

Ordinary Shareholders' Meeting 28 March, 2001

Address

by

Sergio Marchionne
Managing Director and
Chief Executive Officer
Lonza Group Ltd

Ladies and gentlemen, good afternoon

You have heard from Mr. Ebner that we have the pleasure today of being able to share the conclusion of another successful year for Lonza Group, not only in terms of financial results, but also by providing absolute clarity about the strategic direction that the Group will take.

Let me deal with this strategic reorientation first.

As mentioned during last year's shareholders meeting, the strategic position of Lonza in the wider spectrum of specialty chemical companies was an issue that management and the board of directors committed to review extensively. Lonza had basically two choices available.

The first was a concentration of Lonza in the life sciences sector, with the result being a streamlining of the portfolio to concentrate on the development, both organic and acquisitive, of the necessary toolbox to augment and defend the leadership position that our Group has already achieved in both custom manufacturing, and other life sciences oriented activities.

The second option would have accepted the embedded diversity of our chemicals businesses, and looked for ways in which it could aggregate mass and thus fall into the traditional specialty chemicals model.

[VG 1] This review process led to the conclusion - as you can see from our new vision - that the most value-accretive alternative requires the focusing of Lonza on the life sciences sector, by fully utilizing and further developing its chemical and biotechnology platforms where organic growth opportunities are believed to be abundant.

Lonza is already a world-recognized supplier to the pharmaceutical and agrochemicals industries, and holds other significant positions in the production of intermediates for the wider life science markets.

The combination of this long-established reputation and the technological arsenal currently and potentially available to the Group is the basis upon which this new strategy is to be founded.

As a consequence of this strategic reorientation, Lonza will be required to divest businesses that are not aligned with its life science objectives. Accordingly, both the

Polymer Intermediates and Energy businesses of the Group have been identified as divestiture candidates. We expect this process to be completed by the end of 2001, yielding gross proceeds in excess of CHF 1 billion.

Therefore, in our 2000 financial reporting, we have classified the results of our Polymer Intermediates and Energy businesses as discontinuing operations. The information which I will present, excludes sales and operating income from these businesses in order to provide a clear picture of the performance, both current and historical, of our Group on a post portfolio pruning basis. The impact of discontinuing operations is nonetheless included in our consolidation, although single-lined. Pre-tax and net income data reflect the whole Group, including discontinuing operations.

And now to the 2000 business performance in detail.

[VG 2] Sales from continuing Group operations rose to CHF 1.7 billion, up 8% on 1999, driven in the main by favorable currency movements. The benefit associated with weakness in our reporting currency was tempered by US-dollar-denominated raw material pricing and the impact of the upsurge in oil prices, both of which greatly impacted on gross value added.

[VG 3] Operating profits from continuing operations increased by CHF 41 million or 14% to CHF 327 million. Only a small portion of this, approximately CHF 7 million, was attributable to currencies, with better utilization and operational efficiencies being responsible for the remainder.

Group operating margins from continuing operations moved up a full percentage point to 19.2%, placing the streamlined Lonza in the top-tier of performance-ranked specialty chemicals companies.

[VG 4] We had previously stated that the second semester would yield a much better performance from our Exclusive Synthesis and Biotechnology businesses than in the preceding two semesters, as plant loading and customer call-offs would improve and return to the exceptional levels seen in the first semester of 1999. As can be seen from this slide, operating margins have steadily increased from a 1998 level of 18.7% to 24.2% in 2000. This improvement is due to the combination of operational efficiencies in custom manufacturing, and the coming on stream of our biotechnology efforts.

[VG 5] This good performance balanced the more subdued performance in the second semester of our Organic Fine and Performance Chemicals, following an exceptionally strong first half. Although year over year margins have slipped from 16.7% to 16.5%, they do indicate a substantive shift from the 1998 level of 12.3%. Furthermore, on a currency adjusted basis, margins actually improved in 2000 over the prior year.

[VG 6] Our discontinuing businesses, which again include Polymer Intermediates and Energy, posted an acceptable performance, with operating income, net of one-offs, of CHF 84 million up 17 % on the prior year. The chemical portion of these activities is beginning to see a rebound as a result of a much-needed re-alignment of demand-supply dynamics in Europe. Even our isophthalic acid plant in Singapore, now operating at full capacity and accounting for some 10% of global supply, is expected to perform much better in 2001 as all start-up issues subside, and supply tightens and more accurately matches growing market demand.

[VG 7] The Group started the year with approximately CHF 400 million in cash. USD 167 million was repaid to group in accordance with the demerger agreement between the two

companies. Another CHF 350 million was expended in December as part of the share repurchase program that our Chairman will detail shortly. Average gearing in the year was therefore low, and yielded minimal net financial expenses of CHF 3 million.

The tax rate inched up to 23%, well within expectations.

Net income as a result moved up to CHF 309 million, representing a 13.2% increase over 1999. The combined impact of all currency shifts on the bottom line was negligible. Earnings per share increased 15.1% to CHF 48.90, disproportionately higher than our bottom line improvement, driven the accretive impact of our share buy back program.

Capital expenditures were CHF 190 with nearly 80% of the total being devoted to our continuing businesses. Cash flow remained strong at CHF 503 million, 16% over the prior year

As I mentioned earlier, the Group feels that there are significant organic growth opportunities in the chosen markets for the new, streamlined Lonza, especially in the areas of custom manufacturing and biotechnology. We are of the firm view that we are ideally placed to leverage them.

To this end, the Group has already committed to a four-fold expansion of fermentation volumes in the Biologics businesses (mammalian cell culture technologies for the production of monoclonal antibodies and therapeutic proteins) at a cost in excess of USD 180 million. Intense evaluations are also currently underway to assess the need for additional microbial fermentation capacities to deal with the expected upsurge in demand for biopharmaceuticals.

On the traditional organic chemical side, Lonza is preparing to meet the challenge presented by the increased complexity of custom-manufactured molecules, especially if required in active ingredient form (APIs), by extending its production capacity and capabilities with advanced, dedicated installations. This strategic reinforcement of the technology toolbox will equip Lonza to meet the growing requirement that pharmaceutical and agrochemical production be properly segregated.

All of these initiatives can be funded from internally generated resources.

Furthermore, in order to provide more effective management of our new strategic platform, the corporate offices of Lonza Group moved from Zurich to Lonza's Basle facilities effective March 1, 2001.

The forecast for the current year is that we will be able to improve on 2000 performance. We express this view cautiously in view of the rather erratic economic performance in the US which has already impacted our Performance Chemicals activities, which to date however, has been more than offset by strong performances in all of our business areas.

[VG 8] With this strategic re-alignment behind us, we can look forward to a new Lonza with new set of demanding targets for 2003:

- Sales in excess of CHF 2.3 billion
- Average Earnings per share growth of 15% per annum
- Group operating margins of >22%
- Group EBITDA margins of >29%

The Group is of the firm view that it is properly positioned and committed to achieve them.

Finally I would like to thank all our stakeholders for their continuing support and confidence in our Group. And most importantly on my behalf and that of the Executive Committee I would like to express my sincere gratitude to all our employees for their commitment to our vision and to our values and their contribution during 2000. Without our employees the achievement of another record result would simply not have been possible.