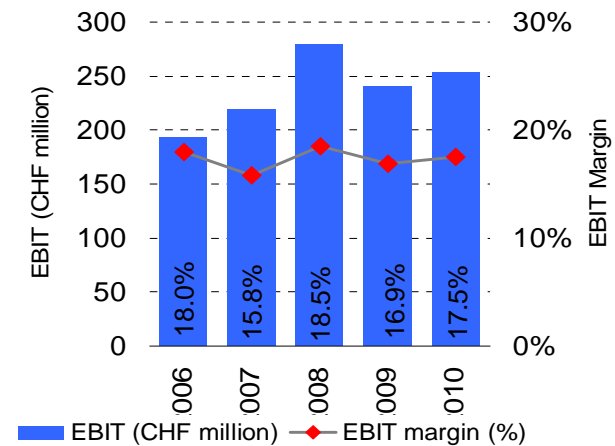


# Financial Summary and Highlights

## Key figures

CHF million	2010	Change YoY	CER <sup>(1)</sup>
Sales	1'445	1.9%	4.9%
EBIT	253	5.9%	10.5%
Margin	17.5%		
EBITDA	426	1.4%	
Margin	29.5%		

## EBIT and margin progression



- Improved sales, and EBIT despite negative currency impact on EBIT of CHF 11 mn
- Growth driven by increased capacity utilization in biological manufacturing especially in the second half of the year and stronger sales performance in Development Services
- Operational improvements in chemical manufacturing
- Volatility continues due to clinical delays resulting from the stringent approval processes
- A record high successful 35 regulatory authority audits in 2010

<sup>1</sup> constant exchange rate

# Custom Manufacturing (I)

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## Chemical Manufacturing

- Increase of sales (excluding Riverside)
- Operating efficiencies increased EBIT
  
- Continuous asset review at pharma companies is a sign that outsourcing trend is intact. Fragmented competition landscape slows down consolidation
- Acquisitions of new products in all clinical phases
- Differentiating technologies (ADC, HAPI, MRT) attracted high customer interest and put Lonza in a unique competitive position
- Successful implementation of operating efficiencies reduces break-even utilization
- Strategic collaboration with California Peptide Research, Inc. serves customers with development requirements on the US West coast
- Co-operation with Dalton Pharma Services improves customer service for small scale and early phase trial requirements in North America

## Development Services

- Multiple product deals signed (currently 8 commercial products and 7 phase-III products)
- GS expression systems expands its market leadership.....

