

Half-yearly Report 2004

Bachem half-year sales 2004 exceed CHF 75 million

- Sales increase by 6.1% in CHF and by 8.0% in local currencies respectively
- Peptide generics continue upward trend, positive change for research chemicals confirmed
- USA shows dynamic growth, demand recovery in Europe delayed
- Operating income affected by strategic growth projects and currency impact

Key figures	First half-year 2004 CHF m	First half-year 2003 CHF m	Change in CHF %	Change in local currencies %
Sales	75.5	71.2	6.1	8.0
Operating income	22.3	22.8	-2.4	-1.0
Operating income in % of sales	29.5%	32.1%		
Income before taxes	22.4	23.5	-4.7	
Net income	16.9	17.7	-4.4	
Earnings per share in CHF	1.28	1.34	-4.3	

Bubendorf, Switzerland, August 16, 2004

In the first half of 2004, the Bachem Group (SWX: BANB) recorded sales growth of 8.0% in local currencies. Business dynamics in the USA and in peptide generics worldwide were primary contributors to this development. The appreciation of the Euro against the Swiss franc could not compensate for a further weakening of the USD by 6.3%, therefore sales increase in CHF was at 6.1%, resulting in a consolidated turnover of CHF 75.5 million as compared to CHF 71.2 million in the corresponding period in 2003.

Given the negative currency impact, combined with various strategic measures in production and warehousing to increase the readiness to supply on short notice, the operating income of CHF 22.8 million in the first six months of 2003 decreased by about 2.4% (or 1.0% in local currencies) to CHF 22.3 million in the first half of 2004. Accordingly, the EBIT margin fell from 32.1% in the comparable period of last year to 29.5% in the first half of 2004.

Although the net financial result was again positive with an unchanged amount of CHF 1 million, income before taxes decreased from CHF 23.5 million (first half of 2003) to CHF 22.4 million (first half of 2004), as did earnings per share (EPS), from CHF 1.34 to CHF 1.28. Income figures also reflect increased expenditure for Pevion Biotech AG, the joint venture with Berna Biotech AG for the development of peptide vaccines.

Dr. Rolf Nyfeler, Chief Executive Officer of Bachem, commented: "Although the economic climate is recovering slower than expected, the measures taken to optimize our market position have already proven partially successful. By increasing warehousing, we were able to conclude additional sales, particularly for peptide generics in the USA. In addition, the positive change in trend bodes well for our American research chemicals business. Meanwhile, we hope to see a noticeable stimulation of demand in Europe sometime soon."

Trends in the most important markets

For the first time in more than 18 months, the research chemicals business has again recorded sales growth with an increase of 5.6% in local currencies. This positive development was particularly pronounced in the USA, where available research and development funds have clearly increased again. The active ingredients business also developed well, with an increase of 8.1% in local currencies. Peptide generics contributed significantly to this favorable trend. Growth opportunities for non-peptide generics, on the other hand, were limited in view of bottlenecks in production at Sochinaz. Measures to increase production capacities are already underway, and the steps necessary to improve readiness for delivery and to optimally take advantage of market opportunities

have been initiated. The NCE business showed moderate growth only. No major approvals were seen by Bachem's clients during the reporting period that would have a significant impact on the company's business.

In geographic markets, business in the USA developed very dynamically with increased sales of 28.4% in local currencies (+20.3% in CHF). In Europe and other markets worldwide, the expected upswing has yet to occur, resulting in a slight sales decrease of 1.5% in local currencies (-0.5% in CHF).

Strategic projects progressing

During the first half of 2004 the company was in a position to secure several contracts just on the basis of being ready to deliver off the shelf following last year's push to increase stocks, specifically for generics.

In order to meet the need for additional capacity in the production of non-peptide generics, an additional shift has been introduced and new staff has been hired to fully utilize current facilities. Presently Sochinaz is thus working at full capacity. The ongoing project to further increase production capacity progresses according to schedule. The new facility will allow for further increases in production as of early 2005.

Production capacities of all group companies are well utilized in general. The number of development projects with potential for the future could be maintained at a high level. However, they continue to incur overproportionally high development cost.

Strategic projects during the first half of 2004 partly had a modestly dampening effect on operating and net income, which is expected to continue during the second half of the year.

Pevion Biotech AG, a 50% joint venture with Berna Biotech AG targeted at the development of peptide vaccines, announced first positive results of a phase I trial for their malaria vaccine on June 18. Clinical data showed that the vaccine was well tolerated after two applications per person and achieved the desired immune reaction. This major milestone has been reached only two years after Pevion was established.

Personnel and investments

As compared to the end of 2003, the number of employees has increased by 10 full time equivalents to 505, primarily as a result of increasing staff for the additional production shift at Sochinaz.

According to plan, investments doubled to CHF 11.2 million as compared to the corresponding reporting period in 2003. More than half of this is due to the capacity expansion currently under work at Sochinaz. Further important investment projects were the build up of Bachem UK as the competence center for custom synthesis of peptides and various other projects at Bachem AG in Bubendorf.

