

Bachem shows firm growth in difficult environment

- Increase in sales of 18.6% in local currencies and 16.3% in Swiss Francs
- Clear rise of operating income by 12.4%
- Improved operating performance in all markets and business sectors
- Optimization of sales and marketing structures in Europe and focusing on competence centers in the USA
- Weakness of dollar with negative impact on financial performance and income before taxes

Key figures

	First half-year 2002 CHF m	First half-year 2001 CHF m	Difference in CHF m	Difference in %
Sales	76.2	65.5	10.7	16.3
Operating income	24.4	21.7	2.7	12.4
Income before taxes	22.1	23.3	-1.2	-5.3
Equity	303.3	289.4	13.9	4.8
Total assets	345.9	333.0	13.0	3.9

In the first half of 2002, the Bachem Group increased its sales by 16.3% to CHF 76.2 million compared with CHF 65.5 million in the same period last year. In local currencies, the growth amounted to 18.6%. This sales increase was achieved exclusively through internal growth. A markedly positive development was recorded in all major geographic markets. The business both in Europe and in the USA showed double-digit growth in sales.


Both active ingredients and research chemicals contributed to this positive sales development. The distribution of sales between these two business segments remained virtually unchanged compared with the situation at the end of 2001: In the first six months of the current year, the active pharmaceutical ingredients segment accounted for 73% of sales and the catalog and custom synthesis segment for 27%. In the catalog business, an above-average increase in sales was seen in the immunology product line which was acquired from Peninsula and is now fully integrated into the Bachem business.

In spite of the difficult conditions, especially in the biotechnology sector, and an associated increase in competitive pressure generally, Bachem managed to achieve

not only gratifying growth in sales but also a double-digit growth in its operating income. With a clear increase of 12.4%, the operating income rose from CHF 21.7 million in the first half-year of 2001 to CHF 24.4 million for the first six months of the current year. Over the same period, the EBITDA rose by 13.6% from CHF 27.5 million to CHF 31.2 million. The EBITDA thus lies at 40.9% of sales.

In keeping with the strategy of spreading the risk, the product portfolio in the active substance field continued to be expanded. The projects that have been added are in an early phase of clinical development and are not yet required in industrial-scale quantities. Compared with the established products, they are thus generating relatively high development and production costs, but at the same time are creating the foundation on which supply agreements can be concluded for larger quantities once market launch takes place.

Personnel costs compared with the same period last year rose by about 6%, with an increase in the number of employees by just under 4% versus the first half-year of 2001. Compared with the end of 2001, the number of employees on June 30, 2002 was practically unchanged.



Sochinaz SA, which was acquired in April 2001, continued to develop well, as expected, and made a major contribution to the increase in sales and earnings of the Group. On August 1, 2002, Jacques Cotting took over the operational management of Sochinaz SA, succeeding Christian Borgeaud as COO, who went into retirement.

Compared with the good operating performance in the first half-year, the financial performance was unsatisfactory as a result of the continuing uncertainties in the world economy and the financial markets. Despite earnings of CHF 1.4 million from securities, the financial performance was negatively affected by currency exchange losses, in particular as a result of the weak dollar. This led to a slight decline in profit before tax to CHF 22.1 million in the first six months compared with CHF 23.3 million in the same period last year.

Reorganization of distribution in Germany and France

As a result of changes in the European economic region, especially the introduction of the euro, but also in view of the positive experiences gained with the realignment of the sales and marketing organization in the USA, distribution will be restructured and optimized for Germany and France. The existing subsidiary companies in these countries will be closed at the end of 2002. A new Group Company based in Germany, close to the border with Switzerland and to the production center in Bubendorf, will take on the supply of the customers. This will allow them to profit from substantially reduced delivery times. Customer service will be concentrated in Bubendorf, while Key Account Managers in the two countries will be assigned to deal with major customers and further develop the markets. This reorganization should improve the efficiency of internal processes and lead to greater customer satisfaction. At a later stage, the organization will also be able to service other European countries and thus open up additional opportunities for growth throughout Europe.

Focusing of the organization in the USA

In the USA, too, the Bachem Group is taking a further step to optimize its organization. In line with the objective of creating competence centers with specific functions, the manufacture of peptide active ingredients according to GMP guidelines will be concentrated at Bachem California Inc., which has already successfully produced most of the active ingredients in the USA. Peptide production at Peninsula Laboratories Inc. will

be closed and the projects transferred to Bachem California. Peninsula will focus exclusively on the immunology business, where the core competence of this company lies. Bachem Bioscience Inc. will remain the competence center for the catalog business and for custom synthesis, and Bachem Americas will be the sales and marketing organization for the American continent.

As a result of this reorganization, a reduced number of employees is expected for the Group compared with the previous year. However, the restructuring measures will not impact results until the following year.

Successful start for Pevion Biotech AG

As already announced, in January of this year Bachem AG established the company Pevion Biotech AG as a 50:50 joint venture with Berna Biotech AG. The two founding companies are each putting up CHF 10 million for the new company, which is developing therapeutic and prophylactic peptide vaccines based on the viro-some technology patented by Berna. In collaboration with Swiss and European universities, vaccines will be developed for melanoma, hepatitis C, malaria and Alzheimer's disease. For these projects, Bachem has already manufactured and delivered the first peptides. Pevion is fully operational and currently has six employees. The company has rented premises in the new laboratory facilities of Berna, which facilitates important interactions in the field of the viro-some technology platform. First positive results are already available. As expected, Pevion reported only a low expenditure in the first half-year of less than CHF 0.5 million, which was charged equally to both Bachem AG and Berna Biotech AG.

