

Half-yearly Report 2003

Bachem Group increases half-year net income with stable sales in local markets

- EBIT margin holds up well in spite of difficult market conditions
- sales remain unchanged in local currencies; weak dollar impacts operating income in CHF
- substantially improved financial performance leads to increase in net profit and EPS
- positive development of generics business; research chemicals suffer from stagnating economy
- stronger second half-year expected; prospects for 2003 overall are confirmed

Key figures	First half-year 2003 CHF m	First half-year 2002 CHF m	Change in CHF %	Change in local currencies %
Sales	71.2	76.2	-6.6	-0.1
Operating income	22.8	24.4	-6.2	-2.0
<i>Operating income as % of sales</i>	32.1%	31.9%		
Income before taxes	23.5	22.1	6.3	
Net income	17.7	16.7	5.7	
Earnings per share in CHF	1.34	1.25	6.6	

Bubendorf, Switzerland, August 22, 2003

In the first half-year of 2003 the Bachem Group (SWX: BANB) reported stable sales in local markets. In view of what was almost a 20 percent devaluation of the US dollar compared with the Swiss franc, however, consolidated sales declined by 6.6 percent from CHF 76.2 million in the same period last year to CHF 71.2 million.

The EBIT margin held up well at 32.1 percent (first half-year 2002: 31.9 percent). The operating income (EBIT) was CHF 22.8 million (first half-year 2002: CHF 24.4 million).

At CHF 23.5 million, income before taxes was up 6.3 percent on the same period last year (first half-year 2002: CHF 22.1 million) thanks to the sharply improved net financial result. Earnings per share (EPS) improved for the first half-year from CHF 1.25 to CHF 1.34.

Dr. Rolf Nyfeler, CEO of Bachem, commented that "the economic environment for our industry has hardly improved compared with last year. Under these conditions, the stability of sales and EBIT margin, as well as the increase in profit, are a measure of how sound our business is. Since some projects have also seen delays and will not be completed until the second half of the year, we assume that performance in the second half of this year will be stronger and that our projected growth targets for 2003 as a whole will be met."

Trends in the most important markets

The continuing sluggishness of the economy has led to reduced research spending at universities and other research institutions and has resulted in a marked sales decline in the research chemicals business.

By contrast, the active ingredient business developed positive. For the area of New Chemical Entities (NCEs), active pharmaceutical ingredients that are patented and may only be manufactured or used by the patent holder or by companies authorized to do so by the patent holder, two trends played a key role in a modest development of sales. On the one side, the pharmaceuticals sector, the most important customer segment for Bachem, did not show the dynamic growth of previous years. On the other side, companies in the biotech industry, the second most important market for Bachem, found it increasingly difficult to raise funds, leading to a slow-down in development activities for new medicines. The generics business, the manufacture of active pharmaceutical ingredients whose patents have expired, showed a gratifyingly positive development. Both the generic peptides produced by Bachem and the non-peptidic generics from Sochinaz, which is part of the Bachem Group, showed good growth.

Owing to the major importance of the US American market, the weakness of the US dollar had an impact on the consolidated Group result. In addition, delays in the implementation and completion of projects in particular also left their mark. Business in Europe by contrast profited especially from a lively demand for generics.

Personnel and investments

The number of employees remained almost unchanged at about 500. Investments just short of CHF 5 million were in keeping with anticipated and planned activities. In view of the continuing high utilization of capacity in the whole of the Bachem Group, further projects aimed at an expansion of capacity are currently being examined. Particular emphasis here is on Sochinaz, for which an expansion of production capacity is already under way in response to the steady increase in demand for generics. In the field of custom synthesis, the expansion of the European competence centre in Great Britain will be completed in 2004.

Outlook

For the second half of the year, no major stimulus is expected for the business with research chemicals. On the other hand, it can be assumed that the positive development of the generics business will be sustained. Also in the second half-year Bachem expects to see sales from projects with New Chemical Entities (NCEs) for which delays occurred in the period under review. Further new projects in the area of NCEs have been acquired for the second half-year. Provided no unforeseen events intervene, the target sales growth of 5 to 10 percent in local currencies is thus likely to be achieved, as originally announced. In spite of difficult market conditions, Bachem expects an EBIT margin for the whole year in the order of magnitude of last year's figure and an increase in net profit compared with 2002.