Outlook

Sales trends for peptide generics and research chemicals indicate an ongoing, promising demand for these products continuing into the second half of 2004. It remains to be seen, however, to what extent the dynamic trend in the USA spreads over into Europe. As already announced earlier this year, the principally positive development in the second half year will be dampened somewhat by the one client's intended stock reduction for one of the company's major products. In addition, a weaker second half of the year can be assumed given that the capacity increase for non-peptide generics will only start impacting sales as of 2005, and no significant break-through for the NCEs of Bachem's clients can be expected, barred any unforeseen events. For the full year, the company expects an increase in sales of between two and five percent in local currencies. Considering ongoing efforts to strengthen the competitive position of the company, the EBIT margin for the full year should remain more or less unchanged as compared to the first six months. Taking into account the sound basis of projects, the mid-term growth perspectives continue to be judged favorably.

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Consolidated Income Statements

	Notes	First half-year 2004 000 CHF	First half-year 2003 000 CHF
Sales	3/4	75 538	71 205
Other income		114	115
Changes in inventories		-1 032	3 017
Cost of materials		-12 319	-13 277
Staff cost		-25 148	-24 010
Depreciation and amortization expense	3	-6 210	-6 273
Other operating expenses		-8 655	-7 930
Operating income	3	22 288	22 847
Result from associated companies		-946	-420
Financial income, net	3/5	1 013	1 030
Income before taxes		22 355	23 457
Income taxes	3	-5 440	-5 759
Net income	3	16 915	17 698
Earnings per share in Swiss Francs (half-year)	6	1.28	1.34

Consolidated Balance Sheets

Assets	Notes	June 30, 2004 000 CHF	December 31, 2003 000 CHF
Cash and cash equivalents		72 931	83 717
Marketable securities		55 984	45 156
Trade and other receivables		30 310	34 614
Inventories		59 110	56 136
Total current assets		218 335	219 623
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Tangible fixed assets		117 796	109 729
Intangible assets		16 612	18 550
Associated companies		2 793	739
Prepaid pension fund contributions		537	537
Deferred tax assets		1 414	1 370
Other financial assets		6 568	5 442
Total long-term assets		145 720	136 367
Total assets	3	364 055	355 990
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Liabilities and equity			
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Trade payables		8 017	7 020
Short-term financial debts		133	0
Other short-term liabilities		6 604	5 690
Provisions		740	1 396
Total short-term liabilities		15 494	14 106
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Deferred tax liabilities		16 870	17 467
Defined benefit plan liabilities		385	324
Total long-term liabilities		17 255	17 791
Total liabilities	3	32 749	31 897
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Share capital		680	680
Retained earnings		268 993	265 797
Share premium		85 839	85 839
Own shares	7	-9 821	-12 588
Fair value reserves		-1 590	-1 667
Cumulative translation differences		-12 795	-13 968
Total equity		331 306	324 093
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Total liabilities and equity		364 055	355 990

Consolidated Cash Flow Statements

	Notes	First half-year 2004 000 CHF	First half-year 2003 000 CHF
Cash flow from operating activities			
Net income		16 915	17 698
Reversal of non-cash items:			
Income taxes		5 440	5 759
Depreciation and amortization expense	3	6 210	6 273
Financial income, net	3/5	-1 013	-1 030
Result from associated companies		946	420
Income taxes paid		-2 305	-6 223
Change in net current assets		-756	-1 981
Other operating cash flow items		131	1 083
Cash flow from operating activities		25 568	21 999
Cash flow provided by/(used for) investing activities			
Investment in tangible fixed assets		-11 187	-4 508
Investment in intangible assets		-720	-479
Investment in financial assets		-4 125	-1 125
Change in marketable securities		-10 520	-13 786
Interest and other financial receipts		1 208	1 487
Cash flow provided by/(used for) investing activities		-25 344	-18 411
Cash flow provided by/(used for) financing activities			
Change in own shares		3 623	-7 937
Change in financial debts		134	-1 164
Interest and other financial payments		-365	-212
Dividends paid		-14 575	-7 252
Cash flow provided by/(used for) financing activities		-11 183	-16 565
Net effect of currency translation on cash and cash equivalents		173	47
Net change in cash and cash equivalents		-10 786	-12 930
Cash and cash equivalents at the beginning of the year		83 717	86 385
Cash and cash equivalents at the end of the half-year		72 931	73 455
Net change in cash and cash equivalents		-10 786	-12 930

Consolidated Statements of Shareholders' Equity

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total first half-year 2004 000 CHF
Balance January 1, 2004	680	265 797	85 839	-12 588	-1 827	160	-13 968	324 093
Net income	0	16 915	0	0	0	0	0	16 915
Dividends paid	0	-14 575	0	0	0	0	0	-14 575
Transactions with own shares	0	856	0	2 767	0	0	0	3 623
Cumulative translation differences	0	0	0	0	0	0	1 173	1 173
Change of fair value reserves	0	0	0	0	84	-7	0	77
Balance June 30, 2004	680	268 993	85 839	-9 821	-1 743	153	-12 795	331 306

