



Half-Year Report
2007

New record results for Bachem in the first half of 2007

- Sales growth of 25.4% in CHF and 26.3% in local currencies
- APIs and new production capacity in the USA boost development
- Further upswing for European business
- Operating and net income up by more than 30%
- EBIT margin increased to 37.1% and net profit margin to 29.2%
- Sales growth for the whole of 2007 expected to be above the long-term objective

Key figures

	First half-year 2007	First half-year 2006	Change in %
Sales (in CHF m)	103.0	82.1	+25.4%
EBIT (in CHF m)	38.2	29.2	+30.7%
EBIT in % of sales	37.1 %	35.6 %	
Net income (in CHF m)	30.1	22.9	+31.3%
Net income in % of sales	29.2 %	27.9 %	
Basic earnings per share in CHF	2.27	1.74	

Bubendorf, Switzerland, August 17, 2007

With an increase in sales of 25.4% in CHF or 26.3% in local currencies compared with the first six months of 2006, the Bachem Group (SWX: BANB) posted a new half-year record of CHF 103.0 million in turnover (first half of 2006: CHF 82.1 million). Even compared with the strong second half of 2006, the company achieved marked sales growth of 14.9% in CHF and 15.8% in local currencies.

The result clearly reflects the boost to sales in the USA resulting from the additional production capacity available there since the second half of 2006 (first half of 2007 up 73.3% on first half of 2006). When the first half of 2007 is compared with the second half of 2006, the increase in sales of 20.6% in Europe and 7.0% in the USA also shows that the European market is becoming increasingly dynamic with new projects. Overall, the proportion of sales achieved in the USA

increased slightly compared with the previous year and now lies at 41.1%.

Trends in the most important business areas

Active Pharmaceutical Ingredients (APIs) contributed most to the excellent half-year performance with a sales growth of 32.2% in CHF and 33.6% in local currencies. The gratifying trend in New Chemical Entities with deliveries for various approved medicines and highly promising innovative projects was further reinforced by new agreements such as with Intercell, Neuren Pharmaceuticals and immatics. A positive development was also seen with Generics, where – apart from the successes achieved with peptides – the development of non-peptide generics also exceeded expectations. This result was helped by sales ex stock. The first half of 2007 also saw the first deliveries of cytotoxic products for cancer therapy, as well as a continuing increase in demand for finished dosage

forms of peptide-based medicines for clinical research. The acquisition of the Clinalfa business from Merck Biosciences AG, Läufelfingen, on July 1, 2007 enabled Bachem to add the ideal complement to its range of clinical trial supplies. However, this did not yet have any impact on sales and income in the first half of 2007.

Research Chemicals posted a slight increase of 2.2% in CHF and 1.8% in local currencies, to which custom syntheses in Europe and also immunology products contributed in particular.

Further improvement in operating margin to 37.1%

In the first six months of the year, Bachem improved the operating result by CHF 9.0 million to CHF 38.2 million, thereby increasing the operating margin from 35.6% to 37.1%.

Cost of goods sold in relation to sales rose by around one percentage point

Cover image:
Scanning electron micrograph of the bony network of spongy bone affected by osteoporosis

versus the same period in the previous year, but compared with the whole of 2006 they fell by two percentage points. This was primarily due to a shift in the product mix in favor of complex molecules with higher value added. Bachem has succeeded in making the most of its technology leadership and continually increasing sales with complex molecules. The gross margin thus amounts to 55.1% of sales revenue. Material costs showed a slightly overproportionate increase of 28.1% to CHF 16.9 million. But by contrast, the increase in personnel costs in production was lower than sales increase.

Despite the high growth in sales, the cost of marketing and sales remained constant at CHF 5.8 million, while administrative costs increased only slightly to CHF 10.1 million. In relation to sales, these two cost blocks each fell by around one percentage point to 5.7% and 9.8%, respectively, thereby making a substantial contribution to the improvement in the operating margin. Research and development costs showed a slightly overproportionate increase in relation to sales amounting to CHF 2.7 million and 2.6% of sales respectively.

After an above-average growth in the number of employees in the previous year, the headcount in the first six months of 2007 increased by a further 11 to 620 full-time equivalent positions. This corresponds to a growth of only about 2%. Personnel costs fell accordingly from 37.6% to 33.4% of sales. Bachem thus benefited in the first half of 2007 from the marked increase in staff in the previous year.

Net income margin improves to 29.2%

The net profit also showed an overproportionate increase by 31.3% to CHF 30.1 million. As a result, the net profit margin improved from 27.9% to 29.2%.

