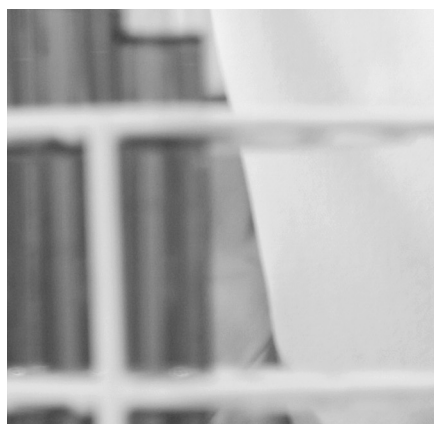
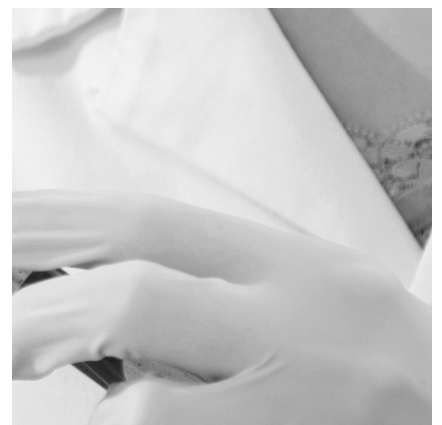
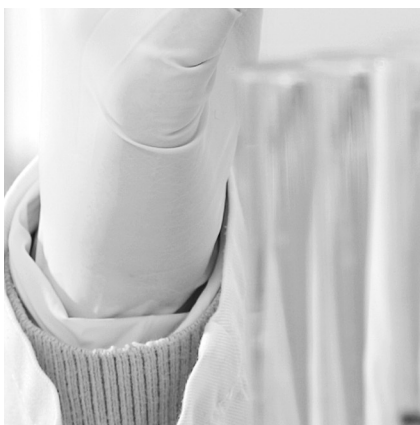
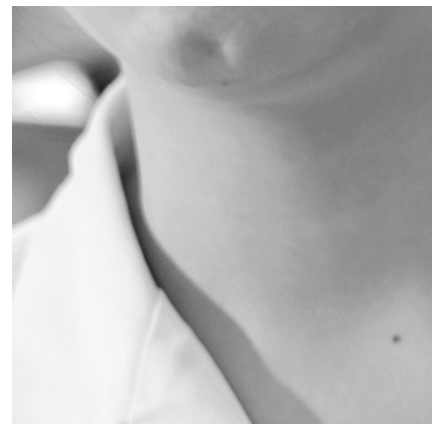
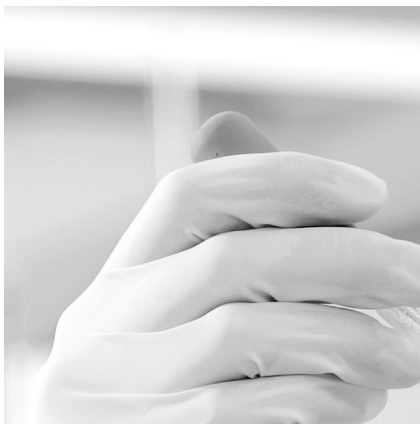
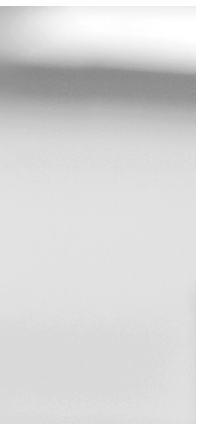


**HALF-YEAR REPORT 2006**



## BACHEM POSTS SHARP RISE IN PROFITS IN THE FIRST HALF OF 2006

- SALES GROWTH OF 16.3% IN CHF AND 14.4% IN LOCAL CURRENCIES
- OPERATING PROFIT AND NET PROFIT UP 40%
- BUSINESS IN EUROPE ENJOYS NEW IMPETUS
- SALES EXPECTATIONS FOR THE SECOND HALF OF 2006 ABOVE THE RECORD PERFORMANCE OF THE PREVIOUS YEAR