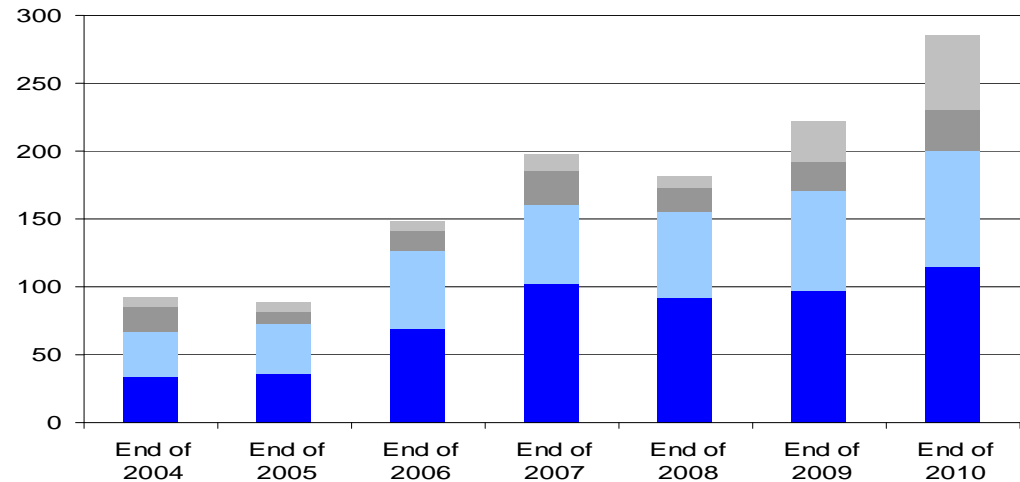


# Chemical Manufacturing – Pipeline & Utilization

## Project pipeline

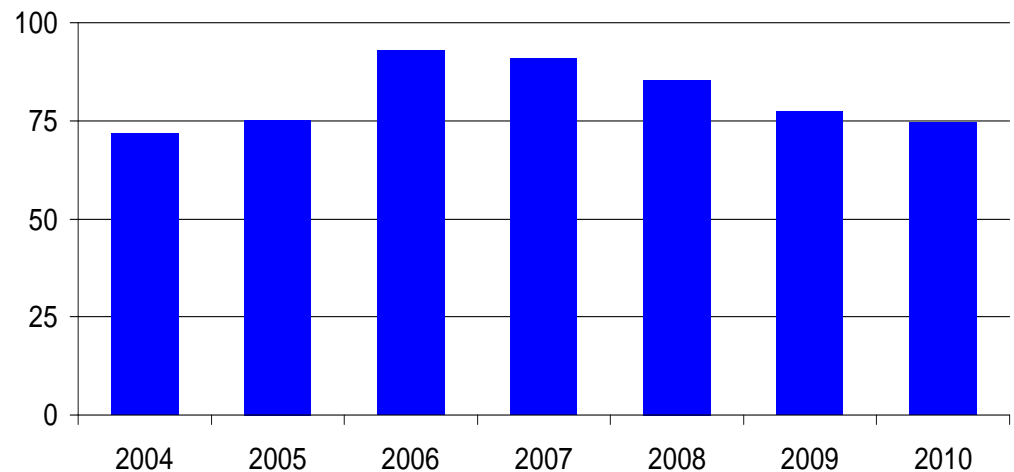
Number of projects

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



## Capacity utilization

in %



## Custom Manufacturing (II)

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### Biological Manufacturing

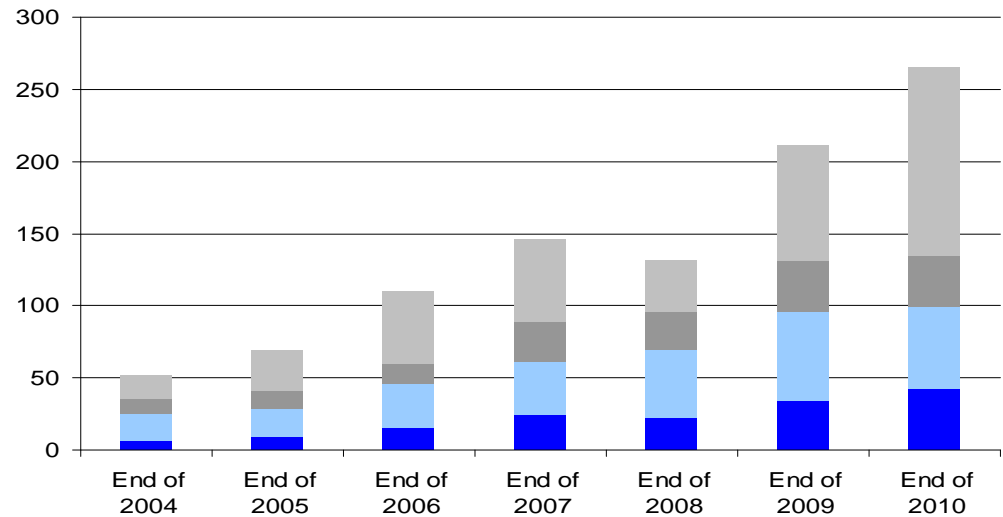
- Higher capacity utilization resulting from additional product launches
- Increased sales and EBIT, especially in the second half of the year
  
- Substantially increased capacity utilization in our mid- and large-scale plants
- Strengthened pipeline and project portfolio
  - Enhanced customer focus and close collaborations resulted in new manufacturing partnerships
  - Increased wins in early phase projects further balanced project portfolio covering major therapeutic areas
  - Several multi product deals signed across all technologies (GSK and others)
- Singapore build out on track with > 60% utilization anticipated at start-up in the third quarter of 2011
- The Teva / Lonza joint venture started phase I clinical trials for its first biosimilar equivalent