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Consolidated Income Statements

	Notes	First half-year 2003 000 CHF	First half-year 2002 000 CHF
Sales	4/5	71 205	76 230
Other income		115	401
Cost of materials		-13 277	-13 820
Changes in inventories		3 017	1 180
Staff cost		-24 010	-24 968
Depreciation and amortization expense	4	-6 273	-6 855
Other operating expenses		-7 930	-7 818
Operating income	4	22 847	24 350
Result from associated companies		-420	-227
Financial income, net	6	1 030	-2 065
Income before taxes		23 457	22 058
Income taxes	1	-5 759	-5 313
Net income		17 698	16 745
Earnings per share in Swiss Francs (half-year)	7	1.34	1.25

Consolidated Balance Sheets

Assets	Notes	June 30, 2003 000 CHF	December 31, 2002 000 CHF
Cash and cash equivalents		73 455	86 385
Marketable securities		51 010	36 251
Trade and other receivables		28 733	28 773
Inventories		51 317	48 957
Total current assets		204 515	200 366
Tangible fixed assets		110 775	110 588
Intangible assets		20 597	22 663
Associated companies		1 865	2 285
Prepaid pension fund contributions		702	702
Deferred tax assets		3 026	3 098
Other financial assets		5 416	4 292
Total long-term assets		142 381	143 628
Total assets	4	346 896	343 994
Liabilities and equity			
Trade payables		9 425	7 697
Short-term financial debts		1 000	2 164
Income tax payables		1 284	0
Other short-term liabilities		3 977	5 264
Provisions		693	1 117
Total short-term liabilities		16 379	16 242
Deferred tax liabilities		15 405	16 443
Defined benefit plan liabilities		596	543
Total long-term liabilities		16 001	16 986
Total liabilities	4	32 380	33 228
Share capital		6 800	6 800
Retained earnings		245 994	235 548
Share premium		85 839	85 839
Own shares	8	-12 758	-4 821
Fair value reserves		-3 450	-4 620
Cumulative translation differences		-7 909	-7 980
Total equity		314 516	310 766
Total liabilities and equity		346 896	343 994

Consolidated Cash Flow Statements

	Notes	First half-year 2003 000 CHF	First half-year 2002 000 CHF
Cash flow from operating activities			
Net income		17 698	16 745
Reversal of non-cash items:			
Income taxes		5 759	5 313
Depreciation and amortization expense	4	6 273	6 855
Financial income, net	6	-1 030	2 065
Gains on sale of tangible fixed assets		0	-557
Result from associated companies		420	227
Income taxes paid		-6 223	-6 012
Change in net current assets		-1 981	-7 782
Other operating cash flow items		1 083	-3 263
Cash flow from operating activities		21 999	13 591
Cash flow provided by/(used for) investing activities			
Investment in tangible fixed assets		-4 508	-4 938
Investment in intangible assets		-479	-330
Proceeds from sales of tangible fixed assets		0	4 199
Investment in financial assets		-1 125	-3 000
Change in marketable securities		-13 786	12 049
Interest and other financial receipts		1 487	1 304
Cash flow provided by/(used for) investing activities		-18 411	9 284
Cash flow provided by/(used for) financing activities			
Change in own shares		-7 937	2 669
Change in financial debts		-1 164	-1 536
Interest and other financial payments		-212	-413
Dividends paid		-7 252	-10 031
Cash flow provided by/(used for) financing activities		-16 565	-9 311
Net effect of currency translation on cash and cash equivalents		47	-1 177
Net change in cash and cash equivalents		-12 930	12 387
Cash and cash equivalents at the beginning of the year		86 385	64 727
Cash and cash equivalents at the end of the half-year		73 455	77 114
Movements in first half-year 2003 and 2002, respectively		-12 930	12 387

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	Cumulative translation differences 000 CHF	Total First half-year 2002 000 CHF
Balance January 1, 2002	6 800	211 047	85 839	-1 887	-464	2 814	304 149
Net income	0	16 745	0	0	0	0	16 745
Dividends paid	0	-10 031	0	0	0	0	-10 031
Transactions with own shares	0	1 042	0	1 627	0	0	2 669
Cumulative translation differences	0	0	0	0	0	-7 061	-7 061
Change of fair value reserves	0	366	0	0	-3 541	0	-3 175
Balance June 30, 2002	6 800	219 169	85 839	-260	-4 005	-4 247	303 296

	Share capital 000 CHF	Retained earnings 000 CHF	Share premium 000 CHF	Own shares 000 CHF	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	-4 620	-7 980	310 766
Net income	0	17 698	0	0	0	0	17 698
Dividends paid	0	-7 252	0	0	0	0	-7 252
Transactions with own shares	0	0	0	-7 937	0	0	-7 937
Cumulative translation differences	0	0	0	0	0	71	71
Change of fair value reserves	0	0	0	0	1 170	0	1 170
Balance June 30, 2003	6 800	245 994	85 839	-12 758	-3 450	-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 diffe-

rences between the two share categories. The shares A are wholly owned by Ingro Finanz AG. The Annual General Meeting of Bachem AG decided as of July 31, 2003 a reduction in nominal value of CHF 0.45 per share. The new 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 2002. The presentation of the consolidated interim financial statements is consistent with the consolidated annual financial statements.