## KEY FIGURES

	First half-year 2006 CHF m	First half-year 2005* CHF m	Change in CHF %
Sales	82.1	70.6	+16.3%
Operating income	29.2	20.9	+40.2%
Operating income in % of sales	35.6%	29.5%	
Net income (in CHF m)	22.9	16.3	+40.7%
Net income in % of sales	27.9%	23.1%	
Basic earnings per share in CHF	1.74	1.24	

\*restated

### Bubendorf, Switzerland, August 18, 2006

In the first half of 2006, the sales of the Bachem Group (SWX: BANB) grew by 16.3% in CHF and by 14.4% in local currencies to reach CHF 82.1 million (1st half of 2005: CHF 70.6 million). This sharp increase confirms the sustained dynamic growth of the Bachem business as anticipated.

In geographic terms, the marked growth of 20.2% in CHF or 20.0% in local currencies in Europe indicates that this market is also reviving. By contrast, a growth of only 8.2% in CHF or 3.2% in local currencies was posted in the USA. Bachem is operating at the limits of its capacity there, but with the start-up of the new production unit in the second half of 2006 it will begin to exploit new market opportunities.

### Trends in the most important business areas

The active ingredients business again proved to be the growth driver. With a sales growth of 19.4% in CHF or 17.9% in local currencies, half-year sales reached CHF 63.4 million. The main contribution to the increase in the active ingredients business came from new chemical entities (NCEs), whose growth at 81.0% in CHF or 74.2% in local currencies was substantially above average. This significant increase was achieved thanks to various approval decisions for products from the company's customers, new contractual agreements and other positive influences. A sustained increase in demand was also reported for the range of finished dosage forms, sterile formulations of NCEs for clinical trial supplies.

In the case of generics, the peptides continued their dynamic development with a marked sales increase, whereas the non-peptidic generics showed a slight decline in sales. Overall, the growth of generics amounted to 7.7% in CHF or 7.1% in local currencies.

Sales of research chemicals likewise showed a very gratifying development in the first half of 2006 and rose by 6.8% in CHF or 4.1% in local currencies. While the catalogue business remained stable, Bachem was very successful with its custom synthesis business. Reinforced efforts in the market helped to boost the market position of the company in this field.

## Marked improvement in performance

The operating profit for the first six months of 2006 was significantly increased as compared to the same period last year, growing by CHF 8.4 million or 40.2% to CHF 29.2 million. The operating margin improved by 6.1 percentage points from 29.5% to 35.6%. This development was supported by changes in the product mix in favor of higher-value specialties. To ensure delivery capability for the anticipated increase in demand during the second half of 2006 and in 2007, substantial production was carried out in advance, so that the change in the inventory of semi-finished and finished products amounted to CHF 9.1 million. This relates almost entirely to work in progress in the areas of NCEs and generics. Material costs fell in relation to sales from 22.0% to 16.1% and amounted to CHF 13.2 million.

The number of employees was increased by 33 full-time positions to a total of 573. Twenty-three of the newly created positions were in the USA, while the head count in Switzerland was increased by 10 full-time positions. Staff cost amounted to CHF 30.1 million and herewith decreased as a percentage of sales from 38.6% to 37.6%. Bachem continues to focus on its proven sites and is expanding these further in line with the growth in demand.

A disproportionate increase in other operating expenses from 14.7% to 16.2% of sales was reported. A particular factor in this disproportionate increase was the greater expenditure in the areas of administration, supplies and utilities, as well as safety and waste disposal. But these higher costs are also related to the advance production carried out for the expected sales in the second half of the year and the coming year.

Strong investment activity led to an increase in depreciation by CHF 0.7 million. But depreciation developed almost in proportion to sales and amounts to 5.8% of sales. The EBITDA margin likewise increased significantly to 41.4% in view of the gratifying developments. The EBITDA amounted to CHF 34.0 million compared with CHF 24.9 million in the same period last year.