# Biological Manufacturing – Pipeline & Utilization

## Project pipeline

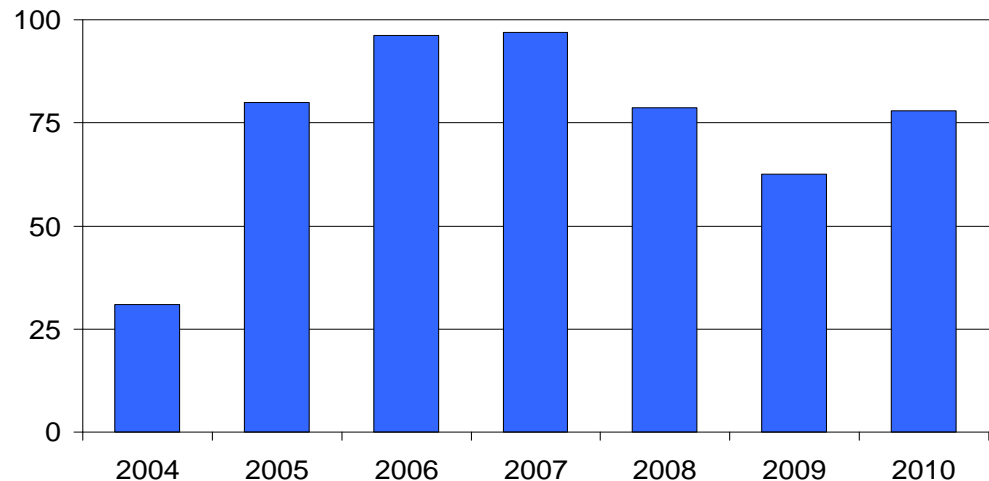
Number of projects

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



## Capacity utilization

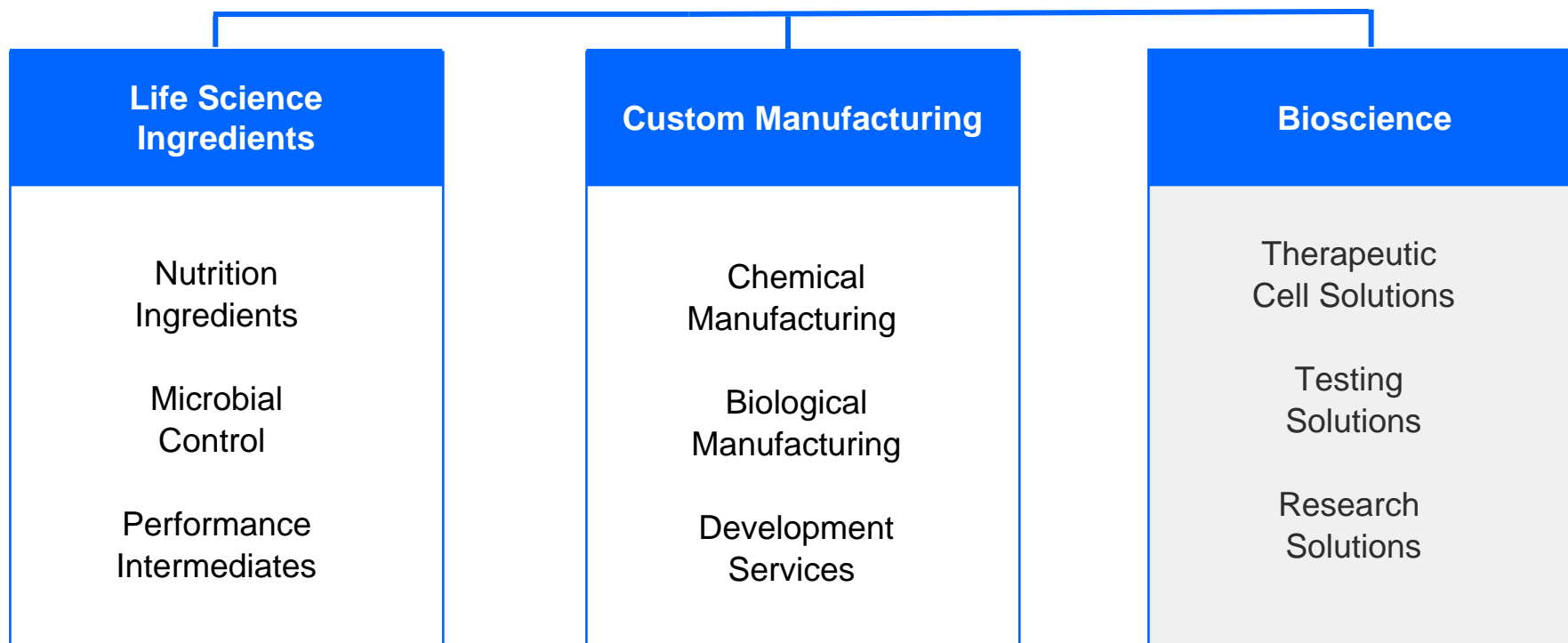
in %



# Lonza's Life-Science Platform

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## **Lonza**

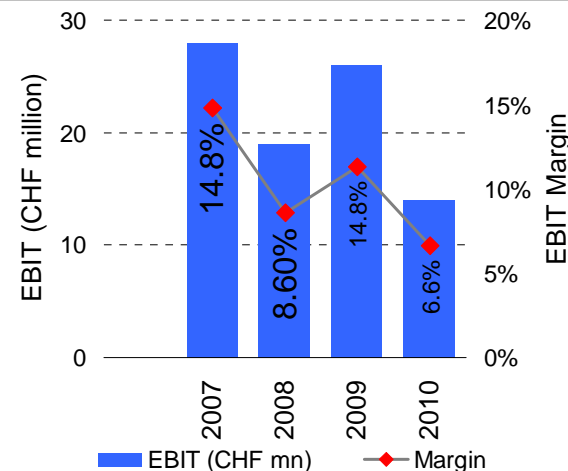


# Financial Summary and Highlights

## Key figures

CHF mn	2010	Change YoY*	CER <sup>(1)</sup>
Sales	211	(8.7)	-1.7%
EBIT	14	(46.2)	(26.9)
Margin	6.6%		
EBITDA	26	(39.5)	
Margin	12.3%		

## EBIT and margin progression



- Decline in sales and EBIT partly due to negative currency impact on EBIT of CHF 5 mn
- Low capacity utilization in Cell Therapy driven by 2009 delay to lead product
- Delay of 4D Nucleofector™ & MicroCompass™ II launches
- Substantial growth in Asia and Latin America in Research & Testing Solutions
- Cell Therapy pipeline significantly strengthened
- Entered the stem cell market