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	Fair value reserves 000 CHF	Deferred taxes on fair value reserves 000 CHF	Cumulative translation differences 000 CHF	Total first half-year 2003 000 CHF
Balance January 1, 2003	6 800	235 548	85 839	-4 821	-5 959	1 339	-7 980	310 766
Net income	0	17 698	0	0	0	0	0	17 698
Dividends paid	0	-7 252	0	0	0	0	0	-7 252
Transactions with own shares	0	0	0	-7 937	0	0	0	-7 937
Cumulative translation differences	0	0	0	0	0	0	71	71
Change of fair value reserves	0	0	0	0	1 500	-330	0	1 170
Balance June 30, 2003	6 800	245 994	85 839	-12 758	-4 459	1 009	-7 909	314 516

The share capital is divided into 6 802 000 shares Bachem A (50.01% of share capital) and 6 798 000 shares Bachem B (49.99% of share capital). The shares Bachem B are traded at the Swiss Exchange (SWX) under valor number 1 253 020. All shares are registered shares. Except for the registration of Bachem B

shares, there are no further differences between the two share categories. The shares A are wholly owned by Ingro Finanz AG. In 2003 the share capital was reduced to CHF 680 000. Since then, the nominal value per share is CHF 0.05.

Notes to the Consolidated Financial Statements

1. Accounting Policies

The accounting policies used are consistent with those used in the consolidated annual financial statements 2003. The presentation of the consolidated interim financial statements is consistent with the

consolidated annual financial statements. Income tax expense is recognised based upon the best estimate of the weighted average annual income tax rate expected for the full financial year.

2. Exchange rates	Income statement	full year	first half-year	Balance sheet	December 31,	June 30,
	average rates first half-year 2004 CHF	2003 CHF	2003 CHF	end rates June 30, 2004 CHF	2003 CHF	2003 CHF
1 US Dollar	1.2658	1.3451	1.3508	1.2662	1.2423	1.3545
1 English Pound	2.3063	2.1973	2.1757	2.2880	2.2087	2.2352
1 Euro	1.5534	1.5206	1.4916	1.5298	1.5593	1.5554

3. Segment information (regions)	Europe / Rest of World	first half-year	North/South America	first half-year	Eliminations	first half-year	Consolidated values	first half-year
	first half-year 2004 000 CHF	2003 000 CHF						
Sales third parties	48 356	48 605	27 182	22 600				
Sales intercompany	20 916	13 524	1 710	2 259	22 626	15 783		
Total sales	69 272	62 129	28 892	24 859	22 626	15 783	75 538	71 205
Operating income	19 895	20 185	5 145	4 562	2 752	1 900	22 288	22 847
Result from associated companies	-946	-420	0	0	0	0	-946	-420
Financial income, net	13 572	4 839	-59	-71	12 500	3 738	1 013	1 030
Income taxes	-4 543	-4 622	-1 804	-1 510	-907	-373	-5 440	-5 759
Net income	27 978	19 982	3 282	2 981	14 345	5 265	16 915	17 698

Other information	June 30, December 31,	
	2004	2003
	000 CHF	000 CHF
Assets	535 654	514 815
Liabilities	49 305	33 166

	First half-year	First half-year
	2004	2003
	000 CHF	000 CHF
Investments	11 578	4 498
Depreciations and amortizations	5 422	5 346

The primary segment information is based by the location of assets.

Segment information based by the location of customers would not result in material changes.

4. Segment information (business segments)	First half-year	First half-year	First half-year	First half-year
	2004	2003	2004	2003
	in %	in %	000 CHF	000 CHF
Active pharmaceutical ingredients	76.8%	76.3%	57 989	54 326
Research chemicals (incl. custom synthesis)	23.2%	23.7%	17 549	16 879
Total sales	100.0%	100.0%	75 538	71 205

Notes to the Consolidated Financial Statements

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.

	First half-year 2004 000 CHF	First half-year 2003 000 CHF
5. Financial income, net		
Financial income		
Interest income	426	513
Dividend income	635	997
Gain of disposal of securities	219	127
Other	46	39
Total	1 326	1 676
Financial expense		
Interest expense	-15	-39
Loss on disposal of securities	-149	-131
Other	-355	-169
Total	-519	-339
Currency result, net	206	-307
Financial income, net	1 013	1 030

	First half-year 2004	First half-year 2003
6. Earnings per share (EPS)		
Net income (000 CHF)	16 915	17 698
Weighted average number of ordinary shares issued (basic)	13 219 306	13 241 056
Basic earnings per share (CHF)	1.28	1.34

As of June 30, 2004, 20 200 options were outstanding, which did not have a material dilution effect. As of June 30, 2003, 16 900

options were outstanding, which also did not have a material dilution effect.

7. Own shares

On June 30, 2004 Bachem Holding AG held 350 089 own shares, 151 452 are reserved for trading and 198 637 are

reserved for distribution under the employee share participation plans.

Transactions of own shares:	Stock June 30, 2004 [pieces]	Sales [pieces]	Purchases [pieces]	Stock January 1, 2004 [pieces]
Employee participation scheme at the price of CHF 1.22	98 637	11 880	0	110 517
Option plan at the price of CHF 0.05	100 000	0	0	100 000
Treasury Stock at the price of CHF 64.02	151 452	60 000	10 670	200 782