In keeping with the marked improvement in the operating profit, net profit rose by 40.7% to CHF 22.9 million. The net profit margin thus amounted to 27.9%. The net profit includes the net financial performance of CHF 1.2 million. At 23.7%, the tax rate is slightly lower than in the same period last year. Tax expenditure thus amounted to CHF 7.1 million.

## Cash flow and investments

The cash flow from operating activities improved over the same period last year from CHF 10.9 million to CHF 13.1 million. Net current assets increased by CHF 16.6 million. This includes increases in the inventory by CHF 11.8 million and in trade receivables by CHF 7.4 million, as well as the change in the other net current assets.

Investments in tangible assets amounted to CHF 13.0 million in the first six months. Bachem completed the expansion of production capacity in the USA by the middle of the year. Total investment amounted to USD 10 million (CHF 12.5 million), of which USD 5.3 million (CHF 6.6 million) occurred in the first six months of 2006. With the new production unit, production capacity at this site for pharmaceutical peptide active substances is increased by 40 percent. This should cover the growing demand in North America. The new production unit meets all the requirements of the American regulatory authorities (FDA)

for manufacture according to cGMP principles. The other investments in tangible assets primarily relate to the site at Bubendorf as part of the ongoing expansion of capacity.

In May 2006, a dividend of CHF 1.50 per share, or a total of CHF 19.8 million, was paid out, in accordance with the decision of the Annual General Meeting. The decrease in cash and cash equivalents according to the definition in cash flow amounted to a total of CHF 23.0 million down to CHF 53.3 million. The net cash position on 30 June 2006, including securities and other short-term financial assets amounts to CHF 112.2 million compared with CHF 134.0 million at the end of 2005.

## Outlook

For the second half of 2006, Bachem expects a sustained and lively growth in the business, which is also likely to continue in 2007. The additional production capacity available in the USA as from July and the prospects for stronger expansion in the European market indicate that, along with the continuing high level of purchase orders, the record performance from the second half of 2005 will be surpassed in the second half of 2006. Subject to unforeseen developments, Bachem assumes markedly higher sales growth and a disproportionate increase in the EBIT for the year as a whole compared with the previous year.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### Consolidated Income Statements (unaudited)

	Notes	First half-year 2006 000 CHF	First half-year 2005* 000 CHF
<b>Sales</b>	5/6	<b>82 125</b>	70 638
Other Income		<b>7</b>	26
Cost of materials		<b>-13 198</b>	-15 513
Changes in inventories		<b>9 146</b>	7 329
Staff cost	1	<b>-30 848</b>	-27 258
Depreciation and amortization		<b>-4 725</b>	-4 015
General administration and other operating expenses		<b>-13 267</b>	-10 353
<b>Operating income</b>		<b>29 240</b>	20 854
Result from associates and joint ventures	1	<b>-422</b>	-1 289
Financial income, net		<b>1 225</b>	2 022
<b>Income before taxes</b>		<b>30 043</b>	21 587
Income taxes		<b>-7 132</b>	-5 301
<b>Net income**</b>		<b>22 911</b>	16 286
<b>Basic earnings per share (CHF)</b>		<b>1.74</b>	1.24
<b>Diluted earnings per share (CHF)</b>		<b>1.74</b>	1.23

\*restated (refer to note 1)