The loss from associates and joint ventures amounted to CHF 1.8 million in the first half of the year. The two biotech companies Pevion and Polyphor, in which Bachem has a 50% and 23% stake, respectively, are showing good progress and thus increasing attractiveness for investors. In July 2007, Polyphor engaged in its largest financing round to date, in

which - as planned - Bachem did not participate. Pevion engaged in a financing round in August 2007, which also involved third-party investors for the first time. Over the next two years, the company will have CHF 35 million in additional funds at its disposal for the development of peptide-based vaccines. As agreed, Bachem contributed another CHF 2 million during this financing round. Neither of these financing rounds has any impact on the half-year results of Bachem, because they took place after June 30, 2007.

In the first half of 2007, Bachem achieved a very good financial result at CHF 4.0 million. For the special dividend payout in April of this year, major securities positions were cut back and as a result higher profits achieved from the sale of securities than normal for the six-month period.

As a result of the overproportionate increase in US sales and thus also in US profits, the tax rate increased from 23.7% to 25.7%. The tax expense amounted to CHF 10.4 million.

Cash flow and investments

The operating cash flow improved by 138.8% to CHF 31.3 million in the first half of the year. This marked increase came about thanks to the good half-year result and an underproportionate growth in net working capital, which primarily changed as a result of increased stocks. The increase in receivables and liabilities approximately balanced.

After a high level of investment activity in the previous year, production capacity is also being further expanded this year. This expansion work is running according to schedule. In the first six months of 2007, CHF 8.9 million was invested in tangible and intangible assets. Most of this went into the Group headquarters, Bachem AG in Bubendorf, where CHF 6.3 million was invested during the first half of 2007 to increase production capacity.

The cash flow used for financing activities included dividend payouts amounting to CHF 92.9 million. On the other hand, own shares worth CHF 7.0 million were sold.

Outlook

Based on sustained interest in peptides, the outlook for Bachem remains very promising. In the case of NCEs, there are good growth opportunities both for products already successfully launched and also for the extensive portfolio of development projects of a wide variety of companies in the pharmaceuticals and biotech sectors. In the case of peptide generics, the future potential is confirmed by the extension of long-term supply contracts and the conclusion of new agreements. The total volume of purchase orders at the end of June 2007 has again slightly increased compared with the end of 2006.

In view of the good demand, further sales growth is expected in the second half of 2007 compared with the same period in the previous year. But this growth will be lower than in the first half of 2007 in light of the sales leap resulting from the new production capacity that started operations in the middle of last year and also as a result of the special effect of generics sales from stock. Accordingly, profits in the second half of the year will also be lower than in the first half.

Subject to unforeseen events, Bachem assumes that sales growth for the whole of 2007 will be in the range of 12% to 15% in local currencies compared with the previous year (long-term objective 8% to 12% per annum on average). Overproportionate increases in EBIT and net profit are to be expected compared with the previous year, so that the EBIT margin is likely to be clearly in the upper range of the long-term target of 30% to 35%. Moreover, Bachem is confident to further extend its leading market position in the future.

Condensed Consolidated Interim Financial Statements

Consolidated Income Statement (unaudited)

	Notes	First half-year 2007 000 CHF	First half-year 2006 000 CHF
Sales	5/6	102 954	82 125
Cost of goods sold		-46 200	-35 917
Gross profit		56 754	46 208
Other income		53	7
Marketing and sales costs		-5 829	-5 863
Research and development costs		-2 664	-2 015
General administrative costs		-10 084	-9 097
Operating income		38 230	29 240
Result from associates and joint ventures		-1 774	-422
Financial result		4 030	1 225
Earnings before taxes		40 486	30 043
Income taxes		-10 405	-7 132
Net income*		30 081	22 911
Basic earnings per share (CHF)		2.27	1.74
Diluted earnings per share (CHF)		2.27	1.74

*net income completely attributable to the equity holders of the parent

The operating result according to the nature of expense method is as follows:

	Notes	First half-year 2007 000 CHF	First half-year 2006 000 CHF
Sales	5/6	102 954	82 125
Other income		53	7
Cost of materials		-16 907	-13 198
Changes in inventories		5 601	9 146
Staff cost		-34 368	-30 848
Depreciation and amortization		-5 718	-4 725
General administration and other expenses		-13 385	-13 267
Operating income		38 230	29 240

Consolidated Balance Sheet (unaudited)