## Bioscience (I)

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### Research Solutions

- Strong development of Cell Assay, Cell Biology and Chromatography business
  - Successful entry into the stem cell market
  - License agreements with Odyssey Thera and California Stem Cells Inc.
  - 61 new product releases in Cell Assay, Pluripotent Stem Cell and Diseased Primary Cells
- New Nucleofector™ platform launched late but with new customer ordering in the fourth quarter of 2010
- Mature media and molecular biology portfolio coming under pressure

### Testing Solutions

- Overall business balanced out one time effect from H1N1 testing hype in 2009
- Strong sales development in Asia/Pac, India/Middle East and Latin America
- Role-out of MODA paperless quality-control solutions within Lonza Custom Manufacturing
- MicroCompass™ launched delayed due to changes in equipment manufacturer and slower assay development

## Bioscience (II)

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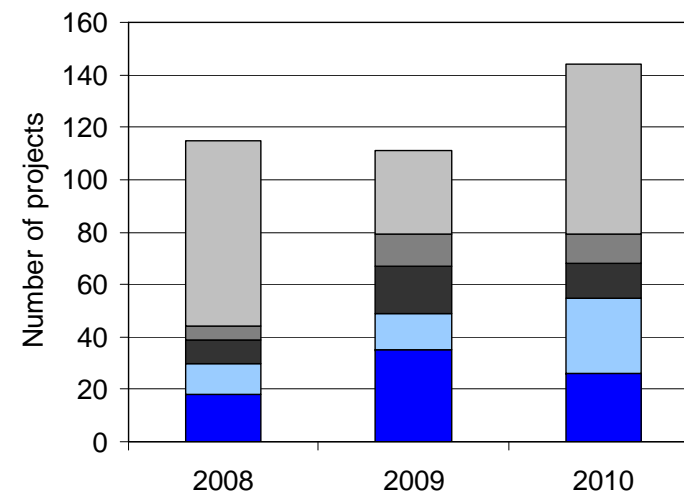
### Therapeutic Cell Solutions