\*\*net income completely attributable to the equity holders of the Company

## Consolidated Balance Sheets (unaudited)

<b>Assets</b>	Notes	<b>June 30, 2006</b> 000 CHF	<b>December 31, 2005*</b> 000 CHF
Cash and cash equivalents		<b>53 325</b>	76 351
Marketable securities		<b>58 939</b>	47 685
Other financial assets		<b>0</b>	10 000
Trade and other receivables		<b>41 480</b>	34 116
Current tax assets		<b>3 991</b>	1 646
Inventories		<b>86 044</b>	74 294
<b>Total current assets</b>		<b>243 779</b>	244 092
Property, plant and equipment		<b>147 992</b>	141 530
Intangible assets		<b>15 027</b>	15 092
Associates and joint ventures	1	<b>2 819</b>	3 241
Deferred tax assets		<b>5 091</b>	4 963
<b>Total non-current assets</b>		<b>170 929</b>	164 826
<b>Total assets</b>		<b>414 708</b>	408 918
<b>Liabilities and equity</b>			
Trade payables		<b>13 090</b>	8 559
Other current liabilities		<b>7 414</b>	4 957
Current tax liabilities		<b>1 723</b>	1 922
Provisions		<b>198</b>	243
<b>Total current liabilities</b>		<b>22 425</b>	15 681
Defined benefit plan liability	1	<b>5 782</b>	6 138
Deferred tax liabilities		<b>23 892</b>	22 199
<b>Total non-current liabilities</b>		<b>29 674</b>	28 337
<b>Total liabilities</b>		<b>52 099</b>	44 018
Share capital		<b>680</b>	680
Retained earnings		<b>301 309</b>	298 190
Share premium		<b>88 418</b>	88 018
Own shares		<b>-15 919</b>	-15 930
Fair value reserves		<b>3 506</b>	5 002
Cumulative translation differences		<b>-15 385</b>	-11 060
<b>Total capital and reserves attributable to the equity holders of the Company</b>		<b>362 609</b>	364 900
<b>Total liabilities and equity</b>		<b>414 708</b>	408 918

\*restated (refer to note 1)

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## Consolidated Cash Flow Statements (unaudited)

	Notes	First half-year 2006 000 CHF	First half-year 2005* 000 CHF
<b>Cash flow from operating activities</b>			
Net income		22 911	16 286
Adjustments for:			
Taxes		7 132	5 301
Depreciation and amortization		4 725	4 015
Financial income, net		-1 225	-2 022
Result from associates and joint ventures	1	422	1 289
Share-based payments		400	536
Income taxes paid		-8 332	-1 421
Change in net current assets		-16 627	-10 882
Other non-cash items		3 720	-2 192
<b>Cash flow from operating activities</b>		<b>13 126</b>	<b>10 910</b>
<b>Cash flow used for investing activities</b>			
Investments in property, plant and equipment		-12 729	-7 581
Investments in intangible assets		-283	-219
Repayments of financial assets		10 000	0
Purchases of marketable securities		-18 995	-15 182
Sales and repayments of marketable securities		5 783	7 248
Interest received		1 087	421
Dividend received		378	366
Other financial receipts		86	107
Other financial expenses		-1 168	-298
<b>Cash flow used for investing activities</b>		<b>-15 841</b>	<b>-15 138</b>
<b>Cash flow used for financing activities</b>			
Additions own shares		0	-2 301
Disposals own shares		0	1 907
Dividend paid	4	-19 781	-15 849
<b>Cash flow used for financing activities</b>		<b>-19 781</b>	<b>-16 243</b>
Net effect of currency translation on cash and cash equivalents		-530	959
<b>Net change in cash and cash equivalents</b>		<b>-23 026</b>	<b>-19 512</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>76 351</b>	<b>93 281</b>
<b>Cash and cash equivalents at the end of the half-year</b>		<b>53 325</b>	<b>73 769</b>
<b>Net change in cash and cash equivalents</b>		<b>-23 026</b>	<b>-19 512</b>

\*restated (refer to note 1)

## Consolidated Statement of Recognized Income and Expense (unaudited)

	First half-year 2006 000 CHF	First half-year 2005* 000 CHF
Valuation gains / (losses) of available-for-sale investments	-1 653	4 641
Deferred taxes on valuation gains / (losses) of available-for-sale investments	157	-398
Translation differences	-4 325	5 794
<b>Income and expense recognized directly in equity</b>	<b>-5 821</b>	<b>10 037</b>
Net income according to Income Statement	22 911	16 286
<b>Total recognized income and expense**</b>	<b>17 090</b>	<b>26 323</b>