Outlook

In spite of continuing uncertainty, especially in the biotechnology sector, we anticipate a clear increase in sales and operating income for the year 2002, barred exceptional unforeseen events. In terms of sales, we expect to see a performance in the second half of the year comparable with the first six months. In view of the strong second half of 2001, the growth rate for the whole of 2002, however, is likely to be lower than that in the first half-year. In local currencies, we expect to see a sales increase in the order of 10%. With our present portfolio of projects and activities, we also envisage some positive stimulus for the further development of our business in the coming year and a firm basis for sustained growth.

CONSOLIDATED INCOME STATEMENTS

for the half-years ended June 30, 2002 and 2001

	Notes	2002 000 CHF	2001 000 CHF
Sales	3	76 230	65 549
Other income		401	411
Cost of materials		-13 820	-12 309
Changes in inventories		1 180	5 084
Staff costs		-24 968	-23 520
Depreciation and amortization expense		-6 855	-5 809
Other operating expenses		-7 818	-7 744
Operating income		24 350	21 662
Result from associated companies	4	-227	0
Financial income, net	5	-2 065	1 625
Income before taxes		22 058	23 287

CONSOLIDATED BALANCE SHEETS

at June 30, 2002 and 2001

Assets	Notes	June 30, 2002 000 CHF	June 30, 2001 000 CHF
Cash and cash equivalents		77 114	51 996
Marketable securities		36 006	51 914
Trade and other receivables		41 875	33 578
Inventories	6	48 559	45 250
Total current assets		203 554	182 738
Tangible fixed assets		110 400	120 271
Intangible assets		23 791	25 137
Financial assets		7 023	4 250
Other long-term assets		1 160	562
Total long-term assets		142 374	150 220
Total assets		345 928	332 958
Liabilities and equity			
Trade payables		9 249	6 661
Short-term financial debts		0	52
Income tax payables		12 121	3 964
Other short-term liabilities		4 566	9 380
Provisions		623	2 914
Total short-term liabilities		26 559	22 971
Bank loans		2 200	3 772
Other long-term financial debts		0	519
Deferred tax liabilities		13 873	16 307
Total long-term liabilities		16 073	20 598
Total liabilities		42 632	43 569
Share capital		6 800	6 800
Share premium		85 839	85 851
Other reserves		215 164	187 394
Own shares	7	-260	-319
Cumulative translation difference		-4 247	9 663
Total equity		303 296	289 389
Total liabilities and equity		345 928	332 958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-years ended June 30, 2002 and 2001

1. Accounting Policies for the Bachem Group

The accounting policies for the Bachem Group, described in the Annual Report 2001 on pages 22 to 24,

have not been changed for the half-yearly report 2002. There was no change in the scope of consolidation.

2. Exchange rates

	Income statement average rate first half-year 2002 CHF	first half-year 2001 CHF	full year 2001 CHF	Balance sheet end rate June 30, 2002 CHF	June 30, 2001 CHF	December 31, 2001 CHF
1 US Dollar	1.6378	1.7069	1.6879	1.4883	1.7910	1.6788
1 English Pound	2.3637	2.4551	2.4291	2.2758	2.5233	2.4302
1 Euro	1.4693	1.5307	1.5103	1.4707	1.5197	1.4809

3. Segment information (business segments)

The relation of the sales to third parties between active ingredients on the one hand and research chemicals (incl. custom syntheses) on the other hand was 73% to 27% during the last half-year. Investments and assets cannot

be separated into the business areas since we are using multi-purpose-equipment which can be used to produce all of our products.

4. Participation in associated companies

On January 7, 2002, Bachem AG and Berna Biotech AG jointly founded Pevion Biotech AG in Bern, each with a 50-percent stake. This company is consolidated at equity.

Valuation on June 30, 2002: CHF 2.8 million (investments of CHF 3 million less accumulated costs of CHF 0.2 million).

5. Financial income and expense

	June 30, 2002 000 CHF	June 30, 2001 000 CHF
Financial income		
Interest	1 064	1 519
Income from securities	2 409	3 408
Other	22	2 418
Total	3 495	7 345
Financial expense		
Interest	94	161
Loss on securities	989	2 944
Other	450	1 867
Total	1 533	4 972
Currency result, net	-4 027	-748
Financial income, net	-2 065	1 625

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-years ended June 30, 2002 and 2001

6. Inventories

	June 30, 2002 000 CHF	June 30, 2001 000 CHF
Raw materials	10 991	7 059
Finished products	37 568	38 191
Total	48 559	45 250

7. Own shares

On June 30, 2002 Bachem AG held 225 987 own shares, which are reserved for distribution under the employee share participation plans. As of June 29, 2001 the shares were split 1:20.

Transactions of own shares:

	Shares June 30, 2002 [pieces]	Sales [pieces]	Purchases [pieces]	Shares January 1, 2002 [pieces]
Employee participation scheme (domestic) at the price of CHF 0.20	122 720	7 980	1 000	129 700
Employee participation scheme (foreign) at the price of CHF 56.63	3 267	2 633	0	5 900
Option plan at the price of CHF 0.50	100 000	0	0	100 000
Treasury stock at the price of CHF 60.48	0	25 600	0	25 600

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