- Expected lower sales due to loss of lead product
- Strong pipeline development replaces volume of former lead product
- Vivante GMP (viral vaccines) transaction finalized and fully integrated
- Expansion projects in Walkersville, MD (USA) and Singapore for Cell Therapy suites on track
- Contract with US Department of Defense to test, develop and commercialize PermDerm™ (engineered skin substitute (ESS) to treat burn victims)

# Bioscience Project Pipeline – New Products and Therapeutic Clients

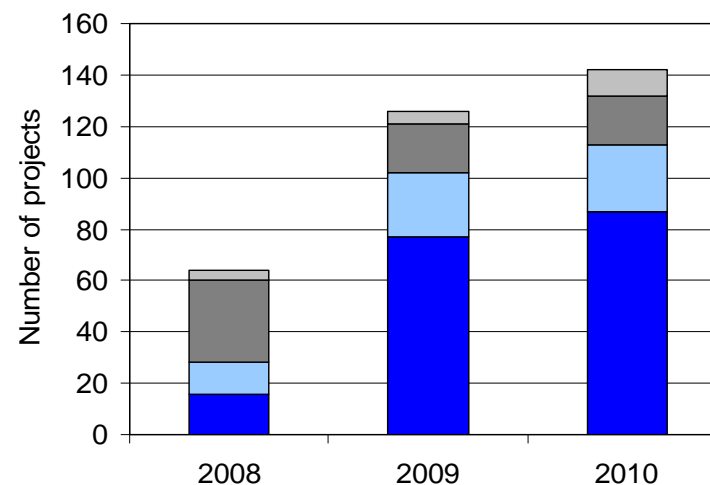
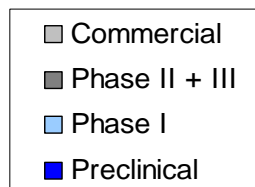
## New Products

(Research Solutions, Testing Solutions and Therapeutic Cell Solutions)