\*restated (refer to note 1)

\*\*completely attributable to the equity holders of the Company

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### Consolidated Statements of Changes in Equity (unaudited)

	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
<b>Balance January 1, 2006</b>	<b>680</b>	<b>298 190</b>	<b>88 018</b>	<b>-15 930</b>	<b>5 446</b>	<b>-444</b>	<b>-11 060</b>	<b>364 900</b>
<b>Total recognized income and expense</b>	<b>0</b>	<b>22 911</b>	<b>0</b>	<b>0</b>	<b>-1 653</b>	<b>157</b>	<b>-4 325</b>	<b>17 090</b>
Dividend paid		-19 781						<b>-19 781</b>
Share-based payments		-11	400	11				<b>400</b>
<b>Balance June 30, 2006</b>	<b>680</b>	<b>301 309</b>	<b>88 418</b>	<b>-15 919</b>	<b>3 793</b>	<b>-287</b>	<b>-15 385</b>	<b>362 609</b>
	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 2005 000 CHF
<b>Balance January 1, 2005</b>	<b>680</b>	<b>279 711</b>	<b>87 217</b>	<b>-14 814</b>	<b>-1 193</b>	<b>109</b>	<b>-17 890</b>	<b>333 820</b>
Effect of IAS 19 revised		-4 652						<b>-4 652</b>
Deferred taxes on IAS 19 revised		824						<b>824</b>
<b>Restated Balance January 1, 2005</b>	<b>680</b>	<b>275 883</b>	<b>87 217</b>	<b>-14 814</b>	<b>-1 193</b>	<b>109</b>	<b>-17 890</b>	<b>329 992</b>
<b>Total recognized income and expense</b>	<b>0</b>	<b>16 286</b>	<b>0</b>	<b>0</b>	<b>4 641</b>	<b>-398</b>	<b>5 794</b>	<b>26 323</b>
Dividend paid		-15 849						<b>-15 849</b>
Transactions with own shares		423		-394				<b>29</b>
Share-based payments			536					<b>536</b>
<b>Balance June 30, 2005</b>	<b>680</b>	<b>276 743</b>	<b>87 753</b>	<b>-15 208</b>	<b>3 448</b>	<b>-289</b>	<b>-12 096</b>	<b>341 031</b>

# 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, 2006. 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, 2005, as they provide an update of previously reported information. They were approved by the Board of Directors on August 15, 2006.

### Changes in accounting policies

There were several revised and one new International Financial Reporting Standard (IFRS) that became effective from January 1, 2006. The most important effects of these changes will be described in the following section. Otherwise, the accounting policies used are consistent with

those used in the annual financial statements 2005. 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.

### Disclosure of changes in accounting policies with effect on the current period or any prior period

#### IAS 19 – Employee benefits (revised)

As from January 1, 2006 Bachem adopts the amendments of IAS 19 revised to recognize actuarial gains and losses. The alternative recognition allows to recognize actuarial gains and losses resulting from experience adjustments or the effects of changes in actuarial assumptions directly in equity and to disclose them accordingly in the Statement of Recognized Income and Expense (SORIE). So far, the actuarial gains and losses were charged or credited to profit or loss over the remaining service lives of the related employees if they exceeded the corridor of plus or minus 10%. Hence the following restatements were made compared to the previously published figures:

#### BALANCE SHEET

	January 1, 2005 000 CHF	June 30, 2005 000 CHF	December 31, 2005 000 CHF
Decrease defined benefit plan asset	530	486	521
Increase deferred tax assets	824	811	1 228
Decrease deferred tax liabilities	0	0	104
Increase defined benefit plan liability	4 122	4 054	6 138
Decrease retained earnings	3 828	3 729	5 327