Assets	Notes	June 30, 2007 000 CHF	December 31, 2006 000 CHF
Cash and cash equivalents		46 175	73 116
Marketable securities		21 146	56 200
Trade receivables		34 788	28 938
Other receivables		6 190	6 033
Current tax assets		2 788	4 440
Inventories		101 242	90 303
Total current assets		212 329	259 030
Property, plant and equipment		162 459	159 997
Intangible assets		15 329	14 764
Associates and joint ventures		1 744	3 518
Deferred tax assets		2 903	4 926
Total non-current assets		182 435	183 205
Total assets		394 764	442 235
Liabilities and equity			
Trade payables		12 856	11 294
Other current liabilities		13 270	8 275
Current tax liabilities		4 159	1 057
Provisions		158	159
Total current liabilities		30 443	20 785
Deferred tax liabilities		26 435	25 657
Provisions		238	238
Defined benefit plan liability		6 018	6 340
Total non-current liabilities		32 691	32 235
Total liabilities		63 134	53 020
Share capital	8	680	680
Retained earnings	8	264 588	325 084
Share premium	8	89 593	88 993
Own shares	8	-9 138	-13 789
Fair value reserves	8	2 318	4 590
Cumulative translation differences	8	-16 411	-16 343
Total capital and reserves attributable to the equity holders of the Company		331 630	389 215
Total liabilities and equity		394 764	442 235

Condensed Consolidated Interim Financial Statements

Consolidated Cash Flow Statement (unaudited)

	Notes	First half-year 2007 000 CHF	First half-year 2006 000 CHF
Cash flow from operating activities			
Net income		30 081	22 911
Adjustments for:			
Taxes		10 405	7 132
Depreciation and amortization		5 718	4 725
Financial result		-4 030	-1 225
Result from associates and joint ventures		1 774	422
Share-based payments		600	400
Income taxes paid		-3 616	-8 332
Change in net working capital		-5 665	-16 627
Other non-cash items		-3 926	3 720
Cash flow from operating activities		31 341	13 126
Cash flow provided by/(used for) investing activities			
Investments in property, plant and equipment		-8 287	-12 729
Investments in intangible assets		-651	-283
Repayments of other financial assets		0	10 000
Purchases of marketable securities in current assets		0	-18 995
Sales and repayments of marketable securities in current assets		35 380	5 783
Interest received		1 166	1 087
Dividends received		115	378
Other financial income		97	86
Other financial expenses		-234	-1 168
Cash flow provided by/(used for) investing activities		27 586	-15 841
Cash flow used for financing activities			
Disposals of own shares	7	6 954	0
Dividends paid	4	-92 880	-19 781
Cash flow used for financing activities		-85 926	-19 781
Net effect of currency translation on cash and cash equivalents		58	-530
Net change in cash and cash equivalents		-26 941	-23 026
Cash and cash equivalents at the beginning of the year		73 116	76 351
Cash and cash equivalents at the end of the half-year		46 175	53 325
Net change in cash and cash equivalents		-26 941	-23 026

Consolidated Statement of Recognized Income and Expense (unaudited)

	First half-year 2007 000 CHF	First half-year 2006 000 CHF
Change in fair value reserves and	-2 514	-1 653
deferred taxes thereon	242	157
Translation differences	-68	-4 325
Income and expense recognized directly in equity	-2 340	-5 821
Net income according to Income Statement	30 081	22 911
Total recognized income and expense*	27 741	17 090

*completely attributable to the equity holders of the parent

Selected Explanatory Notes to the Condensed Consolidated Interim Financial Statements

1. Accounting Policies

Principles of consolidation

These condensed interim financial statements comprise the unaudited interim consolidated financial statements of Bachem Holding Ltd., a company registered in Switzerland, and its subsidiaries for the six-month period ended June 30, 2007. They were prepared in accordance with the International Accounting Standard 34 (IAS 34) Interim Financial Reporting. These interim financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2006, as they provide an update of previously reported information. They were approved by the Board of Directors on August 14, 2007.

Changes in presentation of consolidated financial statements

To better reflect the Group's operating performance, the consolidated income statement 2006 of Bachem Group was presented the first time according to the function of expense

method. Consequently the interim income statement is presented according to the function of expense method and the comparison period was adapted accordingly.

For comparison purposes the operating expense is also presented according to the nature of expense method.

Changes to accounting policies

There were several revised and one new International Financial Reporting Standard (IFRS) that became effective from January 1, 2007. There was no material effect on our accounting policies. Otherwise the accounting policies used are consistent with those used in the annual financial statements 2006.

Where necessary, the comparatives have been restated, reclassified or extended from the previously reported interim results to take into account any changes in accounting policies and presentational changes made in the annual financial statements or in these interim financial statements.