## Therapeutic Clients

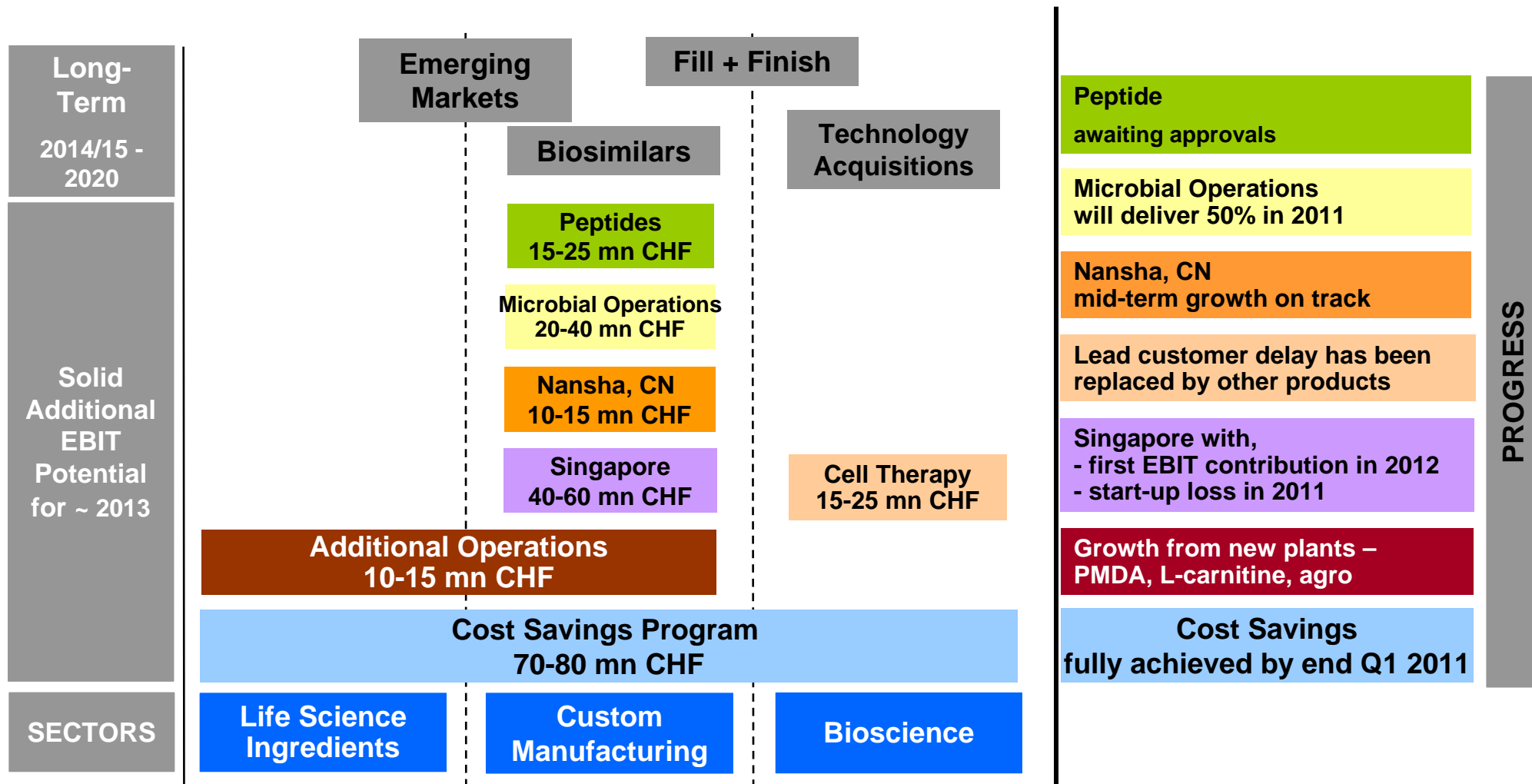
(Therapeutic Cell Solutions)





# Mid-term Additional EBIT Potential

## Mid-term Targets Reiterated\*



\* at constant exchange rate

## Summary 2010

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- Sales increased by 3.3% and EBIT by 5.8% at constant rates
- Stable EBITDA margins (24.0%) despite more volatile environment
- Solid balance sheet structure with gearing of 46%
- Free-cash flow increased 6 times to CHF 336 mn
- CAPEX substantially reduced to CHF 300 mn (CHF 520 mn in 2009)
- Substantial product pipeline increase
- Higher number of new contract signings
- The Board of Directors has revised the dividend policy with an increased pay-out ratio of up to 40% to reflect the Group's positive outlook and cash generation
- The Board proposes an increased cash dividend of CHF 2.15 per share for 2010 (withholding tax free) (EPS CHF 5.55)

## Outlook

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- EBIT growth at constant exchange rates will continue
- Solid growth in 2011 especially in Biological Custom Manufacturing and Bioscience
- Investment and R&D projects will deliver mid-term growth
- On track to deliver 2013 incremental EBIT targets on a constant currency basis
- The strength of the Swiss franc, erratic raw material pricing and less predictable regulatory approvals will continue to cause volatility
- Significant free cash flow delivery will continue in 2011
- Lonza's increased financial flexibility will open up expansion opportunities in our life-science-focused value chain
- Lonza's Life Sciences strategy remains solid

# Calendar of Events and Contacts

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## ■ Important Lonza Group Dates

- 12 April 2011 Annual General Meeting
- 13 April 2011 First-Quarter 2011 Business Update
- 27 July 2011 Half-Year Results 2011
- 27 October 2011 Third-Quarter 2011 Results