#### INCOME STATEMENT

	First half-year 2005	Second half-year 2005
Decrease staff cost	112	35
Increase income taxes	13	0

## SELECTED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### Associates and Joint Ventures

As per December 31, 2005 the investment in Polyphor AG was reclassified from other financial assets to investments in associates and joint ventures and the equity method applied. Compared to the published financial statements as per June 30, 2005 the following restatements were made:

	June 30, 2005 000 CHF
<b>Balance Sheet</b>	
Decrease other financial assets	6 500
Increase associates and joint ventures	2 454
Decrease deferred tax liabilities	344
Decrease retained earnings	3 702
<b>Income Statement</b>	
	First half-year 2005
Increase loss from associates and joint ventures	446
Decrease income taxes	38

The performed restatements that were caused by changes in accounting policies result in a decrease in basic earnings per share (EPS) of CHF 0.02 and in diluted earnings per share of CHF 0.03 compared to the published interim financial statements as of June 30, 2005.

## 2. Foreign exchange rates

	Income statement average rates		Balance sheet period-end rates	
	First half-year 2006	First half-year 2005	June 30, 2006	December 31, 2005
	CHF	CHF	CHF	CHF
1 USD	1.28	1.20	1.23	1.32
1 EUR	1.56	1.55	1.57	1.56
1 GBP	2.28	2.26	2.26	2.27

## 3. Seasonality

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

## 4. Dividend payment

On May 16, 2006 a dividend of CHF 1.50 per share was paid. The total amount of dividend paid was CHF 19 781 000.

## 5. Segment information (region)

Primary segment information based on the location of assets	Europe		North America		Eliminations		Consolidated values	
	First half-year 2006 000 CHF	First half-year 2005 000 CHF	First half-year 2006 000 CHF	First half-year 2005 000 CHF	First half-year 2006 000 CHF	First half-year 2005 000 CHF	First half-year 2006 000 CHF	First half-year 2005 000 CHF
Sales third parties	56 954	47 376	25 171	23 262				
Sales intercompany	9 378	11 527	1 576	866	-10 954	-12 393		
<b>Total Sales</b>	<b>66 332</b>	<b>58 903</b>	<b>26 747</b>	<b>24 128</b>	<b>-10 954</b>	<b>-12 393</b>	<b>82 125</b>	<b>70 638</b>
<b>Operating income</b>	<b>26 003</b>	<b>19 565</b>	<b>3 778</b>	<b>2 221</b>	<b>-541</b>	<b>-932</b>	<b>29 240</b>	<b>20 854</b>

\*restated (refer to note 1)

## 6. Segment information (business segments)

	First half-year 2006 000 CHF	First half-year 2005 000 CHF	First half-year 2006 %	First half-year 2005 %	Changes	
					in CHF %	in LC %
Research chemicals (incl. custom synthesis)	18 703	17 509	22.8%	24.8%	6.8%	4.1%
Active pharmaceutical Ingredients (APIs)	63 422	53 129	77.2%	75.2%	19.4%	17.9%
<b>Total Sales</b>	<b>82 125</b>	<b>70 638</b>	<b>100.0%</b>	<b>100.0%</b>	<b>16.3%</b>	<b>14.4%</b>

## 7. Contingent liabilities and other commitments

In the first half-year 2006 Bachem has committed to take a further stake of CHF 2 000 000 in Pevion Biotech AG. Thus the total commitment amounts to CHF 4 000 000 as per June 30, 2006.

In 2005 Bachem California Inc. was sued. There are still no concrete demands of the plaintiff such that to date it is not possible to quantify any potential risk.

## 8. Events after the Balance Sheet Date

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

Bachem is an independent, technology-based company specializing in the production of innovative biochemicals for research purposes and pharmaceutical compounds for pharma and biotech industries as well as in the development of optimized manufacturing processes. With headquarters in Switzerland and affiliates in Europe and the US, Bachem works on a global scale and holds a leading position in its field.

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