2. Foreign Exchange Rates

	Income statement average rates		Balance sheet period-end rates	
	First half-year 2007 CHF	First half-year 2006 CHF	June 30, 2007 CHF	December 31, 2006 CHF
1 USD	1.23	1.28	1.22	1.22
1 EUR	1.63	1.56	1.65	1.61
1 GBP	2.42	2.28	2.44	2.40

3. Seasonality

The operating profit is subject to fluctuations having no seasonal origin.

4. Dividend Payment

On April 23, 2007 a regular dividend of CHF 2.00 plus a special dividend of CHF 5.00 per share was paid. The total amount of dividend paid was CHF 92 880 000.

5. Segment Information (Geographical)

Primary segment information based on the location of assets	Europe		North America		Eliminations		Consolidated values	
	First half-year 2007 000 CHF	First half-year 2006 000 CHF	First half-year 2007 000 CHF	First half-year 2006 000 CHF	First half-year 2007 000 CHF	First half-year 2006 000 CHF	First half-year 2007 000 CHF	First half-year 2006 000 CHF
Sales third parties	60 660	56 954	42 294	25 171				
Sales intercompany	12 711	9 378	1 820	1 576	-14 531	-10 954		
Total sales	73 371	66 332	44 114	26 747	-14 531	-10 954	102 954	82 125
Operating income	24 056	26 003	14 038	3 778	136	-541	38 230	29 240

6. Segment Information (Business Segments)

	First half-year 2007 000 CHF	First half-year 2006 000 CHF	First half-year 2007 in %	First half-year 2006 in %	Changes in CHF in %	Changes in local currencies in %
Active pharmaceutical ingredients (APIs)	83 841	63 422	81.4%	77.2%	32.2%	33.6%
Research ingredients (incl. custom synthesis)	19 113	18 703	18.6%	22.8%	2.2%	1.8%
Total sales	102 954	82 125	100.0%	100.0%	25.4%	26.3%

7. Own Shares

In the period under review Bachem sold 71 353 own shares at an average price of CHF 97.46, which amounts to a total of CHF 6 954 000.

Selected Explanatory Notes to the Condensed Consolidated Interim Financial Statements

8. Changes in 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 2007 000 CHF
Balance January 1, 2007	680	325 084	88 993	-13 789	5 047	-457	-16 343	389 215
Total recognized income and expense for the period		30 081	0	0	-2 514	242	-68	27 741
Dividends paid		-92 880						-92 880
Transactions with own shares		2 316		4 638				6 954
Share-based payments		-13	600	13				600
Balance June 30, 2007	680	264 588	89 593	-9 138	2 533	-215	-16 411	331 630

	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 2006 000 CHF
Balance January 1, 2006	680	298 190	88 018	-15 930	5 446	-444	-11 060	364 900
Total recognized income and expense for the period	0	22 911	0	0	-1 653	157	-4 325	17 090
Dividends paid		-19 781						-19 781
Share-based payments		-11	400	11				400
Balance June 30, 2006	680	301 309	88 418	-15 919	3 793	-287	-15 385	362 609

9. Contingent Liabilities and other Commitments

Bachem is committed to take a further stake of CHF 2 000 000 in Pevion Biotech AG within the next capital increase in August 2007.

In the course of the first half year 2007 Bachem AG, Bubendorf was sued. The result of the proceeding is uncertain, such that to date it is not possible to quantify any potential risk.

10. Events after the Balance Sheet Date

Effective July 1, 2007 Bachem acquired the business unit of Merck Biosciences AG, in Läufelfingen, Switzerland, an affiliate of Merck KGaA, Darmstadt, Germany, that operates under the brand of Clinalfa for CHF 2 000 000 in cash. Under the Clinalfa brand, a wide range of biologically active peptides and other biologically active products are offered for use in clinical research at scientific institutions and universities.

According to the agreement, Bachem acquires the Clinalfa brand, the existing customer base, the team, technical know-how on the Clinalfa products and inventories.

The Group is currently in the process of the valuation of the intangible assets and the assessment of the deferred tax consequences of the transaction. This is expected to be completed in the third quarter of 2007.

The acquired business did not have any impact on Bachem's sales and result of the first half-year, because the transaction took place after the balance sheet date.

There have been no other material events after the balance sheet date.

Financial Calendar 2007/2008

Full year results 2007	March 2008
Annual General Meeting (business year 2007)	April 2008
Payout date for dividend	April 2008
Half year results 2008	August 2008

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Bachem. Leading beyond peptides

Bachem is an independent, technology-based public biochemicals company providing full service to pharma and biotech industries. Bachem is specializing in the process development and the manufacturing of peptides and complex organic active pharmaceutical ingredients and innovative biochemicals for research purposes. With headquarters in Switzerland and affiliates in Europe and the US, Bachem works on a global scale and holds the leading position in the field of peptides.