## ■ Contacts

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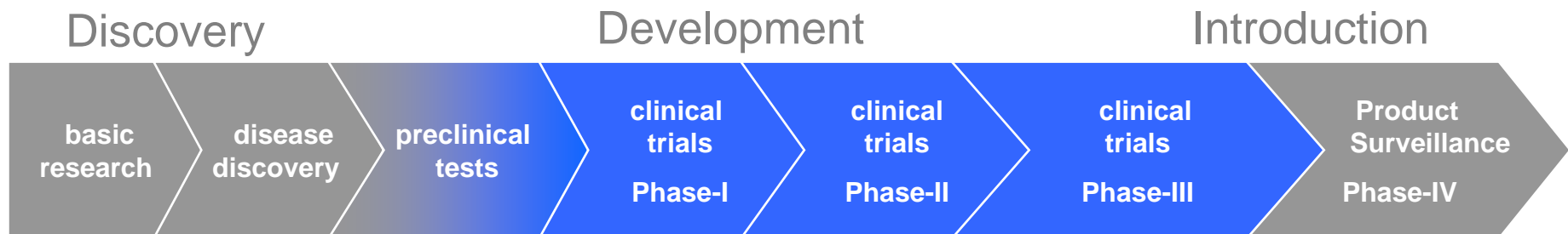
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**2010 Full Year Results – 26 January 2011**

Stefan Borgas

Chief Executive Officer

# Drug Development – Key Facts



Registration/  
Commercialization

**10'000  
to  
30'000  
substances**

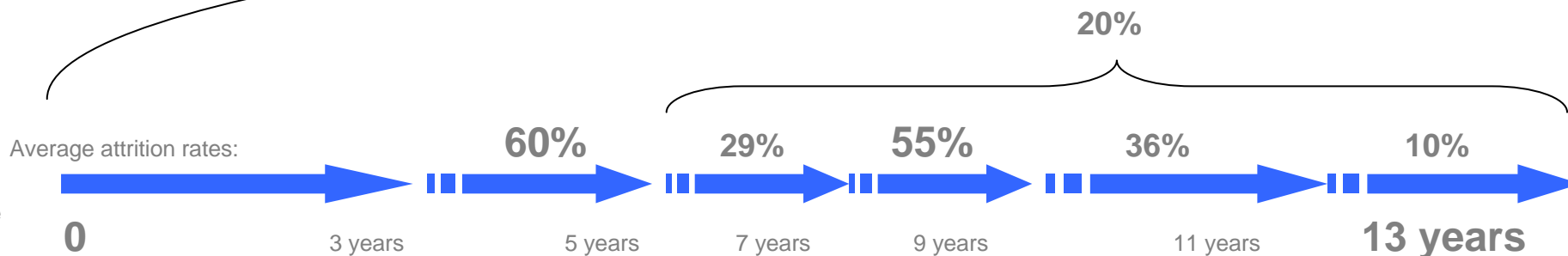
**10 to 20**  
• current #  
of products  
ww ~ 4726