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

2. Exchange rates

	Income statement average rates first half-year 2003 CHF	full year	first half-year	Balance sheet end rates		June 30,	June 30,
		2002	2002	June 30, 2003 CHF	December 31, 2002 CHF	2002 CHF	
1 US Dollar	1.3508	1.5575	1.6378	1.3545	1.3875	1.4883	
1 English Pound	2.1757	2.3342	2.3637	2.2352	2.2254	2.2758	
1 Euro	1.4916	1.4673	1.4693	1.5554	1.4542	1.4707	

3. Changes in the scope of consolidation

On May 14, 2003 the Annual General Meeting of Bachem AG decided the retroactive introduction of a holding structure as of January 1, 2003. Bachem AG was renamed in Bachem Holding AG and the new Bachem AG was incorporated by assets in kind.

The introduction of this holding structure is exclusively a matter of group internal reorganization with no influence on the financial statements.

4. Regional segment information

The primary segmentation is based on the geographical information by the location of the assets.

	Europe first half-year 2003 000 CHF	first half-year 2002 000 CHF	Rest of World first half-year 2003 000 CHF	first half-year 2002 000 CHF	Elimi- nations first half-year 2003 000 CHF	first half-year 2002 000 CHF	Consoli- dated values first half-year 2003 000 CHF	first half-year 2002 000 CHF
Sales								
Sales third parties	48 605	46 397	22 600	29 833				
Sales intercompany	13 524	14 408	2 259	2 052	15 783	16 460		
Total sales	62 129	60 805	24 859	31 885	15 783	16 460	71 205	76 230
Operating income	19 023	16 939	4 562	8 065	738	654	22 847	24 350
Result from associated companies							-420	-227
Financial income, net							1 030	-2 065
Income taxes							-5 759	-5 313
Net income							16 698	16 745
Other information								
Assets	371 713	362 826	68 168	72 711	92 985	89 609	346 896	345 928
Liabilities	34 785	40 052	10 831	17 957	13 236	15 377	32 380	42 632
Investments	4 498	4 564	489	704			4 987	5 268
Depreciation and amortization	5 346	5 468	927	1 387			6 273	6 855

Notes to the consolidated financial statements

5. Business segment information

The secondary segmentation is based on the business segments. The relation of the sales to third parties between active pharmaceutical ingredients on the one hand and research ingredients on the other hand was 78% to 22% during this half-year (respectively 73% to 27% in the first

half-year 2002). Investments and assets cannot be separated into the business areas since multi-purpose-equipment is used to produce all of our products.

6. Financial income, net

	First half-year 2003 000 CHF	First half-year 2002 000 CHF
Financial income		
Interest	513	1 064
Income from securities	1 124	2 409
Other	39	22
Total	1 676	3 495
Financial expense		
Interest	-39	-94
Loss on securities	-131	-989
Other	-169	-450
Total	-339	-1 533
Currency result, net	-307	-4 027
Financial income, net	1 030	-2 065

7. Earnings per share (EPS)

	First half-year 2003	First half-year 2002
Net income (000 CHF)	17 698	16 745
Weighted average number of ordinary shares issued (basic)	13 241 056	13 356 407
Basic earnings per share (CHF)	1.34	1.25

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

30, 2002, 10 000 options were outstanding, which also did not have a material dilution effect.

8. Own shares

On June 30, 2003 Bachem Holding AG held 428 602 own shares, 205 905 are reserved for trading and 222 697 are

reserved for distribution under the employee share participation plans.

Movements of own shares:

	Stock June 30, 2003 [pieces]	Sales [pieces]	Purchases [pieces]	Stock January 1, 2003 [pieces]
Employee participation scheme at the price of CHF 1.668	122 697	6 020	1 000	127 717
Option plan at the price of CHF 0.50	100 000	0	0	100 000
Treasury Stock at the price of CHF 60.725	205 905	0	144 335	61 570