**5 to 10**  
• current #  
of products  
ww ~ 1323

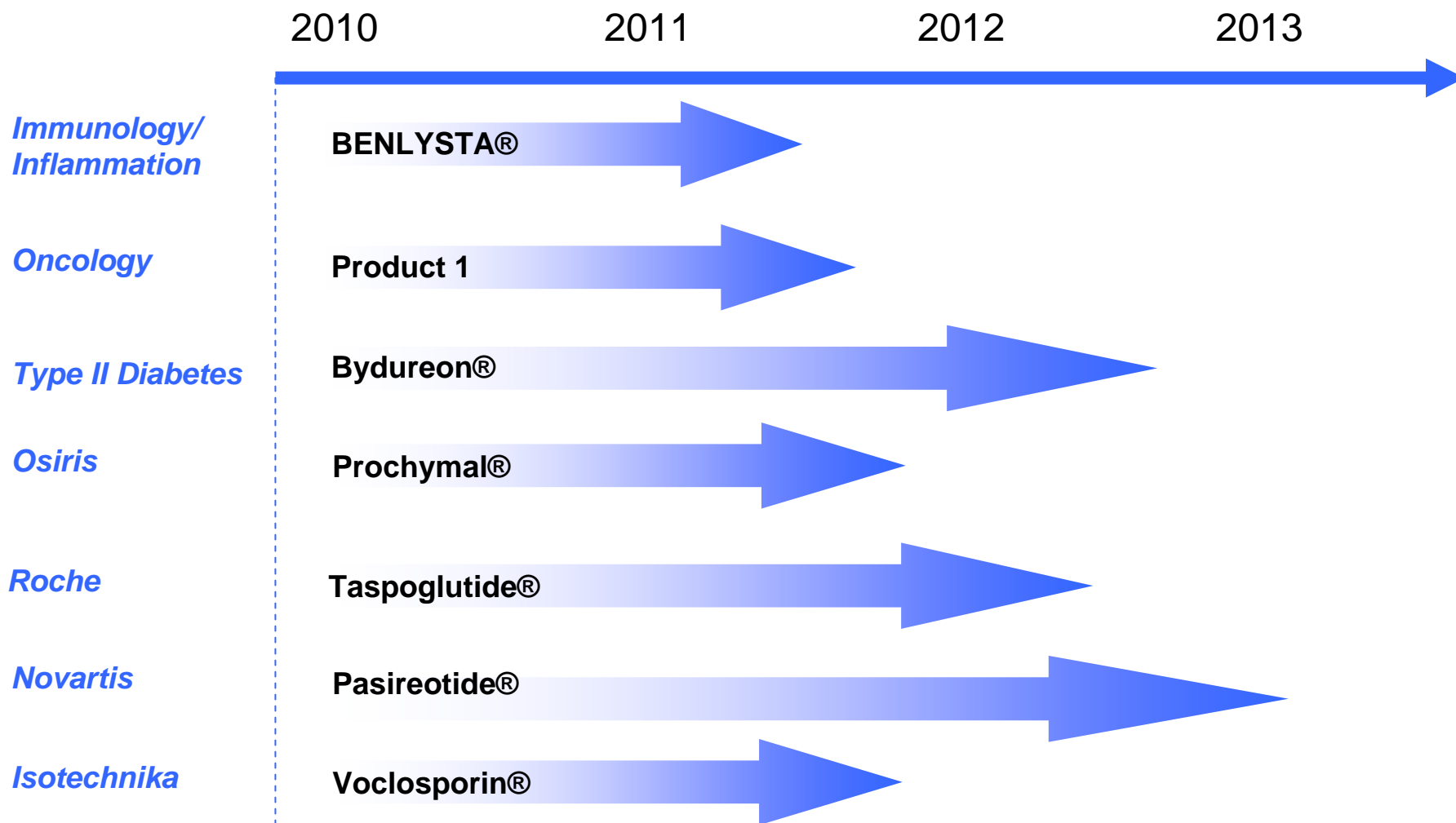
**2 to 5**  
• current #  
of products  
ww ~ 1662

**2**  
• current #  
of products ww ~ 541

**1 to 2**  
current #  
of products ww  
~ 172/3262



# Examples of clinical delays – a Market Snapshot Phase III / registration\* to Launch Outlook



\* SOURCE:Pharmaprojects 2010: US, Europe, Japan, ROW; [www.drugs.com](http://www.drugs.com); <http://www.drugpipelineforecast.com/pipeline/>

## Lonza Group

### Hedging Policy 2011 / FX Risk Management Policy and Process

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- Focus on natural hedge
- Contract hedging a must
- Central hedging
- Partial forward hedging of net exposure

	<b>Currency sensitivity 2011</b>	
	<b>Change</b>	<b>EBIT - effect</b>
<b>USD / CHF</b>	+/- 5 %	+/- CHF 15 mn
<b>EUR / CHF</b>	+/- 5 %	+/- CHF 8.5 mn
<b>GBP / CHF</b>	+/- 5 %	+/- CHF 1.5 mn
<b>SGD / CHF</b>	+/- 5 %	+/- CHF 8 mn
<b>CNY / CHF</b>	+/- 5 %	+/- CHF 6.5 mn



# Lonza Group

## Free Cash Flow 2010 vs. 2009

in CHF mn	2009	2010	Change (in CHF million)
EBIT (after special charges)	239	374	135
Depreciation of PPE	333	242	(91)
Amortization of intangible assets (incl. impairment / reversal)	28	27	(1)
Changes in NWC	(93)	48	141
CAPEX	(520)	(300)	220
Acquisition of subsidiaries	-	(26)	(26)
Sale of assets	61	8	(53)
Other	3	(37)	(40)
Free Cash Flow	51	336	285